

# News Release

**EMPIRE**  
COMPANY LIMITED

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**FOR IMMEDIATE RELEASE**  
**June 30, 2011**

## **EMPIRE COMPANY REPORTS FOURTH QUARTER RESULTS INCREASES DIVIDEND 12.5%**

Empire Company Limited (TSX: EMP.A) today announced financial results for its fourth quarter and fiscal year ended May 7, 2011. For the fourth quarter, the Company recorded earnings before capital gains and other items of \$92.3 million (\$1.36 per share) compared to \$71.9 million (\$1.05 per share) in the fourth quarter last year. Net earnings for the fourth quarter were \$92.3 million (\$1.36 per share) compared to \$73.5 million (\$1.07 per share) recorded in the fourth quarter last year.

Net earnings in the fourth quarter of fiscal 2011 were favourably impacted by a 14<sup>th</sup> week of operating results by the Food Retailing division and by a lower effective income tax rate. The reduction in the effective income tax rate is largely attributed to declining current and future income tax rates across the different jurisdictions in which Empire operates combined with the lower effective tax rates on a number of transactions in the fiscal year. Management calculates that the additional week of operations by the Food Retailing division positively impacted fourth quarter fiscal 2011 net earnings by approximately \$6.3 million and that the lower effective income tax rate positively impacted fourth quarter net earnings by approximately \$10.9 million.

The additional week of Food Retailing operations in the fourth quarter accounted for approximately \$313.6 million in sales or 8.2 percentage points of the 9.2 percent increase in fourth quarter consolidated sales.

### **Fourth Quarter Highlights (14 weeks versus 13 weeks last year)**

- *Sales of \$4.19 billion, up \$354.7 million or 9.2 percent. The additional week accounted for approximately \$313.6 million of sales.*
- *Sobeys Inc. ("Sobeys") same-store sales increased 1.0 percent compared with Q4 last year.*
- *Operating income of \$133.3 million versus \$118.5 million last year.*
- *Effective income tax rate of 18.3 percent versus 28.0 percent last year.*
- *Earnings before capital gains and other items of \$92.3 million (\$1.36 per share) compared to \$71.9 million (\$1.05 per share) last year.*
- *No capital gains and other items, net of tax, compared to \$1.6 million last year.*
- *Net earnings of \$92.3 million (\$1.36 per share) compared to \$73.5 million (\$1.07 per share) last year.*
- *Net debt to capital of 14.5 percent compared to 21.8 percent last fiscal year.*

Earnings before capital gains and other items for the 53 weeks ended May 7, 2011 were \$307.8 million (\$4.51 per share) compared to \$284.5 million (\$4.15 per share) last year. Fiscal 2010 was a 52 week year. Net earnings for fiscal 2011 were \$369.5 million (\$5.42 per share) compared to \$301.9 million (\$4.40 per share) recorded last year. Included in

fiscal 2011 net earnings are net capital gains and other items of \$61.7 million (2010 - \$17.4 million).

Net earnings for the fiscal year ended May 7, 2011 were favourably impacted by an additional week of operating results by the Food Retailing division as mentioned which had an approximate \$6.3 million positive impact on net earnings, and by a lower effective income tax rate on a number of transactions in the fiscal year. Management calculates that these two factors combined to positively impact fiscal 2011 net earnings by approximately \$9.2 million.

The additional week of Food Retailing operations in fiscal 2011 accounted for approximately \$313.6 million in sales or 2.0 percentage points of the 3.3 percent increase in fiscal 2011 consolidated sales.

### **Fiscal 2011 Highlights (53 weeks versus 52 weeks last year)**

- Sales of \$16.03 billion, up \$513.0 million or 3.3 percent.
- Sobeys' same-store sales increased 0.2 percent compared to last year.
- Operating income of \$497.4 million versus \$479.7 million last year.
- Effective income tax rate of 25.7 percent versus 28.8 percent last year.
- Earnings before capital gains and other items of \$307.8 million (\$4.51 per share) compared to \$284.5 million (\$4.15 per share) last year.
- Capital gains and other items, net of tax, of \$61.7 million versus \$17.4 million last year.
- Net earnings of \$369.5 million (\$5.42 per share) compared to \$301.9 million (\$4.40 per share) last year.

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*Note: Empire had a diluted weighted average number of shares outstanding of 68.2 million for the fiscal year ended May 7, 2011 compared to 68.5 million in the prior fiscal year as a result of the purchase for cancellation under a Normal Course Issuer Bid ("NCIB") a total of 0.5 million Non-Voting Class A shares during fiscal 2011. The diluted weighted average number of shares outstanding in the fourth quarter was 68.0 million compared to 68.5 million in the fourth quarter last year.*

Paul Sobey, President and CEO stated, "Fiscal 2011 earnings before capital gains and other items of \$307.8 million increased \$23.3 million or 8.2 percent over the prior year largely as a result of continued strength in the fundamentals of our food retailing business which also benefited from an additional week of operations and a lower effective income tax rate."

"We continue to be pleased with our focus on disciplined cost management initiatives throughout our organization and in particular Sobeys' supply chain and retail productivity improvements, the adoption of best practices and capital investments that have sustained sales and margin growth over time."

Paul Sobey continued, "Consistent with our growth, continued improvement in our balance sheet and our confidence in the strength of our businesses, we are pleased to announce an increase in Empire's dividend per share, from 20 cents per quarter to 22.5 cents per quarter, a 12.5 percent increase. This marks the sixteenth consecutive year of dividend increases."

### **Dividend Declaration**

The Board of Directors declared a quarterly dividend of 22.5 cents per share on both the Non-Voting Class A shares and the Class B common shares that will be payable on July

29, 2011 to shareholders of record on July 15, 2011. The Board also declared regular dividends on the Company's outstanding preferred shares. The dividends are eligible dividends as defined for the purposes of the Income Tax Act (Canada) and applicable provincial legislation and, therefore, qualify for the favourable tax treatment applicable to such dividends.

## Financial Results Overview

The following table presents a summary of financial performance for the 14 and 53 weeks ended May 7, 2011 compared to the 13 and 52 weeks ended May 1, 2010. Additional segmented financial information is contained in note 13 of the unaudited consolidated financial statements for the fourth quarter of fiscal 2011 included in this release.

### Summary Table of Consolidated Financial Results

(\$ in millions, except per share information)	<b>14 Weeks Ended May 7, 2011</b>	13 Weeks Ended May 1, 2010	<b>53 Weeks Ended May 7, 2011</b>	52 Weeks Ended May 1, 2010
<b>Segmented revenue</b>				
Food retailing	<u>\$ 4,103.0</u>	\$ 3,754.9	<u>\$ 15,761.6</u>	\$ 15,243.0
Real estate				
Residential	42.9	29.0	72.7	63.3
Commercial	2.4	3.8	12.9	17.3
	<u>45.3</u>	<u>32.8</u>	<u>85.6</u>	<u>80.6</u>
Investments and other operations	<u>45.1</u>	52.3	<u>189.0</u>	202.2
	<u>4,193.4</u>	3,840.0	<u>16,036.2</u>	15,525.8
Elimination	<u>(1.9)</u>	<u>(3.2)</u>	<u>(7.0)</u>	<u>(9.6)</u>
	<u>\$ 4,191.5</u>	<u>\$ 3,836.8</u>	<u>\$ 16,029.2</u>	<u>\$ 15,516.2</u>
<b>Segmented operating income <sup>(1)</sup></b>				
Food retailing	<u>\$ 115.9</u>	\$ 98.4	<u>\$ 445.8</u>	\$ 425.3
Real estate				
Residential	18.1	14.8	32.3	31.0
Crombie REIT <sup>(2)</sup>	5.1	4.4	18.7	18.6
Commercial	<u>(0.2)</u>	<u>(0.4)</u>	<u>2.6</u>	<u>1.2</u>
	<u>23.0</u>	<u>18.8</u>	<u>53.6</u>	<u>50.8</u>
Investments and other operations				
Wajax Income Fund <sup>(3)</sup>	-	2.3	8.7	9.2
Other investments and operations, net of corporate expenses	<u>(5.6)</u>	<u>(1.0)</u>	<u>(10.7)</u>	<u>(5.6)</u>
	<u>(5.6)</u>	<u>1.3</u>	<u>(2.0)</u>	<u>3.6</u>
	<u>\$ 133.3</u>	<u>\$ 118.5</u>	<u>\$ 497.4</u>	<u>\$ 479.7</u>
Earnings before capital gains and other items	<u>\$ 92.3</u>	\$ 71.9	<u>\$ 307.8</u>	\$ 284.5
Capital gains and other items, net of tax	<u>-</u>	<u>1.6</u>	<u>61.7</u>	<u>17.4</u>
Net earnings	<u>\$ 92.3</u>	<u>\$ 73.5</u>	<u>\$ 369.5</u>	<u>\$ 301.9</u>
<b>Basic earnings per share</b>				
Operating earnings	<u>\$ 1.36</u>	\$ 1.05	<u>\$ 4.52</u>	\$ 4.16
Capital gains and other items, net of tax	<u>-</u>	<u>0.02</u>	<u>0.91</u>	<u>0.25</u>
Net earnings	<u>\$ 1.36</u>	<u>\$ 1.07</u>	<u>\$ 5.43</u>	<u>\$ 4.41</u>
Basic weighted average number of shares outstanding (in millions) <sup>(4)</sup>	<u>67.8</u>	<u>68.4</u>	<u>68.0</u>	<u>68.4</u>
<b>Diluted earnings per share</b>				
Operating earnings	<u>\$ 1.36</u>	\$ 1.05	<u>\$ 4.51</u>	\$ 4.15
Capital gains and other items, net of tax	<u>-</u>	<u>0.02</u>	<u>0.91</u>	<u>0.25</u>
Net earnings	<u>\$ 1.36</u>	<u>\$ 1.07</u>	<u>\$ 5.42</u>	<u>\$ 4.40</u>
Diluted weighted average number of shares outstanding (in millions) <sup>(4)</sup>	<u>68.0</u>	<u>68.5</u>	<u>68.2</u>	<u>68.5</u>
Annualized dividends per share	<u>\$ 0.80</u>	<u>\$ 0.74</u>		

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<sup>(1)</sup> Operating income is calculated as earnings before capital gains and other items, minority interest, interest expense and income tax expense.

<sup>(2)</sup> 46.4 percent equity accounted interest in Crombie REIT.

<sup>(3)</sup> 27.5 percent equity accounted interest in Wajax Income Fund ("Wajax"). This investment was sold on October 5, 2010.

<sup>(4)</sup> The decrease in the weighted average number of shares outstanding compared to the 13 and 52 weeks ended May 1, 2010 is the result of Empire purchasing for cancellation under its NCIB 513,579 Non-Voting Class A shares during the second quarter of fiscal 2011.

## CONSOLIDATED FINANCIAL OVERVIEW

### Sales

Consolidated sales for the fourth quarter was \$4.19 billion compared to \$3.84 billion for the same quarter last year, an increase of \$354.7 million or 9.2 percent. Sobeys' sales equalled \$4.10 billion versus \$3.75 billion in the fourth quarter last year, an increase of \$348.1 million or 9.3 percent. Sobeys' fourth quarter same-store sales increased 1.0 percent compared to the fourth quarter last year.

The fourth quarter of fiscal 2011 contained 14 weeks of operations for Sobeys compared to 13 weeks in fiscal 2010. This additional week accounted for approximately \$313.6 million or 8.4 percentage points of the 9.3 percent increase in Sobeys' fourth quarter sales and approximately \$6.3 million of fourth quarter net earnings. Growth in Sobeys' total sales was also a result of an increase in 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 innovations. Sobeys experienced no inflation in the fourth quarter in aggregate.

Real estate revenue in the fourth quarter was \$45.3 million, an increase of \$12.5 million from the \$32.8 million recorded in the fourth quarter last year. Residential property revenue increased by \$13.9 million from the fourth quarter last year, while commercial property revenue decreased \$1.4 million.

Investments and other operations recorded revenue of \$45.1 million in the fourth quarter compared to \$52.3 million in the fourth quarter of last year. The decrease of \$7.2 million was largely the result of lower box office attendance experienced by Empire Theatres and the industry generally in the quarter due to film product which had lower consumer appeal.

For the 53 weeks ended May 7, 2011 consolidated sales were \$16.03 billion compared to \$15.52 billion last year, an increase of \$513.0 million or 3.3 percent. Sales growth was largely driven by a \$518.6 million or 3.4 percent growth in sales for the food retailing division. Sobeys' sales for fiscal 2011 include an additional week of operations which accounted for approximately \$313.6 million or 2.1 percentage points of the 3.4 percent increase in Sobeys' sales. Sobeys' same-store sales increased by 0.2 percent in fiscal 2011. During periods of fiscal 2011, Sobeys experienced retail food price deflation; however, no inflation was experienced in the fourth quarter in aggregate. Real estate division revenues increased \$5.0 million or 6.2 percent to \$85.6 million in fiscal 2011 while revenue from investments and other operations decreased \$13.2 million or 6.5 percent to \$189.0 million. Revenue from investments and other operations were primarily generated by Empire Theatres, which reported one fewer week of operations in fiscal 2011.

