EMPIRE
COMPANY LIMITED

BEING THE BEST TOGETHER

SECOND QUARTER REPORT/ 26 WEEKS ENDED NOVEMBER 5, 2011

QUARTERLY REPORT TO SHAREHOLDERS

Empire Company Limited ("Empire" or the "Company") is a Canadian company headquartered in Stellarton, Nova Scotia. Empire's key businesses include food retailing, real estate, and corporate investment activities. As a result of the Company's transition to IFRS, the Company's financial results are segmented into two separate operating segments: food retailing and investments and other operations. Food retailing is carried out through wholly-owned Sobeys Inc. ("Sobeys"). Investments and other operations consist primarily of: (1) a 44.6 percent (40.3 percent fully diluted) equity accounted interest in Crombie REIT, a Canadian real estate income trust investing in retail and office space; (2) a 40.7 percent ownership interest in Genstar Development Partnership, a 45.9 percent interest in Genstar Development Partnership II, and 42.1 percent interests in each of GDC Investments 4, L.P., GDC Investments 5, L.P., and GDC Investments 6, L.P. (collectively referred to as "Genstar"). Genstar is a residential property developer with operations in select markets in Ontario, Western Canada and the United States; (3) wholly-owned ETL Canada Holdings Limited ("Empire Theatres"); and (4) Kepec Resources Limited ("Kepec"), a party to a joint venture with APL Oil and Gas Limited which has ownership interests in various oil and gas properties in Alberta.

With over $16 billion in annual sales and approximately $6.5 billion in assets, Empire and its related companies directly employ approximately 49,000 people.

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Copies of this report are available on the Company's website (www.empireco.ca) or by contacting the Vice-President, Treasury & Investor Relations at (902) 755-4440. A copy has also been filed on SEDAR.

The Company provided additional details concerning its second quarter results on a conference call held on Thursday, December 15, 2011. Replay of the call is available on the Company's website (www.empireco.ca).

Forward-looking Statements

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

For additional information and a caution on the use of forward-looking information, see the section in the MD&A entitled "Forward-looking Information".

LETTER TO SHAREHOLDERS

EMPIRE COMPANY REPORTS SECOND QUARTER FISCAL 2012 RESULTS

Empire Company Limited (TSX: EMP.A) announced financial results for its second quarter ended November 5, 2011. For the second quarter, the Company recorded net earnings, net of minority interest, of $78.1 million ($1.15 per share) compared to $142.9 million ($2.09 per share) in the second quarter last year. After excluding the impact of the gain on sale of Wajax Income Fund ("Wajax") in the second quarter last year of $76.2 million, Empire recorded net earnings, after minority interest, in the second quarter last year of $66.7 million ($0.98 per share).

Sobeys is also pleased to announce they have agreed with Shell Canada to purchase approximately 250 retail gas locations in Atlantic Canada and Quebec.

"This is an exciting opportunity for us to grow our existing retail gas operations while leveraging our significant wholesale and convenience business to better serve our customers and support our affiliates and dealer operations," said Bill McEwan, President & CEO, Sobeys Inc. "Shell has earned worldwide prominence and renown on the strength of its brand, innovations and technical leadership. Shell's strong fuel brand connected to Sobeys' leading retail formats and banners and the strength of the AIR MILES® program will be a unique and attractive offering to customers."

It is expected that the network to be acquired will include corporate owned and dealer operated locations and will have annual fuel volumes in excess of 1 billion litres. The transaction, which brings together two companies, each with more than 100 years of operating experience in Canada, is subject to regulatory approval and customary conditions and is expected to close by the end of March 2012. Sobeys expects to use existing cash balances to finance the transaction.

Second Quarter Highlights

- *Sales of $4.04 billion, up $132.2 million or 3.4 percent.*
- *Same-store sales increased 1.9 percent compared with Q2 last year.*
- *Operating income[(1)], of $125.8 million versus $114.7 million last year.*
- *Net earnings, net of minority interest, of $78.1 million ($1.15 per share) compared to $142.9 million ($2.09 per share) last year. Included in net earnings in Q2 last year was a net gain on the sale of an investment in Wajax of $76.2 million.*
- *Adjusted net earnings[(2)], net of minority interest, of $74.6 million ($1.10 per share) compared to $69.9 million ($1.02 per share) last year.*
- *Funded debt to total capital ratio of 25.2 percent compared to 28.0 percent in Q2 last year.*

(1) Certain balances have been reclassified for changes to comparative figures in the current quarter (see Note 20 to the Company's second quarter unaudited consolidated financial statements).
(2) Adjusted net earnings excludes the gain on the sale of Wajax in the second quarter last year and other items which are considered not indicative of underlying business performance.

