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OPERATOR: Good afternoon, ladies and gentlemen. My name is Martina, and I will be your conference operator today. At this time, I would like to welcome everyone to the Empire Company Limited Q2 F2012 Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, please press star, then the number one on your telephone keypad. If you would like to withdraw your question, press the pound key. I would now like to turn the call over to Paul Beesley, EVP, Chief Financial Officer. You may begin your conference.

PAUL BEESLEY (EVP, Chief Financial Officer, Empire Company Limited): Thank you, Martina, and welcome to Empire Company Limited's Second Quarter Conference Call.

Thank you for joining us today. Our comments will focus primarily on the financial results of our second quarter, which ended November 5, 2011. Afterwards we'll be open to your questions. This call is being recorded in live audio on our website, www.empireco.ca.

Joining me on the call this afternoon are, from Empire Company Limited, Paul Sobey, President and Chief Executive Officer, and Stewart Mahoney, Vice President, Investor Relations and Treasury. From Sobeys

Inc. we have Bill McEwan, President and Chief Executive Officer, Francois Vimard, Executive Vice President, and Paul Jewer, Chief Financial Officer.

Today's discussion includes forward-looking statements. We want to caution you that such statements are based on management's assumptions and beliefs. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. These risks and uncertainties are discussed in the Company's annual report.

We advise that this is the second quarter reporting our financial statements under International Financial Reporting Standards. All comparative figures for the last fiscal year have been adjusted to perform for the newly adopted standards.

This morning we released Empire's financial results for the second quarter ended November 5, 2011. Empire reported consolidated revenue in the second quarter of $4.04 billion, a $132 million or 3.4 percent increase over last year. Net earnings in the second quarter after minority interest equalled $78.1 million or $1.15 per share compared to $142.9 million or $2.09 per share last year. After excluding the impact of the gain on sale of Wajax Income Fund in the second quarter last year of $76.2

million, Empire recorded net earnings after minority interest in the second quarter last year of $66.7 million, which is $0.98 per share.

Adjusted net earnings, that is, earnings which excludes the Wajax gain last year in either items not considered indicative of the underlying business performance, was $74.6 million or $1.10 per share compared to $69.9 million or $1.02 per share last year.

The items not considered indicative of underlying business performance during the second quarter compared to last year, which impacted after-tax net earnings are, first, the gain on the sale of Wajax in the second quarter of last year of $76.2 million; second, Sobeys' distribution and store closure cost incurred in the second quarter of last year, amounting $16.7 million; third, Sobeys' organizational reset costs incurred in the second quarter of this year of $2.9 million; fourth, gains on the sale of assets of $1.3 million this quarter compared to $11.4 million in the prior year's quarter; and lastly, dilution gains of $5.1 million versus $1.1 million last year.

We have included a table in our news release, which reconciles reported net earnings to adjusted net earnings. With respect to the balance sheet, our consolidated debt ratio continues to improve with funded debt-to-capital at the end of the second quarter equal to 25.2

percent versus 26.7 percent at the start of the fiscal year. An authorized consolidated bank credit facility exceeded (inaudible) by $725 million.

I'll now turn the call over to Paul Sobey.

PAUL SOBEY (President and Chief Executive Officer, Empire Company Limited): Thanks very much, Paul, and good afternoon, everyone. We are pleased with our second quarter and fiscal year-to-date results as we continue to make progress in a very competitive environment. Bill will provide his comments on Sobeys a little later, including the exciting opportunities created by the purchase of the 250 retail gas locations from Shell, which was just announced.

Excluding the gain on the sale of Wajax in the second quarter last year, Empire's investments and other operations recorded net earnings of 9.6 million versus 7 million last year. Crombie REIT's contribution to Empire's operating income in Q2 was 4.8 million versus the 4.4 million last year as a result of higher property revenues and net operating income.

And, during the quarter we received cash distributions of approximately $7 million. Crombie's property occupancy remains—occupancy rate was 94.7 percent at the end of the second quarter as compared to 94.9 percent in the prior year. For detailed information on

Crombie REIT's performance, please see its quarterly release dated November 8th.

On the residential property side, Genstar continues to—contributed operating income in the second quarter of 2.9 million as compared to 3.7 million last year. And this reduction primarily is due to lower margins on residential lot sales. Other investments and operations contributed operating income of 8.3 million versus a negative 0.3 million in the prior year.

Operating income in the second quarter includes a dilution gain as referred to by Mr. Beesley of 7.3 million versus 1.5 million last year, associated with the change of the Company's ownership interest in Crombie REIT, which resulted primarily from the conversion of certain Crombie REIT convertible debentures into equity.

