EMPIRE

enduring value: consistent, steady long-term performance, businesses we know and understand, strong management and dedicated people, disciplined financial management, prospects for future growth

Empire Company Limited
First Quarter Report | Thirteen Weeks Ended August 6, 2005

Quarterly Report to Shareholders

Empire is a diversified Canadian company headquartered in Stellarton, Nova Scotia. Empire's key businesses are retail food distribution (through 68.4% ownership of Sobeys Inc. ("Sobeys")), real estate (through two wholly-owned operating subsidiaries: Sobey Leased Properties Limited ("SLP"), and Crombie Properties Limited ("Crombie"), including 35.7% ownership of Genstar Development Partnership ("Genstar")), and corporate investment activities and other operations (which includes wholly-owned Empire Theatres Limited ("Empire Theatres")). With over $5.0 billion in assets, Empire employs approximately 37,000 people directly and through its subsidiaries.

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Copies of this report are available on the Company's website (www.empireco.ca) or by contacting the Vice President, Investor Relations at (902) 928–1725. A copy has also been filed on SEDAR.

The Company provided additional details concerning its first quarter results on a conference call held on Thursday, September 8, 2005. Replay of the call is available on the Company's website (www.empireco.ca).

Forward-looking Statements

This quarterly report may include forward-looking statements that are subject to risks and uncertainties that may cause actual results or events to differ materially from the results or events predicted in this discussion. In addition to the risk outlined in our Risk Management section of our fiscal 2005 Annual Report, factors which could cause actual results or events to differ include, but are not limited to: the ability to execute on operating company strategic initiatives; the impact of competition; general economic conditions; interest rate and currency exchange rate fluctuations; conditions affecting the North American equity markets; conditions affecting the growth and development of our real estate property portfolio; the ability of our operating companies to attract and retain quality employees and franchises; the availability of capital and the associated cost of capital. As a result of these risk factors and others, no guarantee can be given that the results implied by any forward-looking statements will necessarily materialize.

Letter to Shareholders

On September 8, 2005, Empire announced operating earnings for its first quarter ended August 6, 2005 of $49.6 million or $0.75 per share compared to $44.4 million or $0.67 per share in the first quarter last year.

Net earnings amounted to $73.8 million versus $44.2 million in the first quarter last year. The Company realized a net capital gain of $24.2 million on the sale of 2.875 million units of the Wajax Income Fund ("Wajax") in the first quarter as compared to a net capital loss realized on the sale of investments of $0.2 million in the first quarter last year.

First Quarter Highlights

- *Revenue of $3.36 billion, up $288 million or 9.4 percent over the first quarter last year.*
- *Earnings before net capital gain and other items of $49.6 million, up $5.2 million or 11.7 percent over the first quarter last year.*
- *Earnings per share (before net capital gain and other items) of $0.75, an improvement of 8 cents or 11.9 percent compared to last year.*
- *Capital gain, net of tax, of $24.2 million on the sale of 2.875 million units of Wajax in the quarter versus a net capital loss from the sale of investments of $0.2 million in the first quarter last year.*
- *Net earnings of $73.8 million, up $29.6 million from last year's $44.2 million.*

Financial Performance

($ in millions)	Reported Revenue Q1 Fiscal 2006	Growth over Fiscal 2005	VIE Impact	Adjusted	Reported Revenue Fiscal 2005	Growth over Q1 Fiscal 2005
	3,361	9.4%	162	3,199	3,074	4.1%

Revenue for the first quarter was $3.36 billion compared to $3.07 billion last year, a 9.4 percent increase. The food division generated sales of $3.30 billion, an increase of $289.4 million or 9.6 percent over the first quarter last year. Impacting sales growth in the first quarter of fiscal 2006 was the consolidation of Variable Interest Entities ("VIEs"), which accounted for approximately $162 million or 5.3 percentage points of the increase in Empire's revenue over the first quarter last year. Same-store sales grew by 4.1 percent during the first quarter.

During the first quarter, three new corporate and franchised stores were opened and three stores were expanded. At the end of the first quarter Sobeys had 24.9 million square feet of retail space, a 2.1 percent increase over the end of the first quarter last year.

Real estate operations reported revenue (net of inter-segment) of $40.5 million, a decrease of $0.8 million or 1.9 percent over the first quarter last year. Commercial property revenue declined $0.1 million or 0.3 percent while revenue from residential operations, through a 35.7 percent interest in Genstar Development Partnership ("Genstar"), declined $0.7 million or 9.7 percent.

Consolidated operating income (operating earnings before interest and income taxes) in the first quarter totalled $120.1 million, an increase of $5.3 million or 4.6 percent compared to the first quarter last year.

The food division contributed operating income of $83.7 million, an increase of $3.1 million or 3.8 percent over the same period last year. First quarter operating margin, which is operating income divided by revenue, was 2.54 percent in the first quarter of fiscal 2006 compared to 2.68 percent in the first quarter last year. Included in first quarter fiscal 2006 operating income was a $4.1 million increase in food division depreciation and amortization expense, reflecting Sobeys continued capital investments. Also included in food division operating income was $3.8 million of costs related to Ontario region business process and system initiatives.

The real estate division contributed operating income of $29.8 million, an increase of 5.3 percent from the $28.3 million recorded in the first quarter last year. Operating income generated from commercial properties decreased $0.6 million or 2.7 percent from the first quarter last year. Operating income from residential operations increased $2.1 million or 33.9 percent compared with the first quarter last year, reflecting higher equity earnings from Genstar's U.S. operations. Equity earnings from Genstar's U.S. property operations amounted to $2.7 million versus $0.1 million in the first quarter last year.

Trailing (last four quarters) funds from operations (net earnings plus depreciation) for the real estate division now equals $66.6 million versus $61.0 million for the prior twelve-month period.

Investments and other operations' operating income equalled $6.6 million compared to $5.9 million in the first quarter last year. The increase was largely the result of increased equity earnings from Empire's investment in Wajax.

Interest expense decreased $0.9 million, to $21.0 million from $21.9 million in the first quarter last year. Long-term debt was relatively unchanged from the first quarter last year.

The Company recorded a net capital gain of $24.2 million in the first quarter as a result of the sale of 2.875 million units of Wajax.

Consolidated net earnings, including net capital gain and other items, totalled $73.8 million or $1.12 per share versus $44.2 million or $0.67 per share last year, a 67.0 percent increase. Excluding net capital gains (losses), Empire recorded operating earnings of $49.6 million ($0.75 per share) in the first quarter versus $44.4 million ($0.67 per share) in the first quarter last year, an 11.7 percent increase.

Consolidated Financial Condition

The consolidated financial condition of the Company continues to strengthen. The ratio of funded debt to total capital at the end of the first quarter equalled 40.0 percent versus 41.1 percent at the beginning of the fiscal year. Operating income provided 5.7 times coverage of interest expense in the first quarter.

At August 6, 2005, Empire's investment portfolio had a market value of $470.6 million on a cost base of $348.6 million, resulting in an unrealized gain of $122.0 million. This compares to an investment portfolio market value of $387.1 million on a cost base of $331.9 million (unrealized gain of $55.2 million) at the end of the first quarter last year.

The total return on the investment portfolio for the twelve-month period ended June 30, 2005 was 33.0 percent as compared to an 18.0 percent return for the S&P/TSX Composite Index and a negative 2.8 percent return for the S&P 500 Index (in Canadian dollars) over the same time period.

The purchase of property, equipment and other assets in the first quarter equalled $93.4 million as compared to $75.7 million in the same quarter last year. Investment in food division property and equipment and other assets accounted for $84.0 million of the total capital investment in the first quarter. Capital expenditures for the real estate division and other operations in the first quarter equalled $5.3 million and $4.1 million respectively.

Dividend Declaration

The Board of Directors declared a quarterly dividend of $0.14 per share on both the Non-Voting Class A shares and the Class B common shares that will be payable on October 28, 2005 to shareholders of record on October 14, 2005. In addition, the Board declared regular dividends on the Company's outstanding preferred shares.

Subsequent event

Subsequent to the end of the first quarter, on August 22, 2005, wholly-owned Empire Theatres Limited announced that it had agreed to purchase 27 movie-theatres with 202 screens located in Ontario and Western Canada from Cineplex Galaxy LP for approximately $83 million. The transaction is expected to close on September 30, 2005. As a result of this acquisition, including theatres owned through a joint venture in Western Canada, Empire Theatres will operate in 59 theatres representing 403 screens across Canada.

In conclusion, we are pleased with our start to fiscal 2006. Operating earnings growth of 11.7 percent over the first quarter last year reflects strong same store sales growth and merchandising and productivity initiatives in our food retail business, continued strength in our residential real estate operation as well as higher investment income. The leadership teams in our food distribution, real estate and theatres companies remain intently focused on the successful execution of their respective business plans and, as such, we remain confident that the fundamentals for each of our operating businesses will continue to improve in fiscal 2006.

Paul D. Sobey
President & Chief Executive Officer

September 8, 2005

EMPIRE COMPANY LIMITED
CONSOLIDATED BALANCE SHEETS
(In millions)

		August 6 2005 Unaudited		May 7 2005 Audited		July 31 2004 Unaudited Restated (Note 1)
ASSETS						
Current						
Cash and cash equivalents	**$**	**249.6**	$	281.7	$	137.1
Receivables		**271.4**		257.8		344.4
Income taxes receivable		**28.8**		15.0		15.5
Inventories		**676.2**		639.6		527.8
Prepaid expenses		**61.9**		52.3		49.0
		1,287.9		1,246.4		1,073.8
Investments, at cost (quoted market value $357.9; May 7,2005 $320.9; July 31, 2004 $302.5)		**300.8**		270.8		268.1
Investments, at equity (realizable value $112.7; May 7,2005 $162.4; July 31, 2004 $84.6)		**47.8**		72.9		63.8
Current assets and marketable investments		**1,636.5**		1,590.1		1,405.7
Property and equipment		**2,456.3**		2,429.8		2,307.2
Assets for realization		**9.8**		11.5		12.4
Other assets (Note 4)		**214.8**		212.9		312.4
Goodwill		**684.2**		684.9		662.0
	$	**5,001.6**	$	4,929.2	$	4,699.7
LIABILITIES						
Current						
Bank indebtedness	**$**	**202.8**	$	219.4	$	153.4
Accounts payable and accrued liabilities		**1,161.0**		1,149.1		1,121.5
Future income taxes		**52.4**		52.4		46.7
Long-term debt due within one year		**247.2**		247.0		73.1
		1,663.4		1,667.9		1,394.7
Long-term debt		**719.2**		727.4		905.7
Long-term lease obligation		**12.5**		12.3		12.5
Deferred revenue		**3.1**		3.0		5.6
Employee future benefit obligation		**95.3**		94.5		92.2
Future income taxes		**162.7**		158.8		136.3
Minority interest		**572.2**		556.3		549.9
		3,228.4		3,220.2		3,096.9
SHAREHOLDERS' EQUITY						
Capital stock (Note 5)		**194.9**		194.6		196.7
Retained earnings		**1,579.5**		1,515.5		1,406.5
Cumulative translation adjustment		**(1.2)**		(1.1)		(0.4)
		1,773.2		1,709.0		1,602.8
	$	**5,001.6**	$	4,929.2	$	4,699.7

