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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis ("MD&A") of the consolidated financial results of Empire Company Limited ("Empire" or the "Company") for the 13 weeks ended August 6, 2011 compared to the 13 weeks ended July 31, 2010. This discussion and analysis should be read in conjunction with the Company's unaudited interim consolidated financial statements and accompanying notes for the 13 weeks ended August 6, 2011, the audited annual consolidated financial statements and accompanying notes for the 53 weeks ended May 7, 2011 and the related annual MD&A. Information about the Company, including the 2011 Summary Annual Report, the 2011 Annual Information Form, the 2011 audited annual financial statements and 2011 annual MD&A can be found on SEDAR at www.sedar.com or on the Company's website at www.empireco.ca.

The unaudited consolidated financial statements and the accompanying notes form part of the first annual audited consolidated financial statements to be prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB") and are reported in Canadian dollars. Comparative figures for fiscal 2011 that were previously prepared in accordance with Canadian Generally Accepted Accounting Principles ("CGAAP") have been restated as required upon adoption of IFRS. For a detailed reconciliation of the impact of implementing IFRS on the Company's financial results and position, see Note 18 of the unaudited interim consolidated financial statements for the 13 weeks ended August 6, 2011.

These unaudited consolidated financial statements include the accounts of Empire and its subsidiaries and Special Purpose Entities ("SPEs") which the Company is required to consolidate. The information contained in this MD&A is current to September 14, 2011, unless otherwise noted.

FORWARD-LOOKING INFORMATION

This discussion contains forward-looking statements which reflect management's expectations regarding the Company's objectives, plans, goals, strategies, future growth, financial condition, results of operations, cash flows, performance, business prospects and opportunities. All statements other than statements of historical facts included in this MD&A, including statements regarding the Company's objectives, plans, goals, strategies, future growth, financial condition, results of operations, cash flows, performance, business prospects and opportunities, may constitute forward-looking information. Expressions such as "anticipates", "expects", "believes", "estimates", "could", "may", "plans", "will", "would", and other similar expressions or the negative of these terms are generally indicative of forward-looking statements.

These forward-looking statements include the following items:

- The Company's belief that it has sufficient unused capacity under its credit facilities to satisfy its financial obligations as they come due which could be impacted by changes in the economic environment;
- The Company's expectation that its operational and capital structure are sufficient to meet its ongoing business requirements in the current economic environment in Canada;
- The Company's belief that its cash and cash equivalents, future operating cash flows and available credit facilities will enable the Company to fund future capital investments, pension plan contributions, working capital and ongoing business requirements, and its belief that it has sufficient funding in place to meet these requirements and other long-term obligations, all of which could be impacted by uncertainty in the economy at this time;
- The Company's anticipation that its in place sources of liquidity will adequately meet its short-term and long-term financial requirements which may be impacted by uncertainty in the economy at this time;

- Sobeys' expectations relating to reducing costs, funding investments, driving sales and improving margins over time through its productivity and system wide business process optimization and rationalization initiatives (which include without limitation disciplined cost management initiatives, supply chain and retail productivity improvements and migration of best practices) which could be impacted by the final scope and scale of these initiatives;
- The Company's expected contributions to its registered defined benefit plans, which could be impacted by fluctuations in asset values due to market uncertainties;
- The Company's expected use and estimated fair values of financial instruments which could be impacted by, among other things, changes in interest rates, foreign exchange rates and commodity prices;
- Sobeys intent and expectation to renew or replace its credit facility prior to its maturity which may be impacted by market conditions;
- Sobeys' expectations that the new distribution centre announced in Quebec will reduce overall business costs which could be impacted by the number of positions eliminated at other distribution centres; and
- The Company's expectations regarding its plans to purchase for cancellation Non-Voting Class A shares under the Normal Course Issuer Bid ("NCIB"), which may be impacted by market and economic conditions, availability of sellers, changes in laws and regulations, operating efficiencies and cost saving initiatives.

These statements are based on Empire management's reasonable assumptions and beliefs in light of the information currently available to them. The forward-looking information contained in this MD&A is presented for the purpose of assisting the Company's security holders in understanding its financial position and results of operations as at and for the periods ended on the dates presented and the Company's strategic priorities and objectives and may not be appropriate for other purposes. By its very nature, forward-looking information requires the Company to make assumptions and is subject to inherent risks and uncertainties which give rise to the possibility that the Company's predictions, forecasts, expectations or conclusions will not prove to be accurate, that the Company's assumptions may not be correct and that the Company's objectives, strategic goals and priorities will not be achieved. Although the Company believes that the predictions, forecasts, expectations or conclusions reflected in the forward-looking information are reasonable, it can give no assurance that such matters will prove to have been correct. Such forward-looking information is not fact but only reflects management's estimates and expectations. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. These factors include but are not limited to: changes in general industry, market and economic conditions, competition from existing and new competitors, energy prices, supply issues, inventory management, changes in demand due to seasonality of the business, interest rates, changes in laws and regulations, operating efficiencies and cost saving initiatives. In addition, these uncertainties and risks are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the Risk Management section of the annual MD&A for the 53 weeks ended May 7, 2011.

Empire cautions that the list of important factors is not exhaustive and other factors could also adversely affect its results. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such forward-looking information. Forward-looking statements may not take into account the effect on the Company's business of transactions occurring after such statements have been made. For example, dispositions, acquisitions, asset write-downs or other changes announced or occurring after such statements are made may not be reflected in forward-looking statements. The forward-looking information in this MD&A reflects the Company's expectations as of September 14, 2011, and is subject to change after this date. The Company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the Company other than as required by applicable securities laws.