I'll turn the comments now over to Bill McEwan for specific performance on Sobeys.

BILL MCEWAN (President and Chief Executive Officer, Sobeys Inc.): Thank you, Paul. Sobeys Q2 sales increased $131 million or 3.4 percent to $4 billion. Same-store sales grew by 1.9 percent in the quarter while aggregate inflations totaled 1.5 percent for the quarter, unchanged from Q1 this year. Sobeys' Q2 EBIT contribution to Empire increased $8.1

million to $109.8 million. Sobeys' Q2 net earnings contribution to Empire increased $8.8 million to $68.5 million.

We continue to invest across the entire company in our store networks and infrastructure. During the second quarter, Sobeys' CAPEX totaled $154 million on new stores, enlargements, renovations, as well as land purchases and infrastructure. Fifteen corporate and franchised stores were opened, one store was expanded, and seven stores were re-bannered. Again, at the end of the quarter, Sobeys' square footage totaled 28.9 million square feet, an increase of 2.1 percent year-over-year.

Additionally, we continue to be pleased with the customer response to our FreshCo discount business in Ontario. We now have a total of 64 FreshCo stores in our network.

With the major conversions now completed, the team is focused on leveraging the strong sales growth and momentum to improve overall productivity. We continue to upgrade the distribution network, most notably construction is well underway in Quebec on our second automated DC, which we expect to have operational by spring 2013.

Our SAP implementation in our Quebec IGA operations business unit continues right on track. And as we announced in September beginning in early 2013, Sobeys will supply Target's food and grocery requirements for frozen, dairy, and dry grocery products, inclusive of both national brand and Target's private label brand. The associated increased revenue and the supply chain efficiencies, which will lower our cost, will continue to strengthen our competitive position. In addition to our distribution agreement, we are also exploring additional supply chain opportunities together with Target.

Consistent with our ongoing growth requirements and our continuous cost and productivity focus, we recently announced the work we have underway to reset our organization to leverage our assets and our people resources more effectively. Our shape-the-future teams are hard at work assembling the structures within our two business units business model that will employ more common process as it will implement best practices more consistently. At the same time, we are very mindful of the day-to-day discipline required to sustain our progress and performance improvements.

We have undertaken the work to reset our resources because we can, from a position of relative strength and with the benefit of all the infrastructure investments and improvements we have made over the past several years. We are confident that well executed, our efforts align positively with accelerated growth and performance through our improved merchandising, productivity, and cost reduction efforts.

We are also pleased to announce today that we've agreed with Shell Canada to purchase approximately 250 retail gas or convenience locations in Atlantic Canada and Quebec and it is expected that the network to be acquired will include corporate owned stores and dealer operated locations, and will have annual fuel volumes in excess of one billion litres. The transaction, subject to regulatory approval and customary conditions, is expected to close by the end of March 2012. We expect to use existing cash balances to finance the transaction.

This is an exciting opportunity for us to grow our existing retail gas operations while leveraging our significant wholesale and convenience business expertise to better serve our customers and support our affiliates and dealer operation.

Shell's strong fuel brand, connected with our leading retail brands and format (phon), and the strength of the Air Miles program, which is very well rooted with Shell and our operations in Quebec and Atlantic Canada, will be a unique and powerful offering to our customers.

Through all of these initiatives, irrespective of the ebbs and flows of the economic conditions in the food retail sector generally, we are optimistic that we can continue to grow and perform in a competitive environment. As we've consistently said, we have put the tools, processes, and disciplines in place to assist our people in getting the job done well, and through disciplined organizational reset efforts we intend to continue the process of accelerating further our cost, productivity, and efficiency initiatives.

Bottom line, as a team, we remain committed to being widely recognized as the best food retailer in this country. I'll turn it back to Paul for closing remarks.

PAUL SOBEY: Thanks, Bill. So we continue to make progress with Sobeys' focus on the top-line growth, supported by all the initiatives that Bill has outlined. We remain confident that we can continue to progress in a very competitive environment. The implementation of Sobeys' recently announced organizational reset over the coming year is another step, another step of our continuous improvement path to optimize our resources and performance company-wide.

We will now be happy to respond to your questions.

OPERATOR: At this time, I would like to remind everyone, in order to ask a question, star, one on your telephone keypad. And we'll pause for just a moment to compile the Q&A roster. Your first question comes from the line of Perry Caicco from CIBC World Markets. Your line is open.

PERRY CAICCO: Thanks. Bill, in the release you refer to your inflation rate as modest. I'm just wondering if you can be a little bit more precise, if that was at—you know, would it be above 1 percent or above 2 percent?