## Operating Income

Consolidated operating income in the fourth quarter was \$133.3 million, an increase of \$14.8 million or 12.5 percent from the \$118.5 million recorded in the fourth quarter last year.

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

- Sobeys' operating income contribution to Empire in the fourth quarter totalled \$115.9 million, an increase of \$17.5 million or 17.8 percent from the \$98.4 million recorded in the fourth quarter last year. Operating income benefited from the fourth quarter containing 14 weeks compared to 13 weeks in the previous year;
- Residential property operating income contribution in the fourth quarter was \$18.1 million, an increase of \$3.3 million from the \$14.8 million recorded in the fourth quarter last year as a result of higher revenues;
- Commercial property (including Crombie REIT) operating income for the quarter was \$4.9 million compared to \$4.0 million in the fourth quarter last fiscal year, an increase of \$0.9 million. Crombie REIT contributed \$5.1 million to operating income in the fourth quarter versus a \$4.4 million contribution in the fourth quarter last year; and
- Investments and other operations (net of corporate expenses) contributed operating income of \$(5.6) million in the fourth quarter compared to \$1.3 million in the fourth quarter last year. Included in operating income from investments and other operations in the fourth quarter of last year was equity accounted earnings from Empire's investment in Wajax of \$2.3 million. The Wajax investment was sold during the second quarter of fiscal 2011.

For the fiscal year ended May 7, 2011, Empire recorded operating income of \$497.4 million, an increase of \$17.7 million or 3.7 percent from the \$479.7 million recorded last year. Operating income from the Food Retailing division increased to \$445.8 million for fiscal 2011 from \$425.3 million last year, an increase of \$20.5 million or 4.8 percent. Real Estate operating income in fiscal 2011 increased \$2.8 million or 5.5 percent to \$53.6 million from \$50.8 million last year. Operating income from investments and other operations decreased \$5.6 million in fiscal 2011 to \$(2.0) million from \$3.6 million last year.

## Interest Expense

Interest expense in the fourth quarter amounted to \$16.9 million, a decrease of \$1.3 million or 7.1 percent from the \$18.2 million recorded in the fourth quarter last year. The decline in interest expense largely reflects a decrease in average consolidated funded debt outstanding, partially offset by higher average interest rates applicable to funded debt levels during the quarter which are principally related to the issuance by Sobeys of a new 30-year Medium Term Note ("MTN") during the first quarter of fiscal 2011 along with higher rates applicable on floating rate debt.

Interest expense for fiscal 2011 was \$71.3 million, a decrease of \$1.2 million or 1.7 percent from last year. The decrease in interest expense is largely due to lower average funded debt outstanding during fiscal 2011, partially offset by higher average interest rates applicable to funded debt levels during fiscal 2011. A portion of the proceeds from the sale of the investment in Wajax and the sale of properties to Crombie REIT along

with free cash flow was used to reduce consolidated funded debt outstanding in fiscal 2011; this more than offset the MTN issuance by Sobeys in the first quarter of the fiscal year.

Consolidated funded debt was \$1,165.9 million at the end of fiscal 2011 compared to \$1,226.2 million at the end of fiscal 2010, a \$60.3 million or 4.9 percent decrease.

### Income Tax Expense

The effective income tax rate for the fourth quarter (excluding the impact of capital gains and other items) was 18.3 percent versus 28.0 percent in the fourth quarter last year. The reduction in effective income tax rate is primarily due to the timing benefit associated with declining current and future income tax rates across the different jurisdictions in which Empire operates combined with the timing of the realization of tax benefits during the fiscal year.

The effective income tax rate for fiscal 2011 (excluding the impact of capital gains and other items) was 25.7 percent versus 28.8 percent in fiscal 2010. The reduction in the effective income tax rate is largely attributed to declining current and future income tax rates across the different jurisdictions in which Empire operates combined with the lower effective tax rates on a number of transactions in the fiscal year.

### Earnings before Capital Gains and Other Items

For the 14 weeks ended May 7, 2011, Empire recorded earnings before capital gains and other items of \$92.3 million (\$1.36 per share) compared to \$71.9 million (\$1.05 per share) recorded in the fourth quarter last year. As mentioned, fourth quarter fiscal 2011 earnings benefited from an additional week of operations and also from a lower effective income tax rate. The \$20.4 million or 28.4 percent increase in earnings before capital gains and other items was the result of the \$14.8 million increase in operating income, a \$6.8 million decrease in income taxes and a \$1.3 million decrease in interest expense, partially offset by a \$2.5 million increase in minority interest expense.

Earnings before capital gains and other items for fiscal 2011 increased \$23.3 million or 8.2 percent to \$307.8 million from \$284.5 million reported in fiscal 2010. The increase is attributed to a \$17.7 million increase in operating income, a \$7.8 million decrease in income taxes and a \$1.2 million decrease in interest expense, partially offset by a \$3.4 million increase in minority interest expense.

The following table presents Empire's segmented earnings before capital gains and other items by division for the 14 and 53 weeks ended May 7, 2011 compared to the 13 and 52 weeks ended May 1, 2010.

(\$ in millions)	14 Weeks		13 Weeks		53 Weeks		52 Weeks	
	Ended	Ended	(\$)	(%)	Ended	Ended	(\$)	(%)
	May 7, 2011	May 1, 2010	Change	Change	May 7, 2011	May 1, 2010	Change	Change
Food retailing	\$ 80.3	\$ 59.4	\$ 20.9	35.2%	\$ 278.7	\$ 256.1	\$ 22.6	8.8%
Real estate	17.5	13.5	4.0	29.6%	38.0	34.4	3.6	10.5%
Investments and other operations	(5.5)	(1.0)	(4.5)	nm	(8.9)	(6.0)	(2.9)	(48.3%)
Consolidated	\$ 92.3	\$ 71.9	\$ 20.4	28.4%	\$ 307.8	\$ 284.5	\$ 23.3	8.2%

### Capital Gains and Other Items, Net of Tax

The Company recorded no capital gains and other items, net of tax, in the fourth quarter compared to \$1.6 million in the fourth quarter last year. Included in capital gains and other items, net of tax, in the fourth quarter of fiscal 2010 was \$1.8 million related to a

fair value adjustment to Sobeys' investment in asset-backed commercial paper ("ABCP").

The Company recorded capital gains and other items, net of tax, of \$61.7 million in the 53 weeks ended May 7, 2011 compared to \$17.4 million last year. Capital gains and other items in fiscal 2011 consisted primarily of a gain on the sale of Wajax of \$75.8 million, partially offset by after-tax costs of \$15.7 million related to Price Chopper store closures and one-time severance costs related to the closure of the Brantford, Ontario distribution centre. Included in capital gains and other items, net of tax, for the 52 weeks ended May 1, 2010 was \$17.0 million related to the tax settlement on the fiscal 2001 sale of shares in Hannaford Bros. Co.

The following table presents capital gains and other items, net of tax, for the 14 and 53 weeks ended May 7, 2011 compared to the 13 and 52 weeks ended May 1, 2010.

(\$ in millions)	14 Weeks			53 Weeks		
	Ended May 7, 2011	13 Weeks Ended May 1, 2010	(\$) Change	Ended May 7, 2011	52 Weeks Ended May 1, 2010	(\$) Change
Gain on sale of Wajax	\$ -	\$ -	\$ -	\$ 75.8	\$ -	\$ 75.8
Store and distribution centre closure costs	-	-	-	(15.7)	-	(15.7)
Write-down of real estate	-	-	-	(1.8)	-	(1.8)
Change in asset-backed commercial paper	-	1.8	(1.8)	1.3	2.9	(1.6)
Other items	-	(0.2)	0.2	2.1	0.6	1.5
Equity share of Crombie REIT	-	-	-	-	(3.1)	3.1
Hannaford tax settlement	-	-	-	-	17.0	(17.0)
	\$ -	\$ 1.6	\$ (1.6)	\$ 61.7	\$ 17.4	\$ 44.3

## Net Earnings

Consolidated net earnings in the fourth quarter equalled \$92.3 million compared to \$73.5 million in the fourth quarter last year. The increase in net earnings of \$18.8 million is attributed to the \$20.4 million increase in earnings before capital gains and other items, partially offset by the \$1.6 million decrease in net capital gains and other items.

Consolidated net earnings for fiscal 2011 totalled \$369.5 million compared to the \$301.9 million reported in fiscal 2010. The increase in net earnings of \$67.6 million is attributed to the \$44.3 million increase in realized net capital gains and other items and the \$23.3 million increase in earnings before capital gains and other items, as discussed.

The following table presents Empire's segmented net earnings for the 14 and 53 weeks ended May 7, 2011 compared to the 13 and 52 weeks ended May 1, 2010.

(\$ in millions)	14 Weeks				53 Weeks			
	Ended May 7, 2011	13 Weeks Ended May 1, 2010	(\$) Change	(%) Change	Ended May 7, 2011	52 Weeks Ended May 1, 2010	(\$) Change	(%) Change
Food retailing	\$ 80.3	\$ 61.2	\$ 19.1	31.2%	\$ 264.3	\$ 259.0	\$ 5.3	2.0%
Real estate	17.5	13.5	4.0	29.6%	38.4	31.3	7.1	22.7%
Investments and other operations	(5.5)	(1.2)	(4.3)	nm	66.8	11.6	55.2	nm
Consolidated	\$ 92.3	\$ 73.5	\$ 18.8	25.6%	\$ 369.5	\$ 301.9	\$ 67.6	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 information)	Fiscal 2011				Fiscal 2010			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	(14 Weeks) May 7, 2011	(13 Weeks) Jan. 29, 2011	(13 Weeks) Oct. 30, 2010	(13 Weeks) July 31, 2010	(13 Weeks) May 1, 2010	(13 Weeks) Jan. 30, 2010	(13 Weeks) Oct. 31, 2009	(13 Weeks) Aug. 1, 2009
Sales	\$ 4,191.5	\$ 3,884.5	\$ 3,912.0	\$ 4,041.2	\$ 3,836.8	\$ 3,836.2	\$ 3,874.7	\$ 3,968.5
Operating income	133.3	101.1	122.7	140.3	118.5	110.3	120.7	130.2
Operating earnings <sup>(1)</sup>	92.3	60.0	73.9	81.6	71.9	68.3	72.1	72.2
Capital gains (losses) and other items, net of tax	-	2.8	58.9	-	1.6	-	(1.7)	17.5
Net earnings	\$ 92.3	\$ 62.8	\$ 132.8	\$ 81.6	\$ 73.5	\$ 68.3	\$ 70.4	\$ 89.7
<b>Per share information, basic</b>								
Operating earnings	\$ 1.36	\$ 0.88	\$ 1.09	\$ 1.19	\$ 1.05	\$ 1.00	\$ 1.06	\$ 1.05
Capital gains (losses) and other items, net of tax	-	0.04	0.86	-	0.02	-	(0.03)	0.26
Net earnings	\$ 1.36	\$ 0.92	\$ 1.95	\$ 1.19	\$ 1.07	\$ 1.00	\$ 1.03	\$ 1.31
Basic weighted average number of shares outstanding (in millions) <sup>(2)</sup>								
	67.8	67.8	68.1	68.4	68.4	68.4	68.4	68.4
<b>Per share information, diluted</b>								
Operating earnings	\$ 1.36	\$ 0.88	\$ 1.08	\$ 1.19	\$ 1.05	\$ 0.99	\$ 1.06	\$ 1.05
Capital gains (losses) and other items, net of tax	-	0.04	0.86	-	0.02	-	(0.03)	0.26
Net earnings	\$ 1.36	\$ 0.92	\$ 1.94	\$ 1.19	\$ 1.07	\$ 0.99	\$ 1.03	\$ 1.31
Diluted weighted average number of shares outstanding (in millions) <sup>(2)</sup>								
	68.0	68.0	68.3	68.5	68.5	68.5	68.5	68.5

(1) Operating earnings is earnings before capital gains (losses) and other items.

(2) The increase in the weighted average number of shares outstanding since fiscal 2009 reflects an equity issue completed on April 24, 2009 which resulted in a total of 2,713,000 Non-Voting Class A shares being issued. 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 NCIB during the second quarter of fiscal 2011.

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 the Company's annual MD&A. Management's discussion and analysis of financial results for the fiscal year ended May 7, 2011 will be filed on Sedar on or before August 5, 2011.

The Company does experience some seasonality, as evidenced in the results presented above, in particular, during the summer months and over holidays.

## OPERATING PERFORMANCE BY DIVISION

### FOOD RETAILING

Empire's food retailing division is carried out through its wholly-owned subsidiary, Sobeys, which conducts business through more than 1,300 retail grocery stores (corporately owned and franchised) which operate in every province 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, convenience service, community service and price 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.