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

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

	August 6 2005	July 31 2004 *Restated (Note 1)*
Balance, beginning of period as previously reported	**$ 1,515.5**	$ 1,380.7
Adjustment due to adoption of accounting standards prior period (Note 1)	**-**	(9.2)
Balance, beginning of period as restated	**1,515.5**	1,371.5
Net earnings	**73.8**	44.2
	1,589.3	1,415.7
Dividends declared		
Preferred shares	**(0.1)**	(0.1)
Common shares	**(9.0)**	(7.9)
	(9.1)	(8.0)
Premium on common shares purchased for cancellation	**(0.7)**	(1.2)
Balance, end of period	**$ 1,579.5**	$ 1,406.5

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

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

	August 6 2005	July 31 2004 *Restated (Note 1)*
Revenue	**$ 3,361.7**	$ 3,073.7
Cost of sales, selling and administrative expenses	**3,197.5**	2,915.4
	164.2	158.3
Depreciation and amortization	**52.9**	48.1
	111.3	110.2
Investment income (Note 6)	**8.8**	4.6
Operating income	**120.1**	114.8
Interest expense		
Long-term debt	**19.9**	20.4
Short-term debt	**1.1**	1.5
	21.0	21.9
	99.1	92.9
Capital gain (loss) and other items (Note 7)	**26.3**	(0.3)
Earnings before income taxes and minority interest	**125.4**	92.6
Income taxes		
Current	**31.9**	28.5
Future	**3.9**	3.7
	35.8	32.2
Earnings before minority interest	**89.6**	60.4
Minority interest	**15.8**	16.2
Net earnings	**$ 73.8**	$ 44.2
Earnings per share, basic and diluted (Note 3)	**$ 1.12**	$ 0.67

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

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

	August 6 2005	July 31 2004 *Restated (Note 1)*
Operating Activities		
Net earnings	**$ 73.8**	$ 44.2
Items not affecting cash (Note 8)	**49.6**	72.1
Preferred dividends	**(0.1)**	(0.1)
	123.3	116.2
Net change in non-cash working capital	**(61.7)**	(94.5)
Cash flows from operating activities	**61.6**	21.7
Investing Activities		
Net (increase) decrease in investments	**(25.7)**	9.0
Net proceeds from sale of Wajax Income Fund	**50.5**	-
Purchase of shares in subsidiary, Sobeys Inc.	**-**	(7.4)
Purchase of property, equipment and other assets	**(93.4)**	(75.7)
Proceeds from sale of property	**4.7**	10.7
Business acquisitions, net of cash acquired	**-**	(12.2)
Cash flows used in investing activities	**(63.9)**	(75.6)
Financing Activities		
(Decrease) increase in bank indebtedness	**(16.6)**	12.6
Increase (decrease) in construction loans	**0.7**	(1.1)
Issue of long-term debt	**15.2**	7.7
Repayment of long-term debt	**(23.9)**	(23.5)
Increase in long-term lease obligation	**0.2**	-
Increase in minority interest	**3.6**	1.7
Issue of Non-Voting Class A shares	**0.8**	0.9
Repurchase of Non-Voting Class A shares for cancellation	**(0.8)**	(1.6)
Common dividends	**(9.0)**	(7.9)
Cash flows used in financing activities	**(29.8)**	(11.2)
Decrease in cash and cash equivalents	**(32.1)**	(65.1)
Cash and cash equivalents, beginning of period	**281.7**	202.2
Cash and cash equivalents, end of period	**$ 249.6**	$ 137.1

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

EMPIRE COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 6, 2005
(Unaudited, in millions, except per share amounts)

1. Summary of Significant Accounting Policies

Interim financial statements

The unaudited interim period consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). These interim consolidated financial statements do not include all of the disclosures included in the Company's annual consolidated financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended May 7, 2005, as set out in the 2005 Annual Report.

Generally accepted accounting principles

The accounting policies used in the preparation of these interim consolidated financial statements conform with those used in the Company's 2005 annual consolidated financial statements. Selected changes in accounting policies adopted in fiscal 2005 and those changes adopted in 2006 are noted below:

a) Real estate leases

On February 7, 2005, the Office of the Chief Accountant of the U.S. Securities and Exchange Commission (SEC) issued a clarification in respect of accounting for various components of property leases and leasehold improvements on which U.S. and Canadian accounting governing bodies had been largely silent. As a result of the SEC clarification the Company has adopted the following two accounting policies. Lease inducements received as a reimbursement for leasehold improvement costs are amortized over the term of the lease. The total lease expense is amortized straight-line over the entire term of the lease including rent free periods related to store fixturing. A store fixturing period varies by store but is generally considered to be one month prior to the store opening. The Company has adopted this guideline retroactively with restatement (see Note 11).

b) Vendor allowances

In January 2004, the Canadian Institute of Chartered Accountants (CICA) Emerging Issues Committee (EIC) issued Abstract 144, "Accounting by a customer (including a reseller) for certain consideration received from a vendor". EIC-144 outlines that cash consideration received from a vendor is presumed to be a reduction in the prices of the vendor's products or services and should be accounted for as a reduction in cost of sales and related inventory, when recognized in the customer's income statement and balance sheet. Certain exceptions apply if the consideration is a payment for assets or services delivered to the vendor or for reimbursement of costs incurred to sell the vendor's products, provided certain conditions are met. The Company adopted EIC-144 in November 2004, adjusting for it retroactively, with restatement of the comparative period. During the first quarter of fiscal 2006, the Company adopted the amendment to EIC-144 issued in January 2005. The amendment requires disclosure of the amount of any vendor allowances that have been recognized in income but for which the full requirements for entitlement have not yet been met (see Note 12).

1. Summary of Significant Accounting Policies (continued)

c) Variable interest entities (VIE's)

Effective for the fourth quarter ended May 7, 2005, the Company was required to implement AcG-15, "Consolidation of variable interest entities" issued by the CICA. AcG-15 requires the Company to consolidate certain entities that are deemed to be subject to control of the Company on a basis other than through ownership of a voting interest in the entity (see Note 13).

Inventories

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

Revenue recognition

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

Pension benefit plans and other benefit plans

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

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

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

(Unaudited, in millions, except per share amounts)

Use of estimates

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

2. Sale of Wajax Income Fund

On June 6, 2005, the shareholders of Wajax Limited (Wajax), an equity accounted investment, approved a Plan of Arrangement to convert Wajax into an income fund. The Company owned approximately 45% of the outstanding shares of Wajax (on a fully diluted basis). The Plan of Arrangement was completed on June 15, 2005 with the Company receiving one unit of Wajax Income Fund (Fund) for each Wajax share held. Through a secondary offering, on June 21, 2005, the Company sold a total of 2.5 million Fund units for net proceeds of approximately $43.7. On June 29, 2005, the underwriter exercised their over-allotment option to purchase 375,000 Fund units at $19.25 per unit, resulting in additional net proceeds of $6.8. This reduced the Company's ownership percentage to approximately 27.6%. Details of the sale are as follows:

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

3. Earnings Per Share

Earnings per share amounts are calculated on the weighted average number of shares outstanding (2005 - 65,735,810 shares; 2004 - 65,796,939 shares) after providing for preferred share dividends accrued to the balance sheet date. Diluted earnings per share are calculated on the assumption that all the outstanding stock options were exercised and share purchase loans were repaid at the beginning of the period. There is no effect as a result of this calculation.

(Unaudited, in millions, except per share amounts)

Earnings applicable to common shares is comprised of the following:

	2005	2004 *Restated (Note 1)*
Operating earnings	**$ 49.6**	$ 44.4
Capital gain (loss) and other items, net of tax expense of $2.1; net of tax recovery of $0.1	**24.2**	(0.2)
Net earnings	**73.8**	44.2
Preferred share dividends	**(0.1)**	(0.1)
Earnings applicable to common shares	**$ 73.7**	$ 44.1
Earnings per share is comprised of the following:	**$ 0.75**	$ 0.67
Capital gain and other items	**0.37**	-
Basic earnings per share	**$ 1.12**	$ 0.67
Diluted earnings per share	**$ 1.12**	$ 0.67

4. Other Assets

	August 6 2005	May 7 2005	July 31 2004
Loans and mortgages receivable	**$ 50.4**	$ 41.7	$ 158.4
Deferred costs	**143.5**	149.6	137.9
Intangibles (less accumulated amortization of $3.1; May 7, 2005 $2.4; July 31, 2004 $0.7)	**20.9**	21.6	16.1
	$ 214.8	$ 212.9	$ 312.4

Loans receivable decreased by $97.0 as a result of the consolidation of VIE's (see Note 13).

5. Capital Stock

During the period, under a normal course issuer bid which expires on July 27, 2006, the Company purchased for cancellation 20,254 (2004 - 61,129) Non-Voting Class A shares.The purchase price was $0.8 of which $0.7 of the purchase price (representing the premium on common shares purchased for cancellation) was charged to retained earnings. During the period 20,254 (2004 - 42,129) Non-Voting Class A shares were issued under the Company's stock option and share purchase plans to certain officers and employees for $0.8 (2004 - $0.9). Loans receivable from officers and employees of $4.8 (May 7, 2005 $4.4; July 31, 2004 $4.8) under the Company's share purchase plan are classified as a reduction of Shareholders' Equity.