BILL MCEWAN: Sorry. I thought we mentioned in the conference script here: 1.5 percent, unchanged from Q1.

PERRY CAICCO: Okay. I can imagine that rate's probably been stronger in the fresh departments and the grocery departments, but I'm just kind of wondering how the mix of inflation is between regular priced and promotional items.

BILL MCEWAN: It changed through the course of the quarter. Deflation actually declined towards the end of the quarter, and the promotional mix became higher in the last period of the quarter as well. So it changed through the quarter and the quarter ended quite high on a promotional basis relative to the first few periods. There was less inflation in the end of the quarter than the beginning of the quarter.

PERRY CAICCO: Okay. And Bill, over to gross margins. Just wondering if you can explain the various reasons why your gross margin rate is down so much from last year, perhaps the role your promo program played or other things?

BILL MCEWAN: Yes. Well, first of all, it was down about 80 basis points, and 20 of that can be explained by the adjustments that we called out on the call last year between SG&A and margin. So that 40 is just a one-time anomaly. The other 40 basis points, a small percentage of it is due to the wholesale mix versus retail mix. Our wholesale business is quite healthy. When I say wholesale, that's the street business, number one, and it's at lower margins as you understand. The other is promotional. It's basically the promotional mix in a couple of the regions due to increased competitive activity, not across the entire market in those regions, but in acute circumstances they fund some various store openings and activities, and like we've said, every quarter is where we're 20 points lower, and 20 points higher. I mean, it's—on a smooth average we intend to continue to either keep them flat or grow them based on our cost and productivity initiatives on any (inaudible).

PERRY CAICCO: Okay, and just a last question if I could. With gross margins under pressure obviously cost controls and cost containment are going to be critical. Should we expect to continue to see the type of SG&A progress you've made recently continue or is SG&A more likely to track with sales trends?

BILL MCEWAN: Our SG&A, as we've said, and you've asked before, we have still significant headroom in SG&A and productivity improvements. So you can expect continued SG&A savings. A lot of what we've done in this reset, and we're taking a very deliberate, cautious, careful, disciplined approach to it, is to leverage our reserves as differently than we have before because we now have the systems and more process harmonization than we had before. And that's why when we were saying that three years ago, we weren't able to get at it the way we're getting at it through the organizational reset now.

So we're quite comfortable that as the marketplace continues to be competitive and margins continue to be under pressure, our cost and productivity initiatives can fuel our efforts to continue our performance improvement and improve our competitive position. Not just sustain our competitive position, but improve it.

PERRY CAICCO: Okay, thanks.

BILL MCEWAN: You got it.

OPERATOR: Your next question comes from the line of Chris Li from Bank of America Merrill Lynch. Your line is open.

CHRIS LI: Hi. With respect to the Shell Canada gas stations that you're acquiring, what is the physical state of those stores? How much capital do you envision that you need to invest in upgrading those stores?

BILL MCEWAN: Yes, well, first of all we're in the process—we've just signed the purchase and sales agreement and we're going towards closing in March, and we have some decisions on—to make on certain locations and whether they become part of the network we acquire or not. So there's a rationalization exercise so we can't answer that accurately. But what I'd like to do is I'll turn it over to Paul Jewer and he can give you a bit of more—a little bit more insight on that at this stage.

PAUL JEWER (Chief Financial Officer, Sobeys Inc.): Yes, we're certainly not at this point disclosing what our capital plans are. We do see an opportunity for continued growth in this business, and therefore we'll be spending some capital in the network to improve our convenience and gas stations in both regions.

CHRIS LI: Okay. And can you give us maybe a breakdown in terms of the store count in Quebec versus Atlantic Canada?

PAUL JEWER: Yes, it's approximately 250 stores in total, and as Bill said, that will change between now and closing. But it is approximately 80 percent in Quebec and 20 percent in Atlantic Canada.

CHRIS LI: And can you share with us the split between corporate and dealer stores?

PAUL JEWER: It's about 50/50 split today between corporate and dealer operated.

CHRIS LI: And do—most of those stores, they do have a merchandise in-store?

PAUL JEWER: Most of those stores do have convenient stores. That's correct. A few of them don't, but most of them do have a convenience business.

CHRIS LI: Okay. And just lastly on that topic. Can you maybe talk a little bit high level in terms of what type of synergies you expect to leverage from the acquisition?

BILL MCEWAN: We have a very well—and we haven't highlighted it as much as perhaps we should have—we have a very well developed wholesale business in Atlantic Canada, so the street business, the small convenience store business, in Atlantic Canada and in Quebec; have had for years, a hundred stores that we either own or service.