For the 14 and 53 weeks ended May 7, 2011, Sobeys opened, replaced, expanded, redeveloped, acquired and/or converted the banners in 43 and 124 stores, respectively (13 and 52 weeks ended May 1, 2010 – 29 and 76 stores). During the fourth quarter of fiscal 2011, Sobeys continued to execute a number of initiatives in support of its food-focused strategy including product and services innovations, productivity initiatives and business process, supply chain and system upgrades.

One example of these initiatives is the conversion of 57 Price Chopper to FreshCo discount stores in fiscal 2011. These FreshCo discount stores offer low prices without many of the compromises which would typically be experienced at 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 14 and 53 weeks ended May 7, 2011, Sobeys incurred approximately \$5.4 million and \$17.8 million, respectively (13 and 52 weeks ended May 1, 2010 - \$5.0 million and \$5.0 million), in start-up costs and fixed asset write-offs related to this initiative. In the second quarter of fiscal 2011, Sobeys also recorded \$16.1 million in pre-tax costs associated with the Price Chopper banner in the province of Ontario due to store closures.

The table below summarizes Sobeys' contribution to Empire's consolidated revenue, EBITDA, operating income, earnings before capital gains and other items, capital gains and other items, net of tax, and net earnings:

(\$ in millions)	14 Weeks	13 Weeks			53 Weeks	52 Weeks		
	Ended May 7, 2011	Ended May 1, 2010	(\$) Change	(%) Change	Ended May 7, 2011	Ended May 1, 2010	(\$) Change	(%) Change
Sales	\$ 4,103.0	\$ 3,754.9	\$ 348.1	9.3%	\$ 15,761.6	\$ 15,243.0	\$ 518.6	3.4%
EBITDA	202.4	180.6	21.8	12.1%	784.8	743.6	41.2	5.5%
Operating income	115.9	98.4	17.5	17.8%	445.8	425.3	20.5	4.8%
Earnings before capital gains and other items	80.3	59.4	20.9	35.2%	278.7	256.1	22.6	8.8%
Capital gains and other items, net of tax	-	1.8	(1.8)	nm	(14.4)	2.9	(17.3)	nm
Net earnings	\$ 80.3	\$ 61.2	\$ 19.1	31.2%	\$ 264.3	\$ 259.0	\$ 5.3	2.0%

## **Sales**

Food retailing division sales for the fourth quarter were \$4.10 billion compared to \$3.75 billion for the same quarter last year, an increase of \$348.1 million or 9.3 percent. The fourth quarter of fiscal 2011 contained 14 weeks of operations compared to 13 weeks in fiscal 2010. This extra week accounted for approximately \$313.6 million or 8.4 percentage points of the 9.3 percent increase in fourth quarter sales. The balance of growth in total 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 innovations. During the fourth quarter, Sobeys' same-store sales increased by 1.0 percent from the same quarter last year. In the fourth quarter of fiscal 2011, Sobeys experienced no inflation in aggregate.

In fiscal 2011, Sobeys recorded sales of \$15.76 billion compared to \$15.24 billion last year, an increase of \$518.6 million or 3.4 percent. The additional week of operations in fiscal 2011 accounted for approximately \$313.6 million or 2.1 percentage points of the 3.4 percent increase in fiscal 2011 sales. Same-store sales for fiscal 2011 increased 0.2 percent from fiscal 2010. During periods of fiscal 2011, Sobeys experienced retail food price deflation in a competitive environment, however no inflation was experienced in the fourth quarter in aggregate.

Sobeys expects sales growth to continue in fiscal 2012 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 2011 as a result of the opening of 44 new or replacement stores and the expansion of 12 stores. There were 68 stores rebannered or redeveloped and 39 stores closed in fiscal 2011.

## **Business Process and Information System Transformation and Rationalization Costs**

During the fourth quarter and throughout fiscal 2011, Sobeys continued to make significant progress in the implementation of system-wide business process optimization and rationalization initiatives that are designed to reduce complexity and improve processes and efficiency. 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 Quebec began in 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 14 and 53 weeks ended May 7, 2011, \$4.0 million and \$11.5 million, respectively (13 and 52 weeks end May 1, 2010 - \$2.5 million and \$11.3 million), of pre-tax costs, were incurred related to these initiatives.

During the second quarter of fiscal 2011, Sobeys recorded \$5.4 million in pre-tax severance costs related to the closure of the Brantford, Ontario distribution centre.

On January 28, 2011, Sobeys announced plans to build a new distribution centre in Terrebonne, Quebec utilizing the same technology as the Vaughan, Ontario distribution centre. The new facility will allow Sobeys to significantly increase its warehouse and distribution capacity in Quebec while reducing overall distribution costs and improving services to its store network and customers. During fiscal 2011, Sobeys recognized \$6.2 million of pre-tax costs (2010 – \$ nil) associated with this initiative.

## **EBITDA**

Sobeys contributed EBITDA of \$202.4 million in the fourth quarter of fiscal 2011, an increase of \$21.8 million or 12.1 percent from the \$180.6 million reported in the fourth quarter of last year. EBITDA margin for the fourth quarter of fiscal 2011, after adjusting for various consolidation entries, of 4.93 percent was up 12 basis points from 4.81 percent in the fourth quarter last year.

Sobeys contributed EBITDA of \$784.8 million in fiscal 2011, an increase of \$41.2 million or 5.5 percent from the \$743.6 million in the same period last year. EBITDA margin for fiscal 2011, after adjusting for various consolidation entries, of 4.98 percent was up 10 basis points from 4.88 percent in the same period last year. Included in Sobeys' EBITDA for fiscal 2011 was \$6.2 million in charges incurred as part of the new distribution centre announced in Quebec.

## **Operating Income**

Sobeys' operating income contribution to Empire in the fourth quarter, after adjusting for various consolidation entries, was \$115.9 million compared to \$98.4 million in the fourth quarter of fiscal 2010, a \$17.5 million or 17.8 percent increase. Sobeys' operating income margin in the fourth quarter after adjusting for various consolidation entries equalled 2.82 percent compared to 2.62 percent in the fourth quarter last year.

Operating income recorded by Sobeys in the fourth quarter was \$117.9 million, a \$17.9 million or 17.9 percent increase from the \$100.0 million reported in the fourth quarter last year.

Sobeys' operating income contribution to Empire for fiscal 2011, which excludes the \$16.1 million in pre-tax store closure costs in Ontario and \$5.4 million in severance costs related to the closure of the Brantford, Ontario distribution centre was \$445.8 million compared to \$425.3 million last year, an increase of \$20.5 million or 4.8 percent. Sobeys' operating income margin for fiscal 2011 after adjusting for above items equalled 2.83 percent compared to 2.79 percent last year.

Including the costs associated with the store and distribution centre closures in Ontario as mentioned, operating income recorded by Sobeys was \$430.7 million compared to \$430.8 million last year.

Sobeys will continue 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.

## **Earnings before Capital Gains and Other Items**

In the fourth quarter ended May 7, 2011, Sobeys contributed earnings before capital gains and other items to Empire of \$80.3 million, an increase of \$20.9 million or 35.2 percent compared to the fourth quarter last year. The increase from the same quarter last year was the result of the \$17.5 million increase in operating income contribution and the \$6.2 million decrease in income tax expense, partially offset by \$2.5 million increase in minority interest and by a \$0.3 million increase in interest expense. As mentioned, earnings before capital gains and other items benefited from the extra week of operations and from a lower effective income tax rate.

Sobeys contributed earnings before capital gains and other items to Empire in fiscal 2011 of \$278.7 million compared to a \$256.1 million contribution last year, an increase of

\$22.6 million or 8.8 percent. The improvement over last year was the result of the \$20.5 million increase in operating income contribution and the \$7.6 million decrease in income tax expense, partially offset by a \$3.4 million increase in minority interest and a \$2.1 million increase in interest expense.

### **Capital Gains and Other Items, Net of Tax**

Sobeys contributed no capital gains and other items, net of tax, to Empire in the fourth quarter of fiscal 2011 compared to \$1.8 million last year. The capital gains and other items in the fourth quarter of fiscal 2010 are related to the fair value adjustment on Sobeys' investment in ABCP.

For fiscal 2011, Sobeys contributed capital gains and other items, net of tax, of \$(14.4) million compared to \$2.9 million in fiscal 2010. Store closure costs in Ontario of \$16.1 million pre-tax (\$11.8 million after-tax) and severance costs related to the closure of the Brantford, Ontario distribution centre of \$5.4 million pre-tax (\$3.9 million after-tax), partially offset by a fair value adjustment to ABCP of \$1.6 million pre-tax (\$1.3 million after-tax), account for Sobeys' capital gains and other items in fiscal 2011. Sobeys' capital gains and other items in fiscal 2010 are related to the fair value adjustments on Sobeys' investment in ABCP.

### **Net Earnings**

Sobeys recorded fourth quarter net earnings of \$82.1 million, an increase of 31.8 percent or \$19.8 million compared to \$62.3 million recorded in the fourth quarter last year. Sobeys contributed net earnings of \$80.3 million to Empire for the fourth quarter, an increase of \$19.1 million or 31.2 percent from the \$61.2 million recorded in the same period last year. Net earnings benefited from an extra week of operations and from the lower effective income tax rate.

Sobeys recorded net earnings of \$269.9 million in fiscal 2011, an increase of 2.7 percent or \$7.1 million from \$262.8 million recorded in fiscal 2010. The increase in net earnings was largely driven by the increase in earnings before capital gains and other items as discussed, partially offset by the store closure costs in Ontario and the severance costs related to the closure of the Brantford distribution centre which are included in capital gains and other items. Sobeys' net earnings contribution to Empire for fiscal 2011 was \$264.3 million, an increase of \$5.3 million or 2.0 percent from the \$259.0 million recorded in fiscal 2010. Net earnings benefited from the extra week of operations and from the lower effective income tax rate as mentioned.

## REAL ESTATE

Empire's real estate operations are focused primarily on (i) the ownership of retail and office properties through a 46.4 percent ownership interest in Crombie REIT (40.4 percent fully diluted), and (ii) residential land development principally in select communities in Ontario, Western Canada and the United States through: a 40.7 percent ownership interest in Genstar Development Partnership, a 44.8 percent interest in Genstar Development Partnership II, and 42.1 percent interests in each of GDC Investments 4, L.P., GDC Investments 5, L.P. and GDC Investments 6, L.P. (collectively referred to as "Genstar").

It should be noted that revenue, operating income and net earnings recorded in fiscal 2011 were impacted by an increase in Empire's ownership interest in Genstar Development Partnership, from 35.7 percent to 40.7 percent, during the third quarter of fiscal 2010.

With regard to commercial real estate operations, during the first quarter Empire's internal property development function was reorganized under Sobeys, with Sobeys acquiring 12 properties from subsidiaries of ECL Properties Limited ("ECL"), a wholly-owned subsidiary of Empire, at their carrying value of approximately \$83.0 million. This reorganization better aligns Empire's real estate development function with the interest of Sobeys. As a result of this transfer, Empire's commercial real estate operations consist largely of its equity interest in Crombie REIT.

The following table presents revenue, operating income, net earnings and funds from operations for the real estate division's commercial operations and residential operations.

(\$ in millions)	14 Weeks Ended			13 Weeks Ended			53 Weeks Ended			52 Weeks Ended		
		May 7, 2011		May 1, 2010	(\$)	Change		May 7, 2011		May 1, 2010	(\$)	Change
<b>Revenue</b>												
Residential	\$	42.9	\$	29.0	\$	13.9	\$	72.7	\$	63.3	\$	9.4
Commercial		2.4		3.8		(1.4)		12.9		17.3		(4.4)
	\$	45.3	\$	32.8	\$	12.5	\$	85.6	\$	80.6	\$	5.0
<b>Operating income</b>												
Residential	\$	18.1	\$	14.8	\$	3.3	\$	32.3	\$	31.0	\$	1.3
Crombie REIT <sup>(1)</sup>		5.1		4.4		0.7		18.7		18.6		0.1
Commercial		(0.2)		(0.4)		0.2		2.6		1.2		1.4
	\$	23.0	\$	18.8	\$	4.2	\$	53.6	\$	50.8	\$	2.8
<b>Net earnings</b>												
Residential (operating earnings)	\$	13.5	\$	10.6	\$	2.9	\$	23.5	\$	21.8	\$	1.7
Commercial (operating earnings)		4.0		2.9		1.1		14.5		12.6		1.9
Capital gains and other items, net of tax		-		-		-		0.4		(3.1)		3.5
	\$	17.5	\$	13.5	\$	4.0	\$	38.4	\$	31.3	\$	7.1
<b>Funds from operations</b>												
Residential	\$	13.5	\$	10.6	\$	2.9	\$	23.5	\$	21.8	\$	1.7
Commercial		4.1		3.2		0.9		15.2		13.9		1.3
	\$	17.6	\$	13.8	\$	3.8	\$	38.7	\$	35.7	\$	3.0

(1) Equity accounted earnings in Crombie REIT during the period.

