

EMPIRE

a new
platform
for growth

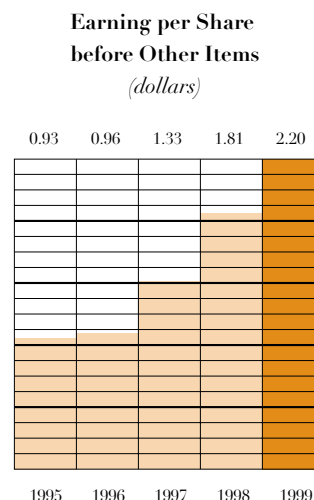
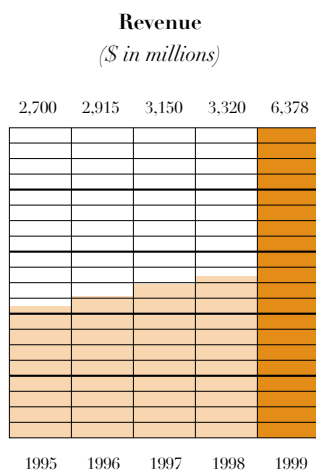
FINANCIAL HIGHLIGHTS

- Revenues increased by 92% to \$6.4 billion, reflecting 22 weeks of results from The Oshawa Group.
- Excluding the impact of the Oshawa acquisition, revenues were up 8% to \$3.6 billion.
- Operating income was up 30% to \$213 million.
- Net earnings amounted to \$135 million, a 54% increase.

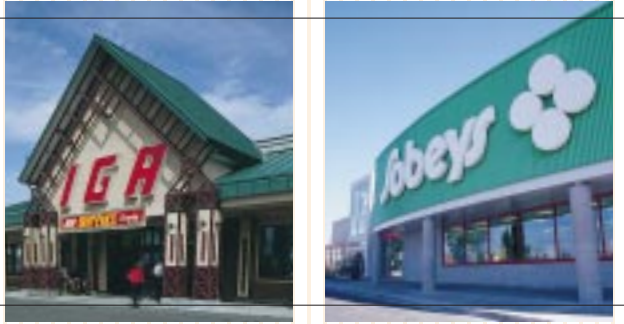
(\$ in millions, except per share amounts)	1999	1998	Change
Operations			
Revenue	6,377.7	3,320.0	92.1%
Operating income	213.1	163.7	30.1%
Earnings before other items	84.2	68.5	22.9%
Cash earnings before other items ⁽¹⁾	94.0	69.8	34.5%
Other items	50.8	19.3	163.3%
Net earnings	135.0	87.8	53.7%
Operating cash flow ⁽²⁾	161.5	109.8	47.1%
Financial Position			
Total assets	4,023.5	1,907.2	111.0%
Shareholders' equity	737.7	558.3	32.1%
Per Share Information			
Cash earnings before other items	2.45	1.84	33.2%
Earnings before other items	2.20	1.81	21.5%
Other items	1.35	0.52	159.6%
Net earnings	3.55	2.33	52.4%
Operating cash flow	4.31	2.97	45.1%
Book value	18.06	14.12	27.9%
Dividends	0.2725	0.2425	12.4%
Share Price			
High	32.55	28.50	
Low	25.00	15.60	
Close	26.00	27.25	

(1) Earnings before other items and amortization of goodwill.

(2) Operating cash flow before changes in other items and after preferred dividends.



FOOD DISTRIBUTION



Description

Sobeys Inc., a 62%-owned subsidiary of Empire, is the second largest food distribution company in Canada and the 14th largest in North America, with proforma annual revenues of \$11 billion. With 1,392 retail stores under popular banners such as IGA, Sobeys, Foodland and Price Chopper, a franchised retail distribution network that spans ten provinces, and Canada's only coast-to-coast foodservice operation, Sobeys enjoys unprecedented economies of scale and abundant opportunities for growth in a consolidating industry.

REAL ESTATE



Description

Empire's Real Estate division controls one of the largest portfolios of prime retail properties in Atlantic Canada through wholly-owned subsidiaries Atlantic Shopping Centres Limited (ASC) and Sobeys Leased Properties Limited (SLP). ASC's portfolio consists mainly of enclosed shopping centres while SLP's consists of free-standing food stores and shopping plazas, primarily in direct support of the company's retail operations. The Real Estate division owns and manages 11.5 million square feet of commercial property.

INVESTMENTS



Description

Empire has a large stake in U.S. food retailing through its 25% equity investment in Hannaford Bros. Co. With sales of more than US\$3.3 billion, Hannaford is one of New England's leading food retailers with a growing presence in Virginia and the Carolinas.

Empire also has a 48% equity interest in Wajax Limited, a leading Canadian distribution company that services the specialized equipment requirements of the natural resources, construction, transportation and manufacturing industries.

Empire's other operations consist of Empire Theatres, the leading movie exhibitor in Atlantic Canada operating 109 screens from 20 locations.

HOW WE CREATE VALUE

Empire continues to be guided by the following five key principles to create long-term value for its shareholders:

1. A FOCUS ON STRONG MANAGEMENT.

We seek and support management with a strong record of creating value and actively encourage their entrepreneurial spirit. For example, the decentralized structure of our operating companies provides managers with the flexibility and scope they need to respond to changing market conditions.

2. LEVERAGING OUR EXPERTISE.

A company as large and diverse as Empire has a rich storehouse of knowledge and people skills. We leverage these resources by investing in businesses we understand. About 99% of our revenues are related to food and drug distribution and real estate.

3. MAXIMIZING SYNERGIES WITHIN EMPIRE.

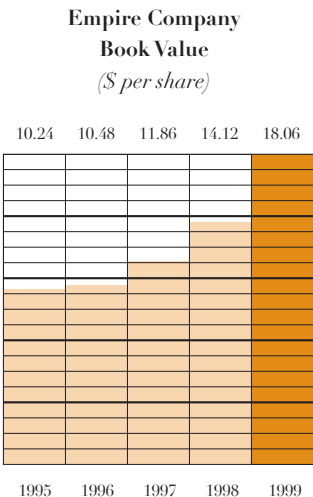
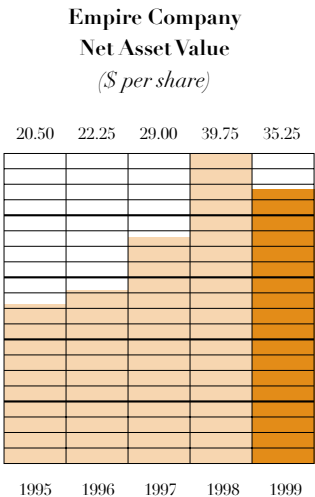
The relationship between our retail and real estate operations is a good example of the many synergies within Empire. Over 25% of the rental income of our real estate portfolio is generated by Sobseys or other company-owned operations. For our real estate operations, this relationship provides top-quality anchor tenants and a stable source of revenue and cash flow. For our retail operations, it provides the flexibility to expand or modify properties in response to competition.

4. A CONSERVATIVE APPROACH TO FINANCIAL MANAGEMENT.

Each operating company and equity investment must have a prudent debt structure. We limit our exposure to each investment and core operating companies are financed on a non-recourse basis. In addition, all operating companies follow conservative accounting policies that do not permit the capitalization of significant interest or other soft costs.

5. AN EMPHASIS ON LONG TERM GROWTH IN CASH FLOW.

We measure our success in terms of cash flow. When faced with the choice of reporting higher earnings in the short term or building higher cash flow for the long term, we will always choose higher future cash flows. Since April 30, 1983, Empire’s operating cash flow per share has grown from 47 cents to \$4.31 – an average compound growth rate of 14.9%.



Fiscal 1999 was a very exciting year for your company with the successful acquisition of The Oshawa Group and the reintroduction of our food distribution subsidiary, Sobeys Inc., into the public markets. These events represent a new platform of growth for Empire and an unprecedented scale of opportunity for our food distribution business.

Today, Sobeys Inc. is the second largest food distribution company in Canada with a major presence in every province and the 14th largest food distribution company in North America with proforma annual revenues of \$11 billion.

While the acquisition has changed the scale and dynamics of Empire, one thing that has not changed is our traditional approach to creating value. It consists of three basic responsibilities. First, it is our job to ensure we have the best management in place to run the businesses we own, or in which we have invested. Second, it is our responsibility to allocate capital in a way that will maximize value creation for Empire Company. And third, we continually monitor the performance of each business, and assess future opportunities, to ensure that our long term objectives are being met. The acquisition of The Oshawa Group is consistent with each of these objectives.

A New Platform for Growth

The purchase of The Oshawa Group was undertaken after a careful analysis of the Canadian food distribution industry confirmed that the company represented an excellent long term strategic opportunity for Empire.

The two principal drivers for this acquisition were the fact that Sobeys and Oshawa were an excellent strategic fit in the food distribution business and that size and geographic diversity really do matter. Sobeys and Oshawa were in the same principal businesses – corporate retail, franchise retail, and foodservice. Moreover, the combined company has significant market share in each region of Canada, and a strong presence in both city and rural markets. It also results in the largest and only national foodservice company in Canada, operating from coast to coast with excellent prospects for growth in a fragmented industry.

As a result of the combination, Sobeys will also enjoy significant economies of scale. It is our belief that we will add value to this acquisition and bring value to our shareholders

and customers through the achievement of synergies in purchasing, administration and technology, and by streamlining our capital expenditures. We also expect to derive important benefits from identifying and sharing best practices across the company. In total, our financial proforma is based on being able to achieve \$70 million worth of annual synergies in the new company, \$35 million of which will be generated during our first full year of operations commencing May 2, 1999.

A careful analysis of the Canadian food distribution industry confirmed that The Oshawa Group represented an excellent long-term strategic opportunity for Empire.

Today, we are well on our way to achieving this target and we believe that our go forward plans will allow us not only to meet our financial goals but create a solid platform for future growth and success in our food distribution businesses.

The acquisition also creates a new opportunity for growth in our Real Estate division, which currently comprises a large portfolio of prime retail properties in Atlantic Canada and a growing presence in Quebec and Ontario.

Traditionally, about 40% of our real estate portfolio has been leased to Empire-related tenants. This relationship has provided synergistic benefits to both Empire's food and real estate segments. For our food operations, it provides a strategic advantage by allowing greater control over location and enhancing their expansion opportunities. For the Real Estate division, it provides an important foundation for stable rental revenue and cash flow from which to capitalize on future growth opportunities.

With the expansion of our food distribution operations, Empire's Real Estate division is ready to take advantage of its own new scale of opportunity. Sobeys will be significantly expanding and modernizing its retail banners,

a process that will create many attractive property development opportunities across Canada in the years to come.

In the meantime, both Sobeys Leased Properties and Atlantic Shopping Centres achieved strong results in fiscal 1999. Thanks to higher occupancy levels and stronger leasing rates,

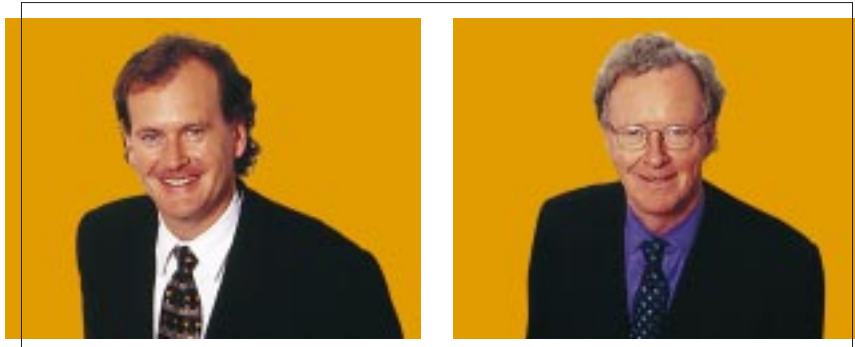
Real Estate division revenues were ahead 6.5% to \$148.0 million while operating income was up 6.9% to \$64.6 million.

The third segment of Empire is our Investments division. During fiscal 1999, in addition to the sale of our investment in Connor Clark Ltd., we disposed of several liquid investments, generating proceeds in excess of \$125 million to help fund the Oshawa acquisition. At year-end, on April 30, 1999, 88% of the market value of our investment portfolio was represented by our equity interest in Hannaford Bros. Co., while 9% of the portfolio was attributed to our equity interest in Wajax Limited.

Hannaford is a multi-regional food retailer with 150 supermarkets in the northeastern and southeastern United States. During its most recently completed fiscal year, Hannaford's sales reached a record US\$3.3 billion while its contribution to Empire's earnings increased 17.8% to \$32.9 million. On May 3, 1999 Empire advised Hannaford that it would not extend the "standstill agreement" which governs Empire's investment in Hannaford and which terminates at the end of calendar year 1999. The reason for this decision, quite simply, is to give us more flexibility in realizing the inherent value of our investment in Hannaford.

We continue to believe that Hannaford is an exceptionally well run company which has for many years provided us with a valuable window on US retailing trends. However, Hannaford is a regional player in a rapidly

On April 30, 1999, 88% of the market value of our investment portfolio was represented by our equity interest in Hannaford Bros. Co.



Paul D. Sobey, President and CEO

Donald R. Sobey, Chairman

consolidating industry. At some point, the company may need to either expand rapidly, or become part of a larger entity. We want to keep our options open should either of those events occur.

Hannaford's positive performance was largely offset by Wajax Limited, one of Canada's largest equipment distribution companies. The entire industry was hurt in 1998 by a cyclical downturn in commodity prices that affected the company's customer base in the forestry, mining and oil and gas sectors and in turn, depressed Wajax's margins. As a result, Wajax's contribution to Empire's earnings declined by \$7.3 million in fiscal 1999.

