EMPIRE

Expanding Value

Empire Company Limited

First Quarter Report Fiscal 2007

Q1

Thirteen Weeks Ended August 5, 2006

Quarterly Report to Shareholders

Empire is a diversified Canadian company headquartered in Stellarton, Nova Scotia. Empire's key businesses are food retailing (through a 71.6% ownership interest of Sobeys Inc. ("Sobeys")), real estate (through two wholly-owned operating subsidiaries: Sobey Leased Properties Limited ("SLP"), and ECL Properties Limited ("ECL"), including a 35.7% ownership of Genstar Development Partnership ("Genstar") and a 48.3% ownership interest in Crombie Real Estate Investment Trust ("Crombie REIT"); and corporate investment activities and other operations which includes wholly-owned Empire Theatres Limited ("Empire Theatres") and a 27.6% ownership position in the Wajax Income Fund ("Wajax"). With approximately $5.2 billion in assets, Empire employs approximately 37,000 people directly and through its subsidiaries.

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

The Company provided additional details concerning its first quarter results on a conference call held on Wednesday, September 13, 2006. 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, results of operations, performance and business prospects and opportunities. Forward-looking statements are typically identified by words or phrases such as "anticipates", "expects", "believes", "estimates", "intends" and other similar expressions. These statements are based on management's assumptions and beliefs in light of the information currently available to them. These forward-looking statements are subject to inherent uncertainties, risks and other factors that could cause actual results to differ materially from such statements. These uncertainties and risks are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including those in the Risk Management section of the annual MD&A included in the Company's 2006 Annual Report. When relying on forward-looking statements to make decisions, the Company cautions readers not to place undue reliance on these statements, as a number of important factors could cause actual results to differ materially from any estimates or intentions expressed in such forward-looking statements. 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.

Letter to Shareholders

On September 13, 2006, Empire announced earnings before capital gain and other items for its first quarter ended August 5, 2006 of $53.3 million ($0.81 per share) compared to $49.6 million ($0.75 per share) in the first quarter last year.

The Company did not realize any capital gain and other items, net of tax, in the first quarter as compared to capital gain and other items, net of tax, realized on the sale of investments of $24.2 million in the first quarter last year. Net earnings amounted to $53.3 million versus $73.8 million in the first quarter last year.

First Quarter Highlights

- *Revenue of $3.37 billion, up $42.4 million or 1.3 percent over the first quarter last year (up 3.1 percent when adjusted for the sale of the food division's Cash and Carry operations in the fourth quarter last year).*
- *Earnings before capital gain and other items of $53.3 million, up $3.7 million or 7.5 percent over the first quarter last year.*
- *Earnings per share before capital gain and other items, net of tax of $0.81, an improvement of 6 cents or 8.0 percent compared to the $0.75 per share recorded in the first quarter last year.*
- *Net earnings of $53.3 million ($0.81 per share) versus $73.8 million ($1.12 per share) last year. Prior year earnings included $24.2 million of capital gain and other items, net of tax, on investment sales, equivalent to $0.37 per share.*

Financial Overview

Consolidated revenue for the first quarter was $3.37 billion compared to $3.33 billion last year, an increase of $42.4 million or 1.3 percent. Sales growth was 3.1 percent after adjusting for the impact of the sale of the food division's Cash and Carry business in Ontario and Quebec in the fourth quarter of last fiscal year.

The food division generated sales of $3.31 billion, an increase of $36.0 million or 1.1 percent over the first quarter last year. Sobeys same-store sales (sales from food stores in the same locations in both reporting periods) increased by 2.8 percent. Sales growth was negatively impacted by $61.7 million relating to the disposition of Sobeys Cash and Carry business in Ontario and Quebec in the fourth quarter of last year.

The growth in food retail sales was driven by continued implementation of sales and merchandising initiatives across the country, coupled with an increase in retail selling square footage resulting from the development of new stores and an ongoing program to enlarge and renovate existing store assets.

During the first quarter, fifteen corporate and franchised stores were opened or relocated compared to three corporate and franchised stores opened or relocated during the first quarter of last year. An additional seven stores were expanded during the first quarter compared to three stores expanded during the first quarter last year. Thirteen stores were closed during the quarter consistent with the first quarter last year. There were fourteen stores rebannered in the first quarter of fiscal 2007 (including five Commisso's stores) compared to two stores rebannered in the first quarter last year.

At the end of the first quarter Sobeys' square footage totalled 25.5 million, a 2.4 percent increase over the first quarter last year.

Real estate division revenue (net of inter-segment) equalled $23.4 million, a decrease of $17.1 million over the $40.5 million recorded in the first quarter last year. Commercial property revenue declined $24.3 million over the first quarter last year. This revenue decline was expected given the sale of 44 commercial properties to Crombie REIT in the fourth quarter of last year. At the end of the first quarter, through wholly-owned ECL Properties Limited, Empire Company maintained a 48.3 percent ownership position in Crombie REIT which is equity accounted.

Revenue from residential operations, through a 35.7 percent interest in Genstar Development Partnership ("Genstar"), equalled $13.7 million in the first quarter compared to $6.5 million last year, a $7.2 million increase. Genstar continued to benefit from strong housing markets in Western Canada.

Investments and other operations recorded revenues of $44.3 million in the first quarter versus $20.8 million in the first quarter last year. The $23.5 million increase was primarily the result of the acquisition of 28 movie-theatres by wholly-owned Empire Theatres in the second quarter of the last fiscal year.

Consolidated operating income (earnings before minority interest, income taxes, capital gain and other items and interest expense) in the first quarter totalled $121.2 million, an increase of $1.1 million or 0.9 percent compared to the $120.1 million reported in the first quarter last year.

The food division contributed operating income of $88.3 million, an increase of $4.6 million or 5.5 percent from the first quarter last year. First quarter operating margin, which is operating income divided by revenue, was 2.67 percent compared to 2.56 percent in the first quarter last year. Included in the first quarter fiscal 2007 operating income was a $4.8 million increase in food division depreciation and amortization expense, reflecting Sobeys continued capital investments. Also included in food division operating income are $7.3 million ($3.8 million in the first quarter of fiscal 2006), respectively, of costs related to the business process and system initiative as outlined in the Company's Management Discussion and Analysis section included in the 2006 Annual Report.

The real estate division contributed operating income of $25.4 million, a decrease of $4.4 million from the $29.8 million recorded in the first quarter last year. Operating income generated from commercial properties declined $9.7 million while operating income from residential operations increased $5.3 million from the first quarter last year. The decline in commercial property operating income primarily reflects the sale of 44 commercial properties to Crombie REIT in the fourth quarter of last fiscal year. The increase in residential operating income is attributed to the growth in revenues from higher lot sales, primarily in Western Canada.

Investments and other operations' operating income, net of corporate expenses, equalled $7.5 million compared to $6.6 million in the first quarter last year. The increase was largely the result of increased equity earnings from Empire's 27.6 percent ownership position in Wajax Income Fund.

Interest expense decreased $6.7 million, to $14.3 million from $21.0 million in the first quarter last year, largely as a result of a $7.0 million decline in interest expense on long-term debt. Consolidated long-term debt, including the current portion, declined $174.1 million from the first quarter last year, primarily due to the sale of 44 commercial properties to Crombie REIT in the fourth quarter of last fiscal year.

There were no capital gain and other items recorded in the first quarter compared to a capital gain and other items, net of tax, of $24.2 million in the first quarter last year as a result of the sale of 2.875 million units of Wajax Income Fund.

Consolidated net earnings, including capital gain and other items, net of tax, totalled $53.3 million ($0.81 per share) versus $73.8 million ($1.12 per share) in the first quarter last year.

Consolidated Financial Condition

The consolidated financial condition of the Company showed continued strength. The ratio of funded debt to total capital at the end of the first quarter equalled 32.5 percent versus 40.0 percent at the end of the first quarter last year. Operating income provided 8.5 times coverage of interest expense in the first quarter.

At August 5, 2006, Empire's investment portfolio, including its 27.6 percent interest in Wajax Income Fund (TSX: WJX.UN) and its 48.3 percent interest in Crombie REIT (TSX: CRR.UN), carried a market value of $840.2 million on a cost base of $531.4 million, resulting in an unrealized gain of $308.8 million. This compares to an unrealized gain of $306.8 million at the beginning of the fiscal year and an unrealized gain of $122.0 million at the end of the first quarter last fiscal year.

The total return on the investment portfolio, excluding the investment in Crombie REIT, for the twelve-month period ended June 30, 2006 was 20.9 percent as compared to an 19.6 percent return for the S&P/TSX Composite Index and a negative 1.2 percent return for the S&P 500 Index (in Canadian dollars) over the same time period.

The purchase of property, equipment and other assets in the first quarter equalled $127.6 million as compared to $86.8 million in the same quarter last year. Investment in food division property and equipment and other assets accounted for $117.1 million of the total capital investment in the first quarter. Capital expenditures for the real estate division and other operations in the first quarter equalled $3.6 million and $6.9 million respectively.

During the first quarter Empire purchased a total of 938,250 common shares of Sobeys for a total consideration of $36.5 million, resulting in an ownership interest at the end of the first quarter of 71.6 percent. This increased ownership position, due to the timing of the purchases, had a minimal impact on total earnings for Empire in the first quarter.

Dividend Declaration

The Board of Directors declared a quarterly dividend of $0.15 per share on both the Non-Voting Class A shares and the Class B common shares that will be payable on October 31, 2006 to shareholders of record on October 13, 2006. In addition, the Board declared regular dividends on the Company's outstanding preferred shares.

