

What we value

Empire Company Limited
First Quarter Report | Three Months Ended July 31, 2004

Quarterly Report to Shareholders

Empire is a diversified Canadian company headquartered in Stellarton, Nova Scotia. Empire's key businesses are retail food distribution (through 65.3% ownership of Sobeys Inc. ("Sobeys")), real estate (through two wholly-owned operating subsidiaries: Sobey Leased Properties Limited ("SLP"), and Crombie Properties Limited ("Crombie"), including 35.8% ownership of Genstar Development Partnership ("Genstar")), and corporate investment activities and other operations (which includes wholly-owned Empire Theatres Limited). With over \$4.6 billion in assets, Empire employs approximately 34,000 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) 928-1725. A copy has also been filed on SEDAR.

The Company provided additional details concerning its first quarter results on a conference call held on Thursday, September 9, 2004. Replay of the call is available on the Company's website (www.empireco.ca).

Forward-looking Statements

This quarterly report may include forward-looking statements that are subject to risks and uncertainties that may cause actual results or events to differ materially from the results or events predicted in this discussion. In addition to the risks outlined in our Risk Management section of our fiscal 2004 Annual Report, factors which could cause actual results or events to differ include, but are not limited to: the ability to execute on operating company strategic initiatives; the impact of competition; general economic conditions; interest rate and currency exchange rate fluctuations; conditions affecting the North American equity markets; conditions affecting the growth and development of our real estate property portfolio; the ability of our operating companies to attract and retain quality employees and franchises; the availability of capital and the associated cost of capital. As a result of these risk factors and others, no guarantee can be given that the results implied by any forward-looking statements will necessarily materialize.

Letter to Shareholders

On September 9, 2004, Empire Company Limited announced its financial results for the first quarter ended July 31, 2004.

First Quarter Highlights

- *Revenue of \$3.07 billion, up \$259 million or 9.2 percent over the first quarter last year.*
- *Earnings before net capital gain and other items of \$44.5 million, up \$4.9 million or 12.4 percent over the first quarter last year.*
- *Earnings per share (before net capital gain and other items) of \$0.67, an improvement of 7 cents or 11.7 percent compared to last year.*
- *Capital gain (loss) and other items, net of tax, of (\$0.2) million in the quarter versus \$2.7 million in the first quarter last year.*
- *Net earnings of \$44.3 million, up \$2.0 million from last year's \$42.3 million.*

Financial Overview

The Company announced operating earnings (earnings before net capital gain (loss) and other items) for its first quarter ended July 31, 2004, of \$44.5 million or \$0.67 per share compared to \$39.6 million or \$0.60 per share last year.

Net earnings amounted to \$44.3 million versus \$42.3 million in the first quarter last year. The Company realized a net capital loss on the sale of investments of \$0.2 million in the first quarter as compared to a net capital gain realized in the first quarter last year of \$2.7 million.

Financial Performance

Revenue for the first quarter was \$3.07 billion compared to \$2.81 billion last year, a 9.2 percent increase. The food division generated sales of \$3.01 billion, an increase of \$250.6 million or 9.1 percent over the first quarter last year. Sales grew in all operating regions. Same-store sales grew by 2.9 percent during the first quarter. During the first quarter, 14 new corporate and franchised stores were opened or replaced and another five stores were expanded. At July 31, 2004, Sobeys had 24.3 million square feet of retail space in operation, including all new and acquired stores, a 7.3 percent increase over the prior year.

Real estate operations reported revenues (net of inter-segment) of \$41.3 million, an increase of \$4.8 million or 13.2 percent over the first quarter last year. Commercial property revenues grew by \$3.0 million or 9.6 percent while revenue from residential operations, through a 35.8 percent interest in Genstar Development Partnership, grew by \$1.8 million or 33.3 percent. The growth in commercial property revenues reflects higher occupancy levels, generally higher rental renewal rates along with the positive impact of the acquisition of six properties in Ontario from Commisso's Properties Inc. at the start of the fourth quarter last fiscal year. The increase in residential revenue from our interest in Genstar reflects strong lot sales relative to last year.

Consolidated operating income (operating earnings before interest and income taxes) in the first quarter totalled \$114.9 million, an increase of \$6.9 million or 6.4 percent

compared to the first quarter last year. All operating businesses recorded increases in operating income relative to last year.

The food division contributed operating income of \$80.7 million, an increase of \$4.4 million or 5.8 percent over the first quarter last year. First quarter operating margin, which is operating income divided by revenue, declined to 2.68 percent from 2.76 percent in the same quarter last year. The primary contributor to this decline was an \$8.7 million or 26 percent increase in depreciation charges, primarily reflecting the food division's continued capital investment in retail stores and supporting infrastructure. Food division operating income in the first quarter of fiscal 2004 included residual costs associated with returning the Ontario distribution network to pre-strike levels following a labour disruption in the Whitby, Ontario distribution facility, which ended on May 5, 2003.

The real estate division contributed operating income of \$28.3 million, an increase of 16.0 percent over the \$24.4 million recorded in the first quarter last year. Operating income generated from commercial properties increased \$1.8 million or 8.9 percent over the first quarter last year. Operating income from residential operations increased \$2.1 million or 51.2 percent compared with the first quarter last year.

Trailing (last four quarters) funds from operations (net earnings plus depreciation) for the real estate division equalled \$61.0 million versus \$55.4 million for the prior twelve-month period.

Net capital gain (loss) and other items amounted to (\$0.2) million in the first quarter compared to \$2.7 million in the first quarter last year.

Consolidated net earnings, including net capital gain and other items, totalled \$44.3 million or \$0.67 per share versus \$42.3 million or \$0.64 per share last year.

Financial Condition

The financial condition of the Company continues to improve. The ratio of debt to capital at the end of the first quarter equalled 41.0 percent versus 41.7 percent at the beginning of the fiscal year. Operating income provided 5.2 times coverage of interest expense in the first quarter.

At July 31, 2004, Empire's investment portfolio had a market value of \$371.8 million on a cost base of \$316.6 million, resulting in an unrealized gain of \$55.2 million.

During the first quarter, the Company purchased 238,600 common shares of Sobeys Inc., which increased its ownership from 65.0 percent to 65.3 percent.

The purchase of property, equipment and other assets in the first quarter equalled \$75.8 million as compared to \$93.8 million in the same quarter last year. Investment in food distribution property and equipment, primarily related to new store development, accounted for \$42.1 million of total consolidated capital expenditures. Capital expenditures for the real estate division in the first quarter equalled \$14.9 million, reflecting fixed asset additions to existing commercial properties as well as land acquisitions for future commercial development.

Dividend Declaration

The Board of Directors declared a quarterly dividend of \$0.12 per share on both the Class A and Class B shares that will be payable on October 29, 2004, to shareholders of record on October 15, 2004. In addition, the Board declared regular dividends on the Company's outstanding preferred shares.

In conclusion, we are pleased with our start to fiscal 2005. Operating earnings growth of 12.4 percent over the first quarter last year reflects improved earnings performance from each of our operating businesses. The leadership teams of our food distribution, real estate and theatres companies continue to be focused on the successful execution of their respective business plans and, as such, management remains confident that the fundamentals for each of our operating businesses will continue to improve in fiscal 2005.

A handwritten signature in black ink, appearing to read "Paul D. Sobey". The signature is fluid and cursive, with a large loop at the end.

Paul D. Sobey
President & Chief Executive Officer

September 9, 2004

EMPIRE COMPANY LIMITED
CONSOLIDATED BALANCE SHEETS

(In millions)

	July 31 2004 Unaudited	April 30 2004 Audited	July 31 2003 Unaudited
ASSETS			
Current			
Cash and cash equivalents	\$ 137.1	\$ 202.2	\$ 253.4
Receivables	344.4	329.5	309.5
Income taxes receivable	12.1	-	-
Inventories	537.1	492.9	488.4
Prepaid expenses	49.0	49.3	53.5
Future income taxes	-	-	2.5
Discontinued operations	-	-	1.9
	<u>1,079.7</u>	<u>1,073.9</u>	<u>1,109.2</u>
Investments, at cost (quoted market value \$302.5 April 30, 2004 \$312.6; July 31, 2003 \$332.7)	268.1	278.0	351.0
Investments, at equity (realizable value \$84.6 April 30, 2004 \$92.4; July 31, 2003 \$39.9)	63.8	60.8	42.9
Current assets and marketable investments	<u>1,411.6</u>	<u>1,412.7</u>	<u>1,503.1</u>
Property and equipment	2,297.3	2,288.1	2,147.0
Other assets (Note 3)	324.8	324.0	274.0
Goodwill	662.0	656.9	591.5
	<u>\$ 4,695.7</u>	<u>\$ 4,681.7</u>	<u>\$ 4,515.6</u>
LIABILITIES			
Current			
Bank indebtedness	\$ 153.4	\$ 140.8	\$ 161.1
Accounts payable and accrued liabilities	1,121.4	1,141.2	1,018.8
Income taxes payable	-	10.6	2.0
Future income taxes	46.7	46.3	-
Long-term debt due within one year	71.9	81.5	187.9
	<u>1,393.4</u>	<u>1,420.4</u>	<u>1,369.8</u>
Long-term debt	896.6	903.9	914.5
Deferred revenue	5.6	6.6	5.8
Employee future benefit obligation	92.2	90.4	77.4
Future income taxes	140.9	137.6	168.7
Minority interest	554.9	546.0	514.8
	<u>3,083.6</u>	<u>3,104.9</u>	<u>3,051.0</u>
SHAREHOLDERS' EQUITY			
Capital stock (Note 4)	196.7	196.7	196.4
Retained earnings	1,415.8	1,380.7	1,267.8
Cumulative translation adjustment	(0.4)	(0.6)	0.4
	<u>1,612.1</u>	<u>1,576.8</u>	<u>1,464.6</u>
	<u>\$ 4,695.7</u>	<u>\$ 4,681.7</u>	<u>\$ 4,515.6</u>

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

EMPIRE COMPANY LIMITED
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
THREE MONTHS ENDED JULY 31
(Unaudited, in millions)