While these results were challenging, we continue to believe in the long term potential of Wajax. The company has successfully focused on its core businesses, achieved geographic diversification and significantly enhanced its long term economic value. Notwithstanding the recent downturn in the entire industry, commodity prices have started to recover. If the trend continues, it should translate into an improved performance by Wajax in the years ahead. We are confident that Wajax's new management team has implemented strategies that will refocus the company and return it to sustained profitability and growth. After several years of rapid growth through acquisition, the company's primary objective in its fiscal 1999 will be enhancing operating performance through cost cutting and improved working capital management.

We continue to be pleased with the performance of our Empire Theatres operation, the largest movie exhibitor in Atlantic Canada. During the past two years, the company has strengthened its leadership position, opening the first theatre based on the revolutionary SR2 IMAX technology and becoming the first movie exhibitor in the region to introduce stadium seating, curved screens and the mega-plex "experience" concept.

Financial Results

Fiscal 1999 was a year of new records for revenue, operating income and net income at Empire. As one might expect, however, these results are not directly comparable due to the acquisition of The Oshawa Group in December 1998, about halfway through our fiscal year.

Consolidated revenues were up 92% to \$6.4 billion from \$3.3 billion last year. Excluding the impact of the acquisition, revenues increased 8% or \$267 million from the previous year. This increase is primarily attributable to continued growth of our original Sobeys food distribution businesses where revenue increased 9% from last year.

Operating income increased 30% to \$213 million in fiscal 1999, an increase of \$49 million from fiscal 1998. Again, the acquisition of The Oshawa Group had a major impact on results, accounting for the majority of the increase. The balance of the increase is attributable to continued operating income growth from our Real Estate division (up 7% to \$65 million).

Net earnings reached \$135 million in fiscal 1999, an increase of 54% or \$47 million. Certain other items complicate a year-over-year comparison of results. These include: a dilution gain on the issuance of common shares by Sobeys Inc. of \$79.9 million and Empire's share of a net restructuring charge taken by Sobeys Inc. in the fourth quarter of \$29.1 million.

Excluding these one-time items, net earnings from continuing operations before other items increased 23% to \$84.2 million (\$2.20 per share), up \$15.7 million from last year's \$68.5 million (\$1.81 per share). Despite the added financing and related expenses associated with the largest acquisition in the company's history and the considerable time and resources required to integrate our new operations, we continued to grow our earnings.

During fiscal 1999, the company realized net capital gains of \$24.1 million (\$0.65 per share) as compared to \$4.5 million (\$0.12 per share) last year. Earnings per share before net capital gains and other items amounted to

Before the amortization of goodwill
Empire achieved record cash earnings before
other items of \$94 million.

\$1.55 per share in fiscal 1999 versus \$1.69 last year. The issuance by the company in February 1999 of two million Class A common shares, which generated \$58 million in proceeds for general corporate purposes including, reduction of floating rate debt, also affected the per share calculations.

While the impact of goodwill associated with the acquisition of The Oshawa Group is a fact of life, we believe that shareholders should be able to assess both the true "going concern" value of our food business as well as its conventional accounting reports. Accordingly, in this and future financial reports, we will be advising our shareholders of our "cash earnings", that is, our earnings before the amortization of goodwill. On this basis, and without reflection of material synergies from the Oshawa acquisition, Empire achieved record cash earnings before other items of \$94 million in fiscal 1999 (\$2.45 per share).

The People of Empire

Two individuals who have provided valuable counsel to Empire over the years are J. W. Ritchie and John C. Clark. Bill has been a director of Empire since 1973 while John has provided service for more than 10 years. Both are retiring from the Board and on behalf of management, shareholders and our fellow directors, we thank them for their distinguished service.

While there is a certain element of risk associated with any acquisition, the outstanding contributions of our people throughout Empire and its related companies have given us every reason to feel

confident about our future prospects. In particular, we wish to acknowledge the extraordinary efforts of the people at Sobeys and the former Oshawa operations who have worked so hard to ensure the smooth and efficient integration of our food distribution businesses. Their collective efforts have helped us continue to meet the everyday needs of our customers while setting the stage for unprecedented shareholder value creation in the future.

Finally, on behalf of the entire Board, we wish to also thank our customers and our shareholders, whose continued support of our strategies has been so essential to Empire's success.

The outstanding contributions of our people throughout Empire and its related companies have given us every reason to feel confident about our future prospects.

Sincerely,

(signed) Paul D. Sobey

Paul D. Sobey,
President and CEO

(signed) Donald R. Sobey

Donald R. Sobey,
Chairman

FOOD DISTRIBUTION

A new scale of opportunity

Fiscal 1999 was a landmark year for Empire's 92-year old food distribution business. In December 1998, we purchased most of the operations of The Oshawa Group, a national food distributor more than twice the size of our previous operations with extensive food distribution and foodservice operations across Canada. Today, we are a national player, with proforma annual sales of \$11 billion, a significant market presence across the country and a position of unprecedented strength in a rapidly consolidating industry.

From the outset, Sobeys' new scale promises to deliver a number of significant benefits. During the next two years, we plan to derive \$70 million in annual cost savings through the effective consolidation and rationalization of our operations. The majority of these cost savings will be derived from centralized buying and volume discounts associated with our growth from a \$3 billion to an \$11 million food operation as well as through significant administrative and corporate cost reductions.

It is the longer-term benefits of the acquisition, however, that hold the greatest promise. For the first time, we are a truly national player, with a significant degree of geographic diversification. We possess a complete spectrum of complementary retail banners and extensive franchised retail operations spanning ten provinces, as well as the country's largest and only national foodservice operation. Taking advantage of the unprecedented scale and reach of these businesses will be the key to driving earnings growth.



The combination of our growing private label programs is just one example of the synergies being generated through integration.

In the retail food distribution business, we are positioned to serve every segment of the market through a family of established banners that includes:

- Sobeys, a 114-store chain of corporate stores in Atlantic Canada, Quebec and Ontario that meets the needs of today's most discriminating shoppers with an ultra-modern, full-service format. These contemporary superstore formats are up to 60,000-sq. ft. in size and feature farm-fresh produce, full-line bakeries, extensive home-style meal selections and a variety of innovative in-store retail services such as dry-cleaning and banking.

With 568 stores in western Canada, Ontario and Quebec, the IGA retail food network has significantly diversified Sobeys' earnings base.



Financial summary

Food Distribution ⁽¹⁾	1999	1998
Revenue	\$ 6,231.8	\$ 3,155.1
Operating income	111.7	60.1
Identifiable assets	2,864.6	562.0
Depreciation and amortization	81.8	45.3
Capital expenditures	216.2	70.3

⁽¹⁾ Includes foodservice operations.

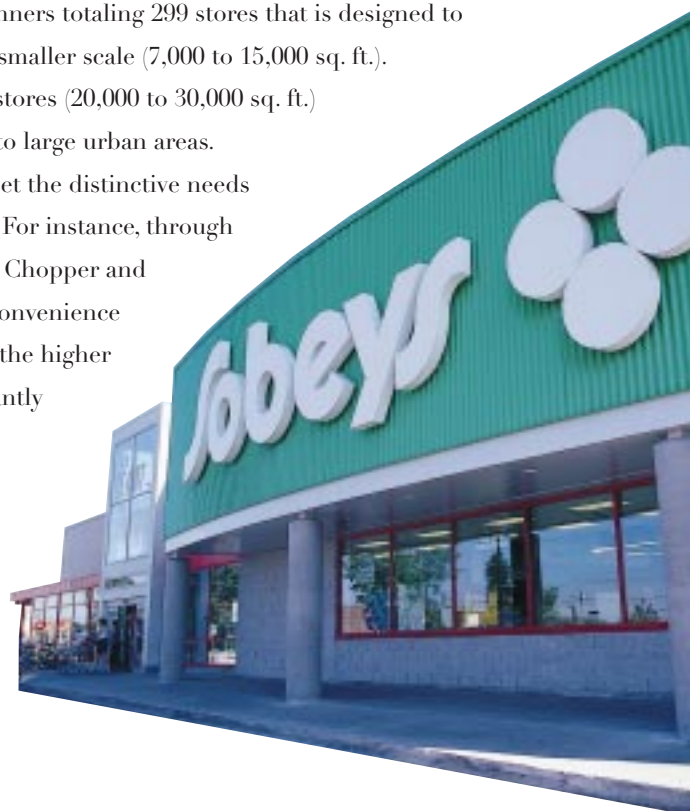
- **IGA**, a 568-store chain of corporate and franchised stores throughout western Canada, Ontario and Quebec. IGA is a full-service community supermarket in the 15,000 to 40,000 sq.ft. range with emphasis on fresh departments and superior service.

- **Foodland, Knechtel and Foodtown**, a group of franchised banners totaling 299 stores that is designed to offer rural and small-town consumers full-service supermarkets on a smaller scale (7,000 to 15,000 sq. ft.).

- **Price Chopper**, a rapidly growing chain of mid-size discount stores (20,000 to 30,000 sq. ft.) designed to serve the price-driven consumer located in medium size to large urban areas.

Together, these well-known banners give us the flexibility to meet the distinctive needs of different customer groups and maximize our total share of market. For instance, through the complementary combination of the Sobeys, IGA, Foodland, Price Chopper and other banners, we can better meet the distinct needs of destination, convenience and price-oriented shoppers within a given trading area. In addition, the higher density of our corporate and franchised banners promises to significantly increase the efficiency of our distribution network.

The acquisition of Oshawa also creates the largest foodservice company in Canada with annual sales of about \$2 billion. This acquisition is consistent with our strategy of diversifying earnings on two counts. First, it makes us a truly national operator with our own private label program and significant sales to restaurants and hotel chains, institutional and independent accounts in all regions of the country. Second, it diversifies our earnings by increasing Sobeys' "share of stomach", no matter where Canadians choose to enjoy their meals – at home, in restaurants, at school or in workplace cafeterias.



Ranging up to 60,000 sq. ft. in size, Sobeys' 114 corporate retail stores are focused on meeting the needs of today's most discriminating shoppers.

Sobeys' recipe for growth

Supporting the continued growth of our food distribution and foodservice operations in the most cost-effective manner possible is an important part of our growth strategy. For instance, in Ontario, we are proceeding with the implementation of a multi-million dollar upgrade to our Ontario distribution network that will replace three older facilities with two state-of-the-art, multi-temperature distribution centers by early 2000.

At the same time, we continue to build on our reputation as an industry leader in the application of advanced information technology. The implementation of our new enterprise-wide SAP retail system – which will integrate all accounting, purchasing and logistics, quality control and



Technology continues to play a pivotal role in driving costs out of the supply chain.

human resource functions – is scheduled for installation in all Sobeys stores by the end of 1999, with subsequent roll-out to the IGA network. The installation of SAP will also integrate with a host of related technologies such as our point-of-sale scanning system and our Club Sobeys program. The point-of-sale system, which has been installed in all Sobeys stores during fiscal 1999, provides SKU-level data for every one of the billions of transactions that take place in our corporate store network each year. That means we will have instant access to the real-time status of every item, on every store shelf, in every market. We are excited by the benefits to be derived from this capability.

By automatically sharing real-time inventory information with our suppliers, we will be able to transfer more responsibility for inventory replenishment to our vendors, thereby increasing efficiencies and better serving the customer. While Sobeys' growth will continue to depend on the intelligent application of new information and distribution technologies, such efforts will continue to be guided by an unrelenting focus on the customer. At Sobeys, knowing what our customers want starts with Club Sobeys, one of the most sophisticated loyalty marketing programs in the business. Through Club Sobeys, which has now been extended to every store in the Sobeys network, we continue to gain valuable insights into our customers' preferences while they enjoy such benefits as electronic couponing, discount pricing, and shopper bonus points.



REAL ESTATE

A growing retail focus

Empire's 11.5 million square foot real estate portfolio is owned and managed through two wholly-owned subsidiaries: Atlantic Shopping Centres (ASC) and Sobeys Leased Properties Limited (SLP). The largest real estate company in Atlantic Canada, ASC is focused on the acquisition, development and management of enclosed shopping malls and mixed-use, retail and office complexes. SLP is engaged in the acquisition, development and



About 40 percent of the Real Estate division's portfolio is leased to an Empire-related company.

financing of prime retail locations for free-standing Sobeys stores and attached shopping plazas. In total, the Real Estate division's real estate portfolio consists of 83% retail space and 17% office space with about 40% of total square footage leased to an Empire related company.

Both of the Real Estate division's subsidiaries turned in a record performance in fiscal 1999. At ASC, results were aided by the continuing strength of the economy in Atlantic Canada with occupancy rates improving to 91.9% from 90.5% a year earlier and corresponding increases in average lease rates. Within this positive environment, the company's aggressive leasing efforts continued to attract first rate tenants to its properties. In May 1999, we welcomed the MTT Call Centre to our Scotia Square, Halifax property, where it joins the largest concentration of corporate call and data centers in the region.

Between Halifax and Moncton, the company leases more than 350,000-sq. ft. of call center space to such companies as the Canadian Imperial Bank of Commerce, the Bank of Nova Scotia, the Toronto-Dominion Bank, Purolator and ICT Group Incorporated among others.

With the dramatic growth of our food distribution operation in central and western Canada, Empire has the opportunity to profitably grow its real estate operations on an unprecedented scale. While Sobeys will be focused on the smooth integration of its newest food operations during the next three years, annual capital expenditures for the period will, nonetheless, be at record levels as the company modernizes and expands its store network, especially in Quebec and Ontario. In the process, many stores will be relocated, either as stand-alone buildings or in conjunction with attached strip malls. In either case, the Real Estate division is well positioned to capitalize on this new scale of opportunity.