## Revenue

Real estate division revenue amounted to \$45.3 million for the fourth quarter ended May 7, 2011, a \$12.5 million increase from the fourth quarter last year as a result of a \$13.9 million increase in residential property revenue, partially offset by a \$1.4 million decrease in commercial property revenue. Residential property revenue increased due to higher residential lot sales and the sale of two commercial lots by Genstar in the fourth quarter. The decrease in commercial property revenue is largely related to the sale of properties

to Sobeys in the first quarter of fiscal 2011 and the sale of three properties to Crombie REIT in fiscal 2011.

For fiscal 2011, the real estate division recorded revenue of \$85.6 million, an increase of \$5.0 million from the \$80.6 million recorded in fiscal 2010. The increase was due to a \$9.4 million increase in residential property revenue, partially offset by a \$4.4 million decrease in commercial property revenue due to the sale of properties to Sobeys and Crombie REIT as discussed.

### **Operating Income**

Fourth quarter real estate division operating income was \$23.0 million versus \$18.8 million in the same quarter last year. The \$4.2 million increase in real estate division operating income was the result of a \$3.3 million increase in residential operating income, a \$0.7 million increase in equity earnings from Crombie REIT and a \$0.2 million increase in other commercial property operating income.

Equity accounted earnings from Crombie REIT amounted to \$5.1 million in the fourth quarter compared to \$4.4 million in the same quarter last year. The increase in equity earnings from Crombie REIT compared to the same quarter last year is primarily the result of increased revenue as a result of higher occupancy along with property acquisitions, partially offset by higher interest expense.

The real estate division's operating income for fiscal 2011 was \$53.6 million compared to \$50.8 million, an increase of \$2.8 million. The increase was the result of a \$1.4 million increase in other commercial property operating income, a \$1.3 million increase in residential operating income and a \$0.1 million increase in equity earnings from Crombie REIT. Equity accounted earnings from Crombie REIT amounted to \$18.7 million in fiscal 2011 compared to \$18.6 million in fiscal 2010.

### **Net Earnings**

Real estate division net earnings contribution in the fourth quarter amounted to \$17.5 million compared to \$13.5 million last year, a \$4.0 million or 29.6 percent increase. The earnings increase is the result of a \$4.2 million increase in operating income and a decrease in interest expense of \$0.7 million, partially offset by a \$0.9 million increase in income taxes.

For fiscal 2011, the real estate division contributed net earnings of \$38.4 million compared to \$31.3 million last year, a \$7.1 million increase. The earnings increase compared to last year is the result of a change in net capital gains and other items of \$3.5 million, a \$2.8 million increase in operating income and a decrease in interest expense of \$1.4 million, partially offset by a \$0.6 million increase in income tax expense.

### **Funds from Operations**

Funds from operations (see Non-GAAP Financial Measures section) in the fourth quarter of \$17.6 million increased \$3.8 million over the fourth quarter of last year due primarily to the increase in operating earnings of \$4.0 million. Funds from operations for the real estate division were \$38.7 million in fiscal 2011, an increase of \$3.0 million from the \$35.7 million recorded last year.

## INVESTMENTS AND OTHER OPERATIONS

The third component of Empire's business is its investments and other operations, consisting primarily of wholly-owned Empire Theatres.

At May 7, 2011, Empire's investment portfolio, including equity accounted investments in Crombie REIT and Genstar U.S., consisted of:

(\$ in millions)	May 7, 2011			May 1, 2010			May 2, 2009		
	Market Value	Carrying Value	Unrealized Gain	Market Value	Carrying Value	Unrealized Gain	Market Value	Carrying Value	Unrealized Gain
Investment in Crombie REIT	\$ 403.8	\$ (6.3)	\$ 410.1	\$ 341.3	\$ 8.4	\$ 332.9	\$ 175.6	\$ (19.7)	\$ 195.3
Investment in Wajax <sup>(1)</sup>	-	-	-	117.9	30.8	87.1	71.3	31.0	40.3
Investment in Genstar U.S. <sup>(2)</sup>	33.1	33.1	-	17.6	17.6	-	7.5	7.5	-
Other investments <sup>(2)(3)</sup>	14.3	14.3	-	10.9	10.9	-	1.1	1.1	-
	<b>\$ 451.2</b>	<b>\$ 41.1</b>	<b>\$ 410.1</b>	<b>\$ 487.7</b>	<b>\$ 67.7</b>	<b>\$ 420.0</b>	<b>\$ 255.5</b>	<b>\$ 19.9</b>	<b>\$ 235.6</b>

(1) Wajax investment was sold on October 5, 2010.

(2) Assumes market value equals book value.

(3) Includes Crombie REIT convertible unsecured subordinated debentures with market value of \$11.9 million (May 1, 2010 - \$10.7 million, May 2, 2009 - \$nil).

### Sale of Wajax Income Fund

On October 5, 2010, Empire sold its 27.5 percent ownership interest in Wajax for net proceeds of \$121.3 million and a resulting net capital gain of \$75.8 million. The net proceeds were used to reduce Empire's direct bank indebtedness and to purchase for cancellation under Empire's NCIB a total of 513,579 Non-Voting Class A shares.

The following table highlights the financial performance of investments and other operations (net of corporate expenses) excluding Crombie REIT and Genstar U.S. equity earnings, for the 14 and 53 weeks ended May 7, 2011 compared to the 13 and 52 weeks ended May 1, 2010.

(\$ in millions)	14 Weeks Ended	13 Weeks Ended	(\$ Change)	53 Weeks Ended	52 Weeks Ended	(\$ Change)
	May 7, 2011	May 1, 2010		May 7, 2011	May 1, 2010	
Revenue	\$ 45.1	\$ 52.3	\$ (7.2)	\$ 189.0	\$ 202.2	\$ (13.2)
Operating income						
Wajax	-	2.3	(2.3)	8.7	9.2	(0.5)
Other operations, net of corporate expenses	(5.6)	(1.0)	(4.6)	(10.7)	(5.6)	(5.1)
Total operating income	(5.6)	1.3	(6.9)	(2.0)	3.6	(5.6)
Operating earnings	(5.5)	(1.0)	(4.5)	(8.9)	(6.0)	(2.9)
Capital gains (losses) and other items, net of tax	-	(0.2)	0.2	75.7	17.6	58.1
Net earnings	\$ (5.5)	\$ (1.2)	\$ (4.3)	\$ 66.8	\$ 11.6	\$ 55.2

### Revenue

Investments and other operations' revenue, primarily generated by Empire Theatres, equalled \$45.1 million in the fourth quarter ended May 7, 2011 versus \$52.3 million in the fourth quarter last year, a \$7.2 million or 13.8 percent decrease. The decrease in revenues is largely due to reduced box office attendance experienced by Empire Theatres versus last year as a result of film product which had lower consumer appeal.

For fiscal 2011, investments and other operations reported revenues of \$189.0 million compared to \$202.2 million in the same period last year, a \$13.2 million or 6.5 percent decrease. The decrease largely reflects lower box office attendance versus last year as

a result of film product which had lower consumer appeal and the fact that Empire Theatres had an additional week of operations last fiscal year.

### **Operating Income**

Investments and other operations, net of corporate expenses, contributed operating income of \$(5.6) million compared to \$1.3 million in the fourth quarter last year. Included in operating income for the fourth quarter of last year was \$2.3 million in equity accounted earnings generated from the Company's previously held 27.5 percent interest in Wajax. Operating income from other operations, net of corporate expenses, for the fourth quarter decreased \$4.6 million to \$(5.6) million.

Operating income generated by investments and other operations, net of corporate expenses, during fiscal 2011 amounted to \$(2.0) million compared to \$3.6 million last year. The decrease is primarily the result of the interest income of \$2.5 million associated with the Hannaford Tax settlement received in fiscal 2010, reduced operating income from Empire Theatres due to lower attendance as discussed, higher corporate expenses and lower equity accounted earnings generated from the Company's former interest in Wajax.

### **Earnings before Capital Gains and Other Items**

Investments and other operations, net of corporate expenses, contributed earnings before capital gains and other items of \$(5.5) million in the fourth quarter compared to \$(1.0) million in the same quarter last year, a decrease of \$4.5 million. This decline is largely attributed to a decrease in equity earnings from Wajax due to its sale in the second quarter of fiscal 2011 and lower earnings from Empire Theatres due to film product which had lower consumer appeal.

Investments and other operations, net of corporate expenses, contributed earnings before capital gains and other items of \$(8.9) million in fiscal 2011 compared to \$(6.0) million last year, a decrease of \$2.9 million. The decline is largely attributed to the \$2.5 million interest refund from CRA related to the Hannaford tax settlement last year, lower earnings from Empire Theatres and lower equity earnings from Wajax due to its sale in the second quarter, partially offset by lower interest expense at the corporate level.

### **Capital Gains and Other Items, Net of Tax**

There were no capital gains or other items reported by investments and other operations in the fourth quarter of fiscal 2011 compared to capital gains and other items, net of tax, of \$(0.2) million in the same period last year.

Capital gains and other items, net of tax, reported by investments and other operations for fiscal 2011 were \$75.7 million compared to \$17.6 million last year. Capital gains and other items, net of tax, in fiscal 2011 are primarily related to the sale of the Company's 27.5 percent interest in Wajax. Capital gains and other items in fiscal 2010 are primarily related to the settlement of the tax reassessment for \$17.0 million relating to the fiscal 2001 sale of shares in Hannaford Bros. Co.

### **Net Earnings**

Investments and other operations, net of corporate expenses, contributed \$(5.5) million to Empire's consolidated fourth quarter fiscal 2011 net earnings compared to a \$(1.2) million contribution in the fourth quarter last year. The decrease is primarily attributed to the decrease in earnings before capital gains and other items of \$4.5 million.

In fiscal 2011, investments and other operations, net of corporate expenses, contributed net earnings of \$66.8 million compared to an \$11.6 million contribution in fiscal 2010, an increase of \$55.2 million. The increase in net earnings for fiscal 2011 is largely attributed to the \$58.1 million increase in capital gains and other items, net of tax.

## CONSOLIDATED FINANCIAL CONDITION

### Capital Structure and Key Financial Condition Measures

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

(\$ in millions, except per share and ratio calculations)	May 7, 2011	May 1, 2010	May 2, 2009
Shareholders' equity	\$ 3,249.0	\$ 2,952.4	\$ 2,678.8
Book value per share	\$ 47.76	\$ 43.07	\$ 39.07
Bank indebtedness	\$ 8.1	\$ 17.8	\$ 45.9
Long-term debt, including current portion <sup>(1)</sup>	\$ 1,157.8	\$ 1,208.4	\$ 1,257.0
Funded debt to total capital	26.4%	29.3%	32.7%
Net debt to net total capital <sup>(2)</sup>	14.5%	21.8%	28.6%
Debt to EBITDA <sup>(3)</sup>	1.4x	1.5x	1.6x
EBITDA to interest expense	12.1x	11.3x	10.0x
Total assets	\$ 6,555.4	\$ 6,248.3	\$ 5,891.1

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

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

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

### Shareholders' Equity

The Company's share capital on May 7, 2011 consisted of:

	Authorized Number of Shares	Issued and Outstanding Number of Shares	\$ Millions
Preferred shares, par value \$25 each, issuable in series.			
Series 2, cumulative, redeemable, rate of 75% prime.	2,679,000	164,900	\$ 4.1
2002 Preferred shares par value \$25 each, issuable in series.	992,000,000	-	-
Non-Voting Class A shares, without par value.	258,593,856	33,687,747	311.7
Class B common shares, without par value, voting.	40,800,000	34,260,763	7.6
			323.4
Employees' Share Purchase Plan			(2.9)
			\$ 320.5

There were 33,687,747 Non-Voting Class A and 34,260,763 Class B common shares outstanding at May 7, 2011, for a total of 67,948,510 shares, a decrease of 509,751 shares from the previous fiscal year-end. The decrease is due to the repurchase for cancellation of 513,579 Non-Voting Class A shares for \$27.6 million during the second quarter under Empire's NCIB filed with the Toronto Stock Exchange on September 15, 2010, partially offset by 3,828 Non-Voting Class A shares issued under Empire's Long-Term Incentive Plan.

At May 7, 2011, Empire had 565,571 options outstanding compared to 433,209 options outstanding at May 1, 2010. During the third quarter of fiscal 2011, 18,102 options were exercised under the cashless exercise provision of Empire's Long-Term Incentive Plan.

There were 2,200 Series 2 preferred shares purchased for cancellation in fourth quarter of fiscal 2011 for an average share price of \$24.99. For the 53 weeks ended May 7, 2011, there were 3,100 Series 2 preferred shares purchased for cancellation for an average share price of \$24.70 compared to no Series 2 preferred shares purchased for cancellation in the same period last year.

As at June 30, 2011, the Company had Non-Voting Class A and Class B common shares outstanding of 33,687,747 and 34,260,763, respectively, 164,900 Series 2 preferred shares outstanding, as well as 565,571 options to acquire in aggregate 565,571 Non-Voting Class A shares.

Dividends paid to common shareholders amounted to \$13.5 million in the fourth quarter (\$0.20 per share) versus \$12.7 million (\$0.185 per share) in the fourth quarter last fiscal year. Dividends paid in fiscal 2011 to common shareholders amounted to \$54.4 million (\$0.80 per share) versus \$50.7 million (\$0.74 per share) paid in fiscal 2010.