Subsequent Event

On August 7, 2006 Sobeys entered into an agreement to purchase substantially all of the food distribution assets of Achille de la Chevrotière Ltée and its associated companies ("ADL"). The assets to be acquired include 25 retail store operations, other wholesale supply agreements and distribution facilities in Rouyn-Noranda, Quebec. The transaction was completed on August 28, 2006 at a purchase price of approximately $80 million.

Paul D. Sobey
President & Chief Executive Officer

September 13, 2006

EMPIRE COMPANY LIMITED
CONSOLIDATED BALANCE SHEETS
(In millions)

	August 5 2006 Unaudited	May 6 2006 Audited	August 6 2005 Unaudited
ASSETS			
Current			
Cash and cash equivalents	**$ 319.2**	$ 341.1	$ 249.6
Receivables	**278.5**	275.4	271.4
Income taxes receivable	**-**	-	28.8
Inventories	**717.4**	694.3	676.2
Prepaid expenses	**58.1**	51.5	61.9
	1,373.2	1,362.3	1,287.9
Investments, at cost (quoted market value $405.3; May 6, 2006 $398.9; August 6, 2005 $357.9)	**374.2**	359.9	300.8
Investments, at equity (realizable value $434.9; May 6, 2006 $425.3; August 6, 2005 $112.7)	**157.2**	157.5	47.8
Property and equipment	**2,216.7**	2,143.6	2,456.3
Assets held for sale	**22.9**	23.1	9.8
Other assets (Note 4)	**266.5**	273.3	214.8
Goodwill	**741.4**	731.8	684.2
	$ 5,152.1	$ 5,051.5	$ 5,001.6
LIABILITIES			
Current			
Bank indebtedness	**$ 154.2**	$ 98.6	$ 202.8
Accounts payable and accrued liabilities	**1,264.1**	1,241.8	1,161.0
Income taxes payable	**39.2**	35.8	-
Future income taxes	**46.1**	46.1	52.4
Long-term debt due within one year	**104.9**	95.4	247.2
Liabilities relating to assets held for sale	**7.0**	7.1	-
	1,615.5	1,524.8	1,663.4
Long-term debt	**687.4**	707.3	719.2
Long-term lease obligation	**21.0**	20.8	12.5
Other liabilities (Note 5)	**18.6**	18.9	3.1
Employee future benefits obligation	**98.6**	97.3	95.3
Future income taxes	**130.6**	131.8	162.7
Minority interest	**573.5**	585.4	572.2
	3,145.2	3,086.3	3,228.4
SHAREHOLDERS' EQUITY			
Capital stock (Note 6)	**195.4**	195.1	194.9
Contributed surplus	**0.2**	0.2	-
Retained earnings	**1,812.7**	1,771.0	1,579.5
Cumulative translation adjustment	**(1.4)**	(1.1)	(1.2)
	2,006.9	1,965.2	1,773.2
	$ 5,152.1	$ 5,051.5	$ 5,001.6

Contingent liabilities (Note 15)

See accompanying notes to the unaudited interim period consolidated financial statements.

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

	August 5 2006	August 6 2005
Balance, beginning of period	**$ 1,771.0**	$ 1,515.5
Net earnings	**53.3**	73.8
	1,824.3	1,589.3
Dividends		
Preferred shares	**(0.1)**	(0.1)
Common shares	**(9.9)**	(9.0)
	(10.0)	(9.1)
Premium on common shares purchased for cancellation	**(1.6)**	(0.7)
Balance, end of period	**$ 1,812.7**	$ 1,579.5

See accompanying notes to the unaudited interim period consolidated financial statements.

EMPIRE COMPANY LIMITED
CONSOLIDATED STATEMENTS OF EARNINGS
13 WEEKS ENDED
(Unaudited, in millions, except per share amounts)

	August 5 2006	August 6 2005 Restated (Note 1)
Revenue	**$ 3,373.8**	$ 3,331.4
Operating expenses		
Cost of sales, selling and administrative expenses	**3,206.2**	3,167.2
Depreciation and amortization	**57.7**	52.9
	109.9	111.3
Investment income (Note 7)	**11.3**	8.8
Operating income	**121.2**	120.1
Interest expense		
Long-term debt	**12.9**	19.9
Short-term debt	**1.4**	1.1
	14.3	21.0
	106.9	99.1
Capital gain and other items (Note 8)	**-**	26.3
Earnings before income taxes and minority interest	**106.9**	125.4
Income taxes		
Current	**36.9**	31.9
Future	**(1.2)**	3.9
	35.7	35.8
Earnings before minority interest	**71.2**	89.6
Minority interest	**17.9**	15.8
Net earnings	**$ 53.3**	$ 73.8
Earnings per share (Note 3)		
Basic	**$ 0.81**	$ 1.12
Diluted	**$ 0.81**	$ 1.12
Weighted average number of common shares outstanding, in millions		
Basic	**65.5**	65.5
Diluted	**65.7**	65.7

See accompanying notes to the unaudited interim period consolidated financial statements.

EMPIRE COMPANY LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
13 WEEKS ENDED
(Unaudited, in millions)

Operating Activities	**August 5 2006**	August 6 2005
Net earnings	**$ 53.3**	$ 73.8
Items not affecting cash (Note 9)	**79.3**	50.3
Preferred dividends	**(0.1)**	(0.1)
	132.5	124.0
Net change in non-cash working capital	**(7.3)**	(61.7)
Cash flows from operating activities	**125.2**	62.3
Investing Activities		
Net increase in investments	**(12.8)**	(25.7)
Net proceeds from sale of Wajax Income Fund	**-**	50.5
Purchase of shares in subsidiary, Sobeys Inc.	**(36.5)**	-
Purchase of property, equipment and other assets	**(127.6)**	(86.8)
Proceeds from sale of other property	**3.6**	4.7
Business acquisitions, net of cash acquired	**(5.5)**	-
Cash flows used in investing activities	**(178.8)**	(57.3)
Financing Activities		
Increase (decrease) in bank indebtedness	**55.6**	(16.6)
Increase in construction loans	**2.4**	0.7
Issue of long-term debt	**0.6**	8.6
Repayment of long-term debt	**(15.7)**	(23.9)
Minority interest	**(0.3)**	3.1
Issue of Non-Voting Class A shares	**0.9**	0.8
Repurchase of Non-Voting Class A shares for cancellation	**(1.9)**	(0.8)
Common dividends	**(9.9)**	(9.0)
Cash flows from (used in) financing activities	**31.7**	(37.1)
Decrease in cash and cash equivalents	**(21.9)**	(32.1)
Cash and cash equivalents, beginning of period	**341.1**	281.7
Cash and cash equivalents, end of period	**$ 319.2**	$ 249.6

See accompanying notes to the unaudited interim period consolidated financial statements.

EMPIRE COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 5, 2006
(Unaudited, in millions, except per share amounts)

1. Summary of Significant Accounting Policies

Interim financial statements

The unaudited interim period consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). These interim consolidated financial statements do not include all of the disclosures included in the Company's annual consolidated financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended May 6, 2006, as set out in the 2006 Annual Report.

Generally accepted accounting principles

The accounting policies used in the preparation of these interim consolidated financial statements conform with those used in the Company's 2006 annual consolidated financial statements. Selected changes in accounting policies adopted in fiscal 2007 and those changes adopted in 2006 are noted below:

a) Vendor consideration

During the first quarter of fiscal 2007, the Company implemented, on a retroactive basis, Emerging Issues Committee Abstract ("EIC") 156, "Accounting by a Vendor for Consideration Given to a Customer (including a Reseller of the Vendor's Products)". This abstract requires a vendor to generally record cash consideration given to a customer as a reduction to the selling price of the vendor's products or services and reflect it as a reduction of revenue when recognized in the statement of earnings.

Prior to the implementation of EIC-156, the Company recorded certain sales incentives paid to independent franchisees, associates and independent accounts in cost of sales, selling and administrative expenses on the statement of earnings. Accordingly, the implementation of EIC-156 on a retroactive basis, resulted in a reduction in both sales and cost of sales, selling and administrative expenses of $35.5 for the first quarter of fiscal 2007 and $30.3 for the first quarter of fiscal 2006. As reclassifications, these changes did not impact net earnings or earnings per share.

b) Vendor allowances

During the first quarter of fiscal 2006, the Company adopted the amendment to EIC-144 issued in January 2005. The amendment requires disclosure of the amount of any vendor allowances that have been recognized in income but for which the full requirements for entitlement have not yet been met (see Note 13).

Inventories

Warehouse inventories are valued at the lower of cost and net realizable value with cost being determined substantially on a first-in, first-out ("FIFO") basis. Retail inventories are valued at the lower of cost and net realizable value. Cost is determined using FIFO or the retail method. The retail method uses the anticipated selling price less normal profit margins, substantially on an average cost basis. Real estate inventory of residential properties is carried at the lower of cost and net realizable value.

1. Summary of Significant Accounting Policies (continued)

Portfolio investments

Portfolio investments are accounted for under the cost method. Investment income is recognized on an accrual basis. Portfolio investments are written down when the inherent loss is determined to be other than temporary. Gains and losses on sale of investments are recorded in earnings as realized.

