



CLEARLY FOCUSED ON
OUR STRENGTHS

EMPIRE COMPANY LIMITED

2009 Annual Report



A LEGACY OF CREATING VALUE

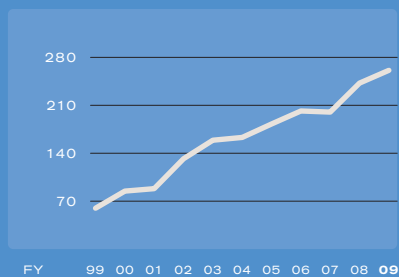
Empire Company Limited's primary goal and focus continues to be the achievement of long-term sustainable value creation through cash flow and income growth and equity appreciation. Through direct ownership and equity participation, Empire strives to continue this legacy by focusing on businesses that we know and understand, namely food retailing, real estate and corporate investments.

2009 Financial Highlights

(\$ in millions, except per share amounts)	52 Weeks Ended May 2, 2009	52 Weeks Ended May 3, 2008	52 Weeks Ended May 5, 2007*
Operations			
Revenue	\$ 15,015.1	\$ 14,065.0	\$ 13,366.7
Operating earnings	262.9	242.8	200.1
Capital gains (losses) and other items, net of tax	3.0	73.0	5.7
Net earnings	265.9	315.8	205.8
Per Share Information			
Operating earnings (fully diluted)	\$ 3.99	\$ 3.69	\$ 3.04
Capital gains (losses) and other items, net of tax	0.05	1.11	0.09
Net earnings (fully diluted)	4.04	4.80	3.13
Book value	39.14	36.14	32.31
Dividends	0.70	0.66	0.60

*Restated

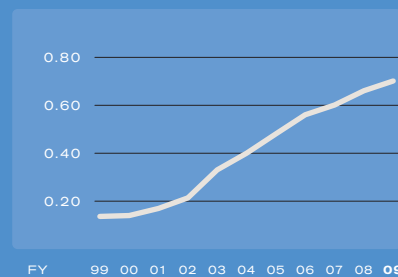
OPERATING EARNINGS \$ IN MILLIONS



10-Year Operating Earnings CAGR

15.9%

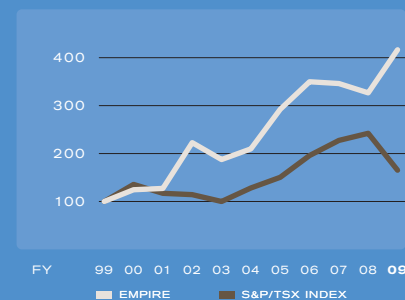
DIVIDENDS \$ PER SHARE



10-Year DPS CAGR

17.8%

VALUE OF INVESTMENT OF \$100 MADE 10 YEARS AGO \$



10-Year Total Return CAGR

15.5%

FOCUSED ON OUR STRENGTHS

With the privatization of Sobeys Inc. in June 2007, the primary focus of Empire's energy and capital solidified in support of our core food retailing and related real estate operations with a corresponding material reduction in our corporate investments segment.

Our increased focus on food retailing (Sobeys Inc.) and related real estate has enhanced Empire's operating earnings. Empire achieved record financial results in fiscal 2009 largely as a result of continued improvement in operational performance by Sobeys. Revenue grew by 6.8 percent to \$15.02 billion while operating earnings increased by 8.3 percent to \$262.9 million or \$3.99 per share.

This improved operational performance, combined with a modest equity issuance completed in April 2009, strengthened our financial position, with the ratio of funded debt to capital falling to 32.7 percent from 39.8 percent at the start of the fiscal year.

Paul D. Sobey
President and CEO
Empire Company Limited



letter to shareholders



A passion for food

Sobeys' determination to "out-food", "out-fresh", "out-service" and "out-market" those who choose to compete with us has resulted in solid same-store sales growth and sales per square foot increases.

Food retailing

Sobeys achieved record operating performance in fiscal 2009 with a sales increase of \$996.7 million or 7.2 percent, same-store sales growth of 5.2 percent and a net earnings increase of \$32.8 million or 16.7 percent. The strong performance of Sobeys is built upon its focus and determination to be widely recognized as the best food retailer in the country.

During the year, Sobeys continued to modernize its retail network, improved operational execution, enhanced productivity and continued to introduce innovative product and service offerings. In fiscal 2009, Sobeys recorded industry leading same-store sales growth and sales per square foot increases, evidence that Sobeys' unwavering focus on food is a winning strategy.

Real estate

Our consolidated real estate performance is not strictly comparable to last year as last year's performance included Sobey Leased Properties' operations, the principal components of which were sold to Crombie REIT in April 2008, with the remainder transferred to Sobeys. Adjusting for this, there are three components to our real estate business: our commercial property development company, ECL Developments; our 47.4 percent interest in Crombie REIT; and our 35.7 percent interest in Genstar Development Partnership, our residential property operation.

During fiscal 2009, ECL Developments continued to expand its property development pipeline and is on plan with a total of 18 grocery-anchored plazas under development (1.7 million square feet of gross leasable area) at fiscal year-end. We view ECL Developments as an integral component of the ongoing growth of our food retailing business. Through ECL Developments, we intend to continue the internal property development of grocery-anchored plazas and free-standing grocery stores by capitalizing on the knowledge and expertise within our food retailing and real estate businesses.

Crombie REIT recorded solid operating performance in fiscal 2009 with operating income contribution to Empire of \$19.8 million, up 45.6 percent. This increase is the result of purchasing 61 properties from subsidiaries of Empire in April 2008, as well as continued same-property net operating income growth.



The NBA live in 3D

Fans experienced the first live 3D theatrical event in Canada when Empire Theatres broadcast the NBA All-Star Saturday Night exclusively at its Empress Walk location in Toronto in February, 2009.

With respect to our residential property operation, Genstar contributed \$23.2 million of net earnings in fiscal 2009 versus \$34.7 million last year. This decline was expected and, given the slow down in the housing market, we expect that its contribution will decline further in fiscal 2010. Genstar has a strong management team and is well capitalized. It is in an excellent position to take advantage of new development opportunities and is well positioned for future growth once the cycle improves.

Investments and other operations

During fiscal 2009, our wholly-owned Empire Theatres business continued to benefit from strong theatre attendance, same theatre revenue growth and enhanced operational improvements. The continued growth in Empire Theatres' revenue and operating income is due to a steady stream of popular movie releases, combined with the dedication and efforts of our people at improving the movie-going experience. The implementation of new technologies such as digital cinema and RealD 3D, along with alternative programming, has enriched the entertainment experience for our customers.

Wajax Income Fund had an excellent start to our fiscal year; however, as the economy weakened the company prudently reduced its monthly distribution. Wajax is a very well managed company with a strong competitive position in its chosen markets. We remain confident that it will prosper as economic conditions improve.

Looking forward

Our focus in fiscal 2010 will remain centred on operational excellence and prudent capital management. Our actions will continue to support the profitable growth of our core food retailing business and we look forward to capitalizing on real estate opportunities that align with building

long-term value creation. Empire's shareholders have been well-served by the Company's focus on its core businesses and approach to building long-term value and we intend to stay the course.

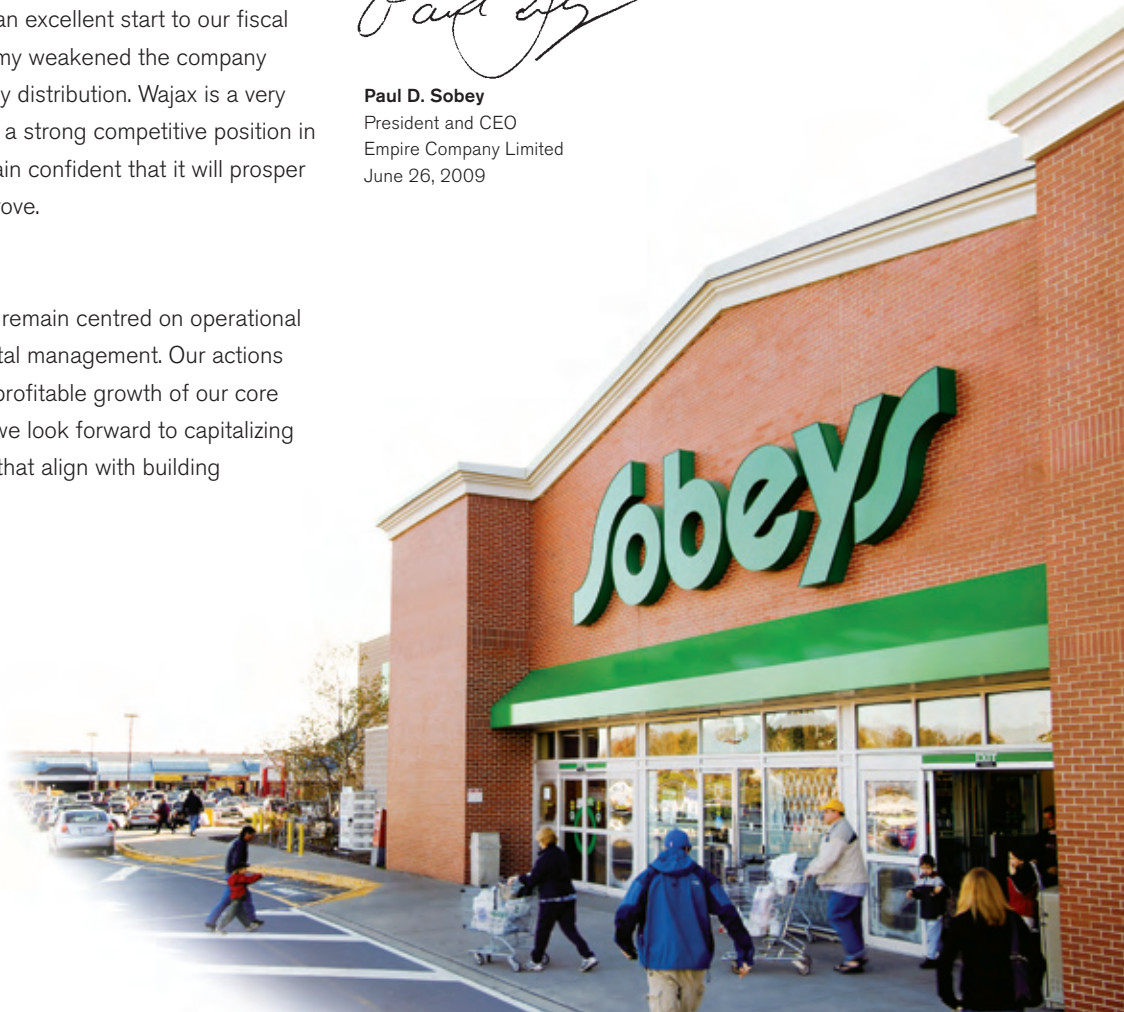
A key to our success

Empire's success and sustainability has been made possible by the skill and dedication of our executive and operating management teams and the contributions of more than 90,000 employees at Empire and its related companies, including its franchisees and affiliates. They have been instrumental in creating successful organizations and that success has in turn created winning environments. On behalf of the Board of Directors and our shareholders, we offer a sincere thanks for their ongoing efforts and dedication.

With the valued guidance of our Board, and the continuing patronage of our customers, and support of our affiliates, suppliers and investors, we are confident that Empire will continue to prosper in the years ahead.



Paul D. Sobey
President and CEO
Empire Company Limited
June 26, 2009





core businesses with an integrated strategy

FOOD RETAILING

Profile

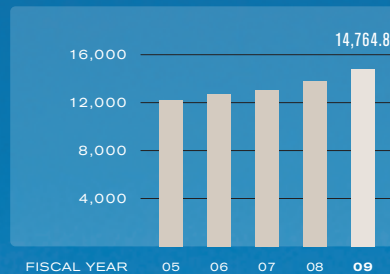
Sobeys Inc. owns or franchises more than 1,300 stores in every province across Canada under retail banners that include Sobeys, IGA, IGA *extra*, Foodland, Price Chopper and Thrifty Foods, as well as Lawtons Drug Stores. Our five core retail food formats are designed to ensure that we have the right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

Competitive strengths

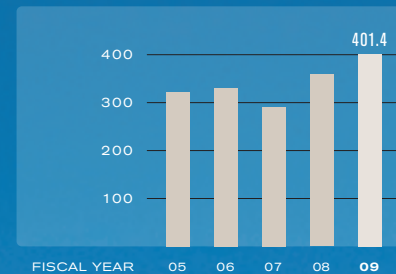
- Our passionate “best in food” focus supported by our fresh food expertise.
- Our customer focus and superior service delivery.
- Our committed and knowledgeable regional and local market management teams, affiliates and store operators.
- Our investment in innovation including our *Compliments* private label brand.
- Our enhanced supply chain, back shop processes, systems and tools that support our employees' ability to serve the needs of our customers.

Key performance indicators

FOOD RETAILING REVENUE
\$ IN MILLIONS



FOOD RETAILING OPERATING INCOME
\$ IN MILLIONS



Strategic priorities

We are determined to be widely recognized as the best food retailer in Canada. Our focus in fiscal 2009 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 of the product and services offered to our customers.



REAL ESTATE

Profile

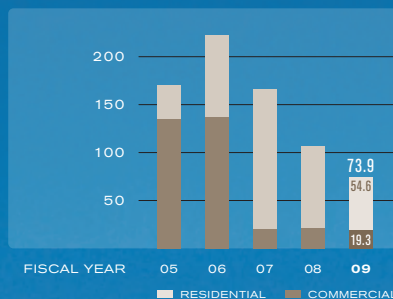
Empire's real estate business includes commercial and residential property operations. Our commercial real estate operations are focused on the development of food-anchored shopping plazas through a 100 percent ownership interest in ECL Developments Limited and ownership of retail and office properties through a 47.4 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.

Competitive strengths

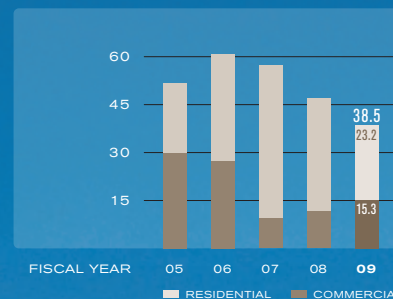
- Our knowledge, experience and management strength in real estate.
- The close working relationship with Sobeys and Crombie REIT that enables Empire to optimize the development of food-anchored shopping plazas across Canada.
- The preferential development agreement between our commercial real estate 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

REAL ESTATE REVENUE¹
\$ IN MILLIONS



REAL ESTATE FUNDS FROM OPERATIONS¹
\$ IN MILLIONS



(1) Fiscal 2005-2008 have been restated to exclude Sobeys Leased Properties which was sold on April 22, 2008.

Strategic priorities

Real estate development at Empire is focused on establishing both certainty and a healthy pace of growth for Sobeys and Crombie REIT. Our strategy rests firmly on Sobeys' substantial in-house expertise in selecting commercial locations, ECL Developments' property development capabilities and Crombie REIT's operational excellence. At all times we are guided by criteria that exemplify Empire's investment discipline and tradition of building assets to own for the long-term.

From left to right: Gary Finklestein, Vice President, Ontario and Québec, Crombie REIT; Scott Doan, Director Real Estate & Property Management, Sobeys Ontario; and Jean Louis LaFontaine, Director Development – Québec, ECL Developments





FOCUSED ON FOOD

The strength of Sobeys' performance in a challenging economic and competitive environment affirms the power and potential of our unwavering focus on food. We remain determined to "out-food", "out-fresh", "out-service" and "out-market" those who choose to compete with us for a larger share of Canadian consumers' food requirements. Our focus allowed us to deliver solid financial and operating results in fiscal 2009, while we continue to build a healthy and sustainable retail food business and infrastructure for the long term.

While our presence as a national grocer continues to grow, our approach remains distinctly local. Across the country we have regional management teams, and affiliate franchise owners and store operators who understand the unique characteristics, cultures and occasion-based needs of our customers. Our employees are trained and encouraged to take an active role in identifying local preferences to optimize store-level merchandising decisions. We take pride in the quality, value and convenience of our meat, deli, seafood, bakery, produce and prepared food offerings and we thrive on serving our customers in ways they value most.



Bill McEwan, President and CEO,
Sobeys Inc. (left) with Justine Lorimer,
Sobeys Deli Clerk, Pictou, Nova Scotia

A modern retail network

During fiscal 2009, Sobeys continued to benefit from the significant investments and upgrades made over the past several years in our stores, distributions centres, business systems and processes, and in the engagement and training of our employees, who are the key to our growth and success.

Over the past fiscal year, we have invested more than \$382 million to expand and improve the quality of our retail square footage, opening or relocating 47 new stores, expanding 11 stores and closing 52 stores, for a net increase of 258,000 square feet across the country. Our operating results and key performance improvements have

been enhanced by the \$1.3 billion invested in our store network and infrastructure since the start of fiscal 2007.

We continue to modernize our distribution facilities to support growth in our retail network. The recent opening of our new distribution centre in Vaughan, Ontario is expected to significantly improve Sobeys' supply chain efficiencies while enhancing service levels to the majority of stores within the province. The new facility incorporates WITRON Integrated Logistics Inc.'s fully automated warehouse and picking system which has been proven to significantly reduce distribution costs, order selection time and errors while increasing load integrity and efficiency.



SAME-STORE SALES
+5.2%
driven by our unwavering
focus on food

food retailing

Improved execution

In fiscal 2009, we continued the transformation of our business process and information systems to support our food-focused strategy. Over several years we have made significant progress standardizing back shop functions. These changes have allowed us to leverage technology investments and significantly improve the efficiency of all facets of our business.

During the past year, the third wave of SMART retailing – our ongoing operational excellence and productivity program – continued to drive incremental improvements. The expansion of our higher-margin fresh departments including prepared meals, deli and bakery, has been effective at increasing customer appeal, transaction size and sales per square foot. The disciplines of SMART retailing have equipped our people with the means to keep labour and product costs under control while carefully monitoring the ever-shifting demand for our fresh and prepared products.

Understanding our customers

We earn the patronage of our shoppers based on the quality, value and consistency of our product and service offerings. Our Club Sobeys and AIR MILES® customer loyalty programs reward our customers' patronage and serve as a means to collect and gain important insight into their buying habits and preferences. The launch of Club Sobeys and Club Sobeys MasterCard in Ontario and Western Canada combined with the AIR MILES® Reward Program that we have offered to consumers in Atlantic Canada and Québec for a number of years, makes shopping at Sobeys an even more rewarding experience right across the country. Customer response to the new Club Sobeys program has exceeded our expectations with the program meeting its annual objectives within six weeks of its launch in September 2008. Late in fiscal 2009, we expanded our AIR MILES® program to also include Foodland stores in Atlantic Canada.

Employees such as Sylvie Gendron take pride in the quality, value and convenience of our fresh food offerings.



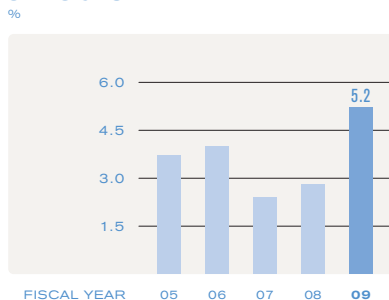


Sobeys rewards customers through our recently launched Club Sobey's and Club Sobey's MasterCard in Ontario and Western Canada and our AIR MILES® Reward Program in Atlantic Canada and Québec. These comprehensive rewards programs also serve as a means to gain insight into the buying habits and preferences of our customers.

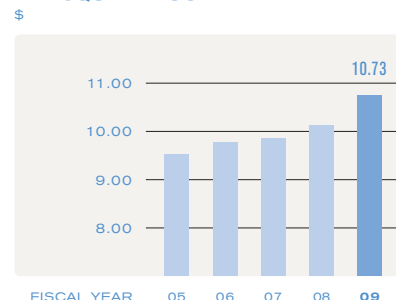
Solid growth

Today, more of our store network is at a standard of operation that we consider current. Investments in equipment, décor, shelving, point of sale systems and in-store fresh food preparation facilities have improved the selling, productivity and customer service elements within our stores. Consequently more customers are shopping more often and buying more on each trip resulting in a sustained increase in sales per square foot.

SOBEYS' SAME-STORE SALES GROWTH



SOBEYS' SALES PER SQUARE FOOT



Inspired to innovate

Operational excellence, cost and productivity improvements and engaging our people are at the very core of our focus and determination to be widely recognized as the best food retailer in the country. Sobeys' reputation for excellence in prepared meals has proven to be a significant benefit in an uncertain economy as consumers seek alternatives to dining out. In fiscal 2009, we continued to build upon our leadership in this area with the introduction of *Compliments* and *Gourmet Minute* prepared meal products produced by a world class manufacturer, Fleury Michon. These premium quality products have been available at grocery stores across Europe for years and we believe the great quality and value will resonate with Canadian shoppers. Customer response has been very positive and we expect to roll out these exceptional products across much of our retail network in the year ahead.

Ready for challenges ahead

Sobeys has been able to continue to grow sales and profitability in an intensely competitive market, but we have no appetite for complacency. We are excited about our opportunities for continued sales, earnings and market share growth. We are aware that today's business climate will challenge even the best-run companies and that while the retail food business may be recession resistant, it is by no means recession proof. We intend to innovate, execute and grow in a manner consistent with our intention to grow shareholder value by being widely recognized as the best food retailer in the country – period.

Bill McEwan
President and CEO
Sobeys Inc.
June 26, 2009



Compliments innovations

Sobeys built upon its reputation for excellence in prepared meals with the introduction of *Compliments* and *Gourmet Minute* prepared meal products produced by a world class manufacturer, Fleury Michon.





Sobeys Urban Fresh,
Jasper Avenue, Edmonton, Alberta

Our five core retail food formats ensure that we have the right offering in the right-sized stores for each community we serve.



LEARN MORE

Sobeys.com/club-sobeys

Compliments.ca

Compliments.ca/inspired-magazine

A SUSTAINABLE COMPETITIVE ADVANTAGE

During fiscal 2009, the real estate division accelerated the pace of its development in close cooperation with Sobeys and Crombie REIT. We believe this strategic partnership represents a significant and sustainable competitive advantage.

At the heart of this advantage is an integrated real estate strategy focused on food-anchored commercial property development. Sobeys brings valued site selection expertise for commercial locations, with ECL Developments as the developer for the sites. Crombie REIT, in which we currently have a 47.4 percent equity interest, has in turn the operational expertise to further optimize value creation.

Our growth strategy is disciplined with every investment decision guided by pre-established criteria, including:

- Great property location;
- Disciplined cost controls;
- Beneficial competitive effect for Sobeys; and
- Satisfactory return on investment.

This investment discipline, combined with coast-to-coast exposure and regional intelligence, enhances our potential for success, even in the toughest environment.

Steady results from our investments

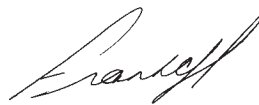
Our interest in Crombie REIT continued to generate solid operating results in fiscal 2009 with operating income contribution to Empire increasing 45.6 percent. There was improvement in operating performance from existing properties and profitable growth from new acquisitions. At the end of March, 2009, the overall occupancy rate at Crombie REIT's properties was a healthy 94.2 percent.

With respect to residential real estate operations, as we expected, Genstar's contribution to Empire's operating income declined in fiscal 2009 as a result of diminishing activity in new home construction. However, we are confident that this investment will continue to yield solid returns over the long term.

Going forward

We are confident that Empire will continue to generate value from its real estate assets throughout the economic cycle. Our real estate development activities are focused on a very defensive sector of the commercial real estate market and we are working closely with the Sobeys' food retailing team.