### Liabilities

Historically, Empire has financed a significant portion of its assets through the use of long-term debt. Longer-term assets are generally financed with fixed rate, long-term debt, thereby reducing both interest rate and refinancing risk. Total long-term debt, including the current portion of long-term debt and debt related to assets held for sale, at May 7, 2011 was \$1,157.8 million, representing 99.3 percent of Empire's total funded debt of \$1,165.9 million.

Long-term debt by division is as follows:

Long-term debt (including current portion) (\$ in millions)	May 7, 2011	May 1, 2010	May 2, 2009
Food retailing	\$ 1,002.1	\$ 858.7	\$ 954.0
Real estate	19.4	35.3	39.6
Investments and other operations	136.3	314.4	263.4
<b>Total</b>	<b>\$ 1,157.8</b>	<b>\$ 1,208.4</b>	<b>\$ 1,257.0</b>

Consolidated total funded debt has decreased \$60.3 million since the start of the fiscal year, May 1, 2010 (\$1,226.2 million). The decrease since the start of the fiscal year is due primarily to the application of proceeds from the sale of the Company's investment in Wajax and from the sale of properties to Crombie REIT, partially offset by Sobeys' \$150.0 million 30-year MTN issuance in the first quarter of fiscal 2011. The ratio of funded debt to total capital has improved by 2.9 percentage points since the start of the fiscal year, to 26.4 percent, as a result of lower funded debt levels and higher equity levels due to growth in retained earnings.

On June 3, 2010, Standard & Poor's affirmed its BBB- credit rating for Sobeys and on October 26, 2010, DBRS affirmed its BBB credit rating for Sobeys.

Empire's EBITDA to interest expense ratio in fiscal 2011 was 12.1 times, up from 11.3 times recorded in the prior fiscal year. The increase over fiscal 2010 is due primarily to improvement in EBITDA and a marginal decline in interest expense.

## 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 7, 2011, consolidated cash and cash equivalents were \$616.9 million versus \$401.0 million at the prior fiscal year-end, May 1, 2010.

At the end of the fourth quarter of fiscal 2011, on a non-consolidated basis, Empire directly maintained an authorized bank line for operating, general and corporate purposes of \$450.0 million, of which \$118.3 million or 26.3 percent was utilized. Empire's non-consolidated \$650.0 million credit facility matured on June 8, 2010. Prior to its maturity, on June 4, 2010, management renewed the credit facility for an additional three-year term, to expire on June 30, 2013. The size of the credit facility was reduced to \$450.0 million due to the Company's strong cash position and improved financial condition. On a consolidated basis, Empire's authorized bank credit facilities exceeded borrowings by approximately \$725 million at May 7, 2011. During the third quarter, Sobey's allowed a \$75 million bank credit facility to mature without renewal.

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 fiscal year ended May 7, 2011 and for the fiscal year ended May 1, 2010.

The following table highlights major cash flow components for the 14 and 53 weeks ended May 7, 2011 compared to the 13 and 52 weeks ended May 1, 2010.

### Major Cash Flow Components

	<b>14 Weeks Ended</b>	13 Weeks Ended	<b>53 Weeks Ended</b>	52 Weeks Ended
(\$ in millions)	<b>May 7, 2011</b>	May 1, 2010	<b>May 7, 2011</b>	May 1, 2010
Net earnings (net of preferred dividends)	\$ <b>92.3</b>	\$ 73.5	\$ <b>369.4</b>	\$ 301.8
Items not affecting cash	<b>101.2</b>	72.8	<b>308.8</b>	358.0
	<b>193.5</b>	146.3	<b>678.2</b>	659.8
Net change in non-cash working capital	<b>150.0</b>	174.5	<b>8.4</b>	124.3
Cash flows from operating activities	<b>343.5</b>	320.8	<b>686.6</b>	784.1
Cash flows used in investing activities	<b>(171.9)</b>	(92.8)	<b>(315.7)</b>	(466.1)
Cash flows used in financing activities	<b>(36.1)</b>	(83.5)	<b>(155.0)</b>	(148.6)
Increase in cash and cash equivalents	\$ <b>135.5</b>	\$ 144.5	\$ <b>215.9</b>	\$ 169.4

### Operating Activities

Fourth quarter cash flows from operating activities equalled \$343.5 million compared to \$320.8 million last year. The increase of \$22.7 million is attributed to an increase in items not affecting cash of \$28.4 million and an increase in earnings available for common shareholders of \$18.8 million, offset by a decrease in the net change in non-cash working capital of \$24.5 million.

Fiscal 2011 cash flows from operating activities equalled \$686.6 million compared to \$784.1 million last year. The decrease of \$97.5 million is attributed to a decrease in the net change in non-cash working capital of \$115.9 million and a decrease in items not affecting cash of \$49.2 million, partially offset by an increase in earnings available for common shareholders of \$67.6 million.

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

Non-Cash Working Capital (Quarter-Over-Quarter)			14 Weeks Ended	13 Weeks Ended
	May 7, 2011	Jan. 29, 2011	May 7, 2011	May 1, 2010
(\$ in millions)	May 7, 2011	Jan. 29, 2011	(Decrease) in Cash Flows	(Decrease) in Cash Flows
Receivables	\$ 346.6	\$ 360.5	\$ 13.9	\$ (45.9)
Inventories	906.1	935.5	29.4	43.7
Prepaid expenses	75.2	46.4	(28.8)	(19.0)
Accounts payable and accrued liabilities	(1,689.0)	(1,553.6)	135.4	158.0
Income taxes receivable	0.3	5.4	5.1	12.2
Impact of reclassifications on working capital <sup>(1)</sup>	5.0		(5.0)	25.5
<b>Total</b>	<b>\$ (355.8)</b>	<b>\$ (205.8)</b>	<b>\$ 150.0</b>	<b>\$ 174.5</b>

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

Non-Cash Working Capital (Year-Over-Year)			53 Weeks Ended	
	May 7, 2011	May 1, 2010	May 7, 2011	
(\$ in millions)	May 7, 2011	May 1, 2010	Increase (Decrease) in Cash Flows	
Receivables	\$ 346.6	\$ 336.9	\$ (9.7)	
Inventories	906.1	880.3	(25.8)	
Prepaid expenses	75.2	70.1	(5.1)	
Accounts payable and accrued liabilities	(1,689.0)	(1,621.6)	67.4	
Income taxes receivable (payable)	0.3	(19.5)	(19.8)	
Impact of reclassifications on working capital <sup>(1)</sup>	(1.4)	-	1.4	
<b>Total</b>	<b>\$ (362.2)</b>	<b>\$ (353.8)</b>	<b>\$ 8.4</b>	

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

The net change in non-cash working capital of \$150.0 million in the fourth quarter was due to a \$135.4 million increase in accounts payable and accrued liabilities, a \$29.4 million decrease in inventories, a \$13.9 million decrease in receivables and a decrease in income taxes receivable of \$5.1 million, partially offset by an increase in prepaid expenses of \$28.8 million and the impact of reclassifications on working capital totalling \$(5.0) million.

The net change in non-cash working capital of \$8.4 million in fiscal 2011 was due to accounts payable and accrued liabilities increasing by \$67.4 million and the impact of reclassifications on working capital of \$1.4 million, partially offset by an increase in inventories of \$25.8 million, an increase in income taxes receivable of \$19.8 million, an increase in receivables of \$9.7 million and an increase in prepaid expenses of \$5.1 million.

## Investing Activities

Cash flows used in investing activities of \$171.9 million in the fourth quarter compares to cash used in investing activities of \$92.8 million in the same quarter last year. The change of \$79.1 million is largely the result of a \$44.5 million increase in cash used for the purchase of property and equipment relative to the fourth quarter last year and a \$48.9 million decrease in proceeds on disposal of property and equipment relative to the fourth quarter last year.

Consolidated purchases of property and equipment totalled \$172.5 million in the fourth quarter of fiscal 2011 compared to \$128.0 million in the fourth quarter last year. The increase in property and equipment purchases of \$44.5 million is primarily a result of capital additions at Sobeys, partially offset by a decrease in the purchase of property and equipment by the real estate division.

Cash flows used in investing activities in fiscal 2011 totalled \$315.7 million, a decrease of \$150.4 million from the cash flows used in investing activities of \$466.1 million in fiscal 2010. The following factors are largely responsible for the decrease: the sale of the investment in Wajax for net proceeds of \$121.3 million; a change in loans and other receivables relative to last year of \$78.6 million; a \$39.6 million increase in proceeds from disposal of property and equipment and, a decrease in the cash used for business acquisitions relative to the same period last year of \$17.0 million; partially offset by a \$120.0 million increase in consolidated purchases of property and equipment.

The table below outlines the number of stores Sobeys invested in during the 14 and 53 weeks ended May 7, 2011 compared to 13 and 52 weeks ended May 1, 2010.

### Sobeys' Corporate and Franchised Store

#### Construction Activity

# of Stores	14 Weeks Ended	13 Weeks Ended	53 Weeks Ended	52 Weeks Ended
	May 7, 2011	May 1, 2010	May 7, 2011	May 1, 2010
Opened/Acquired/Relocated	15	11	44	41
Expanded	4	4	12	13
Rebanned/Redeveloped	24	14	68	22
Closed	22	17	39	52

The following table shows Sobeys' square footage changes for the 14 and 53 weeks ended May 7, 2011 by type:

### Sobeys' Square Footage Changes

(in thousands)

Square Feet	14 Weeks Ended	53 Weeks Ended
	May 7, 2011	May 7, 2011
Opened	319	896
Relocated	-	79
Acquired	-	-
Expanded	35	101
Closed	(311)	(489)
Net Change	43	587

At May 7, 2011, Sobeys' square footage totalled 28.7 million square feet, a 2.1 percent increase over the 28.1 million square feet operated at the end of fiscal 2010.

## Financing Activities

Financing activities during the fourth quarter used \$36.1 million of cash compared to \$83.5 million of cash used in financing activities in the same quarter last year. The decrease of \$47.4 million in cash flows used in financing activities compared to the same quarter last year is primarily the result of an increase in bank indebtedness of \$2.1 million in the fourth quarter compared to a \$71.4 million decrease in the same quarter last year, partially offset by an increase in the repayment of long-term debt of \$28.2 million.

Financing activities in fiscal 2011 used \$155.0 million of cash compared to \$148.6 million of cash used in financing activities in fiscal 2010. The increase of \$6.4 million in cash flows used in financing activities compared to last year is primarily the result of an increase in the repayment of long-term debt of \$114.1 million and an increase in cash used for the repurchase of Non-Voting Class A shares of \$27.6 million, partially offset by an increase in the issuance of long-term debt of \$120.6 million and a decline in cash used to decrease bank indebtedness of \$18.4 million.

The Company believes 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.

## Free Cash Flow

Free cash flow 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 Canadian Generally Accepted Accounting Principles ("GAAP") cash flows used in operating activities for the 14 and 53 weeks ended May 7, 2011 and for the 13 and 52 weeks ended May 1, 2010.

	<b>14 Weeks Ended May 7, 2011</b>	13 Weeks Ended May 1, 2010	<b>53 Weeks Ended May 7, 2011</b>	52 Weeks Ended May 1, 2010
(\$ in millions)				
Cash flow from operating activities	\$ 343.5	\$ 320.8	\$ 686.6	\$ 784.1
Less: Property and equipment purchases	172.5	128.0	554.0	434.0
Free cash flow	\$ 171.0	\$ 192.8	\$ 132.6	\$ 350.1

Free cash flow in the fourth quarter of fiscal 2011 was \$171.0 million compared to \$192.8 million in the fourth quarter last year. The \$21.8 million decrease in free cash flow from the fourth quarter last year was the result of a \$44.5 million increase in property and equipment purchases, partially offset by an increase in cash flow from operations of \$22.7 million.

Free cash flow in fiscal 2011 was \$132.6 million compared to \$350.1 million in fiscal 2010. The \$217.5 million decline in free cash flow from fiscal 2010 was due to a \$120.0 million increase in property and equipment purchases and a decrease in cash flow from operations of \$97.5 million.

## **INTERNATIONAL FINANCIAL REPORTING STANDARDS**

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

The Company is in the process of finalizing the impact of the conversion to IFRS on its financial statements. A formal project governance structure has been developed to ensure regular progress reports are provided to senior management, a structured Steering Committee, as well as the Audit Committee and Board of Directors. The project remains on track – a summary of the Company’s IFRS changeover plan which details the progress towards completion of selected key activities can be found in the Company’s fiscal 2011 annual MD&A which will be filed on SEDAR on or before August 5, 2011.

## **SUBSEQUENT EVENTS**

Subsequent to year end, the Company sold two properties to Crombie REIT for net proceeds of \$27.6 million, which was fair market value. Also, the Company sold its 50 percent interest in two properties to a third party for \$14.6 million. As part of these two transactions, first mortgage loans totalling \$12.7 million were paid in full.