EMPIRE COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 6, 2005
(Unaudited, in millions, except per share amounts)

6. Investment Income

	2005	2004
Dividend and interest income	**$ 2.1**	$ 2.4
Share of income of investments accounted for by the equity method	**6.7**	2.2
	$ 8.8	$ 4.6

7. Capital Gain (Loss) and Other Items

	2005	2004
Gain on sale of Wajax Income Fund (Note 2)	**$ 26.3**	$ -
Loss on sale of investments	**-**	(0.3)
	$ 26.3	$ (0.3)

8. Supplementary Cash Flow Information

a) Items not affecting cash

	2005	2004 *Restated (Note 1)*
Depreciation and amortization	**$ 52.9**	$ 48.1
Future income taxes	**3.9**	3.5
Amortization of deferred items	**9.0**	7.3
Equity in earnings of other companies, net of dividends received	**(3.5)**	(1.9)
Minority interest	**12.8**	13.3
Employee future benefit obligation	**0.8**	1.8
Gain on sale of Wajax Income Fund	**(26.3)**	
	$ 49.6	$ 72.1

b) Other cash flow information

	2005	2004
Net interest paid	**$ 13.0**	$ 14.8
Net income taxes paid	**$ 47.2**	$ 56.7

9. Segmented Information

	2005	2004
Revenue		
Food	**$ 3,300.4**	$ 3,011.0
Real estate		
Commercial	**34.0**	34.1
Inter-segment	**13.3**	13.8
Residential	**6.5**	7.2
	53.8	55.1
Other operations	**20.8**	21.4
	3,375.0	3,087.5
Elimination	**(13.3)**	(13.8)
	$ 3,361.7	$ 3,073.7

(Unaudited, in millions, except per share amounts)

9. Segmented Information (continued)

	2005	2004 Restated (Note 1)
Operating income		
Food	**$ 83.7**	$ 80.6
Real estate		
Commercial	**21.5**	22.1
Residential	**8.3**	6.2
Other operations	**2.9**	4.2
Investment income	**6.1**	4.5
Corporate expenses	**(2.4)**	(2.8)
	$ 120.1	$ 114.8

	August 6 2005	May 7 2005 Restated (Note 1)	July 31 2004
Identifiable assets			
Food	**$ 2,885.2**	$ 2,829.0	$ 2,642.9
Goodwill	**680.4**	681.1	658.2
	3,565.6	3,510.1	3,301.1
Real estate	**1,022.6**	1,017.9	1,000.4
Investments	**335.1**	325.9	316.6
Other (including goodwill of $3.8; May 7, 2005 $3.8; July 31, 2004 $3.8)	**78.3**	75.3	81.6
	$ 5,001.6	$ 4,929.2	$ 4,699.7

10. Employee Future Benefits

During the first quarter the net employee future benefit expense was $6.0 (2004 - $5.6). The expense included costs for the Company's defined contribution pension plans, defined benefit pension plans, post-retirement benefit plans and post-employment benefit plans.

11. Real Estate Leases

During fiscal 2005 the Company reviewed its practices related to lease accounting and determined that adjustments were required to align to the recent clarification of lease accounting guidelines. The first adjustment related to lease allowances and incentives. Historically the Company classified lease allowances as a reduction of the related capital assets, which effectively reduced the depreciation expense over the expected life of the asset. The guideline clarification suggests these lease allowances should be recorded as a deferred credit and amortized as a reduction of lease expense over the term of the lease. The second adjustment related to rent expense to be recorded during a store's fixturing period. The Company is often granted a fixturing period during which rent is not charged. The fixturing period is generally considered to be one month prior to the store opening. Historically, when the Company was granted a fixturing period, rent expense was not recorded as none was being charged and the store was not yet open. The clarification of the accounting guidance however requires that the fixturing period be considered a free-rent period that should be included in the term of the lease. Since lease expense must be recognized on a straight-line basis over the lease term, an appropriate portion of the straight-line expense must be recorded for the fixturing period. The third adjustment related to the capitalization of long-term leases. An evaluation was completed in the fourth quarter of fiscal 2005 and certain long-term leases were identified as capital leases. These changes have been accounted for on a retroactive basis with restatement resulting with the following net impact on the comparative statements for the first quarter:

As at July 31, 2004 a reduction to retained earnings of $5.4.

A reduction in net income for the 13 week period ended July 31, 2004 of $0.1 from $44.3 to $44.2, and a nil reduction in earnings per share.

As at July 30, 2004 an increase to Property and equipment, Future income taxes, Long-term debt and Long-term lease obligation of $9.9, $4.6, $10.3 and $12.5 respectively, and a decrease in minority interest of $2.9.

These lease accounting adjustments did not have any material impact on the Company's first quarter fiscal 2006 net earnings, historical or future revenues, cash flows or lease payments.

12. Vendor Allowances

The Company receives allowances from certain vendors, whose products are purchased for resale. Included in these vendor programs are allowances for volume purchases, exclusivity allowances, listing fees and other allowances. Due to the retroactive implementation of EIC-144, the timing of recognition of certain volume allowances has changed, resulting in the Company recording a decrease in opening retained earnings for fiscal 2005 of $3.8 (net of income tax effect of $3.4 and minority interest of $2.1) and a decrease to inventory of $9.3. The implementation of EIC-144 did not result in a material change in the quarterly net earnings for the current or prior year.

Certain allowances from vendors are contingent on the Company achieving minimum purchase levels. The Company recognizes these allowances in income in accordance with EIC-144 when it is probable that the minimum purchase level will be met, and the amount of allowance is estimable. During the first quarter of 2006, the Company recognized $1.1 of allowances in income whereby the minimum purchase level had not yet been met.

13. Variable Interest Entities

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

The Company has implemented AcG-15 on May 7, 2005 retroactively without restatement of prior periods. Entities that have been identified as meeting the characteristics of a VIE have been consolidated in the Company's results for the fiscal quarter.

The Company has identified the following entities as VIE's:

Franchisees
The Company has identified 281 franchisees whose franchise agreements result in the Company being deemed the primary beneficiary of the entity according to AcG-15. The results for these entities require consolidation with the results of the Company.

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

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

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

13. Variable Interest Entities (continued)

Balance Sheet as at August 6, 2005

	Consolidated Balance Sheet as at August 6, 2005 before AcG-15 Impact	Impact of the Implementation of AcG-15	Consolidated Balance Sheet as at August 6, 2005 after AcG-15 Impact
ASSETS			
Current			
Cash and cash equivalents	$ 215.1	$ 34.5	$ 249.6
Receivables	296.9	(25.5)	271.4
Income taxes receivable	29.5	(0.7)	28.8
Inventories	556.9	119.3	676.2
Prepaid expenses	56.9	5.0	61.9
	1,155.3	132.6	1,287.9
Investments, at cost (quoted market value $357.9)	300.8	-	300.8
Investments, at equity (realizable value $112.7)	47.8	-	47.8
Current assets and marketable investments	1,503.9	132.6	1,636.5
Property and equipment	2,423.0	33.3	2,456.3
Assets for realization	9.8	-	9.8
Other assets	311.8	(97.0)	214.8
Goodwill	684.2	-	684.2
	$ 4,932.7	$ 68.9	$ 5,001.6
LIABILITIES			
Current			
Bank indebtedness	$ 202.8	$ -	$ 202.8
Accounts payable and accrued liabilities	1,126.5	34.5	1,161.0
Future income taxes	52.4	-	52.4
Long-term debt due within one year	245.3	1.9	247.2
	1,627.0	36.4	1,663.4
Long-term debt	702.0	17.2	719.2
Long-term lease obligation	12.5	-	12.5
Deferred revenue	3.1	-	3.1
Employee future benefit obligation	95.3	-	95.3
Future income taxes	162.7	-	162.7
Minority interest	546.8	25.4	572.2
	3,149.4	79.0	3,228.4
SHAREHOLDERS' EQUITY			
Capital stock	194.9	-	194.9
Retained earnings	1,589.6	(10.1)	1,579.5
Cumulative translation adjustment	(1.2)	-	(1.2)
	1,783.3	(10.1)	1,773.2
	$ 4,932.7	$ 68.9	$ 5,001.6

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

13. Variable Interest Entities (continued)

The impact of implementation of AcG-15 on the consolidated balance sheet of the Company can be explained as follows:

Accounts receivable and long-term notes receivable due from the franchisees were eliminated upon consolidation. Cash, inventories, fixed assets, accounts payable and debt financing the fixed assets has been consolidated.

A charge of $9.5 has been recorded to opening retained earnings (net of minority interest of $5.0) to reflect:

1) The reduction of inventory values of the franchisees that include charges from the Company for distribution costs and vendor allowances that are not recognized by the Company until final sale to customers,
2) Goodwill that is carried on the accounts of stores determined to be VIE's has been assessed as being impaired with no fair market value, and, as such, has been eliminated.

Minority interest represents the equity in the VIE's held by the common shareholder.

Balance Sheet as at August 6, 2005

	Consolidated Balance Sheet as at August 6, 2005 before AcG-15 Impact	Impact of the Implementation of AcG-15	Consolidated Balance Sheet as at August 6, 2005 after AcG-15 Impact
Revenue	$ 3,200.1	$ 161.6	$ 3,361.7
Operating expenses			
Cost of sales, selling and administrative expenses	3,038.3	159.2	3,197.5
Depreciation and amortization	51.7	1.2	52.9
	110.1	1.2	111.3
Investment income	8.8	-	8.8
Operating income	118.9	1.2	120.1
Interest expense			
Long-term debt	19.6	0.3	19.9
Short-term debt	1.1	-	1.1
	20.7	0.3	21.0
	98.2	0.9	99.1
Capital gain and other items	26.3	-	26.3
Earnings before income taxes and minority interest	124.5	0.9	125.4
Income taxes	35.2	0.6	35.8
Earnings before minority interest	89.3	0.3	89.6
Minority interest	15.4	0.4	15.8
Net earnings	$ 73.9	$ (0.1)	$ 73.8
Earnings per share, basic and diluted	$ 1.12		$ 1.12
Basic and diluted weighted average number of common shares outstanding, in millions	65.7		65.7

13. Variable Interest Entities (continued)

The impact of implementation of AcG-15 on the consolidated income statement of the Company can be explained as follows:

> Franchise retail sales are recorded and sales from the Company's warehouse and cost of goods sold to the franchisee have been eliminated. The impact on all other financial statement line items including net earnings is immaterial.

14. Contingent Liabilities

On June 21, 2005, Sobeys Inc. (a subsidiary of the Company) received a notice of reassessment from Canada Revenue Agency (CRA) for fiscal years 1999 and 2000 related to the Goods and Service Tax (GST). CRA asserts that Sobeys Inc. was obligated to collect GST on the sales of tobacco products to status Indians. The total tax, interest and penalties in the reassessment was $13.6. Sobeys Inc. has reviewed this matter, has received legal advice, and believes it was not required to collect GST. Sobeys Inc. is challenging this reassessment. Accordingly, the Company has deposited with CRA, funds to cover the total tax, interest and penalties in the reassessment and has recorded this amount as a receivable from CRA pending resolution of this matter.

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

15. Subsequent Event

On August 22,2005, Empire Theatres Limited (a subsidiary of the Company) announced that it has agreed to purchase 27 theatres with 202 screens located in Ontario and Western Canada from Cineplex Galaxy LP. The transaction is valued at approximately $83, will be settled in cash and is expected to close September 30, 2005, subject to customary closing conditions.

