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EMPIRE COMPANY LIMITED



**ANNUAL
REPORT**

1991

EMPIRE COMPANY LIMITED

EMPIRE COMPANY LIMITED is a diversified Canadian company headquartered in Stellarton, Nova Scotia.

Empire's activities span a number of industry sectors, the principal components of which are the retail and wholesale distribution of food products, real estate and corporate investment activities. Empire also maintains operations in the financial and leisure industries.

It is Empire's philosophy to make corporate investments in companies whose managements demonstrate leadership, long-term growth and profitability.

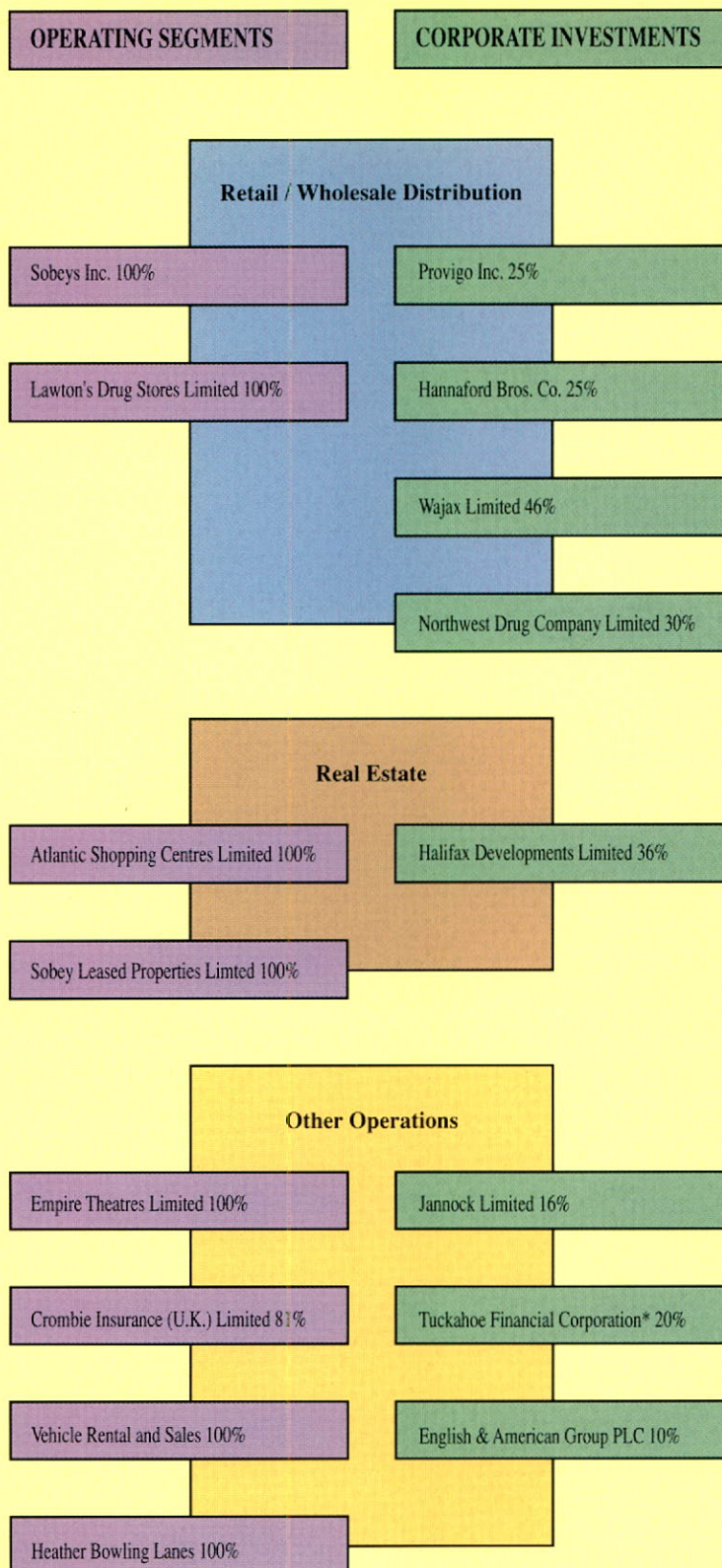
Empire supports existing management through Board representation and other shareholder arrangements so that each company's independent management can concentrate on its primary goals. This philosophy works especially well in industries which are similar to Empire's own operations.

Empire continually reviews the performance of these companies and assesses management and the results of their operations to ensure that they continue to fit its investment philosophy.

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CORPORATE PROFILE



*15 MILLION, 10% CONVERTIBLE
DEBENTURES IN TUCKAHOE FINANCIAL
CORPORATION CONVERTIBLE INTO
A 20% EQUITY INTEREST.

FINANCIAL HIGHLIGHTS

YEARS ENDED 1981 - 1991

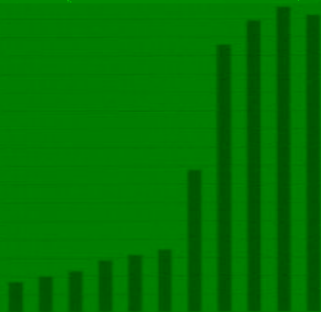
	1991	1990	1989	1988	1987
OPERATIONS					
Revenue	\$2,092,176	\$1,809,280	\$1,596,036	\$1,403,267	\$1,192,902
Depreciation	34,486	29,108	27,256	20,839	16,499
Income From Operations	31,092	31,713	37,359	33,727	15,607
Capital Gains & Other	—	(18,157)	796	3,266	18,097
Net Income	14,425	8,568	38,155	36,993	33,704
Cash Flow	59,783	55,653	56,939	46,485	36,933
Capital Expenditures	97,504	77,414	86,744	85,460	82,899
FINANCIAL POSITION					
Long-term Debt	430,740	386,684	308,038	242,024	195,885
Shareholders' Equity	404,300	417,768	398,264	368,125	193,970
Total Assets	1,401,989	1,291,382	1,224,659	1,035,373	781,585
PER SHARE INFORMATION (1) (2)					
Income From Operations	0.49	.52	.78	.78	.53
Capital Gains	—	(.54)	.02	.10	.73
Net Income (Loss)	0.01	(.17)	.78	.88	1.26
Cash Flow	1.32	1.23	1.37	1.18	1.39
Dividends Paid Cl. A	0.16	.16	.16	.14	.12
Dividends Paid Cl. B	0.06	.06	.06	.04	.02
Net Book Value	7.41	7.42	7.28	6.41	4.58
SHARE PRICE, NON-VOTING CLASS A (3)					
High	13.50	17.50	16.00	17.50	16.00
Low	8.75	12.25	10.75	9.00	10.00

1) After giving retroactive effect to: a) 2.5 for 1 share split in January 1982, b) 3 for 2 share split in December 1983, c) 2 for 1 share split in January 1986, d) 2 for 1 share split in October 1986.

2) Per share information is the same for the Non-Voting Class A and Class B common.

SHAREHOLDERS' EQUITY

TOTAL ASSETS



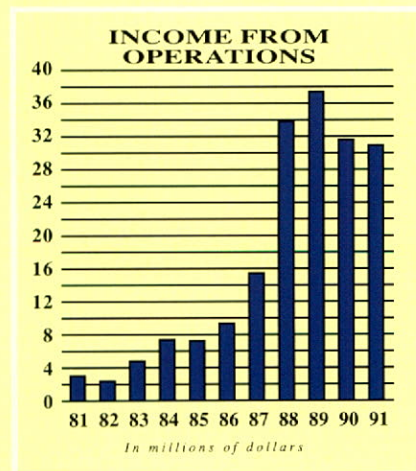
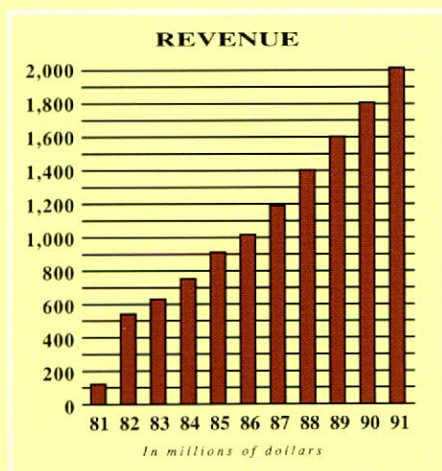
FINANCIAL HIGHLIGHTS

In Thousands of dollars except for common share amounts

1986	1985	1984	1983	1982	1981
\$1,041,861	\$908,935	\$755,753	\$625,303	\$544,143	\$161,940
13,568	12,078	8,404	6,887	6,417	3,130
9,719	7,316	7,493	4,419	2,336	3,272
2,631	1,190	805	1,009	4,557	3,432
12,350	8,506	8,298	5,428	6,893	6,704
31,068	23,755	17,765	12,055	16,439	9,624
34,542	90,510	25,065	8,941	24,397	17,239
139,235	132,434	91,646	90,810	89,677	59,830
86,049	76,196	70,881	54,094	50,954	42,502
533,653	449,654	335,625	286,120	261,731	237,075
.35	.25	.29	.16	.08	.13
.11	.05	.03	.04	.20	.18
.46	.30	.32	.20	.28	.31
1.23	.93	.72	.47	.69	.46
.11	.11	.11	.11	.07	.07
.01	.01				
2.62	2.20	1.96	1.68	1.51	1.24
9.31	4.25	4.00	2.42		
3.88	4.00	2.58	1.02		

3) Non-Voting Class A shares listed on the Toronto Stock Exchange July 9, 1982.

4) Earnings and cash flow per share amounts are calculated after providing for preferred share dividends accrued to the balance sheet date.



CHAIRMAN'S MESSAGE

Empire Company Limited has three primary classes of financial assets: food and drug distribution, real estate, and corporate investments. While these assets are substantial, the true underlying strength of any company comes from its people, their sense of vision, and the direction and will of its management.

The operating subsidiaries of Empire achieved record levels of revenues and cash flows. Unfortunately, additional non-recurring charges both at Provigo Inc. and Wajax Limited have adversely affected the results of Empire through equity accounting. The losses associated with Consumers Distributing at Provigo and the difficult times at Wajax as a result of the Pitman Company have now been resolved through the completed sale of these segments. Nevertheless, the current economic cycle will continue to have an effect on equity investments in both Jannock Limited and Wajax. Improving results are expected for Hannaford Bros. Co., Provigo and Northwest Drug Company Limited.

**MANAGEMENT CONTINUES TO PURSUE
OPPORTUNITIES WITHIN ATLANTIC CANADA
AND TO STRENGTHEN OUR EXISTING OPERATIONS,
BUT THE MAGNITUDE OF OUR ENTERPRISE
REQUIRES THAT IF WE ARE TO MAINTAIN OUR
GROWTH STANDARDS, WE MUST EXPAND
THE BOUNDARIES WITHIN WHICH WE OPERATE.**

Building upon the foundation established by our predecessors, Empire has become a significant Canadian enterprise, with the management in place to continue its successes into the future. The operating subsidiaries of the Company have been kept strong by significant reinvestment in assets and human resources. In addition, we have made significant outside investments where company management demonstrated leadership and offered the prospect of long-term profitability.

