

3rd Quarter
Fiscal 2011



Empire Company Limited

Focused on being the best
...together

QUARTERLY REPORT TO SHAREHOLDERS

Empire Company Limited (“Empire” or the “Company”) is a Canadian company headquartered in Stellarton, Nova Scotia. Empire’s key businesses include food retailing, real estate, and investments and other operations. Food retailing is carried out through wholly-owned Sobeys Inc. (“Sobeys”). The real estate business is carried out through a wholly-owned operating subsidiary ECL Properties Limited (“ECL”), which includes a 46.5 percent ownership interest in Crombie Real Estate Investment Trust (“Crombie REIT”) and our investment in Genstar, a residential property developer with operations in select markets in Ontario, Western Canada and the United States. Corporate investment activities and other operations include wholly-owned ETL Canada Holdings Limited (“Empire Theatres”) and 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 \$15 billion in annual revenue and approximately \$6.4 billion in assets, Empire and its related companies, employ approximately 90,000 people, including its franchisees and affiliates.

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Copies of this report are available on the Company’s website (www.empireco.ca) or by contacting the Vice-President, Treasury & Investor Relations at (902) 755-4440. A copy has also been filed on SEDAR.

The Company provided additional details concerning its third quarter results on a conference call held on Tuesday, March 8, 2011. Replay of the call is available on the Company’s website (www.empireco.ca).

Forward-Looking Statements

This quarterly report contains forward-looking statements which reflect management’s expectations regarding the Company’s objectives, plans, goals, strategies, future growth, financial condition, results of operations, cash flows, performance, business prospects and opportunities. All statements other than statements of historical facts included in this quarterly report, including statements regarding the Company’s objectives, plans, goals, strategies, future growth, financial condition, results of operations, cash flows, performance, business prospects and opportunities may constitute forward-looking information. Expressions such as “anticipates”, “expects”, “believes”, “estimates”, “intends”, “could”, “may”, “plans”, “predicts”, “projects”, “will”, “would”, “foresees”, “remain confident that” and other similar expressions or the negative of these terms are generally indicative of forward-looking statements.

For more specific information, refer to the section titled “Forward-Looking Information” on page 18 of this quarterly report.

LETTER TO SHAREHOLDERS

Empire Company Limited (TSX: EMP.A) announced financial results for its third quarter ended January 29, 2011. For the third quarter, the Company recorded earnings before capital gains and other items of \$60.0 million (\$0.88 per share) compared to \$68.3 million (\$0.99 per share) in the third quarter last year.

Included in earnings before capital gains and other items in the quarter were \$6.0 million of pre-tax costs (\$0.06 per share after-tax) associated with Sobeys' plan to build a new automated distribution centre in Terrebonne, Quebec. This new facility will allow Sobeys to significantly increase its warehouse and distribution capacity for Quebec, while reducing overall distribution costs.

Net earnings for the third quarter were \$62.8 million (\$0.92 per share) compared to \$68.3 million (\$0.99 per share) recorded in the third quarter last year. Included in net earnings in the third quarter were net capital gains and other items of \$2.8 million (\$0.04 per share) compared to no net capital gains and other items in the third quarter last year.

Third Quarter Highlights

- Revenue of \$3.88 billion, up \$48.3 million or 1.3 percent.
- Sobeys' same-store sales decreased 0.4 percent compared with Q3 last year.
- Earnings before capital gains and other items of \$60.0 million (\$0.88 per share) compared to \$68.3 million (\$0.99 per share) last year.
- Sobeys announced plans to build a new automated distribution centre in Quebec; pre-tax costs of \$6.0 million (\$0.06 per share after-tax) were recognized in the quarter.
- Capital gains and other items, net of tax, of \$2.8 million versus none last year.
- Net earnings of \$62.8 million (\$0.92 per share) compared to \$68.3 million (\$0.99 per share) last year.
- Net debt to capital of 18.2 percent, down from 21.8 percent at the end of the last fiscal year and 26.4 percent at the end of Q3 last year.

Fiscal Year-to-Date Highlights

- Revenue of \$11.84 billion, up \$158.3 million or 1.4 percent.
- Sobeys' same-store sales were down 0.1 percent compared to same period last year.
- Earnings before capital gains and other items of \$215.5 million (\$3.15 per share) compared to \$212.6 million (\$3.10 per share) last year.
- Capital gains and other items, net of tax, of \$61.7 million versus \$15.8 million last year.
- Net earnings of \$277.2 million (\$4.05 per share) compared to \$228.4 million (\$3.33 per share) last year.

Dividend Declaration

The Board of Directors declared a quarterly dividend of 20.0 cents per share on both the Non-Voting Class A shares and the Class B common shares that will be payable on April 29, 2011 to shareholders of record on April 15, 2011. The Board also declared regular dividends on the Company's outstanding preferred shares. The dividends are eligible dividends as defined for the purposes of the Income Tax Act (Canada) and applicable provincial legislation and, therefore, qualify for the favourable tax treatment applicable to such dividends

Summary

Our third quarter financial results are consistent with our expectation and reflect continued intense competitive activity in the retail food market. We remain confident that Sobeys' focus on executing its strategy, differentiating its retail food offering, and reducing costs through its productivity and systems initiatives will continue to build long-term sustainable value.



Paul D. Sobey
President & Chief Executive Officer

March 8, 2011

EMPIRE COMPANY LIMITED
CONSOLIDATED BALANCE SHEETS
(\$ in millions)

	January 29 2011 Unaudited	May 1 2010 Audited	January 30 2010 Unaudited
ASSETS			
Current			
Cash and cash equivalents	\$ 481.4	\$ 401.0	\$ 256.5
Receivables	360.5	336.9	291.0
Loans and other receivables	78.8	105.8	84.2
Income taxes receivable	5.4	-	-
Inventories (Note 4)	935.5	880.3	924.0
Prepaid expenses	46.4	70.1	51.1
	<u>1,908.0</u>	<u>1,794.1</u>	<u>1,606.8</u>
Investments, at realizable value	11.8	10.9	11.9
Investments, at equity (realizable value \$431.0; May 1, 2010 - \$476.8; January 30, 2010 - \$450.8) (Note 5)	33.8	56.8	60.6
Loans and other receivables	67.0	79.2	85.3
Other assets (Note 6)	103.7	94.5	84.2
Property and equipment	2,579.1	2,548.7	2,552.5
Assets held for sale	25.7	36.5	47.7
Intangibles	457.1	455.0	453.1
Goodwill	1,172.6	1,172.6	1,171.6
	<u>\$ 6,358.8</u>	<u>\$ 6,248.3</u>	<u>\$ 6,073.7</u>
LIABILITIES			
Current			
Bank indebtedness	\$ 6.0	\$ 17.8	\$ 89.2
Accounts payable and accrued liabilities	1,553.6	1,621.6	1,463.6
Income taxes payable	-	19.5	7.3
Future income taxes	37.6	50.9	49.8
Long-term debt due within one year	54.7	379.4	359.5
	<u>1,651.9</u>	<u>2,089.2</u>	<u>1,969.4</u>
Long-term debt (Note 7)	1,126.4	829.0	839.2
Long-term debt relating to assets held for sale	-	-	2.3
Employee future benefits obligation	129.0	125.1	123.0
Future income taxes	107.4	86.4	84.9
Other long-term liabilities	142.3	130.6	130.9
Minority interest	33.5	35.6	37.5
	<u>3,190.5</u>	<u>3,295.9</u>	<u>3,187.2</u>
SHAREHOLDERS' EQUITY			
Capital stock (Note 8)	320.5	325.1	325.0
Contributed surplus	4.3	3.2	2.7
Retained earnings	2,865.4	2,652.2	2,591.4
Accumulated other comprehensive loss (Note 9)	(21.9)	(28.1)	(32.6)
	<u>3,168.3</u>	<u>2,952.4</u>	<u>2,886.5</u>
	<u>\$ 6,358.8</u>	<u>\$ 6,248.3</u>	<u>\$ 6,073.7</u>
Contingent liabilities (Note 18)			

See accompanying notes to the unaudited interim consolidated financial statements.

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

	<u>January 29 2011</u>	<u>January 30 2010</u>
Balance, beginning of period as previously reported	\$ 2,652.2	\$ 2,405.8
Adjustment due to implementation of new accounting standard (Note 1)	-	(4.7)
Balance, beginning of period as restated	<u>2,652.2</u>	<u>2,401.1</u>
Net earnings	277.2	228.4
Dividends		
Preferred shares	(0.1)	(0.1)
Common shares	(40.9)	(38.0)
Premium on common shares purchased for cancellation (Note 8)	<u>(23.0)</u>	<u>-</u>
Balance, end of period	<u>\$ 2,865.4</u>	<u>\$ 2,591.4</u>

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

	<u>January 29 2011 (13 weeks)</u>	<u>January 30 2010 (13 weeks)</u>	<u>January 29 2011 (39 weeks)</u>	<u>January 30 2010 (39 weeks)</u>
Net earnings	\$ 62.8	\$ 68.3	\$ 277.2	\$ 228.4
Other comprehensive income				
Unrealized gains on available-for-sale financial assets, net of income taxes of \$Nil; \$Nil; \$0.1; \$0.1	0.2	0.2	0.8	0.6
Unrealized (losses) gains on derivatives designated as cash flow hedges, net of income taxes of \$(0.4); \$0.4; \$Nil; \$2.6	(1.1)	0.8	(0.1)	5.0
Reclassification of loss on derivative instruments designated as cash flow hedges to earnings, net of income taxes of \$0.7; \$0.8; \$2.0; \$2.3	1.2	1.7	4.1	4.7
Share of comprehensive income of entities accounted for using the equity method, net of income taxes of \$0.2; \$0.2; \$0.6; \$4.0	0.6	0.6	2.0	7.4
Foreign currency translation adjustment	<u>(0.8)</u>	<u>(0.2)</u>	<u>(0.6)</u>	<u>(1.8)</u>
	<u>0.1</u>	<u>3.1</u>	<u>6.2</u>	<u>15.9</u>
Comprehensive income	<u>\$ 62.9</u>	<u>\$ 71.4</u>	<u>\$ 283.4</u>	<u>\$ 244.3</u>

See accompanying notes to the unaudited interim consolidated financial statements.

EMPIRE COMPANY LIMITED
CONSOLIDATED STATEMENTS OF EARNINGS
PERIODS ENDED

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

	January 29 2011 <i>(13 weeks)</i>	January 30 2010 <i>(13 weeks)</i>	January 29 2011 <i>(39 weeks)</i>	January 30 2010 <i>(39 weeks)</i>
Revenue	\$ 3,884.5	\$ 3,836.2	\$ 11,837.7	\$ 11,679.4
Operating expenses				
Cost of sales, selling and administrative expenses	3,696.5	3,650.5	11,229.6	11,089.6
Depreciation and amortization	92.4	84.9	267.8	252.7
	<u>95.6</u>	<u>100.8</u>	<u>340.3</u>	<u>337.1</u>
Investment income (Note 10)	5.5	9.5	23.8	24.1
Operating income	<u>101.1</u>	<u>110.3</u>	<u>364.1</u>	<u>361.2</u>
Interest expense				
Long-term debt	15.8	17.0	51.4	51.2
Short-term debt	1.2	1.1	3.0	3.1
	<u>17.0</u>	<u>18.1</u>	<u>54.4</u>	<u>54.3</u>
	<u>84.1</u>	<u>92.2</u>	<u>309.7</u>	<u>306.9</u>
Capital gains (losses) and other items (Note 11)	3.3	-	60.6	(2.4)
Earnings before income taxes and minority interest	<u>87.4</u>	<u>92.2</u>	<u>370.3</u>	<u>304.5</u>
Income taxes (Note 12)				
Current	16.5	10.2	87.2	68.0
Future	9.4	13.6	(0.3)	2.8
	<u>25.9</u>	<u>23.8</u>	<u>86.9</u>	<u>70.8</u>
Earnings before minority interest	<u>61.5</u>	<u>68.4</u>	<u>283.4</u>	<u>233.7</u>
Minority interest	(1.3)	0.1	6.2	5.3
Net earnings	<u>\$ 62.8</u>	<u>\$ 68.3</u>	<u>\$ 277.2</u>	<u>\$ 228.4</u>
Earnings per share (Note 3)				
Basic	<u>\$ 0.92</u>	<u>\$ 1.00</u>	<u>\$ 4.06</u>	<u>\$ 3.34</u>
Diluted	<u>\$ 0.92</u>	<u>\$ 0.99</u>	<u>\$ 4.05</u>	<u>\$ 3.33</u>
Weighted average number of common shares outstanding, in millions (Note 8)				
Basic	67.8	68.4	68.1	68.4
Diluted	68.0	68.5	68.3	68.5

See accompanying notes to the unaudited interim consolidated financial statements.

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

	January 29 2011 (13 weeks)	January 30 2010 (13 weeks)	January 29 2011 (39 weeks)	January 30 2010 (39 weeks)
Operating Activities				
Net earnings	\$ 62.8	\$ 68.3	\$ 277.2	\$ 228.4
Items not affecting cash (Note 13)	110.0	110.4	207.6	285.2
Preferred dividends	(0.1)	(0.1)	(0.1)	(0.1)
	<u>172.7</u>	<u>178.6</u>	<u>484.7</u>	<u>513.5</u>
Net change in non-cash working capital	(54.6)	15.1	(141.6)	(50.2)
Cash flows from operating activities	<u>118.1</u>	<u>193.7</u>	<u>343.1</u>	<u>463.3</u>
Investing Activities				
Net increase in investments	(10.2)	(5.5)	(36.0)	(51.5)
Net proceeds from sale of Wajax (Note 2)	-	-	121.3	-
Purchase of property and equipment	(138.6)	(106.8)	(381.5)	(306.0)
Proceeds on disposal of property and equipment	15.9	7.0	160.0	71.5
Additions to intangibles	(7.8)	(11.9)	(28.4)	(26.5)
Loans and other receivables	(8.1)	(4.2)	39.3	(28.6)
(Increase) decrease in other assets	(1.3)	4.0	(3.1)	1.4
Business acquisitions (Note 17)	(6.7)	(19.1)	(15.4)	(33.6)
Cash flows used in investing activities	<u>(156.8)</u>	<u>(136.5)</u>	<u>(143.8)</u>	<u>(373.3)</u>
Financing Activities				
(Decrease) increase in bank indebtedness	(7.0)	11.8	(11.8)	43.3
Issue of long-term debt	19.8	13.1	199.0	79.6
Repayment of long-term debt	(16.1)	(22.3)	(229.2)	(143.3)
Minority interest	(0.6)	(1.6)	(8.3)	(6.7)
Repurchase of Non-Voting Class A shares (Note 8)	-	-	(27.7)	-
Common dividends	(13.6)	(12.6)	(40.9)	(38.0)
Cash flows used in financing activities	<u>(17.5)</u>	<u>(11.6)</u>	<u>(118.9)</u>	<u>(65.1)</u>
(Decrease) increase in cash and cash equivalents	(56.2)	45.6	80.4	24.9
Cash and cash equivalents, beginning of period	537.6	210.9	401.0	231.6
Cash and cash equivalents, end of period	<u>\$ 481.4</u>	<u>\$ 256.5</u>	<u>\$ 481.4</u>	<u>\$ 256.5</u>

See accompanying notes to the unaudited interim consolidated financial statements.

