

EVENT: EMPIRE COMPANY LIMITED –
THIRD QUARTER FISCAL 2011 CONFERENCE CALL
TIME: 14H30 E.T.
REFERENCE: CNW GROUP
LENGTH: APPROXIMATELY 30 MINUTES
DATE: MARCH 8, 2011

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OPERATOR: Good afternoon. My name is Andrea and I will be your conference operator today. At this time, I would like to welcome everyone to the Empire Company Limited Q3 Fiscal 2011 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'd like to ask a question during this time, simply press star, then the number one, on your telephone keypad. If you'd like to withdraw your question, press the pound key. Thank you.

I would now like to turn the call over to our host, Mr. Paul Beesley, Executive Vice President and Chief Financial Officer. You may begin your conference, sir.

PAUL BEESLEY (Executive Vice President and Chief Financial Officer, Empire Company Ltd.): Thank you, Andrea. Good afternoon and welcome to Empire Company Limited Third Quarter Conference Call.

Our comments today will focus primarily on the financial results of the third quarter ending January 29th, 2011. We will be then open to your questions. This call is being recorded in live audio on our website at www.empireco.ca. 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

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statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements.

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 Sobey's we have Bill McEwan, President and Chief Executive Officer; Francois Vimard, Chief Financial Officer and Paul Jewer, Senior Vice President, Finance and Treasury.

This morning we released Empire's financial results for the third quarter ended January 29th, 2011. Revenue for the third quarter equalled \$3.88 billion compared to \$3.84 billion the previous year, a 1.3 percent increase. Third quarter operating earnings—that is earnings before net capital gains and other items—equalled \$60 million or \$0.88 per share, compared to \$68.3 million or \$0.99 per share in the third quarter last year. Included in third quarter operating earnings were pre-tax costs of \$6 million associated with Sobey's recently announced plan to construct an automated distribution center Terrebonne, Quebec, as well as pre-tax costs of \$3.3 million associated with continued FreshCo discount store conversions. Earnings before capital gains and these items amount to 66.6 million or \$0.98 per share.

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There were capital gains in other items, net of tax, of \$2.8 million in the third quarter, compared to none in the third quarter last year. Capital gains in the third quarter consisted of a \$1.5 million gain on the sale of property and \$1.3 million fair value adjustment to asset-backed commercial paper. Net earnings in the third quarter were \$62.8 million or \$0.92 per share compared to \$68.3 million or \$0.99 per share last year. Empire's overall liquidity remains strong with cash and cash equivalents of \$481 million at the end of the third quarter, up from \$401 million at the start of the fiscal year. Our debt ratios also continue to improve with net debt total capital into the third quarter equal to 18.2 percent versus 21.8 percent at the start of the fiscal year and 26.4 percent at the end of the third quarter last year. Authorized consolidated bank credit facilities exceeded borrowings by \$700 million and Empire's direct debt at quarter end was \$138 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. Good afternoon everyone. Our third quarter results are consistent with our expectation and reflect continued competitive activity in the food retail market. As noted in our press release, we are confident that Sobeys' focus on executing its

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strategy, differentiating its food retail offering and reducing costs through its productivity and system initiatives will continue to build long-term sustainable value. Bill will provide his comments on Sobeys and the retail food environment a little later.

With respect to our real estate division, during the third quarter, Empire's real estate division recorded operating earnings of 5.4 million versus 6 million last year. Our residential operations account for this decrease due to lower residential lot sales activity. In terms of occupancy rates, property occupancies remained strong at 95.8 percent at the end of December 31st, a record high for property rate, compared to 94.7 percent a year earlier. Average net rent per square foot from leasing activity for 2010 increased to \$14.13 compared to an average expiring rent per square foot of \$13.44, a 5 percent increase.

During the quarter, Crombie completed the acquisition of two retail properties totally 87 thousand square feet for a purchase price of 17 million. For detailed information on Crombie REIT's performance, please see its quarterly release dated February 24th.