Over the last several years, your Company sold its trading portfolio of marketable investments to focus on a smaller number of equity-accounted holdings.

Management continues to pursue opportunities within Atlantic Canada and to strengthen our existing operations, but the magnitude of our enterprise requires that if we are to maintain our growth standards, we must expand the boundaries within which we operate. The current strategy might be summarized as follows:

1. To maintain and strengthen our Atlantic base of operations in terms of profitability and assets, both financial and human.
2. To seek expansion of our retail operations in Central Canada while our strategic investment in Hannaford Bros. continues its own growth in the northeastern United States markets.
3. To expand our real estate portfolio through Sobey Leased Properties in support of the retail operations of Sobeys Inc., and through

CHAIRMAN'S MESSAGE

examining opportunities for Atlantic Shopping Centres Limited to expand its real estate portfolio outside Atlantic Canada, where economic conditions may present new opportunities.

4. To maintain our investment philosophy of participating in the growth of superb enterprises through significant equity investments in companies whose managements demonstrate leadership for long-term growth and profitability.

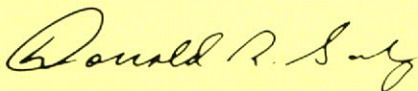
Consolidation of Empire's operating companies' financial statements makes it difficult for shareholders to evaluate the underlying strengths of each segment. The combining of real estate operations, which traditionally involve higher levels of leverage, with the food, retail and other operations, precludes a proper evaluation of the relative strengths of each segment. A significant amount of the Company's total long-term debt, approximately \$347 million this year versus \$308 million last year, is directly associated with the financing of Empire's real estate activities. When viewed in relation to the assets and cash flows which this debt finances, particularly when taken at current values, the levels of leverage for this segment are quite reasonable.

Empire's real estate operations have an interest coverage of over 1.6 times. In addition, this segment produced a combined cash flow of \$15.9 million, compared to last year's \$14 million of the overall Company cash flow of \$59.8 million for the current fiscal year. The results of operations of these real estate enterprises demonstrates the employment of reasonable levels of long-term debt to finance long-term assets, and the strength of the real estate cash flows.

Significant changes have taken place within the management of Empire's operating companies within the fiscal year. Doug Stewart joined Sobeys Inc. as its new President, while David Sobey remains as Chairman; and Donald Cameron has assumed the role of President of Lawton's Drug Stores, with Paul Sobey remaining as Chairman. Within Empire's significant equity investments, changes to the management structures have also taken place. At Wajax, Roger Short has assumed the role of President and Chief Executive Officer, and Ron Chorlton remains as Chairman. At Northwest Drug Company, Will Filion has become President and Chief Executive Officer, and at Jannock, Jay Atkinson has assumed the role of Chief Executive Officer, while Gordon MacNeill remains as Chairman. These are all very talented individuals and we are pleased to be associated with them.

We regret to announce that Mr. Robert Manuge will not be standing for re-election as a Director, due to age limitations. Bob is retiring after 18 years of service to the Board of Empire Company Limited, and after an even longer personal association with our family. We consider him to be a good friend and will miss the benefit of his insight and encouragement. We thank him for his many years of service to the Company.

No Chairman's Message could be complete without reference to the many fine employees of Empire's operating companies. It is the result of their enterprise and dedication to which Empire owes the success of our Company and, for their past and continuing efforts, we thank them.



Donald R. Sobey
Chairman

PRESIDENT'S MESSAGE

During 1991, Empire achieved record levels of revenue and cash flow.

Consolidated revenues passed the \$2 billion mark for the first time, reaching \$2,092 million, up 16% from 1990 at \$1,809 million. Cash flow reached \$59.8 million, an increase of 7% over 1990 at \$55.7 million.

Consolidated net earnings increased to \$14.4 million from \$8.6 million, an increase of 68% over 1990.

**LONG-TERM CONCENTRATION ON THE
STRENGTH OF THE BALANCE SHEET AND THE CASH
FLOW WILL BENEFIT THE SHAREHOLDERS THROUGH
BUILDING THE INTRINSIC VALUE OF THE COMPANY,
AND OVER TIME WILL BE REFLECTED IN
SIGNIFICANTLY INCREASED EARNINGS,
BOTH FROM CONSOLIDATED OPERATIONS AND
EQUITY-ACCOUNTED INVESTMENTS.**

Empire's Balance Sheet and cash flow remain strong and our operating subsidiaries performed well, given the recessionary economy. Detailed operational reports covering the food and retail segment, Lawton's Drugs, real estate, other operational businesses, and Empire's major equity investments are contained elsewhere in this report.

A brief summary is as follows:

In the past fiscal year, the food distribution segment increased its consolidated sales by 16.6% to \$1.9 billion, and its operating profit before interest and income taxes by 9.9% to \$44.9 million.

The real estate segment, represented by Atlantic Shopping Centres and Sobey Leased Properties, had record levels of rental revenues increasing to \$70.8 million on a consolidated basis, an increase of 6.6% over 1990's \$66.4 million. This segment's earnings before interest expense also set a record at \$48.2 million, an increase of 5.1% over 1990's \$45.9 million.

The major cause of earnings change from last year was the performance of our equity-accounted investments. Generally accepted accounting principles require Empire to report its proportionate share of equity-accounted profits and losses. Shareholders should be aware that those equity-accounted earnings do not affect Empire's cash flow.

Operating earnings at Provigo, Wajax, Jannock and Northwest Drugs were lower than these companies are capable of achieving on an ongoing basis. They contributed in aggregate \$7.2 million to income this year, compared with a \$1.4 million loss last year. The dividends, which Empire receives from companies for which it equity accounts, in 1991 amounted to \$12.8 million compared to \$12 million in 1990, an increase of 6.6%. These dividends, unlike the equity-accounted operating results, are a component of Empire's cash flow.

Empire continues to maintain its 25% interest in Provigo. For the 1991 fiscal year Provigo contributed equity-accounted operating earnings

PRESIDENT'S MESSAGE

of \$13.1 million compared with 1990's contribution of \$5.7 million. Empire's share of the final non-operating charges within Provigo, related to the disposal of the Consumers Distributing operating segment, amounted to \$14.7 million in 1991 compared with \$20.1 million in 1990, bringing the aggregate equity-accounted earnings of Provigo to an overall loss position within Empire of \$1.6 million in 1991, compared to a net loss of \$14.5 million in 1990.

The restructuring program of Provigo is beginning to show significant improvements in their operating earnings. The difficulties associated with the disposal of Consumers Distributing are substantially behind them. We look forward to continuing improvements at Provigo, enhancing

Empire's equity-accounted earnings, and the underlying value of Empire's investment in Provigo.

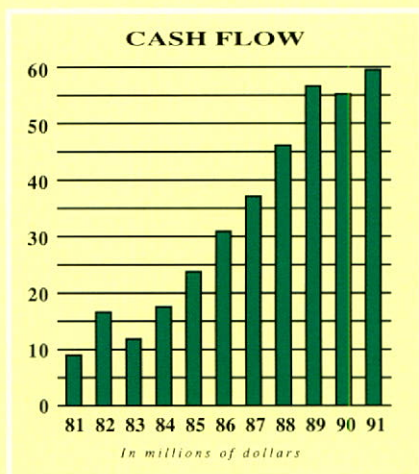
Wajax incurred additional losses related to discontinued operations during 1991 as a result of the disposal of its interest in the Pitman manufacturing subsidiary. Income from operations at Wajax declined during 1991 and Empire's share (46%) resulted in equity-accounted operating earnings of \$1.2 million, compared with \$3.7 million in the previous year. Taken together with the non-operating

charges of \$1.8 million in 1991, compared to \$3.9 million in 1990, Wajax's contribution to Empire's results again amounted to a loss of \$0.6 million, compared with \$0.2 million in 1990.

The operating results at Jannock were adversely affected by cyclical factors within the economy. Last year, Empire began to equity-account for Jannock. Jannock's contribution to Empire's current year's results was a loss of \$261,000 compared to a profit of \$4.6 million in 1990.

On a more positive note, Empire holds a 25% interest in Hannaford Bros. Co., the leading food retailer in Northern New England, which achieved another record year. Empire's share of Hannaford's earnings was \$10.9 million, compared to 1990's share of earnings of \$10.6 million. Hannaford's 1990 revenues were up 11% and consolidated net earnings up 7.4%. Operating results of Hannaford have yet to fully reflect the benefits of the company's major expansion into upstate New York over the past several years. Our share of Hannaford earnings, while increased over 1990, were negatively affected by the appreciation in the Canadian-U.S. dollar exchange rate, and a somewhat weaker first quarter in 1991, relating to Hannaford's costs associated with the acquisition of the Alexander's food chain.

Clearly, 1991's overall return on equity-accounted investments of \$7.2 million is not acceptable (especially when one considers Empire's investment in these companies exceeds \$590,000,000 at market value); however, it has improved over last year, and we are expecting further progress during 1992. Fortunately, interest rates have recently declined substantially, which lightens the burden of carrying these investments. Nevertheless, there will continue to be a deficiency on a current basis between the dividends produced by these investments and their carrying



PRESIDENT'S MESSAGE

costs, which can only be reconciled by an increasing value of these investments over long periods of time. We stress that long-term investment strategies cannot be judged by short-term fluctuations. Empire's overall investment philosophy has proven successful in the past, and we are confident about the future of our core holdings. Indicative of the importance of maintaining a long-term view, despite equity-accounted non-operating charges for discontinued operations of \$16.7 million during 1991, the unrecognized gain in respect of Empire's investment portfolio significantly increased during 1991 to \$244.7 million from \$165.5 million in 1990. This represents an increase of \$79.2 million for the year. While we are pleased with the \$79 million increase in the unrealized appreciation of our equity-accounted portfolio, it too is a short-term fluctuation. The same discipline applies to these favorable gains in market valuation as applies to the equity-accounted earnings disappointments; they both must be viewed in the longer term context.

We believe that it is the quality of the assets and normalized cash flow over a period of years that is more indicative of intrinsic value. It is more important that we maintain our focus on conservative valuations of assets and strong continuing cash flow, achieved through conservative accounting policies, than being overly preoccupied by the short-term need for achieving quarterly or even annual earnings increases. The long-term concentration on the strength of the Balance Sheet and the cash flow will benefit the shareholders through building the intrinsic value of the Company, and over time will be reflected in significantly increased earnings, both from consolidated operations and equity-accounted investments.