16. Comparative Figures

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FIRST QUARTER FISCAL 2006

Management's Discussion and Analysis

The following is Management's Discussion and Analysis ("MD&A") of the consolidated financial results of Empire Company Limited ("Empire" or the "Company") for the thirteen weeks ended August 6, 2005, as compared to the thirteen weeks ended July 31, 2004. This MD&A also provides analysis of the operating performance of the Company's divisions as well as a discussion of cash flows and the financial condition of the Company.

This discussion and analysis should be read in conjunction with the Company's unaudited interim period consolidated financial statements and accompanying notes for the thirteen weeks ended August 6, 2005, the audited annual consolidated financial statements and accompanying notes for the 53 weeks ended May 7, 2005 and the related annual MD&A as contained on pages 19 through 57 of Empire's 2005 Annual Report. Information about the Company, including the Annual Report and Annual Information Form, can be found on SEDAR at www.sedar.com.

In the fourth quarter of fiscal 2005, the Company adopted Accounting Guideline 15 ("AcG-15") "Consolidation of Variable Interest Entities". These consolidated financial statements include the accounts of variable interest entities ("VIEs") which the Company is required to consolidate. Please review the section entitled "AcG-15, Consolidation of Variable Interest Entities" included in this MD&A for more information.

The discussion may contain forward-looking information about the future performance of the Company and its divisions. These statements are based on management's assumptions and beliefs in light of the information currently available to them. These forward-looking statements are subject to inherent uncertainties, risks and other factors that could cause actual results to differ materially from such statements, including but not limited to: general industry and economic conditions, pricing pressures and competitive factors, rates of return on capital spending, the results of business improvement and development initiatives and the availability and terms of financing, amongst other factors. When relying on forward-looking statements to make decisions, the Company cautions readers not to place undue reliance on these statements, as a number of important factors could cause actual results to differ materially from any estimates or intentions expressed in such forward-looking statements. The Company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the Company.

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

Overview of the Business

Empire is a diversified Canadian company headquartered in Stellarton, Nova Scotia. Empire's key businesses are food retailing - through 68.4% ownership of Sobeys Inc. ("Sobeys"), real estate through two wholly-owned operating subsidiaries: Sobey Leased Properties Limited ("SLP"), and Crombie Properties Limited ("Crombie"), including 35.7% ownership of Genstar Development Partnership ("Genstar"); and corporate investment activities and other operations which includes an approximately 27.6% ownership position in the Wajax Income Fund ("Wajax") and wholly-owned Empire Theatres Limited ("Empire Theatres"). With $5.0 billion in assets, Empire employs approximately 37,000 people directly and through its subsidiaries.

Consolidated Operating Results

The consolidated financial overview provided below reports on the financial performance in the first quarter of fiscal 2006 relative to the first quarter last year.

Summary Table of Consolidated Financial Results

($ in millions, except per share information)	13 Weeks Ended August 6, 2005 $	% of Revenue	13 Weeks Ended July 31, 2004* $	% of Revenue
Revenue				
Food	$ 3,300.4	98.18%	$ 3,011.0	97.96%
Real Estate, net of inter-segment	40.5	1.20	41.3	1.34
Other Operations	20.8	0.62	21.4	0.70
Consolidated revenue	$ 3,361.7	100.00%	$ 3,073.7	100.00%
Operating income				
Food	$ 83.7		$ 80.6	
Real Estate	29.8		28.3	
Investments and Other Operations	6.6		5.9	
Consolidated operating income	$ 120.1	3.57%	$ 114.8	3.73%
Interest expense	21.0	0.62	21.9	0.71
Income taxes (from operating activities)	33.7	1.00	32.3	1.05
Minority interest	15.8	0.47	16.2	0.53
Operating earnings	$ 49.6	1.48	$ 44.4	1.44
Capital gain (loss) and other items, net of tax	24.2	0.72	(0.2)	-
Net earnings	$ 73.8	2.20	$ 44.2	1.44
Cash flows from operating activities	$ 61.6	1.83	$ 21.7	0.71
Total assets	$ 5,001.6		$ 4,699.7	
Total long-term liabilities	$ 1,565.0		$ 1,702.2	
Per Share, basic and fully diluted				
Operating earnings	$ 0.75		$ 0.67	
Capital gain (loss) and other items, net of tax	0.37		-	
Net earnings	$ 1.12		$ 0.67	
Basic and diluted weighted average number of shares outstanding (in millions)	65.7		65.8	
Annualized dividends per share	$ 0.56		$ 0.48	

* The first quarter of fiscal 2005 has been restated to reflect retroactive adjustments related to lease accounting. Please see section entitled Accounting Standards - "Lease Accounting" in the fiscal 2005 annual MD&A.

Management's Explanation of Consolidated Results

The following is a review of Empire's consolidated financial performance for the 13-week period ended August 6, 2005 compared to the 13-week period ended July 31, 2004.

Consolidated operating earnings growth of 11.7 percent over the first quarter last year reflects sales growth and merchandising and productivity initiatives in our food retail business, continued strength in our residential real estate operations as well as higher investment income. Revenue and financial performance of each of the Company's businesses (food, real estate, and investments and other operations) are discussed in detail in the section entitled "Operating Performance by Division" in this MD&A.

Revenue

First quarter fiscal 2006 revenues adjusted to eliminate the impact of VIE consolidation:

($ in millions)	Reported Revenue Q1 Fiscal 2006	Growth over Fiscal 2005	VIE Impact	Adjusted	Reported Revenue Q1 Fiscal 2005	Growth over Fiscal 2005
	3,361	9.3%	162	3,199	3,074	4.1%

First quarter revenue reached $3.36 billion, an increase of 9.3 percent over the first quarter last year. Impacting revenue growth in the first quarter of fiscal 2006 was the consolidation of VIEs, which accounted for approximately $162 million or 5.3 percentage points of the increase over the first quarter fiscal 2005. Excluding the impact of VIEs sales grew by 4.1 percent.

The food division contributed revenue of $3.30 billion versus $3.01 billion in the first quarter last year, an increase of $289.4 million or 9.6 percent including the VIE impact and an increase of $127.8 million or 4.2 percent excluding the impact of VIEs. Food division same-store sales grew 4.1 percent during the first quarter.

Real estate revenue (net of inter-segment elimination) declined 1.9 percent in the first quarter and other operations reported a revenue decline of 2.8 percent.

Operating Income

Consolidated operating income in the first quarter totalled $120.1 million, an increase of $5.3 million or 4.6 percent compared to the first quarter last year. The increase is the result of a $3.1 million or 3.8 percent increase in operating income contribution from the food division, a $1.5 million or 5.3 percent increase in operating income from the real estate division and a $0.7 million or 11.9 percent increase in operating income contribution from investments and other operations. The change in operating income for each division is explained in the section which follows, entitled "Operating Performance by Division".

Interest Expense

The $0.9 million decrease in interest expense, to $21.0 million from $21.9 million in the first quarter last year, is primarily the result of relatively unchanged long-term debt levels and a reduction in average short term borrowings, net of cash on hand, compared to the first quarter last year.

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

Income Tax Expense

The effective income tax rate for the first quarter was 34.0 percent versus 34.8 percent in quarter one of fiscal 2005.

Minority Interest

In the first quarter of fiscal 2006, Empire recorded minority interest expense of $15.8 million compared to $16.2 million in the first quarter last year. The decrease in minority interest expense is a result of the increase in Empire's ownership in Sobeys from 65.3 percent at July 31, 2004, to 68.4 percent at August 6, 2005, partially offset by higher net earnings reported by the food division. Empire purchased 1,864,600 common shares of Sobeys in fiscal 2005 resulting in the increase in ownership; no shares were purchased in the first quarter of fiscal 2006.

Operating Earnings

The $5.2 million or 11.7 percent improvement in operating earnings (earnings before net capital gains (losses) and other items) over the prior year was the result of the $5.3 million increase in operating income, the $0.9 million reduction in interest expense, the $1.4 million increase in income tax expense and the $0.4 million reduction in minority interest as previously discussed.

Net Capital Gain (Loss)

The Company generated a net capital gain of $24.2 million in the first quarter as a result of the sale of 2.875 million units of Wajax. During the first quarter last year, a net capital loss of $0.2 million was recorded, primarily from the sale of investments.

Net Earnings

The increase in net earnings of $29.6 million or 67.0 percent is attributed to the $24.4 million increase in realized net capital gains (losses) along with the $5.2 million increase in operating earnings as discussed.

Quarterly Results of Operations

The following table summarizes selected consolidated financial information from the Company's unaudited interim financial statements for each of the most recently completed eight quarters. The consolidation of VIEs results in higher revenue and lower margins as a percent of revenue. The quarters prior to the fourth quarter of fiscal 2005 have not been restated. The first quarter of fiscal 2006 and the fourth quarter of fiscal 2005 include the impact of consolidating the VIEs.

($ in millions, except per share information)

	Fiscal 2006	Fiscal 2005				Fiscal 2004		
	Q1 (13 weeks) Aug 6/05	Q4 (14 weeks) May 7/05	Q3 (13 weeks) Jan 29/05	Q2 (13 weeks) Oct 30/04	Q1 (13 weeks) July 31/04	Q4 (13 weeks) Apr 30/04	Q3 (13 weeks) Jan 31/04	Q2 (13 weeks) Oct 31/03
Revenue	$3,361.7	$3,360.2	$2,978.5	$3,022.8	$3,073.7	$2,876.4	$2,798.5	$2,794.4
Operating income	120.1	124.0	113.3	111.8	114.8	100.9	109.9	104.9
Operating earnings	49.6	49.3	46.2	42.9	44.4	41.0	44.0	38.9
Net capital gain (loss) and other items	24.2	5.5	1.4	(3.0)	(0.2)	(0.1)	8.8	(2.2)
Net earnings	$ 73.8	$ 54.8	$ 47.6	$ 39.9	$ 44.2	$ 40.9	$ 52.8	$ 36.7
Per Share, basic and fully diluted								
Operating earnings[1]	$ 0.75	$ 0.75	$ 0.70	$ 0.66	$ 0.67	$ 0.62	$ 0.67	$ 0.59
Net capital gain (loss) and other items	0.37	0.08	0.02	(0.05)	-	-	0.13	(0.03)
Net earnings	$ 1.12	$ 0.83	$ 0.72	$ 0.61	$ 0.67	$ 0.62	$ 0.80	$ 0.56
Weighted average number of shares outstanding (in millions)	65.7	65.7	65.8	65.8	65.8	65.8	65.8	65.8

All quarters previous to the fourth quarter of fiscal 2005 have been restated to reflect the retroactive adjustment related to lease accounting. Please see the section entitled Accounting Standards "Lease Accounting" in the fiscal 2005 annual MD&A.