The unique and integrated relationship that ECL Developments has with Sobeys and Crombie REIT promises to deliver long-term sustainable value. We will continue to take advantage of the opportunities generated by this unique relationship.

A handwritten signature in black ink, appearing to read 'Frank C. Sobey'.


Frank C. Sobey
President
ECL Properties Limited
June 26, 2009



PROJECT PIPELINE
1.7
million square feet
18 projects

Today, our growing retail development pipeline consists of 18 projects in Ontario, Québec and Atlantic Canada with more than 1.7 million square feet of gross leasable area. More than 90 percent of our current projects under development will be anchored by a Sobeys business. In the year ahead, we plan to invest up to \$100 million in additional development opportunities to support Sobeys' growth.



 **LEARN MORE**
Empireco.ca
Crombiereit.com
Genstar.com

Frank C. Sobey (left), President,
ECL Properties Limited with
Donald E. Clow, President,
ECL Developments Limited



long-term
progress

BUILDING ENDURING VALUE

00

FISCAL 2000

REVENUE
(\$ IN MILLIONS)
\$9,100.1

March

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

July

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

01

January

The real estate division purchases a 35.7% interest in Genstar Development Partnership for \$29 million.

02

March

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

03-04

February 04

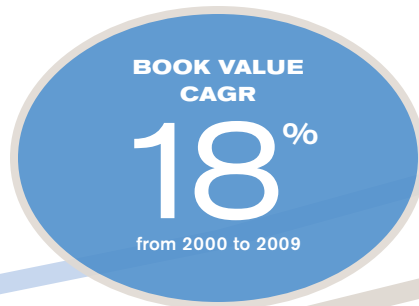
Sobeys acquires Commisso's Food Markets for \$61 million and the real estate division acquires Commisso's real estate assets for \$42.5 million.

OPERATING EARNINGS
(\$ IN MILLIONS)
\$84.7

BOOK VALUE
(\$ PER SHARE)
\$8.73



Empire's ability to build shareholder value is based on investments in the businesses we understand best – food retailing and related real estate. With a focus on meeting the everyday needs of Canadian shoppers, these businesses have helped Empire achieve steady performance, particularly in the recent difficult economic environment. We are confident they will continue to provide abundant opportunity for growth in the years ahead.



REVENUE
(\$ IN MILLIONS)
\$15,015.1

OPERATING EARNINGS
(\$ IN MILLIONS)
\$262.9

BOOK VALUE
(\$ PER SHARE)
\$39.14

05

June

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

September

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

06

March

Crombie REIT completes its initial public offering. Empire sells 44 properties to the REIT for \$468.5 million and retains a 48.3% ownership interest.

August

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

07

June

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

September

Sobeys acquires Thrifty Foods for \$253.6 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.

08

April

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

09

April

Empire issued 2,713,000 Non-Voting Class A shares at \$49.75 per share for total net proceeds to Empire of approximately \$129 million. Proceeds from this equity issue, coupled with strong cash generation from Sobeys, helped reduce Empire's ratio of debt to capital to 32.7 percent from 39.8 percent at the start of the fiscal year.





AT THE HEART OF LONG-TERM SUCCESS

Empire's strengthened focus on its food retailing and related real estate continued to pay dividends for our investors in fiscal 2009. We achieved another year of record financial performance and delivered total shareholder return of 25 percent.

The performance of Sobeys was key. Sobeys' determination to be widely recognized as the best food retailer in Canada is delivering solid results. Our customers are enjoying the benefits of a modern retail grocery network – with more stores now reflecting current standards, an increasingly efficient distribution network, as well as business processes and systems that enhance profitability through operational excellence.

We also continued to make solid progress in our real estate division. ECL Developments has established a breadth of capabilities and a pipeline of properties with impressive speed and Crombie REIT posted another solid year of operational performance.

Empire's performance in fiscal 2009 is evidence that our strategy is sound and we are executing on all fronts. Our financial performance has also resulted in a reduction in our leverage over the past year, with consolidated net funded debt at the end of fiscal 2009 of \$1.07 billion, down from a peak of \$1.75 billion following the privatization of Sobeys and the acquisition of Thrifty Foods. Our funded

debt to capital ratio stands at 32.7 percent and we are confident in our ability to fund our core businesses despite today's uncertain economy.

We also continued to advance the effectiveness of your Board. Empire's Board has strong representation from our largest investors and the valued presence of independent directors with a wide range of experience and skill. There is a healthy dynamic in our deliberations that has not only provided valuable advice and counsel for management, but excellent stewardship for shareholders.

In closing, I would like to extend my appreciation to the management and employees of Empire and its operating companies for posting another record performance in fiscal 2009. It is their efforts that make it possible to reward the loyalty and confidence of our customers and investors.

Robert P. Dexter
Chair
Empire Company Limited
June 26, 2009





Recognizing proven capability

During 2009, Rob Sobey received the ICD.D designation from the Institute of Corporate Directors upon completion of the Directors Education Program. Rob is currently CEO of Lawtons Drug Stores and was recently chosen by Atlantic Business Magazine as CEO of the Year for Atlantic Canada in 2009. Rob has served on numerous volunteer boards and is currently a Governor of Nova Scotia College of Art and Design and a Trustee on the Board of Queen's University. Rob recently served as Chairman of both the Art Gallery of Nova Scotia and the Nova Scotia Community College.

Empire Company Limited Board of Directors

1 David F. Sobey
New Glasgow, Nova Scotia
Director since 1963.

2 Christine Cross
Thundridge, Hertfordshire,
United Kingdom
Director since 2007.

3 Bill McEwan
New Glasgow, Nova Scotia
Director since 2007.

4 John L. Bragg
Collingwood, Nova Scotia
Director since 1999.

5 Mel Rhineland
Toronto, Ontario
Director since 2007.

6 Robert G. C. Sobey
Stellarton, Nova Scotia
Director since 1998.

7 Marcel Côté
Montreal, Québec
Director since 2007.

8 John R. Sobey
Pictou County, Nova Scotia
Director since 1979.

9 Frank C. Sobey
Stellarton, Nova Scotia
Director since 2007.

10 David Leslie
Toronto, Ontario
Director since 2007.

11 Stephen J. Savidant
Calgary, Alberta
Director since 2004.

12 Donald R. Sobey
Pictou County, Nova Scotia
Director since 1963.

13 Karl R. Sobey
Halifax, Nova Scotia
Director since 2001.

14 Malen Ng
Toronto, Ontario
Director since 2007.

15 Paul D. Sobey
Pictou County, Nova Scotia
Director since 1993.

16 David S. Ferguson
Atlanta, Georgia
Director since 2007.

17 Edward C. Harsant
Woodbridge, Ontario
Director since 2003.



LEARN MORE
Empireco.ca/governance



Robert P. Dexter
Chair, Empire Company Limited
Halifax, Nova Scotia – Director since 1987.



RESPONSIBILITY: A LASTING COMMITMENT

Proudly serving our communities is more than a statement of what we do – it's at the very foundation of who we are. In 2009, the management, employees, franchisees and affiliates within Empire, Sobeys, ECL Properties and Empire Theatres supported hundreds of charities and causes across Canada at a corporate, regional and personal level. Many are directly related to our businesses, including dozens of health and food-related programs, such as food banks. But our reach is broad, extending to the arts, education, environment and healthcare.

A greener community

Empire's focus on community is further shaped by our commitment to improving our environmental performance through reasonable, practical, environmentally responsible business practices that are in the long-term best interests of our shareholders, employees, customers, suppliers and communities.

We strive to have every employee, manager and franchisee committed to managing our operations in a manner that minimizes our environmental impact. We are also committed to continually assessing, monitoring and enhancing our operational procedures and management systems so that our efforts to minimize our environmental impact are effective. Further, we are committed to promoting a culture of environmental awareness across our real estate and food retailing networks.

Sobeys is working within our industry and with various levels of government to establish and comply with environmental standards related to waste diversion and store energy consumption. In fiscal 2009, we established quantifiable sustainability objectives.

Knowing that sustainability is a journey, we are also acting upon opportunities to achieve bigger results more quickly by:

- ▶ Sharing best practices and insights across regions;
- ▶ Accelerating evaluation and adoption of new technologies and solutions;
- ▶ Developing national targets and policies;
- ▶ Defining common measurement metrics, and deploying tools for easier data capture, tracking, and reporting by all business units; and
- ▶ Participating in industry environmental initiatives.

Our goal is to integrate sustainability into all aspects of our business.



We are committed to establishing a culture of awareness and managing our food retailing and real estate operations in a manner that minimizes environmental impact. We are making significant progress in the following areas:



LEED®-certified buildings

The IGA store in Saint-Pascal de Kamouraska was the first LEED®-certified supermarket in Canada, and a second store and a distribution centre in Québec are in the process of obtaining LEED certification. This LEED experience has had an influence on our building decisions, even where LEED certification is not possible.

*Leadership in Energy and Environmental Design



Improving energy efficiency

Our efforts to conserve energy are ongoing as we continuously challenge ourselves and our suppliers to identify innovative ways to reduce the energy requirements at our stores and distribution centres. The energy consumption in our recently expanded head office building, which is in the process of obtaining LEED certification, has not increased despite a 60% increase in space.



Reducing waste

The sustainable use of resources includes waste reduction and waste diversion through recycling, reuse, and composting organic matter. Many of our stores and distribution centres have reduced costs and increased revenue by diverting cardboard, plastic and metal from waste to recycling – evidence of the benefits of becoming a more sustainable business.



Frank H. Sobey Awards for Excellence in Business Studies 2009 scholarship recipients

From left to right: Graham Watts, University of Prince Edward Island; Myra Freeman, Fund Director; Michael Harris, Memorial University; David F. Sobey, Fund Chair; Thor Jensen, University of New Brunswick; Aaron Murphy, Saint Mary's University; Bob Brown, Fund Director; Katie Brewer, Cape Breton University; and Paul Sobey, Fund Director. Missing from the photo is Ashley Hannon, Acadia University.

The Sobey legacy

Empire's commitment to investing in our future is closely tied to the legacy of the Sobey family. Funding from the Sobey Foundation and the Empire group of companies, as well as contributions from the Sobey family, support a variety of healthcare, educational and community-based initiatives across Canada. Several scholarship programs assist young people in their individual effort to attain the education so necessary to succeed today, while support for the capital campaigns at several universities enhances the quality of education in Canada.


One of our scholarship programs is the Frank H. Sobey Awards for Excellence in Business Studies that annually presents six \$10,000 awards to full-time business school students attending Atlantic universities. The candidates are nominated by the Deans of Business at each university based on academic standing, entrepreneurial interest, extracurricular and community activities, employment history and career aspirations.



Sobey Art Award

Vancouver artist Tim Lee was the winner of the 2008 Sobey Art Award. Working with photography, video, text and sculpture, Tim's work both replicates and re-imagines significant moments in art history and popular culture. The \$70,000 Sobey Art Award is Canada's premier art award recognizing and supporting contemporary artists under the age of 40. For more information visit www.sobeyartaward.ca.



 **LEARN MORE**
Sobeyartaward.ca
Top40award-canada.org



Top 40 under 40™

Jason Potter, President Operations for Sobeys Atlantic region, (pictured above) was recognized as one of Canada's Top 40 Under 40™ for 2008. This national award honours young Canadians for their vision, leadership, innovation, achievement and community involvement. Jason has worked with Sobeys since 1992 in progressively senior operations and merchandising roles. His commitment extends beyond Sobeys into the community where he serves as Chair of the Grocery Industry Foundation Together (GIFT) in Atlantic Canada. GIFT Atlantic makes a meaningful difference in the lives of children by contributing more than \$500,000 to children's charities in Atlantic Canada each year. This is the second year in a row that a Sobeys employee has received the award.

™ The Caldwell Partners

Developing tomorrow's leaders

During fiscal 2009, Sobeys Inc. began training chartered accountants through an innovative professional program developed in partnership with the Institute of Chartered Accountants of Nova Scotia (ICANS). Diane Cameron (above right), Director, General Accounting and Reporting, was instrumental in Sobeys becoming one of a select group of leading corporations across Canada to provide CA designation training in industry. As an enhancement to the program, Sobeys created a mentoring program that pairs CA students such as Jennifer Sheppard (above left) with an experienced CA such as Diane.



Helping kids coast-to-coast

As corporate sponsors, Empire Theatres and Sobeys Inc. assist Kids Help Phone in raising funds for bilingual, confidential and anonymous phone and online counselling and support service for children and youth across Canada. During fiscal 2009, Empire Theatres raised more than \$85,000 through initiatives such as the first national Movie Day for Kids Help Phone, the Being There for Kids Dinner, the annual Walk for Kids Help Phone and in-theatre coin box programs at all theatre locations. In addition to fundraising support, Empire Theatres helps raise awareness of Kids Help Phone through in-theatre advertising. Sobeys' support of Kids Help Phone has focused primarily on the annual Being There for Kids Dinner, which last year raised more than \$1.2 million for this vitally important service.





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
Corporate Secretary

Officers of Operating Companies

Sobeys Inc.



Robert P. Dexter
Chair

Bill M^cEwan
President and Chief
Executive Officer

François Vimard
Chief Financial
Officer

Jason Potter
President
Operations,
Sobeys Atlantic

Marc Poulin
President
Operations,
Sobeys Québec

David Jeffs
President
Operations,
Sobeys Ontario

Sylvain Prud'homme
President
Operations,
Sobeys West



Dennis Folz
Chief Human
Resources 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

Empire Theatres Limited



Stuart G. Fraser
President and
Chief Executive
Officer

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

management's discussion and analysis

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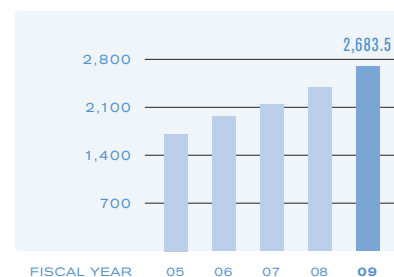
CONSOLIDATED REVENUE
\$ IN MILLIONS



CONSOLIDATED OPERATING EARNINGS
\$ IN MILLIONS



CONSOLIDATED SHAREHOLDERS' EQUITY
\$ IN MILLIONS



management's discussion and analysis

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 2, 2009, as compared to the 52 weeks ended May 3, 2008. 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 2, 2009, as compared to the 52 weeks ended May 3, 2008. 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 2009 Annual Report, on page 100, is a glossary of terms used throughout this MD&A. The information contained in this MD&A is current to June 26, 2009, unless otherwise noted.

Forward-Looking Information

This discussion contains forward-looking statements which reflect management's expectations regarding the Company's objectives, plans, goals, strategies, future growth, financial condition, results of operations, cash flows, performance, business prospects and opportunities. All statements other than statements of historical facts included in this MD&A, including statements regarding the Company's objectives, plans, goals, strategies, future growth, financial condition, results of operations, cash flows, performance, business prospects and opportunities, may constitute forward-looking information. Forward-looking information and statements are identified by words or phrases such as "anticipates", "expects", "believes", "estimates", "intends", "could", "may", "plans", "predicts", "projects", "will", "would", "foresees", "remain confident that" and other similar expressions or the negative of these terms. These statements are based on Empire management's reasonable assumptions and beliefs in light of the information currently available to them. The forward-looking information contained in this MD&A is presented for the purpose of assisting the Company's security holders in understanding its financial position and results of operation as at and for the periods ended on the dates presented and the Company's strategic priorities and objectives and may not be appropriate for other purposes. By its very nature, forward-looking information requires the Company to make assumptions and is subject to inherent risks and uncertainties, which give rise to the possibility that the Company's predictions, forecasts, expectations or conclusions will not prove to be accurate, that the Company's assumptions may not be correct and that the Company's objectives, strategic goals and priorities will not be achieved. Although the Company believes that the predictions, forecasts, expectations or conclusions reflected in the forward-looking information

are reasonable, it can give no assurance that such matters will prove to have been correct. Such forward-looking information is not fact but only reflections of management's estimates and expectations. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. These factors include but are not limited to: changes in general industry, market and economic conditions, competition from existing and new competitors, energy prices, supply issues, inventory management, changes in demand due to seasonality of the business, interest rates, changes in laws and regulations, operating efficiencies and cost saving initiatives. In addition, these uncertainties and risks are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the Risk Management section of this MD&A.

Empire cautions that the list of important factors is not exhaustive and other factors could also adversely affect our results. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such forward-looking information. Forward-looking statements may not take into account the effect on the Company's business of transactions occurring after such statements have been made. For example, dispositions, acquisitions, asset write-downs or other changes announced or occurring after such statements are made may not be reflected in forward-looking statements. The forward-looking information in this MD&A reflects the Company's expectations as of June 26, 2009, and is subject to change after this date. The Company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the Company other than as required by applicable securities laws.

Non-GAAP Financial Measures

There are measures included in this MD&A that do not have a standardized meaning under GAAP. 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 100.0 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 47.9 percent ownership interest in Crombie REIT. Subsequent to year-end, on June 25, 2009, Crombie REIT closed a bought-deal public offering of units at a price of \$7.80 per unit. In satisfaction of its pre-emptive right with respect to the public offering, the Company subscribed for \$30.0 million of Class B Units (which are convertible on a

one-for-one basis into units of Crombie REIT). Consequently the Company's interest in Crombie REIT was reduced from 47.9 percent to 47.4 percent. The results of Sobeys Leased Properties Limited ("Sobeys Leased Properties" or "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 include wholly-owned ETL Canada Holdings Limited ("Empire Theatres"); Kepec Resources Limited ("Kepec"), a party to a joint venture with APL Oil and Gas Limited which has ownership interests in various oil and gas properties in Alberta; and a 27.6 percent ownership position in Wajax Income Fund ("Wajax").

With over \$15 billion in annual revenue and approximately \$5.9 billion in assets, Empire and its related companies employ over 90,000 people, including its franchisees and affiliates.

Food Retailing

Empire's food retailing division is carried out through its wholly-owned subsidiary, Sobeys.

Sobeys conducts business through more than 1,300 retail grocery stores (corporately owned and franchised) which operate 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.

Sobeys' financial contribution to Empire reflects Empire's weighted average ownership of 100.0 percent for fiscal 2009 and weighted average ownership of 96.9 percent for fiscal 2008.

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 expanding 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.

Real Estate

Empire's real estate division includes commercial and residential operations. Our commercial operations are focused on the development of food-anchored shopping plazas through wholly-owned ECL, which includes wholly-owned ECL Developments and a 47.4 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 division's financial results between commercial property operations consisting of ECL, and residential property operations which consists primarily of Genstar.

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 guided by pre-established criteria, including:

- ▶ Great property location;
- ▶ Disciplined cost controls;
- ▶ Beneficial competitive effect for Sobeys; and
- ▶ Satisfactory return on investment.

ECL Developments is focused on the expansion of its development pipeline through the identification of attractive

Investments and Other Operations

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

The market value of Empire's equity accounted investment in Wajax at the end of fiscal 2009 was \$71.3 million (2008 – \$153.4 million), representing an unrealized gain of \$40.3 million (2008 – \$121.8 million).

During the fiscal year, Sobeys opened, replaced, expanded, renovated, acquired and/or converted the banners in 74 stores (2008 – 157 stores). In fiscal 2009, Sobeys continued to execute a number of initiatives in support of its food-focused strategy, including product and service innovations, productivity initiatives and business process, supply chain and system upgrades.

commercial real estate locations to be successfully developed from an economic standpoint, for preferential sale to Crombie REIT or, in absence of their interest, to a third party. ECL Developments has approximately 1.7 million square feet of gross leasable area ("GLA") under development as at fiscal year-end, as compared to approximately 1.2 million square feet at the end of last fiscal year. This increase is due to property acquisitions made in fiscal 2009. Our property pipeline is comprised of 18 properties located in Nova Scotia, New Brunswick, Quebec and Ontario. The properties are primarily retail plazas with approximately 60 percent of the GLA located outside of Atlantic Canada. More than 90 percent of the projects currently under development will be anchored by a Sobeys business. The properties are anticipated to be made available to Crombie REIT over the next one to four years.

Pursuant to a development agreement with Crombie REIT dated March 23, 2006, between ECL and Crombie REIT, ECL provides Crombie REIT with a preferential right to acquire all property developments proposed to be undertaken by ECL Developments. ECL also has a non-competition agreement with Crombie REIT dated March 23, 2006, 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. The Empire group of companies will continue to work closely with Crombie REIT to identify development opportunities.

Other operations include wholly-owned Empire Theatres, the second largest movie exhibitor in Canada which, as of May 2, 2009, owned or had an interest in 51 locations representing 377 screens, and Kepec.

Operational Changes

Listed below is a summary of events that impacted the fiscal year 2009 operating results and which affect the comparability of information for the 13-week and 52-week periods ended May 2, 2009 versus the 13-week and 52-week periods ended May 3, 2008:

- 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 100.0 percent in fiscal 2009 as compared to a weighted average ownership interest of 96.9 percent in fiscal 2008. The weighted average ownership of Sobeys was 100.0 percent in the fourth quarter of fiscal 2009 and the same quarter last year.
- Sobeys' sales in fiscal 2009 were positively influenced by the acquisition of Thrifty Foods, which closed on September 12, 2007. The assets acquired included 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. For additional details of the acquisition, see Note 26 of the audited annual consolidated fiscal 2009 financial statements. Fiscal 2009 included a full year of sales from Thrifty Foods compared to fiscal 2008 which reported Thrifty Foods from when it was acquired on September 12, 2007 until May 3, 2008. This acquisition impacted sales recorded in fiscal 2009 by

\$224.8 million. There was no impact on the comparability of the fourth quarter of fiscal 2009 to the same quarter last year.

- On April 22, 2008, the Company's real estate division, through Sobey Leased Properties, sold 61 properties to 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 maintained the Company's interest in Crombie REIT at approximately 48 percent. The Company subsequently sold the remaining SLP assets to Sobeys. The Company's investment in Crombie REIT is accounted for using the equity method. Details of the sale are outlined in Note 3 of the audited annual consolidated financial statements of the Company for fiscal 2008. This transaction reduced commercial real estate revenue by \$20.6 million in fiscal 2009 compared to fiscal 2008 and by \$4.9 million in the fourth quarter of fiscal 2009 compared to the same quarter last year.

Also impacting comparability are year-over-year costs related to Sobeys' business process and system initiatives, business rationalization, and privatization costs as outlined under the section titled "Fiscal 2009 Operating Performance by Division – Food Retailing".

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

Highlights

- Sobeys opened, acquired or replaced 47 corporate and franchised stores, expanded 11 stores, rebannered/ redeveloped 16 stores and closed 52 stores.
- Revenue of \$15.02 billion, up \$950.1 million or 6.8 percent.
- Sobeys same-store sales increased 5.2 percent.
- Earnings before capital gains (losses) and other items of \$262.9 million, up \$20.1 million or 8.3 percent.
- Net earnings of \$265.9 million (\$4.04 per share), a \$49.9 million or 15.8 percent decrease.
- Successfully completed the issuance of 2,713,000 Non-Voting Class A shares (including the 200,000 issued under the over-allotment option) at \$49.75 per share for net proceeds of \$129.1 million, which was used to reduce indebtedness at the holding company level.

The consolidated financial overview provided below reports on the financial performance for fiscal 2009 relative to the prior two fiscal years.

