EMPIRE
COMPANY LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE 13 WEEKS ENDED AUGUST 4, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") contains commentary from management on the consolidated financial condition and results of operations of Empire Company Limited ("Empire" or the "Company") for the 13 weeks ended August 4, 2012 compared to the 13 weeks ended August 6, 2011. This discussion and analysis should be read in conjunction with the Company's unaudited consolidated financial statements and the accompanying notes for the 13 weeks ended August 4, 2012, the audited annual consolidated financial statements and the accompanying notes for the 52 weeks ended May 5, 2012 and the related annual MD&A. Additional information about the Company, including the 2012 Annual Report, the 2012 Annual Information Form, the 2012 audited annual financial statements and the 2012 annual MD&A can be found on SEDAR at www.sedar.com or on the Company's website at www.empireco.ca.

The unaudited, interim consolidated financial statements and the accompanying notes are prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB") and are reported in Canadian dollars.

These consolidated financial statements include the accounts of Empire, its subsidiaries and Special Purpose Entities ("SPEs"), which the Company is required to consolidate. The information contained in this MD&A is current to September 13, 2012, unless otherwise noted. There have been no material changes to disclosures as contained in the "Outlook", "Critical Accounting Estimates", "Contingencies" or "Risk Management" sections of the Company's fiscal 2012 MD&A other than as noted in this MD&A.

FORWARD-LOOKING INFORMATION

This discussion contains forward-looking statements which reflect management's expectations regarding the Company's objectives, plans, goals, strategies, future growth, financial condition, results of operations, cash flows, performance, business prospects and opportunities. All statements other than statements of historical facts included in this MD&A, including statements regarding the Company's objectives, plans, goals, strategies, future growth, financial condition, results of operations, cash flows, performance, business prospects and opportunities, may constitute forward-looking information. Expressions such as "anticipates", "expects", "believes", "estimates", "could", "intends", "may", "plans", "will", "would" and other similar expressions, or the negative of these terms, are generally indicative of forward-looking statements.

These forward-looking statements include the following items:

- The Company's expectation that its operational and capital structure is sufficient to satisfy its ongoing business requirements, which could be impacted by a significant change in the current economic environment in Canada;
- The Company's belief that its cash and cash equivalents on hand, unutilized bank credit facilities and cash generated from operating activities will enable the Company to fund future capital investments, pension plan contributions, working capital, current funded debt obligations and ongoing business requirements, and its belief that it has sufficient funding in place to meet these requirements and other short-term and long-term obligations, all of which could be impacted by changes in the economic environment;
- The Company's expected contributions to its registered defined benefit plans, which could be impacted by fluctuations in asset values due to market uncertainties;
- The Company's expected use and estimated fair values of financial instruments, which could be impacted by, among other things, changes in interest rates, foreign exchange rates and commodity prices;
- The Company's expectation that ongoing litigation matters and claims arising from the ordinary course of business will have no material impact on the Company;
- Sobeys Inc.'s ("Sobeys") expectations relating to administrative and business rationalization initiatives, which could be impacted by the final scope and scale of these initiatives;

- Sobeys' expectations regarding the timing of the new distribution centre under construction in Québec and that it will increase warehouse and distribution capacity and will reduce overall business costs, which could be impacted by construction delays and the number of positions eliminated at other distribution centres;
- Sobeys' expectations relating to pending tax matters with Canada Revenue Agency ("CRA"), which could be determined differently by CRA. This could cause the Company's effective tax rate and its earnings to be affected positively or negatively in the period in which the matter is resolved; and
- Sobeys' expectations relating to the acquisition of 236 retail gas locations and related convenience store operations from Shell Canada and the accompanying fuel volumes, which may be impacted by demand.

These statements are based on management's reasonable assumptions and beliefs in light of the information currently available to them. The forward-looking information contained in this MD&A is presented for the purpose of assisting the Company's security holders in understanding its financial position and results of operations as at and for the periods ended on the dates presented and the Company's strategic priorities and objectives and may not be appropriate for other purposes. By its very nature, forward-looking information requires the Company to make assumptions and is subject to inherent risks and uncertainties which give rise to the possibility that the Company's predictions, forecasts, expectations or conclusions will not prove to be accurate, that the Company's assumptions may not be correct and that the Company's objectives, strategic goals and priorities will not be achieved. Although the Company believes that the predictions, forecasts, expectations or conclusions reflected in the forward-looking information are reasonable, it can give no assurance that such matters will prove to have been correct. Such forward-looking information is not fact but only reflects management's estimates and expectations. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. These factors include but are not limited to: changes in general industry, market and economic conditions, competition from existing and new competitors, energy prices, supply issues, inventory management, changes in demand due to seasonality of the business, interest rates, changes in laws and regulations, operating efficiencies and cost saving initiatives. In addition, these uncertainties and risks are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the Risk Management section of the annual MD&A for the 52 weeks ended May 5, 2012.

Empire cautions that the list of important factors is not exhaustive and other factors could also adversely affect its results. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information, and are cautioned not to place undue reliance on such forward-looking information. Forward-looking statements may not take into account the effect on the Company's business of transactions occurring after such statements have been made. For example, dispositions, acquisitions, asset write-downs or other changes announced or occurring after such statements are made may not be reflected in forward-looking statements. The forward-looking information in this MD&A reflects the Company's expectations as of September 13, 2012 and is subject to change after this date. The Company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the Company other than as required by applicable securities laws.

NON-GAAP FINANCIAL MEASURES

There are measures included in this MD&A that do not have a standardized meaning under International Financial Reporting Standards ("IFRS" or "GAAP") and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. The Company includes these measures because it believes certain investors use these measures as a means of assessing financial performance. Empire's definition of the non-GAAP terms are as follows:

- Adjusted sales are sales excluding the impact of the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012.
- Same-store sales are sales from stores in the same location in both reporting periods.
- Gross profit is calculated as sales less costs of sales.
- Gross margin is gross profit divided by sales.
- Operating income, or earnings before interest and taxes ("EBIT"), is calculated as net earnings before minority interest, finance costs (net of finance income) and income taxes.
- Adjusted operating income is operating income excluding items which are considered not indicative of underlying business operating performance.
- Operating income margin is operating income divided by sales.
- Earnings before interest, taxes, depreciation and amortization ("EBITDA") is calculated as operating income plus depreciation and amortization of intangibles.

	13 Weeks Ended	
($ in millions)	**August 4, 2012**	August 6, 2011
Operating income (1)	**$ 175.1**	$ 148.9
Depreciation	**79.3**	76.1
Amortization of intangibles	**9.8**	9.2
EBITDA	**$ 264.2**	$ 234.2

(1) Certain balances have been reclassified for changes to comparative figures (see Note 17 to the Company's first quarter unaudited consolidated financial statements).

- Adjusted EBITDA is EBITDA excluding items which are considered not indicative of underlying business operating performance.
- EBITDA margin is EBITDA divided by sales.
- Funded debt is all interest bearing debt, which includes bank loans, bankers' acceptances and long-term debt.
- Net funded debt is calculated as funded debt less cash and cash equivalents.
- Total capital is calculated as funded debt plus shareholders' equity, net of minority interest.
- Net total capital is total capital less cash and cash equivalents.
- Interest expense is calculated as interest expense on financial liabilities measured at amortized cost plus losses on cash flow hedges reclassified from other comprehensive income.
- Free cash flow is calculated as cash flows from operating activities, less property, equipment and investment property purchases.
- Adjusted net earnings are net earnings excluding items which are considered not indicative of underlying business operating performance.
- Book value per common share is shareholders' equity, net of minority interest, less preferred shares, divided by total common shares outstanding.

The following tables reconcile Empire's funded debt, net funded debt, net total capital and total capital to GAAP measures reported on the balance sheets as at August 4, 2012, May 5, 2012 and August 6, 2011, respectively.

($ in millions)	**August 4, 2012**	May 5, 2012	August 6, 2011
Bank indebtedness	**$ 5.0**	$ 4.4	$ 5.0
Long-term debt due within one year	**36.3**	237.3	240.1
Long-term debt	**909.4**	889.1	855.3
Funded debt	**950.7**	1,130.8	1,100.4
Less: cash and cash equivalents	**368.9**	510.2	637.7
Net funded debt	**581.8**	620.6	462.7
Total shareholders' equity, net of minority interest	**3,478.1**	3,396.3	3,216.3
Net total capital	**$ 4,059.9**	$ 4,016.9	$ 3,679.0

($ in millions)	**August 4, 2012**	May 5, 2012	August 6, 2011
Funded debt	**$ 950.7**	$ 1,130.8	$ 1,100.4
Total shareholders' equity, net of minority interest	**3,478.1**	3,396.3	3,216.3
Total capital	**$ 4,428.8**	$ 4,527.1	$ 4,316.7

OVERVIEW OF THE BUSINESS

Empire's key businesses include food retailing and corporate investment activities. The Company's financial results are segmented into two separate operating segments: Food Retailing and Investments and Other Operations.