EMPIRE COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JANUARY 29, 2011
(Unaudited, \$ in millions)

1. Summary of Significant Accounting Policies

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

Interim consolidated financial statements

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

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

Accounting standards and policies adopted during fiscal 2010

Goodwill and intangible assets

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

Financial Instruments - Disclosures

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

Future changes in accounting standards and policies

Business combinations, consolidated financial statements and non-controlling interests

In January 2009, the CICA issued three new accounting standards which are based on the International Accounting Standards Board's IFRS 3, "Business Combinations". Section 1582, "Business Combinations", which replaces Section 1581 with the same title, aims to improve the relevance, reliability and comparability of the information provided in financial statements about business combinations. This Section is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2011 and assets and liabilities that arose from business combinations that preceded the adoption of this standard should not be adjusted upon adoption. Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling

EMPIRE COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JANUARY 29, 2011
(Unaudited, \$ in millions)

1. Summary of Significant Accounting Policies (continued)

Interests", replace Section 1600, "Consolidated Financial Statements", and establish standards for the preparation of consolidated financial statements and accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards apply to interim and annual consolidated financial statements for fiscal years beginning on or after January 1, 2011. Earlier adoption of all three standards is permitted as of the beginning of a fiscal year, however if an entity chooses to early adopt, all three standards must be adopted concurrently. The Company does not expect to adopt these standards as a result of its transition to IFRS.

Multiple deliverable revenue arrangements

In December 2009, the CICA issued EIC 175, "Multiple Deliverable Revenue Arrangements". EIC 175, which replaces EIC 142, "Revenue Arrangements with Multiple Deliverables", addresses some aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. This new standard is effective for annual consolidated financial statements commencing on or after January 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. The Company does not expect to adopt these standards as a result of its transition to IFRS.

2. Sale of Wajax Income Fund

On October 5, 2010, ECL Western Holdings Limited (a wholly owned subsidiary of the Company) sold its 27.5% ownership interest in Wajax Income Fund ("Wajax"). Through a secondary offering, the Company sold a total of 4.58 million Wajax units for net proceeds of \$121.3. Details of the sale was as follows:

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

3. Earnings Per Share

Earnings applicable to common shares is comprised of the following:

	2011 (13 weeks)	2010 (13 weeks)	2011 (39 weeks)	2010 (39 weeks)
Operating earnings	\$ 60.0	\$ 68.3	\$ 215.5	\$ 212.6
Capital gains and other items, net of income taxes of \$0.5; \$Nil; \$(1.1); \$(18.2)	<u>2.8</u>	-	<u>61.7</u>	<u>15.8</u>
Net earnings	62.8	68.3	277.2	228.4
Preferred share dividends	<u>(0.1)</u>	<u>(0.1)</u>	<u>(0.1)</u>	<u>(0.1)</u>
Earnings applicable to common shares	<u>\$ 62.7</u>	<u>\$ 68.2</u>	<u>\$ 277.1</u>	<u>\$ 228.3</u>

Included in income taxes of \$(18.2) for the 39 weeks ended January 30, 2010 was an income tax recovery of \$17.0 (see Note 12).

EMPIRE COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JANUARY 29, 2011

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

3. Earnings Per Share (continued)

Earnings per share is comprised of the following:

	2011 (13 weeks)	2010 (13 weeks)	2011 (39 weeks)	2010 (39 weeks)
Operating earnings	\$ 0.88	\$ 1.00	\$ 3.16	\$ 3.11
Net capital gains and other items	0.04	-	0.90	0.23
Basic earnings per share	<u>\$ 0.92</u>	<u>\$ 1.00</u>	<u>\$ 4.06</u>	<u>\$ 3.34</u>
Operating earnings	\$ 0.88	\$ 0.99	\$ 3.15	\$ 3.10
Net capital gains and other items	0.04	-	0.90	0.23
Diluted earnings per share	<u>\$ 0.92</u>	<u>\$ 0.99</u>	<u>\$ 4.05</u>	<u>\$ 3.33</u>

4. Inventories

The cost of inventories recognized as an expense during the 13 and 39 weeks ended January 29, 2011 was \$2,914.7 and \$8,837.0 respectively (2010 - \$2,886.3 and \$8,776.9). The Company has recorded \$16.6 (2010 - \$13.6) as an expense for the write down below cost to net realizable value for inventories on hand as at January 29, 2011. There were no reversals of inventories written down previously (2010 - \$nil).

5. Investments, at Equity

	January 29 2011	May 1 2010	January 30 2010
Wajax Income Fund	\$ -	\$ 30.8	\$ 30.8
Crombie REIT (46.5% interest)	0.5	8.4	12.6
U.S. residential real estate partnerships	33.3	17.6	17.2
	<u>\$ 33.8</u>	<u>\$ 56.8</u>	<u>\$ 60.6</u>

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

	January 29 2011	January 30 2010
Balance, beginning of period	\$ 30.8	\$ 31.0
Equity earnings	8.7	6.9
Share of comprehensive income	0.9	-
Distributions received	(5.9)	(7.1)
Sale of interest in Wajax	(34.5)	-
Balance, end of period	<u>\$ -</u>	<u>\$ 30.8</u>

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

	January 29 2011	January 30 2010
Balance, beginning of period	\$ 8.4	\$ (19.7)
Equity earnings		
Continuing operations	13.6	14.2
Other expenses	-	(4.7)
Share of comprehensive income	1.9	11.3
Distributions received	(19.8)	(18.5)
Deferral of gains on sale of property	(26.6)	-
Interest acquired in Crombie REIT	20.5	30.0
Dilution gain	2.5	-
Balance, end of period	<u>\$ 0.5</u>	<u>\$ 12.6</u>

EMPIRE COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JANUARY 29, 2011
(Unaudited, \$ in millions)

5. Investments, at Equity (continued)

On August 4, 2010, Crombie REIT closed a bought-deal public offering of units at a price of \$11.05 per unit. In satisfaction of its pre-emptive right with respect to the public offering, the Company subscribed for \$20.5 of Class B Units (which are convertible on a one-for-one basis into units of Crombie REIT). During the 39 weeks ended January 29, 2011, conversion of Crombie REIT debentures also resulted in the issuance of additional Crombie REIT units. Consequently the Company's interest in Crombie REIT was reduced from 47.4% to 46.5%.

6. Other Assets

Asset-backed commercial paper

Included in other assets is \$30.0 (May 1, 2010 - \$30.0) of third-party asset-backed commercial paper ("ABCP") which the Company estimates the fair value to be \$22.8 (May 1, 2010 - \$21.2), approximately 76 percent (May 1, 2010 - 71 percent) of the face value. On January 21, 2009, the Company derecognized the existing held to maturity assets and received restructured ABCP MAV II notes: A1 - \$7.8, A2 - \$17.5, B - \$3.2, C - \$0.9 and \$0.6 of tracking notes (the "restructured notes") as designated in the Montreal Accord as well as accrued interest. The A1 and A2 notes received an A rating from the Dominion Bond Rating Service ("DBRS"). The remaining notes have not yet been rated. The restructured notes are floating rate notes with expected payouts in January 2017.

On September 21, 2010, DBRS upgraded the A1 notes from A to A (high). On August 11, 2009, DBRS downgraded the A2 notes from A to BBB (low) under a negative watch. The negative watch was removed on February 9, 2010. The downgrade did not have a material change in the fair value of the notes. Continuing uncertainties regarding the value of assets which underlie the ABCP, the amount and timing of cash flows and the outcome of the restructuring process could give rise to a further material change in the value of the Company's investment in ABCP which could impact the Company's future earnings. The Company believes it has sufficient credit facilities to satisfy its financial obligations as they come due and does not expect there will be a material adverse impact on its business as a result of this current third-party ABCP liquidity issue.

The Company has classified these notes as held for trading and as a result are fair valued at each reporting period. During fiscal 2010, the Company received \$0.6 of interest and recorded a \$3.4 pre-tax gain. With no active market for ABCP, the Company has estimated fair value of the restructured notes using estimated cash flow scenarios and risk adjusted discount rates, and a pre-tax gain of \$1.6 was recorded in the quarter ended January 29, 2011. As well, interest of \$0.1 was received during fiscal 2011. Discount rates vary depending upon the credit rating of the restructured long-term floating rate notes. Discount rates have been estimated using Government of Canada benchmark rates plus expected spreads for similarly rated instruments with similar maturities and structure. The Company has performed a sensitivity analysis on estimated discount rates used in the fair value analysis and determined that a change of one percent would result in a pre-tax change in the fair value of these investments of approximately \$1.3 (May 1, 2010 - \$1.6).

7. Long-Term Debt

On June 1, 2010, Sobeys filed a short form prospectus providing for the issuance of up to \$500.0 of unsecured Medium Term Notes. On June 7, 2010, Sobeys issued new Medium Term Notes of \$150.0, bearing an interest rate of 6.64%, maturing June 7, 2040.

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

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8. Capital Stock

During the second quarter, the Company purchased for cancellation 513,579 Non-Voting Class A shares. The purchase price was \$27.7 of which \$23.0 of the purchase price (representing the premium on common shares purchased for cancellation) was charged to retained earnings.

During the third quarter, the Company purchased for cancellation 900 Series 2 preferred shares and issued 3,828 Non-Voting Class A shares upon exercise of options pursuant to the stock option plan. Capital stock increased by \$0.1.

9. Accumulated Other Comprehensive Loss

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

	<u>January 29 2011</u>	<u>May 1 2010</u>	<u>January 30 2010</u>
Balance, beginning of period	\$ (28.1)	\$ (48.5)	\$ (48.5)
Other comprehensive income for the period	<u>6.2</u>	<u>20.4</u>	<u>15.9</u>
Balance, end of period	<u>\$ (21.9)</u>	<u>\$ (28.1)</u>	<u>\$ (32.6)</u>

An estimated net loss of \$6.5 recorded in accumulated other comprehensive loss related to the cash flow hedges as at January 29, 2011 (January 30, 2010 - \$7.4), is expected to be reclassified to net earnings during the next 12 months. Remaining amounts will be reclassified to net earnings over periods up to eight years.

10. Investment Income

	<u>2011 (13 weeks)</u>	<u>2010 (13 weeks)</u>	<u>2011 (39 weeks)</u>	<u>2010 (39 weeks)</u>
Dividend and interest income	\$ 0.3	\$ 2.8	\$ 0.7	\$ 3.0
Share of earnings of entities accounted using the equity method	<u>5.2</u>	<u>6.7</u>	<u>23.1</u>	<u>21.1</u>
	<u>\$ 5.5</u>	<u>\$ 9.5</u>	<u>\$ 23.8</u>	<u>\$ 24.1</u>

11. Capital Gains (Losses) and Other Items

	<u>2011 (13 weeks)</u>	<u>2010 (13 weeks)</u>	<u>2011 (39 weeks)</u>	<u>2010 (39 weeks)</u>
Gain on sale of Wajax (Note 2)	\$ -	\$ -	\$ 86.8	\$ -
Donation of Wajax units	-	-	(6.0)	-
Store and distribution centre closure costs	-	-	(21.5)	-
Reduction of book value of real estate assets	-	-	(2.7)	-
Gain on sale of property	1.7	-	2.4	0.1
Change in fair value of Canadian third-party asset-backed commercial paper (Note 6)	1.6	-	1.6	1.3
Equity share of Crombie REIT's other expenses	-	-	-	(4.7)
Foreign exchange gains	-	-	-	0.9
	<u>\$ 3.3</u>	<u>\$ -</u>	<u>\$ 60.6</u>	<u>\$ (2.4)</u>

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

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12. Income Taxes

The Company's effective income tax rate for the 39 weeks ended January 29, 2011 of 23.5% was lower than the estimated combined statutory rate of 29.9% primarily due to reduced tax rates applicable to the tax treatment of capital gains on the sale of Wajax (Note 2).

The effective income tax rate for the 39 weeks ended January 30, 2010 of 23.2% differed from the combined statutory rate of 30.9% due to the settlement negotiated with Canada Revenue Agency relating to the tax treatment of gains realized on the sale of shares in Hannaford Bros. Co. in fiscal 2001. Income tax expense was reduced by \$17.0 as a result of that settlement. Income tax was further reduced by \$3.0 as a result of the substantive enactment of rate reductions in Ontario.

13. Supplementary Cash Flow Information

	2011 (13 weeks)	2010 (13 weeks)	2011 (39 weeks)	2010 (39 weeks)
a) Items not affecting cash				
Depreciation	\$ 81.6	\$ 76.9	\$ 238.9	\$ 228.7
Amortization of intangibles	10.8	8.0	28.9	24.0
Future income taxes	9.4	13.6	(0.3)	2.8
Loss (gain) on disposal of assets	0.9	1.3	(0.8)	(0.2)
Amortization of other assets	-	1.6	-	1.9
Provision on asset-backed commercial paper	(1.6)	-	(1.6)	(1.3)
Equity in earnings of other entities, net of dividends received	1.6	1.8	2.6	9.2
Minority interest	(1.3)	0.1	6.2	5.3
Stock-based compensation	0.4	0.4	1.2	1.1
Long-term lease obligation	2.5	5.2	7.4	9.1
Employee future benefits obligation	0.4	1.5	3.9	4.6
Gain on sale of Wajax	-	-	(86.8)	-
Reduction of book value of real estate assets	-	-	2.7	-
Business rationalization (Note 20)	5.3	-	5.3	-
	<u>\$ 110.0</u>	<u>\$ 110.4</u>	<u>\$ 207.6</u>	<u>\$ 285.2</u>
b) Other cash flow information				
Interest paid	<u>\$ 12.2</u>	<u>\$ 11.5</u>	<u>\$ 43.9</u>	<u>\$ 45.7</u>
Income taxes paid (received)	<u>\$ 1.2</u>	<u>\$ (3.2)</u>	<u>\$ 109.2</u>	<u>\$ 70.2</u>

14. Segmented Information

	2011 (13 weeks)	2010 (13 weeks)	2011 (39 weeks)	2010 (39 weeks)
Segmented revenue				
Food retailing	\$ 3,829.9	\$ 3,774.4	\$ 11,658.6	\$ 11,488.1
Real estate				
Residential	7.2	8.9	29.8	34.3
Commercial	3.2	5.1	10.5	13.5
	<u>10.4</u>	<u>14.0</u>	<u>40.3</u>	<u>47.8</u>
Investment and other operations	<u>45.9</u>	<u>50.3</u>	<u>143.9</u>	<u>149.9</u>
	<u>3,886.2</u>	<u>3,838.7</u>	<u>11,842.8</u>	<u>11,685.8</u>
Elimination of inter-segment	<u>(1.7)</u>	<u>(2.5)</u>	<u>(5.1)</u>	<u>(6.4)</u>
	<u>\$ 3,884.5</u>	<u>\$ 3,836.2</u>	<u>\$ 11,837.7</u>	<u>\$ 11,679.4</u>

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14. Segmented Information (continued)