Scotia Square in Halifax features the largest concentration of corporate call centres in Atlantic Canada.

I N V E S T M E N T S A N D O T H E R O P E R A T I O N S

A sharper focus

The third major component of Empire's business – investments and other operations – is comprised of an equity investment portfolio (with a market value at fiscal year-end April 30, 1999 of \$757 million) along with our ownership of Empire Theatres, the largest movie exhibitor in Atlantic Canada. Our investment portfolio provides diversification beyond our traditional base of operations in Atlantic Canada. During the past year, we divested more than \$125 million in liquid portfolio investments to help finance the expansion of our food business. Our equity investments in two companies Hannaford Bros. Co. and Wajax Limited – represented 96% of the market value of our total investments at fiscal year-end.

Hannaford Bros. Co.

Through our 25% equity interest in Hannaford, Empire holds a large and growing interest in U.S. food retailing. Operating under the Hannaford and Shop n' Save banners, Hannaford is one of the largest food retailers in New England, with a growing presence in Virginia and the Carolinas. In addition to providing valuable insights into U.S. retailing trends, Hannaford has given Empire a steady source of earnings growth and capital appreciation. As of April 30, 1999, Hannaford's contribution to Empire's earnings had grown from \$0.47 to \$0.87 per share over the past five years. Over the same five-year period, the market value of Empire's investment in Hannaford has grown from \$308 million to \$662 million Cdn.



Hannaford has given Empire a steady source of earnings growth and capital appreciation.

As the North American food retailing business continues to consolidate, Hannaford may be inclined to grow through acquisition. Or, the company may become an acquisition target itself. In either case, we must have the flexi-



Forty-six of Hannaford's 150 stores are located in Virginia and North and South Carolina, one of the fastest growing regions in the U.S.

bility to deploy our assets in a manner that will reflect the best interests of Empire's shareholders. On May 3, 1999 we notified Hannaford that Empire would not extend the Standstill Agreement which governs Empire's investment in Hannaford and which terminates at the end of calendar year 1999.

The past year witnessed several performance records for Hannaford with sales up 3.0% to US\$3.34 billion. After adjusting for a 53rd week in 1997 and the closing of seven non-core stores in early 1998, comparable sales grew at a more robust pace of 6.7%. Meanwhile, net earnings were up US\$35 million or 59% to US\$95 million, largely the result of a non-cash accounting charge that reduced net earnings by US\$40 million in 1997. Before consideration of that special charge, net earnings would have increased 12.1% over the previous year.

During 1998, Hannaford continued its aggressive capital expenditure program, devoting \$143 million to the modernization and expansion of its store network. By the end of 1999, approximately two-thirds of Hannaford's stores will have been newly constructed, expanded or remodeled in the past five years.

Wajax Limited

Empire's 48% equity interest in Wajax Limited, with a market value of \$65 million on April 30, 1999, represents the second largest investment in the company's portfolio. Wajax supplies parts and service for mobile equipment, industrial components and diesel engines through an extensive network of branches across Canada and the north-western United States.

The past year was difficult for the entire equipment industry as slumping commodity prices depressed the activity of customers in the forestry, mining and oil and gas sectors. Within this environment, Wajax's revenues



In the past five years, Wajax's revenues have grown by about 250%.

increased 4.7% to a record \$992 million. However, weakening customer demand and the presence of a growing grey market in equipment put significant pressure on margins and as a result, net earnings declined by 55% to \$9.5 million.

After a five-year period of dramatic growth, Wajax is entering 1999 with a focus on achieving operational efficiencies and effective integration of acquisitions. Between 1993 and 1998, the company grew sales revenue from just over \$280 million to approximately \$1 billion, completing more than 20 acquisitions. In the coming year, Wajax goals are to improve operating performance, and to strengthen financial results across the company through better control of administrative costs and working capital. Profitable growth remains the long term objective of

the company. With a sound framework for future growth, Wajax will resume its acquisition strategy and move to the next stage in its development as an industry consolidator.

Empire Theatres Limited

Empire's other operations consist of wholly-owned Empire Theatres Limited, the largest movie exhibitor in Atlantic Canada with 109 screens, operating in 20 locations. During fiscal 1999 10 new screens were added and two theatres were renovated. There are presently 17 new screens under construction. Our theatre operation continues to be an industry leader in innovation. Empire Theatres was the first company in Canada to offer the SR2 IMAX technology and the first movie exhibitor in Atlantic Canada to offer curved-screen projection, stadium seating and the mega-plex "experience" concept to its customers.



Empire Theatres Limited is the largest movie exhibitor in Atlantic Canada.

Fiscal 1999 was a year of significant change for Empire Company Limited. The acquisition of The Oshawa Group Limited ("Oshawa Group") and in turn the creation of Sobeys Inc. was completed to create a national food distribution and foodservice organization with go forward annualized sales in excess of \$11 billion. Having achieved a national scale of operations, together with significant potential for integration savings from the combination, as well as expanded growth opportunities for our real estate group, we have established a new platform for growth in shareholder value.

This section of the annual report provides management's discussion and analysis of the financial condition of Empire Company Limited and its financial performance for the year ended April 30, 1999 with a comparison to the year ended April 30, 1998. As part of this discussion, we assess the outlook of each business segment, the financial condition of the company, and the impact of risks. This discussion should be read in conjunction with the consolidated financial statements, including the notes that accompany them found on pages 26 to 37.

For the first 30 weeks in fiscal 1999, the Food Distribution business of Sobeys was operated through Sobeys Capital Inc., a wholly owned subsidiary of Empire. As a result of restructuring in connection with the acquisition of the Oshawa Group, effective December, 1998, the food distribution business, including that of Sobeys and Oshawa Group, operated through Sobeys Inc. which is 62% owned by Empire. Accordingly, for the first 30 weeks of fiscal 1999, 100% of the operations of Sobeys was for the benefit of Empire, while for the last 22 weeks of the year, 62% of the operations of Sobeys was for the benefit of Empire (including 62% of the business of Oshawa Group).

CONSOLIDATED RESULTS

Net earnings amounted to \$135.0 million (\$3.55 per share) in fiscal 1999, an increase over last year's \$87.8 million (\$2.33 per share). The table below presents Empire's earnings per share before other items, as well as the earnings contribution from other items.

Consolidated Earnings per share

	1999	1998
Cash earnings before other items	\$ 2.45	\$ 1.84
Earnings before other items	2.20	1.81
Other items:		
Dilution gain on issue of common shares by subsidiary	2.13	
Share of restructuring and integration costs by subsidiary	(0.78)	
Share of asset impairment provision by equity accounted investment		(0.24)
Gain on sale of Jannock, net of tax		0.76
Earnings per share	\$ 3.55	\$ 2.33

The weighted average number of shares outstanding for earnings per share calculation purposes was 37.5 million for fiscal 1999, compared with 36.9 million for fiscal 1998. In February, 1999 the Company completed a non-voting Class A share issue for two million shares at \$29.00 per share; the effect of this issuance has been factored into the weighted average shares outstanding for fiscal 1999. The net proceeds of this common share issue of \$55.7 million was used for general corporate purposes including, reduction of floating rate debt.

It is important to isolate from both fiscal 1999 and fiscal 1998 certain other items so that a meaningful year over year comparative is reported. Two other items occurred in fiscal 1999 that impacted net earnings: (i) a dilution gain on the issuance of common shares by Sobeys Inc. in the amount of \$79.9 million or \$2.13 per share; and (ii) Empire's share of a net restructuring charge taken by Sobeys Inc. in the fourth quarter equal to \$29.1 million or \$(0.78) per share.

There are two events that occurred in the prior year that impacted net earnings that are considered other items: (i), a net gain on the sale of common shares in Jannock Limited of \$28.1 million or \$0.76 per share; and (ii), Empire's equity accounted share of a non-cash charge incurred by Hannaford Bros. Co. for a write-down in the value of assets, primarily goodwill, as a result of a FASB (SFAS No. 121) accounting rule change, in the amount of \$8.8 million or \$(0.24) loss per share.

Before these other items, fiscal 1999 net earnings amounted to \$84.2 million versus \$68.5 million in fiscal 1998, a \$15.7 million or 23% increase. On a per share basis, earnings before other items equalled \$2.20 per share in fiscal 1999 versus \$1.81 last year, a 22% increase.

The composition of the \$15.7 million increase in earnings before other items over last year by division of Empire is as follows:
Food Distribution Division – operating earnings contribution to Empire declined by \$0.9 million or 3% in fiscal 1999 relative to last year. Financing costs and goodwill amortization expense connected to the Oshawa Group acquisition, along with the effect of minority interest were realized in both the third and fourth quarters of fiscal 1999, while at the same time, no material amount of targeted synergy savings were forecast to be realized until fiscal 2000 and thereafter.

Real Estate Division – operating earnings contribution to Empire declined by \$0.2 million or 6% in fiscal 1999 from the prior year. This decline is the result of a \$2.4 million reduction of asset book value taken in fiscal 1999 in connection with certain properties. Prior to this reduction, operating earnings for the Real Estate division increased by \$2.2 million or 53% from the prior year.

Investment Division – operating earnings contribution to Empire increased by \$15.6 million or 48% from the prior year. The increase is primarily attributed to net capital gains from investment sales during fiscal 1999 equal to \$23.2 million versus net capital gains from investment sales last year of \$4.3 million, an \$18.9 million increase. During fiscal 1999, the Company sold the majority of its liquid investment portfolio, generating proceeds of \$160.5 million which were primarily used to fund the acquisition of the Oshawa Group.

Other Operations – earnings contribution to Empire increased by \$1.2 million or 25% from the prior year. The increase is primarily attributed to a net capital gain on the sale of oil and gas properties in the first quarter equal to \$3.8 million.

The following table presents revenue and operating income for the last two fiscal years for each of the three business segments comprising Empire Company Limited.

<i>(S in millions)</i>	1999	1998	Change
Revenue			
Food Distribution ⁽¹⁾	6,231.8	3,155.1	97.5%
Real Estate	148.0	139.0	6.5%
Investment and Other	38.1	63.8	(40.3)%
Inter-segment elimination	(40.3)	(37.9)	6.3%
	6,377.6	3,320.0	92.1%
Operating Income			
Food Distribution ⁽¹⁾	111.7	60.1	85.7%
Real Estate	64.6	60.5	6.9%
Investment and Other	41.8	48.9	(14.7)%
Corporate Expenses	(5.0)	(5.8)	14.5%
	213.1	163.7	30.1%

⁽¹⁾ fiscal 1998 results for food distribution reflect Sobeys Capital Inc. only.

Revenues increased 92% in fiscal 1999, to \$6.38 billion, an increase of \$3.06 billion over fiscal 1998 results, primarily as a result of the inclusion of Oshawa Group revenues for 22 weeks during the year. Same store sales for all banners grew by 2.9% in fiscal 1999.

Excluding the impact of the Oshawa acquisition, revenues increased \$267 million or 8% from the prior year. This increase was primarily attributed to continued growth in Sobeys retail stores where same store sales increased by 3.9% along with the positive impact of new store expansion and development activity. The food inflation rate during the year was 1.3%.

In fiscal 1999, operating income was \$213.1 million versus \$163.7 million the prior year, an increase of \$49.4 million or 30%. The net effect of acquisition of the Oshawa Group in December, 1998 resulted in \$48.4 million of the increase in consolidated operating income. The balance of the increase in operating income is attributed to continued growth in the balance of our food distribution business along with operating income growth from our real estate business. With respect to our investments and other operations, in fiscal 1999 Empire realized a \$5.0 million increase in earnings contribution from its investment in Hannaford Bros. Co. The earnings contribution from Wajax Limited declined by \$7.3 million from the prior year. Other operations operating income declined by \$3.2 million from the prior year as oil and gas operations were included in other operations for the twelve months last year.

Performance compared to fiscal 1999 objectives

Certain financial objectives were set out in last year's annual report under three categories: financial performance, financial condition and growth. The Oshawa acquisition resulted in Empire clearly surpassing its growth targets, as follows: (i) revenue growth of 92% (objective was 6%; excluding the Oshawa acquisition revenue increased by 8%); (ii) square footage growth tripled (objective was 8%; excluding the Oshawa acquisition square footage increased 7.5%); and (iii) capital spending of \$276 million (objective \$140 million; excluding the Oshawa acquisition capital spending was \$181 million). With respect to financial condition, the Company did maintain a ratio of floating rate debt to total debt of less than 35%; however, as a result of the added indebtedness associated with the Oshawa acquisition, the ratio of debt to total capital was greater than our 63% target (actual was 72% on a book basis; 63% with investments at market) and debt service coverage did not improve as targeted. With respect to financial performance, the Company did not meet its return on equity target of greater than 13% (actual 9.5% before other items; 21.7% including other items) or its net profit to sales ratio of greater than 2% (actual 1.3% before other items; 2.1% after other items).

FOOD DISTRIBUTION DIVISION

Our food distribution business is carried on by our 62% ownership interest in Sobeys Inc. ("Sobeys"), which is the second largest food distributor in Canada in terms of sales, number of supermarkets and geographic presence, and the only national foodservice distributor. Prior to the Oshawa Group acquisition, Empire owned 100% of Sobeys Capital Inc. which consisted primarily of 114 corporate supermarkets operating under the Sobey banner along with a franchised retail and foodservice business; the majority of food group revenues prior to the acquisition were linked to Atlantic Canada.

