

clearly focused on

our strengths



EMPIRE COMPANY LIMITED

2008 ANNUAL REPORT

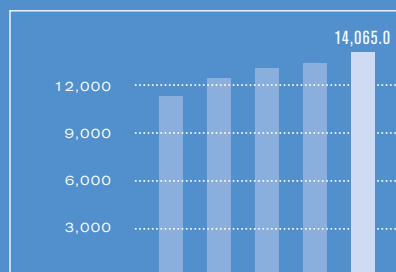
Financial Highlights

(\$ in millions, except per share amounts)	52 Weeks Ended May 3, 2008	52 Weeks Ended May 5, 2007*	52 Weeks Ended May 6, 2006*
Operations			
Revenue	\$ 14,065.0	\$ 13,366.7	\$ 13,063.6
Operating income	472.6	431.1	491.4
Operating earnings	242.8	200.1	202.0
Capital gains and other items, net of tax	73.0	5.7	94.8
Net earnings	315.8	205.8	296.8
Financial Condition			
Total assets	\$ 5,706.9	\$ 5,241.5	\$ 5,051.5
Long-term debt	1,475.0	875.1	809.8
Shareholders' equity	2,382.3	2,131.1	1,965.2
Per Share Information			
Operating earnings (fully diluted)	\$ 3.69	\$ 3.04	\$ 3.07
Capital gains and other items, net of tax	1.11	0.09	1.44
Net earnings (fully diluted)	4.80	3.13	4.51
Book value	36.14	32.31	29.77
Dividends	0.66	0.60	0.56
Share Price			
High	\$ 55.19	\$ 45.25	\$ 44.35
Low	35.40	39.49	33.37
Close	39.25	42.33	43.29

*Restated.

Consolidated Revenue

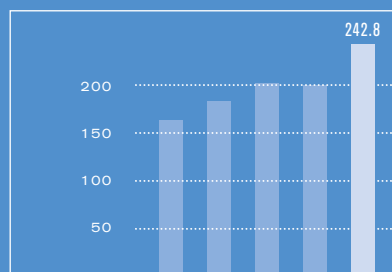
\$ IN MILLIONS



FISCAL YEAR

Consolidated Operating Earnings

\$ IN MILLIONS



FISCAL YEAR

Empire Company Limited (TSX: EMPA) is a Canadian company whose core businesses are food retailing and related real estate. Guided by conservative business principles, our primary goal is to build long-term shareholder value through income and cash flow growth and equity participation in businesses that have the potential for long-term growth and profitability.

knowledge & experience in food retailing & real estate

It's a powerful combination of strengths built upon 100+ years in food retailing and 40+ years in real estate. Our focus on these core businesses will continue to guide Empire as we further enhance our capabilities and competitive advantages to sustain growth in our businesses.



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Our strengths, performance and strategy at a glance.

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Fiscal 2008 was a transformative year that enhanced our corporate structure and created a solid platform for growth.

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Danielle McNelly, Assistant Meat Manager, Queensway Sobey's



EMPIRE'S CORE BUSINESSES



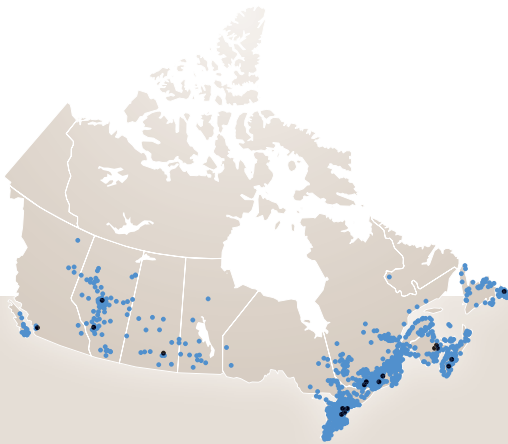
PROFILE

COMPETITIVE STRENGTHS

food retailing

The right-sized, right format offering for each market that we serve

- FOOD RETAIL LOCATION



real estate

An expanding capability to develop food-anchored shopping plazas

- REAL ESTATE PROPERTY

Sobeys Inc. owns and operates more than 1,300 corporate and franchise affiliate stores in every province across Canada under retail banners that include Sobeys, IGA, IGA *extra*, Foodland, Price Chopper and Thrifty Foods, as well as Lawtons Drug Stores. Our five core retail formats are designed to ensure that we have the right offering in the right-sized stores for each individual market we serve – from our full service format to the convenience format, each designed to satisfy the occasion-based food shopping needs of our customers.

- ▶ Our customer focus and superior service delivery.
- ▶ Our passionate “best in food” focus supported by our fresh food expertise and our exceptional *Compliments* private label products.
- ▶ Our committed and knowledgeable franchise affiliates and store operators.
- ▶ Our enhanced supply chain, back shop processes, systems and tools that support our employees in serving the needs of our customers.

Empire's real estate business includes commercial and residential property operations. Our commercial real estate operations are focused on the development of food-anchored shopping plazas and ownership of retail and office properties through a 47.8 percent ownership interest in Crombie REIT. The focus of our residential operations is on land development, predominantly through a 35.7 percent ownership interest in Genstar Development Partnership.

- ▶ Our knowledge, strength of management and experience in real estate.
- ▶ The close working relationship with Sobeys and Crombie REIT that enables Empire to accelerate the development of food-anchored shopping plazas across Canada.
- ▶ The preferential development agreement between our commercial division and Crombie REIT. This agreement reduces risk and enhances opportunities for both businesses.
- ▶ Our residential property operation, through Genstar, has attractive land holdings primarily in Western Canada and a proven, experienced management team.

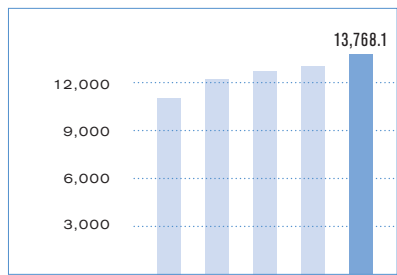


KEY PERFORMANCE INDICATORS

VISION AND STRATEGIC PRIORITIES

Food Retailing Revenue

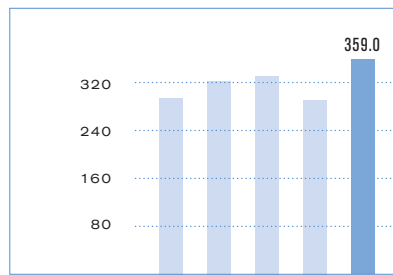
\$ IN MILLIONS



FISCAL YEAR

Food Retailing Operating Income

\$ IN MILLIONS

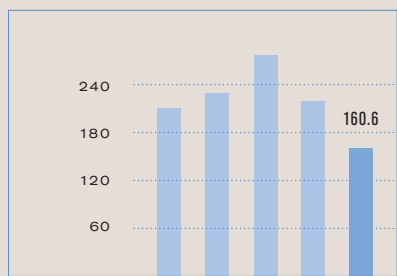


FISCAL YEAR

We are determined to be widely recognized as the best food retailer in Canada. Our focus in fiscal 2008 remained on three key imperatives: continued improvement in operational execution through the engagement and development of our employees; reducing our cost base and improving productivity throughout our organization; and innovation in the product and services offered to our customers. Sustaining a competitive retail price position in each format and every market is a cornerstone commitment from which we will not waver. Creating an environment in which our people are empowered with the skills, tools and processes to do their jobs well is fundamental to our superior execution and sustained growth.

Real Estate Revenue

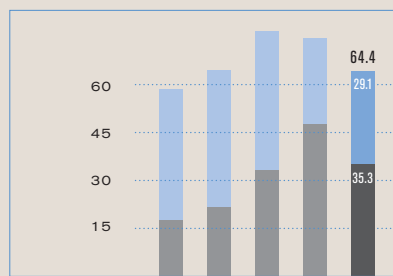
\$ IN MILLIONS



FISCAL YEAR

Real Estate Funds from Operations

\$ IN MILLIONS



FISCAL YEAR

■ COMMERCIAL ■ RESIDENTIAL

The goal of our commercial real estate division is to create both certainty and pace of growth for Crombie REIT and Sobeys by continuing to accelerate growth in our development pipeline across Canada. Our strategy rests firmly on the combination of strengths brought to the business by Sobeys with its substantial in-house expertise in selecting commercial locations, Crombie REIT with its decades of management expertise, and the development expertise that we have within our commercial operations. Guiding our decisions at all times is a set of criteria that exemplifies our investment discipline.

focused on

our strengths

Our solid operating achievements and financial performance in fiscal 2008 demonstrate the value of Empire's privatization of Sobeys. We have created a solid platform for growth in food retailing and food-anchored shopping plaza development across Canada. With a strong, dedicated team, we see significant opportunity to leverage this model beyond our established presence in Eastern Canada, expanding more aggressively into Central Canada and British Columbia.

Fiscal 2008 was a transformative year. The successful privatization of Sobeys simplified and enhanced our structure and corporate governance and intensified our focus on the return on capital employed. But it represented just one step in the implementation of a strategy designed to realign our activities and renew our focus on our strengths. In 2008, solid strategic progress, including expanded market presence, was made in each of our core businesses. Upon the close of the Sobeys privatization transaction in June 2007, we began negotiations to sell a portfolio of 61 commercial properties representing approximately 3.3 million square feet of gross leaseable area to Crombie REIT.

The transaction closed in April 2008 for \$428.5 million, effectively monetizing the value of our assets and providing Empire with funds to repay bank indebtedness and reduce our consolidated debt to capital ratio to 39.8 percent at the end of fiscal 2008. With an additional equity investment in Crombie REIT, Empire now holds a 47.8 percent ownership



Paul D. Sobey (left), President and CEO, Empire Company Limited; Stewart H. Mahoney, Vice President, Treasury and Investor Relations; and Paul V. Beesley, Executive Vice President and CFO.

interest in the Trust and we look forward to profiting from strong performance going forward. The sale of these properties was not only a sound financial transaction. Just as important, it aligned well with Empire's real estate strategy by supporting significant growth for Crombie REIT and strengthening the solid relationship between our core businesses of food retailing and related real estate. The transaction also confirms our confidence in the Crombie management team and their strategies to sustain the solid operating and financial performance that they have achieved since the REIT's launch in March 2006. We look forward to the

generation of further transaction opportunities as Empire's property development program evolves.

While our real estate division successfully negotiated the sale of properties to Crombie REIT, Sobeys acquired British Columbia-based grocery retailer Thrifty Foods. Thrifty's business includes 21 full-service supermarkets, a main distribution centre and a wholesale division on Vancouver Island and the lower mainland of British Columbia.



Daniel Giroux,
Meat Counter Manager,
IGA extra,
Mascouche, Québec

The similarities between Sobeys and Thrifty Foods were clear to us: an unwavering focus on food, dedicated employees, a great service culture and strong values, including a strong commitment to their communities. Thrifty Foods was not only a great strategic fit for our Company, it also expanded our footprint in British Columbia creating opportunities for future growth within food retailing and real estate development.

Financial highlights

We were pleased with Empire's financial results in fiscal 2008. Revenues grew by 5.2 percent to \$14.06 billion while operating earnings increased to another record high, \$242.8 million or \$3.69 per share. Dividends paid to common shareholders increased by 10.0 percent to \$0.66 per annum while book value per share grew by 11.9 percent. Subsequent to fiscal year-end, coinciding with the release of our fourth quarter results on June 26, 2008, we were pleased to announce a further increase in the Empire dividend to \$0.70 on an annualized basis.



Rennie Bugeja, Real Estate Consultant, Sobeys Ontario; Derick Hendricks, Manager Construction Ontario/Québec, Crombie REIT; and Mark Stone, Manager of Real Estate Planning, ECL Developments Ltd., work together in a real estate business model uniquely capable of prospering throughout the traditional real estate cycles.

While the turmoil in the capital markets has had an impact on our share price over the last year, we have still delivered an average annual total return to shareholders of 12.0 percent over the last 10 years.

Food retailing

Sobeys achieved a 5.6 percent increase in sales to reach \$13.77 billion and a 17.3 percent increase in net earnings in fiscal 2008. Once again, Sobeys' solid performance was the result of an unwavering commitment to its food-focused strategy. Our strategy is executed through the collective passion of our employees, franchisees and affiliates and their knowledge of the food business in the distinct markets that we serve and our commitment to operational excellence and innovation.



Every initiative that was implemented in fiscal 2008 – from the launch of *Compliments Junior Disney* and the introduction of almost 100 new products for kids to Fresh Item Management, a new SMART retailing program – was aimed at achieving our goal to “out-food”, “out-fresh”, “out-service” and “out-market” those who choose to compete with us. This focus is not only protecting Sobeys’ position in the industry – it’s allowing the Company to grow in an intensely competitive market place.

Real estate

In fiscal 2008, we made substantial progress in the transformation of our real estate division, which works closely with Sobeys on the development of food-anchored shopping plazas. We now have 1.9 million square feet of property either under development or offered for sale. We also have established new teams in Québec and British Columbia to work with our existing teams in Ontario and Atlantic Canada to expand our development pipeline.

These teams will work closely with Crombie REIT, which has provided an average annual investment return of 12.0 percent since going public in March 2006 and has provided Empire shareholders with a second year of exemplary operating and financial performance.

By combining the development talents that we’re building within our commercial real estate division with

Crombie REIT’s real estate management skills and Sobeys’ regional expertise in identifying superior locations, we have created a strong set of capabilities, assets and access to markets. We’re simply stronger together than apart.

With respect to our residential operations, Genstar continues to be an excellent investment, contributing \$34.7 million in earnings to Empire in fiscal 2008. Genstar’s earnings contribution is expected to decline moderately in fiscal 2009 as a result of an anticipated slowdown in residential lot selling activity. Genstar has a very strong management team and holds an attractive mix of undeveloped land and serviced lots. These properties were acquired at favourable prices and continue to represent very good value, even in a stable or declining market environment.

Empire Theatres and other investments

As the second largest movie exhibitor in Canada, wholly-owned Empire Theatres owns or has an interest in 53 locations representing 387 screens, operating in eight provinces from coast-to-coast. During fiscal 2008, it opened new theatres in Dartmouth, Nova Scotia and Bolton, Ontario and adopted new technologies such as digital cinema and Real D 3D. Attendance at existing theatres was driven by programming from The Metropolitan Opera, The Royal Opera House, The Royal Ballet and World Wrestling Entertainment in addition to the traditional major studio releases.

Both Empire Theatres and Wajax benefit Empire by providing a steady cash flow, while enhancing our financial flexibility.

Empire Theatres executives (left to right): Kevin J. MacLeod, Executive Vice President; Stuart G. Fraser, President and CEO; and Paul W. Wigginton, Vice President, Finance and CFO.



Our investment in Wajax Income Fund generated solid performance in fiscal 2008, contributing equity earnings of \$20.4 million and unit price appreciation of 14.0 percent over fiscal 2007. Wajax Income Fund is a leading Canadian distributor and service support provider of mobile equipment, industrial components and power systems. This is a very solid business with a superb management team. Wajax is well positioned in the market with substantial ties to Alberta's oil sands.

Both Empire Theatres and Wajax benefit Empire by providing a steady cash flow, while enhancing our financial flexibility.

Strategic priorities

As we move into fiscal 2009, we will continue to focus on our core strategic priorities. First, we remain committed to supporting Sobeys in its goal to be widely recognized as the best food retailer in Canada in what continues to be an intensely competitive environment. Second, we are committed to the ongoing evolution of our real estate business into a developer of new properties to be vended, preferably, to Crombie REIT.

Finally, we are determined to reduce our leverage over the coming year through prudent working capital management and a renewed focus and scrutiny on capital

expenditures. By reducing our debt and managing our capital prudently, we hope to return the rating assigned to our Company to investment grade by both rating agencies.

Heartfelt appreciation

We have the financial strength to execute our operating strategies, and we expect our financial capacity to improve throughout fiscal 2009. We have a Board of Directors, corporate management team and leadership in our core businesses that have the experience and expertise to ensure we remain focused on our strengths and that our strategies are executed efficiently and capital is allocated prudently.

It is our people across the Company, however, who build this Company with consistent focus on superior execution as they work together day-to-day with enthusiasm and commitment. With the continued support of our employees, franchisees and affiliates we are confident in our ability to grow our profitability in the years ahead.

A handwritten signature in black ink, reading "Paul D. Sobey".

Paul D. Sobey
President and CEO
Empire Company Limited
June 26, 2008

focused on

food

In an environment of intense competition our focus has not wavered and will not waver. Sobeys is focused on food. As a result we have continued to make solid progress along a continuum in our determination to be widely recognized as the best food retailer in the country. We strive to “out-food”, “out-fresh”, “out-service” and “out-market” all those who choose to compete with us in the Canadian food retail marketplace.

At the core of our food-focused strategy are our regional and local market management structures and teams of store operators who, by virtue of their “in the market” presence and knowledge, deploy market-tailored offerings to satisfy the unique occasion based needs of our customers. We capitalize on the diversity across the Canadian retail landscape by deploying our five distinct store formats based on individual market requirements and opportunities: full service, fresh fill-in, community service, convenience and price discount food stores. Our ability to compete for customer patronage and loyalty – and grow sales per square foot – depends on being relevant in each

location with the right-sized store, the right format store, the right price and promotion position, the right range of products and the right balance of services and self serve offerings.

During fiscal 2008, Empire’s privatization of Sobeys served to support the three imperatives that are the tactical foundation of our strategy: operational execution through the engagement and development of our employees;



Bill McEwan (right), President and CEO, Sobeys Inc., with Joan Muise, Administration Clerk and Donald MacLean, Owner/Operator of Foodland Westville, Nova Scotia.

reducing our cost base and improving productivity throughout our organization; and innovation in the products and services offered to our customers. Sustaining a competitive retail price position in each format and every market is a cornerstone commitment that we will not waver from and creating an environment in which our people are empowered with the tools, skills and processes to do their jobs well is fundamental to superior execution and sustained growth.

Continued solid performance

With our focus clear and intact, Sobeys continued to achieve solid

operating and financial performance in what remains an intensely competitive food retail environment. Total revenue for the year reached \$13.77 billion compared to \$13.03 billion in fiscal 2007 as we sustained full year same-store sales growth driven by continued increases in sales per square foot – key indicators of our strategic progress and evidence of improved productivity.



strength in
freshness

Sobeys can “out-food”, “out-fresh” and “out-service” our competitors with innovative initiatives such as SMART retailing. SMART helps store managers like Joe Glover at Sobeys Store 925 in Oshawa achieve operational excellence by providing the tools and processes that allow them to use their local market knowledge to satisfy the unique needs of their customers more effectively.



Growing our store network

In fiscal 2008 we continued to expand and improve the quality of Sobeys' retail square footage, opening or relocating 44 new stores, acquiring 22 stores and expanding 31 stores, while closing 67 stores; a net increase of 127,000 new square feet across the country. We announced the acquisition of British Columbia-based Thrifty Foods in July 2007. Thrifty Foods is a very well respected food-focused retailer with great management, a strategy entirely consistent with ours, and a reputation for exceptional customer service, innovative product development and community service. Building on the great foundation and reputation of Thrifty Foods, we are committed to expanding our business on Vancouver Island and beyond.



strength in communication

Our focus on fresh is just as vibrant on Sobeys.com as it is in our stores. Consumers can create shopping lists as they read our weekly flyer, explore fresh tastes and meal ideas or visit our Countertop Buzz, our chefs' blogs about great food, good fun, and inspirational meal ideas.



Monica Juliao,
Baker, Oshawa Sobeys

Sobeys launched the third wave of SMART retailing in 2008. Fresh Item Management provides store managers with the capability to analyze shopping patterns and determine the quantity of freshly produced items required throughout the day.

Sobeys' pharmacy customers know they can depend on knowledgeable customer service from employees like Rosa Milano.



Sustaining our retail price position

The intimate knowledge of each of our regional management teams has been key to sustaining our competitive retail price position in the face of new competition and, at times, unusual competitive pricing and promotional tactics. It is a position that has been hard earned and one that we will not relinquish.

Sustaining our price position relies significantly on our ability to control and cut our costs and increase productivity in distribution centres, administrative offices and our stores. Initiatives such as SMART retailing, our store-based operational excellence and productivity program, have been critical enablers. This program is all about the details of retail: continuous, incremental improvements that enhance our competitive position, increase productivity and contribute to better top and bottom-line performance.

SMART retailing – the third wave

We're now in the third wave of SMART retailing with the launch of Peer-to-Peer management in 2007, which allows stores across our network to share information and best practices. Furthermore, it was a key enabler for the

implementation of two new SMART programs in 2008. These initiatives were also made possible by the powerful information platform that we have implemented in Atlantic Canada, Ontario and the West. The first of our new initiatives in 2008 was Workforce Management. This initiative provides information to support the right levels of service at all times to service the needs of our customers in each store. Simply through more effective scheduling we can improve service at a lower cost and higher productivity to achieve increased customer satisfaction.

The second initiative in 2008 was Fresh Item Management. By analyzing shopping patterns we can determine the quantity of freshly produced items required throughout the day. This ensures freshness while eliminating the waste that inevitably results from over production. In turn, this reduces shrink – a major drain on profitability in food retailing.

Sobeys Québec's new distribution centre is the first in Canada to be built according to the LEED® (Leadership in Energy and Environmental Design) standard, the North American benchmark for green construction.

To ensure our products are meeting the needs of our customers, we've established a number of independent, consumer product appraisal panels that benchmark the quality of every one of our private label products. John Hale (second from right), Director of Product Appraisal, works with one of the panels.



Upstream in the supply chain we are building new distribution facilities and expanding others to ensure optimal service levels to our stores and to reduce errors and out-of-stocks. Our automated distribution centre under construction in Vaughan, Ontario – just north of Toronto – is proceeding on time and on budget. We anticipate opening the facility in early fiscal 2010.

Delicious, nutritious and fun

During 2008 we continued to expand our private label *Compliments* line with the co-branded launch of our new kids' line – *Compliments Junior Disney*. To date we have introduced nearly 100 new products including *Compliments Junior Disney Mickey Burgers*, *Compliments Junior Disney Alpha-Taters* and *Compliments Junior Disney Fruit Pic-Mix* dried fruit snack mix. More than 75 percent of the *Junior Disney* products meet the Heart and Stroke Foundation's nutrient criteria for healthy choices and bear the Health Check™ symbol. In addition, *Compliments Junior Disney* products do not contain any artificial flavours, artificial colours or added hydrogenated oils.

The introduction of *Compliments Junior Disney* builds on our successful launch in 2007 of *Compliments Organics* and *Compliments balance-équilibre*. To sustain our track record of successful product innovation we have established professional in-house talent and independent consumer-based product appraisal panels that benchmark the quality of every one of our products.

Embracing the challenges

The challenge as we move into fiscal 2009 will be to respond effectively to an emerging cost of goods inflationary environment. We must manage the potential increased cost inputs in a way that will continue to provide fair value to the consumer while at the same time not disrupting our earnings position or interrupting our growth potential. Our keen focus on costs and productivity affords us a competitive advantage in this environment and, while we have made progress in line with our expectations, further sales per square foot across our system is achievable and we look forward to continued improvement in fiscal 2009.

But it is our *people* who will execute and sell our way to growth – one customer at a time, one transaction at a time, one store at a time – that makes the greatest difference. In fact, our success resides not in the quality



Josée Rompré, Warehouse Clerk,
Sobeys Québec Trois-Rivières Distribution Centre

of our strategy, but in our ability to provide a workplace where our people can engage to win with tools, training, encouragement, processes and rewards that help them to get the job done well. We are exceptionally fortunate that our franchise affiliates and employees across the Company share our commitment to superior customer service and being the very best food retailer in the country.

The retail food industry has always been challenging and dynamic, but Sobeys has the strategic focus and financial capacity to embrace both the opportunities and challenges that will inspire and confront us in the years ahead. Our performance over the years has proven that we are a company capable of building a healthy and sustainable retail food business and supporting infrastructure for the long term. We will stay the course to earn broader acknowledgement as the very best food retail business in Canada.

Bill McEwan
President and CEO
Sobeys Inc.
June 26, 2008



fun & innovative

During 2008, Sobeys introduced nearly 100 new products under the co-branded *Compliments Junior Disney* line of products for kids. More than 75 percent meet the Heart and Stroke Foundation's nutrient criteria for healthy choices and bear the Health Check™ symbol. *Compliments Junior Disney* products do not contain any artificial flavours, artificial colours or added hydrogenated oils.

focused on

development

During 2008, we expanded our team with experienced, talented individuals capable of executing effectively and dedicated to expanding our presence across the country. Our expertise in real estate, as well as our commitment to our disciplined investment criteria, will help to ensure that Empire prospers within the traditional economic cycles of the real estate industry.

Critical to our successful transition from an owner and manager of properties to a developer was the expansion of our team to include real estate development vice presidents in Atlantic Canada, Québec and British Columbia. These individuals bring integrity consistent with the Empire reputation and a commitment to excellence over the long term. Their innovative and contrarian thinking is imbedded in a wealth of property development talent and experience in regions that we believe are particularly attractive at this time. These teams, in addition to our existing real estate teams in Atlantic Canada and Ontario, will work closely with Sobeyes, including newly-acquired Thrifty Foods, to develop properties that expand the growth potential for the food retailing division and Crombie REIT.

A second step in our transition was the sale of 61 retail properties to Crombie REIT – 40 freestanding grocery stores carrying various Sobeyes banners and 21 strip plazas, 20 of which are also anchored by Sobeyes bannered



Frank C. Sobey (centre), President, ECL Properties Limited with Donald E. Clow, President, ECL Developments Limited, and Aaron Bryant, Director of Engineering, Crombie REIT.

grocery stores. The sale closed in April 2008, representing the second wave of real estate transactions between Empire and Crombie REIT. The first created Crombie REIT in March 2006 with the sale of 44 commercial properties owned by Empire.

A unique business model

As Empire's real estate development capacity matures, we will establish an expanding pipeline of projects that creates both certainty and pace of growth for Crombie REIT, which holds the right of first refusal on the sale of any Empire properties. In fact, the

sustainable competitive advantage inherent in Empire's real estate business today is the combination of strengths brought to the business by Sobeyes with its substantial in-house expertise in selecting commercial locations, Crombie REIT with its decades of management expertise, and the robust development expertise that we're gathering within our real estate division.



Working together are Pat Martin, Vice President Leasing, Crombie REIT; Steve Cleroux, Director Development, ECL Developments; Michael April, Vice President Real Estate Services, ECL Developments; and Joe Fiander, Vice President Real Estate and Engineering, Sobeys Atlantic.



Pipeline development strategy

Today our development pipeline comprises 14 properties – 1.9 million square feet in projects in Nova Scotia, New Brunswick, Québec and Ontario. Several are targeted for completion this year, others are multi-year projects. Our goal is to accelerate the growth of square feet available in our pipeline for sale each year to Crombie REIT. We intend to focus our investment on the locations with the greatest opportunity for profit. Guiding our investments is a set of criteria that will entrench discipline. Those criteria include:

- ▶ A satisfactory return on investment from every project;
- ▶ A beneficial competitive effect on Sobeys and Crombie REIT;
- ▶ Credit-worthy tenants with long-term leases that include contractual increases;
- ▶ Enhanced geographic diversification; and
- ▶ Competitive positioning in the local market through location or quality.

Our real estate division continues to hold an investment in commercial real estate through Crombie REIT in which Empire owns a 47.8 percent interest. Crombie REIT's operating and financial performance continued to be exemplary in fiscal 2008. We also hold an investment in residential real estate through Genstar in which Empire maintains a 35.7 percent ownership interest. Genstar's

performance remained robust in fiscal 2008 as it continued to benefit from the relative strength of the residential real estate market in Canada. The market has softened from the peak experienced in 2007 and we expect a continued slowdown of residential selling activity in 2009, but we remain confident that Genstar will continue to yield a solid return on our investment.

Outlook in challenging times

Volatile capital markets and a real estate slowdown in the United States are likely to affect the Canadian economy. Not only is credit tight, which has a significant impact on a capital intensive business like real estate, consumers and real estate buyers have become hesitant. We are convinced, however, that the strength of our relationships with Sobeys and Crombie REIT, combined with our strict discipline, will prove to be a sustainable competitive advantage as we continue to build shareholder value through the real estate and economic cycles.

Frank C. Sobey
President
ECL Properties Limited
June 26, 2008

focused on

growth

Empire's ability to build shareholder value has been based on continually investing in businesses we know and understand. This is reflected in our long-term performance and progress through different business cycles and will continue to ensure solid performance despite competition in food retailing and aggressive growth in real estate.

- **REVENUE**
(\$ IN MILLIONS)
- **OPERATING EARNINGS**
(\$ IN MILLIONS)
- **BOOK VALUE**
(\$ PER SHARE)



December 1998
Sobeys goes public on the TSE and acquires the assets of the Oshawa Group for \$1.5 billion, tripling the size of its food operations.

March 2000
Empire repurchases 5.5 million Non-Voting Class A shares for \$187 million.

July 2000
Empire sells its 25% investment in Hannaford Bros. Co. for a \$1.2 billion consideration.

March 2002
Sobeys sells its Serca Foodservice operation to SYSCO for \$411 million.

January 2001
The real estate division purchases a 35.8% interest in Genstar Development Partnership for \$29 million.



1999

\$9.03

\$5,362.7

\$60.1

FISCAL YEAR

99

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01

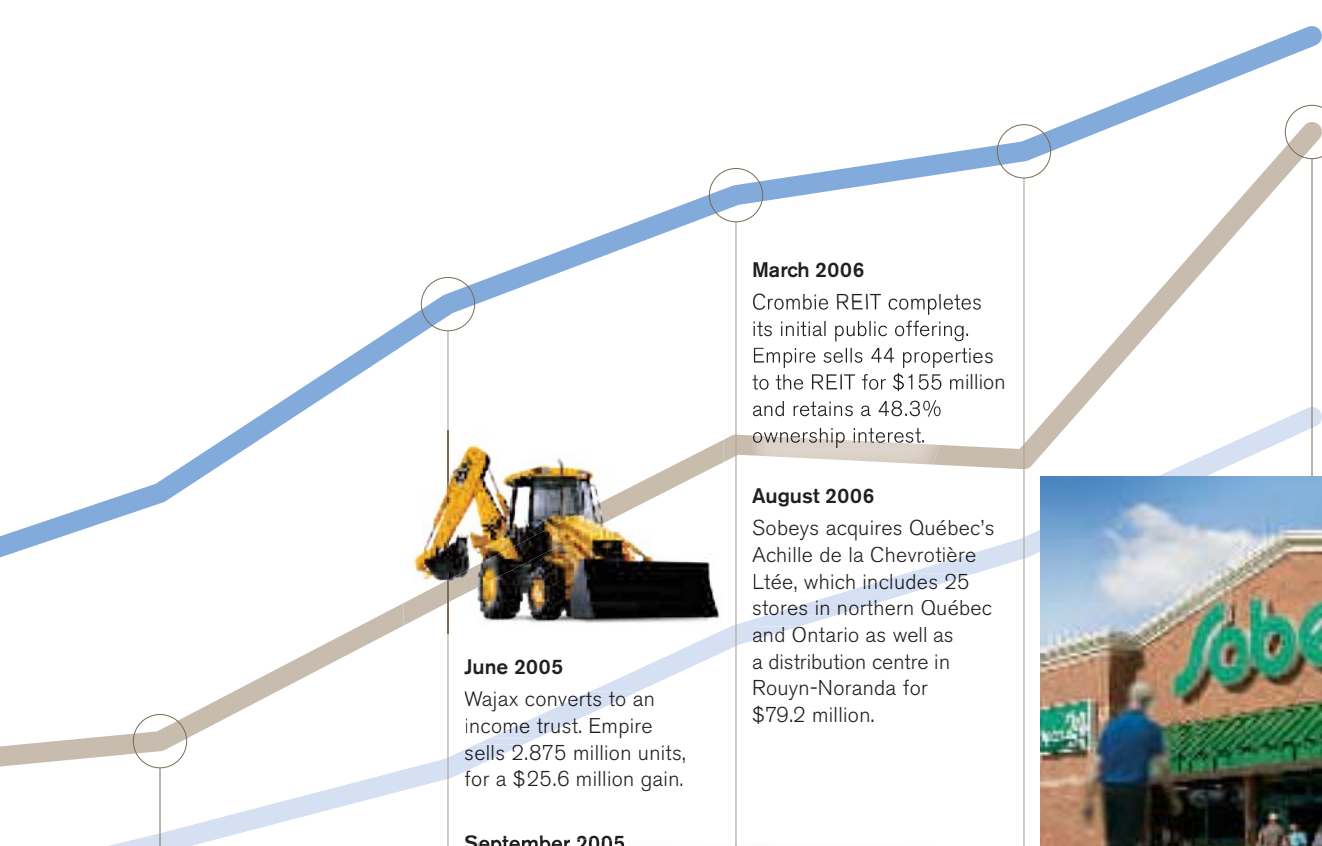
02

2008

\$14,065.0

\$242.8

\$36.14



June 2005

Wajax converts to an income trust. Empire sells 2.875 million units, for a \$25.6 million gain.