So our distribution networks are both geared for that business already, so the synergies are immediate and obvious when it comes to supplying them. But on top of that, there's not any significant synergies associated with the Air Miles program. Shell is a well established coalition partner in the Air Miles program, and we know so are we with our Quebec operations and Atlantic operations. So the powerful offering we can put together in conjunction with Shell, with the Shell brand as part of our portfolio, our IGA operations, and Sobeys and Foodland operations in Atlantic Canada is very significant indeed. And third, the whole food for fuel and fuel for food promotion that have been experienced across retailers in North America and in Europe have proven to be very powerful and successful. And we've had good success with our fast fuel cross promotional opportunities and initiatives in Atlantic Canada, and we have another service provider with Irving in Atlantic Canada where we have a very strong promotional connection between food and fuel.

So I wouldn't look at it as just as the retail gas or the retail convenience associated with the Shell, but the Air Miles synergies and the cost promotional food for fuel (phon) opportunities that are very significant indeed.

CHRIS LI: Okay. So last question is, do you see more acquisition opportunities in the retail fuel sector?

BILL MCEWAN: We remain willing, motivated, and capable for assets to fit our portfolio in any geography where we do business today.

We don't have anything on the plate but I think this should—this should clearly illustrate our strategic willingness and capability to go forward and attach our retail gas offering that we already know and understand based on our businesses, particularly in Atlantic Canada. We've got great experience in retail gas operations and through store operations, both in Quebec and Atlantic Canada. Our ability to first of all understand the merits of an individual business like that; B, go after and get it; and then, C, acquire it, implement it, and operate it.

CHRIS LI: Thank you,

OPERATOR: Your next question comes from the line of Peter Sklar from BMO Capital Markets. Your line is open.

PETER SKLAR: Just further on the Shell, I want to make sure I understand. So your existing wholesale business, you'll be wholesaling the 250 stores, is that the idea?

BILL MCEWAN: Yes, we'll be servicing—go ahead, sorry.

PAUL JEWER: Yes, Peter, we won't be servicing necessarily all of the 250 stores. Some of those stores are dealer operated and they have their own existing contracts. We will obviously be servicing the corporate store business, and we believe we have a very compelling offer to make to the dealers on our capabilities to serve their convenience needs as well.

PETER SKLAR: And so who is servicing that—them now from a wholesale perspective, both the dealers and on the corporate side? Do you have any of that business now or is it all potentially incremental?

PAUL JEWER: Yes, no, we do have a little bit of that business in Atlantic Canada today that we service out of our TRA business. But most of the business opportunity is incremental.

PETER SKLAR: Right. And how—I mean, I don't know these—I don't know these locations. Like what is the scope of the merchandise business versus the fuel volumes?

PAUL JEWER: As we answered to the other question, there are some stations that don't have convenience stores, but the majority of the locations do have convenience stores attached to them. We believe our convenience expertise will allow us to grow that business going forward. But I can't—I don't have a specific split today to say how much revenue or how many of those locations will have convenience offering going forward.

PETER SKLAR: Yes, no. I'm not looking for a specific number. It would just be kind of eyeballing it, Paul. Are they substantial convenient store operations they have or are they just very small square footage, adjunct to the fuel business?

BILL MCEWAN: They're significant percentage growth upside opportunity across that network, because we can operate them better than they currently are.

PAUL JEWER: And most of them do have good size convenience store split.

PETER SKLAR: Okay. And Paul, just on another topic, I noticed on Sobeys the depreciation is way down year-over-year. I'm assuming the difference between your reported EBIT and EBITDA is all depreciation and amortization. And if I did my arithmetic correctly, depreciation and amortization at Sobeys is 84 million versus 97 million last year, both on an IFRS basis. I'm just wondering why depreciation has declined so much.

PAUL JEWER: It hasn't declined at the Sobeys level. I think it's perhaps at the Empire level (inaudible).

UNIDENTIFIED SPEAKER: Yes, at the Empire level, Peter, there are consolidation entries that affect that. There's purchase price allocation entries and there's also an elimination of the gain on sale of properties at Crombie. And there's other miscellaneous consolidation entries that account for the difference.

PETER SKLAR: Yes, I'll go back and do my arithmetic, but I looked up the difference between Sobeys reported EBIT and EBITDA and that's why it came up. So I'll follow-up and send you an e-mail.

PAUL JEWER: Yes, certainly follow-up with me, but it's relatively flat year-over-year.

PETER SKLAR: Okay. Okay, and lastly, are there any unusual FreshCo conversion costs in the quarter or are we well through that?

PAUL JEWER: We're through that.

BILL MCEWAN: We're well through that.

PETER SKLAR: Okay, thank you.