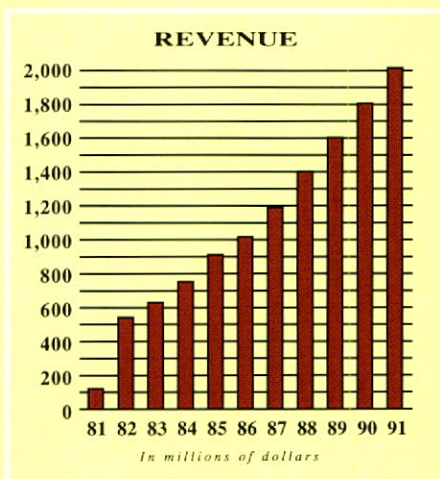
**WHILE WE ARE PLEASED WITH THE
\$79 MILLION INCREASE IN THE UNREALIZED
APPRECIATION OF OUR EQUITY-ACCOUNTED
PORTFOLIO, IT TOO IS A
SHORT-TERM FLUCTUATION. THE SAME
DISCIPLINE APPLIES TO THESE FAVORABLE GAINS IN
MARKET VALUATION AS APPLIES TO THE
EQUITY-ACCOUNTED EARNINGS DISAPPOINTMENTS;
THEY BOTH MUST BE VIEWED IN THE
LONGER TERM CONTEXT.**

Capital expenditures in 1991 amounted to \$97.5 million, primarily due to the expansion of Sobeys. Sobeys Inc. invested \$41.5 million directly, while Sobey Leased Properties Limited (SLPL) invested \$38.1 million in real estate in support of Sobeys Inc.'s operations. These capital expenditures were financed in part from operating cash flow and the issuance of

PRESIDENT'S MESSAGE

new long-term financing. SLPL issued three new series of 25-year mortgage sinking fund bonds totalling \$30.4 million at rates from 11.43% to 12.2%. Sobey's Inc. issued \$12.0 million in 20-year sinking fund debentures at 12.2%.

Despite a \$0.6 million decline in reported income before tax, income tax expense for the current year increased by \$1.6 million. This raised to 55% the effective tax rate from 46% last year. There are two reasons for this. Taxes paid under the new "Large Corporation Tax" increased by 38%. The balance relates to non-tax deductible reserves, established to reflect more conservative valuation of certain assets.



Dividends paid during 1991 totalled \$17.9 million: \$14.2 million on preferred shares and \$3.7 million on the common shares at the rates of \$0.16 per Class A share and \$0.06 per Class B share.

The operating companies of Empire produce the majority of the Company's cash flow. These companies have not been immune to the current economic situation, but we are very encouraged by their recent performance on a quarterly basis. A review of the consolidated operating income before the equity-accounted earnings and minority interests shows that in the year's fourth quarter, Empire's operating companies earned \$4.8 million after tax, which very nearly equated to the results of operations for the previous three quarters. While future earnings may not continue to show such significant gains, the trend is encouraging. With continued improvement from the operating subsidiaries, and better prospects at the investment level for equity-accounted earnings, results in 1992 should be significantly increased.

Our success as a Company is due to the continuing commitment and hard work of our employees. Their superlative efforts ensure that past achievements of Empire will continue into the future. To each of them, on behalf of the Company, our sincerest thanks.

James W. Gogan
President

REPORT ON OPERATIONS

FOOD AND RETAIL OPERATIONS

OVERVIEW

Empire's interests in food retailing and distribution remain the core of its activities. They account for 89% of revenues, and 45% of segmented operating profit before interest and taxes.

The past year was highlighted by substantial growth in both the revenues and earnings of Sobeys Inc.

Major investments in the food distribution business include a 25% interest in Hannaford Bros. Co., the largest food retailer in Northern New England, and 25% in Provigo Inc., one of the largest food distributors in North America. These two companies have combined sales of over \$8 billion, and Empire's equity interest at April 30, 1991, had a market value of \$477 million.

REVIEW OF FOOD AND RETAIL DISTRIBUTION OPERATIONS

SOBEYS INC.: Fiscal 1991 again vividly illustrated the importance of Sobeys Inc. to the Food and Retail Division of Empire Company Limited. The strong performance of Empire's operating business was once more the direct result of Sobeys' achievements.

Active reinvestment in the business and aggressive marketing strategies have long been key factors in Sobeys' successful pursuit of its strategic objectives. This past year, the company increased its consolidated sales 17%, to reach an all-time high of \$1,888 million. Growth in sales was coupled with an operating profit before interest and taxes of \$45 million (1990 – \$41 million).

This impressive performance was due to Sobeys' ongoing commitment to a strategic plan directed at continued growth and the development of its retail, wholesale, food service and ancillary operations.

**SOBEYS' PLANS CALL FOR FURTHER EXPANSION
IN FISCAL 1992, AS EIGHT NEW STORES
WILL BE CONSTRUCTED. TWO OF THESE STORES
HAVE ALREADY OPENED — IN BAIE COMEAU,
QUEBEC, AND HALIFAX, NOVA SCOTIA.
FOUR UNITS ARE CURRENTLY UNDER
CONSTRUCTION IN ATLANTIC CANADA.
MAJOR EXPANSIONS OR RENOVATIONS WILL ALSO
BE COMPLETED AT FIVE SOBEYS LOCATIONS
AND TWO LOFOOD STORES.**

RETAIL GROUP: Sobeys is very aware that continued growth depends on new store additions and the modernization or replacement of existing

REPORT ON OPERATIONS



**BRIAN PERRO, STORE MANAGER,
AT SOBEYS' NEWEST LOCATION,
THE 53,000 SQUARE FOOT CLAYTON PARK,
HALIFAX, NOVA SCOTIA, SUPERMARKET.
SHOWN ABOVE IS THE STORE'S SPECTACULAR
FOOD SERVICE COURT, A NEW LEVEL OF ENHANCED
CONVENIENCE FOR THE CUSTOMERS.**

REPORT ON OPERATIONS

stores. Six new stores were built during fiscal 1991 and a major expansion completed at another unit. At the end of the fiscal year, the group operated 121 stores – 98 under the Sobeys banner, 16 Lofood stores and 7 Calbeck's stores located in the Brantford, Ontario area.

Four of the new units were built in Atlantic Canada, as the Retail Group further increased its dominant position in this market. Sobeys stores were opened in Sydney and New Glasgow, Nova Scotia; Tracadie, New Brunswick; and Grand Bank, Newfoundland; for a total square footage addition in Atlantic Canada of 129,000 square feet. In keeping with its strategic commitment to strengthen existing stores, two of these openings replaced older stores. This type of activity allows the company to grow in its established markets by providing its customers with larger, brighter stores that offer a wider variety of choice and additional shopping conveniences. Expansions and major remodelling were also completed at three other Maritime locations.

The company's presence in Ontario was also expanded by a total of 68,000 square feet, with the opening of Sobeys stores in Grimsby and Woodstock, and the completion of a major renovation at Calbeck's largest store in Brantford. The Ontario division consisted of 12 stores (5 Sobeys and 7 Calbeck's) at the end of 1991 and was responsible for a significant portion of the Retail Group's growth during the past year. While the Calbeck's stores, acquired late in fiscal 1990, contributed to sales volume increases for the full year, the extremely competitive market has had a negative effect on earnings. Rationalization of distribution activities and operating changes are planned to improve earnings performance. The Ontario consumer's acceptance of the Sobeys store format has been most encouraging.

Sobeys' plans call for further expansion in fiscal 1992, as eight new stores will be constructed. Two of these stores have already opened – in Baie Comeau, Quebec, and Halifax, Nova Scotia. Four units are currently under construction in Atlantic Canada. Major expansions or renovations will also be completed at five Sobeys locations and two Lofood stores.

Sobeys opened a 70,000 square feet refrigerated meat and frozen food distribution centre at Debert, Nova Scotia in August 1990.

The Company recognizes that efficient distribution systems are an essential component of its expansion plans. Sobeys realizes the importance of technology in fulfilling its strategic commitment to be "a leading progressive food retailer". Today's customers expect excellent service; and their expectations can only be met through friendly employees who are assisted by effective computer systems and the various conveniences provided by modern retail technology. Our customers also demand value, and only the most efficient and productive retailers can consistently deliver value. During 1991, Sobeys addressed these issues by furthering its investment in systems and technology in order to improve customer service and employee efficiency.

Sobeys devoted significant resources to its preparations for the Goods and Services Tax during fiscal 1991. This involved both reprogramming existing Point-of-Sale scanning systems and replacing those older systems which could not accommodate the new tax calculations. By year end, scanning systems were operating in 82% of stores. All Sobeys' banner stores now have Direct Store Delivery systems with computerized interfaces to head office merchandising and accounts payable files. This communication link will be extended during 1992 to the remaining stores (Lofood

REPORT ON OPERATIONS

and Calbeck's) and be used to electronically transfer store sales and purchase information to Stellarton, Nova Scotia.

During 1992, work will continue on existing projects: direct product profitability, shelf space management, energy management and focus on two new systems scheduled for implementation over the next two years. Point-of-Sale (POS) interfaces will allow head office merchandising management to automatically download information and price changes into the POS scanning systems of all stores, thereby saving time and reducing the potential for errors. Planned introduction of a Time and Attendance system will provide management with better control over store payroll operations and considerably improve the transmission of payroll information by eliminating inefficient duplication of data entry functions.

These are further examples of Sobeys' determination to remain an industry leader in an increasingly competitive marketplace.

**THE WHOLESALE GROUP'S ATTITUDE HAS PLAYED
A MAJOR ROLE IN PRODUCING ITS IMPRESSIVE
PERFORMANCE. EACH COMPANY IS "RETAIL
DRIVEN" AND BELIEVES ITS GOODS ARE NOT SOLD
UNTIL THEY ARE PURCHASED BY A RETAIL
CONSUMER. THIS BELIEF IS SUPPORTED BY THE
WIDE VARIETY OF PROFESSIONAL SERVICES
OFFERED TO ITS INDEPENDENT RETAILERS,
AND THE INCREASING DEVELOPMENT OF
FRANCHISED OPERATIONS.**

WHOLESALE GROUP: Sobeys' wholesale operations (Atlantic Canada and Ontario) have made significant contributions to the Company's growth in recent years; 1991 was no different, as the Wholesale Group enjoyed its most successful year in terms of both sales and earnings. Each operating company, Lumsden Brothers in Ontario, T.R.A. Foods Limited in the Maritime Provinces, and T.R.A. Newfoundland, was responsible for its share of the success.

The Wholesale Group's attitude has played a major role in producing its impressive performance. Each company is "retail driven" and believes its goods are not sold until they are purchased by a retail consumer. This belief is supported by the wide variety of professional services offered to its independent retailers, and the increasing development of franchised operations (Foodland grocery stores and Needs convenience stores). Over 700 stores currently operate under one of the wholesale banners – Foodland, Needs, Kwikway, Riteway and Clover Farm.

The Foodland program continues to expand Sobeys' presence in the rural areas of Atlantic Canada and Ontario, as there are now 90 franchised and associated stores. The success of these independent

REPORT ON OPERATIONS

operators has been due to a partnership in which they provide entrepreneurial skill and drive, and our wholesale companies supply the sophisticated support services required to run a modern supermarket. This concept has also been successfully applied to the convenience store business through the 30 Needs stores located throughout Atlantic Canada.