September 2005

Empire Theatres acquires 27 movie theatres for \$83 million.

March 2006

Crombie REIT completes its initial public offering. Empire sells 44 properties to the REIT for \$155 million and retains a 48.3% ownership interest.

August 2006

Sobeys acquires Québec's Achille de la Chevrotière Ltée, which includes 25 stores in northern Québec and Ontario as well as a distribution centre in Rouyn-Noranda for \$79.2 million.



June 2007

Empire acquires the outstanding common shares of Sobeys that it did not own for \$1.06 billion, achieving 100% ownership.

September 2007

Sobeys acquires Thrifty Foods for \$261.8 million. At the time, Thrifty's assets included 20 full-service supermarkets, a distribution centre and a wholesale division on Vancouver Island and the lower mainland of British Columbia.

April 2008

Empire sells 61 retail properties for \$428.5 million to Crombie REIT.

February 2004

Acquisition of Comisso's Food Markets by Sobeys and six Comisso's properties by the real estate division for \$61 million.

Madeleine Blouin, Pricing Clerk, IGA extra, Mascouche, Québec



focused on

governance

As we look ahead, the Board remains confident that Empire's continued focus on its core strengths in food retailing and related real estate has positioned the Company for enduring success. Thanks to the hard work of management and employees at Empire and in our operating companies, Empire posted record operating earnings in fiscal 2008.

Although food and related real estate have been the foundation of Empire's ability to create long-term wealth for many decades, the decision to privatize Sobeys and increase our focus on food and related real estate was taken only after very careful study of our options and the possible ramifications. A year after the fact, Sobeys has achieved solid results despite the most competitive environment that we've seen in many years.

We believe that a significant portion of Empire's fiscal 2008 results were driven by management's commitment to achieving a single Board mandate: Make Sobeys the best food retailer in the Canadian market. With the support of Empire's Board of Directors, Sobeys' management team is able to take a long-term perspective, achieving progress along a continuum with a strategy that has proven effective historically and we feel will sustain our growth in the future. This long-term perspective is a



Robert P. Dexter, Chair, Empire Company Limited
Halifax, Nova Scotia – Director since 1987,
Chair and CEO of Maritime Travel Inc.

distinguishing competitive advantage that we believe will ensure Sobeys' ability to sustain its performance for another 100+ years.

A second major accomplishment of the year was the completion of the transformation of our commercial real estate division, from an owner and manager of commercial real estate into a business focused on food-anchored shopping plaza development. During the year Empire sold 61 properties to Crombie REIT – a sale that was made easier with the privatization of Sobeys. All remaining property owned and managed by Sobeys Leased Properties

has been folded into Sobeys. At the same time, our real estate development division completed its first full year of operations by establishing teams of experienced real estate developers in British Columbia and Québec. The Board is watching the development of this business with keen interest.



Foreground, from left to right

Robert P. Dexter
Halifax, Nova Scotia
Director since 1987.
Chair and Chief Executive Officer,
Maritime Travel Inc.,
Chair, Empire Company Limited

Mel Rhinelander^{(4) (5) (7)}
Toronto, Ontario
Director since 2007.
Vice Chairman,
Extencicare REIT

Marcel Côté^{(3) (5) (7)}
Montreal, Québec
Director since 2007.
Senior Partner, Secor Inc.

Christine Cross^{(3) (9)}
Thundridge, Hertfordshire,
United Kingdom
Director since 2007.
President, Christine Cross Ltd.

Paul D. Sobey
Pictou County, Nova Scotia
Director since 1993.
President and
Chief Executive Officer,
Empire Company Limited

Background, from left to right

David Leslie^{(1) (4)}
Toronto, Ontario
Director since 2007.
Former Chairman and
Chief Executive Officer,
Ernst & Young LLP

Edward C. Harsant^{(1) (5) (7)}
Woodbridge, Ontario
Director since 2003.
Corporate Director

John L. Bragg^{(3) (6) (8)}
Collingwood, Nova Scotia
Director since 1999.
Chairman, President and
Co-Chief Executive Officer,
Oxford Frozen Foods Ltd.

Bill M^cEwan
New Glasgow, Nova Scotia
Director since 2007.
President and
Chief Executive Officer,
Sobeys Inc.

Malen Ng^{(2) (9)}
Toronto, Ontario
Director since 2007.
Chief Financial Officer,
Workplace Safety and
Insurance Board of Ontario

Stephen J. Savidant^{(1) (5) (7)}
Calgary, Alberta
Director since 2004.
Corporate Director
Chairman,
ProspEx Resources Inc.

Frank C. Sobey⁽¹⁰⁾
Stellarton, Nova Scotia
Director since 2007.
Chairman, Crombie REIT

David F. Sobey
New Glasgow, Nova Scotia
Director since 1963.
Chair Emeritus, Sobeys Inc.

Donald R. Sobey
Pictou County, Nova Scotia
Director since 1963.
Chair Emeritus,
Empire Company Limited

John R. Sobey⁽¹⁾
Pictou County, Nova Scotia
Director since 1979.
Corporate Director

Karl R. Sobey⁽⁵⁾
Halifax, Nova Scotia
Director since 2001.
Corporate Director

David S. Ferguson^{(3) (9)}
Atlanta, Georgia
Director since 2007.
Principal, D.S. Ferguson
Enterprises, LLC.

Robert G. C. Sobey⁽⁹⁾
Stellarton, Nova Scotia
Director since 1998.
President and
Chief Executive Officer,
Lawtons Drug Stores Limited

- 1 Audit Committee Member
- 2 Audit Committee Chair
- 3 Human Resources Committee Member
- 4 Human Resources Committee Chair
- 5 Corporate Governance Committee Member
- 6 Corporate Governance Committee Chair
- 7 Nominating Committee Member
- 8 Nominating Committee Chair
- 9 Oversight Committee Member
- 10 Oversight Committee Chair



Focused on experience

John L. Bragg, Chair of Empire's Corporate Governance Committee, was recognized by the Institute of Corporate Directors with the ICD Fellowship Award for his efforts to foster excellence in governance in Canada. Mr. Bragg is Chairman, President and co-Chief Executive Officer of Oxford Frozen Foods Limited, a food manufacturer, and an officer of several associated and affiliated companies. In addition to his role at Empire, he serves as director for many leading Canadian companies including TD Bank Financial Group and Canada Bread Limited. In recognition of his leadership and innovative thinking, Mr. Bragg was appointed an Officer of the Order of Canada in 1996.

Effective stewardship

Intense scrutiny of Empire's corporate strategies and their execution is key to effective governance and Empire has a Board comprised of individuals particularly capable of providing this oversight. Although several members of the Empire Board retired at the end of fiscal 2007, with the privatization of Sobeys, the Empire Board expanded to welcome eight new directors: Marcel Côté, Christine Cross, David Ferguson, David Leslie, Bill McEwan, Malen Ng, Mel Rhineland and Frank Sobey.

Our Board truly reflects a diversity of experience among its directors. Some have had many years of experience serving Empire, and the new additions bring new insights to the Board. Together they represent a mix of talents and experiences in diverse companies and countries. This Board became very cohesive very quickly, a testament to their individual capabilities and resolve. We have also continued to ensure the Board's ability to act independently through measures that recognize the size of the Board, the structure of the Company and our shareholder structure.

Acknowledgements

As Chair, I would like to thank the management and employees of Empire and its operating companies for their commitment and for their hard work. I would also like to thank my fellow directors for their consistent dedication to their role as stewards of shareholder interests. We firmly believe good corporate governance is critical to our long-term success in the marketplace, and that this Company can sustain the performance it has so adeptly achieved for more than 100 years.

A handwritten signature in black ink that reads "Rob Dexter". The signature is written in a cursive, slightly slanted style.

Robert P. Dexter
Chair
Empire Company Limited
June 26, 2008

CORPORATE GOVERNANCE

On behalf of Empire's shareholders, the Board of Directors is responsible for the stewardship of the Company. To fulfill this responsibility it establishes policies aimed at ensuring the Company's corporate governance practices are among the best in Canada. Supporting those policies is a Code of Business Conduct and Ethics that emphasizes accountability and a Corporate Disclosure Policy that ensures transparency.

While written policies and standards provide the foundation for governance, thorough oversight demands a Board that is fully engaged in ensuring the Company can continue to grow shareholder value. At Empire, every director is involved in establishing Empire's strategies, assessing performance and progress in meeting established long and short-term goals, and understanding the major risks to the Company's ability to deliver results. Because the Board is composed of a diversity of individuals with a combination of skills and experience, it is particularly capable of guiding and challenging the senior management team.

A comprehensive discussion of Empire's corporate governance policies and practices can be found in our Management Information Circular and also on our website at www.empireco.ca along with our Corporate Disclosure Policy and Code of Business Conduct and Ethics.

Board Committees

The Board of Directors fulfills many of its responsibilities with the support of five committees: Audit Committee, Corporate Governance Committee, Nominating Committee, Human Resources Committee, and Oversight Committee. Every member of the Audit Committee, the Human Resources Committee and the Nominating Committee is independent according to the standards of corporate and securities laws as well as Empire's own governance policies. All members of the Audit Committee meet the independence and financial literacy tests set out in Multilateral Instrument 52-110 adopted by most of the Canadian securities regulators.

The responsibilities of each committee of the Board include the following:

Audit Committee

- ▶ Reviews and assesses the Company's financial reporting practices and procedures;
- ▶ Reviews the adequacy and reporting of internal accounting controls and the independence of external auditors from management;

- ▶ Recommends the appointment of the external auditors;
- ▶ Communicates directly with external auditors;
- ▶ Directly oversees the work of the external auditors;
- ▶ Reviews and assesses risk management; and
- ▶ Reviews consolidated quarterly and annual financial statements and related communications prior to public disclosure.

Corporate Governance Committee

- ▶ Develops, monitors and ensures compliance with Empire's corporate governance policies, including responsibility for disclosure;
- ▶ Annually assesses the effectiveness of the Board as a whole, the committees of the Board and the contributions of individual directors;
- ▶ Recommends suitable compensation of directors; and
- ▶ Recommends the composition of the Board committees.

Nominating Committee

- ▶ Monitors the composition of the Board for skill and expertise; and
- ▶ Identifies, evaluates and recommends suitable candidates for election or appointment as directors of the Company.

Human Resources Committee

- ▶ Reviews all Company policies related to compensation;
- ▶ Recommends compensation for executive management;
- ▶ Reviews the Company's management training and development programs;
- ▶ Ensures Empire's compliance with occupational health and safety standards;
- ▶ Undertakes CEO and executive succession planning and monitors management succession planning;
- ▶ Conducts the annual performance review for the CEO;
- ▶ Establishes annual and longer-term objectives for the CEO; and
- ▶ Oversees the Company's pension plan.

Oversight Committee

- ▶ Reviews all matters related to business process optimization and information technology, including guiding principles, governance models, strategies, planning and risk management processes; and
- ▶ Monitors all related projects.

focused on
giving

Our goal to “proudly serve our communities” extends beyond the workplace to the hundreds of charities across Canada supported by the management, franchisees and employees of Empire, Sobeys, ECL Properties and Empire Theatres at both a corporate and personal level, collectively contributing over \$13 million to our communities. In fact, we believe that this commitment to community is fundamental to sustaining our success and we encourage our employees to participate in enhancing the well being of the communities in which they live and work. Here are just a few examples of how we made a difference in 2008.

Helping the hungry

Most closely related to our core business are the hundreds of thousands of dollars raised every year to help feed those in need:

- ▶ Sobeys' stores in Atlantic Canada raised close to \$150,000 in food products for local food banks through Sobeys' 100th anniversary celebrity shopping sprees and holiday food drive.
- ▶ Sobeys, Foodland, IGA and Price Chopper stores in Ontario raised \$387,000 to feed hungry children through the Breakfast for Learning program.



Sobeys employees and customers across Canada support dozens of causes and raise hundreds of thousands of dollars every year to help eliminate hunger among children.

Foundation's Centre of Care Fund in its fight against breast cancer.

- ▶ Thrifty Foods' stores sold Jeans Day buttons to raise funds for the B.C. Children's Hospital, the only pediatric acute care hospital in B.C. By matching every dollar raised, the stores raised over \$32,000.

Supporting those who help others

Our charity extends to those organizations and events that raise funds for a multitude of charities and causes:

- ▶ Sobeys and Empire Theatres are national sponsors of Kids Help

Finding a cure

Our employees and stores support dozens of organizations seeking cures for diseases that plague our communities as well as the hospitals that care for the sick and injured:

- ▶ Sobeys' stores in Saskatchewan sold pink ribbons to raise \$63,000 to support the Saskatoon City Hospital

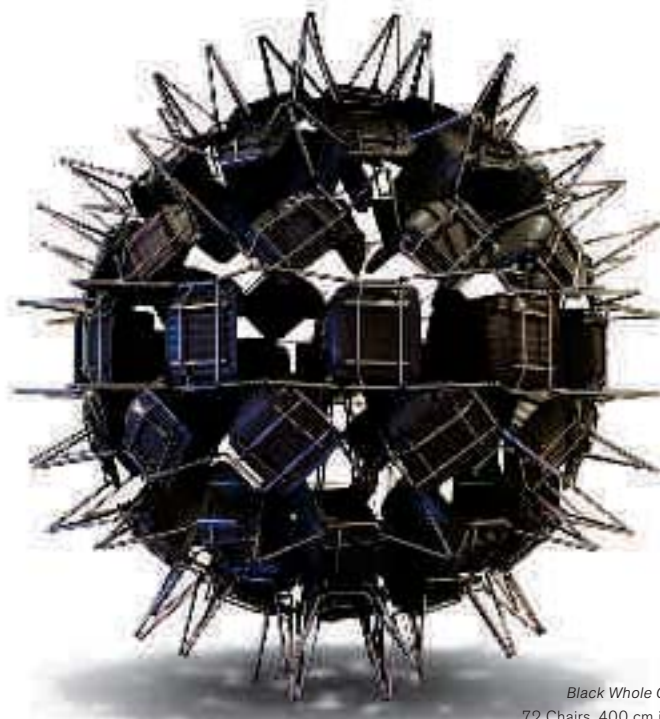
Phone. Sobeys stores across the Atlantic region raised \$34,000 in support of Kids Help Phone through a bonus AIR MILES® promotion. Empire Theatres launched its first annual National Movie Day in 42 locations across Canada raising over \$20,000 for Kids Help Phone.



Employees at the Caledon East Foodland in Ontario have reduced the use of plastic bags at their store by 65 percent in one year. The dramatic reduction in waste was achieved in part by the determination of employees as demonstrated by cashier Jessica Preston (pictured) and co-workers who were shocked at the number of plastic bags used on a typical Saturday. They created a sign that asked customers to think twice about using plastic bags and encouraged them to use Sobey's re-useable Green Bags for Life.

The 2007 Sobey Art Award recognized Michel de Broin for his passion for creating works that provoke debate and excite our senses – such as the piece shown at right.

Sobey Art Foundation Chair Donald Sobey and Jeffrey Spalding, former Director of the Art Gallery of Nova Scotia, present the \$50,000 2007 Sobey Art Award to Montreal artist Michel de Broin.



Black Whole Conference
72 Chairs, 400 cm in diameter

Creating a greener community

- ▶ On Earth Day, Sobeys Québec collected funds by donating 10 cents for each transaction for which shoppers used their reusable grocery bags and asking these customers to donate another 10 cents “for the Earth”.
- ▶ In an effort to reduce waste, over 100 Sobeys store and office employees in Pictou County, Nova Scotia participated in the 2008 *Go Green, Get Clean* campaign by collecting 2,000 kg of litter around their workplaces.

The Sobey Foundation

The generosity of the employees of Empire and its subsidiaries is amply supported by the Sobey Foundation, contributions from our operating companies, as well as the investments by individual members of the Sobey family. We are proud of our decades of commitment to enhancing the lives of Canadians.

Education

Education is a key focus of the Sobey family efforts. Several scholarships are dedicated to providing a brighter future for young people and their communities. Over the past two years the Sobey Foundation has also contributed to the capital campaigns at several Atlantic Canadian universities.

Arts and culture

The Sobey Art Award, created in 2002 by the Sobey Art Foundation, is designed to recognize and support contemporary Canadian artists under the age of 40. Michel de Broin of Québec was the 2007 winner of the \$50,000 Sobey Art Award presented in partnership with Scotiabank and the Art Gallery of Nova Scotia. The 25 artists selected to participate in the competition represented the remarkable breadth of talent in Canada. Each of these artists is a leader in their region and an ambassador for Canadian art on the international stage. For more information about the Sobey Art Award visit www.sobeyartaward.ca.

Healthcare

In fiscal 2008, Empire, Sobeys and the Sobey Foundation supported the David Foster Gala, an event that supports families and children with lifesaving organ transplants. Members of management at Empire and Sobeys volunteer their time to community-based groups such as the Aberdeen Hospital Foundation, the Dalhousie Medical Research Foundation and the Summer Street Industries Foundation.



Paul A. Jewer, Senior Vice President, Finance and Treasurer, Sobeys Inc., with Melanie Thomas, CA Program Analyst, Sobeys Inc.

focused on leadership

Top 40 under 40™ Paul A. Jewer, Senior Vice President, Finance and Treasurer at Sobeys, was recognized as one of Canada's Top 40 Under 40™ in May 2008. Founded in 1995 to celebrate Canada's leaders of today and tomorrow, this is a national program managed by The Caldwell Partners. Winners of the award must be under the age of 40 and have already achieved significant success – demonstrating vision, leadership and innovation – while making a meaningful contribution to their communities. A native of Grand Falls-Windsor, NL, Paul is a Chartered Accountant who graduated from Acadia University in 1994. He joined Sobeys in 2003 with a diverse background in accountancy and the software industry.

Sobeys to train CAs

The Institute of Chartered Accountants of Nova Scotia (ICANS) and Sobeys Inc. have established Nova Scotia's first Chartered Accountant Training Office in industry. Historically, CA students have been required to train in a public practice chartered accountancy firm or the Office of the Auditor General. Sobeys Inc. is the first industry organization in Nova Scotia – and one of a select group of leading corporations across Canada – to meet the strict criteria required to provide CA designation training. Melanie Thomas was one of the first students enrolled in this program.

The establishment of this innovative professional program at Sobeys is evidence of the Company's commitment to establishing the career paths of tomorrow's finance leaders while providing Sobeys with the opportunity to attract the best finance talent to the Company.

™ The Caldwell Partners

CORPORATE OFFICERS

Officers of Empire Company Limited



Robert P. Dexter
Chair

Paul D. Sobey
President and
Chief Executive
Officer

Paul V. Beesley
Executive
Vice President
and Chief
Financial Officer

Frank C. Sobey
Vice President,
Real Estate

Stewart H. Mahoney
Vice President,
Treasury and
Investor Relations

Carol A. Campbell
Vice President,
Risk Management

John G. Morrow
Vice President
and Comptroller

Karin McCaskill
Secretary

Officers of Operating Companies

Sobeys Inc.



Robert P. Dexter
Chair

Bill M'Ewan
President and Chief
Executive Officer

Craig T. Gilpin
President
Operations,
Sobeys Ontario

J. Gary Kerr
President
Operations,
Sobeys West

Jason Potter
President
Operations,
Sobeys Atlantic

Marc Poulin
President
Operations,
Sobeys Québec

Dennis Folz
Chief Human
Resources Officer



François Vimard
Chief Financial
Officer

Belinda Youngs
Chief Marketing
Officer

Karin McCaskill
Senior
Vice President,
General Counsel
and Secretary

Paul A. Jewer
Senior
Vice President,
Finance and
Treasurer

L. Jane McDow
Assistant Secretary

ECL Properties Limited



Frank C. Sobey
President

Donald E. Clow
Vice President

Paul V. Beesley
Chief Financial
Officer

Empire Theatres Limited



Stuart G. Fraser
President and
Chief Executive
Officer

Kevin J. MacLeod
Executive
Vice President

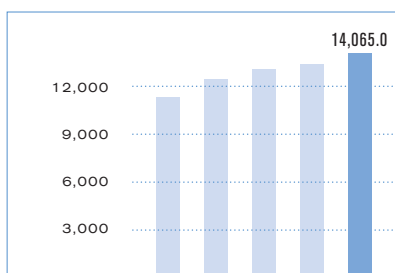
Paul W. Wigginton
Vice President,
Finance and Chief
Financial Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

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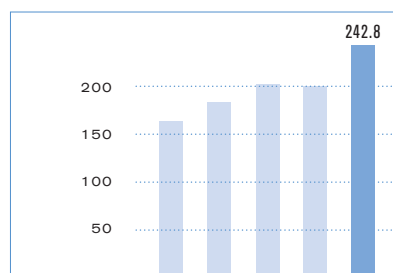
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Consolidated Revenue
\$ IN MILLIONS



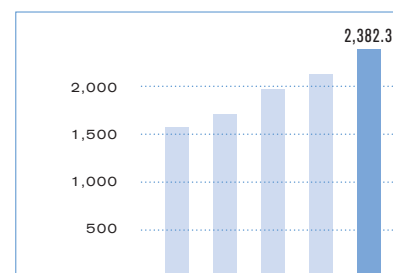
FISCAL YEAR

Consolidated Operating Earnings
\$ IN MILLIONS



FISCAL YEAR

Consolidated Shareholders' Equity
\$ IN MILLIONS



FISCAL YEAR

The following Management's Discussion and Analysis ("MD&A") contains commentary from management on the consolidated financial condition and results of operations of Empire Company Limited ("Empire" or the "Company") for the 52 weeks ended May 3, 2008, as compared to the 52 weeks ended May 5, 2007. Management also provides an explanation of the Company's fourth quarter results, changes in accounting policies, critical accounting estimates and factors that the Company believes may affect its prospective financial condition, cash flows and results of operations. This MD&A also provides analysis of the operating performance of the Company's divisions as well as a discussion of cash flows, the impact of risks and the outlook for the business. Additional information about the Company, including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com.

This discussion and analysis is the responsibility of management. The Board of Directors carries out its responsibility for review of this disclosure principally through its Audit

Committee, comprised exclusively of independent directors. The Audit Committee has reviewed and approved this disclosure and it has also been approved by the Board of Directors.

This discussion and analysis should be read in conjunction with the audited annual consolidated financial statements of the Company and the accompanying notes for the 52 weeks ended May 3, 2008 as compared to the 52 weeks ended May 5, 2007. The consolidated financial statements and accompanying notes have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and are reported in Canadian dollars.

These consolidated financial statements include the accounts of Empire and its subsidiaries and variable interest entities ("VIEs") which the Company is required to consolidate. Included in the Company's 2008 Annual Report, on page 106, is a glossary of terms used throughout this MD&A. The information contained in this MD&A is current to June 26, 2008, unless otherwise noted.

Forward-Looking Information

This discussion contains forward-looking statements which reflect management's expectations regarding the Company's objectives, plans, goals, strategies, future growth, results of operations, performance and business prospects and opportunities. These forward-looking statements include the following items:

- ▶ Sobeys' expectation that there will not be a material adverse impact on its business as a result of global disruption in the market for third-party Asset-Backed Commercial Paper ("ABCP") liquidity, and its belief that it has sufficient credit facilities to satisfy its financial obligations;
- ▶ Sobeys' expectations that administrative and business rationalization activities as well as system process initiatives in the current year and upcoming quarters will have a cost impact as expected and will provide thereafter annualized cost reductions, both of which could be impacted by the final scope and scale of these activities;
- ▶ Sobeys' expectations that the new distribution centre announced in Ontario and the closures of distribution centres in Québec will reduce overall distribution costs, which could be impacted by the number of positions eliminated at these distribution centres;
- ▶ Sobeys' expectation that sales growth will continue through 2009 could be impacted by market conditions and therefore may not be realized;
- ▶ Management's belief that the growth rate in residential lot sales will continue to be impacted by general economic conditions, particularly in the Western Canada housing market, with lot sales likely to slow moderately from the level experienced in fiscal 2008;
- ▶ The Company's expectations on future capital spending for its Real Estate and Food Retailing Divisions, which could be impacted by the availability of labour, capital resource allocation decisions, as well as general economic and market conditions;
- ▶ The Company's expectation that certain real estate property held by ECL Properties can be successfully redeveloped or leased up to the point where such property can be offered for sale to Crombie REIT and if refused by Crombie REIT, then offered to a third party;
- ▶ The Company's expectations regarding the purchase of 158,200 Series 2 Preferred Shares for cancellation by the end of calendar 2008 could be impacted by market conditions and availability of sellers;
- ▶ Management's expectations that funded debt to capital ratio will decline in fiscal 2009 as a result of equity growth and plans to generate free cash flow which will be used to reduce bank debt;
- ▶ The Company's expectations that its capital resources and liquidity position will meet its capital and liquidity requirements over the next year;
- ▶ The Company's expectations relating to pending tax matters with Canada Revenue Agency ("CRA") and provincial tax authorities, which could be determined differently by CRA. This could cause the Company's effective tax rate and its earnings to be affected positively or negatively in the period the matter is resolved; and
- ▶ The Company's expectations that the adoption of accounting standards relating to increased disclosure in financial statements will not have a significant impact on the Company's financial statements disclosure.

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

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

Non-GAAP Financial Measures

There are measures included in this MD&A that do not have a standardized meaning under Canadian GAAP. Management includes these measures because it believes certain investors

use these measures as a means of assessing relative financial performance. Additional information relating to non-GAAP financial measures is provided at the end of this document.

Empire’s Strategic Direction

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

As an outcome of its strategic review session, the Company is resolved to clearly focus on its core strengths in food retailing and related real estate while continuing to direct its energy and capital towards growing the long-term sustainable value of each of its core operating businesses. While these respective core businesses are well established and profitable in their own right, the diversification they offer Empire by both business line and by market area served is considered by management to be an additional source of strength. Together, these core businesses

reduce risk and volatility, thereby contributing to greater consistency in consolidated earnings growth over the long-term. Going forward, the Company intends to continue to direct its resources towards the most promising opportunities within these core businesses in order to maximize long-term shareholder value.

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

Overview of the Business

Empire’s key businesses include food retailing, real estate, and investments and other operations. Food retailing is carried out through wholly-owned Sobeys Inc. (“Sobeys”). The real estate business is carried out through a wholly-owned operating subsidiary ECL Properties Limited (“ECL”), which includes a 100 percent ownership interest in ECL Developments Limited (“ECL Developments”), as well as a 35.7 percent ownership interest in Genstar Development Partnership and a 43.3 percent interest in Genstar Development Partnership II (collectively referred to as “Genstar”) and a 47.8 percent ownership interest in Crombie REIT. The results of Sobeys Leased Properties

Limited (“SLP”) until April 22, 2008 were consolidated under real estate business; results after April 22, 2008 were reported under Sobeys. Corporate investment activities and other operations includes wholly-owned ETL Canada Holdings Limited (“Empire Theatres”); Kepec Resources Limited (“Kepec”), a joint venture with APL Oil and Gas Limited, which has ownership interests in various oil and gas properties in Alberta; and a 27.6 percent ownership position in Wajax Income Fund (“Wajax”). With over \$14 billion in annual revenue and approximately \$5.7 billion in assets, Empire employs approximately 42,000 people directly and through its subsidiaries.

Food Retailing

Sobeys conducts business through approximately 1,300 retail grocery stores (corporately owned and franchised). Empire owned 100.0 percent of Sobeys at the end of fiscal 2008 compared to a 72.1 percent ownership interest at the end of fiscal 2007. On June 15, 2007, Empire acquired the outstanding common shares of Sobeys that it did not already own, achieving 100 percent ownership. See the section entitled "Sobeys Privatization" on page 32.

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

During the fiscal year, Sobeys opened, replaced, expanded, renovated, acquired and/or converted the banners in 157 stores (2007 – 150 stores). In fiscal 2008, Sobeys continued to execute a number of initiatives in support of its food-focused strategy, including productivity initiatives and business process, supply chain and system upgrades.

Compliments, Sobeys private label brand, was launched in fiscal 2005 to contribute to growth of company-wide sales and profitability and earn a greater share of customers' food and grocery shopping requirements. The *Compliments* brand consists of three quality tiers: Value, Selection and Sensations. In addition, Sobeys introduced two sub-brands during fiscal 2006, *Compliments Organics* and *Compliments balance-équilibre*, an organic and healthy line of products respectively. During fiscal 2008, Sobeys partnered with The Walt Disney Company and launched *Compliments Junior Disney*, a line of nutritious alternatives for snacks, lunch box ideas and easy-to-prepare meals for children. At the end of fiscal 2008, Sobeys had launched approximately 4,800 *Compliments* products.

Business Process and Information Systems Transformation and Rationalization Costs

Sobeys continues to make significant progress in the implementation of system-wide business process optimization and rationalization initiatives that are designed to reduce complexity and improve processes and efficiency throughout Sobeys.

In fiscal 2006, Sobeys began its business process and information systems transformation plan for the Company by focusing on the significant opportunity to upgrade information processing and decision support capabilities and improve

efficiencies in Ontario. The system and processes that were implemented were developed over several years and were focused on standardizing and streamlining the "back shop" in support of the Sobeys' food-focused strategy. This move allows Sobeys to leverage technology investments, improve efficiencies and expects to lower costs over the long-term.

During the third quarter of fiscal 2007, Sobeys completed the implementation of the system in Ontario. This implementation supports all aspects of that business including operations, merchandising, distribution and finance and is an important enabler of further initiatives in Ontario including a new distribution facility that was announced on November 21, 2006.

When opened in the first quarter of fiscal 2010, the new distribution centre, located in Vaughan, Ontario, will utilize automation technology and is expected to significantly increase Sobeys' warehouse and distribution capacity while reducing overall distribution costs and improving service to its store network and customers. During the third quarter of fiscal 2007, Sobeys recognized \$5.3 million of severance costs related to the development of this automated facility. Subsequent to year end, additional severance costs of approximately \$4.6 million have been incurred related to this automated facility and will be recognized in the first quarter of fiscal 2009. The new distribution centre, when opened in fiscal 2010, is expected to provide annual distribution savings in excess of the costs incurred in the third quarter and any additional business rationalization or restructuring costs incurred leading up to its opening.

A business process and information system transformation plan, similar to that deployed in the Ontario region, began in Western Canada during fiscal 2007 and was completed during the second quarter of fiscal 2008.