Empire's food retailing segment is carried out through its wholly-owned subsidiary, Sobeys, which conducts business through more than 1,500 retail stores (corporately owned and franchised), operating in every province and in over 800 communities across Canada.

Empire's investments and other operations segment consists of:

1. A 42.5 percent (40.8 percent fully diluted) equity accounted interest in Crombie Real Estate Investment Trust ("Crombie REIT"), a Canadian real estate income trust investing in income-producing retail, office and mixed-use properties in Canada, with a future growth strategy focused primarily on the acquisition of retail properties.
2. A 40.7 percent equity accounted interest in Genstar Development Partnership, a 45.9 percent equity accounted interest in Genstar Development Partnership II, a 42.1 percent equity accounted interest in each of GDC Investments 4, L.P., GDC Investments 5, L.P. and GDC Investments 6, L.P., and a 45.8 percent equity accounted interest in GDC Investments 7, L.P. (collectively referred to as "Genstar"). Genstar is a residential property developer with operations in select markets in Ontario, Western Canada and the United States;
3. Wholly-owned ETL Canada Holdings Limited ("Empire Theatres"), which is the second largest movie exhibitor in Canada. As of August 4, 2012, Empire Theatres owned 53 locations representing 438 screens; and
4. Kepec Resources Limited ("Kepec"), a party to a joint venture with APL Oil and Gas Limited which has ownership interests in various oil and gas properties in Alberta.

With over $16 billion in annual sales and approximately $6.8 billion in assets, Empire and its related companies directly employ approximately 47,000 people.

CONSOLIDATED OPERATING RESULTS

The consolidated financial overview provided below reports on the financial performance for 13 weeks ended August 4, 2012 relative to the 13 weeks ended August 6, 2011.

($ in millions, except per share amounts)	**13 Weeks Ended August 4, 2012**	**% of Sales**	13 Weeks Ended August 6, 2011	% of Sales
Sales	**$ 4,557.7**	**100.00%**	$ 4,154.2	100.00%
EBITDA [1]	**264.2**	**5.80%**	234.2	5.64%
Adjusted EBITDA [2]	**256.7**	**5.63%**	228.1	5.49%
Operating income [1]	**175.1**	**3.84%**	148.9	3.58%
Net earnings, net of minority interest	**108.9**	**2.39%**	89.2	2.15%
Adjusted net earnings, net of minority interest [2]	**103.4**	**2.27%**	84.8	2.04%
Basic earnings per share				
Net earnings, net of minority interest	**$ 1.60**		$ 1.31	
Adjusted net earnings, net of minority interest [2]	**$ 1.52**		$ 1.25	
Basic weighted average number of shares outstanding (in millions)	**67.9**		67.9	
Diluted earnings per share				
Net earnings, net of minority interest	**$ 1.60**		$ 1.31	
Adjusted net earnings, net of minority interest [2]	**$ 1.52**		$ 1.25	
Diluted weighted average number of shares outstanding (in millions)	**68.0**		68.0	
Dividends per share	**$ 0.240**		$ 0.225	

(1) Certain balances have been reclassified for changes to comparative figures (see Note 17 to the Company's first quarter unaudited consolidated financial statements).
(2) Excludes items which are considered not indicative of underlying business operating performance.

MANAGEMENT'S EXPLANATION OF CONSOLIDATED OPERATING RESULTS

The following is a review of Empire's consolidated financial performance for the 13 weeks ended August 4, 2012 compared to the 13 weeks ended August 6, 2011.

The financial performance of each of the Company's segments (food retailing and investments and other operations) is discussed in detail in the section entitled "Operating Performance by Segment" in this MD&A.

Sales

Consolidated sales for the first quarter were $4.56 billion, an increase of $403.5 million or 9.7 percent compared to the same quarter last year, largely driven by a $403.9 million or 9.8 percent growth in sales from the food retailing segment.

The following table reconciles sales reported by Sobeys to Empire's food retailing segmented sales, and food retailing and investments and other operations' segmented sales to Empire's consolidated sales.

	13 Weeks Ended			
($ in millions)	**August 4, 2012**	August 6, 2011	($) Change	(%) Change
Food Retailing Segment				
Sobeys' reported sales	**$ 4,496.7**	$ 4,101.8	$ 394.9	9.6%
Reclassification of lease revenue from owned property recorded by Sobeys	**13.3**	4.3		
	4,510.0	4,106.1	403.9	9.8%
Elimination of inter-segment	**(2.9)**	(2.9)		
Empire's food retailing segmented sales	**4,507.1**	4,103.2	403.9	9.8%
Investments & Other Operations Segment				
Recorded sales	**50.6**	51.1	(0.5)	(1.0%)
Elimination of inter-segment	**-**	(0.1)		
Empire's investments and other operations segmented sales	**50.6**	51.0	(0.4)	(0.8%)
Empire consolidated sales	**$ 4,557.7**	$ 4,154.2	$ 403.5	9.7%

During the first quarter, Sobeys reported sales of $4.50 billion, an increase of $394.9 million or 9.6 percent from the $4.10 billion recorded in the first quarter of fiscal 2012. The growth in Sobeys' first quarter sales was a direct result of the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012 and Sobeys' continued investment in its retail network, coupled with the continued implementation of sales and merchandising initiatives, improved consistency of store level execution and product and services innovation. Sobeys' same-store sales increased 1.8 percent during the first quarter of fiscal 2013.

The following table shows a reconciliation of sales recorded by Sobeys for the 13 weeks ended August 4, 2012 compared to the same period in the prior year. Excluding the impact of the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012, Sobeys' reported sales increased $136.8 million or 3.3 percent.

	13 Weeks Ended			
($ in millions)	**August 4, 2012**	August 6, 2011	($) Change	(%) Change
Sales (recorded by Sobeys)	**$ 4,496.7**	$ 4,101.8	$ 394.9	9.6%
Adjustments:				
Impact of acquisition of 236 retail gas locations and related convenience store operations in fiscal 2012	**(258.1)**	-	(258.1)	
Adjusted sales	**$ 4,238.6**	$ 4,101.8	$ 136.8	3.3%

Empire's investments and other operations segment recorded sales of $50.6 million in the first quarter of fiscal 2013 compared to $51.0 million in the first quarter last year.

Please refer to the section entitled "Operating Performance by Segment" for an explanation of the change in sales by segment.

EBITDA

Consolidated EBITDA for the 13 weeks ended August 4, 2012 increased $30.0 million or 12.8 percent to $264.2 million from $234.2 million in the first quarter last year. EBITDA margin increased to 5.80 percent in the first quarter from 5.64 percent in the first quarter last year.

Adjusting for items which are considered not indicative of underlying business operating performance, as outlined in the table below, consolidated adjusted EBITDA for the first quarter of fiscal 2013 was $256.7 million compared to $228.1 million last year, an increase of $28.6 million or 12.5 percent.

	13 Weeks Ended	
($ in millions)	**August 4, 2012**	August 6, 2011
EBITDA (consolidated) [1]	**$ 264.2**	$ 234.2
Adjustments:		
Sobeys Québec distribution network restructuring	**3.1**	-
Sobeys' organizational realignment costs	**2.9**	-
Gains on disposal of assets	**(1.4)**	(3.4)
Dilution gains	**(12.1)**	(2.7)
	(7.5)	(6.1)
Adjusted EBITDA	**$ 256.7**	$ 228.1

(1) Certain balances have been reclassified for changes to comparative figures (see Note 17 to the Company's first quarter unaudited consolidated financial statements).

Please refer to the section entitled "Operating Performance by Segment" for an explanation of the change in EBITDA for each segment.

Operating Income

For the 13 weeks ended August 4, 2012, Empire recorded operating income of $175.1 million, an increase of $26.2 million or 17.6 percent from the $148.9 million recorded for the 13 weeks ended August 6, 2011.