The Wholesale Group places a great deal of importance on improving its operating efficiency. An older facility was replaced by a new warehouse and cash and carry operation in Stellarton, Nova Scotia, and significant investments were made in warehouse equipment and new computer software. This software is specifically designed for wholesale operators and will provide management with various capabilities and efficiencies that are not part of their current operating systems.

In order to continue to provide growth and future development, the Wholesale Group has focused on employee training activity. A record number of employees attended training programs during 1991 with most of the courses being conducted "in-house" by wholesale employees.

The commitment and involvement of employees has been vital to the development and growth of the Wholesale Group and has laid a solid foundation for further success in 1992 and beyond.

FOOD SERVICE GROUP: During recent years, Sobeys Food Service Division has broadened its base and geographic position through acquisitions and the upgrading or replacement of distribution facilities. This strategy proved beneficial in fiscal 1991, as the group recorded respectable volume increases in a market that was adversely affected by both the introduction of the G.S.T. and a deepening recession. Both Clover Produce (Atlantic Canada), and Burgess Wholesale (Ontario) contributed to this achievement.

The Food Service Group also maintained its aggressive capital expenditure program with the construction of a new distribution centre in Sydney, Nova Scotia; an enlargement of our Moncton, New Brunswick operation; and the purchase of warehouse and computer equipment for its other locations. Fiscal 1992 will see further investments in equipment and facilities as this division strives for greater operating efficiency and the delivery of the highest level of service to its customers.

INDUSTRIES GROUP: Sobeys' ancillary operations provide support services and private label products to the food distribution businesses. These Industry Group operations include a wholly-owned soft-drink plant, Big 8 Beverages; a commercial printing and sign making operation, Eastern Sign-Print; and laundry services, Eastern Laundry. During 1991, Eastern Sign-Print's facility was expanded to provide additional offset print and silk-screen production capacity. Big 8 achieved significant volume increases over the prior year primarily through Wholesale Group distribution. Sobeys also participates in two joint-ventures: Cape Breton Plastics Limited, which supplies Big 8 with bottles; and Naturdel Inc., a hydroponic greenhouse operation.

REPORT ON OPERATIONS

GENERAL: The long-term growth of Sobeys Inc. ultimately depends on its ability to generate funds, either internally or externally, to finance expansion activity. Long-term interest rates remained at unfavorable levels for the majority of 1991 and, as a result, the Company used internally generated cash flow and short-term external borrowings to finance the majority of its capital requirements. As a result \$12 million in long-term debt was issued in 1991 versus \$35 million in fiscal 1990.

Capital markets have improved significantly in recent months and Sobeys Inc. will be sourcing long-term debt financing at the reduced interest rates currently available. At year end, the Company reorganized its corporate structure in order to facilitate future long-term financings. While interest rates have eased, the economy continues to suffer in a major recession. Sobeys Inc. remains committed to reinvesting in its operations to realize efficiencies and deliver value to our customers for the long-term.

LAWTON'S DRUG STORES LIMITED: During fiscal 1991, Lawton's showed significant improvement in their pre-tax operating results over that of the prior year. Lawton's continued its focus on ensuring that it develops a financially sound operating position from which to serve the increasing needs of the health care customer in the 90s. This continued focus is yielding positive results in all areas of the company's operation.

Fiscal 1991 witnessed the opening of eight new or expanded stores. At year end, Lawton's operated 67 stores in the Atlantic Canada marketplace.

Lawton's demonstrated their commitment to effective in-store merchandising and execution in providing their customers with the quality products, service, and professional advice they both require and deserve.

This commitment was evident with the recent improvements to product selection and package size availability with the use of consumer oriented plan-o-grams product displays, and distribution arrangements.

The costs associated with the company's modernization program are yielding positive results. Empire is pleased to announce the appointment of Donald Cameron as President, effective October 1990. The operations of Lawton's are expected to continue their positive trend and provide a solid foundation for future growth and profitability.

REPORT ON OPERATIONS

REVIEW OF REAL ESTATE

OVERVIEW

Empire's participation in the real estate business remains one of its core activities. Through increased flexibility and market penetration, these operations complement the food distribution segment. Empire participates directly in the real estate business through two companies with distinct profiles: Atlantic Shopping Centres Limited (ASCL) and Sobey Leased Properties Limited (SLPL).

**THE ACCOUNTING POLICIES FOLLOWED BY
EMPIRE'S REAL ESTATE COMPANIES ARE AMONG
THE MOST CONSERVATIVE IN THE INDUSTRY.
THIS HAS RESULTED IN A HIGHER QUALITY OF
REPORTED ASSETS AND CASH FLOW.
CASH FLOW NET OF CAPITALIZED COSTS
IS SUBSTANTIALLY HIGHER AS A YIELD ON
ASSETS THAN OTHER MAJOR CANADIAN
REAL ESTATE COMPANIES. THIS IS LARGELY DUE
TO THE COMPANY'S CONSERVATIVE
CAPITALIZATION POLICIES.**

SLPL is involved in building and financing strip centres and freestanding stores in support of Sobeys Inc. retail food operations, while ASCL is engaged in the ownership and management of enclosed shopping centres. Atlantic is also involved in both the office and residential markets.

Approximately 90% of ASCL's and SLPL's combined property portfolios consists of retail real estate located throughout Atlantic Canada and in Quebec, Ontario and Maine.

Empire's real estate activities are operated on a low overhead basis, expressed as a percentage of rental revenues. The Real Estate Group traditionally operates and manages properties in which it has an ownership interest of 50% or more. In-house capabilities include extensive leasing abilities, as well as development, construction supervision, and finance. Architecture, engineering and design are contracted out to maintain the low core overheads.

The accounting policies followed by Empire's real estate companies are among the most conservative in the industry. This has resulted in a higher quality of reported assets and cash flow. Cash flow net of capitalized costs is substantially higher as a yield on assets than other major Canadian real estate companies. This is largely due to the Company's conservative capitalization policies.

These policies include the expensing of all carrying costs associ-

REPORT ON OPERATIONS

ated with land held for future development; all general and administrative costs, including leasing; and all lease inducement costs upon re-leasing of previously occupied retail space.

While these are difficult times to retain and achieve new tenancies, the overall vacancy rate for ASCL and SLPL stood at 5.2% at April 30, 1991, excluding Park Lane, and has been significantly reduced since year end.

Despite these difficult times, both ASCL and SLPL have continued to perform well, with its combined operating cash flow of \$15,890,000 (1990 - \$13,959,000).

The asset base and gross leasable area of these companies has grown over the years to create the largest commercial real estate operation in Atlantic Canada.

The Real Estate Group's land bank for future development is sufficient to permit more than two million square feet of retail construction, together with 600 acres for future residential development.

In addition to Empire's wholly-owned real estate operating companies, Empire maintains an equity investment in the real estate business through its 36% interest in Halifax Developments Limited. The gross leasable area of these combined holdings at year end was 9,482,800 square feet.

	Atlantic Shopping Centres	Sobey Leased Properties	Halifax Developments Limited	Total
Equity Interest	100%	100%	36%	
Gross Leasable Area				
Shopping Centres	4,562,659	1,235,751	437,200	6,235,610
Freestanding Retail	—	1,176,716	—	1,176,716
Office Buildings	772,503	—	822,400	1,594,903
Other Properties	13,000	211,740	250,800	475,540
Total	5,348,162	2,624,207	1,510,400	9,482,769

ATLANTIC SHOPPING CENTRES LIMITED: As Empire's leading vehicle in the real estate market, Atlantic Shopping Centres concentrates on solid growth through the efforts and expertise of its in-house team of real estate professionals. Since its inception, Atlantic has followed a policy of careful development, acquisition and management of its properties and, in the process, has become the single largest commercial real estate company in Atlantic Canada. Its portfolio now consists of 24 enclosed malls with 4,562,700 square feet of gross leasable area, and 10 office complexes with 772,500 square feet. The company's interests include several joint-ventures in Atlantic Canada, the northeastern United States, and London, England.

Atlantic's operating cash flow for the year was \$10.7 million (1990 - \$12.9 million). Although operating cash flow for fiscal 1991 was lower, your management was pleased with its performance, as the prior year's operations included a \$4.8 million gain on the sale of marketable securities

REPORT ON OPERATIONS

(1991 - \$422,000). In addition, this year's results included a full year of startup losses associated with our new Park Lane project in Halifax as compared to only six months in the prior year.

Park Lane continued to show improvement with its retail and office occupancy increasing to 82% and 81% respectively, despite the addition by competitive developments of 200,000 square feet of retail and office space in the immediate area.

The 1991 results included a reduced contribution from your Company's Residential Division, which was affected by the downturn in demand for residential housing lots. ASC Residential Properties Limited, which is a wholly-owned subsidiary of ASCL, develops and sells single- and multiple-family subdivision lots in the mid-price range throughout Nova Scotia.

Despite the sharp downturn that the housing industry experienced, the Residential Division, primarily because of its philosophy of having a minimum inventory of serviced lots available at any one time, was able to cover all its costs, including interest and overhead, and still contribute to the bottom line of ASCL, although at a reduced rate compared to previous years.

WITH THE CURRENT TURMOIL IN THE REAL ESTATE AND CREDIT MARKETS, WE BELIEVE THAT THE DIFFERENTIAL IN PERCEIVED VALUES BETWEEN BUYERS AND SELLERS WILL NARROW. ATLANTIC CONTINUES TO BE IN THE ENVIABLE POSITION OF HAVING ALMOST NO FLOATING RATE DEBT, AND REASONABLE LEVELS OF LEVERAGE.

Last year we told you that while the year saw significant opportunities to expand the Company through acquisitions, management believed that the sellers' yield expectations were unrealistic. With the current turmoil in the real estate and credit markets, we believe that the differential in values between buyers and sellers will narrow. Atlantic continues to be in the enviable position of having almost no floating rate debt, and reasonable levels of leverage.

Atlantic's cash flow and its Balance Sheet remain strong. The relative stability of its retail portfolio, compared to other regions within North America, has left Atlantic with significant financial resources. Employed on a judicious basis, these resources will enable Atlantic to make timely acquisitions as the "differential in perceived values" works its way through the markets. Management continues to investigate acquisition opportunities in the northeastern United States as a significant means to expanding Atlantic's real estate portfolio on favorable terms, while achieving a geographical diversification of its holdings.

For fiscal 1991, ASCL has continued to concentrate its resources on improving operating results of its existing real estate portfolio. ASCL's

REPORT ON OPERATIONS



**PORTLAND SQUARE II,
THE SECOND OF FOUR PLANNED
DEVELOPMENTS FOR THIS LOCATION,
OPENED JUNE 18, 1991,
AND HAS FURTHER STRENGTHENED
THIS DEVELOPMENT'S STANDING
AS THE PREFERRED OFFICE LOCATION
IN THIS SOUTHERN MAINE CITY.**

REPORT ON OPERATIONS

management continued to investigate means of reducing our tenants' shareable costs and improving operating efficiencies.

During fiscal 1991, Atlantic has finalized plans for a major development on its Sackville Downs property in Halifax County with the signing of a lease for a 100,000 square foot Woolco department store, and has completed construction on Portland Square II, a 145,000 square foot joint-venture office project in Portland, Maine.