	<u>2004</u>	<u>2003</u>
Retained earnings, beginning of period	\$ 1,380.7	\$ 1,230.6
Net earnings	<u>44.3</u>	<u>42.3</u>
	<u>1,425.0</u>	<u>1,272.9</u>
Refundable taxes recovered	<u>-</u>	<u>1.6</u>
Dividends declared		
Preferred shares	0.1	0.1
Common shares	<u>7.9</u>	<u>6.6</u>
	<u>8.0</u>	<u>6.7</u>
Premium on common shares purchased for cancellation	<u>1.2</u>	<u>-</u>
Retained earnings, end of period	<u>\$ 1,415.8</u>	<u>\$ 1,267.8</u>

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

EMPIRE COMPANY LIMITED
CONSOLIDATED STATEMENTS OF EARNINGS
THREE MONTHS ENDED JULY 31

(Unaudited, in millions, except per share amounts)

	<u>2004</u>	<u>2003</u>
Revenue	\$ 3,073.7	\$ 2,814.7
Cost of sales, selling and administrative expenses	2,915.4	2,674.4
	158.3	140.3
Depreciation	47.8	38.4
Amortization of intangibles	0.2	-
	110.3	101.9
Investment income (Note 5)	4.6	6.1
Operating income	114.9	108.0
Interest expense		
Long-term debt	20.4	23.4
Short-term debt	1.5	0.6
	21.9	24.0
	93.0	84.0
Capital (loss) gain and other items (Note 6)	(0.3)	3.3
Earnings before income taxes and minority interest	92.7	87.3
Income taxes		
Current	28.5	37.7
Future	3.7	(7.6)
	32.2	30.1
Earnings before minority interest	60.5	57.2
Minority interest	16.2	14.9
Net earnings	\$ 44.3	\$ 42.3
Earnings per share, basic and diluted (Note 2)	\$ 0.67	\$ 0.64

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

EMPIRE COMPANY LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED JULY 31
(Unaudited, in millions)

	<u>2004</u>	<u>2003</u>
Operating		
Net earnings	\$ 44.3	\$ 42.3
Items not affecting cash (Note 7)	72.2	47.7
Preferred dividends	<u>(0.1)</u>	<u>(0.1)</u>
	116.4	89.9
Net change in non-cash working capital	<u>(94.6)</u>	<u>(47.4)</u>
Cash flows from operating activities	<u>21.8</u>	<u>42.5</u>
Investing		
Net decrease (increase) in investments	8.8	(5.3)
Purchase of shares in subsidiary, Sobeys Inc.	(7.4)	(61.1)
Purchase of property, equipment and other assets	(75.8)	(93.8)
Proceeds from sale of property	10.7	4.3
Business acquisitions, net of cash acquired	(12.2)	(0.3)
Cumulative translation adjustment	<u>0.2</u>	<u>(0.1)</u>
Cash flows used in investing activities	<u>(75.7)</u>	<u>(156.3)</u>
Financing		
Increase in bank indebtedness	12.6	61.8
Decrease in construction loans	(1.1)	(0.4)
Issue of long-term debt	7.7	10.2
Repayment of long-term debt	(23.5)	(19.4)
Minority interest	1.7	2.5
Issue of Non-Voting Class A shares	0.9	0.7
Purchase of Non-Voting Class A shares for cancellation	(1.6)	-
Common dividends	(7.9)	(6.6)
Refundable taxes	<u>-</u>	<u>1.6</u>
Cash flows (used in) from financing activities	<u>(11.2)</u>	<u>50.4</u>
Decrease in cash and cash equivalents	(65.1)	(63.4)
Cash and cash equivalents, beginning of period	<u>202.2</u>	<u>316.8</u>
Cash and cash equivalents, end of period	<u>\$ 137.1</u>	<u>\$ 253.4</u>

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

EMPIRE COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2004
(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. 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 April 30, 2004, as set out in the 2004 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 2004 annual consolidated financial statements except as noted below:

a) Sources of generally accepted accounting principles (GAAP)

During fiscal 2004, the Canadian Institute of Chartered Accountants (CICA) introduced handbook section 1100, "Generally accepted accounting principles", which deleted the reference to industry practice that had previously constituted a source for Canadian GAAP. The Company had been following industry practice with respect to depreciation and lease accounting. Section 1100 now requires the Company to recognize depreciation of real estate buildings, rental expense and income from tenant leases on a straight-line basis. During the current period, the Company has adopted this handbook section prospectively without restatement.

Depreciation

The sinking fund method was used to record depreciation of the real estate buildings, calculated as an amount which, compounded annually at the rate of 5%, would have fully amortized the cost of the buildings over their estimated useful lives ranging from 20 to 40 years. Effective May 1, 2004 the straight-line method is now used to record depreciation of the real estate buildings. Depreciation is determined with reference to each rental property's book value, its estimated useful life (not greater than 40 years) and its residual value. Adoption of the straight-line method has resulted in additional depreciation of \$0.3 during the period. An additional \$0.9 of depreciation expense will be recorded in the balance of the Company's current fiscal year as a result of adopting this policy.

Real estate leases

Rental expense was recognized in accordance with the lease agreements with landlords. Effective May 1, 2004 the Company has changed its policy to record real estate lease expense on a straight-line basis. Additional real estate lease expense of \$0.5 was recorded in the first quarter as a result of this policy change in the food distribution reporting segment. An additional \$1.5 of expense will be recorded in the balance of the fiscal year in the food distribution reporting segment as a result of the adoption of this policy. Real estate revenue was recognized in accordance with the lease agreements with tenants. The Company has changed its policy to record income from tenant leases on a straight-line basis in the real estate reporting segment. Adoption of this policy resulted in recognition of additional straight-line real estate revenue of \$0.6 during the period. An additional \$1.8 of revenue will be recorded in the remaining nine months of the ensuing fiscal year in this reporting segment as a result of the new policy.

b) Asset retirement obligations

During the current period, the CICA handbook section 3110, "Asset retirement obligations", was adopted. This section establishes standards for the recognition, measurement and disclosure of legal obligations associated with the costs to retire long-lived assets. A liability associated with the retirement of long-lived assets is recorded in the period in which the legal asset is capitalized as part of the related asset and depreciated over its useful life. Subsequent to the initial measurement of the asset retirement obligation, the obligation is adjusted to reflect the passage of time and changes in the estimated future costs underlying the obligation. There has been no impact on the Company from the adoption of this section.

c) Hedging

Accounting guideline (AcG) 13, "Hedging relationships", came into effect during the current fiscal quarter. This guideline addresses the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting and provides guidance with respect to the discontinuance of hedge accounting. There was no effect on the Company of adopting this guideline. Pursuant to the requirements of AcG 13, the Company has formally identified and documented loans denominated in US dollars as hedges for a portion of its US investments.

EMPIRE COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2004
(Unaudited, in millions, except per share amounts)

1. Summary of Significant Accounting Policies (continued)

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 basis. Retail inventories are valued at the lower of cost and net realizable value. Cost is determined by the retail method using 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.

Stock-based compensation

At the beginning of fiscal 2003, the Company adopted the CICA handbook section 3870, "Stock-based compensation and other stock-based payments". In fiscal 2004, the Company adopted the Emerging Issues Committee Abstract 132, "Share purchase financing". This abstract requires share purchase loans that are not treated as assets on the balance sheet to be accounted for as stock-based compensation. There was no effect on the Company upon implementation of this section and abstract.

Revenue recognition

Food distribution sales are recognized at the point-of-sale. Sales include revenues from customers through corporate stores operated by the Company, and revenue from sales to franchised stores, associated stores and independent accounts. Revenue received from franchise 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 as described above.

Pension benefit plans and other benefit plans

The cost of the Company's pension benefits for defined contribution plans are expensed as contributions 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. Except for the other benefit plans, the actuarial gains and losses and the impact of changes in the actuarial basis in excess of 10% 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.

Use of estimates

The preparation of consolidated financial statements, in conformity with Canadian generally accepted accounting principles, 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.

EMPIRE COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2004
(Unaudited, in millions, except per share amounts)

2. Earnings Per Share

Earnings per share amounts are calculated on the weighted average number of shares outstanding during the period (2004 – 65,796,939; 2003 – 65,785,780 shares) and after providing for preferred share dividends accrued to the balance sheet date. Diluted earnings per share amounts are calculated on the assumption that all the outstanding stock options were exercised and share purchase loans were repaid at the beginning of the period. There is no effect as a result of this calculation.

Earnings applicable to common shares is comprised of the following:

	<u>2004</u>	<u>2003</u>
Operating earnings	\$ 44.5	\$ 39.6
Capital (loss) gain and other items, net of tax recovery of \$0.1; 2003 – tax expense of \$0.6	<u>(0.2)</u>	<u>2.7</u>
Net earnings	44.3	42.3
Preferred share dividends	<u>0.1</u>	<u>0.1</u>
Earnings applicable to common shares	<u>\$ 44.2</u>	<u>\$ 42.2</u>

Earnings per share is comprised of the following:

	<u>2004</u>	<u>2003</u>
Operating earnings	\$ 0.67	\$ 0.60
Capital (loss) gain and other items	<u>-</u>	<u>0.04</u>
Basic earnings per share	<u>\$ 0.67</u>	<u>\$ 0.64</u>
Diluted earnings per share	<u>\$ 0.67</u>	<u>\$ 0.64</u>

3. Other Assets

	<u>July 31 2004</u>	<u>April 30 2004</u>	<u>July 31 2003</u>
Loans and mortgages receivable	\$ 158.4	\$ 147.8	\$ 134.2
Deferred costs	137.9	146.8	139.8
Assets for realization	12.4	16.3	-
Intangibles (less accumulated amortization of \$0.7 April 30, 2004 \$0.5)	<u>16.1</u>	<u>13.1</u>	<u>-</u>
	<u>\$ 324.8</u>	<u>\$ 324.0</u>	<u>\$ 274.0</u>

4. Capital Stock

During the first quarter, the Company purchased for cancellation 61,129 (2003 – Nil) Non-Voting Class A shares. The purchase price was \$1.6 of which \$1.2 of the purchase price (representing the premium on common shares purchased for cancellation) was charged to retained earnings. During the period 42,129 (2003 – 26,922) 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 (2003 - \$0.7). Loans receivable from officers and employees of \$4.8 (April 30, 2004 \$4.3; July 31, 2003 \$4.6) under the Company's share purchase plan are classified as a reduction of Shareholders' Equity.