(1) Operating earnings is net earnings before net capital gain (loss) and other items.

Sales and operating earnings growth have been influenced by the Company's investing activities, the competitive environment, general industry trends and by other risk factors as outlined in the fiscal 2005 annual MD&A.

Operating Performance by Division

Food

Empire Food division is carried out through its controlling ownership position in Sobeys. Sobeys conducts business through more than 1,300 retail grocery stores (corporately owned and franchised) which operate in four retail regions: Sobeys West, Sobeys Ontario, Sobeys Quebec, and Sobeys Atlantic. Empire's ownership interest in Sobeys is unchanged from the end of fiscal 2005 at 68.4 percent.

Sales

First quarter fiscal 2006 sales adjusted to eliminate the impact of VIE consolidation:

($ in millions)	Reported Sales Fiscal 2006	Growth over Fiscal 2005	VIE Impact	Adjusted	Reported Sales Fiscal 2005	Growth over Fiscal 2005
First Quarter	3,300	9.6%	162	3,138	3,011	4.2%

Food division sales for the first quarter of fiscal 2006 were $3.30 billion compared to $3.01 billion for the same quarter last year, an increase of $289.4 million or 9.6 percent. Impacting sales growth in the first quarter of fiscal 2006 was the consolidation of VIEs, which accounted for approximately $162 million or 5.4 percentage points of the increase over fiscal 2005. Excluding the impact of VIEs, food division sales grew by 4.2 percent.

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

During the first quarter of fiscal 2006 Sobeys' same-store sales, sales from stores in the same locations in both reporting periods, increased by 4.1 percent.

Earnings Before Interest, Income Taxes, Depreciation and Amortization

Sobeys' EBITDA ("earnings before interest, income taxes, depreciation and amortization") in the first quarter increased $7.2 million or 5.9 percent to $130.1 million from $122.9 million reported in the first quarter of fiscal 2005. EBITDA as a percent of sales decreased from 4.08 percent in the first quarter of fiscal 2005 to 3.94 percent in the first quarter of fiscal 2006. Excluding VIEs, EBITDA as a percent of sales was 4.07 percent, a one basis point decline from the same quarter last year.

Included in EBITDA for the first quarter of fiscal 2006 are $3.8 million of costs related to the Ontario business process and system initiative outlined in the annual MD&A included in Sobeys' 2005 Annual Report. Excluding these costs and the impact of VIEs, Sobeys' EBITDA increased 7.0 percent over the same quarter last year and EBITDA as a percent of sales would have been 4.19 percent, an 11 basis point improvement over the prior year.

Contributing to increased EBITDA was the growth in sales and an increase in gross margin compared to the same period last year.

Earnings Before Interest, Income Taxes, Depreciation, Amortization and Rent

Sobeys' earnings before interest, income taxes, depreciation, amortization and rent ("EBITDAR") in the first quarter increased $21.1 million or 11.1 percent to $211.2 million compared to $190.1 million in the same quarter last year. Sobeys leases a substantial portion of its store locations. Gross rent expense of $81.1 million in the first quarter of fiscal 2006 and $67.2 million in the first quarter of fiscal 2005 is added to EBITDA to arrive at EBITDAR, a measure of operating performance excluding the impact of capital and how it is financed. EBITDAR as a percent of sales in the first quarter of fiscal 2006 was 6.40 percent compared to 6.31 percent in first quarter of fiscal 2005.

Earnings Before Interest and Income Taxes

Sobeys' EBIT ("earnings before interest and income taxes") increased to $83.7 million during the first quarter of fiscal 2006, a 3.8 percent increase from the first quarter last year. EBIT margin in the first quarter equalled 2.54 percent compared to 2.68 percent in the first quarter of fiscal 2005. Included in the first quarter fiscal 2006 EBIT was a $4.1 million increase in depreciation and amortization expense ($46.4 million current quarter compared to $42.3 for the same quarter last year), reflecting Sobeys' continued capital investments. Also, included in EBIT are the Ontario business process and system initiative costs outlined above. Adjusting for these costs and the impact of VIEs, EBIT would total $86.3 million representing an EBIT margin of 2.75 percent, a 7 basis point improvement over the prior year.

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

Net Earnings

Sobeys' first quarter fiscal 2006 net earnings equalled $48.2 million, an increase of 3.4 percent compared to the $46.6 million recorded in the first quarter of fiscal 2005. Net earnings for the first quarter of fiscal 2006 included the increased depreciation and amortization expense and Ontario business process and system initiative costs of $3.8 million, as discussed. The consolidation of VIEs resulted in a $0.2 million reduction in net earnings in the first quarter of fiscal 2006, while the Ontario business process and system initiative costs reduced Sobeys' earnings per share by $0.04.

Real Estate

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

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

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

First Quarter ended ($ in millions)	Fiscal 2006	Fiscal 2005	% Change
Revenue			
Commercial	$ 34.0	$ 34.1	(0.3)%
Residential	6.5	7.2	(9.7)%
	$ 40.5	$ 41.3	(1.9)%
Operating income			
Commercial	$ 21.5	$ 22.1	(2.7)%
Residential	8.3	6.2	33.9%
	$ 29.8	$ 28.3	5.3%
Operating earnings			
Commercial	$ 6.0	$ 5.8	3.4%
Residential	5.7	4.0	42.5%
	$ 11.7	$ 9.8	19.4%
Funds from operations			
Commercial	$ 10.6	$ 10.2	3.9%
Residential	5.9	4.1	43.9%
	$ 16.5	$ 14.3	15.4%

Revenue

Real estate division revenues (net of inter-segment amounts) declined $0.8 million or 1.9 percent from the first quarter last year largely as a result of a slow down in residential lot sales in Canada. Given the strong lot sales experienced in Genstar's key Canadian markets over the last year, the decline in growth was not a surprise. Management has consistently cautioned that the pace of growth in residential lot sales was not sustainable. Commercial revenue was relatively unchanged from the first quarter last year reflecting a slight decrease in occupancy rates coupled with a marginal increase in rental renewal rates.

Overall (retail plus office) occupancy rate equalled 93.3 percent at the end of the first quarter compared to 93.6 percent a year ago. Office occupancy rate at the end of the first quarter was 89.7 percent compared to 89.3 percent a year ago. The retail occupancy rate was 94.2 percent at the end of the first quarter compared to 94.4 percent a year earlier.

Operating Income

The $1.5 million or 5.3 percent increase in first quarter operating income over the prior year is the result of a $2.1 million increase in residential operating income offset by a $0.6 million decline in commercial operations operating income. The growth in residential operating income is attributed to equity earnings contribution from Genstar's U.S. residential operations amounting to $2.7 million in the first quarter as compared to a $0.1 million contribution in the first quarter last year. This equity earnings contribution did not affect revenue but did positively impact operating income.

Operating costs as a percentage of revenue (including inter-segment revenue) were unchanged from the first quarter last year at 40.7 percent.

The real estate division contributed 24.8 percent of Empire's first quarter consolidated operating income compared to a 24.6 percent contribution in the first quarter last year.

Net Earnings

Net earnings in the first quarter amounted to $11.7 million compared to $9.8 million last year, a $1.9 million or 19.4 percent increase. The earnings increase largely reflects the $1.5 million growth in operating income in the quarter, a reduction in interest expense of $1.8 million partially offset by higher income tax expense of $1.4 million.

Funds from Operations

Trailing (last four quarters) funds from operations for the real estate division was $66.6 million, up 9.2 percent from the prior four quarter trailing funds from operations of $61.0 million. Funds from operations in the first quarter of $16.5 million was up 15.4 percent over last year as a result of higher net earnings and depreciation expense.

Investments and Other Operations

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

At the end of the first quarter, Empire's total investments carried a market value of $457.1 million on a cost base of $335.1 million, resulting in an unrealized gain of $122.0 million. Realized capital gains equalled $26.3 million in the first quarter, resulting in total realized plus unrealized gains of $148.3 million at the end of the first quarter. This compares to a total realized plus unrealized gain position at the end of fiscal 2005 of $142.5 million. The unrealized gain at the end of the first quarter last year was $55.2 million.

The fair value of hedges put in place to safeguard U.S. equity valuation from a stronger Canadian dollar, relative to the U.S. dollar, is not included in the unrealized gain position noted above. At the end of the first quarter the fair value of currency hedges equalled $8.3 million as compared to $2.2 million a year earlier.

The increase in realized plus unrealized gains (excluding hedge value) since the end of fiscal 2005 is largely the result of an increase in the valuation of Wajax and financial services stocks. Nine out of 13 investments increased in value over the fourth quarter of last fiscal year.

At August 6, 2005, Empire's investment portfolio (excluding cash) consisted of:

($ in millions)	Market Value	% of Portfolio	Cost	Unrealized Gain (Loss)(net)
Canadian equities	$ 226.1	49.5%	$ 164.9	$ 61.2
US equities	130.3	28.5%	134.4	(4.1)
Wajax	99.2	21.7%	34.3	64.9
Preferred Shares & Other	1.5	0.3%	1.5	-
	$ 457.1	100.0%	$ 335.1	$ 122.0

Empire's direct debt matched to the investment portfolio at the end of the first quarter equalled $125.6 million. This amount includes $61.0 million of U.S. borrowings which act as a natural hedge on U.S. based equity investments. Direct debt equalled approximately 25 percent of total investment market value at the end of the first quarter. Management considers a ratio of debt to investment value of no greater than 35 percent as prudent.

Revenue

Investments and other operations' revenue, primarily generated by Empire Theatres, equalled $20.8 million in the first quarter versus $21.4 million in the first quarter last year. The decline in revenue reflects relatively weak film quality which has negatively impacted movie-theatre revenues industry-wide.

Investment Return

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

Empire Investment Portfolio
Total Return
For Periods ending June 30, 2005

		Annualized Returns			
	One Quarter	One Year	Two Years	Three Years	Four Years
Empire Portfolio (including Wajax)	0.8%	33.0%	31.3%	19.4%	14.1%
Empire Portfolio (excluding Wajax)	3.4%	14.0%	18.5%	12.7%	11.7%
Median Manager	3.5%	12.5%	17.3%	9.3%	5.4%
S&P/TSX Index	3.6%	18.0%	21.2%	13.6%	8.3%
S&P500 Index (in C$)	2.7%	(2.8%)	7.0%	0.8%	(4.2%)

Investment returns for the three months ended June 30th fell below median manager and S&P/TSX Index returns largely as a result of our relative underweight to holdings in the energy sector. On a one through four year trailing basis the portfolio return has been greater than the median manager.