In the fourth quarter of fiscal 2007, Sobeys completed the closure of two small distribution facilities, one in Anjou and one in the Abitibi region of Québec. Rationalization costs related to these facilities of \$5.6 million were incurred in the fourth quarter of fiscal 2007. During fiscal 2008, \$3.5 million of these costs were reversed as a result of changes in management's estimate of the expected costs. It is expected that the annualized savings associated with this closure will be approximately \$5.0 million.

During the third quarter of fiscal 2007, Sobeys completed a rationalization of administrative functions in Atlantic Canada. In addition to asset write-offs, in excess of 100 people were impacted by this rationalization; however, a number of these people were redeployed into Sobeys' retail store network. Pre-tax costs of \$7.9 million were incurred during the third quarter of fiscal 2007 as a result of this rationalization.

During the first quarter of fiscal 2008, Sobeys also completed a rationalization of administrative functions in its National departments. An additional \$1.0 million of rationalization costs is anticipated in the first quarter of fiscal 2009.

The total pre-tax costs of the above Sobeys initiatives can be summarized as follows:

(\$ in millions)	13 Weeks Ended May 3, 2008	13 Weeks Ended May 5, 2007	52 Weeks Ended May 3, 2008	52 Weeks Ended May 5, 2007
Business process and system initiative costs	\$ -	\$ 4.9	\$ 8.6	\$ 30.3
Rationalization costs	(0.5)	5.6	(1.8)	18.8
Total costs	\$ (0.5)	\$ 10.5	\$ 6.8	\$ 49.1

The business process and system initiative costs primarily include labour, implementation and training costs associated with the business process and system implementations. Costs in the second half of fiscal 2008 were insignificant as Sobeys has substantially completed its upgrade of information processing and decision support capabilities.

Real Estate

Empire's real estate division includes commercial and residential property operations. Our commercial operations are focused on the development of food-anchored shopping plazas through wholly-owned ECL, which includes wholly-owned ECL Developments, a self-storage operation and a 47.8 percent ownership interest in Crombie REIT. ECL also owns various commercial properties held for sale or redevelopment. Our residential operations are conducted through our 35.7 percent ownership interest in Genstar. Genstar's business is the development of raw land for residential use primarily carried out in Ontario and Western Canada. Genstar is accounted for on a proportionate consolidation basis. Empire summarizes its real estate's financial results between commercial property operations consisting of ECL, and residential property operations which consist primarily of Genstar.

At the end of fiscal 2008, commercial real estate operations had approximately 0.8 million square feet of gross leaseable area ("GLA") as compared to approximately 5.7 million square feet at the end of last fiscal year. The decrease is largely the result of the sale of 61 properties totalling 3.3 million square feet of GLA to Crombie REIT in the fourth quarter and the concurrent transfer of the remaining assets of SLP totalling approximately 1.1 million square feet of GLA to Sobeys. In addition, commercial real estate operations had planned developments equalling 1.1 million square feet of GLA in various stages of development.

The wholly-owned real estate operations are focused on commercial property development. For new commercial property development, management is committed to adhering to a disciplined growth strategy. Specifically, investment decisions are expected to meet certain criteria, including:

- A satisfactory return on investment;
- A beneficial competitive effect on Sobeys and Crombie REIT;
- Credit-worthy tenants with long-term leases that include contractual increases;
- Enhanced geographic diversification; and
- Competitive positioning in the local market through location or quality.

Pursuant to a Development Agreement with Crombie REIT, ECL provides Crombie REIT with a preferential right to acquire all property developments proposed to be undertaken by ECL. ECL also has a Non-Competition Agreement with Crombie REIT whereby it will not compete with Crombie REIT in the acquisition, ownership, investment in or development of any grocery-anchored shopping plazas in Canada. These agreements are for an initial 10-year term, subject to an extension reached by mutual agreement. Empire subsidiaries will continue to work closely with Crombie REIT to identify development opportunities that further Crombie REIT's external growth strategy.

Investments and Other Operations

The third component of Empire's business is its investments and other operations, consisting primarily of a 27.6 percent ownership interest in Wajax, wholly-owned Empire Theatres and Kepec.

During the first quarter of fiscal 2008, the Company sold its portfolio marketable securities, with the exception of its investment in Wajax, to assist in financing the privatization of Sobeys as detailed below. The market value of Empire's equity accounted investment in Wajax at the end of fiscal 2008 was \$153.4 million (2007 – \$154.6 million), representing an unrealized gain of \$121.8 million (2007 – \$122.4 million).

Other operations include wholly-owned Empire Theatres, the second largest movie exhibitor in Canada which, as of May 3, 2008, owned or had an interest in 53 locations representing 387 screens, and Kepec.

Sobeys Privatization

On April 26, 2007, Empire and Sobeys jointly announced that they had entered into an arrangement agreement (the "Arrangement") pursuant to which Empire would acquire all of the outstanding common shares of Sobeys that it did not then own at a price of \$58.00 per share. The transaction valued the Sobeys shares not then owned by Empire at approximately \$1.06 billion.

The Arrangement required various approvals to comply with applicable corporate and securities laws. Sobeys' shareholders approved the Arrangement at a Special Shareholders' Meeting

held on June 9, 2007 by the requisite majority; the Supreme Court of Nova Scotia gave its sanction to the Arrangement on June 13, 2007; the Arrangement became effective upon registration of the final Court order with the Nova Scotia Registry of Joint Stock Companies at the close of business on June 15, 2007, at which time Empire acquired all of the outstanding shares of Sobeys that it did not previously own. Subsequently, the Sobeys common shares ceased trading on the Toronto Stock Exchange, and were de-listed at the close of business on June 18, 2007.

The acquisition was accounted for using the purchase method with operating results being included in the consolidated financial statements since the acquisition date. The final purchase price allocation, which has incorporated management's assessment of fair value, is as follows:

(\$ in millions)	
Consideration	
Cash	\$ 1,061.7
Acquisition costs	4.0
Total consideration paid	1,065.7
Less: Carrying amount of net assets acquired	576.5
Excess consideration paid over net assets acquired	\$ 489.2
Allocation of excess consideration paid over net assets acquired	
Property and equipment	\$ 81.7
Accrued benefit liability	(13.1)
Employee future benefits obligation	(3.8)
Amortizable intangible assets	49.9
Indefinite-life intangible assets	243.7
Goodwill	165.2
Future income taxes	(35.0)
Accumulated other comprehensive loss	0.6
	\$ 489.2

The acquisition was financed by funds of \$278.0 million generated primarily from the sale of certain portfolio investments and by advances of \$787.7 million under new credit facilities (the "Credit Facilities"). At the time of financing, the Credit Facilities consisted of a \$950.0 million unsecured revolving credit facility maturing on June 8, 2010 (subject to annual one-year extensions at the request of the Company) and a \$50.0 million unsecured non-revolving credit facility that matured on June 30, 2007. The unsecured non-revolving credit facility was repaid on June 30, 2007 with funds drawn from the unsecured revolving credit facility.

The Credit Facilities are subject to certain financial covenants. Interest on the debt varies based on the designation of the loan (bankers' acceptances ("BA") rate loans, Canadian prime rate loans, U.S. base rate loans or London InterBank Offered Rate ("LIBOR") loans), fluctuations in the underlying rates, and in the case of BA rate loans or LIBOR loans, the margin applicable to the financial covenants. On June 18, 2007, Empire entered into two delayed fixed rate interest swaps. The first swap in an amount of \$200.0 million is three years in duration and carries a fixed interest rate of 4.998 percent. The second swap in an amount of \$200.0 million is for a period of five years at a fixed interest rate of 5.051 percent. Both swaps became effective on July 23, 2007.

On June 27, 2007, pursuant to the terms of the Credit Facilities, Empire and Sobeys filed notice with the lenders requesting the establishment of a new \$300.0 million five-year credit facility in favour of Sobeys at the same interest rate and substantially on the same terms and conditions as the Credit Facilities. At July 23, 2007, Sobeys drew down \$300.0 million from its new credit facility, the proceeds of which were used to pay a dividend to the Company. The Company used the proceeds from the dividend to reduce its indebtedness under the Credit Facilities and the Credit Facilities were reduced to \$650.0 million accordingly. On that date, the Company transferred the second swap to Sobeys.

On July 30, 2007, Sobeys exercised an option under its new Credit Facility to increase the size of the credit from \$300.0 million to \$600.0 million. At the same time, Sobeys

terminated its previously existing \$300.0 million operating Credit Facility which would have expired on December 20, 2010. At May 3, 2008, \$275.0 million of this new Credit Facility was drawn down; \$250.0 million has been classified as long-term debt and \$25.0 million has been classified as bank indebtedness. Sobeys had also issued \$41.7 million in letters of credit against the facility at May 3, 2008.

As mentioned, the closing date of the Sobeys privatization was on June 15, 2007, which was approximately mid-way through the first quarter of fiscal 2008. Empire's weighted average ownership of Sobeys during fiscal 2008 amounted to 97.0 percent as compared to a weighted average ownership interest of 71.8 percent in fiscal 2007. This resulted in significantly lower minority interest expense during fiscal 2008 relative to the prior year.

Acquisition of Thrifty Foods

On September 12, 2007, Sobeys acquired all the assets of Thrifty Foods for \$253.6 million. The assets acquired consisted of 20 full-service supermarkets, a main distribution centre and a wholesale division on Vancouver Island and the lower mainland of British Columbia. The acquisition was accounted for using the purchase method with the results of Thrifty Foods being consolidated as of the acquisition date.

Management carried out a detailed analysis and changes were made to the preliminary allocation of the excess consideration paid over net assets acquired as disclosed in the previous quarters of fiscal 2008. The measurement and allocation of finite and infinite intangible assets, and goodwill (approximately \$174.0 million of which is deductible for tax) was completed during the fourth quarter of fiscal 2008. The final purchase price allocation, incorporating management's assessment of fair value, is as follows:

(\$ in millions)	
Consideration	
Cash	\$ 250.4
Acquisition costs	3.2
Total consideration paid	253.6
Net assets acquired:	
Current assets	41.4
Long-term assets	36.9
Current liabilities assumed	(43.6)
Long-term liabilities assumed	(13.1)
Net assets acquired	21.6
Excess consideration paid over net assets acquired	\$ 232.0
Allocation of excess consideration paid over net assets acquired	
Intangible assets – Banner	\$ 24.0
– Other	1.9
Goodwill	206.1
	\$ 232.0

Sale of 61 Properties to Crombie REIT

On April 22, 2008, the Company's real estate division sold 61 properties to Crombie REIT. Included in the proceeds are additional Class B Units of Crombie Limited Partnership (which are convertible on a one for one basis into Units of Crombie REIT). The investment in Class B Units maintained the

Company's interest in Crombie REIT at approximately 47.8 percent after Crombie REIT issued additional units as a result of the underwriting banks exercising their over-allotment option. The Company's investment in Crombie REIT is accounted using the equity method. Details of the sale are as follows:

(\$ in millions)	
Proceeds	
Cash	\$ 373.5
Investment in Crombie REIT	55.0
	428.5
Book value of property and equipment sold	238.9
Early extinguishment of long-term debt	18.5
Transaction costs	6.5
Other costs	12.5
	276.4
Gain before income taxes and deferral	152.1
Income taxes	7.8
Gain before deferral	144.3
Deferral of gain	(144.3)
Net gain	\$ Nil

As part of the transaction, Sobeys entered into new lease agreements (the "Sobeys Leases") with respect to their occupancy in a portion of the 61 commercial properties. The Sobeys Leases have terms of between 17 and 23 years (except for three leases which have an outside date of 12 years) (the "Outside Date"). Each Sobeys Lease is based on an initial term of two years and thereafter alternating between successive

periods of three years and two years until the applicable Outside Date. The Outside Date may be extended at Sobeys' option by up to four consecutive further periods of five years each. The minimum rents under the Sobeys Leases will range from \$8 per square foot to \$14 per square foot with rental increases every five years.

Operational Changes

Listed below is a summary of events that impacted the fiscal year 2008 operating results and which affect the comparability of information for the 13-week and 52-week periods ended May 3, 2008 versus the 13-week and 52-week periods ended May 5, 2007:

- ▶ On June 15, 2007, Empire acquired approximately 18.3 million common shares of Sobeys, increasing its ownership position from 72.1 percent at May 5, 2007 to 100.0 percent on June 15, 2007. The privatization of Sobeys resulted in a weighted average ownership interest of 97.0 percent in fiscal 2008 as compared to a weighted average ownership interest of 71.8 percent in fiscal 2007.
- ▶ Sobeys' sales in fiscal 2008 were positively influenced by the acquisition of Achille de la Chevrotière Ltée and its associated companies ("ADL") which closed on August 27, 2006 and the acquisition of Thrifty Foods which closed on September 12, 2007. These acquisitions increased fiscal 2008 sales by \$454.7 million.
- ▶ Sobeys continued to experience declines in its tobacco sales. Late in the second quarter of fiscal 2007, a major Canadian tobacco supplier began to sell and distribute directly to certain Sobeys' customers. A decline in wholesale tobacco sales impacted fourth quarter fiscal 2008 revenues by \$15.6 million relative to the same quarter in the prior fiscal year and fiscal 2008 sales by \$117.2 million relative to the prior year.
- ▶ Revenues for residential real estate were negatively impacted compared to last year by sales related to the Martello condominium project which was completed in the prior fiscal year. For the 52 weeks ended May 5, 2007, Martello revenues equalled \$37.9 million. Revenues from the Martello Condominium project did not have a material impact on the 13 weeks ended May 5, 2007.
- ▶ Empire Theatres changed its fiscal year-end from the last Thursday in April to the last Thursday in December effective December 28, 2006. This change in Empire Theatres' fiscal year-end was made to align with industry practice. Empire's fiscal year ended May 3, 2008 contains 12 months of operations while the fiscal year ended May 5, 2007 contained 11 months of operations. The additional month of operations impacted revenues by approximately \$10.0 million in the fiscal year.

Also impacting comparability year-over-year are costs related to Sobeys' business process and system initiative, business rationalization, and privatization costs as outlined under the section titled "Fiscal 2008 Operating Performance by Division – Food".

The reader should note that management explains the impact of the above events when discussing the operating results for the food retailing division, the real estate division and investments and other operations.

Consolidated Operating Results

The consolidated financial overview provided below reports on the financial performance for fiscal 2008 relative to the last two fiscal years.

Summary Table of Consolidated Financial Results

(\$ in millions, except per share information)	52 Weeks Ended		52 Weeks Ended		53 Weeks Ended	
	May 3, 2008	% of Revenue	May 5, 2007 ⁽¹⁾	% of Revenue	May 6, 2006 ⁽²⁾	% of Revenue
Consolidated revenue	\$ 14,065.0	100.00%	\$ 13,366.7	100.00%	\$ 13,063.6	100.00%
Operating income	472.6	3.36%	431.1	3.23%	491.4	3.76%
Operating earnings	242.8	1.73%	200.1	1.50%	202.0	1.55%
Capital gains and other items, net of tax	73.0	0.52%	5.7	0.04%	94.8	0.72%
Net earnings	\$ 315.8	2.25%	\$ 205.8	1.54%	\$ 296.8	2.27%
Basic earnings per share						
Operating earnings	\$ 3.69		\$ 3.05		\$ 3.08	
Capital gains and other items, net of tax	1.11		0.09		1.45	
Net earnings	\$ 4.80		\$ 3.14		\$ 4.53	
Basic weighted average number of shares outstanding (in millions)	65.6		65.5		65.5	
Diluted earnings per share						
Operating earnings	\$ 3.69		\$ 3.04		\$ 3.07	
Capital gains and other items, net of tax	1.11		0.09		1.44	
Net earnings	\$ 4.80		\$ 3.13		\$ 4.51	
Diluted weighted average number of shares outstanding (in millions)	65.7		65.7		65.7	
Dividends per share	\$ 0.66		\$ 0.60		\$ 0.56	

(1) Amounts have been restated to reflect a change in accounting policy with respect to deferred charges. Please see the section entitled "Accounting Policy Changes – Deferred Charges" in this MD&A.

(2) Amounts have been restated as a result of a reclassification and change in accounting policy with respect to the Company's adoption of EIC-156 in the first quarter of fiscal 2007. Please see the sections entitled "Accounting Policy Changes – Vendor Consideration" under Accounting Policy Changes in this MD&A.

Management's Explanation of Fiscal 2008 Annual Consolidated Results

The following is a review of Empire's consolidated financial performance for the 52-week periods ended May 3, 2008 compared to May 5, 2007.

Revenue and financial performance of each of the Company's businesses (food retailing, real estate, and investments and other operations) are discussed in detail in the section entitled "Fiscal 2008 Operating Performance by Division" in this MD&A.

Revenue

The consolidated revenue for fiscal 2008 was \$14.06 billion, an increase of \$698.3 million or 5.2 percent compared to fiscal 2007. Growth in Sobeys' sales of \$736.1 million and in investments and other operations' revenue of \$21.0 million

was offset by a \$58.8 million reduction in revenue from the real estate division. The decline in real estate division revenue was anticipated and reflects a slowdown in residential lot sales along with the completion of the Martello condominium project during the prior fiscal year.

For a list of items that impacted revenue comparability refer to the "Operational Changes" section of this MD&A on page 35.

Excluding the impact of the acquisition of Thrifty Foods, the decline in wholesale tobacco sales, and the sales impact related to the Martello project, Empire's consolidated sales growth would have been 2.2 percent for the fourth quarter. Adjusting for the same items in addition to the acquisition of ADL as discussed, Empire's consolidated sales growth would have been 2.9 percent for the fiscal year. The table below presents the impact of the above items on fiscal 2008 revenue growth.

Revenue Table

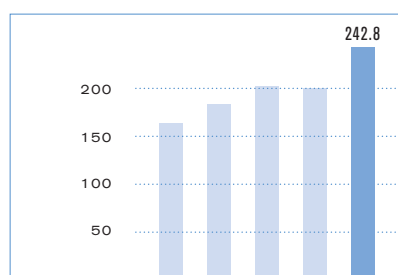
52 Weeks Ended (\$ in millions)	May 3, 2008	May 5, 2007	\$ Change	% Change
Financially reported sales	\$ 14,065.0	\$ 13,366.7	\$ 698.3	5.2%
Add (deduct) the impact of:				
Impact of wholesale tobacco decline			117.2	
Impact of ADL and Thrifty acquisitions			(454.7)	
Impact of Martello revenues			37.9	
Impact of Theatres' year-end change ⁽¹⁾			(10.0)	
Subtotal			(309.6)	
			\$ 388.7	2.9%

(1) The impact for Theatres' revenue, reflected in the above table, represents the additional four weeks of revenue for fiscal 2008 as a result of Empire Theatres' fiscal year-end change.

Please refer to the section entitled "Fiscal 2008 Operating Performance by Division" for an explanation of the change in revenue by division.

Consolidated Operating Earnings

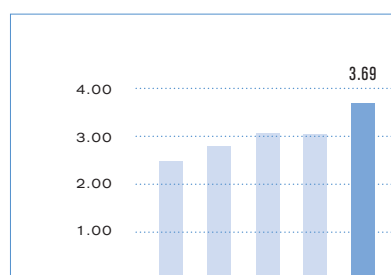
\$ IN MILLIONS



FISCAL YEAR

Consolidated Operating Earnings

\$ PER SHARE FULLY DILUTED



FISCAL YEAR

Operating Income

Consolidated operating income, defined as operating earnings before minority interest, interest expense, income taxes and capital gains and other items, in fiscal 2008 totalled \$472.6 million compared to \$431.1 million last year, an increase of \$41.5 million or 9.6 percent. The increase in operating income is the result of a \$68.0 million increase in operating income contribution from the food retailing division, offset by an \$8.5 million decrease in operating income from investments and other operations (net of corporate expenses) and an \$18.0 million decrease in real estate division operating income.

Included in food retailing division operating income for fiscal 2008 were \$6.8 million of pre-tax costs incurred by Sobeys related to its business process and system initiative and severance associated with rationalization efforts, partially offset by the reversal of a portion of rationalization costs related to two distribution centres in Québec. Sobeys incurred \$49.1 million of pre-tax costs related to its business process and system initiative and business rationalization during fiscal 2007.

Please refer to the section entitled "Fiscal 2008 Operating Performance by Division" for an explanation of the change in operating income for each division.

Interest Expense

For the 52 weeks ended May 5, 2008, consolidated interest expense equalled \$105.8 million, versus \$60.1 million in the prior year. The \$45.7 million increase in fiscal 2008 interest expense compared to last fiscal year is primarily due to higher funded debt amounts.

Consolidated funded debt increased \$661.5 million to \$1,573.5 million at the end of fiscal 2008 compared to \$912.0 million at the end of fiscal 2007. The increase in funded debt was largely the consequence of long-term debt incurred to finance the privatization of Sobeys and the acquisition of Thrifty Foods, partially offset by application of the proceeds from the sale of the liquid investment portfolio in the first quarter and the sale of 61 properties to Crombie REIT, as mentioned, to reduce indebtedness. The sale of the 61 properties had a minimal impact on interest expense given that it occurred 11 days prior to the end of the fiscal year.

Income Taxes

The effective income tax rate for fiscal 2008 was 30.3 percent versus 31.1 percent last year. The main reason for the fiscal year decrease is due to reductions in the Canadian federal and certain provincial statutory income tax rates and the application of those lower rates to future tax balances.

Minority Interest

Minority interest for the fiscal year equalled \$12.8 million compared to \$55.4 million in the prior year. The decrease is largely the result of Empire increasing its ownership position in Sobeys to 100.0 percent on June 15, 2007 resulting in a weighted average ownership position of 97.0 percent in fiscal 2008 as compared to a weighted average ownership position in Sobeys of 71.8 percent in fiscal 2007.

Earnings before Capital Gains and Other Items

For the 52 weeks ended May 3, 2008, earnings before capital gains and other items amounted to \$242.8 million (\$3.69 per share) compared to \$200.1 million (\$3.04 per share) in the prior year. The \$42.7 million or 21.3 percent increase is the result of the \$41.5 million increase in operating income, the \$42.6 million decrease in minority interest and the decrease in income taxes of \$4.3 million; offset by the \$45.7 million increase in interest expense as discussed.

Capital Gains and Other Items

For the full fiscal year, the Company recorded capital gains and other items, net of tax, of \$73.0 million as compared to \$5.7 million last year. The increase was largely the result of the sale of marketable securities in the first quarter of fiscal 2008 which generated a capital gain, net of tax, of \$81.9 million, partially offset by an impairment loss provision on certain commercial property and also on asset-backed commercial paper ("ABCP"), as discussed below.

Based on estimated fair values of commercial properties held by the real estate division, it was determined that the carrying value of one commercial property was impaired. Accordingly, the Company recorded a pre-tax impairment charge in the fourth quarter of \$6.0 million to reduce the carrying value on this property to estimated fair value. Also during the fourth quarter, Sobeys increased its pre-tax impairment loss provision on ABCP by \$4.5 million (from \$3.0 million previously recorded to \$7.5 million), representing 25 percent of the \$30.0 million of ABCP held by Sobeys. The Company estimated the impairment loss using a discounted cash flow approach. The ABCP investment has been reclassified as a long-term asset rather than cash and cash equivalents due to the uncertainty as to the timing of collection.

During the fourth quarter, on April 22, 2008, Empire's real estate division closed the sale of 61 retail properties to Crombie REIT. The selling price for the 61 properties was \$428.5 million. In accordance with Canadian GAAP, the gain on this transaction of \$144.3 million has been accounted for as a reduction in the carrying value of Crombie REIT because the purchaser is a related party. This differs from International Financial Accounting Standards, which will be adopted during the first quarter of fiscal 2012 and, upon adoption, will require that the net gain relating to the 52.2 percent non-Empire ownership of Crombie REIT to be recorded as an increase in retained earnings.

Net Earnings

Net earnings for the 52 weeks ended May 3, 2008 totalled \$315.8 million (\$4.80 per share) as compared to \$205.8 million (\$3.14 per share) recorded last fiscal year, an increase of \$110.0 million or 53.4 percent. The increase in net earnings for fiscal 2008 compared to fiscal 2007 reflects the increase in earnings before capital gains and other items of \$42.7 million as well as the increase in capital gains and other items of \$67.3 million as discussed.

Fiscal 2008 Operating Performance by Division

Food Retailing

Highlights

- ▶ Sobeys acquired Thrifty Foods in September 2007 for a total consideration of \$253.6 million.
- ▶ Sobeys achieved fiscal 2008 sales growth of \$736.1 million or 5.6 percent and same-store sales growth of 2.8 percent.
- ▶ Continued progress in system-wide business process optimization and rationalization initiatives.
- ▶ Total capital expenditures equalled \$481.2 million in fiscal 2008.
- ▶ Opened, or replaced 44 corporate and franchised stores, acquired 22 stores, expanded 31 stores, rebannered/ redeveloped 60 stores and closed 67 stores.

To assess its financial performance and condition, Sobeys' management monitors a set of financial measures, which evaluate sales growth, profitability and financial condition.

The primary financial performance and condition measures for Sobeys are set out below.

52 Weeks Ended	May 3, 2008	May 5, 2007 ⁽¹⁾
Sales growth	5.6%	2.5%
Same-store sales growth	2.8%	2.4%
Earnings per share growth (basic)	16.3%	(8.9%)
Return on equity	10.0%	9.1%
Funded debt to total capital	35.6%	23.7%
Funded debt to EBITDA	1.7x	1.2x
Property and equipment purchases (in millions)	\$ 481	\$ 447

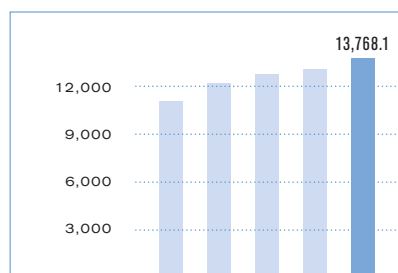
(1) Amounts have been restated as a result of a reclassification with respect to deferred charges. Please see the section entitled "Accounting Policy Changes – Deferred Charges" in this MD&A.

The table below presents sales, operating income and net earnings contribution to Empire by Sobeys:

(\$ in millions)	52 Weeks Ended May 3, 2008	52 Weeks Ended May 5, 2007		
		Year-over-Year \$ Change	% Change	
Sales	\$ 13,768.1	\$ 13,032.0	\$ 736.1	5.6%
Operating income	359.0	291.0	68.0	23.4%
Net earnings	186.6	119.6	67.0	56.0%

Food Retailing Revenue

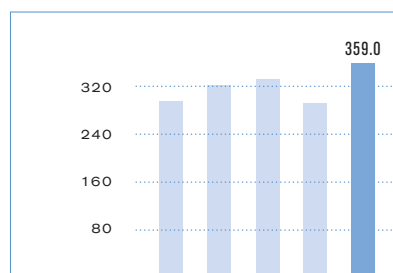
\$ IN MILLIONS



FISCAL YEAR

Food Retailing Operating Income

\$ IN MILLIONS



FISCAL YEAR

Revenue

In fiscal 2008, Sobeys achieved sales of \$13.77 billion, an increase of \$736.1 million or 5.6 percent over fiscal 2007. During the fiscal year, same-store sales (sales from stores in the same locations in both reporting periods) increased by 2.8 percent. Same-store sales growth does not include wholesale sales.

Sales growth for the year was driven by Sobeys continued implementation of sales and merchandising initiatives and sustained competitive pricing across the country, coupled with an increase in retail selling square footage resulting from new stores, enlargements and the acquisition of Achille de la Chevrotière Ltée on August 27, 2006 and Thrifty Foods on September 12, 2007.

Total store square footage increased by 3.0 percent in fiscal 2008 as a result of the opening of 44 new or replacement stores, the acquisition of 22 stores and the expansion of 31 stores. There were 67 stores closed in fiscal 2008.

Sobeys experienced declines in its wholesale tobacco sales during fiscal 2008. Wholesale tobacco sales declined \$117.2 million in fiscal 2008 compared to fiscal 2007. Margins on tobacco sales are significantly lower than on other products; therefore, the loss of these sales did not have a material impact on earnings. As shown in the table below, excluding the impact of the wholesale tobacco decline, the acquisition of ADL on August 27, 2006 and the acquisition of Thrifty Foods on September 12, 2007, Sobeys' sales growth would have been 3.1 percent in fiscal 2008.

52 Weeks Ended (\$ in millions)	May 3, 2008	May 5, 2007	\$ Change	% Change
Sobeys' financially reported sales	\$ 13,768.1	\$ 13,032.0	\$ 736.1	5.6%
Add (deduct) the impact of:				
Impact of wholesale tobacco decline			117.2	
Impact of ADL and Thrifty Foods acquisitions			(454.7)	
Subtotal			(337.5)	
			\$ 398.6	3.1%

Business Process and System Initiative, Business Rationalization and Privatization Costs

Included in earnings for fiscal 2008, and also impacting year-over-year earnings variances for Sobeys, were costs related to Sobeys' business process and system initiative as well as business rationalization and privatization costs. As you can see from the table below, in total, these costs had a \$6.8 million pre-tax impact on earnings (\$49.1 million pre-tax in fiscal 2007).

(\$ in millions)	13 Weeks Ended May 3, 2008	13 Weeks Ended May 5, 2007	52 Weeks Ended May 3, 2008	52 Weeks Ended May 5, 2007
Business process and system initiative costs	\$ -	\$ 4.9	\$ 8.6	\$ 30.3
Rationalization costs	(0.5)	5.6	(1.8)	18.8
Total costs	\$ (0.5)	\$ 10.5	\$ 6.8	\$ 49.1

A description of these costs is as follows:

- ▶ **Business process and system initiative costs** – For the 52 weeks ended May 3, 2008, \$8.6 million (\$30.3 million in fiscal 2007) of pre-tax costs (\$nil for the 13 weeks ended May 3, 2008 and \$4.9 million for the 13 weeks ended May 5, 2007) were incurred related to Sobeys business process and system initiative. The business process and system initiative costs primarily included labour, implementation and training costs associated with the business process and system implementation.
- ▶ **Atlantic business rationalization costs** – During the third quarter of fiscal 2007, Sobeys completed a rationalization of administrative functions in Atlantic Canada. In addition to asset write-offs, in excess of 100 people were impacted by this rationalization; however, a number of these people were redeployed into Sobeys' retail store network. Pre-tax costs of \$7.9 million were incurred during fiscal 2007 as a result of this rationalization. There were no further rationalization costs incurred by Sobeys Atlantic region in fiscal 2008.
- ▶ **Ontario distribution network rationalization** – On November 21, 2006, Sobeys announced plans to build a new distribution centre in Vaughan, Ontario. Utilizing automation technology, the new facility is expected to significantly increase Sobeys' warehouse and distribution capacity while reducing overall distribution costs and improving service to its store network and customers. During fiscal 2007, Sobeys recognized \$5.3 million of severance costs associated with this rationalization. There was \$0.5 million of costs incurred in fiscal 2008. Subsequent to year end additional severance costs of approximately \$4.6 million have been incurred and will be recognized in the first quarter of fiscal 2009. This new distribution centre, when opened in early fiscal 2010, is expected to provide annual distribution cost savings in excess of the costs incurred in the third quarter and any additional business rationalization or restructuring costs incurred leading up to its opening.
- ▶ **Québec distribution network rationalization** – In fiscal 2007, Sobeys completed the closure of two small facilities, one in Anjou and one in the Abitibi region of Québec. Rationalization costs related to these facilities of \$5.6 million were incurred in the fourth quarter of fiscal 2007. During fiscal 2008, \$3.5 million of these costs were reversed as a result of changes in management's estimate of the expected costs. It is expected that the annualized savings associated with this closure will be approximately \$5.0 million.