## **EMPLOYEE FUTURE BENEFIT OBLIGATIONS**

For the 53 weeks ended May 7, 2011, the Company contributed \$6.1 million (2010 - \$6.0 million) to its registered defined benefit plans. The Company expects to contribute approximately \$6.2 million in fiscal 2012 to these plans. The Company continues to assess the impact of the capital markets on its funding requirement.

## **DESIGNATION OF ELIGIBLE DIVIDENDS**

“Eligible dividends” receive favorable 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.

## **NON-GAAP FINANCIAL MEASURES**

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

- Operating earnings is calculated as earnings before capital gains (losses) and other items.
- Operating income or earnings before interest and taxes (“EBIT”) is calculated as operating earnings before minority interest, interest expense and income taxes.
- 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.
- EBITDA margin is EBITDA divided by sales.
- Return on equity is calculated as net earnings divided by average equity for the reporting period.
- Funds from operations is calculated as operating earnings plus depreciation and amortization.
- Funded debt is all interest bearing debt, which includes bank loans, bankers’ acceptances, long-term debt and debt related to assets held for sale.
- Net debt is calculated as funded debt less cash and cash equivalents.
- Total capital is calculated as funded debt plus shareholders’ equity.
- Net total capital is total capital less cash and cash equivalents.
- Same-store sales are sales from stores in the same locations in both reporting periods.
- Free cash flow is calculated as cash flows from operating activities, less property and equipment purchases.

The following tables reconcile Empire’s funded debt and total capital to GAAP measures reported on the balance sheets as at May 7, 2011, May 1, 2010 and May 2, 2009, respectively:

(\$ in millions)	May 7, 2011	May 1, 2010	May 2, 2009 <sup>(1)</sup>
Bank indebtedness	\$ 8.1	\$ 17.8	\$ 45.9
Long-term debt due within one year	49.7	379.4	133.0
Liabilities relating to assets held for sale	12.7	-	-
Long-term debt	1,095.4	829.0	1,124.0
Funded debt	1,165.9	1,226.2	1,302.9
Less: cash and cash equivalents	(616.9)	(401.0)	(231.6)
Net funded debt	549.0	825.2	1,071.3
Total shareholders’ equity	3,249.0	2,952.4	2,678.8
Net total capital	\$ 3,798.0	\$ 3,777.6	\$ 3,750.1

*(1) Amounts have been restated as a result of a change in accounting policy and a reclassification with respect to goodwill and intangible assets. Please see the section entitled "Accounting Policy Changes" in the 2010 annual MD&A.*

(\$ in millions)	May 7, 2011	May 1, 2010	May 2, 2009 <sup>(1)</sup>
Funded debt	\$ 1,165.9	\$ 1,226.2	\$ 1,302.9
Total shareholders’ equity	3,249.0	2,952.4	2,678.8
Total capital	\$ 4,414.9	\$ 4,178.6	\$ 3,981.7

*(1) Amounts have been restated as a result of a change in accounting policy and a reclassification with respect to goodwill and intangible assets. Please see the section entitled "Accounting Policy Changes" in the 2010 annual MD&A.*

## **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 press release, 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", "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, but are not limited to, the following items:

- The Company's belief that it has sufficient unused capacity under its credit facilities to satisfy its financial obligations as they come due which could be impacted by the changes in the economic environment;
- The Company's expectation that its operational and capital structure are sufficient to meet its ongoing business requirements 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 future economic and competitive conditions;
- The Company's anticipation that it's in place sources of liquidity will adequately meet its short-term and long-term financial requirements which may be impacted by uncertainty in the economy;
- The Company's 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 the matter is resolved;
- Sobeys' expectations relating to reducing costs through its productivity and system initiatives which could be impacted by the final scope and scale of these initiatives;
- The Company's 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 of continued sales growth in fiscal 2012 which could be impacted by changes in the competitive environment;

- The Company's expectations relating to the impact of the transition to IFRS;
- The Company's expectations regarding its plans to purchase for cancellation Non-Voting Class A shares under the NCIB, which may be impacted by market and economic conditions, availability of sellers, and changes in laws and regulations; and
- Sobeys' expectations that the new distribution centre announced in Quebec will reduce overall business costs which could be impacted by the number of positions eliminated at other distribution centres.

These statements are based on Empire management's reasonable assumptions and beliefs in light of the information currently available to them. The forward-looking information contained in this press release 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 the annual Management Discussion and Analysis.

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 press release reflects the Company's expectations as of June 30, 2011, 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.

## **Conference Call Invitation**

The Company will hold an analyst call on Thursday, June 30, 2011 beginning at 1:00 p.m. Eastern Standard Time during which senior management will discuss the Company's financial results for the fourth quarter ended May 7, 2011. To join this conference call dial 1-888-231-8191 outside of the Toronto area or 647-427-7450 from within the Toronto area. You may also listen to a live audiocast of the conference call by visiting the Company's website located at [www.empireco.ca](http://www.empireco.ca). Replay will be available by dialling 1-800-642-1687 and entering passcode 76065521 until midnight July 7, 2011, or on the Company's website for 90 days after the meeting.

## **About Empire**

Empire Company Limited (TSX: EMP.A) is a Canadian company headquartered in Stellarton, Nova Scotia. Empire's core businesses include food retailing and related real estate. With over \$16 billion in annual revenue and approximately \$6.5 billion in assets, Empire and its related companies employ approximately 100,000 people, including franchisees and affiliates.

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

For further information, please contact:

Paul V. Beesley  
Executive Vice President and Chief Financial Officer  
(902) 755-4440

**EMPIRE COMPANY LIMITED**  
**CONSOLIDATED BALANCE SHEETS**

(\$ in millions)

	<b>May 7 2011</b>	<b>May 1 2010</b>
	<b>Unaudited</b>	<b>Audited</b>
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 616.9	\$ 401.0
Receivables	346.6	336.9
Income taxes receivable	0.3	-
Inventories (Note 4)	906.1	880.3
Prepaid expenses	75.2	70.1
Loans and other receivables	81.7	105.8
	<b>2,026.8</b>	<b>1,794.1</b>
Investments, at realizable value	14.3	10.9
Investments, at equity (realizable value \$436.9; 2010 - \$476.8) (Note 5)	26.8	56.8
Loans and other receivables	68.8	79.2
Other assets	107.1	94.5
Property and equipment	2,620.1	2,548.7
Assets held for sale	59.4	36.5
Intangibles	453.7	455.0
Goodwill	1,178.4	1,172.6
	<b>\$ 6,555.4</b>	<b>\$ 6,248.3</b>
<b>LIABILITIES</b>		
Current		
Bank indebtedness	\$ 8.1	\$ 17.8
Accounts payable and accrued liabilities	1,689.0	1,621.6
Income taxes payable	-	19.5
Long-term debt due within one year	49.7	379.4
Liabilities relating to assets held for sale	12.7	-
Future tax liabilities	46.6	50.9
	<b>1,806.1</b>	<b>2,089.2</b>
Long-term debt (Note 6)	1,095.4	829.0
Other long-term liabilities	143.2	130.6
Future tax liabilities	95.9	86.4
Employee future benefits obligation	130.0	125.1
Minority interest	35.8	35.6
	<b>3,306.4</b>	<b>3,295.9</b>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 7)	320.5	325.1
Contributed surplus	4.7	3.2
Retained earnings	2,944.2	2,652.2
Accumulated other comprehensive loss (Note 8)	(20.4)	(28.1)
	<b>3,249.0</b>	<b>2,952.4</b>
	<b>\$ 6,555.4</b>	<b>\$ 6,248.3</b>
Contingent liabilities (Note 17)		
Subsequent events (Note 20)		

See accompanying notes to the unaudited interim consolidated financial statements.

**EMPIRE COMPANY LIMITED**  
**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS**  
**53 WEEKS ENDED**  
(Unaudited, \$ in millions)

	<u>May 7 2011</u>	<u>May 1 2010</u>
Balance, beginning of year as previously reported	\$ 2,652.2	\$ 2,405.8
Implementation of new accounting standards (Note 1)	-	(4.7)
Balance, beginning of year as restated	<u>2,652.2</u>	<u>2,401.1</u>
Net earnings	369.5	301.9
Dividends		
Preferred shares	(0.1)	(0.1)
Common shares	(54.4)	(50.7)
Premium on common shares purchased for cancellation (Note 7)	<u>(23.0)</u>	<u>-</u>
Balance, end of year	<u>\$ 2,944.2</u>	<u>\$ 2,652.2</u>

**EMPIRE COMPANY LIMITED**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**PERIODS ENDED**  
(Unaudited, \$ in millions)

	<u>May 7 2011 (14 weeks)</u>	<u>May 1 2010 (13 weeks)</u>	<u>May 7 2011 (53 weeks)</u>	<u>May 1 2010 (52 weeks)</u>
Net earnings	\$ 92.3	\$ 73.5	\$ 369.5	\$ 301.9
Other comprehensive income				
Unrealized gains on available-for-sale financial assets, net of income taxes of \$0.1; \$0.1; \$0.2; \$0.2	0.2	0.2	1.0	0.8
Reclassification of loss on available-for-sale financial assets to earnings, net of income taxes of \$Nil; \$Nil	-	0.2	-	0.2
Unrealized gains on derivatives designated as cash flow hedges, net of income taxes of \$0.1; \$1.5; \$0.1; \$4.1	0.4	2.6	0.3	7.6
Reclassification of loss on derivative instruments designated as cash flow hedges to earnings, net of income taxes of \$0.6; \$0.6; \$2.6; \$2.9	1.4	1.7	5.5	6.4
Share of comprehensive income of entities accounted for using the equity method, net of income taxes of \$0.2; \$Nil; \$0.8; \$4.0	0.5	0.2	2.5	7.6
Foreign currency translation adjustment	(1.0)	(0.4)	(1.6)	(2.2)
	<u>1.5</u>	<u>4.5</u>	<u>7.7</u>	<u>20.4</u>
Comprehensive income	<u>\$ 93.8</u>	<u>\$ 78.0</u>	<u>\$ 377.2</u>	<u>\$ 322.3</u>

See accompanying notes to the unaudited interim consolidated financial statements.

**EMPIRE COMPANY LIMITED**  
**CONSOLIDATED STATEMENTS OF EARNINGS**  
**PERIODS ENDED**  
(Unaudited, \$ in millions, except per share amounts)

	<b>May 7</b> <b>2011</b> <i>(14 weeks)</i>	May 1 2010 <i>(13 weeks)</i>	<b>May 7</b> <b>2011</b> <i>(53 weeks)</i>	May 1 2010 <i>(52 weeks)</i>
Sales	<b>\$ 4,191.5</b>	\$ 3,836.8	<b>\$ 16,029.2</b>	\$ 15,516.2
Operating expenses				
Cost of sales, selling and administrative expenses	<b>3,969.9</b>	3,638.6	<b>15,199.5</b>	14,728.2
Depreciation and amortization	<b>94.3</b>	87.0	<b>362.1</b>	339.7
	<b>127.3</b>	111.2	<b>467.6</b>	448.3
Investment income (Note 9)	<b>6.0</b>	7.3	<b>29.8</b>	31.4
Operating income	<b>133.3</b>	118.5	<b>497.4</b>	479.7
Interest expense				
Long-term debt	<b>16.6</b>	16.7	<b>68.0</b>	67.9
Short-term debt	<b>0.3</b>	1.5	<b>3.3</b>	4.6
	<b>16.9</b>	18.2	<b>71.3</b>	72.5
	<b>116.4</b>	100.3	<b>426.1</b>	407.2
Capital gains (losses) and other items (Note 10)	<b>0.7</b>	1.8	<b>61.3</b>	(0.6)
Earnings before income taxes and minority interest	<b>117.1</b>	102.1	<b>487.4</b>	406.6
Income taxes (Note 11)				
Current	<b>18.9</b>	41.2	<b>106.1</b>	109.2
Future	<b>3.1</b>	(12.9)	<b>2.8</b>	(10.1)
	<b>22.0</b>	28.3	<b>108.9</b>	99.1
Earnings before minority interest	<b>95.1</b>	73.8	<b>378.5</b>	307.5
Minority interest	<b>2.8</b>	0.3	<b>9.0</b>	5.6
Net earnings	<b>\$ 92.3</b>	\$ 73.5	<b>\$ 369.5</b>	\$ 301.9
Earnings per share (Note 3)				
Basic	<b>\$ 1.36</b>	\$ 1.07	<b>\$ 5.43</b>	\$ 4.41
Diluted	<b>\$ 1.36</b>	\$ 1.07	<b>\$ 5.42</b>	\$ 4.40
Weighted average number of common shares outstanding, in millions (Note 7)				
Basic	<b>67.8</b>	68.4	<b>68.0</b>	68.4
Diluted	<b>68.0</b>	68.5	<b>68.2</b>	68.5

See accompanying notes to the unaudited interim consolidated financial statements.