SUMMARY TABLE OF CONSOLIDATED FINANCIAL RESULTS

(\$ in millions, except per share information)	52 Weeks Ended					
	May 2, 2009	% of Revenue	May 3, 2008	% of Revenue	May 5, 2007 ⁽¹⁾	% of Revenue
Revenue	\$ 15,015.1	100.00%	\$ 14,065.0	100.00%	\$ 13,366.7	100.00%
Operating income	468.1	3.12	472.6	3.36	431.1	3.23
Operating earnings	262.9	1.75	242.8	1.73	200.1	1.50
Capital gains (losses) and other items, net of tax	3.0	0.02	73.0	0.52	5.7	0.04
Net earnings	\$ 265.9	1.77%	\$ 315.8	2.25%	\$ 205.8	1.54%
Basic earnings per share						
Operating earnings	\$ 4.00		\$ 3.69		\$ 3.05	
Capital gains (losses) and other items, net of tax	0.05		1.11		0.09	
Net earnings	\$ 4.05		\$ 4.80		\$ 3.14	
Basic weighted average number of shares outstanding (in millions)	65.7		65.6		65.6	
Diluted earnings per share						
Operating earnings	\$ 3.99		\$ 3.69		\$ 3.04	
Capital gains (losses) and other items, net of tax	0.05		1.11		0.09	
Net earnings	\$ 4.04		\$ 4.80		\$ 3.13	
Diluted weighted average number of shares outstanding (in millions)	65.8		65.7		65.7	
Dividends per share	\$ 0.70		\$ 0.66		\$ 0.60	

(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 the fiscal 2008 annual MD&A contained on pages 27 to 68 of the fiscal 2008 Annual Report.

Management's Explanation of Fiscal 2009 Annual Consolidated Results

The following is a review of Empire's consolidated financial performance for the 52-week period ended May 2, 2009 compared to the 52-week period ended May 3, 2008.

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 2009 Operating Performance by Division" in this MD&A.

Revenue

The consolidated revenue for fiscal 2009 was \$15.02 billion, an increase of \$950.1 million or 6.8 percent compared to fiscal 2008. Growth in Sobeys' sales of \$996.7 million and in

investments and other operations' revenue of \$8.1 million was offset by a \$54.7 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 and the sale of 61 commercial properties to Crombie REIT in the fourth quarter of last fiscal year. Excluding the impact of the acquisition of Thrifty Foods, Empire's consolidated sales growth would have been 5.2 percent for the fiscal year.

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

Please refer to the section entitled "Fiscal 2009 Operating Performance by Division" for an explanation of the change in revenue by division.

Operating Income

For the full fiscal year, Empire recorded operating income of \$468.1 million, a decrease of \$4.5 million or 1.0 percent from the prior year.

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

- ▶ Sobeys' operating income contribution to Empire in fiscal 2009 totalled \$401.4 million, an increase of \$42.4 million or 11.8 percent from the \$359.0 million recorded last year. Included in Sobeys' fiscal 2009 operating income contribution to Empire was a \$25.6 million increase in depreciation and amortization expense, reflecting Sobeys' continued capital investment.
- ▶ Residential property operating income contribution in fiscal 2009 was \$33.6 million, a decrease of \$17.1 million from the \$50.7 million recorded last year as a result of lower residential lot sales in Western Canada.
- ▶ Commercial property operating income in fiscal 2009 was \$22.3 million compared to \$49.3 million last fiscal year. The \$27.0 million decline is primarily attributed to the sale of certain Sobeys Leased Properties' assets (61 properties) to Crombie REIT on April 22, 2008, as Sobeys Leased Properties accounted for operating income of \$30.0 million last fiscal year. The reduction in operating income from Sobeys Leased Properties was partially offset through increased equity accounted earnings from Empire's interest in Crombie REIT which contributed \$19.8 million to operating income in fiscal 2009 versus a \$13.6 million contribution last year.
- ▶ Investments and other operations, net of corporate expenses, contributed operating income of \$10.8 million in fiscal 2009 compared to a \$13.6 million contribution last fiscal year. Equity accounted earnings generated from the Company's interest in Wajax amounted to \$18.5 million versus \$19.7 million last year. Operating income generated from other investments and operations, net of corporate expenses, amounted to negative \$7.7 million as compared to negative \$6.1 million last year.

Please refer to the section entitled "Fiscal 2009 Operating Performance by Division" for an explanation of the change in operating income for each division.

Interest Expense

For the 52 weeks ended May 2, 2009, consolidated interest expense equalled \$80.6 million, versus \$105.8 million in the prior year. The \$25.2 million decrease in fiscal 2009 interest expense compared to last fiscal year is primarily due to lower funded debt levels which are principally related to: (i) cash proceeds of \$373.5 million received on the sale of certain Sobeys Leased Properties' assets in the fourth quarter last fiscal year; (ii) free cash flow generation by Sobeys which served to reduce its funded debt; and (iii) lower average interest rates on unhedged floating rate indebtedness. The proceeds from the \$135 million equity issuance which closed April 24, 2009 also served to reduce funded debt; however, it had a modest impact on lowering annual interest expense as the equity issue closed approximately one week prior to the end of the fiscal year.

Consolidated funded debt decreased \$270.6 million to \$1,302.9 million at the end of fiscal 2009 compared to \$1,573.5 million at the end of fiscal 2008, a 17.2 percent decrease.

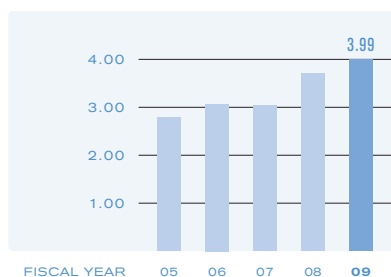
Income Taxes

The effective income tax rate for fiscal 2009 was 30.0 percent versus 30.3 percent last year. In the third quarter of fiscal 2008, the Canadian Government approved general federal corporate income tax rate reductions ranging from 1.0 percent to 3.5 percent by January 2012. These rate reductions, along with recently enacted changes in certain provincial jurisdictions, lowered both the current year income tax rate and the effective rate applied to future timing differences. This resulted in a lower overall effective income tax rate in fiscal 2009 as compared to fiscal 2008.

**CONSOLIDATED
OPERATING EARNINGS**
\$ IN MILLIONS



**CONSOLIDATED
OPERATING EARNINGS**
\$ PER SHARE FULLY DILUTED



Earnings before Capital Gains and Other Items

For the 52 weeks ended May 2, 2009, earnings before capital gains and other items amounted to \$262.9 million (\$3.99 per share) compared to \$242.8 million (\$3.69 per share) in the prior year. The \$20.1 million or 8.3 percent increase is the result of

the \$25.2 million decrease in interest expense and the \$4.5 million decrease in minority interest, partially offset by the \$4.5 million decrease in operating income and the \$5.1 million increase in income taxes.

The table below presents Empire's segmented earnings before capital gains (losses) and other items, by division for the 52 weeks ended May 2, 2009, compared to the 52 weeks ended May 3, 2008.

(\$ in millions)	52 Weeks Ended May 2, 2009	52 Weeks Ended May 3, 2008	Year-over-Year (\$ Change)	Year-over-Year (%) Change
Food retailing ⁽¹⁾	\$ 229.1	\$ 191.7	\$ 37.4	19.5%
Real estate	36.7	58.9	(22.2)	(37.7%)
Investments & other operations	(2.9)	(7.8)	4.9	62.8%
Consolidated	\$ 262.9	\$ 242.8	\$ 20.1	8.3%

(1) Adjusted for the impact of the amortization and depreciation of various items related to the privatization of Sobeys in June 2007.

Capital Gains and Other Items

For the full fiscal year, the Company recorded capital gains and other items, net of tax, of \$3.0 million as compared to \$73.0 million last year. Capital gains and other items, net of tax, in fiscal 2009 were primarily related to the sale of non-core real estate assets for gains of \$5.9 million, net of tax, offset by an increase in the provision on asset backed commercial paper ("ABCP") equal to \$3.1 million, net of tax, taken by Sobeys in the third quarter. Capital gains and other items, net of tax, in fiscal 2008 were 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 ABCP held by Sobeys, as discussed in detail in the section entitled "Other Matters" of this MD&A.

Net Earnings

Net earnings for the 52 weeks ended May 2, 2009 totalled \$265.9 million (\$4.04 per share) as compared to \$315.8 million (\$4.80 per share) recorded last fiscal year, a decrease of \$49.9 million or 15.8 percent. The decrease in net earnings for fiscal 2009 compared to fiscal 2008 reflects the decrease in capital gains and other items of \$70.0 million, partially offset by the increase in earnings before capital gains and other items of \$20.1 million as discussed.

Outlook

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

Management is clearly focused on directing its energy and capital towards growing the long-term sustainable value of its food retailing, real estate and related businesses. In doing so, we remain committed to: a) supporting Sobeys in its goal to be widely recognized as the best food retailer in Canada; b) the profitable growth of our real estate business as it develops new properties to be sold, 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, Empire intends to further reduce our consolidated funded debt over the coming year through the prudent management of 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 a strong management team, improving the customers' in-store experience and improving our productivity.

Sobeys plans to focus on its workforce management and merchandising initiatives in fiscal 2010 to further improve store productivity. These key customer-driven initiatives will assist Sobeys' retail store network in delivering the best food shopping experience, building on the strong foundation that has already been put in place.

Real Estate Division

Empire's real estate management group will continue to maximize and prudently reinvest its cash flow to further strengthen its property portfolio.

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 all Sobeys regions and divisions 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 site selection expertise for commercial locations, Crombie REIT with its decades of management expertise, and the robust 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.

With respect to residential real estate, Empire remains committed to its investment in Genstar and is very supportive of its management and strategy. Management does caution that earnings contribution from Genstar is trending substantially lower. Genstar in our view continues to be well capitalized and, with a very capable management team, is favourably positioned to capitalize on new profitable growth opportunities.

Investments and Other Operations

With respect to Wajax, we expect lower comparative results in calendar 2009. Wajax management advised that they believe their earnings will be lower in calendar 2009 and accordingly reduced monthly distributions to \$0.20 per unit. Wajax in our view continues to be well capitalized and, with a very capable management team, is favourably positioned to capitalize on new profitable growth opportunities.

Fiscal 2009 Operating Performance by Division

Food Retailing

HIGHLIGHTS

- ▶ Sobeys achieved fiscal 2009 sales growth of \$996.7 million or 7.2 percent and same-store sales growth of 5.2 percent.
- ▶ Total capital expenditures equalled \$382.7 million in fiscal 2009.
- ▶ Opened, acquired or replaced 47 corporate and franchised stores, expanded 11 stores, rebannered/redeveloped 16 stores and closed 52 stores.
- ▶ Funded debt to total capital improved to 31.2 percent at the end of fiscal 2009 compared to the 35.6 percent reported at the end of fiscal 2008.

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 2, 2009	May 3, 2008
Sales growth	7.2%	5.6%
Same-store sales growth	5.2%	2.8%
Return on equity	11.3%	10.0%
Funded debt to total capital	31.2%	35.6%
Funded debt to EBITDA	1.4x	1.7x
Property and equipment purchases (\$ in millions)	\$ 383	\$ 489

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

(\$ in millions)	52 Weeks Ended May 2, 2009	52 Weeks Ended May 3, 2008	Year-over-Year (\$ Change)	Year-over-Year (%) Change
Sales	\$ 14,764.8	\$ 13,768.1	\$ 996.7	7.2%
Operating income ⁽¹⁾	401.4	359.0	42.4	11.8%
Net earnings ⁽¹⁾	226.0	186.6	39.4	21.1%

(1) Adjusted for the impact of the amortization and depreciation of various items related to the privatization of Sobeys in June 2007.

REVENUE

In fiscal 2009, Sobeys achieved sales of \$14.76 billion, an increase of \$996.7 million or 7.2 percent over fiscal 2008. During the fiscal year, same-store sales (sales from stores in the same locations in both reporting periods) increased by 5.2 percent.

Sales growth for the year was driven by Sobeys increased retail selling square footage from new stores and enlargements, coupled with the continued implementation of sales and merchandising initiatives, a full year of sales reported by Thrifty

Foods versus approximately eight months of sales reported last year and retail food inflation.

Sobeys expects sales growth to continue in fiscal 2010 as a result of on-going capital investment in its retail store network, and continued offering, merchandising, pricing and operational execution improvements across the country.

As shown in the table below, excluding the impact of the acquisition of Thrifty Foods on September 12, 2007, Sobeys' sales growth would have been 5.6 percent in fiscal 2009.

(\$ in millions)	52 Weeks Ended May 2, 2009	52 Weeks Ended May 3, 2008	(\$ Change)	(%) Change
Sobeys' financially reported sales	\$ 14,764.8	\$ 13,768.1	\$ 996.7	7.2%
Impact of Thrifty Foods acquisition			(224.8)	
			\$ 771.9	5.6%

Total store square footage increased by 1.1 percent in fiscal 2009 as a result of the opening of 47 new or replacement stores and the expansion of 11 stores. There were 52 stores closed in fiscal 2009.

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 by focusing on the significant opportunity to upgrade information processing and decision support capabilities. The systems and processes that

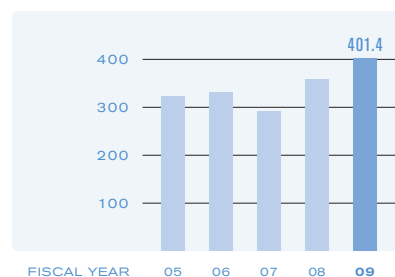
FOOD RETAILING REVENUE

\$ IN MILLIONS



FOOD RETAILING OPERATING INCOME

\$ IN MILLIONS



were implemented were developed over several years and were focused on standardizing and streamlining the "back shop" in support of Sobeys' food-focused strategy. These changes allow Sobeys to leverage technology investments, improve efficiencies and are expected to lower costs over the long term.

Sobeys completed the implementation of this system in Ontario during the third quarter of fiscal 2007 and in Western Canada during the second quarter of fiscal 2008. The business process and system initiative costs primarily included labour, implementation and training costs associated with these initiatives. There were no costs incurred in the fourth quarter of the current or prior year related to these initiatives. For the 52 weeks ended May 2, 2009, there were no pre-tax costs incurred related to these initiatives (\$8.6 million in the 52 weeks ended May 3, 2008).

The implementation of these initiatives support all aspects of the business including operations, merchandising, distribution, human resources and finance. They are important enablers of further initiatives including a new distribution facility in Ontario that was announced on November 21, 2006.

When it begins operations in the first quarter of fiscal 2010, the new distribution centre, located in Vaughan, Ontario, will utilize automation technology and equipment, and significantly increase Sobeys' warehouse and distribution capacity while reducing overall distribution costs and improving service to its store network and customers.

During fiscal 2009, Sobeys recognized \$6.9 million of severance costs (2008 – \$0.5 million) related to the development of this automated facility, which included the severance costs associated with a resulting rationalization of certain administrative functions in Ontario. The new distribution centre is expected to provide annual distribution savings in excess of these costs and any additional business rationalization or restructuring costs incurred leading up to its opening.

During the first quarter of fiscal 2008, Sobeys also performed a rationalization of administrative functions in its national and regional departments. An additional \$3.8 million of rationalization costs were incurred in fiscal 2009 (2008 – negative \$1.8 million). The reversal in fiscal 2008 was the result of changes in management's estimate of expected costs.

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

(\$ in millions)	13 Weeks Ended May 2, 2009	13 Weeks Ended May 3, 2008	52 Weeks Ended May 2, 2009	52 Weeks Ended May 3, 2008
Business process and system initiative costs	\$ –	\$ –	\$ –	\$ 8.6
Rationalization costs	1.6	(0.5)	10.7	(1.8)
Total costs	\$ 1.6	\$ (0.5)	\$ 10.7	\$ 6.8

OPERATING INCOME

Sobeys reported operating income of \$406.1 million during fiscal 2009, an 11.6 percent increase from last year's \$363.8 million. Sobeys' fiscal 2009 operating income includes a \$24.7 million increase in depreciation and amortization expenses, reflecting Sobeys' commitment to continued capital investments. Sobeys recorded operating income margin in the fiscal year was 2.75 percent compared to 2.64 percent in the prior year.

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

After adjusting for the impact of the amortization and depreciation of various items related to the privatization as discussed, Sobeys' operating income contribution to Empire in fiscal 2009 was \$401.4 million compared to a contribution of \$359.0 million in fiscal 2008. Sobeys' operating income margin for fiscal 2009 after adjusting for the above items equalled 2.72 percent compared to 2.61 percent for fiscal 2008.

NET EARNINGS

Sobeys reported net earnings of \$229.2 million in fiscal 2009 compared to \$196.4 million last year, a \$32.8 million or 16.7 percent increase. The earnings increase largely reflects the \$42.3 million improvement in operating income which included a \$24.7 million increase in depreciation and amortization, a \$3.1 million provision, net of tax, related to ABCP in fiscal 2009 compared to a \$6.3 million provision, net of tax, in fiscal 2008, and a \$0.2 million decrease in interest expense; partially offset by an increase in income taxes of \$10.9 million and an increase in minority interest expense of \$2.0 million.

Adjusting for the impact of the depreciation and amortization related to the privatization and the related tax impact, as well as for the change in Empire's weighted average ownership position in Sobeys (100.0 percent for fiscal 2009 compared to 96.9 percent for fiscal 2008), the food retailing division contributed net earnings of \$226.0 million to Empire for fiscal 2009, an increase of \$39.4 million or 21.1 percent over the \$186.6 million recorded in fiscal 2008.

Real Estate

HIGHLIGHTS

- ▶ The sale of non-core properties for capital gains, net of tax, of \$5.9 million.
- ▶ A 45.6 percent increase in operating income from Crombie REIT compared to fiscal 2008, largely as a result of the acquisition of 61 Sobey Leased Properties assets in the fourth quarter of fiscal 2008.
- ▶ Operating income from Genstar of \$33.6 million in fiscal 2009 compared to \$50.7 million reported in fiscal 2008.

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 2, 2009	May 3, 2008
Funds from Operations (\$ in millions)	\$ 38.5	\$ 64.3
Return on Equity ⁽¹⁾	17.8%	17.7%
Funded Debt to Total Capital	25.6%	22.4%
Development Pipeline (in millions of square feet)	1.7	1.2

(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, net earnings and funds from operations for the real estate division's commercial operations and residential operations.

52 Weeks Ended (\$ in millions)	May 2, 2009	May 3, 2008	(\$ Change)	(%) Change
Revenue				
Residential	\$ 54.6	\$ 85.2	\$ (30.6)	(35.9%)
Sobey Leased Properties ⁽¹⁾	–	20.6	(20.6)	(100.0%)
Other Commercial	16.4	19.9	(3.5)	(17.6%)
Inter-segment	2.9	34.9	(32.0)	(91.7%)
	73.9	160.6	(86.7)	(54.0%)
Elimination	(2.9)	(34.9)	32.0	91.7%
	\$ 71.0	\$ 125.7	\$ (54.7)	(43.5%)
Operating income				
Residential	\$ 33.6	\$ 50.7	\$ (17.1)	(33.7%)
Sobey Leased Properties ⁽¹⁾	–	30.0	(30.0)	(100.0%)
Crombie REIT ⁽²⁾	19.8	13.6	6.2	45.6%
Other Commercial	2.5	5.7	(3.2)	(56.1%)
	\$ 55.9	\$ 100.0	\$ (44.1)	(44.1%)
Net earnings				
Residential	\$ 23.2	\$ 34.7	\$ (11.5)	(33.1%)
Commercial	19.4	20.1	(0.7)	(3.5%)
	\$ 42.6	\$ 54.8	\$ (12.2)	(22.3%)
Funds from operations⁽³⁾				
Residential	\$ 23.2	\$ 35.3	\$ (12.1)	(34.3%)
Commercial	15.3	29.0	(13.7)	(47.2%)
	\$ 38.5	\$ 64.3	\$ (25.8)	(40.1%)

(1) On April 22, 2008, Sobey Leased Properties sold 61 properties to Crombie REIT with the remaining assets of Sobey Leased Properties transferred to Sobeyes.

(2) Equity accounted earnings in Crombie REIT during the fiscal year.

(3) Operating earnings plus depreciation and amortization.

REVENUE

Real estate division revenues, net of elimination, amounted to \$71.0 million in fiscal 2009 as compared to \$125.7 million in the prior year. The \$54.7 million reduction in revenue from the real estate division was anticipated as a result of an expected slowdown in residential lot sales and the sale of 61 Sobey Leased Properties' assets to Crombie REIT in the fourth quarter of fiscal 2008.

Revenue from residential operations was \$54.6 million in fiscal 2009 compared to \$85.2 million last year, a \$30.6 million or 35.9 percent decrease. Commercial property revenues, net of elimination, for fiscal 2009 equalled \$16.4 million, a decrease of \$24.1 million or 59.5 percent compared to revenues of \$40.5 million reported last year.

OPERATING INCOME

During fiscal 2009, real estate division operating income declined \$44.1 million or 44.1 percent compared to last year as the result of a \$30.0 million decrease in operating income from Sobey Leased Properties, a \$17.1 million decrease in residential operating income, a \$3.2 million decrease in commercial operating income, partially offset by an increase in equity earnings from Crombie REIT of \$6.2 million. The decline in operating income generated by residential operations was anticipated given management's expectation for a housing market slowdown in Western Canada. The decline in operating income generated by Sobey Leased Properties was expected given the sale of 61 properties to Crombie REIT in the fourth quarter of fiscal 2008.

CAPITAL GAINS (LOSSES) AND OTHER ITEMS

Capital gains and other items, net of tax, for the real estate division totalled \$5.9 million in fiscal 2009 (fiscal 2008 – capital losses and other items, net of tax, of \$4.1 million). Capital gains in fiscal 2009 relate primarily to the sale of non-core properties while the capital losses in fiscal 2008 relate primarily to the impairment charge taken on one commercial property.

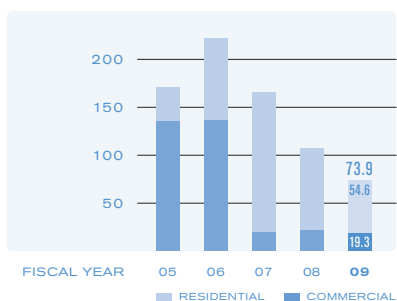
NET EARNINGS

Real estate division net earnings contribution in fiscal 2009 amounted to \$42.6 million compared to \$54.8 million last year, a \$12.2 million or 22.3 percent decrease. The earnings decline largely reflects the \$44.1 million reduction in operating income as discussed, partially offset by a \$12.6 million reduction in interest expense due to lower long-term debt levels, an increase in capital gains and other items, net of tax, of \$10.0 million, and lower income tax expense of \$9.3 million.

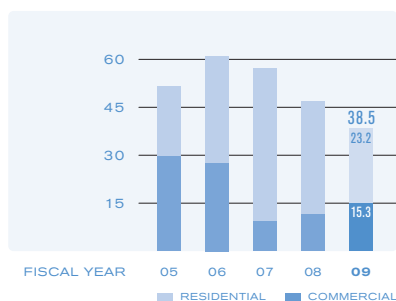
FUNDS FROM OPERATIONS

Funds from real estate operations in fiscal 2009 of \$38.5 million decreased \$25.8 million or 40.1 percent compared to last year as a result of a decrease in commercial funds from operations of \$13.7 million and a decrease in residential funds from operations of \$12.1 million. The decrease in both residential and commercial funds from operations is due primarily to the decrease in operating income for the reasons previously mentioned.

REAL ESTATE REVENUE¹
\$ IN MILLIONS



REAL ESTATE FUNDS FROM OPERATIONS¹
\$ IN MILLIONS



(1) Fiscal 2005–2008 have been restated to exclude Sobey Leased Properties which was sold on April 22, 2008.