The contributors to the change in consolidated operating income from the first quarter last year were as follows:

- Sobeys' operating income contribution to Empire in the 13 weeks ended August 4, 2012 totalled $156.3 million, an increase of $20.9 million or 15.4 percent from the $135.4 million recorded in the same quarter year.
- Investments and other operations contributed operating income of $18.8 million in the 13 weeks ended August 4, 2012 compared to $13.5 million in the 13 weeks ended August 6, 2011, an increase of $5.3 million or 39.3 percent.
  - Equity accounted earnings generated by Crombie REIT during the first quarter were $5.5 million compared to $4.8 million in the prior year, an increase of $0.7 million.
  - Real estate partnerships (Genstar) contributed operating income of $4.6 million, a decrease of $2.9 million from the $7.5 million recorded in the same quarter of the prior year.
  - Other operations (net of corporate expenses) contributed operating income of $8.7 million compared to $1.2 million last year, an increase of $7.5 million. Dilution gains in the first quarter of fiscal 2013 were $11.4 million versus $2.6 million last year.

Please refer to the section entitled “Operating Performance by Segment” for an explanation of the change in operating income for each segment.

Finance Costs

Finance costs, net of finance income, for the 13 weeks ended August 4, 2012 were $14.9 million, a decrease of $1.7 million or 10.2 percent from the $16.6 million recorded last year. This decrease is primarily the result of a decrease in interest expense of $1.9 million compared to the same period in the prior year. The decrease in interest expense is due to lower consolidated funded debt levels which were partially associated with the repayment of Sobeys’ $200.0 million non-revolving term credit facility. EBITDA to interest expense increased to 15.3 times at the end of the first quarter of fiscal 2013 from 12.5 times at the end of the first quarter last year.

Consolidated funded debt was $950.7 million at August 4, 2012 compared to $1,100.4 million at August 6, 2011, a $149.7 million or 13.6 percent decrease. The decrease in consolidated funded debt from the prior year was primarily due to a $208.0 million decline in funded debt at Sobeys, partially offset by higher debt levels in investments and other operations of $58.3 million. Refer to the “Liabilities” section under “Consolidated Financial Condition” of this MD&A for further details on consolidated funded debt.

Income Taxes

The Company’s effective income tax rate for the first quarter of fiscal 2013 was 27.4 percent, slightly higher than the 27.0 percent reported in the first quarter last year. The increase is primarily due to the tax effects resulting from the disposition of properties in the same quarter of fiscal 2012. Additionally, the effective income tax rate reflected a previously enacted decrease in the federal statutory rate, offset by an increase in the Ontario substantially enacted rate in the quarter.

Net Earnings

Consolidated net earnings, net of minority interest, for the 13 weeks ended August 4, 2012 were $108.9 million ($1.60 per share) compared to $89.2 million ($1.31 per share) last year. The increase of $19.7 million is due to higher operating income, lower finance costs, net of finance income, partially offset by higher income taxes, as mentioned.

The following table presents Empire’s segmented net earnings, net of minority interest, for the 13 weeks ended August 4, 2012 compared to the 13 weeks ended August 6, 2011.

	13 Weeks Ended		
($ in millions, net of tax)	**August 4, 2012**	August 6, 2011	($) Change
Food retailing	**$ 97.0**	$ 81.6	$ 15.4
Investments and other operations	**11.9**	7.6	4.3
Consolidated	**$ 108.9**	$ 89.2	$ 19.7

Adjusted Net Earnings

The table below adjusts first quarter fiscal 2013 and fiscal 2012 reported net earnings, net of minority interest, for items which are considered not indicative of underlying business operating performance.

	13 Weeks Ended			
($ in millions, except per share amounts, net of tax)		**August 4, 2012**		August 6, 2011
Net earnings, net of minority interest	**$**	**108.9**	$	89.2
Adjustments:				
Sobeys Québec distribution network restructuring		**2.3**		-
Sobeys' organizational realignment costs		**2.1**		-
Gains on disposal of assets		**(1.3)**		(2.5)
Dilution gains		**(8.6)**		(1.9)
		(5.5)		(4.4)
Adjusted net earnings, net of minority interest	**$**	**103.4**	$	84.8
Adjusted net earnings, net of minority interest, by segment:				
Food retailing	**$**	**99.6**	$	78.6
Investments and other operations		**3.8**		6.2
Adjusted net earnings, net of minority interest	**$**	**103.4**	$	84.8
Adjusted EPS (fully diluted)	**$**	**1.52**	$	1.25

For the 13 weeks ended August 4, 2012, excluding the impact of the items in the preceding table, Empire recorded adjusted net earnings, net of minority interest, of $103.4 million ($1.52 per share) compared to $84.8 million ($1.25 per share) recorded in the first quarter last year.

For a detailed discussion of financial performance by segment, see the section of this MD&A entitled "Operating Performance by Segment".

QUARTERLY RESULTS OF OPERATIONS

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

($ in millions, except per share amounts)	**Fiscal 2013**	Fiscal 2012				Fiscal 2011		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	(13 Weeks)	(13 Weeks)	(13 Weeks)	(13 Weeks)	(13 Weeks)	(14 Weeks)	(13 Weeks)	(13 Weeks)
	August 4, 2012	May 5, 2012	Feb. 4, 2012	Nov. 5, 2011	Aug. 6, 2011	May 7, 2011	Jan. 29, 2011	Oct. 30, 2010
Sales	**$ 4,557.7**	$ 4,073.8	$ 3,984.8	$ 4,036.3	$ 4,154.2	$ 4,149.8	$ 3,877.0	$ 3,904.1
Operating income (1)	**175.1**	136.4	123.2	125.8	148.9	122.4	140.1	114.7
Net earnings (2)(3)	**108.9**	92.1	80.0	78.1	89.2	82.5	88.9	142.9
Per share information, basic								
Net earnings (2)(3)	**$ 1.60**	$ 1.35	$ 1.18	$ 1.15	$ 1.31	$ 1.21	$ 1.31	$ 2.09
Basic weighted average number of shares outstanding (in millions) (4)	**67.9**	67.9	67.9	67.9	67.9	67.9	67.9	68.2
Per share information, diluted								
Net earnings (2)(3)	**$ 1.60**	$ 1.35	$ 1.17	$ 1.15	$ 1.31	$ 1.21	$ 1.31	$ 2.09
Diluted weighted average number of shares outstanding (in millions) (4)	**68.0**	68.0	68.0	68.0	68.0	68.0	68.0	68.3

(1) Certain balances have been reclassified for changes to comparative figures (see Note 17 to the Company's first quarter unaudited consolidated financial statements).

(2) Net of minority interest.

(3) Net earnings for the 13 weeks ended October 30, 2010 includes a net gain on the sale of a 27.5 percent ownership interest in Wajax Income Fund of $76.2 million.

(4) The decrease in the weighted average number of shares outstanding since the second quarter of fiscal 2011 primarily reflects the repurchase for cancellation of 513,579 Non-Voting Class A shares under Empire's Normal Course Issuer Bid during the second quarter of fiscal 2011.

As disclosed in the table above, the Company's sales on a comparable 13 week basis have continued to show improvement compared with the same quarter of the prior year. The ongoing improvement in sales has been driven by the performance of Sobeys as a result of its adherence to a competitive pricing posture, increased retail selling square footage from new stores and enlargements, improved store level execution, product and services innovation and in the fourth quarter of fiscal 2012, the acquisition of 236 retail gas locations and related convenience store operations. Sales include fluctuations in quarter to quarter inflationary and deflationary market pressures.

Consolidated sales and net earnings, net of minority interest, have been influenced by the Company's investing activities, the competitive environment, cost management initiatives, food price and general industry trends, the cyclicality of both residential and commercial real estate, and by other risk factors as outlined in the fiscal 2012 annual MD&A.

The Company does experience some seasonality as evidenced in the results presented above, in particular during the summer months and over the holidays.

OPERATING PERFORMANCE BY SEGMENT

Food Retailing

Empire's food retailing segment is carried out through its wholly-owned subsidiary, Sobeys, which conducts business through more than 1,500 retail stores (corporately owned and franchised), operating in every province and in over 800 communities across Canada.

Sobeys' strategy is focused on delivering the best food shopping experience to its customers in the right-format, right-sized stores, supported by superior customer service. The five distinct store formats deployed by Sobeys to satisfy its customers' principal shopping requirements are the full service, fresh service, convenience service, community service and discount formats. Sobeys remains focused on improving the product, service and merchandising offerings within each format by expanding and renovating its current store base, while continuing to build new stores. The primary focus of these format development efforts are Sobeys' six major banners: Sobeys, IGA, IGA *extra*, Thrifty Foods, Foodland and FreshCo.