With respect to our investments and other operations, operating earnings in the third quarter, net of corporate expenses, declined by 2.5 million from the third quarter last year, principally as a result of the sale of

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our interest in Wajax Income Fund last quarter, along with the interest income recorded in the third quarter last year related to the Hannaford tax settlement.

Bill McEwan will now comment on the performance of Empire's food division.

BILL MCEWAN (President and Chief Executive Officer, Sobeys Inc.): Thank you, Paul. Sobeys Q3 sales increased \$56 million or 1.5 percent to \$3.83 billion up from 3.77 billion last year. Same-store sales declined 0.4 percent compared to the third quarter last year. Through the third quarter deflation persisted. Deflation in the quarter totalled 1.5 percent in aggregate for Sobeys. A significant contributing factor... deflationary factor in the quarter is attributed to the intense promotional activity in most regions of the country. Sobeys Q3 gross margin percentage was up 34 basis points from last year due to mix improvements, shrink reduction and vendor management initiatives.

Sobeys Q3 EBIT contribution to Empire decreased 4.8 million to \$94.2 million, principally due to \$6 million in costs related to the announcement of the construction of the Terrebonne, Quebec distribution center for 3.3 million and \$3.3 million in costs related to the continued roll-

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out of FreshCo discount store conversions, as Paul Beesley mentioned earlier.

There are some—now these are some of the key quarterly numbers that I've just mentioned. Please allow me now to expand on the market climate, our progress and position overall, and our continued focus going forward. First of all, the marketplace. Deflation has, as I've said before, been a significant factor over the past year, driven largely by intense weekly price and promotion activity. Promotional intensity and weights have been at near all-time highs. Competitive responses to new stores and re-bannered and improved offerings has been significant, not the least of which was the market reaction to our FreshCo conversions. And expanded offerings into retailers formerly known as non-traditional has increased. There are now more players and more choices and there are much more shop-shifting among customers. And while deflation has persisted, there are early indications—and I say early indications—of balanced inflation as product cost increases appear or are imminent. Operating costs continue to rise from wages to utilities to municipal taxes. We are faced with the challenge of sustained and growing margins against significant headwinds industry-wide.

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As for our progress and position, we continue to be pleased with customer response to the FreshCo improved offerings and pricing as low or lower than any competitor in the marketplace and we now have 45 stores converted and reopened with more to come in the following months. And while there has been much attention associated with our FreshCo conversions, we continue to invest across the entire company and our store network and infrastructure. Here in the third quarter, Sobeys CAPEX totalled \$130 million covering store network renewal and infrastructure improvement and expansion projects. Fourteen corporate and franchise stores were opened, acquired or relocated, two stores were expanded and 14 stores were re-bannered. Among these improvements are next generation full-service Sobeys, IGA, Extra and Thrifty Foods stores that are taking the quality of our offerings to a higher level, while incorporating lower costs, higher efficiency equipment and fixtures. In addition, after years of repositioning and reinvestment, our Lawton's Drug, Foodland Community, Needs Convenience and Urban Fresh store banners are each performing well.

At the end of our third quarter on January 29th, Sobeys' square footage totalled 28.6 million square feet, a 2.5 percent increase over last year. Additionally, we continue to upgrade the distribution network, most

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notably with the recent announcement of our second automated distribution center in Quebec. Our SAP Quebec implementation is right on track. We continue to build stronger management and grow our bench strength and we had many of the vital enabling tools processes and disciplines in place to assist our people in getting the job done well.

Having said that, we are in the process of accelerating our pursuit of additional productivity and efficiency initiatives to fuel our competitive posture and we intend to also accelerate the application and harvest of benefits of our customer insight capabilities. Going forward, we intend to stay the course and steer the course irrespective of the ebb-and-flow of the competitive response to our activities. We remain confident and committed to sustaining our solid competitive pricing and promotional posture.