In fiscal 1999, Sobeys accounted for 98% of Empire's operating revenues and 68% of operating cash flow. Sobeys revenue and cash flow base is now more diversified across Canada, with over 70% of revenues originating outside of Atlantic Canada going forward versus 67% origination within Atlantic Canada prior to the Oshawa Group acquisition.

Sobeys revenue increased 98% in fiscal 1999 to reach \$6.23 billion, an increase of \$3.08 billion over fiscal 1998 results. The acquisition of Oshawa Group accounted for \$2.79 billion or 91% of this sales increase. The balance of the increase in sales is attributable to higher same-store sales and additional store square footage. During the year same-store sales increased for Sobeys stores by 3.9% while food price inflation averaged 1.3%, resulting in real same store sales growth of 2.6% in fiscal 1999. Net square footage (excluding the impact of the Oshawa Group) increased by 7.7% or 291,000 square feet during the year.

Before a restructuring charge of \$85.1 million in connection with the Oshawa Group acquisition, operating income (EBIT or earnings before interest and taxes) for the year increased by \$51.6 million or 86%, reaching \$111.7 million or 55% of Empire's total operating income. The Oshawa Group acquisition accounted for \$41.5 million or 80% of the increase in operating income. The remaining \$10.1 million increase in operating income is attributable to a combination of higher sales volume, an increase in margins and lower operating expenses.

At year-end, Sobeys operated 443 corporate stores and 949 franchised stores. Of the corporate stores, 114 operate under the Sobeys banner and 64 stores operate under the IGA banner. The largest franchised banner is IGA, with 504 franchised stores. The proportion of retail store square footage by region across Canada is as follows: 17.4% Western; 33.6% Central; and 49.0% Eastern (includes Quebec). The percentage of square footage selling area located outside of Atlantic Canada has increased from 34% in fiscal 1998 to 80% in fiscal 1999.

Food Distribution Division Outlook

Our integration model was based on the realization of \$35 million in pre-tax integration savings from the Oshawa acquisition in fiscal 2000 and \$70 million pre-tax the following year. Our outlook is that these realizations will be achieved.

Our outlook for Sobeys is positive primarily as a result of centralized buying; administrative and corporate cost reductions; distribution efficiencies; continued private label development; enhanced merchandising techniques; and ongoing corporate store and franchised development programs.

The outlook for revenue is strong as a result of the full effect of the Oshawa Group revenue base, a planned program of new store openings and renovations/expansions, growth from the existing corporate and franchised store base, and planned volume increases in the foodservice business.

Planned capital spending for fiscal 2000 is \$442 million, supported by \$292 million in franchise and third party financing. Sobeys expects to open 53 new stores, replace 18 older stores and renovate 237 stores in fiscal 2000. Capital activity includes \$125 million on new and replacement store construction, \$118 million on renovations and over \$146 million on warehouse related expenditures. The balance of the capital budget is earmarked for information technology and minor store expenditures.

The opportunities associated with the planned successful integration of the Sobeys and Oshawa Group businesses are meaningful. Accordingly we look for significant growth in earnings in future years.

REAL ESTATE DIVISION

The Real Estate division is primarily focused on the acquisition, development and management of a portfolio of properties which complement or support Empire's Food Distribution and other retail operations.

Empire's property operations have 11.5 million square feet under management. Operations are conducted through 100% - owned Atlantic Shopping Centres (ASC) and 100% - owned Sobey Leased Properties (SLP). ASC's portfolio consists of 34 shopping centres with a gross leaseable area of 5.4 million square feet and 12 mixed-used office buildings with a gross leaseable area of 1.9 million square feet. SLP's portfolio consists mainly of freestanding food stores and attached shopping plazas having a total gross leaseable area of 4.2 million square feet.

The Real Estate division contributed \$64.6 million or 30% of Empire's total operating income in fiscal 1999, up 7% from the \$60.5 million recorded in fiscal 1998. This improved performance reflects increased occupancy levels and higher net effective rental rates. Operating cash flow for the Real Estate division increased by 23% in 1999, to reach \$31.5 million, equivalent to 19% of total Empire Company cash flow.

The occupancy rate as at April 30, 1999 was 91.9%, compared to 90.5% a year earlier. During the year the leasing team was successful in leasing a 110,000 square foot space to MTT for a new call centre located at Scotia Square, Halifax, Nova Scotia, bringing the total square footage of call centres under lease at 350,000.

At Empire's fiscal year end, the real estate portfolio consisted of 83% retail space and 17% office space with approximately 40 percent of the total square footage leased to an Empire-affiliated company. This degree of integration creates strategic advantages for both landlord and tenant. For the retail operations, it provides added flexibility to expand or modify properties in response to competitive developments. For real estate operations, it provides top-quality anchor tenants for our shopping centres, as well as stable source of rental revenue and cash flow.

Major developments during fiscal 1999 included the construction of 15 new or replacement retail stores and the redevelopment or completion of 5 shopping centres in order to meet the needs of our customers along with third party commercial retail tenants. Major development expenditures during the year included: expansion of the Zellers department store at Sydney Mall, Sydney, Nova Scotia; a new MTT Call Centre at Scotia Square, Halifax, Nova Scotia; completion of a major renovation and expansion to our County Fair Shopping Centre in New Minas, Nova Scotia; which included a new Canadian Tire store and a new Sobeys food store; and development of a self-storage facility in Dieppe, New Brunswick.

Going forward, the Real Estate division will undertake additional redevelopments as required in order to strengthen our position in core markets. For example, the conversion of the Fundy Trail Mall in Truro, N.S. to a strip centre is underway and is on schedule to be completed before Fall 1999. As well, site work at New Minas, N.S. has started for the expansion of a Zellers store which will open for Easter 2000.

During both fiscal 1999 and fiscal 1998 the Real Estate division did not capitalize any interest costs in respect of either projects under development or lands for future development.

Real Estate Division Outlook

The Real Estate division will continue to grow through development projects which support its related retail tenants. The expansion of Empire's Food Distribution business to a national scale creates attractive growth opportunities for our Real Estate division as the result of continued modernization and expansion of our retail store network across Canada in the years to come. During the coming year the leasing team will continue to aggressively pursue leasing opportunities, as a result the same unit occupancy level is expected to improve.

INVESTMENTS & OTHER OPERATIONS DIVISION

The third component of Empire's business is its Investment division, consisting of an investment portfolio of equities and investments in other operations, principally Empire Theatres Limited.

The investment portfolio is comprised of long term investments where Empire has significant ownership interest in the company and other investments where Empire has a smaller ownership interest. Equity accounting is used for long term investments. Other investments are accounted for by the cost method whereby Empire reports only the dividend and interest income received from the investment.

Long term investments, which represent 96% of the market value of the total Empire investment portfolio is comprised of Hannaford Bros. Co. and Wajax Limited.

<i>(S in millions)</i>	Market Value		
	Ownership Interest	As at April 30, 1999	Percent of Portfolio
Long Term Investments			
Hannaford Bros. Co.	25%	662.2	87.5%
Wajax Limited	48%	64.8	8.5%
		727.0	96.0%
Other Investments		30.2	4.0%
Total Investments		757.2	100.0%

Hannaford Bros. Co.

Empire has a 25% equity interest in Hannaford, with a market value at fiscal year end of \$662.2 million Cdn. Hannaford is a multi-regional food retailer which has operations throughout Maine, and in parts of New Hampshire, Vermont, Massachusetts, New York, Virginia, North Carolina and South Carolina. Retail food sales are made through the company's 150 supermarkets operating primarily under the names Shop'n Save or Hannaford.

Hannaford's 1998 (year ended is January 2, 1999 – all numbers are in US dollars) sales and other revenues amounted to \$3.32 billion, an increase of \$97 million or 3.0% over 1997. Fiscal 1998 contained 52 weeks of operations as compared to 53 weeks in 1997. This additional week accounted for approximately \$58 million of additional sales in 1997. Hannaford's real sales growth in 1998 exceeded 6.7% after adjusting for the 53rd week of sales in 1997 and the 1997 sales attributable to seven non-core south-eastern supermarkets closed in January 1998. Identical store sales, adjusted to exclude the 53rd week in 1997, were up 1.3% for the year.

Net earnings in 1998 were up 12.1% over 1997, before consideration of a 1997 pre-tax, non-cash accounting charge of \$40 million.

Net retail selling space for supermarkets increased 4.5% in 1998 to 5,171,000 square feet at year-end, an increase of 224,000 square feet over 1997 year-end sales area. During 1998, Hannaford opened fourteen supermarkets including eight new stores, two relocations and four expansions. By the end of 1999, approximately two-thirds of Hannaford's supermarkets will have been newly constructed, expanded or remodelled within the last five years.

Total capital expenditures for 1999 are projected to be in excess of \$160 million, primarily for new store constructions, store relocations, expansions and remodels, and other asset expenditures.

Wajax Limited

Empire has a 48% equity interest in Wajax with a market value at April 30, 1999 of \$64.8 million. Wajax is comprised of three value-added distribution businesses which supply and provide parts and service support for mobile equipment, diesel engines and industrial components through a network of more than 140 branches across Canada and the northwestern United States. The industries served include natural resources, construction, transportation, manufacturing, industrial processing and utilities.

Wajax's revenue reached \$992 million, a \$45 million or 5% increase over the prior year.

For its fiscal year ended December 31, 1998, Wajax net earnings equalled \$9.5 million, down 55% from the \$21.0 million recorded the prior year. This decline is primarily the result of depressed resource markets, particularly forestry, oil and gas, and mining which affected the Company's businesses operating in western Canada. In the United States, Pacific North Equipment operated at a loss due to slower than expected improvements as operational changes were introduced, as well as the impact of the sale of grey market equipment within its territory.

Since 1992, Wajax has been pursuing an aggressive growth strategy to take advantage of industry consolidation opportunities and to diversify its business in terms of market, core business and geographic territory. The main focus of Wajax now is to effectively integrate recent acquisitions and continue to reposition Pacific North Equipment, as well as to strengthen its operational infrastructure, particularly in the industrial components core business, where growth has been significant.

In the current year 1999, the new management team at Wajax intends to improve operating performance and strengthen financial results across the Company through better control of administrative costs and working capital.

Other Operations

Other operations consist of Empire Theatres, the leading movie exhibitor in Atlantic Canada operating 109 screens from 20 locations. During the year Empire Theatres opened 10 new screens and completed renovations at two theatre locations.

The Company was the first circuit in Canada to open an IMAX theatre using SR2 technology, as well as the first theatre chain in its market area to have stadium seating, curved screens and the mega-plex "experience" concept.

In the first quarter Empire divested its oil and gas interest for a net gain of \$3.8 million. This disposition accounted for the decline in other operations revenue from the prior year.

Investment Income

<i>(S in millions)</i>	1999	1998	Change
Dividend and interest income	3.2	4.5	(29.7)%
Share of income of companies accounted for by the equity method			
Hannaford Bros. Co.	32.9	27.9	17.8%
Wajax Limited	1.2	8.5	(86.0)%
Other	–	0.3	–
	34.1	36.7	(7.1)%
Total Investment Income	37.3	41.3	(9.6)%

Dividend and Interest Income was \$3.2 million compared to \$4.5 million in fiscal 1998. The decrease of \$1.3 million is attributed to the sale of the majority of the liquid investment portfolio in September of 1998 in connection with the Oshawa Group acquisition.

Net capital gains generated from the sale of investments, properties and other operations equalled \$24.1 million or \$0.65 per share in fiscal 1999, an increase of \$19.8 million from last years recorded net capital gains of \$4.3 million or \$0.12 per share. The increase over last year is primarily associated with the sale of the majority of Empire's liquid investment portfolio in connection with the Oshawa Group acquisition.

Unrealized Gain on Investment Portfolio

<i>(S in millions)</i>	1999	1998	Change
Market Value	757.2	1,046.9	(27.7)%
Book Value	384.4	482.0	(20.2)%
Unrealized Gain	372.8	564.8	(34.0)%

The unrealized gain of \$372.8 million is not reflected in Empire's shareholders equity. This is equivalent to \$9.53 per share, before the impact of income taxes and other costs of disposition. The decrease in unrealized gain year-over-year is primarily due to the sale of the majority of the liquid portfolio investments in the third quarter in connection with Empire's funding of the Oshawa Group acquisition along with the decline in Wajax's market value.

Investments and Other Operations Division Outlook

On May 3, 1999, Empire advised Hannaford that Empire would not extend the Standstill Agreement which governs Empire's investment in Hannaford and which terminates at the end of calendar 1999. This notification provides Empire with more flexibility in realizing the inherent value in this investment.

Concerning Wajax, the strategies being implemented by the new management team to cut costs and improve working capital management, coupled with relatively stronger commodity prices, if sustainable, are expected to translate into longer term earnings improvement.

Empire Theatres outlook is highly dependent on film quality and costs. As a result of the quality of releases expected in fiscal 2000, the proven management team at Theatres, and planned screen development, Empire looks forward to continued growth in this business.

FINANCIAL CONDITION

Empire's consolidated assets grew substantially in fiscal 1999, driven primarily by the acquisition of the Oshawa Group. Total assets at year-end of \$4,023 million represents a 111% or \$2,116 million increase over fiscal 1998. Excluding the impact of the Oshawa Group acquisition, total assets grew by 5.6% primarily as a result of continued growth of our food distribution and real estate businesses.