5. Investment Income

	<u>2004</u>	<u>2003</u>
Dividend and interest income	\$ 2.4	\$ 4.9
Share of income of companies accounted for by the equity method	<u>2.2</u>	<u>1.2</u>
	<u>\$ 4.6</u>	<u>\$ 6.1</u>

EMPIRE COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2004
(Unaudited, in millions, except per share amounts)

6. Capital (Loss) Gain and Other Items

	<u>2004</u>	<u>2003</u>
(Loss) gain on sale of investments	\$ (0.3)	\$ 3.5
Other Items	-	(0.2)
	<u>\$ (0.3)</u>	<u>\$ 3.3</u>

7. Supplementary Cash Flow Information

	<u>2004</u>	<u>2003</u>
a) Items not affecting cash		
Depreciation	\$ 47.8	\$ 38.4
Amortization of intangibles	0.2	-
Future income taxes	3.7	(7.6)
Amortization of deferred items	7.3	5.5
Equity in earnings of other companies, Net of dividends received	(1.9)	(1.2)
Minority interest	13.3	12.3
Employee future benefit obligation	1.8	0.3
	<u>\$ 72.2</u>	<u>\$ 47.7</u>
b) Other cash flow information		
Net interest paid	<u>14.8</u>	<u>14.8</u>
Net income taxes paid	<u>56.7</u>	<u>78.8</u>

8. Segmented Information

	<u>2004</u>	<u>2003</u>
Revenue		
Food distribution	\$ 3,011.0	\$ 2,760.4
Real estate		
Outside	41.3	36.5
Inter-segment	13.8	12.4
	<u>55.1</u>	<u>48.9</u>
	<u>21.4</u>	<u>17.8</u>
Other operations	3,087.5	2,827.1
	(13.8)	(12.4)
Elimination	<u>\$ 3,073.7</u>	<u>\$ 2,814.7</u>
Operating income		
Food distribution	\$ 80.7	\$ 76.3
Real estate	28.3	24.4
Other operations	4.2	3.1
Investment income	4.5	6.1
Corporate expenses	(2.8)	(1.9)
	<u>\$ 114.9</u>	<u>\$ 108.0</u>

EMPIRE COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2004
(Unaudited, in millions, except per share amounts)

8. Segmented Information (continued)	July 31 2004	April 30 2004	July 31 2003
Identifiable assets			
Food			
Food distribution	\$ 2,638.9	\$ 2,619.4	\$ 2,559.5
Goodwill	658.2	656.9	591.5
Discontinued operations	-	-	1.9
	<u>3,297.1</u>	<u>3,276.3</u>	<u>3,152.9</u>
Real estate	1,000.4	989.8	912.2
Investments	316.6	324.6	393.9
Other (including goodwill of \$3.8; April 30, 2004 \$ - July 31, 2003 \$ -)	81.6	91.0	56.6
	<u>\$ 4,695.7</u>	<u>\$ 4,681.7</u>	<u>\$ 4,515.6</u>

9. Employee Future Benefits

The net employee future benefits expense for the three months ended July 31, 2004 was \$5.4 (2003 - \$6.0).

10. Business Acquisitions

Sobeys Inc.

During the period the Company increased its ownership interest in its subsidiary, Sobeys Inc., from 65.0% to 65.3% by way of purchase of shares on the open market. The acquisition was accounted for 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 \$7.4, goodwill increased by \$1.3 and minority interest decreased by \$6.1.

Other acquisitions

During the period the Company acquired franchisee stores in its food distribution segment in the normal course of operations and acquired four cinemas in Nova Scotia and New Brunswick in its other operations segment for total cash consideration of \$12.2. The acquisitions were accounted for by the purchase method with net identifiable assets recorded at \$8.4 (including intangible assets of \$3.2) and goodwill recorded at \$3.8.

11. Change in Fiscal Year-end

Effective for fiscal 2005, Empire's fiscal year-end is changing from April 30th to the first Saturday in May. As such, the quarter-end dates and fiscal year-end will be consistent with Sobeys Inc.

12. Comparative Figures

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

Management's Discussion and Analysis

Interim Report for the three months ended July 31, 2004

The following is Management's Discussion and Analysis ("MD&A") of the consolidated financial results for Empire Company Limited ("Empire" or the "Company") for the quarter ended July 31, 2004 as compared to the first quarter last year.

Management also discusses operating performance by division; the financial condition of the Company; cash flows and changes in working capital; changes in accounting policies; critical accounting estimates; and risk factors that the Company believes may affect its prospective financial condition, cash flows and results of operations.

This discussion and analysis should be read in conjunction with: the unaudited Interim Consolidated Financial Statements of the Company and notes thereto for the three-month period ended July 31, 2004; the MD&A included in Empire's fiscal 2004 Annual Report; and the Consolidated Financial Statements and notes thereto for the fiscal year ended April 30, 2004.

Management assumes that the reader of this document has access to and has read the MD&A in the Empire 2004 Annual Report. Empire's 2004 Annual Report can be downloaded in portable document format ("pdf") from the Company's web site at www.empireco.ca. To request a printed copy, you may e-mail the Company at investor.relations@empireco.ca.

The discussion may include forward-looking statements that are subject to risks and uncertainties that may cause actual results or events to differ materially from the results or events predicted in this discussion. In addition to the risks outlined in our Risk Management section of our fiscal 2004 Annual Report, factors which could cause actual results or events to differ include, but are not limited to: the ability to execute on operating company strategic initiatives; the impact of competition; general economic conditions; interest rate and currency exchange rate fluctuations; conditions affecting the North American equity markets; conditions affecting the growth and development of our real estate property portfolio; the ability of our operating companies to attract and retain quality employees and franchises; the availability of capital and the associated cost of capital. As a result of these risk factors and others, no guarantee can be given that the results implied by any forward-looking statements will necessarily materialize.

Overview of the Business

Empire is a diversified Canadian company headquartered in Stellarton, Nova Scotia. Empire's key businesses are retail food distribution (through 65.3% ownership of Sobeys Inc. ("Sobeys")), real estate (through two wholly-owned operating subsidiaries: Sobey Leased Properties Limited ("SLP"), and Crombie Properties Limited ("Crombie"), including 35.8% ownership of Genstar Development Partnership ("Genstar")), and corporate investment activities and other operations (which includes wholly-owned Empire Theatres Limited). With over \$4.6 billion in assets, Empire employs approximately 34,000 people directly and through its subsidiaries.

Defining Non-GAAP Measures

There are measures included in this MD&A that do not have a standardized meaning under Canadian generally accepted accounting principles (“GAAP”) and therefore may not be comparable to similarly titled measures presented by other companies.

The Company includes the measures because it believes certain investors use these measures as a means of evaluating relative financial performance. Empire’s definition of the non-GAAP terms found in this document are as follows:

- EBITDA is calculated as operating income plus depreciation and intangible amortization.
- Operating income or EBIT is calculated as operating earnings plus interest expense and income taxes.
- Operating earnings is calculated as net earnings before net capital gain (loss) and other items.
- Funds from operations (“FFO”) is calculated as operating earnings plus depreciation expense.
- Interest coverage is calculated as operating income divided by interest expense.
- Net working capital is calculated as receivables plus inventories, plus prepaid expenses, less accounts payable and accrued liabilities, less the current portion of future income taxes payable.
- Funded debt is calculated as bank indebtedness plus long-term debt due within one year, plus long-term debt.
- Net debt is calculated as funded debt less cash and cash equivalents.
- Total capital is calculated as funded debt plus shareholders’ equity.
- Net asset value is management’s estimate of the market value of the Company’s assets less liabilities.
- Effective tax rate is calculated as income tax expense (from operating activities) divided by operating income less interest expense.
- Company-wide capital investment is a term used by the Food Distribution division. It equals direct capital investment by Sobeys plus capital spending by franchisees and third parties.

Consolidated Operating Results

The consolidated financial overview provided below reports on the financial performance in the first quarter of fiscal 2005 relative to the first quarter last year.

Summary Table of Consolidated Financial Results

Quarter ended July 31st

(\$ in millions, except per share information)

	2004	2003	% Change over 2003
Revenue			
Food Distribution	\$ 3,011.0	\$ 2,760.4	9.1%
Real Estate, net of inter-segment	41.3	36.5	13.2%
Other Operations	21.4	17.8	20.2%
Consolidated revenue	\$ 3,073.7	\$ 2,814.7	9.2%
Operating income			
Food Distribution	\$ 80.7	\$ 76.3	5.8%
Real Estate	28.3	24.4	16.0%
Investments and Other Operations	5.9	7.3	(19.2)%
Consolidated operating income	\$ 114.9	\$ 108.0	6.4%
Interest expense	21.9	24.0	(8.8)%
Income taxes (from operating activities)	32.3	29.5	9.5%
Minority interest	16.2	14.9	8.7%
Operating earnings	\$ 44.5	\$ 39.6	12.4%
Capital gain (loss) and other items, net of tax	(0.2)	2.7	(107.4)%
Net earnings	\$ 44.3	\$ 42.3	4.7%
Cash flows from operating activities	\$ 21.8	\$ 42.5	(48.7)%
Total assets	\$ 4,695.7	\$ 4,515.6	4.0%
Total long-term liabilities	\$ 1,690.2	\$ 1,681.2	0.5%
Per Share, Basic and Fully Diluted			
Operating earnings	\$ 0.67	\$ 0.60	11.7%
Capital gain (loss) and other items, net of tax	—	0.04	(100.0)%
Net earnings	\$ 0.67	\$ 0.64	4.7%
Basic and diluted weighted average number of shares outstanding	65.8	65.8	
Annualized dividends per share	\$ 0.48	\$ 0.40	20.0%

Management's Explanation of Consolidated Results

Each of Empire's operating businesses contributed to the growth in the Company's consolidated revenue of 9.2 percent in the first quarter of fiscal 2005 compared to the first quarter of the prior fiscal year. Revenue and financial performance of each of the Company's businesses (food distribution, real estate, and investments and other operations) are discussed in detail in further sections of this MD&A.

Revenue

First quarter revenue reached \$3.07 billion, an increase of 9.2 percent over the first quarter last year. The food division contributed revenue of \$3.01 billion versus \$2.76 billion in the first quarter last year, an increase of \$250.6 million or 9.1 percent. Real estate revenues (net of inter-segment elimination) improved 13.2 percent and other operations reported revenue growth of 20.2 percent.

Food division same-store sales grew 2.9 percent during the first quarter. Sales growth was driven by Sobeys increased retail selling square footage resulting from the development and acquisition of new stores, an ongoing program to update and renovate existing store assets, coupled with the implementation of sales and merchandising initiatives across the country.