Dividend Declaration

The Board of Directors declared a quarterly dividend of 22.5 cents per share on both the Non-Voting Class A shares and the Class B common shares that will be payable on January 31, 2012 to shareholders of record on January 13, 2012. These dividends are eligible dividends as defined for the purposes of the Income Tax Act (Canada) and applicable provincial legislation and, therefore, qualify for the favourable tax treatment applicable to such dividends.

We are pleased with our second quarter and fiscal year-to-date results in what remains a very competitive marketplace. The implementation of Sobeys' recently announced organizational reset over the coming year is another step along our continuous improvement path to optimize our resources and performance company-wide. We are also excited about the opportunities for growth associated with Sobeys' agreement to purchase 250 retail gas locations from Shell which will be complementary to our wholesale and convenience businesses.

Paul D. Sobey
President & Chief Executive Officer
December 15, 2011

EMPIRE COMPANY LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE 13 AND 26 WEEKS ENDED NOVEMBER 5, 2011

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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 13 and 26 weeks ended November 5, 2011 compared to the 13 and 26 weeks ended October 30, 2010. This discussion and analysis should be read in conjunction with the Company's unaudited, interim consolidated financial statements and accompanying notes thereto for the 13 weeks ended August 6, 2011, the unaudited, interim consolidated financial statements and accompanying notes thereto for the 13 and 26 weeks ended November 5, 2011, the audited annual consolidated financial statements and accompanying notes for the 53 weeks ended May 7, 2011 and the related annual MD&A. Information about the Company, including the 2011 Summary Annual Report, the 2011 Annual Information Form, the 2011 audited annual financial statements and 2011 annual MD&A can be found on SEDAR at www.sedar.com or on the Company's website at www.empireco.ca.

The unaudited consolidated financial statements and the accompanying notes form part of the first annual audited consolidated financial report to be prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB") and are reported in Canadian dollars. Comparative figures for fiscal 2011 that were previously prepared in accordance with Canadian Generally Accepted Accounting Principles ("CGAAP") have been restated as required upon adoption of IFRS. For a detailed reconciliation of the impact of implementing IFRS on the Company's financial results and position, see Note 21 of the unaudited interim consolidated financial statements for the 13 and 26 weeks ended November 5, 2011.

These unaudited consolidated financial statements include the accounts of Empire and its subsidiaries and Special Purpose Entities ("SPEs") which the Company is required to consolidate. The information contained in this MD&A is current to December 15, 2011, unless otherwise noted.

FORWARD-LOOKING INFORMATION

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

These forward-looking statements include the following items:

- The Company's expectation that its operational and capital structure are sufficient to meet its ongoing business requirements in the current economic environment in Canada;

- The Company's belief that its cash and cash equivalents, future operating cash flows and available credit facilities will enable the Company to fund future capital investments, pension plan contributions, working capital and ongoing business requirements, and its belief that it has sufficient funding in place to meet these requirements and other long-term obligations, all of which could be impacted by uncertainty in the economy at this time;

- The Company's anticipation that it's in place sources of liquidity will adequately meet its short-term and long-term financial requirements which may be impacted by uncertainty in the economy at this time;

- The Company's expected contributions to its registered defined benefit plans, which could be impacted by fluctuations in asset values due to market uncertainties;

- The Company's expected use and estimated fair values of financial instruments which could be impacted by, among other things, changes in interest rates, foreign exchange rates and commodity prices;

- Sobeys intent and expectation to renew or replace its credit facility prior to its maturity which may be impacted by market conditions;

- Sobeys' expectations that the new distribution centre announced in Quebec will reduce overall business costs which could be impacted by the number of positions eliminated at other distribution centres; and

- Sobeys' expectations that the organizational reset in the current regions will position itself for accelerated growth and performance, which could be impacted by the final scope and scale of these initiatives.