OPERATOR: Your next question comes from the line of Jim Durran from Barclays Capital. Your line is open.

JIM DURRAN: Good afternoon. Bill, I just wanted to go back to the reset opportunity. Can you just flush out for us how you see this unfolding?

BILL MCEWAN: We announced on October 13 internally after significant work over the course of the prior six months to organize ourselves forward, that we see significant opportunity to organize somewhat differently from the four regional and two divisional business units we had before. I'll remind you, of course, the West, Ontario, Quebec, and Atlantic and separately Thrifty's and Lawton. We've now organized ourselves as two business units, recognizing the unique characteristics of the franchise operations in Quebec (inaudible) at the IGA business units, IGA operations business units. And then the balance is the Sobeys multi-format business unit, which comprises Ontario, the West, Thrifty's, and Atlantic Canada, where the Sobey brand goes across that entire network, along with a good portion of the Foodland brand and of course form additional formats, including the discount format and Thrifty's on Vancouver Island.

We have always said that the strength of our operations has been in our local market connection, our local market focus, and the autonomy and authority of our team in the market. We have no intention of giving that up. Having said that, having established that well in a, you know, DNA, that connection with the local market and keeping on top of that from a merchandising marketing and operations perspective, with our systems now largely in place particularly across the multi-format operations in what we've been otherwise calling (inaudible) Canada, we can now move to the next step to do those things that are too logical to ignore on a more administratively centralized basis. And by centralized, I don't necessarily mean in one geography, but remove the various redundancies that continue to persist and complexities that continue to persist, and the differences that continue to be perpetuated (phon) unnecessarily.

We want to differentiate in the market with a consumer based on market conditions. We don't want to differentiate in absolute terms where we can execute stores and capital more effectively and efficiently, execute programs, and format strategies in a more harmonious way without giving up the local market customization.

So, it's just administrative efficiency supporting a much—a very significant commitment to maintaining local market connection and local market execution. So you could imagine in distribution and logistics we've got some improvement in administrative efficiencies, in category management process, in the way we roll out our customer insights, and the resources. Rather than doing that in four or five different locations we can do that in one or two based on the business unit posture.

We have announced those two units. One of the business units is led by Marc Poulin. He continues to lead the IGA operations in Quebec. The other business unit is led by Jason Potter, who was formerly the regional president in Atlantic Canada. We have announced the senior leadership teams associated with those two business units, and confirm the roles for various leaders subsequently across the organization. So we're going one step at a time to look at the processes and teams and structures of the system across-the-board to develop them properly, to implement them with the right sense of urgency to making sure we do it well, with minimal disruption across the country over the next year to posture ourselves to be able to organize by format and execute more consistently by format across the country than we've been either willing or capable of doing thus far.

There are significant SG&A opportunities, and I should qualify what I said to Perry's question earlier. Significant SG&A opportunities over time as we harvest the benefits of this reset and the more effective deployment. We need to get through the final stages of the SAP implementation in Quebec, which will continue to attracts costs from the short term until spring next year. We see significant SG&A improvements, productivity improvements, and best practice migration on the top line to support this. It's just—it—I don't want to make this sound like a change in course, or strategy, or commitment to local focus or not. It's an evolution along the lines of the continuous improvement of cost of productivity that we've been talking about literally for eight or nine years. Just an accelerated effort to do that which we call too logical to ignore on the best practices and efficiency side coast-to-coast.

JIM DURRAN: If I'm listening correctly, then, the timing of sort of the large amounts of savings that will come through will have to wait until the Quebec SAP install is complete? And will there will be a point in time you'll start to talk about what the magnitude of dollars available might be, or are you going to just let us see the end result through margin and price management?

BILL MCEWAN: I think what you're going to see in this order: you're going to see us continue to protect and improve our competitive position by feeling our ability to do so. I don't want to make this about cost and productivity alone. This is about fueling growth. We intend to grow our sales per square foot by increasing our competitive position, including the price position as necessary now and going forward. So that's number one. It's about a growth strategy. It's supported by the cost of productivity initiatives. Some of the savings come on a longer term horizon. Some of the savings won't be apparent at all as we improve that competitive position. But if this doesn't fuel the top line then we won't have been successful in our efforts. That's what it's all about.

So think of the short term as being the last stages of execution of SAP. We will have some SG&A savings in the short term, but the order of magnitude will grow over the next, let's call it, 14 month to two and a half, three years. It will be a more even flow. This isn't a big crescendo event. This is just like the disciplined work we did the last five years in getting the stores to standard and the SAP implemented and the work force management, and (inaudible) management, and computer assisted ordering. This is just the next, you know, two to three year plan for us along the curve that we were on.