The growth in real estate revenues continues to reflect strong revenue growth from Genstar of 33.3 percent and from the commercial property portfolio of 9.6 percent (net of inter-segment elimination).

Depreciation Expense

Depreciation expense increased by \$9.4 million or 24.5 percent over the first quarter of fiscal 2004, largely reflecting Sobeys' ongoing capital investment in its retail store network.

Operating Income

Consolidated operating income for the three-month period ended July 31, 2004, totalled \$114.9 million, an increase of \$6.9 million or 6.4 percent compared to the first quarter last year. All operating businesses recorded increases in operating income versus the same period last year.

Interest Expense

For the quarter ended July 31, 2004, interest expense amounted to \$21.9 million, a decrease of \$2.1 million or 8.8 percent from the first quarter last year. Interest on long-term debt amounted to \$20.4 million, a decrease of \$3.0 million or 12.8 percent from the same period last year. The decline is largely attributable to long-term debt repayments made during the year, partially offset by new long-term debt issued. Interest on short-term debt increased by \$0.9 million from last year as a result of higher net short-term funded debt levels, partially offset by a decline in borrowing rates from the first quarter last year.

Income Tax Expense

The effective income tax rate for the first quarter was 34.7 percent versus 35.1 percent in quarter one of fiscal 2004. The rate decrease is primarily the result of statutory tax rate reductions.

Minority Interest

In the first quarter of fiscal 2005, Empire recorded minority interest expense of \$16.2 million compared to \$14.9 million in the first quarter last year. The increase in minority interest expense is a result of higher net earnings reported by the food division, partially offset by the increase in Empire's ownership in Sobeys from 64.5 percent at July 31, 2003 to 65.3 percent at July 31, 2004.

Net Capital Gain (Loss)

The Company generated a net capital loss of \$0.2 million in the first quarter of fiscal 2005, largely a result of the sale of common equity investments. During the first quarter last year, a net capital gain of \$2.7 million was recorded, primarily from the sale of common equity investments.

Net Earnings

Net earnings totalled \$44.3 million or \$0.67 per share for the three-month period ended July 31, 2004, versus \$42.3 million or \$0.64 for the same period last year.

Quarterly Results of Operations

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

	Fiscal 2005	Fiscal 2004				Fiscal 2003		
<i>(\$ in millions, except per share information)</i>	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	\$3,073.7	\$2,876.4	\$2,798.5	\$2,794.4	\$2,814.7	\$2,624.7	\$2,643.6	\$2,664.9
Operating income	114.9	100.3	110.4	104.9	108.0	110.4	107.6	111.7
Operating earnings ⁽¹⁾	44.5	41.1	44.2	39.0	39.6	41.8	39.3	39.0
Net capital gain (loss) and other items	(0.2)	(0.1)	8.8	(2.2)	2.7	(5.8)	–	(0.2)
Net earnings	\$ 44.3	\$ 41.0	\$ 53.0	\$ 36.8	\$ 42.3	\$ 36.0	\$ 39.3	\$ 38.8
Per Share, Basic and Fully Diluted								
Operating earnings ⁽¹⁾	\$ 0.67	\$ 0.63	\$ 0.67	\$ 0.59	\$ 0.60	\$ 0.64	\$ 0.60	\$ 0.59
Net capital gain (loss) and other items	–	–	0.13	(0.03)	0.04	(0.09)	–	–
Net earnings	\$ 0.67	\$ 0.63	\$ 0.80	\$ 0.56	\$ 0.64	\$ 0.55	\$ 0.60	\$ 0.59
Weighted average number of shares outstanding	65.8	65.8	65.8	65.9	65.8	65.8	65.9	65.9
<i>(1) Earnings before net capital gain (loss) and other items.</i>								

The Company's operations are impacted to some degree by certain holiday periods in the year; however business is not materially cyclical or seasonal.

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

Trends

Over the past decade, there has been considerable change in food retailing – reflecting new competitive pressures as well as the changing demographics, lifestyle choices and preferences of Canadians. With the aging of the baby boom generation and the rise of dual career families, Canadians have more disposable income but less free time, placing a greater value on service and convenience. This has helped fuel the growth of the restaurant sector and the convenience sector, while driving the increasing popularity and demand for ready to eat, ready to serve products. As well, the multicultural complexion of the country has evolved – as has consumer focus on food safety, health and wellness. All of these trends have been driving demand for greater diversity and choices in food.

At the same time, the entire retail landscape continues to blur, as major retailers across many channels look for a larger share of each customer's wallet and seek to leverage their real estate investments by providing a broader array of non-traditional offerings in their stores.

Increasingly, many non-grocers are offering convenience food and grocery products. Sobeys also continues to see significant growth in square footage from traditional competitors. In addition, new mass merchandisers have entered Canadian markets in recent years. During fiscal 2004 food price inflation remained relatively low across all regions of Canada. The Company expects this inflation trend to continue for the immediate future.

All of these trends have resulted in broader consumer choice, increasingly intense competition and growing pressure on gross margins.

With respect to real estate development, the trend has been for large anchor retailers to locate away from traditional enclosed shopping centres to free-standing locations. Crombie has addressed this ongoing trend by redeveloping certain regional and neighbourhood shopping centres where anchor tenants may have relocated to free-standing structures.

With respect to the movie-going experience, the trend has been for a more enriched entertainment experience through curved screens, stadium style seating and a broader array of concession products. While more and more consumers have purchased home theatre systems, this has not materially diminished the mass appeal of an entertainment night out through a movie-going experience at a movie theatre. Theatres' strategy has been to focus its development activity in relatively small to medium size markets and to provide the movie-goer with a modern, enriched cinema experience, with the amenities mentioned above.

Operating Overview & Performance By Segment

Food Distribution

Empire's food distribution operations are carried on through its 65.3 percent ownership in Sobeys. Sobeys conducts business through more than 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 has increased by 0.8 percentage points over the first quarter of fiscal 2004 and by 0.3 percentage points from the previous year-end, April 30, 2004.

Revenue

Sobeys' sales for the first quarter were \$3.01 billion compared to \$2.76 billion for the same quarter last year, an increase of \$250.6 million or 9.1 percent. Same-store sales grew by 2.9 percent during the first quarter. Sales growth was driven by Sobeys' increased retail selling square footage resulting from the development and acquisition of new stores, an ongoing program to update and renovate existing store assets, coupled with the continued implementation of sales and merchandising initiatives across the country.

Operating Income

Sobeys' EBITDA for the quarter ended July 31, 2004 was \$122.9 million; an increase of 12.1 percent or \$13.3 million versus the \$109.6 million recorded in the same quarter last year. EBITDA as a percentage of sales increased from 3.97 percent to 4.08 percent when compared to the first quarter fiscal 2004 results. The first quarter of fiscal 2004 included residual costs associated with returning the Ontario distribution network to pre-strike efficiency levels following a labour disruption in the Whitby, Ontario distribution facility, which ended on May 5, 2003.

Operating income or EBIT recorded by the food division for the first quarter increased \$4.4 million or 5.8 percent to \$80.7 million. Operating margin, which is operating income divided by sales, for the first quarter declined to 2.68 percent from 2.76 percent in the same quarter last year. The primary contributor to this decline in operating margin percentage was an \$8.7 million or 26 percent increase in depreciation charges (\$42.0 million in the current quarter compared to \$33.3 million last year). This increased depreciation expense reflects Sobeys' significant recent investment in its retail stores and supporting infrastructure.

The combination of lower retail selling prices arising from Sobeys' increasing competitiveness, and relatively stable cost of goods sold, resulted in lower gross profit percentages compared with the prior year. Sobeys will continue to focus on disciplined cost management and reduction, distribution and retail productivity improvements and migration of best practices across its four regions.

Interest Expense

Sobeys' interest expense in the first quarter decreased 19.7 percent or \$2.3 million to \$9.4 million due to lower long-term borrowing debt levels mainly related to the repayment of the \$100 million Series B Medium Term Note (MTN) that matured in

October, 2003. Interest coverage for the first quarter increased to 8.6 times compared to 6.5 times for the same quarter last year, due to the decline in interest costs and the increase in operating income. At July 31, 2004, Sobeys had fixed the interest rate on \$7.4 million of its funded debt at a rate of 6.4 percent, to mature in September of 2005. The majority of Sobeys debt is at fixed rates, accordingly there is limited exposure to interest rate risk.

Income Tax Expense

Sobeys effective income tax rate for the first quarter was 34.5 percent compared to 35.1 percent in quarter one of fiscal 2004. The rate decrease was primarily the result of statutory tax rate reductions.

Net Earnings

Sobeys first quarter fiscal 2005 net earnings totalled \$46.7 million (\$0.71 per share), an increase of \$4.8 million or 11.5 percent compared to the \$41.9 million recorded in the same quarter of fiscal 2004. There were no capital gains (losses) in the first quarter of fiscal 2005 or the first quarter last year.

Food Division Outlook

Management remains confident in Sobeys' strategy. Its offerings will continue to improve in each operating region and Sobeys will remain competitive in increasingly competitive markets. Sales and earnings are expected to continue to grow in fiscal 2005 and beyond, in a manner consistent with Sobeys' intention to build a healthy and sustainable business for the long term.

Real Estate

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

At the end of the first quarter, real estate operations had 12.9 million square feet under ownership compared to 12.2 million square feet a year earlier. The growth in square feet under ownership over the prior year is primarily attributed to Crombie's focus on new commercial property acquisitions and development in Ontario.

Commercial real estate operations are conducted through Crombie 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, funds from operations and operating earnings for the real estate division's commercial operations and residential operations.

Quarter ended July 31 st (\$ in millions)	2004	2003	% Change over 2003
Revenue			
Commercial	\$ 34.1	\$ 31.1	9.6%
Residential	7.2	5.4	33.3
	\$ 41.3	\$ 36.5	13.2%
Operating income			
Commercial	\$ 22.1	\$ 20.3	8.9%
Residential	6.2	4.1	51.2
	\$ 28.3	\$ 24.4	16.0%
Operating earnings			
Commercial	\$ 5.7	\$ 4.6	23.9%
Residential	4.1	3.1	32.3
	\$ 9.8	\$ 7.7	27.3%
Funds from operations			
Commercial	\$ 10.1	\$ 8.4	20.2%
Residential	4.2	3.3	27.3
	\$ 14.3	\$ 11.7	22.2%

Revenue

The real estate division had another strong quarter, recording revenues (net of inter-segment revenue) of \$41.3 million in the first quarter compared to \$36.5 million last year, a 13.2 percent increase.