	<u>2011</u> <i>(13 weeks)</i>	<u>2010</u> <i>(13 weeks)</i>	<u>2011</u> <i>(39 weeks)</i>	<u>2010</u> <i>(39 weeks)</i>
Segmented operating income				
Food retailing	\$ 94.2	\$ 99.0	\$ 329.9	\$ 326.9
Real estate				
Residential	2.4	3.8	14.2	16.2
Crombie REIT	5.1	4.4	13.6	14.2
Commercial	1.0	0.5	2.8	1.6
Investment and other operations				
Wajax	-	2.3	8.7	6.9
Other operations, net of corporate expenses	(1.6)	0.3	(5.1)	(4.6)
	<u>\$ 101.1</u>	<u>\$ 110.3</u>	<u>\$ 364.1</u>	<u>\$ 361.2</u>

	<u>January 29</u> <u>2011</u>	<u>May 1</u> <u>2010</u>	<u>January 30</u> <u>2010</u>
Identifiable assets			
Food retailing (excluding goodwill)	\$ 4,723.4	\$ 4,524.0	\$ 4,310.0
Goodwill	<u>1,131.8</u>	<u>1,131.8</u>	<u>1,130.8</u>
Food retailing	5,855.2	5,655.8	5,440.8
Real estate	236.3	315.5	341.8
Investment and other operations (including goodwill of \$40.8; May 1, 2010 - \$40.8; January 30, 2010 - \$40.8)	<u>267.3</u>	<u>277.0</u>	<u>291.1</u>
	<u>\$ 6,358.8</u>	<u>\$ 6,248.3</u>	<u>\$ 6,073.7</u>

	<u>2011</u> <i>(13 weeks)</i>	<u>2010</u> <i>(13 weeks)</i>	<u>2011</u> <i>(39 weeks)</i>	<u>2010</u> <i>(39 weeks)</i>
Depreciation and amortization				
Food retailing	\$ 87.0	\$ 78.9	\$ 252.5	\$ 236.1
Real estate	0.1	0.1	0.6	1.0
Investment and other operations	5.3	5.9	14.7	15.6
	<u>\$ 92.4</u>	<u>\$ 84.9</u>	<u>\$ 267.8</u>	<u>\$ 252.7</u>

	<u>2011</u> <i>(13 weeks)</i>	<u>2010</u> <i>(13 weeks)</i>	<u>2011</u> <i>(39 weeks)</i>	<u>2010</u> <i>(39 weeks)</i>
Capital expenditures				
Food retailing	\$ 130.2	\$ 73.9	\$ 348.7	\$ 235.9
Real estate	0.1	19.3	9.6	49.7
Investment and other operations	8.3	13.6	23.2	20.4
	<u>\$ 138.6</u>	<u>\$ 106.8</u>	<u>\$ 381.5</u>	<u>\$ 306.0</u>

15. Related-Party Transactions

Related-party transactions are with Crombie REIT. The Company holds a 46.5 percent ownership interest and accounts for its investment using the equity method.

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15. Related-Party Transactions (continued)

During the 39 weeks ended January 29, 2011, subsidiaries of the Company sold twelve properties to Crombie REIT for net proceeds of \$104.0, which was fair market value. Since the sales were to an equity accounted investment, the gains on sale were not included in earnings, rather the gains (net of income taxes) reduced the carrying value of the Company's equity investment in Crombie REIT.

16. Employee Future Benefits

During the 13 and 39 weeks ended January 29, 2011, the net employee future benefit expense was \$8.5 and \$28.6 respectively (2010 - \$10.2 and \$30.7). The expense included costs for the Company's defined contribution pension plans, defined benefit pension plans, post-retirement benefit plans and post-employment benefit plans.

17. Business Acquisitions

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

	<u>2011</u> <u>(13 weeks)</u>	<u>2010</u> <u>(13 weeks)</u>	<u>2011</u> <u>(39 weeks)</u>	<u>2010</u> <u>(39 weeks)</u>
<u>Stores</u>				
Inventory	\$ 5.5	\$ -	\$ 11.4	\$ 3.2
Property and equipment	1.0	1.9	1.0	4.9
Intangibles	-	-	2.5	3.7
Goodwill	-	-	-	0.2
Other assets (liabilities)	0.2	-	0.5	(1.4)
Cash consideration	<u>\$ 6.7</u>	<u>\$ 1.9</u>	<u>\$ 15.4</u>	<u>\$ 10.6</u>
<u>Prescription files</u>				
Intangibles	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5.8</u>
Cash consideration	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5.8</u>

During the 13 weeks ended January 30, 2010, ECL Properties limited (a subsidiary of the Company) acquired additional units of two residential partnerships already co-owned by the Company for cash consideration of \$17.2. The acquisitions were accounted for using the purchase method with net identifiable assets, primarily land inventory, recorded at \$17.2.

18. Contingent Liabilities

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, from time to time certain matters are reviewed and challenged by the tax authorities.

There are various claims and litigation, which the Company is involved with, arising out of the ordinary course of business operations. The Company's management does not consider the exposure to such litigation to be material, although this cannot be predicted with certainty.

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19. Stock-Based Compensation

Deferred share units

Members of the Board of Directors may elect to receive all or any portion of their fees in deferred share units (“DSUs”) in lieu of cash. The number of DSUs received is determined by the market value of the Company’s Non-Voting Class A shares on each director’s fee payment date. Additional DSUs are received as dividend equivalents. DSUs cannot be redeemed for cash until the holder is no longer a director of the Company. The redemption value of a DSU equals the market value of an Empire Company Limited Non-Voting Class A share at the time of the redemption. On an ongoing basis, the Company values the DSU obligation at the current market value of a corresponding number of Non-Voting Class A shares and records any increase in the DSU obligation as an operating expense. At January 29, 2011, there were 109,183 (January 30, 2010 - 100,025) DSUs outstanding. During the third quarter and year-to-date of the current fiscal year, the compensation expense was \$(0.4) and \$0.7 respectively (2010 - \$0.2 and \$0.6).

Stock option plan

During the first quarter, the Company granted an additional 150,464 options under the stock option plan for employees of the Company whereby options are granted to purchase Non-Voting Class A Shares. These options allow holders to purchase Non-Voting Class A Shares at \$51.99 per share and expire in June 2018. The options vest over four years with 50 percent of the options vesting only if certain financial targets are attained in a given fiscal year. These options have been treated as stock-based compensation.

The compensation cost relating to the 13 and 39 weeks ended January 29, 2011 was \$0.4 and \$1.2 respectively (2010 - \$0.4 and \$1.1) with amortization of the cost over the vesting period. The total increase in contributed surplus in relation to the stock option compensation cost was \$1.2 (2010 - \$1.1) The compensation cost was calculated using the Black-Scholes model with the following assumptions:

Expected life	5.25 years
Risk-free interest rate	2.416%
Expected volatility	21.1%
Dividend yield	1.54%

Phantom performance option plan

Sobeys has a Phantom Performance Option Plan for eligible employees of Sobeys. Under the plan, units are granted at the discretion of the Board based on a notional equity value of Sobeys tied to a specified formula. Upon implementation, the units had a three year vesting period with 33.3 percent of the units vesting each year. Subsequent issuances have a four year vesting period with 25.0 percent of the units vesting each year. As the notional fair value of Sobeys changes, the employees are entitled to the incremental increase in the notional equity value over a five year period. The Company recognizes a compensation expense equal to the change in notional value over the original grant value on a straight-line basis over the vesting period. After the vesting period, any change in incremental notional equity value is recognized as a compensation expense immediately. This is recorded as an accrued liability until settlement and is remeasured at each interim and annual reporting period of the Company. As at January 29, 2011, 1,719,218 (January 30, 2010 - 1,381,851) units were outstanding and for the 13 and 39 weeks ended January 29, 2011, the Company recognized \$0.6 and \$5.6 respectively (2010 - \$2.3 and \$8.3) of compensation expense associated with this plan.

20. Business Rationalization Costs

During the third quarter of fiscal 2011, the Company continued to complete rationalizations of administrative functions. The Company also began to incur costs associated with the development of a new distribution centre in Terrebonne, Quebec. For the 13 weeks ended January 29, 2011 costs of \$6.0 have been incurred and recognized (January 30, 2010 - \$nil). Additional rationalization costs are anticipated and will be quantified and disclosed throughout the remainder of fiscal 2011 and fiscal 2012 as they are available. The costs associated with the organizational change are recorded as incurred as cost of sales, selling and administrative expenses in the statements of earnings. The liability as of January 29, 2011 is \$6.8 (May 1, 2010 - \$1.5). Total costs incurred as of January 29, 2011 were \$31.1.

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21. Comparative Figures

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

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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 and 39 weeks ended January 29, 2011 compared to the 13 and 39 weeks ended January 30, 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 and 39 weeks ended January 29, 2011, the audited annual consolidated financial statements and accompanying notes for the 52 weeks ended May 1, 2010 and the related annual MD&A as contained on pages 25 through 68 of Empire's 2010 Annual Report. Information about the Company, including the Annual Report and Annual Information Form, can be found on SEDAR at www.sedar.com.

The unaudited consolidated financial statements and the accompanying notes have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are reported in Canadian dollars.

These unaudited consolidated financial statements include the accounts of Empire and its subsidiaries and variable interest entities ("VIEs") which the Company is required to consolidate. The information contained in this MD&A is current to March 8, 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, but are not limited to, the following items:

- The Company's belief that it has sufficient unused capacity under its credit facilities to satisfy its financial obligations as they come due and its expectation that there will not be a material adverse impact on its business as a result of the global disruption in the market for third-party asset-backed commercial paper ("ABCP") liquidity, both of which could be impacted by the challenging economic environment;
- 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 changing capital markets and economic conditions;
- 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;
- The Company's expectation regarding the purchase of additional Series 2 Preferred Shares for cancellation which could be impacted by market conditions and availability of sellers;
- The Company's expectations relating to pending tax matters with Canada Revenue Agency ("CRA"), which could be determined differently by CRA. This could cause the Company's effective tax rate and its earnings to be affected positively or negatively in the period the matter is resolved;
- Sobeys' expectations relating to reducing costs through its productivity and system initiatives which could be impacted by the final scope and scale of these initiatives;
- The Company's expected contributions to its registered defined benefit plans, which could be impacted by fluctuations in asset values due to market uncertainties;

- The Company's expected use and estimated fair values of financial instruments which could be impacted by, among other things, changes in interest rates, foreign exchange rates and commodity prices;
- The Company's expectations relating to the impact of the transition to International Financial Reporting Standards ("IFRS"), which is subject to ongoing assessment by the Company;
- 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; and
- Sobeys' expectations that the new distribution centre announced in Quebec will reduce overall distribution and other business costs, which could be impacted by the number of positions eliminated at other distribution centres.

These statements are based on Empire management's reasonable assumptions and beliefs in light of the information currently available to them. The forward-looking information contained in this 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 Management Discussion and Analysis for the 52 weeks ended May 1, 2010.

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 March 8, 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 earnings is calculated as earnings before capital gains (losses) and other items.
- Operating income or earnings before interest and taxes ("EBIT") is calculated as operating earnings before minority interest, interest expense and income taxes.
- Operating income margin is operating income divided by sales.
- Earnings before interest, taxes, depreciation and amortization ("EBITDA") is calculated as EBIT plus depreciation and amortization.
- EBITDA margin is EBITDA divided by sales.
- Return on equity is calculated as net earnings divided by average equity for the reporting period.
- Funds from operations is calculated as operating earnings plus depreciation and amortization.
- Funded debt is all interest bearing debt, which includes bank loans, bankers' acceptances, long-term debt and debt related to assets held for sale.

- Net debt is calculated as funded debt less cash and cash equivalents.
- Total capital is calculated as funded debt plus shareholders' equity.
- Net total capital is total capital less cash and cash equivalents.
- Same-store sales are sales from stores in the same locations in both reporting periods.
- Free cash flow is calculated as cash flows from operating activities, less property and equipment purchases.

The following tables reconcile Empire's funded debt and total capital to GAAP measures reported on the balance sheets as at January 29, 2011, May 1, 2010 and January 30, 2010, respectively:

(\$ in millions)	Jan. 29, 2011	May 1, 2010	Jan. 30, 2010
Bank indebtedness	\$ 6.0	\$ 17.8	\$ 89.2
Long-term debt due within one year	54.7	379.4	359.5
Long-term debt	1,126.4	829.0	841.5
Funded debt	1,187.1	1,226.2	1,290.2
Less: cash and cash equivalents	481.4	401.0	256.5
Net funded debt	705.7	825.2	1,033.7
Total shareholders' equity	3,168.3	2,952.4	2,886.5
Net total capital	\$ 3,874.0	\$ 3,777.6	\$ 3,920.2

(\$ in millions)	Jan. 29, 2011	May 1, 2010	Jan. 30, 2010
Funded debt	\$ 1,187.1	\$ 1,226.2	\$ 1,290.2
Total shareholders' equity	3,168.3	2,952.4	2,886.5
Total capital	\$ 4,355.4	\$ 4,178.6	\$ 4,176.7

Overview of the Business

Empire's key businesses include food retailing, real estate, and investments and other operations. Food retailing is carried out through wholly-owned Sobeys Inc. ("Sobeys"). The real estate business is carried out through a wholly-owned operating subsidiary ECL Properties Limited ("ECL"), a 46.5 percent ownership interest in Crombie REIT and our investment in Genstar, a residential property developer with operations in select markets in Ontario, Western Canada and the United States. Corporate investment activities and other operations include wholly-owned ETL Canada Holdings Limited ("Empire Theatres") and 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 \$15 billion in annual revenue and approximately \$6.4 billion in assets, Empire and its related companies employ approximately 90,000 people, including franchisees and affiliates.

Consolidated Operating Results

The consolidated financial overview provided below reports on the financial performance for the 13 and 39 weeks ended January 29, 2011 relative to the same periods last year.

(\$ in millions, except per share information)	13 Weeks Ended				39 Weeks Ended			
	Jan. 29, 2011		Jan. 30, 2010		Jan. 29, 2011		Jan. 30, 2010	
	\$	% of Revenue	\$	% of Revenue	\$	% of Revenue	\$	% of Revenue
Revenue	\$ 3,884.5	100.00%	\$ 3,836.2	100.00%	\$ 11,837.7	100.00%	\$ 11,679.4	100.00%
Operating income	101.1	2.60	110.3	2.88	364.1	3.08	361.2	3.09
Operating earnings	60.0	1.55	68.3	1.78	215.5	1.82	212.6	1.82
Capital gains (losses) and other items, net of tax	2.8	0.07	-	0.00	61.7	0.52	15.8	0.14
Net earnings	\$ 62.8	1.62%	\$ 68.3	1.78%	\$ 277.2	2.34%	\$ 228.4	1.96%
Basic earnings per share								
Operating earnings	\$ 0.88		\$ 1.00		\$ 3.16		\$ 3.11	
Capital gains (losses) and other items, net of tax	0.04		-		0.90		0.23	
Net earnings	\$ 0.92		\$ 1.00		\$ 4.06		\$ 3.34	
Basic weighted average number of shares outstanding (in millions)								
	67.8		68.4		68.1		68.4	
Diluted earnings per share								
Operating earnings	\$ 0.88		\$ 0.99		\$ 3.15		\$ 3.10	
Capital gains (losses) and other items, net of tax	0.04		-		0.90		0.23	
Net earnings	\$ 0.92		\$ 0.99		\$ 4.05		\$ 3.33	
Diluted weighted average number of shares outstanding (in millions)								
	68.0		68.5		68.3		68.5	
Dividends per share	\$ 0.200		\$ 0.185		\$ 0.600		\$ 0.555	

Management's Explanation of Consolidated Results

The following is a review of Empire's consolidated financial performance for the 13 and 39 weeks ended January 29, 2011 compared to the 13 and 39 weeks ended January 30, 2010.