As I have mentioned in previous calls, while individual quarterly aggregate results may rise or dip somewhat, we know that we have the wherewithal to see our way through to longer term and sustainable sales and earnings growth. Bottom line, as a team we remain committed to being widely recognized as the best food retailer in this country. We remain focused on improving our offering, our service, develop our people, bring even more stores to standard and improve our productivity. We

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intend to lower our costs, innovate intelligently and execute well and consistently store-by-store.

I will now conclude today's call with Paul's comment. Paul Sobey.

PAUL SOBEY: Thank you, Bill. As noted, we are pleased with our progress to-date. The management, employees, franchisees and affiliates of both our food retailing and real estate divisions remain committed to working in close collaboration. We are indeed focused on being the best together. 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, please press star, then the number one, on your telephone keypad. The first question comes from the line of Perry Caicco with CIBC World Markets. Your line is open.

PERRY CAICCO: Thanks. Bill, just on the deflation number, was the deflation more pronounced in the areas where your discount banner operates?

BILL MCEWAN: Yes.

PERRY CAICCO: Yes?

BILL MCEWAN: And I would also add that compared to others that may have reported, we had the month of January in our numbers and

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there was significant promotional activity, particularly in the discount sector, in Ontario and Atlantic Canada.

PERRY CAICCO: Given those factors how do you see inflation or deflation playing out over the next few months?

BILL MCEWAN: Well we had expected inflation to be less than it was, if not return to no inflation and no deflation by this quarter, Perry. That was our expectation that it would happen in that direction. As you can see, it headed the other way in that turns from 1.5 to 1 percent. We expect, as a result of what we see preliminarily in the marketplace, what we hear preliminarily in the marketplace, what we know are coming in terms of commodity increases and cost of goods increases and what appears to be the appropriate appetite—although I will say again we'll stay competitive in all costs. We believe that we're headed towards less deflation, more inflation by the end of this fiscal year. But again, we were wrong headed into this year in our predictions. We shall see but it is more likely that we'll see a return to no inflation or modest inflation soon.

PERRY CAICCO: Okay. You seem to keep very good control of the SG&A line. I guess it was up less than 2 percent over last year. What's your outlook on operating costs in the business? Will you be able to keep them from rising more than that?

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BILL MCEWAN: Yes. It's going to be difficult in this respect, as you've asked and we've answered on several other calls. Over the past four or five years we've been relentless in our pursuit of cost management and productivity initiatives to fuel our competitive posture and to deal with accelerating operating costs. But as I mentioned briefly on the call, whether it's utilities or municipal taxes or minimum wage increases that continue to cascade across the country, they are profound numbers and they're accelerating at quite a pace. Thus far—and we hope to continue—thus far we've been able to offset those with our cost and productivity initiatives and in our margin gains. We still have headroom to improve our SG&A significantly over the next two to four years, at not an increased but at a steady slow and we'll continue to do so. But I will share with you that the operating costs that have come our way most recently and not just in central Canada where they're more publicized, but across the board, are more difficult to offset. I'm not predicting that we won't continue to make progress on the SG&A line but I would have said a year and a half ago with the slope we were on, we would have made more progress in reducing our SG&A expense than we have. Although we are down 9 points in SG&A for this quarter and up 34 percent on marginal (inaudible) for a 25 basis point increase in EBITDA, I would have hoped it would have

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been more solid than that, and it's really... I think it's a great illustration of the challenge that we're facing. We'd better get our cost and productivity moving that much more quickly and thus, like I said, we're going to accelerate our initiatives in that regards.

PERRY CAICCO: Okay, just lastly on that point, what are the key areas that you would like to accelerate?