Revenue recognition

Food sales are recognized at the point-of-sale. Sales include revenues from customers through corporate stores operated by the Company and consolidated VIEs, and revenue from sales to non-VIE franchised stores, affiliated stores and independent accounts. Revenue received from non-VIE franchised stores, affiliated stores and independent accounts is mainly derived from the sale of product. The Company also collects franchise fees under two types of arrangements. Franchise fees contractually due based on the dollar value of product shipped are recorded as revenue when the product is shipped. Franchise fees contractually due based on the franchisee's retail sales are recorded as revenue weekly upon invoicing based on the franchisee's retail sales. Real estate revenue is recognized in accordance with the lease agreements with tenants on a straight-line basis.

Pension benefit plans and other benefit plans

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

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

The impact of changes in plan amendments is amortized on a straight-line basis over the expected average remaining service life ("EARSL") of active members. For pension benefit plans, the actuarial gains and losses and the impact of changes in the actuarial basis in excess of 10 percent of the greater of the projected benefit obligation and the market value of assets are amortized on a straight-line basis over the EARSL of the active members. For other benefit plans, actuarial gains and losses are recognized immediately. For the Company's Supplemental Executive Retirement Plan, the impact of changes in the plan provisions are amortized over 5 years.

EMPIRE COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 5, 2006
(Unaudited, in millions, except per share amounts)

1. Summary of Significant Accounting Policies (continued)

Use of estimates

The preparation of consolidated financial statements, in conformity with Canadian GAAP, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results could differ from those estimates.

2. Sale of Wajax Income Fund

On June 6, 2005, the shareholders of Wajax Limited, an equity accounted investment, approved a Plan of Arrangement to convert into Wajax Income Fund ("Wajax"). The Company owned approximately 45% of the outstanding shares of Wajax Limited (on a fully diluted basis). The Plan of Arrangement was completed on June 15, 2005 with the Company receiving one unit of Wajax for each Wajax Limited share held. Through a secondary offering on June 21, 2005, the Company sold a total of 2.5 million Wajax units for net proceeds of approximately $44.0. On June 29, 2005, the underwriter exercised their over-allotment option to purchase 375,000 Wajax units at $19.25 per unit, resulting in additional net proceeds of $6.8. This reduced the Company's ownership percentage to approximately 27.6%. Details of the sale are as follows:

Net proceeds	$ 50.5
Book value	21.1
	29.4
Equity share of income fund conversion-related items	3.1
Capital gain before income taxes	26.3
Income taxes	2.1
Net capital gain	$ 24.2

In the fourth quarter of fiscal 2006, the Capital gain before income taxes was adjusted to $25.6 and the Net capital gain was adjusted to $23.5.

3. Earnings Per Share

Earnings per share amounts are calculated by dividing the earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated using the treasury method and assumes that all the outstanding stock options were exercised and share purchase loans were repaid at the beginning of the period.

(Unaudited, in millions, except per share amounts)

3. Earnings Per Share (continued)

Earnings applicable to common shares is comprised of the following:

	2006 *(13 weeks)*	2005 *(13 weeks)*
Operating earnings	**$ 53.3**	$ 49.6
Capital gain and other items, net of tax of $-; $2.1	**-**	24.2
Net earnings	**53.3**	73.8
Preferred share dividends	**(0.1)**	(0.1)
Earnings applicable to common shares	**$ 53.2**	$ 73.7

Earnings per share is comprised of the following:

Operating earnings	**$ 0.81**	$ 0.75
Capital gain and other items	**-**	0.37
Basic earnings per share	**$ 0.81**	$ 1.12
Operating earnings	**$ 0.81**	$ 0.75
Capital gain and other items	**-**	0.37
Diluted earnings per share	**$ 0.81**	$ 1.12

4. Other Assets

	August 5 2006	May 6 2006	August 6 2005
Loans and mortgages receivable	**$ 70.4**	$ 68.4	$ 50.4
Deferred costs	**166.4**	177.7	143.5
Intangibles (less accumulated amortization of $8.4; May 6, 2006 $7.6; August 6, 2005 $3.1)	**29.7**	27.2	20.9
	$ 266.5	$ 273.3	$ 214.8

5. Other Liabilities

	August 5 2006	May 6 2006	August 6 2005
Deferred revenue	**$ 3.2**	$ 3.3	$ 3.1
Deferred hedge gain	**10.2**	10.2	-
Above market leases from acquisitions	**4.8**	5.0	-
Asset retirement obligations	**0.4**	0.4	-
	$ 18.6	$ 18.9	$ 3.1

EMPIRE COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 5, 2006
(Unaudited, in millions, except per share amounts)

6. Capital Stock

During the period, under a normal course issuer bid which expired on July 27, 2006, the Company purchased for cancellation 46,047 (2005 - 20,254) Non-Voting Class A shares. The purchase price was $1.9 of which $1.6 of the purchase price (representing the premium on common shares purchased for cancellation) was charged to retained earnings. During the period 30,792 (2005 - 20,254) Non-Voting Class A shares were issued under the Company's stock option and share purchase plans to certain officers and employees for $0.9 (2005 - $0.8). Loans receivable from officers and employees of $4.9 (May 6, 2006 - $4.6; August 6, 2005 - $4.8) under the Company's share purchase plan are classified as a reduction of Shareholders' Equity.

7. Investment Income

	2006 *(13 weeks)*	2005 *(13 weeks)*
Dividend and interest income	**$ 2.4**	$ 2.1
Share of earnings of entities accounted using the equity method	**8.9**	6.7
	$ 11.3	$ 8.8

8. Capital Gain and Other Items

	2006 *(13 weeks)*	2005 *(13 weeks)*
Gain on sale of Wajax Income Fund (Note 2)	**$ -**	$ 26.3

9. Supplementary Cash Flow Information

a) Items not affecting cash	**2006** *(13 weeks)*	2005 *(13 weeks)*
Depreciation and amortization	**$ 57.7**	$ 52.9
Future income taxes	**(1.2)**	3.9
Amortization of deferred items	**7.4**	9.0
Equity in earnings of other entities, net of dividends received	**(1.5)**	(3.5)
Minority interest	**15.2**	13.2
Stock-based compensation	**0.2**	0.1
Long-term lease obligation	**0.2**	0.2
Employee future benefits obligation	**1.3**	0.8
Gain on sale of Wajax Income Fund	**-**	(26.3)
	$ 79.3	$ 50.3

b) Other cash flow information

Net interest paid	**$ 8.4**	$ 13.0
Net income taxes paid	**$ 30.9**	$ 47.2

EMPIRE COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 5, 2006
(Unaudited, in millions, except per share amounts)

10. Segmented Information

	2006 (13 weeks)	2005 (13 weeks) Restated (Note 1)
Revenue		
Food	**$ 3,306.1**	$ 3,270.1
Real estate		
Commercial	**9.7**	34.0
Inter-segment	**8.2**	13.3
Residential	**13.7**	6.5
	31.6	53.8
Investment and other operations	**44.3**	20.8
	3,382.0	3,344.7
Elimination	**(8.2)**	(13.3)
	$ 3,373.8	$ 3,331.4

Operating Income	**2006 (13 weeks)**	2005 (13 weeks)
Food	**$ 88.3**	$ 83.7
Real estate		
Commercial	**11.8**	21.5
Residential	**13.6**	8.3
Investment and other operations	**10.0**	9.0
Corporate expenses	**(2.5)**	(2.4)
	$ 121.2	$ 120.1

Identifiable assets	**August 5 2006**	May 6 2006	August 6 2005
Food	**$ 3,172.8**	$ 3,119.5	$ 2,885.2
Goodwill	**701.3**	691.7	680.4
	3,874.1	3,811.2	3,565.6
Real estate	**642.3**	634.7	1,022.6
Investment and other operations (including goodwill of $40.1; May 6, 2006 $40.1; August 6, 2005 $3.8)	**635.7**	605.6	413.4
	$ 5,152.1	$ 5,051.5	$ 5,001.6

Capital expenditure	**2006 (13 weeks)**	2005 (13 weeks)
Food	**$ 117.1**	$ 77.4
Real estate	**3.6**	5.3
Investment and other operations	**6.9**	4.1
	$ 127.6	$ 86.8

11. Employee Future Benefits

During the Company's first quarter, the net employee future benefits expense was $6.1 (2005 - $6.0). 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.

12. Business Acquisitions

During the first quarter, the Company increased its ownership interest in Sobeys Inc. (a subsidiary of the Company) from 70.3% to 71.6% by way of purchase of shares on the open market. The acquisition was accounted using the purchase method with operating results being included in the consolidated financial statements from the date of each share acquisition. The cash consideration paid was $36.5, goodwill increased by $9.9 and minority interest decreased by $26.6.

During the Company's first quarter, Sobeys Inc. acquired franchisee stores and prescription files as part of its normal course of operations for total cash consideration of $8.7. The acquisitions were accounted using the purchase method with net identifiable assets recorded at $8.6 (including intangible assets of $3.5) and goodwill recorded at $0.1.

13. Vendor Allowances

The Company receives allowances from certain vendors, whose products are purchased for resale. Included in these vendor programs are allowances for volume purchases, exclusivity allowances, listing fees and other allowances. Certain allowances from vendors are contingent on the Company achieving minimum purchase levels. The Company recognizes these allowances in income in accordance with EIC-144 when it is probable that the minimum purchase level will be met, and the amount of allowance can be estimated. As of the first quarter of fiscal 2007, the Company has recognized $1.7 (2005 - $1.1) of allowances in income where it is probable that the minimum purchase level will be met and the amount of allowance can be estimated.