During the first quarter of fiscal 2013, Sobeys opened, replaced, expanded, renovated, acquired and/or converted the banners in 12 stores (fiscal 2012 - 14). In the first quarter of fiscal 2013, Sobeys continued to execute a number of initiatives in support of its food-focused strategy including product and service innovations, productivity initiatives and business process, supply chain and system upgrades.

On March 15, 2012, Sobeys acquired 236 retail gas locations and related convenience store operations in Québec and Atlantic Canada from Shell Canada. The network acquired includes corporate owned and dealer operated locations and is expected to have annual fuel volumes in excess of one billion litres.

Business Process and Information System Transformation and Rationalization Costs

During the first quarter of fiscal 2013, Sobeys continued to make progress in the implementation of system-wide business process optimization and rationalization initiatives that are designed to reduce complexity and improve processes and efficiency. These system-wide business process and rationalization initiatives support all aspects of the business including operations, merchandising, distribution, human resources and administration.

The business process and information systems implementation in Québec began during the first quarter of fiscal 2010. The business process and system initiative costs primarily include labour, implementation and training costs associated with these initiatives. During the 13 weeks ended August 4, 2012, $4.8 million of pre-tax costs were incurred related to these initiatives (fiscal 2012 - $3.2 million).

On October 13, 2011, Sobeys announced an organizational realignment and corresponding leadership appointments. Total costs associated with this initiative for the 13 weeks ended August 4, 2012 were $2.9 million (fiscal 2012 - $nil). These expenses relate mainly to consulting and severance costs of $1.5 million and $1.4 million, respectively (fiscal 2012 - $nil and $nil).

On January 28, 2011, Sobeys announced plans to build a new distribution centre in Terrebonne, Québec, utilizing the same automated equipment and technology as the Vaughan, Ontario distribution centre. The new facility is expected to become operational during the second half of fiscal 2013 and will allow Sobeys to significantly increase its warehouse and distribution capacity in Québec, while reducing overall distribution costs and improving service to its store network and customers. Severance costs of $3.1 million (fiscal 2012 - $nil) have been recorded for the 13 weeks ended August 4, 2012 associated with the distribution network in Québec.

The table below summarizes Sobeys' contribution to Empire.

	13 Weeks Ended (1)			
($ in millions)	**August 4, 2012**	August 6, 2011	($) Change	(%) Change
Sales	**$ 4,507.1**	$ 4,103.2	$ 403.9	9.8%
EBITDA (2)	**241.2**	216.7	24.5	11.3%
Adjusted EBITDA (3)	**245.1**	212.6	32.5	15.3%
Operating income (2)	**156.3**	135.4	20.9	15.4%
Adjusted operating income (3)	**160.2**	131.3	28.9	22.0%
Net earnings, net of minority interest	**97.0**	81.6	15.4	18.9%
Adjusted net earnings, net of minority interest (3)	**99.6**	78.6	21.0	26.7%

(1) Net of consolidation adjustments which includes a purchase price allocation from the privatization of Sobeys.
(2) Certain balances have been reclassified for changes to comparative figures (see Note 17 to the Company's first quarter unaudited consolidated financial statements).
(3) Excludes items which are considered not indicative of underlying business operating performance.

Sales

Empire's food retailing segment contributed sales of $4.51 billion for the 13 weeks ended August 4, 2012, an increase of $403.9 million or 9.8 percent over the same period in fiscal 2012. The growth in Sobeys' first quarter sales was a direct result of the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012 and Sobeys' continued investment in its retail network, coupled with the continued implementation of sales and merchandising initiatives, improved consistency of store level execution and product and services innovation. During the first quarter of fiscal 2013, Sobeys' same-store sales increased by 1.8 percent.

Excluding sales of $258.1 million related to the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012, the food retailing segment realized a sales increase of $145.8 million or 3.6 percent.

Gross Profit

Sobeys' recorded gross profit of $1,040.8 million for the 13 weeks ended August 4, 2012, an increase of $48.1 million compared to the 13 weeks ended August 6, 2011. Gross margin, which is gross profit divided by sales, decreased 105 basis points from 24.20 percent in the first quarter of fiscal 2012 to 23.15 percent in the current quarter, due primarily to lower margins on the fuel business. Excluding the impact of lower margin fuel sales, gross margin was 24.23 percent in the first quarter of fiscal 2013 compared to 24.30 percent in the same period last year.

EBITDA

For the 13 weeks ended August 4, 2012, Sobeys contributed EBITDA to Empire of $241.2 million (5.35 percent of sales) compared to $216.7 million (5.28 percent of sales) in the 13 weeks ended August 6, 2011, an increase of $24.5 million or 11.3 percent. Included in Sobeys' EBITDA for the first quarter of fiscal 2013 were costs related to its Québec distribution network restructuring of $3.1 million (fiscal 2012 - $nil), organizational realignment costs of $2.9 million (fiscal 2012 - $nil), gains on the disposal of assets of $1.4 million (fiscal 2012 - $4.0 million) and dilution gains of $0.7 million (fiscal 2012 - $0.1 million).

Adjusting for items which are considered not indicative of underlying business operating performance, as outlined in the table below, Sobeys' adjusted EBITDA contribution to Empire for the 13 weeks ended August 4, 2012 was $245.1 million (5.44 percent of sales) compared to $212.6 million (5.18 percent of sales) in the same quarter last year.

	13 Weeks Ended	
($ in millions)	**August 4, 2012**	August 6, 2011
EBITDA (contributed by Sobeys) (1)	**$ 241.2**	$ 216.7
Adjustments:		
Sobeys Québec distribution network restructuring	**3.1**	-
Sobeys' organizational realignment costs	**2.9**	-
Gains on disposal of assets	**(1.4)**	(4.0)
Dilution gains	**(0.7)**	(0.1)
	3.9	(4.1)
Adjusted EBITDA	**$ 245.1**	$ 212.6

(1) Certain balances have been reclassified for changes to comparative figures (see Note 17 to the Company's first quarter unaudited consolidated financial statements).

Operating Income

Sobeys' operating income contribution to Empire for the 13 weeks ended August 4, 2012 was $156.3 million (3.47 percent of sales) compared to $135.4 million (3.30 percent of sales) last year, an increase of $20.9 million or 15.4 percent. This increase primarily relates to higher EBITDA, as discussed, partially offset by higher depreciation and amortization expenses.

Adjusting for items which are considered not indicative of underlying business operating performance, in the first quarter of fiscal 2013 Sobeys contributed adjusted operating income to Empire of $160.2 million (3.55 percent of sales) compared to $131.3 million (3.20 percent of sales) in the same quarter of the prior year, an increase of $28.9 million or 22.0 percent.

The following table reconciles Sobeys' operating income contribution to its adjusted operating income contribution to Empire.

	13 Weeks Ended	
($ in millions)	**August 4, 2012**	August 6, 2011
Operating income (contributed by Sobeys) (1)	**$ 156.3**	$ 135.4
Adjustments:		
Sobeys Québec distribution network restructuring	**3.1**	-
Sobeys' organizational realignment costs	**2.9**	-
Gains on disposal of assets	**(1.4)**	(4.0)
Dilution gains	**(0.7)**	(0.1)
	3.9	(4.1)
Adjusted operating income	**$ 160.2**	$ 131.3

(1) Certain balances have been reclassified for changes to comparative figures (see Note 17 to the Company's first quarter unaudited consolidated financial statements).

Sobeys continues to focus on disciplined cost management initiatives, supply chain and retail productivity improvements, the migration of best practices and planned capital investments to drive sales and improve margins over time.

Net Earnings

Sobeys contributed net earnings, net of minority interest, of $97.0 million to Empire in the first quarter of fiscal 2013, an increase of $15.4 million or 18.9 percent from the $81.6 million recorded in the same quarter of the prior year. The increase in net earnings, net of minority interest, is primarily a result of higher operating income, as discussed, and lower finance costs, net of finance income.

Adjusted Net Earnings

Sobeys contributed adjusted net earnings, net of minority interest, of $99.6 million to Empire for the 13 weeks ended August 4, 2012 compared to $78.6 million in the same quarter last year, an increase of $21.0 million or 26.7 percent. The table below details the adjustments made to calculate adjusted net earnings, net of minority interest.