BILL MCEWAN: Well, clearly the number one area of opportunity for us continues to be in our retail productivity performance. Whether it's pressure on the management and the continued utilization and application of it, or workforce management or computer assisted ordering or promotional pricing tool. That combined with more intelligent investment behind the capabilities around customer insights are two very broad areas. We also believe with increasing transparency associated with our systems rollout across the country, that we have continued cost leverage opportunities in terms of our sourcing, not just on private label but on national brand overall. So, the retail productivity initiatives, cost management, vendor initiatives properly employed and I would say administrative SG&A savings associated with, continue to sweat the assets and exploit our systems infrastructure and some redeployment

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opportunities that we have to reduce the amount of administrative functions we have transacting our business.

PERRY CAICCO: Thank you, Bill.

BILL MCEWAN: Thanks, Perry.

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

CHRIS LEE: Hi. Good afternoon. Just a few questions on the operating costs. First on the FreshCo launch cost, how much do you expect to incur for Q4 and how much more for the next fiscal year?

BILL MCEWAN: We expect that the costs that were 2.3 million in this quarter will be approximately the same next quarter and the first quarter of next year and beyond that we'll be—for all intents and purposes, we'll be through and complete with all the conversions at that time.

CHRIS LEE: Okay. And with respect to the SAP information cost in Quebec, it's helpful that you sort of broke out how much they were. How much more costs will be incurred for next fiscal year?

FRANCOIS VIMARD (Chief Financial Officer, Sobeys Inc): Same kind of level of expense we have in fiscal `11 so, you should see the same kind of overall investment in that for next.

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CHRIS LEE: And when do you expect the implementation to be complete?

FRANCOIS VIMARD: Normally the implementation would be totally complete by the beginning of calendar 2013.

BILL MCEWAN: Calendar 2013, the beginning of it.

CHRIS LEE: Okay. And just lastly on the new automated DC, you know, when do you expect to be in operations?

PAUL SOBEY: Early spring 2013.

CHRIS LEE: Early spring 2013. And can you share with us what you expect in terms of cost savings?

UNIDENTIFIED SPEAKER: No, but over time, significant. Clearly we are very pleased with the performance of our Vaughan distribution centre and it was at the time the state-of-art facility. This one is the next generation with additional functionality that will serve the Quebec business that much better. And we are looking forward to a long slope of cost per case reductions associated with the Quebec DC.

CHRIS LEE: Okay and you incurred 6 million of costs this quarter. Can you give us guidance for next quarter and for future years?

UNIDENTIFIED SPEAKER: No, that is it. That is the costs associated with the announcement itself, including the severance costs

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related to the announcement. So, that's the one-time costs associated with the announcement of the construction.

CHRIS LEE: Okay and where would that 6 million be recorded? Is it in the cost of goods sold or SG&A expense?

UNIDENTIFIED SPEAKER: SG&A.

UNIDENTIFIED SPEAKER: It's SG&A.

CHRIS LEE: SG&A. And same thing with the SAP implementation?

UNIDENTIFIED SPEAKER: That's correct.

CHRIS LEE: Okay. Thanks very much.

UNIDENTIFIED SPEAKER: Thank you.

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

PETER SKLAR: Hi, good afternoon. Bill, could you talk a little bit about how the suppliers are approaching you with respect to inflationary price increases? I would think that they think they can... they feel fairly justified coming to you with these price increases, given what's happened with food commodity costs. Maybe you could roll through the various categories and talk about what you're seeing there.

BILL MCEWAN: Well, I'll give you a general sense. I think that what I might suggest that the vendors will be tailgating the media on this one

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because the media is way out in front on a global basis on the impact of commodity increases like corn and oil and wheat and cocoa and the balance. We haven't seen nearly the wave of cost increases coming our way yet. There is a time lag effect of some several months from the time that the commodity prices hit the market place and it becomes public and how that trickles into cost of goods and then onto the retail side of the equation. You know, until last month we had seen no material increase in cost increases year-over-year from last year or the year before—somewhat but not material. We expect that to change. Clearly there is enough evidence that the commodity price increases and the operating cost increases that are associated with, you know, manufacturers transacting their business are going up, and they would expect that we would be confronted with cost increases. That's only reasonable to expect. What we're not sure of is what the market's appetite is to have what we call balanced inflation. And balanced inflation by our definition is that cost of goods come up, will the market allow a corresponding retailing increase in prices? And I say again we tend to be competitive at retail. Market dictates price, not cost, but there is enough early indications to suggest that the market is prepared to move up in a responsible way to reflect justified cost increases as manufacturers bring them forward. They