At April 30, 1999 management calculates Empire's consolidated net asset value at \$1,378 million or \$35.25 per share. The table below presents the composition of value by division. This net asset value calculation values Sobey common shares and Hannaford Bros. Co. common shares at their respective April 30, 1999 market values. For each dollar increase in Sobey's (SBY) share price, coupled with each dollar increase in Hannaford (HRD) share price, Empire's net asset value increases by \$1.25 per share.

Net Asset Value April 30, 1999

<i>(\$ millions)</i>	\$ Value	% of Total
Food Distribution	\$ 644	39%
Real Estate *	242	15%
Investments & Other **	776	46%
	\$ 1662	100%
Less: corporate debt	(284)	
Net asset value	\$1378	

* valued at 11 times funds from operations.

** investments are valued at stated market values.

At April 30, 1999, the book value of Empire's common shares was \$18.06 compared to \$14.12 at April 30, 1998. The net asset value per share and book value per share calculations reflect the effect of a two million share issue in February, 1999 which generated gross proceeds of \$58 million. The net proceeds were used for general corporate purposes, including the reduction of floating rate debt.

The trading price of Empire's Class A common shares on The Toronto Stock Exchange ("TSE") was \$26.00 at the close of trading April 30, 1999.

Empire finances a significant portion of its assets through the use of debt, the majority of which is fixed rate and long term in nature. Of this fixed rate, long term debt, the total liability at year end was \$1,486 million, including the current portion of long term debt. Sixty-five percent of this long term debt was directly related to the food distribution segment of Empire and 34% was directly related to the real estate segment of Empire. The food distribution related long term debt can be prepaid at any time without penalty. Empire finances its long term assets with fixed rate debt, thereby reducing both interest rate and refinancing risk.

The table below presents the debt to total capital ratio and interest coverage ratio for each segment of Empire along with consolidated totals.

	Food Distribution	Real Estate	Investments and Other	Total
April 30, 1999				
Debt to total Capital*	59.4%	79.0%	36.8%	63.4%
Interest Coverage** (times)	2.41	1.29	2.29	1.90
April 30, 1998				
Debt to total Capital*	35.6%	78.5%	27.5%	45.2%
Interest Coverage** (times)	5.55	1.23	2.56	2.13

* Funded debt at book divided by total capitalization. Total capitalization excludes minority interest and deferred taxes. Investments reflect an April 30, 1999 market value.

** Operating income divided by interest expense.

Although operating income increased by 30% in fiscal 1999 from the prior year, interest expense increased by 47% largely as a result of new funded debt incurred to finance the Oshawa Group acquisition. The net effect served to reduce Empire's overall interest coverage to 1.90 times from 2.13 times in fiscal 1998. The debt to total capital ratio increased by 18.2 percentage points to 63.4% from 45.2% last year. While total equity increased by 32% in fiscal 1999, the increase in total funded debt was 107%, primarily as a result of the added debt associated with the acquisition of the Oshawa Group. In fiscal 2000, Empire is budgeting a decrease in debt to total capital and an increase in interest coverage.

Capital Expenditures

In fiscal 1999, capital expenditures increased 100% over fiscal 1998 to reach \$276 million, largely as a consequence of the Oshawa Group acquisition, planned new store openings, as well as our ongoing store renovation and expansion program. The table below presents capital expenditures over the last two years by business segment.

<i>(\$ in millions)</i>	1999	1998
Food Distribution	216.2	70.3
Real Estate	55.7	61.7
Investments & Other	4.1	5.5
Total Capital Expenditures	276.0	137.5

Operating cash flow (after net change in other current items and restructuring charges) of \$303.2 million was used to fund fiscal 1999 capital expenditures.

For fiscal 2000, a combination of budgeted operating cash flow, existing current credit facilities, third party financing and operating leases, will be used to fund our planned fiscal 2000 capital spending program of \$468 million. The bulk of this capital budget will be to strengthen the corporate retail and franchised retail store network across the country. As projects are completed, appropriate long term financing will be arranged in order to prudently match the duration of assets to debt, so as to minimize interest rate risk.

Liquidity

Short term liquidity remains strong as a result of internally generated cash flow, net cash on hand, bank credit facilities and short term investments. The Company maintains authorized bank lines for operating, general and purposes of \$875 million, of which 57% was utilized at year end.

Financial instruments are used from time to time to manage short term interest rate fluctuations on underlying short term lines of credit.

At year-end, the company maintained authorized Schedule A bank credit facilities in excess of borrowings of \$372 million. The Company, at its option, can convert \$260 million of its authorized revolving-term credits into non-revolving fixed term financing for up to 30 months.

Empire maintains direct access to capital markets for longer term capital resources. The Real Estate division generally structures its long term obligations with fixed rates and fully amortizing debt to reduce interest rate and refinancing risk.

The long term financial flexibility of the Company is enhanced through access to capital markets. Empire maintains a corporate unsecured debt rating of A (low) from CBRS and BBB from DBRS.

RISK AND RISK MANAGEMENT

Empire carries on operating business in its Food Distribution division and in its Real Estate division, each having its own risk profile and risk management strategy.

The Food Distribution division, which includes retail, franchised retail and foodservice operations, is effectively diversified geographically. This ensures a balance of earnings should competition in a particular region intensify or the outlook for an area change. Management is committed to controlling operating risks by operating across a broad geographical base in Canada; through continual innovation (store format and positioning; private brand development; customer loyalty initiatives); and realization of lower costs from increasing economies of scale.

Our Food distribution division utilizes a variety of store formats and store banners in order to ensure the optimum fit to each market area. By having operations across Canada through 443 corporate stores, 949 franchised stores, by servicing thousands of independent accounts, and through vertical integration of certain operations, our Food Distribution division has effectively minimized its exposure to regional economic risk.

Our Real Estate division, through Atlantic Shopping Centres and Sobey Leased Properties, generates a stable source of income from tenant rent payments. Continued growth of rental income is dependent on renewing expiring leases and finding new tenants to fill vacancies at rental rates which will ensure an attractive return on our investment. The success of the real estate portfolio is subject to general economic conditions, the supply and demand for rental property in key markets served, and the availability of attractive financing to expand the real estate portfolio where deemed prudent. During fiscal 1999, our Real Estate division encountered relatively positive economic conditions in our key markets served and a lack of new rental space resulted in declining vacancy rates and improved rental rates. While the outlook remains positive in our key markets, a severe recession could impact occupancy rates and rent levels.

Empire's Board of Directors has approved a formal debt management policy, which details certain financial policies so that prudent financial management is adhered to. The Board has also approved a hedge policy for the use of defensive interest rate and currency risk management instruments. This policy also has established guidelines regarding counterparty risk.

In the ordinary course of managing its debt, Empire has entered into various financial instruments, which are not reflected on the balance sheet, to reduce or eliminate exposure to interest rate risks. Interest rate swaps, caps, collars and forward rate contracts are used to hedge or reduce the exposure to floating interest rate movements. At April 30, 1999, \$150 million in short term obligations were covered by such instruments with maximum interest rates ranging from 4.93% to 5.75% and having maturity dates from May 31, 1999 to October 5, 2000.

Concerning long term debt management for the Food Distribution division, Sobeys Inc. has entered into various interest rate and currency swaps, which are not reflected on the balance sheet. The effect of these swaps is to fix the interest rate the Company pays on \$800 million of debt.

To reduce the foreign exchange risk associated with our investment in US based Hannaford Bros. Co., the Company has entered into various currency collars to hedge or reduce exposure to a stronger Canadian dollar relative to the US dollar. The Company has also hedged its currency risk by entering into certain short term borrowing by availing US banker's acceptances. At April 30, 1999, US\$250 million was covered by currency collars and US\$25 million was availed by US bankers' acceptance short term obligations.

Empire's operating companies complete an ongoing comprehensive environmental compliance report and the Company is not aware of any significant environmental liabilities.

As explained in note 2 to the financial statements, as a result of the Oshawa acquisition the Company's foodservice operations in Atlantic Canada and a small number of food stores in Quebec and Ontario are currently under review by the Competition Bureau. The Company anticipates no material loss of business will occur upon completion of the review.

Certain forward-looking statements are included in this annual report relating to capital expenditures, cost reduction, operating improvements and year 2000 compliance. Such statements are subject to inherent uncertainties and risks, including but not limited to: business and economic conditions generally in the Company's operating regions; pricing pressures and other competitive factors; results of the Company's ongoing efforts to reduce costs; the ability to integrate the newly acquired Oshawa Group operations; and the availability and terms of financing. Consequently, actual results and events may vary significantly from those included in or contemplated or implied by such statements.

Year 2000 Compliance

Empire's direct corporate head office has relatively simple computer systems, which management believes are "Year 2000 ready". Empire's operating companies rely upon various computer related systems in their operations, which could be affected by the year 2000 issue. This includes exposure resulting from electronic and other interaction with third party customers, suppliers, and financial institutions. Each operating company has been actively involved in ensuring its information systems, and those of its suppliers and major customers, will make as smooth a transition as possible to the January 1, 2000 date change.

Since 1995, Empire's operating companies have had a designated executive oversee its program to achieve year 2000 readiness, with the Board of Directors receiving regular updates on status. The company believes it has identified all significant applications that require modification to ensure year 2000 compliance. In conjunction with our Enterprise Wide Vision 2020 project, the following major components were included to address year 2000 compliance:

1. Replacing non-compliant software with year 2000 compliant software;
2. Replacing hardware as needed to ensure compatibility with new software;
3. Ensuring all in-house developed software is year 2000 compliant;
4. Identifying and resolving issues for the company resulting from year 2000 compliance by customers and suppliers, and
5. Comprehensive testing of all systems before implementation.

The year 2000 team has completed the assessment, remediation and testing phases with final implementation in all divisions scheduled prior to the end of calendar 1999.

The Company's response to year 2000 issues is believed adequate to mitigate all known material risks related to the century change. However, due to inherent uncertainties surrounding these issues, Empire is unable to rule out any material adverse year 2000-related impact on operations, earnings and financial condition of the Company.

OUTLOOK

Management has projected stronger contribution from its food distribution and real estate operations in the coming year. We have utilized conservative cost of capital assumptions in our budget and have assumed the continuation of intense competition.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Preparation of the consolidated financial statements accompanying this annual report and the presentation of all other information in the report is the responsibility of management. The financial statements have been prepared in accordance with appropriate and generally accepted accounting principles and reflect management's best estimates and judgments. All other financial information in the report is consistent with that contained in the financial statements.

The Board of Directors, through its Audit Committee, oversees management in carrying out its responsibilities for financial reporting and systems of internal control. The Audit Committee, which is chaired by and includes a majority of non-management directors, meets regularly with financial management and external auditors to satisfy itself as to reliability and integrity of financial information and the safeguarding of assets. The Audit Committee reports its findings to the Board of Directors for consideration in approving the annual financial statements to be issued to shareholders. The external auditors have full and free access to the Audit Committee.

(signed) Paul D. Sobey

Paul D. Sobey
President and Chief Executive Officer
June 23, 1999

(signed) Allan D. Rowe

Allan D. Rowe
Senior Vice President,
Chief Financial Officer and Secretary
June 23, 1999

AUDITORS' REPORT

To the Shareholders of Empire Company Limited

We have audited the consolidated balance sheets of Empire Company Limited as at April 30, 1999 and 1998, and the consolidated statements of earnings, retained earnings, and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at April 30, 1999 and 1998, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

(signed) Grant Thornton

New Glasgow, Nova Scotia
June 14, 1999

Chartered Accountants
Grant Thornton

CONSOLIDATED BALANCE SHEET

April 30

<i>(in thousands)</i>	1999	1998
ASSETS		
Current		
Cash	\$ 72,050	\$ 28,268
Receivables	404,075	89,153
Inventories	471,553	197,650
Prepaid expenses	37,160	15,319
Investments, at cost (quoted market value \$30,135; 1998 \$246,418)	24,981	156,388
	1,009,819	486,778
Investments, at equity (quoted market value \$727,062; 1998 \$800,436)	359,390	325,579
Current assets and marketable investments	1,369,209	812,357
Fixed assets <i>(Note 4)</i>	1,689,656	1,069,026
Deferred income taxes	5,086	-
Other assets <i>(Note 5)</i>	959,547	25,850
	\$ 4,023,498	\$ 1,907,233
LIABILITIES		
Current		
Bank loans and notes payable <i>(Note 6)</i>	\$ 435,613	\$ 286,532
Payables and accruals	1,050,688	338,774
Income taxes payable	6,958	9,712
Long term debt due within one year	93,892	24,222
	1,587,151	659,240
Long term debt <i>(Note 7)</i>	1,392,435	616,571
Deferred revenue	19,421	-
Minority interest	286,809	-
Deferred income taxes	-	73,083
	3,285,816	1,348,894
SHAREHOLDERS' EQUITY		
Capital stock <i>(Note 8)</i>	285,140	229,889
Retained earnings	425,822	305,422
Foreign currency translation <i>(Note 1)</i>	26,720	23,028
	737,682	558,339
	\$ 4,023,498	\$ 1,907,233

See accompanying notes to the consolidated financial statements.