Operating Income

Sobeys' operating income equalled \$359.0 million during fiscal 2008, a 23.4 percent increase from last year's \$291.0 million. Sobeys' recorded operating margin in the fiscal year was 2.64 percent compared to 2.23 percent in the prior year. The \$68.0 million increase in Sobeys' operating income in fiscal 2008 was largely the result of Sobeys' commitment to competitive pricing, innovation and cost management initiatives and lower spending in fiscal 2008 on business process and system initiatives and business rationalization costs.

Included in food retailing division operating income in fiscal 2007 were \$49.1 million of pre-tax costs incurred by Sobeys related to its business process, system initiative and rationalization costs as compared to \$6.8 million of such costs in fiscal 2008. Also impacting fiscal 2008 operating income was a \$37.0 million increase in depreciation and amortization expense, reflecting Sobeys' continued capital investments.

Sobeys will continue to focus on disciplined cost management initiatives, supply chain and retail productivity improvements and migration of best practices across its four regions to continue to fuel and fund investments to drive sales and improve margins over time.

Net Earnings

Food retailing division net earnings contribution in fiscal 2008 amounted to \$186.6 million compared to \$119.6 million last year, a \$67.0 million or 56.0 percent increase. The earnings increase largely reflects the \$68.0 million improvement in operating income and the \$42.6 million reduction in minority interest, offset by, the \$5.1 million impairment charge, net of tax, on asset-backed commercial paper as discussed, a \$24.0 million increase in interest expense due to higher funded debt levels and higher income tax expense of \$14.5 million.

Real Estate

Highlights

- ▶ The successful completion of the sale of 61 properties to Crombie REIT for total proceeds of \$428.5 million and an economic gain of \$144.3 million.
- ▶ Another strong year for residential operations with an operating income contribution of \$50.7 million.
- ▶ A 12.0 percent total investment return from Crombie REIT since the initial public offering in March 2006.
- ▶ Real estate division funded debt to total capital decreased to 22.0 percent in fiscal 2008 from 39.8 percent last year.

Real estate management assesses its financial performance and condition through monitoring of key financial measures. The primary financial performance and condition measures are set out below.

52 Weeks Ended	May 3, 2008	May 5, 2007
Total square footage (in millions)	0.8	5.7
Funds from operations (\$ in millions)	\$ 64.4	\$ 74.6
Return on equity ⁽¹⁾	17.7%	17.5%
Funded debt to total capital	22.0%	39.8%

(1) Return on Equity is calculated as earnings available for common shareholders divided by average common shareholders' equity.

The table below presents revenue, operating income, capital gains and other items, net earnings and funds from operations for the real estate division's commercial operations and residential operations.

52 Weeks Ended (\$ in millions)	May 3, 2008	May 5, 2007	\$ Change	% Change
Revenue				
Commercial	\$ 75.4	\$ 72.7	\$ 2.7	3.7%
Residential	85.2	146.1	(60.9)	(41.7%)
	160.6	218.8	(58.2)	(26.6%)
Inter-segment	(34.9)	(34.3)	(0.6)	1.7%
	\$ 125.7	\$ 184.5	\$ (58.8)	(31.9%)
Operating income				
Commercial	\$ 49.3	\$ 46.8	\$ 2.5	5.3%
Residential	50.7	71.2	(20.5)	(28.8%)
	\$ 100.0	\$ 118.0	\$ (18.0)	(15.3%)
Capital gains and other items (net of tax)				
Commercial	\$ (3.5)	\$ 0.7	\$ (4.2)	(600.0%)
Residential	(0.6)	(0.7)	0.1	(14.3%)
	\$ (4.1)	\$ -	\$ (4.1)	-
Net earnings				
Commercial ⁽¹⁾	\$ 20.1	\$ 21.0	\$ (0.9)	(4.3%)
Residential	34.7	46.8	(12.1)	(25.9%)
	\$ 54.8	\$ 67.8	\$ (13.0)	(19.2%)
Funds from operations				
Commercial	\$ 29.1	\$ 26.8	\$ 2.3	8.6%
Residential	35.3	47.8	(12.5)	(26.2%)
	\$ 64.4	\$ 74.6	\$ (10.2)	(13.7%)

(1) There were net capital losses and other items, net of tax, of \$4.1 million included in net earnings for fiscal 2008 (\$nil in fiscal 2007).

Revenue

Real estate division revenues, net of inter-segment transactions, amounted to \$125.7 million in fiscal 2008 as compared to \$184.5 million in the prior year. The \$58.8 million reduction in revenue from the real estate division was anticipated as a result of an expected slowdown in residential lot sales and the completion of the Martello condominium project in the prior fiscal year.

Revenue from residential operations was \$85.2 million in fiscal 2008 compared to \$146.1 million last year, a \$60.9 million or 41.7 percent decrease. Included in residential operations revenue for fiscal 2007 was \$37.9 million of revenue related to the Martello condominium project. Excluding the impact of the Martello project, residential operations revenues declined by \$23.0 million or 15.7 percent compared to last year. In the previous year management cautioned that the pace of growth experienced in residential lot sales in fiscal 2007 was not sustainable over the long-term. Management further cautions that residential lot sales are likely to slow from the level experienced in fiscal 2008.

Commercial property revenues, net of inter-segment transactions, for fiscal 2008 equalled \$40.5 million, an increase of \$2.1 million or 5.5 percent compared to revenues of \$38.4 million reported last year.

Operating Income

During fiscal 2008, real estate division operating income declined \$18.0 million or 15.3 percent compared to last year as the result of a \$20.5 million decrease in residential operating income, offset by a \$2.5 million increase in commercial

operating income. The decline in operating income generated by residential operations was expected given the exceptional residential lot sales activity experienced in Western Canada in fiscal 2007 compared to current economic conditions.

Capital Gains and Other Items

Capital losses and other items, net of tax, for the real estate division totalled \$4.1 million in fiscal 2008 (fiscal 2007 – \$ nil). The difference over last year is primarily related to the impairment charge taken on one commercial property during fiscal 2008 as discussed.

Net Earnings

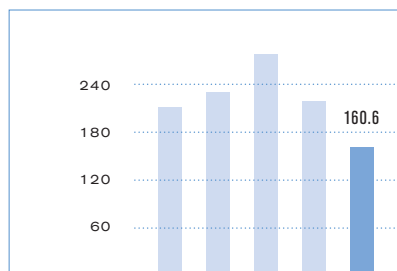
Real estate division net earnings contribution in fiscal 2008 amounted to \$54.8 million compared to \$67.8 million last year, a \$13.0 million or 19.2 percent decrease. The earnings decline largely reflects the \$18.0 million reduction in operating income as discussed, the \$4.1 million impairment charge, net of tax, on one commercial property as discussed, offset by a \$0.9 million reduction in interest expense due to lower long-term debt levels and lower income tax expense of \$8.2 million.

Funds from Operations

Funds from real estate operations in fiscal 2008 of \$64.4 million decreased \$10.2 million or 13.7 percent compared to last year as a result of a decrease in residential funds from operations of \$12.5 million due to lower operating earnings, partially offset by higher commercial funds from operations of \$2.3 million due to higher operating earnings.

Real Estate Revenue

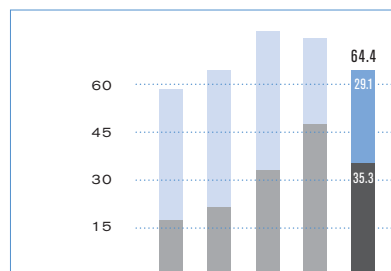
\$ IN MILLIONS



FISCAL YEAR

Real Estate Funds from Operations

\$ IN MILLIONS



FISCAL YEAR

■ COMMERCIAL ■ RESIDENTIAL

Investments and Other Operations

Highlights

- ▶ A \$21.0 million or 14.0 percent increase in revenue as a result of record revenues for wholly-owned Empire Theatres. The change in Empire Theatres' fiscal year-end to December 31st, to align with industry practice, accounted for \$10.0 million of the revenue increase.
- ▶ During the first quarter the liquid investment portfolio was sold for proceeds of \$278.0 million, resulting in an after-tax capital gain of \$81.9 million. These funds were used to support the cost of privatizing Sobeys.
- ▶ Maintained a 27.6 percent interest in Wajax which contributed \$20.4 million in equity earnings in fiscal 2008 and an investment total return of 14.0 percent.

Investment Value

At the end of fiscal 2008, Empire's total investments, excluding its investment in Genstar U.S. investments and in Crombie REIT, carried a market value of \$155.0 million on a cost base of \$33.2 million, resulting in an unrealized gain of \$121.8 million (2007 – \$219.3 million).

The table below presents a reconciliation of the consolidated balance sheet investments, both equity and cost, to those related to the investment and other operations division:

(\$ in millions)	May 3, 2008			May 5, 2007		
	Market Value	Cost Value	Unrealized Gain	Market Value	Cost Value	Unrealized Gain
Investments, at cost	\$ 1.6	\$ 1.6	\$ –	\$ 283.1	\$ 189.7	\$ 93.4
Investments, at equity	429.6	41.4	388.2	434.0	142.8	291.2
Total Investments	431.2	43.0	388.2	717.1	332.5	384.6
Less: Crombie REIT	275.9	9.5	266.4	278.1	109.3	168.8
Less: Genstar U.S. ⁽¹⁾	0.3	0.3	–	1.3	1.3	–
Plus: Hedge Value	–	–	–	3.5	–	3.5
	\$ 155.0	\$ 33.2	\$ 121.8	\$ 441.2	\$ 221.9	\$ 219.3

(1) Assumes market value equals book value.

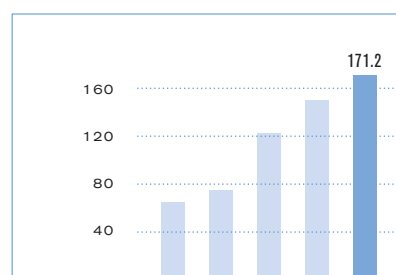
During fiscal 2008 realized capital gains on the sale of investments totalled \$100.9 million compared to \$6.2 million of realized capital gains in the prior year. The Company sold all its portfolio investments, excluding its 27.6 percent interest in Wajax, during in the first quarter of fiscal 2008 to provide funds for the privatization of Sobeys. Funds generated from this sale amounted to \$278.0 million in the first quarter.

The total unrealized gain position at the end of fiscal 2008 was \$121.8 million compared to \$219.3 million at the end of fiscal 2007. The decrease of \$97.5 million in the unrealized gain position is primarily attributed to realized investment capital gains during the fiscal year of \$100.9 million.

Realized capital gains for fiscal 2008, plus unrealized capital gains combined to equal \$222.7 million at the end of the fiscal year. This compares to a total realized gain on investment sales plus unrealized capital gains at the end of fiscal 2007 of \$225.5 million.

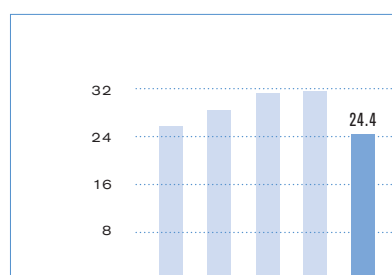
Investments and Other Operations Revenue

\$ IN MILLIONS



Investments and Other Operations Operating Income*

\$ IN MILLIONS



* BEFORE CORPORATE EXPENSES

Portfolio Composition

At fiscal year end, May 3, 2008, Empire's investment portfolio (excluding cash, Crombie REIT and Genstar U.S.) consisted of:

(\$ in millions Cdn.)	Market Value	% of Total	Cost	Unrealized Gain (Loss)	Unrealized Gain (Loss)	
				May 3, 2008	May 5, 2007	May 6, 2006
Wajax	\$ 153.4	99.0%	\$ 31.6	\$ 121.8	\$ 122.4	\$ 159.9
Other Canadian equities	–	0.1%	–	–	92.2	68.8
U.S. equities	–	–	–	–	1.2	(29.8)
Preferred shares & other	1.6	1.0%	1.6	–	–	–
Hedge value	–	–	–	–	3.5	15.4
Total	\$ 155.0	100.0%	\$ 33.2	\$ 121.8	\$ 219.3	\$ 214.3

The table below presents investments and other operations' (net of corporate expenses) financial highlights for the 52 weeks ended May 3, 2008 compared to the same period last year.

52 Weeks Ended (\$ in millions)	May 3, 2008	May 5, 2007	\$ Change
Revenue	\$ 171.2	\$ 150.2	\$ 21.0
Investment income	20.9	29.9	(9.0)
Operating income	13.6	22.1	(8.5)
Capital gains and other items, net of tax	82.2	5.7	76.5
Net Earnings	\$ 74.4	\$ 18.4	\$ 56.0

Revenue

Investments and other operations' revenue, primarily generated by Empire Theatres, equalled \$171.2 million for fiscal 2008 versus \$150.2 million last year. There are 52 weeks of revenue included in fiscal 2008 compared to 48 weeks last year from Empire Theatres as a result of the change in the Company's year-end date. As previously discussed, the additional four weeks of Theatre operations included in this fiscal year impacted revenues by approximately \$10.0 million. Adjusting for this impact, investments and other operations' revenue increased by 7.3 percent in fiscal 2008.

Investment Income

Investment income (excluding equity earnings from Crombie REIT and Genstar's U.S. investments) equalled \$20.9 million in fiscal 2008, a decrease of \$9.0 million over the \$29.9 million recorded last year. The decline was the result of lower dividend income of \$8.5 million reflecting the sale of the portfolio investments in the first quarter as mentioned and equity earnings from Wajax that were \$0.5 million lower than last year.

Capital Gains and Other Items

Capital gains, net of tax, realized from investment sales in fiscal 2008 amounted to \$82.2 million compared to \$5.7 million last year. The bulk of the capital gains, net of tax, in fiscal 2008 relates to the sale of common equity investments in the first quarter to assist in funding the privatization of Sobeys as discussed.

Net Earnings

Investments (net of corporate expenses) and other operations contributed \$74.4 million to Empire's consolidated fiscal 2008 net earnings compared to an \$18.4 million net earnings contribution last year. The increase is primarily the result of the higher realized investment capital gains as discussed.

Quarterly Results of Operations

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

Results by Quarter

(\$ in millions, except per share information)	Fiscal 2008				Fiscal 2007 ⁽¹⁾			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	(13 Weeks) May 3, 2008	(13 Weeks) Feb. 2, 2008	(13 Weeks) Nov. 3, 2007	(13 Weeks) Aug. 4, 2007	(13 Weeks) May 5, 2007	(13 Weeks) Feb. 3, 2007	(13 Weeks) Nov. 4, 2006	(13 Weeks) Aug. 5, 2006
Revenue	\$ 3,557.8	\$ 3,503.0	\$ 3,484.8	\$ 3,519.4	\$ 3,350.4	\$ 3,281.9	\$ 3,353.5	\$ 3,380.9
Operating income	136.2	90.7	118.2	127.5	124.0	72.9	113.0	121.2
Operating earnings ⁽²⁾	73.6	48.9	59.9	60.4	64.1	32.9	49.8	53.3
Capital gains (losses) and other items, net of tax	(7.1)	(0.3)	(1.5)	81.9	0.7	(1.0)	6.0	–
Net earnings	\$ 66.5	\$ 48.6	\$ 58.4	\$ 142.3	\$ 64.8	\$ 31.9	\$ 55.8	\$ 53.3
Per share information, diluted								
Operating earnings	\$ 1.12	\$ 0.73	\$ 0.91	\$ 0.92	\$ 0.98	\$ 0.49	\$ 0.76	\$ 0.81
Capital gains (losses) and other items, net of tax	(0.11)	0.01	(0.02)	1.24	0.01	(0.01)	0.09	–
Net earnings	\$ 1.01	\$ 0.74	\$ 0.89	\$ 2.16	\$ 0.99	\$ 0.48	\$ 0.85	\$ 0.81
Diluted weighted average number of shares outstanding (in millions)	65.7	65.7	65.7	65.7	65.7	65.7	65.7	65.7

(1) Amounts have been restated as a result of a reclassification with respect to deferred charges. Please see the section entitled "Accounting Policy Changes – Deferred Charges" in this MD&A and "Accounting Policy Changes – Vendor Consideration" in this MD&A.

(2) Operating earnings is net earnings before capital gains (losses) and other items, net of tax.

Revenue and operating earnings growth have been influenced by the Company's investing activities including the privatization of Sobeys, the competitive environment, general industry trends and by other risk factors as outlined in this MD&A.

Fourth Quarter Results

Summary Table of Consolidated Financial Results for the Fourth Quarter

(\$ in millions, except per share information)	13 Weeks Ended May 3, 2008	% of Revenue	13 Weeks Ended May 5, 2007	% of Revenue
Revenue	\$ 3,557.8	100.00%	\$ 3,350.4	100.00%
Operating income	136.2	3.83%	124.0	3.70%
Operating earnings	73.6	2.07%	64.1	1.91%
Capital gains (losses) and other items, net of tax	(7.1)	-0.20%	0.7	0.02%
Net earnings	\$ 66.5	1.87%	\$ 64.8	1.93%
Basic earnings per share				
Operating earnings	\$ 1.12		\$ 0.98	
Capital gains (losses) and other items, net of tax	(0.11)		0.01	
Net earnings	\$ 1.01		\$ 0.99	
Basic weighted average number of shares outstanding (in millions)	65.6		65.6	
Diluted earnings per share				
Operating earnings	\$ 1.12		\$ 0.98	
Capital gains (losses) and other items, net of tax	(0.11)		0.01	
Net earnings	\$ 1.01		\$ 0.99	
Diluted weighted average number of shares outstanding (in millions)	65.7		65.7	

The following is a review of financial performance for the 13 weeks ended May 3, 2008 compared to the 13 weeks ended May 5, 2007.

Revenue

Revenue for the fourth quarter was \$3.56 billion compared to \$3.35 billion last year, a \$207.4 million or 6.2 percent increase.

As shown in the following table, excluding the decline in wholesale tobacco sales and the Thrifty Foods acquisition, revenue growth would have been 2.2 percent for the fourth quarter.

13 Weeks Ended (\$ in millions)	May 3, 2008	May 5, 2007	\$ Change	% Change
Financially reported sales	\$ 3,557.8	\$ 3,350.4	\$ 207.4	6.2%
Add (deduct) the impact of:				
Impact of Thriftys acquisition			(148.6)	
Impact of wholesale tobacco decline			15.6	
Subtotal			(133.0)	
			\$ 74.4	2.2%

Food retailing division revenue increased by \$236.9 million or 7.3 percent compared to the fourth quarter of fiscal 2007. Same-store sales increased 2.6 percent during the fourth quarter of fiscal 2008. The growth in retail sales was a direct result of the continued implementation of sales and merchandising initiatives across the country, coupled with the increased retail selling square footage from new stores, enlargements and the acquisition of Thrifty Foods on September 12, 2007. As outlined above, sales were positively impacted in the quarter by the acquisition of Thrifty Foods and negatively impacted by the decline in wholesale tobacco sales. Excluding the impact of the Thrifty Foods acquisition and the wholesale tobacco decline, Sobeys' sales growth would have been 3.2 percent on a comparable 13-week basis.

Real estate operations reported fourth quarter revenues (net of inter-segment transactions) of \$33.8 million, a decrease of \$32.2 million or 48.8 percent compared to the fourth quarter last year. Commercial property revenue growth remained flat while revenue from residential operations decreased by \$32.2 million or 56.7 percent. The decline in residential operations revenue was expected; management had previously cautioned that residential lot sales in Western Canada particularly in the Calgary and Edmonton, Alberta markets, was not sustainable at the rates observed in fiscal 2007.

Revenue from investments and other operations in the fourth quarter equalled \$43.4 million, an increase of \$2.7 million or 6.6 percent over the fourth quarter last year. This is primarily related to higher revenue contribution from Empire Theatres.

Operating Income

Consolidated operating income in the fourth quarter of fiscal 2008 totalled \$136.2 million compared to \$124.0 million in the fourth quarter last year, an increase of \$12.2 million or 9.8 percent. The increase in operating income was the result of a \$29.3 million or 39.1 percent increase in operating income contribution from the food retailing division, a \$1.8 million or 62.1% increase in operating income contribution from investments and other operations, partially offset by a decrease in real estate division operating income of \$18.9 million or 41.0 percent.

In the fourth quarter last year, Sobeys incurred \$10.5 million of pre-tax costs related to its business process and system initiative and rationalization costs.

Residential real estate operating income amounted to \$15.6 million, a \$19.0 million decrease from the fourth quarter last year. The decline is attributed to slowing of residential lot sales in Western Canada, particularly in the Calgary and Edmonton, Alberta markets. Commercial real estate operating income of \$11.6 million increased \$0.1 million from the same quarter last year.

Interest Expense

The \$13.1 million increase in fourth quarter consolidated interest expense compared to the same quarter last year is the result of increased funded debt. Funded debt increased \$661.5 million to end the fiscal year at \$1,573.5 million compared to \$912.0 million at the end of fiscal 2007. This increase was largely the consequence of long-term debt incurred to finance the privatization of Sobeys and the acquisition of Thrifty Foods as mentioned.

Income Taxes

The effective income tax rate for the fourth quarter was 31.0 percent versus 28.6 percent in the fourth quarter last year. The main reason for this increase is in the fourth quarter of fiscal 2007, the Canadian government approved a reduction in the Canadian federal and certain provincial statutory income tax rates

and the application of those lower rates to future tax balances, related to the real estate operations. This resulted in a lower effective income tax rate for the fourth quarter of fiscal 2007.

Minority Interest

In the fourth quarter of fiscal 2008, Empire recorded minority interest expense of \$1.3 million compared to \$14.1 million in the fourth quarter last year. The decrease of \$12.8 million in minority interest is primarily the result of Empire increasing its ownership position in Sobeys to 100.0 percent on June 15, 2007, resulting in a weighted average ownership position in the fourth quarter of 100.0 percent as compared to a weighted average ownership position in Sobeys at the end of the fourth quarter last year of 72.1 percent.

Earnings before Capital Gains and Other Items

The \$9.5 million or 14.8 percent increase in earnings before capital gains and other items over the prior year was the result of the \$12.2 million improvement in operating income and the \$12.8 million reduction in minority interest, offset by the \$13.1 million increase in interest expense and a \$2.4 million increase in income taxes, as discussed.

Capital Gains and Other Items

The Company reported capital losses and other items, net of tax, of \$7.1 million in the fourth quarter compared to capital gains and other items, net of tax, of \$0.7 million last year.

In the fourth quarter of fiscal 2008, it was determined that the carrying value of one commercial property was impaired. Accordingly, the Company recorded an impairment charge of \$6.0 million (\$4.1 million after tax) to reduce the carrying value on this property to estimated fair value.

Also during the fourth quarter, Sobeys increased its pre-tax impairment loss provision on ABCP by \$4.5 million (from \$3.0 million previously recorded to \$7.5 million), representing 25 percent of the \$30.0 million of ABCP held by Sobeys. The Company estimated the impairment loss using a discounted cash flow approach. The ABCP investment has been reclassified as a long-term asset rather than cash and cash equivalents due to the uncertainty as to the timing of collection.

Net Earnings

Consolidated net earnings, including capital gains and other items, net of tax, totalled \$66.5 million (\$1.01 per share, basic) in the fourth quarter, an increase of \$1.7 million or 2.6 percent over the fourth quarter last year.

Financial Condition

Capital Structure and Key Financial Condition Measures

The Company's financial condition at the end of fiscal 2008 remained healthy as indicated by the following financial condition measures.

(\$ in millions, except per share and ratio calculations)	May 3, 2008	May 5, 2007 (Restated)	May 6, 2006 (Restated)
Shareholders' equity	\$ 2,382.3	\$ 2,131.1	\$ 1,965.2
Book value per share	36.14	32.31	29.77
Minority interest	37.6	588.6	585.4
Bank indebtedness	92.1	30.1	98.6
Long-term debt, including current portion ⁽¹⁾	1,481.4	881.9	809.8
Funded debt to total capital	39.8%	30.0%	31.6%
Net debt to capital ratio ⁽²⁾	36.7%	22.5%	22.4%
Debt to EBITDA	2.02x	1.30x	1.33x
Interest coverage	4.47x	7.17x	5.86x
Total assets	\$ 5,706.9	\$ 5,241.5	\$ 5,051.5

(1) Includes liabilities related to assets held for sale.

(2) Net debt to total capital reduces funded debt by cash and cash equivalents.

Shareholders' Equity

Book value per common share was \$36.14 at May 3, 2008, compared to \$32.31 at May 5, 2007 and \$29.77 at May 6, 2006. The increase in book value largely reflects the Company's earnings growth.

The Company's share capital on May 3, 2008 consisted of:

	Authorized Number of Shares	Issued and Outstanding Number of Shares	\$ Millions
Preferred shares, par value \$25 each, issuable in series	2,772,300	258,200	\$ 6.5
2002 Preferred shares par value \$25 each, issuable in series	992,000,000	-	
Non-Voting Class A shares, without par value	259,107,435	31,484,498	185.1
Class B common shares, without par value, voting	40,800,000	34,260,763	7.6
			199.2
Employees Share Purchase Plan			(3.5)
			\$ 195.7

Total Non-Voting Class A and Class B common shares outstanding at May 3, 2008 equalled 65,745,261, 10,461 shares higher than the previous fiscal year-end, May 5, 2007. There were 31,484,498 Non-Voting Class A and 34,260,763 Class B common shares outstanding at May 3, 2008. During fiscal 2008, 300,000 Class B common shares were exchanged for 300,000 Non-Voting Class A shares of Empire.

Empire had 99,349 options outstanding at May 3, 2008, compared to no options outstanding at May 5, 2007. There were 27,674 options exercised during the fiscal 2007, compared to no options exercised in the current fiscal year.

During fiscal 2008, the Company purchased for cancellation 41,800 Series 2 Preferred shares for \$1.0 million; 31,900 preferred shares were purchased for cancellation in fiscal 2007 for \$0.8 million. The Company plans to purchase on a best efforts basis for cancellation an additional 158,200 Series 2 Preferred shares by the end of calendar 2008.

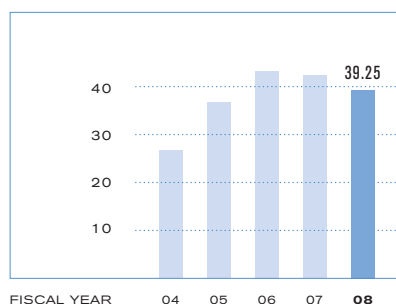
During the fiscal year, 10,461 Non-Voting Class A shares were issued under Empire's share purchase plan to certain officers and employees for \$0.4 million compared to

46,047 Non-Voting Class A shares issued in fiscal 2007 for \$1.0 million. During fiscal 2007, Empire purchased 46,047 Non-Voting Class A shares for cancellation. No Non-Voting Class A shares were purchased for cancellation in fiscal 2008.

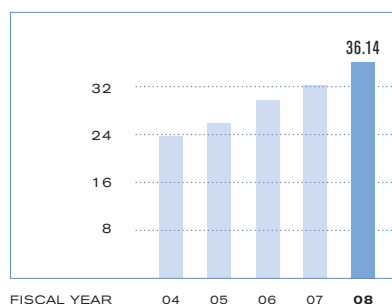
As at June 26, 2008, the Company had total Non-Voting Class A and Class B common shares outstanding of 31,484,498 and 34,260,763, respectively.

Dividends paid to Non-Voting Class A and Class B common shareholders amounted to \$43.2 million in fiscal 2008 (\$0.66 per share) versus \$39.5 million (\$0.60 per share) in fiscal 2007. Subsequent to fiscal year-end, on June 26, 2008 the Company announced an increase in the dividend rate to \$0.70 per share annually.

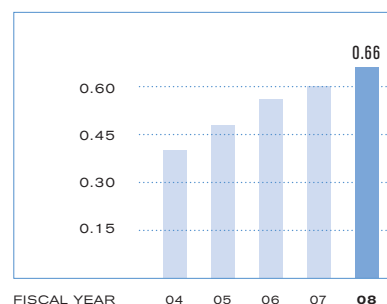
Share Price
\$ PER SHARE



Book Value Per Share
\$ PER SHARE



Common Dividends Per Share
\$ PER SHARE



Liabilities

Historically, Empire has financed a significant portion of its assets through the use of long-term debt. Longer-term assets are generally financed with fixed rate, long-term debt, thereby reducing both interest rate and refinancing risk. Total long-term debt (including the current portion of long-term debt) at May 3, 2008 was \$1,481.4 million, representing 94.1 percent of Empire's total funded debt of \$1,573.5 million. Funded debt increased \$661.5 million from the previous fiscal year, May 5, 2007 (\$912.0 million). The significant increase over last fiscal year is the result of debt incurred to fund the privatization

of Sobey's as discussed earlier, as well as the additional long-term debt used to fund the acquisition of Thrifty Foods, partially offset by proceeds from the sale of 61 properties to Crombie REIT in the fourth quarter. Since last fiscal year-end, the consolidated funded debt to total capital ratio has increased 9.8 percentage points to 39.8 percent as a result of the higher debt levels as discussed. Management expects the funded debt to capital ratio to decline in fiscal 2009 as a result of equity growth and a plan to generate free cash flow, which will be used to reduce bank debt. The majority of Empire's funded debt is long-term in nature.

The long-term debt is segmented by division as follows:

Long-term debt (\$ in millions)	May 3, 2008	May 5, 2007	May 6, 2006
Food retailing	\$ 1,010.2	\$ 612.7	\$ 490.0
Real estate	50.7	228.1	261.0
Investments and other operations	420.5	41.1	58.8
Total	\$ 1,481.4	\$ 881.9	\$ 809.8

DBRS and S&P placed Sobeys' credit ratings under review when the privatization of Sobeys was announced. On July 20, 2007, DBRS downgraded their rating on Sobeys' Medium Term Notes from BBB (high) to BBB (low). The trend remained negative. On July 31, 2007, S&P also downgraded Sobeys' credit ratings from BBB (low) to BB (high). S&P also kept a negative trend in place.

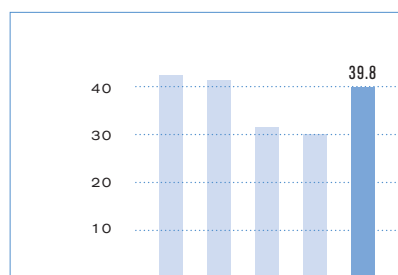
Interest coverage for fiscal 2008 was 4.5 times, down from the 7.2 times reported for the fiscal year ended May 5, 2007. The decline in the interest coverage compared to fiscal 2007

was the result of the increased interest expense related to the additional borrowings to fund the Sobeys privatization and the acquisition of Thrifty Foods as previously discussed.

Empire and its subsidiaries have provided covenants to its lenders in support of various financing facilities. All covenants were complied with for the 52 weeks ended May 3, 2008 and for fiscal 2007.

Funded Debt to Total Capital

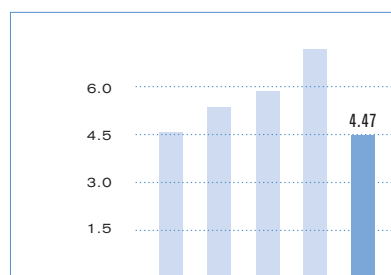
PERCENTAGE



FISCAL YEAR

Interest Coverage

TIMES



FISCAL YEAR

Financial Instruments

Empire utilizes interest rate instruments from time to time to prudently manage its exposure to interest rate volatility and also to fix future long-term debt maturities that are expected to be refinanced. At May 3, 2008, there were four interest rate hedges in place with Empire or one of its operating companies. On June 18, 2007, Empire entered into two delayed fixed rate interest swaps. The first swap in an amount of \$200.0 million is three years in duration and carries a fixed interest rate of 4.998 percent. The second swap in an amount of \$200.0 million is for a period of five years at a fixed interest rate of 5.051 percent. Both swaps became effective on July 23, 2007. Empire later transferred the second swap to Sobeys. Empire Theatres entered into two interest rate swaps on December 27, 2006, which fixed the interest rate on \$20.0 million of the floating rate

debt at 4.28 percent, plus a stamping fee for a five-year term. These swaps fixed the interest rate on approximately 74 percent of Empire Theatres' total indebtedness, all of which is borrowed at floating rates. The fair value of these interest rate swaps at year-end was negative \$20.0 million.