14. Variable Interest Entities

Variable interest entities are defined under Accounting Guideline ("AcG")15, "Consolidation of Variable Interest Entities", as entities that do not have sufficient equity at risk to finance their activities without additional subordinated financial support, or where the equity holders lack the overall characteristics of a controlling financial interest. The guideline requires that the VIE be consolidated with the financial results of the entity deemed to be the primary beneficiary of the VIE's expected losses and its expected residual returns.

The Company has identified the following entities as VIEs:

<u>Franchise Affiliates</u>
The Company has identified 261 (May 6, 2006 - 273) franchise affiliate stores whose franchise agreements result in the Company being deemed the primary beneficiary of the entity according to AcG-15. The results for these entities were consolidated with the results of the Company.

14. Variable Interest Entities (continued)

Warehouse and Distribution Agreement
The Company has an agreement with an independent entity to provide warehouse and distribution services for one of its distribution centres. The terms of the agreement with this entity require the Company to consolidate its results with those of the Company pursuant to AcG-15.

The Company has consolidated the results of these franchise affiliates and the entity providing warehouse and distribution services effective at the fourth quarter of fiscal 2005.

15. Contingent Liabilities

On June 21, 2005, Sobeys Inc. received a notice of reassessment from Canada Revenue Agency ("CRA") for fiscal years 1999 and 2000 related to the Goods and Service Tax ("GST"). CRA asserts that Sobeys Inc. was obliged to collect GST on sales of tobacco products to status Indians. The total tax, interest and penalties in the reassessment was $13.6. Sobeys Inc. 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 Inc. filed a Notice of Objection with CRA. Accordingly, the Company has not recorded in its statement of earnings any of the tax, interest or penalties in the notice of reassessment. Sobeys Inc. 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.

On January 19, 2006, E.C.L. Investments Limited (a subsidiary of the Company) received a notice from CRA that it is proposing a reassessment for fiscal year 2001 related to the disposition of its shares in Hannaford Bros. Co. The Company has signed a waiver that effectively postpones the issuance of the reassessment. On August 8, 2006, ECL Subsidiary Limited and E.C.L. (Ontario) Holdings Limited (subsidiaries of the Company) received notices from CRA that it is proposing reassessments for fiscal year 2002 related to the disposition of their shares in Delhaize America Inc. Due to the complexity of these matters, it is not possible to determine the amounts that may ultimately be assessed against the Company. Management believes that it has recorded adequate accruals in relation to these matters. Any settlement in excess of these accruals will be charged to earnings.

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

16. Related Party Transactions

On August 3, 2006, the Company entered into agreements to sell two commercial properties to Crombie REIT, an equity accounted investment. The expected proceeds of $31.9 approximate fair market value in management's opinion. The transaction is expected to close in the second quarter of fiscal 2007.

17. Subsequent Event

On August 7, 2006, Sobeys Inc. entered into an agreement to purchase substantially all of the food distribution assets of Achille de la Chevrotiere Ltee and its associated companies ("ADL"). The assets to be acquired include 25 retail store operations, other wholesale supply agreements and distribution facilities in Rouyn-Noranda, Quebec. The transaction was completed on August 28, 2006 at a purchase price of approximately $80.0.

18. Comparative Figures

Comparative figures have been reclassified, where necessary, to reflect the current period's presentation and to record the effects of retroactive application of certain new accounting standards.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FIRST QUARTER FISCAL 2007

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 thirteen weeks ended August 5, 2006, as compared to the thirteen weeks ended August 6, 2005. This discussion and analysis should be read in conjunction with the Company's unaudited interim period consolidated financial statements and accompanying notes for the thirteen weeks ended August 5, 2006, the audited annual consolidated financial statements and accompanying notes for the 52 weeks ended May 6, 2006, and the related annual MD&A as contained on pages 25 through 64 of Empire's 2006 Annual Report. Information about the Company, including the Annual Report and Annual Information Form, can be found on SEDAR at www.sedar.com.

The 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 consolidated financial statements include the accounts of Empire and its subsidiaries and variable interest entities ("VIEs") which the Company is required to consolidate. Included in the Company's 2006 Annual Report, on page 92, is a glossary of terms used throughout this MD&A. The information contained in this MD&A is current to September 13, 2006, unless otherwise noted.

This discussion contains forward-looking statements which reflect management's expectations regarding the Company's objectives, plans, goals, strategies, future growth, results of operations, performance and business prospects and opportunities. These forward-looking statements include expectations regarding tobacco sales declines, as well as, expectations about a possible slow down in the Western Canada housing market. Also included in these forward looking expectations is management's opinion that equity markets will continue to be superior to fixed income or money market investment returns over the long-term. If this opinion is incorrect Empire could experience declining investment returns. Forward-looking statements are typically identified by words or phrases such as "anticipates", "expects", "believes", "estimates", "intends" and other similar expressions. These statements are based on management's assumptions and beliefs in light of the information currently available to them. These forward-looking statements are subject to inherent uncertainties, risks and other factors that could cause actual results to differ materially from such statements. These uncertainties and risks are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including those in the Risk Management section of the annual MD&A included in the Company's 2006 Annual Report.

When relying on forward-looking statements to make decisions, the Company cautions readers not to place undue reliance on these statements, as a number of important factors could cause actual results to differ materially from any estimates or intentions expressed in such forward-looking statements. 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.

There are measures included in this MD&A that do not have a standardized meaning under Canadian GAAP. Management includes these measures because it believes certain investors use these measures as a means of assessing relative financial performance. Additional information relating to non-GAAP financial measures is provided at the end of this document.

Overview of the Business

Empire is a diversified Canadian company headquartered in Stellarton, Nova Scotia. Empire's key businesses are food retailing through a 71.6 percent ownership interest in Sobeys Inc. ("Sobeys"), real estate through two wholly-owned operating subsidiaries: Sobey Leased Properties Limited ("SLP"), and ECL Properties Limited ("ECL") (formerly Crombie Properties Limited), which includes a 35.7 percent ownership interest in Genstar Development Partnership ("Genstar") and a 48.3 percent ownership interest in Crombie Real Estate Investment Trust ("Crombie REIT"); and corporate investment activities and other operations which includes wholly-owned Empire Theatres Limited ("Empire Theatres") and a 27.6 percent ownership position in Wajax Income Fund ("Wajax"). With approximately $5.2 billion in assets, Empire employs approximately 37,000 people directly and through its subsidiaries.

Consolidated Operating Results

The consolidated financial overview provided below reports on the financial performance in the first quarter of fiscal 2007 relative to the first quarter last year.

($ in millions, except per share information)	**13 Weeks Ended August 5, 2006** $	**% of Revenue**	13 Weeks Ended August 6, 2005 $	% of Revenue
Revenue				
Food	**$ 3,306.1**	**97.99%**	$ 3,270.1	98.16%
Real estate, net of inter-segment	**23.4**	**0.70**	40.5	1.22
Investments and other operations	**44.3**	**1.31**	20.8	0.62
Consolidated revenue	**$ 3,373.8**	**100.00%**	$ 3,331.4	100.00%
Operating income				
Food	**$ 88.3**		$ 83.7	
Real estate	**25.4**		29.8	
Investments and other operations	**7.5**		6.6	
Consolidated operating income	**121.2**	**3.59%**	120.1	3.60%
Interest expense	**14.3**	**0.42**	21.0	0.63
Income taxes (from operating activities)	**35.7**	**1.06**	33.7	1.01
Minority interest	**17.9**	**0.53**	15.8	0.47
Operating earnings	**53.3**	**1.58%**	49.6	1.49
Capital gain and other items, net of tax	**-**	**-**	24.2	0.73
Net earnings	**$ 53.3**	**1.58%**	$ 73.8	2.22%
Cash flows from operating activities	**$ 125.2**	**3.71%**	$ 62.3	1.87%
Total assets	**$ 5,152.1**		$ 5,001.6	
Total long-term liabilities	**$ 1,529.7**		$ 1,565.0	
Basic earnings per share				
Operating earnings	**$ 0.81**		$ 0.75	
Capital gain and other items, net of tax	**-**		0.37	
Net earnings	**$ 0.81**		$ 1.12	
Basic weighted average number of shares outstanding (in millions)	**65.5**		65.5	
Diluted earnings per share				
Operating earnings	**$ 0.81**		$ 0.75	
Capital gain and other items, net of tax	**-**		0.37	
Net earnings	**$ 0.81**		$ 1.12	
Diluted weighted average number of shares outstanding (in millions)	**65.7**		65.7	
Dividends per share	**$ 0.15**		$ 0.14	

Management's Explanation of Consolidated Results

The following is a review of Empire's consolidated financial performance for the 13-week period ended August 5, 2006 compared to the 13-week period ended August 6, 2005.

The 13 weeks ended August 6, 2005 has been restated to reflect the retroactive adjustment related to EIC-156. Please see the section entitled "Accounting for Consideration by a Vendor to a Customer (Including a Reseller of the Vendor's Products) ("EIC-156")" in this MD&A.

Consolidated operating earnings growth of 7.5 percent over the first quarter last year reflects sales growth and merchandising and productivity initiatives in our food retail business, continued strength in our residential real estate operations as well as higher investment income and lower interest expense. Revenue and financial performance of each of the Company's businesses (food, real estate, and investments and other operations) are discussed in detail in the section entitled "Operating Performance by Division" in this MD&A.

Revenue

First quarter fiscal 2007 revenue reached $3.37 billion compared to $3.33 billion for the same quarter last year, an increase of $42.4 million or 1.3 percent over the first quarter last year.