Fiscal 1992 will see the commencement of our Sackville Downs development and completion of a strip centre in Moncton, New Brunswick, as well as the upgrade and modernization of several older centres.

Through careful site selection, substantial pre-leasing, and prudent financing, Atlantic will continue to develop and purchase properties to maintain its record of success.

Atlantic Shopping Centres Limited continues to hold its 50% interest in Atlantic West London Properties Limited, a joint-venture company formed to acquire and improve properties in the United Kingdom. The West London property market has softened considerably, and Atlantic West London has adopted a standpat position until a more favorable real estate market asserts itself.

SOBEY LEASED PROPERTIES LIMITED: Empire's second operating company in the real estate sector is Sobeys Leased Properties Limited. Its primary role is to develop freestanding Sobeys stores and adjacent strip centres to complement the merchandising mix of Sobeys.

Due to the nature of its developments and market conditions, SLPL was the more active of the two companies during fiscal 1991.

SLPL's gross leasable area increased 17.6% to 2,624,200 square feet and includes 2 shopping centres, 27 strip centres, 54 freestanding supermarkets and 13 other commercial properties.

SLPL reported growth in rental and other income for fiscal 1991 of 13.7%, to \$28.2 million. Cash flow from real estate operations increased to \$4.8 million for fiscal 1991, a 15% increase over the prior year.

SLPL currently has a 90,000 square foot strip centre under development in Elmsdale, Nova Scotia, anchored by a 22,500 square foot Woolco department store, and a 34,000 square foot Sobeys store.

Plans are currently underway for a 10,000 square foot expansion of its strip centre in Tantallon, Nova Scotia, and a major redevelopment of its strip centre in Westphal, Nova Scotia.

SLPL has a number of other projects on its books for fiscal 1992 subject to obtaining sufficient pre-leasing commitment.

In keeping with the Company's policy of minimizing short-term rate exposure, SLPL completed private placements during the year of 25-year mortgage bonds to raise \$11.75 million at 12.20%, \$6.75 million at 11.43%, and \$11.9 million at 11.55%

REPORT ON OPERATIONS

OTHER OPERATIONAL BUSINESSES

OVERVIEW

Empire maintains interests in several areas that promise to strengthen its long-term stability and provide potential avenues for future growth. Prominent among these are operating businesses in the insurance and leisure industry. Empire periodically makes small investments in new fields of enterprise as a means of familiarizing itself with potential opportunities to generate additional income, and to provide for future opportunities for expansion.

REVIEW OF OTHER OPERATIONAL BUSINESSES

CROMBIE INSURANCE (U.K.) LIMITED: Empire is involved in the insurance industry through its 81%-owned subsidiary, Crombie Insurance (U.K.) Limited. Headquartered in London, England, Crombie operates in the London insurance market and participates in English & American Group's (E & A) underwriting syndicates.

Crombie's main areas of underwriting are in Aviation, Marine, and Non-Marine markets. At the December 31, 1990 year end, Crombie had a net book value of £9 million (Sterling), and earned £261,000 (Sterling) for the year. The management of Crombie is carried out entirely by the English & American Group.

Investment income within Crombie increased 12% in the fiscal year, although the performance of the underwriting account resulted in a decline in income. Competition in the insurance markets remains severe, a direct result of continued overcapacity in the industry. Crombie's philosophy in this market is to forego battles for increased market share, and increase its retrocessional insurance protection, thus ensuring proper protection of its invested capital.

Empire has an additional participation in the insurance business through a 10% equity interest in English & American Group. Under Chief Executive Phillip D. Evans, English & American Group PLC earned a profit of £3.0 million (Sterling) on shareholders' equity of £24.8 million (Sterling), a return on equity of 12% in 1990. Empire accounts for its interest in English & American on the cost basis whereby income is reflected in Empire only to the extent of dividends received.

OTHER BUSINESSES: Empire operates Kepec Resources Limited, a wholly-owned subsidiary. Kepec undertakes exploration and development in partnership with a Calgary-based company, APL Oil & Gas, concentrating its activities in the Alberta oil industry.

During the 1991 fiscal year, Empire expanded its automotive operations through the acquisition of an additional dealership, and now has three automotive dealerships in addition to Avis franchises throughout the Maritimes in six locations, including the Halifax Airport.

REPORT ON OPERATIONS

EMPIRE THEATRES LIMITED: The largest theatre operation in Atlantic Canada, Empire Theatres Limited, is also the largest Canadian-owned theatre operator and has a significant presence in the industry throughout the Atlantic Provinces. The past year was another favorable year for Empire Theatres, continuing their recent trends. The availability of quality product and improved operational efficiency were the keys to achieving this performance.

This industry is, however, cyclical, and is very dependent upon the quality of movie offerings but, through the provision of proper marketing, promotion and superior service, Empire's theatre operations are expected to maintain their strong position.

During 1990, Empire Theatres opened a 5-screen theatre in Charlottetown, Prince Edward Island, and opened a 6-screen theatre in Dartmouth, Nova Scotia, and added an additional screen to an existing theatre in St. John's, Newfoundland. At year end, Empire Theatres operated 60 indoor screens at 23 theatres, as well as 1 drive-in theatre. Recognizing the importance of strategic geographic placement, management continues to make selective expansion a priority while emphasizing staff training, viewer comfort, and improved concessions.

REPORT ON OPERATIONS

CORPORATE INVESTMENTS

OVERVIEW

Empire's portfolio of investments consists of three categories:

1. Substantial long-term, equity-accounted corporate investments, primarily in fields in which Empire currently has operating businesses of its own.
2. Significant investments in public companies whose management philosophy corresponds with our own.
3. Significant investment positions in unlisted private companies whose managements show both leadership and track records of growth and profitability.

Empire reviews the performances of these companies and assesses management and operations to ensure that they continue to fit your Company's investment philosophy.

REVIEW OF INVESTMENT OPERATIONS

EQUITY-ACCOUNTED POSITIONS: Empire maintains equity-accounted positions in the following public listed companies:

Company	% Interest	Market Value
Halifax Developments Limited	36%	\$9,995,154
Hannaford Bros. Co.	25%	240,599,124
Jannock Limited	16%	70,185,675
Northwest Drug Company Limited	30%	1,436,727
Provigo Inc.	25%	236,716,560
Wajax Limited	46%	32,712,005
		<hr/> \$591,645,245 <hr/>

Brief descriptions of these companies and their results for their latest completed fiscal year appear at the end of this report.

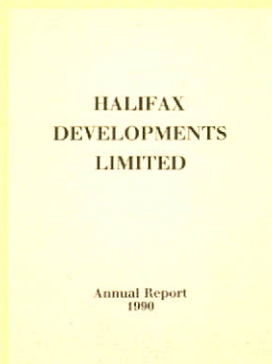
SIGNIFICANT INVESTMENTS: Empire holds important minority positions in the following public listed companies:

Company	% Interest	Market Value	Description
Nash Finch	9%	\$21,254,469	Leading food retailer/ wholesaler in midwestern U.S.
National Sea Common	6%	3,060,000	Canada's largest marketer of seafood.
National Sea Non-Voting	4%	2,249,625	
		<hr/> \$26,564,094 <hr/>	

REPORT ON OPERATIONS

INVESTMENT POSITIONS IN UNLISTED PRIVATE COMPANIES: Empire also maintains equity positions in unlisted private companies that operate in the communications, travel and building supply businesses. These are in addition to its 10% interest in the English & American Group located in London, U.K., and the joint-venture programs of our food and drug store operations. Empire also maintains 15 million in convertible debentures in Tuckahoe Financial Corporation, which are convertible into a 20% equity interest.

REVIEW OF EQUITY-ACCOUNTED INVESTMENTS



HALIFAX DEVELOPMENTS LIMITED: The principal asset of Halifax Developments Limited (HDL) is the Scotia Square complex in downtown Halifax. HDL also owns several office and residential apartment towers in Halifax, including a 50% interest in the Park Lane joint-venture. HDL also has an interest in National Sea Products Limited amounting to 16% of the outstanding equity of that company. HDL's gross leasable area at year end was 1,510,400 square feet, and 630 residential apartment units.

The market value of Empire's investment in HDL was \$10 million at April 30, 1991. HDL's results continue to be impacted by the increased supply in the Halifax office market and the carrying costs related to its investment in National Sea. For the year ended December 31, 1990, HDL reported revenues of \$34.3 million and a net loss of \$1.4 million or 15¢ per share (1989 revenues \$29.6 million, loss \$856,022, or 11¢ per share).

Empire maintains a 36% interest in Halifax Developments Limited. Empire and Scotia Investments share effective control over HDL through a shareholders' agreement.



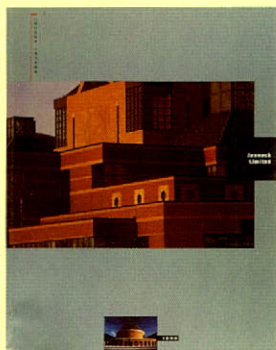
HANNAFORD BROS. CO.: Hannaford Bros. is Northern New England's largest food retailer, with locations throughout Maine and in parts of New Hampshire, Vermont, Massachusetts and upstate New York. Through retail food sales of the company's 89 supermarkets and 41 wholly-owned retail drug stores, Hannaford strives to achieve a return on equity in the upper quartile of companies in similar businesses.

Hannaford's commitment to innovation in operating systems, and service to its customers, succeeded in recording another record year for Hannaford despite difficult financial situations for most of the region within which it operates. Consolidated revenues for the fiscal year ended December 31, 1990, increased 11% to \$1.7 billion U.S., the 28th consecutive year that its sales have increased. Consolidated net earnings rose by 7.4% to \$42.2 million U.S., or \$2.13 U.S. per share. This fiscal performance resulted in a return on average shareholders' equity of 17.8%, only slightly below the level achieved in 1989.

Empire maintains a standstill agreement with Hannaford. Under the

REPORT ON OPERATIONS

agreement, Empire will continue to hold 25% of Hannaford stock, and two seats on its Board of Directors until 1992. The standstill agreement with Hannaford may be extended by mutual consent.



JANNOCK LIMITED: Jannock is a diversified Canadian corporation with operations in both Canada and the United States. Jannock ranks as North America's largest producer of clay brick, third largest manufacturer of vinyl siding, a major participant in the fabrication and distribution of sheet steel and steel tubing, and a producer of specialized insulation products.

In 1990 Jannock had consolidated revenues of \$385.4 million (1989 – \$366.4 million), and net earnings of \$13.1 million or 42¢ per share (1989 – \$46.9 million or \$1.67 per share). Although Jannock's earnings have been affected by the cyclical nature of its industries, the company is expected to remain profitable in the year ahead with renewed growth in earnings beginning in 1992. Empire owns 16% of the common equity of Jannock and votes this in concert with the owners of an additional 7%. The 23% under this voting arrangement exercises significant influence and, accordingly, Empire equity accounts for its investment in Jannock.