These statements are based on Empire management's reasonable assumptions and beliefs in light of the information currently available to them. The forward-looking information contained in this MD&A is presented for the purpose of assisting the Company's security holders in understanding its financial position and results of operations as at and for the periods ended on the dates presented and the Company's strategic priorities and objectives and may not be appropriate for other purposes. By its very nature, forward-looking information requires the Company to make assumptions and is subject to inherent risks and uncertainties which give rise to the possibility that the Company's predictions, forecasts, expectations or conclusions will not prove to be accurate, that the Company's assumptions may not be correct and that the Company's objectives, strategic goals and priorities will not be achieved. Although the Company believes that the predictions, forecasts, expectations or conclusions reflected in the forward-looking information are reasonable, it can give no assurance that such matters will prove to have been correct. Such forward-looking information is not fact but only reflects management's estimates and expectations. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. These factors include but are not limited to: changes in general industry, market and economic conditions, competition from existing and new competitors, energy prices, supply issues, inventory management, changes in demand due to seasonality of the business, interest rates, changes in laws and regulations, operating efficiencies and cost saving initiatives. In addition, these uncertainties and risks are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the Risk Management section of the annual MD&A for the 53 weeks ended May 7, 2011.

Empire cautions that the list of important factors is not exhaustive and other factors could also adversely affect its results. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such forward-looking information. Forward-looking statements may not take into account the effect on the Company's business of transactions occurring after such statements have been made. For example, dispositions, acquisitions, asset write-downs or other changes announced or occurring after such statements are made may not be reflected in forward-looking statements. The forward-looking information in this MD&A reflects the Company's expectations as of December 15, 2011, and is subject to change after this date. The Company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the Company other than as required by applicable securities laws.

NON-GAAP FINANCIAL MEASURES

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

- Same-store sales are sales from stores in the same locations in both reporting periods.
- Gross profit is calculated as sales less costs of sales.
- Operating income or earnings before interest and taxes ("EBIT") is calculated as net earnings before minority interest, finance charges (net of finance income), income taxes and the gain on sale of Wajax.
- Operating income margin is operating income divided by sales.
- Earnings before interest, taxes, depreciation and amortization ("EBITDA") is calculated as EBIT plus depreciation and amortization.
- Adjusted EBITDA is EBITDA adjusted for items considered not indicative of underlying business performance.
- EBITDA margin is EBITDA divided by sales.
- Return on equity is calculated as net earnings, net of minority interest, divided by average shareholders' equity, net of minority interest, for the reporting period.
- Funded debt is all interest bearing debt, which includes bank loans, bankers' acceptances, long-term debt, and debt related to assets held for sale.
- Net funded debt is calculated as funded debt less cash and cash equivalents.
- Total capital is calculated as funded debt plus shareholders' equity, net of minority interest.
- Net total capital is total capital less cash and cash equivalents.
- Free cash flow is calculated as cash flows from operating activities, less property, equipment and investment property purchases.
- Adjusted net earnings are net earnings excluding items which are not considered indicative of underlying business performance.

The following table reconciles Empire's EBITDA to GAAP measures for the 13 and 26 weeks ended November 5, 2011 and October 30, 2010, respectively:

	13 Weeks Ended		26 Weeks Ended	
($ in millions)	**Nov. 5, 2011**	Oct. 30, 2010	**Nov. 5, 2011**	Oct. 30, 2010
Operating income [(1)]	**$ 125.8**	$ 114.7	**$ 274.7**	$ 263.2
Depreciation	**75.1**	73.8	**151.2**	146.1
Amortization of intangibles	**9.4**	9.3	**18.6**	17.9
EBITDA	**$ 210.3**	$ 197.8	**$ 444.5**	$ 427.2

(1) Certain balances have been reclassified for changes to comparative figures (see Note 20 to the Company's second quarter unaudited consolidated financial statement).

The following tables reconcile Empire's net funded debt, net total capital, funded debt, and total capital to GAAP measures reported on the balance sheets as at November 5, 2011, May 7, 2011 and October 30, 2010, respectively:

($ in millions)	**Nov. 5, 2011**	May 7, 2011	Oct. 30, 2010
Bank indebtedness	**$ 6.0**	$ -	$ -
Long-term debt due within one year	**238.2**	49.4	57.1
Liabilities relating to assets held for sale	**-**	12.7	-
Long-term debt	**860.2**	1,090.3	1,110.9
Funded debt	**1,104.4**	1,152.4	1,168.0
Less: cash and cash equivalents	**500.3**	615.9	532.6
Net funded debt	**604.1**	536.5	635.4
Total shareholders' equity, net of minority interest	**3,273.2**	3,168.0	3,005.2
Net total capital	**$ 3,877.3**	$ 3,704.5	$ 3,640.6

($ in millions)	**Nov. 5, 2011**	May 7, 2011	Oct. 30, 2010
Funded debt	**$ 1,104.4**	$ 1,152.4	$ 1,168.0
Total shareholders' equity, net of minority interest	**3,273.2**	3,168.0	3,005.2
Total capital	**$ 4,377.6**	$ 4,320.4	$ 4,173.2

OVERVIEW OF THE BUSINESS

Empire's key businesses consist of food retailing, real estate and corporate investment activities. As a result of the Company's transition to IFRS, the Company's financial results are segmented into two separate operating segments: food retailing and investments and other operations.