NON-GAAP FINANCIAL MEASURES

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

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

The following table reconciles Empire's EBITDA to GAAP measures for the 13 weeks ended August 6, 2011 and July 31, 2010, respectively:

(\$ in millions)	13 Weeks Ended	
	Aug. 6, 2011	July 31, 2010
Operating income	\$ 150.4	\$ 148.5
Depreciation	76.1	72.3
Amortization of intangibles	9.2	8.6
EBITDA	\$ 235.7	\$ 229.4

The following tables reconcile Empire's net funded debt, net total capital, funded debt and total capital to GAAP measures reported on the balance sheets as at August 6, 2011, May 7, 2011 and July 31, 2010, respectively:

(\$ in millions)	Aug. 6, 2011	May 7, 2011	July 31, 2010
Bank indebtedness	\$ 5.0	\$ -	\$ 21.1
Long-term debt due within one year	240.1	49.4	78.9
Liabilities relating to assets held for sale	-	12.7	-
Long-term debt	855.3	1,090.3	1,161.6
Funded debt	1,100.4	1,152.4	1,261.6
Less: cash and cash equivalents	637.7	615.9	493.1
Net funded debt	462.7	536.5	768.5
Total shareholders' equity, net of minority interest	3,222.2	3,168.0	2,902.4
Net total capital	\$ 3,684.9	\$ 3,704.5	\$ 3,670.9

(\$ in millions)	Aug. 6, 2011	May 7, 2011	July 31, 2010
Funded debt	\$ 1,100.4	\$ 1,152.4	\$ 1,261.6
Total shareholders' equity, net of minority interest	3,222.2	3,168.0	2,902.4
Total capital	\$ 4,322.6	\$ 4,320.4	\$ 4,164.0

OVERVIEW OF THE BUSINESS

Empire's key businesses consist of food retailing, real estate and corporate investment activities. As a result of the Company's transition to IFRS, the Company's financial results are segmented into two separate operating segments: food retailing and investments and other operations.

Food retailing is carried out through wholly-owned Sobeys Inc. ("Sobeys").

Investments and other operations consist primarily of:

1. A 45.9 percent (40.4 percent fully diluted) equity accounted interest in Crombie REIT, a Canadian real estate income trust investing in retail and office space;
2. A 40.7 percent ownership interest in Genstar Development Partnership, a 45.9 percent interest in Genstar Development Partnership II, and 42.1 percent interests in each of GDC Investments 4, L.P., GDC Investments 5, L.P., and GDC Investments 6, L.P. (collectively referred to as "Genstar"). Genstar is a residential property developer with operations in select markets in Ontario, Western Canada and the United States;
3. Wholly-owned ETL Canada Holdings Limited ("Empire Theatres"); and
4. Kepec Resources Limited ("Kepec"), a party to a joint venture with APL Oil and Gas Limited which has ownership interests in various oil and gas properties in Alberta.

With over \$16 billion in annual sales and approximately \$6.5 billion in assets, Empire and its related companies employ approximately 49,000 people.

CONSOLIDATED OPERATING RESULTS

The consolidated financial overview provided below reports on the financial performance for the 13 weeks ended August 6, 2011 relative to the same period last year.

(\$ in millions, except per share information)	13 Weeks Ended			
	Aug. 6, 2011		July 31, 2010	
	\$	% of Sales	\$	% of Sales
Sales	\$ 4,154.2	100.00%	\$ 4,025.9	100.00%
Operating income	150.4	3.62	148.5	3.69
Operating earnings, net of minority interest	90.1	2.17	86.3	2.14
Capital losses and other items, net of tax	0.9	0.02	-	-
Net earnings, net of minority interest	\$ 89.2	2.15%	\$ 86.3	2.14%
Basic earnings per share				
Operating earnings, net of minority interest	\$ 1.32		\$ 1.26	
Capital losses and other items, net of tax	0.01		-	
Net earnings, net of minority interest	\$ 1.31		\$ 1.26	
Basic weighted average number of shares outstanding (in millions)	67.9		68.5	
Diluted earnings per share				
Operating earnings, net of minority interest	\$ 1.32		\$ 1.26	
Capital losses and other items, net of tax	0.01		-	
Net earnings, net of minority interest	\$ 1.31		\$ 1.26	
Diluted weighted average number of shares outstanding (in millions)	68.0		68.5	
Dividends per share	\$ 0.225		\$ 0.200	

MANAGEMENT'S EXPLANATION OF CONSOLIDATED RESULTS

The following is a review of Empire's consolidated financial performance for the 13 weeks ended August 6, 2011 compared to the 13 weeks ended July 31, 2010.

Sales

Consolidated sales for the first quarter were \$4.15 billion compared to \$4.03 billion for the same quarter last year, an increase of \$128.3 million or 3.2 percent. Sobeys' sales equalled \$4.11 billion versus \$3.98 billion in the first quarter last year, an increase of \$130.8 million or 3.3 percent. Sobeys' first quarter same-store sales increased 1.7 percent over the same quarter last year. The growth in Sobeys' sales continued to be a direct result of modest inflation, increased retail selling square footage from new stores and enlargements, coupled with the continued implementation of sales and merchandising initiatives, improved store level execution and product and services innovation.

Investments and other operations recorded revenue of \$51.1 million in the first quarter compared to \$51.7 million in the first quarter of last year, a decrease of \$0.6 million.

The change in sales for each division is explained in the section which follows, entitled "Operating Performance by Division".

Gross Profit

Consolidated gross profit increased \$30.3 million to \$1,026.7 million for the 13 weeks ended August 6, 2011 over the same quarter last year. The increase was due primarily to increased sales at Sobeys as well as Sobeys' increased focus on cost management which was partially offset by increased costs of

sales. Gross margin, which is gross profit divided by sales, decreased 4 basis points to 24.71 percent in the 13 weeks ended August 6, 2011 from 24.75 percent in the same period last year.

Operating Income

Consolidated operating income in the first quarter was \$150.4 million, an increase of \$1.9 million or 1.3 percent from the \$148.5 million recorded in the first quarter last year.

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

- Sobeys' operating income contribution to Empire in the first quarter totalled \$135.4 million, an increase of \$2.1 million or 1.6 percent from the \$133.3 million recorded in the first quarter last year.
- Investments and other operations (net of corporate expenses) contributed operating income of \$15.0 million in the first quarter compared to \$15.2 million in the first quarter last year.
 - Genstar equity accounted earnings in the first quarter were \$7.5 million, a decrease of \$0.4 million from the \$7.9 million recorded in the first quarter last year.
 - Crombie REIT equity accounted earnings for the quarter was \$4.8 million compared to \$4.4 million in the first quarter last fiscal year, an increase of \$0.4 million.
 - Investment and other operations operating income in the first quarter of last year included \$3.4 million in equity accounted earnings generated from the Company's investment in Wajax Income Fund ("Wajax") which was sold during the second quarter of fiscal 2010.
 - Other operations, net of corporate expenses, contributed operating income of \$2.7 compared to \$(0.5) million in the same quarter last year, an increase of \$3.2 million.

The change in operating income for each division is explained in the section which follows, entitled "Operating Performance by Division".

Finance Costs

Finance costs, net of finance income, in the first quarter amounted to \$16.6 million, a decrease of \$4.4 million or 21.0 percent from the \$21.0 million recorded in the first quarter last year. The decrease in net finance costs reflects lower funded debt levels resulting in a \$3.5 million decrease in finance costs and an increase in finance income of \$0.9 million.