The Company also uses forward contracts to fix the exchange rate on some of its expected requirements for Euros and U.S. dollars. As of May 3, 2008, Sobeys had an asset of \$2.3 million relating to the value of five Euro forward contracts. There were no outstanding U.S. dollar forward contracts.

Empire and its subsidiaries utilize hedging instruments as deemed appropriate to mitigate risk exposure, not for speculative purposes.

Liquidity and Capital Resources

Empire's liquidity remained strong at May 3, 2008 as a result of the following sources:

- ▶ Cash and cash equivalents on hand;
- ▶ Unutilized bank credit facilities;
- ▶ Availability of long-term debt financing; and
- ▶ Cash generated from operating activities.

At May 3, 2008, cash and cash equivalents equalled \$191.4 million versus \$294.9 million at May 5, 2007.

At the end of fiscal 2008, on a non-consolidated basis, Empire maintained authorized bank lines for operating, general and

corporate purposes of \$650.0 million, of which \$399.7 million or 61.5 percent were utilized. On a consolidated basis, Empire's authorized bank credit facilities exceeded borrowings by \$690.8 million at May 3, 2008, versus \$661.0 million at May 5, 2007.

The Company anticipates that its capital resources will meet its financial and liquidity requirements over the next year, including capital expenditures, dividends and scheduled debt repayments.

The following table highlights major cash flow components for the 13 weeks and 52 weeks ended May 3, 2008 compared to the 13 weeks and 52 weeks ended May 5, 2007.

Major Cash Flow Components

(\$ in millions)	13 Weeks Ended May 3, 2008	13 Weeks Ended May 5, 2007	52 Weeks Ended May 3, 2008	52 Weeks Ended May 5, 2007
Earnings for common shareholders	\$ 66.5	\$ 64.7	\$ 315.5	\$ 205.4
Items not affecting cash	105.7	127.7	354.1	382.6
	172.2	192.4	669.6	588.0
Net change in non-cash working capital	92.0	84.0	(26.1)	(149.2)
Cash flows from operating activities	264.2	276.4	643.5	438.8
Cash flows used in investing activities	211.7	(149.3)	(1,367.5)	(424.8)
Cash flows used in financing activities	(407.6)	(35.6)	620.5	(60.2)
Increase (decrease) in cash and cash equivalents	\$ 68.3	\$ 91.5	\$ (103.5)	\$ (46.2)

Operating Activities

Fourth quarter cash flows from operating activities equalled \$264.2 million compared to \$276.4 million in the comparable period last year. The decrease of \$12.2 million is largely attributed to an increase in the net change in non-cash working capital of \$8.0 million and an increase in net earnings available for common shareholders of \$1.8 million as discussed, offset by a decrease in items not affecting cash of \$22.0 million.

In fiscal 2008, operating activities generated cash flow of \$643.5 million compared to \$438.8 million last year. The increase of \$204.7 million is primarily the result of the \$123.1 million increase in net change in non-cash working cash flow and earnings for common shareholders increasing by \$110.1 million, offset by a \$28.5 million decrease in items not affecting cash, primarily due to the reduction in minority interest.

The following tables present non-cash working capital changes on a quarter-over-quarter basis and on a year-over-year basis.

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

(\$ in millions)	May 3, 2008	Feb. 2, 2008	Q4 F2008 vs. Q3 F2008 Increase (Decrease) in Cash Flows	Q4 F2007 vs. Q3 F2007 Increase (Decrease) in Cash Flows
Receivables	\$ 316.3	\$ 313.4	\$ (2.9)	\$ 1.6
Inventories	820.2	847.0	26.8	15.3
Prepaid expenses	62.0	61.7	(0.3)	0.5
Accounts payable and accrued liabilities	(1,322.4)	(1,246.1)	76.3	84.1
Income taxes receivable (payable)	(15.5)	(0.7)	14.8	(21.5)
Impact of reclassifications on working capital ⁽¹⁾	37.5	14.8	(22.7)	4.0
Total	\$ (101.9)	\$ (9.9)	\$ 92.0	\$ 84.0

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

(\$ in millions)	May 3, 2008	May 5, 2007	Year-Over-Year
			Increase (Decrease) in Cash Flows
Receivables	\$ 316.3	\$ 312.3	\$ (4.0)
Inventories	820.2	757.5	(62.7)
Prepaid expenses	62.0	51.4	(10.6)
Accounts payable and accrued liabilities	(1,322.4)	(1,260.3)	62.1
Income taxes receivable (payable)	(15.5)	3.6	19.1
Impact of reclassifications on working capital ⁽¹⁾	42.4	12.4	(30.0)
Total	\$ (97.0)	\$ (123.1)	\$ (26.1)

(1) Reclassifications primarily relate to business acquisitions and rationalization costs.

The net change in non-cash working capital of \$92.0 million in the fourth quarter was largely due to a \$76.3 million increase in payables, a \$26.8 million decrease in inventories and an increase in income taxes payable of \$14.8 million compared to the third quarter ended February 2, 2008. The decrease in inventory is primarily related to lower inventory requirements in the food retailing division following the December selling season. The increased accounts payable and accrued liabilities largely reflects higher accounts payable and accrued liabilities at Sobeys due to a general increase as a result of increased operations. The decrease in taxes payable compared to the third quarter reflects the timing of tax remittances.

Year-over-year non-cash working capital decreased \$26.1 million. This is primarily the result of a \$62.7 million increase in inventories, a \$10.6 million increase in prepaid expenses and a \$4.0 million increase in receivables, partially offset by a decrease in income taxes receivable of \$19.1 million and a \$62.1 million increase in accounts payable and accrued liabilities compared to the fourth quarter of last year. The increase in inventories and related accounts payable and accrued liabilities is correlated to Sobeys' higher sales volumes, the Thrifty's acquisition and the increased square footage in its expanded store network.

Investing Activities

In the fourth quarter of fiscal 2008, the Company generated cash from investing activities of \$211.7 million compared to cash used in investing activities of \$149.3 million in the fourth quarter last year. The fourth quarter investing activities this year benefited from proceeds of \$373.5 million related to the sale of 61 properties to Crombie REIT, which was partially offset by a net increase in investments, primarily Crombie REIT, of \$54.2 million. Investment in property, equipment and other assets totalled \$150.3 million in the fourth quarter versus \$141.3 million in the same quarter last year.

For the fiscal year, cash used in investing activities increased \$942.7 million to total \$1,367.5 million. This was primarily the result of the purchase of Sobeys' shares to privatize the Company for a cash outlay of \$1,065.7 million, cash used in business acquisitions, primarily Thrifty Foods, of \$263.2 million and an increase in the cash used to purchase property and equipment of \$40.5 million, partially offset by cash proceeds from sale of property to Crombie REIT of \$373.5.

Consolidated purchases of property, equipment and other assets totalled \$549.4 million compared to \$508.9 million last fiscal year. The table below presents capital expenditures over the last two fiscal years by division.

(\$ in millions)	May 3, 2008	May 5, 2007
Food retailing	\$ 481.2	\$ 446.7
Real estate	47.3	16.0
Investments and other operations	20.9	46.2
Total	\$ 549.4	\$ 508.9

The table below outlines the number of stores Sobeys invested in or closed during fiscal 2008 compared to fiscal 2007.

Sobeys' Corporate and Franchised Store Construction Activity

# of Stores	13 Weeks Ended May 3, 2008	13 Weeks Ended May 5, 2007	52 Weeks Ended May 3, 2008	52 Weeks Ended May 5, 2007
Opened/Acquired/Relocated	15	7	66	77
Expanded	10	3	31	24
Rebanneder/Redeveloped	9	13	60	49
Closed	17	9	67	38

The following table shows Sobeys' square footage changes for the 13 weeks and 52 weeks ended May 3, 2008 by type.

Sobeys' Square Footage Changes

Square Feet (in thousands)	Q4 F08 vs. Q3 F08	Q4 F08 vs. Q4 F07
Opened	153	477
Relocated	48	364
Acquired	–	571
Expanded	50	172
Closed	124	794
Net Change	127	790

At May 3, 2008, Sobeys' square footage totalled 27.2 million square feet, a 3.0 percent increase over the 26.4 million square feet in operation at the end of the fourth quarter of last year.

Capital expenditures for the real estate division equalled \$47.3 million in fiscal 2008 (\$16.0 million in fiscal 2007) as a result of ongoing property developments and land additions. The significant increase in capital expenditures underlines ECL Developments' commitment to acquire attractive sites for grocery-anchored shopping plaza development.

Capital spending by investments and other operations equalled \$20.9 million in fiscal 2008 (\$46.2 million in fiscal 2007) primarily as a result of a reduction in expenditures to invest in selected oil and gas properties in Alberta through Kepec. The majority of the capital spending in fiscal 2008 was to modernize and develop various movie theatre locations.

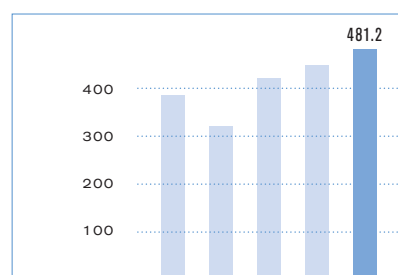
Financing Activities

Financing activities during the fourth quarter used \$407.6 million of cash compared to \$35.6 million of cash used in the comparable period of fiscal 2007. Net repayments of funded debt amounted to \$390.3 million in the fourth quarter (repayments of \$445.9 million net of issuances of \$55.6 million) compared to net repayments of \$19.0 million (repayments of \$40.9 million net of issuances of \$21.9 million) in the fourth quarter of fiscal 2007. In the fourth quarter of fiscal 2008, the proceeds from the sales of 61 properties to Crombie REIT were used to repay long-term debt as discussed.

For the fiscal year, financing activities increased cash by \$620.5 million compared to a \$60.2 million decline last year largely due to the issuance of long-term debt. In fiscal 2008, the net increase in funded debt amounted to \$654.3 million (issuances of \$1,161.8 million net of repayments of \$507.5 million) compared to net repayments of \$10.7 million (repayments of \$171.5 million net of issuances of \$160.8 million) in fiscal 2007. The additional long-term debt added in fiscal 2008 was related to the privatization of Sobeys and the acquisition of Thrifty Foods. A portion of this newly issued debt was later repaid with proceeds from the sale of 61 properties to Crombie REIT as discussed. The Company added net long-term debt of \$592.3 million in fiscal 2008 versus \$56.6 million added last year.

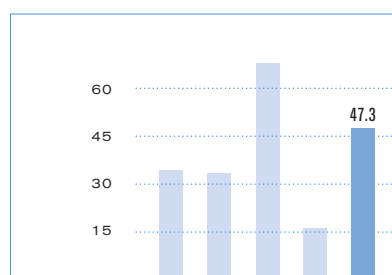
Food Retailing Capital Expenditures

\$ IN MILLIONS



Real Estate Capital Expenditures

\$ IN MILLIONS



Accounting Policy Changes

Accounting standards adopted during fiscal 2008:

Accounting Changes

In July 2006, the Canadian Institute of Chartered Accountants ("CICA") issued section 1506 of the CICA Handbook, "Accounting Changes", which describes the criteria for changing accounting policies, along with the accounting and disclosure for changes in accounting policies, changes in accounting estimates and corrections of errors. These changes came into effect for fiscal periods beginning on or after January 1, 2007 and were applicable as of the Company's first quarter of fiscal 2008.

Financial Instruments

On May 6, 2007, the Company implemented the CICA Handbook Sections 3855, "Financial Instruments – Recognition and Measurement", 3865, "Hedges", 1530, "Comprehensive Income", 3251, "Equity" and 3861, "Financial Instruments – Disclosure and Presentation". These standards have been applied without restatement of prior periods. The transitional adjustments resulting from these standards were recognized in the opening balances of retained earnings and accumulated other comprehensive income.

Financial Instruments – Recognition and Measurement

Section 3855, "Financial Instruments – Recognition and Measurement" requires the Company to initially recognize all of its financial assets and liabilities, including derivatives and embedded derivatives in certain contracts, at fair value adjusted on transition as appropriate, and measured subsequently in accordance with the classification chosen. Non-financial

derivatives must be recorded at fair value on the consolidated balance sheet unless they are exempt from derivative treatment based upon expected purchase, sale or usage requirements.

This standard also requires the Company to classify financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purposes of ongoing measurements. Classification choices for financial assets include: a) held for trading – measured at fair value with changes in fair value recorded in net earnings; b) held to maturity – recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is derecognized or impaired; c) available-for-sale – measured at fair value with changes in fair value recognized in other comprehensive income for the current period until realized through disposal or impairment; and d) loans and receivables – recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is derecognized or impaired. Classification choices for financial liabilities include: a) held for trading – measured at fair value with changes in fair value recorded in net earnings and b) other – measured at amortized cost with gains and losses recognized in net earnings in the period that the liability is no longer recognized. Subsequent measurement for these assets and liabilities are based on either fair value or amortized cost using the effective interest method, depending upon their classification. Any financial asset or liability can be classified as held for trading as long as its fair value is reliably determinable.

In accordance with the new standard, the Company's financial assets and liabilities are generally classified and measured as follows:

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

Other balance sheet accounts, including, but not limited to, inventories, prepaid expenses, investments (at equity), property and equipment, assets held for sale, intangibles, goodwill, current and future long-term income taxes, employee future benefits obligation and minority interest are not within the scope of the new accounting standard as they are not financial instruments.

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

Embedded derivatives are required to be separated and measured at fair values if certain criteria are met. Under an election permitted by the new standard, management reviewed contracts entered into or modified subsequent to May 3, 2003 and determined that the Company does not currently have any significant embedded derivatives in its contracts that require separate accounting treatment.

Section 3855 also requires that obligations undertaken through issuance of a guarantee that meets the definition of a guarantee pursuant to Accounting Guideline 14, "Disclosure of Guarantees", be recognized at fair value at inception. No subsequent re-measurement at fair value is required unless the financial guarantee qualifies as a derivative. Management reviewed and determined that identified guarantees were immaterial.

The fair value of a financial instrument is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. To estimate the fair value of each type of financial instrument various market value data and other valuation techniques were used as appropriate. The fair value of cash approximated its carrying value. The fair value of currency swaps was estimated based on discounting of the forward rate at the reporting date compared to the forward rate in the contract. The fair value of interest rate swaps was estimated by discounting net cash flows of the swaps using forward interest rates for swaps of the same remaining maturities. The fair value of energy contracts was estimated based on changes in forward commodity rates.

Hedges

Section 3865, "Hedges" replaces Accounting Guideline 13, "Hedging Relationships". The requirements for identification, designation, documentation and assessment of effectiveness of hedging relationships remain substantially unchanged. Section 3865 addresses the accounting treatment of qualifying hedging relationships and the necessary disclosures and also requires all derivatives in hedging relationships to be recorded at fair value.

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

Significant derivatives include the following:

- Foreign currency forward contracts for the primary purpose of limiting exposure to exchange rate fluctuations relating to expenditures denominated in foreign currencies. These contracts are designated as hedging instruments for accounting purposes. Accordingly, the effective portion of the change in the fair value of the forward contracts are accumulated in other comprehensive income until the variability in cash flows being hedged is recognized in earnings in future accounting periods.
- Electricity contracts to manage the cost of electricity designated as cash flow hedges of anticipated transactions. The portion of gain or loss on derivative instruments designated as cash flow hedges that are deferred in accumulated other comprehensive income is reclassified into other income/expense when the product containing the hedged item impacts earnings. Hedge ineffectiveness was immaterial for the current fiscal year.
- Interest rate swaps designated as cash flow hedges to manage variable interest rates associated with some of the Company's debt portfolio. Hedge accounting treatment results in interest expense on the related debt being reflected at hedged rates rather than variable interest rates.

Comprehensive Income

In accordance with Section 1530, "Comprehensive Income", the Company reported a new financial statement entitled "Consolidated Statements of Comprehensive Income", which is comprised of net earnings and other comprehensive income. Other comprehensive income represents the change in shareholders' equity from transactions and other events from non-owner sources and includes unrealized gains and losses on financial assets that are classified as available-for-sale, and changes in the fair value of the effective portion of cash flow hedging instruments. The accumulated other comprehensive income (i.e. the portion of comprehensive income not already included in net earnings) is being presented as a separate line in shareholders' equity. In accordance with the new standard, \$0.6 million relating to unrealized losses resulting from the translation of self-sustaining foreign operations which had previously been classified as cumulative translation adjustment within shareholders' equity is now presented within accumulated other comprehensive income.

Equity

Section 3251, "Equity", which replaced Section 3250, "Surplus", establishes standards for the presentation of equity and changes in equity during the reporting period and requires the Company to present separately equity components and changes in equity arising from: i) net earnings; ii) other comprehensive income; iii) other changes in retained earnings; iv) changes in contributed surplus; v) changes in share capital; and vi) changes in reserves.

Financial Instruments – Disclosure and Presentation

Section 3861, "Financial Instruments – Disclosure and Presentation", which replaced Section 3860, of the same title, establishes standards for the presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them.

The following table summarizes the transition adjustments recorded upon implementation:

(\$ in millions)	Transition Adjustments
Consolidated Balance Sheet	
Investments	\$ 94.4
Other assets	(4.5)
Other liabilities	2.5
Long-term debt	2.7
Future income taxes	(18.5)
Minority interest	0.6
Accumulated other comprehensive income	(77.2)

Deferred Charges

The Company adopted CICA Section 3855, "Financial Instruments – Recognition and Measurement", effective as of the first quarter of fiscal 2008. Concurrent with issuance of this section, Section 3070, "Deferred Charges", was withdrawn. As a result, the Company reviewed its deferred costs classifications included with other assets and determined that the following changes were necessary:

Deferred Store Marketing

Deferred store marketing costs, primarily comprised of store renovation and expansion costs, were reclassified and included with equipment, fixtures and vehicles as part of the Company's property and equipment balance sheet group. Prior year balances were reclassified which resulted in an increase in property and equipment and a decrease in other assets of \$106.2 million at May 5, 2007 as well as an increase in depreciation expense and decrease in cost of sales, selling and administrative expenses of \$25.3 million for the year ended May 5, 2007. There is no impact on net earnings or earnings per share as a result of this change.

Deferred Repositioning Costs

Effective for the first quarter of fiscal 2008, the Company changed its accounting policy for the treatment of certain deferred costs associated with major repositioning or branding efforts of the Company. Due to the withdrawal of the primary source of GAAP, Section 3070, "Deferred Charges", the Company looked to other sources of existing and proposed GAAP for guidance in determining its future policy for such costs. Based on this review, the Company determined, in setting the new policy, that it would be more appropriate to expense

these types of costs in the period incurred as it provides more relevant information on expenditures associated with repositioning and branding efforts.

This change in accounting policy was applied retrospectively resulting in a \$9.1 million decrease in other assets, a \$3.2 million decrease in long-term future tax liabilities, and a \$4.3 million decrease in earnings (net of minority interest of \$1.6 million) at May 5, 2007. The effect for the year ended May 5, 2007 is a \$9.1 million increase in cost of sales, selling and administrative expenses, a \$3.2 million decrease in income taxes and \$0.06 decrease in basic and diluted earnings of per share. The effect for the year ended May 3, 2008, was a \$3.6 million decrease in cost of sales, selling and administrative expenses, a \$1.2 million increase in income taxes and an increase in basic and diluted earnings of \$0.04 per share.

The following accounting standards have been implemented during fiscal 2007:

Vendor Consideration

During the first quarter of fiscal 2007, the Company implemented on a retroactive basis, Emerging Issues Committee Abstract 156 ("EIC-156"), "Accounting by a Vendor for Consideration Given to a Customer (including a Reseller of the Vendor's Products)". This abstract requires a vendor to generally record cash consideration given to a customer as a reduction to the selling price of the vendor's product or services and reflect it as a reduction of revenue when recognized in the statement of earnings.

Prior to the implementation of EIC-156, the Company recorded certain sales incentives paid to independent franchisees, associates and independent accounts in cost of sales, selling and administrative expenses on the statement of earnings. Accordingly, the implementation of EIC-156 on a retroactive basis resulted in a reduction in both sales and cost of sales, selling and administrative expenses. As reclassifications, these changes did not impact net earnings or earnings per share.

Future Changes in Accounting Policies

Inventories

In June 2007, the CICA issued Section 3031, "Inventories", which has replaced existing Section 3030 with the same title. The new Section establishes that inventories should be measured at the lower of cost and net realizable value, with guidance on the determination of cost. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008 and is applicable for the Company's first quarter of fiscal 2009. The Company has evaluated the impact of this new standard and does not expect the adoption of this standard to have a significant impact on its financial statement disclosures and statement of earnings.

Capital Disclosures

In October 2006, the CICA issued Section 1535, "Capital Disclosures". This section establishes standards for disclosing information about an entity's capital and how it is managed. The standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007 and is applicable for the Company's first quarter of fiscal 2009. The Company does not expect that the adoption of this standard will have a significant impact on its financial statement disclosures.

Financial Instruments – Disclosure and Financial Instruments – Presentation

Section 3862 "Financial Instruments – Disclosure" and Section 3863, "Financial Instruments – Presentation", replace Section 3861, "Financial Instruments – Disclosure and Presentation". Section 3862 requires increased disclosures regarding the risks associated with financial instruments such as credit risk, liquidity risk and market risks and the techniques used to identify, monitor and manage these risks. Section 3863 carries forward standards for presentation of financial instruments and non-financial derivatives and provides additional guidance for the classification of financial instruments between liabilities and equity. These standards are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007 and are applicable for the Company's first

quarter of fiscal 2009. The Company does not expect the adoption of these standards to have a significant impact on its financial disclosures and results of operations.

Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which replaced existing Section 3062, "Goodwill and Other Intangible Assets" as Section 3450, "Research and Development". The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008 and is applicable for the Company's first quarter of fiscal 2010. The Company is currently evaluating the impact of this new standard.

International Financial Reporting Standards

In January 2006, the Canadian Accounting Standards Board announced its decision requiring all publicly accountable entities to report under International Financial Reporting Standards. This decision establishes standards for financial reporting with increased clarity and consistency in the global marketplace. These standards are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 and are applicable for the Company's first quarter of fiscal 2012. The Company is currently evaluating the impact of these new standards.

Critical Accounting Estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes. Certain of these estimates require subjective or complex judgments by management that may be uncertain. Some of these items include inventories, carrying value of commercial properties, goodwill, employee future benefits, asset backed commercial paper, and income taxes. Changes to these estimates could materially impact the financial statements. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results could differ from these estimates.

Pension, Post-Retirement and Post-Employment Benefits

Certain estimates and assumptions are used in actuarially determining the Company's defined pension and employee future benefits obligation.

Significant assumptions used to calculate the pension and employee future benefits obligation are the discount rate, the expected long-term rate of return on plan assets and expected growth rate of health care costs. These assumptions depend

on various underlying factors such as economic conditions, investment performance, employee demographics and mortality rates. These assumptions may change in the future and may result in material changes in the pension and employee benefit plans expense. The magnitude of any immediate impact, however, is mitigated by the fact that net actuarial gains and losses in excess of ten percent of the greater of the accrued benefit plan obligation and the market value of the benefit plan assets are amortized on a straight-line basis over the average remaining service period of the active employees. Changes in financial market returns and interest rates could also result in changes in funding requirements for the Company's defined benefit pension plans.

The discount rate is based on current market interest rates assuming a portfolio of Corporate AA bonds with terms to maturity that, on average, match the terms of the obligation. The appropriate discount rates are determined on April 30th every year. For fiscal 2008, the discount rate used for calculation of pension and other benefit plan expense was 5.25 percent (fiscal 2007 – 5.0 percent). The expected long-term rate of return on plan assets for pension benefit plans for each of fiscal 2008 was 7.0 percent (fiscal 2007 – 7.0 percent). The expected growth rate in health care costs was 9.0 percent for fiscal 2008

(fiscal 2007 – 10.0 percent). The cumulative growth rate in health care costs to 2016 is expected to be 5.0 percent. The expected future growth rate is evaluated on an annual basis.

The table below outlines the sensitivity of the 2008 key economic assumptions used in measuring the accrued benefit plan obligations and related expenses of the Company's pension

and other benefit plans. The sensitivity of each key assumption has been calculated independently. Changes to more than one assumption simultaneously may amplify or reduce the impact on the accrued benefit obligation or benefit plan expenses.

(\$ in millions)	Pension Plans		Other Benefit Plans	
	Benefit Obligations	Benefit Cost ⁽¹⁾	Benefit Obligations	Benefit Cost ⁽¹⁾
Expected long-term rate of return on plan assets		7.00%		
Impact of: 1% increase		\$ (2.4)		
Impact of: 1% decrease		\$ 2.4		
Discount rate ⁽²⁾	5.25%	5.25%	5.25%	5.25%
Impact of: 1% increase	\$ (29.5)	\$ 0.4	\$ (17.1)	\$ (0.7)
Impact of: 1% decrease	\$ 33.1	\$ (0.8)	\$ 20.6	\$ 0.8
Growth rate of health care costs ⁽³⁾			9.00%	9.00%
Impact of: 1% increase			\$ 19.1	\$ 1.9
Impact of: 1% decrease			\$ (15.4)	\$ (1.5)

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

(2) 5.5 percent for the Employee Pension Plan and the Post Retirement Benefit Plan.

(3) Gradually decreasing to 5.0 percent in 2016 and remaining at that level thereafter.

Goodwill and Long-Lived Assets

Goodwill is not amortized and is assessed for impairment at the reporting unit level. This is done, at a minimum, annually. Any potential goodwill impairment is identified by comparing the fair value of a reporting unit to its carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value of the reporting unit exceeds its fair value, potential goodwill impairment has been identified and must be quantified by comparing the estimated fair value of the reporting unit's goodwill to its carrying value. Any goodwill impairment will result in a reduction in the carrying value of goodwill on the consolidated balance sheet and in the recognition of a non-cash impairment charge in operating income.

The Company periodically assesses the recoverability of long-lived assets when there are indications of potential impairment. In performing these analyses, the Company considers such factors as current results, trends and future prospects, current market value and other economic factors.

A substantial change in estimated undiscounted future cash flows for these assets could materially change their estimated fair values, possibly resulting in additional impairment. Changes which may impact future cash flows include, but are not limited to, competition and general economic conditions and unrecoverable increases in operating costs.

Income Taxes

Future income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying values

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

Changes or differences in these estimates or assumptions may result in changes to the current or future income tax balances on the consolidated balance sheet. A charge or credit to income tax expense may result in cash payments or receipts.

Valuation of Inventories

Inventories are valued at the lower of cost and estimated net realizable value. Significant estimation or judgment is required in the determination of (i) inventories counted and adjusted to cost and (ii) estimated inventory reductions due to spoilage, shrinkage and allowances, occurring between the last physical inventory count and the balance sheet date.

Inventory shrinkage, which is calculated as a percentage of the related inventory, is evaluated throughout the year and provides for estimated inventory shortages from the last physical

count to the balance sheet date. To the extent that actual losses experienced vary from those estimated, inventories, operating income and consolidated earnings may be impacted.

Controls and Procedures

Empire's management, with the participation of the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), has reviewed and evaluated the Corporation's disclosure controls and procedures (as that term is defined in Multi-

National Instrument 52-109) as of May 3, 2008. Based on that evaluation, the CEO and CFO have concluded that the design and operation of the system of disclosure controls and procedures was effective.

Internal Controls Over Financial Reporting

Empire's management, with the participation of the CEO and CFO, has reviewed and evaluated the design of the Corporation's internal controls over financial reporting (as that term is defined in MI 52-109) as of May 3, 2008. Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its preparation of financial statements for external purposes in accordance with Canadian GAAP. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial reporting.

In addition, management has evaluated whether there were changes in our internal controls over financial reporting during the interim period ended May 3, 2008 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

As a result of this evaluation, management reports that there have been no changes in the Company's internal controls over financial reporting during the 52 weeks ended May 3, 2008 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. Therefore, Empire's CEO and CFO have concluded that the design of its internal controls over financial reporting is effective.

Related Party Transactions

The Company rents premises from Crombie REIT. In addition, Crombie REIT provides administrative and management services to the Company. The rental payments are at fair value and the charges incurred for administrative and management services are on a cost recovery basis. The Company has non-interest bearing notes payable to Crombie REIT in the amount of \$19.6 million.

On October 2, 2006, the Company sold two commercial properties to Crombie REIT for cash proceeds of \$32.4 million, which was fair market value. Since the sale was to an equity accounted investment, no gain was recorded on the sale.

On April 22, 2008, the Company sold 61 commercial properties to Crombie REIT, for cash proceeds of \$373.5 million plus additional Class B Units in Crombie Limited Partnership totalling \$55.0 million, which was fair market value. In accordance with Canadian GAAP, the gain on this transaction of \$144.3 million has been accounted for as a reduction in the carrying value of Crombie REIT because the purchaser is a related party.

Other Matters

Asset Backed Commercial Paper

As of May 3, 2008, the Company held third-party ABCP with an original cost of \$30.0 million that was in default. The ABCP was rated by the Dominion Bond Rating Service ("DBRS") as R-1

(high), the highest credit rating for commercial paper since the ABCP are backed by AAA (high) rated assets. The \$30.0 million of ABCP held by the Company is entirely made up of collateralized

debt obligations. Collateralized debt obligations are a type of asset-backed security that is created by a portfolio of fixed-income assets which may include pools of bonds, credit card debt, commercial mortgage-backed securities and other loans.

In the second quarter of fiscal 2008, a global disruption in the market for such commercial paper resulted in a constraint on the liquidity of ABCP. DBRS placed certain of the ABCP "Under Review with Developing Implications" following an announcement on August 16, 2007 that a consortium representing banks, asset providers and major investors had agreed in principle to a long-term proposal and interim agreement regarding the ABCP (commonly referred to as "the Montreal Proposal"). On September 6, 2007 a pan-Canadian committee ("the Committee") consisting of major investors was formed to oversee the proposed restructuring process of the ABCP. As of May 3, 2008, all of the ABCP held by the Company were part of the Montreal Proposal. Under this proposal, the affected ABCP would be converted into term floating rate notes maturing no earlier than the scheduled termination dates of the underlying assets. The Montreal Proposal called for the investors to continue to roll their ABCP during the standstill period.

On December 23, 2007, a formal restructuring proposal was established to address the global disruption experienced with third-party ABCP. On April 25, 2008, note holders voted in favour of the restructuring proposal, which will provide investors with new long-term notes that will more closely match the maturity dates of the underlying assets and the cash flows they are expected to generate and was approved on June 5, 2008 by the Ontario Superior Court of Justice.

On March 20, 2008, the Committee issued an Information Statement containing details about the proposed restructuring. Based on this and other public information it is estimated that the \$30.0 million of ABCP in which the Company has invested in is represented by a combination of leveraged collateralized debt, synthetic assets and traditional securitized assets. The Company will, on restructuring, receive replacement senior Class A-1 and Class A-2 and subordinate Class B and Class C long-term floating rate notes with maturities of approximately eight years and nine months.

The Company expects to receive replacement notes with par values as follows:

(\$ in millions)	
Class A-1:	\$ 8.2
Class A-2:	17.8
Class B:	3.1
Class C:	0.9
Total :	\$ 30.0

The replacement notes are expected to obtain an AA rating while the replacement subordinate notes are likely to be unrated.