NORTHWEST DRUG COMPANY LIMITED: Empire has a 30% interest in Northwest Drug Company. Northwest is a western-based wholesaler of pharmaceuticals and related front store products for the drug store industry. Northwest has operations in the provinces of British Columbia, Alberta and Manitoba, and has recently completed a corporate restructuring.

For the year ended April 30, 1991, Northwest Drug reported sales of \$124 million (1990 - \$123 million) and a net loss of \$282,885 (1990 - income of \$89,636). The 1991 results include non-recurring restructuring costs and losses from discontinued operations totalling \$570,000 on an after tax basis.

Northwest Drug has a new management team headed by Mr. Will Filion, and a streamlined operating structure, which is expected to yield significant improvements in the operations in 1992.



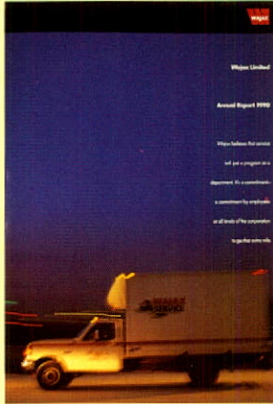
PROVIGO INC.: Provigo is a leading marketer and distributor in the food and convenience sectors of the four geographic markets: Quebec, Ontario, Western Canada and Northern California. Net sales for Provigo increased in 1991 to \$6.5 billion from \$6.1 billion in 1990, an increase of 6%. Income from continuing operations increased to \$60.7 million from \$31.2 million, an increase of 95%.

The company booked an additional loss from discontinued operations of \$60 million during the year, which brought the final net income for fiscal 1991 to \$0.7 million, or 1¢ per share. In the prior year, the company posted a final loss of \$51.4 million, or 60¢ per share. Empire's interests in Provigo Inc. stands

REPORT ON OPERATIONS

at 25%. Empire has joined in a Voting Trust Agreement with Unigesco Inc. of Montreal, which holds a further 26%, to maintain effective control of one of the largest marketers and distributors of food and convenience products in North America.

The sale of Consumers Distributing is concluded. Provigo has completed a significant part of its program to divest itself of its non-food operations which will enable Provigo to concentrate its efforts on realizing the potential of its core business.



WAJAX LIMITED: Wajax Limited is a diversified Canadian company that manufactures, distributes and services industrial equipment and heavy machinery for a broad spectrum of industries and customers. The company has a wide network of sales and service branches from coast to coast.

The net earnings from the continuing operations for the year ended December 31, 1990, were \$5.2 million, or 60¢ per share, compared with \$9.2 million, or \$1.08 per share the previous year. Gross revenues for the year were \$296.9 million, compared with \$315.6 million last year.

With the Pitman disposal now complete, the company's financial and human resources can be devoted to fostering a profitable growth in continuing operations. A total of \$4.1 million, or 47¢ per share, was recognized in 1990 as additional reserves in respect of the disposal of the Pitman business. Accordingly, net earnings for the year ended December 31, 1990 were reduced from \$5.2 million to \$1.1 million, or 13¢ per share.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Revenues increased by 15.6% to \$2,092 million in 1991, from \$1,809 million in 1990. The primary reason for this \$283 million increase was the expansion of the Sobeys Inc. operating revenue by 16.7% to \$1,888 million.

For the year ended April 30, 1991, Empire Company Limited reported income from operations of \$31,092,000 (49¢ per share) compared with \$31,713,000 (52¢ per share).

The net income for the year was impacted by the extraordinary losses and unusual equity-accounted charges resulting from the rationalization and restructuring of the activities of Provigo and Wajax in the amount of \$16,667,000 (1990 – \$24,198,000).

As a result, net earnings were \$14,425,000 (1¢ per share) compared to \$8,568,000 (a loss of 17¢ per share). The per share results are after payment of preferred share dividends.

Cash flow after preferred dividends reached a record high of \$45,606,000 (\$1.32 per share) versus \$41,367,000 (\$1.23 per share) in the prior year.

Empire's share of equity-accounted earnings and losses does not affect the Company's cash flow.

Segmented operating profits before interest expense from food distribution increased 9.9%, while these earnings on the real estate segment rose by 5.1%. The corporate and other segment, which includes Empire's investment activities and its other operating businesses, reported a 28.6% increase in operating income before interest expense. The major change in the corporate and other segment is due to improved performance at Lawton's Drug Stores.

The primary factor affecting Empire's 1991 earnings is the equity-accounted share of loss from discontinued operations in Provigo (\$14.7 million) and Wajax (\$1.8 million). An additional loss from discontinued operations was recorded due to equity accounting for changes at Northwest Drugs in the amount of \$102,000.

Empire's share of Provigo's and Wajax's results of operations arise from decisions of those companies' managements to restructure their organizations.

The nature of equity accounting results in the proportional non-cash recording of income and losses. Accordingly, although these accounting charges affect reported income, they do not affect cash flow. Dividends received from these investments do affect cash flow and, in 1991, the dividends received from equity-accounted investments totalled \$12.8 million in 1991, compared to \$12.0 million in 1990.

Further, Empire's core operating businesses of food distribution and real estate continue to produce strong operating earnings and record cash flows.

As Empire's Balance Sheet and Statement of Changes in Financial Position demonstrate, its financial condition remains excellent.

Despite the highly competitive nature of the industry, the food distribution business continues to expand. During the current year, this business segment has adapted to the federal government's new Goods and Services Tax (GST). Overall, the new tax has had an adverse effect on both gross revenue and expenses. Gross revenue has decreased due to the removal of the Federal Sales Tax (FST). The old FST had in effect been

MANAGEMENT DISCUSSION AND ANALYSIS

recorded as a revenue, in that it was hidden in the product cost. The GST, which is applied at the retail level, is not included in the recorded sales figures. Additional expenditures were incurred to change systems and acquire equipment in order to meet the government's reporting standards for the tax.

The impact of changing interest rates during the current fiscal year has not been significant on Empire. The effective interest rate on the overall average balance of debt outstanding has increased during 1991 from 11.4% to 11.6%. The majority of Empire's indebtedness is of a fixed rate long-term nature and most of the outstanding bank loans payable are subject to fixed rate agreements. During the year, the Company financed its expansion in fixed assets by borrowing fixed rate debt in the amount of \$42 million within Sobeys Inc. and Sobeys Leased Properties at interest rates above the average cost of debt last year, resulting in the increase in the overall average interest rate.

Empire has historically accounted for the interest relating to land held for future development as an expense, capitalizing only those costs associated with the actual development of new projects during construction and lease-up. Empire is conservative within industry norms in the capitalization of carrying charges. During 1991, Empire's subsidiary, Atlantic Shopping Centres, expensed \$3 million as its 50% share of start-up losses in the Park Lane project, which would have been capitalized under usual industry accounting policies.

LIQUIDITY

Empire finances its real assets primarily through the use of mortgage bonds and debentures. The Company also has established operating lines of credit and commercial paper programs to finance any working capital requirements in excess of internally generated cash flows. At year end, the Company had established credit facilities in excess of required borrowings approximating \$100 million.

Empire's working capital, including equity-accounted marketable investments, totalled \$228.0 million in 1991, compared to \$256.2 million at the end of 1990. This current ratio stands at 1.48, compared to 1.64 last year. The unrealized gains in respect of all the marketable securities, including the equity-accounted investments, totalled \$242.2 million at year end compared to \$161.4 million in 1990. The current ratio including these unrealized gains is 1.99 for 1991 (1990 – 2.04). These unrealized gains are not included in the measure of book value, but would add to stated book value \$7.02 and \$4.69 per common share on a pre-tax basis in 1991 and 1990 respectively.

The Company's operational working capital requirements, both currently and for the foreseeable future, are adequately funded by existing liquid balances and available credit lines.

Empire's debt-to-equity ratio at year end was 1.70, compared with 1990's level of 1.46. The book value of Empire's real estate assets totalled \$534 million, compared to last year's \$479 million.

MANAGEMENT'S COMMENTS ON VALUE

It is the opinion of management that the financial statements as presented herein substantially understate the reasonable expectation of the proceeds which might be realized in the event of a disposition of the Company's assets.

Empire operates with a view to the long-term appreciation of its assets.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company may selectively adjust its assets portfolio to fit its operating objectives from time to time. The Company does not anticipate any change to its philosophy of long-term holdings and assets appreciation, but continuously reviews the performance of all its investments.

Empire's April 30, 1991 Balance Sheet understates the available capital resources as referenced above in remarks on these marketable securities excess of market value over book costs.

The value of Empire's holdings in its equity investments represents, in several cases, control blocks which would command, at market, significant premiums in excess of current common share trading values.

There exists substantial unrealized gains in respect of Empire's real estate assets. Previous appraisals of Atlantic Shopping Centres Limited's real estate assets, using capitalization rates between 9% and 11%, have shown unrealized appreciation to exist within these portfolios in excess of \$100 million. Management believes that a similar undervaluation applies to the assets of Sobeys Leased Properties, although in the case of Sobeys Leased, formal appraisals have not been carried out.

Finally, the market values of Empire's various other operating businesses, the most important of which is represented by Sobeys Inc., are reflected within the financial statements at book costs, which are substantially less than both their current and future earnings prospects would imply. The assets involved in the Sobeys Inc. operating businesses are primarily current assets, as its underlying real estate is generally found within Empire's real estate subsidiaries.

Accordingly, for the above reasons, it is management's opinion that the Balance Sheet of Empire, as presented, substantially understates the value of Empire's assets.

CAPITAL RESOURCES

Empire anticipates capital additions to its operating assets, in line with past trends. Net capital expenditures in 1992 are anticipated to total between \$80 million and \$100 million. Existing capital resources and cash flows are sufficient to fund these capital expenditures. It is the Company's policy to finance its long-term assets using long-term fixed rate funding.

During fiscal 1991, Empire's subsidiaries issued the following long-term debt:

Instrument	Rate	Maturity	Amount
First Mortgage Bonds	11.43%	2014	\$6,750,000
First Mortgage Bonds	12.20%	2015	\$11,750,000
First Mortgage Bonds	11.55%	2016	\$11,900,000
Sinking Fund Debenture	12.20%	2010	\$12,000,000

OUTLOOK

The food segment will continue to expand its operations in Ontario, in addition to improving its traditional Atlantic Canada business.

Our real estate operations, while experiencing some impact from the current recession, are continuing to explore new opportunities in Ontario and the United States, and we are hopeful of acquiring existing assets at favorable terms during the coming year.

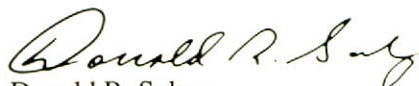
Our major investment positions have substantially resolved their restructuring efforts and we fully expect improved results in the coming year.