Consolidated funded debt was \$1,100.4 million at the end of the first quarter compared to \$1,261.6 million at the end of the first quarter last year, a \$161.2 million or 12.8 percent decrease. The decrease in funded debt from the same quarter last year was primarily due to the sale of Wajax and the sale of properties to Crombie REIT and third parties with a portion of proceeds from those sales used to repay funded debt.

Income Taxes

The effective income tax rate for the first quarter (excluding the impact of capital losses and other items) was 27.1 percent versus 28.9 percent in the first quarter last year. The decrease in the effective income tax rate is primarily due to the declining income tax rates across the different tax jurisdictions in which Empire operates.

Earnings before Capital Losses and Other Items

Empire recorded earnings before capital losses and other items, net of minority interest, for the first quarter of \$90.1 million (\$1.32 per share) compared to \$86.3 million (\$1.26 per share) recorded in the first quarter last year. The \$3.8 million or 4.4 percent improvement in earnings before capital losses and other items, net of minority interest, over the prior year was the result of a \$4.4 million decrease in net finance costs, a \$1.9 million increase in operating income and a \$0.6 million decrease in income taxes (excluding the impact of capital losses and other items), partially offset by a \$3.1 million increase in minority interest expense.

Empire had a diluted weighted average number of common shares outstanding of 68.0 million in the first quarter ended August 6, 2011 compared to 68.5 million in the first quarter last year.

The following table presents Empire's segmented earnings before capital losses and other items, net of minority interest by division for the 13 weeks ended August 6, 2011 compared to the 13 weeks ended July 31, 2010.

(\$ in millions)	13 Weeks Ended			
	Aug. 6, 2011	July 31, 2010	(\$) Change	(%) Change
Food retailing	\$ 81.6	\$ 78.8	\$ 2.8	3.6%
Investments and other operations	8.5	7.5	1.0	13.3%
Consolidated	\$ 90.1	\$ 86.3	\$ 3.8	4.4%

For a detailed discussion of financial performance by segment, see the section of this MD&A entitled "Operating Performance by Division".

Capital Losses and Other Items

The Company recorded capital losses and other items, net of tax, in the first quarter of \$0.9 million compared to nil in the first quarter last year. The capital losses and other items in the first quarter of fiscal 2012 were primarily related to the disposal of property and equipment.

Net Earnings

Consolidated net earnings, net of minority interest, in the first quarter equalled \$89.2 million (\$1.31 per share) compared to \$86.3 million (\$1.26 per share) in the first quarter last year. The increase of \$2.9 million in net earnings, net of minority interest, is attributed to the increase in earnings before capital losses and other, net of minority interest, of \$3.8 million, partially offset by the \$0.9 million increase in capital losses and other items, net of tax, as discussed.

The following table presents Empire's segmented net earnings, net of minority interest for the 13 weeks ended August 6, 2011 compared to the 13 weeks ended July 31, 2010.

(\$ in millions)	13 Weeks Ended			
	Aug. 6, 2011	July 31, 2010	(\$) Change	(%) Change
Food retailing	\$ 81.6	\$ 78.8	\$ 2.8	3.6%
Investments and other operations	7.6	7.5	0.1	1.3%
Consolidated	\$ 89.2	\$ 86.3	\$ 2.9	3.4%

For a detailed discussion of financial performance by segment, see the section of this MD&A entitled "Operating Performance by Division".

QUARTERLY RESULTS OF OPERATIONS

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

(\$ in millions, except per share information)	Fiscal 2012	Fiscal 2011					Fiscal 2010 ⁽¹⁾		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
	(13 Weeks) Aug. 6, 2011	(14 Weeks) May 7, 2011	(13 Weeks) Jan. 29, 2011	(13 Weeks) Oct. 30, 2010	(13 Weeks) July 31, 2010	(13 Weeks) May 1, 2010	(13 Weeks) Jan. 30, 2010	(13 Weeks) Oct. 31, 2009	
Sales	\$ 4,154.2	\$ 4,150.9	\$ 3,876.6	\$ 3,903.4	\$ 4,025.9	\$ 3,836.8	\$ 3,836.2	\$ 3,874.7	
Operating income	150.4	122.4	139.0	137.3	148.5	118.5	110.3	120.7	
Operating earnings	90.1	82.5	87.3	82.7	86.3	71.9	68.3	72.1	
Capital gains (losses) and other items, net of tax	(0.9)	-	1.5	60.3	-	1.6	-	(1.7)	
Net earnings	\$ 89.2	\$ 82.5	\$ 88.8	\$ 143.0	\$ 86.3	\$ 73.5	\$ 68.3	\$ 70.4	
Per share information, basic									
Operating earnings	\$ 1.32	\$ 1.21	\$ 1.29	\$ 1.21	\$ 1.26	\$ 1.05	\$ 1.00	\$ 1.06	
Capital gains (losses) and other items, net of tax	(0.01)	-	0.02	0.89	-	0.02	-	(0.03)	
Net earnings	\$ 1.31	\$ 1.21	\$ 1.31	\$ 2.10	\$ 1.26	\$ 1.07	\$ 1.00	\$ 1.03	
Basic weighted average number of shares outstanding (in millions) ⁽²⁾									
	67.9	67.9	67.9	68.2	68.5	68.4	68.4	68.4	
Per share information, diluted									
Operating earnings	\$ 1.32	\$ 1.21	\$ 1.28	\$ 1.21	\$ 1.26	\$ 1.05	\$ 0.99	\$ 1.06	
Capital gains (losses) and other items, net of tax	(0.01)	-	0.02	0.89	-	0.02	-	(0.03)	
Net earnings	\$ 1.31	\$ 1.21	\$ 1.30	\$ 2.10	\$ 1.26	\$ 1.07	\$ 0.99	\$ 1.03	
Diluted weighted average number of shares outstanding (in millions) ⁽²⁾									
	68.0	68.0	68.0	68.3	68.5	68.5	68.5	68.5	

(1) Amounts have been prepared in accordance with CGAAP.

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

Consolidated sales and operating earnings growth have been influenced by the Company's investing activities, the competitive environment, cost management initiatives, food price and general industry trends, the cyclicity of both residential and commercial real estate and by other risk factors as outlined in the fiscal 2011 annual MD&A. There have been no material changes to the disclosures as contained in the "Critical Accounting Estimates", "Risk Management", "Outlook" or "Contingent Liabilities" sections of the Company's fiscal 2011 MD&A other than as noted in this MD&A.