**EMPIRE COMPANY LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**PERIODS ENDED**  
(Unaudited, \$ in millions)

	<b>May 7</b> <b>2011</b> <b>(14 weeks)</b>	May 1 2010 <b>(13 weeks)</b>	<b>May 7</b> <b>2011</b> <b>(53 weeks)</b>	May 1 2010 <b>(52 weeks)</b>
<b>Operating Activities</b>				
Net earnings	\$ 92.3	\$ 73.5	\$ 369.5	\$ 301.9
Items not affecting cash (Note 12)	101.2	72.8	308.8	358.0
Preferred dividends	-	-	(0.1)	(0.1)
	<u>193.5</u>	146.3	<u>678.2</u>	659.8
Net change in non-cash working capital	<u>150.0</u>	<u>174.5</u>	<u>8.4</u>	<u>124.3</u>
Cash flows from operating activities	<u>343.5</u>	320.8	<u>686.6</u>	784.1
<b>Investing Activities</b>				
Net (increase) decrease in investments	(2.4)	1.0	(38.4)	(50.5)
Net proceeds from sale of Wajax (Note 2)	-	-	121.3	-
Purchase of property and equipment	(172.5)	(128.0)	(554.0)	(434.0)
Proceeds on disposal of property and equipment	16.7	65.6	176.7	137.1
Additions to intangibles	(5.9)	(8.2)	(34.3)	(34.7)
Loans and other receivables	(4.8)	(15.5)	34.5	(44.1)
Increase in other assets	(1.4)	(7.3)	(4.5)	(5.9)
Business acquisitions (Note 16)	(1.6)	(0.4)	(17.0)	(34.0)
Cash flows used in investing activities	<u>(171.9)</u>	<u>(92.8)</u>	<u>(315.7)</u>	<u>(466.1)</u>
<b>Financing Activities</b>				
Increase (decrease) in bank indebtedness	2.1	(71.4)	(9.7)	(28.1)
Issue of long-term debt	19.3	18.1	218.3	97.7
Repayment of long-term debt	(43.5)	(15.3)	(272.7)	(158.6)
Decrease in minority interest	(0.5)	(2.2)	(8.8)	(8.9)
Repurchase of preferred shares (Note 7)	-	-	(0.1)	-
Repurchase of Non-Voting Class A shares (Note 7)	-	-	(27.6)	-
Common dividends	(13.5)	(12.7)	(54.4)	(50.7)
Cash flows used in financing activities	<u>(36.1)</u>	<u>(83.5)</u>	<u>(155.0)</u>	<u>(148.6)</u>
Increase in cash and cash equivalents	135.5	144.5	215.9	169.4
Cash and cash equivalents, beginning of period	<u>481.4</u>	<u>256.5</u>	<u>401.0</u>	<u>231.6</u>
Cash and cash equivalents, end of period	<u>\$ 616.9</u>	<u>\$ 401.0</u>	<u>\$ 616.9</u>	<u>\$ 401.0</u>

See accompanying notes to the unaudited interim consolidated financial statements.

**EMPIRE COMPANY LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**MAY 7, 2011**  
(Unaudited, \$ in millions)

**1. Summary of Significant Accounting Policies**

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of Empire Company Limited (the "Company"), all subsidiary companies, including 100 percent owned Sobeys Inc. ("Sobeys") and certain enterprises considered variable interest entities where control is achieved on a basis other than through ownership of a majority of voting rights.

**Interim consolidated financial statements**

These unaudited interim consolidated financial statements have been prepared in accordance with the requirements of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1751, "Interim Financial Statements". Accordingly, certain information and note disclosure normally included in annual financial statements prepared in accordance with GAAP have been omitted or condensed. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended May 1, 2010, as set out in the 2010 Annual Report.

In the opinion of management, these unaudited interim consolidated financial statements include all adjustments considered necessary by management to present a fair statement of the results of operations, financial position and cash flows. Unless otherwise noted hereunder, these unaudited interim consolidated financial statements were prepared using the same policies and methods of computation as the audited consolidated financial statements for the year ended May 1, 2010.

**Accounting standards and policies adopted during fiscal 2010**

***Goodwill and intangible assets***

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which replaced existing Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development". The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. As a result of adopting Section 3064, Emerging Issues Committee ("EIC") Abstract 27, "Revenues and Expenditures During the Pre-Operating Period", no longer applies. The Company implemented these requirements, in compliance with transitional provisions, effective for the first quarter of fiscal 2010 retrospectively with restatement of the comparative periods. The initial impact under the new standard as at May 3, 2009 was a decrease to prepaid expenses of \$6.9, a decrease to other assets of \$62.4, a decrease in property and equipment of \$33.7, an increase to intangibles of \$96.1, a decrease of future tax liabilities of \$2.2 as well as a reduction of retained earnings of \$4.7.

***Financial Instruments - Disclosures***

In June 2009, the CICA issued amendments to the existing Section 3862, "Financial Instruments - Disclosures", to more closely align the Section with those required under International Financial Reporting Standards ("IFRS"). The amendments include enhanced disclosure requirements relating to fair value measurements of financial instruments and liquidity risks. These amendments apply for annual financial statements with fiscal years ending after September 30, 2009. The Company implemented these enhanced disclosure requirements in compliance with transitional provisions. The new disclosures did not have a material impact.

**Future changes in accounting standards and policies**

***International Financial Reporting Standards***

On February 13, 2008, the Accounting Standards Board of Canada announced that GAAP for publicly accountable enterprises will be replaced by IFRS. IFRS must be adopted for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011, with retrospective adoption and restatement of the comparative fiscal year ended May 7, 2011. Accordingly, the conversion from GAAP to IFRS will be applicable to the Company's reporting for the first quarter of fiscal 2012 for which the current and comparative information will be prepared under IFRS.

The Company, with the assistance of its external advisors, launched an internal initiative to govern the conversion process and has been evaluating the impact of the conversion to IFRS on its financial statements. The transition to IFRS impacts accounting, financial reporting, internal control over financial reporting, information systems and business processes.

The Company has been transitioning to IFRS under a formal project governance structure, and has been providing regular progress reports to senior management and the audit committee. The Company has also completed a diagnostic impact assessment, which involved a review of the major differences between current GAAP and IFRS, as well as establishing an implementation guideline. In accordance with this guideline, the Company established a staff training program and has completed an analysis of the key decision areas, including analyzing the appropriate accounting policy selections from available IFRS options, and making recommendations on same.

The Company continues to assess the impact of the transition to IFRS and to review all of the proposed and ongoing projects of the International Accounting Standards Board to determine their impact on the Company.

**EMPIRE COMPANY LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**MAY 7, 2011**

(Unaudited, \$ in millions except per share amounts)

**2. Sale of Wajax Income Fund**

On October 5, 2010, ECL Western Holdings Limited (a wholly owned subsidiary of the Company) sold its 27.5% ownership interest in Wajax Income Fund ("Wajax"). Details of the sale was as follows:

Net proceeds	<b>\$ 121.3</b>
Book value	<u>34.5</u>
Capital gain before income taxes	<b>86.8</b>
Income taxes	<u>6.7</u>
Net capital gain	<u><b>\$ 80.1</b></u>

**3. Earnings Per Share**

Earnings applicable to common shares is comprised of the following:

	<u>2011</u> <i>(14 weeks)</i>	<u>2010</u> <i>(13 weeks)</i>	<u>2011</u> <i>(53 weeks)</i>	<u>2010</u> <i>(52 weeks)</i>
Operating earnings	<b>\$ 92.3</b>	\$ 71.9	<b>\$ 307.8</b>	\$ 284.5
Capital gains and other items, net of income taxes of \$0.7; \$0.2; \$(0.4); \$(18.0)	<u>-</u>	<u>1.6</u>	<u>61.7</u>	<u>17.4</u>
Net earnings	<b>92.3</b>	73.5	<b>369.5</b>	301.9
Preferred share dividends	<u>-</u>	<u>-</u>	<u>(0.1)</u>	<u>(0.1)</u>
Earnings applicable to common shares	<u><b>\$ 92.3</b></u>	<u>\$ 73.5</u>	<u><b>\$ 369.4</b></u>	<u>\$ 301.8</u>

Included in income taxes of \$(18.0) for the year ended May 1, 2010 was an income tax recovery of \$17.0 (see Note 12).

Earnings per share is comprised of the following:

Operating earnings	<b>\$ 1.36</b>	\$ 1.05	<b>\$ 4.52</b>	\$ 4.16
Net capital gains and other items	<u>-</u>	<u>0.02</u>	<u>0.91</u>	<u>0.25</u>
Basic earnings per share	<u><b>\$ 1.36</b></u>	<u>\$ 1.07</u>	<u><b>\$ 5.43</b></u>	<u>\$ 4.41</u>
Operating earnings	<b>\$ 1.36</b>	\$ 1.05	<b>\$ 4.51</b>	\$ 4.15
Net capital gains and other items	<u>-</u>	<u>0.02</u>	<u>0.91</u>	<u>0.25</u>
Diluted earnings per share	<u><b>\$ 1.36</b></u>	<u>\$ 1.07</u>	<u><b>\$ 5.42</b></u>	<u>\$ 4.40</u>

**EMPIRE COMPANY LIMITED**  
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**4. Inventories**

The cost of inventories recognized as an expense during the fourth quarter and year-to-date of fiscal 2011 was \$3,108.5 and \$11,945.5 respectively (2010 - \$2,839.2 and \$11,616.1). The Company has recorded \$18.3 (2010 - \$12.2) as an expense for the write down below cost to net realizable value for inventories on hand as at May 7, 2011. There were no reversals of inventories written down previously (2010 - \$nil).

**5. Investments, at Equity**

	<u>May 7 2011</u>	<u>May 1 2010</u>
Wajax Income Fund	\$ -	\$ 30.8
Crombie REIT (46.4% interest)	(6.3)	8.4
U.S. residential real estate partnerships	33.1	17.6
	<u>\$ 26.8</u>	<u>\$ 56.8</u>

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

	<u>May 7 2011</u>	<u>May 1 2010</u>
Balance, beginning of year	\$ 30.8	\$ 31.0
Equity earnings	8.7	9.2
Share of comprehensive income	0.9	(0.2)
Distributions received	(5.9)	(9.2)
Sale of interest in Wajax	(34.5)	-
Balance, end of year	<u>\$ -</u>	<u>\$ 30.8</u>

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

	<u>May 7 2011</u>	<u>May 1 2010</u>
Balance, beginning of year	\$ 8.4	\$ (19.7)
Equity earnings		
Continuing operations	18.7	18.6
Other expenses	-	(4.7)
Share of comprehensive income	2.7	11.8
Distributions received	(26.7)	(24.9)
Deferral of gains on sale of property	(33.1)	(2.7)
Interest acquired in Crombie REIT	20.5	30.0
Dilution gain	3.2	-
Balance, end of year	<u>\$ (6.3)</u>	<u>\$ 8.4</u>

On August 4, 2010, Crombie REIT closed a bought-deal public offering of units at a price of \$11.05 per unit. In satisfaction of its pre-emptive right with respect to the public offering, the Company subscribed for \$20.5 of Class B Units (which are convertible on a one-for-one basis into units of Crombie REIT). During the year, conversion of Crombie REIT debentures also resulted in the issuance of additional Crombie REIT units. Consequently the Company's interest in Crombie REIT was reduced from 47.4% to 46.4%.

**EMPIRE COMPANY LIMITED**  
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**6. Long-Term Debt**

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%, maturing June 7, 2040.

On June 4, 2010, the Company renewed its Credit Facilities which were reduced from \$650.0 to \$450.0, maturing on June 30, 2013.

**7. Capital Stock**

During the second quarter, 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.

During the 14 and 53 weeks ended May 7, 2011, the Company purchased for cancellation 2,200 and 3,100 respectively of Series 2 preferred shares for \$0.1.

**8. Accumulated Other Comprehensive Loss**

The following table provides further detail regarding the composition of accumulated other comprehensive loss:

	<u>May 7 2011</u>	<u>May 1 2010</u>
Balance, beginning of year	\$ (28.1)	\$ (48.5)
Other comprehensive income for the year	<u>7.7</u>	<u>20.4</u>
Balance, end of year	<u>\$ (20.4)</u>	<u>\$ (28.1)</u>

An estimated net loss of \$6.4 recorded in accumulated other comprehensive loss related to the cash flow hedges as at May 7, 2011 (May 1, 2010 - \$6.0), is expected to be reclassified to net earnings during the next 12 months. Remaining amounts will be reclassified to net earnings over periods up to seven years.