The valuation technique used by the Company to estimate the fair value of its investment in ABCP at May 3, 2008 incorporates probability weighted discounted cash flows considering the best available public information regarding market conditions, prevailing yields, credit spreads and other factors that a market participant would consider for such investments. The assumptions used in determining the estimated fair value reflect the details included in the Information Statement issued by the Committee and the risks associated with the long-term floating rate notes.

Interest rates and credit losses vary by each of the different replacement long-term floating rate notes to be issued as each has different credit ratings and risks. Interest rates and credit losses also vary by the different probable cash flow scenarios that have been modeled.

Discount rates vary dependent upon the credit rating of the replacement long-term floating rate notes. Discount rates have been estimated using Government of Canada benchmark rates plus expected spreads for similarly rated instruments with similar maturities and structure. An increase in the estimated discount rates of 1 percent would reduce the estimated fair value of the Company's investment in ABCP by approximately \$5.0 million.

Maturities vary by different replacement long-term floating rate notes as a result of the expected maturity of the underlying assets.

These investments were initially and continue to be classified as held-to-maturity instruments by the Company and were carried at an amortized cost. Due to the lack of liquidity and a yield on these instruments, a pre-tax impairment loss of \$7.5 million or 25 percent of the original cost was recorded during fiscal 2008. It is possible that the amount ultimately recovered may differ from the estimate. The Company continues to investigate the implications of the default and the remedies available. In addition, these investments have been reclassified as long-term under other assets rather than current assets due to the uncertainty as to the timing of collection.

Continuing uncertainties regarding the value of assets which underlie the ABCP, the amount and timing of cash flows and the outcome of the restructuring process could give rise to a further material change in the value of the Company's investment in ABCP which could impact the Company's near term earnings.

The Company believes it has sufficient credit facilities to satisfy its financial obligations as they come due and does not expect there will be a material adverse impact on its business as a result of this current third-party ABCP liquidity issue.

Guarantees and Commitments

The following illustrates the Company's significant contractual obligations over the next five fiscal years and thereafter.

Gross obligations excluding lease income

(\$ in millions)	2009	2010	2011	2012	2013	Thereafter	Total
Long-term debt	\$ 47.2	\$ 20.4	\$ 536.3	\$ 18.0	\$ 265.7	\$ 530.9	\$ 1,418.5
Capital leases	13.2	12.0	11.1	8.0	4.9	7.3	56.5
Operating leases	300.9	281.8	263.9	247.5	234.5	1,862.8	3,191.4
Total contractual obligations	\$ 361.3	\$ 314.2	\$ 811.3	\$ 273.5	\$ 505.1	\$ 2,401.0	\$ 4,666.4

Operating leases, net of expected lease income received by the Company

(\$ in millions)	2009	2010	2011	2012	2013	Thereafter	Total
	\$ 219.1	\$ 204.4	\$ 191.3	\$ 179.6	\$ 172.6	\$ 1,483.2	\$ 2,450.2

Franchise Affiliates

Sobeys has guaranteed certain bank loans contracted by franchise affiliates. As at May 3, 2008, these loans amounted to \$1.3 million (May 5, 2007 – \$2.9 million).

During the second quarter of fiscal 2008, Sobeys entered into an additional guarantee contract. Under the terms of the guarantee, should a franchise affiliate be unable to fulfill their lease obligation, Sobeys would be required to fund the greater of \$5.0 million or 9.9 percent of the unfulfilled obligation balance. As at May 3, 2008 the amount of the guarantee was \$5.0 million.

Sobeys also has guaranteed certain equipment leases of its franchise affiliates. Under the terms of the guarantee should a franchise affiliate be unable to fulfill its lease obligation, Sobeys would be required to fund the difference of the lease commitments up to a maximum of \$70.0 million reduced from \$100.0 million during the second quarter of fiscal 2008 on a cumulative basis. Sobeys approves each of the contracts.

The aggregate, annual, minimum rent payable under the guaranteed operating equipment leases for fiscal 2009 is approximately \$18.1 million. The guaranteed lease commitments over the next five fiscal years are:

(\$ in millions)	Guaranteed Lease Commitments
2009	\$ 18.1
2010	\$ 13.6
2011	\$ 12.5
2012	\$ 10.1
2013	\$ 7.7
Thereafter	\$ 1.8

Other

At May 3, 2008, the Company was contingently liable for letters of credit issued in the aggregate amount of \$60.3 million (May 5, 2007 – \$48.5 million).

Upon entering into the lease of its new Mississauga distribution centre in March 2000, Sobeys guaranteed to the landlord the performance by Serca Foodservice Inc. of all of its obligations under the lease. The remaining term of the lease is 12 years with an aggregate obligation of \$37.5 million (May 5, 2007 – \$40.4 million). At the time of the sale of assets of Serca Foodservice Inc. to SYSCO Corp., the lease of the Mississauga distribution centre was assigned to and assumed by a subsidiary of the purchaser and SYSCO Corp. agreed to indemnify and hold Sobeys harmless from any liability it may incur pursuant to its guarantee.

Designation For Eligible Dividends

The new dividend regime for the favourable tax treatment of "eligible dividends" has been brought into effect by Bill C-28 which came into effect on February 21, 2007. Passage of this bill has important implications for corporations paying eligible dividends. To be eligible dividends, dividends paid on or after February 21, 2007, must be designated as such as the time of payment.

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

Contingencies

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

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

The Company and a subsidiary have been reassessed in respect to the tax treatment of gains realized on the sale of shares in Hannaford Bros. Co. ("Hannaford") in fiscal 2001. In the event that the tax authorities are successful in respect of the Hannaford transaction, which the Company believes is unlikely, the maximum potential exposure in excess of provisions taken is approximately \$22.8 million. The Company has appealed

the reassessments in respect of the sale of Hannaford shares. The Company expects that it will be substantially successful on its appeals of each of these reassessments. The Company also believes that the ultimate resolution of these matters will not, in any event, have a material impact on earnings because it has made adequate provisions for each of these matters. Should the ultimate outcome materially differ from the provisions established, the effective tax rate and earnings of the Company could be materially affected, negatively or positively, in the period in which the matters are resolved.

During the fourth quarter, the Company settled other outstanding disputes with CRA. Payments of \$28.4 million were covered by existing provisions resulting in no impact on net earnings.

The Company entered into an agreement with Crombie REIT to fund certain property redevelopments and originally issued and recorded a note payable to Crombie REIT in the amount of \$39.6 million related thereto. The Company has agreed to pay for all additional costs and expenses required for the redevelopment of those properties. In the event that the redevelopment costs are less than \$39.6 million, the savings will be paid to the Company.

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

Risk Management

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

Empire has adopted an annual enterprise risk management assessment which is overseen by the Company's senior management and reported to the Board and Committees of

the Board. The enterprise risk management framework sets out principles and tools for identifying, evaluating, prioritizing and managing risk effectively and consistently across Empire.

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

Competition

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

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

Empire's real estate operations, through ECL, compete with numerous other developers, managers, and owners of real estate properties in seeking tenants and new properties for future development. The existence of competing developers, managers and owners could affect our real estate group's ability to: (i) acquire a prospective property in compliance with our investment criteria; (ii) lease space in its properties and (iii) maximize rents charged and minimize concessions granted. Commercial property revenue is also dependent on the renewal of lease arrangements by key tenants. These factors could adversely affect revenues and cash flows.

Continued growth of rental income is dependant on renewing expiring leases and finding new tenants to fill vacancies at market rental rates, thereby ensuring an attractive return on our investment. The success of the real estate portfolio is also subject to general economic conditions, the supply and demand for rental property in key markets served, and the availability of attractive financing to expand the real estate portfolio where deemed prudent. During fiscal 2008, our real estate operations encountered generally positive economic conditions with relatively stable occupancy levels and healthy rental renewal rates. During fiscal 2008, capitalization rates remained relatively low which impacted the number of potential properties that generate an attractive return on investment.

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

Financial

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

In the ordinary course of managing its debt, the Company utilizes financial instruments from time to time to manage the volatility of borrowing costs. Financial instruments are not used for speculative purposes.

Interest Rate Risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. The majority of the Company's long-term debt is at fixed interest rates or hedged with interest rate swaps. Bank indebtedness and approximately 30 percent of the Company's long-term debt is exposed to interest rate risk due to floating rates.

Insurance

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

Human Resources

Empire is exposed to the risk of labour disruption in its operating companies. Labour disruptions pose a moderate operational risk, as Sobeys operates an integrated network of more than 22 distribution centres across the country for the food retailing division. Sobeys has good relations with its employees and unions and does not anticipate any material labour disruptions in fiscal 2009. However, Sobeys has stated that it will accept the short-term costs of a labour disruption to support a steadfast commitment to building and sustaining a competitive cost structure for the long-term.

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

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

Business Continuity

The Company is subject to unexpected events and natural hazards which could cause sudden or complete cessation of its day to day operations.

One such unexpected and natural hazard is the risk of a pandemic. Sobeys is working with industry and government sources to develop a pandemic preparedness plan.

Responsibility for business continuity planning has been designated to the Human Resources Committee of Empire's Board of Directors.

Environmental, Health and Safety

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

Any environmental site remediation is completed using appropriate, qualified internal and external resources and health and safety issues are proactively dealt with. The Board of Directors receives regular reports which review outstanding matters, identify new legislation and outline new programs being implemented across the Company to positively impact the environment and employee health and safety. Existing environmental protection regulatory requirements are not expected to have a material financial or operational effect on the capital expenditures, earnings or competitive position of the Company during the current fiscal year or in future years.

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

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

Food Safety

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

A large majority of Sobeys' sales are generated from food products and Sobeys could be vulnerable in the event of a significant outbreak of food-borne illness or increased public health concerns in connection with certain food products. Such an event could materially affect financial performance. Procedures are in place to manage food crises, should they

occur. These procedures identify risks, provide clear communication to employees and consumers and ensure that potentially harmful products are removed from inventory immediately. Food safety related liability exposures are insured by the Company's insurance program. In addition, Sobeys has food safety procedures and programs, which address safe food handling and preparation standards. Sobeys employs best practices for the storage and distribution of its food products.

Technology

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

Real Estate

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

Legal, Taxation and Accounting

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

Similarly, income tax regulations and/or accounting pronouncements may be changed in ways which could negatively affect the Company. The Company mitigates the risk of not being in compliance with the various laws, rules and regulations by monitoring for newly adopted activities, improving technology systems and controls, improving internal controls to detect and prevent errors and overall, application of more scrutiny to ensure compliance.

Operations

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

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

Supply Chain

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

Seasonality

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

Product Costs

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

Utility and Fuel Prices

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

Foreign Operations

Empire does not directly carry out foreign operations; however, Sobeys does have certain foreign operations. Sobeys' foreign operations are limited to a small number of produce brokerage offices based in the United States. These foreign operations are relatively small and are not considered material to Empire on a consolidated basis; as such, the Company does not have any material risks associated with foreign operations.

Foreign Currency

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

Ethical Business Conduct

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

Information Management

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

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

Capital Allocation

The risk associated with capital allocation is high for a holding company, especially due to the amount of capital invested in the operating companies. It is important to ensure the capital allocation decisions result in appropriate return on capital. The Company has a number of strong mitigation strategies in place regarding the allocation of capital, including the board review of capital allocation decisions. The Company has established prudent hurdle rates for capital investments that are evaluated through a strong due diligence process.

Access to Capital

Access to capital risk refers to Empire being unable to obtain required capital at reasonable terms, given the prevailing market conditions. There are several factors that impact the level of inherent risk: the state of the capital markets; the level of capital

required; the credit rating assigned by the rating agencies and the availability of credit from the banks. Empire mitigates these risks by maintaining strong relationships with its banks and access to the capital markets.

Outlook

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

Management is clearly focused on directing its energy and capital towards growing the long-term sustainable value of its food retailing, real estate and related businesses. In doing so we remain committed to: a) supporting Sobeys in its goal to be the widely recognized as the best food retailer in Canada; b) the profitable growth of our real estate business as it develops new properties to be vended, preferably, to Crombie REIT; and c) capitalizing on opportunities afforded as a result of the existing strong relationships between our food retailing and our real estate businesses.

Finally, we intend to further reduce our consolidated funded debt over the coming year through the prudent management of our working capital and capital outflows in each operating company.

Food Retailing Division

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

The challenge as we move throughout fiscal 2009 will be to respond effectively to a potential cost of goods inflationary environment while competition remains intense. We must manage any increased costs in a way that will continue to provide fair value to the consumer while at the same time not disrupting our earnings position or interrupting our growth potential. Our keen focus on costs and productivity affords us a competitive advantage in this environment and, while we have made progress in line with our expectations, further sales per square foot across our system is achievable and we expect continued improvement in fiscal 2009.

Sobeys plans to focus on its workforce management and in-store programs in fiscal 2009 in order to further improve store productivity. These key customer driven initiatives will assist Sobeys retail store network in delivering the best food shopping experience, building on the strong foundation that has been already been put in place.

We will stay the course to earn broader acknowledgement as the very best food retailing business in Canada.

Real Estate Division

Empire's real estate management group will continue its policy of maximizing and prudently reinvesting its cash flow to further strengthen its property portfolio.

With respect to residential real estate, we remain committed to our investment in Genstar and are very supportive of its management and strategy. We do caution that residential selling activity may well experience a slow down in our fiscal 2009, particularly given the recent credit market turbulence and its impact on the housing market generally.

With regard to the commercial property development, management looks forward to continuing its strong relationship with Sobeys and to pursuing attractive opportunities to jointly develop locations with Sobeys. Our goal is to accelerate growth in the property pipeline available for sale each year to Crombie REIT which holds the right of first refusal on the sale of any Empire property. Our teams will work closely with Sobeys, including newly-acquired Thrifty Foods, to develop properties that expand the growth potential for both food retailing and Crombie REIT.

In fact, the distinguishing advantage inherent in Empire's real estate business today is the combination of strengths brought to the business by Sobeys with its substantial in-house expertise in selecting commercial locations, Crombie REIT with its decades of management expertise, and the development expertise within our real estate division.

As a result of our combined real estate knowledge and expertise, we are confident in our ability to steer our investment capital to locations with the greatest opportunity for economic profit and in doing so will adhere to a set of disciplined investment criteria.

In summary, management is confident that the strength of our relationships with Sobeys and Crombie REIT, combined with our strict investment discipline, will prove to be a sustainable competitive advantage and positively correlate to the enhancement of Empire's shareholder value.

Non-GAAP Financial Measures

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

- ▶ Operating income or EBIT is calculated as operating earnings before minority interest, interest expense and income taxes.
- ▶ EBITDA is calculated as EBIT plus depreciation and amortization.
- ▶ Operating earnings is calculated as net earnings before capital gains and other items, net of tax.
- ▶ Funds from operations are calculated as operating earnings plus depreciation and amortization.
- ▶ Interest coverage is calculated as operating income divided by interest expense.
- ▶ Funded debt is all interest bearing debt, which includes bank loans, bankers' acceptances, long-term debt and liabilities relating to assets held for sale.
- ▶ Total capital is calculated as funded debt plus shareholders' equity.
- ▶ Same-store sales are sales from stores in the same locations in both reporting periods.

The following table reconciles Empire's funded debt and total capital to GAAP measures reported on the balance sheets as at May 3, 2008, May 5, 2007 and May 6, 2006, respectively:

(\$ in millions)	May 3, 2008	May 5, 2007	May 6, 2006
Bank indebtedness	\$ 92.1	\$ 30.1	\$ 98.6
Long-term debt due within one year	60.4	82.5	95.4
Liabilities relating to assets held for sale	6.4	6.8	7.1
Long-term debt	1,414.6	792.6	707.3
Funded debt	1,573.5	912.0	908.4
Total shareholders' equity	2,382.3	2,131.1	1,965.2
Total capital	\$ 3,955.8	\$ 3,043.1	\$ 2,873.6

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

Dated: June 26, 2008
Stellarton, Nova Scotia, Canada

MANAGEMENT'S STATEMENT OF 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 consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect management's best estimates and judgements. All other financial information in the report is consistent with that contained in the consolidated financial statements.

Management of the Company has established and maintains a system of internal control that provides reasonable assurance as to the integrity of the consolidated financial statements, the safeguarding of Company assets, and the prevention and detection of fraudulent financial reporting.

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 composed solely of directors who are unrelated to, and independent of, the Company, meet 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 consolidated financial statements to be issued to shareholders. The external auditors have full and free access to the Audit Committee.



Paul D. Sobey
President and
Chief Executive Officer
June 26, 2008



Paul V. Beesley
Executive Vice President and
Chief Financial Officer
June 26, 2008

AUDITORS' REPORT

To the shareholders of Empire Company Limited

We have audited the consolidated balance sheets of Empire Company Limited as at May 3, 2008 and May 5, 2007, and the consolidated statements of earnings, comprehensive income, retained earnings, accumulated other comprehensive loss and cash flows for the 52 week fiscal years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 3, 2008 and May 5, 2007, and the results of its operations and its cash flows for the fiscal years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
New Glasgow, Canada
June 16, 2008

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets

(in millions)	May 3, 2008	May 5, 2007 Restated (Note 1)
Assets		
Current		
Cash and cash equivalents	\$ 191.4	\$ 294.9
Receivables	316.3	312.3
Mortgages, loans and other receivables (Note 6)	18.7	14.5
Income taxes receivable	-	3.6
Inventories	820.2	757.5
Prepaid expenses	62.0	51.4
	1,408.6	1,434.2
Investments (realizable value \$1.6; 2007 - \$283.1)	1.6	189.7
Investments, at equity (realizable value \$429.6; 2007 - \$434.0) (Note 5)	41.4	142.8
Mortgages, loans and other receivables (Note 6)	56.3	65.1
Other assets (Note 7)	175.5	151.7
Property and equipment (Note 8)	2,457.3	2,409.1
Assets held for sale (Note 9)	60.3	24.1
Intangibles (less accumulated amortization of \$21.3; 2007 \$11.7) (Note 10)	346.8	38.2
Goodwill	1,159.1	786.6
	\$ 5,706.9	\$ 5,241.5
Liabilities		
Current		
Bank indebtedness (Note 11)	\$ 92.1	\$ 30.1
Accounts payable and accrued liabilities	1,322.4	1,260.3
Income taxes payable	15.5	-
Future income taxes (Note 17)	32.9	40.4
Long-term debt due within one year (Note 12)	60.4	82.5
Liabilities relating to assets held for sale (Note 9)	6.4	6.8
	1,529.7	1,420.1
Long-term debt (Note 12)	1,414.6	792.6
Employee future benefits obligation (Note 24)	110.7	102.1
Future income taxes (Note 17)	125.5	130.4
Other long-term liabilities (Note 13)	106.5	76.6
Minority interest	37.6	588.6
	3,324.6	3,110.4
Shareholders' Equity		
Capital stock (Note 14)	195.7	196.1
Contributed surplus	0.5	0.3
Retained earnings	2,207.6	1,935.3
Accumulated other comprehensive loss	(21.5)	(0.6)
	2,382.3	2,131.1
	\$ 5,706.9	\$ 5,241.5

Commitments and contingent liabilities (Note 22)

Approved on behalf of the Board


Director


Director

See accompanying notes to the consolidated financial statements

Consolidated Statements of Retained Earnings

52 Weeks Ended (in millions)	May 3, 2008	May 5, 2007 Restated (Note 1)
Balance, beginning of year as previously reported	\$ 1,939.6	\$ 1,771.0
Adjustment due to change in accounting policy (Note 1)	(4.3)	–
Balance, beginning of year as restated	1,935.3	1,771.0
Net earnings	315.8	205.8
Dividends		
Preferred shares	(0.3)	(0.4)
Common shares	(43.2)	(39.5)
Premium on common shares purchased for cancellation (Note 14)	–	(1.6)
Balance, end of year	\$ 2,207.6	\$ 1,935.3

See accompanying notes to the consolidated financial statements

Consolidated Statements of Accumulated Other Comprehensive Loss

52 Weeks Ended (in millions)	May 3, 2008	May 5, 2007
Balance, beginning of year	\$ (0.6)	\$ (1.1)
Transition adjustment as of May 6, 2007 (Note 1)	77.2	–
Adjusted balance, beginning of year	76.6	(1.1)
Acquired comprehensive loss from purchase of minority interest in Sobeys Inc.	(0.6)	–
Other comprehensive (loss) income for the year	(97.5)	0.5
Balance, end of year	\$ (21.5)	\$ (0.6)

See accompanying notes to the consolidated financial statements

Consolidated Statements of Earnings

52 Weeks Ended (in millions except per share amounts)	May 3, 2008	May 5, 2007 Restated (Note 1)
Revenue	\$ 14,065.0	\$ 13,366.7
Operating expenses		
Cost of sales, selling and administrative expenses	13,322.3	12,707.9
Depreciation and amortization	304.6	269.2
	438.1	389.6
Investment income (Note 15)	34.5	41.5
Operating income	472.6	431.1
Interest expense		
Long-term debt	100.6	54.1
Short-term debt	5.2	6.0
	105.8	60.1
	366.8	371.0
Capital gains and other items (Note 16)	87.7	7.1
Earnings before income taxes and minority interest	454.5	378.1
Income taxes (Note 17)		
Current	120.8	104.8
Future	5.1	12.1
	125.9	116.9
Earnings before minority interest	328.6	261.2
Minority interest	12.8	55.4
Net earnings	\$ 315.8	\$ 205.8
Earnings per share (Note 4)		
Basic	\$ 4.80	\$ 3.14
Diluted	\$ 4.80	\$ 3.13
Weighted average number of common shares outstanding, in millions		
Basic	65.6	65.6
Diluted	65.7	65.7

See accompanying notes to the consolidated financial statements

Consolidated Statements of Comprehensive Income

52 Weeks Ended (in millions)	May 3, 2008	May 5, 2007 Restated (Note 1)
Net earnings	\$ 315.8	\$ 205.8
Other comprehensive income, net of income taxes		
Reclassification of gains on available-for-sale financial assets to earnings	(78.7)	-
Unrealized losses on derivatives designated as cash flow hedges	(14.0)	-
Reclassification of loss on derivative instruments designated as cash flow hedges to earnings	(0.6)	-
Share of comprehensive loss of entities accounted using the equity method	(4.6)	-
Foreign currency translation adjustment	0.4	0.5
	(97.5)	0.5
Comprehensive income	\$ 218.3	\$ 206.3

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

52 Weeks Ended (in millions)	May 3, 2008	May 5, 2007 Restated (Note 1)
Operating Activities		
Net earnings	\$ 315.8	\$ 205.8
Items not affecting cash (Note 18)	354.1	382.6
Preferred dividends	(0.3)	(0.4)
	669.6	588.0
Net change in non-cash working capital	(26.1)	(149.2)
Cash flows from operating activities	643.5	438.8
Investing Activities		
Net decrease in investments	138.3	185.4
Purchase of shares in subsidiary, Sobeys Inc. (Note 2)	(1,065.7)	(48.6)
Proceeds from sale of property to Crombie REIT (Note 3)	373.5	-
Purchase of property and equipment	(549.4)	(508.9)
Proceeds on disposal of property and equipment	52.2	68.9
Mortgages, loans and other receivables	4.6	5.1
Increase in other assets	(57.8)	(30.8)
Business acquisitions, net of cash acquired of \$10.2 (Note 25)	(263.2)	(95.9)
Cash flows used in investing activities	(1,367.5)	(424.8)
Financing Activities		
Increase (decrease) in bank indebtedness	62.0	(68.5)
(Decrease) increase in construction loans	(1.1)	1.2
Issue of long-term debt	1,099.8	159.6
Repayment of long-term debt	(507.5)	(103.0)
Minority interest	11.1	(8.3)
Repurchase of preferred shares	(1.0)	(0.8)
Issue of Non-Voting Class A shares	0.4	1.0
Repurchase of Non-Voting Class A shares	-	(1.9)
Common dividends	(43.2)	(39.5)
Cash flows from (used in) financing activities	620.5	(60.2)
Decrease in cash and cash equivalents	(103.5)	(46.2)
Cash and cash equivalents, beginning of year	294.9	341.1
Cash and cash equivalents, end of year	\$ 191.4	\$ 294.9

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

MAY 3, 2008 (In millions except share capital)

Note 1 Summary of Significant Accounting Policies

Basis of consolidation

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

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

Changes in accounting policies

Adopted during fiscal 2008

Accounting changes

In July 2006, the Canadian Institute of Chartered Accountants ("CICA") issued section 1506 of the CICA Handbook, "Accounting Changes", which describes the criteria for changing accounting policies, along with the accounting and disclosure for changes in accounting policies, changes in accounting estimates and correction of errors. These changes came into effect for fiscal periods beginning on or after January 1, 2007 and were applicable as of the Company's first quarter of fiscal 2008.

Financial instruments

On May 6, 2007, the Company implemented the CICA Handbook Sections 3855, "Financial Instruments – Recognition and Measurement", 3865, "Hedges", 1530, "Comprehensive Income", 3251, "Equity", and 3861, "Financial Instruments – Disclosure and Presentation". These standards have been applied without restatement of prior periods. The transitional adjustments

resulting from these standards were recognized in the opening balances of retained earnings and accumulated other comprehensive income.

Financial instruments, recognition and measurement

Section 3855 requires the Company to initially recognize all of its financial assets and liabilities, including derivatives and embedded derivatives in certain contracts, at fair value adjusted on transition as appropriate, and measured subsequently in accordance with the classification chosen. Non-financial derivatives must be recorded at fair value on the consolidated balance sheet unless they are exempt from derivative treatment based upon expected purchase, sale or usage requirements.

This standard also requires the Company to classify financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purpose of ongoing measurements. Classification choices for financial assets include: a) held for trading – measured at fair value with changes in fair value recorded in net earnings; b) held to maturity – recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is derecognized or impaired; c) available-for-sale measured at fair value with changes in fair value recognized in other comprehensive income for the current period until realized through disposal or impairment; and d) loans and receivables – recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is no longer recognized or impaired. Classification choices for financial liabilities include: a) held for trading – measured at fair value with changes in fair value recorded in net earnings and b) other – measured at amortized cost with gains and losses recognized in net earnings in the period that the liability is no longer recognized. Subsequent measurement for these assets and liabilities are based on either fair value or amortized cost using the effective interest method, depending upon their classification. Any financial asset or liability can be classified as held for trading as long as its fair value is reliably determinable.

In accordance with the new standard, the Company's financial assets and liabilities are generally classified and measured as follows:

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

Other balance sheet accounts, including, but not limited to, inventories, prepaid expenses, investments (at equity), property and equipment, assets held for sale, intangibles, goodwill, current and long-term future income taxes, employee future benefits obligation and minority interest are not within the scope of the new accounting standards as they are not financial instruments.

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

Embedded derivatives are required to be separated and measured at fair values if certain criteria are met. Under an election permitted by the new standard, management reviewed contracts entered into or modified subsequent to May 3, 2003 and determined that the Company does not currently have any significant embedded derivatives in its contracts that require separate accounting treatment.

Section 3855 also requires that obligations undertaken through issuance of a guarantee that meets the definition of a guarantee pursuant to Accounting Guideline 14, "Disclosure of Guarantees", be recognized at fair value at inception. No subsequent re-measurement at fair value is required unless the financial guarantee qualifies as a derivative. Management reviewed and determined that identified guarantees were immaterial.

The fair value of a financial instrument is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. To estimate the fair value of each type of financial instrument various market value data and other valuation techniques were used as appropriate. The fair value of cash approximated its carrying value. The fair value of currency swaps was estimated based on discounting of the forward rate at the reporting date compared to the forward rate in the contract. The fair value of interest rate swaps was estimated by discounting net cash flows of the swaps using forward interest rates for swaps of the same remaining maturities. The fair value of energy contracts was estimated based on changes in forward commodity rates.

Hedges

Section 3865, "Hedges", replaces Accounting Guideline 13, "Hedging Relationships". The requirements for identification, designation, documentation and assessment of effectiveness of hedging relationships remain substantially unchanged. Section 3865 addresses the accounting treatment of qualifying hedging relationships and the necessary disclosures and also requires all derivatives in hedging relationships to be recorded at fair value.

The Company has cash flow hedges which are used to manage exposure to fluctuations in foreign currency exchange rates, variable interest rates and energy prices. For cash flow hedges, the effective portion of the change in fair value of the hedging item is recorded in other comprehensive income. To the extent the change in fair value of the derivative is not completely offset by the change in fair value of the hedged item, the

ineffective portion of the hedging relationship is recorded immediately in net earnings. Amounts accumulated in other comprehensive income are reclassified to net earnings when the hedged item is recognized in net earnings. When a hedging instrument in a cash flow hedge expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in accumulated other comprehensive income relating to the hedge is carried forward until the hedged item is recognized in net earnings. When the hedged item ceases to exist as a result of its expiry or sale, or if an anticipated transaction is no longer expected to occur, the cumulative gain or loss in accumulated other comprehensive income is immediately reclassified to net earnings.

Significant derivatives include the following:

- (1) Foreign currency forward contracts for the primary purpose of limiting exposure to exchange rate fluctuations relating to expenditures denominated in foreign currencies. These contracts are designated as hedging instruments for accounting purposes. Accordingly, the effective portion of the change in the fair value of the forward contracts are accumulated in other comprehensive income until the variability in cash flows being hedged is recognized in earnings in future accounting periods.
- (2) Electricity contracts to manage the cost of electricity designated as cash flow hedges of anticipated transactions. The portion of gain or loss on derivative instruments designated as cash flow hedges that are deferred in accumulated other comprehensive income is reclassified into other income/expense when the product containing the hedged item impacts earnings. Hedge ineffectiveness was immaterial for the current fiscal year.
- (3) Interest rate swaps designated as cash flow hedges to manage variable interest rates associated with some of the Company's debt portfolio. Hedge accounting treatment results in interest expense on the related debt being reflected at hedged rates rather than variable interest rates.

Comprehensive income

In accordance with Section 1530, "Comprehensive Income", the Company has reported a new financial statement entitled "Consolidated Statements of Comprehensive Income", which is comprised of net earnings and other comprehensive income. Other comprehensive income represents the change in shareholders' equity from transactions and other events from non-owner sources and includes unrealized gains and losses on financial assets that are classified as available-for-sale, and changes in the fair value of the effective portion of cash flow hedging instruments. The accumulated other comprehensive income (i.e. the portion of comprehensive income not already included in net earnings) is being presented as a separate line in shareholders' equity. In accordance with the new standard, \$0.6 relating to unrealized losses resulting from the translation of self-sustaining foreign operations which had previously been classified as cumulative translation adjustment within shareholders' equity is now presented within accumulated other comprehensive income.

Equity

Section 3251, "Equity", which replaced Section 3250, "Surplus", establishes standards for the presentation of equity and changes in equity during the reporting period and requires the Company to present separately equity components and changes in equity arising from: i) net earnings; ii) other comprehensive income; iii) other changes in retained earnings; iv) changes in contributed surplus; v) changes in share capital; and vi) changes in reserves.

Financial instruments – disclosure and presentation

Section 3861, "Financial Instruments – Disclosure and Presentation", which replaces 3860, of the same title, establishes standards for the presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them.