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

OPERATING PERFORMANCE BY DIVISION

Food Retailing

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

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

For the 13 weeks ended August 6, 2011, Sobeys opened, replaced, expanded, renovated, acquired and/or converted the banners in 14 stores compared to 23 stores in the first quarter of fiscal 2011. During the first quarter, Sobeys continued to execute a number of initiatives in support of its food-focused strategy including product and service innovations, productivity initiatives and business process, supply chain and system upgrades.

One example of these initiatives is the continued conversion of Price Chopper stores to FreshCo discount stores. During the first quarter of fiscal 2012, Sobeys opened three additional FreshCo discount stores compared to eight FreshCo stores opened in the first quarter of fiscal 2011. These FreshCo discount stores offer low prices without many of the compromises which would typically be experienced at traditional discount grocery retailers. FreshCo shoppers enjoy fresh merchandise at low prices with an expanded selection of meats and produce, including high quality choices and seasonal, locally-produced products. During the first quarter of fiscal 2012, Sobeys incurred approximately \$0.6 million in pre-tax start up costs and fixed asset write-offs related to this initiative compared to \$4.6 million in the first quarter of fiscal 2011.

Business Process and Information System Transformation and Rationalization Costs

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

The business process and information systems implementation in Quebec began in the first quarter of fiscal 2010. The business process and system initiative costs primarily include labour, implementation and training costs associated with these initiatives. During the 13 week period ended August 6, 2011, \$3.2 million of pre-tax costs, were incurred related to these initiatives compared to \$2.6 million in the same quarter last year.

On January 28, 2011, Sobeys announced plans to build a new distribution centre in Terrebonne, Quebec, utilizing the same automated equipment and technology as the Vaughan, Ontario distribution centre. The new facility will allow Sobeys to significantly increase its warehouse and distribution capacity in Quebec, while reducing overall distribution costs and improving service to its store network and customers. Additional costs of \$0.5 million have been recorded for the 13 weeks ended August 6, 2011 compared to nil in the first quarter last year; however, during the second half of fiscal 2011, Sobeys recognized \$6.2 million of pre-tax costs associated with this initiative.

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

(\$ in millions)	13 Weeks Ended			
	Aug. 6, 2011	July 31, 2010	(\$) Change	(%) Change
Sales	\$ 4,106.1	\$ 3,975.3	\$ 130.8	3.3%
EBITDA	217.6	210.4	7.2	3.4%
Operating income	135.4	133.3	2.1	1.6%
Net earnings	\$ 81.6	\$ 78.8	\$ 2.8	3.6%

Sales

Food retailing division sales for the first quarter were \$4.11 billion compared to \$3.98 billion for the same quarter last year, an increase of \$130.8 million or 3.3 percent. During the first quarter, Sobeys' same-store sales showed an increase of 1.7 percent compared to the first quarter of fiscal 2011.

The growth in sales continues to be a direct result of modest inflation, increased retail selling square footage from new stores and enlargements, coupled with the ongoing implementation of sales and merchandising initiatives, improved store level execution and product and services innovation.

EBITDA

Sobeys contributed EBITDA to Empire of \$217.6 million in the first quarter of fiscal 2012, an increase of \$7.2 million or 3.4 percent from the \$210.4 million in the same period last year. These increases were due to an increase in gains on disposal of assets and also a direct result of competitive pricing, innovation and

effective cost management. EBITDA margin for the first quarter of fiscal 2012 was 5.30 percent compared to 5.29 percent in the same quarter last year.

Operating Income

Sobeys' operating income contribution to Empire in the first quarter was \$135.4 million compared to \$133.3 million last year, an increase of \$2.1 million or 1.6 percent. Operating income margin in the first quarter equaled 3.30 percent versus 3.35 in the same quarter last year.

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

Net Earnings

Sobeys contributed net earnings, net of minority interest, of \$81.6 million to Empire for the first quarter, an increase of \$2.8 million or 3.6 percent over the \$78.8 million recorded in the same period last year. The increase in net earnings, net of minority interest, was the result of a \$2.2 million decrease in finance costs, net of finance income, a \$2.1 million increase in operating income, and a \$1.6 million decrease in income taxes, partially offset by a \$3.1 million increase in minority interest,

Investments and Other Operations

Empire's investment and other operations segment consist of its equity investments in real estate and its wholly-owned Empire Theatres and Kepec. Empire Theatres is the second largest movie exhibitor in Canada which, as of August 6, 2011, owned 51 locations representing 385 screens.

Empire's real estate investments are focused primarily on (i) the ownership of retail and office properties through a 45.9 percent ownership interest in Crombie REIT, and (ii) residential land development principally in select communities in Ontario, Western Canada and the United States through its investments in Genstar.

Genstar equity accounted earnings and net earnings, net of minority interest recorded in the first quarter ended August 6, 2011 were impacted by an increase in the ownership interest in Genstar Development Partnership II, from 44.8 percent last fiscal year to 45.9 percent during the first quarter of fiscal 2012.

The table below presents sales, operating income (including equity accounted earnings), operating earnings, capital losses and other items, net of tax, and net earnings, net of minority interest for the investments and other operations segment.

(\$ in millions)	13 Weeks Ended			
	Aug. 6, 2011	July 31, 2010	(\$) Change	(%) Change
Sales	\$ 51.1	\$ 51.7	\$ (0.6)	(1.2%)
Operating income				
Crombie REIT	4.8	4.4	0.4	9.1%
Genstar	7.5	7.9	(0.4)	(5.1%)
Wajax	-	3.4	(3.4)	nm
Other, net of corporate expenses	2.7	(0.5)	3.2	nm
	15.0	15.2	(0.2)	(1.3%)
Operating earnings, net of minority interest	8.5	7.5	1.0	13.3%
Capital losses and other items, net of tax	0.9	-	0.9	nm
Net earnings, net of minority interest	\$ 7.6	\$ 7.5	\$ 0.1	1.3%

At August 6, 2011, Empire's investment portfolio, including equity accounted investments in Crombie REIT and Genstar, consisted of:

(\$ in millions)	Aug. 6, 2011			May 7, 2011			July 31, 2010		
	Market Value	Carrying Value	Unrealized Gain	Market Value	Carrying Value	Unrealized Gain	Market Value	Carrying Value	Unrealized Gain
Investment in Crombie REIT	\$ 376.1	\$ 90.3	\$ 285.8	\$ 403.8	\$ 91.0	\$ 312.8	\$ 326.3	\$ 80.4	\$ 245.9
Investment in Wajax ⁽¹⁾	-	-	-	-	-	-	115.3	32.1	83.2
Investment in Genstar ⁽²⁾	121.9	121.9	-	121.1	121.1	-	108.7	108.7	-
Canadian Digital Cinema Partnership ⁽²⁾	7.0	7.0	-	-	-	-	-	-	-
Other investments ⁽²⁾⁽³⁾	14.0	14.0	-	14.3	14.3	-	10.7	10.7	-
	\$ 519.0	\$ 233.2	\$ 285.8	\$ 539.2	\$ 226.4	\$ 312.8	\$ 561.0	\$ 231.9	\$ 329.1

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

(2) Assumes market value equals book value.