For the first quarter ended August 5, 2006, the food division contributed revenue of $3.31 billion versus $3.27 billion in the first quarter last year, an increase of $36.0 million or 1.1 percent. During the first quarter of fiscal 2007, the food division reported same-store sales growth (sales from stores in the same locations in both reporting periods) of 2.8 percent.

Real estate revenue (net of inter-segment elimination) declined 42.2 percent in the first quarter primarily as a result of the sale of 44 properties to Crombie REIT in the fourth quarter of fiscal 2006. Other operations reported a revenue increase of 113.0 percent, primarily generated by Empire Theatres. Revenue growth at Empire Theatres was primarily the result of the acquisition of the 28 movie theatres in the second quarter of fiscal 2006.

Operating Income

Consolidated operating income in the first quarter of fiscal 2007 totalled $121.2 million compared to $120.1 million in the first quarter last year, an increase of $1.1 million or 0.9 percent. The increase is the result of a $4.6 million or 5.5 percent increase in operating income contribution from the food division and a $0.9 million or 13.6 percent increase in operating income from investments and other operations partially offset by a real estate division decrease of $4.4 million or 14.8 percent in operating income contribution. The change in operating income for each division is explained in the section which follows, entitled "Operating Performance by Division".

Interest Expense

The $6.7 million decrease in the first quarter of fiscal 2007 consolidated interest expense compared to the same quarter last year is primarily due to a $7.0 million reduction in interest expense connected to long-term debt. For the first quarter ended August 5, 2006, long-term debt was $174.1 million lower than the same quarter last year. The decrease is primarily related to the removal of long-term debt as a result of the sale of 44 commercial properties to Crombie REIT in March 2006.

The majority of the Company's debt is long-term in nature carrying fixed interest rates, accordingly there is limited exposure to interest rate volatility. The Company is exposed to interest rate risk when arranging new debt.

Income Tax Expense

The effective income tax rate for the first quarter was 33.4 percent versus 34.0 percent in quarter one of fiscal 2006.

Minority Interest

In the first quarter of fiscal 2007, Empire recorded minority interest expense of $17.9 million compared to $15.8 million in the first quarter last year. The increase in minority interest expense is primarily the result of higher Sobeys earnings and minority interest offset by an increase in Empire's ownership in Sobeys from 68.4 percent at August 6, 2005, to 71.6 percent at August 5, 2006. Empire purchased 938,250 common shares of Sobeys in the first quarter of fiscal 2007 and 1,308,800 common shares in the fourth quarter of fiscal 2006 resulting in the increase in ownership; no shares were purchased in the first quarter of fiscal 2006.

Operating Earnings

The $3.7 million or 7.5 percent improvement in operating earnings (earnings before capital gain and other items, net of tax) over the prior year was the result of the $1.1 million increase in operating income and the $6.7 million reduction in interest expense partially offset by the $2.0 million increase in income tax expense and the $2.1 million increase in minority interest as previously discussed.

Capital Gain

There was no capital gain or loss generated by the Company during the first quarter of fiscal 2007. A capital gain and other items, net of tax of $24.2 million was generated in the first quarter of fiscal 2006 as a result of the sale of 2.875 million units of Wajax.

Net Earnings

The decrease in net earnings of $20.5 million or 27.8 percent is attributed to the $24.2 million decrease in realized capital gain and other items, net of tax, offset by the $3.7 million increase in operating earnings as discussed.

Quarterly Results of Operations

The following table is a summary of selected financial information from the Company's unaudited interim period consolidated financial statements for each of the eight most recently completed quarters. The consolidation of VIEs results in higher sales and lower margins as a percent of sales due to the addition of the VIE retail sales. The Company began consolidating VIEs in the fourth quarter of fiscal 2005 and prior quarters have not been restated. The second and third quarter of fiscal 2005 do not include the impact of consolidating VIEs.

($ in millions, except per share information)

	Fiscal 2007	Fiscal 2006 (1)				Fiscal 2005 (1)		
	Q1 (13 weeks) Aug. 5/06	Q4 (13 weeks) May 6/06	Q3 (13 weeks) Feb. 4/06	Q2 (13 weeks) Nov. 5/05	Q1 (13 weeks) Aug. 6/05	Q4 (14 weeks) May 7/05	Q3 (13 weeks) Jan. 29/05	Q2 (13 weeks) Oct. 30/04
Revenue	$3,373.8	$3,212.6	$3,228.5	$3,253.4	$3,331.4	$3,321.0	$2,942.7	$2,989.9
Operating income	121.2	130.9	118.3	122.1	120.1	124.0	113.3	111.6
Operating earnings (2)	53.3	56.9	47.7	47.8	49.6	49.3	46.2	43.0
Capital gain (loss) and other items, net of tax	-	61.5	8.3	0.8	24.2	5.5	1.4	(3.0)
Net earnings	$ 53.3	$ 118.4	$ 56.0	$ 48.6	$ 73.8	$ 54.8	$ 47.6	$ 40.0
Diluted earnings per share								
Operating earnings	$ 0.81	$ 0.87	$ 0.72	$ 0.73	$ 0.75	$ 0.75	$ 0.70	$ 0.66
Capital gain (loss) and other items, net of tax	-	0.93	0.13	0.01	0.37	0.08	0.02	(0.05)
Net earnings	$ 0.81	$ 1.80	$ 0.85	$ 0.74	$ 1.12	$ 0.83	$ 0.72	$ 0.61
Diluted weighted average number of shares outstanding (in millions)	65.7	65.7	65.7	65.7	65.7	65.7	65.8	65.8

(1) All quarters previous to the first quarter of fiscal 2007 have been restated to reflect the retroactive adjustment related to EIC-156. Please see the section entitled "EIC-156" in this MD&A.

(2) Operating earnings is net earnings before capital gain (loss) and other items, net of tax.

Sales and operating earnings growth have been influenced by the Company's investing activities, the competitive environment, general industry trends and by other risk factors as outlined in the fiscal 2006 annual MD&A.

Operating Performance by Division

Food

Empire's food division is carried out through its controlling ownership position in Sobeys.

Sobeys conducts business through approximately 1,300 retail grocery stores (corporately owned and franchised) which operate in four retail regions: Sobeys West, Sobeys Ontario, Sobeys Quebec, and Sobeys Atlantic. Empire's ownership interest in Sobeys equalled 71.6 percent at the end of the first quarter fiscal 2007, compared to a 70.3 percent ownership interest at the end of fiscal 2006 and 68.4 percent ownership interest at the end of the first quarter of fiscal 2006.

Sales

Food division sales for the first quarter of fiscal 2007 were $3.31 billion compared to $3.27 billion for the same quarter last year, an increase of $36.0 million or 1.1 percent. During the first quarter of fiscal 2007 Sobeys' same-store sales (sales from stores in the same locations in both reporting periods) increased by 2.8 percent.

Sales growth in the first quarter of fiscal 2007 was driven by Sobeys' continued implementation of sales and merchandising initiatives across the country, coupled with the increased retail selling square footage resulting from the development of new stores and an ongoing program to enlarge and renovate existing store assets.

Sobeys continued to experience declines in its wholesale tobacco sales in the first quarter of fiscal 2007. Wholesale tobacco sales declined $25.4 million in the first quarter of fiscal 2007 compared to the first quarter of the prior year. Sobeys' sales growth was also negatively impacted by the disposition on March 31, 2006 of its Cash and Carry business in Ontario and Quebec. Ontario and Quebec Cash and Carry sales in the first quarter last year were $61.7 million. As shown in the table below, excluding the impact of the wholesale tobacco decline and the Cash and Carry disposition, sales growth would have been 3.8 percent.

($ in millions)	August 5, 2006	August 6, 2005	Growth (Decline) Over Previous Quarter	
Sobeys' financially reported sales	$ 3,306.1	$ 3,270.1	$ 36.0	1.1%
Impact of Cash and Carry disposal			61.7	
Impact of wholesale tobacco decline			25.4	
			$ 123.1	3.8%

Early in the first quarter of fiscal 2007 a major Canadian tobacco supplier announced that it will sell and distribute directly to certain customers of Sobeys in September 2006. This is expected to reduce sales on an annual basis by approximately $300.0 million. Margins on tobacco sales are significantly lower than on other products therefore the loss of these sales will not have a material impact on earnings. Sobeys is currently exploring options to mitigate the financial impact of this decision.

Operating Income

Sobeys' operating income increased to $88.3 million during the first quarter of fiscal 2007, a 5.5 percent increase from the first quarter last year. Operating income margin in the first quarter equalled 2.67 percent compared to 2.56 percent in the first quarter of fiscal 2006. Included in the first quarter fiscal 2007 operating income was a $4.8 million increase in depreciation and amortization expense ($51.2 million in the current quarter compared to $46.4 million for the same quarter last year), reflecting Sobeys' continued capital investments. Also, included in Sobeys' operating income are $7.3 million ($3.8 million in fiscal 2006) of costs related to the business process and system initiative. Adjusting for the business process and system initiative costs, Sobeys' operating income would total $95.6 million representing an operating income margin of 2.89 percent, a 21 basis point or 9.3 percent improvement over the prior year.

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

Net Earnings

Sobeys' first quarter fiscal 2007 net earnings equalled $49.9 million, an increase of 3.5 percent compared to the $48.2 million recorded in the first quarter of fiscal 2006. Net earnings for the 13-week period ended August 5, 2006 included the increased depreciation and amortization expense and the business process and system initiative costs referred to above and in the Company's 2006 Annual Report.