On behalf of the Board

(signed) Paul D. Sobey

Director

(signed) Donald R. Sobey

Director

EMPIRE COMPANY LIMITED

CONSOLIDATED STATEMENT OF EARNINGS

Year Ended April 30

<i>(in thousands)</i>	1999	1998
Revenue	\$ 6,377,651	\$ 3,320,000
Cost of sales, selling and administrative expenses	6,098,147	3,127,112
	279,504	192,888
Depreciation and amortization	103,720	70,404
	175,784	122,484
Investment income <i>(Note 9)</i>	37,287	41,253
Operating income	213,071	163,737
Interest expense		
Long term debt	91,340	64,340
Short term debt	21,039	12,328
	112,379	76,668
	100,692	87,069
Gain on sale of investments and properties	37,815	6,524
	138,507	93,593
Dilution gain on issue of common shares by subsidiary	79,887	-
Restructuring charges, food distribution segment	(85,143)	-
Gain on sale of investment in Jannock Limited	-	35,868
Share of asset impairment provision by equity accounted investment	-	(8,788)
	133,251	120,673
Income taxes <i>(Note 10)</i>		
Restructuring charges	(38,017)	-
Sale of investment in Jannock Limited	-	7,792
Other operations	48,235	25,092
	10,218	32,884
Minority interest		
Restructuring charges	(18,015)	-
Other operations	6,098	7
	(11,917)	7
	(1,699)	32,891
Net earnings	\$ 134,950	\$ 87,782
Earnings per share <i>(Note 3)</i>	\$ 3.55	\$ 2.33

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year Ended April 30

<i>(in thousands)</i>	1999	1998
Balance, beginning of year	\$ 305,422	\$ 228,254
Net earnings	134,950	87,782
	440,372	316,036
Dividends paid		
Preferred shares	1,880	1,830
Common shares	10,241	8,784
Share issue costs, net of tax	2,429	-
	14,550	10,614
Balance, end of year	\$ 425,822	\$ 305,422

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended April 30

<i>(in thousands)</i>	1999	1998
Cash provided by (used for) operations		
Net earnings	\$ 134,950	\$ 87,782
Depreciation and amortization	103,720	70,404
Deferred income taxes	(2,084)	1,747
Deferred revenue	(846)	-
Equity in earnings of other companies, net of dividends received	(24,988)	(20,224)
Minority interest	4,823	-
Dilution gain on issue of common shares by subsidiary	(79,887)	-
Restructuring charges, net of taxes of \$38,017 and minority interest of \$18,015	29,111	-
Gain on sale of oil and gas properties, net of income taxes of \$2,771	(3,830)	-
Reduction of book value of real estate assets, net of income taxes of \$1,954	2,403	-
Gain on sale of investment in Jannock Limited, net of income taxes of \$7,792	-	(28,076)
	163,372	111,633
Payment of preferred dividends	(1,880)	(1,830)
Operating cash flow before restructuring charges	161,492	109,803
Restructuring charges	(85,143)	-
Net change in other current items	226,821	23,279
	303,170	133,082
Cash provided by (used for) financing		
Net increase in bank loans	149,081	46,775
Net increase (decrease) in construction loans	(595)	1,800
Proceeds from issue of long term debt	945,943	35,368
Repayment of long term debt	(232,514)	(92,920)
Redemption of preferred shares	(5,000)	(6,766)
Redemption of preferred shares by subsidiary	-	(171)
Receipt of deferred revenue	13,200	-
Issue of Non-Voting Class A shares, net of costs	58,966	1,995
Payment of common dividends	(10,241)	(8,784)
	918,840	(22,703)
Total cash available	1,222,010	110,379
Cash used for (provided by) investments		
Acquisition of The Oshawa Group Limited, net of issue of common shares by subsidiary and net of cash acquired	1,082,452	-
Purchase of property, equipment and other assets	276,044	137,506
Proceeds from sale of property	(11,429)	-
Long term investments and advances	5,707	-
Net increase (decrease) in short term investments	(174,546)	44,290
Net proceeds from sale of investment in Jannock	-	(67,500)
Total cash used	1,178,228	114,296
Increase (decrease) in cash	43,782	(3,917)
Cash, beginning of year	28,268	32,185
Cash, end of year	\$ 72,050	\$ 28,268
Operating cash flow per share before restructuring charges <i>(Note 3)</i>	\$ 4.31	\$ 2.97

See accompanying notes to the consolidated financial statements.

April 30, 1999

I. ACCOUNTING POLICIES

Principles of consolidation These consolidated financial statements include the accounts of the Company and all subsidiary companies. Investments in which the company has significant influence are accounted for by the equity method. Investments in real estate joint ventures are consolidated on a proportionate basis.

The excess of cost over net assets acquired for equity accounted investments is amortized to income on a straight-line basis over one to 40 years.

Depreciation The sinking fund method is used to record depreciation of the real estate buildings, calculated as an amount which, compounded annually at the rate of 5%, will fully amortize the cost of the buildings over their estimated useful lives ranging from 20 to 50 years. Deferred leasing costs are amortized over the terms of the related leases and included in operating expenses.

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

Equipment and vehicles	3 – 10 years
Building and facilities	15 – 40 years
Leasehold improvements	7 – 10 years

Capitalization of costs *A) Construction projects* Certain subsidiary companies and joint ventures capitalize interest during the construction period until the project opening date.

B) Rental properties Certain subsidiaries and joint ventures capitalize the direct carrying and operating costs applicable to the unleased areas of each new project for a reasonable period from the project opening date until a certain level of occupancy is reached.

C) Land held for future development A subsidiary company capitalizes interest and real estate taxes to the extent that they relate to properties for immediate development. No amounts were capitalized in 1999 or 1998. The carrying costs on the balance of properties held for future development are expensed as incurred (Note 4B).

Cost of financing The direct costs of debt financing are being amortized over the terms of the related debt.

Goodwill Goodwill is amortized on a straight-line basis over its life of 40 years.

The company evaluates the carrying value of goodwill for possible impairment by considering whether the amortization of the goodwill balance over the remaining life can be recovered through undiscounted future operating cash flow of the acquired operation.

Inventories Warehouse inventories are valued at the lower of cost and net realizable value with cost being determined on a first-in, first-out basis. Retail inventories are valued at the lower of cost and net

realizable value less normal profit margins as determined by the retail method of inventory valuation.

Leases Leases meeting certain criteria are accounted for as capital leases. The imputed interest is charged against income and the capitalized value is depreciated on a straight-line basis over its estimated useful life. Obligations under capital leases are reduced by rental payments net of imputed interest. All other leases are accounted for as operating leases with rental payments being expensed as incurred.

Oil and gas properties and exploration costs The Company follows the full cost method of accounting for its exploration and production activities. All costs of exploring for and developing oil and gas reserves are capitalized, net of government grants, and charged to operations over the life of estimated future production (proved reserves) on the unit-of-production method.

Deferred revenue Deferred revenue consists of a long term purchase agreement and rental revenue arising from the sale of subsidiaries. Deferred revenue is being taken into income over the term of the related agreement and leases.

Foreign currency Assets and liabilities of self-sustaining foreign investments are translated at exchange rates prevailing at the balance sheet date. The revenues and expenses are translated at average exchange rates prevailing during the year. The gains and losses on translation are deferred and included as a separate component of shareholders' equity titled "foreign currency translation".

Exchange gains or losses on monetary items identified as a hedge against long term foreign denominated investments are charged to "foreign currency translation" in shareholders' equity.

Development and store opening expenses Development and opening expenses of new stores and store conversions are written off during the first year of operation.

Information systems development costs Costs directly attributable to the development of core information system projects are capitalized and amortized over the estimated life of seven years. As at April 30, 1999 these costs were included in fixed assets in the amount of \$47.3 million. This project began in 1998 and no amortization has been recorded to date. The new system will be fully operational in May 2000 at which time amortization will occur.

Accounting estimates The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future.

2. ACQUISITION OF THE OSHAWA GROUP LIMITED

During the year all the shares of The Oshawa Group Limited (“Oshawa”) were purchased by Sobeys Inc. (“Sobeys”), the company’s food distribution and food service subsidiary. Consideration for the purchase was \$1,137,819,000 cash and 21,252,502 shares of Sobeys

valued at \$379,888,000. This acquisition has been accounted for by the purchase method under which results from operations of Oshawa, since the date of acquisition, have been included in the financial statements. Details of the acquisition are as follows:

<i>(in thousands)</i>	1999
Fair value of identifiable assets acquired	\$ 1,494,543
Less identifiable liabilities assumed	713,044
Fair value of identifiable net assets acquired	781,499
Goodwill	736,208
Total purchase consideration	\$ 1,517,707
Consideration representing	
Cash	\$ 1,137,819
Common shares of subsidiary	379,888
	\$ 1,517,707

\$24,406,000 of the cash consideration was represented by shares owned at April 30, 1998.

Certain aspects of the Company’s acquisition of Oshawa are currently under review by the Competition Bureau. Specific food service operations in the Maritimes and a small number of food stores in local Ontario and Quebec markets are being examined. The Company anticipates that no material loss of business will occur upon completion of the review. If necessary, any gain or loss arising from a possible

Competition Bureau ruling, will be reflected as an adjustment to the purchase price allocation.

The shares of Sobeys valued at \$379.9 million had a book value of \$300 million resulting in a gain of \$79.9 million which is included in earnings for the year.

3. EARNINGS AND CASH FLOW PER SHARE

Earnings and cash flow per share amounts are calculated on the weighted average number of residual shares outstanding (1999 – 37,502,000 shares; 1998 – 36,950,000 shares) after providing for preference share dividends accrued to the balance sheet date.

Fully diluted earnings per share have been calculated on the assumption that all the outstanding stock options were exercised at the beginning of the year.

Earnings before unusual items is comprised of the following:

<i>(in thousands)</i>	1999	1998
Earnings prior to income taxes and gain on issue of common shares by subsidiary company and restructuring charges, and gain on sale of Jannock Limited and share of asset impairment provision by equity accounted investment	\$ 138,507	\$ 93,593
Income taxes on other operations	48,235	25,092
	90,272	68,501
Preferred share dividends and minority interest	7,978	1,837
Earnings before unusual items	\$ 82,294	\$ 66,664
Earnings per share is comprised of the following:		
Earnings before unusual items	\$ 2.20	\$ 1.81
Dilution gain on issue of common shares by subsidiary company	2.13	–
Restructuring charges (including income taxes and minority interest)	(0.78)	–
Share of asset impairment provision by equity accounted investment	–	(24)
Gain on sale of investment in Jannock Limited (including income taxes relating to the sale)	–	.76
Net earnings per share	\$ 3.55	\$ 2.33
Fully diluted earnings per share	\$ 3.53	\$ 2.31

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. FIXED ASSETS

<i>(in thousands)</i>	Cost	Accumulated Depreciation	1999 Net Book Value	1998 Net Book Value
Real estate segment				
Land	\$ 108,651	\$ -	\$ 108,651	\$ 96,416
Land held for future development	9,139	-	9,139	11,912
Buildings	791,052	122,155	668,897	643,677
	908,842	122,155	786,687	752,005
Food distribution and other				
Land	93,880	-	93,880	9,161
Land held for future development	60,151	-	60,151	35,784
Buildings	349,083	92,064	257,019	85,757
Information systems development costs	47,290	-	47,290	-
Equipment	1,024,087	666,043	358,044	160,959
Leasehold improvements	179,195	96,917	82,278	17,095
Oil and gas properties and exploration costs	-	-	-	7,462
Assets under capital leases	7,189	2,882	4,307	803
	1,760,875	857,906	902,969	317,021
Total	\$ 2,669,717	\$ 980,061	\$ 1,689,656	\$ 1,069,026

The following are included in costs capitalized during the year:

A) Projects under development

Interest	\$ Nil	\$ Nil
----------	--------	--------

B) Property held for future development

	\$ Nil	\$ Nil
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5. OTHER ASSETS

<i>(in thousands)</i>	1999	1998
Mortgages and loans	\$ 144,633	\$ 9,853
Goodwill	740,625	11,569
Deferred charges	74,289	4,428
	\$ 959,547	\$ 25,850

6. BANK LOANS AND NOTES PAYABLE

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

Under the terms of a subsidiary's credit agreement entered into between the Company and a banking syndicate arranged by the Bank of Nova Scotia, a revolving term credit facility was established. This facility will expire on December 8, 1999, however various provisions of the agreement provide the Company with the ability to extend the facility for a minimum period of two years. Interest is payable on this facility at rates which fluctuate with changes in the prime rate. As security for this facility and the secured bank loan provided under the credit agreement, the Company has provided a fixed and floating

charge over all assets, subject to permitted encumbrances, a general assignment of book debts and the assignment of proceeds of insurance policies.

In the ordinary course of managing its debt, the Company uses various financial instruments, which are not reflected on the balance sheet, to reduce or eliminate exposure to interest rate and foreign currency risks. Interest rate swaps, caps, collars and forward contracts are used to hedge or reduce the exposure to floating interest rates and foreign currency fluctuations associated with short term obligations. At April 30, 1999, \$150 million in short term obligations were covered by such instruments with maximum interest rates from 4.93% to 5.75% having maturity dates from May 31, 1999 to October 5, 2000.

7. LONG TERM DEBT

<i>(in thousands)</i>	Real Estate Segment	Food Distribution and Food Service	1999 Total	1998 Total
First mortgage loans, average interest rate 10%, due 1999-2024	\$ 348,407	\$ 40,645	\$ 389,052	\$ 359,847
Secured loans, average interest rate 8.2%, due December 9, 2005	-	800,000	800,000	-
Debentures, average interest rate 10.8%, due 1999 - 2016	93,279	109,337	202,616	214,053
Notes payable and other debt at interest rates fluctuating with the prime rate	52,181	17,529	69,710	53,450
	493,867	967,511	1,461,378	627,350
Construction loans at interest rates fluctuating with the prime rate	11,842	-	11,842	12,437
Capital lease obligations, due 1999-2003, net of imputed interest	-	13,107	13,107	1,006
	505,709	980,618	1,486,327	640,793
Less amount due within one year	19,522	74,370	93,892	24,222
	\$ 486,187	\$ 906,248	\$ 1,392,435	\$ 616,571

The company has fixed the interest rate on \$10,000,000 of its long term bank operating line at 6.84% by utilizing an interest exchange agreement for 4 years. The company has fixed the interest rate on \$204.4 million of its long term debt at 8.4% for 3 years and has fixed the interest rate on \$595.6 million of its long term debt at 8.2% for 7 years by utilizing interest exchange agreements.