(3) Includes Crombie REIT convertible unsecured subordinated debentures with market value of \$11.8 million (May 7, 2011 - \$11.9 million, July 31, 2010 - \$10.5 million).

Sales

Investments and other operations' revenue, primarily generated by Empire Theatres, equaled \$51.1 million in the first quarter ended August 6, 2011 versus \$51.7 million in the first quarter last year, a \$0.6 million or 1.2 percent decrease primarily driven by lower commercial property revenue which more than offset the increase in revenue recorded by Empire Theatres.

Operating Income

Investments and other operations (net of corporate expenses) contributed operating income of \$15.0 million compared to \$15.2 million in the first quarter last year. Equity accounted earnings generated from the Company's investment in Genstar amounted to \$7.5 million compared to \$7.9 million in the same quarter last year, a decrease of \$0.4 million primarily as a result of lower margins on residential lot sales. Equity accounted earnings from the Company's investment in Crombie REIT were \$4.8 million in the first quarter of fiscal 2012 compared to \$4.4 million in the first quarter last year, a \$0.4 million increase primarily driven by higher property revenues and the resulting higher property net operating income reported by Crombie REIT. As a result of its sale in the second quarter last year, there were no equity accounted earnings in the first quarter of fiscal 2012 from Wajax compared to \$3.4 million in the first quarter of last year. Operating income from other operations (net of corporate expenses) improved to \$2.7 million from \$(0.5) million in the first quarter last year. The improvement in operating income from other operations was primarily driven by dilution gains resulting from a change in the Company's ownership interest in Crombie REIT, higher operating income from other commercial operations and higher operating income from Empire Theatres.

Operating Earnings

Investments and other operations (net of corporate expenses) contributed operating earnings of \$8.5 million in the first quarter compared to \$7.5 million in the same quarter last year, an increase of \$1.0 million. This improvement is largely attributed to lower interest expense by \$2.2 million, partially offset by an increase in income taxes of \$1.0 million and a \$0.2 million decrease in operating income.

Capital Losses and Other Items

During the first quarter, there were capital losses and other items, net of tax, of \$0.9 million compared to no capital losses or other items during the first quarter of fiscal 2011. The capital losses and other items in the first quarter of fiscal 2012 are primarily related to the disposal of property and equipment.

Net Earnings

Investments and other operations (net of corporate expenses) contributed \$7.6 million to Empire's consolidated first quarter fiscal 2012 net earnings, net of minority interest, compared to a \$7.5 million net earnings, net of minority interest, contribution in the first quarter last year. The increase is primarily attributed to the increase in operating earnings offset by the increase in capital losses and other items as discussed.

CONSOLIDATED FINANCIAL CONDITION

Capital Structure and Key Financial Condition Measures

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

(\$ in millions, except per share and ratio calculations)	Aug. 6, 2011	May 7, 2011	July 31 2010
Shareholders' equity, net of minority interest	\$ 3,222.2	\$ 3,168.0	\$ 2,902.4
Book value per share	\$ 47.36	\$ 46.56	\$ 42.34
Bank indebtedness	\$ 5.0	\$ -	\$ 21.1
Long-term debt, including current portion ⁽¹⁾	\$ 1,095.4	\$ 1,152.4	\$ 1,240.5
Funded debt to total capital	25.5%	26.7%	30.3%
Net debt to net total capital ratio ⁽²⁾	12.6%	14.5%	20.9%
Debt to annualized EBITDA ⁽³⁾	1.2x	1.3x	1.4x
EBITDA to net finance costs ⁽⁴⁾	14.2x	11.5x	10.9x
Total assets	\$ 6,522.4	\$ 6,477.0	\$ 6,231.2

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

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

(3) Annualizes Q1 F2012 and Q1 F2011 EBITDA; Uses full year actual EBITDA for May 7, 2011.

(4) Calculation uses trailing 3-month EBITDA and net finance costs, except for May 7, 2011 which uses trailing 12-month EBITDA and net finance costs.

Shareholders' Equity

The Company's share capital on August 6, 2011 consisted of:

	Authorized	Issued and Outstanding	\$ Millions
	Number of Shares	Number of Shares	
Preferred shares, par value \$25 each, issuable in series			
series 2, cumulative, redeemable, rate of 75% of prime	2,679,000	164,900	\$ 4.1
2002 Preferred shares par value \$25 each, issuable in series	989,480,000	-	-
Non-Voting Class A shares, without par value	257,044,056	33,687,747	311.7
Class B common shares, without par value, voting	40,800,000	34,260,763	7.6
			\$ 323.4

There were 33,687,747 Non-Voting Class A and 34,260,763 Class B common shares outstanding at August 6, 2011, for a total of 67,948,510. This is unchanged from the previous fiscal year-end and a decrease of 509,751 shares from the first quarter last year. The decrease is due to the repurchase for cancellation of 513,579 Non-Voting Class A shares for \$27.6 million during the second quarter of fiscal 2011 under Empire's NCIB, partially offset by 3,828 Non-Voting Class A shares issued under Empire's long-term incentive plan.

At August 6, 2011, Empire had 638,818 options outstanding compared to 583,673 options outstanding at July 31, 2010.

As at September 14, 2011, the Company had Non-Voting Class A and Class B common shares outstanding of 33,687,747 and 34,260,763, respectively, as well as 638,818 options to acquire in aggregate 638,818 Non-Voting Class A shares.

Dividends paid to common shareholders amounted to \$15.3 million in the first quarter (\$0.225 per share) versus \$13.7 million (\$0.20 per share) in the first quarter last fiscal year.

Liabilities

Historically, Empire has financed a significant portion of its assets through the use of long-term debt. Long-term assets are generally financed with fixed rate, long-term debt, thereby reducing both interest

rate and refinance risk. Total long-term debt (including the current portion of long-term debt) at August 6, 2011 was \$1,095.4 million, representing 99.5 percent of Empire's total funded debt of \$1,100.4 million.