The following table summarizes the transition adjustments recorded upon implementation:

	Transition Adjustments	
Consolidated Balance Sheet		
Investments	\$	94.4
Other assets		(4.5)
Other liabilities		2.5
Long-term debt		2.7
Future income taxes		(18.5)
Minority interest		0.6
Accumulated other comprehensive income		(77.2)

Deferred charges

The Company adopted CICA Section 3855 effective as of the first quarter of fiscal 2008. Concurrent with the issuance of this section, Section 3070, "Deferred Charges", was withdrawn. As a result, the Company reviewed its deferred costs classifications included with other assets and determined the following changes were necessary:

- ▶ **Deferred store marketing** – Deferred store marketing costs, primarily comprised of store renovation and expansion costs, were reclassified and included with equipment, fixtures and vehicles as part of the Company's property and equipment balance sheet group. Prior year balances were reclassified which resulted in an increase in property and equipment and a decrease in other assets of \$106.2 at May 5, 2007 as well as an increase in depreciation expense and decrease in cost of sales, selling and administrative expenses of \$25.3 for the year ended May 5, 2007. There is no impact on net earnings or earnings per share as a result of this change.
- ▶ **Deferred repositioning costs** – Effective for the first quarter of fiscal 2008, the Company changed its accounting policy for the treatment of certain deferred costs associated with major repositioning or branding efforts of the Company. Due to the withdrawal of the primary source of GAAP, Section 3070, "Deferred Charges", the Company looked to

other sources of existing and proposed GAAP for guidance in determining its future policy for such costs. Based on this review, the Company determined, in setting the new policy, that it would be more appropriate to expense these types of costs in the period incurred as it provides more relevant information on expenditures associated with repositioning and branding efforts.

This change in accounting policy was applied retrospectively resulting in a \$9.1 decrease in other assets, a \$3.2 decrease in long-term future tax liabilities, and a \$4.3 decrease in earnings (net of minority interest of \$1.6) at May 5, 2007. The effect for the year ended May 5, 2007 is a \$9.1 increase in cost of sales, selling and administrative expenses, a \$3.2 decrease in income taxes and a \$0.06 decrease in basic and diluted earnings per share. The effect for the year ended May 3, 2008 was a \$3.6 decrease in cost of sales, selling and administrative expenses, a \$1.2 increase in income taxes and an increase in basic and diluted earnings of \$0.04 per share.

Adopted during fiscal 2007

Vendor consideration

During the first quarter of fiscal 2007, the Company implemented, on a retroactive basis, Emerging Issues Committee Abstract 156 ("EIC-156"), "Accounting by a Vendor for Consideration Given to a Customer (including a Reseller of the Vendor's Products)". This abstract requires a vendor to generally record cash consideration given to a customer as a reduction to the selling price of the vendor's products or services and reflect it as a reduction of revenue when recognized in the statement of earnings.

Prior to the implementation of EIC-156, the Company recorded certain sales incentives paid to independent franchisees, associates and independent accounts in cost of sales, selling and administrative expenses on the statement of earnings. Accordingly, the implementation of EIC-156 on a retroactive basis resulted in a reduction in both sales and cost of sales, selling and administrative expenses. As reclassifications, these changes did not impact net earnings or earnings per share.

Future changes in accounting policies

Inventories

In June 2007, the CICA issued Section 3031, "Inventories", which has replaced existing Section 3030 with the same title. The new Section establishes that inventories should be measured at the lower of cost and net realizable value, with guidance on the determination of cost. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008 and is applicable for the Company's first quarter of fiscal 2009. The Company has evaluated the impact of this new standard and does not expect the adoption of this standard to have a significant impact on its financial statement disclosures and statement of earnings.

Capital disclosures

In October 2006, the CICA issued Section 1535, "Capital Disclosures". This section establishes standards for disclosing information about an entity's capital and how it is managed. The standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007 and is applicable for the Company's first quarter of fiscal 2009. The Company does not expect that the adoption of this standard will have a significant impact on its financial statement disclosures.

Financial instruments – disclosure and financial instruments – presentation

Section 3862, "Financial Instruments – Disclosure" and Section 3863, "Financial Instruments – Presentation", replace Section 3861, "Financial Instruments – Disclosure and Presentation". Section 3862 requires increased disclosures regarding the risks associated with financial instruments such as credit risk, liquidity risk and market risks and the techniques used to identify, monitor and manage these risks. Section 3863 carries forward standards for presentation of financial instruments and non-financial derivatives and provides additional guidance for the classification of financial instruments between liabilities and equity. These standards are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007 and are applicable for the Company's first quarter of fiscal 2009. The Company does not expect the adoption of these standards to have a significant impact on its financial disclosures and results of operations.

Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which replaced existing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development". The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008 and is applicable for the Company's first quarter of fiscal 2010. The Company is currently evaluating the impact of this new standard.

International financial reporting standards

In January 2006, the Canadian Accounting Standards Board announced its decision requiring all publicly accountable entities to report under International Financial Reporting Standards. This decision establishes standards for financial reporting with increased clarity and consistency in the global marketplace. These standards are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 and are applicable for the Company's first quarter of fiscal 2012. The Company is currently evaluating the impact of these new standards.

Cash and cash equivalents

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

Inventories

Warehouse inventories are valued at the lower of cost and net realizable value with cost being determined on a first-in, first-out or a moving average cost basis. Retail inventories are valued at the lower of cost and net realizable value. Cost is determined using moving average cost or the retail method. The retail method uses the anticipated selling price less normal profit margins, substantially on an average cost basis. Real estate inventory of residential properties is carried at the lower of cost and net realizable value.

Property and equipment

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

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

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

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

Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of property and equipment may not be recoverable. The assets are impaired when the carrying value exceeds the sum of the undiscounted future cash flows expected from use and eventual disposal. If property and equipment is determined to be impaired, the impairment loss is measured at the excess of the carrying value over fair value.

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

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

Capitalization of costs

(a) Construction projects

Certain subsidiary companies and joint ventures capitalize interest during the construction period until the project opening date. The amount of interest capitalized to construction in progress in the current year was \$1.5 (2007 – \$1.5).

(b) Commercial 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. No amounts were capitalized in fiscal 2007 or 2008.

(c) Development properties and land held for future development

A subsidiary company capitalizes interest, real estate taxes and other expenses to the extent that they relate to properties for immediate development. To the extent that the resulting carrying value exceeds its fair market value, the excess is charged against income. The carrying costs on the balance of properties held for future development are capitalized as incurred. An amount of \$0.8 (2007 – \$0.7) was capitalized during the year.

Leases

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

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

Goodwill

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

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

Intangibles

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

Franchise rights/agreements	10 – 20 years
Brand names	10 – 15 years
Patient files	10 years
Other	5 – 23 years

Assets held for sale

Certain land and buildings have been listed for sale and reclassified as "Assets held for sale" in accordance with CICA Handbook Section 3475, "Disposal of Long-lived Assets and Discontinued Operations". These assets are expected to be sold within a twelve month period. Assets held for sale are valued at the lower of book value and fair value less cost of disposal. Liabilities assumed upon sale of assets or debts to be repaid as part of a sale transaction are also classified as "Liabilities relating to assets held for sale".

Store opening expenses

Opening expenses of new stores and store conversions are written off on a straight-line basis during the first year of operation.

Future income taxes

The difference between the tax basis of assets and liabilities and their carrying value on the balance sheet is used to calculate future tax assets and liabilities. The future tax assets and liabilities have been measured using substantively enacted tax rates that will be in effect when the differences are expected to reverse.

Deferred revenue

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

Foreign currency translation

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

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

Revenue recognition

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

Pension benefit plans and other benefit plans

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

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

The impact of plan amendments and increases in the obligation related to past service is amortized on a straight-line basis over the expected average remaining service life ("EARSL") of active members, except for the Company's Supplemental Executive Retirement Plan for which the impact is amortized over no more than 5 years. The actuarial gains and losses and the impact of changes in the actuarial basis in excess of 10 percent of the greater of the projected benefit obligation and the market value of assets are amortized on a straight-line basis over the EARSL of the active members.

Vendor allowances

The Company receives allowances from certain vendors, whose products are purchased for resale. Included in these vendor programs are allowances for volume purchases, exclusivity allowances, listing fees and other allowances. The Company recognizes these allowances as a reduction of cost of sales, selling and administrative expenses and related inventories in accordance with EIC-144 "Accounting by a Customer (including a Reseller) for Certain Consideration Received from a Vendor". Certain allowances from vendors are contingent on the Company achieving minimum purchase levels. These allowances are recognized when it is probable that the minimum purchase level will be met and the amount of allowance can be estimated. As of the year ended May 3, 2008, the Company has recognized \$5.1 (2007—\$2.4) of allowances in income where it is probable that the minimum purchase level will be met and the amount of allowance can be estimated.

Use of estimates

The preparation of consolidated financial statements, in conformity with Canadian GAAP, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Certain of these estimates require subjective or complex judgements by management that may be uncertain. Some of these items include the valuation of inventories, goodwill, employee future benefits, valuation of asset-backed commercial paper and income taxes. Changes to these estimates could materially impact the financial statements. These estimates are based on management's knowledge of current events and actions that the Company may undertake in the future. Actual results could differ from these estimates.

Earnings per share

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

Note 2 Privatization of Sobeys Inc.

On April 26, 2007, the Company and Sobeys jointly announced that they had entered into an arrangement agreement (the "Arrangement") pursuant to which the Company would acquire all of the outstanding common shares of Sobeys that it did not then own at a price of \$58.00 per share.

The Arrangement required various approvals to comply with applicable corporate and securities laws. The Sobeys shareholders approved the Arrangement at a special shareholders' meeting held on June 9, 2007 by the requisite majority; the Supreme Court of Nova Scotia gave its sanction to the Arrangement on June 13, 2007; the Arrangement became effective upon registration of the final Court order with the Nova Scotia Registry of Joint Stock Companies at the close of business on June 15, 2007, at which time the Company acquired all the outstanding shares of Sobeys that it did not previously own. Subsequently, the Sobeys common shares ceased trading on the Toronto Stock Exchange, and were delisted at the close of business on June 18, 2007.

The acquisition was accounted for using the purchase method with operating results being included in the consolidated financial statements since the acquisition date. Management carried out a detailed analysis and changes were made to the preliminary allocation of the excess consideration paid over net assets acquired as disclosed in previous quarters of fiscal 2008. The measurement and allocation of tangible assets, finite and infinite intangible assets, and goodwill was completed during the fourth quarter of fiscal 2008.

The final purchase price allocation, incorporating management's assessment of fair value, is as follows:

Consideration	
Cash	\$ 1,061.7
Acquisition costs	4.0
Total consideration paid	1,065.7
Carrying amount of net assets acquired	576.5
Excess consideration paid over net assets acquired	\$ 489.2
Allocation of excess consideration paid over net assets acquired	
Property and equipment	\$ 81.7
Accrued benefit asset	(13.1)
Employee future benefits obligation	(3.8)
Amortizable intangible assets	49.9
Indefinite-life intangible assets	243.7
Goodwill	165.2
Future income taxes	(35.0)
Accumulated other comprehensive loss	0.6
	\$ 489.2

The acquisition was financed by funds of \$278.0, received primarily from sale of certain portfolio investments, and by advances of \$787.7 under new credit facilities (see Note 12).

Note 3 Sale of Property to Crombie REIT

On April 22, 2008, the Company's real estate segment sold 61 commercial properties to Crombie Real Estate Investment Trust ("Crombie REIT"). Included in the proceeds were additional Class B Units of Crombie REIT (which are convertible on a one for one basis into Units of Crombie REIT). The investment in Class B Units will maintain the Company's interest in Crombie

REIT at 47.8%. The Company's investment in Crombie REIT is accounted using the equity method. Under Canadian GAAP, the gain on sale was not included in net earnings; rather the gain (net of income taxes) reduced the carrying value of the Company's equity investment in Crombie REIT. Details of the sale are as follows:

Proceeds		
Cash	\$	373.5
Investment in Crombie REIT		55.0
		428.5
Book value of property and equipment sold		238.9
Early extinguishment of long-term debt		18.5
Transaction costs		6.5
Other costs		12.5
		276.4
Gain before income taxes and deferral		152.1
Income taxes		
Current		27.0
Future		(19.2)
		7.8
Gain before deferral		144.3
Deferral of gain		(144.3)
Net gain	\$	Nil

As part of the transaction, Sobeys entered into new lease agreements (the "Sobeys Leases") with respect to their occupancy in a portion of the 61 commercial properties. The Sobeys Leases have terms of between 17 and 23 years (except for 3 leases which have an outside date of 12 years) (the "Outside Date"). Each Sobeys Lease is based on an initial term of two years and thereafter alternating between successive

periods of three years and two years until the applicable Outside Date. The Outside Date may be extended at Sobeys' option by up to four consecutive further periods of five years each. The minimum rents under the Sobeys Leases will range from \$8 per square foot to \$14 per square foot with rental increases every five years.

Note 4 Earnings Per Share

Earnings applicable to common shares is comprised of the following:

	2008	2007 Restated (Note 1)
Operating earnings	\$ 242.8	\$ 200.1
Capital gains and other items, net of income taxes of \$14.7 (2007 – \$1.4)	73.0	5.7
Net earnings	315.8	205.8
Preferred share dividends	(0.3)	(0.4)
Earnings applicable to common shares	\$ 315.5	\$ 205.4

Earnings per share is comprised of the following:

	2008	2007 Restated (Note 1)
Operating earnings	\$ 3.69	\$ 3.05
Capital gains and other items	1.11	0.09
Basic earnings per share	\$ 4.80	\$ 3.14
Operating earnings	\$ 3.69	\$ 3.04
Capital gains and other items	1.11	0.09
Diluted earnings per share	\$ 4.80	\$ 3.13

Note 5 Investments, at Equity

	May 3, 2008	May 5, 2007
Wajax Income Fund (27.6% interest)	\$ 31.6	\$ 32.2
Crombie REIT (47.8% interest)	9.5	109.3
U.S. residential real estate partnerships	0.3	1.3
	\$ 41.4	\$ 142.8

The Company's carrying value of its investment in Wajax Income Fund is as follows:

	May 3, 2008	May 5, 2007
Balance, beginning of year	\$ 32.2	\$ 33.1
Equity earnings	19.7	20.6
Share of comprehensive loss	(0.2)	-
Distributions received	(20.1)	(21.5)
Balance, end of year	\$ 31.6	\$ 32.2

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

	May 3, 2008	May 5, 2007
Balance, beginning of year	\$ 109.3	\$ 112.8
Equity earnings	13.6	11.6
Share of comprehensive loss	(6.8)	-
Distributions received	(17.0)	(15.1)
Interest received in Crombie REIT	55.0	-
Deferral of gains on sale of property	(144.6)	-
Balance, end of year	\$ 9.5	\$ 109.3

Note 6 Mortgages, Loans and Other Receivables

	May 3, 2008	May 5, 2007
Loans receivable	\$ 58.1	\$ 62.7
Mortgages receivable	0.6	0.6
Other	16.3	16.3
	75.0	79.6
Less amount due within one year	18.7	14.5
	\$ 56.3	\$ 65.1

Loans receivable

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

Note 7 Other Assets

	May 3, 2008	May 5, 2007
Deferred financing costs	\$ 0.6	\$ 7.0
Deferred purchase agreements	35.9	31.1
Accrued benefit asset (Note 24)	58.2	68.4
Asset-backed commercial paper	22.5	-
Restricted cash	3.9	5.7
Derivative assets	2.3	-
Other	52.1	39.5
	\$ 175.5	\$ 151.7

Asset-backed commercial paper

As of May 3, 2008, the Company held third-party asset-backed commercial paper ("ABCP") with an original cost of \$30.0 that was in default. The ABCP was rated by the Dominion Bond Rating Service ("DBRS") as R-1 (high), the highest credit rating for commercial paper since the ABCP are backed by AAA (high) rated assets. The \$30.0 of ABCP held by the Company is entirely made up of collateralized debt obligations. Collateralized debt obligations are a type of asset-backed security that is created by a portfolio of fixed-income assets which may include pools of bonds, credit card debt, commercial mortgage-backed securities and other loans.

In the second quarter of fiscal 2008, a global disruption in the market for such commercial paper resulted in a constraint on the liquidity of ABCP. DBRS placed certain of the ABCP "Under Review with Developing Implications" following an announcement on August 16, 2007 that a consortium representing banks, asset providers and major investors had agreed in principle to a long-term proposal and interim

agreement regarding the ABCP (commonly referred to as "the Montreal Proposal"). On September 6, 2007 a pan-Canadian committee ("the Committee") consisting of major investors was formed to oversee the proposed restructuring process of the ABCP. As of May 3, 2008, all of the ABCP held by the Company were part of the Montreal Proposal. Under this proposal, the affected ABCP would be converted into term floating rate notes maturing no earlier than the scheduled termination dates of the underlying assets. The Montreal Proposal called for the investors to continue to roll their ABCP during the standstill period.

On December 23, 2007, a formal restructuring proposal was established to address the global disruption experienced with third-party ABCP. On April 25, 2008, note holders voted in favour of the restructuring proposal, which will provide investors with new long-term notes that will more closely match the maturity dates of the underlying assets and the cash flows they are expected to generate and was approved on June 5, 2008 by the Ontario Superior Court of Justice.

On March 20, 2008, the Committee issued an Information Statement containing details about the proposed restructuring. Based on this and other public information it is estimated that the \$30.0 of ABCP in which the Company has invested in is represented by a combination of leveraged collateralized debt, synthetic assets and traditional securitized assets and the Company will, on restructuring, receive replacement senior Class A-1 and Class A-2 and subordinate Class B and Class C long-term floating rate notes with maturities of approximately eight years and nine months.

The Company expects to receive replacement notes with par values as follows:

Class A-1	\$	8.2
Class A-2		17.8
Class B		3.1
Class C		0.9
	\$	30.0

The replacement notes are expected to obtain an AA rating while the replacement subordinate notes are likely to be unrated.

The valuation technique used by the Company to estimate the fair value of its investment in ABCP at May 3, 2008, incorporates probability weighted discounted cash flows considering the best available public information regarding market conditions, prevailing yields, credit spreads and other factors that a market participant would consider for such investments. The assumptions used in determining the estimated fair value reflect the details included in the Information Statement issued by the Committee and the risks associated with the long-term floating rate notes.

Interest rates and credit losses vary by each of the different replacement long-term floating rate notes to be issued as each has different credit ratings and risks. Interest rates and credit losses also vary by the different probable cash flow scenarios that have been modeled.

Discount rates vary dependent upon the credit rating of the replacement long-term floating rate notes. Discount rates have been estimated using Government of Canada benchmark rates plus expected spreads for similarly rated instruments with similar maturities and structure. An increase in the estimated discount rates of 1 percent would reduce the estimated fair value of the Company's investment in ABCP by approximately \$5.0.

Maturities vary by different replacement long-term floating rate notes as a result of the expected maturity of the underlying assets.

These investments were initially and continue to be classified as held-to-maturity instruments by the Company and are carried at amortized cost. Due to the lack of liquidity and a yield on these instruments, a pre-tax impairment loss of \$7.5 (25 percent of the original cost) was recorded during fiscal 2008. It is possible that the amount ultimately recovered may differ from the estimate. The Company continues to investigate the implications of the default and the remedies available. In addition, these investments have been reclassified as long-term other assets rather than current assets due to the uncertainty as to the timing of collection.

Continuing uncertainties regarding the value of assets which underlie the ABCP, the amount and timing of cash flows and the outcome of the restructuring process could give rise to a further material change in the value of the Company's investment in ABCP which could impact the Company's near term earnings.

The Company believes it has sufficient credit facilities to satisfy its financial obligations as they come due and does not expect there will be a material adverse impact on its business as a result of this current third party ABCP liquidity issue.

Cash flow hedges

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

Note 8 Property and Equipment

	Cost	Accumulated Depreciation	May 3, 2008 Net Book Value
Food retailing segment			
Land	\$ 261.6	\$ -	\$ 261.6
Land held for development	61.7	-	61.7
Buildings	839.0	206.6	632.4
Equipment, fixtures and vehicles	2,281.4	1,449.8	831.6
Leasehold improvements	448.2	253.4	194.8
Construction in progress	164.4	-	164.4
Assets under capital leases	99.3	42.7	56.6
	4,155.6	1,952.5	2,203.1
Real estate and other segments			
Land	6.9	-	6.9
Land held for development	63.4	-	63.4
Buildings	63.9	30.2	33.7
Equipment	76.9	37.3	39.6
Leasehold improvements	56.3	15.5	40.8
Construction in progress	10.0	-	10.0
Petroleum and natural gas costs	82.1	22.3	59.8
	359.5	105.3	254.2
Total	\$ 4,515.1	\$ 2,057.8	\$ 2,457.3

	Cost	Accumulated Depreciation	May 5, 2007 Net Book Value Restated (Note 1)
Food retailing segment			
Land	\$ 188.7	\$ -	\$ 188.7
Land held for development	93.1	-	93.1
Buildings	673.2	161.7	511.5
Equipment, fixtures and vehicles	2,012.3	1,256.7	755.6
Leasehold improvements	397.9	243.9	154.0
Construction in progress	109.3	-	109.3
Assets under capital leases	83.1	34.5	48.6
	3,557.6	1,696.8	1,860.8
Real estate and other segments			
Land	78.8	-	78.8
Land held for development	26.8	-	26.8
Buildings	377.3	102.2	275.1
Equipment	72.7	32.6	40.1
Leasehold improvements	52.4	12.1	40.3
Construction in progress	21.8	-	21.8
Petroleum and natural gas costs	78.7	13.3	65.4
	708.5	160.2	548.3
Total	\$ 4,266.1	\$ 1,857.0	\$ 2,409.1

Note 9 Assets Held for Sale

Included in assets held for sale are commercial properties from the various segments with a net carrying value of \$60.3 (2007 – \$24.1). Included in liabilities related to these assets

held for sale is \$6.4 (2007 – \$6.8). These assets are listed for potential sale to outside parties and it is expected that these properties will be disposed of in the next twelve months.

Note 10 Intangible Assets

	May 3, 2008	May 5, 2007
Brand names	\$ 199.1	\$ 0.5
Franchise rights/agreements	36.2	20.4
Patient files	18.8	9.6
Private labels	59.5	–
Other	33.2	7.7
	\$ 346.8	\$ 38.2

Note 11 Bank Indebtedness

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.

On November 15, 2007, Sobeys established and utilized a new unsecured non-revolving credit facility of \$30.0 which matured on May 15, 2008 and subsequently extended to August 15, 2008. The interest rate is floating and may be tied to the bankers' acceptance rate, Canadian prime rate or London InterBank Offered Rate ("LIBOR").

Note 12 Long-term Debt

	May 3, 2008	May 5, 2007
	Total	Total
First mortgage loans, average interest rate 9.8%, due 2008-2026	\$ 72.2	\$ 155.6
Medium Term Notes, interest rate 5.8%, due October 6, 2036	125.0	125.0
Medium Term Notes, interest rate 6.1%, due October 29, 2035	175.0	175.0
Medium Term Notes, interest rate 7.2%, due February 26, 2018	100.0	100.0
Debentures, average interest rate 10.3%, due 2008-2016	75.4	88.8
Notes payable and other debt primarily at interest rates fluctuating with the prime rate	154.2	179.4
Credit facility, floating interest rate tied to bankers' acceptance rates, due June 8, 2010	395.0	–
Credit facility, floating interest rate tied to bankers' acceptance rates, due July 23, 2012	250.0	–
Credit facility, floating interest rate tied to bankers' acceptance rates, due November 8, 2010	75.0	–
Construction loans, interest rates fluctuating with the prime rate	0.5	1.6
Unamortized financing costs	(3.8)	–
Capital lease obligations, net of imputed interest	56.5	49.7
	1,475.0	875.1
Less amount due within one year	60.4	82.5
	\$ 1,414.6	\$ 792.6

Long-term debt is secured by land and buildings, specific charges on certain assets and additional security as described in Note 11. Capital lease obligations are secured by the related capital lease asset.

During the year, in relation to the privatization of Sobeys, the Company entered into new credit facilities (the "Credit Facilities") consisting of a \$950.0 unsecured revolving term credit maturing June 8, 2010 (subject to annual one-year extensions at the request of the Company) and a \$50.0 unsecured non-revolving credit that matured on June 30, 2007. The Credit Facilities are subject to certain financial covenants. Interest on the debt varies based on the designation of the loan (bankers' acceptances ("BA") rate loans, Canadian prime rate loans, U.S. base rate loans or LIBOR loans), fluctuations in the underlying rates, and in the case of the BA rate loans or LIBOR loans, the margin applicable to the financial covenants. On June 18, 2007, the Company entered into two delayed fixed rate interest swaps. The first swap, in an amount of \$200.0, is for a period of three years at a fixed interest rate of 5.00%. The second swap, in an amount of \$200.0, is for a period of five years at a fixed interest rate of 5.05%. Both swaps became effective on July 23, 2007.

On June 27, 2007, pursuant to the terms of the Credit Facilities, the Company and Sobeys filed notice with the lenders requesting the establishment of a new \$300.0 five-year credit in favour of Sobeys at the same interest rate and substantially on the same terms and conditions as the Credit Facilities. At July 23, 2007, Sobeys drew down \$300.0 from its new credit facility, the proceeds of which were used to pay a dividend to the Company. The Company used the proceeds from the dividend to reduce its indebtedness under the Credit Facilities and the Credit Facilities were reduced to \$650.0 accordingly. On that date, the Company also transferred the second swap to Sobeys. In the fourth quarter, the Credit Facilities were further reduced to \$395.0.

On July 30, 2007, Sobeys exercised an option under its new credit facility to increase the size of the credit from \$300.0 to \$600.0. At the same time, Sobeys terminated its previously existing \$300.0 operating credit which would have expired on December 20, 2010. At May 3, 2008, \$275.0 of this new credit facility was drawn down; \$250.0 has been classified as long-term debt and \$25.0 has been classified as bank indebtedness. Sobeys has also issued \$41.7 in letters of credit against the facility at May 3, 2008.

On November 8, 2007, Sobeys established and drew down on a new unsecured revolving credit facility of \$75.0. The maturity date is November 8, 2010. The interest rate is floating and may be tied to the bankers' acceptance rate, Canadian prime rate or LIBOR.

During fiscal 2008, the Company increased its capital lease obligation by \$8.9 (2007 – \$5.6) with a similar increase in assets under capital lease. These additions are non-cash in nature, therefore have been excluded from the statement of cash flow.

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

	Long-Term Debt	Capital Leases
2009	\$ 47.2	\$ 13.2
2010	20.4	12.0
2011	536.3	11.1
2012	18.0	8.0
2013	265.7	4.9
Thereafter	530.9	7.3

Note 13 Other Long-term Liabilities

	May 3, 2008	May 5, 2007
Deferred lease obligation	\$ 53.2	\$ 41.3
Deferred revenue	5.3	6.5
Accrued benefit liability (Note 24)	23.5	25.7
Derivative liabilities	21.7	–
Other	2.8	3.1
	\$ 106.5	\$ 76.6

Note 14 Capital Stock

	No. of Shares	May 3, 2008	May 5, 2007
Authorized			
Preferred shares, par value of \$25 each, issuable in series.			
Series 2 cumulative, redeemable, rate of 75% of prime.	2,772,300		
2002 Preferred Shares, par value of \$25 each, issuable in series.	992,000,000		
Non-Voting Class A shares, without par value.	259,107,435		
Class B common shares, without par value, voting.	40,800,000		
Issued and outstanding			
Preferred shares, Series 2	258,200	\$ 6.5	\$ 7.5
Non-Voting Class A	31,484,498	185.1	184.5
Class B common	34,260,763	7.6	7.7
		199.2	199.7
Employees share purchase plan		(3.5)	(3.6)
		\$ 195.7	\$ 196.1

During the year, the Company purchased for cancellation 41,800 (2007 – 31,900) Series 2 preferred shares for \$1.0 (2007 – \$0.8).

During the year, 10,461 (2007 – 18,373) Non-Voting Class A shares were issued under the Company's share purchase plan to certain officers and employees for \$0.4 (2007 – \$0.8), which was based on the average trading price of the Non-Voting Class A shares on the Toronto Stock Exchange for the five previous trading days.

Under the Long-Term Incentive Plan 99,349 options were issued. Options allow holders to purchase Non-Voting Class A shares at \$43.96 per share. Options expire in December 2015.

Loans receivable from officers and employees of \$3.5 (2007 – \$3.6) 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 111,971 (2007 – 125,265) Non-Voting Class A shares. The market value of the shares at May 3, 2008 was \$4.4 (May 5, 2007 – \$5.3).

During the year, 300,000 Class B common shares were exchanged for 300,000 Non-Voting Class A shares.

During fiscal 2007, under a normal course issuer bid, the Company purchased for cancellation 46,047 Non-Voting Class A shares. The purchase price was \$1.9 of which \$1.6 of the purchase price (representing the premium on common shares purchased for cancellation) was charged to retained earnings.

During fiscal 2007, 27,674 options were exercised for \$0.2. These options allowed holders to purchase Non-Voting Class A shares at \$6.555 per share.

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.

Note 15 Investment Income

	2008	2007
Dividend and interest income	\$ 1.2	\$ 9.7
Share of earnings of entities accounted using the equity method	33.3	31.8
	\$ 34.5	\$ 41.5

Note 16 Capital Gains and Other Items

	2008	2007
Gain on sale of investments	\$ 100.9	\$ 6.2
Other items	0.3	0.9
Change in fair value of Canadian third party asset-backed commercial paper (Note 7)	(7.5)	-
Reduction of book value of real estate assets	(6.0)	-
	\$ 87.7	\$ 7.1

Note 17 Income Taxes

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

	2008	2007 Restated (Note 1)
Income tax expense according to combined statutory rate of 31.9% (2007 – 32.2%)	\$ 116.8	\$ 119.7
Increase (decrease) in income taxes resulting from		
Rate changes effect on timing differences	(5.5)	(2.0)
Non-taxable dividends and equity earnings	(0.1)	(2.2)
	111.2	115.5
Capital gains and other items	14.7	1.4
	\$ 125.9	\$ 116.9

May 3, 2008 income tax expense attributable to net earnings consists of:

	Current	Future	Total
Operations	\$ 102.2	\$ 9.0	\$ 111.2
Capital gains and other items	18.6	(3.9)	14.7
	\$ 120.8	\$ 5.1	\$ 125.9

May 5, 2007 income tax expense attributable to net earnings consists of:

	Current	Future	Total
Operations	\$ 104.9	\$ 10.6	\$ 115.5
Capital gains and other items	(0.1)	1.5	1.4
	\$ 104.8	\$ 12.1	\$ 116.9

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

	May 3, 2008	May 5, 2007
Property and equipment	\$ 125.9	\$ 108.0
Investments	8.1	38.9
Future employee benefits obligation	(30.9)	(34.9)
Restructuring provisions	(8.4)	(11.6)
Pension contributions	12.6	18.6
Deferred costs	3.2	1.0
Deferred credits	48.8	54.8
Goodwill and intangibles	29.8	10.2
Other	(30.7)	(14.2)
	\$ 158.4	\$ 170.8
Future income taxes – current liabilities	\$ 32.9	\$ 40.4
Future income taxes – non-current liabilities	125.5	130.4
	\$ 158.4	\$ 170.8

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

Note 18 Supplementary Cash Flow Information

	2008	2007 Restated (Note 1)
a) Items not affecting cash		
Depreciation and amortization	\$ 304.6	\$ 269.2
Future income taxes	5.1	12.1
Amortization of other assets	5.1	19.1
Provision on asset-backed commercial paper	7.5	–
Minority interest	12.8	44.4
Stock-based compensation	2.5	1.4
Long-term lease obligation	11.9	16.1
Employee future benefits obligation	4.8	4.8
Rationalization costs (Note 27)	(6.2)	15.5
Reduction of book value of real estate assets	6.0	–
	\$ 354.1	\$ 382.6
b) Other cash flow information		
Net interest paid	\$ 103.9	\$ 58.9
Net income taxes paid	\$ 157.5	\$ 168.2

Note 19 Joint Ventures

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

	May 3, 2008	May 5, 2007
Assets	\$ 139.4	\$ 136.3
Liabilities	\$ 67.8	\$ 72.7
Equity and advances	71.6	63.6
	\$ 139.4	\$ 136.3

	2008	2007
Revenues	\$ 88.7	\$ 111.8
Expenses	36.8	41.7
Income before income taxes	\$ 51.9	\$ 70.1
Cash provided (used)		
Operating activities	\$ 74.8	\$ 68.7
Investing activities	(14.6)	(34.2)
Financing activities	(2.3)	3.3
	\$ 57.9	\$ 37.8

Note 20 Segmented Information

	2008	2007
Revenue		
Food retailing	\$ 13,768.1	\$ 13,032.0
Real estate		
Commercial	40.5	38.4
Inter-segment	34.9	34.3
Residential	85.2	146.1
	160.6	218.8
Investment and other operations	171.2	150.2
	14,099.9	13,401.0
Elimination	(34.9)	(34.3)
	\$ 14,065.0	\$ 13,366.7

	2008	2007 Restated (Note 1)
Operating income		
Food retailing	\$ 359.0	\$ 291.0
Real estate		
Commercial	49.3	46.8
Residential	50.7	71.2
Investment and other operations	24.4	31.6
Corporate expenses	(10.8)	(9.5)
	\$ 472.6	\$ 431.1

	May 3, 2008	May 5, 2007 Restated (Note 1)
Identifiable assets		
Food retailing	\$ 4,026.7	\$ 3,422.4
Goodwill	1,119.0	746.5
	5,145.7	4,168.9
Real estate	282.0	609.4
Investment and other operations (including goodwill of \$40.1; 2007 – \$40.1)	279.2	463.2
	\$ 5,706.9	\$ 5,241.5

	2008	2007 Restated (Note 1)
Depreciation and amortization		
Food retailing	\$ 276.2	\$ 240.6
Real estate	5.4	6.8
Investment and other operations	23.0	21.8
	\$ 304.6	\$ 269.2

	2008	2007 Restated (Note 1)
Capital expenditures		
Food retailing	\$ 481.2	\$ 446.7
Real estate	47.3	16.0
Investment and other operations	20.9	46.2
	\$ 549.4	\$ 508.9

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

Note 21 Financial Instruments

Credit risk

There is no significant concentration of credit risk. The credit risk exposure is considered normal for the business.