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really haven't hit to the point where you'd notice them in any given category. You know, we've heard quite a broadcast from Weston Bakeries. Ralph Robinson out there talking about the 5 percent increase in bakery that was clearly understood by the market—both manufacturers and retailers. I think that's the beginning of a few other announcements that we can expect to come our way and I think this thing was very strong, that not just cost includes inflation but expected corresponding, if not identical, to similar balanced retail inflation should be forthcoming.

PETER SKLAR: I just find it interesting that you're hopeful. I guess the right word is hopeful for a balanced retail inflation given the earlier comments that Management made in your presentation. I think you indicated in the quarter, and particularly in January, that promotional activity was at record levels.

BILL MCEWAN: I'm talking—you've asked two questions; one is historic and one is prospective. Historically, what has happened until recently is that the competitive activities, the competitive weights, have increased significantly. So, the percentage of promotion—and I'm not just talking about us—the percentage killed (phon) on promotion has increased significantly, which has a corresponding net impact on margins. Clearly. That has been the case thus far. We see a moderation of that currently in

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the last part of the quarter and as we sit here today. So, I think what has happened and what has been the case for the past 10 to, let's call it, 16 months, we expect it will be signs of different weights, lower weights of promotional activity going forward and that as cost increases do come our way, that there is a greater appetite and greater likelihood that we could see some reflection in retail pricing. I say again though, that is early indication. We have no intention of moving our retail prices away from a competitive posture in the marketplace. If the floor is held down, we will be down at the floor as appropriate. If promotional activity can abate as the market looks at different ways to drive their business, other than pursuing it through price reduction and price discounting for business that is not there, then things will moderate in that respect. So, it's just we're giving you a bit of flavour for what we think might happen in the early indications against what has happened in the past quarter, and let's call it the past four quarters.

PETER SKLAR: Okay, thank you.

BILL MCEWAN: Thanks.

OPERATOR: Your next question comes from the line of Keith Howlett with Desjardin Securities. Your line is open.

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KEITH HOWLETT: Yes, I wondered if you could update us on the private label trends in your business and how you see that going forward.

PAUL BEESLEY: Well, we won't give an absolute percentage contribution of how much our private label has grown; I will tell you we are very pleased with the increase in penetration as an aggregate category, by category. It's probably inappropriate that we didn't mention as part of our margin improvement we said shrink and vendor management but our private label contributions as we've gone through the conversions of our private label program, have begun to contribute a nice, strong, steady growth trickle over the past number of quarters and we're quite pleased with it. It's growing nicely.

KEITH HOWLETT: And on the drug store business, I know you've done a lot of work on the Lawton Drugs in the Maritimes. Is there any thought to bring either the trademark west or the store itself west?

PAUL BEESLEY: No, we have no plans for that at this time. We have a number of, you know, well over a hundred in-store pharmacies in our stores in Atlantic Canada, separate and distinct from the Lawton's Drugs stand-alone stores in Ontario and the west and Thrifty Foods and we will continue to expand those at a reasonable pace but we have no plans for Lawton Drugs outside of Atlantic Canada at this time.

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KEITH HOWLETT: I just wanted to clarify in the FreshCo—the FreshCo conversions will be complete in the first quarter of fiscal '12?

PAUL BEESLEY: That's correct. They'll be complete near the end of the summer, this coming summer.

KEITH HOWLETT: And that will take it to about 70, is that correct?

PAUL BEESLEY: Plus or minus, Keith. By that time all the Price Chopper stores will have been converted to FreshCo, converted some of them—a few of them to Foodlands or others closed.