Revenue

Consolidated revenue for the third quarter was \$3.88 billion compared to \$3.84 billion for the same quarter last year, an increase of \$48.3 million or 1.3 percent. Sobeys' revenue equalled \$3.83 billion versus \$3.77 billion in the third quarter last year, an increase of \$55.5 million or 1.5 percent. The growth in Sobeys' total sales continued to be a direct result of the 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. Sobeys continued to experience retail food price deflation and ongoing competitive activity, which partially offset the growth associated with these initiatives. Sobeys' third quarter same-store sales decreased 0.4 percent compared to the third quarter last year.

Real estate revenue in the third quarter was \$10.4 million, a decrease of \$3.6 million from the \$14.0 million recorded in the third quarter last year. Residential property revenue decreased by \$1.7 million from the third quarter last year, while commercial property revenue decreased \$1.9 million.

Investments and other operations recorded revenue of \$45.9 million in the third quarter compared to \$50.3 million in the third quarter of last year, a decrease of \$4.4 million.

Consolidated revenue for the fiscal year-to-date was \$11.84 billion compared to \$11.68 billion in the same period last year, an increase of \$158.3 million or 1.4 percent. Revenue growth was largely driven by a \$170.5 million or 1.5 percent growth in sales for the food retailing division over the comparable period last year. Same store sales for the 39 weeks ended January 29, 2011 decreased 0.1 percent compared to the same period last year. Real estate division revenues decreased \$7.5 million or 15.7 percent to \$40.3 million in the 39 weeks ended January 29, 2011 while revenue from investments and other operations decreased \$6.0 million or 4.0 percent to \$143.9 million.

The change in revenue for each division is explained in the section which follows, entitled “Operating Performance by Division”.

Operating Income

Consolidated operating income in the third quarter was \$101.1 million, a decrease of \$9.2 million or 8.3 percent from the \$110.3 million recorded in the third quarter last year.

The contributors to the change in consolidated operating income from the third quarter last year were:

- Sobeys’ operating income contribution to Empire in the third quarter totalled \$94.2 million, a decrease of \$4.8 million or 4.8 percent from the \$99.0 million recorded in the third quarter last year;
- Residential property operating income contribution in the third quarter was \$2.4 million, a decrease of \$1.4 million from the \$3.8 million recorded in the third quarter last year;
- Commercial property, including Crombie REIT, operating income for the quarter was \$6.1 million compared to \$4.9 million in the third quarter last fiscal year, an increase of \$1.2 million. Crombie REIT contributed \$5.1 million to operating income in the third quarter versus a \$4.4 million contribution in the third quarter last year; and
- Investments and other operations, net of corporate expenses, contributed operating income of \$(1.6) million in the third quarter compared to \$2.6 million in the third quarter last year. Included in operating income from investment and other operations for the third quarter of last year is equity accounted earnings from Empire’s investment in Wajax Income Fund (“Wajax”) of \$2.3 million which was sold during the second quarter of fiscal 2011 on October 5, 2010 and a \$2.5 million interest refund from CRA related to the Hannaford tax settlement.

Fiscal year-to-date operating income equalled \$364.1 million, an increase of \$2.9 million or 0.8 percent from the comparable period last year. Operating income from the food retailing division increased to \$329.9 million for the 39 weeks ended January 29, 2011 from \$326.9 million last year, an increase of \$3.0 million or 0.9 percent. Real Estate operating income in the fiscal year-to-date decreased \$1.4 million or 4.4 percent to \$30.6 million from \$32.0 million last year. Operating income for the 39 weeks ended January 29, 2011 from investments and other operations increased \$1.3 million to \$3.6 million from \$2.3 million in the same period last year.

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

Interest Expense

Interest expense in the third quarter amounted to \$17.0 million, a decrease of \$1.1 million or 6.1 percent from the \$18.1 million recorded in the third quarter last year. The decline in interest expense largely reflects a decrease in average consolidated funded debt outstanding, partially offset by higher average interest rates applicable to funded debt levels during the quarter which are principally related to the issuance by Sobeys of a new 30-year Medium Term Note (“MTN”) and higher rates applicable on floating rate debt.

Interest expense for the 39 weeks ended January 29, 2011 was \$54.4 million, an increase of \$0.1 million or 0.2 percent from the same period last year. The increase in interest expense is largely due to higher average interest rates on funded debt levels, partially offset by a decrease in average funded debt outstanding during the 39 weeks ended January 29, 2011 compared to the same period last year.

Consolidated funded debt was \$1,187.1 million at the end of the third quarter compared to \$1,290.2 million at the end of the third quarter last year, a \$103.1 million or 8.0 percent decrease.

Income Taxes

The effective income tax rate for the third quarter (excluding the impact of capital gains and other items) was 30.2 percent versus 25.8 percent in the third quarter last year. The effective income tax rate for the 39 weeks ended January 29, 2011 (excluding the impact of capital gains and other items) was 28.4 percent versus 29.0 percent in the 39 weeks ended January 30, 2010.

In the third quarter of fiscal 2010, there was a \$3.0 million reduction in the net future tax liabilities and income tax expense as a result of the substantive enactment of Ontario's 2009 budget announcement in November 2009. In the absence of this substantively enacted rate reduction, Empire's effective tax rate for the 13 and 39 weeks ended January 30, 2010 would have been 29.1 percent and 30.0 percent, respectively. The remaining fluctuation in the effective tax rate for the 39 weeks ended January 29, 2011 is primarily the result of declining income tax rates across the different tax jurisdictions in which the Company operates.

Earnings before Capital Gains (Losses) and Other Items

Empire recorded earnings before capital gains (losses) and other items for the third quarter of \$60.0 million (\$0.88 per share) compared to \$68.3 million (\$0.99 per share) recorded in the third quarter last year. The \$8.3 million or 12.2 percent decline in earnings before capital gains (losses) and other items from the prior year was the result of a \$9.2 million decrease in operating income and a \$1.6 million increase in income taxes, partially offset by a \$1.1 million decrease in interest expense and a \$1.4 million decrease in minority interest expense.

The \$2.9 million or 1.4 percent increase in earnings before capital gains (losses) and other items in the 39 weeks ended January 29, 2011 is attributed to a \$2.9 million increase in operating income and a \$1.0 million decrease in income taxes, partially offset by a \$0.9 million increase in minority interest expense and a \$0.1 million increase in interest expense.

Empire had a diluted weighted average number of common shares outstanding of 68.0 million in the third quarter ended January 29, 2011 compared to 68.5 million in the third quarter last year. Empire had a diluted weighted average number of common shares outstanding of 68.3 million in the 39 weeks ended January 29, 2011 compared to 68.5 million in the 39 weeks ended January 30, 2010. The decreases from last year are largely the result of Empire repurchasing 513,579 Non-Voting Class A Empire shares during the second quarter under Empire's NCIB.

The following table presents Empire's segmented earnings before capital gains (losses) and other items by division for the 13 and 39 weeks ended January 29, 2011 compared to the 13 and 39 weeks ended January 30, 2010.

(\$ in millions)	13 Weeks Ended			39 Weeks Ended		
	Jan. 29, 2011	Jan. 30, 2010	(\$) Change	Jan. 29, 2011	Jan. 30, 2010	(\$) Change
Food retailing	\$ 57.4	\$ 62.6	\$ (5.2)	\$ 198.4	\$ 196.7	\$ 1.7
Real estate	5.4	6.0	(0.6)	20.5	20.9	(0.4)
Investments and other operations	(2.8)	(0.3)	(2.5)	(3.4)	(5.0)	1.6
Consolidated	\$ 60.0	\$ 68.3	\$ (8.3)	\$ 215.5	\$ 212.6	\$ 2.9

Capital Gains (Losses) and Other Items, Net of Tax

The Company recorded capital gains (losses) and other items, net of tax, of \$2.8 million in the third quarter compared to \$nil in the third quarter last year. Included in capital gains (losses) and other items, net of tax, in the third quarter of fiscal 2011 was a \$1.5 million gain on the sale of property and \$1.3 million related to a fair value adjustment to Sobeys' investment in asset-backed commercial paper.

The Company recorded capital gains (losses) and other items, net of tax, of \$61.7 million for the 39 weeks ended January 29, 2011 compared to \$15.8 million recorded in the 39 weeks ended January 30, 2010. Capital gains (losses) and other items in the fiscal year-to-date consist primarily of a gain on the sale of Wajax of \$75.8 million, partially offset by after-tax costs of \$15.7 million related to Price Chopper store closures and one-time severance costs related to future closure of the Brantford, Ontario distribution centre. Included in capital gains (losses) and other items, net of tax, for the 39 weeks ended January 30, 2010 was \$17.0 million related to the tax settlement on the fiscal 2001 sale of shares in Hannaford Bros. Co.

The following table presents capital gains (losses) and other items, net of tax, for the 13 and 39 weeks ended January 29, 2011 compared to the 13 and 39 weeks ended January 30, 2010.

(\$ in millions)	13 Weeks Ended			39 Weeks Ended		
	Jan. 29, 2011	Jan. 30, 2010	(\$) Change	Jan. 29, 2011	Jan. 30, 2010	(\$) Change
Gain on sale of Wajax	\$ -	\$ -	\$ -	\$ 75.8	\$ -	\$ 75.8
Store and distribution centre closure costs	-	-	-	(15.7)	-	(15.7)
Write-down of real estate	-	-	-	(1.8)	-	(1.8)
Change in asset-backed commercial paper	1.3	-	1.3	1.3	1.1	0.2
Other items	1.5	-	1.5	2.1	0.8	1.3
Equity share of Crombie REIT	-	-	-	-	(3.1)	3.1
Hannaford tax settlement	-	-	-	-	17.0	(17.0)
	\$ 2.8	\$ -	\$ 2.8	\$ 61.7	\$ 15.8	\$ 45.9

Net Earnings

Consolidated net earnings in the third quarter equalled \$62.8 million (\$0.92 per share) compared to \$68.3 million (\$0.99 per share) in the third quarter last year. The decrease in net earnings of \$5.5 million is attributed to the \$8.3 million decrease in earnings before capital gains (losses) and other items, partially offset by the \$2.8 million increase in net capital gains (losses) and other items as discussed.

Consolidated net earnings for the 39 weeks ended January 29, 2011 totalled \$277.2 million (\$4.05 per share) compared to the \$228.4 million (\$3.33 per share) reported in the same period last year. The increase in net earnings of \$48.8 million is attributed to the \$45.9 million increase in realized net capital gains (losses) and other items and the \$2.9 million increase in earnings before capital gains (losses) and other items, as discussed.

The following table presents Empire's segmented net earnings for the 13 and 39 weeks ended January 29, 2011 compared to the 13 and 39 weeks ended January 30, 2010.

(\$ in millions)	13 Weeks Ended			39 Weeks Ended		
	Jan. 29, 2011	Jan. 30, 2010	(\$) Change	Jan. 29, 2011	Jan. 30, 2010	(\$) Change
Food retailing	\$ 58.7	\$ 62.6	\$ (3.9)	\$ 184.0	\$ 197.8	\$ (13.8)
Real estate	6.9	6.0	0.9	20.8	17.8	3.0
Investments and other operations	(2.8)	(0.3)	(2.5)	72.4	12.8	59.6
Consolidated	\$ 62.8	\$ 68.3	\$ (5.5)	\$ 277.2	\$ 228.4	\$ 48.8

Quarterly Results of Operations

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

(\$ in millions, except per share information)	Fiscal 2011			Fiscal 2010			Fiscal 2009 ⁽¹⁾	
	Q3 (13 Weeks)	Q2 (13 Weeks)	Q1 (13 Weeks)	Q4 (13 Weeks)	Q3 (13 Weeks)	Q2 (13 Weeks)	Q1 (13 Weeks)	Q4 (13 Weeks)
	Jan. 29, 2011	Oct. 30, 2010	July 31, 2010	May 1, 2010	Jan. 30, 2010	Oct. 31, 2009	Aug. 1, 2009	May 2, 2009
Revenue	\$ 3,884.5	\$ 3,912.0	\$ 4,041.2	\$ 3,836.8	\$ 3,836.2	\$ 3,874.7	\$ 3,968.5	\$ 3,709.0
Operating income	101.1	122.7	140.3	118.5	110.3	120.7	130.2	109.3
Operating earnings ⁽²⁾	60.0	73.9	81.6	71.9	68.3	72.1	72.2	62.9
Capital gains (losses) and other items, net of tax	2.8	58.9	-	1.6	-	(1.7)	17.5	(0.8)
Net earnings	\$ 62.8	\$ 132.8	\$ 81.6	\$ 73.5	\$ 68.3	\$ 70.4	\$ 89.7	\$ 62.1
Per share information, basic								
Operating earnings	\$ 0.88	\$ 1.09	\$ 1.19	\$ 1.05	\$ 1.00	\$ 1.06	\$ 1.05	\$ 0.96
Capital gains (losses) and other items, net of tax	0.04	0.86	-	0.02	-	(0.03)	0.26	(0.01)
Net earnings	\$ 0.92	\$ 1.95	\$ 1.19	\$ 1.07	\$ 1.00	\$ 1.03	\$ 1.31	\$ 0.95
Basic weighted average number of shares outstanding (in millions)⁽³⁾								
	67.8	68.1	68.4	68.4	68.4	68.4	68.4	65.9
Per share information, diluted								
Operating earnings	\$ 0.88	\$ 1.08	\$ 1.19	\$ 1.05	\$ 0.99	\$ 1.06	\$ 1.05	\$ 0.95
Capital gains (losses) and other items, net of tax	0.04	0.86	-	0.02	-	(0.03)	0.26	(0.01)
Net earnings	\$ 0.92	\$ 1.94	\$ 1.19	\$ 1.07	\$ 0.99	\$ 1.03	\$ 1.31	\$ 0.94
Diluted weighted average number of shares outstanding (in millions)⁽³⁾								
	68.0	68.3	68.5	68.5	68.5	68.5	68.5	66.0

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

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

(3) The increase in the weighted average number of shares outstanding since fiscal 2009 reflects an equity issue completed on April 24, 2009 which resulted in a total of 2,713,000 Non-Voting Class A shares being issued. The decrease in the weighted average number of shares outstanding since the first quarter of fiscal 2011 primarily reflects the repurchase for cancellation of 513,579 Non-Voting Class A shares under Empire's NCIB during the second quarter of 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 2010 annual MD&A, as contained on pages 25 - 68 of the Company's 2010 Annual Report. There have been no material changes to the disclosures as contained in the "Critical Accounting Estimates", "Risk Management" or "Outlook" sections of the Company's fiscal 2010 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 and 39 weeks ended January 29, 2011, Sobeys opened, replaced, expanded, redeveloped, acquired and/or converted the banners in 30 and 81 stores, respectively (fiscal 2010 – 13 and 47). During the third quarter of fiscal 2011, 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 conversion of 39 Price Chopper to FreshCo discount stores in the first 39 weeks of fiscal 2011. These FreshCo discount stores offer low prices without many of the compromises which would typically be experienced at discount grocery retailers. FreshCo shoppers enjoy fresh merchandise at low prices, with an expanded selection of meats and produce, including high quality choices and seasonal, locally-produced products. For the 13 and 39 weeks ended January 29, 2011, Sobeys incurred approximately \$3.3 million and \$12.4 million, respectively (fiscal 2010 - \$nil and \$nil), in start-up costs and fixed asset write-offs related to this initiative. In the second quarter of fiscal 2011, Sobeys also recorded \$16.1 million in pre-tax costs associated with the Price Chopper banner in the province of Ontario due to store closures.