JIM DURRAN: Okay, that's great. And just one last question. You are in the process of reinvesting in the needs business throughout Atlantic Canada, and you've now made this Shell acquisition subject to it getting signed off on. I assume that this is sort of an augmented growth component of the entire portfolio, that perhaps we are going to see—continue to look at the convenient store business now in a slightly different way than it was over the last five years?

BILL MCEWAN: You know, Jim, that's a good observation. Because frankly, up until about five or six years ago with other priorities, infrastructure and retail priorities on our full service format and some challenges we had in discount that we've now rectified, we didn't put the attention, the capital, or the leadership in place to drive our convenience store business. You know, Brian Morrissey took over the need store business in Atlantic Canada about, I guess, four and a half, five years ago, and he and the team working closing with TRA have done a great job.

So we've got a much higher level of understanding and confidence in what a good convenience retail business unit and format can deliver. It gave us great confidence and learning in the fast fuel segment and the fuel segment that put us in a position to acquire the Shell business that we announced today. So you bet. If there are opportunities going forward that make sense along the line that we can digest and acquire and implement well, you bet, we'll look at them. It's always been one of our five formats. We have increased confidence and capability today versus the five years ago that you refer to.

JIM DURRAN: Any chance we might see a similar increased level of focus on Lawtons? Or just let's call it pharmacy in general?

BILL MCEWAN: I would say to you the same thing. Well, when we took and focused on convenience with the needs segment five years ago, approximately at the same time Ralph Sobey stepped into Lawtons and set forth a long-term strategy, three pronged strategy, that is well into execution. We're very pleased with the Lawton business, both in terms of its short-term performance, having really upgraded those stores, brought the network up to standard, the future potential, the offering improvements, the home healthcare business, the dramatic improvements associated with the centre of excellence that Lawtons is in our in-store pharmacy business, and Ron Peters (phon), who joined us a few years ago to help us understand that more clearly.

So I would look at the convenience segment and Lawtons Drugs as being similar trajectories of improvement the last four or five years, and we would continue to look at opportunities, primarily in-store pharmacies, with improved capabilities in the drug segment as well.

JIM DURRAN: Great. Thank you, Bill.

BILL MCEWAN: Okay.

OPERATOR: Your next question comes from the line of Michael Van Aelst from TD Securities. Your line is open.

MICHAEL VAN AELST: Hi. Just to start off, can you give us some colour on the transaction or traffic and basket size, things like that?

BILL MCEWAN: Yes. Overall the growth was driven almost exclusively by transaction size. Tonnage was up, transaction size was up, and transaction counts—I don't want to say customer counts—transaction count was basically flat.

MICHAEL VAN AELST: Okay. And you talked about promotional mix picking up as the quarter went on. Do you see that as an increase in the competitive activity with more products, more items on promotion? Or, is it a function of greater cherry picking by the customer?

BILL MCEWAN: Well, I would say it's the promotion of deeper discounts, in some cases in some markets, new lows, (inaudible) few points recently, all-time lows again, in a couple markets likely. So it's promotional intensity driven by retailers putting stronger price points out there that consumers have always reacted to. And that's affecting margins in the short term. So we have no intention of not being competitive on a period-to-period, quarter-to-quarter basis.

MICHAEL VAN AELST: Do you find—are you more at risk of cherry picking because you're more focused on the conventional side or the fresh format size?

BILL MCEWAN: Yes, I appreciate you calling it the fresh format size because we don't calling it conventional. So, no, I don't, actually. I think quite frankly the quality of our offering continues to prove in our full service stores across the board, Thrifty's, Sobeys, IGA Extra, and IGA. So no, I wouldn't say we're more susceptible to cherry picking. It's really driven more acutely in some markets than others. So no, I wouldn't say we're more aggressive. Not at all.

MICHAEL VAN AELST: Last question is on the ethnic side. Ethnic shoppers obviously like to go to their own ethnic stores or if not, to discount stores, and you're not really big in either of them. What—what are you going to do over the next little while to address that?

BILL MCEWAN: Well, we've already—I would come back to you and say if you look back at what we developed in the heavily concentrated series of ethnic markets, and quite frankly ethnic is too homogenous a term. There's so much multicultural diversity in so many different clusters across particularly Ontario markets, particularly the GTA and then of course Vancouver. So we think we've done a very solid job, market-by-market, store-by-store, in what our FreshCo offering represents in those markets.