Consolidated funded debt has decreased \$52.0 million since the start of the fiscal year, May 7, 2011 (\$1,152.4 million) and by \$161.2 million since the first quarter last year (\$1,261.6 million) to \$1,100.4 million at the end of the first quarter of fiscal 2012. The decrease from the start of the fiscal year and from the first quarter last year is due primarily to the application of proceeds from the sale of properties and the sale of Wajax for debt repayment. The ratio of funded debt to total capital has improved by 4.8 percentage points since the first quarter last year to 25.5 percent as a result of higher equity levels due to growth in retained earnings and lower funded debt levels.

Included in long-term debt due within one year is \$200 million related to Sobeys' credit facility which matures on July 23, 2012. Management intends to renew or replace this credit facility prior to its maturity.

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

Long-term debt (including current portion) (\$ in millions)	Aug. 6, 2011	May 7, 2011	July 31, 2010
Food retailing	\$ 979.0	\$ 999.3	\$ 1,003.7
Investments and other operations	116.4	153.1	236.8
Total	\$ 1,095.4	\$ 1,152.4	\$ 1,240.5

For additional disclosure on Empire's bank indebtedness and long-term debt, see Notes 10 and 11 to the Company's annual audited financial statements for fiscal 2011.

On September 14, 2009, DBRS upgraded Sobeys' credit rating to from BBB(low) with a positive trend to BBB with a stable trend. On January 12, 2010, S&P upgraded its credit rating on Sobeys from BB+ with a positive trend to BBB- with a stable trend.

Empire's EBITDA to net finance costs in the first quarter was 14.2 times, an increase from 10.9 times recorded for the first quarter last fiscal year. The increase over the same quarter last year is due to a decline in the net finance costs of 21.0 percent and an increase in EBITDA of 2.7 percent.

Financial Instruments

As part of Empire's risk management strategy, the Company actively monitors its exposures to various financial risks including interest rate risk, foreign exchange price risk and commodity price risk. From time to time, Empire or one of its subsidiaries will use a financial instrument for the purpose of mitigating its exposure to one or more types of financial risk. Empire and its subsidiaries do not use financial instruments for speculative purposes. The Company's use of these instruments has not had a material impact on consolidated earnings for the 13 weeks ended August 6, 2011 or for the comparative period in fiscal 2011.

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

In-Place Financial Instruments

Empire utilizes interest rate instruments from time to time to prudently manage its exposure to interest rate volatility and also to fix future long-term debt maturities that are expected to be refinanced. At August 6, 2011, there were three interest rate hedges in place with a fair value of \$(7.9) million. Sensitivity analysis has been prepared to determine the impact of a change in the underlying forward rate curves on the fair values reported as of August 6, 2011. A parallel shift up/(down) in the underlying forward rate curve of 0.25 percent would impact the fair value of the swaps by plus or minus \$0.5 million and impact other comprehensive income by plus or minus \$0.4 million.

In July 2008, Sobeys entered into a floating-for-floating currency swap with a fixed rate of \$1.015 Canadian Dollar (“CAD”) / United States Dollar (“USD”) to mitigate the currency risk associated with a USD denominated variable rate lease. The terms of the swap match the lease terms. As of August 6, 2011, Sobeys recognized a liability of \$0.6 million relating to this instrument. Sobeys estimates that a 10.0 percent increase/(decrease) in applicable foreign currency exchange rates would impact the fair value of the swap by plus or minus \$0.9 million and would impact other comprehensive income by plus or minus \$0.6 million.

To mitigate the currency risk associated with the Company’s Euro purchases, Sobeys entered into forward currency contracts with staggered maturities to act as a hedge against the effect of changes in the value of the CAD relative to the Euro. As at August 6, 2011, Sobeys had recognized an asset of \$0.6 million representing the fair value of Euro denominated forward currency contracts. Sobeys estimates that a 10.0 percent increase/(decrease) in applicable exchange rates would impact the fair value by plus or minus \$3.6 million and other comprehensive income by plus or minus \$2.5 million.

Fair Value Methodology

When a financial instrument is designated as a hedge for financial accounting purposes, it is classified as fair value through profit and loss (“FVTPL”) on the balance sheet and recorded at fair value. The estimated fair values of the financial instruments as at August 6, 2011 were based on relevant market prices and information available at the reporting date. The Company determines fair value of each financial instrument by reference to external and third-party quoted bid, ask, and mean prices, as appropriate, in an active market. In inactive markets, fair values are based on internal and external valuation models, such as discounted cash flows using market observed inputs. Fair values determined using valuation models require the use of assumptions to determine the amount and timing of forecasted future cash flows and discount rates. The Company primarily uses external market inputs, including factors such as interest yield curves and forward exchange rates. Changes in interest rates and exchange rates, along with other factors, may cause the fair value amounts to change in subsequent periods. The fair value of these financial instruments reflects the amount the Company would pay or receive if it were to settle the contracts at the reporting date.

For additional disclosure on Empire’s use of financial instruments, see Notes 1 and 22 to the Company’s annual audited financial statements for the 53 weeks ended May 7, 2011.

LIQUIDITY AND CAPITAL RESOURCES

The Company maintains the following sources of liquidity:

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

At August 6, 2011, consolidated cash and cash equivalents were \$637.7 million versus \$493.1 million at July 31, 2010 and \$615.9 million at fiscal year-end, May 7, 2011.

At the end of the first quarter of fiscal 2012, on a non-consolidated basis, Empire directly maintained an authorized bank line for operating, general and corporate purposes of \$450 million, of which approximately \$94.3 million or 21.0 percent was utilized. On a consolidated basis, Empire’s authorized bank credit facilities exceeded borrowings by approximately \$741 million at August 6, 2011.

The Company anticipates that the above mentioned in-place sources of liquidity will adequately meet its short-term and long-term financial requirements. The Company mitigates potential liquidity risk by ensuring its various sources of funds are diversified by term to maturity and source of credit.

Empire and its subsidiaries have provided covenants to its lenders in support of various financing facilities. All covenants were complied with for the 13 weeks ended August 6, 2011 and for the fiscal year ended May 7, 2011.

The following table highlights major cash flow components for the 13 weeks ended August 6, 2011 compared to the 13 weeks ended July 31, 2010.