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

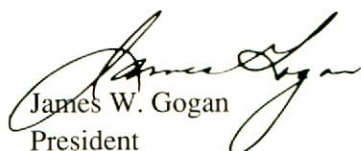
Preparation of the consolidated financial statements accompanying this annual report and the presentation of all other information in the report is the responsibility of management. The financial statements have been prepared in accordance with appropriate and generally accepted accounting principles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

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



Donald R. Sobey

Chairman



James W. Gogan

President

AUDITORS' REPORT

To the Shareholders of Empire Company Limited

We have audited the consolidated balance sheets of Empire Company Limited as at April 30, 1991 and 1990, and the consolidated statements of earnings, retained earnings, and changes in the financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at April 30, 1991 and 1990, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Chartered Accountants

New Glasgow, Nova Scotia

June 19, 1991

CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands)

CONSOLIDATED BALANCE SHEET

April 30, 1991

Assets	1991	1990
Current assets		
Cash	\$17,233	\$15,167
Receivables	82,306	54,856
Income taxes receivable	4,222	2,045
Inventories	135,334	119,043
Prepaid expenses	11,527	9,140
Investments, at cost (quoted market value \$102,738,000; 1990 \$104,026,000)	105,281	108,172
	355,903	308,423
Investments, at equity (quoted market value \$591,645,000; 1990 \$515,595,000)	346,946	350,076
Current assets and marketable investments	702,849	658,499
Other investments, at equity	10,205	34,280
Fixed assets (Note 2)	673,392	583,739
Other assets (Note 3)	15,543	14,864
	\$1,401,989	\$1,291,382
Liabilities		
Current liabilities		
Bank loans (Note 4)	\$243,212	\$212,701
Payables and accruals	217,235	178,636
Long-term debt due within one year	14,368	11,012
	474,815	402,349
Long-term		
Long-term debt (Note 5)	430,740	386,684
Insurance fund (Note 1)	10,813	9,456
	441,553	396,140
Minority interest		
Preferred shares (Note 6)	28,810	28,810
Common shares and equity	7,522	6,932
	36,332	35,742
Deferred income taxes	44,989	39,383
	997,689	873,614
Shareholders' Equity		
Capital stock (Note 7)	297,955	310,435
Capital redemption reserve fund	5,183	1,512
Retained earnings	99,413	106,589
Foreign currency translation	1,749	(768)
	404,300	417,768
	\$1,401,989	\$1,291,382

On Behalf of the Board


Director


Director

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year Ended
April 30, 1991

		(In Thousands)	
		1991	1990
Balance, beginning of year	\$106,589	\$116,578	
Net earnings	14,425	8,568	
Preferred dividend tax recovery		59	
	121,014	125,205	
Dividends paid			
Preferred shares	14,177	14,286	
Common shares	3,698	3,590	
Net transfer to (from) capital redemption reserve fund	3,671	(128)	
Share issue expenses, net of income taxes of \$209,000		864	
Excess of purchase price paid over average paid-up value of common shares purchased for cancellation	55	4	
	21,601	18,616	
Balance, end of year	\$99,413	\$106,589	

CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands)

	1991	1990
Revenue	\$2,092,176	\$1,809,280
Costs and operating expenses	1,959,739	1,689,088
	132,437	120,192
Depreciation	34,486	29,108
Interest on long-term debt	42,818	38,173
Interest on current debt	33,950	30,382
	111,254	97,663
	21,183	22,529
Gain on sale of investments	759	
	21,942	22,529
Income tax	12,001	10,361
	9,941	12,168
Equity in earnings of other companies	23,826	22,820
	33,767	34,988
Minority interest		
Preferred	2,624	2,624
Common	51	651
	2,675	3,275
Income from operations	31,092	31,713
Loss from discontinued operations of equity-accounted companies	(16,667)	(4,988)
Income before capital gains and other items	14,425	26,725
Capital gains and other items, including extraordinary items of equity-accounted companies (Note 8)		(18,157)
Net earnings	\$14,425	\$8,568
Earnings (loss) per share		
Operations	\$0.49	\$0.52
Loss from discontinued operations of equity-accounted companies	(0.48)	(0.15)
Before extraordinary items	0.01	0.37
Capital gains and other items		(0.54)
Earnings (loss) per share (Note 1)	\$0.01	(\$0.17)
Cash flow per share (Note 1)	\$1.32	\$1.23
Weighted average number of common shares outstanding	34,488,000	33,705,000

CONSOLIDATED STATEMENT OF EARNINGS

Year Ended
April 30, 1991

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended
April 30, 1991

	(In Thousands)	
	1991	1990
Cash provided by (used for) operations		
Income from operations	\$31,092	\$31,713
Depreciation and amortization	34,486	29,108
Deferred income taxes	4,693	3,705
Minority interest	(16)	333
Part VI tax differential		59
Equity in earnings of other companies, net of dividends received	(10,472)	(10,840)
	59,783	54,078
Payment of preferred dividends	(14,177)	(14,286)
Operating cash flow	45,606	39,792
Capital gains and other items		1,575
Net change in other current items	(7,404)	13,596
	38,202	54,963
Cash provided by (used for) financing		
Net increase (decrease) in bank loans	30,511	(39,987)
Net increase in long-term debt	32,635	79,691
Net increase (decrease) in insurance fund	1,357	(407)
Redemption of preferred shares	(13,354)	(1,512)
Issue of Non-Voting Class A shares	1,857	33,014
Share issue costs		(864)
Purchase of Non-Voting Class A shares for cancellation	(1,038)	(31)
Payment of common dividends	(3,698)	(3,590)
	48,270	66,314
Total cash available	86,472	121,277
Cash used for (provided by) investment		
Purchase of property, equipment and other assets	97,504	77,414
Long-term investments and advances	(6,996)	23,428
Acquisition of minority interest in subsidiaries		31,883
Net decrease in short-term investments	(6,102)	(6,908)
Total cash used	84,406	125,817
Increase (decrease) in cash	2,066	(4,540)
Cash, beginning of year	15,167	19,707
Cash, end of year	\$17,233	\$15,167

CONSOLIDATED FINANCIAL STATEMENTS

# of Shares	Company	Realizable Value	
LONG-TERM INVESTMENTS			
4,997,577	Halifax Developments Limited	\$ 9,995,154	
4,881,646	Hannaford Bros. Co.	240,599,124	
4,352,600	Jannock Limited	70,185,675	
378,086	Northwest Drug Company Limited	1,436,727	
21,041,472	Provigo Inc.	236,716,560	
3,905,911	Wajax Limited	32,712,005	\$591,645,245
SIGNIFICANT INVESTMENTS			
933,451	Nash Finch Company	21,254,469	
480,000	National Sea Common	3,060,000	
428,500	National Sea Non-Voting	2,249,625	
		26,564,094	
UNLISTED INVESTMENTS, AT COST		76,173,482	102,737,576
UNLISTED INVESTMENTS, AT EQUITY			10,205,326
			\$704,588,147

CONSOLIDATED STATEMENT OF INVESTMENTS

April 30, 1991

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

CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 1991

1. ACCOUNTING POLICIES

A) PRINCIPLES OF CONSOLIDATION

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

The excess of cost over net assets acquired for equity-accounted investments is amortized to income on a straight line basis over 1 to 40 years.

B) DEPRECIATION

The sinking fund method is used to record depreciation of the real estate buildings, calculated as an amount which, compounded annually at the rate of 5%, will fully amortize the cost over 40 years.

Depreciation of other property and equipment is calculated as follows:

Buildings	2-1/2% - 10%
Equipment	20%
Motor vehicles	25% - 30%

Amortization of leasehold improvements is based on the terms of the lease and, in certain cases, a term not greater than 15 years.

C) CAPITALIZATION OF COSTS

(i) Construction projects

Certain subsidiary companies and joint-ventures capitalize interest during the construction period until the project opening date.

(ii) Rental properties

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

(iii) Land held for future development

A subsidiary company capitalizes interest and real estate taxes to the extent that they relate to properties for immediate development. No amounts were capitalized in 1991 or 1990. The carrying costs on the balance of properties held for future development are expensed as incurred.

D) COST OF FINANCING

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

E) GOODWILL

Goodwill is amortized on a straight line basis over its useful life, ranging from 1 to 40 years.

CONSOLIDATED FINANCIAL STATEMENTS

F) INVENTORIES

Inventories are valued at the lower of cost and net realizable value.

G) LEASES

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

H) OIL AND GAS PROPERTIES AND EXPLORATION COSTS

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

I) EARNINGS AND CASH FLOW PER SHARE

Earnings and cash flow per share amounts are calculated on the weighted average number of residual shares outstanding (1991 - 34,488,000 shares; 1990 - 33,705,000 shares) after providing for preference share dividends accrued to the Balance Sheet date.

J) INVESTMENT TAX CREDITS

Since 1986, a subsidiary has used the cost reduction method to account for investment tax credits. Investment tax credits of \$844,000 (1990 - \$1,119,000) have been recorded as a reduction of the cost of fixed assets acquired.

K) INSURANCE UNDERWRITING – CROMBIE INSURANCE (U.K.) LIMITED

Each underwriting year within the revenue account is kept open for various years, depending on the type of business, before a final determination of the profit or loss is made. No provision is made for unsettled claims until the closure of the underwriting year, although provision is made in the accounts for the anticipated losses on open underwriting years.

L) FOREIGN CURRENCY

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

CONSOLIDATED FINANCIAL STATEMENTS

2. FIXED ASSETS

(In Thousands)				
			1991	1990
	Real Estate Segment	Other	Total	Total
LAND, BUILDINGS AND EQUIPMENT, AT COST				
Land	\$81,424	\$7,899	\$89,323	\$67,093
Buildings	464,712	49,357	514,069	450,380
Equipment		201,999	201,999	170,796
Leasehold improvements		15,476	15,476	14,153
Oil and gas properties and exploration costs		11,429	11,429	10,128
	546,136	286,160	832,296	712,550
Less: Accumulated depreciation	39,077	120,955	160,032	129,606
	\$507,059	\$165,205	672,264	582,944
ASSETS UNDER CAPITAL LEASES				
Cost			1,858	1,391
Less: Accumulated amortization			730	596
			1,128	795
			\$673,392	\$583,739

THE FOLLOWING ARE INCLUDED IN COSTS CAPITALIZED DURING THE YEAR:

	1991	1990
(i) Projects under development		
Interest	\$1,485,000	\$2,823,000
Net operating expenses (income)		(275,000)
	\$1,485,000	\$2,548,000
(ii) Property held for future development	\$Nil	\$Nil

3. OTHER ASSETS

Included in other assets are non-interest bearing, non-recourse loans receivable from employees and directors advanced under the Company's share purchase plan in the amount of \$6,260,000 (1990 - \$4,623,000).

4. BANK LOANS

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

CONSOLIDATED FINANCIAL STATEMENTS

5. LONG-TERM DEBT

(In Thousands)

	1991	1990
First mortgage loans, average interest rate 11.6%, due 1991-2016	\$231,050	\$191,160
Debentures, average interest rate 11.6%, due 1993-2014	167,725	161,011
Notes payable and other debt at interest rates fluctuating with the prime rate	9,851	6,713
	408,626	358,884
Construction loans at interest rates fluctuating with the prime rate	34,957	37,782
Capital lease obligations, due 1991-1996, net of imputed interest	1,525	1,030
	445,108	397,696
Less amount due within one year (less debentures held for sinking fund purposes)	14,368	11,012
	\$430,740	\$386,684

As security for certain construction loans, the Company has provided a first charge on land and buildings under construction. These loans become due for refinancing at various dates in 1991. It is intended that these loans will be refinanced by long-term borrowings.

