

THE POWER OF ONE

2012
ANNUAL
REPORT



EMPIRE
COMPANY LIMITED

Empire Company Limited (TSX: EMP.A) is a Canadian company headquartered in **Stellarton, Nova Scotia**. Our core businesses include food retailing and related real estate. With more than \$16 billion in annual sales and approximately \$6.9 billion in assets, Empire and its subsidiaries directly employ approximately 47,000 people.

2012 FINANCIAL HIGHLIGHTS

(\$ in millions, except per share amounts)	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Operations		
Sales	\$ 16,249.1	\$ 15,956.8
Operating income	534.3	525.7
Adjusted net earnings ⁽¹⁾	320.6	303.2
Net earnings ⁽²⁾	339.4	400.6
Per Share Information		
Adjusted net earnings (fully diluted) ⁽¹⁾	\$ 4.71	\$ 4.45
Net earnings (fully diluted) ⁽²⁾	4.99	5.87
Book value	49.98	46.48
Dividends	0.90	0.80

- (1) Adjusted net earnings, net of minority interest, excludes items which are considered not indicative of underlying business operating performance.
(2) Net earnings, net of minority interest.
(3) Compound Annual Growth Rate.

FORWARD-LOOKING STATEMENTS

This annual report 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 annual report, 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. Expressions such as "anticipates", "expects", "believes", "estimates", "intends", "could", "may", "plans", "will", "would" and other similar expressions or the negative of these terms are generally indicative of forward-looking statements.

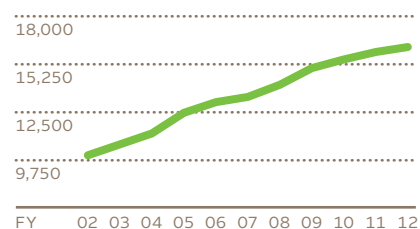
For additional information and a caution on the use of forward-looking information, see the section in Management's Discussion and Analysis ("MD&A") entitled "Forward-Looking Information".

NOTE

All information for fiscal 2012, fiscal 2011 and the opening balance sheet dated May 2, 2010 has been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and is reported in Canadian dollars.

There are measures included in this annual report that do not have a standardized meaning under GAAP. Additional information relating to non-GAAP financial measures is provided on page 27 of the MD&A entitled "Non-GAAP Financial Measures".

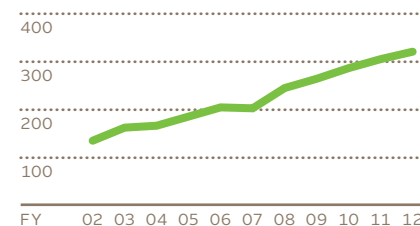
SALES (\$ in millions)



5.1%

10-Year Sales CAGR⁽³⁾

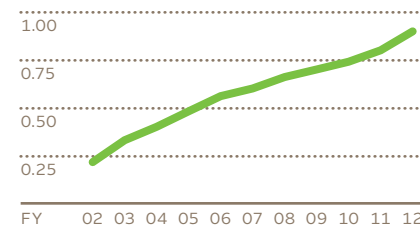
ADJUSTED NET EARNINGS⁽¹⁾ (\$ in millions)



9.3%

10-Year Adjusted Net Earnings⁽¹⁾ CAGR⁽³⁾

DIVIDENDS (\$ per share)



15.5%

10-Year DPS CAGR⁽³⁾



THE POWER OF **ONE**

Since the privatization of Sobeys five years ago, Empire has focused its energy and resources on the businesses we know best – food retailing and related real estate – as never before. Today we are harnessing our power as one organization to make Sobeys widely recognized as the best food retailer and workplace environment in Canada.

“Sobeys remains committed to extending its national presence, improving its cost structure and productivity, and enriching the shopping experience of its customers.”

PAUL D. SOBEY
President and CEO
Empire Company Limited



Bill M'Ewan, Paul D. Sobey, Marc Poulin

BUILDING VALUE AS ONE ORGANIZATION

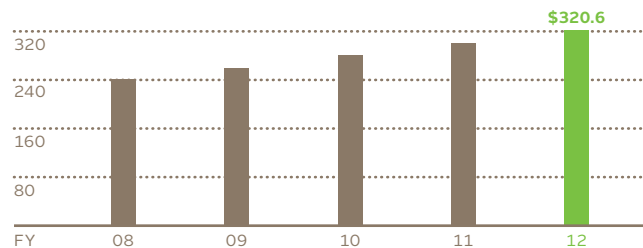
Fiscal 2012 was another year of steady progress as our food retailing and related real estate businesses worked closely together to support Sobeys' goal to be widely recognized as the best food retailer and workplace environment in Canada. The same commitment to excellence was at work within Sobeys, where a series of important initiatives is setting the stage for a higher level of performance.

The decision we made five years ago to focus our business squarely on food retailing and related real estate continued to serve Empire's stakeholders well in fiscal 2012. Amid an intensely competitive food retailing market and an improving but fragile economy, the Company achieved sales of \$16.25 billion, or 3.0 percent growth over last year, after adjusting for the impact of the additional week of operations last year and the acquisition of 236 retail gas locations and related convenience store operations. Net earnings, net of minority interest, were \$339.4 million or \$4.99 per share compared to \$400.6 million or \$5.87 per share for the previous year. Fiscal 2012 net earnings included gains on the disposal of assets of \$17.9 million, while net earnings last fiscal year included \$76.2 million in gains associated with the sale of our interest in the Wajax Income Fund and \$16.4 million in gains on disposal of assets, in addition to the benefit of an additional week of operations. After adjusting net earnings for the impact of the Wajax sale and the additional week of operations last year and for items which are considered not indicative of underlying business operating performance, adjusted net earnings, net of minority interest, were \$320.6 million or \$4.71 per share compared to \$303.2 million or \$4.45 per share in fiscal 2011, a 5.7 percent increase.

FOOD RETAILING

Sobeys' sales reached \$16.0 billion in fiscal 2012, a 1.8 percent increase from fiscal 2011, which contained \$313.6 million in sales from an additional week of operations. Same-store

CONSOLIDATED ADJUSTED NET EARNINGS⁽¹⁾ (\$ in millions)



(1) Adjusted net earnings, net of minority interest.

Consolidated adjusted net earnings have grown at an average annual rate of 9.9 percent over the last five years.

sales were up 1.4 percent, largely driven by merchandising initiatives. Overall industry growth remained modest due to intense promotional activity and a steady increase in retail square footage.

These challenges are nothing new for our food retailing business. During the past five years we have made significant investments in the expansion and modernization of our store and distribution networks, the efficiency of our business processes and the development of compelling product and service offerings in five distinct retail formats that have strengthened the loyalty of our customers. Along the way we've been guided by a passionate, food-focused strategy that's been fuelled by our fresh expertise and supported by an unwavering commitment to superior execution and unrivalled customer service.

As a leading Canadian food retailer Sobeys continues to make progress as demonstrated by growth in adjusted net earnings and continued advancement of its strategic initiatives. But our competitors are not standing still. Creating a healthy and sustainable business for the long term requires continuous progress, particularly in an environment of intense price competition that shows no signs of abating.

In fiscal 2012, Sobeys began a process of organizational realignment that's designed to optimize the company's performance as a more integrated national organization.

\$320.6 MILLION

Empire posted record adjusted net earnings in fiscal 2012.

As part of the organizational realignment, our former regional management structure has been replaced by two business units, both of which employ a format-based management approach. Our Sobeys Multi-Format Operations manages all formats and banners with the exception of Sobeys IGA Operations, which is responsible for the Québec market. Both business units are supported by business functions that are focused on reducing complexities, eliminating redundancies and fully harnessing Sobeys' scale as a \$16 billion company. Many of these initiatives have been made possible by the enterprise-wide implementation of SAP, which will be completed in Québec later this year.

While this realignment is expected to significantly improve the company's cost position in an increasingly competitive market, Sobeys' core food-focused strategy, including the ability to tailor offerings to meet local market preferences, will not change.

At the same time, Sobeys continues to refine their merchandising approach in each retail format, particularly full service, with new product and service offerings that are aimed at creating more intimate and enduring relationships with customers and successfully positioning Sobeys as "champions of the affordable better food movement". You can expect to see some of these enhancements take shape at the Sobeys, IGA *extra* and Thrifty Foods banners over the next year.

Sobeys' commitment to innovation has also led to some other significant growth opportunities with several strategic partnerships that are outside, but complementary to, conventional channels of growth. In September 2011, Sobeys announced a long-term wholesale distribution arrangement to supply Target Canada with select food and grocery products, including private label brands. This mutually beneficial agreement will help Sobeys in many ways – from increased wholesale sales to improved purchasing power and supply chain efficiencies – that will lower our costs.

During the fourth quarter of fiscal 2012, Sobeys completed the acquisition of 236 retail gas locations and related convenience store locations from Shell Canada, of which 189 are located in Québec and 47 are located in Atlantic Canada.

The acquired network includes corporate-owned and dealer-operated locations with annual fuel volumes in excess of 1 billion litres. This transaction increases the market presence of our convenience business while enhancing the growth of our wholesale businesses.

INVESTMENTS AND OTHER OPERATIONS

With the change to IFRS accounting rules in fiscal 2012, this new reporting segment is comprised principally of our 44.3 percent ownership interest in Crombie REIT, our approximate 40.0 percent ownership interest in Genstar and wholly-owned Empire Theatres.

The relationship between Empire and Crombie REIT continues to represent an important strategic partnership that delivers substantial benefits for both companies. For Empire, the creation of Crombie REIT has supported Sobeys' expansion and the value of its commercial real estate assets. Our ownership interest in Crombie REIT also provides the benefits of commercial real estate ownership, including steady income growth and capital appreciation, with a like-minded partner. For Crombie REIT investors, the relationship provides preferred access to high-quality retail properties that serve the everyday needs of consumers in both stable and growing communities across Canada. During fiscal 2012, Crombie REIT purchased seven properties from Sobeys for \$99.0 million with additional planned development in the pipeline going forward.

Crombie REIT posted solid financial results in its fiscal year ending December 31, 2011 with property revenue and net operating income reaching new records. The operating income contribution to Empire reached \$19.7 million in our fiscal year 2012, up from \$18.4 million a year earlier, with an annualized cash flow contribution of \$32.7 million. At fiscal year-end, the market value of our 44.3 percent ownership interest in Crombie REIT equalled \$520.7 million as Crombie REIT's market capitalization increased to more than \$1 billion. At the same time, Crombie REIT's skilled management team has created a foundation for accelerated growth by building their bench strength and profile in the third-party acquisition market. Crombie REIT completed a \$254.6 million third-party acquisition of 22 retail properties on April 10, 2012, adding approximately 850,000 square feet of rentable space to its portfolio and significantly advancing Crombie REIT's geographic diversification strategy.

Genstar's operating income contribution of \$30.0 million exceeded our expectations in fiscal 2012, reflecting an increase in the average residential lot selling price and improvement in its core Western Canada real estate market. Genstar's exceptional management team continues to focus on adding land positions in Western Canada and other

selective North American markets to position the company for future growth.

We also continue to be pleased with the performance of Empire Theatres, which posted higher sales and net income during fiscal 2012. Attendance levels were strong thanks to a steady supply of popular releases, ongoing investment in digital and 3D projection, and online marketing and other promotional initiatives.

OUTLOOK

As always, we will remain focused on long-term value creation in the businesses we know and understand best. Although the Canadian food retailing industry will remain extremely competitive, we expect Sobeys to make continued progress toward its goal of being widely recognized as the best food retailer and workplace environment in Canada. Sobeys remains committed to extending its national presence, improving its cost structure and productivity, and enriching the shopping experience of its customers. We are confident that Sobeys' organizational realignment and ongoing investments bode well for the Company's continued success.

We are similarly optimistic about the prospects for our related real estate business through our investments in Crombie REIT and Genstar. Crombie REIT has succeeded in building a strong platform for growth in what we believe to be the steadiest performing segment in the commercial real estate industry. Our investment in Genstar also continues to provide attractive returns. Given its proven management team and attractive land bank, we feel Genstar is well positioned for future growth, particularly as the residential real estate market strengthens.

Our Empire Theatres' operation and brand has never been stronger. As a result of management's focus on executing operating and marketing initiatives, modernizing facilities and improving technology, we look forward to ongoing growth in this business.

In closing, I would like to extend my sincere appreciation to the employees, franchisees and affiliates of Empire and its related companies for their continued valued contributions to our success during the year. As a result of their enthusiasm, passion and dedication to serving our customers, I am confident that the best is yet to come.

We would like to acknowledge the contribution of Malen Ng who will not be standing for re-election to the Board of Directors. Malen has made a significant contribution to both Empire and Sobeys for the past 11 years. Malen's insight and advice to our Board and management have been invaluable and we thank her for her dedicated service.

On behalf of our employees, franchisees and affiliates, along with the Board and the Sobeys family, we extend our heartfelt appreciation and best wishes to Bill M^cEwan, who stepped down as President and CEO of Sobeys on June 28, 2012. Bill's inspired leadership for more than 11 years has resulted in Sobeys growing sales from \$9.1 billion to \$16.0 billion and has resulted in growth in net earnings by more than 200 percent over that period. We will miss his leadership and insight and sincerely wish him all the best.

We are very excited about the appointment of Marc Poulin as the President and CEO of Sobeys. It is a testament of the depth of our organization that we have an individual of Marc's talent to succeed Bill. We are confident that his knowledge and leadership will serve Sobeys well in the years ahead.



PAUL D. SOBEY
President and CEO
Empire Company Limited
June 28, 2012

“Bill’s vision and commitment propelled the company forward and laid the foundation for sustainable long-term growth.”



ONE INTEGRATED GROWTH STRATEGY

FOOD RETAILING



Each of Sobeys' five core formats – full-service, fresh service, community service, discount service and convenience service – is designed to ensure we have an optimal product and service offering in each market we serve.

COMPETITIVE STRENGTHS

- Our passionate, “best-in-food” focus supported by our fresh expertise.
- An organizational realignment that is designed to improve our sales and productivity performance, while also enriching our customer shopping experience.
- Industry-leading customer insight capabilities are helping us build stronger one-to-one relationships with our customers.

STRATEGIC PRIORITIES

- Improving operational execution through the continued engagement and training of our employees, and our ongoing investment in tools and processes.
- Completing the SAP system implementation in Québec.
- Continuing to deliver innovative product and service offerings.

INVESTMENTS AND OTHER OPERATIONS



This reporting segment is comprised of Empire's equity investments in Crombie REIT and Genstar, as well as wholly-owned Empire Theatres.

COMPETITIVE STRENGTHS

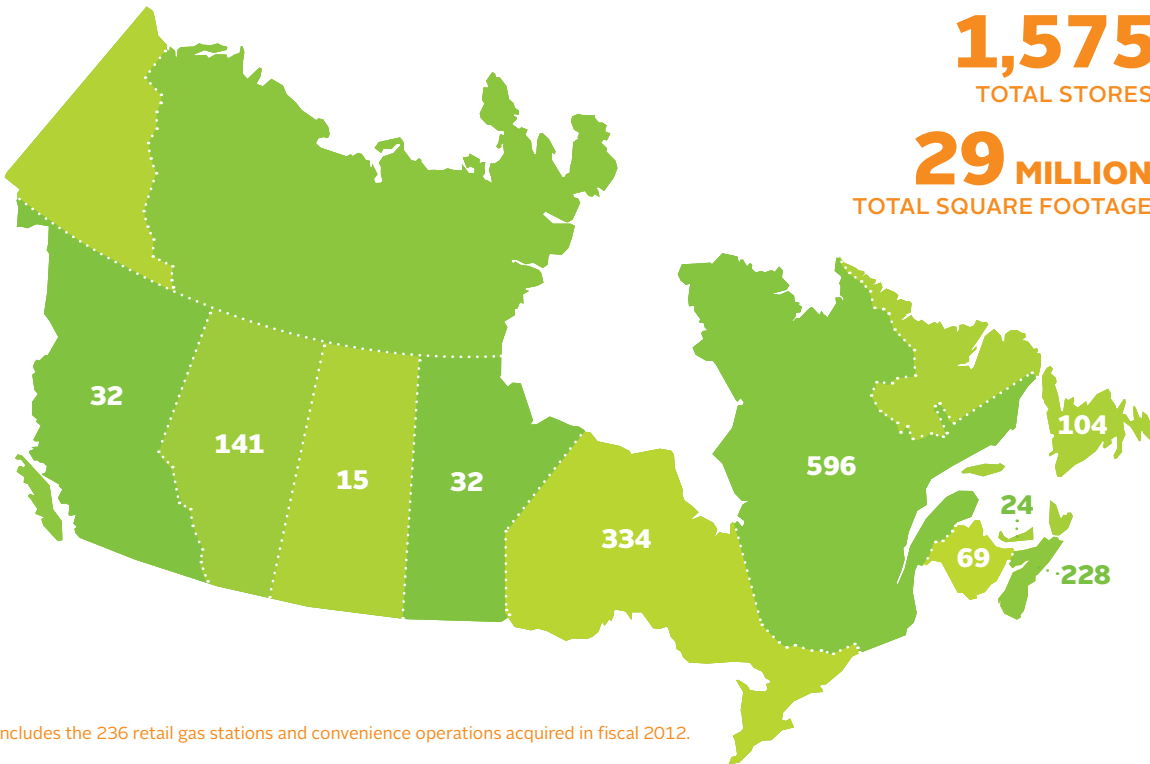
- Crombie REIT and its relationship with Sobeys provides an opportunity to enhance the value of Sobeys' real estate developments, while also participating in Crombie REIT's success in third-party acquisitions.
- Genstar provides exposure to attractive residential real estate and insight into prospective food-anchored retail development.
- Empire Theatres, the second largest movie exhibitor in Canada, has proven to be an attractive entertainment destination.

STRATEGIC PRIORITIES

- Ongoing development of Sobeys' property pipeline which will be first offered for sale to Crombie REIT in support of its geographical diversification and profitable growth.
- Reinvesting cash distributions from Crombie REIT, Genstar and Empire Theatres to support their respective growth and development.

NATIONAL REACH

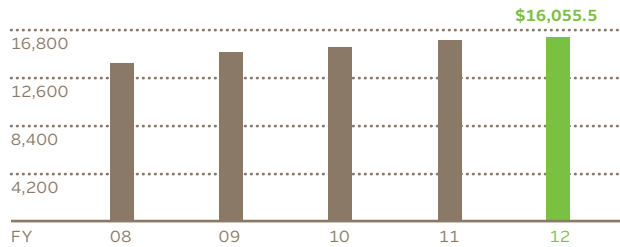
(number of corporate and franchised stores by province)



*Includes the 236 retail gas stations and convenience operations acquired in fiscal 2012.

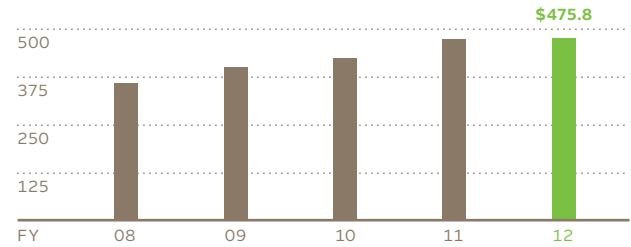
FOOD RETAILING SALES

(\$ in millions)



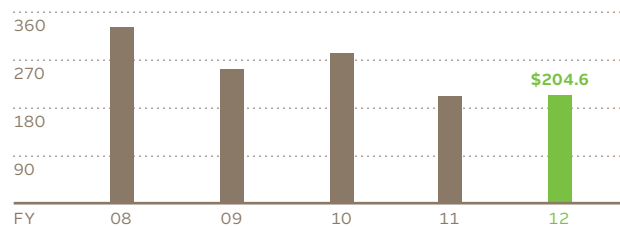
FOOD RETAILING OPERATING INCOME

(\$ in millions)



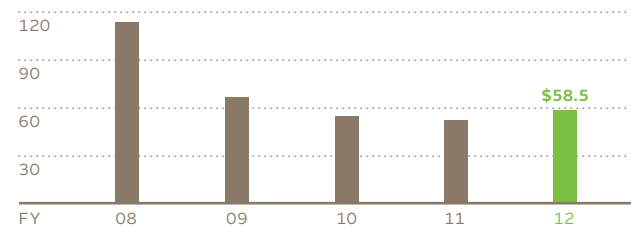
INVESTMENTS AND OTHER OPERATIONS SALES

(\$ in millions)



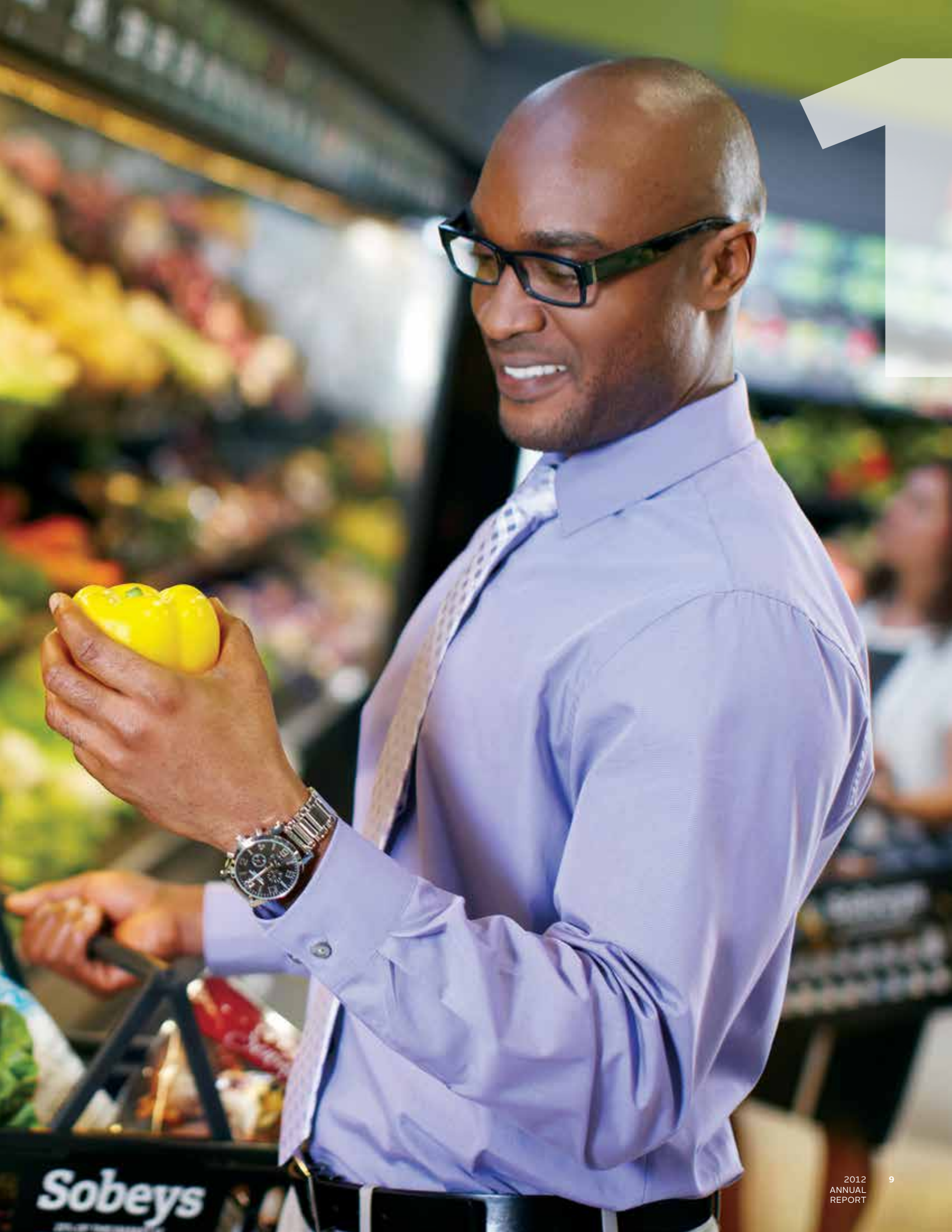
INVESTMENTS AND OTHER OPERATIONS OPERATING INCOME

(\$ in millions)



THE POWER OF ONE

Following a decade of focused investment in our product, service and merchandising offerings, in our store and distribution assets, in our business processes and in our people, Sobeys has established itself as a leading national food retailer. Intense competition is a fact of life in our industry, with new competitors and additional retail space being added to the marketplace every year. To keep growing in this environment, we are working together more closely than ever before, as one team, guided by a shared sense of purpose in pursuit of one goal: to be widely recognized as the best food retailer and workplace environment in Canada. This year's report looks at some of the important initiatives helping unlock Sobeys' power as one national organization.



1

THE POWER OF ONE RELATIONSHIP

Maria Rusit, Bakery Clerk, Sobeys Urban Fresh Laird & Wicksteed in Toronto, Ontario.

Photo insert right: Ian Chisnall, Meat and Seafood Specialist and Ryan Freeman, Seafood Clerk, Thrifty Foods Tuscany Village in Victoria, British Columbia.

When J.W. Sobeys began selling groceries in Stellarton, Nova Scotia 105 years ago, food merchants knew most of their customers by name. Keeping shelves filled with products that appealed to them was a matter of personal experience.

Today, much has changed in the food retailing business, but success still depends on building strong and enduring relationships, one customer at a time. That requires a keen awareness of what customers are looking for and providing the right combination of service, selection and value.

Over the past 10 years, we've worked hard to create five distinctive retail formats – full-service, fresh service, community service, discount service and convenience service – that deliver

consistently superior shopping experiences in their respective markets. Each format has resonated with the customers it serves, as reflected in our industry-leading same-store sales growth over much of this time. In our full-service format, which includes the Sobeys, IGA *extra* and Thrifty Foods banners and represents our primary engine for growth, we continue to roll out product and service offerings that are aimed at fostering a more intimate and enduring relationship with customers.

Success in our business will always depend on building strong and enduring relationships with individual customers. We continue to deliver what our shoppers are looking for with fresh ideas in each of our distinctive retail formats.



Our rewards programs help us better understand and predict customer preferences and behaviour.

What we learn through our rewards programs helps us deliver more compelling product and service offerings.

Each of these banners is being supported by exciting enhancements to the design of our stores and a relationship-building culture that is aimed at sharing more of our knowledge, enthusiasm and passion for food with our customers.

The next stage of evolution in our full-service offering draws upon best practices from each of our banners and also reflects what we have learned from our customers over the past few years through the Club Sobey's, Club Thrifty Foods and AIR MILES® rewards programs. These programs have proved to be enormously popular with our regular shoppers. Their greatest value lies in the anonymous transactional data they provide to help us better understand and predict customer preferences and behaviour.

During the past year, we have begun to realize the full potential of our customer insight capabilities with the development of best-in-class data analytics tools that are starting to provide unparalleled insights into our customers' shopping habits. As a result, we are making better-informed decisions that are helping us to deliver more value to our customers and improving the efficiency of our marketing, merchandising and other business processes. We are also working collaboratively with our vendor community to harvest the full potential of customer insight data and create better shopping experiences.

THE POWER OF ONE IDEA




Photo insert right: Sheila MacLellan, Manager, Needs Convenience in Stellarton, Nova Scotia.

Sobeys' food-focused strategy is designed to deliver the best food shopping experience in Canada through ongoing improvements to our product, service and merchandising offerings. Our ability to do that requires the kind of innovative thinking that comes from viewing our business through the eyes of our customers.

Last year, we began to provide Canadian consumers with unprecedented visibility into the quality and sustainability of the seafood sold in our stores. Through a unique partnership with Ecotrust Canada's Thisfish™ traceability program, some of our most popular fresh seafood and frozen *Sensations by Compliments* products can now be traced precisely to where, when and how they were caught. From the ocean to the kitchen table, Sobeys' traceable seafood products are coded to give our customers assurance of sustainable harvest practices

by providing behind-the-scenes access to information on the fishing vessel, crew and even the captain's logbook. Sobeys was recently recognized by the Retail Council of Canada with a 2012 Excellence in Retailing Award for Energy and Environmental Sustainability for this innovative new program.

A similar spirit of innovation can be found in several strategic partnerships that are outside, but complementary to, conventional channels of growth within the four walls of our retail assets. In fiscal 2012, we announced a long-term

“I like the idea that people who buy our fish can see exactly where it came from. They know that my crew and I are working hard to fish sustainably and deliver a high-quality product to their kitchen tables.”

SKIPPER AMOUS CHALIEL
Steveston, British Columbia



Some of our most popular seafood items can now be traced precisely to where, when and how they were caught.



The purchase of 236 Shell retail gas locations will grow our convenience and retail gas operations, expanding the scale of our wholesale business.

wholesale distribution arrangement to supply Target Canada with select food and grocery products, including private label brands. This supply arrangement will benefit Sobeys in many ways – from increased wholesale sales to improved purchasing power and supply chain efficiencies – that will lower our costs.

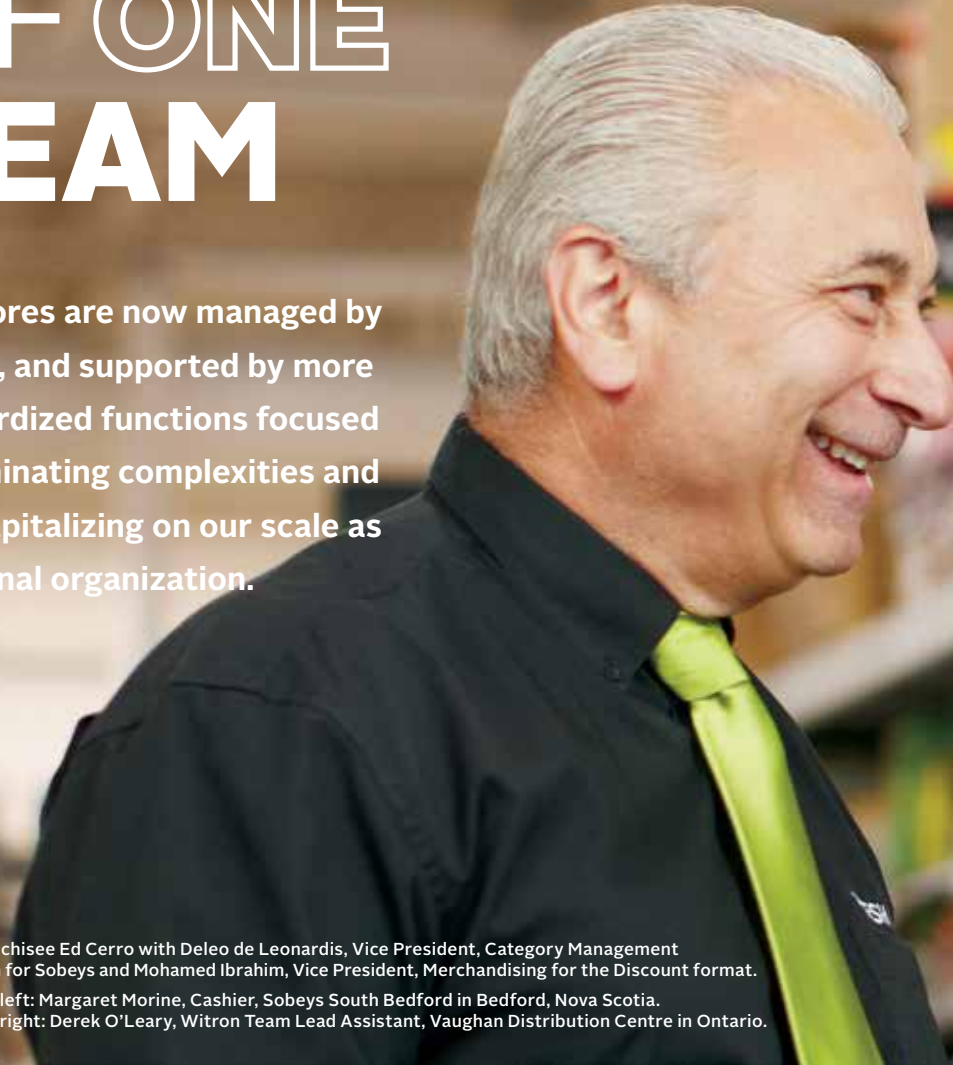
In March 2012, we acquired 236 retail gas locations and related convenience store operations in Québec and Atlantic Canada from Shell Canada. This will allow us to grow our complementary convenience and retail gas operations while significantly expanding the scale of our wholesale business. In addition, the participation of Shell and IGA in the AIR MILES® rewards program generates new opportunities to cross-promote products and services to our customers, which will ultimately lead to more shopping trips and larger average basket sizes in our stores.

This relationship complements our convenience and retail gas business in Atlantic Canada which has been supported by our longstanding and very important relationship with Irving Oil. Sobeys also entered into a rewards program with Imperial Oil in Ontario and Western Canada to create a new exchange program, allowing Club Sobeys/Club Thrifty Foods and Esso Extra members to convert their rewards points between programs.

We have also continued to expand our relationship with Bank of Montreal, launching co-branded No-Fee Chequing and High-Interest Savings accounts that come with a debit card and several new ways to accumulate Club Sobeys points or AIR MILES® rewards miles throughout the year.

THE POWER OF ONE TEAM

Our stores are now managed by format, and supported by more standardized functions focused on eliminating complexities and fully capitalizing on our scale as a national organization.



FreshCo franchisee Ed Cerro with Deleo de Leonardis, Vice President, Category Management Optimization for Sobeys and Mohamed Ibrahim, Vice President, Merchandising for the Discount format. Photo insert left: Margaret Morine, Cashier, Sobeys South Bedford in Bedford, Nova Scotia. Photo insert right: Derek O'Leary, Witron Team Lead Assistant, Vaughan Distribution Centre in Ontario.

Our ability to grow sales and profitability over the past few years has been a direct result of the work we have done to improve the quality and consistency of our offering, modernize our store and distribution networks, and provide our people, franchisees and affiliates with the tools and training they need to get the job done well.

While proud of our accomplishments, we also know that continuous improvement is required in our highly competitive industry. Building a winning business for the long term requires the kind of productivity that enables our Sobeys, IGA *extra* and Thrifty Foods banners to enhance their competitive position in the marketplace. Moreover, we must do this without sacrificing the quality of our customers' shopping experience or the success of our local market approach.

In October 2011, we announced an important organizational realignment that is an expression of our growth, productivity and people strategies going forward. Over the next year, we will complete the transition from our former regional management structure to two newly created business units comprised of Sobeys Multi-Format Operations, which will encompass all banners outside of Québec, and Sobeys IGA Operations, which will continue to be managed in Québec. Both business units will



Productivity tools such as Computer Assisted Ordering have improved in-stock performance in our stores.

Our automated distribution centre has improved the accuracy, timing and quality of deliveries.

be supported by more standardized functions focused on eliminating complexities and fully capitalizing on our scale as a national organization. These changes, which have been enabled by the ongoing integration of our business infrastructure and systems, are designed to accelerate the pace, positioning and performance of our core food-focused strategy and local market approach.

Meanwhile, we have continued to advance major productivity initiatives such as our enterprise-wide SAP implementation. Scheduled for completion in Québec later this year, this platform will allow us to enhance the standardization and benefits of a full suite of SAP-enabled productivity tools right across the country. These include: Workforce Management, which analyzes historical shopping patterns to optimize labour

deployment; Fresh Item Management, which enhances the outstanding quality and consistency of our fresh offerings; and Computer Assisted Ordering, which improves the critical in-stock performance of our stores.

The extension of the SAP platform into Québec provides the important foundation for our automated distribution centre under development north of Montréal that is scheduled to open in November 2012. It will employ the latest generation of the WITRON Integrated Logistics warehousing and picking technology that has significantly reduced per-case distribution costs and improved the accuracy, timing and quality of deliveries in our Ontario operations.

THE POWER OF ONE PERSON

We share a customer-focused performance culture in which each of us takes responsibility for personal and team development. Our goal is a more collaborative work environment and a superior shopping experience for our customers.

Shawn Bergman, Grocery Manager, trains new employee Sydney Jackson, Cashier/Office Clerk, at a Sobeys Urban Fresh store in Toronto, Ontario.

Photo insert left: Stephanie Thibeault, Butcher, IGA extra in Salaberry-de-Valleyfield, Québec.
Photo insert right: Marguerite Morriss, Bakery Clerk, Foodland in Stewiacke, Nova Scotia.

The passion and dedication of our people are vital to the success of Sobeys' distinctive food-focused strategy. As we enter the next phase in our journey to be widely recognized as the best food retailer and workplace environment in Canada, we will be even more diligent, deliberate and disciplined in how we approach the attraction, engagement, development and professional growth of our people.

Our success requires that each employee – whether in our stores, distribution centres or offices – takes part in creating a better workplace environment and a more compelling shopping experience for the customer.

Creating a customer-focused performance culture takes more than an appeal to teamwork – it requires an environment that

encourages each person to take charge of their careers, to become fully engaged with our vision and to make a positive and measurable impact on the success of the organization. We are empowering our people to make a difference in each local market they serve, one customer at a time, by giving them the tools and knowledge to better serve the needs of each customer.



Our employees are making a difference, one customer at a time.

Each employee plays an important role in creating a more compelling shopping experience for our customers.