The total return on the Empire investment portfolio, as independently benchmarked against the performance of over 100 equity fund managers, has been ranked as first quartile (first quartile means the top 25 percent of surveyed equity fund managers) investment return performance over one, two and three-year trailing periods ended June 30, 2005. For the three months ended June 30, 2005, Empire's investment return ranked below the median manager level.

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

Hedging Investment Currency Risk

At August 6, 2005, Empire had hedged 76.2 percent of the cost of its U.S. based common equity investments by way of $61.0 million in U.S. dollar short-term borrowings. The average foreign exchange rate associated with these U.S. dollar bank loans is $1.352 (73.92 cents). The fair value of the hedge was approximately $8.3 million at the end of the first quarter as a result of the foreign exchange rate moving to $1.2160 (82.2 cents) at the end of the first quarter from $1.2432 (80.44 cents) at the start of the fiscal 2006 year.

Trading Activity

In the first quarter, Empire sold 2.875 million units of Wajax for net proceeds of $50.5 million, resulting in a capital gain of $26.3 million. As a result of the sale, Empire now owns 4,577,994 Wajax units, representing approximately 27.6 percent of the total number of outstanding units.

Investment Income

Investment income (excludes equity earnings from Genstar's U.S. investment) equalled $6.1 million in the first quarter, an increase of $1.6 million over the $4.5 million recorded in the first quarter last year. The increase is largely the result of equity earnings from Wajax being $1.9 million higher than the first quarter last year. Dividend income was $0.3 million lower than the first quarter last year.

Corporate expenses amounted to $2.3 million in the first quarter, a $0.4 million decline from the first quarter last year.

Operating Earnings

Investment (net of corporate expenses) and other operations' operating earnings equalled $5.0 million in the first quarter, an increase of $0.8 million or 19.0 percent from the first quarter last year. The increase is attributed to increased equity earnings from Wajax.

Capital Gain (Loss)

The net capital gain realized in first quarter of fiscal 2006 of $24.2 million was the result of the sale of 2.875 million units of Wajax as mentioned. The $0.2 million net capital loss in the first quarter last year was largely the result of the sale of common equity investments.

Net Earnings

Investments (net of corporate expenses) and other operations contributed $29.2 million to Empire's consolidated first quarter net earnings (39.6 percent of Empire's consolidated net earnings). This compares to a $4.0 million net earnings contribution in the first quarter last year (9.0 percent of Empire's consolidated net earnings). The increase is primarily the result of higher realized capital gains and increased equity earnings contribution from Wajax as discussed.

Financial Condition

At the end of the first quarter, management calculates Empire's consolidated net asset value at $2,650 million or $40.31 per share, an increase of $114 million from the calculated net asset value of $2,536 million or $38.59 per share at fiscal year end May 7, 2005.

($ in millions except per share information)	**August 6, 2005**		May 7, 2005	
	Net Asset Value	**% of Total**	Net Asset Value	% of Total
Food[1]	**$ 1,740**	**62%**	$ 1,662	62%
Real Estate[2]	**505**	**18%**	493	18%
Investments and Other Operations[3]	**547**	**20%**	527	20%
	$ 2,792	**100%**	$ 2,682	100%
Corporate debt & preferred share capital	**(142)**		(146)	
Net asset value	**$ 2,650**		$ 2,536	
Per share	**$ 40.31**		$ 38.59	

(1) Food division net asset value at August 6, 2005 equals the 44.672 million common shares of Sobeys owned at first quarter-end multiplied by the market price of a Sobeys' common share on that date. Food division net asset value at May 7, 2005 equalled 44.672 million common shares of Sobeys owned at fiscal year-end May 7, 2005 times the market price of a Sobeys' common share on that date.

(2) Real estate net asset value has been calculated at nine times trailing funds from commercial operations plus five times trailing funds from residential operations.

(3) Investment net asset value is derived from stated public market values of securities held in the portfolio.

At August 6, 2005, approximately 80 percent of Empire's net asset value was derived from assets that are valued by publicly available market prices from recognized public stock exchanges. This includes Sobeys' common shares and securities held in Empire's investment portfolio. For each dollar increase in Sobeys' share price, Empire's net asset value increases by approximately $0.68 per share.

Capital Structure and Key Financial Condition Measures

The Company's financial condition at the end of the first quarter continued to strengthen as indicated in the table below.

($ in millions, except ratio calculations)	**August 6 2005**	May 7 2005	July 31 2004
Shareholders' equity	**$ 1,773.2**	$ 1,709.0	$ 1,602.8
Minority interest	**572.2**	556.3	549.9
Bank indebtedness	**202.8**	219.4	153.4
Long-term debt, including current portion	**966.4**	974.4	978.8
Funded debt to total capital ratio	**40.0%**	41.4%	41.7%
Net debt to capital ratio	**34.5%**	35.1%	38.3%
Interest coverage	**5.72x**	5.35x	5.24x
Total assets	**5,001.6**	4,929.2	4,699.7

The first quarter of fiscal 2005 has been restated to reflect retroactive adjustments related to lease accounting and EIC-144. Please see the sections entitled Accounting Standards - "Lease Accounting" and "EIC-144" in the fiscal 2005 annual MD&A.

Shareholders Equity

Book value per common share was $26.85 at August 6, 2005, compared to $25.87 at May 7, 2005 and $24.22 at July 31, 2004.

Total common shares outstanding at August 6, 2005 equalled 65,735,810, relatively unchanged from the previous fiscal year-end (May 7, 2005) and the first quarter last year. There were 31,150,585 Non-Voting Class A shares outstanding and 34,585,225 Class B common shares outstanding at August 6, 2005.

At August 6, 2005, Empire had 27,674 options outstanding with an expiry date of October 2006. There were no options exercised in the first quarter.

During the first quarter, Empire repurchased enough Class A Non-Voting shares to offset the dilutive effect of shares issued to fulfill the Company's obligation under its stock option and share purchase plans. The number of Class A Non-Voting shares repurchased for cancellation equalled 20,254 in the first quarter.

Dividends paid to common shareholders amounted to $9.0 million in the first quarter ($0.14 per share) versus $7.9 million ($0.12 per share) in the first quarter last year.

Liabilities

Empire finances a significant portion of its assets through the use of bank indebtedness and long-term debt. Total fixed rate, long-term debt (including the current portion of long-term debt) at August 6, 2005 was $966.4 million, representing approximately 82 percent of Empire's total funded debt. This amount was relatively unchanged from the end of the fiscal year, May 7, 2005 ($974.4 million) and from the first quarter last year ($978.8 million).

Long-term debt by operating segment is detailed below:

($ in millions)	**August 6 2005**	May 7 2005	July 31 2004
Food Distribution	**$ 460.8**	$ 457.8	$ 442.3
Real Estate	**501.5**	512.2	532.0
Other Operations	**4.1**	4.4	4.5
Total	**$ 966.4**	$ 974.4	$ 978.8

There is no long-term debt carried by the investment segment. Empire predominately finances its long-term assets with fixed rate, long-term debt, thereby reducing both interest rate and refinancing risk.

Interest coverage in the first quarter was 5.7 times, improved from the 5.4 times reported for the fiscal year ended May 7, 2005 and the 5.2 times recorded for the first quarter last year. The improved interest coverage over the first quarter last year was the result of reduced interest expense and higher operating income.

Since fiscal year-end, the consolidated funded debt to total capital ratio has declined 1.4 percentage points as a result of lower debt levels and higher retained earnings. The net debt (debt less cash and cash equivalents) to total capital ratio declined 0.6 percentage points over the same time period.

Empire and its subsidiaries have provided covenants to its lenders in support of various financing facilities. All covenants were complied with in the first quarter of fiscal 2006 and in fiscal 2005.

Hedging Instruments

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

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

To minimize exposure to interest rate volatility, Sobeys has locked in the rate on the underlying government of Canada 15 year yield for refinancing $100 million of the November 2005 Series A Medium Term Note (“MTN”) maturity. The fair value of this interest rate forward on August 6, 2005 was negative $3.9 million due to a decline in Government of Canada 15-year yields.

At August 6, 2005, the real estate division had one interest rate exchange agreement outstanding with a notional amount of $16.0 million at a rate of 4.22 percent. This swap carried a fair value of negative $0.3 million at the end of the first quarter. As well, Crombie has entered into delayed start swaps in order to fix the interest rate on certain maturing debt tranches in future periods. These delayed start swaps totalling $27.8 million carried a fair value of negative $2.8 million at the end of the first quarter.

To mitigate the currency risk associated with the Company’s U.S. dollar investments, Empire has designated U.S. bank loans as hedges. Empire and its subsidiaries use hedging instruments to mitigate risk exposure, not for speculative purposes. Empire Company Limited directly has in place U.S. dollar based bankers acceptances totalling $61.0 million, equal to 75.4 percent of the market value of U.S. common equity investments at the end of the first quarter (66.5 percent at end first quarter last year). The fair market value of this hedge at the end of the first quarter was approximately $8.3 million.

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

Certain property investments made by Genstar are in the U.S. and, as such, Crombie is exposed to foreign currency fluctuations. At the end of the first quarter, the U.S. dollar asset exposure of Crombie totalled $11.0 million. Crombie had $10.0 million in U.S. dollar bankers' acceptances at the end of the first quarter. The fair value of this hedge at the end of the first quarter was $0.8 million.

Liquidity and Capital Resources

Empire's liquidity remained strong at August 6, 2005 as a result of the following sources of liquidity:

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

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

At August 6, 2005, cash and cash equivalents were $249.6 million versus $137.1 million at July 31, 2004 and $281.7 million at fiscal year-end, May 7, 2005.

On a non-consolidated basis, Empire maintains authorized bank lines for operating, general and corporate purposes of $325.0 million, of which 35.7 percent was utilized at August 6, 2005. Financial instruments are used from time to time to manage the risk of short-term interest rate fluctuations on underlying short-term bank indebtedness. On a consolidated basis, Empire's authorized bank credit facilities exceeded borrowings by $576.4 million at August 6, 2005, versus $548.2 million at May 7, 2005.

The table below highlights major cash flow components for the thirteen weeks ended August 6, 2005 compared to the thirteen weeks ended July 31, 2004.