The growth in real estate revenues continues to reflect strong lot sales from Genstar, increased tenant revenues from the existing commercial real estate portfolio and contribution from the six Commisso's properties purchased in the previous quarter. Leasing activity has been stronger than anticipated with an overall (retail plus office) occupancy rate of 93.6 percent compared to 93.1 percent a year ago. The office occupancy rate at the end of the first quarter was 89.3 percent compared to 92.0 percent a year ago. The retail occupancy rate was 94.4 percent at the end of the first quarter compared to 92.8 percent a year earlier.

Operating Income

Real estate operating income in the first quarter totalled \$28.3 million, a \$3.9 million or 16.0 percent increase over last year. The real estate division contributed 24.6 percent of Empire's first quarter consolidated operating income compared to a 22.6 percent contribution in the first quarter last year. The improved real estate operating income reflects the increase in revenues along with continued attention to the control of operating costs. Operating costs as a percentage of revenue (including inter-segment revenue) declined to 40.7 percent from 41.9 percent a year earlier.

Interest Expense

Interest expense for the real estate division equalled \$12.0 million compared to \$11.3 million last year. Funded debt levels were higher year-over-year largely as a result of funding the Commisso's acquisition. Funded debt was relatively unchanged from April 30, 2004.

Operating Earnings

Operating earnings generated from commercial real estate operations totalled \$5.7 million, up \$1.1 million, or 23.9 percent over the comparable period last year. Operating earnings generated by residential operations grew by \$1.0 million or 32.3 percent over the first quarter last year. The growth in total operating earnings for the real estate division is the result of higher operating income, offset by the increase in interest expense and income tax expense.

Net Earnings

Net earnings in the first quarter amounted to \$9.8 million compared to \$7.6 million last year, a 28.9 percent increase. The earnings increase largely reflect the growth in operating earnings in the quarter. Real estate recorded a net capital loss of \$0.1 million in the first quarter last year; there were no capital gains or losses in the first quarter of fiscal 2005.

Funds from Operations

Trailing (last four quarters) funds from operations for the real estate division was \$61.0 million, up 10.1 percent from the prior four quarter trailing funds from operations of \$55.4 million. Funds from operations in the first quarter of \$14.3 million was up 22.2 percent over last year as a result of higher net earnings and depreciation expense.

Funds from operations generated by commercial real estate operations equalled \$10.1 million in the first quarter of fiscal 2005, while funds from operations generated by residential real estate operations equalled \$4.2 million in the first quarter.

Real Estate Division Outlook

Empire's real estate management group will continue its policy of maximizing and prudently reinvesting its cash flow to further strengthen and diversify its portfolio of residential and commercial properties.

The real estate management group expects overall retail occupancy levels to remain strong through the remainder of fiscal 2005 as a result of the continuing diligence of our leasing team and general economic conditions.

Investments and Other Operations

The third component of Empire's business is its investments, consisting of an investment portfolio of common equity investments and other operations. At July 31, 2004, Empire's investments carried a market value, excluding cash and cash equivalents, of \$371.8 million on a carrying value of \$316.6 million, resulting in an unrealized gain of \$55.2 million. This compares to an unrealized gain of \$66.2 million at the end of fiscal 2004 and an unrealized loss of \$21.3 million at the end of the first quarter last year.

PORTFOLIO COMPOSITION

<i>(\$ in millions Canadian)</i>	Market Value	% of Portfolio	Cost	Unrealized Gain (Loss)
Canadian equities	\$ 197.1	53.0%	\$ 153.8	\$ 43.3
U.S. equities	103.9	28.0	112.8	(8.9)
Wajax	69.3	18.6	48.5	20.8
Preferred and other	1.5	0.4	1.5	-
	\$ 371.8	100.0%	\$ 316.6	\$ 55.2

The tables below present the return performance for Empire's portfolio investments, excluding Wajax Limited ("Wajax"), relative to Canadian and U.S. equity benchmarks over each of the last three years ended June 30th, as well as on a two and three-year compounded basis. Investment returns are measured using a calendar quarter-end cycle, consistent with industry practice.

Total Investment Return

(Annual Returns for Periods Ended June 30th)

	2002	2003	2004
Empire Investment Portfolio	5.1%	0.1%	25.7%
S&P/TSX Composite Index	-6.1%	-0.3%	24.5%
S&P 500 Index (in Cdn. \$)	-17.9%	-10.5%	17.8%

Total Investment Return

(Annualized Compound Returns for Periods Ended June 30th, 2004)

	2-Year	3-Year
Empire Investment Portfolio	12.2%	10.6%
1 st Quartile Manager Return	9.9%	3.3%
Median Manager Return	7.4%	1.7%
S&P/TSX Composite Index	11.4%	5.2%
S&P 500 Index (in Cdn. \$)	2.7%	-4.7%

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 (first quartile means the top 25 percent of surveyed equity fund managers) investment return performance over one, two and three-year trailing periods ended June 30, 2004.

Total portfolio return, excluding Wajax, for the twelve-month period ended June 30, 2004 was 25.7 percent. With the Wajax investment included, the total return was 31.9 percent over the same period. This compares to first quartile manager return of 25.4 percent and median manager return of 22.5 percent over the same time period.

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

Performance Attribution

The decrease in investment market value over book cost of \$11.0 million in the first quarter relative to fiscal year-end, April 30, 2004, is primarily a result of a \$10.8 million decline in the unrealized gain position of Wajax. Wajax share price declined from \$10.50 at fiscal year-end to \$9.30 at the end of the first quarter, resulting in an \$8.9 million decline in market value. As well, Wajax cost base increased by \$1.9 million, reflecting Wajax earnings contribution less dividends in the first quarter.

Hedge against Foreign Currency Movement

At July 31, 2004, Empire had hedged 68.6 percent of the cost and 66.5 percent of the market value of its U.S. based common equity investments by way of \$52.0 million in U.S. dollar short-term borrowings. The average foreign exchange rate associated with these U.S. dollar bank loans is \$1.3716 (72.9 cents). The fair value of the hedge was \$2.2 million at the end of the first quarter as a result of the foreign exchange rate moving to \$1.3295 (75.2 cents) from \$1.3710 (72.9 cents) at the end of the fourth quarter.

Capital Allocation from Investments

During the first quarter, Empire purchased a total of 238,600 common shares of Sobeys for a total cost of \$7.1 million. These purchases were funded through capital reallocation from the investment division. This resulted in an increase in Empire's ownership of Sobeys of 30 basis points, with total interest now standing at 65.3 percent.

Other Operations Revenue

Other operations' revenue, primarily generated by Empire Theatres, reached \$21.4 million compared to \$17.8 million last year, an increase of 20.2 percent. Revenue growth at Empire Theatres was primarily the result of the availability of quality product and the modernization of existing locations, combined with the contribution of four additional theatres, located in the Maritime Provinces, purchased from Viacom Canada Inc. At July 31, 2004, Empire Theatres had 172 screens in operation versus 141 at July 31, 2003.

Investment Income

Investment income from portfolio investments equalled \$4.5 million in the first quarter, a decrease of \$1.6 million over the \$6.1 million recorded in the first quarter last year. The decrease is the result of lower dividends from the investment portfolio largely as a result of the sale of the Delhaize Le Lion investment and preferred shares after the first quarter last fiscal year, offset by an increase in equity earnings from Wajax of \$0.9 million relative to the first quarter last year.

Operating Earnings

The \$0.7 million or 14.3 percent decline in investment (net of corporate expenses) and other operations' operating earnings in the first quarter, compared to the same quarter last year, is a result of the lower investment income, partially offset by stronger earnings contribution from other operations.

Capital Gain (Loss)

The net capital loss realized in first quarter of fiscal 2005 of \$0.2 million was largely a result of the sale of common equity investments. In the first quarter of the prior fiscal year, a net capital gain of \$2.7 million was recorded also largely the result of the sale of common equity investments.

Net Earnings

Investments (net of corporate expenses) and other operations contributed \$4.0 million to Empire's consolidated first quarter net earnings (9.0 percent of Empire's consolidated net earnings). This compares to a \$7.7 million contribution in the first quarter last year (18.2 percent of Empire's consolidated net earnings). The decline is the result of lower investment income, as previously discussed, and higher corporate costs, partially offset by stronger operating earnings contribution from other operations.

Investment Portfolio and Other Operations Outlook

Growth in the portfolio will be dependent on a number of factors, including investor sentiment in the U.S. and Canada. Equity markets may continue to remain volatile.

With respect to Empire Theatres' outlook, management recognizes that future growth will remain highly dependent on a steady supply of quality film product. Based on the quality of releases expected through the remainder of fiscal 2005, an experienced operations team, and planned screen development, management looks forward to continued revenue growth in this business.

Consolidated Financial Position

At the end of the first quarter, management calculates Empire's consolidated net asset value at \$2,089 million or \$31.78 per share, an increase of \$44 million from the net asset value of \$2,045 million or \$31.08 per share calculated at April 30, 2004.

(\$ in Millions except per share information)	July 31, 2004		April 30, 2004	
	Net Asset Value	% of Total	Net Asset Value	% of Total
Food Distribution ¹	\$ 1,260	58%	\$ 1,226	58%
Real Estate ²	475	22	452	21
Investments and Other Operations ³	440	20	453	21
	\$ 2,175	100%	\$ 2,131	100%
Corporate & preferred shares	(86)		(86)	
Net asset value	\$ 2,089		\$ 2,045	
Per share	\$ 31.78		\$ 31.08	

¹ Food distribution net asset value at July 31, 2004 equals the 43.046 million common shares of Sobeys owned at the end of the first quarter July 31, 2004 multiplied by the market price of a Sobeys' common share on that date. Food distribution net asset value at April 30, 2004 equalled the 42.81 million common shares of Sobeys owned at fiscal year-end April 30, 2004 multiplied by the market price of a Sobeys' common share on that date.

² Real estate net asset value has been calculated at 9 times trailing funds from commercial operations of \$42.5 million plus five times trailing funds from residential operations of \$18.5 million.

³ Investment net asset value is derived primarily from stated public market values of securities in the investment portfolio.