**9. Investment Income**

	<u>2011 (14 weeks)</u>	<u>2010 (13 weeks)</u>	<u>2011 (53 weeks)</u>	<u>2010 (52 weeks)</u>
Dividend and interest income	\$ 0.3	\$ 0.3	\$ 1.0	\$ 3.3
Share of earnings of entities accounted using the equity method	<u>5.7</u>	<u>7.0</u>	<u>28.8</u>	<u>28.1</u>
	<u>\$ 6.0</u>	<u>\$ 7.3</u>	<u>\$ 29.8</u>	<u>\$ 31.4</u>

**EMPIRE COMPANY LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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(Unaudited, \$ in millions)

**10. Capital Gains (Losses) and Other Items**

	2011 <i>(14 weeks)</i>	2010 <i>(13 weeks)</i>	2011 <i>(53 weeks)</i>	2010 <i>(52 weeks)</i>
Gain on sale of Wajax (Note 2)	\$ -	\$ -	\$ 86.8	\$ -
Donation of Wajax units	-	-	(6.0)	-
Store and distribution centre closure costs	-	-	(21.5)	-
Reduction of book value of real estate assets	-	-	(2.7)	-
Gain (loss) on disposal of assets	0.7	(0.3)	3.2	(0.2)
Change in fair value of Canadian third-party asset-backed commercial paper	-	2.1	1.6	3.4
Foreign exchange (losses) gains	-	-	(0.1)	0.9
Equity share of Crombie REIT's other expenses	-	-	-	(4.7)
	<u>\$ 0.7</u>	<u>\$ 1.8</u>	<u>\$ 61.3</u>	<u>\$ (0.6)</u>

During the 13 weeks ended October 30, 2010, Sobeys recorded \$16.1 in pre-tax costs associated with the Price Chopper banner in Ontario due to pending store closures and \$5.4 in pre-tax severance costs related to the future closure of the Brantford, Ontario distribution centre. Also the Company recorded an impairment charge of \$2.7 to reduce the carrying value of one commercial property to estimated fair value, reflecting the changing market condition of that particular property.

**11. Income Taxes**

The Company's effective income tax rate for the year ended May 7, 2011 of 22.3% was lower than the estimated combined statutory rate of 28.7% primarily due to reduced tax rates applicable to the tax treatment of capital gains on the sale of Wajax (Note 2). Also the effective income tax rates for both the Company's fourth quarter and year-to-date were affected by the timing of the realization of certain tax benefits.

The effective income tax rate for the year ended May 1, 2010 of 24.4% differed from the combined statutory rate of 30.1% due to the settlement negotiated with Canada Revenue Agency relating to the tax treatment of gains realized on the sale of shares of Hannaford Bros. Co. in fiscal 2001. Income tax expense was reduced by \$17.0 as a result of that settlement. Income tax was further reduced by \$4.7 as a result of statutory income tax rate changes.

**12. Supplementary Cash Flow Information**

	2011 <i>(14 weeks)</i>	2010 <i>(13 weeks)</i>	2011 <i>(53 weeks)</i>	2010 <i>(52 weeks)</i>
<b>a) Items not affecting cash</b>				
Depreciation	\$ 85.1	\$ 79.1	\$ 324.0	\$ 307.8
Amortization of intangibles	9.2	7.9	38.1	31.9
Future tax provision	3.1	(12.9)	2.8	(10.1)
(Gain) loss on disposal of assets	(1.9)	2.4	(2.7)	2.2
Amortization of deferred items	0.2	1.4	0.2	3.3
Provision on asset-backed commercial paper	-	(2.1)	(1.6)	(3.4)
Equity in earnings of other entities, net of dividends received	1.2	1.5	3.8	10.7
Stock-based compensation	0.4	0.5	1.6	1.6
Employee future benefits obligation	1.0	2.1	4.9	6.7
Increase in deferred lease obligation	1.3	3.3	8.7	12.4
Minority interest	2.8	0.3	9.0	5.6
Business rationalization (Note 20)	(1.2)	(10.7)	4.1	(10.7)
Gain on sale of Wajax	-	-	(86.8)	-
Reduction of book value of real estate assets	-	-	2.7	-
	<u>\$ 101.2</u>	<u>\$ 72.8</u>	<u>\$ 308.8</u>	<u>\$ 358.0</u>
<b>b) Other cash flow information</b>				
Interest paid	<u>\$ 23.9</u>	<u>\$ 24.2</u>	<u>\$ 67.8</u>	<u>\$ 69.9</u>
Income taxes paid	<u>\$ 13.6</u>	<u>\$ 21.4</u>	<u>\$ 122.8</u>	<u>\$ 91.6</u>

**EMPIRE COMPANY LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**13. Segmented Information**

	2011 <i>(14 weeks)</i>	2010 <i>(13 weeks)</i>	2011 <i>(53 weeks)</i>	2010 <i>(52 weeks)</i>
<b>Segmented sales</b>				
Food retailing	\$ 4,103.0	\$ 3,754.9	\$ 15,761.6	\$ 15,243.0
Real estate				
Residential	42.9	29.0	72.7	63.3
Commercial	2.4	3.8	12.9	17.3
	<u>45.3</u>	<u>32.8</u>	<u>85.6</u>	<u>80.6</u>
Investment and other operations	45.1	52.3	189.0	202.2
	<u>4,193.4</u>	<u>3,840.0</u>	<u>16,036.2</u>	<u>15,525.8</u>
Elimination of inter-segment	(1.9)	(3.2)	(7.0)	(9.6)
	<u>\$ 4,191.5</u>	<u>\$ 3,836.8</u>	<u>\$ 16,029.2</u>	<u>\$ 15,516.2</u>

	2011 <i>(14 weeks)</i>	2010 <i>(13 weeks)</i>	2011 <i>(53 weeks)</i>	2010 <i>(52 weeks)</i>
<b>Segmented operating income</b>				
Food retailing	\$ 115.9	\$ 98.4	\$ 445.8	\$ 425.3
Real estate				
Residential	18.1	14.8	32.3	31.0
Crombie REIT	5.1	4.4	18.7	18.6
Commercial	(0.2)	(0.4)	2.6	1.2
Investment and other operations				
Wajax	-	2.3	8.7	9.2
Other operations, net of corporate expenses	(5.6)	(1.0)	(10.7)	(5.6)
	<u>\$ 133.3</u>	<u>\$ 118.5</u>	<u>\$ 497.4</u>	<u>\$ 479.7</u>

	May 7 2011	May 1 2010
<b>Identifiable assets</b>		
Food retailing (excluding goodwill)	\$ 4,945.1	\$ 4,524.0
Goodwill	1,137.6	1,131.8
Food retailing	6,082.7	5,655.8
Real estate	223.8	315.5
Investment and other operations (including goodwill of \$40.8; May 1, 2010 - \$40.8)	248.9	277.0
	<u>\$ 6,555.4</u>	<u>\$ 6,248.3</u>

	2011 <i>(14 weeks)</i>	2010 <i>(13 weeks)</i>	2011 <i>(53 weeks)</i>	2010 <i>(52 weeks)</i>
<b>Depreciation and amortization</b>				
Food retailing	\$ 86.5	\$ 82.2	\$ 339.0	\$ 318.3
Real estate	0.1	0.3	0.7	1.3
Investment and other operations	7.7	4.5	22.4	20.1
	<u>\$ 94.3</u>	<u>\$ 87.0</u>	<u>\$ 362.1</u>	<u>\$ 339.7</u>

	2011 <i>(14 weeks)</i>	2010 <i>(13 weeks)</i>	2011 <i>(53 weeks)</i>	2010 <i>(52 weeks)</i>
<b>Capital expenditures</b>				
Food retailing	\$ 170.7	\$ 105.5	\$ 519.4	\$ 341.4
Real estate	1.0	18.4	10.6	68.1
Investment and other operations	0.8	4.1	24.0	24.5
	<u>\$ 172.5</u>	<u>\$ 128.0</u>	<u>\$ 554.0</u>	<u>\$ 434.0</u>

**EMPIRE COMPANY LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**14. Related-Party Transactions**

Related-party transactions are with Crombie REIT. The Company holds a 46.4 percent ownership interest and accounts for its investment using the equity method.

During the year ended May 7, 2011, subsidiaries of the Company sold twelve properties to Crombie REIT for net proceeds of \$104.0, which was fair market value. Since the sales were to an equity accounted investment, the gains on sale were not included in earnings, rather the gains reduced the carrying value of the Company's equity investment in Crombie REIT.

**15. Employee Future Benefits**

During the Company's fourth quarter and year-to-date of fiscal 2011, the net employee future benefit expense was \$11.0 and \$39.6 respectively (2010 - \$9.7 and \$40.4). The expense included costs for the Company's defined contribution pension plans, defined benefit pension plans, post-retirement benefit plans and post-employment benefit plans.

**16. Business Acquisitions**

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

	<b>2011</b> <b>(14 weeks)</b>	2010 <b>(13 weeks)</b>	<b>2011</b> <b>(53 weeks)</b>	2010 <b>(52 weeks)</b>
<u>Stores</u>				
Inventory	\$ (6.0)	\$ 2.8	\$ 5.4	\$ 6.0
Property and equipment	2.1	2.2	3.1	7.1
Intangibles	-	0.2	2.5	3.9
Goodwill	5.8	1.0	5.8	1.2
Other assets (liabilities)	(0.3)	(6.9)	0.2	(8.3)
	<u>1.6</u>	<u>(0.7)</u>	<u>17.0</u>	<u>9.9</u>
<u>Prescription files</u>				
Intangibles	-	1.1	-	6.9
Cash consideration	<u>\$ 1.6</u>	<u>\$ 0.4</u>	<u>\$ 17.0</u>	<u>\$ 16.8</u>

During fiscal 2010, ECL Properties Limited (a subsidiary of the Company) acquired additional units of two residential partnerships already co-owned by the Company for cash consideration of \$17.2. The acquisitions were accounted for using the purchase method with net identifiable assets, primarily land inventory, recorded at \$22.6 and future tax liabilities recorded at \$5.4.

**17. Contingent Liabilities**

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.

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.

**18. Stock-Based Compensation**

**Deferred share units**

Members of the Board of Directors may elect to receive all or any portion of their fees in deferred share units ("DSUs") in lieu of cash. The number of DSUs received is determined by the market value of the Company's Non-Voting Class A shares on each director's fee payment date. Additional DSUs are received as dividend equivalents. DSUs cannot be redeemed for cash until the holder is no longer a director of the Company. The redemption value of a DSU equals the market value of an Empire Company Limited Non-Voting Class A share at the time of the redemption. On an ongoing basis, the Company values the DSU obligation at the current market value of a corresponding number of Non-Voting Class A shares and records any increase in the DSU obligation as an operating expense. At May 7, 2011, there were 113,474 (May 1, 2010 - 104,527) DSUs outstanding. During the fourth quarter and year-to-date of the current fiscal year, the compensation expense was \$0.3 and \$1.4 respectively (2010 - \$0.7 and \$1.3).

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**18. Stock-Based Compensation (continued)**

**Stock option plan**

During the first quarter, the Company granted an additional 150,464 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 \$51.99 per share and expire in June 2018. The options vest over four years with 50 percent of the options vesting only if certain financial targets are attained in a given fiscal year. These options have been treated as stock-based compensation.

The compensation cost relating to the 14 and 53 weeks ended May 7, 2011 was \$0.4 and \$1.6 respectively (2010 - \$0.5 and \$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 \$1.6 (2010 - \$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	2.416%
Expected volatility	21.1%
Dividend yield	1.54%

**Phantom performance option plan**

Sobeys has a Phantom Performance Option Plan for eligible employees of Sobeys. Under the plan, units are granted at the discretion of the Board based on a notional equity value of Sobeys tied to a specified formula. Upon implementation, the units had a three year vesting period with 33.3 percent of the units vesting each year. Subsequent issuances have a four year vesting period with 25.0 percent of the units vesting each year. As the notional fair value of Sobeys changes, the employees are entitled to the incremental increase in the notional equity value over a five year period. The Company recognizes a compensation expense equal to the change in notional value over the original grant value on a straight-line basis over the vesting period. After the vesting period, any change in incremental notional equity value is recognized as a compensation expense immediately. This is recorded as an accrued liability until settlement and is remeasured at each interim and annual reporting period of the Company. As at May 7, 2011, 1,701,404 (May 1, 2010 - 1,379,175) units were outstanding and for the 14 and 53 weeks ended May 7, 2011, the Company recognized \$3.3 and \$8.9 respectively (2010 - \$3.2 and \$11.5) of compensation expense associated with this plan.

**19. Business Rationalization Costs**

During fiscal 2011, the Company continued to complete rationalizations of administrative functions. The Company also began to incur costs associated with the development of a new distribution centre in Terrebonne, Quebec. For the year ended May 7, 2011 costs of \$6.2 have been incurred and recognized (May 1, 2010 - \$nil). Additional rationalization costs are anticipated and will be quantified and disclosed throughout of fiscal 2012 as they are available. The costs associated with the organizational change are recorded as incurred as cost of sales, selling and administrative expenses in the statements of earnings. The liability as of May 7, 2011 is \$5.6 (May 1, 2010 - \$1.5). Total costs incurred as of May 7, 2011 were \$31.1.

**20. Subsequent Events**

Subsequent to year end, subsidiaries of the Company sold two properties to Crombie REIT for net proceeds of \$27.6, which was fair market value. Also a subsidiary of the Company sold its 50% interest in two properties to a third party for \$14.6. As part of these transactions, first mortgage loans totaling \$12.7 were paid in full.

**21. Comparative Figures**

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