Major Cash Flow Components:

	First Quarter Ended	
($ in millions)	**August 6, 2005**	July 31, 2004
Net earnings	**$ 73.8**	$ 44.2
Items not affecting cash	**49.6**	72.1
Preferred dividends	**(0.1)**	(0.1)
Net change in non-cash working capital	**(61.7)**	(94.5)
Cash flows from operating activities	**61.6**	21.7
Cash flows used in investing activities	**(63.9)**	(75.6)
Cash flows (used in) from financing activities	**(29.8)**	(11.2)
Decrease in cash and cash equivalents	**$ (32.1)**	$ (65.1)

The first quarter of fiscal 2005 has been restated to reflect retroactive adjustments related to lease accounting. Please see the sections entitled "Lease Accounting" in the fiscal 2005 annual MD&A.

Operating Activities

First quarter cash flows from operating activities were $61.6 million compared to $21.7 million in the comparable period last year. The increase of $39.9 million is attributed to increased net earnings of $29.6 million as discussed, a decrease in items not affecting cash of $22.5 million and a reduction in the change in non-cash working capital of $32.8 million.

The following tables present non-cash working capital changes compared to the fourth quarter of fiscal 2005 and the quarter ended July 31, 2004, including and excluding VIEs.

Non-Cash Working Capital
(Including VIEs)

($ in millions)	**August 6, 2005**	May 7, 2005	Quarter Increase (Decrease) in Cash flows
Receivables	**$ 271.4**	$ 257.8	$ (13.6)
Inventories	**676.2**	639.6	(36.6)
Prepaid expenses	**61.9**	52.3	(9.6)
Income taxes receivable	**28.8**	15.0	(13.8)
Accounts payable and accrued liabilities	**(1,161.0)**	(1,149.1)	11.9
Total	**$ (122.7)**	$ (184.4)	$ (61.7)

The first quarter of fiscal 2005 has been restated to reflect retroactive adjustments related to lease accounting and EIC-144. Please see the sections entitled "Lease Accounting" and "EIC-144" in the fiscal 2005 annual MD&A.

The increase in income taxes receivable is related to Sobeys depositing funds with Canada Revenue Agency ("CRA") to cover total tax, interest and penalties of $13.6 million in a reassessment which Sobeys is challenging.

Non-Cash Working Capital
(Excluding VIEs)

($ in millions)	**August 6, 2005**	May 7, 2005	Year-Over-Year Increase (Decrease) in Cash flows
Receivables	**$ 296.9**	$ 344.4	$ 47.5
Inventories	**556.9**	527.8	(29.1)
Prepaid expenses	**56.9**	49.0	(7.9)
Income taxes receivable	**29.5**	15.5	(14.0)
Accounts payable and accrued liabilities	**(1,126.5)**	(1,121.5)	5.0
Total	**$ (186.3)**	$ (184.8)	$ 1.5

The first quarter of fiscal 2005 has been restated to reflect retroactive adjustments related to lease accounting and EIC-144. Please see the sections entitled "Lease Accounting" and "EIC-144" in the fiscal 2005 annual MD&A.

The decrease in receivables is primarily attributable to the reclassification of $31.0 million of customer-related payables by Sobeys in the second quarter of fiscal 2005. Historically, some customer receivables were reported at a gross value and the customer payables were reported in accounts payable. During the second quarter of fiscal 2005, Sobeys began netting the receivables and related payables for these customers.

Investing Activities

Cash used in investing activities of $63.9 million in the first quarter was $11.7 million lower than in the first quarter of last fiscal year. The decrease in cash used in investing activities was mainly the result of net proceeds of $50.5 million from the sale of 2.875 million units of Wajax, more than offsetting an increase in property and equipment purchases of $17.7 million. As well, there was a net increase in investments of $34.7 million when compared to the same period last year. In the first quarter last year, Empire invested $7.4 million of cash for the purchase of additional Sobeys shares and also invested $12.2 million in business acquisitions.

Consolidated purchases of property, equipment and other assets totalled $93.4 million in the first quarter of fiscal 2006 compared to $75.7 million in the first quarter last year. The bulk of this capital spending was the result of Sobeys' commitment to growing and improving its store network. During the quarter, Sobeys opened three corporate or franchised stores were opened or replaced compared to 14 corporate and franchised stores opened or replaced during the first quarter of last year. An additional three stores were expanded during the quarter. Thirteen stores were closed during the first quarter of fiscal 2006 compared to 11 in the first quarter last year. There were two stores rebannered in the first quarter of fiscal 2006 compared to 12 for the same quarter last year. There were a significant number of stores under construction at the end of the first quarter of fiscal 2006 that are expected to be completed prior to the end of fiscal 2006.

Net retail store square footage decreased during the first quarter by 163,954 square feet (49,018 square feet opened, less 212,972 square feet closed). At August 6, 2005, Sobeys' square footage totalled 24.9 million square feet, a slight decline of 0.4 percent when compared to May 7, 2005.

Financing Activities

Financing activities during the first quarter used $29.8 million of cash compared to $11.2 million of cash used in the comparable period of fiscal 2005. The Company issued long-term debt of $15.2 million during the current quarter compared to $7.7 million during the same quarter last year, and repaid debt of $23.9 million during the first quarter of fiscal 2006 compared to repayments of $23.5 million in the same quarter last year.

The Company's share capital was comprised of the following on August 6, 2005:

Authorized	**Number of Shares**
Preferred shares, par value of $25 each, issuable in series as a class.	
Series 2 Preferred Shares, par value $25 each, issuable in series as a class	994,846,000
Non-Voting Class A shares, without par value	259,174,746
Class B common shares, without par value, voting	40,800,000
Issued	
Preferred shares, Series 2	331,900
Non-Voting Class A	31,150,585
Class B common	34,585,225

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

On July 26, 2005, Empire filed a Notice of Intention to make a Normal Course Issuer Bid with the Toronto Stock Exchange to purchase for cancellation up to 623,011 shares representing approximately 2.0 percent of the issued and outstanding shares. The board of directors and management of Empire believe that the repurchase of its shares at recent prevailing market prices is a worthwhile investment and in the best interests of the Company. Subsequent to this filing, Empire repurchased for cancellation 20,254 Class A Non-Voting shares. The Normal Course Issuer Bid expires on July 27, 2006.

As of September 8, 2005 the Company had total Class A Non-Voting plus Class B Common shares outstanding of 65,735,810.

Subsequent Event

Subsequent to the end of the first quarter, on August 22, 2005, wholly-owned Empire Theatres Limited announced that it has agreed to purchase 27 movie-theatres with 202 screens located in Ontario and Western Canada from Cineplex Galaxy LP for approximately $83 million. The transaction is expected to close on September 30, 2005. As a result of this acquisition, including a joint venture in Western Canada, Empire Theatres will operate in 59 theatres representing 403 screens across Canada.

Accounting Policy Changes

AcG-15, Consolidation of Variable Interest Entities

Effective for the fourth quarter ended May 7, 2005, the Company was required to implement “AcG-15” issued by the CICA. AcG-15 requires the Company to consolidate certain entities that are deemed to be subject to control of the Company on a basis other than through ownership of a voting interest in the entity.

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

The Company has implemented AcG-15 retroactively without restatement of prior periods. Entities that have been identified as meeting the characteristics of a VIE have been consolidated in the Company’s results for the first quarter of fiscal 2006.

The Company has identified the following entities as VIEs:

Franchises

The Company has identified 281 (May 7, 2005 – 287) franchises whose franchise agreements result in the Company being deemed the primary beneficiary of the entity according to AcG-15. The results for these entities were consolidated with the results of the Company.

Warehouse and Distribution Agreement

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

The Company has consolidated the results of these independent franchisees and the entity providing warehouse and distribution services effective for the quarter-ended May 7, 2005.

The impact of implementation of AcG-15 on the consolidated balance sheet of the Company can be explained as follows:

Accounts receivable and long-term notes receivable due from the franchisees were eliminated upon consolidation. Cash, inventories, fixed assets, accounts payable and debt financing the fixed assets has been consolidated.

A charge of $9.5 million has been recorded to opening retained earnings (net of minority interest of $5.0 million) to reflect:

1. The reduction of inventory values of the franchisees that include charges from the Company for distribution costs and vendor allowances that are not recognized by the Company until final sale to customers,
2. Goodwill that is carried on the accounts of stores determined to be VIE's has been assessed as being impaired with no fair market value, and, as such, has been eliminated.

Minority interest represents the equity in the VIE's held by the common shareholder.

Balance Sheet as at August 6, 2005 ($ in millions)

	Consolidated Balance Sheet as at August 6, 2005 before AcG-15 Impact	Impact of the Implementation of AcG-15	Consolidated Balance Sheet as at August 6, 2005 after AcG-15 Impact
ASSETS			
Current			
Cash and cash equivalents	$ 215.1	$ 34.5	$ 249.6
Receivables	296.9	(25.5)	271.4
Income taxes receivable	29.5	(0.7)	28.8
Inventories	556.9	119.3	676.2
Prepaid expenses	56.9	5.0	61.9
	1,155.3	132.6	1,287.9
Investments, at cost (quoted market value $357.9)	300.8	-	300.8
Investments, at equity (realizable value $112.7)	47.8	-	47.8
Current assets and marketable investments	1,503.9	132.6	1,636.5
Property and equipment	2,423.0	33.3	2,456.3
Assets for realization	9.8	-	9.8
Other Assets	311.8	(97.0)	214.8
Goodwill	684.2	-	684.2
	$ 4,932.7	$ 68.9	$ 5,001.6
LIABILITIES			
Current			
Bank indebtedness	$ 202.8	$ -	$ 202.8
Accounts payable and accrued liabilities	1,126.5	34.5	1,161.0
Future income taxes	52.4	-	52.4
Long-term debt due within one year	245.3	1.9	247.2
	1,627.0	36.4	1,663.4
Long-term debt	702.0	17.2	719.2
Long-term lease obligation	12.5	-	12.5
Deferred revenue	3.1	-	3.1
Employee future benefit obligation	95.3	-	95.3
Future income taxes	162.7	-	162.7
Minority interest	546.8	25.4	572.2
	3,149.4	79.0	3,228.4
SHAREHOLDERS' EQUITY			
Capital stock	194.9	-	194.9
Retained earnings	1,589.6	(10.1)	1,579.5
Cumulative translation adjustment	(1.2)	-	(1.2)
	1,783.3	(10.1)	1,773.2
	$ 4,932.7	$ 68.9	$ 5,001.6

The impact of implementation of AcG-15 on the consolidated income statement of the Company can be explained as follows:

> Franchise retail sales are recorded and sales from the Company's warehouse and cost of goods sold to the franchisee have been eliminated. The impact on all other financial statement line items including net earnings is immaterial.