As security for certain construction loans, the Company has pro-

vided a first charge on land and buildings under construction. These loans become due for refinancing at various dates in 1999. It is intended that these loans will be refinanced by long term borrowings.

Long term debt is secured by land and buildings, specific charges on certain assets and additional security as described in Note 6. Debt retirement payments and capital lease obligations in each of the next five fiscal years are:

<i>(\$ in thousands)</i>	Long term Debt	Capital Leases
2000	\$ 91,358	\$ 2,534
2001	96,183	2,559
2002	150,192	2,271
2003	111,869	1,170
2004	124,959	1,023

Operating leases The aggregate, annual, minimum rent payable under operating leases by the Company and subsidiaries is approximately \$140,000,000.

8. CAPITAL STOCK

Authorized	Number of Shares
Preferred shares, par value of \$25 each, issuable in series as a class. Series 2 cumulative, redeemable, rate of 75% of prime. Series 3 cumulative, redeemable, rate 8%.	34,261,305
Non-voting Class A shares, without par value	136,583,367
Class B common shares, without par value, voting	20,400,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. CAPITAL STOCK (cont.)

Issued and outstanding	1999		1998	
	No. of Shares	(in thousands)	No. of Shares	(in thousands)
Preferred shares, Series 2	976,900	\$ 24,422	1,176,900	\$ 29,422
Preferred shares, Series 3	262,352	6,559	262,352	6,559
Non-voting Class A	21,684,406	251,440	19,535,906	190,045
Class B common	17,448,728	7,748	17,448,728	7,748
		290,169		233,774
Loans receivable from employees and directors under share purchase plan		(5,029)		(3,885)
		\$ 285,140		\$ 229,889

During the year, the Company purchased for cancellation 200,000 (1998 - 100,000) of its Series 2 preferred shares for \$4,960,000 (1998 - \$2,422,000).

In 1998, 165,970 senior preferred shares were redeemed for \$4,193,000 and 4,640 Series 1 preferred shares were redeemed for \$116,000.

On March 11, 1999 the Company issued 2,000,000 Non-Voting Class A shares for \$58,000,000 cash. Issue costs were \$2,429,000 net of income tax recovery of \$241,000.

In 1998, 8,457 Class B common shares were converted to 8,457 Non-Voting Class A shares.

During the year 35,000 (1998 - 152,100) options were exercised resulting in 35,000 (1998 - 152,100) Non-Voting Class A shares being issued for \$458,850 (1998 - \$1,994,031). Options allow holders to purchase Non-Voting Class A shares at \$13.11 per share. Options expire at dates from September 1999 to October 2006. There were 187,779 options outstanding at April 30, 1999.

During the year 113,500 Non-Voting Class A were issued under the Company's share purchase plan to certain officers and employees for \$2,935,875, the market value at date of issue.

Loans receivable from officers and employees of \$5,029,000 (1998 - \$3,885,000) 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 311,193 (1998 - 347,607) Non-Voting Class A shares. Market value of the shares at April 30, 1999 was \$8,247,000 (1998 - \$9,472,000).

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.

9. INVESTMENT INCOME

(in thousands)	1999	1998
Dividend and interest income	\$ 3,190	\$ 4,536
Share of income of companies accounted for by the equity method	34,097	36,717
	\$ 37,287	\$ 41,253

10. INCOME TAXES

The effective rate of corporate income taxes is different than statutory rates as a result of certain items not being deductible for

income tax purposes, the income from companies accounted for by the equity method and receipt of dividends which are not taxable, and the large corporation tax of \$3,131,000 (1998 - \$1,892,000).

11. REAL ESTATE JOINT VENTURES

(in thousands)	1999	1998
The financial statements include the Company's proportionate share of the accounts of incorporated and unincorporated real estate joint ventures. A summary of these amounts is as follows:		
Assets	\$ 16,264	\$ 15,651
Liabilities	\$ 2,066	\$ 1,992
Equity and advances	14,198	13,659
	\$ 16,264	\$ 15,651

11. REAL ESTATE JOINT VENTURES (cont.)

<i>(in thousands)</i>	1999	1998
Revenues	\$ 3,043	\$ 3,145
Expenses	2,166	2,060
Income before income taxes	\$ 877	\$ 1,085
Cash provided (used)		
Operating activities	\$ (655)	\$ 1,314
Investing activities	-	50
Financing activities	1,032	(108)
	\$ 377	\$ 1,256

12. SEGMENTED INFORMATION

<i>(in thousands)</i>	1999	1998
Revenues		
Food		
Food distribution	\$ 5,173,516	\$ 2,747,308
Food service	1,058,322	407,776
	6,231,838	3,155,084
Real estate		
Outside	107,750	101,118
Inter-segment	40,275	37,878
	148,025	138,996
Other operations	38,063	63,798
	6,417,926	3,357,878
Elimination	(40,275)	(37,878)
	\$ 6,377,651	\$ 3,320,000
Operating income		
Food		
Food distribution	\$ 95,559	\$ 46,217
Food service	16,118	13,929
	111,677	60,146
Real estate	64,621	60,471
Other operations	4,455	7,682
Investment income	37,287	41,253
Corporate expenses	(4,969)	(5,815)
	\$ 213,071	\$ 163,737
Identifiable assets		
Food		
Food distribution	\$ 1,752,669	\$ 480,901
Food service	377,644	81,073
Goodwill	734,335	-
	2,864,648	561,974
Real estate	728,553	818,770
Investments	384,371	481,967
Other	45,926	44,522
	\$ 4,023,498	\$ 1,907,233

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. SEGMENTED INFORMATION (cont.)

(in thousands)

	1999	1998
Depreciation and amortization		
Food		
Food distribution	\$ 73,299	\$ 42,083
Food service	8,518	3,202
	<u>81,817</u>	<u>45,285</u>
Real estate	18,715	17,074
Corporate and other	3,188	8,045
	<u>\$ 103,720</u>	<u>\$ 70,404</u>
Capital expenditures		
Food		
Food distribution	\$ 199,547	\$ 66,637
Food service	16,680	3,622
	<u>216,227</u>	<u>70,259</u>
Real estate	55,717	61,710
Corporate and other	4,100	5,537
	<u>\$ 276,044</u>	<u>\$ 137,506</u>

The Company operates principally in three business segments: food distribution, food service and real estate. The food distribution segment consists of distribution of food products in Canada. The food service segment supplies the institutional, chain and independent

restaurant markets in Canada. The real estate segment consists of development, rental and management of shopping centres and office buildings located principally in the Atlantic Provinces. Intersegment transactions are at market values.

13. FINANCIAL INSTRUMENTS

Interest rate contracts The Company has entered into certain interest rate agreements as outlined in Notes 6 and 7. The face value of the interest rate agreements approximates their value as calculated by referring to prevailing interest rates at April 30, 1999.

Foreign exchange contracts The Company utilizes financial instruments which are not reflected on the balance sheet, to reduce foreign exchange risks on its US long term investment. At April 30, 1999, \$250 million US (1998 - \$250 million US) was covered by such instruments with \$50 million maturing in 2000, \$50 million maturing in 2001 and \$150 million maturing in 2002. The fair value of the foreign exchange agreements represents the amount that the company would pay or receive to terminate the agreements. At April 30, 1999, the estimated payout on termination is \$13.8 million US (1998 \$8.5 million US) based on market conditions.

The Company utilizes financial instruments which are not reflected on the balance sheet to reduce foreign exchange risks on its US long term debt. At April 30, 1999, \$194.9 million US was covered by

such instruments with \$43.2 million US maturing in 2002 and \$151.7 million US maturing in 2005. The fair value of the foreign exchange agreements represents the amount the Company would pay or receive to terminate the agreements. At April 30, 1999, the estimated payment on termination is \$11.0 million US based on market conditions.

All the financial instrument contracts noted above, are with Canadian Schedule 1 Banks thereby controlling the company's credit risk exposure.

Other financial instruments The book value of cash, payables and accruals, receivables, bank loans and notes payable approximate fair values as at April 30, 1999. The fair value of investments at cost and investments at equity is \$757 million (1998 - \$1,047 million) as noted on the Consolidated Schedule of Investments. The total fair value of long term debt is estimated to be \$1,625 million (1998 - \$815 million). The fair value of variable rate long term debt is assumed to approximate its carrying amount. The fair value of other long term debt has been estimated by discounting future cash flows at a rate currently offered for debt of similar maturities and credit quality.

14. PENSION PLAN

The company's subsidiaries maintain a defined contribution plan and a defined benefit pension plan. Current actuarial estimates indicate the pension benefits under the defined benefit plan at April 30, 1999

are \$165,624,000 and the pension fund assets, using the moving average market value, are \$169,926,000.

15. RESTRUCTURING AND INTEGRATION CHARGE

Subsequent to the acquisition of The Oshawa Group Limited on November 30, 1998, the Company commenced a comprehensive review of its strategic direction, facilities and staffing levels of all operations of the combined organizations. This integration initiative was undertaken to create operating efficiencies, cost savings and revenue enhancement opportunities. This project, which was substantially completed in April 1999, brought together the operating groups of both business units and generated a new business plan for the future. In connection with the integration initiative, the Company recorded an \$85.1 million charge (\$29.1 million after tax and minority interest) in the fourth quarter for restructuring and integration. The amount remaining in liabilities as at April 30, 1999 is \$69.2 million.

Foodservice Segment \$45.2 million of the restructuring and integration charge relates to the Foodservice segment and involves the rationalization of operations and modernization of the distribution supply network. These activities are scheduled to commence late in

16. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the year 2000 issue may be experienced before, on, or after January 1, 2000,

17. COMPARATIVE FIGURES

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

1999 and continue until early 2001. The charge to exit these activities is comprised of severance and other obligations to employees, lease commitments for closed locations and other charges.

Food Distribution Segment The remaining charge of \$39.9 million relates to the Food Distribution segment. The rationalization of Ontario operations accounts for the majority of this charge. It includes severance and other obligations to employees and other charges resulting from the closure of 17 smaller marginal stores in Ontario, the franchising of 56 corporate owned stores and the streamlining of certain department operations in Ontario. Substantially all of these activities are scheduled to commence in early fiscal 2000 and be completed by year end. The remaining charge for the Food Distribution segment includes severance and other costs associated with the roll out of Sobeys' common information systems across acquired business units. Systems implementation is scheduled to commence in early 2000 and end in mid 2001.

and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the year 2000 issue affecting the company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

CONSOLIDATED SCHEDULE OF INVESTMENTS

Company	Number of Shares	Realizable Value (in thousands)
Long Term Investments		
Hannaford Bros. Co.	10,418,565	\$ 662,221
Wajax Limited	7,452,994	64,841
Investments at equity		727,062
Current investments		
Listed investments		21,962
Unlisted investments, at cost		8,173
		30,135
		\$ 757,197

Realizable value is the quoted market value for shares listed on a recognized stock exchange, and cost which is less than fair market value, for other investments.

TEN YEAR FINANCIAL REVIEW

<i>(Years Ended)</i>	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Operations <i>(S in millions)</i>										
Revenue	6,377.7	3,320.0	3,149.7	2,915.2	2,699.5	2,577.4	2,358.4	2,235.5	2,087.9	1,803.7
Cost of sales, selling and administrative expenses	6,098.2	3,127.1	2,971.9	2,746.0	2,521.5	2,409.9	2,209.6	2,101.4	1,959.7	1,689.1
	279.5	192.9	177.8	169.2	178.0	167.5	148.8	134.1	128.2	114.6
Depreciation and amortization	103.7	70.4	65.4	60.0	57.5	50.7	44.7	40.2	34.5	29.1
Operating Income										
Operating income before investment income	175.8	122.5	112.4	109.2	120.5	116.8	104.1	93.9	93.7	85.5
Investment Income	37.3	41.3	35.6	32.7	30.1	27.0	27.6	21.1	28.1	28.4
	213.1	163.8	148.0	141.9	150.6	143.8	131.7	115.0	121.8	113.9
Gain (loss) on sale of properties and investments	37.8	6.5	1.4	2.1	(2.8)	5.4	1.7	0.2	0.8	–
Earnings before interest expense and income taxes	250.9	170.3	149.4	144.0	147.8	149.2	133.4	115.2	122.6	113.9
Interest expense	112.4	76.7	79.2	87.7	89.3	81.4	73.4	76.1	76.8	68.6
Income taxes	48.2	25.1	16.9	13.7	16.8	19.4	15.6	11.0	12.0	10.4
Minority interest	(6.1)	0.0	0.4	0.5	0.5	0.5	0.3	1.5	2.7	3.3
Earnings from continuing operations, before other items										
	84.2	68.5	52.9	42.1	41.2	47.9	44.1	26.6	31.1	31.6
Other items/discontinued operations	50.8	19.3		(20.4)			(15.6)	(5.6)	(16.7)	(23.0)
Net earnings	135.0	87.8	52.9	21.7	41.2	47.9	28.5	21.0	14.4	8.6
Operating cash flow (1)	161.5	109.8	93.9	83.0	80.7	81.5	72.4	54.1	45.6	39.8
Capital expenditures	276.0	137.5	82.7	125.7	120.1	98.1	40.5	93.0	97.5	77.4
Financial Position <i>(S in millions)</i>										
Net working capital (including marketable investments)	(217.9)	153.1	128.8	178.5	183.6	204.3	240.4	189.6	228.0	256.1
Fixed assets	1,689.7	1,069.0	1,001.9	1,004.5	968.8	909.9	714.5	720.3	673.4	583.7
Total assets	4,023.5	1,907.2	1,797.4	1,731.4	1,761.1	1,696.9	1,426.5	1,421.9	1,402.0	1,291.4
Long term debt (excluding current position)	1,392.4	616.6	606.8	656.1	648.0	633.6	514.9	472.6	430.7	386.7
Shareholders' equity	737.7	558.3	479.6	474.9	469.5	447.9	401.6	398.9	398.0	417.8
Per Share Information <i>(S per share)</i>										
Earnings from continuing operations, before other items	2.20	1.81	1.33	0.96	0.93	1.09	0.98	0.44	0.49	0.52
Net earnings (loss)	3.55	2.33	1.33	0.41	0.93	1.09	0.52	0.28	0.01	(0.17)
Operating cash flow	4.31	2.97	2.54	2.22	2.17	2.33	2.11	1.57	1.32	1.23
Dividend paid										
Non-voting Class A shares	0.2725	0.2425	0.22	0.215	0.20	0.20	0.18	0.16	0.16	0.16
Class B common shares	0.2725	0.2325	0.18	0.165	0.12	0.12	0.09	0.06	0.06	0.06
Book value	18.06	14.12	11.86	10.48	10.24	9.59	7.66	7.35	7.23	7.29
Financial Ratios										
Return on equity – continuing operations, before other items	13.4%	13.9%	11.9%	9.3%	9.4%	12.2%	12.7%	5.9%	6.6%	7.1%
Return on equity	21.7%	17.9%	11.9%	3.9%	9.4%	12.2%	6.8%	3.7%	0.1%	N/A
Share Price, Non-Voting Class A Shares <i>(S per share)</i>										
High	32.55	28.50	15.70	15.75	16.50	17.75	14.75	13.75	13.50	17.50
Low	25.00	15.60	12.25	11.50	13.00	12.25	10.00	11.00	8.75	12.25
Close	26.00	27.25	15.70	12.30	13.38	16.13	14.25	12.63	11.88	12.50