Investments and Other Operations

HIGHLIGHTS

- ▶ On April 24, 2009, Empire successfully completed the issuance of 2,713,000 Non-Voting Class A shares (including the 200,000 issued under the over-allotment option) at \$49.75 per share for net proceeds of \$129.1 million, which were used to reduce indebtedness at the holding company level.
- ▶ Maintained a 27.6 percent interest in Wajax which contributed \$18.5 million in equity earnings in fiscal 2009.
- ▶ Reduced funded debt by \$156.9 million compared to the end of fiscal 2008.
- ▶ Empire Theatres' revenue in fiscal 2009 increased by 6.1 percent compared to fiscal 2008.

INVESTMENT VALUE

At the end of fiscal 2009, Empire's total investments, excluding its investment in Genstar U.S. and in Crombie REIT, carried a market value of \$72.4 million (May 3, 2008 – \$155.0 million) on a cost base of \$32.1 million (May 3, 2008 – \$33.2 million), resulting in an unrealized gain of \$40.3 million (May 3, 2008 – \$121.8 million). The decrease in unrealized gain was primarily related to a decrease in Wajax's unit price from \$33.50 per unit as of May 3, 2008 to \$15.58 per unit as of May 2, 2009.

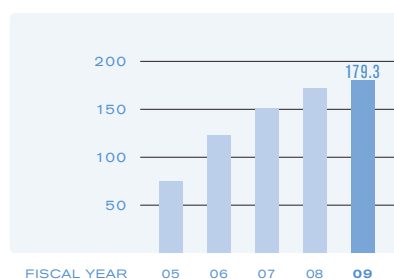
The table below presents a reconciliation of the consolidated balance sheet investments, both equity and cost, to those related to the investment and other operations division:

(\$ in millions)	May 2, 2009			May 3, 2008		
	Market Value	Carrying Value	Unrealized Gain	Market Value	Carrying Value	Unrealized Gain
Investments	\$ 1.1	\$ 1.1	\$ –	\$ 1.6	\$ 1.6	\$ –
Investments, at equity	254.4	18.8	235.6	429.6	41.4	388.2
Total investments	255.5	19.9	235.6	431.2	43.0	388.2
Less: Crombie REIT	175.6	(19.7)	195.3	275.9	9.5	266.4
Less: Genstar U.S. ⁽¹⁾	7.5	7.5	–	0.3	0.3	–
	\$ 72.4	\$ 32.1	\$ 40.3	\$ 155.0	\$ 33.2	\$ 121.8

(1) Assumes market value equals book value.

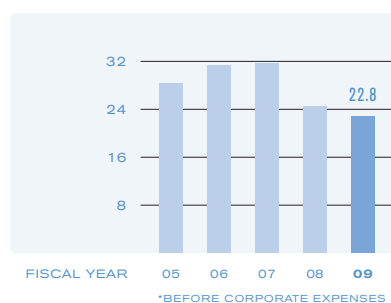
INVESTMENTS AND OTHER OPERATIONS REVENUE

\$ IN MILLIONS



INVESTMENTS AND OTHER OPERATIONS OPERATING INCOME*

\$ IN MILLIONS



PORTFOLIO COMPOSITION

At fiscal year end, May 2, 2009, 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)		
				May 2, 2009	May 3, 2008	May 5, 2007
Wajax	\$ 71.3	98.5%	\$ 31.0	\$ 40.3	\$ 121.8	\$ 122.4
Other Canadian equities	-	-	-	-	-	92.2
U.S. equities	-	-	-	-	-	1.2
Preferred shares & other	1.1	1.5%	1.1	-	-	-
Hedge value	-	-	-	-	-	3.5
Total	\$ 72.4	100.0%	\$ 32.1	\$ 40.3	\$ 121.8	\$ 219.3

The table below presents investments and other operations' (net of corporate expenses) financial highlights for the 52 weeks ended May 2, 2009 compared to the 52 weeks ended May 3, 2008.

52 Weeks Ended (\$ in millions)	May 2, 2009	May 3, 2008	(\$) Change	(%) Change
Revenue	\$ 179.3	\$ 171.2	\$ 8.1	4.7%
Operating income				
Wajax	18.5	19.7	(1.2)	(6.1%)
Other operations, net of corporate expenses	(7.7)	(6.1)	(1.6)	(26.2%)
Total operating income	10.8	13.6	(2.8)	(20.6%)
Operating earnings	(2.9)	(7.8)	4.9	62.8%
Capital gains (losses) and other items, net of tax	0.2	82.2	(82.0)	(99.8%)
Net earnings	\$ (2.7)	\$ 74.4	\$ (77.1)	(103.6%)

REVENUE

Investments and other operations' revenue, primarily generated by Empire Theatres, equalled \$179.3 million for fiscal 2009 versus \$171.2 million last year, an increase of \$8.1 million or 4.7 percent.

INVESTMENT INCOME

Investment income (excluding equity earnings from Crombie REIT and Genstar U.S.) equalled \$19.0 million in fiscal 2009, a decrease of \$1.9 million from the \$20.9 million recorded last year. The decline was the result of a decrease in dividend income of \$0.7 million from fiscal 2008 reflecting the sale of the portfolio investments in the first quarter of fiscal 2008 as mentioned and a decrease in equity earnings from Wajax of \$1.2 million from last year.

CAPITAL GAINS AND OTHER ITEMS

Capital gains and other items, net of tax, realized from investment sales in fiscal 2009 amounted to \$0.2 million compared to \$82.2 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 and other operations, net of corporate expenses, contributed negative \$2.7 million to Empire's consolidated fiscal 2009 net earnings compared to a \$74.4 million net earnings contribution last year. The decrease is primarily the result of the capital gains related to the sale of the liquid portfolio in the first quarter of fiscal 2008 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 2009				Fiscal 2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	(13 Weeks) May 2, 2009	(13 Weeks) Jan. 31, 2009	(13 Weeks) Nov. 1, 2008	(13 Weeks) Aug. 2, 2008	(13 Weeks) May 3, 2008	(13 Weeks) Feb. 2, 2008	(13 Weeks) Nov. 3, 2007	(13 Weeks) Aug. 4, 2007
Revenue	\$ 3,709.0	\$ 3,800.0	\$ 3,727.9	\$ 3,778.2	\$ 3,557.8	\$ 3,503.0	\$ 3,484.8	\$ 3,519.4
Operating income	111.6	115.6	113.4	127.5	136.2	90.7	118.2	127.5
Operating earnings ⁽¹⁾	64.4	65.0	63.2	70.3	73.6	48.9	59.9	60.4
Capital gains (losses) and other items, net of tax	(0.8)	(3.5)	2.5	4.8	(7.1)	(0.3)	(1.5)	81.9
Net earnings	\$ 63.6	\$ 61.5	\$ 65.7	\$ 75.1	\$ 66.5	\$ 48.6	\$ 58.4	\$ 142.3
Per share information, diluted								
Operating earnings	\$ 0.97	\$ 0.99	\$ 0.96	\$ 1.07	\$ 1.12	\$ 0.74	\$ 0.91	\$ 0.92
Capital gains (losses) and other items, net of tax	(0.01)	(0.05)	0.04	0.07	(0.11)	–	(0.02)	1.24
Net earnings	\$ 0.96	\$ 0.94	\$ 1.00	\$ 1.14	\$ 1.01	\$ 0.74	\$ 0.89	\$ 2.16
Diluted weighted average number of shares outstanding (in millions)	66.0	65.7	65.7	65.7	65.7	65.7	65.7	65.7

(1) Operating earnings are 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 Sobys, the competitive environment, general industry trends and by other risk factors as outlined in this MD&A.

Summary Table of Consolidated Financial Results for the Fourth Quarter

(\$ in millions, except per share information)	13 Weeks Ended May 2, 2009	% of Revenue	13 Weeks Ended May 3, 2008	% of Revenue
Revenue	\$ 3,709.0	100.00%	\$ 3,557.8	100.00%
Operating income	111.6	3.01	136.2	3.83
Operating earnings	64.4	1.74	73.6	2.07
Capital gains (losses) and other items, net of tax	(0.8)	(0.02)	(7.1)	(0.20)
Net earnings	\$ 63.6	1.71%	\$ 66.5	1.87%
Basic earnings per share				
Operating earnings	\$ 0.98		\$ 1.12	
Capital gains (losses) and other items, net of tax	(0.01)		(0.11)	
Net earnings	\$ 0.97		\$ 1.01	
Basic weighted average number of shares outstanding (in millions)	65.9		65.6	
Diluted earnings per share				
Operating earnings	\$ 0.97		\$ 1.12	
Capital gains (losses) and other items, net of tax	(0.01)		(0.11)	
Net earnings	\$ 0.96		\$ 1.01	
Diluted weighted average number of shares outstanding (in millions)	66.0		65.7	
Dividends per share	\$ 0.175		\$ 0.165	

The following is a review of financial performance for the 13 weeks ended May 2, 2009 compared to the 13 weeks ended May 3, 2008.

REVENUE

Revenue for the fourth quarter was \$3.71 billion compared to \$3.56 billion last year, a \$151.2 million or 4.2 percent increase. Revenues for the food retailing division increased by \$170.8 million or 4.9 percent compared to the fourth quarter of fiscal 2008. Same-store sales increased 4.6 percent during the fourth quarter of fiscal 2009. The growth in retail sales was a result of increased retail selling square footage from new stores and enlargements, coupled with the continued implementation of sales and merchandising initiatives, improved consistency of store-level execution and retail food price inflation.

Real estate operations reported fourth quarter revenues, net of elimination, of \$10.5 million, a decrease of \$23.3 million or 68.9 percent compared to the fourth quarter last year. Commercial property revenue decreased by \$6.8 million or 73.9 percent while revenue from residential operations decreased by \$16.5 million or 67.1 percent. The decline in both residential and commercial operations' revenues was expected. Empire management had previously cautioned that residential lot sales in Western Canada, particularly in the Calgary and Edmonton, Alberta markets, were not sustainable at the levels

observed in fiscal 2008. The decline in commercial operations' revenue is due primarily to the sale of 61 properties to Crombie REIT in the fourth quarter of fiscal 2008.

Revenue from investments and other operations in the fourth quarter equalled \$47.1 million, an increase of \$3.7 million or 8.5 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 was \$111.6 million, a decrease of \$24.6 million or 18.1 percent from the \$136.2 million recorded in the fourth quarter last year.

The contributors to the change in consolidated operating income from the fourth quarter last year are as follows:

- Sobeys' operating income contribution to Empire in the fourth quarter totalled \$102.6 million, a decrease of \$1.7 million or 1.6 percent from the \$104.3 million recorded in the fourth quarter last year. Included in Sobeys' fourth quarter fiscal 2009 operating income contribution to Empire was a \$5.4 million increase in depreciation and amortization expense, reflecting Sobeys' continued capital investment.
- Residential property operating income contribution in the fourth quarter was \$3.8 million, a decrease of \$11.8 million from the \$15.6 million recorded in the fourth quarter last year as a result of lower residential lot sales activity in Western Canada.

- ▶ Commercial property operating income for the quarter was \$4.9 million compared to \$11.6 million in the fourth quarter last fiscal year, a decline of \$6.7 million. This decline is primarily attributed to the sale of certain Sobey Leased Properties' assets (61 properties) to Crombie REIT on April 22, 2008, as Sobey Leased Properties accounted for operating income of \$8.2 million in the fourth quarter last fiscal year. The reduction in operating income from Sobey Leased Properties was partially offset by increased equity accounted earnings from Crombie REIT which contributed \$4.9 million to operating income in the fourth quarter versus a \$3.1 million contribution in the fourth quarter last year.
- ▶ Investments and other operations, net of corporate expenses, contributed operating income of \$0.3 million in the fourth quarter compared to \$4.7 million in the fourth quarter last year. Equity accounted earnings generated from the Company's 27.6 percent interest in Wajax amounted to \$2.6 million in the fourth quarter versus \$5.0 million in the fourth quarter last year. Operating income generated from other operations, net of corporate expenses, amounted to negative \$2.3 million as compared to negative \$0.3 million in the fourth quarter last year.

INTEREST EXPENSE

Interest expense in the fourth quarter amounted to \$18.8 million, a decrease of \$8.7 million or 31.6 percent from the \$27.5 million recorded in the same quarter last year. The decrease in interest expense is primarily due to the lower funded debt for the reasons previously discussed.

INCOME TAXES

The effective income tax rate for the fourth quarter was 29.7 percent versus 31.1 percent in the fourth quarter last year. Statutory enacted future income tax rate reductions have lowered the overall effective income tax rate for the fourth quarter of fiscal 2009 compared to the fourth quarter of fiscal 2008.

EARNINGS BEFORE CAPITAL GAINS (LOSSES) AND OTHER ITEMS

For the 13 weeks ended May 2, 2009, Empire recorded earnings before capital gains (losses) and other items of \$64.4 million (\$0.97 per share) versus \$73.6 million (\$1.12 per share) last year, a \$9.2 million or 12.5 percent decrease. The decline in earnings before capital gains (losses) and other items is the result of a \$24.6 million reduction in operating income, partially offset by an \$8.7 million reduction in interest expense, a decrease in income taxes of \$6.2 million and a decrease in minority interest of \$0.5 million.

CAPITAL LOSSES AND OTHER ITEMS

The Company reported capital losses and other items, net of tax, of \$0.8 million in the fourth quarter compared to capital losses and other items, net of tax, of \$7.1 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 of fiscal 2008, Sobey's 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 Sobey's. The ABCP is discussed in detail in the section entitled "Other Matters" of this MD&A.

NET EARNINGS

Consolidated net earnings in the fourth quarter equalled \$63.6 million (\$0.96 per share) as compared to \$66.5 million (\$1.01 per share) last year, a decrease of \$2.9 million or 4.4 percent. The decrease in net earnings is due to the \$9.2 million decrease in earnings before capital losses and other items, offset by the decrease in capital losses and other items, net of tax, of \$6.3 million.

Financial Condition

Capital Structure and Key Financial Condition Measures

The Company's financial condition at the end of fiscal 2009 remained healthy as indicated by the following financial condition measures.

(\$ in millions, except per share and ratio calculations)	May 2, 2009	May 3, 2008	May 5, 2007
Shareholders' equity	\$ 2,683.5	\$ 2,382.3	\$ 2,131.1
Book value per share	\$ 39.14	\$ 36.14	\$ 32.31
Bank indebtedness	\$ 45.9	\$ 92.6	\$ 30.1
Long-term debt, including current portion ⁽¹⁾	\$ 1,257.0	\$ 1,480.9	\$ 881.9
Funded debt to total capital	32.7%	39.8%	30.0%
Net funded debt to capital ratio ⁽²⁾	28.5%	36.7%	22.5%
Funded debt to EBITDA ⁽³⁾	1.64x	2.02x	1.30x
EBITDA to interest expense ⁽³⁾	9.84x	7.35x	11.65x
Total assets	\$ 5,898.0	\$ 5,732.9	\$ 5,241.5

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

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

(3) Calculation uses trailing 12-month EBITDA and interest expense.

Shareholders' Equity

Book value per common share was \$39.14 at May 2, 2009, compared to \$36.14 at May 3, 2008 and \$32.31 at May 5, 2007. The increase in book value largely reflects the Company's earnings growth and the \$135 million equity issue on April 24, 2009 as discussed.

The Company's share capital on May 2, 2009 consisted of:

	Authorized Number of Shares	Issued and Outstanding Number of Shares	(\$ in millions)
Preferred shares, par value \$25 each, issuable in series	2,682,100	168,000	\$ 4.2
2002 Preferred shares par value \$25 each, issuable in series	992,000,000	-	-
Non-Voting Class A shares, without par value	259,107,435	34,197,498	316.1
Class B common shares, without par value, voting	40,800,000	34,260,763	7.6
			327.9
Employees' Share Purchase Plan			(3.4)
			\$ 324.5

On April 24, 2009, the Company closed a bought-deal public offering of Non-Voting Class A shares at a price of \$49.75 per share. The underwriters elected to exercise their over-allotment option in full, resulting in a total of 2,713,000 shares being issued for net proceeds of \$129.1 million.

Total Non-Voting Class A and Class B common shares outstanding at May 2, 2009 equalled 68,458,261, an increase of 2,713,000 shares from the previous fiscal year-end, May 3, 2008 as a result of the Non-Voting Class A shares

issued in the fourth quarter of fiscal 2009, as discussed. There were 34,197,498 Non-Voting Class A and 34,260,763 Class B common shares outstanding at May 2, 2009.

During fiscal 2008, 300,000 Class B common shares were exchanged for 300,000 Non-Voting Class A shares of Empire.

During fiscal 2009, 189,967 options (2008 - 92,766 options) were issued under Empire's Long-Term Incentive Plan. The options issued in fiscal 2009 allow the holder to purchase

Non-Voting Class A shares at \$40.26 per share (2008 – \$43.96 per share). Empire had 282,733 options outstanding at May 2, 2009 compared to 92,766 options outstanding at May 3, 2008. The outstanding options expire in June 2015 and in June 2016. There were no options exercised during fiscal 2009 or fiscal 2008.

During fiscal 2009, the Company purchased for cancellation 90,200 Series 2 Preferred shares for \$2.3 million compared to 41,800 preferred shares that were purchased for cancellation in fiscal 2008 for \$1.0 million. The Company plans to purchase, on a best efforts basis, an additional 100,000 Series 2 Preferred shares for cancellation by the end of calendar 2009.

During fiscal 2009, there were no Non-Voting Class A shares issued under Empire's Employee Share Purchase Plan

compared to 10,461 Non-Voting Class A shares issued in fiscal 2008 for \$0.4 million. No Non-Voting Class A shares were purchased for cancellation in either fiscal 2009 or fiscal 2008.

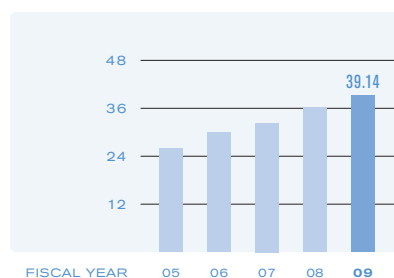
As at July 23, 2009, the Company had total Non-Voting Class A and Class B common shares outstanding of 34,197,498 and 34,260,763, respectively as well as 445,132 options to acquire Non-Voting Class A shares.

Dividends paid to Non-Voting Class A and Class B common shareholders amounted to \$46.1 million in fiscal 2009 (\$0.70 per share) versus \$43.2 million (\$0.66 per share) in fiscal 2008. Subsequent to fiscal year-end, on June 26, 2009 the Company announced an increase in the dividend rate to \$0.74 per share annually.

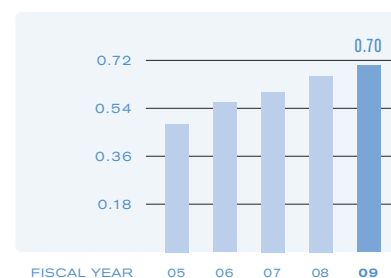
SHARE PRICE
\$ PER SHARE



BOOK VALUE PER SHARE
\$ PER SHARE



COMMON DIVIDENDS PER SHARE
\$ PER SHARE



Liabilities

At the end of fiscal 2009, the Company's total long-term debt (including the current portion long-term debt) was \$1,257.0 million, representing 96.5 percent of Empire's total funded debt of \$1,302.9 million. Funded debt has decreased by \$270.6 million from the \$1,573.5 million reported at the end of fiscal 2008. The ratio of funded debt to total capital improved to 32.7 percent from 39.8 percent at the end of fiscal 2008. The significant decrease in funded debt over the end of the

previous fiscal year is primarily the result of repaying debt with the net proceeds from the \$135 million equity issue completed on April 24, 2009 along with the use of free cash flow generated by Sobeys to reduce its funded debt.

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.

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

Long-term debt (including current portion) (\$ in millions)	May 2, 2009	May 3, 2008	May 5, 2007
Food retailing	\$ 954.0	\$ 1,010.2	\$ 612.7
Real estate	39.6	50.1	228.1
Investments and other operations	263.4	420.6	41.1
Total	\$ 1,257.0	\$ 1,480.9	\$ 881.9

For additional disclosure on Empire's bank indebtedness and long-term debt, see Note 11 and 12 to the Company's annual audited consolidated financials statements for fiscal 2009 as detailed on page 79 of the Company's 2009 Annual Report.

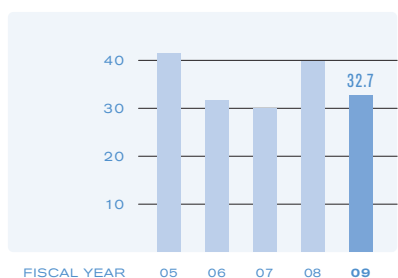
In June 2007, both Standard & Poors ("S&P") and Dominion Bond Rating Service ("DBRS") placed Sobeys' credit ratings under review when the privatization of Sobeys was announced. Upon completion of their reviews in the first quarter of fiscal 2008, S&P and DBRS downgraded Sobeys' credit rating to BB+ with a negative trend and BBB- with a negative trend, respectively. During the first quarter of fiscal 2009, based on Sobeys' improved fundamentals, both agencies changed

their trends from negative to stable. Subsequent to fiscal year-end, both rating agencies improved their trends to positive from stable.

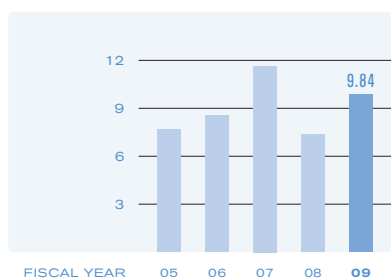
Empire's EBITDA to interest expense ratio in fiscal 2009 was 9.8 times, an improvement from the 7.4 times recorded in fiscal 2008. The increase in the EBITDA to interest expense ratio compared to fiscal 2008 was the result of the decline in interest expense related to the repayment of funded debt as discussed.

Empire and its subsidiaries have provided covenants to its lenders in support of various financing facilities. All covenants were complied with during fiscal 2009 and for fiscal 2008.

FUNDED DEBT TO TOTAL CAPITAL
PERCENTAGE



EBITDA TO INTEREST EXPENSE
TIMES



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 2, 2009, there were four interest rate hedges in place with Empire and 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. The fair value of these four interest rate swaps at May 2, 2009 was negative \$36.3 million.

The Company also uses forward contracts to fix the exchange rate on some of its expected requirements for Euros and U.S. dollars ("USD"). As of May 2, 2009, due to an appreciation of the Euro relative to the Canadian dollar ("CAD"), Sobeys had recognized an asset of \$0.4 million representing the fair value of one Euro denominated forward currency contract.

In July 2008, Sobeys entered into a floating-for-floating currency swap with a fixed rate of \$1.015 CAD/USD to mitigate the currency risk associated with a USD denominated variable rate lease. The terms of the swap match the lease terms. As of May 2, 2009, Sobeys recognized an asset of \$1.3 million relating to this instrument.

To mitigate the risk of changes in the market price of electricity, Sobeys uses financial derivative swap contracts with varying maturities as hedges against the rising costs. As of May 2, 2009, Sobeys recognized a liability of \$3.5 million relating to these instruments.

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 2, 2009 as a result of the following sources:

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

The Company anticipates that these sources of liquidity will be sufficient to meet expected cash outflows over the next year. At May 2, 2009, consolidated cash and cash equivalents were \$231.6 million versus \$191.4 million at the prior fiscal year-end on May 3, 2008.

At the end of the fourth quarter of fiscal 2009, on a non-consolidated basis, Empire maintained an authorized bank line for operating, general and corporate purposes of \$650 million, of which approximately \$248 million or 38 percent was utilized. Empire's non-consolidated credit facility of

\$650 million matures on June 8, 2010. It is Empire's intention to renew or replace this credit facility prior to its maturity. However, given the current credit environment, the terms of the renewed or replacement credit facility may not be as favourable as those of the in-place facility.