	13 Weeks Ended	
($ in millions, net of tax)	**August 4, 2012**	August 6, 2011
Net earnings, net of minority interest (contributed by Sobeys)	**$ 97.0**	$ 81.6
Adjustments:		
Sobeys Québec distribution network restructuring	**2.3**	-
Sobeys' organizational realignment costs	**2.1**	-
Gains on disposal of assets	**(1.3)**	(2.9)
Dilution gains	**(0.5)**	(0.1)
	2.6	(3.0)
Adjusted net earnings, net of minority interest	**$ 99.6**	$ 78.6

Investments and Other Operations

Empire's investments and other operations segment consists of its equity investments in real estate, wholly-owned Empire Theatres and Kepec. Empire Theatres is the second largest movie exhibitor in Canada which, as of August 4, 2012, owned 53 locations representing 438 screens.

Empire's equity investments in real estate are focused on (i) the ownership of income-producing retail, office and mixed-use properties through a 42.5 percent ownership interest in Crombie REIT, and (ii) residential land development principally in select communities in Ontario, Western Canada and the United States through its investments in Genstar.

At August 4, 2012, Empire's investment portfolio, including equity accounted investments in Crombie REIT and Genstar, consisted of:

	August 4, 2012			May 5, 2012			August 6, 2011		
($ in millions)	**Market Value**	**Carrying Value**	**Unrealized Gain**	Market Value	Carrying Value	Unrealized Gain	Market Value	Carrying Value	Unrealized Gain
Investment in Crombie REIT	**$ 553.0**	**$ 177.3**	**$ 375.7**	$ 520.7	$ 167.4	$ 353.3	$ 376.1	$ 90.3	$ 285.8
Investment in Genstar (1)	**138.5**	**138.5**	**-**	138.8	138.8	-	121.9	121.9	-
Canadian Digital Cinema Partnership (1)	**7.6**	**7.6**	**-**	7.2	7.2	-	7.0	7.0	-
Other investments (1)(2)	**38.6**	**38.6**	**-**	13.0	13.0	-	14.0	14.0	-
	$ 737.7	**$ 362.0**	**$ 375.7**	$ 679.7	$ 326.4	$ 353.3	$ 519.0	$ 233.2	$ 285.8

(1) Assumes market value equals carrying value.

(2) Includes investments in two series of Crombie REIT convertible unsecured subordinated debentures with a combined market value of $38.4 million (May 5, 2012 - $12.8 million, August 6, 2011 - $11.8 million). During the first quarter of fiscal 2013, the Company purchased $24.0 million of Crombie REIT convertible unsecured subordinated debentures, which as of August 4, 2012, had a market value of $24.8 million.

The table below presents sales, EBITDA, adjusted EBITDA, operating income, net earnings and adjusted net earnings for the investments and other operations segment.

	13 Weeks Ended		
($ in millions)	**August 4, 2012**	August 6, 2011	($) Change
Sales	**$ 50.6**	$ 51.0	$ (0.4)
EBITDA	**23.0**	17.5	5.5
Adjusted EBITDA (1)	**11.6**	15.5	(3.9)
Operating income			
Crombie REIT (2)	**5.5**	4.8	0.7
Real estate partnerships (3)	**4.6**	7.5	(2.9)
Other operations, net of corporate expenses (4)	**8.7**	1.2	7.5
	18.8	13.5	5.3
Net earnings	**11.9**	7.6	4.3
Adjusted net earnings (1)	**3.8**	6.2	(2.4)

(1) Excludes items which are considered not indicative of underlying business operating performance.
(2) 42.5 percent equity accounted interest in Crombie REIT (August 6, 2011 - 45.9 percent interest).
(3) 40.7 percent equity accounted interest in Genstar Development Partnership, 45.9 percent equity accounted interest in Genstar Development Partnership II, 42.1 percent equity accounted interests in each of GDC Investments 4, L.P., GDC Investments 5, L.P. and GDC Investments 6, L.P., and a 45.8 percent equity accounted interest in GDC Investments 7, L.P. (collectively referred to as "Genstar").
(4) Other operations (net of corporate expenses) operating income for the 13 weeks ended August 4, 2012 included dilution gains of $11.4 million (fiscal 2012 - $2.6 million) and a loss on the disposal of assets of $nil (fiscal 2012 - $0.6 million).

Sales

Investments and other operations' sales were $50.6 million for the 13 weeks ended August 4, 2012 versus $51.0 million in the 13 weeks ended August 6, 2011, a $0.4 million or 0.8 percent decline. The decline was primarily driven by a decline in sales generated by the Company's other operations, partially offset by an increase in sales at Empire Theatres.

EBITDA

For the 13 weeks ended August 4, 2012, investments and other operations contributed EBITDA to Empire of $23.0 million compared to $17.5 million last year, an increase of $5.5 million or 31.4 percent. This increase primarily relates to higher dilution gains, partially offset by lower equity earnings from Genstar. Dilution gains in the first quarter of fiscal 2013 were $11.4 million versus $2.6 million last year, an increase of $8.8 million.

Adjusting for items which are considered not indicative of underlying business operating performance, as outlined in the table below, results in adjusted EBITDA from investments and other operations for the 13 weeks ended August 4, 2012 of $11.6 million compared to $15.5 million last year, a decrease of $3.9 million or 25.2 percent.

	13 Weeks Ended	
($ in millions)	**August 4, 2012**	August 6, 2011
EBITDA (investments and other operations)	**$ 23.0**	$ 17.5
Adjustments:		
Dilution gains	**(11.4)**	(2.6)
Loss on disposal of assets	**-**	0.6
	(11.4)	(2.0)
Adjusted EBITDA	**$ 11.6**	$ 15.5

Operating Income

Investments and other operations contributed operating income of $18.8 million in the 13 weeks ended August 4, 2012 compared to $13.5 million last year, an increase of $5.3 million or 39.3 percent. Equity accounted earnings from the Company's investment in Crombie REIT equalled $5.5 million in the first quarter of fiscal 2013 compared to $4.8 million in the prior year, a $0.7 million increase primarily driven by increased property revenue and the resulting higher property net operating income reported by Crombie REIT. Equity accounted earnings generated from the Company's investments in real estate partnerships (Genstar) amounted to $4.6 million compared to $7.5 million in the first quarter of fiscal 2012, a decrease of $2.9 million primarily as a result of weaker lot sales during the quarter. Operating income from other operations, net of corporate expenses, increased to $8.7 million from $1.2 million in the same period of fiscal 2012. The increase in operating income from other operations, net of corporate expenses, was partially due to dilution gains of $11.4 million in the first quarter of fiscal 2013 (13 weeks ended August 6, 2011 - $2.6 million) resulting from a reduction in the Company's ownership interest in Crombie REIT.

Adjusting investments and other operations' operating income for items which are considered not indicative of underlying business operating performance, as outlined in the preceding table for EBITDA, resulted in an adjusted operating income contribution of $7.4 million versus $11.5 million in the first quarter of fiscal 2012, a decrease of $4.1 million.

Net Earnings

During the 13 weeks ended August 4, 2012, investments and other operations contributed $11.9 million to Empire's consolidated net earnings compared to a contribution of $7.6 million in net earnings in the first quarter of fiscal 2012. The $4.3 million increase is primarily attributed to higher operating income, as discussed, and lower finance costs, net of finance income, partially offset by higher income taxes.

Adjusted Net Earnings

Investments and other operations contributed adjusted net earnings of $3.8 million for the 13 weeks ended August 4, 2012 compared to $6.2 million last year, a decrease of $2.4 million. Included in the first quarter of fiscal 2013 adjustments for investments and other operations are dilution gains of $8.1 million compared to $1.8 million in the prior year.

The following table adjusts reported net earnings for these and other items which are considered not indicative of underlying business operating performance.