We are fostering an environment where each person:

- Knows what's expected and understands how individual contributions make a difference to the overall success of Sobeys;
- Receives validated feedback on their performance;
- Is recognized for their contributions;
- Has access to the information, support and training to be successful in individual roles; and
- Takes ownership of their career and development.

We have also taken steps to better understand the individual attributes that truly drive performance in our business from coast to coast. Our aim is to create a work environment that fosters participation and encourages diversity of perspectives, approaches and thinking. By doing so, we set the stage for true innovation. And for us, innovation is about much more than technology. It means keeping each person engaged, with an open mind to continually look for new ways to solve problems, overcome challenges and make continuous improvements. Each person has the power to make a difference.

“I am proud that we are making a big difference for people in our community.”

STEVE GIGIS
Store Manager
Sobeys Urban Fresh

Steve
Store Manager


Food bank
Donation
Bag



\$15.00

Thank you for your generous gift and donation. It's greatly appreciated!

Steve Gigis, Store Manager and Nadica Sojleva, Cashier/Office Clerk prepare food bank donations from the Sobeys Urban Fresh Laird & Wicksteed in Toronto, Ontario with Ted Krawchuk, food bank volunteer.

THE POWER OF ONE COMMUNITY

We continue to work together to make a difference and improve the quality of life in the hundreds of Canadian communities we serve from coast to coast.

We believe a commitment to community is fundamental to sustaining our success and we encourage our employees, franchisees and affiliates to participate in enhancing the well-being of the communities in which they live and work.

Empire and its subsidiaries have been proudly serving their communities for more than 100 years. Today we continue to support a wide range of important causes across Canada at the corporate, regional and individual store levels. These initiatives promote the well-being of families and children – especially in the areas of health, wellness and education. The major focus is placed on the local communities where our employees, franchisees and affiliates generously give of their time and talent in support of local events and causes. Our dedication to community service is closely tied to the legacy of the Sobeys family and the culture of the organization, which expresses itself through our collective commitment of giving back and helping enhance the lives of Canadians.

FOOD BANKS

Our passion for food extends beyond our stores and into the communities in which we operate. Every year we help feed the hungry by raising hundreds of thousands of dollars and donating millions of pounds of food.

HEALTH AND WELLNESS

We continue to do our best to improve the quality of life in hundreds of communities by promoting healthier lifestyles.

EDUCATION

Funding from Sobeys and contributions from various Sobeys family foundations support several scholarship programs designed to help young people attain the education necessary for their success.

Sobey Art Award, Canada's pre-eminent award for contemporary Canadian art, was created in 2002 by the **Sobey Art Foundation**. This year marks the 10th anniversary of the Award. For more information visit <http://www.sobeyartaward.ca/>



The Sobeys Sensations participated in Bust a Move to raise funds for the Breast Health Centre in Halifax, Nova Scotia.



Through its Earth Day Canada Community Environment Fund, Sobeys has supported 91 environmental projects across Ontario including Camp Kawartha's *Be a Water Steward* program.



A \$2 million commitment from the Sobey Foundation and Sobeys family members has established the Irene MacDonald Sobey Endowed Chair in Curative Approaches to Alzheimer's Disease at Dalhousie University.

ONE MORE YEAR OF PROGRESS

Empire's ability to create value is based on investments in core businesses we understand best – food retailing and related real estate. With a focus on meeting the everyday needs of Canadian consumers, these businesses have helped Empire achieve steady performance over many years.



APRIL 2003
Sobeys' sales surpass \$10 billion and capital expenditures exceed \$400 million. Real estate operations enjoy another record year.

APRIL 2004
During the year Empire increases its ownership interest in Sobeys, from 62% to 65%.

JUNE 2005
Wajax converts to an income trust. Empire sells 2.875 million units, for a \$25.6 million gain.

SEPTEMBER 2005
Empire Theatres acquires 27 movie theatres for \$83 million.

MARCH 2006
Crombie REIT completes its initial public offering. Empire sells 44 properties to the REIT for \$468.5 million and retains an initial 48.3% ownership interest.

AUGUST 2006
Sobeys acquires Achille de la Chevrotière Ltée, for \$79.2 million.

JUNE 2007
Empire acquires the outstanding common shares of Sobeys that it did not own for \$1.06 billion, achieving 100% ownership.

SEPTEMBER 2007
Sobeys acquires Thrifty Foods for \$253.6 million.

03 | 04 | 05 | 06 | 07

— **Sales**
 (\$ in millions)

— **Adjusted Net Earnings**
 (\$ in millions)

— **Book Value**
 (\$ per share)

Fiscal 2012

\$16,249.1

\$320.6

\$49.98

Adjusted Net Earnings CAGR

9.3%

from 2002 to 2012

APRIL 2008

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

MARCH 2009

Empire issues 2.713 million 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, reduce Empire's ratio of debt to capital to 32.7% from 39.8%.

MAY 2010

Sobeys enjoys another record year and receives credit rating upgrades from Standard & Poor's and DBRS, with both ratings at investment grade. Empire reduces its ratio of debt to capital to 29.3% from 32.7%.

OCTOBER 2010

Empire sells its investment in Wajax for net proceeds of \$121.3 million.

MAY 2011

Sobeys completes the first year of the FreshCo discount banner in Ontario with a network of 57 stores in operation by fiscal year-end.

OCTOBER 2011

Sobeys initiates an organizational realignment to optimize productivity and fully capitalize on scale.

MARCH 2012

Sobeys purchases 236 retail gas locations for \$214.9 million in Québec and Atlantic Canada.

08

09

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ONE SHARED FOCUS

We measure success through our ability to create sustainable, long-term value in our food retailing business and in our investments in Crombie REIT, Genstar and Empire Theatres. During fiscal 2012, each of our businesses continued to execute on their strategic initiatives and strengthen their competitive position, helping Empire post record adjusted net earnings, net of minority interest, and subsequent to fiscal year-end, declare an annual dividend increase for the 17th consecutive year.

Over the past 10 years, Empire's shares have generated a compounded annual growth rate in total return of 8.6 percent compared to 7.0 percent for the S&P/TSX Composite Index. Equally important, these solid returns have been achieved through the ownership and management of predictable businesses that serve the everyday needs of Canadian consumers. It helps that we've been at it for a very long time.

At Empire, our growth strategy is focused on creating sustainable long-term value rather than short-term financial results. This approach can be seen in the patient investments Empire has made in Sobeys, in the creation of Crombie REIT and in the growing cooperation between these two businesses, which has fuelled the expansion of our food retailing network and enhanced the value of our real estate assets. Our long-term results clearly demonstrate the focused execution, dedication and experience of our management teams under the strong guidance and leadership of our Board.

At Empire, the Board is responsible for the stewardship of the Company and plays an active role in establishing the Company's growth strategies and understanding the major risks that could affect Empire's ability to deliver results. Our Board continues to have a strong commitment to good corporate governance to ensure our governance practices are among the best in Canada. We believe a fully engaged board is fundamental to the creation of shareholder value. Our Board consists of Sobey family representatives and a majority of independent directors who are always ready to challenge each other, as well as the senior management team.

A critical role of the Board is to ensure long-term succession planning is in place at all levels of management; the Board



exercised this role recently in the selection of a new CEO for Sobeys.

We are delighted to welcome Marc Poulin as Sobeys' newly appointed President and CEO. Marc is a seasoned and highly qualified food retailer with a solid reputation across our industry and proven abilities to lead Sobeys' food-focused strategy forward.

On behalf of the Board, I would like to extend our sincere appreciation and best wishes to Bill McEwan, who stepped down as Sobeys' President and CEO on June 28, 2012 following more than 11 years of inspired and inspirational leadership. Bill is a born leader and savvy merchant whose confidence and enthusiasm to "be the best" had a contagious effect on all of us who had the privilege to know him. We wish him all the best.

I would like to extend our sincere appreciation to Malen Ng who is leaving the Board this year after many years of distinguished service. Malen has contributed greatly to the Company's success as a director of both Empire and Sobeys. Her valuable insight and dedication will truly be missed.

As Chair, and on behalf of the entire Board, I would also like to thank the thousands of people in Empire's operating companies, franchises and affiliates for their important contributions to our ongoing progress.

Sincerely,

ROBERT P. DEXTER

Chair
Empire Company Limited
June 28, 2012

EMPIRE COMPANY LIMITED BOARD OF DIRECTORS (as of June 28, 2012)



ROBERT P. DEXTER
Chair
Halifax, Nova Scotia
Director since 1987



MARCEL CÔTÉ
Montréal, Québec
Director since 2007



DAVID S. FERGUSON
Atlanta, Georgia
Director since 2007



EDWARD C. HARSANT
Woodbridge, Ontario
Director since 2003



DAVID LESLIE
Toronto, Ontario
Director since 2007



BILL M^CEWAN
New Glasgow, Nova Scotia
Director since 2007



MALEN NG
Toronto, Ontario
Director since 2007



MEL RHINELANDER
Toronto, Ontario
Director since 2007



STEPHEN J. SAVIDANT
Calgary, Alberta
Director since 2004



DAVID F. SOBEY
New Glasgow, Nova Scotia
Director since 1963



DONALD R. SOBEY
Pictou County, Nova Scotia
Director since 1963



FRANK C. SOBEY
Pictou County, Nova Scotia
Director since 2007



JOHN R. SOBEY
Pictou County, Nova Scotia
Director since 1979



KARL R. SOBEY
Halifax, Nova Scotia
Director since 2001



PAUL D. SOBEY
Pictou County, Nova Scotia
Director since 1993



ROBERT G. C. SOBEY
Stellarton, Nova Scotia
Director since 1998

“Our Board continues to have a strong commitment to good corporate governance to ensure our governance practices are among the best in Canada.”

ROBERT P. DEXTER
Chair
Empire Company Limited

Learn more
www.empireco.ca/governance



OFFICERS OF EMPIRE COMPANY LIMITED (as of June 28, 2012)



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 (as of June 28, 2012)

SOBEYS INC.



ROBERT P. DEXTER
Chair



BILL McEWAN
President and
Chief Executive Officer



FRANÇOIS VIMARD
Executive Vice President



JASON POTTER
President, Sobey's
Multi-Format Operations



MARC POULIN
President, Sobey's
IGA Operations



KARIN McCASKILL
Senior Vice President,
General Counsel
and Secretary



PAUL A. JEWER
Chief Financial Officer



L. JANE MCDOW
Assistant Secretary

ECL PROPERTIES LIMITED



FRANK C. SOBEY
President

EMPIRE THEATRES LIMITED



STUART G. FRASER
President and
Chief Executive Officer



VALERIE RYAN
Chief Operating Officer



PAUL W. WIGGINTON
Vice President,
Chief Financial Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

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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 5, 2012 compared to the 53 weeks ended May 7, 2011. 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 two business segments, 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 or on the Company's website at www.empireco.ca.

This discussion and analysis is the responsibility of management. The Board of Directors carries out its responsibilities 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 Company's audited annual consolidated financial statements and the accompanying notes for the 52 weeks ended May 5, 2012 compared to the 53 weeks ended May 7, 2011. The audited annual consolidated financial statements and the accompanying notes are prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and are reported in Canadian dollars.

These consolidated financial statements include the accounts of Empire, its subsidiaries and Special Purpose Entities ("SPEs"), which the Company is required to consolidate. The information contained in this MD&A is current to June 28, 2012, 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. Expressions such as "anticipates", "expects", "believes", "estimates", "could", "intends", "may", "plans", "will", "would" and other similar expressions, or the negative of these terms, are generally indicative of forward-looking statements.

These forward-looking statements include the following items:

- The Company's expectation that its operational and capital structure is sufficient to satisfy its ongoing business requirements, which could be impacted by a significant change in the current economic environment in Canada;
- The Company's belief that its cash and cash equivalents, future operating cash flows and available credit facilities will enable the Company to fund future capital investments, pension plan contributions, working capital and ongoing business requirements, and its belief that it has sufficient funding in place to meet these requirements and other long-term obligations, all of which could be impacted by changes in the economic environment;
- The Company's belief that it and its operating businesses have sufficient unused capacity under its credit facilities to satisfy its financial obligations as they come due, which could be impacted by changes in the economic environment;
- Sobeys Inc.'s ("Sobeys") expected contributions to its registered defined benefit plans, which could be impacted by fluctuations in asset values due to market uncertainties;
- The Company's expected use and estimated fair values of financial instruments, which could be impacted by, among other things, changes in interest rates, foreign exchange rates and commodity prices;
- Sobeys' expectations relating to administrative and business rationalization initiatives, which could be impacted by the final scope and scale of these initiatives;
- Sobeys' expectations regarding the timing of the new distribution centre under construction in Québec and that it will reduce overall business costs, which could be impacted by construction delays and the number of positions eliminated at other distribution centres, respectively;
- Sobeys' expectations relating to pending tax matters with Canada Revenue Agency ("CRA"), which could be determined differently by CRA. This could cause the Company's effective tax rate and its earnings to be affected positively or negatively in the period in which the matter is resolved;
- Sobeys' expectations relating to the acquisition of 236 retail gas locations and related convenience store operations from Shell Canada and the accompanying fuel volumes, which may be impacted by demand;

- Our expectation that the strength of Sobeys' relationship with Crombie Real Estate Investment Trust ("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, which may be impacted by commercial real estate market conditions and the availability of mutually desirable properties for development and sale by Sobeys and for purchase by Crombie REIT; and
- Sobeys' expectations of continued sales growth in fiscal 2013, which could be impacted by changes in the economic and competitive environment.

These statements are based on 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 operations 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 reflects 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 its 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 28, 2012 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 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:

- Adjusted sales are sales excluding the impact of the acquisition of 236 retail gas locations and related convenience store operations in fiscal 2012 and the impact of the 53rd week of sales in fiscal 2011.
- Same-store sales are sales from stores in the same location in both reporting periods.
- Gross profit is calculated as sales less costs of sales.
- Gross margin is gross profit divided by sales.
- Operating income, or earnings before interest and taxes ("EBIT"), is calculated as net earnings before minority interest, finance costs (net of finance income) and income taxes.
- Adjusted operating income is operating income excluding items which are considered not indicative of underlying business operating performance.
- Operating income margin is operating income divided by sales.
- Earnings before interest, taxes, depreciation and amortization ("EBITDA") is calculated as EBIT plus depreciation and amortization of intangibles.
- Adjusted EBITDA is EBITDA excluding items which are considered not indicative of underlying business operating performance.
- EBITDA margin is EBITDA divided by sales.
- Funded debt is all interest bearing debt, which includes bank loans, bankers' acceptances, long-term debt and debt related to assets held for sale.

- Net funded debt is calculated as funded debt less cash and cash equivalents.
- Total capital is calculated as funded debt plus shareholders' equity, net of minority interest.
- Net total capital is total capital less cash and cash equivalents.
- Interest expense is calculated as interest expense on financial liabilities measured at amortized cost plus losses on cash flow hedges reclassified from other comprehensive income.
- Free cash flow is calculated as cash flows from operating activities, less property, equipment and investment property purchases.
- Capital expenditures are property, equipment and investment property purchases.
- Adjusted net earnings are net earnings excluding items which are considered not indicative of underlying business operating performance.
- Book value per common share is shareholders' equity, net of minority interest, less preferred shares, divided by total common shares outstanding.

The following table reconciles Empire's EBITDA to operating income for the 52 weeks ended May 5, 2012 compared to the 53 weeks ended May 7, 2011.

(\$ in millions)	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Operating income ⁽¹⁾	\$ 534.3	\$ 525.7
Depreciation	304.1	299.5
Amortization of intangibles	38.2	37.8
EBITDA	\$ 876.6	\$ 863.0

(1) Certain balances have been reclassified for changes to comparative figures (see Note 32 to the Company's fiscal 2012 audited annual consolidated financial statements).

The following tables reconcile Empire's funded debt, net funded debt, net total capital and total capital to GAAP measures reported on the balance sheets as at May 5, 2012, May 7, 2011 and May 2, 2010, respectively.

(\$ in millions)	May 5, 2012	May 7, 2011	May 2, 2010 ⁽¹⁾
Bank indebtedness	\$ 4.4	\$ –	\$ 4.1
Long-term debt due within one year	237.3	49.4	378.8
Liabilities relating to assets held for sale	–	12.7	–
Long-term debt	889.1	1,090.3	821.6
Funded debt	1,130.8	1,152.4	1,204.5
Less: cash and cash equivalents	510.2	615.9	397.3
Net funded debt	620.6	536.5	807.2
Total shareholders' equity, net of minority interest	3,396.3	3,162.1	2,832.9
Net total capital	\$ 4,016.9	\$ 3,698.6	\$ 3,640.1

(\$ in millions)	May 5, 2012	May 7, 2011	May 2, 2010 ⁽¹⁾
Funded debt	\$ 1,130.8	\$ 1,152.4	\$ 1,204.5
Total shareholders' equity, net of minority interest	3,396.3	3,162.1	2,832.9
Total capital	\$ 4,527.1	\$ 4,314.5	\$ 4,037.4

(1) May 2, 2010 reflects the opening balance sheet date under IFRS.

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 knows and understands and believes to have the potential for long-term sustainable growth and profitability, specifically food retailing, real estate and corporate investments.

The Company continues to focus on its core strengths in food retailing and related real estate by continuing to direct its energy and capital towards growing long-term sustainable value through cash flow and income growth. While our core businesses are well established and profitable in their own right, they also offer Empire geographical diversification across Canada, which is considered by management to be an additional source of strength. Together, our 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's 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

Empire's key businesses include food retailing and corporate investment activities. As a result of the Company's transition to IFRS, the Company's financial results are segmented into two separate operating segments: Food Retailing and Investments and Other Operations.

Food Retailing

Empire's food retailing segment is carried out through its wholly-owned subsidiary, Sobeys, which conducts business through more than 1,500 retail stores (corporately owned and franchised), operating in every province and in over 800 communities across Canada.

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 the full service, fresh service, community service, discount service and convenience service formats. 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: Sobeys, IGA *extra*, Thrifty Foods, IGA, Foodland and FreshCo are the primary focus of these format development efforts.

During the year, Sobeys opened, replaced, expanded, renovated, acquired and/or converted the banners in 324 stores (fiscal 2011 – 124). This included the March 15, 2012 acquisition of 236 retail gas locations and related convenience store operations in Québec and Atlantic Canada from Shell Canada. The network acquired includes corporate owned and dealer operated locations, and is expected to have annual fuel volumes in excess of one billion litres.

In fiscal 2012, 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.

One example of these initiatives is the continued conversion of Price Chopper stores to FreshCo discount stores in the province of Ontario. During the 52 weeks ended May 5, 2012, Sobeys opened or converted 11 additional FreshCo discount stores (fiscal 2011 – 57) bringing the total number of FreshCo stores to 68 at fiscal year-end. These FreshCo discount stores offer low prices without many of the compromises which would typically be experienced at traditional discount grocery retailers. FreshCo shoppers enjoy fresh merchandise at low prices, with an expanded selection of meats and produce, including high quality choices and seasonal, locally produced products. For the 52 weeks ended May 5, 2012, Sobeys incurred costs of \$0.6 million in start-up costs excluding fixed asset write-offs related to this initiative (fiscal 2011 – \$6.0 million).

Investments and Other Operations

Empire's investments and other operations segment consists of:

1. A 44.3 percent (40.7 percent fully diluted) equity accounted interest in Crombie REIT, a Canadian real estate income trust investing in income-producing retail, office and mixed-use properties in Canada, with a future growth strategy focused primarily on the acquisition of retail properties. Crombie REIT currently owns a portfolio of 161 investment properties in nine provinces, comprising approximately 13.5 million square feet of rentable space;
2. A 40.7 percent equity accounted interest in Genstar Development Partnership, a 45.9 percent equity accounted interest in Genstar Development Partnership II, a 42.1 percent equity accounted interest in each of GDC Investments 4, L.P., GDC Investments 5, L.P., and GDC Investments 6, L.P., and a 42.5 percent equity accounted interest in GDC Investments 7, L.P. (collectively referred to as "Genstar"). Genstar is a residential property developer with operations in select markets in Ontario, Western Canada and the United States;
3. Wholly-owned ETL Canada Holdings Limited ("Empire Theatres"), which is the second largest movie exhibitor in Canada. As of May 5, 2012, Empire Theatres owned 51 locations representing 390 screens; and
4. 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.

With over \$16 billion in annual sales and approximately \$6.9 billion in assets, Empire and its subsidiaries directly employ approximately 47,000 people.

Fiscal 2012 Financial Highlights (52 Weeks Versus 53 Weeks Last Year)

- Sales of \$16.25 billion, up \$292.3 million or 1.8 percent. After adjusting for the impact of the additional week of operations last year and the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012, consolidated sales increased \$474.9 million or 3.0 percent.
- Sobeys' same-store sales increased 1.4 percent.
- Adjusted net earnings, net of minority interest, of \$320.6 million (\$4.71 per share), a \$17.4 million or 5.7 percent increase from \$303.2 million (\$4.45 per share) in fiscal 2011. On a comparable 52-week basis, adjusted net earnings increased \$23.7 million or 8.0 percent.
- Net earnings, net of minority interest, of \$339.4 million (\$4.99 per share), a \$61.2 million or 15.3 percent decline from \$400.6 million (\$5.87 per share) in fiscal 2011. Net earnings last year included a net gain on the sale of a 27.5 percent ownership interest in Wajax Income Fund ("Wajax") of \$76.2 million.
- Sobeys opened, acquired or relocated 45 corporate and franchised stores, acquired 236 retail gas locations and related convenience store operations from Shell Canada, expanded 13 stores, rebannered/redeveloped 30 stores and closed 44 stores.
- Free cash flow of \$225.1 million versus \$210.3 million last year.
- Funded debt to total capital of 25.0 percent, down 1.7 percentage points from 26.7 percent recorded at the end of last fiscal year.
- Annual dividend per Non-Voting Class A and Class B common share increased to \$0.90 from \$0.80 last year.

The consolidated financial overview provided below reports on the financial performance for 52 weeks ended May 5, 2012, relative to the 53 weeks ended May 7, 2011 and the 52 weeks ended May 1, 2010.

Summary Table of Consolidated Financial Results

	52 Weeks Ended May 5, 2012		53 Weeks Ended May 7, 2011		52 Weeks Ended May 1, 2010 ⁽¹⁾	
(\$ in millions, except per share amounts)		% of Sales		% of Sales		% of Sales
Sales	\$ 16,249.1	100.00%	\$ 15,956.8	100.00%	\$ 15,516.2	100.00%
EBITDA ⁽²⁾	876.6	5.39%	863.0	5.41%	819.4	5.28%
Adjusted EBITDA ⁽³⁾⁽⁴⁾	853.2	5.25%	837.7	5.25%	819.4	5.28%
Operating income ⁽²⁾	534.3	3.29%	525.7	3.29%	479.7	3.09%
Net earnings, net of minority interest	339.4	2.09%	400.6	2.51%	301.9	1.95%
Adjusted net earnings, net of minority interest ⁽³⁾⁽⁴⁾	320.6	1.97%	303.2	1.90%	284.5	1.83%
Basic earnings per share						
Net earnings, net of minority interest	\$ 4.99		\$ 5.88		\$ 4.41	
Adjusted net earnings, net of minority interest ⁽³⁾⁽⁴⁾	\$ 4.72		\$ 4.45		\$ 4.16	
Basic weighted average number of shares outstanding (in millions)	67.9		68.1		68.4	
Diluted earnings per share						
Net earnings, net of minority interest	\$ 4.99		\$ 5.87		\$ 4.40	
Adjusted net earnings, net of minority interest ⁽³⁾⁽⁴⁾	\$ 4.71		\$ 4.45		\$ 4.15	
Diluted weighted average number of shares outstanding (in millions)	68.0		68.2		68.5	
Dividends per share	\$ 0.90		\$ 0.80		\$ 0.74	

(1) Fiscal 2010 reflects Canadian GAAP ("CGAAP") and has not been restated for IFRS.

(2) Certain balances have been reclassified for changes to comparative figures (see Note 32 to the Company's fiscal 2012 audited annual consolidated financial statements).

(3) For fiscal 2010, adjusted EBITDA reflects reported EBITDA; and adjusted net earnings, net of minority interest, reflects net earnings, adjusted for capital gains, losses and other items.

(4) Excludes items which are considered not indicative of underlying business operating performance.

Outlook

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

Management is clearly focused on directing its energy and capital towards growing the long-term sustainable value of its food retailing, real estate and related businesses. In doing so, we remain committed to: a) supporting Sobeys in its goal to be widely recognized as the best food retailer and workplace environment in Canada; b) the profitable growth of Sobeys' real estate development operations as it develops new properties that are congruent with growing Sobeys and which, upon completion, will be offered for sale to Crombie REIT; c) capitalizing on opportunities afforded as a result of the existing strong relationships between our food retailing and our real estate businesses; and d) continued strengthening of our financial condition through the prudent management of working capital and free cash flow in each operating company.

Food Retailing

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 while improving the customers' in-store experience and our productivity.

Sobeys also plans to focus on its workforce management and in-store programs in fiscal 2013 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.

Investments and Other Operations

With respect to real estate, Empire remains committed to its investment in both Genstar and Crombie REIT. We are very supportive of the management and strategy of both organizations.

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. Genstar continues to seek out compelling acquisition opportunities in select regional markets. We will continue to maintain representation on the Genstar Board.

With respect to Crombie REIT, we are confident that the strength of Sobeys' relationship with 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.

Empire expects to continue to benefit from the distinguishing advantage inherent in Sobeys' real estate development operations, whereby it provides robust in-house expertise in the selection and development of commercial locations, which will be offered for sale to Crombie REIT.

Shareholder Return

The Company delivered a total shareholder return of 8.1 percent in fiscal 2012 as shown in the table below. The compound annual return on the Company's shares over the past five years has averaged 8.0 percent and over the past ten years has averaged 8.6 percent. This compares to the compound annual return of the S&P/TSX Composite Index over the past five and ten years of (0.1) percent and 7.0 percent, respectively.

In fiscal 2012, the Company increased its dividend by 12.5 percent to \$0.90 per share. This was the sixteenth consecutive year of dividend increases. On June 28, 2012, the Board approved a further dividend increase of 6.7 percent to \$0.24 per share quarterly which amounts to \$0.96 per share on an annualized basis. Empire's dividends are declared quarterly at the discretion of the Board.

For the fiscal years ended:	May 5, 2012	May 7, 2011	May 1, 2010	May 2, 2009	May 3, 2008	5-Year CAGR ⁽¹⁾
Closing market price						
per share (TSX: EMP.A)	\$ 57.62	\$ 54.14	\$ 52.98	\$ 49.00	\$ 39.25	6.4%
Dividend paid per share	\$ 0.90	\$ 0.80	\$ 0.74	\$ 0.70	\$ 0.66	8.4%
Dividend yield on prior year closing price	1.7%	1.5%	1.5%	1.8%	1.6%	
Increase (decrease) in closing share price	6.4%	2.2%	8.1%	24.8%	(7.3%)	
Total annual shareholder return ⁽²⁾	8.1%	3.7%	9.9%	26.8%	(5.9%)	8.0%

(1) Compound annual growth rate ("CAGR").

(2) Total annual shareholder return assumes reinvestment of quarterly dividends, and therefore may not equal the sum of dividend and share price returns in the table.

MANAGEMENT'S EXPLANATION OF FISCAL 2012 ANNUAL CONSOLIDATED RESULTS

The following is a review of Empire's consolidated financial performance for the 52 weeks ended May 5, 2012 compared to the 53 weeks ended May 7, 2011.

The financial performance of each of the Company's businesses (food retailing and investments and other operations) are discussed in detail in the section entitled "Fiscal 2012 Financial Performance by Segment" in this MD&A.

Sales

Consolidated sales for fiscal 2012 were \$16.25 billion, an increase of \$292.3 million or 1.8 percent compared to fiscal 2011, largely due to high sales from Sobeys. Sobeys reported sales of \$16.02 billion, an increase of \$283.9 million or 1.8 percent from the \$15.74 billion recorded last year. Fiscal 2011 included an additional week of operations at Sobeys. Excluding the impact of the additional week of operations in fiscal 2011, which resulted in \$313.6 million in sales, and the impact of sales relating to the acquisition of 236 retail gas locations and related convenience store operations of \$131.0 million in the fourth quarter of fiscal 2012, sales reported by Sobeys increased \$466.5 million or 3.0 percent compared to fiscal 2011 and Empire's consolidated sales increased \$474.9 million or 3.0 percent. Sobeys' same-store sales increased 1.4 percent in fiscal 2012. The growth in Sobeys' sales continues to be a direct result of increased retail selling square footage from new stores and enlargements, coupled with the ongoing implementation of sales and merchandising initiatives, improved store level execution and product and services innovation.

The following table shows a reconciliation of sales recorded by Sobeys for the 52 weeks ended May 5, 2012 compared to the 53 weeks ended May 7, 2011.

(\$ in millions)	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011	(\$ Change)	(%) Change
Sales (recorded by Sobeys)	\$ 16,021.9	\$ 15,738.0	\$ 283.9	1.8%
Adjustments:				
Impact of acquisition of 236 retail gas locations and related convenience store operations in fiscal 2012	(131.0)	–	(131.0)	
Impact of 53rd week of sales in fiscal 2011	–	(313.6)	313.6	
	(131.0)	(313.6)	182.6	
Adjusted sales	\$ 15,890.9	\$ 15,424.4	\$ 466.5	3.0%

Investments and other operations recorded sales of \$204.5 million in fiscal 2012 compared to \$200.5 million last year.

Please refer to the section entitled “Fiscal 2012 Financial Performance by Segment” for an explanation of the change in sales by segment.

EBITDA

Consolidated EBITDA for the 52 weeks ended May 5, 2012 increased \$13.6 million or 1.6 percent to \$876.6 million from \$863.0 million in fiscal 2011. During this period, EBITDA margin decreased slightly to 5.39 percent from 5.41 percent in the prior year. Adjusting for items which are considered not indicative of underlying business operating performance, as outlined in the table below, consolidated adjusted EBITDA for fiscal 2012 was \$853.2 million compared to \$837.7 million last year, an increase of \$15.5 million or 1.9 percent.

(\$ in millions)	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
EBITDA (consolidated) ⁽¹⁾	\$ 876.6	\$ 863.0
Adjustments:		
Gain on disposal of assets	(22.2)	(19.6)
Sobeys' severance and store closure costs	–	27.7
Post-retirement benefit amendment	–	(28.5)
Sobeys' organizational realignment costs	9.2	–
Dilution gains	(10.4)	(4.9)
	(23.4)	(25.3)
Adjusted EBITDA	\$ 853.2	\$ 837.7

(1) Certain balances have been reclassified for changes to comparative figures (see Note 32 to the Company's fiscal 2012 audited annual consolidated financial statements).

Please refer to the section entitled “Fiscal 2012 Financial Performance by Segment” for an explanation of the change in EBITDA for each segment.

Operating Income

For the 52 weeks ended May 5, 2012, Empire recorded operating income of \$534.3 million, an increase of \$8.6 million or 1.6 percent from the \$525.7 million recorded for the 53 weeks ended May 7, 2011.

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

- Sobeys' operating income contribution to Empire in fiscal 2012 totalled \$475.8 million, an increase of \$2.4 million or 0.5 percent from the \$473.4 million recorded last year.

- Investments and other operations contributed operating income of \$58.5 million in fiscal 2012 compared to \$52.3 million in fiscal 2011, an increase of \$6.2 million or 11.9 percent. Investments and other operations' operating income for fiscal 2011 included \$8.6 million in equity accounted earnings generated from the Company's investment in Wajax, which was sold during the second quarter of fiscal 2011.
 - Equity accounted earnings generated by Crombie REIT during the year were \$19.7 million compared to \$18.4 million in the prior year, an increase of \$1.3 million.
 - Real estate partnerships (Genstar) contributed operating income of \$30.0 million, a decrease of \$2.1 million from the \$32.1 million recorded last year.
 - Other operations (net of corporate expenses) contributed operating income of \$8.8 million compared to \$(6.8) million in fiscal 2011, an increase of \$15.6 million.

Please refer to the section entitled "Fiscal 2012 Financial Performance by Segment" for an explanation of the change in operating income for each segment.

Finance Costs

Finance costs, net of finance income, for the 52 weeks ended May 5, 2012 were \$59.9 million, a decrease of \$15.5 million or 20.6 percent from the \$75.4 million recorded in fiscal 2011. The decrease in net finance costs largely reflects lower average consolidated funded debt levels. Finance costs were also lower due to a \$2.0 million decrease in net pension finance costs and a \$0.5 million increase in finance income. EBITDA to interest expense increased to 14.4 times at the end of fiscal 2012 from 11.9 times at the end of the prior fiscal year.

Consolidated funded debt was \$1,130.8 million at the end of fiscal 2012 compared to \$1,152.4 million at the end of fiscal 2011, a \$21.6 million or 1.9 percent decrease. The decrease in consolidated funded debt from the prior year was primarily due to a \$23.7 million decline in funded debt at Sobeys, notwithstanding the purchase of 236 retail gas locations and related convenience store operations for \$214.9 million, which was funded using cash on hand, during the fourth quarter of fiscal 2012. This was partially offset by higher debt levels in investments and other operations of \$2.1 million.

Income Taxes

The effective income tax rate for fiscal 2012 was 25.8 percent versus 26.0 percent (excluding the gain on the sale of Wajax) in fiscal 2011. The slight decrease in the effective income tax rate is primarily the result of declining income tax rates across the different jurisdictions in which Empire operates.

Net Earnings

Consolidated net earnings, net of minority interest, for the 52 weeks ended May 5, 2012 equalled \$339.4 million (\$4.99 per share) compared to \$400.6 million (\$5.87 per share) in fiscal 2011. The decrease of \$61.2 million in net earnings, net of minority interest, is largely due to the realization of a net gain, after tax, of \$76.2 million from the sale of Wajax last year along with an increase in income taxes, partially offset by the increase in operating income and the decrease in net finance costs, as mentioned.

Fiscal 2011 net earnings were favourably impacted by an additional week of operating results by Sobeys, as mentioned. Management calculates this to have positively impacted fiscal 2011 net earnings, net of minority interest, by approximately \$6.3 million.

The following table presents Empire's segmented net earnings, net of minority interest, for the 52 weeks ended May 5, 2012 compared to the 53 weeks ended May 7, 2011.

(\$ in millions, net of tax)	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011	(\$ Change	(%) Change
Food retailing	\$ 304.1	\$ 297.3	\$ 6.8	2.3%
Investments and other operations	35.3	103.3 ⁽¹⁾	(68.0)	(65.8%)
Consolidated	\$ 339.4	\$ 400.6	\$ (61.2)	(15.3%)

(1) Includes the net gain of \$76.2 million from the sale of a 27.5 percent ownership interest in Wajax.

Adjusted Net Earnings

The table below adjusts fiscal 2012 and fiscal 2011 reported net earnings, net of minority interest, for items which are considered not indicative of underlying business operating performance.

(\$ in millions, except per share amounts, net of tax)	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Net earnings, net of minority interest	\$ 339.4	\$ 400.6
Adjustments:		
Gain on sale of Wajax	–	(76.2)
Gain on disposal of assets	(17.9)	(16.4)
Sobeys' severance and store closure costs	–	20.0
Post-retirement benefit amendment	–	(21.3)
Sobeys' organizational realignment costs	6.4	–
Dilution gains	(7.3)	(3.5)
	(18.8)	(97.4)
Adjusted net earnings, net of minority interest	\$ 320.6	\$ 303.2
Adjusted net earnings, net of minority interest, by division:		
Food retailing	\$ 292.5	\$ 280.8
Investments and other operations	28.1	22.4
Adjusted net earnings, net of minority interest	\$ 320.6	\$ 303.2
Adjusted EPS (fully diluted)	\$ 4.71	\$ 4.45

For the 52 weeks ended May 5, 2012, excluding the impact of the items in the preceding table, Empire recorded adjusted net earnings, net of minority interest, of \$320.6 million (\$4.71 per share) compared to \$303.2 million (\$4.45 per share) recorded in fiscal 2011.

As previously mentioned, Sobeys had an additional week of operations in fiscal 2011, which management calculates to have positively impacted net earnings, net of minority interest, by approximately \$6.3 million. Adjusting for the additional week of operations, adjusted net earnings, net of minority interest, on a comparable 52-week basis in fiscal 2011 would have been \$296.9 million (\$4.35 per share).

For a detailed discussion of financial performance by segment, see the section of this MD&A entitled "Fiscal 2012 Financial Performance by Segment".

FISCAL 2012 FINANCIAL PERFORMANCE BY SEGMENT

Food Retailing

Highlights

- Sobeys achieved fiscal 2012 sales growth of \$283.9 million or 1.8 percent to reach \$16.02 billion and same-store sales growth of 1.4 percent. After adjusting for the additional week of operations last year and the impact of the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012, sales growth was \$466.5 million or 3.0 percent.
- Operating cash flow of \$747.1 million versus \$684.5 million in fiscal 2011, up 9.1 percent.
- Total capital expenditures equalled \$549.7 million in fiscal 2012 versus \$520.8 million last year.
- Opened, acquired or relocated 45 corporate and franchised stores, acquired 236 retail gas locations and related convenience store operations from Shell Canada, expanded 13 stores, rebannered/redeveloped 30 stores and closed 44 stores.