Long-term debt is secured by land, buildings, and charges on certain assets. Debt retirement payments and capital lease obligations in each of the next five years, excluding construction loan repayments, are:

	Long-Term Debt	Capital Leases
1992	\$13,942,000	\$426,000
1993	17,824,000	403,000
1994	27,611,000	282,000
1995	13,281,000	388,000
1996	13,524,000	25,000

OPERATING LEASES

The aggregate, annual, minimum rent payable under operating leases by the Company and subsidiaries is approximately \$14,129,000.

6. MINORITY INTEREST IN PREFERRED SHARES

Preferred shares with a par value of \$27,500,000 are cumulative with a 9-1/4% dividend rate and are redeemable and retractable at par after 1991. Other preferred shares totalling \$1,310,000 with various rates have no specified redemption requirements.

CONSOLIDATED FINANCIAL STATEMENTS

7. CAPITAL STOCK

	Number of Shares
AUTHORIZED	
Cumulative, preferred shares ("senior preferred"), par value of \$25, issuable in series and redeemable at variable premiums	281,388
Preferred shares, par value of \$25 each, issuable in series as a class. Series 1 cumulative, redeemable and retractable in 1991 and 1993 at par, rate of 1/2 prime plus 2-1/4%. Series 2 cumulative, redeemable, rate of 75% of prime. Series 3, cumulative, redeemable and retractable in 1994 at par, rate 8%. Series 4, cumulative, redeemable and retractable 1/3 in each of 1999, 2000 and 2001 at par, rate 8.6%.	36,289,719
\$0.10 non-cumulative, redeemable, third preferred shares, par value of \$25	61,153
Non-Voting Class A shares, without par value	136,583,367
Class B common shares, without par value, voting	20,400,000

		(In Thousands)	
ISSUED AND OUTSTANDING		1991	1990
	Senior Preferred		
35,602	5-1/2% series	\$890	\$916
(1990-36,631)			
243,211	8% series	6,080	6,119
(1990-244,757)			
	Preferred Shares		
43,815	Series 1	1,096	10,500
(1990-420,000)			
1,900,100	Series 2	47,502	50,000
(1990-2,000,000)			
2,128,539	Series 3	53,213	53,213
1,600,000	Series 4	40,000	40,000
Nil	Third preferred		1,387
(1990-55,502)			
16,257,601	Non-Voting Class A	141,080	140,202
(1990-16,197,001)			
18,226,712	Class B common	8,094	8,098
(1990-18,236,712)			
		\$297,955	\$310,435

CONSOLIDATED FINANCIAL STATEMENTS

7. CAPITAL STOCK (CON'T)

During the year, the Company purchased for cancellation 2,575 of its senior preferred shares for \$47,000; 99,900 of its Series 2 preferred shares for \$2,344,000; 376,185 of its Series 1 preferred shares for \$9,465,000; and redeemed 55,502 of its third preferred shares at par value.

During the year, the Company purchased 112,400 Non-Voting Class A shares. The purchase price was \$1,038,000, of which \$55,000 was charged to retained earnings.

At April 30, 1991, the Company had outstanding 558,000 Non-Voting Class A shares under the Company's share purchase plan to certain officers and employees. During the year, 163,000 shares were issued for \$1,857,000, the market value at date of issue.

During the year, 10,000 Class B common shares were converted into 10,000 Non-Voting Class A shares.

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

8. CAPITAL GAINS (LOSSES) AND OTHER ITEMS, NET OF MINORITY INTEREST

	(In Thousands)	
	1991	1990
Gain on sale of investments and other items, net of income taxes of \$793,000 and minority interest of \$96,000		\$1,053
Capital losses and other items in equity- accounted companies		(19,210)
	\$ Nil	(\$18,157)

Effective May 1, 1990, the Company adopted prospectively the new recommendations of the Canadian Institute of Chartered Accountants for presentation and disclosure of extraordinary items. Accordingly, capital gains have not been recorded as extraordinary items.

9. INCOME TAXES

The effective rate of corporate income taxes is higher than statutory rates as a result of certain items not being deductible for income tax purposes, and the large corporation tax.

CONSOLIDATED FINANCIAL STATEMENTS

10. REAL ESTATE JOINT-VENTURES

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

	(In Thousands)	
	1991	1990
Assets	\$48,460	\$42,597
Liabilities	36,768	33,855
Revenues	6,123	3,838
Expenses	7,366	5,448

11. SEGMENTED INFORMATION

	(In Thousands)	
	1991	1990
REVENUES		
Food distribution		
Outside	\$1,865,625	\$1,599,378
Inter-segment	21,971	18,092
	1,887,596	1,617,470
Real estate		
Outside	70,786	66,385
Inter-segment	24,521	23,147
	95,307	89,532
Corporate and other	155,765	143,517
	2,138,668	1,850,519
Elimination	46,492	41,239
	\$2,092,176	\$1,809,280
EARNINGS		
Food distribution	\$44,907	\$40,851
Real estate	48,200	45,876
Corporate and other	5,603	4,357
	98,710	91,084
Interest expense	76,768	68,555
Segment operating profit	\$21,942	\$22,529
IDENTIFIABLE ASSETS		
Food distribution	\$320,425	\$268,265
Real estate	534,372	478,954
Corporate and other	547,192	544,163
	\$1,401,989	\$1,291,382
DEPRECIATION AND AMORTIZATION		
Food distribution	\$22,717	\$18,108
Real estate	6,168	5,283
Corporate and other	5,601	5,717
	\$34,486	\$29,108
CAPITAL EXPENDITURE		
Food distribution	\$41,503	\$34,966
Real estate	48,022	28,788
Corporate and other	7,979	13,660
	\$97,504	\$77,414

CONSOLIDATED FINANCIAL STATEMENTS

11. SEGMENTED INFORMATION (CON'T)

The Company operates principally in two business segments: food distribution and real estate. The food distribution segment consists of distribution of food products primarily throughout the four Atlantic Provinces, the Gaspé Region of Québec, and Southern Ontario. The real estate segment consists of development, rental, and management of shopping centres and office buildings located in the Atlantic Provinces. Inter-segment transactions are at market values.

12. GUARANTEES AND COMMITMENTS

- A) The Company has fixed \$50,000,000 of its short-term borrowings at 13.4% by utilizing interest rate exchange agreements to March 30, 1992.
- B) A subsidiary has assigned a lease as security for guarantees provided by a bank. The lease is for the following amounts and terms: 1991 - \$5,000,000; and 1992 to 2004 - \$6,000,000 annually.
- C) A subsidiary company has fixed \$24,000,000 of its short-term borrowings at 13.14% by utilizing an interest exchange agreement that terminates on June 9, 1992.
- D) A subsidiary company has provided a guarantee of \$13,000,000 to a bank which has issued a letter of credit of \$18,500,000 for the financing of a joint-venture partnership.

13. OTHER

Acquisition of Food City Limited.

On April 30, 1991, the Company acquired all voting preferred shares of Food City Limited for \$10,000, making Food City Limited a wholly-owned subsidiary. The acquisition has been accounted for by the purchase method. Food City Limited is engaged in the acquisition and development of real property for lease to Sobeys Inc.

Net assests acquired

Fixed assets	\$ 27,314
Other assets	4,429
	31,743
Liabilities	30,767
	976
Less equity investment previously held	966
Cash paid	\$ 10

14. COMPARATIVE FIGURES

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

CORPORATE DIRECTORY

DIRECTORS

Ronald W. Chorlton (4)

Chairman, Wajax Limited

John C. Clark (1)

Chairman and CEO,
Tuckahoe Financial
Corporation

Robert P. Dexter (1)

Partner, Stewart McKelvey
Stirling Scales

James W. Gogan (1)

President, Empire
Company Limited

H. Gordon MacNeill (2)

Chairman, Jannock Limited

Robert W. Manuge

Retired Executive

J. Skiffington Murchie

Past President, Sobeys Inc.

J. William Ritchie (3)

Chairman, Scotia Bond,
a Midland Walwyn Company

J. William Sinclair (3)

Forestry Technician,
Department of Lands
and Forests, Province
of Nova Scotia

David F. Sobeys (1) (3)

Chairman, Sobeys Inc.

Donald R. Sobeys (1) (3)

Chairman, Empire
Company Limited

Frank C. Sobeys

Vice Chairman, Atlantic
Shopping Centres Limited

John R. Sobeys

President, Retail Operations,
Sobeys Inc.

(1) Audit Committee Member

(2) Audit Committee Chairman

(3) Compensation Committee Member

(4) Compensation Committee Chairman

OFFICERS

Donald R. Sobeys

Chairman

James W. Gogan

President

Paul D. Sobeys

Vice President and Secretary

Payson Y. Hunter

Vice President,
Corporate Development

Chester D. Thompson

Comptroller

BANKERS

Bank of Montreal

Barclays Bank of Canada

The Bank of Nova Scotia

The National Bank of Canada

The National Westminster

Bank of Canada

The Royal Bank of Canada

The Toronto-Dominion Bank

COMMERCIAL PAPER PROGRAMME

Burns Fry Limited

RBC Dominion Securities

SOLICITORS

Stewart McKelvey Stirling Scales

AUDITORS

Doane Raymond Pannell

TRANSFER AGENTS

Central Trust Company

Cumulative Redeemable

Preferred Shares and

Series 1 Preferred Shares

Montreal Trust Company

Non-Voting Class A

Common Shares and

Series 3 Preferred Shares

Royal Trust Company

Series 2 Preferred Shares and

Series 4 Preferred Shares

ANNUAL SHAREHOLDERS' MEETING

The 1991 Annual Meeting of Shareholders of Empire Company Limited will be held at the Heather Motor Hotel, Foord Street, Stellarton, Nova Scotia, on Monday the 9th day of September, 1991, at 11:30 a.m.

COVER PAINTING **"OUTER HARBOUR BAR"**

This painting, along with other works by Canadian artists, is on display at Crombie House in Abercrombie, Pictou County, Nova Scotia. The Sobey Art Foundation collection is open for public viewing each Wednesday during July and August. Guided tours are conducted every half hour between 9:30 a.m. to 12:00 noon and 1:00 p.m. to 5:00 p.m.

In recognition of the unique cultural identity of Canada, Empire Company has traditionally featured works by Canadian artists on the covers of its annual reports.

Empire has a limited supply of lithograph prints of "Outer Harbour Bar" by J. E. H. MacDonald, R.C.A., O.S.A. (1873-1932) and if you want a complimentary copy, please write to the company c/o The Sobey Art Foundation, 115 King Street, Stellarton, N.S. B0K 1S0. Supplies are limited.

Empire Company Limited

Head Office

115 King Street

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