Business Process and Information System Transformation and Rationalization Costs

Sobeys continues to make significant progress in the implementation of system-wide business process optimization and rationalization initiatives that are designed to reduce complexity and improve processes and efficiency throughout Sobeys. 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 began in Quebec 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 and 39 weeks ended January 29, 2011, \$2.5 million and \$7.5 million, respectively (2010 - \$2.7 million and \$8.8 million), of pre-tax costs, were incurred related to these initiatives.

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

On January 28, 2011, Sobeys announced plans to build a new distribution centre in Terrebonne, Quebec utilizing the same technology as the Vaughan, Ontario distribution centre. The new facility will allow Sobeys to significantly increase the warehouse and distribution capacity while reducing overall distribution costs and improving services to its store network and customers. During the third quarter of fiscal 2011, Sobeys recognized \$6.0 million of pre-tax costs (\$0.06 per share after-tax) associated with this initiative.

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

(\$ in millions)	13 Weeks Ended			39 Weeks Ended		
	Jan. 29, 2011	Jan. 30, 2010	(\$) Change	Jan. 29, 2011	Jan. 30, 2010	(\$) Change
Sales	\$ 3,829.9	\$ 3,774.4	\$ 55.5	\$ 11,658.6	\$ 11,488.1	\$ 170.5
EBITDA	181.2	177.9	3.3	582.4	563.0	19.4
Operating income	94.2	99.0	(4.8)	329.9	326.9	3.0
Earnings before capital gains (losses) and other items	57.4	62.6	(5.2)	198.4	196.7	1.7
Capital gains (losses) and other items, net of tax	1.3	-	1.3	(14.4)	1.1	(15.5)
Net earnings	\$ 58.7	\$ 62.6	\$ (3.9)	\$ 184.0	\$ 197.8	\$ (13.8)

Sales

Food retailing division sales for the third quarter were \$3.83 billion compared to \$3.77 billion for the same quarter last year, an increase of \$55.5 million or 1.5 percent. During the third quarter, Sobeys' same-store sales decreased by 0.4 percent compared to the same quarter last year.

Fiscal year-to-date sales for the food retailing division were \$11.66 billion compared to \$11.49 billion last year, an increase of \$170.5 million or 1.5 percent. Same-store sales for the 39 weeks ended January 29, 2011 decreased 0.1 percent compared to the same period last year.

The growth in total sales continues to be a direct result of 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 innovations. Sobeys continued to experience retail food price deflation in a competitive environment which served to partially offset the growth associated with these initiatives.

EBITDA

Sobeys contributed EBITDA of \$181.2 million in the third quarter of fiscal 2011, an increase of \$3.3 million or 1.9 percent from the \$177.9 million reported in the third quarter of last year. EBITDA margin for the third quarter of fiscal 2011, after adjusting for various consolidation entries, of 4.73 percent was up 2 basis points from 4.71 percent in the third quarter last year. Included in EBITDA for the third quarter of fiscal 2011 are \$6.0 million of costs associated with the announced new automated distribution centre in Quebec.

For the 39 weeks ended January 29, 2011, Sobeys contributed EBITDA of \$582.4 million, an increase of \$19.4 million or 3.4 percent from the \$563.0 million in the same period last year. EBITDA margin for the 39 weeks ended January 29, 2011, after adjusting for various consolidation entries, of 5.00 percent was up 10 basis points from 4.90 percent in the same period last year. Included in Sobeys' EBITDA for the 39 weeks ended January 29, 2011 was \$6.0 million in charges incurred as part of the new distribution centre announced in Quebec.

Operating Income

Sobeys' operating income contribution to Empire was \$94.2 million in the third quarter (fiscal 2010 - \$99.0 million). The decrease was mainly the result of an \$8.1 million increase in depreciation and amortization expense. Sobeys' operating income margin in the third quarter after adjusting for various consolidation entries equalled 2.46 percent compared to 2.62 percent in the third quarter last year.

Operating income recorded by Sobeys in the third quarter was \$96.0 million, a \$4.3 million decrease from the \$100.3 million reported in the third quarter last year.

For the 39 weeks ended January 29, 2011, Sobeys' operating income contribution to Empire, which excludes the \$16.1 million in pre-tax store closure costs in Ontario and \$5.4 million in severance costs related to the closure of the Brantford, Ontario distribution centre was \$329.9 million compared to \$326.9 million last year, an increase of \$3.0 million. Sobeys' operating income margin in the 39 weeks ended January 29, 2011 after adjusting for above items equalled 2.83 percent compared to 2.85 percent in the same period last year.

Including the costs associated with the store and distribution centre closures in Ontario as mentioned, operating income recorded by Sobeys was \$312.8 million compared to \$330.8 million in the same period last year, an \$18.0 million decrease.

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

Earnings before Capital Gains (Losses) and Other Items

In the third quarter ended January 29, 2011, Sobeys contributed earnings before capital gains (losses) and other items to Empire of \$57.4 million, a decrease of \$5.2 million or 8.3 percent compared to the third quarter last year. The decline from the same quarter last year was the result of a \$4.8 million decrease in operating income contribution and a \$2.0 million increase in income taxes, partially offset by a \$1.4 million decrease in minority interest and by a \$0.2 million decrease in interest expense.

For the 39 weeks ended January 29, 2011, Sobeys' contributed earnings before capital gains (losses) and other items to Empire of \$198.4 million compared to a \$196.7 million contribution over the same period last year, an increase of \$1.7 million or 0.9 percent. The improvement over the same quarter last year was the result of a \$3.0 million increase in operating income contribution and a \$1.4 million decrease in income tax expense, partially offset by a \$0.9 million increase in minority interest and a \$1.8 million increase in interest expense.

Capital Gains (Losses) and Other Items, Net of Tax

Sobeys contributed capital gains (losses) and other items, net of tax, to Empire of \$1.3 million in the third quarter of fiscal 2011 compared to \$nil last year. The capital gains (losses) and other items in the third quarter of fiscal 2011 are related to the fair value adjustment on Sobeys' investment in ABCP.

For the 39 weeks ended January 29, 2011, Sobeys contributed capital gains (losses) and other items, net of tax, of \$(14.4) million compared to \$1.1 million in the 39 weeks ended January 30, 2010. Store closure costs in Ontario of \$16.1 million pre-tax (\$11.8 million after-tax) and severance costs related to the future closure of the Brantford, Ontario distribution centre of \$5.4 million pre-tax (\$3.9 million after-tax), offset by the fair value adjustment to ABCP of \$1.3 million as discussed, account for the capital gains (losses) and other items in the fiscal year-to-date. The capital gains (losses) and other items in the 39 weeks ended January 30, 2010 are related to the fair value adjustment on Sobeys' investment in ABCP.

Net Earnings

Sobeys recorded third quarter net earnings of \$60.7 million, a decrease of 4.4 percent or \$2.8 million compared to \$63.5 million recorded in the third quarter last year. Sobeys' net earnings for the third quarter of fiscal 2011 were negatively impacted by the costs associated with the recently announced Quebec automated distribution centre as discussed. Sobeys contributed net earnings of \$58.7 million to Empire for the third quarter, a decrease of \$3.9 million or 6.2 percent from the \$62.6 million recorded in the same period last year.

For the 39 weeks ended January 29, 2011, Sobeys recorded net earnings of \$187.8 million, a decrease of 6.3 percent or \$12.7 million from the same period last year. The decline in net earnings was largely the result of the store closure costs, severance costs related to the closure of the Brantford distribution centre and costs related to the Quebec automated distribution centre as discussed. Sobeys' net earnings contribution to Empire for the 39 weeks ended January 29, 2011 was \$184.0 million, a decrease of \$13.8 million or 7.0 percent from the \$197.8 million recorded in the same period last year.

Real Estate

Empire's real estate operations are focused primarily on (i) the ownership of retail and office properties through a 46.5 percent ownership interest in Crombie REIT, and (ii) residential land development through an ownership interest in Genstar, which operates principally in select communities in Ontario, Western Canada and the United States.

It should be noted that revenue, operating income and earnings recorded in the third quarter and the first 39 weeks of fiscal 2011 were impacted by an increase in Empire's ownership interest in Genstar, from 35.7 percent to 40.7 percent during the third quarter of fiscal 2010.

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

During the second quarter, on August 4, 2010, Crombie REIT closed a bought-deal public offering of units at a price of \$11.05 per unit. In satisfaction of its pre-emptive right with respect to the public offering, Empire subscribed for \$20.5 million of Class B units of Crombie Limited Partnership (which are convertible on a one-for-one basis into units of Crombie REIT). Consequently the Company's interest in Crombie REIT was reduced from 47.4 percent to 47.0 percent. Also during the quarter, Crombie issued 500,542 units as a portion of its Series B convertible debentures were converted to units in Crombie REIT.

During the third quarter, Crombie issued 190,331 units as additional Series B and Series A convertible debentures were converted to units. This conversion further reduced Empire's interest in Crombie REIT to 46.5 percent.

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

(\$ in millions)	13 Weeks Ended			39 Weeks Ended		
	Jan. 29, 2011	Jan. 30, 2010	(\$) Change	Jan. 29, 2011	Jan. 30, 2010	(\$) Change
Revenue						
Residential	\$ 7.2	\$ 8.9	\$ (1.7)	\$ 29.8	\$ 34.3	\$ (4.5)
Commercial	3.2	5.1	(1.9)	10.5	13.5	(3.0)
	\$ 10.4	\$ 14.0	\$ (3.6)	\$ 40.3	\$ 47.8	\$ (7.5)
Operating income						
Residential	\$ 2.4	\$ 3.8	\$ (1.4)	\$ 14.2	\$ 16.2	\$ (2.0)
Crombie REIT ⁽¹⁾	5.1	4.4	0.7	13.6	14.2	(0.6)
Commercial	1.0	0.5	0.5	2.8	1.6	1.2
	\$ 8.5	\$ 8.7	\$ (0.2)	\$ 30.6	\$ 32.0	\$ (1.4)
Net earnings						
Residential (operating earnings)	\$ 1.8	\$ 2.7	\$ (0.9)	\$ 10.0	\$ 11.2	\$ (1.2)
Commercial (operating earnings)	3.6	3.3	0.3	10.5	9.7	0.8
Capital gains (losses) and other items, net of tax	1.5	-	1.5	0.3	(3.1)	3.4
	\$ 6.9	\$ 6.0	\$ 0.9	\$ 20.8	\$ 17.8	\$ 3.0
Funds from operations						
Residential	\$ 1.8	\$ 2.7	\$ (0.9)	\$ 10.0	\$ 11.2	\$ (1.2)
Commercial	3.7	3.4	0.3	11.1	10.7	0.4
	\$ 5.5	\$ 6.1	\$ (0.6)	\$ 21.1	\$ 21.9	\$ (0.8)

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

Revenue

Real estate division revenue amounted to \$10.4 million for the third quarter ended January 29, 2011, a \$3.6 million decline from the third quarter last year as a result of a \$1.9 million decrease in commercial property revenue and a \$1.7 million decrease in residential property revenues. The decrease in commercial property revenue is largely related to the sale of properties to Sobeys in the first quarter of fiscal 2011 and to Crombie REIT in the fourth quarter of fiscal 2010. Residential property revenues have declined due to lower lot sales.

For the 39 weeks ended January 29, 2011, the real estate division recorded revenues of \$40.3 million, a decrease of \$7.5 million from the \$47.8 million recorded in the same period last year. The decline was due to a \$4.5 million decrease in residential property sales due to lower lot sales and a \$3.0 million decrease in commercial property revenue due to the sale of properties to Crombie REIT and Sobeys as discussed.

Operating Income

Third quarter real estate division operating income was \$8.5 million versus \$8.7 million in the same quarter last year. The \$0.2 million decrease in real estate division operating income is largely a result of a \$1.4 million decrease in residential operating income due to lower lot sales, partially offset by a \$0.7 million increase in equity earnings from Crombie REIT and a \$0.5 million increase in other commercial property operating income.

Equity accounted earnings from Crombie REIT amounted to \$5.1 million in the third quarter compared to \$4.4 million in the same quarter last year. The increase in equity earnings from Crombie REIT compared to the same quarter last year is primarily the result of increased revenue as a result of higher occupancy along with property acquisitions partially offset by higher interest expense. Other commercial property operating income increased \$0.5 million in the third quarter compared to the same quarter last year to \$1.0 million. The increase in other commercial property operating income is due largely to the transfer of the real estate development function, and associated costs, to Sobeyes.

For the 39 weeks ended January 29, 2011 real estate division operating income was \$30.6 million compared to \$32.0 million, a decrease of \$1.4 million. The decline was the result of a \$2.0 million decrease in residential operating income and a \$0.6 million decrease in equity earnings from Crombie REIT, partially offset by a \$1.2 million increase in other commercial property operating income. Equity accounted earnings from Crombie REIT amounted to \$13.6 million in the 39 weeks ended January 29, 2011 compared to \$14.2 million in the same period last year. The decline was largely the result of higher interest expense. The increase in other commercial property operating income is due largely to the transfer of the real estate development function to Sobeyes as discussed.

Net Earnings

Real estate division net earnings contribution in the third quarter amounted to \$6.9 million compared to \$6.0 million last year, a \$0.9 million increase. The earnings increase is the result of a \$1.5 million increase in net capital gains and other items and a decrease in interest expense of \$0.1 million, partially offset by a \$0.5 million increase in income taxes and a \$0.2 million decrease in operating income as discussed. The increase in net capital gains and other items in the quarter is primarily the result of a \$1.5 million gain on the sale of property.

For the fiscal year-to-date the real estate division contributed net earnings of \$20.8 million compared to \$17.8 million last year, a \$3.0 million increase. The earnings increase compared to the same period last year is the result of a change in net capital gains (losses) and other items of \$3.4 million, a decrease in interest expense of \$0.7 million and a \$0.3 million decrease in income taxes, partially offset by the \$1.4 million decrease in operating income as discussed.

Funds from Operations

Funds from operations (see Non-GAAP Financial Measures section) in the third quarter of \$5.5 million decreased \$0.6 million compared to the third quarter of last year due to the decline in operating earnings of \$0.6 million. Trailing (last four quarters) funds from operations for the real estate division were \$34.9 million, a decrease of \$0.6 million or 1.7 percent from the trailing (last four quarters) funds from operations of \$35.5 million reported in the second quarter of fiscal 2011.