	13 Weeks Ended	
($ in millions)	**August 4, 2012**	August 6, 2011
Net earnings (investments and other operations)	**$ 11.9**	$ 7.6
Adjustments:		
Dilution gains	**(8.1)**	(1.8)
Loss on disposal of assets	**-**	0.4
	(8.1)	(1.4)
Adjusted net earnings	**$ 3.8**	$ 6.2

CONSOLIDATED FINANCIAL CONDITION

Capital Structure and Key Financial Condition Measures

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

($ in millions, except per share and ratio calculations)	**August 4, 2012**	May 5, 2012	August 6, 2011
Shareholders' equity, net of minority interest	**$ 3,478.1**	$ 3,396.3	$ 3,216.3
Book value per common share	**$ 51.19**	$ 49.98	$ 47.27
Bank indebtedness	**$ 5.0**	$ 4.4	$ 5.0
Long-term debt, including current portion	**$ 945.7**	$ 1,126.4	$ 1,095.4
Funded debt to total capital	**21.5%**	25.0%	25.5%
Net funded debt to net total capital ratio	**14.3%**	15.4%	12.6%
Funded debt to EBITDA (1)	**1.0x**	1.3x	1.3x
EBITDA to interest expense (2)	**15.3x**	14.4x	12.5x
Current assets to current liabilities	**1.0x**	0.9x	1.0x
Total assets	**$ 6,838.7**	$ 6,913.1	$ 6,564.0

(1) Calculation uses trailing four-quarter EBITDA.
(2) Calculation uses trailing four-quarter EBITDA and interest expense.

Shareholders' Equity

Book value per common share was $51.19 at the end of the first quarter compared to $49.98 at the end of the prior quarter. The increase in book value largely reflects the Company's earnings growth, as discussed.

The Company's share capital on August 4, 2012 consisted of:

	Authorized Number of Shares	**Issued and Outstanding Number of Shares**	**$ Millions**
2002 Preferred shares, par value of $25 each, issuable in series	991,980,000	-	$ -
Non-Voting Class A shares, without par value	257,044,056	33,687,747	311.7
Class B common shares, without par value, voting	40,800,000	34,260,763	7.6
			$ 319.3

There were 33,687,747 Non-Voting Class A and 34,260,763 Class B common shares outstanding at August 4, 2012 for a total of 67,948,510 shares outstanding. This is unchanged from the previous fiscal year-end and from the first quarter last year.

Empire had 684,128 options outstanding at August 4, 2012 compared to 638,818 options outstanding at August 6, 2011.

As at September 13, 2012, the Company had Non-Voting Class A and Class B common shares outstanding of 33,687,747 and 34,260,763, respectively, as well as 684,128 options to acquire in aggregate 684,128 Non-Voting Class A shares.

Dividends paid to Non-Voting Class A and Class B common shareholders amounted to $16.3 million in the first quarter of fiscal 2013 ($0.240 per share) versus $15.3 million ($0.225 per share) in the first quarter of fiscal 2012.

Liabilities

Historically, Empire has financed a significant portion of its assets through the use of long-term debt. Long-term assets are generally financed with fixed rate, long-term debt, thereby reducing both interest rate and refinance risk. Total long-term debt (including the current portion of long-term debt) at August 4, 2012 was $945.7 million, representing 99.5 percent of Empire's total funded debt of $950.7 million.

The composition of funded debt by segment is as follows:

($ in millions)	**August 4, 2012**	May 5, 2012	August 6, 2011
Bank indebtedness			
Investments and other operations	**$ 5.0**	$ 4.4	$ 5.0
Long-term debt (including current portion)			
Food retailing	**771.0**	975.6	979.0
Investments and other operations	**174.7**	150.8	116.4
Total funded debt	**$ 950.7**	$ 1,130.8	$ 1,100.4

Consolidated funded debt has decreased $180.1 million from the $1,130.8 million reported at the start of the fiscal year, and down $149.7 million from the $1,100.4 million reported at the end of the first quarter last year on August 6, 2011. The decrease in consolidated funded debt from the prior year was primarily due to a $208.0 million decline in funded debt at Sobeys, partially offset by higher debt levels in investments and other operations of $58.3 million. During the first quarter of fiscal 2013, Sobeys repaid its $200.0 million non-revolving term credit facility, as detailed below.

On February 14, 2012, Sobeys entered into an amended and restated credit agreement. The agreement provides for an unsecured revolving term credit facility of $450.0 million, and a $200.0 million unsecured non-revolving term credit facility resulting in total authorized credit facilities of $650.0 million. The revolving term credit facility matures on February 14, 2016, and the non-revolving term credit facility matured and was repaid on July 23, 2012. Interest payable on this facility fluctuates with changes in the bankers' acceptance rate, Canadian prime rate or London InterBank Offered Rate ("LIBOR"). As of August 4, 2012, Sobeys had issued $74.5 million (May 5, 2012 - $52.7 million) in letters of credit against the revolving term credit facility.

The ratio of funded debt to total capital has improved 4.0 percentage points to 21.5 percent from 25.5 percent since the first quarter last year. The decrease is mainly a result of lower consolidated funded debt levels due largely to the repayment of Sobeys' non-revolving term credit facility of $200.0 million, as mentioned, and higher shareholders' equity levels due to growth in retained earnings.

Empire's funded debt to EBITDA ratio decreased from 1.3 times at August 6, 2011 to 1.0 times at August 4, 2012 due to lower consolidated funded debt levels of 13.6 percent and an increase in trailing four-quarter EBITDA of 4.5 percent.

Empire's EBITDA to interest expense ratio at August 4, 2012 was 15.3 times, up from 12.5 times recorded at August 6, 2011. The increase over fiscal 2012 is primarily due to a decline in trailing four-quarter interest expense of 15.1 percent accompanied by an increase in trailing four-quarter EBITDA of 4.5 percent, as discussed.

Sobeys current credit ratings are BBB with a stable trend from Dominion Bond Rating Service and BBB- with a stable trend from Standard and Poors.

For additional disclosure on Empire's bank indebtedness and long-term debt, see Notes 13 and 15 to the Company's audited annual consolidated financial statements for the 52 weeks ended May 5, 2012.

Financial Instruments

As part of Empire's risk management strategy, the Company actively monitors its exposures to various financial risks including interest rate risk, foreign exchange price risk and commodity risk. From time to time, the Company utilizes hedging instruments as deemed appropriate to mitigate risk exposure to one or more types of financial risk. The Company does not use financial instruments for speculative purposes. The Company's use of these instruments has not had a material impact on consolidated earnings for the 13 weeks ended August 4, 2012 or for the comparative period in fiscal 2012.

When the Company enters into a financial instrument contract, it is exposed to potential credit risk associated with the counterparty of the contract defaulting. To mitigate this risk exposure, the Company monitors the credit worthiness of the various contract counterparties on an ongoing basis and will take corrective actions as deemed appropriate should a counterparty's credit profile change dramatically.

In-Place Financial Instruments

The Company utilizes interest rate instruments from time to time to prudently manage its exposure to interest rate volatility and also to fix future long-term debt maturities that are expected to be refinanced. In July 2007, Sobeys entered into an interest rate swap for $200.0 million to fix the interest rate on a portion of its floating rate debt. This credit facility matured and was repaid in July 2012 with the interest rate swap being settled concurrently. On a consolidated basis, there were no further interest rate instruments outstanding at August 4, 2012.

In July 2008, Sobeys entered into a floating-for-floating currency swap with a fixed rate of $1.015 Canadian Dollar ("CAD")/United States Dollar ("USD") to mitigate the currency risk associated with a USD denominated variable rate lease. The terms of the swap match the lease terms. As of August 4, 2012, Sobeys recognized a liability of $0.3 million relating to this instrument. Sobeys estimates that a 10.0 percent increase/(decrease) in applicable foreign currency exchange rates would impact the fair value of the swap by plus/(minus) $0.7 million and would impact other comprehensive income by plus/(minus) $0.5 million.

To mitigate the currency risk associated with some of the Company's Euro purchases, Sobeys entered into forward currency contracts with staggered maturities to act as a hedge against the effect of changes in the value of the CAD relative to the Euro. As at August 4, 2012, Sobeys had recognized a liability of $1.1 million representing the fair value of Euro denominated forward currency contracts. Sobeys estimates that a 10.0 percent increase/(decrease) in applicable exchange rates would impact the fair value by plus/(minus) $0.9 million and other comprehensive income by plus or minus $0.6 million.

Fair Value Methodology

When a financial instrument is designated as a hedge for financial accounting purposes, it is classified as fair value through profit and loss on the balance sheets and recorded at fair value. The estimated fair values of the financial instruments as at August 4, 2012 were based on relevant market prices and information available at the reporting date. The Company determines the fair value of each financial instrument by reference to external and third-party quoted bid, ask and mean prices, as appropriate, in an active market. In inactive markets, fair values are based on internal and external valuation models, such as discounted cash flows using market observed inputs. Fair values determined using valuation models require the use of assumptions to determine the amount and timing of forecasted future cash flows and discount rates. The Company primarily uses external market inputs, including factors such as interest yield curves and forward exchange rates. Changes in interest rates and exchange rates, along with other factors, may cause the fair value amounts to change in subsequent periods. The fair value of these financial instruments reflects the amount the Company would pay or receive if it were to settle the contracts at the reporting date.