So fresher, cheaper, discount done right, less compromise, and tailored assortments for the various ethnic markets across the GTA. That has been a proactive and significant response within our portfolios. So I would take—I would suggest that it's not that we haven't done much. We've done something significant with FreshCo. We haven't gone out and acquired a pure ethnic play, but there—well, how some of our competitors have picked up assets that have a particular ethnic orientation of several dozen ethnic orientations that are out there. You can appreciate that we're looking at it. We want to understand how we can acquisition the expertise, what businesses we might acquire, what we might partner with. And you'll stay tuned. You'll see some things unfold. But we want to do it right, and we don't call it—we don't call it a homogenous ethnic play. We're going to take it on a market-by-market basis. But what I will tell you for sure is that a lot of those retail opportunities that need to be really well understood and it's not just acquiring the assets. You need to acquire the expertise and the knowledge to run them properly. So what we'll do, we'll do well.

MICHAEL VAN AELST: So outside the FreshCo though, I mean, I agree that FreshCo is a good format and directed well at that customer base. But outside of Ontario, how are you addressing it more at this point?

BILL MCEWAN: Well, as I said before, on a market-by-market basis we have always tended to be relevant market-by-market, and in, you know, there are stores—there are stores in Western Canada situated in the lower mainland that have a slight skew towards the marketplace. But one thing I will tell you, trying to take a Thrifty's store and making it multicultural by putting it in the wrong places is just the wrong thing to do. We're not going to put a Thrifty's store in a highly ethnic community. It just wouldn't make sense. We'd have to acquire a different format and a different expertise to be able to satisfy the requirements of that cluster of consumers.

So I think we've—obviously our same-store sales have been evidenced by the fact that (inaudible) we've been relevant in the full service stores across the country. We continue to improve our offering and been relevant in those communities. And where it's more acute and there are multicultural opportunities, we'll look at what we need to develop or acquire form here. So I think we're on top of it internally, but we're not rushing to action arbitrarily. We want to have a good understanding and a good plan, not across all markets, but in markets that make good sense.

MICHAEL VAN AELST: All right, thank you.

OPERATOR: Your next question comes from Keith Howlett from Desjardins Securities. Your line is open.

KEITH HOWLETT: Yes, I had a question on the organizational realignment or restructuring. How do the Lawtons and the convenience store business fit in that organization?

BILL MCEWAN: The convenience store business—thank you for clarifying—asking for that clarification. We have chosen to organize the two business units for the five formats of full service, community service, discount, urban fresh, and the convenience segment. Lawtons, because quite frankly they're doing a great job as a stand-alone division, we'll continue to run as a stand-alone division with the focus and attention that they've put on it for the last four years. We will integrate some of the back shops that make sense but we're not integrating Lawtons into the two business units that I described earlier. But the convenience business will be run as one of the formats out of the multi-format business unit that Jason Potter will lead.

KEITH HOWLETT: And will Lawtons—or maybe they do already—do they have a role in the pharmacies inside the food stores outside of Atlantic Canada?

BILL MCEWAN: Absolutely. Ron Peters, who runs our in-store pharmacy business, works hand-in-hand and in absolutely very close proximity strategically and operationally with the Lawtons people. Lawtons is a centre of excellence and a centre of expertise for us that we leverage across the entire network.

KEITH HOWLETT: And I just had a few questions on the Shell transaction. Was that a auction or was that a private sale from Shell to you?

BILL MCEWAN: We wouldn't be prepared to respond to that. It's—we're just pleased that Shell and ourselves have entered into an agreement that's we hope mutually satisfactory. But we'd rather not comment on the process leading up to the arrangement that we announced today.

KEITH HOWLETT: And then in terms of the organization, I think you have around 20 gas stations in Atlantic Canada if my numbers are right, but do you acquire some organization here from Shell as well as the physical assets?

PAUL JEWER: Yes. We actually have 40 gas stations in Atlantic Canada. You're right. About half of them are in fact fuel branded, but we run about 20 others for other major gasoline companies. So we do have some infrastructure in place today to run that business and our convenience business obviously.

We also have a sizeable convenience business in Quebec that we service through the wholesale channel which is worth mentioning. So we have some infrastructure in place there already today as well, but we will look at what opportunities we have to deploy some of the talent that currently just in the Shell business into our business.

KEITH HOWLETT: I see. But you've actually acquired assets here, not a entity with people inside it.

PAUL JEWER: We've acquired assets; that is correct. But we would have intentions to have some of the people that run that business today work for us in the future.

KEITH HOWLETT: And just on the—do they own many of the real estate underneath the stations?

PAUL JEWER: Again, it's a mix, and where it is owned, we are acquiring.

KEITH HOWLETT: And would that be something—this could be a fairly stupid question—but would that be something that the Crombie REIT would want to buy?