On a consolidated basis, Empire's authorized bank credit facilities exceeded borrowings by approximately \$930 million at May 2, 2009 compared to \$691 million at May 3, 2008.

Given the recent developments in the financial markets, the Company's access to new avenues of credit, both short-term and long-term, may be limited for the foreseeable future. The Company anticipates that the above mentioned in-place sources of liquidity will adequately meet its short-term and long-term financial requirements. The Company mitigates potential liquidity risk by ensuring its various sources of funds are diversified by term to maturity and source of credit.

The following table highlights major cash flow components for the 13 and 52 weeks ended May 2, 2009 compared to the 13 and 52 weeks ended May 3, 2008.

(\$ in millions)	13 Weeks Ended May 2, 2009	13 Weeks Ended May 3, 2008	52 Weeks Ended May 2, 2009	52 Weeks Ended May 3, 2008
Earnings for common shareholders	\$ 63.6	\$ 66.5	\$ 265.8	\$ 315.5
Items not affecting cash	94.7	105.7	346.1	360.1
	158.3	172.2	611.9	675.6
Net change in non-cash working capital	42.1	93.0	46.3	(45.7)
Cash flows from operating activities	200.4	265.2	658.2	629.9
Cash flows (used in) from investing activities	(135.1)	210.7	(404.1)	(1,353.9)
Cash flows (used in) from financing activities	(58.0)	(407.6)	(213.9)	620.5
Increase (decrease) in cash and cash equivalents	\$ 7.3	\$ 68.3	\$ 40.2	\$ (103.5)

Operating Activities

Fourth quarter cash flows from operating activities equalled \$200.4 million compared to \$265.2 million in the comparable period last year. The decrease of \$64.8 million is due to a decline in the net change in non-cash working capital of \$50.9 million, a decline in the items not affecting cash of \$11.0 million and a decline in net earnings available for common shareholders of \$2.9 million.

In fiscal 2009, cash flows from operating activities equalled \$658.2 million compared to \$629.9 million last year. The increase of \$28.3 million is attributed to an increase in the net change in non-cash working capital of \$92.0 million, partially offset by a decrease in net earnings available for common shareholders of \$49.7 million and a decrease in items not affecting cash of \$14.0 million.

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 2, 2009	Jan. 31, 2009	13 Weeks Ended	13 Weeks Ended
			May 2, 2009	May 3, 2008
			Increase	Increase
			(Decrease) in	(Decrease) in
			Cash Flows	Cash Flows
Receivables	\$ 318.7	\$ 294.5	\$ (24.2)	\$ (2.3)
Inventories	842.8	860.7	17.9	26.8
Prepaid expenses	70.8	37.1	(33.7)	(0.3)
Accounts payable and accrued liabilities	(1,487.1)	(1,391.7)	95.4	76.7
Income taxes receivable (payable)	4.9	(12.2)	(17.1)	14.8
Impact of reclassifications on working capital ⁽¹⁾	(3.8)	–	3.8	(22.7)
Total	\$ (253.7)	\$ (211.6)	\$ 42.1	\$ 93.0

(1) Reclassifications primarily relate to business acquisitions and rationalization costs and the adoption of the new inventory policy further explained on page 49 of this annual report.

NON-CASH WORKING CAPITAL (YEAR-OVER-YEAR)

(\$ in millions)	May 2, 2009	May 3, 2008	52 Weeks Ended
			May 2, 2009
			Increase (Decrease)
			in Cash Flows
Receivables	\$ 318.7	\$ 291.1	\$ (27.6)
Inventories	842.8	820.2	(22.6)
Prepaid expenses	70.8	62.0	(8.8)
Accounts payable and accrued liabilities	(1,487.1)	(1,348.4)	138.7
Income taxes receivable (payable)	4.9	(15.5)	(20.4)
Impact of reclassifications on working capital ⁽¹⁾	13.0	–	(13.0)
Total	\$ (236.9)	\$ (190.6)	\$ 46.3

(1) Reclassifications primarily relate to business acquisitions and rationalization costs and the adoption of the new inventory policy further explained on page 49 of this annual report.

The net change in non-cash working capital of \$42.1 million in the fourth quarter was largely due to a \$95.4 million increase in payables, a \$17.9 million decrease in inventories and the impact of reclassifications on working capital of \$3.8 million, partially offset by an increase in prepaid expenses of \$33.7 million, an increase in receivables of \$24.2 million and an increase in income taxes receivable of \$17.1 million. 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 increase in prepaid expenses largely reflects the increase recorded in the food retailing division as a result of the prior quarter ending before the first of the month. The increase in taxes receivable compared to the third quarter reflects the timing of tax remittances.

Year-over-year non-cash working capital increased \$46.3 million. This is primarily the result of a \$138.7 million increase in accounts payable and accrued liabilities, partially offset by a \$27.6 million increase in receivables, a \$22.6 million increase in inventories, an increase in income taxes receivable of \$20.4 million, a \$13.0 million impact of reclassifications on working capital and a \$8.8 million increase in prepaid expenses compared to the prior year. The increase in inventories and related accounts payable and accrued liabilities is necessary to support Sobeys' higher sales volumes due to the increased amount of square footage in its expanded store network. The increase in inventory is partially offset by the adoption of the new inventory policy as explained in the "Accounting Policy Changes" section of this MD&A. The impact of this policy on cash flow is reflected in the impact of reclassifications on working capital.

Investing Activities

Cash used in investing activities of \$135.1 million in the fourth quarter compares to cash flows generated from investing activities of \$210.7 million in the fourth quarter last fiscal year. The change in cash from investing activities of \$345.8 million was largely the result of proceeds of \$373.5 million from the sale of 61 properties to Crombie REIT in the fourth quarter last year, an increase in cash used in business acquisitions of \$21.3 million and an increase in loans and other receivables of \$15.5 million, partially offset by a decline in the cash used for investments of \$57.9 million and a decrease in the purchase of property and equipment of \$22.9 million.

For the 52 weeks ended May 2, 2009, cash used in investing activities of \$404.1 million was \$949.8 million lower than last fiscal year. The decrease in cash used in investing activities was largely the result of the privatization of Sobeys in the first quarter of last fiscal year for \$1,065.7 million, the decrease in cash used for business acquisitions by \$221.8 million (primarily the acquisition of Thrifty Foods

in the second quarter of last year for \$243.4 million), the decrease of \$119.7 million in property and equipment purchases, a decrease in cash invested in other assets by \$54.9 million and an increase in proceeds on disposal of property and equipment by \$25.8 million, partially offset by proceeds of \$373.5 million from the sale of 61 properties to Crombie REIT in the fourth quarter last fiscal year, the decrease in cash from investments of \$135.5 million and a decrease in cash from loans and other receivables of \$29.1 million.

Consolidated purchases of property and equipment totalled \$126.6 million in the fourth quarter of fiscal 2009 compared to \$149.5 million in the fourth quarter last year. Consolidated purchases of property and equipment totalled \$431.0 million in fiscal 2009 compared to \$550.7 million in the same period last year. The decline in both the current quarter and the fiscal year is largely associated with fewer stores opened, acquired or expanded relative to the prior year.

The table below outlines the number of stores Sobeys invested in during the fourth quarter of fiscal 2009 compared to the same quarter of fiscal 2008, as well as for the 52 weeks ended May 2, 2009 compared to the 52 weeks ended May 3, 2008.

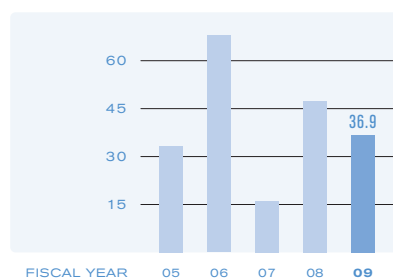
SOBEYS' CORPORATE AND FRANCHISED STORE CONSTRUCTION ACTIVITY

# of Stores	13 Weeks Ended May 2, 2009	13 Weeks Ended May 3, 2008	52 Weeks Ended May 2, 2009	52 Weeks Ended May 3, 2008
Opened/Acquired/Relocated	13	15	47	66
Expanded	3	10	11	31
Rebannered/Redeveloped	2	9	16	60
Closed	20	17	52	67

FOOD RETAILING CAPITAL EXPENDITURES \$ IN MILLIONS



REAL ESTATE CAPITAL EXPENDITURES \$ IN MILLIONS



The following table shows Sobeys' square footage changes for the 13 and 52 weeks ended May 2, 2009 by type.

SOBEYS' SQUARE FOOTAGE CHANGES

Square Feet (in thousands)	May 2, 2009 vs. Jan. 31, 2009	May 2, 2009 vs. May 3, 2008
Opened	221	773
Relocated	16	82
Acquired	–	33
Expanded	41	103
Closed	(199)	(733)
Net Change	79	258

At May 2, 2009, Sobeys' square footage totalled 27.5 million square feet, a 1.1 percent increase over the 27.2 million square feet in operation at the end of the fourth quarter of last year.

Capital expenditures for the real estate division equalled \$36.9 million in fiscal 2009 (\$47.3 million in fiscal 2008) as a result of ongoing property developments and land additions. Capital spending by investments and other operations equalled \$11.4 million in fiscal 2009 (\$22.2 million in fiscal 2008) 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 2009 and fiscal 2008 was to modernize and develop various movie theatre locations.

Financing Activities

Financing activities during the fourth quarter of fiscal 2009 used \$58.0 million of cash compared to \$407.6 million in the same quarter last year. The reduction of \$349.6 million in cash flows from financing activities when compared to the same quarter last year is primarily the result of: (i) a decrease in the repayment of long-term debt of \$246.4 million; (ii) the issuance of Non-Voting Class A shares in the fourth quarter of fiscal 2009 for net proceeds of \$129.1 million; partially offset by an increase in bank indebtedness of \$7.4 million in the fourth quarter of fiscal 2009 compared to an increase in bank indebtedness of \$35.0 million in the same quarter last year.

Financing activities during the 52 weeks ended May 2, 2009 used \$213.9 million of cash compared to \$620.5 million of cash generated from financing activities in the same period last year. The variance of \$834.4 million in cash flows from financing activities in the 52 weeks ended May 2, 2009 when compared to the same period last year is primarily the result of: (i) a decrease in long-term debt issuance of \$1,033.0 million; (ii) a decrease in bank indebtedness of \$46.7 million during the fiscal year-to-date compared to an increase in bank indebtedness of \$60.9 million in the same period last year; partially offset by (i) a decrease in repayment of long-term debt of \$199.8 million; and (ii) the issuance of Non-Voting Class A shares in the fourth quarter of fiscal 2009 for net proceeds of \$129.1 million.

As discussed above, on April 24, 2009 Empire closed the issuance of 2,713,000 Non-Voting Class A shares (including the 200,000 shares issued under the over-allotment option) on a bought-deal basis with a syndicate of underwriters at a price of \$49.75 per share. The total net proceeds raised of \$129.1 million (gross proceeds of \$135.0 million) were used to repay a portion of Empire's non-consolidated bank facility.

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)	2010	2011	2012	2013	2014	Thereafter	Total
Long-term debt	\$ 117.8	\$ 305.9	\$ 21.8	\$ 216.8	\$ 25.0	\$ 512.0	\$ 1,199.3
Capital leases	15.2	13.4	10.6	6.6	3.9	11.0	60.7
Operating leases							
Third Parties	270.0	246.2	228.7	215.5	203.9	1,354.3	2,518.6
Related Parties	38.4	37.6	34.5	34.0	35.4	407.0	586.9
Total operating leases	308.4	283.8	263.2	249.5	239.3	1,761.3	3,105.5
Total contractual obligations	\$ 441.4	\$ 603.1	\$ 295.6	\$ 472.9	\$ 268.2	\$ 2,284.3	\$ 4,365.5

OPERATING LEASES, NET OF EXPECTED LEASE INCOME RECEIVED BY THE COMPANY

(\$ in millions)	2010	2011	2012	2013	2014	Thereafter	Total
Third Parties	\$ 196.7	\$ 176.3	\$ 162.6	\$ 154.2	\$ 147.7	\$ 965.3	\$ 1,802.8
Related Parties	38.4	37.6	34.5	34.0	35.4	407.0	586.9
	\$ 235.1	\$ 213.9	\$ 197.1	\$ 188.2	\$ 183.1	\$ 1,372.3	\$ 2,389.7

FRANCHISE AFFILIATES

Sobeys has guaranteed certain bank loans contracted by franchise affiliates. As at May 2, 2009, these loans amounted to \$0.5 million (May 3, 2008 – \$1.3 million).

During 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 \$6.0 million or 9.9 percent (2008 – \$5.0 million or 9.9 percent) of the authorized and outstanding obligation. As at May 2, 2009, the amount of the guarantee was \$6.0 million (May 3, 2008 – \$5.0 million).

Sobeys 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.

During the third quarter of fiscal 2009, Sobey entered into an additional credit enhancement in the form of a standby letter of credit for certain independent franchisees for the purchase and installation of equipment. Under the terms of the contract, should a franchisee affiliate be unable to fulfill their lease obligation or other remedy, Sobeys would be required to fund the greater of \$4.0 million or 10 percent of the authorized and outstanding obligation annually. Under the terms of the agreement, Sobeys is required to obtain a letter of credit in the amount of the outstanding guarantee, to be revisited each calendar year. This credit enhancement allows Sobeys to provide favourable financing terms to certain independent franchisees. The contract terms have been reviewed and Sobeys has determined that there were no material implications with

respect to the consolidation of VIEs. As of May 2, 2009, the amount of the guarantee was \$4.0 million.

The aggregate, annual, minimum rent payable under the guaranteed operating equipment leases for fiscal 2010 is approximately \$25.5 million. The guaranteed lease commitments over the next five fiscal years are:

(\$ in millions)	Guaranteed Lease Commitments	
2010	\$	25.5
2011		14.8
2012		16.7
2013		11.4
2014		4.2
Thereafter		2.0

OTHER

At May 2, 2009, the Company was contingently liable for letters of credit issued in the aggregate amount of \$55.3 million (May 3, 2008 – \$60.3 million).

Upon entering the lease of its new Mississauga, Ontario distribution centre in March 2000, Sobeys guaranteed to the landlord the performance by Serca Foodservice Inc. all of its obligations under the lease. The remaining term of the lease is 11 years with an aggregate obligation of \$34.6 million (May 3, 2008 – \$37.5 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.

Free Cash Flow

Free cash flow (see Non-GAAP measures section at the end of this MD&A) is used to measure the change in the Company's cash available for additional investing, dividends and/or debt reduction. The following table reconciles free cash flow to GAAP cash flows used in operating activities for the 13 and 52 week periods ended May 2, 2009 and May 3, 2008.

(\$ in millions)	13 Weeks Ended May 2, 2009	13 Weeks Ended May 3, 2008	52 Weeks Ended May 2, 2009	52 Weeks Ended May 3, 2008
Cash flow from operating activities	\$ 200.4	\$ 265.2	\$ 658.2	\$ 629.9
Less: Property and equipment purchases	126.6	149.5	431.0	550.7
Free cash flow	\$ 73.8	\$ 115.7	\$ 227.2	\$ 79.2

Free cash flow generation in the fourth quarter of fiscal 2009 was \$73.8 million compared to free cash flow of \$115.7 million in the fourth quarter last year. The \$41.9 million decrease in free cash flow from the fourth quarter last fiscal year was due to a \$64.8 million decrease in cash flow from operations, partially offset by a \$22.9 million decrease in property and equipment purchases.

For the 52 weeks ended May 2, 2009, free cash flow equalled \$227.2 million, an increase of \$148.0 million over the free cash flow recorded for the same period last year. The improvement is due to a \$28.3 million increase in cash flow from operating activities and a decrease of \$119.7 million in property and equipment purchases.

Accounting Policy Changes

ACCOUNTING STANDARDS ADOPTED DURING FISCAL 2009

In June 2007, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3031 of the CICA Handbook, "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, including allocation of overheads and other costs incurred in bringing the inventories to their present location and condition. Costs such as storage costs are specifically excluded from the cost of inventories and are expensed in the period incurred. The standard also requires the use of either first-in, first-out or weighted average cost formula to measure the cost of inventories of similar nature and use. Techniques, such as the retail method, used to measure the cost of inventory may be used if the results approximate cost. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company applied the standard to the opening inventory for the fiscal year beginning May 4, 2008 and adjusted retained earnings by the difference in the measurement of cost in opening inventory of a similar nature and use (prior periods were not restated).

Following adoption of Section 3031, warehouse inventories are valued at the lower of cost and net realizable value with cost being determined on a weighted average cost basis. Retail inventories are valued at the lower of cost and net realizable value. Cost is determined using a weighted average cost using either the standard cost method or a retail method. The retail method uses the anticipated selling price less normal profit margins, on a weighted average cost basis. Real estate inventory of residential properties is valued at the lower of cost and net realizable value.

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

The initial impact of measuring inventories under the new standard is a decrease to the carrying amount of opening inventories as at May 4, 2008 of \$27.9 million and a decrease in income taxes payable of \$6.4 million. Opening retained earnings have been adjusted by \$21.5 million, equal to the change in opening inventories, net of tax.

The cost of inventory recognized as an expense during the fourth quarter and fiscal 2009 was \$2,740.7 million and \$11,232.5 million, respectively. The cost of inventories recognized as an expense during the fourth quarter and fiscal 2009 includes \$1.4 million and \$45.5 million respectively for the write-down of inventories below cost to net realizable value. There were no reversals of inventories written down previously.

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 (see Note 15 to the audited annual consolidated fiscal 2009 financial statements). The adoption of Section 1535 did not have an impact on the Company's financial results or position.

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". 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 (see Note 22 to the audited annual consolidated fiscal 2009 financial statements). 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. In accordance with the transitional provision of Section 3862, comparative information about the nature and extent of risks arising from financial instruments is not required in the year of adoption. 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 and has no significant impact on the Company's financial statements.

Financial Instruments – Recognition and Measurement

In January 2009, the CICA issued Emerging Issue Committee Abstract 173 ("EIC 173"), "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". EIC 173 requires that

a company take into account its own credit risk and the credit risk of its counterparty in determining the fair value of financial assets and financial liabilities. This Abstract must be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of EIC 173 did not have a significant impact on the Company's financials results, position or disclosures.

The following accounting standards were implemented during fiscal 2008:

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

The following table summarizes the transition adjustments recorded upon implementation of financial instruments:

(\$ 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)

Upon adoption of Section 3855, Section 3070 was withdrawn. As a result, the Company reviewed its accounting policy for deferred charges. This change in accounting policy was applied retrospectively resulting in a \$4.3 million decrease in retained earnings at May 3, 2008.

FUTURE CHANGES IN ACCOUNTING POLICIES

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 well 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.

Business Combinations, Consolidated Financial Statements and Non-controlling Interests

In January 2009, the CICA issued three new accounting standards which are based on the International Accounting Standards Board's International Financial Reporting Standard 3 "Business Combinations". Section 1582, "Business Combinations", which replaces Section 1581 with the same title, aims to improve the relevance, reliability and comparability of the information provided in financial statements about business combinations. This Section is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2011 and assets and liabilities that arose from business combinations that preceded the adoption of this standard should not be adjusted upon adoption. Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests", replace Section 1600, "Consolidated Financial Statements", and establish standards for the preparation of consolidated financial statements and accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards apply to interim and annual consolidated financial statements beginning on or after January 1, 2011. Earlier adoption of all three standards is permitted as of the beginning of a fiscal year, however if an entity chooses to early adopt all three standards must be adopted concurrently. The Company is currently evaluating the impact of these new standards.

International Financial Reporting Standards

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

The Company has launched an internal initiative to govern the conversion process and is currently evaluating the potential impact of the conversion to IFRS on its financial statements. At this time, the impact on the Company's future financial position and results of operations is not reasonably determinable or estimable. The Company expects the transition to IFRS to impact accounting, financial reporting, internal control over financial reporting, information systems and business processes.

The Company has developed a formal project governance structure including a structured steering committee, as well as providing regular progress reports to senior management,

including the Audit Committee. The Company has also completed a diagnostic impact assessment, which involves a high level review of the major differences between current GAAP and IFRS, as well as establishing an implementation guideline. In accordance with this guideline, the Company has established a staff training program and is in the process of completing analysis of the key decision areas and making recommendations on the same.

The Company will continue to assess the impact of the transition to IFRS and to review all of the proposed and ongoing projects of the International Accounting Standards Board to determine their impact on the Company. Additionally, the Company will continue to invest in training and resources throughout the transition period to facilitate a timely conversion.

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

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 2009, the discount rate used for calculation of pension and other benefit plan expense was 6.25 percent and 6.00 percent, respectively (fiscal 2008 – 5.25 percent for both plans). The expected long-term rate of return on plan assets for pension benefit plans for each of fiscal 2009 was 7.0 percent (fiscal 2008 – 7.0 percent). The expected growth rate in health care costs was 9.0 percent for fiscal 2009 (fiscal 2008 – 9.0 percent). The cumulative growth rate in health care costs to 2019 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 2009 key economic assumptions used in measuring the accrued benefit plan obligation 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 Obligation	Benefit Cost ⁽¹⁾	Benefit Obligation	Benefit Cost ⁽¹⁾
Expected long-term rate of return on plan assets		7.00%		
Impact of: 1% increase		\$ (2.0)		
Impact of: 1% decrease		\$ 2.0		
Discount rate ⁽²⁾	6.25%	6.25%	6.00%	6.00%
Impact of: 1% increase	\$ (25.9)	\$ 0.2	\$ (15.1)	\$ (0.9)
Impact of: 1% decrease	\$ 29.1	\$ (0.5)	\$ 18.1	\$ 1.0
Growth rate of health care costs ⁽³⁾			9.00%	9.00%
Impact of: 1% increase			\$ 14.5	\$ 1.8
Impact of: 1% decrease			\$ (12.2)	\$ (1.4)

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

(2) 6.00 percent for the Employee Pension Plan and the Post Retirement Benefit Plan.

(3) Gradually decreasing to 5.00 percent in 2019 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 annually at a minimum. 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.

VALUATION OF INVENTORIES

Inventories are valued at the lower of cost and estimated net realizable value. Significant estimation or judgment is required in the determination of (i) inventories counted at retail and adjusted to cost and (ii) estimated inventory reductions due to spoilage and shrinkage occurring between the last physical inventory count and the balance sheet date, and (iii) estimated inventory provisions associated with vendor allowances and internal charges. Changes or differences in any of these estimates

may result in changes to inventories on the consolidated balance sheet and a charge or credit to operating income in the consolidated statement of earnings.

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

Disclosure Controls and Procedures

Management is responsible for establishing and maintaining disclosure controls and procedures ("DC&P"). This is done to provide reasonable assurance that material information relating to Empire is made known to management by others, particularly during the period in which the annual filings are being prepared, and that information required to be disclosed by the Company and its annual filings, interim filings and other reports filed or

submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The CEO and CFO have evaluated the effectiveness of the Company's DC&P and have concluded as at May 2, 2009 that Empire's DC&P were designed and operating effectively, and that there were no material weaknesses relating to the design or operation of the DC&P.

Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The control framework management used to design and assess the effectiveness of ICFR is The Internal Control Integrated Framework published by the Committee of Sponsoring Organization of the Treadway Commission ("COSO"). The CEO and CFO have evaluated the effectiveness of Empire's ICFR and have concluded as of May 2, 2009 that Empire's ICFR was designed and operating effectively, and that there were no

material weaknesses relating to the design or operations of the ICFR. There have been no changes in the Company's ICFR during the period beginning on February 1, 2009 and ended on May 2, 2009 that have materially affected, or are reasonably likely to materially affect, Empire's ICFR.