Real Estate

Empire's real estate operations are focused on the management of its existing commercial property portfolio, the development of commercial properties, primarily in Ontario and Western Canada, and residential lot sales through Genstar.

Commercial real estate operations are conducted through ECL and SLP, while residential land development is primarily conducted through Genstar, which operates principally in high growth communities in Ontario and Western Canada.

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

	First Quarter Ended		
($ in millions)	August 5, 2006	August 6, 2005	% Change
Revenue			
Commercial	$ 17.9	$ 47.3	(62.2%)
Residential	13.7	6.5	110.8%
	31.6	53.8	(41.3%)
Inter-segment	(8.2)	(13.3)	(38.3%)
	$ 23.4	$ 40.5	(42.2%)
Operating income			
Commercial	$ 11.8	$ 21.5	(45.1%)
Residential	13.6	8.3	63.9%
	$ 25.4	$ 29.8	(14.8%)
Net earnings			
Commercial	$ 4.9	$ 6.0	(18.3%)
Residential	8.4	5.7	47.4%
	$ 13.3	$ 11.7	13.7%
Funds from operations			
Commercial	$ 6.8	$ 10.6	(35.8%)
Residential	8.5	5.9	44.1%
	$ 15.3	$ 16.5	(7.3%)

Revenue

Real estate division revenue (net of inter-segment amounts) during the first quarter ended August 5, 2006 declined $17.1 million or 42.2 percent from the first quarter last year largely as a result of a decline in commercial property revenue from the sale of 44 commercial properties to Crombie REIT in the fourth quarter last year. The revenue from these 44 properties equalled $29.2 million in the first quarter last year. This decrease was partially offset by an increase in residential revenue over the first quarter last year of $7.2 million, as a result of strong lot sales experienced in Genstar's key Canadian markets during the quarter. Management continues to caution that the pace of growth experienced in residential lot sales is not sustainable over the long-term.

Operating Income

During the first quarter of fiscal 2007, real estate division operating income declined $4.4 million or 14.8 percent compared to the first quarter last year as the result of a $5.3 million increase in residential operating income more than offset by a $9.7 million decline in commercial operations operating income. The growth in residential operating income is attributed to the continued strong housing market, particularly in Calgary and Edmonton, Alberta markets. The commercial operating income decline is primarily attributed to the sale of 44 commercial properties to Crombie REIT in March 2006. The real estate division contributed 20.9 percent of Empire's first quarter fiscal 2007 consolidated operating income compared to a 24.8 percent contribution in the first quarter last year.

Net Earnings

Real estate division net earnings contribution in the first quarter amounted to $13.3 million compared to $11.7 million last year, a $1.6 million or 13.7 percent increase. The earnings increase largely reflects the $4.4 million reduction in operating income as discussed, more than offset by a $5.9 million reduction in interest expense due to lower long-term debt levels and lower income tax expense of $0.1 million.

Funds from Operations

Funds from operations in the first quarter of $15.3 million decreased $1.2 million or 7.3 percent compared to last year as a result of lower operating earnings. Trailing (last four quarters) funds from operations for the real estate division was $75.3 million, up 13.1 percent from the prior four quarter trailing funds from operations of $66.6 million.

Investments and Other Operations

The third component of Empire's business is its investments and other operations, consisting of an investment portfolio of common equity investments and other operations which is primarily wholly-owned Empire Theatres.

Investment Value

At the end of the first quarter, Empire's total investments, excluding its investment in Genstar U.S. investments and in Crombie REIT, carried a market value of $613.0 million on a cost base of $408.7 million, resulting in an unrealized gain of $204.3 million. There were no realized capital gains during the first quarter of fiscal 2007 compared to a $26.3 million capital gain in the first quarter last year. The total unrealized gain position at the end of fiscal 2006 was $214.3 million. The unrealized gain at the end of the first quarter last year was $130.3 million.

At August 5, 2006, Empire's investment portfolio (excluding cash) consisted of:

(Canadian $ in millions)	Market Value	% of Total	Cost	Unrealized Gain (Loss)
Canadian equities	$ 233.2	38.0%	$ 170.5	$ 62.7
Wajax	195.0	31.8	34.5	160.5
US equities	170.6	27.8	202.2	(31.6)
Preferred shares & other	1.5	0.3	1.5	-
Hedge value (1)	12.7	2.1	-	12.7
Total	$ 613.0	100.0%	$ 408.7	$ 204.3

(1) The hedge value of $12.7 includes a deferred foreign gain of $10.2 million.

Empire's direct debt matched to the investment portfolio as of August 5, 2006 was $122.6 million Canadian, equivalent to 20.0 percent of the investment portfolio market value, including the hedge value. Management considers a ratio of debt to investment value of no greater than 35 percent as prudent.

Revenue

Investments and other operations' revenue, primarily generated by Empire Theatres, equalled $44.3 million in the first quarter ended August 5, 2006 versus $20.8 million in the first quarter last year. Revenue growth at Empire Theatres was primarily the result of the acquisition of the 28 movie-theatres in the second quarter of fiscal 2006.

Investment Return

The table below presents the return performance for Empire's investments relative to Canadian and U.S. equity benchmark return for the three months ended June 30, 2006, as well as on an annualized one-year, two-year, three-year and four-year basis for periods ended June 30, 2006.

Empire Investment Portfolio
Total Return
For Periods ending June 30, 2006

		Annualized Returns			
	One Quarter	One Year	Two Years	Three Years	Four Years
Empire Portfolio	(3.5%)	20.9%	27.5%	27.6%	19.9%
Median Manager	(4.5%)	14.2%	13.4%	16.4%	10.3%
S&P/TSX Index	(3.5%)	19.6%	18.8%	20.7%	15.1%
S&P 500 Index in (C$)	(5.8%)	(1.2%)	(2.0%)	4.2%	0.3%

Empire's investment return for the three months ended June 30, 2006 of negative 3.5 percent was consistent with the S&P/TSX Index return over the same time period. The total return on the Empire investment portfolio, as independently benchmarked against the performance of over 100 equity fund managers, has been ranked as first quartile investment return performance over one, two, three and four-year trailing periods ended June 30, 2006.

Despite the volatility in equity markets, management continues to believe that equity market returns will be superior over the long-term to either fixed income or money market investment returns. Management remains committed to prudently managing a high quality, liquid portfolio of common equities.

Hedging Investment Currency Risk

At August 5, 2006, Empire had hedged approximately 89 percent of the market value of its U.S. based common equity investments by way of $151.0 million of forward currency contracts. The average foreign exchange rate associated with these U.S. forward currency contracts is $1.14269. The fair value of the hedge was $2.5 million at the end of the first quarter ended August 5, 2006, as a result of the foreign exchange rate equaling $1.127.

Investment Income

Investment income (excludes equity earnings from Crombie REIT and Genstar's U.S. investments) equalled $7.5 million in the first quarter, an increase of $1.4 million over the $6.1 million recorded in the first quarter last year. The increase is largely the result of equity earnings from Wajax being $1.1 million higher than the first quarter last year. Dividend income was also $0.3 million higher than the first quarter last year.

Corporate expenses, including depreciation, amounted to $2.5 million in the first quarter, consistent with the first quarter last year.

Operating Earnings

Investments (net of corporate expenses) and other operations' operating earnings equalled $4.9 million in the first quarter, a decrease of $0.1 million or 2.0 percent from the first quarter last year.

Capital Gain and Other Items

There were no capital gain and other items during the first quarter ended August 5, 2006, compared to a capital gain and other items (net of tax) of $24.2 million realized in the previous fiscal year. The capital gain was the result of the sale of 2.875 million units of Wajax as previously mentioned.

Net Earnings

Investments (net of corporate expenses) and other operations contributed $4.9 million to Empire's consolidated first quarter net earnings (9.2 percent of Empire's consolidated net earnings). This compares to a $29.2 million net earnings contribution in the first quarter last year (39.6 percent of Empire's consolidated net earnings). The decrease is primarily the result of a higher realized capital gain during the first quarter last year.

Financial Condition

Capital Structure and Key Financial Condition Measures

The Company's financial condition at the end of the first quarter showed continued strength as indicated by the capital structure and key financial condition measures in the table below.

($ in millions, except per share and ratio calculations)	**August 5, 2006**	May 6, 2006	August 6, 2005
Shareholders' equity	**$ 2,006.9**	$ 1,965.2	$ 1,773.2
Book value per share	**30.41**	29.77	26.85
Minority interest	**573.5**	585.4	572.2
Bank indebtedness	**154.2**	98.6	202.8
Long-term debt, including current portion (1)	**813.3**	823.5	978.9
Funded debt to total capital	**32.5%**	31.9%	40.0%
Net debt to capital ratio (2)	**24.4%**	22.8%	34.5%
Debt to EBITDA	**1.40x**	1.35x	1.82x
Interest coverage	**8.48x**	5.86x	5.72x
Total assets	**$ 5,152.1**	$ 5,051.5	$ 5,001.6

(1) Includes long-term lease obligations.
(2) Net debt to total capital reduces funded debt by cash and cash equivalents.

Shareholders Equity

Book value per common share was $30.41 at August 5, 2006, compared to $29.77 at May 6, 2006 and $26.85 at August 6, 2005.

Total common shares outstanding at August 5, 2006 equalled 65,720,555, relatively unchanged from the previous fiscal year-end (May 6, 2006) and August 6, 2005. There were 31,159,792 Non-Voting Class A shares outstanding and 34,560,763 Class B common shares outstanding at August 5, 2006.