To assess its financial performance and condition, Sobeys' management monitors a set of financial measures which evaluate sales growth, profitability and financial condition. The primary financial performance and condition measures reported by Sobeys are set out below.

	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011	52 Weeks Ended May 1, 2010 ⁽¹⁾
Sales growth	1.8%	3.4%	3.2%
Same-store sales growth	1.4%	0.2%	1.9%
Return on equity	12.5%	13.1%	11.9%
Funded debt to total capital	27.2%	29.4%	27.1%
Funded debt to EBITDA	1.2x	1.2x	1.2x
Property, equipment and investment property purchases (\$ in millions)	\$ 550 ⁽²⁾	\$ 521 ⁽²⁾	\$ 341

(1) Fiscal 2010 reflects CGAAP and has not been restated for IFRS.

(2) This amount reflects the property, equipment and investment property purchases by Sobeys, excluding amounts purchased from the Company and its wholly-owned subsidiaries.

The table below summarizes Sobeys' contribution to Empire's consolidated sales, EBITDA, adjusted EBITDA, operating income, adjusted operating income, net earnings, net of minority interest, and adjusted net earnings, net of minority interest.

(\$ in millions)	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011	(\$ Change)	(%) Change
Sales	\$ 16,044.6	\$ 15,756.3	\$ 288.3	1.8%
EBITDA ⁽¹⁾	801.8	793.6	8.2	1.0%
Adjusted EBITDA ⁽²⁾	788.6	775.1	13.5	1.7%
Operating income ⁽¹⁾	475.8	473.4	2.4	0.5%
Adjusted operating income ⁽²⁾	462.6	454.9	7.7	1.7%
Net earnings, net of minority interest	304.1	297.3	6.8	2.3%
Adjusted net earnings, net of minority interest ⁽²⁾	292.5	280.8	11.7	4.2%

(1) Certain balances have been reclassified for changes to comparative figures (see Note 32 to the Company's fiscal 2012 audited annual consolidated financial statements).

(2) Excludes items which are considered not indicative of underlying business operating performance.

Sales

Empire's food retailing segment achieved sales of \$16.04 billion in fiscal 2012, an increase of \$288.3 million or 1.8 percent over fiscal 2011. During the fiscal year, same-store sales increased by 1.4 percent. Fiscal 2011 included an additional week of operations at Sobeys which accounted for \$313.6 million in sales. Excluding the impact of the additional week of operations in fiscal 2011 and the impact of sales relating to the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012 of \$131.0 million, the food retailing segment realized a sales increase of \$470.9 million or 3.0 percent. The growth in Sobeys' sales continues to be a direct result of increased retail selling square footage from new stores and enlargements, coupled with the ongoing implementation of sales and merchandising initiatives, improved store level execution and product and services innovation.

Sobeys expects sales growth to continue in fiscal 2013 as a result of continued capital investment in its retail store network, and offering, merchandising, pricing and operational execution improvements across the country.

Total store square footage increased by 2.1 percent in fiscal 2012 as a result of the opening, acquiring or relocating of 45 stores, the acquisition of 236 retail gas locations and related convenience store operations from Shell Canada and the expansion of 13 stores. There were 30 stores rebannered or redeveloped and 44 stores closed in fiscal 2012.

Business Process and Information System Transformation and Rationalization Costs

During fiscal 2012, Sobeys continued to make progress in the implementation of system-wide business process optimization and rationalization initiatives designed to reduce complexity and improve processes and efficiency. These system-wide business process and rationalization initiatives support all aspects of the business including operations, merchandising, distribution, human resources and administration.

The business process and information systems implementation in Québec began during the first quarter of fiscal 2010. The business process and system initiative costs primarily include labour, implementation and training costs associated with these initiatives. During the 52 weeks ended May 5, 2012, \$13.2 million of pre-tax costs were incurred related to these initiatives (fiscal 2011 – \$11.5 million).

On October 13, 2011, Sobeys announced an organizational realignment and corresponding leadership appointments. Total costs associated with this initiative for the 52 weeks ended May 5, 2012 were \$9.2 million. These expenses were mainly consulting and severance costs of \$6.7 million and \$2.5 million, respectively.

On January 28, 2011, Sobeys announced plans to build a new distribution centre in Terrebonne, Québec, utilizing the same automated equipment and technology as the Vaughan, Ontario distribution centre. The new facility is expected to become operational during the second half of fiscal 2013 and will allow Sobeys to significantly increase its warehouse and distribution capacity in Québec, while reducing overall distribution costs and improving service to its store network and customers. Additional costs, excluding capital asset additions, of \$4.9 million have been recorded for the 52 weeks ended May 5, 2012 (fiscal 2011 – \$6.2 million).

Gross Profit

Sobeys recorded gross profit for the 52 weeks ended May 5, 2012 of \$3,874.2 million, an increase of \$28.9 million or 0.8 percent compared to \$3,845.3 million in fiscal 2011. For the 52 weeks ended May 5, 2012, gross margin, which is gross profit divided by sales, decreased 25 basis points to 24.18 percent compared to 24.43 percent for the 53 weeks ended May 7, 2011. This decrease is primarily the result of Sobeys experiencing higher input costs without the associated retail price inflation.

EBITDA

For the 52 weeks ended May 5, 2012, Sobeys contributed EBITDA to Empire of \$801.8 million compared to \$793.6 million in fiscal 2011, an increase of \$8.2 million or 1.0 percent. This increase primarily relates to higher gross profit, partially offset by higher selling and administrative expenses. Included in Sobeys' EBITDA for fiscal 2012 were gains on the disposal of assets of \$22.0 million (fiscal 2011 – \$18.0 million) and organizational realignment costs of \$9.2 million (fiscal 2011 – \$nil). As a percent of sales, EBITDA declined slightly to 5.00 percent compared to 5.04 percent in fiscal 2011.

Adjusting for items which are considered not indicative of underlying business operating performance, as outlined in the table below, Sobeys' adjusted EBITDA contribution to Empire for the 52 weeks ended May 5, 2012 was \$788.6 million (4.92 percent of sales) compared to \$775.1 million (4.92 percent of sales) last year.

(\$ in millions)	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
EBITDA (contributed by Sobeys) ⁽¹⁾	\$ 801.8	\$ 793.6
Adjustments:		
Gain on disposal of assets	(22.0)	(18.0)
Sobeys' severance and store closure costs	–	27.7
Post-retirement benefit amendment	–	(28.0)
Sobeys' organizational realignment costs	9.2	–
Dilution gains	(0.4)	(0.2)
	(13.2)	(18.5)
Adjusted EBITDA	\$ 788.6	\$ 775.1

(1) Certain balances have been reclassified for changes to comparative figures (see Note 32 to the Company's fiscal 2012 audited annual consolidated financial statements).

Operating Income

Sobeys' operating income contribution to Empire for the 52 weeks ended May 5, 2012 was \$475.8 million compared to \$473.4 million last year, an increase of \$2.4 million or 0.5 percent. This increase primarily relates to higher EBITDA, as discussed, partially offset by higher depreciation and amortization expenses. Operating income margin for the 52 weeks ended May 5, 2012 equalled 2.97 percent versus 3.00 percent in fiscal 2011.

Adjusting for items which are considered not indicative of underlying business operating performance, Sobeys contributed adjusted operating income to Empire in fiscal 2012 of \$462.6 million (2.88 percent of sales) compared to \$454.9 million (2.89 percent of sales) in the prior year, an increase of \$7.7 million or 1.7 percent.

The following table reconciles Sobeys' operating income contribution to its adjusted operating income contribution to Empire.

(\$ in millions)	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Operating income (contributed by Sobeys) ⁽¹⁾	\$ 475.8	\$ 473.4
Adjustments:		
Gain on disposal of assets	(22.0)	(18.0)
Sobeys' severance and store closure costs	–	27.7
Post-retirement benefit amendment	–	(28.0)
Sobeys' organizational realignment costs	9.2	–
Dilution gains	(0.4)	(0.2)
	(13.2)	(18.5)
Adjusted operating income	\$ 462.6	\$ 454.9

(1) Certain balances have been reclassified for changes to comparative figures (see Note 32 to the Company's fiscal 2012 audited annual consolidated financial statements).

Sobeys continues to focus on disciplined cost management initiatives, supply chain and retail productivity improvements, the migration of best practices and planned capital investments to drive sales and improve margins over time.

Net Earnings

Sobeys contributed net earnings, net of minority interest, of \$304.1 million to Empire in fiscal 2012, an increase of \$6.8 million or 2.3 percent from the \$297.3 million recorded in the prior year. The increase in net earnings, net of minority interest, is primarily a result of higher operating income, as discussed, and lower net finance costs, partially offset by higher income taxes. Net earnings in fiscal 2011 benefited from the additional week of operations which accounted for approximately \$6.3 million in net earnings last year. After adjusting for the additional week of operations in fiscal 2011, Sobeys' net earnings, net of minority interest, increased \$13.1 million or 4.5 percent.

Adjusted Net Earnings

Sobeys contributed adjusted net earnings, net of minority interest, of \$292.5 million to Empire for the 52 weeks ended May 5, 2012 compared to \$280.8 million last year, an increase of \$11.7 million or 4.2 percent. Included in the adjustments for Sobeys in fiscal 2012 are gains on the disposal of assets of \$17.7 million (fiscal 2011 – \$15.3 million) and organizational realignment costs of \$6.4 million (fiscal 2011 – \$nil). These and other items which are considered not indicative of underlying business operating performance are outlined in the table below.

(\$ in millions, net of tax)	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Net earnings, net of minority interest (contributed by Sobeys)	\$ 304.1	\$ 297.3
Adjustments:		
Gain on disposal of assets	(17.7)	(15.3)
Sobeys' severance and store closure costs	–	20.0
Post-retirement benefit amendment	–	(21.0)
Sobeys' organizational realignment costs	6.4	–
Dilution gains	(0.3)	(0.2)
	(11.6)	(16.5)
Adjusted net earnings, net of minority interest	\$ 292.5	\$ 280.8

After adjusting for the additional week of operations at Sobeys in fiscal 2011, Sobeys' adjusted net earnings, net of minority interest, increased \$18.0 million or 6.6 percent.

Investments and Other Operations

Highlights

- Sales of \$204.5 million, up \$4.0 million or 2.0 percent.
- Operating income of \$58.5 million, up \$6.2 million or 11.9 percent.
- Acquired an additional \$83.0 million in Crombie REIT Class B units.
- Crombie REIT's market capitalization surpassed \$1.0 billion with Empire's investment carrying a market value of \$521 million.
- Equity earnings from Crombie REIT of \$19.7 million versus \$18.4 million last year.
- Equity earnings from real estate partnerships (Genstar) of \$30.0 million compared to \$32.1 million last year.
- Improved operating performance from Empire Theatres.

The table below presents sales, EBITDA, adjusted EBITDA, operating income, net earnings and adjusted net earnings for the investments and other operations segment.

(\$ in millions)	52 Weeks Ended	53 Weeks Ended	(\$ Change)
	May 5, 2012	May 7, 2011	
Sales	\$ 204.5	\$ 200.5	\$ 4.0
EBITDA	74.8	69.4	5.4
Adjusted EBITDA ⁽¹⁾	64.6	62.6	2.0
Operating income			
Crombie REIT ⁽²⁾	19.7	18.4	1.3
Real estate partnerships ⁽³⁾	30.0	32.1	(2.1)
Wajax	–	8.6	(8.6)
Other operations, net of corporate expenses ⁽⁴⁾	8.8	(6.8)	15.6
	58.5	52.3	6.2
Net earnings ⁽⁵⁾	35.3	103.3	(68.0)
Adjusted net earnings ⁽¹⁾	28.1	22.4	5.7

(1) Excludes items which are considered not indicative of underlying business operating performance.

(2) 44.3 percent (40.7 percent fully diluted) equity accounted interest in Crombie REIT (May 7, 2011 – 46.4 percent interest).

(3) 40.7 percent equity accounted interest in Genstar Development Partnership, 45.9 percent equity accounted interest in Genstar Development Partnership II (fiscal 2011 – 44.8 percent interest), 42.1 percent equity accounted interest in each of GDC Investments 4, L.P., GDC Investments 5, L.P., and GDC Investments 6, L.P. and 42.5 percent equity accounted interest in GDC Investments 7, L.P. (collectively referred to as "Genstar").

(4) Other operations (net of corporate expenses) operating income for the 52 weeks ended May 5, 2012 includes an impairment charge related to an investment of \$1.1 million (fiscal 2011 – \$9.6 million), dilution gains of \$10.0 million (fiscal 2011 – \$4.7 million), a gain on the disposal of assets of \$0.2 million (fiscal 2011 – \$1.6 million) and a post-retirement benefit amendment of \$nil (fiscal 2011 – \$0.5 million).

(5) Net earnings for the 53 weeks ended May 7, 2011 includes a net gain on the sale of a 27.5 percent ownership interest in Wajax of \$76.2 million.

At May 5, 2012, Empire's investment portfolio, including equity accounted investments in Crombie REIT and Genstar, consisted of:

(\$ in millions)	May 5, 2012			May 7, 2011		
	Market Value	Carrying Value	Unrealized Gain	Market Value	Carrying Value	Unrealized Gain
Investment in Crombie REIT	\$ 520.7	\$ 167.4	\$ 353.3	\$ 403.8	\$ 91.0	\$ 312.8
Investment in Genstar ⁽¹⁾	138.8	138.8	–	121.1	121.1	–
Canadian Digital Cinema Partnership ⁽¹⁾	7.2	7.2	–	–	–	–
Other investments ⁽¹⁾⁽²⁾	13.0	13.0	–	14.3	14.3	–
	\$ 679.7	\$ 326.4	\$ 353.3	\$ 539.2	\$ 226.4	\$ 312.8

(1) Assumes market value equals book value.

(2) Includes Crombie REIT convertible unsecured subordinated debentures with a market value of \$12.8 million (May 7, 2011 – \$11.9 million).

Sales

Investments and other operations' sales equalled \$204.5 million for the 52 weeks ended May 5, 2012 versus \$200.5 million in fiscal 2011, a \$4.0 million or 2.0 percent increase. The increase was primarily driven by an increase in sales at Empire Theatres, partially offset by a decrease in sales generated by the Company's other operations.

EBITDA

For the 52 weeks ended May 5, 2012, investments and other operations contributed EBITDA to Empire of \$74.8 million compared to \$69.4 million last year, an increase of \$5.4 million or 7.8 percent. This increase primarily relates to a higher EBITDA contribution from Empire Theatres. Adjusting for items which are considered not indicative of underlying business operating performance, as outlined in the table below, results in adjusted EBITDA from investments and other operations for fiscal 2012 of \$64.6 million compared to \$62.6 million last year, an increase of \$2.0 million or 3.2 percent.

(\$ in millions)	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
EBITDA (investments and other operations)	\$ 74.8	\$ 69.4
Adjustments:		
Gain on disposal of assets	(0.2)	(1.6)
Post-retirement benefit amendment	–	(0.5)
Dilution gains	(10.0)	(4.7)
	(10.2)	(6.8)
Adjusted EBITDA	\$ 64.6	\$ 62.6

Operating Income

Investments and other operations contributed operating income of \$58.5 million in fiscal 2012 compared to \$52.3 million last year, an increase of \$6.2 million or 11.9 percent. Equity accounted earnings generated from the Company's investments in real estate partnerships (Genstar) amounted to \$30.0 million compared to \$32.1 million in fiscal 2011, a decrease of \$2.1 million primarily as a result of weaker lot sales during the year. Equity accounted earnings from the Company's investment in Crombie REIT equalled \$19.7 million in fiscal 2012 compared to \$18.4 million in the prior year, a \$1.3 million increase primarily driven by higher property revenues and the resulting higher property net operating income reported by Crombie REIT. Operating income from other operations, net of corporate expenses, increased to \$8.8 million from \$(6.8) million in fiscal 2011. The increase in operating income from other operations, net of corporate expenses, was partially due to: (i) an impairment charge relating to an investment of \$1.1 million (fiscal 2011 – \$9.6 million); (ii) dilution gains of \$10.0 million in fiscal 2012 (fiscal 2011 – \$4.7 million) resulting from a reduction in the Company's ownership interest in Crombie REIT; and (iii) higher operating performance from Empire Theatres.

Adjusting investments and other operations' operating income for items which are considered not indicative of underlying business operating performance, as outlined in the previous table, resulted in an adjusted operating income contribution of \$48.3 million versus \$45.5 million in fiscal 2011, an increase of \$2.8 million or 6.2 percent.

As a result of the sale of Wajax in the second quarter last year, there were no equity accounted earnings for the 52 weeks ended May 5, 2012 from Wajax compared to an \$8.6 million contribution in fiscal 2011.

Net Earnings

During the 52 weeks ended May 5, 2012, investments and other operations contributed \$35.3 million to Empire's consolidated net earnings compared to a contribution of \$103.3 million in net earnings in fiscal 2011. The \$68.0 million decrease is primarily attributed to the net gain on the sale of Wajax of \$76.2 million in the second quarter last year and higher income taxes, partially offset by the increase in operating income and lower net finance costs.

Adjusted Net Earnings

Investments and other operations contributed adjusted net earnings of \$28.1 million for the 52 weeks ended May 5, 2012 compared to \$22.4 million last year, an increase of \$5.7 million or 25.4 percent. Included in the fiscal 2012 adjustments for investments and other operations were dilution gains of \$7.0 million compared to \$3.3 million in the prior year. Adjusted net earnings for fiscal 2011 removes the net gain on the sale of Wajax of \$76.2 million.

The following table adjusts reported net earnings for these and other items which are considered not indicative of underlying business operating performance.

(\$ in millions)	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Net earnings (investments and other operations)	\$ 35.3	\$ 103.3
Adjustments:		
Gain on sale of Wajax	–	(76.2)
Gain on disposal of assets	(0.2)	(1.1)
Post-retirement benefit amendment	–	(0.3)
Dilution gains	(7.0)	(3.3)
	(7.2)	(80.9)
Adjusted net earnings	\$ 28.1	\$ 22.4

QUARTERLY RESULTS OF OPERATIONS

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

(\$ in millions, except per share amounts)	Fiscal 2012				Fiscal 2011			
	Q4 (13 Weeks) May 5, 2012	Q3 (13 Weeks) Feb. 4, 2012	Q2 (13 Weeks) Nov. 5, 2011	Q1 (13 Weeks) Aug. 6, 2011	Q4 (14 Weeks) May 7, 2011	Q3 (13 Weeks) Jan. 29, 2011	Q2 (13 Weeks) Oct. 30, 2010	Q1 (13 Weeks) July 31, 2010
	Sales	\$ 4,073.8	\$ 3,984.8	\$ 4,036.3	\$ 4,154.2	\$ 4,149.8	\$ 3,877.0	\$ 3,904.1
Operating income ⁽¹⁾	136.4	123.2	125.8	148.9	122.4	140.1	114.7	148.5
Net earnings ⁽²⁾	92.1	80.0	78.1	89.2	82.5	88.9	142.9	86.3
Per share information, basic								
Net earnings ⁽²⁾	\$ 1.35	\$ 1.18	\$ 1.15	\$ 1.31	\$ 1.21	\$ 1.31	\$ 2.09	\$ 1.26
Basic weighted average number of shares outstanding (in millions) ⁽³⁾	67.9	67.9	67.9	67.9	67.9	67.9	68.2	68.5
Per share information, diluted								
Net earnings ⁽²⁾	\$ 1.35	\$ 1.17	\$ 1.15	\$ 1.31	\$ 1.21	\$ 1.31	\$ 2.09	\$ 1.26
Diluted weighted average number of shares outstanding (in millions) ⁽³⁾	68.0	68.0	68.0	68.0	68.0	68.0	68.3	68.5

(1) Certain balances have been reclassified for changes to comparative figures (see Note 32 to the Company's fiscal 2012 audited annual consolidated financial statements).

(2) Net of minority interest.

(3) The decrease in the weighted average number of shares outstanding since the first quarter of fiscal 2011 primarily reflects the repurchase for cancellation of 513,579 Non-Voting Class A shares under Empire's Normal Course Issuer Bid ("NCIB") during the second quarter of fiscal 2011.

For these most recent eight quarters, the Company's sales have continued to show improvement compared to the same quarter of the prior year after adjusting for the additional week of sales in the fourth quarter of fiscal 2011. These improvements continue to be mainly driven by Sobey's adherence to a competitive pricing posture, increased retail selling square footage from new stores and enlargements, improved store level execution and product and services innovation. Sobey's sales include fluctuations in quarter-to-quarter inflationary and deflationary market pressures. The Company does experience some seasonality, as evidenced in the results presented above, in particular during the summer months and over holidays.

Consolidated sales and operating earnings growth have been influenced by the Company's investing activities, the competitive environment, cost management initiatives, food price and general industry trends, the cyclical nature of both residential and commercial real estate, 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 amounts)	13 Weeks Ended May 5, 2012		14 Weeks Ended May 7, 2011	
		% of Sales		% of Sales
Sales	\$ 4,073.8	100.00%	\$ 4,149.8	100.00%
EBITDA ⁽¹⁾	224.2	5.50%	209.8	5.06%
Adjusted EBITDA ⁽²⁾	221.5	5.44%	208.4	5.02%
Operating income ⁽¹⁾	136.4	3.35%	122.4	2.95%
Net earnings, net of minority interest	92.1	2.26%	82.5	1.99%
Adjusted net earnings, net of minority interest ⁽²⁾	89.5	2.20%	81.3	1.96%
Basic earnings per share				
Net earnings, net of minority interest	\$ 1.35		\$ 1.21	
Adjusted net earnings, net of minority interest ⁽²⁾	\$ 1.32		\$ 1.20	
Basic weighted average number of shares outstanding (in millions)	67.9		67.9	
Diluted earnings per share				
Net earnings, net of minority interest	\$ 1.35		\$ 1.21	
Adjusted net earnings, net of minority interest ⁽²⁾	\$ 1.32		\$ 1.20	
Diluted weighted average number of shares outstanding (in millions)	68.0		68.0	

(1) Certain balances have been reclassified for changes to comparative figures (see Note 32 to the Company's fiscal 2012 audited annual consolidated financial statements).

(2) Excludes items which are considered not indicative of underlying business operating performance.

Sales

Consolidated sales for the fourth quarter of fiscal 2012 were \$4.07 billion compared to \$4.15 billion last year, a \$76.0 million or 1.8 percent decline. Sales contributed by the food retailing segment equalled \$4.02 billion compared to \$4.10 billion in fiscal 2011. Excluding the impact of the additional week of sales in fiscal 2011 and the impact of the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012, consolidated sales increased \$106.6 million or 2.8 percent. Sobeys' same-store sales increased 0.7 percent during the fourth quarter of fiscal 2012.

For the 13 weeks ended May 5, 2012, Sobeys reported sales of \$4.02 billion, a decrease of \$83.3 million or 2.0 percent from the \$4.10 billion recorded last year. The fourth quarter of fiscal 2011 contained 14 weeks of operations for Sobeys compared to 13 weeks in fiscal 2012, which accounted for \$313.6 million in sales. Excluding the impact of the additional week of sales in fiscal 2011 and the impact of sales resulting from the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012 of \$131.0 million, Sobeys' fourth quarter sales increased \$99.3 million or 2.6 percent. The additional growth in Sobeys' fourth quarter sales was a direct result of continued 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 product and services innovation.

The following table shows a reconciliation of fourth quarter sales recorded by Sobeys.

(\$ in millions)	13 Weeks Ended May 5, 2012	14 Weeks Ended May 7, 2011	(\$ Change)	(%) Change
Sales (recorded by Sobeys)	\$ 4,015.3	\$ 4,098.6	\$ (83.3)	(2.0%)
Adjustments:				
Impact of acquisition of 236 retail gas locations and related convenience store operations in fiscal 2012	(131.0)	–	(131.0)	
Impact of 14th week of sales in fiscal 2011	–	(313.6)	313.6	
	(131.0)	(313.6)	182.6	
Adjusted sales	\$ 3,884.3	\$ 3,785.0	\$ 99.3	2.6%

Investments and other operations' sales for the fourth quarter of fiscal 2012 equalled \$50.6 million versus \$47.2 million in fiscal 2011, an increase of \$3.4 million or 7.2 percent. The increase primarily relates to higher sales recorded by Empire Theatres as a result of higher attendance and concession revenues during the quarter.

EBITDA

Consolidated EBITDA in the fourth quarter of fiscal 2012 was \$224.2 million compared to \$209.8 million last year, an increase of \$14.4 million or 6.9 percent. EBITDA margin increased 44 basis points to 5.50 percent in the fourth quarter of fiscal 2012 from 5.06 percent last year.

The contributors to the change in consolidated EBITDA from the fourth quarter last year were as follows:

- Sobeys contributed EBITDA to Empire of \$203.7 million versus \$193.5 million in the fourth quarter of fiscal 2011, an increase of \$10.2 million or 5.3 percent. The fourth quarter of fiscal 2011 included an additional week of operations at Sobeys.
- Investments and other operations contributed EBITDA of \$20.5 million in fiscal 2012 compared to \$16.3 million last year, an increase of \$4.2 million or 25.8 percent.

Adjusted EBITDA for the fourth quarter of fiscal 2012 was \$221.5 million (5.44 percent of sales) versus \$208.4 million (5.02 percent of sales) last year. Included in EBITDA for the fourth quarter of fiscal 2012 were gains on the sale of assets of \$5.1 million (fiscal 2011 – \$0.5 million) and Sobeys' organizational realignment costs of \$2.8 million (fiscal 2011 – \$nil). These and other items which are considered not indicative of underlying business operating performance are outlined in the table below.

(\$ in millions)	13 Weeks Ended May 5, 2012	14 Weeks Ended May 7, 2011
EBITDA (consolidated) ⁽¹⁾	\$ 224.2	\$ 209.8
Adjustments:		
Gain on disposal of assets	(5.1)	(0.5)
Sobeys' severance and store closure costs	–	0.2
Sobeys' organizational realignment costs	2.8	–
Dilution gains	(0.4)	(1.1)
	(2.7)	(1.4)
Adjusted EBITDA	\$ 221.5	\$ 208.4

(1) Certain balances have been reclassified for changes to comparative figures (see Note 32 to the Company's fiscal 2012 audited annual consolidated financial statements).

Operating Income

The Company reported operating income of \$136.4 million for the 13 weeks ended May 5, 2012, compared to \$122.4 million for the 14 weeks ended May 7, 2011. The increase in operating income of \$14.0 million or 11.4 percent is a result of a higher operating income contribution from the food retailing segment of \$8.7 million or 7.8 percent, along with a higher contribution from investments and other operations of \$5.3 million or 47.7 percent.

- Equity earnings from the Company's investment in Crombie REIT decreased \$0.2 million to \$4.9 million in the fourth quarter of fiscal 2012 compared to the prior year.
- Real estate partnerships (Genstar) contributed equity earnings of \$13.2 million in the fourth quarter, down \$4.5 million from the fourth quarter of fiscal 2011.
- Other operations, net of corporate expenses, contributed operating income of \$(1.7) million versus \$(11.7) million in the fourth quarter of the prior year. Included in other operations, net of corporate expenses, was an impairment charge related to an investment of \$1.1 million (fiscal 2011 – \$9.6 million), dilution gains of \$0.4 million (fiscal 2011 – \$1.0 million) and a gain on the disposal of assets of \$0.2 million (fiscal 2011 – \$nil).

Finance Costs

Consolidated finance costs, net of finance income, in the fourth quarter of fiscal 2012 equalled \$14.3 million versus \$19.0 million last year. The \$4.7 million decrease is primarily a result of lower interest expense of \$3.5 million from lower average consolidated funded debt levels and lower net pension finance costs of \$0.4 million.

Income Taxes

The effective income tax rate for the 13 weeks ended May 5, 2012 was 21.3 percent versus 17.5 percent in fiscal 2011. The increase in the effective income tax rate is primarily due to the timing of the realization of tax benefits in the fourth quarter of fiscal 2011 compared to the same period in the current year.

Net Earnings

Consolidated net earnings, net of minority interest, for the 13 weeks ended May 5, 2012 were \$92.1 million (\$1.35 per share) compared to \$82.5 million (\$1.21 per share) in fiscal 2011, an increase of \$9.6 million or 11.6 percent. The increase is primarily related to the increase in operating income, as discussed, and lower finance costs, net of finance income, partially offset by higher income taxes.

Net earnings in the fourth quarter of fiscal 2011 were favourably impacted by a 14th week of operating results by Sobeys, as discussed. Management calculates that the additional week of operations from Sobeys positively impacted fourth quarter fiscal 2011 net earnings by approximately \$6.3 million.

Adjusted Net Earnings

The table below adjusts fiscal 2012 and fiscal 2011 reported fourth quarter net earnings, net of minority interest, for items which are considered not indicative of underlying business operating performance.

(\$ in millions, except per share amounts, net of tax)	13 Weeks Ended May 5, 2012	14 Weeks Ended May 7, 2011
Net earnings, net of minority interest	\$ 92.1	\$ 82.5
Adjustments:		
Gain on disposal of assets	(4.3)	(0.5)
Sobeys' severance and store closure costs	–	0.1
Sobeys' organizational realignment costs	2.0	–
Dilution gains	(0.3)	(0.8)
	(2.6)	(1.2)
Adjusted net earnings, net of minority interest	\$ 89.5	\$ 81.3
Adjusted net earnings, net of minority interest, by division:		
Food retailing	\$ 79.1	\$ 75.5
Investments and other operations	10.4	5.8
Adjusted net earnings, net of minority interest	\$ 89.5	\$ 81.3
Adjusted EPS (fully diluted)	\$ 1.32	\$ 1.20

For the 13 weeks ended May 5, 2012, excluding the impact of the above-noted items, Empire recorded adjusted net earnings, net of minority interest, of \$89.5 million (\$1.32 per share) compared to \$81.3 million (\$1.20 per share) recorded in the 14 weeks ended May 7, 2011.

As previously mentioned, Sobeys had an additional week of operations in fiscal 2011, which management calculates to have positively impacted net earnings by approximately \$6.3 million. Adjusting for the additional week of operations, adjusted net earnings, net of minority interest, on a comparable 13-week basis in fiscal 2011 would have been \$75.0 million (\$1.10 per share).

CONSOLIDATED FINANCIAL CONDITION

Capital Structure and Key Financial Condition Measures

The Company's overall financial condition has improved since the start of the fiscal year as evidenced by the capital structure and key financial condition measures presented in the table below.

(\$ in millions, except per share and ratio calculations)	May 5, 2012	May 7, 2011	May 1, 2010 ⁽¹⁾
Shareholders' equity, net of minority interest	\$ 3,396.3	\$ 3,162.1	\$ 2,952.4
Book value per common share	\$ 49.98	\$ 46.48	\$ 43.07
Bank indebtedness	\$ 4.4	\$ –	\$ 17.8
Long-term debt, including current portion ⁽²⁾	\$ 1,126.4	\$ 1,152.4	\$ 1,208.4
Funded debt to total capital	25.0%	26.7%	29.3%
Net funded debt to net total capital ratio	15.4%	14.5%	21.8%
Funded debt to EBITDA	1.3x	1.3x	1.5x
EBITDA to interest expense	14.4x	11.9x	11.3x
Total assets	\$ 6,913.1	\$ 6,518.6	\$ 6,248.3

(1) Fiscal 2010 reflects CGAAP and has not been restated for IFRS.

(2) Includes liabilities relating to assets held for sale.

See the Non-GAAP Financial Measures section in this MD&A for definitions of funded debt, net funded debt, total capital, net total capital, interest expense and EBITDA.

Shareholders' Equity

Book value per common share was \$49.98 at May 5, 2012 compared to \$46.48 at May 7, 2011. The 7.5 percent increase in book value per common share in the current fiscal year largely reflects the Company's earnings growth, as discussed.

The Company's share capital on May 5, 2012 consisted of:

	Authorized Number of Shares	Issued and Outstanding Number of Shares	\$ Millions
2002 Preferred shares, par value of \$25 each, issuable in series	991,980,000	–	\$ –
Non-Voting Class A shares, without par value	257,044,056	33,687,747	311.7
Class B common shares, without par value, voting	40,800,000	34,260,763	7.6
			\$ 319.3

There were 33,687,747 Non-Voting Class A and 34,260,763 Class B common shares outstanding at May 5, 2012 for a total of 67,948,510 shares outstanding. This is unchanged from the previous fiscal year-end.

During fiscal 2012, 73,247 options (fiscal 2011 – 150,464 options) were issued under Empire's long-term incentive plan. The options issued in fiscal 2012 allow the holder to purchase Non-Voting Class A shares at \$54.40 per share (fiscal 2011 – \$51.99 per share). Empire had 638,818 options outstanding at May 5, 2012 compared to 565,571 options outstanding at May 7, 2011. There were no options exercised during fiscal 2012 compared to 18,102 options exercised in fiscal 2011.

The table below presents the number of outstanding options and weighted average exercise price over the last two fiscal years.

	Fiscal 2012		Fiscal 2011	
	# of Options	Weighted Average Exercise Price	# of Options	Weighted Average Exercise Price
Balance, beginning of year	565,571	\$ 45.55	433,209	\$ 43.22
Granted	73,247	54.40	150,464	51.99
Exercised	–	–	(18,102)	43.12
Balance, end of year	638,818	\$ 46.57	565,571	\$ 45.55
Stock options exercisable, end of year	329,050		187,658	

The 638,818 stock options outstanding as at the fiscal year ended May 5, 2012 (May 7, 2011 – 565,571 stock options) represents 0.9 percent (May 7, 2011 – 0.8 percent) of the outstanding Non-Voting Class A and Class B common shares.

During the third quarter of fiscal 2012, the Company redeemed all of its 164,900 Series 2 Preferred Shares outstanding in accordance with their terms. The Series 2 Preferred Shares were redeemed at a price of \$25 per share plus an amount equal to all dividends accrued and unpaid to January 31, 2012. This compares to 3,100 Series 2 Preferred Shares purchased for cancellation for \$0.1 million during fiscal 2011.

As at June 28, 2012, the Company had Non-Voting Class A and Class B common shares outstanding of 33,687,747 and 34,260,763, respectively, as well as 638,818 options to acquire in aggregate 638,818 Non-Voting Class A shares.

Dividends paid to Non-Voting Class A and Class B common shareholders amounted to \$61.1 million in fiscal 2012 (\$0.90 per share) versus \$54.4 million (\$0.80 per share) in fiscal 2011.

Liabilities

Historically, Empire has financed a significant portion of its assets through the use of long-term debt. Long-term assets are generally financed with fixed rate, long-term debt, thereby reducing both interest rate and refinance risk. Total long-term debt (including the current portion of long-term debt) at May 5, 2012 was \$1,126.4 million, representing 99.6 percent of Empire's total funded debt of \$1,130.8 million.

The long-term debt is segmented as follows:

Long-term debt (including current portion) (\$ in millions)	May 5, 2012	May 7, 2011	May 2, 2010 ⁽¹⁾
Food retailing	\$ 975.6	\$ 999.3	\$ 856.3
Investments and other operations	150.8	153.1	344.1
Total	\$ 1,126.4	\$ 1,152.4	\$ 1,200.4

(1) May 2, 2010 reflects the opening balance sheet date under IFRS.

Consolidated funded debt at May 5, 2012 of \$1,130.8 million decreased \$21.6 million from the \$1,152.4 million reported at the end of fiscal 2011 on May 7, 2011. The decrease in funded debt from fiscal 2011 was due to a \$23.7 million decline in funded debt at Sobeys, partially offset by a \$2.1 million increase in funded debt in investments and other operations.

The ratio of funded debt to total capital has improved 1.7 percentage points to 25.0 percent from 26.7 percent at the end of fiscal 2011 as a result of higher equity levels due to growth in retained earnings and lower funded debt levels, as mentioned.

On February 14, 2012, Sobeys entered into an amended and restated credit agreement. The agreement provides for an unsecured revolving term credit facility of \$450.0 million and establishes a \$200.0 million unsecured non-revolving term credit facility resulting in total authorized credit facilities of \$650.0 million. The revolving term credit facility matures on February 14, 2016 and the non-revolving term credit facility matures on July 23, 2012. Interest payable on both facilities fluctuates with changes in the bankers' acceptance rate, Canadian prime rate or London InterBank Offered Rate.

For additional disclosure on Empire's bank indebtedness and long-term debt, see Notes 13 and 15 to the Company's audited annual consolidated financial statements for fiscal 2012.

On September 14, 2009, Dominion Bond Rating Service ("DBRS") upgraded Sobeys' credit rating from BBB (low) with a positive trend to BBB with a stable trend. On January 12, 2010, Standard and Poor's ("S&P") upgraded its credit rating on Sobeys from BB+ with a positive trend to BBB- with a stable trend. On December 1, 2011, S&P reaffirmed its credit rating on Sobeys at BBB- with a stable trend.