(1) Operating Cash Flow before changes in other current items and after preferred dividends.

Officers

DONALD R. SOBEY
Chairman

PAUL D. SOBEY
President and CEO

ALLAN D. ROWE
Senior Vice President,
Chief Financial Officer and Secretary

STEWART H. MAHONEY
Vice President,
Treasury and Investor Relations

CAROL A. CAMPBELL
Vice President,
Risk Management

CHESTER D. THOMPSON
Comptroller

Executive Directors

DAVID F. SOBEY³
New Glasgow, Nova Scotia Director
since 1963. Chairman of Sobeys Inc.,
has been with the Company for 47 years.

DONALD R. SOBEY³
New Glasgow, Nova Scotia
Director since 1963. Chairman of
Empire Company Limited, has been
with the Company for 41 years.

FRANK C. SOBEY
Stellarton, Nova Scotia
Director since 1990. Chairman of
Atlantic Shopping Centres Limited,
has been with the Company for
21 years.

JOHN R. SOBEY
Stellarton, Nova Scotia
Director since 1979. President and
COO of Sobeys Inc., has been with
the Company for 30 years.

PAUL D. SOBEY
Pictou, Nova Scotia
Director since 1993. President and
CEO of Empire Company Limited,
has been with the Company for
17 years.

ROBERT G. SOBEY
Stellarton, Nova Scotia
Director since 1998.
Director, Planning and Analysis
of Sobeys Inc., has been with
the company for 10 years.

DOUGLAS B. STEWART
New Glasgow, Nova Scotia
Director since 1992. Vice Chairman
and CEO of Sobeys Inc., has been
with the Company for 9 years.

Independent Directors

TOM BLEASDALE¹⁶
Linville, North Carolina
Director since 1995. Trustee of The
Colonial Group of Mutual Funds.

JOHN C. CLARK¹
Toronto, Ontario
Director since 1989.
Chairman, Connor Clark Ltd.

SIR GRAHAM DAY²⁵
Hantsport, Nova Scotia
Director since 1991. Counsel to
Stewart McKelvey Stirling Scales.

ROBERT P. DEXTER^{3,5}
Halifax, Nova Scotia
Director since 1987. Chairman and
CEO of Maritime Travel (Group)
Limited.

PETER C. GODSOE¹
Toronto, Ontario
Director since 1993. Chairman and
CEO of The Bank of Nova Scotia.

JAMES W. GOGAN
New Glasgow, Nova Scotia
Director since 1972.
Corporate Director

JAMES L. MOODY, JR.⁴
Cape Elizabeth, Maine
Director since 1998.
Corporate Director

DR. ELIZABETH PARR-JOHNSTON³
Fredericton, New Brunswick
Director since 1994. President and
Vice Chancellor of the University of
New Brunswick.

E. COURTNEY PRATT^{3,5}
Toronto, Ontario
Director since 1995.
Consultant

J. WILLIAM RITCHIE¹
Halifax, Nova Scotia
Director since 1973.
Chairman and CEO of Keltic Inc.

J. WILLIAM SINCLAIR³
Westville, Nova Scotia
Director since 1980.
Forestry Technician.

- 1 Audit Committee Member
- 2 Audit Committee Chairman
- 3 Human Resources Committee
Member
- 4 Human Resources Committee
Chairman
- 5 Corporate Governance Committee
Member
- 6 Corporate Governance Committee
Chairman

Directors of Operating Companies

**Sobeys Inc.
Executive Directors**

DAVID F. SOBEY
Chairman, Sobeys Inc.

DONALD R. SOBEY
Chairman, Empire Company Limited

JOHN R. SOBEY
President and COO,
Sobeys Inc.

PAUL D. SOBEY
President and CEO,
Empire Company Limited

DOUGLAS B. STEWART
Vice Chairman and CEO,
Sobeys Inc.

KARL R. SOBEY
President, Corporate Retail Operations,
Sobeys Inc.

Independent Directors

JOHN L. BRAGG
President, Oxford Frozen Foods
Limited

MARCEL CÔTÉ
Senior Partner,
Secor Inc.

SIR GRAHAM DAY
Counsel to Stewart McKelvey
Stirling Scales.

ROBERT P. DEXTER
Chairman and CEO,
Maritime Travel (Group) Limited

HUGH G. FARRINGTON
President and CEO,
Hannaford Bros. Co.

RONALD V. JOYCE
Senior Chairman, The TDL Group
Limited

J. WILLIAM RITCHIE
Chairman, Keltic Inc.

LAWRENCE N. STEVENSON
President and CEO,
Chapters Inc.

ANNETTE VERSCHUREN
President, Home Depot Canada

**Atlantic Shopping Centres Limited
Executive Directors**

J. STUART BLAIR
President and CEO, Atlantic
Shopping Centres Limited

DAVID F. SOBEY
Chairman, Sobeys Inc.

DONALD R. SOBEY
Chairman, Empire Company Limited

FRANK C. SOBEY
Chairman
Atlantic Shopping Centres Limited

JOHN R. SOBEY
President and COO, Sobeys Inc.

PAUL D. SOBEY
President and CEO, Empire
Company Limited

Independent Directors

DAVID G. GRAHAM
President, Atlantic Developments Inc.

DAVID J. HENNIGAR
Chairman, Annapolis Basin Group
Incorporated

KEN C. ROWE
Chairman and CEO, IMP Group Ltd.

JOHN B. ROY
President, Roycom Securities Ltd.

Officers of Operating Companies

Sobeys Inc.

DAVID F. SOBEY
Chairman

DOUGLAS B. STEWART
Vice Chairman and CEO

JOHN R. SOBEY
President and COO

ALLAN D. ROWE
Executive Vice President and CFO

KARL R. SOBEY
President, Corporate Retail Operations

PIERRE CROTEAU
President, Quebec Division

BRUCE WEST
President, Ontario Division

WAYNE WAGNER
President, Western Division

GARY SEAMAN
President, SERCA Foodservice Inc.

DARRELL M. RUSHTON
President, Atlantic Division

JOHN K. LYNN
Executive Vice President,
Human Resources and Corporate Affairs

DARRELL EWERT
General Counsel and Secretary

Atlantic Shopping Centres Limited

FRANK C. SOBEY
Chairman

J. STUART BLAIR
President and CEO

JOHN G. MORROW
Vice President, Finance and Secretary

ALLAN K. MACDONALD
Vice President, Leasing

SCOTT R. MACLEAN
Vice President, Operations

PAUL W. WIGGINTON
Comptroller

Empire Theatres Limited

STUART G. FRASER
President and CEO

KEVIN J. MACLEOD
Vice President, Operations

I N V E S T O R I N F O R M A T I O N

Empire Company Limited

Head Office
115 King Street
Stellarton, Nova Scotia
B0K 1S0
Telephone: (902) 755-4440
Fax: (902) 755-6477
Internet: www.empireco.ca

Investor Relations

For additional information
please write to the company,
c/o Stewart H. Mahoney,
Vice President, Treasury
and Investor Relations

Affiliated Company web addresses

www.sobeys.ca
www.empiretheatres.com

Shareholders' Annual Meeting

September 9, 1999 at 11:30 a.m.
Aberdeen Cinemas
610 East River Road
New Glasgow, Nova Scotia

Stock Exchange Listings

The Toronto Stock Exchange
The Montreal Exchange

Stock Symbols

Non-voting Class A shares - EMP.A
Preferred shares:
Series 2 - EMP.PR.B
Series 3 - EMP.PR.C

Average Daily Trading Volume (TSE)

22,000

Common Dividend Record and Payment

Dates for Fiscal 2000*

Record Date	Payment Date
July 15, 1999	July 30, 1999
Oct. 15, 1999	Oct. 29, 1999
Jan. 14, 2000	Jan. 31, 2000
Apr. 14, 2000	Apr. 28, 2000

* subject to approval by Board of Directors

Transfer Agents

Montreal Trust Company of Canada
Telephone: (902) 420-2211
Non-voting Class A shares
Series 3 Preferred shares
CIBC Mellon Trust Company
Telephone: (902) 420-3821
Series 2 Preferred shares

Bankers

Bank of Montreal
Bank of Nova Scotia
Canadian Imperial Bank of Commerce
National Bank of Canada
Royal Bank of Canada
Toronto-Dominion Bank

Solicitors

Stewart McKelvey Stirling Scales
Halifax, Nova Scotia

Auditors

Grant Thornton
New Glasgow, Nova Scotia

Multiple Mailings

If you have more than one account, you may receive a separate annual report for each. If this occurs, please contact Montreal Trust at (902) 420-2211 to eliminate the multiple mailings.

Exemplaire francais

Un exemplaire francais de ce rapport vous sera expedie sur demande adressee au service des relations avec les investisseurs.

MISSION STATEMENT

Goal: Empire is committed to building shareholder value through long-term profitability and growth by becoming a market leader in its core operating businesses and by investing in other opportunities to augment this growth in value.

How: Empire will achieve this goal by treating employees in ways that create extraordinary customer service and shareholder value.

Values: Empire will be a good corporate citizen, upholding the highest standards of integrity and ethical conduct.

CORPORATE GOVERNANCE

The governance of the corporation is the responsibility of Empire's Board of Directors and is delivered through three committees consisting of the Corporate Governance Committee; the Human Resources Committee; and the Audit Committee. For a more detailed review of the Company's governance practices see Empire's 1999 Management Information Circular.

COMMUNITY INVOLVEMENT

Empire is an active member of the communities in which it operates through the volunteer efforts of its employees and the financial support provided each year by the Sobey's Foundation. The company is a member of the Imagine corporate giving program and sponsors numerous charitable initiatives including the popular "Tape Saver" program and the annual "Run for the Cure" in support of breast cancer research.

Imagine  A Caring Company



Herring Cove, Nova Scotia, 1919

A. Y. Jackson (1882 – 1974)

Oil on canvas

It is the custom of Empire Company Limited to feature works of Canadian artists, selected from the Sobeys family collection, in its annual reports. We acknowledge the contribution made by working members of our cultural community to the quality of life in Canada and we celebrate their unique achievements.

Alexander Young Jackson enlisted as a Private in the 60th Battalion of infantry in 1914, was wounded at Maple Copse, France in June 1916, and before he could return to the trenches was appointed in 1917 an official war artist. Although a landscape painter, his first duty was to paint a portrait of a Canadian winner of the Victoria Cross. He returned to Canada in 1919, ostensibly to “make some records of returning troopships”. He notes in his memoirs, “A Painter’s Country” that one of these paintings, – a picture of the ship Olympic, anchored in the middle of Halifax harbor – was a nuisance in the studio, and a couple of years afterwards he shoved it in the furnace.

Fortunately other paintings of Halifax and vicinity did survive, including one acquired from the Wembley exhibition by London’s Tate Gallery and others now in Ottawa, Toronto and in private collections. This painting of the well-known fishing village near Halifax has appeared in a number of recent exhibitions, including “The Group of Seven: Masterpieces from Toronto Collections” (McMichael, 1987) and “Le Group des Sept / The Group of Seven” (Montreal, 1996). The painting “Herring Cove”, Nova Scotia, was first exhibited in May 1920 at the Art Gallery of Toronto, in the very first Group of Seven exhibition.

Colour reproductions of Herring Cove, Nova Scotia are available in limited numbers, upon request. Please write to the company, c/o The Sobeys Art Foundation or visit our web site at www.empireco.ca.