At July 31, 2004, approximately 75 percent of Empire's net asset value was derived from assets that are valued by publicly available market prices and traded on recognized public stock exchanges. This includes Sobeys' common shares and securities held in Empire's investment portfolio. For each dollar increase in Sobeys' share price, Empire's net asset value increases by \$0.65 per share.

Capital Structure and Key Financial Condition Measures

(\$ in millions, except ratio calculations)	July 31 2004	April 30 2004	July 31 2003
Shareholders' equity	\$ 1,612.1	\$ 1,576.8	\$ 1,464.6
Minority interest	554.9	546.0	514.8
Short-term debt	153.4	140.8	161.1
Long-term debt, including current portion	968.5	985.4	1,102.4
Funded debt to total capital ratio	41.0%	41.7%	46.3%
Net debt to capital ratio	37.9%	37.0%	40.8%
Interest coverage	5.25x	4.62x	4.50x
Total assets	4,695.7	4,681.7	4,515.6

Shareholders Equity

Book value per common share was \$24.36 at July 31, 2004, compared to \$23.81 at April 30, 2004 and \$22.19 at July 31, 2003.

Total common shares outstanding at July 31, 2004 equalled 65,735,810, relatively unchanged from the previous fiscal year-end (April 30, 2004) and July 31, 2003. There were 30,850,585 Non-Voting Class A shares outstanding and 34,885,225 Class B common shares outstanding at July 31, 2004. During the first quarter of fiscal 2005, 9,400 options were exercised, compared to 3,000 exercised in the first quarter last year. At July 31, 2004, Empire had 27,674 options outstanding with an expiry date of October 2006.

During the first quarter, 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. During the three-month period ended July 31, 2004, Empire purchased 61,129 Non-Voting Class A shares for cancellation under its Normal Course Issuer Bid.

At September 9, 2004, Empire had 30,850,585 Non-Voting Class A shares and 34,885,225 Class B common shares outstanding. Empire had 27,674 options outstanding on September 9, 2004, each exercisable for one Non-Voting Class A share.

Dividends paid to common shareholders amounted to \$7.9 million (\$0.12 per share) versus \$6.6 million (\$0.10 per share) in the same period 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 July 31, 2004 of \$968.5 million represents 86.3 percent of Empire's total funded debt, was relatively unchanged from the end of the fiscal year, April 30, 2004 (\$985.4 million) but declined \$133.9 million from \$1,102.4 million of long-term debt (including current portion) in the first quarter last year.

Long-term debt by operating segment is detailed below:
(\$ in millions)

	July 31 2004	April 30 2004	July 31 2003
Food Distribution	\$ 429.7	\$ 442.8	\$ 569.0
Real Estate	534.3	538.2	528.9
Other Operations	4.5	4.4	4.5
Total	\$ 968.5	\$ 985.4	\$ 1,102.4

There is no long-term debt carried by the investment segment. 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 5.25 times, improved from the 4.62 times reported for the fiscal year ended April 30, 2004 and the 4.50 times recorded for the first quarter last year. The improvement over April 30, 2004 was the result of reduced interest

expense and higher operating income on a trailing twelve-month basis during the current quarter.

Since fiscal year-end, the consolidated funded debt to total capital ratio has declined 0.7 percentage points as a result of lower debt levels and higher retained earnings. The net debt (debt less cash and cash equivalents) to total capital ratio declined 0.9 percentage points.

Empire has a corporate unsecured debt rating of BBB- (stable trend) from Standard & Poor's and a debt rating of BBB (negative trend) from Dominion Bond Rating Service. Sobeys has a corporate unsecured debt rating of BBB- (stable trend) from Standard and Poor's and a debt rating of BBB high (negative trend) from Dominion Bond Rating Service. On April 26, 2004, Dominion Bond Rating Service put the Company and Sobeys on a negative trend as a result of increased competitive pressures which have impacted margins.

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 2005 and in fiscal 2004.

Hedging Instruments

Empire utilizes hedging instruments from time to time to prudently manage its exposure to interest rate volatility and its exposure to volatility in the Canadian to U.S. dollar exchange rate.

Empire Company Limited directly has no interest rate hedges in place. Any such hedges are held by the operating subsidiaries.

Sobeys had in place interest rate hedges on \$7.4 million of its funded debt at a fixed rate of 6.36 percent, maturing in 2005. The total amount of these hedges amortizes with Sobeys' debt repayment. Accordingly the hedge amount was higher at fiscal 2004 year-end (\$11.8 million).

At July 31, 2004, the real estate division had one interest rate exchange agreement outstanding with a gross notional amount of \$18.0 million at a rate of 4.015 percent. During the first quarter, Crombie extended the above-noted termination date of December 15, 2004 by entering into a delayed start swap which commences on December 15, 2004 and matures December 15, 2007. The notional amount on this delayed start swap is \$16.0 million and the fixed rate is 4.22 percent.

Crombie entered into a delayed start swap to hedge the balloon payment of \$5.5 million due September 7, 2007 upon maturity of a 6.24 percent First Mortgage Bond. This swap commences September 7, 2007, terminates September 7, 2017, pays interest at a fixed rate of 6.16 percent quarterly and receives a floating rate based on the 90-day bankers' acceptance rate quarterly.

Crombie entered into a delayed start swap to hedge the balloon payment of \$22.3 million due November 30, 2007 upon the maturity of the 12.00 percent General Mortgage Bonds. This swap commences November 30, 2007, terminates November 30, 2017, pays interest at a fixed rate of 6.18 percent quarterly and receives a floating rate based on the 90-day bankers' acceptance rate quarterly.

To mitigate the currency risk associated with the Company's U.S. dollar investments, Empire has designated U.S. bank loans as hedges. Empire and its subsidiaries use hedging instruments to mitigate risk exposure, not for speculative purposes. Empire Company Limited directly has in place U.S. dollar based bankers acceptances totalling \$52.0 million, equal to 66.5 percent of the market value of U.S. common equity investments at the end of July 31, 2004. The fair market value of this hedge at the end of the first quarter was \$2.2 million.

Sobeys uses foreign exchange contracts to fix the exchange rates associated with U.S. dollar purchases of products. These U.S. dollar purchases represent approximately two percent of Sobeys' total annual purchases. The maximum length of these contracts is 30 days.

Certain property investments made by Genstar are in the U.S. and as such Crombie is exposed to foreign currency fluctuations. At the end of the first quarter, the U.S. dollar asset exposure of Crombie totalled \$14.5 million. Crombie had \$5.0 million in U.S. dollar bankers' acceptances at the end of the first quarter.

Capital Resources and Sources of Liquidity

Empire's liquidity remained strong at July 31, 2004 as a result of:

- internally generated cash flow from operating activities;
- net cash and cash equivalents on hand of \$137.1 million;
- an improved working capital position;
- unutilized bank credit facilities of \$624.6 million;
- ready availability of long-term debt financing; and
- Empire's investment portfolio of liquid investments which carried a market value at July 31, 2004 of \$371.8 million (April 30, 2004 - \$390.9 million).

The Company anticipates that these sources of liquidity will be sufficient to meet expected cash outflows over the next year. The Company normally refinances existing long-term debt as it matures, and maintains financial flexibility through its investment portfolio and access to the capital markets for additional long-term debt or equity financing. Longer-term financing is obtained by Sobeys through Canadian public debt markets via Sobeys' established MTN program pursuant to its amended shelf prospectus filed on February 17, 2003, which provided for the issuance of up to \$500 million of MTN's. Sobeys also utilizes capital leases for the financing of selected properties and assets. The Company, along with Sobeys, anticipates continued ready access to financing sources as a result of in-place investment grade credit ratings and previous experience in the capital markets.

Cash and Cash Equivalents

At July 31, 2004, cash and cash equivalents were \$137.1 million versus \$253.4 million at July 31, 2003 and \$202.2 million at fiscal year-end, April 30, 2004. The cash balance at the end of the first quarter last fiscal year included \$100 million of proceeds from the issuance of a Series C MTN by the food division in February, 2003. In October 2003, the food division used \$100.0 million to repay an outstanding Series B MTN issue.

Bank Credit Facilities

On a non-consolidated basis, Empire maintains authorized bank lines for operating, general and corporate purposes of \$325.0 million, of which 23.1 percent was utilized at July 31, 2004, relatively unchanged with April 30, 2004 utilization. Financial instruments are used from time to time to manage the risk of short-term interest rate fluctuations on underlying short-term bank indebtedness. On a consolidated basis, Empire's authorized bank credit facilities exceeded borrowings by \$624.6 million at July 31, 2004, versus \$621.6 million at April 30, 2004.

Cash Flows

The table below highlights major cash flow components for the first quarter of the last two fiscal years.

Major Cash Flow Components:

(\$ in millions)	Quarter Ended	
	July 31, 2004	July 31, 2003
Net earnings	\$ 44.3	\$ 42.3
Items not affecting cash	72.2	47.7
Preferred dividends	(0.1)	(0.1)
Net change in non-cash working capital	(94.6)	(47.4)
Cash flows from operating activities	21.8	42.5
Cash flows used in investing activities	(75.7)	(156.3)
Cash flows (used in) from financing activities	(11.2)	50.4
Decrease in cash and cash equivalents	\$ (65.1)	\$ (63.4)

Cash Flows from Operating Activities

First quarter cash flows from operating activities were \$21.8 million compared to \$42.5 million in the comparable period last year. The decline of \$20.7 million was primarily due to a net change in non-cash working capital of negative \$94.6 million versus a negative \$47.4 million in the first quarter of last year and items not affecting cash of \$72.2 million compared to \$47.7 million in the first quarter of fiscal 2004. Items not affecting cash were higher than the first quarter of last fiscal year due to higher depreciation and amortization expense and changes in future income tax provision as noted in the notes to the financial statements.

On an annual basis, cash flows from operating activities are expected to provide a large portion of Empire's fiscal 2005 funding requirements including its planned expenditures on property, equipment and other assets. In fiscal 2004, cash flows from operating activities of \$467.0 million exceeded expenditures on property, equipment and other assets of \$431.0 million. In fiscal 2003, cash flows from operating activities funded 80.5 percent of expenditures on property, equipment and other assets.

The Company's cash flows from operating activities can be highly influenced by net changes in non-cash working capital. The section below discusses the key components to Empire's working capital position.