Income Statement for the 13 weeks ended August 6, 2005

($ in millions)	Consolidated Income Statement as at August 6, 2005 before AcG-15 Impact	Impact of the Implementation of AcG-15	Consolidated Income Statement as at August 6, 2005 after AcG-15 Impact
Sales	$ 3,200.1	$ 161.6	$ 3,361.7
Operating expenses			
Cost of sales, selling and administrative expenses	3,038.3	159.2	3,197.5
Depreciation and amortization	51.7	1.2	52.9
	110.1	1.2	111.3
Investment income	8.8	-	8.8
Operating income	118.9	1.2	120.1
Interest expense			
Long-term debt	19.6	0.3	19.9
Short-term debt	1.1	-	1.1
	20.7	0.3	21.0
	98.2	0.9	99.1
Capital gain and other items	26.3	-	26.3
Earnings before income taxes and minority interest	124.5	0.9	99.1
Income taxes	35.2	0.6	35.8
Earnings before minority interest	89.3	0.3	89.6
Minority interest	15.4	0.4	15.8
Net earnings	$ 73.9	$ (0.1)	$ 73.8
Earnings per share basic and diluted	$ 1.12	$ -	$ 1.12
Basic and diluted weighted average number of common shares outstanding, in millions	65.7		65.7

Lease Accounting

On February 7, 2005, the Office of the Chief Accountant of the U.S. Securities and Exchange Commission ("SEC") issued a clarification in respect of accounting for various components of property leases and leasehold improvements on which U.S. and Canadian accounting governing bodies had been largely silent. As a result of the SEC clarification the Company has adopted the following two accounting policies. Lease inducements received as a reimbursement for leasehold improvement costs are amortized over the term of the lease and lease expense related to a store fixturing period is expensed during the fixturing period. A store fixturing period varies by store but is generally considered to be one month prior to the store opening. The Company has adopted this guideline retroactively with restatement.

During fiscal 2005, the Company reviewed its practices related to lease accounting and determined that adjustments were required to align to the recent clarification of lease accounting guidelines. The first adjustment related to lease allowances and incentives. Historically the Company classified lease allowances as a reduction of the related capital assets, which effectively reduced the depreciation expense over the expected life of the asset. The guideline clarification suggests these lease allowances should be recorded as a deferred credit and amortized as a reduction of lease expense over the term of the lease. The second adjustment related to rent expense to be recorded during a store's fixturing period. The Company is often granted a fixturing period during which rent is not charged. The fixturing period is generally considered to be one month prior to the store opening. Historically, when the Company was granted a fixturing period rent expense was not recorded as none was being charged and the store was not yet open. The clarification of the accounting guidance however requires that the fixturing period be considered a free-rent period that should be included in the term of the lease. Since lease expense must be recognized on a straight-line basis over the lease term an appropriate portion of the straight-line expense must be recorded for the fixturing period. The third adjustment related to the capitalization of long-term leases. An evaluation was completed in the fourth quarter of fiscal 2005 and certain long-term leases were identified as capital leases. These changes have been accounted for on a retroactive basis with restatement resulting with the following net impact on the comparative statements for the period ended August 6, 2005:

- As at July 31, 2004 a reduction to retained earnings of $5.4 million.
- A reduction in net income for the 13-week period ended July 31, 2004 of $0.1 million from $44.3 million to $44.2 million, and a nil reduction in earnings per share.
- As at July 31, 2004 an increase to Property and equipment, Future income taxes, Long-term debt and Long-term lease obligations of $9.9 million, $4.6 million, $10.3 million and $12.5 million, respectively, and a decrease in Minority interest of $2.9 million.

These lease accounting adjustments did not have any material impact on the Company's fiscal 2005 or first quarter fiscal 2006 net earnings, historical or future revenues, cash flows or lease payments.

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

In January 2004, the CICA issued a new accounting standard, EIC-144 titled "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor". EIC-144 provides that cash consideration received from a vendor is presumed to be a reduction in the prices of the vendor's products or services and should, therefore, be characterized as a reduction in cost of sales and related inventory when recognized in the customer's income statement and balance sheet. If the consideration is a payment for assets or services delivered to the vendor, the cash consideration should be characterized as revenue or other income. If it is a reimbursement of costs incurred to sell the vendor's products, the cash consideration should be characterized as a reduction of that cost, provided certain conditions are met. EIC-144 requires retroactive application to all financial statements for annual and interim periods ending after August 15, 2004. The Company adopted EIC-144 in the prior fiscal year, adjusting for it retroactively, with restatement of the comparative periods for the current and prior fiscal year.

The Company receives allowances from certain vendors, whose products are purchased for resale. Included in these vendor programs are allowances for volume purchases, exclusivity allowances, listing fees, and other allowances. Due to the retroactive implementation of EIC-144, the timing of recognition of certain vendor allowances has changed, resulting in the Company recording a decrease in opening retained earnings for fiscal 2004 of $5.9 million (net of income taxes receivable of $3.4 million), and a decrease in inventory of $9.3 million. The implementation of EIC-144 did not result in a material change in the annual net earnings for fiscal 2005 or fiscal 2004 or in fiscal 2005 or fiscal 2004 quarterly net earnings.

In January 2005 the CICA issued an amendment to EIC-144 that required disclosure in all financial statements of the amount of any vendor rebate that has been recognized in income but for which the full requirements for entitlement have not yet been met. These amounts are permitted by EIC-144 to be recognized in income when it is probable that the requirement will be met, and the amount of rebate is estimable. During the first quarter of 2006, the Company adopted the disclosure as required by the amendment to EIC-144. During the first quarter of fiscal 2006, the Company recognized $1.1 million of allowances in income where minimum purchase levels had not yet been met.

Critical Accounting Estimates

Critical accounting estimates used by the Company's management are discussed in detail in the "Management's Discussion and Analysis" section of the 2005 Annual Report on pages 50 and 51.

Disclosure Controls

Based on an evaluation of the Company's disclosure controls and procedures, the Company's Chief Executive Officer and Chief Financial Officer have concluded as of August 6, 2005 that these controls and procedures operated effectively.

Contingencies

On June 21, 2005, Lumsden Brothers Limited ("Lumsden"), a wholesaling subsidiary of Sobeys, received a notice of reassessment from CRA related to Goods and Services Tax ("GST") for fiscal years 1999 and 2000. The reassessment relates to GST on sales of tobacco products to status Indians. CRA asserts that Lumsden was obliged to collect GST on the sales of these tobacco products to status Indians. The total tax, interest and penalties in the reassessment are approximately $13.6 million.

Lumsden has reviewed this matter, has received legal advice, and believes it was not required to collect GST. Lumsden is challenging this reassessment. Accordingly, Sobeys has not recorded in its income statement any of the tax, interest or penalties set-out in the notice of reassessment, however Sobeys has deposited with CRA the funds to cover the total tax, interest and penalties in the reassessment and has recorded this amount as a receivable from CRA pending resolution of this matter.

Risk Management

Risk and uncertainties related to economic and industry factors and Empire's management of this risk, are discussed in detail in the "Management's Discussion and Analysis" section of the Company's fiscal 2005 annual report on pages 53 to 55.

Non-GAAP Financial Measures

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

- Operating Income or EBIT is calculated as operating earnings plus interest expense, income taxes and minority interest.
- EBITDA is calculated as operating income plus depreciation and intangible amortization.
- EBITDAR is calculated as EBITDA plus gross rent expense.
- Operating earnings is calculated as net earnings before capital gains (losses) and other items.
- Funds from operations is calculated as operating earnings plus depreciation expense.
- Interest coverage is calculated as operating income divided by interest expense.
- Net asset value is management's estimate of the market value of the Company's assets less liabilities.
- Funded debt is all interest bearing debt, which includes bank loans, bankers' acceptances, long-term debt and long-term lease obligations.
- Net debt is calculated as funded debt less cash and cash equivalents.
- Total capital is calculated as funded debt plus shareholders' equity.
- Company-wide capital investment includes on-balance sheet capital expenditures, all known capital investments by franchise affiliates and capital investments by third-party landlords.

The following reconciles the Food division's EBITDA and EBITDAR to GAAP measures as reported in Sobeys' unaudited interim consolidated statement of earnings for the periods ended August 6, 2005 and July 31, 2004, respectively:

	13 Weeks Ended	
($ in millions)	August 6, 2005	July 31, 2004
EBIT	83.7	80.6
Depreciation and amortization	46.4	42.3
EBITDA	130.1	122.9
Gross Rent [1]	81.1	67.2
EBITDAR	211.2	190.1

(1) Gross rent from the food division.

The following table reconciles Empire's funded debt and total capital to GAAP measures reported in the unaudited interim period balance sheets as at August 6, 2005, May 5, 2005 and July 31, 2004, respectively:

($ in millions)	August 6 2005	May 7 2005	July 31 2004
Bank indebtedness	202.8	219.4	153.4
Long-term debt due within one year	247.2	247.0	73.1
Long-term debt	719.2	727.4	905.7
Funded Debt	1,169.2	1,193.8	1,132.2
Total Shareholders Equity	1,773.2	1,709.0	1,602.8
Total Capital	2,942.4	2,902.8	2,735.0

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

Dated: September 8, 2005
Stellarton, Nova Scotia, Canada

INVESTOR INFORMATION

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INVESTOR RELATIONS AND INQUIRIES
Shareholders, analysts, and investors should direct their financial inquiries or requests to:
Stewart H. Mahoney, CFA
Vice President, Treasury and Investor Relations
E-mail: investor.relations@empireco.ca

Communication regarding investor records including changes of address or ownership, lost certificates or tax forms, should be directed to the Company's transfer agent and registrar, CIBC Mellon Trust Company.

AFFILIATED COMPANY WEB ADDRESSES
www.sobeys.com
www.empiretheatres.com
www.crombieproperties.com

STOCK EXCHANGE LISTING
The Toronto Stock Exchange

STOCK SYMBOLS
Non-Voting Class A shares – EMP.NV.A
Preferred shares: Series 2 – EMP.PR.B

AVERAGE DAILY TRADING VOLUME (TSX)
27,500

COMMON DIVIDEND RECORD AND PAYMENT DATES FOR FISCAL 2006

Record Date	Payment Date
July 15, 2005	July 29, 2005
October 14, 2005	October 28, 2005
January 16, 2006	January 31, 2006
April 14, 2006	April 28, 2006

OUTSTANDING SHARES

As of September 8, 2005	
Non-Voting Class A	31,170,839
Option exercisable with Class A common shares	27,674
Class B common, voting	34,585,225

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

SOLICITORS
Stewart McKelvey Stirling Scales
Halifax, Nova Scotia

AUDITORS
Grant Thornton, LLP
New Glasgow, NS

MULTIPLE MAILINGS
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EMPIRE

COMPANY LIMITED

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