Empire's EBITDA to interest expense for the 52 weeks ended May 5, 2012 was 14.4 times, up from 11.9 times recorded for the 53 weeks ended May 7, 2011. The increase over fiscal 2011 is primarily due to a decline in interest expense of 15.9 percent accompanied by an increase in EBITDA of 1.6 percent.

Financial Instruments

As part of Empire's risk management strategy, the Company actively monitors its exposures to various financial risks including interest rate risk, foreign exchange price risk and commodity price risk. From time to time, Empire or one of its subsidiaries will use a financial instrument for the purpose of mitigating its exposure to one or more types of financial risk. Empire and its subsidiaries do not use financial instruments for speculative purposes. The Company's use of these instruments has not had a material impact on consolidated earnings for the 13 and 52 weeks ended May 5, 2012 or for the comparative periods in fiscal 2011.

When Empire or its subsidiaries enter into a financial instrument contract, the Company is exposed to potential credit risk associated with the counterparty of the contract defaulting. To mitigate this risk exposure, Empire monitors the credit worthiness of the various contract counterparties on an ongoing basis and will take corrective actions as deemed appropriate should a counterparty's credit profile change dramatically.

In-Place 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 5, 2012, there was one interest rate hedge in place with a fair value of \$(1.9) million. Sensitivity analysis has been prepared to determine the impact of a change in the underlying forward rate curves on the fair values reported as of May 5, 2012. A parallel shift up/(down) in the underlying forward rate curve of 0.25 percent would impact the fair value of the swaps by plus/(minus) \$0.1 million and impact other comprehensive income by plus/(minus) \$0.1 million.

In July 2008, Sobeys entered into a floating-for-floating currency swap with a fixed rate of \$1.015 Canadian Dollar ("CAD")/United States Dollar ("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 5, 2012, Sobeys recognized a liability of \$0.3 million relating to this instrument. Sobeys estimates that a 10.0 percent increase/(decrease) in applicable foreign currency exchange rates would impact the fair value of the swap by plus/(minus) \$0.8 million and would impact other comprehensive income by plus/(minus) \$0.5 million.

To mitigate the currency risk associated with the Company's Euro purchases, Sobeys entered into forward currency contracts with staggered maturities to act as a hedge against the effect of changes in the value of the CAD relative to the Euro. As at May 5, 2012, Sobeys had recognized a liability of \$0.6 million representing the fair value of Euro denominated forward currency contracts. Sobeys estimates that a 10.0 percent increase/(decrease) in applicable exchange rates would impact the fair value by plus/(minus) \$1.0 million and other comprehensive income by plus/(minus) \$0.7 million.

Fair Value Methodology

When a financial instrument is designated as a hedge for financial accounting purposes, it is classified as fair value through profit and loss on the balance sheets and recorded at fair value. The estimated fair values of the financial instruments as at May 5, 2012 were based on relevant market prices and information available at the reporting date. The Company determines the fair value of each financial instrument by reference to external and third-party quoted bid, ask, and mean prices, as appropriate, in an active market. In inactive markets, fair values are based on internal and external valuation models, such as discounted cash flows using market observed inputs. Fair values determined using valuation models require the use of assumptions to determine the amount and timing of forecasted future cash flows and discount rates. The Company primarily uses external market inputs, including factors such as interest yield curves and forward exchange rates. Changes in interest rates and exchange rates, along with other factors, may cause the fair value amounts to change in subsequent periods. The fair value of these financial instruments reflects the amount the Company would pay or receive if it were to settle the contracts at the reporting date.

For additional disclosure on Empire's use of financial instruments, see Notes 3 and 26 to the Company's annual audited financial statements for the 52 weeks ended May 5, 2012.

LIQUIDITY AND CAPITAL RESOURCES

The Company maintains the following sources of liquidity:

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

At May 5, 2012, consolidated cash and cash equivalents was \$510.2 million versus \$615.9 million on May 7, 2011.

At the end of the fourth quarter of fiscal 2012, on a non-consolidated basis, Empire directly maintained an authorized bank line for operating, general and corporate purposes of \$450.0 million, of which approximately \$129.3 million or 28.7 percent was utilized. During the second quarter, at the non-consolidated level, Empire extended the term of its authorized bank line for one year to a maturity date of June 30, 2014. On a consolidated basis, Empire's authorized bank credit facilities exceeded borrowings by \$737.4 million at May 5, 2012.

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.

Empire and its subsidiaries have provided covenants to its lenders in support of various financing facilities. All covenants were complied with for the 52 weeks ended May 5, 2012 and for the fiscal year ended May 7, 2011.

The following table highlights major cash flow components for the 13 and 52 weeks ended May 5, 2012 compared to the 14 and 53 weeks ended May 7, 2011.

(\$ in millions)	13 Weeks Ended May 5, 2012	14 Weeks Ended May 7, 2011	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Net earnings	\$ 96.1	\$ 85.3	\$ 352.1	\$ 409.6
Non-cash and other cash items	118.3	149.5	507.5	485.2
Net change in non-cash working capital	179.2	125.0	86.2	(7.2)
Income taxes paid, net	(22.7)	(14.4)	(131.1)	(124.8)
Dividends paid, preferred shares	-	-	(0.1)	(0.1)
Cash flows from operating activities	370.9	345.4	814.6	762.7
Cash flows (used in) investing activities	(429.1)	(153.4)	(768.3)	(339.5)
Cash flows from (used in) financing activities	23.8	(57.0)	(152.0)	(204.6)
(Decrease) increase in cash and cash equivalents	\$ (34.4)	\$ 135.0	\$ (105.7)	\$ 218.6

Operations

The fourth quarter of fiscal 2012 generated cash flows from operating activities of \$370.9 million compared to \$345.4 million in the comparable period last year. The \$25.5 million increase is attributed to an increase in the net change in non-cash working capital of \$54.2 million and higher net earnings of \$10.8 million, partially offset by a decrease in non-cash and other cash items of \$31.2 million and an increase in income taxes paid of \$8.3 million.

The 52 weeks ended May 5, 2012 generated cash flows from operating activities of \$814.6 million compared to \$762.7 million in the prior fiscal year. The increase of \$51.9 million is attributed to an increase in the net change in non-cash working capital of \$93.4 million and an increase in non-cash and other cash items of \$22.3 million, partially offset by a decline in net earnings of \$57.5 million and an increase in income taxes paid of \$6.3 million.

The table below presents non-cash working capital changes on a quarter-over-quarter basis.

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

(\$ in millions)	May 5, 2012	Feb 4, 2012	13 Weeks Ended	14 Weeks Ended
			May 5, 2012 Increase (Decrease) in Cash Flows	May 7, 2011 Increase (Decrease) in Cash Flows
Receivables	\$ 362.0	\$ 329.9	\$ (32.1)	\$ 13.9
Inventories	825.3	850.5	25.2	11.7
Prepaid expenses	77.6	71.3	(6.3)	(29.1)
Accounts payable and accrued liabilities	(1,729.8)	(1,541.4)	188.4	147.2
Provisions	(30.1)	(26.9)	3.2	(6.9)
Impact of reclassifications on working capital ⁽¹⁾	(0.8)	–	0.8	(11.8)
Total	\$ (495.8)	\$ (316.6)	\$ 179.2	\$ 125.0

(1) Reclassifications primarily related to business acquisitions.

The net change in non-cash working capital of \$179.2 million in the fourth quarter was largely due to an increase in accounts payable and accrued liabilities of \$188.4 million and a decrease in inventories of \$25.2 million. These were partially offset by an increase in receivables of \$32.1 million and an increase in prepaid expenses of \$6.3 million. The decrease in inventories and increase in accounts payable and accrued liabilities compared to the third quarter of fiscal 2012 are primarily due to the timing of purchases and their associated payment.

Investment

Cash used in investing activities of \$429.1 million in the fourth quarter increased \$275.7 million compared to cash used in investing activities of \$153.4 million in the same period last year. The increase was primarily the result of: (i) an increase in cash used to fund business acquisitions of \$218.9 million, primarily relating to Sobey's acquisition of 236 retail gas locations and related convenience store operations from Shell Canada, as discussed; (ii) an increase in cash used to fund a net increase in investments of \$51.9 million; (iii) an increase in property, equipment and investment property purchases of \$7.5 million; and (iv) an increase in additions to intangibles of \$3.7 million. These amounts were partially offset by an increase in the proceeds on disposal of property, equipment and investment property of \$8.2 million.

Consolidated purchases of property, equipment and investment properties totalled \$181.5 million in the fourth quarter of fiscal 2012 compared to \$174.0 million in the fourth quarter last year. Proceeds on the disposal of property, equipment and investment properties increased to \$25.0 million in the fourth quarter of fiscal 2012 from \$16.8 million in the fourth quarter last year.

For the 52 weeks ended May 5, 2012, cash used in investing activities was \$768.3 million, an increase of \$428.8 million from cash used in investing activities of \$339.5 million last year. The increase was primarily the result of: (i) an increase in cash used to fund business acquisitions of \$230.7 million, primarily relating to Sobey's acquisition of 236 retail gas locations and related convenience store operations from Shell Canada, as discussed; (ii) \$115.3 million in net proceeds from the sale of Wajax in the prior year; (iii) an increase in cash used to fund a net increase in investments of \$45.1 million; (iv) an increase in the purchase of property, equipment and investment property of \$37.1 million; (v) an increase in cash used in other assets and other long-term liabilities of \$15.5 million; (vi) a decrease in cash generated from loans and other receivables of \$12.9 million; and (vii) a decrease in minority interest of \$13.4 million compared to \$7.4 million in the prior year. Partially offsetting these amounts were: (i) an increase in proceeds on disposal of property, equipment and investment property of \$27.7 million; and (ii) a decrease in additions to intangibles of \$5.1 million.

For the 52 weeks ended May 5, 2012, consolidated purchases of property, equipment and investment properties totalled \$589.5 million compared to \$552.4 million last year. Proceeds on the disposal of property, equipment and investment properties increased \$27.7 million from the prior fiscal year to \$196.0 million in the 52 weeks ended May 5, 2012. Fiscal 2012 includes proceeds of \$123.9 million from the sale of nine properties to Crombie REIT, seven of which were leased back. In addition, the Company sold its 50 percent interest in two properties to a third-party for \$14.6 million during the first quarter of fiscal 2012.

The table below outlines the total number of corporate and franchised stores Sobeys invested in during the 13 and 52 weeks ended May 5, 2012 compared to 14 and 53 weeks ended May 7, 2011:

Sobeys' Corporate and Franchised Store Construction Activity

	13 Weeks Ended May 5, 2012	14 Weeks Ended May 7, 2011	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
# of stores				
Opened/acquired/relocated	9	15	45	44
Acquisition of 236 retail gas locations and related convenience store operations	236	–	236	–
Expanded	4	4	13	12
Rebanned/redeveloped	16	24	30	68
Closed	10	22	44	39

The following table shows Sobeys' square footage changes for the 13 and 52 weeks ended May 5, 2012 by type:

Sobeys' Square Footage Changes

Square feet (in thousands)	13 weeks ended May 5, 2012	52 weeks ended May 5, 2012
Opened	188	780
Relocated	17	17
Acquired	242	274
Expanded	33	97
Closed	(190)	(500)
Net change	290	668

At May 5, 2012, Sobeys' square footage totalled 29.3 million square feet, a 2.1 percent increase over the 28.7 million square feet operated at the end of the fourth quarter last year.

Financing

Financing activities during the fourth quarter generated \$23.8 million of cash compared to \$57.0 million of cash used in the same quarter last year. The increase in cash of \$80.8 million from financing activities is primarily the result of: (i) a decrease in the repayment of long-term debt of \$34.0 million; (ii) an increase in the issuance of long-term debt of \$32.7 million; (iii) a decrease in interest paid of \$12.5 million; and (iv) an increase in bank indebtedness of \$3.4 million. Partially offsetting these was an increase in dividends paid on common shares of \$1.8 million.

During the 52 weeks ended May 5, 2012, financing activities used \$152.0 million of cash compared to \$204.6 million of cash used in fiscal 2011. The decrease of \$52.6 million is primarily the result of: (i) a decrease in the repayment of long-term debt of \$136.4 million; (ii) a decrease in the repurchase of Non-Voting Class A shares of \$27.6 million; (iii) an increase in bank indebtedness of \$8.5 million; and (iv) a decrease in interest paid of \$6.1 million. Partially offsetting these sources of cash were: (i) a decrease in the issuance of long-term debt of \$115.3 million; (ii) an increase in dividends paid of \$6.7 million; and (iii) an increase in the redemption of preferred shares of \$4.0 million.

The Company believes that its cash and cash equivalents, future operating cash flows and available credit facilities will enable it to fund future capital investments, pension plan contributions, working capital, current funded debt obligations and ongoing business requirements. The Company also believes it has sufficient funding in place to meet these requirements and other long-term obligations.

Business Acquisition

On March 15, 2012, Sobeys acquired 236 retail gas locations and related convenience store operations in Québec and Atlantic Canada from Shell Canada for an amount of \$214.9 million. The network acquired includes corporate owned and dealer operated locations and is expected to have annual fuel volumes in excess of one billion litres. The acquisition of these retail gas locations complements Sobeys' convenience store operations.

The total consideration of \$214.9 million was paid in cash. Acquisition costs of \$3.9 million relating to external legal, consulting, due diligence and other closing costs were incurred and have been included in selling and administrative expenses in the consolidated statements of earnings.

The fair value of the identifiable assets acquired and liabilities assumed as at the acquisition date are as follows:

(\$ in millions)	
Inventories	\$ 8.0
Property and equipment	138.0
Intangibles	22.3
Provisions	(22.6)
Other assets and liabilities	5.2
Total identifiable net assets	\$ 150.9
Excess consideration paid over identifiable net assets acquired	\$ 64.0

The fair value of the identifiable net assets and goodwill have been determined provisionally and are subject to adjustment pending the finalization of the valuations and related accounting.

Guarantees and Commitments

Guarantees

Franchise Affiliates

Sobeys has a guarantee contract under the terms of which, should franchise affiliates be unable to fulfill their lease obligations, Sobeys would be required to fund the greater of \$7.0 million or 9.9 percent (fiscal 2011 – \$7.0 million or 9.9 percent) of the authorized and outstanding obligation. The terms of the guarantee contract are reviewed annually each August. As at May 5, 2012, the amount of the guarantee was \$7.0 million (fiscal 2011 – \$7.0 million).

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

During fiscal 2009, Sobeys entered into an additional credit enhancement contract in the form of a standby letter of credit for certain independent franchisees for the purchase and installation of equipment. Under the terms of the contract, should franchise affiliates be unable to fulfill their lease obligations or other remedy, Sobeys would be required to fund the greater of \$6.0 million or 10.0 percent (fiscal 2011 – \$4.0 million or 10.0 percent) of the authorized and outstanding obligation annually. Under the terms of the contract, 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 determined that there were no material implications with respect to the consolidation of SPEs. As at May 5, 2012, the amount of the guarantee was \$6.0 million (fiscal 2011 – \$4.2 million).

The aggregate, annual, minimum rent payable under the guaranteed operating equipment leases for fiscal 2013 is approximately \$23.5 million. The guaranteed lease commitments over the next five years are:

(\$ in millions)	Third-Parties
2013	\$ 23.5
2014	3.7
2015	1.4
2016	–
2017	–
Thereafter	–

Commitments
Long-Term Debt

Principal debt retirement in each of the next five fiscal years is as follows:

(\$ in millions)	
2013	\$ 227.4
2014	52.9
2015	154.8
2016	19.0
2017	10.4
Thereafter	631.9

Finance Leases

Finance lease liabilities are payable as follows:

(\$ in millions)	Future Minimum Lease Payments		Interest		Present Value of Minimum Lease Payments
2013	\$ 11.5	\$ 1.7	\$ 9.8		
2014	8.3	1.2	7.1		
2015	4.4	0.9	3.5		
2016	3.5	0.7	2.8		
2017	3.6	0.5	3.1		
Thereafter	10.8	4.4	6.4		
Total	\$ 42.1	\$ 9.4	\$ 32.7		

During fiscal 2012, the Company increased its finance lease obligation by \$4.2 million (fiscal 2011 – \$5.4 million) with a similar increase in assets under finance leases. These additions are non-cash in nature, therefore have been excluded from the statements of cash flows.

Operating Leases, as Lessee

The Company leases various retail stores, distribution centers, theatres, offices and equipment under non-cancellable operating leases. These leases have varying terms, escalation clauses, renewal options and basis on which contingent rent is payable.

The total net, future minimum rent payable under the Company's operating leases as of May 5, 2012 is approximately \$2,750.2 million. This reflects a gross lease obligation of \$3,595.0 million reduced by expected sub-lease income of \$844.8 million. The net commitments over the next five fiscal years are:

(\$ in millions)	Third-Parties		Related-Parties	
	Net Lease Obligation	Gross Lease Obligation	Net Lease Obligation	Gross Lease Obligation
2013	\$ 220.0	\$ 309.7	\$ 58.6	\$ 58.6
2014	207.4	290.6	53.0	53.0
2015	197.7	276.8	53.1	53.1
2016	185.8	258.5	52.6	52.6
2017	167.6	232.0	51.6	51.6
Thereafter	952.4	1,408.1	550.4	550.4

The Company recorded \$411.6 million (fiscal 2011 – \$399.1 million) as an expense for minimum lease payments for the year ended May 5, 2012 in the consolidated statements of earnings. The expense was offset by sub-lease income of \$118.3 million (fiscal 2011 – \$96.1 million), and a further \$4.5 million (fiscal 2011 – \$5.1 million) of expense was recognized for contingent rent.

Operating Leases, as Lessor

The Company also leases most investment properties, which are leased by the Company under operating leases. These leases have varying terms, escalation clauses, renewal options and basis on which contingent rent is receivable.

Rental income for the year ended May 5, 2012 was \$41.7 million (fiscal 2011 – \$38.3 million) and was included in sales in the consolidated statements of earnings. In addition, the Company recognized \$1.5 million of contingent rent for the year ended May 5, 2012 (fiscal 2011 – \$1.0 million).

The lease payments expected to be received over the next five years are:

(\$ in millions)	Third-Parties
2013	\$ 12.8
2014	12.1
2015	11.0
2016	10.3
2017	9.5
Thereafter	47.3

Other

At May 5, 2012, the Company was contingently liable for letters of credit issued in the aggregate amount of \$69.6 million (fiscal 2011 – \$52.3 million).

Upon entering into the lease of its new Mississauga distribution centre in March 2000, Sobeys guaranteed to the landlord the performance by SERCA Foodservice Inc. of all of its obligations under the lease. The remaining term of the lease is eight years with an aggregate obligation of \$25.6 million (fiscal 2011 – \$28.6 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 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 Financial Measures section in 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 weeks ended May 5, 2012 and the 14 and 53 weeks ended May 7, 2011.

(\$ in millions)	13 Weeks Ended May 5, 2012	14 Weeks Ended May 7, 2011	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Cash flow from operating activities	\$ 370.9	\$ 345.4	\$ 814.6	\$ 762.7
Less: property, equipment and investment property purchases	181.5	174.0	589.5	552.4
Free cash flow	\$ 189.4	\$ 171.4	\$ 225.1	\$ 210.3

Free cash flow generation in the fourth quarter of fiscal 2012 was \$189.4 million compared to \$171.4 million in the fourth quarter last year. This \$18.0 million increase was due to a \$25.5 million increase in cash flow from operations, partially offset by an increase in property, equipment and investment property purchases of \$7.5 million. The \$25.5 million increase in cash flow from operations is attributed to an increase in the net change in non-cash working capital of \$54.2 million and higher net earnings of \$10.8 million, partially offset by a decrease in non-cash and other cash items of \$31.2 million and an increase in income taxes paid of \$8.3 million.

For the 52 weeks ended May 5, 2012, free cash flow generation was \$225.1 million compared to \$210.3 million last year. This \$14.8 million increase in free cash flow from fiscal 2011 was due to a \$51.9 million increase in cash flow from operations, partially offset by a \$37.1 million increase in property, equipment and investment property purchases. The increase of \$51.9 million in cash flow from operations is attributed to an increase in the net change in non-cash working capital of \$93.4 million and an increase in non-cash and other cash items of \$22.3 million, partially offset by a decline in net earnings of \$57.5 million and an increase in income taxes paid of \$6.3 million.

CONTROLS AND ACCOUNTING POLICIES

Accounting Standards and Policies Adopted During Fiscal 2012

IFRS

The annual consolidated financial statements have been prepared in accordance with IFRS or GAAP as issued by the International Accounting Standards Board ("IASB"). These are the Company's first annual consolidated financial statements reported under IFRS and are for the 52 weeks ended May 5, 2012 with comparative financial information for the 53 weeks ended May 7, 2011 and IFRS 1, "First-Time Adoption of International Financial Reporting Standards" has been applied.

An explanation of how the transition to IFRS from CGAAP has affected the Company's reported consolidated balance sheets, consolidated statements of earnings, consolidated statements of comprehensive income and consolidated statements of cash flows is provided in Note 33 to the annual consolidated financial statements for the 52 weeks ended May 5, 2012.

Future Changes in Accounting Policies

(i) Financial Instruments

In November 2009, the IASB issued IFRS 9, "Financial Instruments", which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement". The replacement is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 is the first phase of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

(ii) Financial Instruments: Disclosures

In October 2010, the IASB issued amendments to IFRS 7, "Financial Instruments: Disclosures", which require increased disclosure for transactions involving the transfer of financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011.

(iii) Deferred Tax: Recovery of Underlying Assets

In December 2010, the IASB issued amendments to IAS 12, "Income Taxes", which introduce an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. The amendments are effective for annual periods beginning on or after January 1, 2012.

(iv) Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10, "Consolidated Financial Statements", which establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The objective of IFRS 10 is to define principles of control and establish the basis of determining when and how an entity should be included within a set of consolidated financial statements. It replaces portions of IAS 27, "Consolidated and Separate Financial Statements", and supersedes Standing Interpretations Committee ("SIC") 12, "Consolidation – Special Purpose Entities", completely, and is effective for annual periods beginning on or after January 1, 2013.

(v) Joint Arrangements

In May 2011, the IASB issued IFRS 11, "Joint Arrangements", which establishes principles for financial reporting by entities that have an interest in a joint arrangement. IFRS 11 supersedes IAS 31, "Interest in Joint Ventures", and SIC 13, "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". Through an assessment of the rights and obligations in an arrangement, this IFRS establishes principles to determine the type of joint arrangement and guidance for financial reporting activities required by the entities that have an interest in arrangements that are jointly controlled and is effective for annual periods beginning on or after January 1, 2013.

(vi) Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12, "Disclosure of Interests in Other Entities", which outlines disclosure requirements for an entity that has interests in a subsidiary, a joint arrangement, an associate and an unconsolidated structured entity. IFRS 12 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interest in other entities and the effects of those interests on its financial position, financial performance and cash flows. It is effective for annual periods beginning on or after January 1, 2013.

(vii) Fair Value Measurement

In May 2011, the IASB issued IFRS 13, "Fair Value Measurement", which defines fair value, sets out in a single IFRS a framework for measuring fair value, and identifies required disclosures about fair value measurements. This IFRS is effective for annual periods beginning on or after January 1, 2013.

(viii) Employee Benefits

In June 2011, the IASB issued amendments to IAS 19, "Employee Benefits", which eliminate the option to defer the recognition of actuarial gains and losses, streamline the presentation of changes in assets and liabilities arising from defined benefit plans to be presented in other comprehensive income, and enhance disclosure requirements around the characteristics of the defined benefit plans and risks associated with participation in those plans. The amendments are effective for annual periods beginning on or after January 1, 2013.

The Company is currently evaluating the impact of these new standards and amendments on its consolidated financial statements.

Critical Accounting 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 judgments 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, provisions, impairments, customer loyalty programs, useful lives of property and equipment and intangibles for purposes of depreciation and amortization, 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.

Impairment of Non-Financial Assets

Goodwill and intangibles with indefinite useful lives are reviewed for impairment at least annually by assessing the recoverable amount of each cash generating unit or groups of cash generating units to which the goodwill or the indefinite life intangibles relates. The recoverable amount is the higher of fair value less costs to sell and value in use. When the recoverable amount of the cash generating units is less than the carrying amount an impairment loss is recognized immediately as selling and administrative expenses. Impairment losses related to goodwill cannot be reversed.

Long-lived tangible and intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount is the higher of fair value less costs to sell and value in use. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit(s) to which the asset belongs. The Company has primarily determined a cash generating unit to be an individual store or theatre. Corporate assets, such as head offices and distribution centres, do not individually generate separate cash inflows and are therefore aggregated for testing with the locations they service. When the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount (or cash generating unit) is reduced to the recoverable amount. An impairment loss is recognized as selling and administrative expenses or cost of sales immediately in net earnings or loss.

Where an impairment loss subsequently reverses, other than related to goodwill, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate, but is limited to the carrying amount that would have been determined if no impairment loss had been recognized in prior periods. A reversal of impairment loss is recognized immediately in net earnings or loss.

In the process of measuring expected future cash flows, management makes assumptions about the future growth of profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause significant adjustments to the Company's assets within subsequent financial years.

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 unit credit method pro-rated on service and management's best estimate of the expected long-term rate of return on plan assets, salary escalation, retirement ages, and expected growth rate of health care costs.

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

The impact of plan amendments is recognized as an expense and amortized on a straight-line basis over the average period until the benefits are vested. To the extent that increases in the obligation related to past service have vested immediately following the changes in the original plan, the Company recognizes past service cost immediately.

In measuring its defined benefit liability the Company will recognize all of its actuarial gains and losses immediately into other comprehensive income.

Income Taxes

Deferred 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. Deferred 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 deferred 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 deferred 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 deferred income tax balances on the consolidated balance sheets.

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; (ii) estimated inventory provisions due to spoilage and shrinkage occurring between the last physical inventory count and the balance sheet dates; 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 sheets and a charge or credit to operating income in the consolidated statements 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 dates. To the extent that actual losses experienced vary from those estimated, both inventories and operating income may be impacted.

Provisions

Provisions are recognized when there is a present legal or constructive obligation as a result of a past event, for which it is probable that a transfer of economic benefits will be required to settle the obligation, and where a reliable estimate can be made of the amount of the obligation. Provisions are discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability, if material.

Disclosure Controls and Procedures

Management of Empire, which includes the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), is responsible for establishing and maintaining Disclosure Controls and Procedures ("DC&P") 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. As at May 5, 2012, the CEO and CFO have evaluated the effectiveness of the Company's DC&P. Based on that evaluation, the CEO and CFO have concluded that Empire's DC&P was effective as at May 5, 2012, and that there were no material weaknesses relating to the design or operation of the DC&P.

Internal Control over Financial Reporting

Management of Empire, which includes the CEO and CFO, is responsible for establishing and maintaining Internal Control over Financial Reporting ("ICFR"), as that term is defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings". 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 Organizations of the Treadway Commission. As of May 5, 2012, the CEO and CFO have evaluated the effectiveness of Empire's ICFR. Based on that evaluation, the CEO and CFO have concluded that Empire's ICFR was effective as at May 5, 2012, and that there were no material weaknesses relating to the design or operation of the ICFR.

There have been no changes in Empire's ICFR during the period beginning on February 5, 2012 and ended on May 5, 2012 that have materially affected, or are reasonably likely to materially affect, Empire's ICFR.

RELATED-PARTY TRANSACTIONS

The Company rents premises from Crombie REIT, at amounts in management's opinion which approximate fair market value. Management has determined these amounts to be fair value due to the significant number of leases negotiated with third-parties in each market it operates. During the fiscal year 2012, the aggregate net payments under these leases, which are measured at exchange amount, were \$67.5 million (fiscal 2011 – \$61.7 million).

In addition, Crombie REIT provides administrative and management services to the Company. The charges incurred for administrative and management services are on a cost recovery basis. For the 52 weeks ended May 5, 2012, charges incurred for administrative and management services were \$1.5 million (53 weeks ended May 7, 2011 – \$1.9 million).

The Company has non-interest bearing notes payable to Crombie REIT in the amount of \$3.2 million related to the subsidy payments to Crombie REIT pursuant to an omnibus subsidy agreement dated March 23, 2006 between certain subsidiaries of Crombie REIT and ECL Properties Limited.

The Company owns convertible unsecured subordinated debentures from Crombie REIT with a market value of \$12.8 million (May 7, 2011 – \$11.9 million). During the 52 weeks ended May 5, 2012, the Company received income related to these securities of \$0.6 million (fiscal 2011 – \$0.6 million).

During the year, fixed rate secured mortgages provided to Crombie REIT in the amount of \$5.6 million were repaid in their entirety. During the 52 weeks ended May 5, 2012, the Company received interest income related to the secured mortgages of \$0.2 million (53 weeks ended May 7, 2011 – \$0.3 million).

On October 20, 2011, Crombie REIT closed a bought-deal public offering of units at a price of \$12.85 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 limited partnership units (which are convertible on a one-for-one basis into units of Crombie REIT). On March 29, 2012, Crombie REIT closed a bought-deal public offering of units at a price of \$14.50 per unit. Concurrent with the public offering, a wholly-owned subsidiary of the Company subscribed for approximately \$53.0 million of Class B limited partnership units (which are convertible on a one-for-one basis into units of Crombie REIT). As a result of the Company's subscriptions of Class B limited partnership units and the conversion of Crombie REIT debentures throughout the year, the Company's interest in Crombie REIT was reduced from 46.4 percent to 44.3 percent.

During fiscal 2012, the Company sold nine (fiscal 2011 – twelve) properties to Crombie REIT, seven (fiscal 2011 – twelve) of which were leased back. Cash consideration received for the properties was recorded at exchange amount of \$123.9 million (fiscal 2011 – \$104.0 million), resulting in a pre-tax gain of \$12.4 million (fiscal 2011 – \$12.2 million), which has been recognized in the consolidated statements of earnings. The Company acquired a property from Crombie REIT for \$5.0 million (fiscal 2011 – \$nil), which management believes is equal to the fair market value of the property. As the property was leased by the Company from Crombie REIT, an additional \$2.0 million (fiscal 2011 – \$nil) was paid for the cancellation of the lease and recognized in the consolidated statements of earnings, with total cash consideration paid of \$7.0 million (fiscal 2011 – \$nil).

On a fully diluted basis (assuming conversion of all outstanding convertible securities of Crombie REIT) the Company's interest in Crombie REIT would be approximately 40.7 percent.

SUBSEQUENT EVENT

On June 12, 2012, the Company agreed to purchase \$24.0 million of convertible unsecured subordinated debentures (the "Debentures") from Crombie REIT, pursuant to a bought-deal prospectus offering for a total of \$60.0 million. The Debentures have a maturity date of September 30, 2019. The Debentures have a coupon of 5.00 percent per annum and each \$1,000 principal amount of Debenture is convertible into approximately 49.7512 units of Crombie REIT, at any time, at the option of the holder, based on a conversion price of \$20.10 per unit.

EMPLOYEE FUTURE BENEFIT OBLIGATIONS

For the 52 weeks ended May 5, 2012, the Company contributed \$10.7 million (fiscal 2011 – \$6.1 million) to its registered defined benefit plans. The Company expects to contribute approximately \$10.4 million in fiscal 2013 to these plans. The Company continues to assess the impact of the capital markets on its funding requirements.

DESIGNATION FOR ELIGIBLE DIVIDENDS

“Eligible dividends” receive favourable treatment for income tax purposes. To be an eligible dividend, a dividend must be designated as such at the time of payment.

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.

CONTINGENCIES

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.

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.

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 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 the Company.

Competition

Empire's food retailing business, 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, operating in over 800 communities in Canada. 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 to meet a broader spectrum of needs of its customers in order to enhance profitability by region and target market.

Sobeys' real estate development operations and Empire, through its investment in Crombie REIT, compete with numerous other managers and owners of real estate properties in seeking tenants and new properties to acquire. The existence of competing managers and owners could affect their ability to: (i) acquire property in compliance with their investment criteria; (ii) lease space in their 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 sales and cash flows. To mitigate these risks, Sobeys and Crombie REIT maintain strategic relationships with developers to ensure an adequate supply of prospective attractive properties. In addition, Crombie REIT maintains strategic relationships with existing and potential tenants to help ensure high occupancy levels are maintained at each of its properties.

Continued growth of rental income is dependent on renewing expiring leases and locating 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. To mitigate this risk, Crombie REIT and Sobeys utilize staggered lease maturities to ensure that there are not unusually large amounts of leasable space coming up for renewal in any given year.

Genstar faces competition from other residential land developers in securing attractive sites for new residential lot development. Although Genstar holds land for future development, it faces significant competition when looking to acquire new land for future development. To mitigate this risk, Genstar maintains a geographically diverse inventory of well located land for development to alleviate periods of intense competition for the acquisition of new land. In addition, Genstar management has intimate knowledge of the residential markets where Genstar operates and in markets where it seeks new land investments.

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. The majority of Company debt is at fixed rates; accordingly, there is a limited exposure to interest rate risk until debt maturity.

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. At May 5, 2012, bank indebtedness and approximately 23.7 percent of the Company's long-term debt was 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 purchases 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 operations. Labour disruptions pose a moderate operational risk as Sobeys operates an integrated network of 23 distribution centres across the country for the food retailing segment. Sobeys has good relations with its employees and unions and does not anticipate any material labour disruptions in fiscal 2013. 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 are 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 event and natural hazard is the risk of a pandemic. Sobeys has worked with industry and government sources to develop a pandemic preparedness plan. Responsibility for business continuity planning has been designated to the Human Resources Committee of Empire's Board of Directors.

Environmental Health and Safety

The Company is continually enhancing its programs in the 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.

Sobeys' retail fuel locations operate underground storage tanks. Environmental contamination resulting from leaks or damages to these tanks is possible. To mitigate this environmental risk, Sobeys engages in several monitoring procedures, as well as risk assessment activities, to minimize potential environmental hazards.

These activities mitigate but do not eliminate the Company's environmental risk, and as such, along with the risk of changes to existing environmental protection regulatory requirements, there remains exposure for negative financial and operational impacts to the Company in future years.

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.

Occupational Health and Safety

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, theatres, distribution centres and offices. These policies and programs are reviewed regularly by the Human Resources Committee of the Board.

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 Sobeys' 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 operating systems, tools and procedures in order to become more efficient and effective. The implementation of major information technology projects carries with it various risks, including the risk of realization of benefits, that must be mitigated by disciplined change management and governance processes. Sobeys has a business process optimization team staffed with knowledgeable internal and external resources that is responsible for implementing the various initiatives. The Company's Board of Directors has also created an Oversight Committee to ensure an appropriate governance structure over these change initiatives is in place; 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 stores and theatres, as well as for its commercial property and residential development operations, with direct or indirect 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 the 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

The success of Empire 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 affiliate 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.

Drug Regulation

Amendments to the regulation of generic prescription drug prices paid by provincial governments to pharmacies have been announced or are expected to be announced in Nova Scotia, New Brunswick, Prince Edward Island, Newfoundland, Ontario, Manitoba, Saskatchewan, Alberta and British Columbia impacting in fiscal 2013 onward. As a result of these amendments, the cost of generic drugs for provincial drug plans will be reduced alongside the elimination of professional allowances paid to pharmacies by manufacturers in Ontario and British Columbia. These amendments will also lead to a reduction in the cost of generic drugs for out-of-pocket and private health plans. The Company will continue to identify opportunities to mitigate the risk of a negative impact on financial performance due to these risks.

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

Sobeys and Genstar have certain foreign operations. Sobeys' foreign operations are limited to a small number of produce brokerage operations based in the United States. Genstar's foreign operations are limited to a number of residential land developments in selected markets in the United States. These foreign operations are relatively small and are not considered material to Empire on a consolidated basis; as such, the Company does not have any material risks associated with foreign operations.

Foreign Currency

The Company conducts the majority of its operating business in CAD and its foreign exchange risk is mainly limited to currency fluctuations between the CAD, the Euro and the USD. USD purchases of product by the food retailing segment 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 counterparties to fix the exchange rate on some of its expected requirements for Euros and USD.

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 is 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

It is important that 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 the Board review of significant capital allocation decisions. The Company has established prudent hurdle rates for capital investments that are evaluated through a prudent due diligence process.

Access to Capital

Access to capital risk refers to Empire or its operating companies 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 banks. Empire mitigates these risks by maintaining strong relationships with its banks and access to 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 requirements.

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

Dated: June 28, 2012

Stellarton, Nova Scotia, Canada

CONSOLIDATED FINANCIAL STATEMENTS

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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 International Financial Reporting Standards or Generally Accepted Accounting Principles and reflect management's best estimates and judgments. All other financial information in the report is consistent with that contained in the 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 28, 2012



Paul V. Beesley
Executive Vice President and
Chief Financial Officer
June 28, 2012

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Empire Company Limited

We have audited the accompanying consolidated financial statements of Empire Company Limited, which comprise the consolidated balance sheets as at May 5, 2012, May 7, 2011 and May 2, 2010, and the consolidated statements of earnings, comprehensive income, changes in shareholders' equity, and cash flows for the 52 and 53 week fiscal years ended May 5, 2012 and May 7, 2011, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Empire Company Limited as at May 5, 2012, May 7, 2011 and May 2, 2010, and its consolidated financial performance and its consolidated cash flows for the 52 and 53 week fiscal years ended May 5, 2012 and May 7, 2011, in accordance with International Financial Reporting Standards.