Due to inherent limitations common to all ICFR and DC&P, Management acknowledges that its ICFR and DC&P may not prevent or detect all misstatements. In addition, Management's evaluation of ICFR and DC&P can provide only reasonable, not absolute, assurance, that misstatements will be detected when resulting from fraud or error.

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 (\$58.7 million in fiscal 2009) and the charges incurred for administrative and management services are on a cost recovery basis (\$3.0 million in fiscal 2009). The Company has non-interest bearing notes payable to Crombie REIT in the amount of \$10.5 million.

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 of Crombie REIT totalling \$55.0 million, which was fair market value. In accordance with 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. See Note 3 to the Company's annual audited financial statements for fiscal 2009 as detailed on page 74 of the Company's 2009 Annual Report for more information.

On December 30, 2008, the Company entered into an agreement to provide Crombie REIT with additional financing through a \$20.0 million demand loan facility with substantially the same terms and conditions that govern Crombie REIT's floating rate revolving credit facility. On December 30, 2008, the Company had advanced \$10.0 million to Crombie REIT under this facility. On January 29, 2009, the \$10.0 million advance was repaid in full.

On February 12, 2009, coincident with Crombie REIT completing mortgage financing on eight properties with a Schedule I Canadian bank, Empire provided Crombie REIT with

additional financial support through subordinate mortgages on the eight properties totalling \$6.2 million. The terms and conditions of the subordinate mortgages are substantially the same as those governing the first mortgages from the Schedule I bank with one exception: the interest rate on the second mortgages from the Company will be 50 basis points higher than the interest rate charged on the first mortgages from the Schedule I bank. Concurrent with placing the \$6.2 million in mortgage financing, the authorized amount of the demand loan facility between Empire and Crombie REIT was reduced from \$20.0 million to \$13.8 million.

Subsequent Events

On June 12, 2009, Sobeys repaid, although did not cancel, the \$75.0 million credit facility which matures on November 8, 2010.

On June 25, 2009, Crombie REIT closed a bought-deal public offering of units at a price of \$7.80 per unit. In satisfaction of its pre-emptive right with respect to the public offering, the Company subscribed for \$30.0 million of Class B Units (which are convertible on a one-for-one basis into units of Crombie REIT). Consequently the Company's interest in Crombie REIT was reduced from 47.9 percent to 47.4 percent.

On July 23, 2009, Sobeys finalized an agreement to sell and leaseback a retail support centre located in Milton, Ontario to a third party. Proceeds on the sale will be \$51.0 million resulting in a pre-tax gain of \$5.6 million. A long-term lease agreement has been agreed to for the use of the property with the gain being amortized over the term of the lease.

Other Matters

ASSET BACKED COMMERCIAL PAPER

At the end of fiscal 2009, the Company included in other assets \$30.0 million (2008 – \$30.0 million) of third-party ABCP against which the Company has taken a pre-tax impairment provision in the amount of \$12.2 million (2008 – \$7.5 million). On January 21, 2009, the Company derecognized the existing available for sale assets and received restructured ABCP MAV II notes: A1 – \$7.8 million, A2 – \$17.5 million, B – \$3.2 million, C – \$0.9 million and \$0.6 million of tracking notes (the "restructured notes") as designated in the Montreal Accord as well as accrued interest. The A1 and A2 notes received an A rating from DBRS. The remaining notes have not yet been rated. The restructured notes are floating rate notes with expected payouts in January 2017. Accrued interest owed from August 2007 to the restructuring date is expected in two payments; the first was received on January 23, 2009 for \$1.0 million and a second interest payment for the remainder is expected to be received at a future date. The Company has classified these notes as held for trading and as a result will be calculating the fair value of the notes at each reporting period. The Company updated its analysis of the fair value of the restructured notes, including factors such as estimated cash flow scenarios and risk adjusted discount rates, and an additional pre-tax provision, of \$3.7 million, net of interest

received, was recorded. The total charge for impairment is approximately 41 percent (2008 – 25 percent) of the original value of the ABCP and the Company does not believe the fair value of these restructured notes is materially different.

Discount rates vary depending upon the credit rating of the restructured 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. The Company has performed a sensitivity analysis on estimated discount rates used in the fair value analysis and determined that a change of one percent would result in a pre-tax change in the fair value of these investments of approximately \$1.3 million (2008 – \$2.0 million).

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 future 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.

Designation for Eligible Dividends

The new dividend regime for the favourable tax treatment of "eligible dividends" came into effect on February 21, 2007 as a result of Bill C-28. 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 at the time of payment.

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 CRA for fiscal years 1999 and 2000 related to Lumsden Brothers Limited (a wholesale subsidiary of the Company) and the Goods and Service Tax ("GST"). The reassessment related to GST on sales of tobacco products to status Indians. CRA asserts that Sobeys was obliged to collect GST on the sales of these tobacco products to status Indians. The total tax, interest and penalties in the reassessment amounts to \$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 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 an other long-term receivable from CRA pending resolution of the matter.

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

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

The Company and a subsidiary had been reassessed in respect to the tax treatment of gains realized on the sale of shares in Hannaford Bros. Co. ("Hannaford") in fiscal 2001. The Company had appealed the reassessments in respect of the Hannaford shares. Subsequent to May 2, 2009, the Company and CRA concluded negotiations and jointly requested a court order which, if approved, would result in a reduction of income tax expense of approximately \$17.0 million in the first quarter of fiscal 2010.

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.

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 and regional management deployment, to be customer and market-driven, to be focused on superior execution, and to have efficient, cost effective operations. Sobeys reduces its exposure to competitive or economic pressures in any one region of the country by operating in each region of Canada through a network of corporate, franchised, and affiliated stores, and through servicing the needs of thousands of independent, wholesale accounts. Sobeys approaches the market with five distinct formats, 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 2009, our real estate operations encountered challenging economic conditions. However, real estate operations maintained relatively stable occupancy levels and healthy rental renewal rates. During fiscal 2009, capitalization rates were negatively impacted by general economic slowdown and the tightening in the credit markets 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, 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.

LIQUIDITY RISK

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

INTEREST RATE RISK

Interest rate risk is the potential for financial loss arising from changes in interest rates. The majority of the Company's long-term debt is at fixed interest rates or hedged with interest rate swaps. Bank indebtedness and approximately 20 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 23 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 2010. However, Sobeys has stated that it will accept the short-term costs of a labour disruption to support a commitment to building and sustaining a competitive cost structure for the long-term.

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

There is always a risk associated with the loss of key personnel. Succession plans have been identified for key roles including the depth of management talent throughout the Company and its subsidiaries which 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 delegated 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 AND SECURITY

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

A large majority of Sobeys' sales are generated from food products and Sobeys could be vulnerable in the event of a significant outbreak of food-borne illness or increased public health concerns in connection with certain food products. Such an event could materially affect 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 to become more efficient and effective. The implementation of major information technology projects carries with it various risks, including the risk to realization of benefits, that must be mitigated by disciplined change management and governance processes. Sobeys has a business process optimization team staffed with knowledgeable internal and external resources that is responsible for implementing the various initiatives. The Company's Board of Directors has also created an Oversight Committee to ensure 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. In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, from time to time certain matters are reviewed and challenged by the tax authorities.

OPERATIONS

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

To maintain controls over Sobeys' brands and the quality and range of products and services offered at its stores, each franchisee 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 operate outside of Canada, however Sobeys does maintain a small produce brokerage office in the United States. As Empire does not consider this operation to be material, 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 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 an appropriate return on capital. The Company has a number of strong mitigation strategies in place regarding the allocation of capital, including review by the Board of Directors.

Employee Future Benefit Obligations

Due to recent losses caused by current capital market activities, the Company was required to contribute \$5.8 million (2008 – nil) to its registered defined benefit plans in the fourth quarter of fiscal 2009. The Company expects to contribute approximately

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.

ECONOMIC ENVIRONMENT

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

\$4.1 million in fiscal 2010 to these plans. The Company continues to assess the impact of the capital markets on its funding requirement.

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 earnings before interest and taxes ("EBIT") is calculated as operating earnings before minority interest, interest expense and income taxes.
- ▶ Earnings before interest, taxes, depreciation and amortization ("EBITDA") is calculated as EBIT plus depreciation and amortization.
- ▶ Operating earnings is calculated as net earnings before capital gains (losses) and other items, net of tax.
- ▶ Return on equity is calculated as net earnings divided by average equity for the reporting period.
- ▶ Funds from operations is calculated as operating earnings plus depreciation and amortization.
- ▶ Funded debt is all interest bearing debt, which includes bank loans, bankers' acceptances, long-term debt and debt related 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.
- ▶ Free cash flow is calculated as cash flows from operating activities, less property and equipment purchases.

The following table reconciles Empire's funded debt and total capital to GAAP measures reported on the balance sheets as at May 2, 2009, May 3, 2008 and May 5, 2007:

(\$ in millions)	May 2, 2009	May 3, 2008	May 5, 2007
Bank indebtedness	\$ 45.9	\$ 92.6	\$ 30.1
Long-term debt due within one year	133.0	60.4	82.5
Liabilities relating to assets held for sale	–	6.4	6.8
Long-term debt	1,124.0	1,414.1	792.6
Funded debt	1,302.9	1,573.5	912.0
Less: cash and cash equivalents	(231.6)	(191.4)	(294.9)
Net funded debt	1,071.3	1,382.1	617.1
Total shareholders' equity	2,683.5	2,382.3	2,131.1
Total capital under management	\$ 3,754.8	\$ 3,764.4	\$ 2,748.2

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: July 23, 2009
Stellarton, Nova Scotia, Canada

management's statement of responsibility for financial reporting

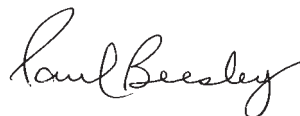
Preparation of the consolidated financial statements accompanying this annual report and the presentation of all other information in the report is the responsibility of management. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles 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, 2009



Paul V. Beesley
Executive Vice President and
Chief Financial Officer
June 26, 2009

auditors' report

To the shareholders of Empire Company Limited

We have audited the consolidated balance sheets of Empire Company Limited as at May 2, 2009 and May 3, 2008, 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 2, 2009 and May 3, 2008, 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, 2009 (except for Note 30 (b) which is as of June 25, 2009 and Note 30 (c) which is as of July 23, 2009)

consolidated financial statements

Consolidated Balance Sheets

(in millions)	May 2, 2009	May 3, 2008
ASSETS		
Current		
Cash and cash equivalents	\$ 231.6	\$ 191.4
Receivables	318.7	291.1
Loans and other receivables (NOTE 6)	55.8	69.9
Income taxes receivable	4.9	-
Inventories	842.8	820.2
Prepaid expenses	70.8	62.0
	1,524.6	1,434.6
Investments (realizable value \$1.1; 2008 - \$1.6)	1.1	1.6
Investments, at equity (realizable value \$254.4; 2008 - \$429.6) (NOTE 5)	18.8	41.4
Loans and other receivables (NOTE 6)	75.3	56.3
Other assets (NOTE 7)	151.4	175.5
Property and equipment (NOTE 8)	2,601.5	2,457.3
Assets held for sale (NOTE 9)	8.5	60.3
Intangibles (NOTE 10)	345.4	346.8
Goodwill	1,171.4	1,159.1
	\$ 5,898.0	\$ 5,732.9
LIABILITIES		
Current		
Bank indebtedness (NOTE 11)	\$ 45.9	\$ 92.6
Accounts payable and accrued liabilities	1,487.1	1,348.4
Income taxes payable	-	15.5
Future income taxes (NOTE 18)	42.7	32.9
Long-term debt due within one year (NOTE 12)	133.0	60.4
Liabilities relating to assets held for sale (NOTE 9)	-	6.4
	1,708.7	1,556.2
Long-term debt (NOTE 12)	1,124.0	1,414.1
Employee future benefits obligation (NOTE 25)	118.4	110.7
Future income taxes (NOTE 18)	89.5	125.5
Other long-term liabilities (NOTE 13)	135.0	106.5
Minority interest	38.9	37.6
	3,214.5	3,350.6
SHAREHOLDERS' EQUITY		
Capital stock (NOTE 14)	324.5	195.7
Contributed surplus	1.7	0.5
Retained earnings	2,405.8	2,207.6
Accumulated other comprehensive loss	(48.5)	(21.5)
	2,683.5	2,382.3
	\$ 5,898.0	\$ 5,732.9

Guarantees, commitments and contingent liabilities (NOTE 23)

Subsequent events (NOTE 30)

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 2, 2009	May 3, 2008
Balance, beginning of year as previously reported	\$ 2,207.6	\$ 1,939.6
Adjustment due to implementation of new accounting standard (NOTE 1)	(21.5)	–
Adjustment due to change in accounting policy (NOTE 1)	–	(4.3)
Balance, beginning of year as restated	2,186.1	1,935.3
Net earnings	265.9	315.8
Dividends		
Preferred shares	(0.1)	(0.3)
Common shares	(46.1)	(43.2)
Balance, end of year	\$ 2,405.8	\$ 2,207.6

See accompanying notes to the consolidated financial statements

Consolidated Statements of Accumulated Other Comprehensive Loss

52 Weeks Ended (in millions)	May 2, 2009	May 3, 2008
Balance, beginning of year	\$ (21.5)	\$ (0.6)
Transition adjustment as of May 6, 2007 (NOTE 1)	–	77.2
Adjusted balance, beginning of year	(21.5)	76.6
Acquired comprehensive loss from purchase of minority interest in Sobeys Inc.	–	(0.6)
Other comprehensive loss for the year	(27.0)	(97.5)
Balance, end of year	\$ (48.5)	\$ (21.5)

See accompanying notes to the consolidated financial statements

Consolidated Statements of Earnings

52 Weeks Ended (in millions except per share amounts)	May 2, 2009	May 3, 2008
Revenue	\$ 15,015.1	\$ 14,065.0
Operating expenses		
Cost of sales, selling and administrative expenses	14,261.1	13,322.3
Depreciation and amortization	324.8	304.6
	429.2	438.1
Investment income (NOTE 16)	38.9	34.5
Operating income	468.1	472.6
Interest expense		
Long-term debt	75.9	100.6
Short-term debt	4.7	5.2
	80.6	105.8
	387.5	366.8
Capital gains and other items (NOTE 17)	2.8	87.7
Earnings before income taxes and minority interest	390.3	454.5
Income taxes (NOTE 18)		
Current	129.6	120.8
Future	(13.5)	5.1
	116.1	125.9
Earnings before minority interest	274.2	328.6
Minority interest	8.3	12.8
Net earnings	\$ 265.9	\$ 315.8
Earnings per share (NOTE 4)		
Basic	\$ 4.05	\$ 4.80
Diluted	\$ 4.04	\$ 4.80
Weighted average number of common shares outstanding, in millions		
Basic	65.7	65.6
Diluted	65.8	65.7

See accompanying notes to the consolidated financial statements

Consolidated Statements of Comprehensive Income

52 Weeks Ended (in millions)	May 2, 2009	May 3, 2008
Net earnings	\$ 265.9	\$ 315.8
Other comprehensive income, net of income taxes		
Reclassification of gains on available-for-sale financial assets to earnings, net of income taxes of \$nil (2008 – \$(17.7))	–	(78.7)
Unrealized losses on available-for-sale financial assets, net of income taxes of \$(0.1) (2008 – \$nil)	(0.4)	–
Unrealized losses on derivatives designated as cash flow hedges, net of income taxes of \$(7.3) (2008 – \$(6.3))	(16.2)	(14.0)
Reclassification of loss on derivative instruments designated as cash flow hedges to earnings, net of income taxes of \$1.5 (2008 – \$(0.3))	3.5	(0.6)
Share of comprehensive loss of entities accounted using the equity method, net of income taxes of \$(7.3) (2008 – \$(2.4))	(14.1)	(4.6)
Foreign currency translation adjustment	0.2	0.4
	(27.0)	(97.5)
Comprehensive income	\$ 238.9	\$ 218.3

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

52 Weeks Ended (in millions)	May 2, 2009	May 3, 2008
OPERATING ACTIVITIES		
Net earnings	\$ 265.9	\$ 315.8
Items not affecting cash (NOTE 19)	346.1	360.1
Preferred dividends	(0.1)	(0.3)
	611.9	675.6
Net change in non-cash working capital	46.3	(45.7)
Cash flows from operating activities	658.2	629.9
INVESTING ACTIVITIES		
Net (increase) decrease in investments	(1.9)	133.6
Purchase of shares in subsidiary, Sobeys Inc. (NOTE 2)	–	(1,065.7)
Proceeds from sale of property to Crombie REIT (NOTE 3)	–	373.5
Purchase of property and equipment	(431.0)	(550.7)
Proceeds on disposal of property and equipment	78.0	52.2
Loans and other receivables	(4.9)	24.2
Increase in other assets	(2.9)	(57.8)
Business acquisitions, net of cash acquired of \$nil (2008 – \$10.2) (NOTE 26)	(41.4)	(263.2)
Cash flows used in investing activities	(404.1)	(1,353.9)
FINANCING ACTIVITIES		
(Decrease) increase in bank indebtedness	(46.7)	60.9
Issue of long-term debt	66.8	1,099.8
Repayment of long-term debt	(307.7)	(507.5)
Minority interest	(7.0)	11.1
Repurchase of preferred shares	(2.3)	(1.0)
Issue of Non-Voting Class A shares (NOTE 14)	129.1	0.4
Common dividends	(46.1)	(43.2)
Cash flows (used in) from financing activities	(213.9)	620.5
Increase (decrease) in cash and cash equivalents	40.2	(103.5)
Cash and cash equivalents, beginning of year	191.4	294.9
Cash and cash equivalents, end of year	\$ 231.6	\$ 191.4

See accompanying notes to the consolidated financial statements

notes to the consolidated financial statements

MAY 2, 2009 (IN MILLIONS EXCEPT PER SHARE AMOUNTS, KEY RATIOS AND PERCENTAGE AMOUNTS)

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 percent owned Sobeys Inc. ("Sobeys"), and certain enterprises considered variable interest entities ("VIEs") where control is achieved on a basis other than through ownership of a majority of voting rights. Investments in which the Company has significant influence are accounted for 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, 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 2009

Inventories

In June 2007, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3031 of the CICA Handbook, "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, including allocation of overheads and other costs incurred in bringing the inventories to their present location and condition. Costs such as storage costs are specifically excluded from the cost of inventories and are expensed in the period incurred. The standard also requires the use of either first-in, first-out or weighted average cost formula to measure the cost of inventories of similar nature and use. Techniques, such as the retail method, used to measure the cost of inventory may be used if the results approximate cost. This standard was effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company applied the standard to the opening inventory for the fiscal year beginning May 4, 2008 and adjusted retained earnings by the difference in the measurement of cost in opening inventory of a similar nature and use (prior periods were not restated).

Following adoption of Section 3031, warehouse inventories are valued at the lower of cost and net realizable value with cost being determined on a weighted average cost basis. Retail inventories are valued at the lower of cost and net realizable value. Cost is determined using a weighted average cost using either the standard cost method or a retail method. The retail method uses the anticipated selling price less normal profit margins, on a weighted average cost basis. Real estate inventory of residential properties is valued at the lower of cost and net realizable value.

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

The initial impact of measuring inventories under the new standard is a decrease to the carrying amount of opening inventories as at May 4, 2008 of \$27.9 and a decrease in income taxes payable of \$6.4. Opening retained earnings has been adjusted by \$21.5, equal to the change in opening inventories net of tax.

The cost of inventory recognized as an expense during fiscal 2009 was \$11,232.5. The cost of inventories recognized as an expense during fiscal 2009 includes \$45.5 for the write-down of inventories below cost to net realizable value. There were no reversals of inventories written down previously.

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 (see Note 15). The adoption of Section 1535 did not have an impact on the Company's financial results or position.

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". 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 (see Note 22). Section 3862 requires increased disclosures regarding the risks associated with financial instruments such as credit risk, liquidity risk and market risk and the techniques used to identify, monitor and manage

these risks. In accordance with the transitional provision of Section 3862, comparative information about the nature and extent of risks arising from financial instruments is not required in the year of adoption. 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 and has no significant impact on the Company's financial statements.

Financial instruments – recognition and measurement

In January 2009, the CICA issued Emerging Issue Committee Abstract 173 ("EIC 173") "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". EIC 173 requires that a company take into account its own credit risk and the credit risk of its counterparty in determining the fair value of financial assets and financial liabilities. This Abstract must be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of EIC 173 did not have a material impact on the Company's financial results, financial position or disclosures.

ADOPTED DURING FISCAL 2008

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

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)

Upon adoption of Section 3855, Section 3070, "Deferred Charges", was withdrawn. As a result, the Company reviewed its accounting policy for deferred charges. This change in accounting policy was applied retrospectively, resulting in a \$4.3 decrease in retained earnings at May 3, 2008.

FUTURE CHANGES IN ACCOUNTING POLICIES

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.

Business combinations, consolidated financial statements and non-controlling interests

In January 2009, the CICA issued three new accounting standards which are based on the International Accounting Standards Board's International Financial Reporting Standard 3, "Business Combinations". Section 1582, "Business Combinations", which replaces Section 1581 with the same title, aims to improve the relevance, reliability and comparability of the information provided in financial statements about business combinations. This Section is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2011 and assets and liabilities that arose from business combinations that preceded the adoption of this standard should not be adjusted upon adoption. Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests", replace Section 1600, "Consolidated Financial Statements", and establish standards for the preparation of consolidated financial statements and for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards apply to interim and annual consolidated financial statements beginning on or after January 1, 2011. Earlier adoption of all three standards is permitted as of the beginning of a fiscal year, however if an entity chooses to early adopt all three standards must be adopted concurrently. 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

In fiscal 2009, as a result of the implementation of CICA Section 3031, "Inventories", which replaced Section 3030 of the same name, warehouse inventories are valued at the lower of cost and net realizable value with cost being determined on a weighted average cost basis. Retail inventories are valued at the lower of cost and net realizable value. Cost is determined using a weighted average cost using either the standard cost method

or a retail method. The retail method uses the anticipated selling price less normal profit margins, on a weighted average cost basis. Real estate inventory of residential properties is valued at the lower of cost and net realizable value.

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

In fiscal 2008, warehouse inventories were valued at the lower of cost and net realizable value with cost being determined on a first-in, first-out or a weighted average cost basis. Retail inventories were valued at the lower of cost and net realizable value. Cost was determined using weighted average cost or the retail method. In fiscal 2009 and 2008, real estate inventory consisting of residential properties is valued at the lower of cost and net realizable value.

LONG-LIVED ASSETS

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

PROPERTY AND EQUIPMENT

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

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

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

Equipment, fixtures and vehicles	3 – 20 years
Buildings	10 – 40 years
Leasehold improvements	Lesser of lease term and 7 – 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 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 \$3.1 (2008 – \$1.5).

(b) Development properties and land held for future development

Interest, real estate taxes and other expenses are expensed, with the exception of property taxes which are capitalized during the construction period. Capitalization of all costs ceases when the development property is substantially complete and ready for productive use, at which time the properties are classified as commercial properties. No amounts were capitalized in fiscal 2009 (\$0.8 in fiscal 2008).

DEFERRED CHARGES

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

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.

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.

ASSETS HELD FOR SALE

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

INTANGIBLES

Intangibles arise on the purchase of a new business, existing franchises, 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

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 its value is impaired. Should the carrying value exceed the fair value of goodwill or intangible assets (e.g. trademarks), the carrying value will be written down to the fair value.