At August 5, 2006, Empire had 15,255 options outstanding with an expiry date of October 2006. There were 12,419 options exercised during the first quarter of fiscal 2007.

During the first quarter ended August 5, 2006, Empire repurchased enough Class A Non-Voting shares to offset the dilutive effect of shares issued to fulfill the Company's obligation under its stock option and share purchase plans. The number of Class A Non-Voting shares repurchased for cancellation equalled 46,047 in the first quarter.

Dividends paid to common shareholders amounted to $9.9 million in the first quarter ($0.15 per share) versus $9.0 million ($0.14 per share) in the first quarter last year.

Liabilities

Empire finances a significant portion of its assets through the use of bank indebtedness and long-term debt. Total fixed rate, long-term debt (including the current portion of long-term debt) at August 5, 2006 was $587.0 million, representing 60.7 percent of Empire's total funded debt of $967.5 million. Funded debt has increased $45.4 million since the end of the fiscal year, May 6, 2006 ($922.1 million) but declined $214.2 million from $1,181.7 million the first quarter last year. The significant decline over the first quarter last year is primarily the result of the removal of indebtedness connected to the 44 properties sold to Crombie REIT in March 2006.

The majority of Empire's funded debt is long-term in nature and is segmented by division as follows:

($ in millions)	**August 5, 2006**	May 6, 2006	August 6, 2005
Food	**$ 499.5**	$ 510.8	$ 473.3
Real estate	**255.0**	253.9	501.5
Investments and other operations	**58.8**	58.8	4.1
Total	**$ 813.3**	$ 823.5	$ 978.9

Empire predominately finances its long-term assets with fixed rate, long-term debt, thereby reducing both interest rate and refinancing risk.

Interest coverage in the first quarter was 8.5 times, improved from the 5.9 times reported for the fiscal year ended May 6, 2006 and the 5.7 times recorded for the first quarter last year. The improved interest coverage over the first quarter last year was the result of reduced interest expense and higher operating income as discussed.

Since fiscal year-end, the consolidated funded debt to total capital ratio has increased 0.6 percentage points as a result of higher debt levels. The net debt (debt less cash and cash equivalents) to total capital ratio increased 1.6 percentage points over the same time period.

Empire and its subsidiaries have provided covenants to its lenders in support of various financing facilities. All covenants were complied with in the first quarter of fiscal 2007 and in fiscal 2006.

Financial Instruments

Empire utilizes interest rate instruments from time to time to prudently manage its exposure to interest rate volatility and also to fix future long-term debt maturities which are expected to be refinanced. At August 5, 2006, there were no interest rate hedges in place by Empire directly or with any of its operating companies.

To mitigate the currency risk associated with the Company's U.S. dollar investments, including its investment in Genstar – U.S. investments, Empire has entered into and designated $163.0 million of forward currency contracts to act as a hedge against the effect of a stronger Canadian dollar relative to the U.S. dollar. The fair value of these currency forwards at August 5, 2006 was $2.5 million. Approximately 89 percent of the market value of U.S. dollar common equities in the Empire investment portfolio are hedged at an average foreign exchange rate of $1.14269. These forward exchange contracts have variable maturities over the next year and are anticipated to be extended at maturity. Empire and its subsidiaries utilize hedging instruments as deemed appropriate to mitigate risk exposure, not for speculative purposes.

Liquidity and Capital Resources

Empire's liquidity remained strong at August 5, 2006 as a result of the following sources of liquidity:

- Cash and cash equivalents on hand;
- Unutilized bank credit facilities;
- Availability of long-term debt financing;
- Empire's portfolio of liquid investments; and
- Cash generated from operating activities.

The Company anticipates that these sources of liquidity will be sufficient to meet expected cash outflows over the next year.

At August 5, 2006, cash and cash equivalents were $319.2 million versus $249.6 million at August 6, 2005 and $341.1 million at fiscal year-end, May 6, 2006.

On a non-consolidated basis, Empire maintains authorized bank lines for operating, general and corporate purposes of $325.0 million, of which 37.7 percent was utilized at August 5, 2006. On a consolidated basis, Empire's authorized bank credit facilities exceeded borrowings by $589.4 million at August 5, 2006, versus $626.4 million at May 6, 2006.

The table below highlights major cash flow components for the thirteen weeks ended August 5, 2006 compared to the thirteen weeks ended August 6, 2005.

Major Cash Flow Components:

($ in millions)	13 Weeks Ended **August 5, 2006**	August 6, 2005
Earnings for common shareholders	**$ 53.2**	$ 73.7
Items not affecting cash	**79.3**	50.3
	132.5	124.0
Net change in non-cash working capital	**(7.3)**	(61.7)
Cash flows from operating activities	**125.2**	62.3
Cash flows used in investing activities	**(178.8)**	(57.3)
Cash flows from (used in) financing activities	**31.7**	(37.1)
Decrease in cash and cash equivalents	**$ (21.9)**	$ (32.1)

Operating Activities

First quarter cash flows from operating activities equalled $125.2 million compared to $62.3 million in the comparable period last year. The increase of $62.9 million is largely attributed to a decrease in the change in non-cash working capital of $54.4 million, and an increase in items not affecting cash of $29.0 million partially offset by decreased net earnings of $20.5 million as discussed.

The following table presents non-cash working capital changes in the first quarter of fiscal 2007 compared to the first quarter of fiscal 2006.

Changes in Non-Cash Working Capital

($ in millions)	**Aug. 5, 2006**	May 6, 2006	Q1 Fiscal 2007 Increase (Decrease)	Q1 Fiscal 2006 Increase (Decrease)
Receivables	**$ 278.5**	$ 275.4	$ (3.1)	$ (13.6)
Inventories	**717.4**	694.3	(23.1)	(36.6)
Prepaid expenses	**58.1**	51.5	(6.6)	(9.6)
Accounts payable and accrued liabilities	**(1,264.1)**	(1,241.8)	22.3	11.9
Income taxes payable	**(39.2)**	(35.8)	3.4	(13.8)
Impact of business acquisitions on working capital	**0.2**	-	(0.2)	-
Total	**$ (249.1)**	$ (256.4)	$ (7.3)	$ (61.7)

In the first quarter inventories increased $23.1 million while accounts payable increased $22.3 million compared to year-end May 6, 2006. The increase in inventory was necessary to support Sobeys' higher sales volume due to the increased amount of square footage in its expanded store network. The account payable and accrued liabilities increase of $22.3 million reflects higher supplier payables and accrued liabilities as inventory levels and construction activities have increased.

In the first quarter of fiscal 2006, receivables increased $13.6 million and inventories increased $36.6 million. The increase in inventory was necessary to support Sobeys' higher sales volume in its expanded store network. Accounts payable and accrued liabilities increased by $11.9 million compared to May 7, 2005 and was attributed to higher trade payable and an increase in construction activities.

Investing Activities

Cash used in investing activities of $178.8 million in the first quarter was $121.5 million higher than in the first quarter of last fiscal year. The increase in cash used in investing activities was mainly the result of: (i) net proceeds from the sale of units of Wajax Income Fund last year of $50.5 million; (ii) higher purchases of property, equipment and other assets of $40.8 million; and (iii) cash used to purchase 938,250 common shares of Sobeys in the amount of $36.5 million.

Consolidated purchases of property, equipment and other assets totalled $127.6 million in the first quarter of fiscal 2007 compared to $86.8 million in the first quarter last year. The bulk of this capital spending was the result of Sobeys' commitment to growing and improving its store network.

Company-wide capital investment includes on-balance sheet capital expenditures, all known capital investments by franchise affiliates and capital investment by third-party landlords. Company-wide capital investment for Sobeys totalled $160.0 million for the first quarter of fiscal 2007, an increase of $36.0 million over the first quarter of the previous year. Sobeys remains committed to improving and growing its store network.

During the quarter, Sobeys opened or relocated fifteen corporate or franchised stores compared to three corporate and franchised stores opened or replaced during the first quarter of last year. An additional seven stores were expanded during the quarter (2006 – three). Thirteen stores were closed during the first quarter of fiscal 2007 consistent with the first quarter last year. There were fourteen stores rebannered in the first quarter of fiscal 2007 (including five Commisso's stores) compared to two stores in the same quarter last year.

Net retail store square footage increased during the first quarter by 117,989 square feet (129,854 square feet opened, 82,403 square feet for relocated stores, 12,000 square feet for acquired stores and 60,993 square feet for expanded stores less 153,730 square feet closed and 13,531 square feet redeveloped). At August 5, 2006, Sobeys' square footage totalled 25.5 million, a 2.4 percent increase over the first quarter last year.

Financing Activities

Financing activities during the first quarter generated $31.7 million of cash compared to $37.1 million of cash used in the comparable period of fiscal 2006. The Company increased its bank indebtedness by $55.6 million during the first quarter of fiscal 2007 compared to a reduction in bank indebtedness during the first quarter of last year of $16.6 million.

The Company's share capital was comprised of the following on August 5, 2006:

Authorized	Number of Shares
Preferred shares, par value of $25 each, issuable in a series	2,846,000
2002 Preferred shares par value $25 each, issuable in a series	992,000,000
Non-Voting Class A shares, without par value	259,108,445
Class B common shares, without par value, voting	40,800,000

Issued and Outstanding	Number of Shares
Preferred shares, Series 2 cumulative, redeemable, rate of 75% of prime	331,900
Non-Voting Class A shares	31,159,792
Class B common shares	34,560,763

The Company anticipates that its capital resources and liquidity position will meet its capital and liquidity requirements over the next year, including capital expenditures, dividends and planned debt reduction.