Chartered accountants

Halifax, Canada
June 28, 2012

CONSOLIDATED BALANCE SHEETS

As At (in millions of Canadian dollars)	May 5, 2012	May 7, 2011	May 2, 2010
Assets			
Current			
Cash and cash equivalents	\$ 510.2	\$ 615.9	\$ 397.3
Receivables	362.0	346.6	336.0
Inventories (Note 4)	825.3	823.0	789.8
Prepaid expenses	77.6	69.6	64.4
Loans and other receivables (Note 5)	41.0	52.4	74.5
Income taxes receivable	46.8	27.4	14.3
Assets held for sale	28.2	59.4	36.5
	1,891.1	1,994.3	1,712.8
Loans and other receivables (Note 5)	60.6	71.7	85.0
Investments	13.0	14.3	10.9
Investments, at equity (Note 6)	313.4	212.1	224.4
Other assets (Note 7)	68.5	55.3	41.6
Property and equipment (Note 8)	2,679.2	2,398.1	2,315.2
Investment property (Note 9)	86.9	73.8	90.6
Intangibles (Note 10)	461.8	449.2	450.2
Goodwill (Note 11)	1,302.1	1,220.0	1,214.2
Deferred tax assets (Note 12)	36.5	29.8	31.9
	\$ 6,913.1	\$ 6,518.6	\$ 6,176.8
Liabilities			
Current			
Bank indebtedness (Note 13)	\$ 4.4	\$ -	\$ 4.1
Accounts payable and accrued liabilities	1,729.8	1,629.1	1,578.3
Income taxes payable	16.7	27.8	33.2
Provisions (Note 14)	30.1	29.9	28.6
Long-term debt due within one year (Note 15)	237.3	49.4	378.8
Derivative financial liabilities	-	-	2.1
Liabilities relating to assets held for sale	-	12.7	-
	2,018.3	1,748.9	2,025.1
Provisions (Note 14)	59.7	34.3	19.7
Long-term debt (Note 15)	889.1	1,090.3	821.6
Other long-term liabilities (Note 16)	178.5	138.3	135.1
Employee future benefits obligation (Note 17)	143.3	122.3	133.2
Derivative financial liabilities	2.8	9.6	15.0
Deferred tax liabilities (Note 12)	190.0	177.0	160.0
	3,481.7	3,320.7	3,309.7
Shareholders' Equity			
Capital stock (Note 18)	319.3	323.4	328.0
Contributed surplus	6.1	4.7	3.2
Retained earnings	3,081.7	2,852.1	2,527.5
Accumulated other comprehensive loss	(10.8)	(18.1)	(25.8)
	3,396.3	3,162.1	2,832.9
Minority interest	35.1	35.8	34.2
	3,431.4	3,197.9	2,867.1
	\$ 6,913.1	\$ 6,518.6	\$ 6,176.8

See accompanying notes to the consolidated financial statements.

On Behalf of the Board



Director



Director

CONSOLIDATED STATEMENTS OF EARNINGS

(in millions of Canadian dollars, except per share amounts)	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011 ⁽¹⁾
Sales	\$ 16,249.1	\$ 15,956.8
Other income (Note 19)	33.8	25.5
Share of earnings from investments, at equity	49.3	59.1
Operating expenses		
Cost of sales	12,220.5	11,976.8
Selling and administrative expenses	3,577.4	3,538.9
Operating income	534.3	525.7
Finance costs, net (Note 21)	59.9	75.4
Gain on sale of Wajax (Note 22)	–	81.3
Earnings before income taxes	474.4	531.6
Income taxes (Note 12)	122.3	122.0
Net earnings	\$ 352.1	\$ 409.6
Earnings for the year attributable to:		
Minority interest	\$ 12.7	\$ 9.0
Owners of the parent	339.4	400.6
	\$ 352.1	\$ 409.6
Earnings per share (Note 23)		
Basic	\$ 4.99	\$ 5.88
Diluted	\$ 4.99	\$ 5.87
Weighted average number of common shares outstanding, in millions (Note 23)		
Basic	67.9	68.1
Diluted	68.0	68.2

See accompanying notes to the consolidated financial statements.

(1) Comparative figures (see Note 32).

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions of Canadian dollars)	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Net earnings	\$ 352.1	\$ 409.6
Other comprehensive income		
Unrealized (losses) gains on derivatives designated as cash flow hedges (net of income taxes of \$0.3 (2011 – \$(0.1)))	(0.7)	0.3
Reclassification of losses on derivative instruments designated as cash flow hedges to earnings (net of income taxes of \$(2.4) (2011 – \$(2.6)))	5.2	5.5
Unrealized gains on available for sale financial assets (net of income taxes of \$(0.1) (2011 – \$(0.2)))	0.6	1.0
Reclassification of losses on available for sale financial assets to earnings (net of income taxes of \$nil (2011 – \$nil))	0.1	–
Actuarial (losses) gains on defined benefit plans (net of income taxes of \$16.7 (2011 – \$(0.4)))	(48.6)	1.5
Share of other comprehensive income of investments, at equity (net of income taxes of \$(0.5) (2011 – \$(0.8)))	1.2	2.5
Exchange differences on translation of foreign operations	0.9	(1.6)
Total comprehensive income	\$ 310.8	\$ 418.8
Total comprehensive income for the year attributable to:		
Minority interest	\$ 12.7	\$ 9.0
Owners of the parent	298.1	409.8
	\$ 310.8	\$ 418.8

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in millions of Canadian dollars)	Capital Stock	Contributed Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Total Attributable to Parent	Minority Interest	Total Equity
Balance at May 2, 2010	\$ 328.0	\$ 3.2	\$ (25.8)	\$ 2,527.5	\$ 2,832.9	\$ 34.2	\$ 2,867.1
Dividends	-	-	-	(54.5)	(54.5)	-	(54.5)
Employee share options	0.1	1.5	-	-	1.6	-	1.6
Redemption of capital stock	(4.7)	-	-	(23.0)	(27.7)	-	(27.7)
Capital transactions							
with special purpose entities	-	-	-	-	-	(7.4)	(7.4)
Transactions with owners	(4.6)	1.5	-	(77.5)	(80.6)	(7.4)	(88.0)
Net earnings	-	-	-	400.6	400.6	9.0	409.6
Other comprehensive income							
Unrealized gains on derivatives							
designated as cash flow hedges	-	-	0.3	-	0.3	-	0.3
Reclassification of losses on							
derivative instruments							
designated as cash flow							
hedges to earnings	-	-	5.5	-	5.5	-	5.5
Unrealized gains on available							
for sale financial assets	-	-	1.0	-	1.0	-	1.0
Actuarial gains on defined							
benefit plans	-	-	-	1.5	1.5	-	1.5
Share of other comprehensive							
income of investments,							
at equity	-	-	2.5	-	2.5	-	2.5
Exchange differences on translation							
of foreign operations	-	-	(1.6)	-	(1.6)	-	(1.6)
Total comprehensive income							
for the year	-	-	7.7	402.1	409.8	9.0	418.8
Balance at May 7, 2011	\$ 323.4	\$ 4.7	\$ (18.1)	\$ 2,852.1	\$ 3,162.1	\$ 35.8	\$ 3,197.9
Dividends	-	-	-	(61.2)	(61.2)	-	(61.2)
Employee share options	-	1.4	-	-	1.4	-	1.4
Redemption of capital stock	(4.1)	-	-	-	(4.1)	-	(4.1)
Capital transactions with							
special purpose entities	-	-	-	-	-	(13.4)	(13.4)
Transactions with owners	(4.1)	1.4	-	(61.2)	(63.9)	(13.4)	(77.3)
Net earnings	-	-	-	339.4	339.4	12.7	352.1
Other comprehensive income							
Unrealized losses on derivatives							
designated as cash flow hedges	-	-	(0.7)	-	(0.7)	-	(0.7)
Reclassification of losses on							
derivative instruments							
designated as cash flow							
hedges to earnings	-	-	5.2	-	5.2	-	5.2
Unrealized gains on available							
for sale financial assets	-	-	0.6	-	0.6	-	0.6
Reclassification of losses on							
available for sale financial							
assets to earnings	-	-	0.1	-	0.1	-	0.1
Actuarial losses on defined							
benefit plans	-	-	-	(48.6)	(48.6)	-	(48.6)
Share of other comprehensive							
income of investments,							
at equity	-	-	1.2	-	1.2	-	1.2
Exchange differences on translation							
of foreign operations	-	-	0.9	-	0.9	-	0.9
Total comprehensive income							
for the year	-	-	7.3	290.8	298.1	12.7	310.8
Balance at May 5, 2012	\$ 319.3	\$ 6.1	\$ (10.8)	\$ 3,081.7	\$ 3,396.3	\$ 35.1	\$ 3,431.4

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of Canadian dollars)	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Operations		
Net earnings	\$ 352.1	\$ 409.6
Adjustments for:		
Depreciation	304.1	299.5
Income taxes	122.3	122.0
Finance costs, net (Note 21)	59.9	75.4
Amortization of intangibles	38.2	37.8
Gain on disposal of assets (Note 19)	(32.6)	(24.5)
Impairment of non-financial assets (Notes 8, 9 and 10)	5.2	34.3
Amortization of deferred items	1.1	1.2
Equity in earnings of other entities, net of dividends received	(1.6)	14.2
Employee future benefits obligation	3.4	(19.4)
Increase in long-term lease obligation	3.3	9.8
Increase in long-term provisions	2.8	14.6
Stock-based compensation	1.4	1.6
Gain on sale of Wajax	–	(81.3)
	859.6	894.8
Net change in non-cash working capital	86.2	(7.2)
Income taxes paid, net	(131.1)	(124.8)
Dividends paid, preferred shares	(0.1)	(0.1)
Cash flows from operating activities	814.6	762.7
Investment		
Net increase in investments	(87.1)	(42.0)
Net proceeds from sale of Wajax	–	115.3
Property, equipment and investment property purchases	(589.5)	(552.4)
Proceeds on disposal of property, equipment and investment property	196.0	168.3
Additions to intangibles	(29.1)	(34.2)
Loans and other receivables	22.5	35.4
Other assets and other long-term liabilities	(23.8)	(8.3)
Business acquisitions (Note 24)	(247.7)	(17.0)
Interest received	3.8	2.8
Decrease in minority interest	(13.4)	(7.4)
Cash flows used in investing activities	(768.3)	(339.5)
Financing		
Increase (decrease) in bank indebtedness	4.4	(4.1)
Issue of long-term debt	102.6	217.9
Repayment of long-term debt	(133.3)	(269.7)
Redemption of preferred shares	(4.1)	(0.1)
Repurchase of Non-Voting Class A shares	–	(27.6)
Interest paid	(60.5)	(66.6)
Dividends paid, common shares	(61.1)	(54.4)
Cash flows used in financing activities	(152.0)	(204.6)
(Decrease) increase in cash and cash equivalents	(105.7)	218.6
Cash and cash equivalents, beginning of year	615.9	397.3
Cash and cash equivalents, end of year	\$ 510.2	\$ 615.9

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

May 5, 2012

(in millions of Canadian dollars, except per share amounts)

1. REPORTING ENTITY

Empire Company Limited (“Empire” or the “Company”) is a diversified Canadian company whose key businesses include food retailing and corporate investment activities. The Company is incorporated in Canada and the address of its registered office of business is 115 King Street, Stellarton, Nova Scotia, B0K 1S0, Canada. The consolidated financial statements for the year ended May 5, 2012 include the accounts of Empire, all subsidiary companies, including 100 percent owned Sobeys Inc. (“Sobeys”), and certain enterprises considered special purpose entities (“SPEs”), 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 and investments in significant joint ventures are accounted for using the equity method. 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.

2. BASIS OF PREPARATION

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS” or “GAAP”) as issued by the International Accounting Standards Board (“IASB”). These are the Company’s first annual consolidated financial statements reported under IFRS for the 52 weeks ended May 5, 2012 with comparative financial information for the 53 weeks ended May 7, 2011 and IFRS 1, “First-Time Adoption of International Financial Reporting Standards” has been applied.

An explanation of how the transition to IFRS from Canadian Generally Accepted Accounting Principles (“Canadian GAAP”) has affected the Company’s reported consolidated balance sheets, consolidated statements of earnings, consolidated statements of comprehensive income and consolidated statements of cash flows is provided in Note 33.

The consolidated financial statements were authorized for issue by the Board of Directors on June 28, 2012.

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis, except the following assets and liabilities which are stated at their fair value: derivative financial instruments, financial instruments classified as fair value through profit and loss, customer loyalty and financial instruments classified as available for sale. Certain property, equipment and investment properties were restated to their fair value at May 2, 2010 when the Company elected to use fair value as deemed cost for certain assets as permitted by IFRS 1.

Use of estimates and judgments

The preparation of consolidated financial statements, in conformity with IFRS, requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The Company has applied judgment in its assessment of the appropriateness of consolidation of SPEs, the classification of leases and financial instruments, the level of componentization of property and equipment, the determination of cash generating units, the identification of indicators of impairment for property and equipment, investment property and intangible assets, the allocation of purchase price adjustments on business combinations, and the recognition of provisions.

Significant estimates include the valuation of inventories, goodwill, valuation of asset-backed commercial paper, provisions, impairments, employee future benefits, stock-based compensation, loyalty programs, useful lives of property and equipment and intangibles for purposes of depreciation and amortization 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The financial statements for the Company include the accounts of the Company and all of its subsidiary undertakings drawn up to the reporting date. Subsidiaries, including SPEs, are all entities over which the Company has the power to control the financial and operating policies so as to benefit from its activities. All subsidiaries have a reporting date within five weeks of the Company's reporting date. Where necessary, adjustments have been made to reflect transactions between the reporting dates of the Company and its subsidiaries.

All intercompany transactions, balances, income and expenses are eliminated in preparing the consolidated financial statements.

Earnings or losses and other comprehensive income of subsidiaries acquired or disposed of during the period are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Minority interest represents the portion of a subsidiary's earnings and losses and net assets that is not held by the Company. If losses in a subsidiary applicable to a minority interest exceed the minority interest in the subsidiary's equity, the excess is allocated to the minority interest except to the extent that the majority has a binding obligation and is able to cover the losses.

(b) Business combinations

Business combinations are accounted for by applying the acquisition method. The acquisition method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, "Business Combinations", are recognized at their fair value at the acquisition date, except for: (i) deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements which are recognized and measured in accordance with IAS 12, "Income Taxes", and IAS 19, "Employee Benefits", respectively; and (ii) assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, "Non-Current Assets Held for Sale and Discontinued Operations", which are measured and recognized at fair value less costs to sell. Goodwill arising on acquisition is recognized as an asset and represents the excess of acquisition cost over the fair value of the identifiable net assets of the acquiree at the date of the acquisition. Any excess of identifiable net assets over the acquisition cost is recognized in net earnings or loss immediately after acquisition. Transaction costs related to the acquisition are expensed as they are incurred.

In measuring the fair value of an acquiree's assets and liabilities management uses estimates about future cash flows and discount rates. Any measurement changes upon initial recognition would affect the measurement of goodwill, except for deferred taxes.

(c) Foreign currency translation

Assets and liabilities of foreign operations are translated at exchange rates in effect at the balance sheet date. The revenues and expenses are translated at average exchange rates for the period. Cumulative gains and losses on translation are shown in accumulated other comprehensive income or loss.

Monetary 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. Non-monetary items are translated at the historical exchange rate at the date of transaction. 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 foreign currency exchange rate for the period.

(d) Cash and cash equivalents

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

(e) Inventories

Warehouse inventories are valued at the lower of cost and net realizable value with cost being determined on a weighted average cost basis. Retail inventories are valued at the lower of cost and net realizable value. Cost is determined using a weighted average cost using either the standard cost method or retail method. The retail method uses the anticipated selling price less normal profit margins, on a weighted average cost basis. The cost of inventories is comprised of directly attributable costs and includes the purchase price plus other costs incurred in bringing the inventories to their present location and condition, such as freight. The cost is reduced by the value of rebates and allowances received from vendors. The Company estimates net realizable value as the amount that inventories are expected to be sold taking into consideration fluctuations of retail price due to seasonality less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is not estimated to 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.

(f) Income taxes

Tax expense recognized in net earnings or loss comprises the sum of deferred income tax and current income tax not recognized in other comprehensive income.

Current income tax assets and liabilities are comprised of obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable earnings, which differs from net earnings or loss in the consolidated financial statements. The calculation of current income tax is based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred income taxes are calculated using the asset and liability method on temporary differences between the carrying amounts of assets and liabilities and their related tax bases. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. The deferred tax assets and liabilities have been measured using substantively enacted tax rates that will be in effect when the amounts are expected to settle. Deferred tax assets are only recognized to the extent that it is probable that they will be able to be utilized against future taxable income. The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company's latest approved forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be used without a time limit, that deferred tax asset is usually recognized in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties are assessed individually by management based on the specific facts and circumstances.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority. Changes in deferred tax assets or liabilities are recognized as a component of income or expense in net earnings or loss, except where they relate to items that are recognized in other comprehensive income (such as the unrealized gains and losses on cash flow hedges) or directly in equity.

(g) Assets held for sale

Certain land and buildings have been listed for sale and reclassified as assets held for sale on the consolidated balance sheets. These assets are expected to be sold within a twelve month period and are no longer productive assets with no intent to develop them for future use. Assets held for sale are valued at the lower of carrying amount 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.

(h) Investments in associates

Associates are those entities over which the Company is able to exert significant influence but which are neither subsidiaries nor interests in a joint venture. Investments in associates are initially recognized at cost and subsequently accounted for using the equity method.

Acquired investments in associates are also subject to the acquisition method as explained above. However, any goodwill or fair value adjustment attributable to the Company's share in the associate is included in the amount recognized as investments in associates.

All subsequent changes to the Company's share of interest in the equity of the associate are recognized in the carrying amount of the investment. Changes resulting from the earnings or losses generated by the associate are reported within share of earnings from investments, at equity on the Company's consolidated statements of earnings. These changes include subsequent depreciation, amortization or impairment of the fair value adjustments of assets and liabilities.

Changes resulting from earnings of the associate or items recognized directly in the associate's equity are recognized in earnings or equity of the Company, as applicable. However, when the Company's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables, the Company does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports earnings, the Company resumes recognizing its share of those earnings only after its share of the earnings exceeds the accumulated share of losses that had previously not been recognized.

Unrealized gains and losses on transactions between the Company and its associates are eliminated to the extent of the Company's interest in those entities. Where unrealized losses are eliminated, the underlying asset is also tested for impairment losses from a Company perspective.

(i) Investments in joint ventures

The Company undertakes a number of business activities through joint ventures. Joint ventures are established through contractual arrangements that require the unanimous consent of each of the venturers regarding the strategic, financial and operating policies of the venture (joint control).

The Company's joint ventures are of two types:

Jointly controlled entities

A jointly controlled entity is a corporation, partnership or other entity in which each participant holds an interest. A jointly controlled entity operates in the same way as other entities, controlling the assets of the joint venture, generating its own earnings and incurring its own liabilities and expenses.

Interests in jointly controlled entities are accounted for using the equity method. Under the equity method, the investment in a jointly controlled entity is carried in the consolidated balance sheets at cost, plus post-acquisition changes in the Company's share of net assets of the jointly controlled entity, less distributions received and less any impairment in value of the investment. The share of jointly controlled entities' results is recognized in the Company's consolidated financial statements from the date that joint control commences until the date at which it ceases.

Jointly controlled assets and operations

The Company has certain contractual arrangements with other participants to engage in joint activities that do not give rise to a jointly controlled entity. These arrangements involve the joint ownership of assets dedicated to the purposes of each venture but do not create a jointly controlled entity as the venturers directly derive the benefits of operation of their jointly owned assets, rather than deriving returns from an interest in a separate entity.

Interests in jointly controlled assets and operations are accounted for using the proportionate consolidation method, whereby the Company's proportionate interest in the assets, liabilities, revenues, and expenses of jointly controlled entities are recognized within each applicable line item of the consolidated financial statements. All such amounts are measured in accordance with the terms of each arrangement, which are usually in proportion to the Company's interest in the jointly controlled assets.

Unrealized gains and losses on transactions between the Company and joint ventures are eliminated to the extent of the Company's interest in those entities. Where unrealized losses are eliminated, the underlying asset is also tested for impairment losses from a Company perspective.

(j) Financial instruments

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

The Company classifies financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purpose of ongoing measurements. Classification choices for financial assets include: a) fair value through profit and loss ("FVTPL") – 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) FVTPL – measured at fair value with changes in fair value recorded in net earnings and b) other liabilities – measured at amortized cost with gains and losses recognized in net earnings in the period that the liability is derecognized. Any financial asset or liability can be classified as FVTPL 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	FVTPL	Fair value
Receivables	Loans and receivables	Amortized cost
Loans and other receivables	Loans and receivables	Amortized cost
Investments	Available for sale	Fair value
Derivative financial assets and liabilities	FVTPL	Fair value
Non-derivative other assets and liabilities	FVTPL	Fair value
Bank indebtedness	Other liabilities	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost

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

Fair value measurements are classified within a hierarchy that prioritizes the inputs to fair value measurement. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are: level 1 – inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities; level 2 – inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active; or level 3 – inputs that are not based on observable market data. Inputs into the determination of the fair value require significant management judgment or estimation.

If different levels of inputs are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Changes to valuation methods may result in transfers into or out of an investment's assigned level.

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or if the Company transfers the financial asset to another party without retaining control or substantially all the risks and rewards of ownership of the financial asset. A financial liability is derecognized when its contractual obligations are discharged, cancelled or expire.

(k) Hedges

The Company has cash flow hedges which are used to manage exposure to fluctuations in foreign currency exchange and variable interest rates. 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 derivative financial liability as required based on their fair value determination.

Significant derivatives include the following:

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

(l) Property and equipment

Owner-occupied land, buildings, equipment, leasehold improvements, and assets under construction are carried at acquisition cost less accumulated depreciation and impairment losses.

Buildings that are leasehold property are also included in property and equipment if they are held under a finance lease. Such assets are depreciated over their expected useful lives (determined by reference to comparable owned assets) or over the term of the lease, if shorter.

Depreciation on real estate buildings is calculated using the straight-line method with reference to each property's carrying 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.

When significant parts of property and equipment have different useful lives, they are accounted for as separate components. Depreciation is recorded on a straight-line basis from the time the asset is available or when assets under construction become available for use over the estimated useful lives of the assets as follows:

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

Depreciation has been included within selling and administrative expenses in the consolidated statements of earnings. Material residual value estimates and estimates of useful life are reviewed and updated as required, or annually at a minimum.

Gains or losses arising on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in net earnings or loss within other income. If the sale is to a Company's investment, at equity, a portion of the gain would reduce the carrying value of the investment.

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. Depletion related to exploration and development of petroleum and natural gas reserves has been included within cost of sales.

(m) Investment property

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are accounted for using the cost model. The depreciation policies for investment property are consistent with those described for property and equipment.

Any gain or loss arising from the sale of an investment property is immediately recognized in net earnings or loss, unless the sale is to an investment, at equity, in which case a portion of the gain would reduce the carrying value of the Company's investment. Rental income and operating expenses from investment property are reported within sales and selling and administrative expenses, respectively, in the consolidated statements of earnings.

(n) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(i) The Company as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

(ii) The Company as lessee

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheets as a finance lease obligation in long-term debt.

Lease payments are apportioned between finance charges and reduction of the lease obligation to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in net earnings or loss immediately. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Lease allowances and incentives are recognized as other long-term liabilities. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis over the term of the lease.

Real estate lease expense is amortized on a straight-line basis over the entire term of the lease.

(iii) Sale and leaseback transactions

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. If a sale and leaseback transaction results in a finance lease for the Company, any excess of sales proceeds over the carrying amount is recognized as deferred revenue and amortized over the term of the new lease. Any profit or loss in a sale and leaseback transaction resulting in an operating lease that is transacted at fair value is recognized immediately. If the sale price is above fair value, the excess over fair value is deferred and amortized over the term of the new lease.

(o) Intangibles

Intangibles arise on the purchase of a new business, existing franchises, software, and the acquisition of pharmacy prescription files. They are accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over their estimated useful lives, as these assets are considered finite. Useful lives are reviewed annually and are subject to impairment testing. The following useful lives are applied:

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

Amortization has been included within selling and administrative expenses in the consolidated statements of earnings. Included in intangibles are brand names, the majority of which have indefinite useful lives. Any subsequent expenditures made by the Company on brand names are expensed as incurred. Intangibles with indefinite useful lives are not amortized.

(p) 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.

(q) Impairment of non-financial assets

Goodwill and intangibles with indefinite useful lives are reviewed for impairment at least annually by assessing the recoverable amount of each cash generating unit or groups of cash generating units to which the goodwill or the indefinite life intangible relates. The recoverable amount is the higher of fair value less costs to sell and value in use. When the recoverable amount of the cash generating units is less than the carrying amount an impairment loss is recognized immediately as selling and administrative expenses. Impairment losses related to goodwill cannot be reversed.

Long-lived tangible and intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount is the higher of fair value less costs to sell and value in use. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit(s) to which the asset belongs. The Company has primarily determined a cash generating unit to be an individual store or theatre. Corporate assets such as head offices and distribution centres do not individually generate separate cash inflows and are therefore aggregated for testing with the locations they service. When the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount (or cash generating unit) is reduced to the recoverable amount. An impairment loss is recognized as selling and administrative expenses immediately in net earnings or loss.

Where an impairment loss subsequently reverses, other than related to goodwill, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate, but is limited to the carrying amount that would have been determined if no impairment loss had been recognized in prior years. A reversal of impairment loss is recognized immediately in net earnings or loss.

In the process of measuring expected future cash flows, management makes assumptions about future growth of profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause significant adjustments to the Company's assets in the subsequent financial years.

(r) 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. During fiscal 2010, a loyalty card program, Club Thrifty Foods, was launched. It follows a similar point earning and redemption structure as the Club Sobeys loyalty card program. The fair value of loyalty points awarded is deferred until the awards are redeemed after adjustment for the number of points expected never to be redeemed based on the expected future activity. Fair value is determined by reference to the value for which the points can be redeemed. The program deferred revenue is included in accounts payable and accrued liabilities on the Company's consolidated balance sheets.

An AIR MILES® loyalty program is also used by the Company. AIR MILES® are earned by certain Sobeys customers based on purchases in stores. The Company pays a per point fee under the terms of the agreement with AIR MILES®.

(s) Provisions

Provisions are recognized when there is a present legal or constructive obligation as a result of a past event, for which it is probable that a transfer of economic benefits will be required to settle the obligation, and where a reliable estimate can be made of the amount of the obligation. Provisions are discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability, if material. Where discounting is used, the increase in the provision due to passage of time ("unwinding of the discount") is recognized within finance costs in the consolidated statements of earnings.

(t) Borrowing costs

Borrowing costs primarily comprise interest on the Company's debts. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as a component of the cost of the asset to which it is related. All other borrowing costs are expensed in the period in which they are incurred and are reported within finance costs.

(u) Deferred revenue

Deferred revenue consists of long-term supplier purchase agreements and gains on sale and leaseback transactions relating to certain finance leases. Deferred revenue is included in other long-term liabilities and is taken into income on a straight-line basis over the term of the related agreements.

(v) Employee benefits**(i) Short-term employment benefits**

Short-term employee benefits include wages, salaries, compensated absences, profit-sharing and bonuses. Short-term employee benefits are measured on an undiscounted basis and are recorded as selling and administration expenses as the related service is provided.

(ii) Post-employment benefits

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 unit credit method pro-rated on service and management's best estimate of the expected long-term rate of return on plan assets, salary escalation, retirement ages, and expected growth rate of health care costs.

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

The impact of plan amendments is recognized as an expense and amortized on a straight-line basis over the average period until the benefits are vested. To the extent that increases in the obligation related to past service have vested immediately following the changes in the original plan, the Company recognizes past service cost immediately.

In measuring its defined benefit liability the Company will recognize all of its actuarial gains and losses immediately into other comprehensive income.

(iii) Termination benefits

When the Company has committed to a formalized plan to either terminate employment prior to normal retirement or to provide termination benefits as a result of offers made from the rationalization of business processes, termination benefits are recognized as an expense.

(w) Revenue recognition

Sales are recognized at the point-of-sale. Sales include revenues from customers through corporate stores and theatres operated by the Company and consolidated SPEs, and revenue from sales to non-SPE franchised stores, affiliated stores and independent accounts. Revenue received from non-SPE 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.

(x) 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 and related inventories. Certain allowances are contingent on the Company achieving minimum purchase levels and these allowances are recognized when it is probable that the minimum purchase level will be met, and the amount of allowance can be estimated.

(y) Interest and dividend income

Interest income and expenses are reported on an accrual basis using the effective interest method. Dividend income is recognized when the right to receive payment has been established.

(z) Earnings per share

Basic earnings per share is calculated by dividing the earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding for the dilutive effect of employee stock options.

(aa) Stock-based compensation

The Company operates equity settled stock-based compensation plans for its employees.

All goods and services received in exchange for the grant of any stock-based payments are measured at their fair values. Where employees are rewarded using stock-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets and performance conditions).

(bb) Future accounting policies**(i) Financial instruments**

In November 2009, the International Accounting Standards Board ("IASB") issued IFRS 9, "Financial Instruments", which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement". The replacement is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 is the first phase of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

(ii) Financial instruments: disclosures

In October 2010, the IASB issued amendments to IFRS 7, "Financial instruments: Disclosures", which require increased disclosure for transactions involving the transfer of financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011.

(iii) Deferred tax: recovery of underlying assets

In December 2010, the IASB issued amendments to IAS 12 "Income Taxes" which introduce an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. The amendments are effective for annual periods beginning on or after January 1, 2012.

(iv) Consolidated financial statements

In May 2011, the IASB issued IFRS 10, "Consolidated Financial Statements", which establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The objective of IFRS 10 is to define principles of control and establish the basis of determining when and how an entity should be included within a set of consolidated financial statements. It replaces portions of IAS 27, "Consolidated and Separate Financial Statements", and supersedes Standing Interpretations Committee ("SIC") 12, "Consolidation – Special Purpose Entities", completely and is effective for annual periods beginning on or after January 1, 2013.

(v) Joint arrangements

In May 2011, the IASB issued IFRS 11, "Joint Arrangements", which establishes principles for financial reporting by entities that have an interest in a joint arrangement. IFRS 11 supersedes IAS 31, "Interest in Joint Ventures", and SIC 13, "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". Through an assessment of the rights and obligations in an arrangement, the IFRS establishes principles to determine the type of joint arrangement and guidance for financial reporting activities required by the entities that have an interest in arrangements that are jointly controlled and is effective for annual periods beginning on or after January 1, 2013.

(vi) Disclosure of interests in other entities

In May 2011, the IASB issued IFRS 12, "Disclosure of Interests in Other Entities", which outlines disclosure requirements for an entity that has interests in a subsidiary, a joint arrangement, an associate and an unconsolidated structured entity. IFRS 12 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interest in other entities and the effects of those interests on its financial position, financial performance and cash flows. It is effective for annual periods beginning on or after January 1, 2013.

(vii) Fair value measurement

In May 2011, the IASB issued IFRS 13, "Fair Value Measurement", which defines fair value, sets out in a single IFRS a framework for measuring fair value and identifies required disclosures about fair value measurements. This IFRS is effective for annual periods beginning on or after January 1, 2013.

(viii) Employee benefits

In June 2011, the IASB issued amendments to IAS 19 "Employee Benefits" which eliminate the option to defer the recognition of actuarial gains and losses, streamline the presentation of changes in assets and liabilities arising from defined benefit plans to be presented in other comprehensive income and enhance disclosure requirements around the characteristics of the defined benefit plans and risks associated with participation in those plans. The amendments are effective for annual periods beginning on or after January 1, 2013.

The Company is currently evaluating the impact of these new standards and amendments on its consolidated financial statements.

4. INVENTORIES

The cost of inventories recognized as an expense during the year was \$12,159.7 (2011 – \$11,904.1). The Company has recorded during the year \$13.1 (2011 – \$18.3) as expense for the write-down of inventories below cost to net realizable value for inventories on hand as at May 5, 2012. There were no reversals of inventories written down previously (2011 – \$nil).

5. LOANS AND OTHER RECEIVABLES

	May 5, 2012	May 7, 2011	May 2, 2010
Loans and mortgages receivable	\$ 81.3	\$ 89.2	\$ 95.9
Notes receivable and other	20.3	34.9	63.6
	101.6	124.1	159.5
Less amount due within one year	41.0	52.4	74.5
Balance, end of year	\$ 60.6	\$ 71.7	\$ 85.0

Loans and mortgages receivable represent long-term financing to certain retail associates. These loans and mortgages are primarily secured by inventory, fixtures and equipment; bear various interest rates, and have repayment terms up to 10 years. The carrying amount of the loans and mortgages receivable approximates fair value based on the variable interest rates charged on the loans and the operating relationship of the associates with the Company.

Loans receivable from officers and employees of \$2.7 (2011 – \$2.9) under the Company's share purchase plan are classified as loans and mortgages receivable. Loan repayments will result in a corresponding decrease in loans and mortgages receivable. The loans are non-interest bearing and non-recourse, secured by 96,489 (2011 – 101,510) Non-Voting Class A shares. The market value of the shares at May 5, 2012 was \$5.5 (2011 – \$5.5).

6. INVESTMENTS, AT EQUITY

The carrying values of the investments, at equity are as follows:

	May 5, 2012	May 7, 2011	May 2, 2010
Investment in associates			
Wajax Income Fund	\$ –	\$ –	\$ 30.3
Crombie Real Estate Investment Trust (“Crombie REIT”)	167.4	91.0	82.0
Investment in joint ventures			
Canadian real estate partnerships	99.7	88.0	94.6
U.S. real estate partnerships	39.1	33.1	17.5
Canadian Digital Cinema Partnership (Note 24)	7.2	–	–
Total	\$ 313.4	\$ 212.1	\$ 224.4

The fair values of the investments based on a stock exchange are as follows:

	May 5, 2012	May 7, 2011	May 2, 2010
Wajax Income Fund	\$ –	\$ –	\$ 117.9
Crombie REIT	520.7	403.8	341.3
Total	\$ 520.7	\$ 403.8	\$ 459.2

The Canadian and U.S. real estate partnerships and Canadian Digital Cinema Partnership are not publicly listed on a stock exchange and hence published price quotes are not available.