Investments and Other Operations

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

At January 29, 2011, Empire's investment portfolio, including equity accounted investments in Crombie REIT and Genstar U.S., consisted of:

(\$ in millions)	Jan. 29, 2011			May 1, 2010			Jan. 30, 2010		
	Market Value	Carrying Value	Unrealized Gain	Market Value	Carrying Value	Unrealized Gain	Market Value	Carrying Value	Unrealized Gain
Investment in Crombie REIT	\$ 397.7	\$ 0.5	\$ 397.2	\$ 341.3	\$ 8.4	\$ 332.9	\$ 328.3	\$ 12.6	\$ 315.7
Investment in Wajax ⁽¹⁾	-	-	-	117.9	30.8	87.1	105.3	30.8	74.5
Investment in Genstar U.S. ⁽²⁾	33.3	33.3	-	17.6	17.6	-	17.2	17.2	-
Other investments ⁽²⁾⁽³⁾	11.8	11.8	-	10.9	10.9	-	11.9	11.9	-
	\$ 442.8	\$ 45.6	\$ 397.2	\$ 487.7	\$ 67.7	\$ 420.0	\$ 462.7	\$ 72.5	\$ 390.2

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

(2) Assumes market value equals book value.

(3) Includes a \$11.6 million Crombie REIT convertible unsecured subordinated debenture (May 1, 2010 - \$10.7 million, Jan. 30, 2010 - \$10.6 million).

Sale of Wajax Income Fund

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

The following table presents investments and other operations' (net of corporate expenses) financial highlights, excluding Crombie REIT and Genstar U.S. equity earnings, for the 13 and 39 weeks ended January 29, 2011 compared to the same period last year:

(\$ in millions)	13 Weeks Ended			39 Weeks Ended		
	Jan. 29, 2011	Jan. 30, 2010	(\$) Change	Jan. 29, 2011	Jan. 30, 2010	(\$) Change
Revenue	\$ 45.9	\$ 50.3	\$ (4.4)	\$ 143.9	\$ 149.9	\$ (6.0)
Operating income						
Wajax	-	2.3	(2.3)	8.7	6.9	1.8
Other operations, net of corporate expenses	(1.6)	0.3	(1.9)	(5.1)	(4.6)	(0.5)
Total operating income	(1.6)	2.6	(4.2)	3.6	2.3	1.3
Operating earnings	(2.8)	(0.3)	(2.5)	(3.4)	(5.0)	1.6
Capital gains (losses) and other items, net of tax	-	-	-	75.8	17.8	58.0
Net earnings	\$ (2.8)	\$ (0.3)	\$ (2.5)	\$ 72.4	\$ 12.8	\$ 59.6

Revenue

Investments and other operations' revenue, primarily generated by Empire Theatres, equalled \$45.9 million in the third quarter ended January 29, 2011 versus \$50.3 million in the third quarter last year, a \$4.4 million or 8.7 percent decrease.

For the 39 weeks ended January 29, 2011, investments and other operations reported revenues of \$143.9 million compared to \$149.9 million in the same period last year, a \$6.0 million or 4.0 percent decrease.

Operating Income

Investments and other operations, net of corporate expenses, contributed operating income of \$(1.6) million compared to \$2.6 million in the third quarter last year. Included in operating income for the third quarter of last year was \$2.3 million in equity accounted earnings generated from the Company's previously held 27.5 percent interest in Wajax and a \$2.5 million interest refund from CRA related to the Hannaford tax settlement. Operating income from other operations, net of corporate expenses, for the third quarter decreased \$1.9 million to \$(1.6) million.

Operating income generated by investments and other operations, net of corporate expenses, during the 39 weeks ended January 29, 2011 amounted to \$3.6 million compared to \$2.3 million in the same period last year. Equity earnings from Wajax amounted to \$8.7 million in the 39 weeks ended January 29, 2011 versus \$6.9 million in the 39 weeks ended January 30, 2010, an increase of \$1.8 million. Operating income from other operations, net of corporate expenses, for the 39 weeks ended January 29, 2011 decreased \$0.5 million to \$(5.1) million from \$(4.6) million in the same period last year.

Earnings before Capital Gains (Losses) and Other Items

Investments and other operations, net of corporate expenses, contributed earnings before capital gains (losses) and other items of \$(2.8) million in the third quarter compared to \$(0.3) million in the same quarter last year, a decrease of \$2.5 million. This decline is largely attributed to a decrease in equity earnings from Wajax due to its sale in the second quarter of fiscal 2011.

Investments and other operations, net of corporate expenses, contributed earnings before capital gains (losses) and other items of \$(3.4) million in the 39 weeks ended January 29, 2011 compared to \$(5.0) million in the same period last year, an increase of \$1.6 million. This improvement is largely attributed to increased equity earnings from Wajax, higher earnings from Empire Theatres and lower interest expense at the corporate level.

Capital Gains (Losses) and Other Items, Net of Tax

There were no capital gains (losses) or other items reported by investments and other operations in the third quarter of fiscal 2011 or in the same period last year.

Capital gains and other items, net of tax, reported by investments and other operations for the 39 weeks ended January 29, 2011 were \$75.8 million compared to \$17.8 million in the same period last year. Capital gains and other items, net of tax, in the 39 weeks ended January 29, 2011 are primarily related to the sale of the Company's 27.5 percent interest in Wajax, which resulted in an after tax gain of \$75.8 million. Capital gains and other items in the 39 weeks ended January 30, 2010 are primarily related to the settlement of the tax reassessment for \$17.0 million relating to the fiscal 2001 sale of shares in Hannaford Bros. Co.

Net Earnings

Investments and other operations, net of corporate expenses, contributed \$(2.8) million to Empire's consolidated third quarter fiscal 2011 net earnings compared to a \$(0.3) million contribution in the third quarter last year. The decrease is primarily attributed to the decrease in earnings before capital gains (losses) and other items, net of tax, of \$2.5 million.

For the fiscal year-to-date investments and other operations, net of corporate expenses, contributed net earnings of \$72.4 million compared to a \$12.8 million contribution in the same period last year, an increase of \$59.6 million. The increase in net earnings for the 39 weeks ended January 29, 2011 is largely attributed to the \$58.0 million increase in capital gains and other items, net of tax, over the same period last year.

Consolidated Financial Condition

Capital Structure and Key Financial Condition Measures

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

(\$ in millions, except per share and ratio calculations)	Jan. 29, 2011	May 1, 2010	Jan. 30, 2010
Shareholders' equity	\$ 3,168.3	\$ 2,952.4	\$ 2,886.5
Book value per share	\$ 46.57	\$ 43.07	\$ 42.10
Bank indebtedness	\$ 6.0	\$ 17.8	\$ 89.2
Long-term debt, including current portion	\$ 1,181.1	\$ 1,208.4	\$ 1,201.0
Funded debt to total capital	27.3%	29.3%	30.9%
Net debt to net total capital ⁽¹⁾	18.2%	21.8%	26.4%
Debt to EBITDA ⁽²⁾	1.4x	1.5x	1.6x
EBITDA to interest expense ⁽²⁾	11.5x	11.3x	11.1x
Total assets	\$ 6,358.8	\$ 6,248.3	\$ 6,073.7

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

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

Shareholders' Equity

The Company's share capital on January 29, 2011 consisted of:

	Authorized Number of Shares	Issued and Outstanding Number of Shares	\$ Millions
Preferred shares, par value \$25 each, issuable in series,			
Series 2, cumulative, redeemable, rate of 75% prime	2,681,200	167,100	\$ 4.2
2002 Preferred shares par value \$25 each, issuable in series	992,000,000	-	-
Non-Voting Class A shares, without par value	258,593,856	33,687,747	311.6
Class B common shares, without par value, voting	40,800,000	34,260,763	7.6
			323.4
Employees' Share Purchase Plan			(2.9)
			\$ 320.5

There were 33,687,747 Non-Voting Class A and 34,260,763 Class B common shares outstanding at January 29, 2011, for a total of 67,948,510 shares, a decrease of 509,751 shares from the previous fiscal year-end and the third quarter last year. The decrease is due to the repurchase for cancellation of 513,579 Non-Voting Class A shares for \$27.7 million during the second quarter under Empire's NCIB filed with the Toronto Stock Exchange on September 15, 2010, partially offset by 3,828 Non-Voting Class A shares issued under Empire's Long-Term Incentive Plan.

At January 29, 2011, Empire had 565,571 options outstanding compared to 433,209 options outstanding at January 30, 2010. During the third quarter of fiscal 2011, 18,102 options were exercised under the cashless exercise provision of Empire's Long-Term Incentive Plan.

There were 900 Series 2 preferred shares purchased for cancellation in third quarter of fiscal 2011 for an average share price of \$24.00. For the 39 weeks ended January 29, 2011, there were 900 Series 2 preferred shares purchased for cancellation as discussed compared to no Series 2 preferred shares purchased for cancellation in the same period last year. The Company plans to purchase on a best efforts basis additional Series 2 preferred shares for cancellation.

On September 15, 2010 the Company filed a notice of intention to make a NCIB with the Toronto Stock Exchange ("TSX") to purchase for cancellation up to 1,025,925 Non-Voting Class A shares representing approximately three percent of those outstanding. The purchases will be made through the facilities of the TSX. The price the Company will pay for any such shares will be the market price at the time of acquisition. Purchases were allowed to commence on September 20, 2010, and shall terminate not later than September 19, 2011. Under the policies of the TSX, the Company is entitled to purchase during any one trading day up to 13,618 Non-Voting Class A shares, being 25 percent of the average daily trading volume of the Non-Voting Class A shares. 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 NCIB, if the transaction meets the block purchase exception under the TSX rules. Shareholders may obtain a copy of the notice, without charge, by contacting the Company.

As at March 8, 2011, the Company had Non-Voting Class A and Class B common shares outstanding of 33,687,747 and 34,260,763, respectively, 166,400 Series 2 preferred shares outstanding, as well as 565,571 options to acquire in aggregate 565,571 Non-Voting Class A shares.

Dividends paid to common shareholders amounted to \$13.6 million in the third quarter (\$0.20 per share) versus \$12.6 million (\$0.185 per share) in the third quarter last fiscal year. Dividends paid for the 39 weeks ended January 29, 2011 to common shareholders amounted to \$40.9 million (\$0.60 per share) versus \$38.0 million (\$0.555 per share) paid in the 39 weeks ended January 30, 2010.

Liabilities

Historically, Empire has financed a significant portion of its assets through the use of long-term debt. Longer-term assets are generally financed with fixed rate, long-term debt, thereby reducing both interest rate and refinancing risk. Total long-term debt, including the current portion of long-term debt and debt related to assets held for sale, at January 29, 2011 was \$1,181.1 million, representing 99.5 percent of Empire's total funded debt of \$1,187.1 million.

Long-term debt by division is as follows:

Long-term debt (including current portion) (\$ in millions)	Jan. 29, 2011	May 1, 2010	Jan. 30, 2010
Food retailing	\$ 999.5	\$ 858.7	\$ 865.2
Real estate	23.5	35.3	38.5
Investments and other operations	158.1	314.4	297.3
Total	\$ 1,181.1	\$ 1,208.4	\$ 1,201.0

Consolidated funded debt has decreased \$39.1 million since the start of the fiscal year, May 1, 2010 (\$1,226.2 million) and by \$103.1 million since the third quarter last year (\$1,290.2 million). The decrease since the start of the fiscal year is due primarily to the application of proceeds from the sale of the Company's investment in Wajax and from the sale of properties to Crombie REIT, partially offset by Sobeys' \$150.0 million 30-year MTN issuance in the first quarter of fiscal 2011. The ratio of funded debt to total capital has improved by 3.6 percentage points since the third quarter last year to 27.3 percent as a result of lower funded debt levels and higher equity levels due to growth in retained earnings.

For additional disclosure on Empire's bank indebtedness and long-term debt, see Notes 9 and 10 to the Company's annual audited financial statements for fiscal 2010 as detailed on pages 84 and 85 of the Company's 2010 Annual Report.

On September 14, 2009, DBRS upgraded Sobeys' credit rating to BBB with a stable trend. On January 12, 2010, Standard & Poor's upgraded its credit rating on Sobeys to BBB- with a stable trend. Standard & Poor's affirmed its credit rating for Sobeys on June 3, 2010 and DBRS affirmed its credit rating for Sobeys on October 26, 2010.

Empire's EBITDA to interest expense ratio in the third quarter was 11.5 times, up from 11.3 times recorded in the prior fiscal year and 11.1 times recorded in the third quarter last year. The increase over the same quarter last year is due primarily to improvement in trailing 12-month EBITDA and a marginal decline in the trailing 12-month interest expense.

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 earnings for the 13 and 39 weeks ended January 29, 2011 or for the comparative period in fiscal 2010.

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 and its subsidiaries utilize interest rate instruments from time to time to manage its exposure to interest rate volatility and also to fix future long-term debt maturities that are expected to be refinanced. At January 29, 2011, there were three interest rate hedges in place with a fair value of \$(10.8) 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 January 29, 2011. A parallel shift up or (down) in the underlying forward rate curve of 0.25 percent would impact the fair value of the swaps by plus or minus \$0.8 million and impact other comprehensive income by plus or minus \$0.5 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 January 29, 2011, Sobeys recognized a liability of \$0.3 million relating to this instrument. Sobeys estimates that a 10.0 percent increase or (decrease) in applicable foreign currency exchange rates would impact the fair value of the swap by plus or minus \$1.1 million and would impact other comprehensive income by plus or minus \$0.8 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 January 29, 2011, Sobeys had recognized a liability of \$0.2 million representing the fair value of Euro denominated forward currency contracts. Sobeys estimates that a 10.0 percent increase or (decrease) in applicable exchange rates would impact the fair value by plus or minus \$3.5 million and other comprehensive income by plus or minus \$2.3 million.

Fair Value Methodology

When a financial instrument is designated as a hedge for financial accounting purposes, it is classified as "Held for Trading" on the balance sheet and recorded at fair value. The estimated fair values of the financial instruments as at January 29, 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 21 to the Company's annual audited financial statements for fiscal 2010 as in the Company's 2010 Annual Report.

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 January 29, 2011, consolidated cash and cash equivalents were \$481.4 million versus \$256.5 million at January 30, 2010 and \$401.0 million at fiscal year-end, May 1, 2010.

At the end of the third quarter of fiscal 2011, on a non-consolidated basis, Empire directly maintained an authorized bank line for operating, general and corporate purposes of \$450.0 million, of which approximately \$140.3 million or 31.2 percent was utilized. Empire's non-consolidated \$650.0 million credit facility matured on June 8, 2010. Prior to its maturity, on June 4, 2010, management renewed the credit facility for an additional three-year term, to expire on June 30, 2013. The size of the credit facility was reduced to \$450.0 million due to the Company's strong cash position and improved financial condition. On a consolidated basis, Empire's authorized bank credit facilities exceeded borrowings by approximately \$700 million at January 29, 2011. During the third quarter, Sobeys allowed a \$75 million bank credit facility to mature without renewal.

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

Empire and its subsidiaries have provided covenants to its lenders in support of various financing facilities. All covenants were complied with for the 39 weeks ended January 29, 2011 and for the fiscal year ended May 1, 2010.

The following table highlights major cash flow components for the 13 and 39 weeks ended January 29, 2011 compared to the 13 and 39 weeks ended January 30, 2010.