BILL MCEWAN: We'd have to wait for Crombie REIT to express interest or not, but we're not sure. We've had no conversations with Crombie at all.

KEITH HOWLETT: And then on the supply chain, does the convenient store, is it a completely different set of trucks and distribution centres, or is it sort of run somewhat with the large format grocery stores?

UNIDENTIFIED SPEAKER: No, it's been run very compatibly with our existing network, both in Quebec and Atlantic Canada. The synergies are very, very clear and very simple and very apparent.

FRANCOIS VIMARD (Executive Vice President, Sobeys Inc.): And it can add up also (inaudible) the new Terrebonne DC building in Quebec in Terrebonne, has what we call (inaudible) facility expressly to serve those kind of stores.

BILL MCEWAN: Right. Francois brings out a really good point. There's something called a DPF (phon) capability that was built into the automated distribution centre that Francois just mentioned—he's a little bit further from the phone here—that he and the team have designed to service the small store counts and business light convenience channel even more productively in the future. And then—that's a synergy I didn't mention when the first question came up that I should have, that's another key element.

KEITH HOWLETT: And would—does the same—if you were driving up to, well, to Terrebonne's a bad example. The DC's there. But say, does the same truck go to a IGA Extra store as goes to the convenience store in Quebec?

UNIDENTIFIED SPEAKER: You know what? Maybe, sometimes. I don't know. All I know is that they run it well and in some cases it makes sense to have two drops on a truck, they have two drops on a truck.

Sometimes it's (inaudible). Sometimes it's backhaul. So I don't have the specific answers there.

KEITH HOWLETT: But the business works. The reason I was asking is some of the, you know, the U.S. guys are quite specialized. They just do convenience stores, but clearly here it works well to run the two of them together, I guess is the answer.

FRANCOIS VIMARD: They will all run from Terrebonne, so.

KEITH HOWLETT: Right, great. And just on the type of stores, are a lot—I'm not—are a lot of them the Shell Select, like large format, newer convenience stores or is it sort of a mix of Shell Select convenience stores and sort of smaller kiosks with gas pumps. Or how does the network look?

PAUL JEWER: Yes, it is a mix. Again I won't break down the specific details, but there are a number of Shell Select gas stations that would be included and there are a smaller number, I would say, of the kiosk type locations.

KEITH HOWLETT: And just finally on the Walmart entry in Quebec, you may not want to comment because I know it's a big specific. But you happen to have two IGA Extra store owners right next to the Walmart Supercentre in Laval, and I'm just sort of interested what their experience would be there.

UNIDENTIFIED SPEAKER: Yes, I wouldn't comment on the specific store experience. I will comment on the Quebec retail franchisees and our teams' capabilities, and they're very strong and they're very capable of dealing with competitive entry. So I won't comment on those two locations specifically with the (inaudible).

KEITH HOWLETT: And I guess just to make sure I've got—I think you already answered this—but you would not rule out the convenience gas business in other geographies. Is that the way (inaudible)?

UNIDENTIFIED SPEAKER: Correct, that is correct.

KEITH HOWLETT: Great. Thanks very much.

UNIDENTIFIED SPEAKER: Okay.

OPERATOR: Once again, in order to ask a question, star, one on your telephone keypad. And your next question comes from the line of Jim Durran from Barclays Capital. Your line is open.

JIM DURRAN: Yes, just wanted to target opportunity that will be coming down the road. When they're talking about starting to re-open some of the stores by March of 2013, and I just want to make sure in terms of us sort of anticipating some of the distribution ramp-up that you'd be doing, how far in advance of that would you start providing them with product? Are you going to be shipping direct to store or to a secondary warehouse? How is that all going to work?

BILL MCEWAN: Yes, we were in close cooperation obviously as part of our arrangement with Target. It's too early to give you any suggestion about when we could expect to see any impact on our business associate or it's ramping up into their stores. It's still very early days and you can appreciate, you know, based on the—how they're entering the marketplace, they're making great progress I understand, and they're going to be on track with their targets. But we don't have anything specific that we'd be in a position to share at this point.

JIM DURRAN: Okay, thanks, Bill.

OPERATOR: And there are no further questions in the queue. I will turn the call back over to the presenters for closing remarks.

UNIDENTIFIED SPEAKER: Thank you very much, Martina. Ladies and gentlemen, we appreciate your continued interest in Empire and look forward to having you join us for our Q3 fiscal 2012 conference call on March (inaudible). Good bye.

UNIDENTIFIED SPEAKER: Happy Holidays and thank you for shopping at Sobeys.

UNIDENTIFIED SPEAKER: All the best.

OPERATOR: This concludes today's conference call. You may now disconnect.

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