Fair value of financial instruments

The book value of cash and cash equivalents, receivables, loans and mortgages, bank indebtedness, and accounts payable and accrued liabilities approximate fair values at May 3, 2008. The fair value of all investments is \$431.2 (May 5, 2007 – \$717.1).

The total fair value of long-term debt is estimated to be \$1,409.1 (May 5, 2007 – \$907.5). 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 current rate offered for debt of similar maturities and credit quality.

Derivative financial instruments

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

The following table summarizes the fair value of financial assets and financial liabilities classified as held-for-trading, including non-financial derivatives, recognized in net earnings for the year ended May 3, 2008, before income taxes and minority interest.

	Designated as Held-for-Trading	Required to be Classified as Held-for-Trading
Cash and cash equivalents	\$ 191.4	\$ –
Interest rate swaps	–	(20.0)
Foreign currency forwards	–	2.3
Commodity swaps	–	(1.7)

During the year, only the interest rate swaps resulted in an earnings impact. A loss in value of \$0.9 was recorded in interest expense.

Interest rate risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. The majority of the Company's long-term debt is at fixed interest rates or hedged with interest rate swaps. Bank indebtedness and approximately 30 percent of the Company's long-term debt is exposed to interest rate risk due to floating rates.

Foreign exchange risk

Bank indebtedness includes \$4.0 Canadian that is denominated in U.S. dollars and it acts as a partial hedge to the foreign exchange fluctuations inherent in the residual value of certain equipment. The Company uses forward contracts to fix the exchange rate on some of its expected requirements for Euros and U.S. dollars. Amounts received or paid related to instruments used to hedge foreign exchange, including any gains and losses, are recognized in the cost of purchases.

Note 22 Commitments and Contingent Liabilities

Guarantees and commitments

At May 3, 2008 the Company was contingently liable for letters of credit issued in the aggregate amount of \$60.3 (May 5, 2007 – \$45.8).

Sobeys has guaranteed certain bank loans contracted by franchise affiliates. As at May 3, 2008 these loans amounted to approximately \$1.3 (May 5, 2007 – \$2.9).

During the second quarter of fiscal 2008 Sobeys entered into an additional guarantee contract. Under the terms of the guarantee, should a franchise affiliate be unable to fulfill their

lease obligation, Sobeys would be required to fund the greater of \$5.0 or 9.9 percent of the unfulfilled obligation balance. As at May 3, 2008 the amount of the guarantee was \$5.0.

Sobeys has guaranteed certain equipment leases of its franchise affiliates. Under the terms of the guarantee should a franchise affiliate be unable to fulfill their lease obligation, Sobeys would be required to fund the difference of the lease commitments up to a maximum of \$70.0, reduced from \$100.0 during the second quarter of fiscal 2008, on a cumulative basis. Sobeys approves each of the contracts.

The aggregate, annual, minimum rent payable under the guaranteed operating equipment leases for fiscal 2009 is approximately \$18.1. The guaranteed lease commitments over the next five fiscal years are:

Guaranteed Lease Commitments	
2009	\$ 18.1
2010	\$ 13.6
2011	\$ 12.5
2012	\$ 10.1
2013	\$ 7.7
Thereafter	\$ 1.8

The net aggregate, annual, minimum rent payable under operating leases for fiscal 2009 is approximately \$219.1 (\$300.9 gross less expected sub-lease income of \$81.8). The commitments over the next five fiscal years are:

	Net Lease Obligation	Gross Lease Obligation
2009	\$ 219.1	\$ 300.9
2010	\$ 204.4	\$ 281.8
2011	\$ 191.3	\$ 263.9
2012	\$ 179.6	\$ 247.5
2013	\$ 172.6	\$ 234.5
Thereafter	\$ 1,483.2	\$ 1,862.8

Upon entering into the lease of its Mississauga distribution centre in March 2000, Sobeys guaranteed to the landlord the performance, by Serca Foodservice, of all its obligations under the lease. The remaining term of the lease is 12 years with an aggregate obligation of \$37.5 (2007 – \$40.4). At the time of the sale of assets of Serca Foodservice to SYSCO Corp., the lease of the Mississauga distribution centre was assigned to and assumed by the purchaser, and SYSCO Corp. agreed to indemnify and hold Sobeys harmless from any liability it may incur pursuant to its guarantee.

Contingencies

On June 21, 2005, Sobeys received a notice of reassessment from Canada Revenue Agency ("CRA") for fiscal years 1999 and 2000 related to the Goods and Services Tax ("GST"). CRA asserts that Sobeys was obliged to collect GST on sales of tobacco products to status Indians. The total tax, interest and penalties in the reassessment was \$13.6. Sobeys has reviewed this matter, has received legal advice, and believes it was not required to collect GST. During the second quarter

of fiscal 2006, Sobeys filed a Notice of Objection with CRA. Accordingly Sobeys has not recorded in its statement of earnings any of the tax, interest or penalties in the notice of reassessment. Sobeys has deposited with CRA funds to cover the total tax, interest and penalties in the reassessment and has recorded this amount as a long-term receivable from CRA pending resolution of the matter.

The Company and a subsidiary have been reassessed in respect to the tax treatment of gains realized on the sale of shares in Hannaford Bros. Co. ("Hannaford") in fiscal 2001. In the event that the tax authorities are successful in respect of the Hannaford transaction, which the Company believes is unlikely, the maximum potential exposure in excess of provisions taken is approximately \$22.8. The Company has appealed the reassessments in respect of the sale of Hannaford shares. The Company expects that it will be substantially successful on its appeals of each of these reassessments. The Company also believes that the ultimate resolution of these matters will not, in any event, have a material impact on earnings because it has made adequate provisions for each of these matters. Should the ultimate outcome materially differ from the provisions established, the effective tax rate and earnings of the Company could be materially affected, negatively or positively, in the period in which the matters are resolved.

During the fourth quarter, the Company settled other outstanding disputes with CRA. Payments of \$28.4 were covered by existing provisions resulting in no impact on net earnings.

The Company entered into an agreement with Crombie REIT to fund certain property redevelopments and originally issued and recorded a note payable to Crombie REIT in the amount of \$39.6 related thereto. The Company has agreed to pay for all additional costs and expenses required for the redevelopment of those properties. In the event that the redevelopment costs are less than \$39.6, the savings will be paid to the Company.

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

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

Note 23 Related Party Transactions

The Company rents premises from Crombie REIT. In addition, Crombie REIT provides administrative and management services to the Company. The rental payments are at fair value and the charges incurred for administrative and management services are on a cost recovery basis. The Company has non-interest bearing notes payable to Crombie REIT in the amount of \$19.6.

On October 2, 2006, the Company sold two commercial properties to Crombie REIT for cash proceeds of \$32.4, which was fair market value. Since the sale was to an equity accounted investment, no gain was recorded on the sale.

Note 24 Employee Future Benefits

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

Defined contribution pension plans

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

Defined benefit pension plans

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

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

	Most Recent Valuation Date	Next Required Valuation Date
Retirement Pension Plan	May 1, 2007	May 1, 2010
Senior Management Pension Plan	May 1, 2007	May 1, 2010
Other Benefit Plans	April 30, 2006	April 30, 2009

Defined contribution plans

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

2008	\$	18.6
2007	\$	14.5

Defined benefit plans

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

	Pension Benefit Plans 2008	Pension Benefit Plans 2007	Other Benefit Plans 2008	Other Benefit Plans 2007
Accrued benefit obligation				
Balance, beginning of year	\$ 288.7	\$ 269.3	\$ 116.6	\$ 114.1
Current service cost, net of employee contributions	2.2	2.3	2.7	2.5
Interest cost	13.9	14.9	6.1	5.9
Employee contributions	0.3	0.3	–	–
Benefits paid	(20.5)	(18.6)	(3.5)	(3.8)
Past service costs	0.1	–	–	–
Actuarial (gains) losses	(15.6)	20.5	(5.5)	(2.1)
Balance, end of year	\$ 269.1	\$ 288.7	\$ 116.4	\$ 116.6
Plan assets				
Market value, beginning of year	\$ 283.3	\$ 267.2	\$ –	\$ –
Actual return on plan assets	(13.0)	27.9	–	–
Employer contributions	2.5	6.5	3.4	3.8
Employee contributions	0.3	0.3	–	–
Benefits paid	(20.5)	(18.6)	(3.4)	(3.8)
Surplus payments to members	(0.1)	–	–	–
Market value, end of year	\$ 252.5	\$ 283.3	\$ –	\$ –
Funded status				
Deficit	\$ (16.5)	\$ (5.4)	\$ (116.4)	\$ (116.6)
Unamortized past service cost	0.4	0.5	0.6	1.0
Unamortized actuarial losses	50.8	47.6	5.1	13.5
Accrued benefit asset (liability)	\$ 34.7	\$ 42.7	\$ (110.7)	\$ (102.1)
Expense				
Current service cost, net of employee contributions	\$ 2.2	\$ 2.3	\$ 2.6	\$ 2.5
Interest cost	13.9	14.9	6.1	5.9
Actual return on plan assets	13.0	(27.9)	–	–
Actuarial (gains) losses	(15.6)	20.4	(5.5)	(2.1)
Past service costs	0.1	–	–	–
Surplus payments to members	0.1	–	–	–
Income before adjustments	13.7	9.7	3.2	6.3
Expected vs actual return on plan assets	(32.2)	9.4	–	–
Recognized vs actual past service costs	0.1	0.2	0.1	0.1
Recognized vs actual actuarial gains (losses)	16.0	(19.3)	5.0	2.2
Net expense (income)	\$ (2.4)	\$ –	\$ 8.3	\$ 8.6
Classification of accrued benefit asset (liability)				
Other assets	\$ 58.2	\$ 68.4	\$ –	\$ –
Other liabilities	(23.5)	(25.7)	(110.7)	(102.1)
Accrued benefit asset (liability)	\$ 34.7	\$ 42.7	\$ (110.7)	\$ (102.1)

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

	Pension Benefit Plans 2008	Pension Benefit Plans 2007	Other Benefit Plans 2008	Other Benefit Plans 2007
Accrued benefit obligation	\$ 21.8	\$ 20.9	\$ 110.7	\$ 102.1

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted-average assumptions as of May 3, 2008):

	Pension Benefit Plans 2008	Pension Benefit Plans 2007	Other Benefit Plans 2008	Other Benefit Plans 2007
Discount rate	5.25%	5.00%	5.25%	5.25%
Expected long-term rate of return on plan assets	7.00%	7.00%		
Rate of compensation increase	4.00%	4.00%		

For measurement purposes, a 9.0 percent fiscal 2008 annual rate of increase in the per capita cost of covered health care benefits was assumed. The cumulative rate expectation to 2016 is 5.0 percent. The expected average remaining service period of the active employees covered by the pension benefit plans ranges from 10 to 11 years with a weighted average of 10 years at year end. The expected average remaining service period of the active employees covered by the other benefit plans range from 11 to 16 years with a weighted average of 14 years at year end.

The table below outlines the sensitivity of the fiscal 2008 key economic assumptions used in measuring the accrued benefit plan obligations and related expenses of the Company's pension and other benefit plans. The sensitivity of each key assumption has been calculated independently. Changes to more than one assumption simultaneously may amplify or reduce impact on the accrued benefit obligations or benefit plan expenses.

	Pension Plans		Other Benefit Plans	
	Benefit Obligations	Benefit Cost ⁽¹⁾	Benefit Obligations	Benefit Cost ⁽¹⁾
Expected long-term rate of return on plan assets		7.00%		
Impact of: 1% increase		\$ (2.4)		
1% decrease		\$ 2.4		
Discount rate ⁽²⁾	5.25%	5.25%	5.25%	5.25%
Impact of: 1% increase	\$ (29.5)	\$ 0.4	\$ (17.1)	\$ (0.7)
1% decrease	\$ 33.1	\$ (0.8)	\$ 20.6	\$ 0.8
Growth rate of health costs ⁽³⁾			9.00%	9.00%
Impact of: 1% increase			\$ 19.1	\$ 1.9
1% decrease			\$ (15.4)	\$ (1.5)

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

(2) 5.5% for the Employee Pension Plan and the Post Retirement Benefit Plan.

(3) Gradually decreasing to 5.0% in 2016 and remaining at that level thereafter.

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

	2008	2007
Cash and short-term investments	2.91%	2.43%
Bonds, debenture, fixed income pooled funds and real estate funds	25.51%	18.20%
Equities and pooled equities fund	70.26%	78.55%
Accrued interest and dividends	0.26%	0.22%
Foreign currency hedges	1.06%	0.60%
Total investments	100.00%	100.00%

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

	2008	% of Plan Assets	2007	% of Plan Assets
	\$ 80.8	9.0%	\$ 92.2	9.3%

Note 25 Business Acquisitions

Sobeys acquires franchisee stores and prescription files. The results of these acquisitions have been included in the consolidated financial results of the Company, and were accounted for through the use of the purchase method. As

illustrated in the table below, the acquisition of certain franchise stores resulted in the acquisition of intangible assets. The method of amortization of limited life intangibles is on a straight-line basis over the estimated useful life of the intangible.

	2008	2007
Franchisees		
Inventory	\$ 6.6	\$ 4.9
Property and equipment	5.1	2.4
Intangibles	5.9	3.3
Goodwill	1.2	0.9
Other assets (liabilities)	(1.5)	0.3
Cash consideration	\$ 17.3	\$ 11.8
Prescription files		
Intangibles	\$ 2.5	\$ 4.9
Cash consideration	\$ 2.5	\$ 4.9

On September 12, 2007, Sobeys acquired all the assets and assumed certain liabilities of Thrifty Foods ("Thrifty") for an amount of \$253.6. The assets acquired include 20 full-service supermarkets, a main distribution centre and a wholesale division on Vancouver Island and the lower mainland of British Columbia. The acquisition was accounted for using the purchase method with the results of Thrifty being consolidated since the

acquisition date. Management carried out a detailed analysis and changes were made to the preliminary allocation of the excess consideration paid over net assets acquired as disclosed in previous quarters of fiscal 2008. The measurement and allocation of finite and infinite intangible assets and goodwill (approximately \$174.0 of which is deductible for tax) was completed during the fourth quarter of fiscal 2008.

The final purchase price allocation, incorporating management's assessment of fair value, is as follows:

Consideration	
Cash	\$ 250.4
Acquisition costs	3.2
Total consideration paid	253.6
Net assets acquired	
Current assets	41.4
Long-term assets	36.9
Current liabilities assumed	(43.6)
Long-term liabilities assumed	(13.1)
Total net assets acquired	21.6
Excess consideration paid over net assets acquired	\$ 232.0
Allocation of excess consideration paid over net assets acquired	
Intangible assets – Banner	\$ 24.0
– Other	1.9
Goodwill	206.1
	\$ 232.0

During the first two quarters of fiscal 2007, the Company increased its ownership interest in Sobeys from 70.3% to 72.1% by way of purchase of shares on the open market. The acquisition was accounted for using the purchase method with operating results being included in the consolidated financial statements from the date of each share acquisition. The cash consideration paid was \$48.6, goodwill increased by \$13.0 and minority interest decreased by \$35.6.

On August 27, 2006, Sobeys acquired substantially all of the food distribution assets of Achille de la Chevrotière Ltée and its associated companies ("ADL") for an amount of \$79.2.

The assets acquired include 25 owned or franchised retail store operations, other wholesale supply agreements and distribution facilities in Rouyn-Noranda, Québec. Sixteen of the franchised retail store operations are considered VIEs under the Company's policy (see Note 28). They have been included in the consolidated results of the Company. The acquisition was accounted for using the purchase method with the results of ADL being consolidated since the acquisition date. The final purchase price allocation, which has incorporated management's assessment of fair value, is as follows:

Consideration	
Cash	\$ 75.8
Acquisition costs	3.4
Total consideration paid	79.2
Net assets acquired	
Current assets	28.0
Long-term assets	27.7
Current liabilities assumed	(20.0)
Long-term liabilities assumed	(4.6)
Total net assets acquired	31.1
Excess consideration paid over net assets acquired	\$ 48.1
Allocation of excess consideration paid over net assets acquired	
Intangible assets – Agreements	\$ 6.3
– Other	0.5
Goodwill	41.3
	\$ 48.1

Note 26 Stock-based Compensation

Deferred share units

Members of the Board of Directors may elect to receive all or any portion of their fees in Deferred Share Units ("DSUs") in lieu of cash. The number of DSUs received is determined by the market value of the Company's Non-Voting Class A shares on each director's fee payment date. Additional DSUs are received as dividend equivalents. DSUs cannot be redeemed for cash until the holder is no longer a director of the Company. The redemption value of a DSU equals the market value of an Empire Company Limited Non-Voting Class A share at the time of the redemption. On an ongoing basis, the Company values the DSU obligation at the current market value of a corresponding number of Non-Voting Class A shares and records any increase in the DSU obligation as an operating expense. At May 3, 2008, there were 64,877 (May 5, 2007 – 66,435) DSUs outstanding. During the year, the stock-based compensation expense was \$0.5 (2007 – \$0.6).

Share purchase loans

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

The compensation cost relating to the Share Purchase Loans was determined to be \$0.1 (2007 – \$0.2) with amortization of the cost over six years. The total increase in contributed surplus in relation to the Share Purchase Loan compensation cost for fiscal 2008 is \$0.1 (2007 – \$0.1). The contributed surplus balance was reduced by \$0.1 in relation to shares issued under the Share Purchase Loan that have been treated as stock-based compensation that became fully vested with the employee during fiscal 2008. Shares become vested when the employees' outstanding loan balance is reduced. The compensation cost was calculated using the Black-Scholes model with the following assumptions:

	2008	2007
Expected life	6 years	7 years
Risk-free interest rate	3.50%	4.40%
Expected volatility	20.1%	19.7%
Dividend yield	1.5%	1.4%

Stock option plan

During fiscal 2008, the Company granted options under the Stock Option plan for employees of the Company whereby options are granted to purchase Non-Voting Class A Shares. Options allow holders to purchase Non-Voting Class A Shares at \$43.96 per share and expire in December 2015. The options vest over four years with 50 percent of the options vesting only if certain financial targets are attained in a given fiscal year. These options have been treated as stock-based compensation.

During fiscal 2008, 99,349 options were granted. The compensation cost relating to the fiscal 2008 was determined to be \$0.2 with amortization of the cost over the vesting period. The total increase in contributed surplus in relation to the Stock Option compensation cost for fiscal 2008 is \$0.2. The compensation cost was calculated using the Black-Scholes model with the same assumptions as detailed above for the share purchase loans.

Phantom performance option plan

In June 2007, the Board of Directors approved a Phantom Performance Option Plan for eligible employees of Sobeys. Under the plan, units are granted at the discretion of the Board based on a notional equity value of Sobeys tied to a specified formula. The units have a three-year vesting period with a third of the units vesting each year. As the notional fair value of Sobeys changes, the employees are entitled to the incremental increase in the notional equity value over a five-year period. The Company recognizes a compensation expense equal to the increase in notional value over the original grant value on a straight-line basis over the vesting period. After the vesting period, any increase in incremental notional equity value is recognized as a compensation expense immediately. This is recorded as a liability until settlement and is re-measured at each interim and annual reporting period of the Company. At the end of fiscal 2008, 518,579 units were outstanding and the Company recognized \$0.1 (May 5, 2007 – \$Nil) of compensation expense associated with this Plan during fiscal 2008.

Note 27 Business Rationalization Costs

During the third quarter of fiscal 2007, Sobeys completed a rationalization of administrative functions and also began to incur rationalization costs associated with the development of a new grocery distribution centre in Vaughan, Ontario. These costs primarily relate to severance and fixed asset and inventory write-offs. In the fourth quarter of fiscal 2007, Sobeys also recorded additional rationalization costs related to the closure of two distribution facilities in Quebec of which \$3.5 was reversed in fiscal 2008 as a result of changes in management's estimates of

the expected costs. During the first quarter of fiscal 2008, Sobeys incurred additional administrative rationalization costs. Subsequent to year-end additional severance costs of approximately \$5.6 have been incurred and will be recognized in the first quarter of fiscal 2009. Additional rationalization costs are anticipated and will be quantified and disclosed throughout fiscal 2009 as they are available. The costs associated with the organizational change are recorded as incurred as cost of sales, selling and administrative expenses in the statement of earnings, before tax, as follows:

	Liability at May 5, 2007	Incurred Fiscal 2008	Paid	Liability at May 3, 2008
Severance	\$ 12.1	\$ (1.8)	\$ 4.4	\$ 5.9
Other costs	-	-	-	-
Asset write-offs	-	-	-	-
	\$ 12.1	\$ (1.8)	\$ 4.4	\$ 5.9

	Incurred Fiscal 2007	Incurred Fiscal 2008	Anticipated	Total Incurred and Anticipated
Severance	\$ 14.3	\$ (1.8)	\$ 5.6	\$ 18.1
Other costs	1.1	-	-	1.1
Asset write-offs	3.4	-	-	3.4
	\$ 18.8	\$ (1.8)	\$ 5.6	\$ 22.6

Note 28 Variable Interest Entities

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

The Company has identified the following entities as VIEs:

Franchise Affiliates

The Company has identified 292 (May 5, 2007 – 271) franchise affiliate stores whose franchise agreements result in the Company being deemed the primary beneficiary of the entity according to AcG-15. The results for these entities were consolidated with the results of the Company.

Note 29 Comparative Figures

Comparative figures have been reclassified, where necessary, to reflect the current year's presentation and to record the effects of retroactive application of certain new accounting standards.

Warehouse and Distribution Agreement

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

ELEVEN YEAR FINANCIAL REVIEW

Years Ended ⁽¹⁾	2008	2007 Restated	2006 Restated	2005
Financial Results (\$ in millions; except ROE)				
Revenue	\$ 14,065.0	\$ 13,366.7	\$ 13,063.6	\$ 12,435.2
Operating income	472.6	431.1	491.4	463.7
Interest expense	105.8	60.1	83.8	86.7
Income taxes	125.9	116.9	153.1	131.2
Minority interest	12.8	55.4	67.1	63.6
Earnings from continuing operations before net capital gains and other items	242.8	200.1	202.0	182.9
Earnings from discontinued operations ⁽²⁾	-	-	-	-
Operating earnings ⁽³⁾	242.8	200.1	202.0	182.9
Capital gains (losses) and other items, net of tax	73.0	5.7	94.8	3.7
Net earnings	315.8	205.8	296.8	186.6
Return on equity	14.0%	10.1%	16.2%	11.4%
Financial Position (\$ in millions)				
Total assets	5,706.9	5,241.5	5,051.5	4,929.2
Long-term debt (excluding current portion)	1,414.6	792.6	707.3	727.4
Shareholders' equity	2,382.3	2,131.1	1,965.2	1,709.0
Per Share Data on a Fully Diluted Basis (\$ per share)				
Operating earnings	3.69	3.04	3.07	2.78
Capital gains (losses) and other items, net of tax	1.11	0.09	1.44	0.05
Net earnings	4.80	3.13	4.51	2.83
Dividends				
Non-Voting Class A shares	0.660	0.600	0.560	0.480
Class B common shares	0.660	0.600	0.560	0.480
Book value	36.14	32.31	29.77	25.87
Share Price, Non-Voting Class A Shares (\$ per share)				
High	55.19	45.25	44.35	38.00
Low	35.40	39.49	33.37	24.25
Close	39.25	42.33	43.29	36.66
Diluted weighted average number of shares outstanding (in millions)				
	65.7	65.7	65.7	65.7

(1) Fiscal years ended April 30th, except fiscal 2005, which ended May 7, 2005, fiscal 2006, which ended May 6, 2006, fiscal 2007, which ended May 5, 2007, and fiscal 2008, which ended May 3, 2008, reflecting a change in fiscal year end to the first Saturday in May, consistent with the fiscal year-end of Sobeys Inc.

(2) Discontinued operations reflect the financial contribution of SERCA Foodservice operations, which was sold at the end of 2002.

(3) Operating earnings equals net earnings before capital gains (losses) and other items, net of tax.

	2004	2003	2002	2001	2000	1999	1998
	\$ 11,284.0	\$ 10,624.2	\$ 9,926.5	\$ 9,331.1	\$ 9,100.1	\$ 5,362.7	\$ 2,912.2
	422.8	444.4	416.2	341.1	309.7	184.4	108.6
	92.4	93.7	111.6	145.8	159.6	112.6	76.8
	111.0	120.0	104.8	131.9	68.1	49.1	17.9
	58.5	67.5	50.0	34.3	32.9	9.2	-
	163.3	159.3	123.5	78.5	78.8	59.0	56.1
	-	-	8.7	10.0	5.9	1.1	8.1
	163.3	159.3	132.2	88.5	84.7	60.1	64.2
	9.2	(6.0)	63.7	491.5	2.1	74.9	23.6
	172.5	153.3	195.9	580.0	86.8	135.0	87.8
	11.6%	11.4%	16.4%	69.1%	13.3%	21.7%	17.9%
	4,679.7	4,519.3	4,318.0	4,254.3	4,171.0	4,023.5	1,907.2
	913.0	923.1	975.0	1,107.2	1,332.0	1,391.8	616.5
	1,567.6	1,418.5	1,290.6	1,115.0	602.8	737.5	558.3
	2.47	2.42	2.00	1.33	1.10	0.78	0.85
	0.14	(0.09)	0.97	7.49	0.03	1.00	0.32
	2.61	2.33	2.97	8.82	1.13	1.78	1.17
	0.400	0.330	0.214	0.170	0.140	0.136	0.121
	0.400	0.330	0.214	0.170	0.140	0.136	0.116
	23.67	21.41	19.47	16.82	8.73	9.03	7.06
	29.50	33.25	33.30	18.25	16.98	16.27	14.25
	23.10	23.70	15.75	13.88	12.33	12.50	7.80
	26.65	23.85	28.88	17.00	16.05	13.00	13.63
	65.8	65.8	65.7	65.6	75.6	75.0	73.9

Adjusted debt

Funded debt plus the capitalized value of operating lease payments, which is calculated as six times net annual operating lease payments

Adjusted debt to capital

Adjusted debt divided by the sum of adjusted debt and shareholders' equity

Book value per share

Shareholders' equity less preferred shares divided by Non-Voting Class A shares and Class B common shares outstanding

Capital expenditure

Payments made for the acquisition of property and equipment

EBITDA

Operating income plus depreciation and amortization

Expanded stores

Stores that undergo construction resulting in a square footage increase during the year

Funded debt

All interest bearing debt, which includes bank loans, bankers' acceptances, long-term debt and liabilities relating to assets held for sale

Funds from operations

Operating earnings plus depreciation and amortization

Hedge

A financial instrument used to manage foreign exchange, interest rate or energy or other commodity risk by making a transaction which offsets the existing position

Interest coverage

Operating income divided by interest expense

Letters of credit

Financial instruments issued by a financial institution to guarantee the Company's payments to a third party

Net debt to total capital

Funded debt less cash and cash equivalents divided by funded debt less cash and cash equivalents plus shareholders' equity

Operating earnings

Net earnings before capital gains (losses) and other items, net of tax

Operating income

Operating earnings before minority interest, interest expense and income taxes

Operating margin

Operating income divided by sales

Private label

A brand of products that is marketed, distributed and owned by the Company

Renovated stores

Stores that undergo construction, resulting in no increase in square footage

Return on equity

Net earnings available for common shares divided by average common shareholders' equity

Same-store sales

Sales from stores in the same location in both reporting periods

Total capital

Funded debt plus shareholders' equity

VIE (Variable Interest Entity)

An entity that does not have sufficient equity at risk to finance its activities without additional subordinated financial support, or where the equity holders lack the overall characteristics of a controlling financial interest

Weighted average number of shares

The number of Non-Voting Class A shares plus Class B common shares outstanding adjusted to take into account the time the shares are outstanding in the reporting period

SHAREHOLDER AND INVESTOR INFORMATION

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Investor Relations And Inquiries

Shareholders, analysts, and investors should direct their financial inquiries or requests to:

Stewart H. Mahoney, CFA
Vice President, Treasury and Investor Relations
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Communication regarding investor records including changes of address or ownership, lost certificates or tax forms, should be directed to the Company's transfer agent and registrar, CIBC Mellon Trust Company.

Affiliated Company Web Addresses

www.sobeys.com
www.empiretheatres.com

Shareholders' Annual General Meeting

September 11, 2008, at 11:00 a.m. (ADT)
Empire Studio 7 Cinemas
610 East River Road
New Glasgow, Nova Scotia

Stock Exchange Listing

The Toronto Stock Exchange

Stock Symbols

Non-Voting Class A shares – EMP.A
Preferred shares: Series 2 – EMP.PR.B

Average Daily Trading Volume (TSX)

57,951

Dividend Record and Payment Dates For Fiscal 2008

Record Date	Payment Date
July 15, 2008	July 31, 2008
October 15, 2008*	October 31, 2008*
January 15, 2009*	January 30, 2009*
April 15, 2009*	April 30, 2009*

* Subject to approval by Board of Directors

Outstanding Shares

As of June 26, 2008

Non-Voting Class A shares	31,484,498
Class B common shares, voting	34,260,763

Transfer Agent

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Bankers

Bank of Montreal
Bank of Nova Scotia
Bank of Tokyo-Mitsubishi
Canadian Imperial Bank of Commerce
National Bank of Canada
Rabobank
Royal Bank of Canada
TD Canada Trust

Solicitors

Stewart McKelvey
Halifax, Nova Scotia

Auditors

Grant Thornton, LLP
New Glasgow, Nova Scotia

Multiple Mailings

If you have more than one account, you may receive a separate mailing for each. If this occurs, please contact CIBC Mellon Trust Company at (800) 387-0825 to eliminate the multiple mailings.

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