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

	May 5, 2012	May 7, 2011
Balance, beginning of year	\$ –	\$ 30.3
Equity earnings	–	8.6
Share of comprehensive loss	–	0.9
Distributions	–	(5.9)
Sale of interest in Wajax Income Fund	–	(33.9)
Balance, end of year	\$ –	\$ –

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

	May 5, 2012	May 7, 2011
Balance, beginning of year	\$ 91.0	\$ 82.0
Equity earnings	19.7	18.4
Share of comprehensive income	1.8	2.7
Distributions	(28.2)	(26.7)
Deferral of gains on sale of property	(10.3)	(10.8)
Interest acquired in Crombie REIT	83.0	20.5
Dilution gain	10.4	4.9
Balance, end of year	\$ 167.4	\$ 91.0

The Company's carrying value of its investment in Canadian real estate partnerships is as follows:

	May 5, 2012	May 7, 2011
Balance, beginning of year	\$ 88.0	\$ 94.6
Equity earnings	28.9	30.7
Distributions	(18.3)	(40.7)
Investment	1.1	4.4
Sale of interest	–	(1.0)
Balance, end of year	\$ 99.7	\$ 88.0

The Company's carrying value of its investment in U.S. real estate partnerships is as follows:

	May 5, 2012	May 7, 2011
Balance, beginning of year	\$ 33.1	\$ 17.5
Equity earnings	1.1	1.4
Distributions	(1.2)	–
Foreign currency translation adjustment	1.0	–
Investment	5.1	14.2
Balance, end of year	\$ 39.1	\$ 33.1

The Company's carrying value of its investment in Canadian Digital Cinema Partnership is as follows:

	May 5, 2012	May 7, 2011
Balance, beginning of year	\$ –	\$ –
Transfer of equipment	7.7	–
Equity earnings	(0.4)	–
Share of comprehensive income	(0.1)	–
Investment	–	–
Balance, end of year	\$ 7.2	\$ –

The aggregate amounts of the investments, at equity can be summarized as follows:

	May 5, 2012	May 7, 2011	May 2, 2010
Assets			
Current	\$ 459.8	\$ 326.4	\$ 631.0
Non-current	1,809.8	1,562.8	1,608.6
Liabilities			
Current	\$ 166.1	\$ 208.9	\$ 304.0
Non-current	1,086.5	935.6	1,054.6

	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Revenues	\$ 398.5	\$ 977.3
Expenses	284.0	830.0
Earnings before income taxes	114.5	147.3
Earnings attributable to the Company	\$ 49.3	\$ 59.1

7. OTHER ASSETS

	May 5, 2012	May 7, 2011	May 2, 2010
Accrued benefit asset	\$ –	\$ 0.8	\$ –
Asset-backed commercial paper	23.8	22.8	21.2
Restricted cash	23.0	17.1	10.5
Deferred lease assets	9.8	8.9	7.9
Other	11.9	5.7	2.0
Total	\$ 68.5	\$ 55.3	\$ 41.6

8. PROPERTY AND EQUIPMENT

May 5, 2012 (52 weeks ended)	Food Retailing Segment					
	Land	Buildings	Equipment	Leasehold Improvements	Assets Under Construction	Total
Cost						
Opening balance	\$ 318.7	\$ 932.7	\$ 2,182.2	\$ 494.4	\$ 185.9	\$ 4,113.9
Additions	27.4	63.0	195.7	53.1	186.0	525.2
Additions from business acquisitions	88.9	35.3	17.4	1.6	–	143.2
Transfers	(13.6)	–	–	–	–	(13.6)
Disposals	(18.5)	(58.1)	(389.3)	(91.0)	(29.9)	(586.8)
Closing balance	\$ 402.9	\$ 972.9	\$ 2,006.0	\$ 458.1	\$ 342.0	\$ 4,181.9
Accumulated depreciation and impairment losses						
Opening balance	\$ –	\$ 276.8	\$ 1,312.2	\$ 270.5	\$ –	\$ 1,859.5
Disposals	–	(31.4)	(375.6)	(88.4)	–	(495.4)
Transfers	–	–	–	–	–	–
Depreciation	–	35.4	207.2	45.6	–	288.2
Impairment losses	–	–	1.8	0.7	–	2.5
Closing balance	\$ –	\$ 280.8	\$ 1,145.6	\$ 228.4	\$ –	\$ 1,654.8
Net carrying value as at May 5, 2012	\$ 402.9	\$ 692.1	\$ 860.4	\$ 229.7	\$ 342.0	\$ 2,527.1

Investments and Other Operations Segment									
May 5, 2012 (52 weeks ended)	Land	Buildings	Equipment	Leasehold Improvements	Assets Under Construction	Petroleum and Natural Gas	Total		
Cost									
Opening balance	\$ 6.9	\$ 50.5	\$ 91.5	\$ 90.9	\$ 4.7	\$ 66.3	\$ 310.8		
Additions	–	1.3	12.2	14.5	16.1	4.2	48.3		
Additions from business acquisitions	–	–	1.1	3.6	–	–	4.7		
Transfers	–	–	–	–	(5.9)	–	(5.9)		
Disposals	(0.2)	–	(9.7)	–	(13.8)	–	(23.7)		
Closing balance	\$ 6.7	\$ 51.8	\$ 95.1	\$ 109.0	\$ 1.1	\$ 70.5	\$ 334.2		
Accumulated depreciation and impairment losses									
Opening balance	\$ –	\$ 22.0	\$ 58.6	\$ 38.0	\$ –	\$ 48.5	\$ 167.1		
Disposals	–	–	(1.0)	–	–	–	(1.0)		
Depreciation	–	2.2	5.1	4.9	–	3.0	15.2		
Impairment losses	–	–	0.9	0.1	–	1.1	2.1		
Reversal of impairment losses	–	(0.1)	(1.1)	(0.1)	–	–	(1.3)		
Closing balance	\$ –	\$ 24.1	\$ 62.5	\$ 42.9	\$ –	\$ 52.6	\$ 182.1		
Net carrying value as at May 5, 2012	\$ 6.7	\$ 27.7	\$ 32.6	\$ 66.1	\$ 1.1	\$ 17.9	\$ 152.1		
Food Retailing Segment									
May 7, 2011 (53 weeks ended)	Land	Buildings	Equipment	Leasehold Improvements	Assets Under Construction	Total			
Cost									
Opening balance	\$ 261.9	\$ 936.1	\$ 2,411.6	\$ 530.5	\$ 84.5	\$ 4,224.6			
Additions	97.3	53.6	258.1	75.5	101.4	585.9			
Additions from business acquisitions	0.3	0.6	2.2	–	–	3.1			
Transfers	(1.8)	(2.3)	–	–	–	(4.1)			
Disposals	(39.0)	(55.3)	(489.7)	(111.6)	–	(695.6)			
Closing balance	\$ 318.7	\$ 932.7	\$ 2,182.2	\$ 494.4	\$ 185.9	\$ 4,113.9			
Accumulated depreciation and impairment losses									
Opening balance	\$ –	\$ 259.8	\$ 1,569.7	\$ 329.3	\$ –	\$ 2,158.8			
Disposals	–	(17.1)	(480.7)	(105.9)	–	(603.7)			
Transfers	–	0.4	–	–	–	0.4			
Depreciation	–	32.2	209.5	41.2	–	282.9			
Impairment losses	–	1.5	13.7	5.9	–	21.1			
Closing balance	\$ –	\$ 276.8	\$ 1,312.2	\$ 270.5	\$ –	\$ 1,859.5			
Net carrying value as at May 7, 2011	\$ 318.7	\$ 655.9	\$ 870.0	\$ 223.9	\$ 185.9	\$ 2,254.4			
Net carrying value as at May 2, 2010	\$ 261.9	\$ 676.3	\$ 841.9	\$ 201.2	\$ 84.5	\$ 2,065.8			

Investments and Other Operations Segment									
May 7, 2011 (53 weeks ended)	Land	Buildings	Equipment	Leasehold Improvements	Assets Under Construction	Petroleum and Natural Gas	Total		
Cost									
Opening balance	\$ 53.9	\$ 49.1	\$ 84.7	\$ 78.7	\$ 62.0	\$ 63.3	\$ 391.7		
Additions	0.4	0.2	3.0	0.9	25.0	3.0	32.5		
Transfers	–	1.8	4.3	12.0	(18.1)	–	–		
Disposals	(47.4)	(0.6)	(0.5)	(0.7)	(64.2)	–	(113.4)		
Closing balance	\$ 6.9	\$ 50.5	\$ 91.5	\$ 90.9	\$ 4.7	\$ 66.3	\$ 310.8		
Accumulated depreciation and impairment losses									
Opening balance	\$ –	\$ 19.7	\$ 52.6	\$ 34.5	\$ –	\$ 35.5	\$ 142.3		
Disposals	–	–	(0.5)	(0.7)	–	–	(1.2)		
Depreciation	–	2.2	5.8	4.2	–	3.4	15.6		
Impairment losses	–	0.1	1.0	1.1	–	9.6	11.8		
Reversal of impairment losses	–	–	(0.3)	(1.1)	–	–	(1.4)		
Closing balance	\$ –	\$ 22.0	\$ 58.6	\$ 38.0	\$ –	\$ 48.5	\$ 167.1		
Net carrying value as at May 7, 2011	\$ 6.9	\$ 28.5	\$ 32.9	\$ 52.9	\$ 4.7	\$ 17.8	\$ 143.7		
Net carrying value as at May 2, 2010	\$ 53.9	\$ 29.4	\$ 32.1	\$ 44.2	\$ 62.0	\$ 27.8	\$ 249.4		
Consolidated property and equipment									
Net carrying value as at May 5, 2012	\$ 409.6	\$ 719.8	\$ 893.0	\$ 295.8	\$ 343.1	\$ 17.9	\$ 2,679.2		
Net carrying value as at May 7, 2011	\$ 325.6	\$ 684.4	\$ 902.9	\$ 276.8	\$ 190.6	\$ 17.8	\$ 2,398.1		
Net Carrying value as at May 2, 2010	\$ 315.8	\$ 705.7	\$ 874.0	\$ 245.4	\$ 146.5	\$ 27.8	\$ 2,315.2		

Finance leases

The Company has various property leases for store locations that are held under finance leases with a net carrying value of \$4.6 as at May 5, 2012 (May 7, 2011 – \$4.9, May 2, 2010 – \$5.3). These leases are included in buildings.

The Company has equipment leases under finance leases with a net carrying value of \$30.3 as at May 5, 2012 (May 7, 2011 – \$39.6, May 2, 2010 – \$48.6). These leases are included in equipment.

Assets under construction

During the year the Company capitalized borrowing costs of \$6.1 (2011 – \$1.6) on indebtedness related to property and equipment under construction. The Company used capitalization rates from 5.8% to 7.0% (2011 – 6.0% to 7.0%).

Security

As at May 5, 2012 the net carrying value of property pledged as security for bank borrowings is \$113.7 (May 7, 2011 – \$121.7, May 2, 2010 – \$126.6).

Impairment of property and equipment

Property and equipment is reviewed each reporting period for events or changes in circumstances which indicate that the carrying value of the assets may not be recoverable. The review is performed by assessing the recoverable amount of each cash generating unit or groups of cash generating units to which the property and equipment relates. The recoverable amount is the higher of fair value less costs to sell and value in use. When the recoverable amount of the cash generating units is less than the carrying amount an impairment loss is recognized.

Recoverable amounts are based on value in use calculations, determined using three year cash flow projections from the Company's latest internal forecasts as presented to the Board of Directors. Key assumptions used in determining value in use include those regarding discount rates, growth rates, and expected changes in cash flows. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and risks specific to the cash generating units.

Forecasts are projected beyond three years based on long-term growth rates ranging from 3 to 5 percent. Discount rates are calculated on a pre-tax basis and range from 8 to 15 percent.

Impairment losses arise when the carrying amount of the assets is higher than the greater of the present value of cash flows of a cash generating unit and its fair value less costs to sell. Impairment losses of \$4.6 were recorded in the year ended May 5, 2012 (2011 – \$32.9).

Impairment reversals of \$1.3 were recorded in the year ended May 5, 2012 (2011 – \$1.4).

9. INVESTMENT PROPERTY

Investment property is comprised primarily of commercial properties owned by the Company held for income generating purposes, rather than for the principal purpose of the Company's operating activities.

	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Cost		
Opening balance	\$ 90.2	\$ 109.7
Additions	13.8	3.5
Transfers	18.7	4.1
Assets held for sale	(1.2)	(18.3)
Disposals	(19.3)	(8.8)
Closing balance	\$ 102.2	\$ 90.2
Accumulated depreciation and impairment losses		
Opening balance	\$ 16.4	\$ 19.1
Depreciation	0.7	1.0
Transfers	–	(3.2)
Disposals	(1.8)	(3.3)
Impairment losses	–	2.8
Closing balance	\$ 15.3	\$ 16.4
Net carrying value	\$ 86.9	\$ 73.8
	Net carrying value	Fair Value
May 5, 2012	\$ 86.9	\$ 131.0
May 7, 2011	\$ 73.8	\$ 98.1
May 2, 2010	\$ 90.6	\$ 124.7

An external, independent valuation company, having appropriate recognized professional qualifications and experience assisted in determining the fair value of investment property at the date of transition to IFRS and at May 5, 2012. Additions to investment property through acquisition are transacted at fair value and therefore carrying value equals fair value. Properties reclassified from property and equipment are valued for disclosure purposes using comparable market information, internal valuation methodologies, or the use of an external independent valuation company.

Rental income from investment property included in the consolidated statements of earnings amounted to \$4.1 for the year ended May 5, 2012 (2011 – \$10.1).

Direct operating expenses (including repairs and maintenance but excluding depreciation expense) arising from investment property that generated rental income amounted to \$1.5 for the year ended May 5, 2012 (2011 – \$5.5). Direct operating expenses (including repairs and maintenance but excluding depreciation expense) arising from non-income producing investment property amounted to \$1.7 for the year ended May 5, 2012 (2011 – \$1.5). All direct operating expenses for investment properties are included in selling and administrative expenses on the consolidated statements of earnings.

10. INTANGIBLES

May 5, 2012 (52 weeks ended)	Brand Names	Deferred Purchase Agreements	Franchise Rights/ Agreements	Patient Files	Software	Lease Rights	Loyalty Programs	Private Labels	Other	Total
Cost										
Opening balance	\$ 201.0	\$ 62.2	\$ 58.1	\$ 32.3	\$ 105.1	\$ 49.1	\$ 11.4	\$ 59.5	\$ 29.5	\$ 608.2
Additions, separately acquired	-	7.8	-	-	0.1	0.6	-	-	1.5	10.0
Additions, internally developed	-	-	-	-	19.9	-	-	-	-	19.9
Acquisition through business combination	-	20.7	0.8	0.6	-	-	-	-	1.6	23.7
Disposals	-	(0.8)	(7.9)	(0.1)	(5.3)	-	-	-	(0.6)	(14.7)
Closing balance	\$ 201.0	\$ 89.9	\$ 51.0	\$ 32.8	\$ 119.8	\$ 49.7	\$ 11.4	\$ 59.5	\$ 32.0	\$ 647.1
Accumulated amortization and impairment losses										
Opening balance	\$ 11.2	\$ 19.6	\$ 23.2	\$ 14.0	\$ 53.7	\$ 19.8	\$ -	\$ -	\$ 17.5	\$ 159.0
Amortization	3.0	6.7	6.0	2.2	15.2	3.0	-	-	2.1	38.2
Impairment losses	-	-	-	1.9	-	-	-	-	-	1.9
Disposals	-	(0.8)	(7.4)	(0.1)	(5.3)	-	-	-	(0.2)	(13.8)
Closing balance	\$ 14.2	\$ 25.5	\$ 21.8	\$ 18.0	\$ 63.6	\$ 22.8	\$ -	\$ -	\$ 19.4	\$ 185.3
Net carrying value as at May 5, 2012	\$ 186.8	\$ 64.4	\$ 29.2	\$ 14.8	\$ 56.2	\$ 26.9	\$ 11.4	\$ 59.5	\$ 12.6	\$ 461.8
May 7, 2011 (53 weeks ended)										
Cost										
Opening balance	\$ 201.0	\$ 56.4	\$ 57.9	\$ 33.1	\$ 125.8	\$ 45.0	\$ 11.4	\$ 59.5	\$ 26.6	\$ 616.7
Additions, separately acquired	-	12.3	0.6	-	-	5.7	-	-	2.9	21.5
Additions, internally developed	-	-	-	-	14.9	-	-	-	-	14.9
Acquisition through business combination	-	-	2.5	-	-	-	-	-	-	2.5
Disposals	-	(6.5)	(2.9)	(0.8)	(35.6)	(1.6)	-	-	-	(47.4)
Closing balance	\$ 201.0	\$ 62.2	\$ 58.1	\$ 32.3	\$ 105.1	\$ 49.1	\$ 11.4	\$ 59.5	\$ 29.5	\$ 608.2
Accumulated amortization and impairment losses										
Opening balance	\$ 8.2	\$ 18.4	\$ 19.1	\$ 12.5	\$ 74.9	\$ 18.9	\$ -	\$ -	\$ 14.5	\$ 166.5
Amortization	3.0	6.0	6.7	2.2	14.4	2.5	-	-	3.0	37.8
Disposals	-	(4.8)	(2.6)	(0.7)	(35.6)	(1.6)	-	-	-	(45.3)
Closing balance	\$ 11.2	\$ 19.6	\$ 23.2	\$ 14.0	\$ 53.7	\$ 19.8	\$ -	\$ -	\$ 17.5	\$ 159.0
Net carrying value as at										
May 7, 2011	\$ 189.8	\$ 42.6	\$ 34.9	\$ 18.3	\$ 51.4	\$ 29.3	\$ 11.4	\$ 59.5	\$ 12.0	\$ 449.2
May 2, 2010	\$ 192.8	\$ 38.0	\$ 38.8	\$ 20.6	\$ 50.9	\$ 26.1	\$ 11.4	\$ 59.5	\$ 12.1	\$ 450.2

In addition to development costs capitalized related to software, the Company included in selling and administrative expenses \$4.7 of research and development costs (2011 – \$7.8).

Impairment of intangibles follows the same methodology as property and equipment (Note 8).

Included in intangibles as at May 5, 2012, May 7, 2011 and May 2, 2010 are the following amounts with indefinite useful lives: Brand names – \$172.8; Loyalty programs \$11.4; and Private labels \$59.5.

11. GOODWILL

	May 5, 2012	May 7, 2011
Opening balance	\$ 1,220.0	\$ 1,214.2
Acquired through business combinations	82.1	5.8
Closing balance	\$ 1,302.1	\$ 1,220.0

Goodwill arising from business combinations is allocated at the lowest level within the organization at which it is monitored by management to make business decisions and should not be larger than an operating segment. Therefore, goodwill has been allocated to the following operating segments:

	May 5, 2012	May 7, 2011	May 2, 2010
Food retailing	\$ 1,260.9	\$ 1,179.2	\$ 1,173.4
Investments and other operations	41.2	40.8	40.8
Total	\$ 1,302.1	\$ 1,220.0	\$ 1,214.2

Impairment of goodwill

Goodwill is subject to impairment testing on an annual basis. However, if indicators of impairment are present, the Company will review goodwill for impairment when such indicators arise. The Company performs an annual review during its first quarter and no impairment was recorded (2011 – \$nil, 2010 – \$nil). In performing the review, the Company determined the recoverable amount of goodwill based on fair value less any costs that would be incurred should the Company sell a cash generating unit to which goodwill would be apportioned from the operating segment. Key assumptions used by management to determine the fair value of the goodwill include industry earnings multiples and earnings multiples from previous Company acquisitions.

12. 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:

	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Earnings before income taxes	\$ 474.4	\$ 531.6
Effective combined statutory income tax rate	27.6%	28.9%
Income tax expense according to combined statutory income tax rate	130.9	153.9
Income taxes resulting from:		
Non-deductible amounts	1.2	1.2
Capital items	(3.2)	(22.1)
Impact of statutory income tax rate changes	–	(1.0)
Non-taxable amounts	(0.5)	(3.0)
Other	(6.1)	(7.0)
Total income taxes, combined effective tax rate of 25.8% (2011 – 22.9%)	\$ 122.3	\$ 122.0

Current year income tax expense attributable to net earnings consists of:

	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Current tax expense	\$ 102.0	\$ 107.0
Deferred tax expense:		
Origination and reversal of temporary differences	22.6	17.6
Change in tax rate	–	(1.5)
Change in balance of unused tax losses	(2.3)	(1.1)
Total	\$ 122.3	\$ 122.0

Deferred taxes arising from temporary differences and unused tax losses can be summarized as follows:

May 5, 2012 (52 weeks ended)	Recognized in:			
	Opening Balance	Other Comprehensive Income	Net Earnings	Closing Balance
Accounts payable and accrued liabilities	\$ 8.7	\$ –	\$ (6.7)	\$ 2.0
Current provisions	6.6	–	(0.3)	6.3
Long-term provisions	8.3	–	7.0	15.3
Long-term debt	2.0	–	4.1	6.1
Other long-term liabilities	37.3	1.5	(2.7)	36.1
Employee future benefits obligation	32.5	4.8	1.3	38.6
Derivative financial liabilities	3.0	(2.0)	(0.2)	0.8
Inventories	2.8	–	(1.9)	0.9
Investments	(16.1)	(0.6)	(2.2)	(18.9)
Other assets	(3.1)	10.3	(0.7)	6.5
Property, equipment and investment property	(88.4)	–	13.1	(75.3)
Goodwill and intangibles	(83.0)	–	(3.4)	(86.4)
Other	(57.8)	–	(27.7)	(85.5)
	\$ (147.2)	\$ 14.0	\$ (20.3)	\$ (153.5)
Recognized as:				
Deferred tax assets	\$ 29.8	\$ –	\$ 6.7	\$ 36.5
Deferred tax liabilities	\$ (177.0)	\$ 14.0	\$ (27.0)	\$ (190.0)

May 7, 2011 (53 weeks ended)	Recognized in:			Closing Balance
	Opening Balance	Other Comprehensive Income	Net Earnings	
Accounts payable and accrued liabilities	\$ 2.7	\$ –	\$ 6.0	\$ 8.7
Current provisions	6.6	–	–	6.6
Long-term provisions	4.2	–	4.1	8.3
Long-term debt	2.2	–	(0.2)	2.0
Other long-term liabilities	41.2	–	(3.9)	37.3
Employee future benefits obligation	35.8	2.2	(5.5)	32.5
Derivative financial liabilities	5.7	(2.5)	(0.2)	3.0
Inventories	2.9	–	(0.1)	2.8
Investments	(13.1)	(1.0)	(2.0)	(16.1)
Other assets	(1.5)	(2.8)	1.2	(3.1)
Property, equipment and investment property	(76.0)	–	(12.4)	(88.4)
Goodwill and intangibles	(82.3)	–	(0.7)	(83.0)
Other	(56.5)	–	(1.3)	(57.8)
	\$ (128.1)	\$ (4.1)	\$ (15.0)	\$ (147.2)
Recognized as:				
Deferred tax assets	\$ 31.9	\$ (3.3)	\$ 1.2	\$ 29.8
Deferred tax liabilities	\$ (160.0)	\$ (0.8)	\$ (16.2)	\$ (177.0)

All deferred tax assets (including tax losses and other tax credits) have been recognized in the consolidated balance sheets. The amount of deferred tax assets and deferred tax liabilities that are expected to be settled beyond the next 12 months is \$99.5.

13. 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.

14. PROVISIONS

The provisions carrying amounts are comprised of the following:

May 5, 2012 (52 Weeks Ended)	Lease Contracts	Legal	Environmental	Other	Total
Opening balance	\$ 32.9	\$ 7.1	\$ 5.4	\$ 18.8	\$ 64.2
Assumed in business combination	0.8	–	21.8	–	22.6
Provisions made	16.4	3.5	5.1	11.5	36.5
Provisions used	(10.5)	(3.0)	(0.3)	(10.4)	(24.2)
Provisions reversed	(9.3)	(0.7)	(2.0)	(0.4)	(12.4)
Change due to discounting	2.0	–	0.9	0.2	3.1
Closing balance	\$ 32.3	\$ 6.9	\$ 30.9	\$ 19.7	\$ 89.8
Current	\$ 12.5	\$ 6.9	\$ 0.9	\$ 9.8	\$ 30.1
Non-current	19.8	–	30.0	9.9	59.7
Total	\$ 32.3	\$ 6.9	\$ 30.9	\$ 19.7	\$ 89.8

May 7, 2011 (53 Weeks Ended)	Lease Contracts		Legal	Environmental	Other		Total
Opening balance	\$ 20.9	\$ 10.8	\$ 5.9	\$ 10.7	\$ 48.3		
Provisions made	21.0	3.8	0.3	21.1	46.2		
Provisions used	(6.1)	(5.8)	(1.0)	(11.7)	(24.6)		
Provisions reversed	(3.9)	(1.7)	–	(1.5)	(7.1)		
Change due to discounting	1.0	–	0.2	0.2	1.4		
Closing balance	\$ 32.9	\$ 7.1	\$ 5.4	\$ 18.8	\$ 64.2		
Current	\$ 9.9	\$ 7.1	\$ 1.3	\$ 11.6	\$ 29.9		
Non-current	23.0	–	4.1	7.2	34.3		
Total	\$ 32.9	\$ 7.1	\$ 5.4	\$ 18.8	\$ 64.2		

Lease contracts

Lease contract provisions are recorded when the expected benefits to be derived by the Company from a contract are lower than the unavoidable costs of meeting the obligations under the contract. The Company records onerous contract provisions for closed store and theatre locations where it has entered into a lease contract. The provision is measured at the lower of the expected cost to terminate the lease and the expected net cost of continuing the contract. The net cost is derived by considering both the lease payment and sublease income received. Once the store or theatre is closed, a liability is recorded to reflect the present value of the expected liability associated with any lease contract and other contractually obligated costs. Discounting of provisions resulting from lease contracts has been calculated using pre-tax discount rates ranging between 7 and 9 percent.

Legal costs

Legal provisions relate to claims of \$6.9 that are outstanding as at May 5, 2012 (May 7, 2011 – \$7.1, May 2, 2010 – \$10.8) that arose in the ordinary course of business.

Environmental costs

In accordance with legal and environmental policy requirements the Company has recorded provisions for locations requiring environmental restoration. These provisions primarily relate to decommissioning liabilities recorded for gas station locations owned by the Company at the net present value of the estimated future remediation costs. Discounting of environmental related provisions has been calculated using pre-tax discount rates ranging between 4 and 15 percent.

Other costs

The Company continues to complete the rationalization of administration functions and has also begun to incur costs associated with the development of a new distribution centre in Terrebonne, Québec. These provisions relate mainly to severance costs.

The Company has obligations to provide various forms of support to Crombie REIT pursuant to various agreements between the parties. These amounts are included in other provisions.

15. LONG-TERM DEBT

	May 5, 2012	May 7, 2011	May 2, 2010
First mortgage loans, weighted average interest rate 8.02%, due 2012 – 2021	\$ 44.4	\$ 47.6	\$ 65.7
Medium term notes, Series C, interest rate 7.16%, due February 26, 2018	100.0	100.0	100.0
Medium term notes, Series D, interest rate 6.06%, due October 29, 2035	175.0	175.0	175.0
Medium term notes, Series E, interest rate 5.79%, due October 6, 2036	125.0	125.0	125.0
Medium term notes, Series F, interest rate 6.64%, due June 7, 2040	150.0	150.0	–
Sinking fund debentures, weighted average interest rate 9.31%, due 2013 – 2016	31.4	40.8	48.2
Notes payable and other debt primarily at interest rates fluctuating with the prime rate	141.6	144.7	141.8
Credit facility, due July 23, 2012, floating interest rate tied to bankers' acceptance rates	200.0	200.0	200.0
Credit facility, due June 30, 2014, floating interest rate tied to bankers' acceptance rates	129.0	118.0	294.5
	1,096.4	1,101.1	1,150.2
Unamortized transaction costs	(2.7)	(3.3)	(2.0)
Finance lease obligations, weighted average interest rate 5.84%, due 2012 – 2040	32.7	41.9	52.2
	1,126.4	1,139.7	1,200.4
Less amount due within one year	237.3	49.4	378.8
Balance, end of year	\$ 889.1	\$ 1,090.3	\$ 821.6

First mortgage loans are secured by land, buildings and specific charges on certain assets. Finance lease obligations are secured by the related finance lease asset. Medium term notes are unsecured.

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

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

On July 23, 2007, Sobeys established a new unsecured revolving term credit facility maturing July 23, 2012. Under the terms of the credit agreement entered into between Sobeys and a banking syndicate, a revolving term credit facility of \$300.0 was established and increased by an additional \$300.0, resulting in a total authorized credit facility of \$600.0. On February 14, 2012, Sobeys entered into an amended and restated credit agreement. The agreement provides for an unsecured revolving term credit facility of \$450.0, and a \$200.0 unsecured non-revolving term credit facility resulting in total authorized credit facilities of \$650.0. The revolving term credit facility matures on February 14, 2016, and the non-revolving term credit facility matures on July 23, 2012. At May 5, 2012, \$200.0 (May 7, 2011 – \$200.0) of the non-revolving term credit facility had been drawn down and at year end was classified as long-term debt due within one year. The revolving term credit facility remains unutilized at year end. Interest payable on this facility fluctuates with changes in the bankers' acceptance rate, Canadian prime rate or London InterBank Offered Rate ("LIBOR"). Interest on the non-revolving facility is hedged with a \$200.0 interest rate swap maturing on July 23, 2012 at 5.051 percent. Sobeys had also issued \$52.7 in letters of credit against the facility at May 5, 2012 (May 7, 2011 – \$35.3).

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

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

On June 4, 2010, the Company renewed its credit facilities which were reduced from \$650.0 to \$450.0. On August 22, 2011, the Company extended the term of its credit facilities to a maturity date of June 30, 2014. At May 5, 2012, the credit facilities had a balance outstanding of \$129.0 (May 7, 2011 – \$118.0). 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.

Principal debt retirement in each of the next five fiscal years is as follows:

2013	\$ 227.4
2014	52.9
2015	154.8
2016	19.0
2017	10.4
Thereafter	631.9

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Future Minimum Lease Payments	Interest	Present Value of Minimum Lease Payments
2013	\$ 11.5	\$ 1.7	\$ 9.8
2014	8.3	1.2	7.1
2015	4.4	0.9	3.5
2016	3.5	0.7	2.8
2017	3.6	0.5	3.1
Thereafter	10.8	4.4	6.4
Total	\$ 42.1	\$ 9.4	\$ 32.7

During fiscal 2012 the Company increased its finance lease obligation by \$4.2 (2011 – \$5.4) with a similar increase in assets under finance leases. These additions are non-cash in nature, therefore have been excluded from the statements of cash flows.

16. OTHER LONG-TERM LIABILITIES

	May 5, 2012	May 7, 2011	May 2, 2010
Deferred lease obligation	\$ 88.8	\$ 85.5	\$ 75.7
Accrued benefit liability	69.1	33.8	48.0
Deferred revenue	7.0	8.5	5.1
Other	13.6	10.5	6.3
Total	\$ 178.5	\$ 138.3	\$ 135.1

17. EMPLOYEE FUTURE BENEFITS

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

Defined contribution pension plans

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

Other benefit plans

The Company also offers certain employee post-retirement and post-employment benefit plans which are not funded and include health care, life insurance, and dental benefits. During the 53 weeks ended May 7, 2011, the post-retirement benefit program was modified for employees retiring after May 1, 2011. A closed group of individuals who met certain age and service criteria as of May 1, 2011 continue to maintain medical, drug, and life insurance coverage, while those individuals who did not meet the age and service criteria were offered critical illness coverage. The financial impact of these post-retirement benefit changes were taken into account and the one time impact of these changes for the 53 weeks ended May 7, 2011 resulted in a decrease in the employee future benefits obligation of \$25.6, treated as a past service event.

Defined benefit pension plans

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

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

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

Defined contribution plans

The total expense, and cash contributions, for the Company's defined contribution plans was \$25.3 for the year ended May 5, 2012 (2011 – \$23.9).

Defined benefit plans

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

	Pension Benefit Plans		Other Benefit Plans	
	May 5, 2012	May 7, 2011	May 5, 2012	May 7, 2011
Accrued benefit obligation				
Balance, beginning of year	\$ 268.4	\$ 264.7	\$ 122.3	\$ 133.7
Current service cost, net of employee contributions	1.7	2.4	1.8	3.1
Interest cost	13.6	14.0	6.3	6.8
Employee contributions	0.1	0.2	–	–
Benefits paid	(19.7)	(19.9)	(4.5)	(4.4)
Past service costs	–	–	–	(25.6)
Actuarial losses included in other comprehensive income	36.9	7.0	17.4	8.7
Balance, end of year	\$ 301.0	\$ 268.4	\$ 143.3	\$ 122.3
Plan assets				
Market value, beginning of year	\$ 234.4	\$ 221.9	\$ –	\$ –
Expected return on plan assets	16.1	15.0	–	–
Employer contributions	10.7	6.1	4.5	4.4
Employee contributions	0.1	0.2	–	–
Benefits paid	(19.7)	(19.9)	(4.5)	(4.4)
Actuarial (losses) gains included in other comprehensive income	(10.7)	11.1	–	–
Market value, end of year	\$ 230.9	\$ 234.4	\$ –	\$ –

	Pension Benefit Plans			Other Benefit Plans		
	May 5, 2012	May 7, 2011	May 2, 2010	May 5, 2012	May 7, 2011	May 2, 2010
Funded status						
Total market value of plan assets	\$ 230.9	\$ 234.4	\$ 221.9	\$ –	\$ –	\$ –
Present value of unfunded obligations	(42.7)	(35.0)	(33.5)	(143.3)	(122.3)	(133.7)
Present value of partially funded obligations	(258.2)	(233.5)	(237.7)	–	–	–
Deficit	(70.0)	(34.1)	(49.3)	(143.3)	(122.3)	(133.7)
Unamortized past service cost	0.9	1.1	1.3	–	–	0.5
Accrued benefit liabilities	\$ (69.1)	\$ (33.0)	\$ (48.0)	\$ (143.3)	\$ (122.3)	\$ (133.2)
Classification of accrued benefit assets (liabilities)						
Other assets	\$ –	\$ 0.8	\$ –	\$ –	\$ –	\$ –
Other long-term liabilities	(69.1)	(33.8)	(48.0)	–	–	–
Employee future benefits obligation	–	–	–	(143.3)	(122.3)	(133.2)
Accrued benefit liabilities	\$ (69.1)	\$ (33.0)	\$ (48.0)	\$ (143.3)	\$ (122.3)	\$ (133.2)

	Pension Benefit Plans		Other Benefit Plans	
	May 5, 2012	May 7, 2011	May 5, 2012	May 7, 2011
Expenses				
Current service cost, net of employee contributions	\$ 1.7	\$ 2.4	\$ 1.8	\$ 3.1
Interest cost	13.6	14.0	6.3	6.8
Expected return on plan assets	(16.1)	(15.0)	–	–
Actuarial (gain) loss recognized	–	–	(0.4)	0.2
Past service costs	0.1	0.1	–	(25.1)
(Income) expense before adjustments	\$ (0.7)	\$ 1.5	\$ 7.7	\$ (15.0)

Current and past service costs have been recognized within selling and administrative expenses, whereas interest costs and expected return on plan assets have been recognized within finance costs, net in the consolidated statements of earnings.

Actuarial gains and losses recognized directly in equity:

Actuarial (losses) gains recognized directly in other comprehensive income	May 5, 2012	May 7, 2011
Cumulative amount, beginning of year	\$ 1.9	\$ –
Recognized during the year	(65.3)	1.9
Cumulative amount, end of year	\$ (63.4)	\$ 1.9

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted-average assumptions as of May 5, 2012):

	Pension Benefit Plans		Other Benefit Plans	
	May 5, 2012	May 7, 2011	May 5, 2012	May 7, 2011
Discount rate	4.25%	5.25%	4.25%	5.25%
Expected long-term rate of return on plan assets	7.00%	7.00%		
Rate of compensation increase	4.00%	4.00%		

For measurement purposes, a 8.50 percent fiscal 2012 annual rate of increase in the per capita cost of covered health care benefits was assumed (2011 – 9.00 percent). The cumulative rate expectation to 2019 is 5.00 percent.

These assumptions were developed by management under consideration of expert advice provided by independent actuarial appraisers. These assumptions have led to the amounts determined as the Company's accrued benefit obligations and should be regarded as management's best estimate. However, the actual outcome may vary. Estimation uncertainties exist especially in regards to medical cost trends, which may vary significantly in future appraisals of the Company's defined benefit and other benefit obligations.

Expected return on plan assets is based on a weighted average of expected returns of the various assets in the plan and include an analysis of historical returns and predictions about future returns. The expected long-term rate of return is based on the portfolio as a whole and not the sum of the individual asset categories. Expected returns on plan assets are estimated by the independent actuaries in close co-ordination with plan administrators.

The table below outlines the sensitivity of the fiscal 2012 key economic assumptions used in measuring the accrued benefit plan obligations and related expenses of the Company's pension and other benefit plans. The sensitivity of each key assumption has been calculated independently. Changes to more than one assumption simultaneously may amplify or reduce impact on the accrued benefit obligations or benefit plan expenses.

	Pension Benefit Plans		Other Benefit Plans	
	Benefit Obligations	Benefit Cost ⁽¹⁾	Benefit Obligations	Benefit Cost ⁽¹⁾
Expected long-term rate of return on plan assets		7.00%		
Impact of: 1% increase		\$ (2.3)		
Impact of: 1% decrease		\$ 2.3		
Discount rate ⁽²⁾	4.25%	4.25%	4.25%	4.25%
Impact of: 1% increase	\$ (34.1)	\$ 0.9	\$ (18.7)	\$ (0.1)
Impact of: 1% decrease	\$ 38.6	\$ (1.3)	\$ 20.3	\$ 0.1
Growth rate of health care costs ⁽³⁾			8.50%	8.50%
Impact of: 1% increase			\$ 18.8	\$ 1.6
Impact of: 1% decrease			\$ (16.1)	\$ (1.3)

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

(2) 4.25 percent for the Senior Management Plan, Oshawa Sobeyes Employee Pension Plan, and Post-Retirement Benefits and 3.50 percent for the Post-Employment Benefits Plan.

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

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

	May 5, 2012	May 7, 2011	May 2, 2010
Debt securities, cash and cash equivalents	25.0%	25.0%	25.0%
Equity securities	75.0%	75.0%	75.0%
Total investments	100.0%	100.0%	100.0%

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

	May 5, 2012	% of Plan Assets	May 7, 2011	% of Plan Assets	May 2, 2010	% of Plan Assets
Empire Company Limited						
Non-voting Class A shares	\$ 87.2	8.2%	\$ 80.6	7.8%	\$ 115.5	12.7%

The actual return on plan assets was \$5.4 for the year ended May 5, 2012 (2011 – \$26.1).

The historical movement and history of experience gains and losses in the defined benefit pension plans and other benefit plans are as follows:

	May 5, 2012	May 7, 2011	May 2, 2010
Market value of plan assets	\$ 230.9	\$ 234.4	\$ 221.9
Present value of accrued benefit obligations	(444.2)	(390.8)	(404.9)
Pension plan deficit	\$ (213.3)	\$ (156.4)	\$ (183.0)
Experience adjustments arising on plan assets	\$ (10.7)	\$ 11.1	\$ –
Experience adjustments arising on plan liabilities	\$ 0.6	\$ 5.3	\$ –

Management's best estimate of contributions expected to be paid to the defined benefit plans during the annual period beginning on May 6, 2012 and ending on May 4, 2013 is \$10.4.