Major Cash Flow Components

(\$ in millions)	13 Weeks Ended		39 Weeks Ended	
	Jan. 29, 2011	Jan. 30, 2010	Jan. 29, 2011	Jan. 30, 2010
Net earnings (net of preferred dividends)	\$ 62.7	\$ 68.2	\$ 277.1	\$ 228.3
Items not affecting cash	110.0	110.4	207.6	285.2
	172.7	178.6	484.7	513.5
Net change in non-cash working capital	(54.6)	15.1	(141.6)	(50.2)
Cash flows from operating activities	118.1	193.7	343.1	463.3
Cash flows used in investing activities	(156.8)	(136.5)	(143.8)	(373.3)
Cash flows used in financing activities	(17.5)	(11.6)	(118.9)	(65.1)
Increase (decrease) in cash and cash equivalents	\$ (56.2)	\$ 45.6	\$ 80.4	\$ 24.9

Operating Activities

Third quarter cash flows from operating activities equalled \$118.1 million compared to \$193.7 million in the comparable period last year. The decrease of \$75.6 million is attributed to a decrease in the net change in non-cash working capital of \$69.7 million, a decrease in earnings available for common shareholders of \$5.5 million and a decrease in items not affecting cash of \$0.4 million.

Fiscal year-to-date cash flows from operating activities equalled \$343.1 million compared to \$463.3 million in the comparable period last year. The decrease of \$120.2 million is attributed to a decrease in the net change in non-cash working capital of \$91.4 million and a decrease in items not affecting cash of \$77.6 million, partially offset by an increase in earnings available for common shareholders of \$48.8 million.

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

Non-Cash Working Capital (Quarter-over-Quarter)	13 Weeks Ended			
	Jan. 29, 2011	Oct. 30, 2010	Jan. 29, 2011 Increase (Decrease) in Cash Flows	Jan. 30, 2010 Increase (Decrease) in Cash Flows
(\$ in millions)				
Receivables	\$ 360.5	\$ 341.5	\$ (19.0)	\$ 30.0
Inventories	935.5	946.2	10.7	(32.2)
Prepaid expenses	46.4	56.4	10.0	2.3
Accounts payable and accrued liabilities	(1,553.6)	(1,621.7)	(68.1)	(18.0)
Income taxes receivable	5.4	16.9	11.5	24.3
Impact of reclassifications on working capital ⁽¹⁾	(0.3)	-	0.3	8.7
Total	\$ (206.1)	\$ (260.7)	\$ (54.6)	\$ 15.1

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

Non-Cash Working Capital (Year-over-Year)	52 Weeks Ended		
	Jan. 29, 2011	Jan. 30, 2010	Jan. 29, 2011 Increase (Decrease) in Cash Flows
(\$ in millions)			
Receivables	\$ 360.5	\$ 291.0	\$ (69.5)
Inventories	935.5	924.0	(11.5)
Prepaid expenses	46.4	51.1	4.7
Accounts payable and accrued liabilities	(1,553.6)	(1,463.6)	90.0
Income taxes receivable (payable)	5.4	(7.3)	(12.7)
Impact of reclassifications on working capital ⁽¹⁾	(31.9)	-	31.9
Total	\$ (237.7)	\$ (204.8)	\$ 32.9

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

The net change in non-cash working capital of \$(54.6) million in the third quarter was largely due to a \$68.1 million decrease in accounts payable and accrued liabilities and a \$19.0 million increase in receivables, partially offset by a decrease in income taxes receivable of \$11.5 million, a \$10.7 million decrease in inventories, a decrease in prepaid expenses of \$10.0 million and the impact of reclassifications on working capital totalling \$0.3 million. The decrease in accounts payable and accrued liabilities reflects lower inventory levels and purchases at Sobeys following its holiday selling season.

The net change in non-cash working capital of \$32.9 million in the twelve months since the third quarter of fiscal 2010 was largely due to accounts payable and accrued liabilities increasing by \$90.0 million, the impact of reclassifications on working capital of \$31.9 million and a decrease in prepaid expenses of \$4.7 million, partially offset by receivables increasing \$69.5 million, an increase in income taxes receivable of \$12.7 million and an increase in inventories of \$11.5 million. Accounts receivable increased as a result of increased sales at the end of the third quarter compared to the prior year combined with additional receivables amounts related to franchisees that are no longer VIEs. The increase in accounts payable is primarily the result of a slight change at Sobeys in the timing of payments for inventory and capital asset purchases combined with incremental accruals related to rationalization costs incurred during the fiscal year.

Investing Activities

Cash flows used in investing activities of \$156.8 million in the third quarter compares to cash used in investing activities of \$136.5 million in the same quarter last year. The change of \$20.3 million is largely the result of a \$31.8 million increase in cash used for the purchase of property and equipment relative to the third quarter last year, partially offset by a \$12.4 million decrease in cash used for business acquisitions relative to the third quarter last year.

Consolidated purchases of property and equipment totalled \$138.6 million in the third quarter of fiscal 2011 compared to \$106.8 million in the third quarter last year. The increase in property and equipment purchases is primarily a result of capital additions at Sobeys, partially offset by a decrease in the purchase of property and equipment by the real estate division.

For the 39 weeks ended January 29, 2011, cash flows used in investing activities totalled \$143.8 million, a decrease of \$229.5 million from the cash flows used in investing activities of \$373.3 million in the same period last year. The following factors are largely responsible for the decrease: the sale of the investment in Wajax for net proceeds of \$121.3 million; a \$88.5 million increase in proceeds from disposal of property and equipment relative to the 39 weeks ended January 30, 2010; a change in loans and other receivables relative to last year of \$67.9 million; and, a decrease in the cash used for business acquisitions relative to the same period last year of \$18.2 million; partially offset by a \$75.5 million increase in consolidated purchases of property and equipment.

The table below outlines the number of stores Sobeys invested in during the 13 and 39 weeks ended January 29, 2011 compared to 13 and 39 weeks ended January 30, 2010.

Sobeys' Corporate and Franchised Store Construction Activity

# of Stores	13 Weeks Ended		39 Weeks Ended	
	Jan. 29, 2011	Jan. 30, 2010	Jan. 29, 2011	Jan. 30, 2010
Opened/Acquired/Relocated	14	6	29	30
Expanded	2	4	8	9
Rebannered/Redeveloped	14	3	44	8
Closed	8	7	17	35

The following table shows Sobeys' square footage changes for the 13 and 52 weeks ended January 29, 2011 by type:

Sobeys' Square Footage Changes (in thousands)

Square Feet	13 Weeks Ended	52 Weeks Ended
	Jan. 29, 2011	Jan. 29, 2011
Opened	343	800
Relocated	39	142
Acquired	-	3
Expanded	34	105
Closed	(130)	(372)
Net Change	286	678

At January 29, 2011, Sobeys' square footage totalled 28.6 million square feet, a 2.5 percent increase over the 27.9 million square feet operated at the end of the third quarter last year.

Financing Activities

Financing activities during the third quarter used \$17.5 million of cash compared to \$11.6 million of cash used in financing activities in the same quarter last year. The increase of \$5.9 million in cash flows used in financing activities compared to the same quarter last year is primarily the result of a decrease in bank indebtedness of \$7.0 million in the third quarter compared to a \$11.8 million increase in the same quarter last year, partially offset by an increase in the issue of long-term debt of \$6.7 million and a decrease in the repayment of long-term debt of \$6.2 million.

Financing activities during the 39 weeks ended January 29, 2011 used \$118.9 million of cash compared to \$65.1 million of cash used in financing activities in the same period last year. The increase of \$53.8 million in cash flows used in financing activities compared to the same period last year is primarily the result of an increase in the repayment of long-term debt of \$85.9 million, a decrease in bank indebtedness of \$11.8 million in the first three quarters of fiscal 2011 compared to a \$43.3 million increase in the same period last year and an increase in cash used for the repurchase of Non-Voting Class A shares of \$27.7 million, partially offset by an increase in the issuance of long-term debt of \$119.4 million.

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

Free Cash Flow

Free cash flow (see Non-GAAP measures section) is used to measure the change in the Company's cash available for additional investing, dividends and/or debt reduction. The following table reconciles free cash flow to GAAP cash flows used in operating activities for the 13 and 39 weeks ended January 29, 2011 and January 30, 2010.

(\$ in millions)	13 Weeks Ended		39 Weeks Ended	
	Jan. 29, 2011	Jan. 30, 2010	Jan. 29, 2011	Jan. 30, 2010
Cash flow from operating activities	\$ 118.1	\$ 193.7	\$ 343.1	\$ 463.3
Less: Property and equipment purchases	138.6	106.8	381.5	306.0
Free cash flow	\$ (20.5)	\$ 86.9	\$ (38.4)	\$ 157.3

Free cash flow in the third quarter of fiscal 2011 was \$(20.5) million compared to \$86.9 million in the third quarter last year. The \$107.4 million decrease in free cash flow from the third quarter last year was due to a decrease in cash flow from operations of \$75.6 million primarily due to a decrease in the net change in non-cash working capital of \$69.7 million and a \$31.8 million increase in property and equipment purchases.

Free cash flow in the 39 weeks ended January 29, 2011 was \$(38.4) million compared to \$157.3 million in the same period last year. The \$195.7 million decline in free cash flow from the 39 weeks ended January 30, 2010 was due to a decrease in cash flow from operations of \$120.2 million and a \$75.5 million increase in property and equipment purchases.

Controls And Accounting Policies

Changes in Accounting Policies

Future Changes in Accounting Policies:

Business combinations, consolidated financial statements and non-controlling interests

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

Multiple deliverable revenue arrangements

In December 2009, the CICA issued EIC-175, "Multiple Deliverable Revenue Arrangements". EIC-175, which replaces EIC-142, "Revenue Arrangements with Multiple Deliverables", addresses some aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. This new standard is effective for the Company's annual consolidated financial statements commencing on or after January 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. The Company does not expect to adopt these standards as a result of its transition to IFRS.

Transition to International Financial Reporting Standards

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

Project Status

The Company continues to evaluate the potential impact of the conversion to IFRS on its financial statements. A formal project governance structure has been developed to ensure regular progress reports are provided to senior management, a structured Steering Committee, as well as the Audit Committee and Board of Directors. A detailed description of the Company's IFRS changeover plan is included in the section "Future Changes in Accounting Policies" of the Company's fiscal 2010 MD&A. The IFRS changeover plan is progressing as outlined, and no significant changes have been made to this plan.

The Company continues to assess the impact of IFRS on the Company's budgeting process by utilizing working groups designated to analyzing the impact of changes in accounting policy. The drafting of revised Company accounting policies to reflect the changes in accounting standards is also underway. The Company continues to educate staff in all areas of the business on decisions made as a result of the IFRS transition.

Significant Changes in Accounting Policies

The Company continues to assess the effect of the adoption of IFRS and the resulting changes in accounting policies. All significant accounting policy changes that have been identified are detailed in the Company's fiscal 2010 MD&A. The Company continues to review all of the proposed and ongoing projects of the International Accounting Standards Board ("IASB") to determine their impact on the Company.

At this time, the Company is assessing and finalizing the quantitative impacts of the opening balance sheet transitional adjustments, as well as the impacts on results for the first and second quarter of fiscal 2011. As IFRS results are quantified throughout the changeover year, the results will be reported on a timely basis.

The information below is provided as a progress update to the fiscal 2010 MD&A for the users of the financial statements relating to the possible effects of the IFRS changeover. The changes identified below should not be regarded as a complete list of changes that will result from the transition to IFRS. The update is intended to highlight areas where the Company has made significant progress. Readers are cautioned, however, that the information is subject to change.

Key Accounting Policy	Key Difference Between IFRS and Canadian GAAP for the Company	Potential Key Impacts for the Company
Investment Property	Investment property is a new concept under IFRS that does not exist under Canadian GAAP. Investment properties are defined as properties that are held to earn rentals and/or held for capital appreciation. Investment properties are separately recorded and disclosed under IFRS, while they are recorded with property and equipment under Canadian GAAP.	<p>Opening balance sheet: Investment properties are being identified as at the date of transition to IFRS and they will be separately recorded and disclosed from property and equipment in the opening IFRS balance sheet. The accounting policy change will result in a reclassification of approximately \$97.9 million on the opening balance sheet.</p> <p>The Company has opted to utilize the cost model for measuring investment properties. When utilizing the cost model, the Company must disclose the aggregated fair value of all investment properties. The Company has engaged property valuers to obtain information for this disclosure.</p> <p>The engagement with the property valuers has resulted in the determination of the fair value for investment properties, as at the opening balance sheet date, of approximately \$124.9 million.</p>

Key Accounting Policy	Key Difference Between IFRS and Canadian GAAP for the Company	Potential Key Impacts for the Company
<p>Impairment of long-lived assets</p>	<p>IAS 36, "Impairment of Assets" requires a company to record an impairment loss when an asset is carried at more than its recoverable amount through use or sale. IAS 36, unlike Canadian GAAP, allows a company to reverse these impairment losses if there is a change in the factors used to calculate the assets' recoverable amount.</p> <p>If it is not possible to estimate the recoverable amount of an individual asset, IFRS tests asset groups for impairment at the independent cash-generating unit ("CGU") level based on generation of cash inflows. Under Canadian GAAP, asset groups are defined based on net cash flows.</p>	<p>Grouping of assets for impairment purposes will be at a lower level than under Canadian GAAP. The Company has determined the CGU to be principally at an individual store or theatre level.</p> <p>The change in level of impairment testing is anticipated to result in an increase in the write down of assets under IFRS whereas the carrying value of assets under Canadian GAAP was previously supported by a higher, aggregated level of testing. The write down and potential subsequent recovery of impairment loss could lead to income statement and earnings volatility in future periods.</p> <p>Opening balance sheet: Impairment testing for CGUs where an indicator of impairment exists has been conducted as at the Company's transition date. The Company is currently finalizing the impact this adjustment will have but expects a decrease to retained earnings, property and equipment and investment property. The Company continues to assess the potential impact which may be significant.</p>
<p>Leases</p>	<p>IFRS does not provide the same quantitative guidelines as Canadian GAAP, but rather has additional qualitative considerations for classification of leases between "operating" and "finance" ("capital" under Canadian GAAP) leases.</p> <p>IFRS has different recognition principles surrounding sale leaseback transactions where the lease is classified as an "operating" lease and the transaction occurs at fair market value.</p>	<p>Opening balance sheet: The qualitative considerations for the classification of leases were reviewed as at the transition date, and no change in classifications have been identified.</p> <p>Opening balance sheet: Certain gains from historical sale leaseback transactions have been identified and will be fully recognized in the opening IFRS balance sheet. The adjustment will result in a decrease to other liabilities and an increase to retained earnings.</p> <p>During the transition year, all amortized gains relating to sale leaseback transactions recognized under Canadian GAAP will be reversed. Under IFRS, the gain on the transactions with third parties occurring at fair value will be fully recognized in income. Losses will continue to be expensed immediately. The Company is currently finalizing the impact of these adjustments.</p>
<p>Employee Benefits</p>	<p>IFRS requires vested past service costs of defined benefit pension plans to be expensed immediately and unvested past service costs to be recognized on a straight-line basis until the benefits become vested. Under Canadian GAAP, all past service costs are generally amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendment, or a shorter period.</p>	<p>Opening balance sheet: There will be a one-time adjustment to recognize any vested past service costs at the date of transition to IFRS. The Company has engaged actuaries to calculate this adjustment.</p> <p>During the transition year, the Company will adjust its estimated pension expense to take into effect the impact of the vested past service cost under IFRS. The Company is currently finalizing the impact of this adjustment.</p>