For additional disclosure on Empire's use of financial instruments, see Notes 3 and 26 to the Company's annual audited financial statements for the 52 weeks ended May 5, 2012.

LIQUIDITY AND CAPITAL RESOURCES

The Company maintains the following sources of liquidity:

- Cash and cash equivalents on hand;
- Unutilized bank credit facilities; and
- Cash generated from operating activities.

At August 4, 2012, consolidated cash and cash equivalents was $368.9 million versus $510.2 million at May 5, 2012 and $637.7 million at August 6, 2011.

At the end of the first quarter of fiscal 2013, on a non-consolidated basis, Empire directly maintained an authorized bank line for operating, general and corporate purposes of $450.0 million, of which $148.0 million or 32.9 percent was utilized. On a consolidated basis, Empire's authorized bank credit facilities exceeded borrowings by $695.2 million at August 4, 2012.

The Company believes that its cash and cash equivalents on hand, unutilized bank credit facilities and cash generated from operating activities will enable the Company to fund future capital investments, pension plan contributions, working capital, current funded debt obligations and ongoing business requirements. The Company also believes it has sufficient funding in place to meet these requirements and other short-term and long-term financial obligations. The Company mitigates potential liquidity risk by ensuring its various sources of funds are diversified by term to maturity and source of credit.

Empire and its subsidiaries have provided covenants to its lenders in support of various financing facilities. All covenants were complied with for the 13 weeks ended August 4, 2012 and for the fiscal year ended May 5, 2012.

The following table highlights major cash flow components for the 13 weeks ended August 4, 2012 compared to the 13 weeks ended August 6, 2011.

	13 Weeks Ended	
($ in millions)	**August 4, 2012**	August 6, 2011
Net earnings	**$ 116.3**	$ 96.6
Non-cash and other cash items	**147.7**	143.7
Net change in non-cash working capital	**(13.9)**	19.6
Income taxes paid, net	**(49.7)**	(62.6)
Cash flows from operating activities	**200.4**	197.3
Cash flows used in investing activities	**(132.8)**	(96.1)
Cash flows used in financing activities	**(208.9)**	(79.4)
(Decrease) increase in cash and cash equivalents	**$ (141.3)**	$ 21.8

Operations

The first quarter of fiscal 2013 generated cash flows from operating activities of $200.4 million compared to $197.3 million in the comparable period last year. The $3.1 million increase is attributed to an increase in net earnings of $19.7 million, a decrease in income taxes paid, net, of $12.9 million, an increase in non-cash and other cash items of $4.0 million, partially offset by a $33.5 million decline in the net change in non-cash working capital.

The following table presents non-cash working capital changes on a quarter-over-quarter basis.

Non-Cash Working Capital (Quarter-Over-Quarter) ($ in millions)	**August 4, 2012**	May 5, 2012	**13 Weeks Ended August 4, 2012 Increase (Decrease) in Cash Flows**	13 Weeks Ended August 6, 2011 Increase (Decrease) in Cash Flows
Receivables	**$ 337.7**	$ 362.0	**$ 24.3**	$ 9.9
Inventories	**845.3**	825.3	**(20.0)**	(12.6)
Prepaid expenses	**95.6**	77.6	**(18.0)**	(8.1)
Accounts payable and accrued liabilities	**(1,735.8)**	(1,729.8)	**6.0**	38.8
Provisions	**(27.4)**	(30.1)	**(2.7)**	(3.1)
Impact of reclassifications on working capital (1)	**3.5**	-	**(3.5)**	(5.3)
Total	**$ (481.1)**	$ (495.0)	**$ (13.9)**	$ 19.6

(1) Reclassifications primarily related to business acquisitions.

The net change in non-cash working capital of $(13.9) million in the first quarter was largely due to an increase in inventories of $20.0 million, an increase in prepaid expenses of $18.0 million and a decrease in provisions of $2.7 million, partially offset by a decrease in receivables of $24.3 million and an increase in accounts payable and accrued liabilities of $6.0 million.

The Company’s ratio of current assets to current liabilities of 1.0 times remained consistent to the same period last year, despite fluctuations in working capital balances.

Investment

For the 13 weeks ended August 4, 2012, cash used in investing activities was $132.8 million, an increase of $36.7 million from cash used in investing activities of $96.1 million last year. The increase was primarily the result of: (i) a decrease in proceeds on the disposal of property, equipment and investment property of $43.1 million; (ii) an increase in cash used to fund a net increase in investments of $26.8 million; (iii) an increase in property, equipment and investment property purchases of $15.9 million; (iv) an increase in the additions to intangibles of $3.7 million; and (v) a decrease in interest received of $0.7 million. Partially offsetting these uses of cash were: (i) an increase in cash generated from other assets and other long-term liabilities of $29.0 million; (ii) an increase in cash generated from loans and other receivables of $18.6 million; and (iii) a decrease in cash used to fund business acquisitions of $5.7 million.

For the 13 weeks ended August 4, 2012, consolidated purchases of property, equipment and investment properties totalled $124.6 million compared to $108.7 million last year. Proceeds on the disposal of property, equipment and investment properties decreased $43.1 million from the prior year to $10.0 million in the 13 weeks ended August 4, 2012 from $53.1 million in the first quarter last year. No properties were sold to Crombie REIT during the first quarter of fiscal 2013 compared to three properties in the first quarter last year for $32.0 million.

The table below outlines the number of stores Sobeys invested in during the 13 weeks ended August 4, 2012 compared to 13 weeks ended August 6, 2011.

Sobeys' Corporate and Franchised Store Construction Activity

	13 Weeks Ended	
# of stores	**August 4, 2012**	August 6, 2011
Opened/acquired/relocated	**10**	8
Expanded	**-**	3
Rebannered/redeveloped	**2**	3
Closed	**13**	12

The following table shows Sobeys' square footage changes for the 13 and 52 weeks ended August 4, 2012, by type.

Sobeys' Square Footage Changes

Square feet (in thousands)	13 Weeks Ended August 4, 2012	52 Weeks Ended August 4, 2012
Opened	213	827
Relocated	-	17
Acquired	-	264
Expanded	-	86
Closed	(208)	(625)
Net change	5	569

At August 4, 2012, Sobeys' square footage totalled 29.3 million square feet, a 1.7 percent increase over the 28.8 million square feet operated at the end of the first quarter last year.

Financing

During the 13 weeks ended August 4, 2012, financing activities used $208.9 million of cash compared to $79.4 million of cash used in the comparable period of fiscal 2012. The increase in cash used of $129.5 million is primarily the result of an increase in the repayment of long-term debt of $151.4 million, net of an increase in the issuance of long-term debt of $28.1 million.

Business Acquisitions

On March 15, 2012, Sobeys acquired 236 retail gas locations and related convenience store operations in Québec and Atlantic Canada from Shell Canada for $214.9 million. The network acquired includes corporate owned and dealer operated locations and is expected to have annual fuel volumes in excess of one billion litres. The acquisition of these retail gas locations complements Sobeys' convenience store operations.

The total consideration of $214.9 million was paid in cash. Acquisition costs of $3.9 million relating to external legal, consulting, due diligence and other closing costs were incurred and have been included in selling and administrative expenses in the consolidated statements of earnings for the 13 and 52 weeks ended May 5, 2012.

The fair value of the identifiable assets acquired and liabilities assumed as at the acquisition date are as follows:

($ in millions)		
Inventories	$	8.0
Property and equipment		138.0
Intangibles		22.3
Provisions		(22.6)
Other assets and liabilities		5.2
Total identifiable net assets	$	150.9
Excess consideration paid over identifiable net asets acquired	$	64.0

The fair value of the identifiable net assets and goodwill have been determined provisionally and are subject to adjustment pending the finalization of the valuations and related accounting.

Free Cash Flow

Free cash flow is used to measure the change in the Company's cash available for additional investing, dividends and/or debt reduction. The following table reconciles free cash flow to GAAP cash flows from operating activities for the 13 weeks ended August 4, 2012 and the 13 weeks ended August 6, 2011.