FINANCIAL INSTRUMENTS

The Company is required to recognize and measure all of its financial assets and liabilities, including derivatives and embedded derivatives in certain contracts, at fair value except for loans and receivables, held to maturity financial assets and other financial liabilities which are measured at cost or amortized cost. Derivatives and 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.

The Company classifies financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purposes of ongoing measurements. Classification choices for financial assets include: a) held for trading – measured at fair value with changes in fair value recorded in net earnings; b) held to maturity – recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is derecognized or impaired; c) available-for-sale – measured at fair value with changes in fair value recognized in other comprehensive income for the current period until realized through disposal or impairment; and d) loans and receivables – recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is 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. Any financial asset or liability can be classified as held for trading as long as its fair value is reliably determinable.

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

Asset/Liability	Classification	Measurement
Cash and cash equivalents	Held for trading	Fair value
Receivables	Loans and receivables	Amortized cost
Loans and other receivables	Loans and receivables	Amortized cost
Investments	Available-for-sale	Fair value
Derivative other assets and liabilities	Held for trading	Fair value
Non-derivative other assets 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

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

Guarantees

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

Hedges

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

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

Significant derivatives include the following:

- (1) Foreign currency forward contracts for the primary purpose of limiting exposure to exchange rate fluctuations relating to expenditures denominated in foreign currencies. These

contracts are designated as hedging instruments for accounting purposes. Accordingly, the effective portion of the change in the fair value of the forward contracts are accumulated in other comprehensive income until the variability in cash flows being hedged is recognized in earnings in future accounting periods.

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

CUSTOMER LOYALTY PROGRAMS

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

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

An AIR MILES® reward program is also used by the Company. AIR MILES® are earned by certain Sobeys customers based on purchases in stores. The cost of this program is expensed as incurred as cost of sales, selling and administrative expenses in the consolidated statement of earnings.

FUTURE INCOME TAXES

The Company uses the asset and liability method of accounting for income taxes, under which future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

DEFERRED REVENUE

Deferred revenue consists of long-term supplier purchase agreements, rental revenue arising from the sale of subsidiaries and gains on sale leaseback transactions. Deferred revenue is being taken into income on a straight-line basis over the term of the related agreements and 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 changes in plan amendments is amortized on a straight-line basis over the expected average remaining service life ("EARSL") of active members. For pension benefit plans, the actuarial gains and losses and the impact of changes in the actuarial basis in excess of 10 percent of the greater of the projected benefit obligation and the market value of assets are amortized on a straight-line basis over the EARSL of the active members. For the Company's Supplemental Executive Retirement Plan ("SERP"), the impact of changes in the plan provisions are amortized over five years.

VENDOR ALLOWANCES

The Company receives allowances from certain vendors whose products are purchased for resale. Included in these vendor programs are allowances for volume purchases, exclusivity allowances, listing fees and other allowances. The Company recognizes these allowances as a reduction of cost of sales, selling and administrative expenses and related inventories in accordance with EIC-144, "Accounting by a Customer (including a Reseller) for Certain Consideration Received from a Vendor".

Certain allowances from vendors are contingent on the Company achieving minimum purchase levels. These allowances are recognized when it is probable that the minimum purchase level will be met and the amount of allowance can be estimated. As of the year ended May 2, 2009, the Company has recognized \$5.7 (2008 – \$5.1) of allowances in income where it is probable that the minimum purchase level will be met and the amount of allowance can be estimated.

USE OF ESTIMATES

The preparation of consolidated financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Certain of these estimates require subjective or complex judgements by management that may be uncertain. Some of these items include the valuation of inventories, goodwill, employee future benefits, stock-based compensation, valuation

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

EARNINGS PER SHARE

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

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 to measure and allocate the

excess consideration paid over net assets acquired. The final purchase price allocation, incorporating management's assessment of fair value, was 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/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, 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 maintained the Company's interest in Crombie REIT

at 47.8 percent. 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 were 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). 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:

	2009	2008
Operating earnings	\$ 262.9	\$ 242.8
Capital gains and other items, net of income taxes of \$(0.2) (2008 – \$14.7)	3.0	73.0
Net earnings	265.9	315.8
Preferred share dividends	(0.1)	(0.3)
Earnings applicable to common shares	\$ 265.8	\$ 315.5
Earnings per share is comprised of the following:		
Operating earnings	\$ 4.00	\$ 3.69
Net capital gains and other items	0.05	1.11
Basic earnings per share	\$ 4.05	\$ 4.80
Operating earnings	\$ 3.99	\$ 3.69
Net capital gains and other items	0.05	1.11
Diluted earnings per share	\$ 4.04	\$ 4.80

NOTE 5 Investments, at Equity

	May 2, 2009	May 3, 2008
Wajax Income Fund (27.6% interest)	\$ 31.0	\$ 31.6
Crombie REIT (47.9% interest)	(19.7)	9.5
U.S. residential real estate partnerships	7.5	0.3
	\$ 18.8	\$ 41.4

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

	May 2, 2009	May 3, 2008
Balance, beginning of year	\$ 31.6	\$ 32.2
Equity earnings	18.5	19.7
Share of comprehensive loss	(0.5)	(0.2)
Distributions received	(18.6)	(20.1)
Balance, end of year	\$ 31.0	\$ 31.6

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

	May 2, 2009	May 3, 2008
Balance, beginning of year	\$ 9.5	\$ 109.3
Equity earnings	19.8	13.6
Share of comprehensive loss	(20.8)	(6.8)
Distributions received	(21.8)	(17.0)
Interest received in Crombie REIT	–	55.0
Deferral of gains on sale of property	(6.4)	(144.6)
Balance, end of year	\$ (19.7)	\$ 9.5

NOTE 6 Loans and Other Receivables

	May 2, 2009	May 3, 2008
Loans receivable	\$ 65.5	\$ 58.1
Mortgages receivable	21.2	26.4
Other	44.4	41.7
	131.1	126.2
Less amount due within one year	55.8	69.9
	\$ 75.3	\$ 56.3

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 2, 2009	May 3, 2008
Deferred purchase agreements	\$ 37.2	\$ 35.9
Accrued benefit asset (NOTE 25)	63.1	58.2
Asset-backed commercial paper	17.8	22.5
Restricted cash	3.6	3.9
Derivative assets	1.7	2.3
Other	28.0	52.7
	\$ 151.4	\$ 175.5

ASSET-BACKED COMMERCIAL PAPER

Included in other assets is \$30.0 (2008 – \$30.0) of third-party asset-backed commercial paper (“ABCP”) against which the Company has taken a pre-tax impairment provision in the amount of \$12.2 (2008 – \$7.5). On January 21, 2009, the Company derecognized the existing available-for-sale assets and received restructured ABCP MAV II notes: A1 – \$7.8,

A2 – \$17.5, B – \$3.2, C – \$0.9 and \$0.6 of tracking notes (the “restructured notes”) as designated in the Montreal Accord as well as accrued interest. The A1 and A2 notes received an A rating from the Dominion Bond Rating Service. The remaining notes have not yet been rated. The restructured notes are floating rate notes with expected payouts in January 2017. Accrued interest owed from August 2007 to the restructuring

date is expected in two payments; the first was received on January 23, 2009 for \$1.0 and a second interest payment for the remainder is expected to be received at a future date. The Company has classed these notes as held for trading and as a result will be fair valued at each reporting period. The Company updated its analysis of the fair value of the restructured notes, including factors such as estimated cash flow scenarios and risk-adjusted discount rates, and an additional pre-tax provision, net of interest received, of \$3.7 was recorded in fiscal 2009. The total charge for impairment is approximately 41 percent (2008 – 25 percent) of the original value of the ABCP.

Discount rates vary depending upon the credit rating of the restructured 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. The Company has performed a sensitivity analysis on estimated discount rates used in the fair value analysis and determined that a change of one percent would result in a pre-tax change in the fair value of these investments of approximately \$1.3 (2008 – \$2.0).

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 future 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.

NOTE 8 Property and Equipment

	May 2, 2009		
	Cost	Accumulated Depreciation	Net Book Value
Food segment			
Land	\$ 270.7	\$ –	\$ 270.7
Land held for development	57.2	–	57.2
Buildings	909.8	238.0	671.8
Equipment, fixtures and vehicles	2,286.4	1,471.2	815.2
Leasehold improvements	488.2	288.2	200.0
Construction in progress	227.1	–	227.1
Assets under capital leases	113.8	52.1	61.7
	4,353.2	2,049.5	2,303.7
Real estate and other segments			
Land	6.5	–	6.5
Land held for development	57.5	–	57.5
Buildings	72.9	25.1	47.8
Equipment	80.9	42.5	38.4
Leasehold improvements	59.1	19.7	39.4
Construction in progress	54.1	–	54.1
Petroleum and natural gas costs	83.9	29.8	54.1
	414.9	117.1	297.8
Total	\$ 4,768.1	\$ 2,166.6	\$ 2,601.5

	May 3, 2008		
	Cost	Accumulated Depreciation	Net Book Value
Food 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

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 \$8.5 (2008 – \$60.3). Included in liabilities related to these assets held for

sale is \$nil (2008 – \$6.4). 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 Intangibles

	Cost	Accumulated Amortization	May 2, 2009 Net Book Value
Brand names	\$ 201.0	\$ 5.3	\$ 195.7
Franchise rights/agreements	52.8	13.4	39.4
Loyalty programs	11.4	–	11.4
Patient files	26.6	6.6	20.0
Private labels	59.5	–	59.5
Other	26.2	6.8	19.4
	\$ 377.5	\$ 32.1	\$ 345.4

	Cost	Accumulated Amortization	May 3, 2008 Net Book Value
Brand names	\$ 201.0	\$ 1.9	\$ 199.1
Franchise rights/agreements	46.7	10.5	36.2
Loyalty programs	11.4	–	11.4
Patient files	23.4	4.6	18.8
Private labels	59.5	–	59.5
Other	26.1	4.3	21.8
	\$ 368.1	\$ 21.3	\$ 346.8

NOTE 11 Bank Indebtedness

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

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 was subsequently extended to August 15, 2008 and October 14, 2008. On October 22, 2008,

Sobeys established a new unsecured revolving term credit facility of \$30.0 replacing the non-revolving facility that matured on October 14, 2008. This facility matured January 15, 2009, and was subsequently extended to April 15, 2009. This facility had not been utilized and was not renewed; however, any interest payable would have fluctuated with changes in the bankers' acceptance rate, Canadian prime rate or London InterBank Offered Rate ("LIBOR").

NOTE 12 Long-Term Debt

	May 2, 2009 Total	May 3, 2008 Total
First mortgage loans, average interest rate 9.6%, due 2009-2026	\$ 71.5	\$ 72.2
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 10.1%, due 2009–2016	62.6	75.4
Notes payable and other debt primarily at interest rates fluctuating with the prime rate	146.2	154.2
Credit facility, floating interest rate tied to bankers' acceptance rates, due June 8, 2010	244.0	395.0
Credit facility, floating interest rate tied to bankers' acceptance rates, due July 23, 2012	200.0	250.0
Credit facility, floating interest rate tied to bankers' acceptance rates, due November 8, 2010	75.0	75.0
Unamortized financing costs	(3.0)	(3.8)
Capital lease obligations, net of imputed interest	60.7	56.5
	1,257.0	1,474.5
Less amount due within one year	133.0	60.4
	\$ 1,124.0	\$ 1,414.1

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 fiscal 2008, 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 4.998%. The second swap, in an amount of \$200.0, is for a period of five years at a fixed interest rate of 5.051%. 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. At May 2, 2009, the Credit Facilities have been reduced to \$244.0 (May 3, 2008 – \$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 2, 2009, \$200.0 (May 3, 2008 – \$250.0) of this new credit facility has been drawn down and classified as long-term debt and \$Nil (May 3, 2008 – \$25.0) has been drawn down and classified as bank indebtedness. Sobeys has also issued \$40.1 in letters of credit against the facility at May 2, 2009 (\$41.7 at May 3, 2008).

On November 8, 2007, Sobeys established and utilized a new unsecured revolving credit facility of \$75.0. The maturity date is November 8, 2010. The interest rate is floating and fluctuates with the bankers' acceptance rate, Canadian prime rate or LIBOR.

During fiscal 2009, the Company increased its capital lease obligation by \$12.6 (2008 – \$8.9) 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
2010	\$ 117.8	\$ 15.2
2011	305.9	13.4
2012	21.8	10.6
2013	216.8	6.6
2014	25.0	3.9
Thereafter	512.0	11.0

NOTE 13 Other Long-Term Liabilities

	May 2, 2009	May 3, 2008
Deferred lease obligation	\$ 54.4	\$ 53.2
Deferred revenue	7.8	5.3
Accrued benefit liability (NOTE 25)	24.3	23.5
Derivative liabilities	39.8	21.7
Other	8.7	2.8
	\$ 135.0	\$ 106.5

NOTE 14 Capital Stock

	No. of Shares	May 2, 2009	May 3, 2008
Authorized			
Preferred shares, par value of \$25 each, issuable in series.			
Series 2 cumulative, redeemable, rate of 75% of prime.	2,682,100		
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	168,000	\$ 4.2	\$ 6.5
Non-Voting Class A	34,197,498	316.1	185.1
Class B common	34,260,763	7.6	7.6
		327.9	199.2
Employees' share purchase plan		(3.4)	(3.5)
		\$ 324.5	\$ 195.7

On April 24, 2009, the Company closed a bought-deal public offering of Non-Voting Class A shares at a price of \$49.75 per share. The underwriters elected to exercise their over-allotment option in full resulting in a total of 2,713,000 shares being issued for net proceeds of \$129.1.

During the year, the Company purchased for cancellation 90,200 (2008 – 41,800) Series 2 preferred shares for \$2.3 (2008 – \$1.0).

During the year, nil (2008 – 10,461) Non-Voting Class A shares were issued under the Company's share purchase plan to certain officers and employees for \$nil (2008 – \$0.4), 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 189,967 (2008 – 92,766) options were issued. Options allow holders to purchase

Non-Voting Class A shares at \$40.26 (2008 – \$43.96) per share. Options expire in June 2015 and in June 2016.

Loans receivable from officers and employees of \$3.4 (2008 – \$3.5) 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 110,148 (2008 – 111,971) Non-Voting Class A shares. The market value of the shares at May 2, 2009 was \$5.5 (May 3, 2008 – \$4.4).

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

NOTE 15 Capital Management

The Company's objectives when managing capital are: (i) to ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans; (ii) to minimize the cost of capital while taking into consideration current and future industry, market and economic risks and conditions; (iii) to maintain an optimal capital structure that provides necessary financial flexibility while also ensuring compliance with any financial covenants; and (iv) to maintain an investment grade

credit rating with each rating agency that assesses the credit worthiness of Sobeys Inc. No changes were made to these objectives in the current year.

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

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

	May 2, 2009	May 3, 2008
Bank indebtedness	\$ 45.9	\$ 92.6
Long-term debt due within one year	133.0	60.4
Liabilities relating to assets held for sale	–	6.4
Long-term debt	1,124.0	1,414.1
Funded debt	1,302.9	1,573.5
Less cash and cash equivalents	(231.6)	(191.4)
Net funded debt	1,071.3	1,382.1
Shareholders' equity	2,683.5	2,382.3
Capital under management	\$ 3,754.8	\$ 3,764.4

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

The primary investments undertaken by the Company include additions to the selling square footage of its store network via the construction of new, relocated and expanded stores, including related leasehold improvements and features and the purchase of land bank sites for future store construction.

The Company makes capital investments in information technology and its distribution capabilities to support an expanding store network. In addition, the Company makes capital expenditures in support of its real estate and other operations. The Company largely relies on its cash flow from operations to fund its capital investment program and dividend distributions to its shareholders. This cash flow is supplemented, when necessary, through additional debt or the issuance of additional capital stock.

Management monitors certain key ratios to effectively manage capital:

	May 2, 2009	May 3, 2008
Funded debt to total capital ⁽¹⁾	32.7%	39.8%
Funded debt to EBITDA ⁽²⁾	1.64x	2.02x
EBITDA to interest expense	9.84x	7.35x

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

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

As part of existing debt agreements, two financial covenants are monitored and communicated, as required by the terms of credit agreements, on a quarterly basis by management to ensure compliance with the agreements. The covenants are: (i) adjusted total debt/EBITDA – calculated as funded debt plus letters of credit, guarantees and commitments divided by EBITDA

(for previous 52 weeks); and (ii) debt service coverage ratio – calculated as EBITDA divided by interest expense plus repayments of long-term debt (all amounts are based on previous 52 weeks).

The Company was in compliance with these covenants during the year.

NOTE 16 Investment Income

	2009	2008
Dividend and interest income	\$ 0.5	\$ 1.2
Share of earnings of entities accounted using the equity method	38.4	33.3
	\$ 38.9	\$ 34.5

NOTE 17 Capital Gains and Other Items

	2009	2008
Gain on sale of investments	\$ -	\$ 100.9
Gain on sale of property	7.5	0.9
Other items	(1.0)	(0.6)
Change in fair value of Canadian third party asset-backed commercial paper (NOTE 7)	(3.7)	(7.5)
Reduction of book value of real estate assets	-	(6.0)
	\$ 2.8	\$ 87.7

NOTE 18 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:

	2009	2008
Income tax expense according to combined statutory rate of 29.9% (2008 – 31.9%)	\$ 116.0	\$ 116.8
Increase (decrease) in income taxes resulting from		
Rate changes effect on timing differences	0.3	(5.5)
Non-taxable dividends	-	(0.1)
	116.3	111.2
Capital gains and other items	(0.2)	14.7
	\$ 116.1	\$ 125.9

May 2, 2009 income tax expense attributable to net earnings consists of:

	Current	Future	Total
Operations	\$ 128.9	\$ (12.6)	\$ 116.3
Capital gains and other items	0.7	(0.9)	(0.2)
	\$ 129.6	\$ (13.5)	\$ 116.1

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

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

	May 2, 2009	May 3, 2008
Property and equipment	\$ 119.4	\$ 125.9
Investments	6.5	8.1
Future employee benefits obligation	(33.3)	(30.9)
Restructuring provisions	(7.6)	(8.4)
Pension contributions	14.4	12.6
Deferred costs	(4.9)	3.2
Deferred credits	37.4	35.7
Goodwill and intangibles	34.0	29.8
Other	(33.7)	(17.6)
	\$ 132.2	\$ 158.4
Future income taxes – current liabilities	\$ 42.7	\$ 32.9
Future income taxes – non-current liabilities	89.5	125.5
	\$ 132.2	\$ 158.4

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 19 Supplementary Cash Flow Information

	2009	2008
a) Items not affecting cash		
Depreciation and amortization	\$ 324.8	\$ 304.6
Future income taxes	(13.5)	5.1
(Gain) loss on disposal of assets	(5.1)	1.3
Amortization of other assets	3.2	5.1
Provision on asset-backed commercial paper	3.7	7.5
Equity in earnings of other entities, net of dividends received	2.4	4.7
Minority interest	8.3	12.8
Stock-based compensation	1.2	2.5
Long-term lease obligation	7.1	11.9
Employee future benefits obligation	7.7	4.8
Rationalization costs (NOTE 28)	6.3	(6.2)
Reduction of book value of real estate assets	-	6.0
	\$ 346.1	\$ 360.1
b) Other cash flow information		
Net interest paid	\$ 80.5	\$ 103.9
Net income taxes paid	\$ 117.2	\$ 157.5

NOTE 20 Joint Ventures

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

	May 2, 2009	May 3, 2008
Assets	\$ 116.7	\$ 139.4
Liabilities	\$ 26.5	\$ 67.8
Equity and advances	90.2	71.6
	\$ 116.7	\$ 139.4
	2009	2008
Revenues	\$ 58.3	\$ 88.7
Expenses	23.9	36.8
Income before income taxes	\$ 34.4	\$ 51.9
Cash provided (used)		
Operating activities	\$ 35.4	\$ 74.8
Investing activities	(5.3)	(14.6)
Financing activities	(9.7)	(2.3)
	\$ 20.4	\$ 57.9

NOTE 21 Segmented Information

	2009	2008
Revenue		
Food retailing	\$ 14,764.8	\$ 13,768.1
Real estate		
Sobey Leased Properties Limited	–	20.6
Other commercial	16.4	19.9
Inter-segment	2.9	34.9
Residential	54.6	85.2
	73.9	160.6
Investment and other operations	179.3	171.2
	15,018.0	14,099.9
Elimination	(2.9)	(34.9)
	\$ 15,015.1	\$ 14,065.0

	2009	2008
Operating income		
Food retailing	\$ 401.4	\$ 359.0
Real estate		
Sobey Leased Properties Limited	–	30.0
Crombie REIT	19.8	13.6
Other commercial	2.5	5.7
Residential	33.6	50.7
Investment and other operations		
Wajax Income Fund	18.5	19.7
Other operations, net of corporate expenses	(7.7)	(6.1)
	\$ 468.1	\$ 472.6

	May 2, 2009	May 3, 2008
Identifiable assets		
Food retailing	\$ 4,279.0	\$ 4,052.7
Goodwill	1,130.6	1,119.0
	5,409.6	5,171.7
Real estate	223.1	282.0
Investment and other operations (including goodwill of \$40.8; May 3, 2008 – \$40.1)	265.3	279.2
	\$ 5,898.0	\$ 5,732.9

	May 2, 2009	May 3, 2008
Inventories		
Food retailing	\$ 750.7	\$ 731.9
Real estate – residential	90.4	86.6
Other operations	1.7	1.7
	\$ 842.8	\$ 820.2

	2009	2008
Depreciation and amortization		
Food retailing	\$ 301.8	\$ 276.2
Real estate	1.8	5.4
Investment and other operations	21.2	23.0
	\$ 324.8	\$ 304.6

	2009	2008
Capital expenditures		
Food retailing	\$ 382.7	\$ 481.2
Real estate	36.9	47.3
Investment and other operations	11.4	22.2
	\$ 431.0	\$ 550.7

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

NOTE 22 Financial Instruments

CREDIT RISK

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily ABCP (Note 7), accounts receivable, loans and other receivables, derivative contracts and guarantees.

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

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

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

	May 2, 2009
0 – 30 days	\$ 248.9
31 – 90 days	32.5
Greater than 90 days	68.5
Total receivables before allowance	349.9
for doubtful accounts	(31.2)
Less: allowance for doubtful accounts	(31.2)
Receivables	\$ 318.7

Interest earned on past due accounts is recorded as a reduction to cost of sales, selling and administrative expenses in the statement of earnings. Loans and other receivables are all current as of May 2, 2009.

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

in allowance for doubtful accounts is recorded as cost of sales, selling and administrative expenses in the statement of earnings and is presented as follows:

52 Weeks Ended	May 2, 2009
Allowance, beginning of year	\$ 28.7
Provision for losses	11.6
Recoveries	(2.4)
Write-offs	(6.7)
Allowance, end of year	\$ 31.2

LIQUIDITY RISK

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they come due. The Company actively maintains committed credit facilities to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements at a reasonable cost.

The Company monitors capital markets and the related conditions. Market conditions allowing, the Company will access debt capital markets for various long-term debt maturities and as other liabilities come due or as assessed to be appropriate in order to minimize risk and optimize pricing.