18. CAPITAL STOCK

Authorized	Number of Shares			
	May 5, 2012	May 7, 2011	May 2, 2010	
Preferred shares, par value of \$25 each, issuable in series				
Series 2 cumulative, redeemable, rate of 75% of prime	–	2,664,900	2,668,000	
2002 Preferred shares, par value of \$25 each, issuable in series	991,980,000	992,000,000	992,000,000	
Non-Voting Class A shares, without par value	257,044,056	258,593,856	259,107,435	
Class B common share, without par value, voting	40,800,000	40,800,000	40,800,000	
Issued and outstanding:	Number of Shares	May 5, 2012	May 7, 2011	May 2, 2010
Preferred shares, Series 2		\$ –	\$ 4.1	\$ 4.2
Non-Voting Class A	33,687,747	311.7	311.7	316.2
Class B common	34,260,763	7.6	7.6	7.6
Total		\$ 319.3	\$ 323.4	\$ 328.0

The Series 2 Preferred shares were redeemable at par. During the year, the Company redeemed all of its Preferred shares, Series 2 at a cost of \$4.1.

During fiscal 2011, under a normal course issuer bid, the Company purchased for cancellation 513,579 Non-Voting Class A shares. The purchase price was \$27.6 of which \$23.0 of the purchase price (representing the premium on common shares purchased for cancellation) was charged to retained earnings.

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.

During fiscal 2012, the Company paid preferred dividends of \$0.1 (May 7, 2011 – \$0.1) and common dividends of \$61.1 (May 7, 2011 – \$54.4) to its equity holders. This represents a payment of 0.42 per share (May 7, 2011 – 0.52 per share) for preference shareholders, and 0.90 per share (May 7, 2011 – 0.80 per share) for common shareholders.

19. OTHER INCOME

	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Gain on disposal of assets	\$ 22.2	\$ 19.6
Dilution gains	10.4	4.9
Investment income	1.2	1.0
Total	\$ 33.8	\$ 25.5

20. EMPLOYEE BENEFITS EXPENSE

	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Wages, salaries and other short-term employment benefits	\$ 1,946.4	\$ 1,926.3
Post-employment benefits	28.4	4.4
Termination benefits	5.9	7.4
Total	\$ 1,980.7	\$ 1,938.1

21. FINANCE COSTS, NET

Finance income and finance costs are reported on a net basis in the consolidated statements of earnings.

	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Finance income		
Interest income from cash and cash equivalents	\$ 3.8	\$ 2.8
Fair value gains on other financial assets	1.1	1.6
Total finance income	4.9	4.4
Finance costs		
Interest expense on financial liabilities measured at amortized cost	53.4	64.4
Fair value losses on forward contracts	–	1.0
Fair value losses on cash flow hedges	–	0.5
Losses on cash flow hedges reclassified from other comprehensive income	7.6	8.1
Net pension finance costs	3.8	5.8
Total finance costs	64.8	79.8
Finance costs, net	\$ 59.9	\$ 75.4

22. SALE OF WAJAX INCOME FUND

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

Net proceeds	\$ 115.3
Book value	34.0
Gain before income taxes	81.3
Income taxes	5.1
Net gain	\$ 76.2

23. EARNINGS PER SHARE

Earnings applicable to common shares are comprised of the following:

	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Earnings before net gain on sale of Wajax	\$ 339.4	\$ 324.4
Gain on sale of Wajax (net of income taxes of \$(5.1))	–	76.2
Preferred share dividend	(0.1)	(0.1)
Earnings applicable to common shares	\$ 339.3	\$ 400.5

Earnings per share is comprised of the following:

	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Earnings before net gain on sale of Wajax	\$ 4.99	\$ 4.76
Net gain on sale of Wajax	–	1.12
Basic earnings per share	\$ 4.99	\$ 5.88
Earnings before net gain on sale of Wajax	4.99	4.75
Net gain on sale of Wajax	–	1.12
Diluted earnings per share	\$ 4.99	\$ 5.87

The weighted average number of outstanding shares as at May 5, 2012 used for basic earnings per share amounted to 67,948,510 (2011 – 68,146,156) shares.

The weighted average number of shares for the purpose of diluted earnings per share can be reconciled to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Weighted average number of shares used in basic earnings per share	67,948,510	68,146,156
Shares deemed to be issued for no consideration in respect of stock-based payments	111,477	68,768
Weighted average number of shares used in diluted earnings per share	68,059,987	68,214,924

24. BUSINESS ACQUISITIONS AND FORMATIONS

The Company acquired franchisee and non-franchisee stores, prescription files, retail gas locations and theatres. The results of these acquisitions have been included in the consolidated financial results of the Company since their acquisition dates, and were accounted for through the use of the acquisition method. Goodwill recorded on the acquisitions of franchise and non-franchise stores relate to the acquired work force and customer base of the existing store location, along with the synergies expected from combining the efforts of the acquired stores with existing stores.

The following table represents the amounts of identifiable assets from resulting acquisitions for the respective periods:

	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Stores, retail gas locations and theatres		
Inventories	\$ 11.6	\$ 5.4
Property and equipment	147.9	3.1
Intangibles	23.1	2.5
Goodwill	82.1	5.8
Provisions	(22.6)	-
Other assets and liabilities	5.0	0.2
	247.1	17.0
Prescription files		
Intangibles	0.6	-
Cash consideration	\$ 247.7	\$ 17.0

The businesses acquired contributed sales of \$201.5 and earnings of \$0.2 for the year ended May 5, 2012.

It is impracticable for the Company to determine the amounts of sales and net earnings or loss of the acquired assets in order to disclose proforma information as though the acquisitions had occurred as of May 8, 2011 due to the fact that data was not collected during this period in a manner that would be representative of the economic model of Empire.

Canadian Digital Cinema Partnership

During fiscal 2012, the Company formed Canadian Digital Cinema Partnership ("CDCP"), a joint venture with Cineplex Inc. ("Cineplex"). The costs of implementing digital projection systems in the venturers' theatres will be funded by CDCP, through a separate credit facility, which is non-recourse to the venturers, and the collection of virtual print fees from distributors.

Empire transferred digital projectors valued at \$7.6 in exchange for a 21.8 percent interest in CDCP. Cineplex and Empire each have 50 percent of the voting rights of CDCP. Empire accounts for its investment in CDCP using the equity method.

The digital projection systems leased from CDCP will replace most of Empire's remaining 35 millimeter projection systems and allow Empire to add additional 3D screens to the circuit.

Shell Acquisition

On March 15, 2012, the Company acquired 236 retail gas locations and related convenience store operations in Quebec and Atlantic Canada from Shell Canada for an amount of \$214.9. The network acquired includes corporate owned and dealer operated locations and is expected to have annual fuel volumes in excess of 1 billion litres. The acquisition of these retail gas locations complements the Company's convenience store operations.

The total consideration of \$214.9 was paid in cash. Acquisition costs of \$3.9 relating to external legal, consulting, due diligence and other closing costs were incurred and have been included in selling and administrative expenses in the consolidated statements of earnings.

The fair value of the identifiable assets acquired and liabilities assumed as at the acquisition date are as follows:

Inventories	\$	8.0
Property and equipment		138.0
Intangibles		22.3
Provisions		(22.6)
Other assets and liabilities		5.2
Total identifiable net assets	\$	150.9
<hr/>		
Excess consideration paid over identifiable net assets acquired	\$	64.0

The fair value of the identifiable net assets and goodwill have been determined provisionally and are subject to adjustment pending the finalization of the valuations and related accounting.

Goodwill of \$64.0 was recognized as the excess of the acquisition cost over the fair value of the identifiable net assets at the date of the acquisition. The goodwill recognized is attributable mainly to the expected synergies from various cross promotions, the expected future growth potential in the convenience store operations, and the customer base of the retail gas locations. The entire amount of goodwill is expected to be deductible for income tax purposes.

25. GUARANTEES, COMMITMENTS, AND CONTINGENT LIABILITIES

Guarantees

Franchise affiliates

Sobeys has a guarantee contract under the terms of which, should franchise affiliates be unable to fulfill their lease obligations, Sobeys would be required to fund the greater of \$7.0 or 9.9 percent (2011 – \$7.0 or 9.9 percent) of the authorized and outstanding obligation. The terms of the guarantee contract are reviewed annually each August. As at May 5, 2012, the amount of the guarantee was \$7.0 (2011 – \$7.0).

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

During fiscal 2009, Sobeys entered into an additional credit enhancement contract in the form of a standby letter of credit for certain independent franchisees for the purchase and installation of equipment. Under the terms of the contract should franchisee affiliates be unable to fulfill their lease obligations or other remedy, Sobeys would be required to fund the greater of \$6.0 or 10.0 percent (2011 – \$4.0 or 10.0 percent) of the authorized and outstanding obligation annually. Under the terms of the contract, 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 determined that there were no material implications with respect to the consolidation of SPEs. As at May 5, 2012 the amount of the guarantee was \$6.0 (2011 – \$4.2).

The aggregate, annual, minimum rent payable under the guaranteed operating equipment leases for fiscal 2013 is approximately \$23.5. The guaranteed lease commitments over the next five years are:

	Third Parties
2013	\$ 23.5
2014	3.7
2015	1.4
2016	–
2017	–
Thereafter	–

Other

At May 5, 2012, the Company was contingently liable for letters of credit issued in the aggregate amount of \$69.6 (2011 – \$52.3).

Upon entering into the lease of its new Mississauga distribution centre, in March 2000, Sobeys guaranteed to the landlord the performance, by SERCA Foodservice Inc., of all of its obligations under the lease. The remaining term of the lease is 8 years with an aggregate obligation of \$25.6 (2011 – \$28.6). At the time of the sale of assets of SERCA Foodservice Inc. to Sysco Corp., the lease of the Mississauga distribution centre was assigned to and assumed by the purchaser, and Sysco Corp. agreed to indemnify and hold Sobeys harmless from any liability it may incur pursuant to its guarantee.

Commitments

Operating leases, as lessee

The Company leases various retail stores, distribution centers, theatres, offices, and equipment under non-cancellable operating leases. These leases have varying terms, escalation clauses, renewal options, and basis on which contingent rent is payable.

The total net, future minimum rent payable under the Company's operating leases as of May 5, 2012 is approximately \$2,750.2. This reflects a gross lease obligation of \$3,595.0 reduced by expected sub-lease income of \$844.8. The net commitments over the next five fiscal years are:

	Third Parties		Related Parties	
	Net Lease Obligation	Gross Lease Obligation	Net Lease Obligation	Gross Lease Obligation
2013	\$ 220.0	\$ 309.7	\$ 58.6	\$ 58.6
2014	207.4	290.6	53.0	53.0
2015	197.7	276.8	53.1	53.1
2016	185.8	258.5	52.6	52.6
2017	167.6	232.0	51.6	51.6
Thereafter	952.4	1,408.1	550.4	550.4

The Company recorded \$411.6 (2011 – \$399.1) as an expense for minimum lease payments for the year ended May 5, 2012 in the consolidated statements of earnings. The expense was offset by sub-lease income of \$118.3 (2011 – \$96.1), and a further \$4.5 (2011 – \$5.1) of expense was recognized for contingent rent.

Operating leases, as lessor

The Company also leases most investment properties, which are leased by the Company under operating leases. These leases have varying terms, escalation clauses, renewal options and basis on which contingent rent is receivable.

Rental income for the year ended May 5, 2012 was \$41.7 (2011 – \$38.3) and was included in sales in the consolidated statements of earnings. In addition, the Company recognized \$1.5 of contingent rent for the year ended May 5, 2012 (2011 – \$1.0).

The lease payments expected to be received over the next five years are:

	Third Parties
2013	\$ 12.8
2014	12.1
2015	11.0
2016	10.3
2017	9.5
Thereafter	47.3

Contingent liabilities

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 Service 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 statements 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.

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.

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.

26. 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 receivables, loans and other receivables, asset-backed commercial paper, 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 consolidated balance sheets, the carrying value of asset-backed commercial paper (Note 7) and guarantee contracts for franchise affiliates (Note 25).

The Company mitigates credit risk associated with its trade receivables, mortgage and loans 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 receivables and 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 counterparties that are dual rated and have a credit rating of “A” or better 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 5, 2012	May 7, 2011	May 2, 2010
0 – 30 days	\$ 315.4	\$ 307.1	\$ 280.7
31 – 90 days	28.7	17.8	28.9
Greater than 90 days	39.7	34.8	43.7
Total receivables before allowance for credit losses	383.8	359.7	353.3
Less: allowance for credit losses	(21.8)	(13.1)	(17.3)
Receivables	\$ 362.0	\$ 346.6	\$ 336.0

Interest earned on past due accounts is recorded as a reduction to selling and administrative expenses in the consolidated statements of earnings. Loans and other receivables are all current as of May 5, 2012.

Allowance for credit losses is reviewed at each balance sheet date. An allowance is taken on receivables from independent accounts, as well as receivables, loans and other receivables from franchise or affiliate locations and is recorded as a reduction to its respective receivable account on the consolidated balance sheets. The Company updates its estimate for credit losses 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 receivables, loans and other receivables are reviewed on a regular basis and are written-off when collection is considered unlikely. The change in allowance for credit losses is recorded as selling and administrative expenses in the consolidated statements of earnings and is presented as follows:

	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Allowance, beginning of year	\$ 13.1	\$ 17.3
Provision for losses	14.4	0.3
Recoveries	(1.1)	(0.1)
Write-offs	(4.6)	(4.4)
Allowance, end of year	\$ 21.8	\$ 13.1

Liquidity risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they come due. The Company actively maintains a committed credit facility 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, and monitors its cash flows in order to assist in optimizing its cash position and evaluate longer term cash and funding requirements. 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 amount and the contractual maturities of both the interest and principal portion of significant financial liabilities on an undiscounted basis as at May 5, 2012:

	2013	2014	2015	2016	2017	Thereafter	Total
Derivative financial liabilities							
Interest rate swaps payable ⁽¹⁾	\$ 2.5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2.5
Foreign currency forward contracts	38.4	-	-	-	-	-	38.4
Foreign currency swaps	1.2	1.3	1.4	1.5	1.6	1.5	8.5
Non-derivative financial liabilities							
Bank indebtedness	4.4	-	-	-	-	-	4.4
Accounts payable and accrued liabilities	1,729.8	-	-	-	-	-	1,729.8
Long-term debt	288.3	107.5	199.9	61.5	52.0	1,232.6	1,941.8
Total	\$ 2,064.6	\$ 108.8	\$ 201.3	\$ 63.0	\$ 53.6	\$ 1,234.1	\$ 3,725.4

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

Fair value of financial instruments

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

The book value of cash and cash equivalents, receivables, loans and other receivables, and accounts payable and accrued liabilities approximate fair values at the balance sheet dates due to the short term maturity of these instruments.

The book value of the long-term portion of loans and other receivables and financial assets included in other assets designated at FVTPL approximate fair values at the balance sheet dates due to the current market rates associated with these instruments.

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

The fair value of derivative financial assets included in other assets at FVTPL and derivative financial liabilities are estimated using valuation models that utilize market based observable inputs.

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

May 5, 2012	FVTPL (Required)	FVTPL (Designated)	Available for Sale	Loans and Receivables	Other Financial Liabilities	Total Carrying Amount	Fair Value
Financial Assets							
Cash and cash equivalents	\$ -	\$ 510.2	\$ -	\$ -	\$ -	\$ 510.2	\$ 510.2
Receivables	-	-	-	362.0	-	362.0	362.0
Loans and other receivables	-	-	-	101.6	-	101.6	101.6
Investments	-	-	13.0	-	-	13.0	13.0
Other assets ⁽¹⁾	-	46.8	-	-	-	46.8	46.8
Total financial assets	\$ -	\$ 557.0	\$ 13.0	\$ 463.6	\$ -	\$ 1,033.6	\$ 1,033.6
Fair value level 1	\$ -	\$ 533.2	\$ 13.0				\$ 546.2
Fair value level 2	-	-	-				-
Fair value level 3	-	23.8	-				23.8
	\$ -	\$ 557.0	\$ 13.0				\$ 570.0
Financial Liabilities							
Bank indebtedness	\$ -	\$ -	\$ -	\$ -	\$ (4.4)	\$ (4.4)	\$ (4.4)
Accounts payable and accrued liabilities	-	-	-	-	(1,729.8)	(1,729.8)	(1,729.8)
Long-term debt	-	-	-	-	(1,126.4)	(1,126.4)	(1,209.7)
Derivative financial liabilities	(2.8)	-	-	-	-	(2.8)	(2.8)
Total financial liabilities	\$ (2.8)	\$ -	\$ -	\$ -	\$ (2,860.6)	\$ (2,863.4)	\$ (2,946.7)
Fair value level 1	\$ -	\$ -	\$ -				\$ -
Fair value level 2	(2.8)	-	-				(2.8)
Fair value level 3	-	-	-				-
	\$ (2.8)	\$ -	\$ -				\$ (2.8)

(1) The total carrying value of financial assets included in other assets is \$46.8.

May 7, 2011	FVTPL (Required)	FVTPL (Designated)	Available for Sale	Loans and Receivables	Other Financial Liabilities	Total Carrying Amount	Fair Value
Financial Assets							
Cash and cash equivalents	\$ -	\$ 615.9	\$ -	\$ -	\$ -	\$ 615.9	\$ 615.9
Receivables	-	-	-	346.6	-	346.6	346.6
Loans and other receivables	-	-	-	124.1	-	124.1	124.1
Investments	-	-	14.3	-	-	14.3	14.3
Other assets ⁽¹⁾	0.3	39.9	-	-	-	40.2	40.2
Total financial assets	\$ 0.3	\$ 655.8	\$ 14.3	\$ 470.7	\$ -	\$ 1,141.1	\$ 1,141.1
Fair value level 1	\$ -	\$ 633.0	\$ 14.3				\$ 647.3
Fair value level 2	0.3	-	-				0.3
Fair value level 3	-	22.8	-				22.8
	\$ 0.3	\$ 655.8	\$ 14.3				\$ 670.4
Financial Liabilities							
Bank indebtedness	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable and accrued liabilities	-	-	-	-	(1,629.1)	(1,629.1)	(1,629.1)
Long-term debt	-	-	-	-	(1,152.4)	(1,152.4)	(1,170.8)
Derivative financial liabilities	(9.6)	-	-	-	-	(9.6)	(9.6)
Total financial liabilities	\$ (9.6)	\$ -	\$ -	\$ -	\$ (2,781.5)	\$ (2,791.1)	\$ (2,809.5)
Fair value level 1	\$ -	\$ -	\$ -				\$ -
Fair value level 2	(9.6)	-	-				(9.6)
Fair value level 3	-	-	-				-
	\$ (9.6)	\$ -	\$ -				\$ (9.6)

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

May 2, 2010	FVTPL (Required)	FVTPL (Designated)	Available for Sale	Loans and Receivables	Other Financial Liabilities	Total Carrying Amount	Fair Value
Financial Assets							
Cash and cash equivalents	\$ -	\$ 397.3	\$ -	\$ -	\$ -	\$ 397.3	\$ 397.3
Receivables	-	-	-	336.0	-	336.0	336.0
Loans and other receivables	-	-	-	159.5	-	159.5	159.5
Investments	-	-	10.9	-	-	10.9	10.9
Other assets ⁽¹⁾	-	31.7	-	-	-	31.7	31.7
Total financial assets	\$ -	\$ 429.0	\$ 10.9	\$ 495.5	\$ -	\$ 935.4	\$ 935.4
Fair value level 1	\$ -	\$ 407.8	\$ 10.9				\$ 418.7
Fair value level 2	-	-	-				-
Fair value level 3	-	21.2	-				21.2
	\$ -	\$ 429.0	\$ 10.9				\$ 439.9
Financial Liabilities							
Bank indebtedness	\$ -	\$ -	\$ -	\$ -	\$ (4.1)	\$ (4.1)	\$ (4.1)
Accounts payable and accrued liabilities	-	-	-	-	(1,578.3)	(1,578.3)	(1,578.3)
Long-term debt	-	-	-	-	(1,200.4)	(1,200.4)	(1,225.5)
Derivative financial liabilities	(17.1)	-	-	-	-	(17.1)	(17.1)
Total financial liabilities	\$ (17.1)	\$ -	\$ -	\$ -	\$ (2,782.8)	\$ (2,799.9)	\$ (2,825.0)
Fair value level 1	\$ -	\$ -	\$ -				\$ -
Fair value level 2	(17.1)	-	-				(17.1)
Fair value level 3	-	-	-				-
	\$ (17.1)	\$ -	\$ -				\$ (17.1)

(1) The total carrying value of financial assets included in other assets is \$31.7.

Derivative financial instruments

Derivative financial instruments are recorded on the consolidated balance sheets 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 net earnings or loss 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 derivative financial liabilities with the effective portion recorded in other comprehensive income.

Cash flow hedges

The Company's cash flow hedges consists principally of interest rate swaps, foreign currency forward contracts, and foreign currency swaps. Interest rate swaps are used to protect against exposure to variability in future interest cash flows on non-trading assets and liabilities which bear interest at variable rates. Foreign exchange contracts are used to hedge future purchases or expenditures of foreign currency denominated goods or services. Gains and losses are initially recognized directly in equity and are transferred to net earnings or loss when the forecast cash flows affect income or expense for the year.

As of May 5, 2012, the fair values of the outstanding derivatives designated as cash flow hedges of forecast transactions were assets of \$nil (2011 – \$0.5) and liabilities of \$2.8 (2011 – \$9.6). The outstanding derivative assets being acquired are included in other assets (Note 7).

Cash flows from cash flow hedges are expected to flow over the next six years until fiscal 2018, and are expected to be recognized in net earnings over this period, and, in the case of foreign currency swaps, over the life of the related assets in which a portion of the initial cost is being hedged.

The gains and losses on ineffective portions of such derivatives are recognized immediately in net earnings for the year. During the year, the Company recognized \$nil (2011 – (\$0.5)) directly into net earnings as a result of ineffective hedging contracts.

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 Company manages interest rate risk by monitoring market conditions and the impact of interest rate fluctuations on its debt. The Company utilizes interest rate swaps designated as cash flow hedges to manage variable interest rates associated with some of the Company's long-term debt. Hedge accounting treatment results in interest expense on the related borrowings being reflected at hedged rates rather than at variable 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 23.7 percent (2011 – 20.8 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 year. For the year ending May 5, 2012, the Company's average outstanding unhedged floating rate debt was \$251.9 (2011 – \$276.8). An increase (decrease) of 25 basis points would have impacted net earnings by \$0.4 (\$0.4) (2011 – \$0.5 (\$0.5)) and other comprehensive income by \$0.1 (\$0.1) (2011 – \$0.5 (\$0.5)).

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 does not consider its exposure to foreign currency exchange risk to be material.

The Company has entered into foreign currency forward contracts and foreign currency swaps 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 net earnings in future accounting periods.

The Company estimates that a 10 percent increase (decrease) in applicable foreign currency exchange rates would impact net earnings by \$0.9 (\$0.9) (2011 – \$nil (\$nil)) and other comprehensive income by \$1.2 (\$1.2) (2011 – \$3.3 (\$3.3)) for foreign currency derivatives in place at year end.

Market risk

Market risk is the risk that the fair value of investments will fluctuate as a result of changes in the price of the investment. The Company estimates that a 10 percent change in the market value of its investments that trade on a recognized stock exchange would impact other comprehensive income by \$1.1 (2011 – \$1.2).

27. SEGMENTED INFORMATION

The Board of Directors has determined that the primary segmental reporting format is by business segment, based on the Company's management and internal reporting structure. The Company operates principally in two business segments: food retailing and investments and other operations. The food segment consists of distribution of food products in Canada. Inter-segment transactions are carried out at market prices.

Segment results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Each of these operating segments is managed separately as each of these segments requires different technologies and other resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices. The measurement policies the Company uses for segment reporting under IFRS 8, "Operating Segments", are the same as those used in its consolidated financial statements.

No asymmetrical allocations have been applied between segments.

The sales and operating income generated by each of the group's business segments are summarized as follows:

	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Segmented sales		
Food retailing	\$ 16,055.5	\$ 15,762.4
Investments and other operations	204.6	201.4
	16,260.1	15,963.8
Elimination of inter-segment	11.0	7.0
Total	\$ 16,249.1	\$ 15,956.8

	52 Weeks Ended ⁽¹⁾ May 5, 2012	53 Weeks Ended ⁽¹⁾ May 7, 2011
Segmented operating income		
Food retailing	\$ 475.8	\$ 473.4
Investments and other operations		
Wajax	–	8.6
Crombie REIT	19.7	18.4
Real estate partnerships	30.0	32.1
Other operations, net of corporate expenses	8.8	(6.8)
	58.5	52.3
Total	\$ 534.3	\$ 525.7

(1) Certain balances have been reclassified for changes to comparative figures (see Note 32).

	May 5, 2012	May 7, 2011	May 2, 2010
Total assets by segment			
Food retailing	\$ 6,327.7	\$ 6,006.0	\$ 5,557.0
Investments and other operations	585.4	512.6	619.8
Total	\$ 6,913.1	\$ 6,518.6	\$ 6,176.8

Segment operating income can be reconciled to group profit as follows:

	52 Weeks Ended ⁽¹⁾ May 5, 2012	53 Weeks Ended ⁽¹⁾ May 7, 2011
Total operating income	\$ 534.3	\$ 525.7
Finance costs, net	59.9	75.4
Gain on sale of Wajax	–	81.3
Total	\$ 474.4	\$ 531.6

(1) Certain balances have been reclassified for changes to comparative figures (see Note 32).

The investments and other operations consists of the investments, at equity in Wajax, Crombie REIT, real estate partnerships, and various other corporate operations.

28. STOCK-BASED COMPENSATION

Deferred stock units

Members of the Board of Directors may elect to receive all or any portion of their fees in deferred stock 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 directors’ 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 Non-Voting Class A share at the time of 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 or decrease in the DSU obligation as selling and administrative expenses on the consolidated statements of earnings. At May 5, 2012 there were 120,093 (May 7, 2011– 113,473) DSUs outstanding. During the 52 weeks ended May 5, 2012, the compensation expense was \$1.4 (2011 – \$1.1).

Stock option plan

During fiscal 2012, the Company granted an additional 73,247 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 \$54.40 per share and expire in June 2019. The options vest over four years. These options have been treated as stock-based compensation.

The compensation cost relating to the 52 weeks ended May 5, 2012 was \$1.4 (2011 – \$1.6) with amortization of the cost over the vesting period. The total increase in contributed surplus in relation to the stock option compensation cost was \$1.4 (2011 – \$1.6). The compensation cost was calculated using the Black-Scholes model with the following assumptions:

Expected life	5.25 years
Risk-free interest rate	2.34%
Expected volatility	20.0%
Dividend yield	1.65%

The outstanding options at May 5, 2012 were granted at prices between \$40.26 and \$54.40 and expire between June 2015 and June 2019. Stock option transactions during 2012 and 2011 were as follows:

	2012		2011	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	565,571	\$ 45.55	433,209	\$ 43.22
Granted	73,247	54.40	150,464	51.99
Exercised	–	–	(18,102)	43.12
Balance, end of year	638,818	\$ 46.57	565,571	\$ 45.55
Stock options exercisable, end of year	329,050		187,658	

The following table summarizes information about stock options outstanding at May 5, 2012:

Year Granted	Options Outstanding			Options Exercisable	
	Number of Outstanding Options	Weighted Average Remaining Contractual Life ⁽¹⁾	Weighted Average Exercise Price	Number Exercisable at May 5, 2012	Weighted Average Exercise Price
2008	81,218	3.17	\$ 43.96	81,218	\$ 43.96
2009	173,086	4.17	40.26	129,814	40.26
2010	160,803	5.17	46.04	80,402	46.04
2011	150,464	6.17	51.99	37,616	51.99
2012	73,247	7.17	54.40	–	–
Total	638,818	5.11	\$ 46.57	329,050	\$ 43.93

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

Share Purchase Plan

The Company has a share purchase plan for employees of the Company whereby loans are granted to purchase Non-Voting Class A Shares.

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.

29. RELATED PARTY TRANSACTIONS

Related party transactions are with Crombie REIT and key management personnel. The Company holds a 44.3 percent ownership interest in Crombie REIT and accounts for its investment using the equity method.

On October 20, 2011, Crombie REIT closed a bought-deal public offering of units at a price of \$12.85 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). On March 29, 2012, Crombie REIT closed an additional bought-deal public offering of units at a price of \$14.50 per unit. Concurrent with this public offering, the Company subscribed for approximately \$53.0 of Class B units. Consequently, as a result of the Company's subscriptions of Class B units and the conversion of Crombie REIT debentures throughout the year, the Company's interest in Crombie REIT was reduced from 46.4 to 44.3 percent.

During the year, the Company sold nine (2011 – twelve) properties to Crombie REIT, seven (2011 – twelve) of which were leased back. Cash consideration received for the properties was recorded at the exchange amount of \$123.9 (2011 – \$104.0), resulting in a pre-tax gain of \$12.4 (2011 – \$12.2), which has been recognized in the consolidated statements of earnings. The Company acquired a property from Crombie REIT for \$5.0 (2011 – \$nil), which management believes is equal to the fair market value of the property. As the property was leased by the Company from Crombie REIT, an additional \$2.0 (2011 – \$nil) was paid for the cancellation of the lease and recognized in the consolidated statements of earnings, with total cash consideration paid of \$7.0 (2011 – \$nil).

The Company rents premises from Crombie REIT, at amounts in management's opinion which approximate fair market value. Management has determined these amounts to be fair value due to the significant number of leases negotiated with third parties in each market it operates. During fiscal year 2012, the aggregate net payments under these leases, which are measured at exchange amounts, were \$67.5 (2011 – \$61.7).

In addition, Crombie REIT provides administrative and management services to the Company. The charges incurred for administrative and management services are on a cost recovery basis.

At May 5, 2012, investments included \$12.8 (May 7, 2011 - \$11.9) of Crombie REIT convertible unsecured subordinated debentures. During the year, fixed rate secured mortgages provided to Crombie REIT in the amount of \$5.6 were repaid in their entirety. The Company received interest from Crombie REIT of \$0.8 for the year ended May 5, 2012 (2011 - \$0.9). These amounts are included in other income in the consolidated statements of earnings.

Key management personnel compensation

Key management personnel include the Board of Directors and members of the Company's executive team that have authority and responsibility for planning, directing and controlling the activities of the Company.

Key management personnel compensation was as follows:

	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Salary, bonus and other short-term employee benefits	\$ 16.5	\$ 15.6
Post-employment benefits	1.3	1.4
Termination benefits	1.0	–
Share-based payments	1.9	1.8
Total	\$ 20.7	\$ 18.8

Indemnities

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

30. CAPITAL MANAGEMENT

The Company's objectives when managing capital are: i) 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 the Company.

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, long-term debt (including the current portion thereof) and shareholders' equity, net of cash. The calculation is set out in the following table:

	May 5, 2012	May 7, 2011	May 2, 2010
Bank indebtedness	\$ 4.4	\$ –	\$ 4.1
Long-term debt due within one year	237.3	49.4	378.8
Liabilities relating to assets held for sale	–	12.7	–
Long-term debt	889.1	1,090.3	821.6
Funded debt	1,130.8	1,152.4	1,204.5
Less cash and cash equivalents	(510.2)	(615.9)	(397.3)
Net funded debt	620.6	536.5	807.2
Shareholders' equity, net of minority interest	3,396.3	3,162.1	2,832.9
Capital under management	\$ 4,016.9	\$ 3,698.6	\$ 3,640.1

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 investments 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. The cash flow is supplemented, when necessary, through the borrowing of additional debt or the issuance of additional capital stock. No changes were made to these objectives in the current year.

Management monitors certain key ratios to effectively manage capital:

	May 5, 2012	May 7, 2011
Funded debt to total capital ⁽¹⁾	25.0%	26.7%
Funded debt to EBITDA ⁽²⁾	1.3x	1.3x
EBITDA to interest expense ⁽²⁾	14.4x	11.9x

(1) Total capital is funded debt plus shareholders' equity, net of minority interest.

(2) EBITDA and interest expense are comprised of EBITDA and interest expense for each of the 52 or 53 weeks then ended. EBITDA (operating income plus depreciation and amortization of intangibles) and interest expense (interest expense on financial liabilities measured at amortized cost plus losses on cash flow hedges reclassified from other comprehensive income) are non-GAAP financial measures. Non-GAAP financial measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other reporting issuers.

As part of existing debt agreements, two financial covenants are monitored and communicated, as required by the terms of credit agreements, on a quarterly basis by management to ensure compliance with the agreements. The covenants are: i) adjusted total debt/EBITDA – calculated as net funded debt plus letters of credit, guarantees and commitments divided by EBITDA (as determined by the credit agreements and for the previous 52 or 53 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 or 53 weeks). The Company was in compliance with these covenants during the year.

31. SUBSEQUENT EVENTS

On June 12, 2012, the Company agreed to purchase \$24.0 of convertible unsecured subordinated debentures (the "Debentures") from Crombie REIT, pursuant to a bought-deal prospectus offering for a total of \$60.0. The Debentures have a maturity date of September 30, 2019. The Debentures have a coupon of 5.00% per annum and each \$1,000 principal amount of Debenture is convertible into approximately 49.7512 units of Crombie REIT, at any time, at the option of the holder, based on a conversion price of \$20.10 per unit.

32. COMPARATIVE FIGURES

During the second quarter of fiscal 2012, the Company undertook a review of its reporting of certain items of other income and expense, which it had historically reported in its consolidated statements of earnings as capital gains and other items, and has chosen to adopt a new presentation for these items. As a result of this change, the line items of other income and dividend and interest income have been combined and capital gains (losses) and other items has been removed. The impact of this change for the previously reported first quarter ended August 6, 2011 was the removal of capital losses and other items and the reclassification of \$1.5, resulting in a decrease in other income of \$0.6, and an increase in selling and administrative expenses of \$0.9. For the 53 weeks ended May 7, 2011, \$21.5 previously reported as store and distribution centre closure costs within capital gains (losses) and other items has been reclassified as selling and administrative expenses. The remaining amount of \$81.3 related to a gain on sale of Wajax, a significant and non-recurring item. The change in presentation had no effect on previously reported net earnings or earnings per share.

33. EXPLANATION OF TRANSITION TO IFRS

The Company's financial statements for the year ending May 5, 2012 are the first audited, annual consolidated financial statements prepared in accordance with IFRS.

The significant accounting policies set out in Note 3 have been applied in preparing the consolidated financial statements for the 52 weeks ended May 5, 2012, the comparative information for the 53 weeks ended May 7, 2011 and the opening IFRS balance sheet at May 2, 2010 except for the changes to presentation as explained in Note 32. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position and financial performance and cash flows is set out in the following tables and the accompanying notes. Reconciliations from Canadian GAAP to IFRS of the consolidated balance sheets, consolidated statements of earnings, and consolidated statements of comprehensive income for the respective periods begin on page 125.

First time adoption exemptions applied

Upon transition, IFRS 1 requires and permits certain exemptions from full retrospective application. The Company has applied certain mandatory and optional exemptions as follows:

(1) Business combinations

The Company has elected not to apply IFRS 3 retrospectively to business combinations that occurred before the date of transition (May 2, 2010). No adjustments were required at the date of transition to IFRS as a result of this exemption.

(2) Employee future benefits

The Company has elected to recognize all cumulative actuarial gains and losses for its defined benefit plans at the date of transition. The impact of taking this election is detailed under item (a) in the "Explanatory notes for reconciliations" below. Further, the Company has elected to use the exemption to not disclose the defined benefit plan surplus or deficit and experience adjustments before the date of transition.

(3) Fair value as deemed cost

The Company has elected to use fair value as deemed cost at the date of transition for some items of property and equipment and investment property. The impact of taking this election is detailed under items (b) and (c) in the "Explanatory notes for reconciliations" below.

(4) Decommissioning liabilities

The Company has elected to apply the requirements detailed under International Financial Reporting Interpretations Committee ("IFRIC") 1, "Changes in Existing Decommissioning, Restoration and Similar Liabilities", for liabilities prospectively from the date of transition to IFRS.

(5) Use of estimates

The Company has used estimates under IFRS that are consistent with those applied under Canadian GAAP and reflect the conditions at the date of transition, with adjustments for any accounting policy differences.

(6) Hedge accounting

The Company has applied hedge accounting under IFRS consistent with that applied under Canadian GAAP. Hedge documentation has been updated in accordance with IAS 39 upon transition to IFRS.

(7) Derecognition of financial assets and financial liabilities

The derecognition requirements under IFRS are applied prospectively for transactions occurring on or after transition. Any derecognition of non-derivative financial assets or non-derivative financial liabilities in accordance with Canadian GAAP as a result of transactions occurring prior to the transition date, are not required to be recognized again on transition to IFRS. No adjustments were required at the date of transition to IFRS as a result of this exemption.

(8) Cumulative translation adjustments

The Company has elected to write off the balance of its cumulative translation adjustments reported in accumulated other comprehensive loss under Canadian GAAP to retained earnings upon transition to IFRS.