Working Capital

At the end of the first quarter, Empire had decreased its net working capital requirements by \$9.4 million compared to July 31, 2003. This decrease is primarily the result of increased accounts payable and accrued liabilities by the food division, partially offset by higher inventory and receivables levels for the food division compared to the previous year. Commentary on changes in inventory, receivables and payables balances are noted below.

The table below details the primary working capital components and respective values compared to the first quarter last year.

<i>(\$ in millions)</i>	At July 31 2004	At July 31 2003	Increase (Decrease) in Working Capital
Receivables	\$ 344.4	\$ 309.5	\$ 34.9
Inventories	537.1	488.4	48.7
Prepaid expenses	49.0	53.5	(4.5)
Accounts payable and accrued liabilities	(1,121.4)	(1,018.8)	(102.6)
Income taxes receivable (payable)	12.1	(2.0)	14.1
Net change			\$ (9.4)

Inventory

Empire's consolidated inventories grew by \$48.7 million from the first quarter last year to end July 31, 2004 at \$537.1 million. The food division accounted for 92.6 percent of Empire's total inventory balance (first quarter fiscal 2004 – 93.3 percent) and \$41.8 million of the consolidated inventory increase. The real estate division accounted for \$38.6 million or 7.2 percent of Empire's total inventory balance (first quarter fiscal 2004 – 6.5 percent). The balance of Empire's inventory, equal to \$1.1 million at quarter end, is attributed to theatre operations.

The growth in inventory by the food division of \$41.8 million over the first quarter last year was the result of: the addition of new and expanded corporate stores; the expansion of certain distribution centres; sales growth; and the addition of Commisso's to its retail store network. The food division has been able to fund this increase in inventory with corresponding increases in trade accounts payable.

At the end of the first quarter, Empire's consolidated inventories had grown by \$44.2 million relative to fiscal year-end largely as a result of a \$42.4 million increase in food division inventories. The increase in food division inventory is the result of buying patterns typical in the business which enables Sobeys to more effectively service the summer and holiday requirements of its growing base of retail, franchise and wholesale customers. Increased inventory also reflects additional corporate stores added in the first quarter.

The increase in real estate division inventories over the first quarter last year of \$6.8 million largely reflects additional commercial and residential land banking. Theatres inventories were relatively consistent with the same quarter last year.

Receivables

Empire consolidated receivables grew by \$34.9 million from the first quarter last year to end July 31, 2004 at \$344.4 million. Receivables in the food division increased by \$28.0 million; receivables in the real estate division increased by \$1.0 million and receivables for investments and other operations increased by \$5.9 million. The food division accounted for 83.2 percent of Empire's total receivable balance at the end of the quarter (first quarter fiscal 2004 – 83.5 percent). Real estate division receivables accounted for 9.6 percent of Empire's total receivable balance (first quarter fiscal 2004 – 10.4 percent).

The increase in food division receivables of 10.8 percent over the first quarter last year is primarily correlated to the 9.1 percent growth in sales over the first quarter last year.

Consolidated receivables increased by \$14.9 million or 4.5 percent relative to fiscal year-end.

Accounts Payable and Accrued Liabilities

Empire consolidated accounts payable and accrued liabilities increased by \$102.6 million from the first quarter last year to end July 31, 2004 at \$1,121.4 million. The food division accounted for 93.3 percent of Empire's total payable balance (first quarter fiscal 2004 – 93.7 percent) and \$89.6 million of the consolidated payable increase largely as a result of growth in inventory levels. The real estate division accounted for \$62.4 million or 5.6 percent of Empire's total payable balance (first quarter fiscal 2004 – 6.9 percent). The balance of Empire's payables, equal to \$13.2 million at quarter-end is attributed to investments and other operations.

Consolidated accounts payable and accrued liabilities declined by \$19.8 million since fiscal year-end.

Income Taxes Receivable (Payable)

Empire recorded a \$10.6 million reduction in income taxes payable and a \$12.1 million increase in income taxes receivable relative to fiscal year-end April 30, 2004. This is attributed to a temporary timing difference related to additional income tax installments paid for the Company's fiscal year ended April 30, 2004.

Cash Flows used in Investing Activities

First quarter cash flows used in investing activities were \$75.7 million compared to \$156.3 million in the first quarter last year. The decline of \$80.6 million was primarily due to: (i) the Company purchasing shares in Sobeys in the first quarter last year for \$61.1 million compared to shares purchased in the first quarter of fiscal 2005 of \$7.4 million; (ii) purchases of property, equipment and other assets declining by \$18.0 million relative to the first quarter last year; and (iii) the Company completing business acquisitions, net of cash acquired, of \$12.2 million in the first quarter of fiscal 2005.

Details on the nature of the Company's capital expenditures and business acquisitions are provided below.

Capital Expenditures

Consolidated purchases of property, equipment and other assets totalled \$75.8 million in the first quarter of fiscal 2005, compared to \$93.8 million in the first quarter last year.

Investment in food distribution property and equipment, primarily related to new store development, accounted for \$42.1 million of total consolidated capital expenditures versus \$64.4 million in the same period last year. The year-over-year decline in capital spending reflects a shift in the timing of capital activity in the food business. Company-wide capital investment by the food division in the first quarter totalled \$102.0 million. Real estate investment in property, plant and equipment in the first quarter totalled \$14.9 million compared to \$19.5 million in the same period last year. The decline largely reflects increased land acquisitions and fixed asset additions to commercial properties in the first quarter last year.

In the first quarter, the food division added 427,000 square feet. Total square footage, net of store closures, increased by 303,000 square feet; an increase of 7.3 percent over the first quarter last year. Net retail store additions during the first quarter last year totalled 127,000 square feet. At July 31, 2004, Sobeys square footage totalled 24.3 million square feet.

During the quarter, 14 corporate and franchised stores were opened or replaced compared to 13 during the first quarter of last year. In addition to the new stores opened or replaced during the year, five stores were expanded in the first quarter of fiscal 2005 compared to seven stores expanded during the first quarter last year. Sobeys completed the rebannered of 12 stores in the first quarter compared to six stores in the first quarter last year. At July 31, 2004, the food division operated 1,314 stores (436 corporate stores and 878 franchised stores).

The majority of Sobeys' capital spending in fiscal 2005, which will approximate the average capital expenditures of the past number of years, will be allocated to the retail store network. During fiscal 2005, Sobeys plans to open, expand, or renovate approximately 100 corporate and franchise stores across Canada, increasing their square footage by approximately four percent.

Business Acquisitions

Business acquisitions, net of cash acquired, equalled \$12.2 million in the first quarter (2004 - \$0.3 million), as a result of Sobeys' acquisition of franchisee stores and theatre's acquisition of four additional theatres, located in the Maritime Provinces, purchased from Viacom Canada Inc.

Cash Flows (Used in) from Financing Activities

First quarter cash flows used in financing activities were \$11.2 million compared to \$50.4 million of cash flows from financing activities in the first quarter last year. The change of \$61.6 million is primarily related to a reduced reliance on bank indebtedness, relative to the first quarter last year, of \$49.2 million along with an increase in cash outflows related

to dividend payments, debt repayments and share repurchases. Details on these items are provided below.

Dividend Payments

Dividends of \$7.9 million (\$0.12 per share) were paid in the first quarter of fiscal 2005 on Empire's common shares, up from the \$6.6 million (\$0.10 per share) paid in the first quarter of fiscal 2004. The annualized dividend rate has increased from \$0.40 to \$0.48 per share. There was no material change in the number of common shares outstanding year-over-year.

Debt Repayments

During the first quarter of fiscal 2005, Empire repaid \$23.5 million of long-term debt compared to \$19.4 million in the comparable period last year as a result of regularly scheduled debt repayment.

Share Repurchases

During the first quarter of fiscal 2005, Empire repurchased 61,129 Non-Voting Class A shares (\$1.6 million) under a Normal Course Issuer Bid announced July 8, 2004. The Company issued 42,129 Non-Voting Class A shares (\$0.9 million) to fulfill its obligations under its stock option and share purchase plans.

On July 8, 2004, Empire announced its intention to file a Normal Course Issuer Bid with the Toronto Stock Exchange to purchase for cancellation of up to 617,391 Class A Non-Voting shares representing approximately 2.0 percent of the Class A Non-Voting shares currently outstanding. 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. Shareholders may obtain a copy of the notice of intention by contacting Empire's Investor Relations Department, 115 King Street, Stellarton, N.S., B0K 1S0.

Accounting Policy Changes Implemented in Fiscal 2005

During fiscal 2004, the Canadian Institute of Chartered Accountants (“CICA”) introduced handbook section 1100, GAAP, which deleted the industry practice that has previously constituted a source for Canadian GAAP. The Company had been following industry practice with respect to depreciation and lease accounting. Section 1100 now requires the Company to recognize depreciation of real estate building, rental expense and income from tenant leases on a straight-line basis. During the current period, the Company has adopted this handbook section prospectively without restatement.

The food division has also adopted this section prospectively without restatement and as a result Sobeys has changed its policy to record real estate lease expense on a straight-line basis. Additional real estate lease expense of \$0.5 million was recorded by Sobeys in the first quarter of fiscal 2005 as a result of this policy change. An additional \$1.5 million of expense is expected to be recorded in the balance of Sobeys 2005 fiscal year as a result of the adoption of this policy.

The real estate division has adopted this section prospectively without restatement and has commenced recording income from tenant leases on a straight-line basis resulting in additional real estate revenue of \$0.6 million during the quarter and an expected additional \$1.8 million during the remainder of fiscal 2005. In addition, the real estate division has changed its method of depreciation from the sinking fund method to the straight-line method, resulting in an incremental \$0.3 million of depreciation expense during the quarter and an expected additional \$0.9 million during the remainder of fiscal 2005.

In fiscal 2004 the Emerging Issues Committee issued Abstract 132, “Share Purchase Financing”. This Abstract required share purchase loans that are not treated as assets on the balance sheet to be accounted for as stock-based compensation. The Company has determined there is no material impact on the consolidated financial statements.

Accounting guideline (AcG) 13, "Hedging Relationships", came into effect during the current fiscal quarter. This guideline address the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting and provides guidance with respect to the discontinuance of hedge accounting. Adoption of this guideline had no effect on the Company.

During the first quarter of fiscal 2005, the CICA Handbook Section 3110, "Asset Retirement Obligations" was adopted. This section establishes standards for the recognition, measurement, and disclosure of legal obligations associated with the costs to retire long-lived assets. There has been no impact on the Company from the adoption of this section.