Key Accounting Policy	Key Difference Between IFRS and Canadian GAAP for the Company	Potential Key Impacts for the Company
<p>Employee Benefits <i>Continued</i></p>	<p>IFRS requires an entity to make an accounting policy choice regarding the recognition of actuarial gains and losses. The three options that are available are as follows:</p> <ul style="list-style-type: none"> - deferred recognition using a "corridor" approach; - immediate recognition through the income statement; or - immediate recognition through other comprehensive income. <p>The Company has chosen to recognize actuarial gains and losses immediately through other comprehensive income. This policy was not available to the Company under Canadian GAAP. Previously the Company delayed recognition of actuarial gains and losses by utilizing a "corridor" approach.</p>	<p>Opening balance sheet: An adjustment to retained earnings is expected as a result of the Company opting to utilize an IFRS 1 exemption to recognize all unamortized actuarial gains and losses through retained earnings upon transition to IFRS. The Company has engaged actuaries to calculate this transitional adjustment.</p> <p>During the transition year the Company will adjust its estimated pension expense to take into effect the impact of the actuarial gains and losses recognized upon transition to IFRS. The Company is currently finalizing the impact of this adjustment.</p>
	<p>IFRS calculates the asset ceiling limit for defined benefit plans in a different manner from the method required under Canadian GAAP, and also requires the recognition of onerous obligations where a defined benefit plan has minimum funding requirements.</p>	<p>Opening balance sheet: The Company has engaged actuaries to calculate this transitional adjustment.</p>
		<p>The anticipated impact of adjustments related to Employee Future Benefits to retained earnings is a decrease of approximately \$68.3 million.</p>
<p>Provisions</p>	<p>IFRS uses different terminology than Canadian GAAP and provides more extensive guidance on recognition of provisions defined as liabilities with uncertain timing and/or amount, including the following:</p> <ul style="list-style-type: none"> - provisions are recognized when it is probable (more likely than not) that an outflow of resources will be required to settle the obligation, while a higher threshold is used under Canadian GAAP; - provisions will be separately classified from other liabilities (current and non-current) on the face of the balance sheet and subject to additional disclosure requirements; - provisions are recognized if either a legal obligation or constructive obligation exists, while only legal obligation is considered under Canadian GAAP; - a provision must be recognized if a contract becomes onerous where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from it; and - provisions are discounted when impact is material. 	<p>Opening balance sheet: The adjustment is expected to be a reclassification of amounts out of trade and other payables, loans and borrowings, and other liabilities to a provisions account, and is not expected to have a material effect on retained earnings or subsequent periods.</p> <p>The Company is currently finalizing the impact of the adjustment.</p>

Key Accounting Policy	Key Difference Between IFRS and Canadian GAAP for the Company	Potential Key Impacts for the Company
Customer Loyalty Programs	IFRS requires deferred revenue recognition approach for customer loyalty programs with fair value of the award credits to be recognized as a separate component of the sales transaction. Under Canadian GAAP, an entity can use a deferred revenue approach or account for the program as an expense. The Company uses the latter approach under Canadian GAAP.	Opening balance sheet: There will be a one-time adjustment related to the deferral of revenue recognized under Canadian GAAP. As a result, there will be a decrease in other assets, an increase in trade and other payables, and a total decrease to retained earnings of approximately \$1.4 million. On a quarterly basis, this adjustment is not expected to have a significant impact.
Consolidation-Special Purpose Entities (“SPEs”)	IFRS uses a more principles-based control model for consolidation of SPEs. Entities are to be consolidated if the Company has the majority of the risks and rewards of ownership over the subject entity. The control factors considered include: - a majority share ownership; - ability to control the Board; - power to govern financial and operating policies; and - contracted arrangements conferring effective control. Under Canadian GAAP, VIEs are consolidated based on their equity investment at risk and their financial dependence on the Company to operate.	Opening balance sheet: The control factors under IFRS for consolidation were considered as at the transition date to IFRS specifically related to consolidation of certain franchises. There was no change in the total number of VIEs upon transition to IFRS.
Joint Ventures	Existing IAS 31 Interests in Joint Ventures allows an entity to account for jointly controlled operations using proportionate consolidation or the equity method. The IASB has a current project underway that will require joint ventures to be accounted for using the equity method, which is expected to be issued in December 2010. Under Canadian GAAP these types of investments are accounted for using proportionate consolidation.	Opening balance sheet: Certain of Company’s real estate investments that were previously accounted for using the proportionate consolidation method will be accounted for using the equity method under IFRS. As a result of this change, the opening balance sheet impact will be a decrease to cash and cash equivalents, inventories, prepaid expenses, loans and other receivables, property and equipment, trade and other payables, and loans and borrowings. Other minor adjustments were made to ensure all previously equity accounted entities are in line with IFRS reporting requirements. This change will result in an increase of \$94.0 million to investments at equity, and a reduction to retained earnings of \$1.5 million.

First Time Adoption of IFRS

Fair Value as Deemed Cost - IFRS 1 Election - The Company expects to elect to report certain items of property and equipment, investment property, and/or intangible assets in its opening IFRS balance sheet at a deemed cost instead of the actual cost that would be determined under IFRS. The deemed cost of an item may be either its fair value at the date of transition to IFRS or an amount determined by a previous revaluation under Canadian GAAP (as long as that amount was close to either its fair value, cost or adjusted cost). The exemption can be applied on an asset-by-asset basis, and the Company is currently evaluating individual assets for which the election may apply. The Company has engaged property valuers to obtain information on the fair values of selected assets.

Critical Accounting Estimates

Critical accounting estimates used by the Company's management are discussed in detail in the fiscal 2010 annual MD&A, available under the Company's profile at www.SEDAR.com.

Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining internal control over financial reporting ("ICFR") as that term is defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings. The control framework management used to design and assess the effectiveness of ICFR is The Internal Control Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission. There have been no changes in the Company's ICFR during the period which commenced October 31, 2010 and ended January 29, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Related-Party Transactions

The Company rents premises from Crombie REIT. The rental payments are at exchange amount which represents the amount negotiated between the parties as part of the lease agreement. For the 13 and 39 weeks ended January 29, 2011, the aggregate rental payments to Crombie REIT were \$15.3 million and \$51.0 million, respectively (2010 - \$15.0 million and \$48.1 million). In addition, for a period of five years commencing March 23, 2006, 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. 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 and 39 weeks ended January 29, 2011, charges incurred for administrative and management services were \$0.5 million and \$1.4 million respectively (2010 - \$0.5 million and \$1.5 million). The Company has non-interest bearing notes payable to Crombie REIT in the amount of \$6.2 million related to the subsidy payments to Crombie REIT pursuant to an omnibus subsidy agreement dated March 23, 2006 between certain subsidiaries of Crombie REIT and ECL.

The Company has provided Crombie REIT with fixed rate second mortgages in the amount of \$5.8 million (2010 - \$6.0 million). The second mortgages have a weighted average interest rate of 5.38 percent with a maturity date of March 2014. For the 39 weeks ended January 29, 2011, Empire received interest income related to the second mortgages of \$0.2 million.

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

On September 30, 2009, the Company purchased \$10.0 million of convertible unsecured subordinated debentures (the "Debentures") from Crombie REIT, pursuant to a bought-deal prospectus offering of a total of \$85.0 million. The Debentures have a maturity date of June 30, 2015. The Debentures have a coupon of 6.25 percent per annum and each \$1,000 principal amount of Debenture is convertible into approximately 90.9091 units of Crombie REIT, at any time, at the option of the holder, based on a conversion price of \$11.00 per unit. The Debentures have been classified as available-for-sale and are included in investments, at realizable value.

During fiscal 2010, the Company sold eight commercial properties to Crombie REIT for net cash proceeds of \$56.7 million, which was fair market value. Since the sales were to an equity accounted investment, the gains on sale were not included in earnings; rather the gains (net of income taxes) reduced the carrying value of the Company's equity investment in Crombie REIT.

On August 4, 2010, Crombie REIT closed a bought-deal public offering of units at a price of \$11.05 per unit. In satisfaction of its pre-emptive right with respect to the public offering, the Company subscribed for approximately \$20.5 million of Class B units of Crombie Limited Partnership (which are convertible on a one-for-one basis into units of Crombie REIT). Consequently the Company's interest in Crombie REIT was reduced from 47.4 percent to 47.0 percent. Also during the quarter, Crombie issued 500,542 units as a portion of its Class B convertible debentures were converted to units in Crombie REIT. This conversion further reduced Empire's interest in Crombie REIT to 46.6 percent.

During Empire's third quarter, Crombie issued 190,331 units as additional Series B and Series A convertible debentures were converted to units. This conversion further reduced Empire's interest in Crombie REIT to 46.5 percent.

On September 28, 2010, subsidiaries of the Company sold ten properties to Crombie REIT for net proceeds of \$95.5 million, which was fair market value. Since the sales were to an equity accounted investment, the gains on sale were not included in earnings; rather the gains (net of income taxes) reduced the carrying value of the Company's equity investment in Crombie REIT.

On November 22, 2010, Crombie REIT acquired two retail properties totaling approximately 87,000 square feet from joint ventures of which a subsidiary of Empire was a partner. The purchase price for the two properties was \$17.0 million excluding closing and transaction costs.

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.

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.

Contingent Liabilities

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, from time to time certain matters are reviewed and challenged by tax authorities.

On June 21, 2005, Sobeys received a notice of reassessment from the CRA for the fiscal years 1999 and 2000 related to Lumsden Brothers Limited ("Lumsden"), a wholesale subsidiary of Sobeys, and the Goods and Services Tax ("GST"). The reassessment related to GST on sale of tobacco products to Status Indians. CRA asserts that Lumsden was obliged to collect GST on the sales of tobacco products to Status Indians. The total tax, interest and penalties in the reassessment amount to \$13.6 million. Sobeys has reviewed this matter, has received legal advice, and believes it was not required to collect GST. During the second quarter of fiscal 2006, Sobeys filed a Notice of Objection with CRA. Accordingly, Sobeys has not recorded in its statement of earnings any of the tax, interest or penalties set-out in the notice of reassessment. Sobeys has deposited with CRA funds to cover the total tax, interest and penalties in the reassessment and has recorded this amount as a long-term receivable from CRA pending resolution of the matter.

There are various claims and litigation, which the Company is involved with, arising out of the ordinary course of business operations. The Company's management does not consider the exposure to such litigation to be material, although this cannot be predicted with certainty.

Other Matters

Asset-Backed Commercial Paper

As of January 29, 2011, the Company included in other assets \$30.0 million (May 1, 2010 - \$30.0 million) of third-party ABCP against which the Company estimates the fair value to be \$22.8 million (May 1, 2010 - \$21.2 million), approximately 76 percent (May 1, 2010 - 71 percent) of the face value. On January 21, 2009, the Company derecognized the existing held to maturity assets and received restructured ABCP MAV II notes: A1 - \$7.8 million, A2 - \$17.5 million, B - \$3.2 million, C - \$0.9 million and \$0.6 million of tracking notes (the "restructured notes") as designated in the Montreal Accord as well as accrued interest. The A1 and A2 notes received an A rating from DBRS. The remaining notes have not yet been rated. The restructured notes are floating rate notes with expected payouts in January 2017.

On September 21, 2010, DBRS upgraded the A1 notes from A to A (high). On August 11, 2009, DBRS downgraded the A2 notes from A to BBB (low) under a negative watch. The negative watch was removed on February 9, 2010. The downgrade did not have a material change in the fair value of the notes. Continuing uncertainties regarding the value of assets which underlie the ABCP, the amount and timing of cash flows and the outcome of the restructuring process could give rise to a further material change in the value of the Company's investment in ABCP which could impact the Company's future earnings. The Company believes it has sufficient credit facilities to satisfy its financial obligations as they come due and does not expect there will be a material adverse impact on its business as a result of this current third party ABCP liquidity issue.

The Company has classified these notes as held for trading and as a result the notes are fair valued at each reporting period. During fiscal 2010, the Company received \$0.6 million of interest and recorded a \$3.4 million pre-tax gain. With no active market for ABCP, the Company has estimated fair value of the restructured notes using estimated cash flow scenarios and risk adjusted discount rates, and a pre-tax gain of \$1.6 million was recorded in the quarter ended January 29, 2011. As well, interest of \$0.1 million was received during fiscal 2011. Discount rates vary depending upon the credit rating of the restructured long-term floating rate notes. Discount rates have been estimated using Government of Canada benchmark rates plus expected spreads for similarly rated instruments with similar maturities and structure. The Company has performed a sensitivity analysis on estimated discount rates used in the fair value analysis and determined that a change of one percent would result in a pre-tax change in the fair value of these investments of approximately \$1.3 million (May 1, 2010 - \$1.6 million).

Employee Future Benefit Obligations

For the 13 and 39 weeks ended January 29, 2011, the Company contributed \$1.6 million and \$4.5 million, respectively (2010 - \$1.0 million and \$3.1 million) to its registered defined benefit plans. The Company expects to contribute approximately \$6.1 million in total during fiscal 2011 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 or on the SEDAR website for Canadian regulatory filings at www.sedar.com.

Dated: March 8, 2011
Stellarton, Nova Scotia, Canada

About Empire

Empire Company Limited (TSX: EMP.A) is a Canadian company headquartered in Stellarton, Nova Scotia. Empire's core businesses include food retailing and related real estate. With over \$15 billion in annual revenue and approximately \$6.4 billion in assets, Empire and its related companies employ approximately 90,000 people, including franchisees and affiliates.

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Vice President, Treasury & Investor Relations
E-mail: investor.relations@empireco.ca

Communication regarding investor records including changes of address or ownership, lost certificates or tax forms, should be directed to the Company's transfer agent and registrar, CIBC Mellon Trust Company.

AFFILIATED COMPANY WEB ADDRESSES

www.sobeys.com
www.empiretheatres.com

STOCK EXCHANGE LISTING

The Toronto Stock Exchange

STOCK SYMBOLS

Non-Voting Class A shares – EMP.A
Preferred shares: Series 2 – EMP.PR.B

AVERAGE DAILY TRADING VOLUME (TSX:EMP.A)

68,088

DIVIDEND RECORD AND PAYMENT DATES FOR FISCAL 2011

<u>Record Date</u>	<u>Payment Date</u>
July 15, 2010	July 30, 2010
October 15, 2010	October 29, 2010
January 14, 2011	January 31, 2011
April 15, 2011	April 29, 2011

OUTSTANDING SHARES

As of March 8, 2011

Non-Voting Class A shares	33,687,747
Class B common shares, voting	34,260,763

TRANSFER AGENT

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

BANKERS

Bank of Montreal
Bank of Nova Scotia
Bank of Tokyo-Mitsubishi
Canadian Imperial Bank of Commerce
National Bank of Canada
Rabobank
Royal Bank of Canada
TD Bank Financial Group

SOLICITORS

Stewart McKelvey
Halifax, Nova Scotia

AUDITORS

Grant Thornton, LLP
New Glasgow, Nova Scotia

MULTIPLE MAILINGS

If you have more than one account, you may receive a separate mailing for each. If this occurs, please contact CIBC Mellon Trust Company at (800) 387-0825 to eliminate the multiple mailings.



Sustainability @ Sobeys

We are committed to promoting the well-being of our customers, communities and company without compromising the ability of future generations to prosper on the precious planet that sustains us. To learn more about what we are doing to minimize the impact of our operations on the environment, please visit us at:

<http://www.sobeyscorporate.com/sustainability>