The following table summarizes the carrying amount and the contractual maturities of both the interest and principal portion of significant financial liabilities on an undiscounted basis as at May 2, 2009:

	2010	2011	2012	2013	2014	Thereafter	Total
Accounts payable	\$ 1,487.1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,487.1
Bank indebtedness	45.9	-	-	-	-	-	45.9
Interest rate swaps payable ⁽¹⁾	20.7	13.6	11.0	2.6	-	-	47.9
Long-term debt	205.3	372.7	82.8	261.8	62.5	1,044.3	2,029.4

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

May 2, 2009	Held for Trading (Required)	Held for Trading (Designated)	Available-for-Sale	Loans and Receivables	Other Financial Liabilities	Total Carry Amount	Fair Value
Financial assets							
Cash and cash equivalents	\$ -	\$ 231.6	\$ -	\$ -	\$ -	\$ 231.6	\$ 231.6
Receivables	-	-	-	318.7	-	318.7	318.7
Loans and other receivables	-	-	-	131.1	-	131.1	131.1
Investments	-	-	1.1	-	-	1.1	1.1
Other assets ⁽¹⁾	1.7	21.4	-	-	-	23.1	23.1
Total financial assets	\$ 1.7	\$ 253.0	\$ 1.1	\$ 449.8	\$ -	\$ 705.6	\$ 705.6
Financial liabilities							
Bank indebtedness	\$ -	\$ -	\$ -	\$ -	\$ 45.9	\$ 45.9	\$ 45.9
Accounts payable and accrued liabilities	-	-	-	-	1,487.1	1,487.1	1,487.1
Long-term debt	-	-	-	-	1,257.0	1,257.0	1,168.8
Other long-term liabilities ⁽²⁾	39.8	-	-	-	-	39.8	39.8
Total financial liabilities	\$ 39.8	\$ -	\$ -	\$ -	\$ 2,790.0	\$ 2,829.8	\$ 2,741.6

(1) The total carrying value of financial assets included in other assets is \$23.1.

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

May 3, 2008	Held for Trading (Required)	Held for Trading (Designated)	Available-for-Sale	Loans and Receivables	Other Financial Liabilities	Total Carry Amount	Fair Value
Financial assets							
Cash and cash equivalents	\$ -	\$ 191.4	\$ -	\$ -	\$ -	\$ 191.4	\$ 191.4
Receivables	-	-	-	291.1	-	291.1	291.1
Loans and other receivables	-	-	-	126.2	-	126.2	126.2
Investments	-	-	1.6	-	-	1.6	1.6
Other assets ⁽¹⁾	2.3	26.4	-	-	-	28.7	28.7
Total financial assets	\$ 2.3	\$ 217.8	\$ 1.6	\$ 417.3	\$ -	\$ 639.0	\$ 639.0
Financial liabilities							
Bank indebtedness	\$ -	\$ -	\$ -	\$ -	\$ 92.6	\$ 92.6	\$ 92.6
Accounts payable and accrued liabilities	-	-	-	-	1,348.4	1,348.4	1,348.4
Long-term debt	-	-	-	-	1,480.9	1,480.9	1,415.0
Other long-term liabilities ⁽²⁾	21.7	-	-	-	-	21.7	21.7
Total financial liabilities	\$ 21.7	\$ -	\$ -	\$ -	\$ 2,921.9	\$ 2,943.6	\$ 2,877.7

(1) The total carrying value of financial assets included in other assets is \$28.7.

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

INTEREST RATE RISK

Interest rate risk is the potential for financial loss arising from changes in interest rates. Financial instruments that potentially subject the Company to interest rate risk include financial liabilities with floating interest rates. The majority of the Company's long-term debt is at a fixed interest rate or hedged with interest rate swaps. Bank indebtedness and approximately 20 percent of the Company's long-term debt is exposed to interest rate risk due to floating rates.

Net earnings is sensitive to the impact of a change in interest rates on the average balance of interest bearing financial liabilities during the period. For the year ending May 2, 2009, the Company's average floating-rate indebtedness

was \$772.2 of which \$420.0 has been hedged with interest rate swaps. Accordingly, a difference of 0.25 percent in the applicable interest rate would impact net earnings by \$0.6 and other comprehensive income by \$1.5.

FOREIGN CURRENCY EXCHANGE RISK

The Company conducts the vast majority of its business in Canadian dollars. The Company's foreign currency exchange risk principally relates to purchases made in U.S. dollars. In addition, the Company also uses forward contracts to fix the exchange rate on some of its expected requirements for Euros and U.S. dollars. Amounts received or paid related to instruments used to hedge foreign exchange, including any gains and losses, are recognized in the cost of purchases. The Company estimates that a 10 percent increase (decrease) in applicable foreign currency exchange rates would impact net earnings by \$6.1 and other comprehensive income by \$1.6.

COMMODITY PRICE RISK

Commodity price risk is the risk that the fair value of certain financial instruments or the Company's future cash flows will fluctuate as a result of changes in the market price of commodities. The Company has attempted to mitigate commodity price risk to electricity prices through the use of financial derivative swap contracts while closely monitoring other commodity prices to determine the appropriate course of action. The Company estimates that a 10 percent increase (decrease) in applicable commodity prices would impact other comprehensive income by \$0.6.

NOTE 23 Guarantees, Commitments and Contingent Liabilities

GUARANTEES AND COMMITMENTS

At May 2, 2009, the Company was contingently liable for letters of credit issued in the aggregate amount of \$55.3 (May 3, 2008 – \$60.3).

Sobeys has guaranteed certain bank loans contracted by franchise affiliates. As at May 2, 2009, these loans amounted to approximately \$0.5 (May 3, 2008 – \$1.3).

During 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 \$6.0 or 9.9 percent (2008 – \$5.0 or 9.9 percent) of the authorized and outstanding obligation. The terms of the guarantee contract are reviewed annually each August. As at May 2, 2009, the amount of the guarantee was \$6.0 (May 3, 2008 – \$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 fulfil 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.

During the third quarter of fiscal 2009, Sobeys entered into an additional credit enhancement contract in the form of a standby letter of credit for certain independent franchisees for the purchase and installation of equipment. Under the terms of the contract should a franchisee affiliate be unable to fulfill their lease obligation or other remedy, Sobeys would be required to fund the greater of \$4.0 or 10 percent of the authorized

and outstanding obligation annually. Under the terms of the agreement, Sobeys is required to obtain a letter of credit in the amount of the outstanding guarantee, to be revisited each calendar year. This credit enhancement allows Sobeys to provide favorable financing terms to certain independent franchisees. The contract terms have been reviewed and Sobeys determined that there were no material implications with respect to the consolidation of VIEs. As at May 2, 2009, the amount of the guarantee was \$4.0.

The aggregate, annual, minimum rent payable under the guaranteed operating equipment leases for fiscal 2010 is approximately \$25.5. The guaranteed lease commitments over the next five years are:

	Third Parties	
2010	\$	25.5
2011		14.8
2012		16.7
2013		11.4
2014		4.2
Thereafter		2.0

The net aggregate, annual, minimum rent payable under operating leases for fiscal 2010 is approximately \$235.1 (\$308.4 gross less expected sub-lease income of \$73.3). The commitments over the next five fiscal years are:

	Third Parties		Related Parties	
	Net Lease Obligation	Gross Lease Obligation	Net Lease Obligation	Gross Lease Obligation
2010	\$ 196.7	\$ 270.0	\$ 38.4	\$ 38.4
2011	176.3	246.2	37.6	37.6
2012	162.6	228.7	34.5	34.5
2013	154.2	215.5	34.0	34.0
2014	147.7	203.9	35.4	35.4
Thereafter	965.3	1,354.3	407.0	407.0

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 of its obligations under the lease. The remaining term of the lease is 11 years with an aggregate obligation of \$34.6 (2008 – \$37.5). 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 had been reassessed in respect to the tax treatment of gains realized on the sale of shares in Hannaford Bros. Co. ("Hannaford") in fiscal 2001. The Company had appealed the reassessments in respect of the sale of Hannaford shares. Subsequent to May 2, 2009, the Company and CRA concluded negotiations and jointly requested a court order which, if approved, would result in a reduction of income tax expense of approximately \$17.0 in the first quarter of fiscal 2010.

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 24 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 provided

Crombie REIT with fixed rate second mortgages in the amount of \$6.2. The second mortgages have a weighted average interest rate of 5.38% with a maturity date of March 2014. In addition, the Company has non-interest bearing notes payable to Crombie REIT in the amount of \$10.5.

NOTE 25 Employee Future Benefits

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

DEFINED CONTRIBUTION PENSION PLANS

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

OTHER BENEFIT PLANS

The Company also offers certain employee post-retirement and post-employment benefit plans which are not funded and include health care, life insurance and dental benefits.

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, 2008	May 1, 2011
Senior Management Pension Plan	May 1, 2008	May 1, 2011
Other Benefit Plans	May 1, 2008	May 1, 2011

DEFINED CONTRIBUTION PLANS

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

2009	\$	19.1
2008		18.6

DEFINED BENEFIT PLANS

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

	Pension Benefit Plans 2009	Pension Benefit Plans 2008	Other Benefit Plans 2009	Other Benefit Plans 2008
Accrued benefit obligation				
Balance, beginning of year	\$ 269.1	\$ 288.7	\$ 116.4	\$ 116.6
Current service cost, net of employee contributions	1.8	2.2	3.8	2.7
Interest cost	14.3	13.9	6.7	6.1
Employee contributions	0.3	0.3	–	–
Benefits paid	(20.2)	(20.5)	(3.3)	(3.5)
Past service costs	0.2	0.1	–	–
Actuarial gains	(15.7)	(15.6)	(15.1)	(5.5)
Balance, end of year	\$ 249.8	\$ 269.1	\$ 108.5	\$ 116.4
Plan assets				
Market value, beginning of year	\$ 252.5	\$ 283.3	\$ –	\$ –
Actual return on plan assets	(36.4)	(13.0)	–	–
Employer contributions	5.8	2.5	3.3	3.4
Employee contributions	0.3	0.3	–	–
Benefits paid	(20.1)	(20.5)	(3.3)	(3.4)
Surplus payments to members	–	(0.1)	–	–
Market value, end of year	\$ 202.1	\$ 252.5	\$ –	\$ –
Funded status				
Deficit	\$ (47.7)	\$ (16.5)	\$ (108.5)	\$ (116.4)
Unamortized past service cost	0.4	0.4	0.6	0.6
Unamortized actuarial losses (gains)	86.1	50.8	(10.5)	5.1
Accrued benefit asset (liability)	\$ 38.8	\$ 34.7	\$ (118.4)	\$ (110.7)
Expense				
Current service cost, net of employee contributions	\$ 1.8	\$ 2.2	\$ 3.8	\$ 2.6
Interest cost	14.3	13.9	6.6	6.1
Actual return on plan assets	36.4	13.0	–	–
Actuarial gains	(15.6)	(15.6)	(15.0)	(5.5)
Past service costs	0.1	0.1	–	–
Surplus payments to members	–	0.1	–	–
Expense (income) before adjustments	37.0	13.7	(4.6)	3.2
Expected vs. actual return on plan assets	(53.4)	(32.2)	–	–
Recognized vs. actual past service costs	0.1	0.1	0.1	0.1
Recognized vs. actuarial gains (losses)	18.0	16.0	15.5	5.0
Net expense (income)	\$ 1.7	\$ (2.4)	\$ 11.0	\$ 8.3
Classification of accrued benefit asset (liability)				
Other asset	\$ 63.1	\$ 58.2	\$ –	\$ –
Other liability	(24.3)	(23.5)	(118.4)	(110.7)
Accrued benefit asset (liability)	\$ 38.8	\$ 34.7	\$ (118.4)	\$ (110.7)

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

	Pension Benefit Plans 2009	Pension Benefit Plans 2008	Other Benefit Plans 2009	Other Benefit Plans 2008
Accrued benefit obligation	\$ 24.3	\$ 23.5	\$ 118.4	\$ 110.7

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligation are as follows (weighted-average assumptions as of May 2, 2009):

	Pension Benefit Plans 2009	Pension Benefit Plans 2008	Other Benefit Plans 2009	Other Benefit Plans 2008
Discount rate	6.25%	5.25%	6.00%	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 percent fiscal 2009 annual rate of increase in the per capita cost of covered health care benefits was assumed. The cumulative rate expectation to 2019 is 5 percent. The EARSL 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 EARSL of the active employees covered by the other benefit plans range from 11 to 15 years with a weighted average of 14 years at year end.

The table below outlines the sensitivity of the fiscal 2009 key economic assumptions used in measuring the accrued benefit plan obligation and related expense of the Company's pension and other benefit plans. The sensitivity of each key assumption has been calculated independently. Changes to more than one assumption simultaneously may amplify or reduce impact on the accrued benefit obligation or benefit plan expense.

	Pension Plans		Other Benefit Plans	
	Benefit Obligation	Benefit Cost ⁽¹⁾	Benefit Obligation	Benefit Cost ⁽¹⁾
Expected long-term rate of return on plan assets		7.00%		
Impact of: 1% increase		\$ (2.0)		
1% decrease		\$ 2.0		
Discount rate ⁽²⁾	6.25%	6.25%	6.00%	6.00%
Impact of: 1% increase	\$ (25.9)	\$ 0.2	\$ (15.1)	\$ (0.9)
1% decrease	\$ 29.1	\$ (0.5)	\$ 18.1	\$ 1.0
Growth rate of health costs ⁽³⁾			9.00%	9.00%
Impact of: 1% increase			\$ 14.5	\$ 1.8
1% decrease			\$ (12.2)	\$ (1.4)

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

(2) 6.00% for the Employee Pension Plan and the Post Retirement Benefit Plan

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

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

	2009	2008
Cash and short-term investments	3.43%	2.91%
Bonds, debentures, fixed income pooled funds and real estate funds	36.09%	25.51%
Equities and pooled equities fund	60.52%	70.26%
Accrued interest and dividends	0.21%	0.26%
Foreign currency hedges	(0.25%)	1.06%
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:

	2009	% of Plan Assets	2008	% of Plan Assets
	\$ 104.4	13.7%	\$ 80.8	9.0%

NOTE 26 Business Acquisitions

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

certain franchise stores and non-franchise stores resulted in the acquisition of intangible assets. The method of amortization of limited life intangibles is on a straight-line basis over its estimated useful life.

	2009	2008
Franchisees		
Inventory	\$ 8.7	\$ 6.6
Property and equipment	5.9	5.1
Intangibles	7.6	5.9
Goodwill	14.3	1.2
Other assets (liabilities)	0.9	(1.5)
Cash consideration	37.4	17.3
Prescription files		
Intangibles	3.2	2.5
Net assets acquired	40.6	19.8
Less promissory note issued	(3.5)	—
Cash consideration	\$ 37.1	\$ 19.8

ETL Canada Holdings Limited (a subsidiary of the Company) acquired all of the outstanding shares of an incorporated joint venture already co-owned by the Company for cash consideration of \$4.3. The acquisition was accounted for using the purchase method with net identifiable assets recorded at \$3.6 (including intangible assets of \$0.2) and goodwill at \$0.7.

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 to measure and allocate the excess consideration paid over net assets acquired. The final purchase price allocation, incorporating management's assessment of fair value, was as follows:

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

NOTE 27 Stock-Based Compensation

DEFERRED SHARE UNITS

Members of the Board of Directors may elect to receive all or any portion of their fees in deferred share units ("DSUs") in lieu of cash. The number of DSUs received is determined by the market value of the Company's Non-Voting Class A shares on each director's fee payment date. Additional DSUs are received as dividend equivalents. DSUs cannot be redeemed for cash until the holder is no longer a director of the Company. The redemption value of a DSU equals the market value of an Empire Company Limited Non-Voting Class A share at the time of the redemption. On an ongoing basis, the Company values the DSU obligation at the current market value of a corresponding number of Non-Voting Class A shares and records any increase in the DSU obligation as an operating expense. At May 2, 2009, there were 84,195 (May 3, 2008 – 64,877) DSUs outstanding. During the year, the compensation expense was \$1.8 (2008 – \$0.5).

STOCK OPTION PLAN

During fiscal 2009, the Company granted an additional 189,967 options under the stock option plan for employees of the Company whereby options are granted to purchase Non-Voting Class A Shares. These options allow holders to purchase Non-Voting Class A Shares at \$40.26 per share and expire in June 2016. The options vest over four years with 50 percent of the options vesting only if certain financial

targets are attained in a given fiscal year. These options have been treated as stock-based compensation.

The compensation cost relating to the year was determined to be \$1.2 (2008 – \$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 was \$1.2. The compensation cost was calculated using the Black-Scholes model with the following assumptions:

Expected life	8 years
Risk-free interest rate	3.50%
Expected volatility	20.1%
Dividend yield	1.75%

SHARE PURCHASE PLAN

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

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

PHANTOM PERFORMANCE OPTION PLAN

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. Upon implementation, the units had a three year vesting period with 33.3 percent of the units vesting each year. Subsequent issuances have a four year vesting period with 25.0 percent of the units vesting each year. As the notional fair value of Sobeys changes, the employees are entitled to the incremental increase in the notional equity value over a five year

period. The Company recognizes a compensation expense equal to the change in notional value over the original grant value on a straight-line basis over the vesting period. After the vesting period, any change in incremental notional equity value is recognized as a compensation expense immediately. This is recorded as an accrued liability until settlement and is remeasured at each interim and annual reporting period of the Company. As at May 2, 2009, 1,069,413 (May 3, 2008 – 518,579) units were outstanding and the Company recognized \$6.1 (2008 – \$0.1) of compensation expense associated with this plan.

NOTE 28 Business Rationalization Costs

For the year ended May 2, 2009, severance costs of \$10.7 (2008 – \$(1.8)) have been incurred and recognized. The costs associated with the organizational change are recorded as incurred as cost of sales, selling and administrative expenses in the statement of earnings. The liability as of May 2, 2009 is \$12.2 (May 3, 2008 – \$5.9). Costs incurred as of May 2, 2009 were \$27.7.

NOTE 29 Variable Interest Entities

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

The Company has identified the following entities as VIEs:

FRANCHISE AFFILIATES

The Company has identified 271 (May 3, 2008 – 292) franchise affiliate stores whose franchise agreements result in the Company being deemed the primary beneficiary of the entity according to AcG-15. The results for these entities were consolidated with the results of the Company.

WAREHOUSE AND DISTRIBUTION AGREEMENT

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

NOTE 30 Subsequent Events

- a) On June 12, 2009, Sobeys repaid, although did not cancel, the \$75.0 credit facility which matures on November 8, 2010.
- b) On June 25, 2009, Crombie REIT closed a bought-deal public offering of units at a price of \$7.80 per unit. In satisfaction of its pre-emptive right with respect to the public offering, the Company subscribed for \$30.0 of Class B Units (which are convertible on a one-for-one basis into units of Crombie REIT). Consequently the Company's interest in Crombie REIT was reduced from 47.9% to 47.4%.
- c) On July 23, 2009, Sobeys finalized an agreement to sell and leaseback a retail support centre located in Milton, Ontario to a third party. Proceeds on the sale will be \$51.0 resulting in a pre-tax gain of \$5.6. A long-term lease agreement has been agreed to for the use of the property with the gain being amortized over the term of the lease.

NOTE 31 Comparative Figures

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

eleven-year financial review

Years Ended ⁽¹⁾	2009	2008	2007 Restated	2006 Restated
Financial Results (\$ in millions; except ROE)				
Revenue	\$ 15,015.1	\$ 14,065.0	\$ 13,366.7	\$ 13,063.6
Operating income	468.1	472.6	431.1	491.4
Interest expense	80.6	105.8	60.1	83.8
Income taxes	116.1	125.9	116.9	153.1
Minority interest	8.3	12.8	55.4	67.1
Earnings from continuing operations before net capital gains and other items	262.9	242.8	200.1	202.0
Earnings from discontinued operations ⁽²⁾	–	–	–	–
Operating earnings ⁽³⁾	262.9	242.8	200.1	202.0
Capital gains (losses) and other items, net of tax	3.0	73.0	5.7	94.8
Net earnings	265.9	315.8	205.8	296.8
Return on equity	10.5%	14.0%	10.1%	16.2%
Financial Position (\$ in millions)				
Total assets	5,898.0	5,732.9	5,241.5	5,051.5
Long-term debt (excluding current portion)	1,124.0	1,414.1	792.6	707.3
Shareholders' equity	2,683.5	2,382.3	2,131.1	1,965.2
Per Share Data on a Fully Diluted Basis (\$ per share)				
Operating earnings	3.99	3.69	3.04	3.07
Capital gains (losses) and other items, net of tax	0.05	1.11	0.09	1.44
Net earnings	4.04	4.80	3.13	4.51
Dividends				
Non-Voting Class A shares	0.700	0.660	0.600	0.560
Class B common shares	0.700	0.660	0.600	0.560
Book value	39.14	36.14	32.31	29.77
Share Price, Non-Voting Class A Shares (\$ per share)				
High	55.05	55.19	45.25	44.35
Low	35.00	35.40	39.49	33.37
Close	49.00	39.25	42.33	43.29
Diluted weighted average number of shares outstanding (in millions)				
	65.8	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, fiscal 2008, which ended May 3, 2008, and fiscal 2009, which ended May 2, 2009, 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 fiscal 2002.

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

	2005	2004	2003	2002	2001	2000	1999
\$	12,435.2	\$ 11,284.0	\$ 10,624.2	\$ 9,926.5	\$ 9,331.1	\$ 9,100.1	\$ 5,362.7
	463.7	422.8	444.4	416.2	341.1	309.7	184.4
	86.7	92.4	93.7	111.6	145.8	159.6	112.6
	131.2	111.0	120.0	104.8	131.9	68.1	49.1
	63.6	58.5	67.5	50.0	34.3	32.9	9.2
	182.9	163.3	159.3	123.5	78.5	78.8	59.0
	-	-	-	8.7	10.0	5.9	1.1
	182.9	163.3	159.3	132.2	88.5	84.7	60.1
	3.7	9.2	(6.0)	63.7	491.5	2.1	74.9
	186.6	172.5	153.3	195.9	580.0	86.8	135.0
	11.4%	11.6%	11.4%	16.4%	69.1%	13.3%	21.7%
	4,929.2	4,679.7	4,519.3	4,318.0	4,254.3	4,171.0	4,023.5
	727.4	913.0	923.1	975.0	1,107.2	1,332.0	1,391.8
	1,709.0	1,567.6	1,418.5	1,290.6	1,115.0	602.8	737.5
	2.78	2.47	2.42	2.00	1.33	1.10	0.78
	0.05	0.14	(0.09)	0.97	7.49	0.03	1.00
	2.83	2.61	2.33	2.97	8.82	1.13	1.78
	0.480	0.400	0.330	0.214	0.170	0.140	0.136
	0.480	0.400	0.330	0.214	0.170	0.140	0.136
	25.87	23.67	21.41	19.47	16.82	8.73	9.03
	38.00	29.50	33.25	33.30	18.25	16.98	16.27
	24.25	23.10	23.70	15.75	13.88	12.33	12.50
	36.66	26.65	23.85	28.88	17.00	16.05	13.00
	65.7	65.8	65.8	65.7	65.6	75.6	75.0

glossary

BOOK VALUE PER SHARE

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

CAGR

Compound Annual Growth Rate

CAPITAL EXPENDITURES

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

ROE (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

Empire Company Limited

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

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
E-mail: investor.relations@empireco.ca

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, 2009, 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)

88,262

Dividend Record and Payment Dates for Fiscal 2010

Record Date	Payment Date
July 15, 2009	July 31, 2009
October 15, 2009*	October 30, 2009*
January 15, 2010*	January 29, 2010*
April 15, 2010*	April 30, 2010*

* Subject to approval by Board of Directors

Outstanding Shares

As of June 26, 2009

Non-Voting Class A shares	34,197,498
Class B common shares, voting	34,260,763

Transfer Agent

CIBC Mellon Trust Company
Investor Correspondence
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario
M5C 2W9
Telephone: (800) 387-0825
E-mail: enquires@cibcmellon.com

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.

EMPIRE

COMPANY LIMITED



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