In January 2004, the CICA issued a new accounting standard EIC-144 titled “Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor”. EIC-144 provides that cash consideration received from a vendor is presumed to be a reduction in the prices of the vendor’s products or services and should, therefore, be characterized as a reduction in cost of sales and related inventory when recognized in the customer’s income statement and balance sheets. If the consideration is a payment for assets or services delivered to the vendor, the cash consideration should be characterized as revenue or other income. If it is a reimbursement of costs incurred to sell the vendor’s products, the cash consideration should be characterized as a

reduction of that cost, provided certain conditions are met. EIC-144 requires retroactive application to all financial statements for annual and interim periods ending after August 15, 2004. The Company implemented this standard at the beginning of fiscal 2005 and has determined there is no impact on current years' or prior years' net income. The adoption of this new standard has resulted in cash consideration received from vendors of Sobeys of \$1.8 million in the first quarter of fiscal 2005 (\$1.3 million in the first quarter of fiscal 2004) being reported as a reduction in cost of sales. This cash consideration was historically recorded as sales.

Future Accounting Policy Changes

During the previous fiscal year, the CICA issued Accounting Guideline Number 15 "Consolidation of Variable Interest Entities" which is applicable to the Company's third quarter of fiscal 2005. Subsequently on May 5, 2004, the CICA issued further guidance on this accounting guideline. A Variable Interest Entity ("VIE") is any type of legal structure not controlled by voting equity, but rather by contractual and/or other financial arrangements. The Company has identified potential VIE's and is currently reviewing Accounting Guideline 15 to determine what extent, if any at all, consolidation and note disclosure will be required. The consolidation of potential VIE's is not expected to result in any material change in the reported earnings or underlying tax, legal or credit risks facing the Company.

Critical Accounting Estimates

The critical accounting estimates relating to: pension, post-retirement and post-employment benefits; goodwill and long-lived assets; and income taxes as discussed in the "Management's Discussion and Analysis" section of the Company's fiscal 2004 Annual Report (pages 44 & 45), remain substantially unchanged.

Related Party Transactions

Sobeys continues to lease certain real property from Empire and certain of its subsidiaries at formula determined rates that approximate fair market value over the life of the leases. The rates are determined based primarily on the financing of the actual costs incurred at the time of construction of the leased properties.

Change in Fiscal Year-end

Effective for fiscal 2005, Empire's fiscal year-end has changed from April 30th to the first Saturday in May. As such, the quarter-end dates and fiscal year-end will be consistent with Sobeys.

Risk Management

Risk and uncertainties related to economic and industry factors and Empire's management of this risk, are discussed in detail in the "Management's Discussion and Analysis" section of the Company's fiscal 2004 annual report (pages 23-47). In addition, the Company considers and manages the following risks:

Human Resources

The Company is exposed to the risk of labour disruption in its operations. The Company has good relations with its employees and unions and does not anticipate any material labour disruptions in fiscal 2005.

Effective leadership is very important to the growth and continued success of the Company. The Company develops and delivers training programs at all levels across its various operating company's and operating regions in order to improve employee knowledge and better serve its customers. The ability of Empire and each of its operating companies to properly develop and retain its employees could affect the Company's future performance.

Environmental, Health and Safety

Empire and its operating companies are continually enhancing the programs they have in place to be in compliance with relevant legislation. Employee awareness and training programs are conducted and environmental, health and safety risks are reviewed on a regular basis.

Any environmental site remediation is completed using appropriate, qualified internal and external resources and health and safety issues are proactively dealt with. The Board of Directors receives regular reports which review outstanding matters, identify new legislation and outline new programs being implemented across each company to positively impact the environment and employee health and safety. Existing environmental protection regulatory requirements are not expected to have a material financial or operational effect on the capital expenditures, earnings or competitive position of any of Empire's operating companies during the current financial year or in future years.

Each Empire operating company has developed programs to promote a healthy and safe workplace, as well as progressive employment policies focused on the well being of their respective employees. These policies and programs are renewed regularly by the Human Resources Committee of the Board.

Foreign Operations

Empire and its operating companies do not have any material risks associated with foreign operations. Sobeys' foreign operations are limited to a small produce brokerage business located in the State of Florida. Genstar has certain land development activity in the State of California.

Foreign Currency

The Company conducts the majority of its business in Canadian dollars and its foreign exchange risk is limited to currency fluctuations between the Canadian and U.S. dollar. U.S. dollar purchases of product by the food division represent approximately two percent of Sobeys' total annual purchases. Sobeys uses forward contracts to fix the exchange rate on some of its expected requirements for U.S. dollars for periods of not more than 30 days.

Empire is exposed to foreign exchange risk through its U.S. dollar common equity investments. The Company has designated U.S. dollar based bankers' acceptances as hedges against these investments to mitigate this risk exposure.

Certain property investments made by Genstar are in the U.S. and as such Crombie is exposed to foreign currency fluctuations. To mitigate the foreign exchange risk exposure associated with these investments, Crombie has designated U.S. dollar based bankers' acceptances as hedges against the investments.

Food Safety

The Company is subject to potential liabilities and expenses associated with product defects, food safety and product handling. Such liabilities may arise in relation to the storage, distribution and display of products and, with respect to the Sobeys' private label products, the production, packaging and design of products.

A large majority of the Company's revenues, through its food division, are generated from food products. Sobeys could be vulnerable in the event of a significant outbreak of food-borne illness or increased public health concerns in connection with certain food products. Such an event could materially affect the Company's financial performance. Procedures are in place to manage food crises, should they occur. These procedures identify risks, provide clear communication to employees and consumers, and ensure that potentially harmful products are removed from inventory immediately. Food safety related liability exposures are insured by Sobeys insurance program. In addition, the Sobeys has food safety procedures and programs, which address safe food handling and preparation standards. Sobeys employs best practices for storage and distribution of food products.

Technology

The Company, through its operating companies, is committed to improving its operating systems, tools and procedures in order to become more efficient and effective. The implementation of major information technology projects carries with it various risks that must be mitigated by disciplined change management and governance processes.

Sobeys has a business process optimization team staffed with knowledgeable internal and external resources that is responsible for implementing the various initiatives. Sobeys' Board of Directors also created an Oversight Committee to ensure an appropriate governance structure over these change initiatives is in place and this committee receives regular reports from Sobeys' management.

Real Estate

Sobeys is focused on obtaining the most attractive real estate locations for its stores, with direct ownership being a secondary consideration. Sobeys develops certain retail store locations on owned sites; however, the majority of its store development is done in conjunction with external developers. The availability of potential new store sites and/or the ability to expand existing stores is therefore in large part contingent upon successful negotiation of operating leases with these developers and Sobeys' ability to purchase high potential sites.

Continued growth of Crombie and its affiliates is dependent on the identification of attractive commercial and residential real estate locations that either could be successfully developed.

Theatre management is focused on identifying new locations in small to mid markets in Canada which could be successful developed on its own or with its joint venture partner in Western Canada, Landmark Cinema's Inc. The identification of suitable new locations is correlated to the future growth rate and economic return of the business.

Legal, Taxation and Accounting

Changes to any of the various federal and provincial laws, rules and regulations related to the Company's business could have a material impact on its financial results. Compliance with any proposed charges could also result in significant cost to all or one of Empire's operating companies. Failure to fully comply with various laws, rules and regulations may expose Empire or one or more of its subsidiaries to proceedings which could materially affect performance.

Similarly, income tax regulations and/or accounting pronouncements may be changed in ways which could negatively affect the Company.

Franchise Operations

The success of Sobeys is dependent on the performance of its retail stores. Franchisees operate approximately 67 percent of these retail stores. Sobeys relies on the franchisees to successfully execute retail programs and strategies.

To maintain controls over Sobeys brands and the quality and range of products and services offered at its stores, each franchisee agrees to purchase merchandise from the company. Operating programs are specified under franchise agreements which expire at various times for individual franchisees. Each franchisee agrees to comply with the policies, marketing plans and operating standards prescribed by these programs. As well, Sobeys maintains head lease control, or has long-term buying agreements, to control the vast majority of its retail locations.

Outlook

Management continues to project stronger financial performance through the remainder of fiscal 2005, assuming continued intense competition and conservative cost of capital assumptions. Management remains committed to executing operational and capital allocation decisions that will grow the cash flow and net asset value in each of our businesses over the long-term.

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 9, 2004

Stellarton, Nova Scotia, Canada

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

Communications regarding investor records including changes of address or ownership, should be directed to the Company's transfer agent, CIBC Mellon Trust Company.

AFFILIATED COMPANY WEB ADDRESSES

www.sobeys.com
www.empiretheatres.com
www.crombieproperties.com
Halifax, Nova Scotia

SHAREHOLDERS' ANNUAL GENERAL MEETING

September 9, 2004 at 11:00 a.m.
Aberdeen Cinemas
610 East River Road
New Glasgow, Nova Scotia

STOCK SYMBOLS

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

AVERAGE DAILY TRADING VOLUME (TSE)

19,535

COMMON DIVIDEND RECORD AND PAYMENT DATES FOR FISCAL 2005*

Record Date	Payment Date
July 15, 2004	July 30, 2004
October 15, 2004	October 29, 2004
January 14, 2005	January 31, 2005
April 15, 2005	April 29, 2005

* subject to approval by Board of Directors

STOCK EXCHANGE LISTING

The Toronto Stock Exchange

OUTSTANDING SHARES

As of September 9, 2004

Non-Voting Class A common	30,850,585
Options exercisable with Class A common shares	27,674
Class B common, voting	34,885,225

TRANSFER AGENT

CIBC Mellon Trust Company
Telephone: (800) 387-0825
Email: enquiries@cibcmellon.com

BANKERS

Bank of Montreal
Bank of Nova Scotia
Canadian Imperial Bank of Commerce
National Bank of Canada
Royal Bank of Canada
TD Canada Trust

SOLICITORS

Stewart McKelvey Stirling Scales
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 annual report for each. If this occurs, please contact CIBC Mellon Trust Company at (800) 387-0825 to eliminate the multiple mailings.

EXEMPLAIRE FRANÇAIS

Vous pouvez obtenir un exemplaire français de ce rapport annuel en écrivant à :

Empire Company Limited

Investor Relations
115 King Street
Stellarton, Nova Scotia
B0K 1S0



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WWW.EMPIRECO.CA