(\$ in millions)	13 Weeks Ended	
	Aug. 6, 2011	July 31, 2010
Net earnings	\$ 96.6	\$ 90.6
Non-cash items	154.3	172.8
Net change in non-cash working capital	6.3	(71.7)
Income taxes paid	(62.0)	(77.8)
Cash flows from operating activities	195.2	113.9
Cash flows used in investing activities	(94.0)	(50.9)
Cash flows from (used in) financing activities	(79.4)	32.8
Increase in cash and cash equivalents	\$ 21.8	\$ 95.8

Operations

First quarter cash flows from operating activities equaled \$195.2 million compared to \$113.9 million in the comparable period last year. The increase of \$81.3 million is attributed to an increase in the net change in non-cash working capital of \$78.0 million, a decrease in income taxes paid of \$15.8 million and an increase in net earnings of \$6.0 million, partially offset by a decrease in non-cash items of \$18.5 million.

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

(\$ in millions)	Non-Cash Working Capital (Quarter-Over-Quarter)		13 Weeks Ended	
			Aug. 6, 2011	July 31, 2010
	Aug. 6, 2011	May 7, 2011	Increase (Decrease) in Cash Flow s	Increase (Decrease) in Cash Flow s
Receivables	\$ 336.7	\$ 346.6	\$ 9.9	\$ (10.3)
Inventories	835.6	823.0	(12.6)	(15.3)
Prepaid expenses	77.7	69.6	(8.1)	10.0
Income taxes receivable	35.8	27.4	(8.4)	(17.7)
Accounts payable and accrued liabilities	(1,662.0)	(1,623.2)	38.8	(22.6)
Provisions	(26.8)	(29.9)	(3.1)	0.1
Income taxes payable	(16.5)	(27.8)	(11.3)	(19.4)
Impact of reclassifications on working capital ⁽¹⁾	(1.1)		1.1	3.5
Total	\$ (420.6)	\$ (414.3)	\$ 6.3	\$ (71.7)

(1) Reclassifications primarily relate to business acquisitions.

The net change in non-cash working capital of \$6.6 million in the first quarter was largely due to an increase in accounts payable and accrued liabilities of \$38.8 million, a \$9.9 million decrease in receivables and the impact of reclassification on working capital of \$1.1 million, partially offset by a \$12.6 million increase in inventories, a decrease in income taxes payable of \$11.3 million, an increase in income taxes receivable of \$8.4 million and a decrease in prepaid expenses of \$8.1 million. The increase in accounts payable and accrued liabilities and increase in inventories in the current quarter was due primarily to the timing of inventory purchases through the quarter by Sobeys and their associated payment terms.

Investment

Cash used in investing activities of \$94.0 million in the first quarter increased \$43.1 million compared to cash used in investing activities of \$50.9 million in the same period last year. The increase was the result

of a \$28.4 million increase in cash used to purchase property, equipment and investment properties and cash used in loans and other receivables of \$15.0 million compared to cash generated from loans and other receivables of \$16.2 million last year, partially offset by a increase in proceeds on disposal of property, equipment and investments properties of \$26.6 million compared to the same quarter last year.

Consolidated purchases of property equipment and investment properties totalled \$108.7 million in the first quarter of fiscal 2012 compared to \$80.3 million in the first quarter last year. Proceeds on disposal of property, equipment and investment properties increased \$26.6 million from the first quarter last year to \$52.0 million in the first quarter of fiscal 2012. Proceeds on disposal in the first quarter of fiscal 2012 include the sale of three properties to Crombie REIT for proceeds of \$32.0 million. In addition, the Company sold its 50 percent interest in two properties to a third party for \$14.6 million during the first quarter of fiscal 2012. As part of these two transactions, first mortgage loans totalling \$12.7 million were paid in full.

The table below outlines the number of stores Sobeys invested in during the 13 weeks ended August 6, 2011 compared to 13 weeks ended July 31, 2010:

Sobeys' Corporate and Franchised Store Construction Activity		
# of Stores	13 Weeks Ended	
	Aug. 6, 2011	July 31, 2010
Opened/Acquired/Relocated	8	8
Expanded	3	4
Rebannered/Redeveloped	3	11
Closed	12	5

The following table shows Sobeys' square footage changes for the 13 and 53 weeks ended August 6, 2011 by type:

Sobeys' Square Footage Changes (in thousands)		
Square Feet	Aug. 6, 2011 versus	Aug. 6, 2011 versus
	May 7, 2011	July 31, 2010
Opened	167	935
Relocated	-	39
Acquired	10	10
Expanded	11	88
Closed	(83)	(531)
Net Change	105	541

At August 6, 2011, Sobeys' square footage totalled 28.8 million square feet, a 2.1 percent increase over the 28.2 million square feet operated at the end of the first quarter last year.

Financing

Financing activities during the first quarter used \$79.4 million of cash compared to \$32.8 million of cash generated from financing activities in the same quarter last year. The increase of \$112.2 million in cash flows used in financing activities when compared to the same quarter last year is primarily the result of: 1) a decrease in long-term debt issuance of \$144.3 million compared to the same quarter last year; and, 2) cash generated from an increase in bank indebtedness of \$5.0 million in the current quarter compared to an increase of \$17.0 million in the same quarter last year, partially offset by a decrease in the repayment of long-term debt of \$45.8 million.

The Company believes that its cash and cash equivalents, future operating cash flows and available credit facilities will enable the Company to fund future capital investments, pension plan contributions,

working capital, and ongoing business requirements. The Company believes it has sufficient funding in place to meet these requirements and other long-term obligations.

Free Cash Flow

Free cash flow (see Non-GAAP measures section in this MD&A) is used to measure the change in the Company's cash available for additional investing, dividends and/or debt reduction. The following table reconciles free cash flow to GAAP cash flows used in operating activities for the 13 weeks ended August 6, 2011 and July 31, 2010.

(\$ in millions)	13 Weeks Ended	
	Aug. 6, 2011	July 31, 2010
Cash flow from operating activities	\$195.2	\$113.9
Less: Property, equipment and investment property purchases	108.7	80.3
Free cash flow	\$86.5	\$33.6

Free cash flow generation in the first quarter of fiscal 2012 was \$86.5 million compared to \$33.6 million in the first quarter last year. The \$52.9 million increase in free cash flow from the first quarter last fiscal year was due to an \$81.3 million increase in cash flow from operations primarily due to a increase in non-cash working capital, partially offset by an \$28.4 million increase in property, equipment and investment property purchases.