(9) Share-based payment transactions

The Company has elected not to apply IFRS 2 retrospectively to share-based payment transactions that were settled prior to the date of transition to IFRS (May 2, 2010). No adjustments were required at the date of transition to IFRS as a result of this exemption.

IFRS 1 requires an entity to reconcile equity, net earnings, and comprehensive income from Canadian GAAP to IFRS for comparative prior periods. The following represents the reconciliations for the respective periods for equity, net earnings, and comprehensive income.

Reconciliation of Equity

	Note	May 7, 2011	May 2, 2010
Total equity, Canadian GAAP		\$ 3,249.0	\$ 2,952.4
IFRS reclassifications			
Minority interest	i	35.8	35.6
Capital stock	i	2.9	2.9
Total IFRS reclassifications		38.7	38.5
IFRS adjustments			
Employee future benefits	a	(45.2)	(68.3)
Fair value as deemed cost	b, c	(32.5)	(35.4)
Impairments	d	(74.4)	(68.4)
Provisions	e	(4.6)	(5.6)
Leases	f	27.5	4.4
Customer loyalty programs	g	(2.1)	(1.4)
Investments, at equity	h	(1.1)	(1.5)
Investment in Crombie REIT	h	53.2	63.6
Presentation changes and other adjustments	i	(11.5)	(12.5)
Financial instruments	j	0.9	1.3
Total IFRS adjustments		(89.8)	(123.8)
Total equity, IFRS		\$ 3,197.9	\$ 2,867.1

Reconciliation of Net Earnings

	Note	53 Weeks Ended May 7, 2011
Net earnings, Canadian GAAP		\$ 369.5
IFRS reclassifications		
Minority interest	i	9.0
IFRS adjustments		
Employee future benefits	a	21.6
Fair value as deemed cost	b, c	2.9
Impairments	d	(6.0)
Provisions	e	1.0
Leases	f	23.1
Customer loyalty programs	g	(0.7)
Investments, at equity	h	0.4
Investment in Crombie REIT	h	(10.4)
Presentation changes and other adjustments	i	(0.4)
Financial instruments	j	(0.4)
Total IFRS adjustments		31.1
Net earnings, IFRS		\$ 409.6

Reconciliation of Comprehensive Income

	Note	53 Weeks Ended May 7, 2011
Comprehensive income, Canadian GAAP		\$ 377.2
IFRS reclassifications		9.0
IFRS adjustments		
Adjustments to net earnings		31.1
Employee future benefits	a	1.5
Total IFRS adjustments		32.6
Comprehensive income, IFRS		\$ 418.8

Explanatory notes for reconciliations of equity, net earnings, comprehensive income, and balance sheet items**(a) Employee future benefits**

Under Canadian GAAP, all past service costs are generally amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendment, or a shorter period. Under IFRS, vested past service costs are to be immediately expensed while unvested past service costs are amortized on a straight-line basis until the benefits become vested. This change in accounting policy has resulted in a decrease to retained earnings of \$0.1 at the IFRS transition date, May 2, 2010, to recognize vested past service costs.

The Company has also opted to utilize an IFRS 1 election at May 2, 2010 to recognize in retained earnings all previously unrecognized cumulative actuarial gains and losses. As a result, retained earnings was further reduced by \$68.2.

As a direct result of the adjustments made at May 2, 2010 and the policy differences between Canadian GAAP and IFRS, the expense calculated for defined benefit pension plans was lower under IFRS for the 53 weeks ended May 7, 2011.

Subsequent to the IFRS transition date, the Company adopted the policy to recognize actuarial gains and losses directly into other comprehensive income as they occur. This has resulted in adjustments to comprehensive income for the 53 weeks ended May 7, 2011.

The impact results in the following changes:

Consolidated balance sheets	May 7, 2011	May 2, 2010
Decrease in other assets	\$ (60.4)	\$ (60.4)
Increase in deferred tax assets	0.2	0.6
Increase in other long-term liabilities	(7.0)	(22.7)
Decrease (increase) in employee future benefits obligation	7.7	(8.1)
Decrease in deferred tax liabilities	14.3	22.3
Net change in retained earnings and equity	\$ (45.2)	\$ (68.3)

Consolidated statements of earnings	53 Weeks Ended May 7, 2011
Decrease in selling and administrative expenses	\$ 29.4
Increase in income taxes	(7.8)
Net change in earnings	\$ 21.6

Consolidated statements of comprehensive income	53 Weeks Ended May 7, 2011
Net change in earnings	\$ 21.6
Actuarial gains on defined benefit pension plans	1.5
Net change in comprehensive income	\$ 23.1

(b) Property and equipment

The Company has opted to utilize the IFRS 1 election to record certain property and equipment at a deemed cost equal to the asset's fair value.

Additional adjustments to cost of sales and selling and administrative expenses were required for the 53 weeks ended May 7, 2011 to add back the depreciation taken under Canadian GAAP for assets that utilized the IFRS 1 election at May 2, 2010.

The impact results in the following changes:

Consolidated balance sheets	May 7, 2011	May 2, 2010
Decrease in property and equipment	\$ (34.3)	\$ (37.9)
Increase in deferred tax assets	5.8	6.7
Decrease in deferred tax liabilities	1.7	1.8
Net change in retained earnings and equity	\$ (26.8)	\$ (29.4)

	53 Weeks Ended May 7, 2011
Consolidated statements of earnings	
Increase in other income	\$ 0.2
Decrease in cost of sales	3.3
Decrease in selling and administrative expenses	0.1
Increase in income taxes	(1.0)
Net change in earnings	\$ 2.6

(c) Investment property

Under Canadian GAAP, all land and building assets are included within property and equipment on the balance sheet. Under IFRS, any property which is held to earn rental income or is held for capital appreciation is required to be classified separately.

As a result, there were reclassifications between property and equipment and investment property of \$80.8 as at May 7, 2011 and \$97.9 as at May 2, 2010.

The Company has also opted to utilize the IFRS 1 election to record certain investment properties at a deemed cost equal to the properties' fair value. Additional adjustments to selling and administrative expenses were required for the 53 weeks ended May 7, 2011 to add back the depreciation taken under Canadian GAAP for assets that utilized the IFRS 1 election at May 2, 2010.

The impact results in the following changes:

Consolidated balance sheets	May 7, 2011	May 2, 2010
Decrease in property and equipment	\$ (80.8)	\$ (97.9)
Increase in investment property	73.8	90.6
Decrease in deferred tax liabilities	1.3	1.3
Net change in retained earnings and equity	\$ (5.7)	\$ (6.0)

	53 Weeks Ended May 7, 2011
Consolidated statements of earnings	
Decrease in selling and administrative expenses	\$ 0.3
Net change in earnings	\$ 0.3

(d) Impairment

Grouping of assets for impairment purposes are at a lower level under IFRS than under Canadian GAAP. IFRS tests asset groups for impairment at the independent cash generating unit level based on generation of cash inflows, which the Company has determined to be primarily an individual store or theatre. The change in level of impairment testing has resulted in an increase in the write down of assets at the date of transition to IFRS and for the 53 weeks ended May 7, 2011.

Additional adjustments to selling and administrative expenses were required for the 53 weeks ended May 7, 2011 to add back the depreciation taken under Canadian GAAP for assets that are now impaired under IFRS.

Empire completed a goodwill impairment analysis upon conversion to IFRS, May 2, 2010, and for the 53 weeks ended May 7, 2011 and no impairment was recorded.

The impact results in the following changes:

Consolidated balance sheets	May 7, 2011	May 2, 2010
Decrease in income taxes receivable	\$ (2.4)	\$ –
Decrease in property and equipment	(98.6)	(92.1)
Decrease in intangibles	(4.5)	(4.8)
Increase in deferred tax assets	11.5	8.7
Increase in income taxes payable	(0.1)	–
Decrease in other long-term liabilities	1.5	2.0
Decrease in deferred tax liabilities	18.2	17.8
Net change in retained earnings and equity	\$ (74.4)	\$ (68.4)

Consolidated statements of earnings	53 Weeks Ended May 7, 2011
Increase in other income	\$ 3.9
Increase in cost of sales	(9.6)
Increase in selling and administrative expenses	(1.1)
Decrease in income taxes	0.8
Net change in earnings	\$ (6.0)

(e) Provisions

Under IFRS, provisions must be separately classified on the consolidated balance sheets. As a result, provision line items have been added to the consolidated balance sheets for both current and non-current provisions.

The Company has recorded provisions for any liabilities with uncertain timing and/or amounts for which it is probable that an outflow of resources will be required to settle the obligation. Provisions have been recorded and disclosed by category (Note 14).

Provision adjustments were not significant to the consolidated statements of earnings throughout fiscal 2011.

The impact results in the following changes:

Consolidated balance sheets	May 7, 2011	May 2, 2010
Increase in receivables	\$ –	\$ 0.8
Decrease in property and equipment	(0.4)	(0.4)
Increase in deferred tax assets	0.7	1.4
Decrease in accounts payable and accrued liabilities	53.7	35.7
Increase in current provisions	(29.9)	(28.6)
Decrease in long-term debt due within one year	0.3	0.2
Increase in non-current provisions	(34.3)	(19.7)
Decrease in long-term debt	2.6	2.3
Decrease in other long-term liabilities	1.6	1.7
Decrease in deferred tax liabilities	1.1	1.0
Net change in retained earnings and equity	\$ (4.6)	\$ (5.6)

	53 Weeks Ended May 7, 2011
Consolidated statements of earnings	
Decrease in selling and administrative expenses	\$ 2.0
Increase in finance costs, net	(0.6)
Increase in income taxes	(0.4)
Net change in earnings	\$ 1.0

(f) Leases

Under Canadian GAAP, operating leases of the Company that were sub-leased to a third party or non-SPE franchisee were not recognized on a straight-line basis over the terms of the relevant leases. The rationale for not applying this methodology was that expenses and length of the lease were matched in the sub-lease income and term. Under IFRS, specific guidance exists for similar transactions and due to the legal requirement to pay and receive amounts separately and not settle simultaneously, these transactions must be recorded separately. As a result, a separate asset and liability has been recorded in the consolidated balance sheets as at May 7, 2011 and May 2, 2010 to reflect the lease asset to receive rental payments and lease obligation to make rental payments associated with the transaction.

Transactions where the Company sells and then leases back a property are treated differently under IFRS than Canadian GAAP. Under Canadian GAAP the gains incurred on the sale of the asset are deferred and amortized over the life of the lease subsequently entered. Under IFRS any gains associated with the sale must be recognized immediately if the transaction occurs at fair value unless the sale is to an investment, at equity in which case a portion of the gains would reduce the carrying value of the Company's equity investment. As a result, such gains have been recognized and have reduced the carrying value of the investment, at equity as at the transition date to IFRS and during the 53 weeks ended May 7, 2011.

Gains recognized at the transition date, May 2, 2010, resulted in an increase to retained earnings, while gains recognized during the 53 weeks ended May 7, 2011 resulted in an increase to net earnings in the consolidated statements of earnings.

Adjustments were also required to selling and administrative expenses during the 53 weeks ended May 7, 2011 to reverse the amortized gains recognized under Canadian GAAP for gains which were recognized in full under IFRS.

The impact results in the following changes:

Consolidated balance sheets	May 7, 2011	May 2, 2010
Increase in income taxes receivable	\$ 0.6	\$ -
Increase in other assets	8.9	7.9
Decrease in deferred tax assets	(0.6)	-
Decrease in income taxes payable	0.2	-
Decrease (increase) in other long-term liabilities	27.4	(2.7)
Increase in deferred tax liabilities	(9.0)	(0.8)
Net change in retained earnings and equity	\$ 27.5	\$ 4.4

	53 Weeks Ended May 7, 2011
Consolidated statements of earnings	
Increase in other income	\$ 32.3
Increase in selling and administrative expenses	(1.2)
Increase in income taxes	(8.0)
Net change in earnings	\$ 23.1

(g) Customer loyalty programs

IFRS requires a deferred revenue recognition approach for customer loyalty programs with the fair value of the award credits to be recognized as a separate component of the sales transaction. Under Canadian GAAP the Company accounted for customer loyalty programs as an expense, rather than using the deferred revenue recognition approach.

The IFRS consolidated balance sheets have been adjusted to recognize deferred revenue at each reporting period for the Club Sobeys, Club Thrifty Foods and AIR MILES® programs. Adjustments to the consolidated statements of earnings were also required for these programs to separately recognize the redemption costs of the award credits.

The impact results in the following changes:

Consolidated balance sheets	May 7, 2011	May 2, 2010
Increase in income taxes receivable	\$ 0.8	\$ –
Decrease in other assets	(0.3)	(0.4)
Increase in accounts payable and accrued liabilities	(2.9)	(1.5)
Decrease in income taxes payable	0.3	0.5
Net change in retained earnings and equity	\$ (2.1)	\$ (1.4)

Consolidated statements of earnings	53 Weeks Ended May 7, 2011
Decrease in sales	\$ (23.6)
Decrease in cost of sales	4.2
Decrease in selling and administrative expenses	18.2
Decrease in income taxes	0.5
Net change in earnings	\$ (0.7)

(h) Investments, at equity

Certain of the Company's real estate investments that were previously accounted for using the proportionate consolidation method are now accounted for using the equity method under IFRS. As a result of this change, the opening consolidated balance sheets impact was a decrease to cash and cash equivalents, inventories, prepaid expenses, loans and other receivables, property and equipment, bank indebtedness, accounts payable and accrued liabilities, and long-term debt. Other minor adjustments were made to ensure the impact of IFRS transitional adjustments for entities previously equity accounted are also reflected in these amounts.

The impact results in the following changes:

Consolidated balance sheets	May 7, 2011	May 2, 2010
Decrease in cash and cash equivalents	\$ (1.0)	\$ (1.8)
Decrease in inventories	(83.1)	(89.3)
Decrease in prepaid expenses	(0.3)	(0.3)
Decrease in current loans and other receivables	(29.3)	(31.3)
Increase in non-current loans and other receivables	–	0.9
Increase in investments, at equity	88.0	94.0
Decrease in property and equipment	(0.1)	(5.5)
Increase in deferred tax assets	–	0.1
Decrease in bank indebtedness	8.1	13.7
Decrease in accounts payable and accrued liabilities	15.9	14.6
Decrease in long-term debt due within one year	–	0.4
Decrease in long-term debt	0.7	3.0
Net change in retained earnings and equity	\$ (1.1)	\$ (1.5)

	53 Weeks Ended May 7, 2011
Consolidated statements of earnings	
Decrease in sales	\$ (73.2)
Decrease in cost of sales	41.7
Decrease in selling and administrative expenses	0.2
Increase in share of earnings from investments, at equity	30.6
Decrease in finance costs, net	0.7
Increase in capital gains and other items	0.5
Increase in income taxes	(0.1)
Net change in earnings	\$ 0.4

Investment in Crombie REIT and recognition of gains

IFRS allows for the recognition of gains on sales to an investment, at equity equal to the percentage interest held by external investors at the time of each sale. This impacts Empire's investment in Crombie REIT. Previously, under Canadian GAAP the recognition of gains on sales to Crombie REIT were not included in net earnings. Rather the gain reduced the carrying value of the Company's equity investment in Crombie REIT. Under IFRS, only the portion of gains on sales to Crombie REIT equal to the Company's ownership interest is deferred and reduces the carrying value of the Company's investment. Included in the portion of gains recognized is the allowed percentage on gains arising from sale leaseback transactions described in (f) Leases above.

	May 7, 2011	May 2, 2010
Consolidated balance sheets		
Increase in investments, at equity	\$ 97.3	\$ 73.6
Decrease in property and equipment	(7.8)	-
Increase in other long-term liabilities	(28.2)	-
Increase in deferred tax liabilities	(8.1)	(10.0)
Net change in retained earnings and equity	\$ 53.2	\$ 63.6

	53 Weeks Ended May 7, 2011
Consolidated statements of earnings	
Decrease in other income	\$ (13.8)
Decrease in selling and administrative expenses	0.8
Decrease in share of earnings from investments, at equity	(0.3)
Decrease in income taxes	2.9
Net change in earnings	\$ (10.4)

(i) Presentation changes and other adjustments

Certain presentation differences exist between IFRS and Canadian GAAP. As a result, changes were required to the consolidated balance sheets, consolidated statements of earnings, and consolidated statements of cash flows. The Company also had other minor adjustments that impacted the consolidated balance sheets and consolidated statements of earnings.

Consolidated balance sheets

Under IFRS, the Company is not permitted to report income taxes receivable and payable and deferred tax assets and liabilities on a net basis except under certain circumstances. As a result, these line items have not been netted for IFRS reporting. These balances were previously netted under Canadian GAAP.

Deferred tax assets and liabilities are classified as non-current under IFRS, whereas under Canadian GAAP a current and non-current portion was reported.

The Company is required to disclose its derivative financial liabilities as a separate line item on the consolidated balance sheets under IFRS. As a result, derivative financial liabilities have been reclassified to its own line item for IFRS reporting out of other long-term liabilities where it was reported under Canadian GAAP.

Under IFRS, the Company reports minority interest within the equity section of the consolidated balance sheets, whereas under Canadian GAAP it was reported within the liabilities section.

Under IFRS, the Company reports loans receivable under the Company's share purchase plan as non-current loans and other receivables, whereas under Canadian GAAP it was reported as a reduction of capital stock.

The impact of presentation changes and other adjustments results in the following:

Consolidated opening balance sheets	May 7, 2011	May 2, 2010
Decrease in cash and cash equivalents	\$ –	\$ (1.9)
Decrease in receivables	–	(1.7)
Decrease in inventories	–	(1.2)
Decrease in prepaid expenses	(5.3)	(5.4)
Increase in income taxes receivable	28.1	14.3
Increase in non-current loans and other receivables	–	2.0
Increase in goodwill	41.6	41.6
Increase in property and equipment	–	0.3
Increase in deferred tax assets	12.2	14.4
Increase in accounts payable and accrued liabilities	(5.9)	(4.6)
Increase in income taxes payable	(28.2)	(14.2)
Increase in current derivative financial liabilities	–	(2.1)
Decrease in current deferred tax liabilities	46.6	50.9
Increase in long-term debt	–	(0.1)
Decrease in other long-term liabilities	9.6	17.2
Increase in non-current derivative financial liabilities	(9.6)	(15.0)
Increase in non-current deferred tax liabilities	(100.6)	(107.0)
Net change in retained earnings and equity	\$ (11.5)	\$ (12.5)

Consolidated statements of earnings

Other income is a new line item on the consolidated statements of earnings under IFRS. This line item reports the net gain (loss) on disposal of assets. Previously under Canadian GAAP these amounts were grouped with cost of sales, selling and administrative expenses.

Under IFRS the Company is required to disclose cost of sales and selling and administrative expenses as separate line items on the consolidated statements of earnings. Cost of sales and selling and administrative expenses were reported as a single line item under Canadian GAAP.

Finance costs, net is a new line item on the consolidated statements of earnings under IFRS. This line item includes both finance income and costs. Finance costs, net includes interest income from cash and cash equivalents, fair value gains and losses on other financial assets, interest expense on financial liabilities measured at amortized cost, fair value gains and losses on forward contracts, fair value losses on cash flow hedges, gains and losses on cash flow hedges reclassified from other comprehensive income, and net pension finance costs.

Under IFRS minority interest is presented as an allocation of net earnings. Previously under Canadian GAAP minority interest was included in the calculation of net earnings.

The impact of presentation changes and other adjustments results in the following:

	53 Weeks Ended May 7, 2011
Consolidated statements of earnings	
Increase in sales	\$ 24.4
Increase in other income	1.9
Increase in cost of sales	(6.0)
Increase in selling and administrative expenses	(377.0)
Decrease in depreciation	324.0
Decrease in amortization of intangibles	38.1
Increase in finance costs, net	(75.1)
Decrease in interest expenses and other financing charges	71.3
Decrease in capital gains and other items	(2.0)
Net change in earnings	\$ (0.4)

Consolidated statements of cash flows

New line items were added to the consolidated statements of cash flows for interest received, interest paid, and income taxes paid. Changes to the consolidated statements of cash flows were not material as a result of IFRS.

(j) Financial instruments

Under IFRS, long-term liabilities must be discounted using a pre-tax discount rate. As a result, a non-interest bearing note payable has been adjusted to reflect this change.

The impact results in the following changes:

Consolidated opening balance sheet	May 7, 2011	May 2, 2010
Increase in accounts payable and accrued liabilities	\$ (0.9)	\$ (0.9)
Decrease in long-term debt	1.8	2.2
Net change in retained earnings	\$ 0.9	\$ 1.3

	53 Weeks Ended May 7, 2011
Consolidated statements of earnings	
Increase in finance costs, net	\$ (0.4)
Net change in earnings	\$ (0.4)

Restated Consolidated Balance Sheets Under IFRS

	May 7, 2011				May 2, 2010			
	Canadian GAAP	IFRS Reclassifications	IFRS Adjustments	IFRS	Canadian GAAP	IFRS Reclassifications	IFRS Adjustments	IFRS
ASSETS								
Current								
Cash and cash equivalents								
	\$ 616.9	\$ –	\$ (1.0)	\$ 615.9	\$ 401.0	\$ –	\$ (3.7)	\$ 397.3
Receivables	346.6	–	–	346.6	336.9	–	(0.9)	336.0
Inventories	906.1	–	(83.1)	823.0	880.3	–	(90.5)	789.8
Prepaid expenses	75.2	–	(5.6)	69.6	70.1	–	(5.7)	64.4
Loans and other								
receivables	81.7	–	(29.3)	52.4	105.8	–	(31.3)	74.5
Income taxes receivable	0.3	28.1	(1.0)	27.4	–	14.2	0.1	14.3
Assets held for sale	–	59.4	–	59.4	–	36.5	–	36.5
	2,026.8	87.5	(120.0)	1,994.3	1,794.1	50.7	(132.0)	1,712.8
Loans and other								
receivables	68.8	2.9	–	71.7	79.2	2.9	2.9	85.0
Investments	14.3	–	–	14.3	10.9	–	–	10.9
Investments, at equity	26.8	–	185.3	212.1	56.8	–	167.6	224.4
Other assets	107.1	–	(51.8)	55.3	94.5	–	(52.9)	41.6
Property and equipment								
	2,620.1	–	(222.0)	2,398.1	2,548.7	–	(233.5)	2,315.2
Assets held for realization								
	59.4	(59.4)	–	–	36.5	(36.5)	–	–
Investment property	–	–	73.8	73.8	–	–	90.6	90.6
Intangibles	453.7	–	(4.5)	449.2	455.0	–	(4.8)	450.2
Goodwill	1,178.4	–	41.6	1,220.0	1,172.6	–	41.6	1,214.2
Deferred tax assets	–	11.2	18.6	29.8	–	14.9	17.0	31.9
	\$ 6,555.4	\$ 42.2	\$ (79.0)	\$ 6,518.6	\$ 6,248.3	\$ 32.0	\$ (103.5)	\$ 6,176.8
LIABILITIES								
Current								
Bank indebtedness	\$ 8.1	\$ –	\$ (8.1)	\$ –	\$ 17.8	\$ –	\$ (13.7)	\$ 4.1
Accounts payable and accrued liabilities								
	1,689.0	–	(59.9)	1,629.1	1,621.6	–	(43.3)	1,578.3
Income taxes payable	–	28.1	(0.3)	27.8	19.5	14.2	(0.5)	33.2
Provisions	–	–	29.9	29.9	–	–	28.6	28.6
Long-term debt due within one year								
	49.7	–	(0.3)	49.4	379.4	–	(0.6)	378.8
Derivative financial liabilities								
	–	–	–	–	–	2.1	–	2.1
Liabilities relating to assets held for sale								
	12.7	–	–	12.7	–	–	–	–
Deferred tax liabilities								
	46.6	(46.6)	–	–	50.9	(50.9)	–	–
	1,806.1	(18.5)	(38.7)	1,748.9	2,089.2	(34.6)	(29.5)	2,025.1
Provisions	–	–	34.3	34.3	–	–	19.7	19.7
Long-term debt	1,095.4	–	(5.1)	1,090.3	829.0	–	(7.4)	821.6
Other long-term liabilities	143.2	(9.6)	4.7	138.3	130.6	(17.1)	21.6	135.1
Employee future benefits obligation								
	130.0	–	(7.7)	122.3	125.1	–	8.1	133.2
Derivative financial liabilities								
	–	9.6	–	9.6	–	15.0	–	15.0
Deferred tax liabilities	95.9	57.8	23.3	177.0	86.4	65.8	7.8	160.0
Minority interest	35.8	(35.8)	–	–	35.6	(35.6)	–	–
	3,306.4	3.5	10.8	3,320.7	3,295.9	(6.5)	20.3	3,309.7

Restated Consolidated Balance Sheets Under IFRS (continued)

	May 7, 2011				May 2, 2010			
	Canadian GAAP	IFRS Reclassifications	IFRS Adjustments	IFRS	Canadian GAAP	IFRS Reclassifications	IFRS Adjustments	IFRS
SHAREHOLDERS' EQUITY								
Capital stock	320.5	2.9	-	323.4	325.1	2.9	-	328.0
Contributed surplus	4.7	-	-	4.7	3.2	-	-	3.2
Retained earnings	2,944.2	-	(92.1)	2,852.1	2,652.2	-	(124.7)	2,527.5
Accumulated other comprehensive loss	(20.4)	-	2.3	(18.1)	(28.1)	-	2.3	(25.8)
	3,249.0	2.9	(89.8)	3,162.1	2,952.4	2.9	(122.4)	2,832.9
Minority interest	-	35.8	-	35.8	-	35.6	(1.4)	34.2
	3,249.0	38.7	(89.8)	3,197.9	2,952.4	38.5	(123.8)	2,867.1
	\$ 6,555.4	\$ 42.2	\$ (79.0)	\$ 6,518.6	\$ 6,248.3	\$ 32.0	\$ (103.5)	\$ 6,176.8

Restated Consolidated Statements of Earnings Under IFRS

	53 Weeks Ended May 7, 2011			
	Canadian GAAP ⁽¹⁾	IFRS Reclassifications	IFRS Adjustments	IFRS
Sales	\$ 16,029.2	\$ 24.4	\$ (96.8)	\$ 15,956.8
Other income	1.0	1.9	22.6	25.5
Share of earnings from investments, at equity	28.8	-	30.3	59.1
Operating expenses				
Cost of sales	12,010.4	5.9	(39.5)	11,976.8
Selling and administrative expenses	3,210.6	377.0	(48.7)	3,538.9
Depreciation	324.0	(324.0)	-	-
Amortization of intangibles	38.1	(38.1)	-	-
Operating income	475.9	5.5	44.3	525.7
Finance costs, net	-	74.8	0.6	75.4
Interest expense and other financing charges	71.3	(71.3)	-	-
Capital gains and other items ⁽²⁾	82.8	(2.0)	0.5	81.3
Earnings before income taxes and minority interest	487.4	-	44.2	531.6
Income taxes	108.9	-	13.1	122.0
Earnings before minority interest	378.5	-	31.1	409.6
Minority interest	9.0	(9.0)	-	-
Net earnings	\$ 369.5	\$ 9.0	\$ 31.1	\$ 409.6
Earnings for the period attributable to:				
Minority interest	\$ -	\$ 9.0	\$ -	\$ 9.0
Owners of the parent	-	369.5	31.1	400.6
	\$ -	\$ 378.5	\$ 31.1	\$ 409.6
Earnings per share				
Basic	\$ 5.43			\$ 5.88
Diluted	\$ 5.42			\$ 5.87
Weighted average number of common shares outstanding, in millions				
Basic	68.0			68.1
Diluted	68.2			68.2

(1) Certain balances have been reclassified for changes to presentation adopted during the current year (see Note 32).

(2) Presented as Gain on sale of Wajax in the current consolidated statements of earnings.

Restated Consolidated Statements of Comprehensive Income Under IFRS

	53 Weeks Ended May 7, 2011			
	Canadian GAAP	IFRS Reclassifications	IFRS Adjustments	IFRS
Net earnings	\$ 369.5	\$ 9.0	\$ 31.1	\$ 409.6
Other comprehensive income				
Unrealized gains on derivatives designated as cash flow hedges	0.3	–	–	0.3
Reclassification of losses on derivative instruments designated as cash flow hedges to earnings	5.5	–	–	5.5
Unrealized gains on available for sale financial assets	1.0	–	–	1.0
Actuarial gains on defined benefit pension plans	–	–	1.5	1.5
Share of other comprehensive income of investments, at equity	2.5	–	–	2.5
Foreign currency translation adjustment	(1.6)	–	–	(1.6)
Total comprehensive income	\$ 377.2	\$ 9.0	\$ 32.6	\$ 418.8
Total comprehensive income for the period attributable to:				
Minority interest	\$ –	\$ 9.0	\$ –	\$ 9.0
Owners of the parent	377.2	–	32.6	409.8
	\$ 377.2	\$ 9.0	\$ 32.6	\$ 418.8

ELEVEN-YEAR FINANCIAL REVIEW

Years Ended ⁽¹⁾	2012	2011	2010	2009
Financial Results (\$ in millions; except ROE)				
Sales	\$ 16,249.1	\$ 15,956.8	\$ 15,516.2	\$ 15,015.1
Operating income ⁽²⁾	534.3	525.7	479.7	466.2
Interest expense	59.9	75.4	72.5	80.6
Income taxes	122.3	122.0	99.1	115.4
Minority interest	12.7	9.0	5.6	8.3
Adjusted net earnings, net of minority interest ⁽²⁾⁽³⁾	320.6	303.2	284.5	261.7
Net earnings, net of minority interest	339.4	400.6	301.9	264.7
Return on equity	10.6%	13.5%	10.7%	10.5%
Financial Position (\$ in millions)				
Total assets	6,913.1	6,518.6	6,176.8	5,891.1
Long-term debt (excluding current portion)	889.1	1,090.3	821.6	1,124.0
Shareholders' equity ⁽⁴⁾	3,396.3	3,162.1	2,832.9	2,678.8
Per Share Data on a Fully Diluted Basis (\$ per share)				
Adjusted net earnings, net of minority interest ⁽³⁾	4.71	4.45	4.15	3.97
Net earnings, net of minority interest	4.99	5.87	4.40	4.02
Dividends				
Non-Voting Class A shares	0.900	0.800	0.740	0.700
Class B common shares	0.900	0.800	0.740	0.700
Book value	49.98	46.48	43.07	39.07
Share Price, Non-Voting Class A Shares (\$ per share)				
High	62.99	59.12	53.95	55.05
Low	52.72	51.07	39.70	35.00
Close	57.62	54.14	52.98	49.00
Diluted weighted average number of shares outstanding (in millions)				
	68.0	68.2	68.5	65.8

(1) Fiscal years 2002 to 2004 ended April 30th. Subsequent fiscal years ended the first Saturday in May, consistent with the fiscal year-end of Sobeys Inc. Financial data for fiscal 2002 to 2010 was prepared using CGAAP and has not been restated to IFRS with the exception of the balances noted for financial position for fiscal 2010.

Fiscal 2005 and 2011 were 53-week years.

(2) Certain balances have been reclassified for changes to comparative figures for fiscal 2012 and fiscal 2011. See Note 32 to the Company's fiscal 2012 audited annual consolidated financial statements.

(3) Adjusted net earnings, net of minority interest, exclude items which are considered not indicative of underlying business operating performance.

(4) Shareholders' equity before minority interest for fiscal 2012, fiscal 2011 and fiscal 2010.

	2008	2007	2006	2005	2004	2003	2002
	\$ 14,065.0	\$ 13,366.7	\$ 13,063.6	\$ 12,435.2	\$ 11,284.0	\$ 10,624.2	\$ 9,926.5
	472.6	431.1	491.4	463.7	422.8	444.4	416.2
	105.8	60.1	83.8	86.7	92.4	93.7	111.6
	125.9	116.9	153.1	131.2	111.0	120.0	104.8
	12.8	55.4	67.1	63.6	58.5	67.5	50.0
	242.8	200.1	202.0	182.9	163.3	159.3	132.2
	315.8	205.8	296.8	186.6	172.5	153.3	195.9
	14.0%	10.0%	16.2%	11.4%	11.6%	11.3%	16.3%
	5,732.9	5,241.5	5,051.5	4,929.2	4,679.7	4,519.3	4,318.0
	1,414.1	792.6	707.3	727.4	913.0	923.1	975.0
	2,382.3	2,131.1	1,965.2	1,709.0	1,567.6	1,418.5	1,290.6
	3.69	3.04	3.07	2.78	2.47	2.42	2.00
	4.80	3.13	4.51	2.83	2.61	2.33	2.97
	0.660	0.600	0.560	0.480	0.400	0.330	0.214
	0.660	0.600	0.560	0.480	0.400	0.330	0.214
	36.08	32.31	29.77	25.87	23.67	21.41	19.47
	55.19	45.25	44.35	38.00	29.50	33.25	33.30
	35.40	39.49	33.37	24.25	23.10	23.70	15.75
	39.25	42.33	43.29	36.66	26.65	23.85	28.88
	65.7	65.7	65.7	65.7	65.8	65.8	65.7

GLOSSARY

ADJUSTED EBITDA

EBITDA excluding items which are considered not indicative of underlying business operating performance

ADJUSTED NET EARNINGS

Net earnings excluding items which are considered not indicative of underlying business operating performance

ADJUSTED OPERATING INCOME

Operating income excluding items which are considered not indicative of underlying business operating performance

ADJUSTED SALES

Sales excluding the impact of the acquisition of 236 retail gas locations and related convenience store operations in fiscal 2012 and the impact of the 53rd week of sales in fiscal 2011

BOOK VALUE PER SHARE

Shareholders' equity, net of minority interest, less preferred shares, divided by total common shares outstanding

CAGR

Compound Annual Growth Rate

CAPITAL EXPENDITURES

Payments made for the acquisition of property, equipment and investment property purchases

EBIT

Earnings before interest and taxes (also called "operating income")

EBITDA

EBIT plus depreciation and amortization of intangibles

EBITDA MARGIN

EBITDA divided by sales

EXPANDED STORES

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

FREE CASH FLOW

Cash flows from operating activities, less property, equipment and investment property purchases

FUNDED DEBT

All interest bearing debt, which includes bank indebtedness, long-term debt and liabilities relating to assets held for sale

GROSS MARGIN

Gross profit divided by sales

GROSS PROFIT

Sales less costs of sales

HEDGE

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

INTEREST COVERAGE

EBIT or operating income divided by interest expense

INTEREST EXPENSE

Interest expense on financial liabilities measured at amortized cost plus losses on cash flow hedges reclassified from other comprehensive income

NET DEBT TO TOTAL CAPITAL

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

NET FUNDED DEBT

Funded debt less cash and cash equivalents

NET TOTAL CAPITAL

Total capital less cash and cash equivalents

OPERATING INCOME

Also called earnings before interest and taxes ("EBIT"). Calculated as net earnings before minority interest, finance costs (net of finance income) and income taxes

OPERATING INCOME 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, net of minority 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

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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 & 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, c/o Canadian Stock Transfer Company Inc.

AFFILIATED COMPANY WEB ADDRESSES

www.sobeyscorporate.com
www.empiretheatres.com

TRANSFER AGENT

CIBC Mellon Trust Company
c/o Canadian Stock Transfer Company Inc.*
Investor Correspondence
P.O. Box 700 Station B
Montréal, Québec
H3B 3K3
Telephone: (800) 387-0825
E-mail: inquiries@canstockta.com

*Canadian Stock Transfer Company Inc. is operating the transfer agency business in the name of CIBC Mellon Trust Company for a transition period.

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 c/o Canadian Stock Transfer Company Inc. at (800) 387-0825 to eliminate the multiple mailings.

FISCAL 2013 DIVIDEND RECORD AND PAYMENT DATES

Record Date	Payment Date
July 13, 2012	July 31, 2012
October 15, 2012*	October 31, 2012*
January 15, 2013*	January 31, 2013*
April 15, 2013*	April 30, 2013*

*Subject to approval by the Board of Directors

OUTSTANDING SHARES

As of June 28, 2012	
Non-Voting Class A shares	33,687,747
Class B common shares, voting	34,260,763

SHAREHOLDERS' ANNUAL GENERAL MEETING

September 13, 2012, 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 SYMBOL

Non-Voting Class A shares – EMP.A

AVERAGE DAILY TRADING VOLUME (TSX:EMP.A)

66,649

BANKERS

Bank of Montreal
Bank of Nova Scotia
Bank of Tokyo-Mitsubishi
Canadian Imperial Bank of Commerce
National Bank of Canada
Rabobank
TD Bank Financial Group

SOLICITORS

Stewart McKelvey
Halifax, Nova Scotia

AUDITORS

Grant Thornton, LLP
New Glasgow, Nova Scotia





ONE GREAT PLACE TO WORK

Sobeys' goal is to be widely recognized as the best food retailer and workplace environment in Canada. If you have what it takes to help us get there, we're ready to welcome you to our team. Sobeys offers an exciting and dynamic workplace environment, competitive compensation and the ongoing support you'll need to reach your potential and build a rewarding career.



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