	13 Weeks Ended			
($ in millions)		**August 4, 2012**		August 6, 2011
Cash flow from operating activities	**$**	**200.4**	$	197.3
Less: property, equipment and investment property purchases		**124.6**		108.7
Free cash flow	**$**	**75.8**	$	88.6

Free cash flow generation in the first quarter of fiscal 2013 was $75.8 million compared to $88.6 million in the first quarter last year. The $12.8 million decrease in free cash flow was due to a $15.9 million increase in property, equipment and investment property purchases, partially offset by a $3.1 million increase in cash flow from operating activities. The $3.1 million increase is attributed to an increase in net earnings of $19.7 million, a decrease in income taxes paid, net, of $12.9 million, an increase in non-cash and other cash items of $4.0 million, partially offset by a $33.5 million decline in the net change in non-cash working capital.

ACCOUNTING STANDARDS AND POLICIES

Accounting Standards and Policies Adopted During Fiscal 2013

With the exception of the following amendments, the unaudited, interim consolidated financial statements were prepared using the same accounting policies as disclosed in the Company's annual consolidated financial statements for the year ended May 5, 2012.

(i) Financial Instruments: Disclosures
In October 2010, the IASB issued amendments to IFRS 7, "Financial Instruments: Disclosures", which require increased disclosure for transactions involving the transfer of financial assets. The amendments became effective in the Company's first quarter of fiscal 2013. No new disclosures were required for the interim consolidated financial statements, as a result of implementing these amendments.

(ii) Deferred Tax: Recovery of Underlying Assets
In December 2010, the IASB issued amendments to IAS 12, "Income Taxes", which introduce an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. The amendments became effective in the Company's first quarter of fiscal 2013. These amendments did not impact the Company as its investment properties are not measured at fair value.

Future Changes in Accounting Standards

(i) Financial Instruments
In November 2009, the IASB issued IFRS 9, "Financial Instruments", which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement". The replacement is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 is the first phase of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

(ii) Consolidated Financial Statements
In May 2011, the IASB issued IFRS 10, "Consolidated Financial Statements", which establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The objective of IFRS 10 is to define principles of control and establish the basis of determining when and how an entity should be included within a set of consolidated financial statements. It replaces portions of IAS 27, "Consolidated and Separate Financial Statements", and supersedes Standing Interpretations Committee ("SIC") 12, "Consolidation - Special Purpose Entities", completely, and is effective for annual periods beginning on or after January 1, 2013.

(iii) Joint Arrangements
In May 2011, the IASB issued IFRS 11, "Joint Arrangements", which establishes principles for financial reporting by entities that have an interest in a joint arrangement. IFRS 11 supersedes IAS 31, "Interest in Joint Ventures", and SIC 13, "Jointly Controlled Entities – Non Monetary Contributions by Venturers". Through an assessment of the rights and obligations in an arrangement, this IFRS establishes principles to determine the type of joint arrangement and guidance for financial reporting activities required by the entities that have an interest in arrangements that are jointly controlled and is effective for annual periods beginning on or after January 1, 2013.

(iv) Disclosure of Interests in Other Entities
In May 2011, the IASB issued IFRS 12, "Disclosure of Interests in Other Entities", which outlines disclosure requirements for an entity that has interests in a subsidiary, a joint arrangement, an associate and an unconsolidated structured entity. IFRS 12 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interest in other entities and the effects of those interests on its financial position, financial performance and cash flows. It is effective for annual periods beginning on or after January 1, 2013.

(v) Fair Value Measurement
In May 2011, the IASB issued IFRS 13, "Fair Value Measurement", which defines fair value, sets out in a single IFRS a framework for measuring fair value and identifies required disclosures about fair value measurements. This IFRS is effective for annual periods beginning on or after January 1, 2013.

(vi) Employee Benefits
In June 2011, the IASB issued amendments to IAS 19, "Employee Benefits", which eliminate the option to defer the recognition of actuarial gains and losses, streamline the presentation of changes in assets and liabilities arising from defined benefit plans to be presented in other comprehensive income and enhance disclosure requirements around the characteristics of the defined benefit plans and risks associated with participation in those plans. The amendments are effective for annual periods beginning on or after January 1, 2013.

The Company is currently evaluating the impact of these new standards and amendments on its consolidated financial statements.

Critical Accounting Estimates

Critical accounting estimates used by the Company's management are discussed in detail in the fiscal 2012 annual MD&A.

Internal Control over Financial Reporting

Management of Empire, which includes the Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining Internal Control over Financial Reporting ("ICFR"), as that term is defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings". The control framework management used to design and assess the effectiveness of ICFR is "The Internal Control Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission.

There have been no changes in Empire's ICFR during the period beginning May 6, 2012 and ended August 4, 2012 that have materially affected, or are reasonably likely to materially affect, Empire's ICFR.

RELATED PARTY TRANSACTIONS

There are related party transactions with Crombie REIT. The Company holds a 42.5 percent ownership interest in Crombie REIT which is accounted for using the equity method.

The Company rents premises from Crombie REIT, at amounts which, in management's opinion approximate fair market value. Due to the significant number of leases negotiated with third parties operating in the same markets in which the Company rents premises from Crombie REIT, management has determined the rental payments to Crombie REIT to be indicative of fair value. During the 13 weeks ended August 4, 2012, the aggregate net payments under these leases, which are measured at exchange amount, were $26.7 million (13 weeks ended August 6, 2011 - $22.8 million).

In addition, Crombie REIT provides administrative and management services to the Company. The charges incurred for administrative and management services are on a cost recovery basis. For the 13 weeks ended August 4, 2012, charges incurred for administrative and management services were $0.3 million (13 weeks ended August 6, 2011 - $0.6 million).

The Company has non-interest bearing notes payable to Crombie REIT in the amount of $2.9 million (August 6, 2011 - $3.8 million) related to the subsidy payments to Crombie REIT pursuant to an omnibus subsidy agreement dated March 23, 2006 between certain subsidiaries of Crombie REIT and ECL Properties Limited.

The Company owns convertible unsecured subordinated debentures from Crombie REIT with a market value of $38.4 million (August 6, 2011 - $11.8 million). During the 13 weeks ended August 4, 2012, the Company received income related to these securities of $0.3 million (13 weeks ended August 6, 2011 - $0.2 million). On July 3, 2012, the Company purchased $24.0 million of convertible unsecured subordinated debentures from Crombie REIT, pursuant to a $60.0 million bought-deal prospectus offering. The Debentures have a maturity date of September 30, 2019. The Debentures have a coupon of 5.00 percent per annum and each $1,000 principal amount of Debenture is convertible into approximately 49.7512 units of Crombie REIT, at any time, at the option of the holder, based on a conversion price of $20.10 per unit.

During the 13 weeks ended August 6, 2011, the Company sold three properties to Crombie REIT, two of which were leased back. Cash consideration received for the properties was recorded at the exchange amount of $32.0 million, resulting in a pre-tax gain of $2.2 million, which was recognized in the consolidated statements of earnings.

As a result of the conversion of Crombie REIT debentures during the first quarter of fiscal 2013, the Company's interest in Crombie REIT was reduced from 44.3 percent to 42.5 percent. On a fully diluted basis (assuming conversion of all outstanding convertible securities of Crombie REIT) the Company's interest in Crombie REIT would be approximately 40.8 percent.

CONTINGENCIES

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

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

RISK MANAGEMENT

Risk and uncertainties related to economic and industry factors and the Company's management of risk are discussed in detail in the fiscal 2012 annual MD&A.

ECONOMIC ENVIRONMENT

Management continues to closely monitor economic conditions, including interest rates, inflation, employment rates and capital markets. Management believes that although a weakening economy has an impact on all businesses and industries, the Company has an operational and capital structure that is sufficient to meet its ongoing business requirements.

DESIGNATION FOR ELIGIBLE DIVIDENDS

"Eligible dividends" receive favourable treatment for income tax purposes. To be an eligible dividend, a dividend must be designated as such at the time of payment.

Empire has, in accordance with the administrative position of the CRA, included the appropriate language on its website to designate the dividends paid by Empire as eligible dividends unless otherwise designated.

EMPLOYEE FUTURE BENEFIT OBLIGATIONS

For the 13 weeks ended August 4, 2012, the Company contributed $2.5 million (13 weeks ended August 6, 2011 - $1.5 million) to its registered defined benefit plans. The Company expects to contribute approximately $10.4 million in fiscal 2013 to these plans. The Company continues to assess the impact of the capital markets on its funding requirements.

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

Dated: September 13, 2012
Stellarton, Nova Scotia, Canada