CONTROLS AND ACCOUNTING POLICIES

Changes in Accounting Policies

IFRS

The accompanying unaudited, interim consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting" which resulted in changes to accounting policies as compared with the most recent annual financial statements prepared under previous Canadian GAAP for the year ended May 7, 2011. The significant accounting policies set out in Note 3 of the unaudited interim financial statements have been applied consistently throughout the Company for all periods presented in this MD&A and related unaudited interim financial statements except as noted in the "Quarterly Results of Operations" section of this MD&A.

An explanation of the impact of transition to IFRS on the Company's reported consolidated balance sheets, consolidated statements of earnings, consolidated statements of comprehensive income and consolidated statements of cash flows is provided in Note 18 of the accompanying unaudited interim financial statements.

Future Changes in Accounting Policies:

(i) Financial Instruments

In November 2009, the IASB issued IFRS 9, "Financial Instruments", which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement". The replacement is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 is the first phase of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2013.

(ii) Financial Instruments: Disclosures

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

(iii) Deferred Tax: Recovery of Underlying Assets

In December 2010, the IASB issued amendments to IAS 12, "Income Taxes", which introduce an

exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. The amendments are effective for annual periods beginning on or after January 1, 2012.

(iv) Consolidated Financial Statements

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

(v) Joint Arrangements

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

(vi) Disclosure of Interests in Other Entities

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

(vii) Fair Value Measurements

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

(viii) Employee Benefits

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

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

Critical Accounting Estimates

The 2011 annual MD&A includes a detailed discussion of various critical accounting estimates management is required to make in the preparation of its financial statements. The following is an update to those Critical Accounting Estimates as a result of the transition to IFRS.

Impairment of Non-Financial Assets

Goodwill and intangibles with indefinite useful lives are reviewed for impairment at least annually by assessing the recoverable amount of each cash generating unit or groups of cash generating units to which the goodwill or the indefinite life intangibles relates. The recoverable amount is the higher of fair value less costs to sell and value in use. When the recoverable amount of the cash generating units is

less than the carrying amount an impairment loss is recognized immediately as selling and administrative expenses. Impairment losses related to goodwill and indefinite life intangibles cannot be reversed.

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

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

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

Pension Benefit Plans and Other Benefit Plans

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

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

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

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

Controls and Procedures

Management of Empire, which includes the Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining internal control over financial reporting ("ICFR") as that term is defined in National Instrument 52-109 "Certificate of Disclosure in Issuers' Annual and Interim Filings". The control framework management used to design and assess the effectiveness of ICFR is The Internal Control Integrated Framework published by the Committee of Sponsoring Organization of the Treadway Commission. There have been no changes in the Company's ICFR during the period beginning May 8, 2011 and ended August 6, 2011 that have materially affected, or are reasonably likely to materially affect, Empire's ICFR.

Related Party Transactions

The Company rents premises from Crombie REIT. In addition, Crombie REIT provides administrative and management services to the Company pursuant to a management cost sharing agreement, dated March 23, 2006, between a subsidiary of Crombie REIT and ECL Properties Limited, a subsidiary of the Company. The rental payments are at exchange amount which represents the amount negotiated between the parties as part of the lease agreement. The charges incurred for administrative and management services are on a cost recovery basis (billed at the cost incurred by the invoicing party). For the 13 weeks ended August 6, 2011, the aggregate rental payments to Crombie REIT were \$22.8 million (13 weeks end July 31, 2010 - \$18.7 million). For the 13 weeks ended August 6, 2011, charges incurred for administrative and management services were \$0.6 million (13 weeks ended July 31, 2010 - \$0.4 million). The Company has non-interest bearing notes payable to Crombie REIT in the amount of \$3.8 million related to the subsidy payments to Crombie REIT pursuant to an omnibus subsidy agreement dated March 23, 2006 between certain subsidiaries of Crombie REIT and ECL Properties Limited.

The Company has provided Crombie REIT with fixed rate second mortgages in the amount of \$5.6 million (July 31, 2010 - \$5.9 million). The second mortgages have a weighted average interest rate of 5.38 percent with a maturity date of March 2014. For the 13 weeks ended August 6, 2011, Empire received interest income related to the second mortgages of \$0.1 million (13 weeks ended July 31, 2010 - \$0.1 million).

During the first quarter of fiscal 2012, the Company sold three properties to Crombie REIT for net proceeds of \$32.0 million, which was fair market value. As part of this transaction, first mortgage loans totalling \$8.6 million were paid in full.

On a fully diluted basis (assuming conversion of all outstanding convertible securities of Crombie REIT), the Company's interest in Crombie REIT would be approximately 40.4 percent.

NORMAL COURSE ISSUER BID

The Company announced today that it has filed a notice with the Toronto Stock Exchange ("TSX") to purchase for cancellation up to 673,755 Non-Voting Class A shares representing approximately two percent of those outstanding, subject to obtaining regulatory approval. The purchases will be made through the facilities of the TSX. Currently 33,687,747 Non-Voting Class A shares are issued and outstanding. The price the Company will pay for any such shares will be the market price at the time of acquisition. Purchases may commence on September 20, 2011, and shall terminate not later than September 19, 2012.

The Board of Directors and senior management of Empire are of the opinion that from time to time the purchase of Non-Voting Class A shares at the prevailing market prices is a worthwhile use of funds and in the best interests of Empire and its shareholders. The Company has purchased 513,579 Non-Voting Class A shares at a weighted average price of \$53.72 in the last 12 months under a normal course issuer bid that will expire on September 19, 2011.

The average daily trading volume (the "ADTV") of the Non-Voting Class A shares was 36,560 on the TSX over the last six completed calendar months. Accordingly, under the policies of the TSX, the Company is entitled to purchase, during any one trading day up to 9,140 Non-Voting Class A shares (being 25 percent of the ADTV of the Non-Voting Class A shares) on any trading day. The Company is entitled to purchase a larger amount of Non-Voting Class A shares per calendar week, subject to the maximum number that may be acquired under the normal course issuer bid, if the transaction meets the block purchase exception under the TSX rules.

DESIGNATION OF ELIGIBLE DIVIDENDS

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

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

EMPLOYEE FUTURE BENEFIT OBLIGATIONS

For the 13 weeks ended August 6, 2011, the Company contributed \$1.5 million (13 weeks ended July 31, 2010 - \$1.4 million) to its registered defined benefit plans. The Company expects to contribute approximately \$6.2 million in fiscal 2012 to these plans. The Company continues to assess the impact of the capital markets on its funding requirements.

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

Dated: September 14, 2011
Stellarton, Nova Scotia, Canada