KEITH HOWLETT: And are you still planning as it relates to FreshCo in the multicultural market, are you—I know you've put quite an effort for FreshCo to serve diverse communities. Are you learning—can FreshCo be your multicultural entry or do you have to have a separate vehicle?

PAUL BEESLEY: Well, we're looking at the different options to service across the company where there are ethnic concentration, the markets in ways that those customers value. We're satisfied that the FreshCo offerings tailored market-by-market, as we have done, is an appropriate way to do it inside those marketplaces, inside a discount concept behind the fresh offering that FreshCo provides.

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We're looking at other alternatives for multicultural and ethnic merchandising that includes the expansion of sections in our current community and full-service stores and possibly the opportunity to develop other concepts or acquire, if and when the time is appropriate to do so. So, stay tuned on that. We've got some plans underway but nothing that we can articulate with any definitive position today.

KEITH HOWLETT: Thanks very much.

OPERATOR: And again, if you would like to ask a question, please press star, then the number one, on your telephone keypad. And your next question is a follow-up from the line of Chris Lee with Bank of America Merrill Lynch. Your line is open.

CHRIS LEE: Hi there. How much CAPEX do you expect Sobeys to spend this fiscal year and how much for next fiscal year?

UNIDENTIFIED SPEAKER: (Unintelligible). This fiscal year we think will be 1000, 600 so maybe 5.75 net range. Next year, we're still finalizing capitalizing funds. (Unintelligible), Chris.

CHRIS LEE: Sorry, did you say 575?

UNIDENTIFIED SPEAKER: Yes, 575 this fiscal year.

CHRIS LEE: Can you break out just for the Sobeys portion?

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UNIDENTIFIED SPEAKER: Sobeys' catch?

UNIDENTIFIED SPEAKER: (Unintelligible) That is the Sobey's portion.

CHRIS LEE: That is Sobeys only, 575. Okay, got it. And I've noticed the depreciation expense for Sobeys this quarter spiked up quite a bit, up 10 percent compared to last quarter last year. Anything sort of going on there or can we expect similar rates?

FRANCOIS VIMARD: No, I think it's maybe because of the capital investment we did and considering the FreshCo conversion like this, but so capital investment (inaudible).

PAUL BEESLEY: Nothing to point to.

CHRIS LEE: Okay. And just a question on the share buy-back. I know you've already bought back about half of your shares under your CIB. You know, given your strong balance sheet and liquidity position, do you see an opportunity to finish or to buy back more shares?

UNIDENTIFIED SPEAKER: We're always looking at the marketplace with respect to our share buy-back as per we filed, and we haven't purchased any shares since that time and we'll continue to look at it as we move forward.

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CHRIS LEE: Okay. And my last question is just on the IFRS impact. You know, Loblaws provided some overview last week. Are you prepared to give us sort of in high level overview in terms of what the impact on your earnings per share would be under the new standards?

UNIDENTIFIED SPEAKER: Not at this point. With our year-end being the end of April, we're one quarter behind and so you'll additional disclosures in our Q4, which will occur on the 30th of June.

CHRIS LEE: Okay. I mean directionally speaking is it using it material or can you give a sense of what that detail... ?

UNIDENTIFIED SPEAKER: You know, we really don't want to say beyond what we had disclosed in the document. If you look in the MD&A, you'll see that there's a comprehensive section that goes through item-by-item, so I think beyond that, no. I would say, stay tuned.

CHRIS LEE: Okay, thank you.

OPERATOR: And again, if you would like to ask a question, please press star, then the number one, on your telephone keypad.

There are no further questions at this time in the queue. I turn the call back over to Mr. Beesley for any closing comments.

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PAUL BEESLEY: Thank you very much. Ladies and gentlemen, we appreciate your continued interest Empire and look forward to having you join us for our fourth quarter call on June 30th. Goodbye.

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

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