On July 25, 2006, Empire filed a Notice of Intention to make a Normal Course Issuer Bid with the Toronto Stock Exchange to purchase for cancellation up to 623,200 shares representing approximately 2.0 percent of the issued and outstanding Non-Voting Class A shares. The Board of Directors and Management of Empire believe that the repurchase of its shares at recent prevailing market prices is a worthwhile investment and in the best interests of the Company. The Normal Course Issuer Bid expires on July 27, 2007.

As at September 13, 2006 the Company had total Class A Non-Voting plus Class B Common shares outstanding of 65,735,810. Subsequent to the first quarter of fiscal 2007, the remaining 15,255 options were exercised and there are no longer any options outstanding.

Accounting Policy Changes

Accounting standards implemented during fiscal 2007 and 2006:

Accounting for Consideration by a Vendor to a Customer (Including a Reseller of the Vendor's Products) ("EIC-156")

Issued in September 2005, EIC-156 addresses cash consideration, including a sales incentive, given by a vendor to a customer. This consideration is presumed to be a reduction of the selling price of the vendor's products and should therefore be classified as a reduction of sales in the vendor's income statement. These recommendations are effective for all interim and annual financial statements for fiscal years beginning on or after January 1, 2006.

Prior to the implementation of EIC-156, Sobeys recorded certain sales incentives paid to independent franchisees, associates and independent accounts in cost of sales, selling and administrative expenses. As reclassifications, these changes did not impact net earnings.

Effective in the first quarter of fiscal 2007, sales figures were retroactively restated as required by EIC-156. The following is a summary of the restatement of selected consolidated financial statements for each of the eight most recently completed quarters.

	Fiscal 2007	Fiscal 2006				Fiscal 2005		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	(13 weeks)	(13 weeks)	(13 weeks)	(13 weeks)	(13 weeks)	(14 weeks)	(13 weeks)	(13 weeks)
($ in millions)	Aug. 5/06	May 6/06	Feb. 4/06	Nov. 5/05	Aug. 6/05	May 7/05	Jan. 29/05	Oct. 30/04
Sales as previously reported	$3,409.3	$3,249.4	$3,264.4	$3,285.6	$3,361.7	$3,360.2	$2,978.5	$3,022.8
Sales after reclassification	3,373.8	3,212.6	3,228.5	3,253.4	3,331.4	3,321.0	2,942.7	2,989.9
Reclassification between sales and cost of sales, selling and administration expenses	$ 35.5	$ 36.8	$ 35.9	$ 32.2	$ 30.3	$ 39.2	$ 35.8	$ 32.9

EIC-144, Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor

During fiscal 2006 the Company adopted the amendment to EIC-144 issued in January 2005. The amendment requires disclosure of the amount of vendor allowances that have been recognized in income but for which the full requirements for entitlement have not yet been met. Certain allowances from vendors are contingent on the Company achieving minimum purchase levels. In accordance with EIC-144, the Company recognizes these allowances in income when it is probable that the minimum purchase level will be met, and the amount of allowance can be estimated. As of the first quarter ended August 5, 2006 the Company has recognized $1.7 million (August 6, 2005 - $1.1 million) of allowances in income where it is probable that the minimum purchase level will be met and the amount of allowance can be estimated.

Accounting for Conditional Asset Retirement Obligations ("EIC-159")

This abstract provides guidance on when a conditional asset retirement obligation should be recognized in accordance with CICA 3110, Asset Retirement Obligations. The abstract was applied on a retroactive basis effective in the fourth quarter of fiscal 2006. The abstract requires an entity to recognize a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. A conditional asset retirement obligation refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement.

There was no effect on the Company of adopting this guideline and the Company will continue to monitor whether EIC-159 is applicable in the future.

Critical Accounting Estimates

Critical accounting estimates used by the Company's management are discussed in detail in the "Management's Discussion and Analysis" section of the 2006 Annual Report on pages 55 and 57.

Related Party Transactions

On August 3, 2006 the Company entered into agreements to sell two commercial properties to Crombie REIT, an equity accounted investment. The expected proceeds of $31.9 million approximate fair market value in management's opinion. The transaction is expected to close in the second quarter of fiscal 2007.

Contingencies

On June 21, 2005, Sobeys received a notice of reassessment from Canada Revenue Agency ("CRA") for the fiscal years 1999 and 2000 related to the Goods and Services Tax ("GST"). CRA asserts that Sobeys was obliged to collect GST on the sales of these tobacco products to status Indians. The total tax, interest and penalties in the proposed reassessment was $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 resolutions of the matter.

On January 19, 2006, E.C.L. Investments Limited (a subsidiary of the Company) received a notice from CRA that it is proposing a reassessment for fiscal year 2001 related to the disposition of its shares in Hannaford Bros. Co. The Company has signed a waiver that effectively postpones the issuance of the reassessment. On August 8, 2006, ECL Subsidiary Limited and E.C.L. (Ontario) Holdings Limited (subsidiaries of the Company) received notices from CRA that it is proposing reassessments for fiscal 2002 related to the disposition of their shares in Delhaize America Inc. Due to the complexity of these matters, it is not possible to determine the amounts that may ultimately be assessed against the Company. Management believes that it has recorded adequate accruals in relation to these matters. Any settlement in excess of these accruals will be charged to earnings.

The Company has entered into an agreement with Crombie REIT to fund certain property redevelopments and has issued and recorded a note payable to Crombie REIT in the amount of $39.6 million related thereto. The Company has agreed to pay for all additional costs and expenses required for the redevelopment of those properties. In the event that the redevelopment costs are less than $39.6 million, the savings will be paid to the Company.

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

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.

Subsequent Event

On August 7, 2006 Sobeys entered into an agreement to purchase substantially all of the food distribution assets of Achille de la Chevrotière Ltée and its associated companies ("ADL"). The assets to be acquired include 25 retail store operations, other wholesale supply agreements and distribution facilities in Rouyn-Noranda, Quebec. The transaction was completed on August 28, 2006 at a purchase price of approximately $80 million.

Contractual Obligations

Sobeys determined that its gross and net operating lease obligations previously disclosed in its fiscal 2006 annual MD&A were understated by approximately $20.0 million per year over the next seven years. The following table summarizes Empire's revised obligations as of May 6, 2006:

($ in millions)	2007	2008	2009	2010	2011	Thereafter
Gross operating leases	$ 253.6	$ 226.5	$ 204.3	$ 188.9	$ 170.3	$ 1,406.4
Net operating leases	$ 181.8	$ 162.2	$ 147.2	$ 137.9	$ 125.2	$ 1,114.5

Risk Management

Risk and uncertainties related to economic and industry factors and the Company's management of this risk are discussed in detail in the "Management's Discussion and Analysis" section of the Company's fiscal 2006 annual report on pages 58 to 62. These risks include changes in general economic conditions and interest rates and further changes to sales practices of tobacco companies.

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 publicly traded companies. The Company includes these measures because it believes certain investors use these measures as a means of assessing financial performance. Empire's definition of the non-GAAP terms are as follows:

- Operating income or EBIT is calculated as operating earnings before minority interest, interest expense and income taxes. EBITDA is calculated as operating income plus depreciation and intangible amortization.
- Operating earnings is calculated as net earnings before capital gain (loss) and other items.
- Funds from operations is calculated as operating earnings plus depreciation and amortization.
- Interest coverage is calculated as operating income divided by interest expense.
- Funded debt is all interest bearing debt, which includes bank loans, bankers' acceptances, long-term debt and long-term lease obligations.
- Net debt is calculated as funded debt less cash and cash equivalents.
- Total capital is calculated as funded debt plus shareholders' equity.
- Company-wide capital investment includes on-balance sheet capital expenditures, all known capital investments by franchise affiliates and capital investments by third-party landlords.
- Same-store sales are sales from stores in the same locations in both reporting periods.

The following table reconciles Empire's funded debt and total capital to GAAP measures reported in the unaudited interim period balance sheets as at August 5, 2006, May 6, 2006 and August 6, 2005, respectively:

($ in millions)	**August 5, 2006**	May 6, 2006	August 6, 2005
Bank indebtedness	**$ 154.2**	$ 98.6	$ 202.8
Long-term debt due within one year	**104.9**	95.4	247.2
Long-term debt	**687.4**	707.3	719.2
Long-term lease obligation	**21.0**	20.8	12.5
Funded debt	**967.5**	922.1	1,181.7
Total shareholders' equity	**2,006.9**	1,965.2	1,773.2
Total capital	**$ 2,974.4**	$ 2,887.3	$ 2,954.9

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

Dated: September 13, 2006
Stellarton, Nova Scotia, Canada

SHAREHOLDER AND INVESTOR INFORMATION

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INVESTOR RELATIONS AND INQUIRIES
Shareholders, analysts, and investors should direct their financial inquiries or requests to:
Stewart H. Mahoney, CFA
Vice President, Treasury and 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)
25,495

COMMON DIVIDEND RECORD AND PAYMENT DATES FOR FISCAL 2007

Record Date	Payment Date
July 15, 2006	July 31, 2006
October 13, 2006	October 31, 2006
January 15, 2007*	January 31, 2007*
April 13, 2007*	April 30, 2007*

* Subject to approval by the Board of Directors

OUTSTANDING SHARES
As of September 13, 2006:

Non-Voting Class A shares	31,175,047
Class B common shares, voting	34,560,763

TRANSFER AGENT
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AUDITORS
Grant Thornton, LLP
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MULTIPLE MAILINGS
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