Food retailing is carried out through wholly-owned Sobeys Inc. ("Sobeys").

Investments and other operations consist primarily of:

1. A 44.6 percent (40.3 percent fully diluted) equity accounted interest in Crombie Real Estate Investment Trust "Crombie REIT", a Canadian real estate income trust investing in retail and office space;
2. A 40.7 percent ownership interest in Genstar Development Partnership, a 45.9 percent interest in Genstar Development Partnership II, and 42.1 percent interests in each of GDC Investments 4, L.P., GDC Investments 5, L.P., and GDC Investments 6, L.P. (collectively referred to as "Genstar"). Genstar is a residential property developer with operations in select markets in Ontario, Western Canada and the United States;
3. Wholly-owned ETL Canada Holdings Limited ("Empire Theatres"); and
4. Kepec Resources Limited ("Kepec"), a party to a joint venture with APL Oil and Gas Limited which has ownership interests in various oil and gas properties in Alberta.

With over $16 billion in annual sales and approximately $6.5 billion in assets, Empire and its related companies directly employ approximately 49,000 people.

CONSOLIDATED OPERATING RESULTS

The consolidated financial overview provided below reports on the financial performance for the 13 and 26 weeks ended November 5, 2011 relative to the same period last year.

	13 Weeks Ended				26 Weeks Ended			
	Nov. 5, 2011		Oct. 30, 2010		**Nov. 5, 2011**		Oct. 30, 2010	
($ in millions, except per share information)	**$**	**% of Sales**	$	% of Sales	**$**	**% of Sales**	$	% of Sales
Sales	**$ 4,036.3**	**100.00%**	$ 3,904.1	100.00%	**$ 8,190.5**	**100.00%**	$ 7,930.0	100.00%
EBITDA	**210.3**	**5.21%**	197.8	5.07%	**444.5**	**5.43%**	427.2	5.39%
Operating income [(1)]	**125.8**	**3.12%**	114.7	2.94%	**274.7**	**3.35%**	263.2	3.32%
Net earnings, net of minority interest	**78.1**	**1.93%**	142.9	3.66%	**167.3**	**2.04%**	229.2	2.89%
Adjusted net earnings, net of minority interest	**74.6**	**1.85%**	69.9	1.79%	**159.2**	**1.94%**	154.4	1.95%
Basic earnings per share								
Net earnings, net of minority interest	**$ 1.15**		$ 2.09		**$ 2.46**		$ 3.35	
Adjusted net earnings, net of minority interest	**$ 1.10**		$ 1.02		**$ 2.34**		$ 2.26	
Basic weighted average number of shares outstanding (in millions)	**67.9**		68.2		**67.9**		68.3	
Diluted earnings per share								
Net earnings, net of minority interest	**$ 1.15**		$ 2.09		**$ 2.46**		$ 3.35	
Adjusted net earnings, net of minority interest	**$ 1.10**		$ 1.02		**$ 2.34**		$ 2.26	
Diluted weighted average number of shares outstanding (in millions)	**68.0**		68.3		**68.0**		68.4	
Dividends per share	**$ 0.225**		$ 0.200		**$ 0.450**		$ 0.400	

(1) Certain balances have been reclassified for changes to comparative figures (see Note 20 to the Company's second quarter unaudited consolidated financial statement).

MANAGEMENT'S EXPLANATION OF CONSOLIDATED RESULTS

The following is a review of Empire's consolidated financial performance for the 13 and 26 weeks ended November 5, 2011 compared to the 13 and 26 weeks ended October 30, 2010.

Sales

Consolidated sales for the second quarter were $4.04 billion compared to $3.90 billion for the same quarter last year, an increase of $132.2 million or 3.4 percent. Sobeys' sales equalled $3.98 billion versus $3.85 billion in the second quarter last year, an increase of $130.6 million or 3.4 percent. Sobeys' second quarter same-store sales increased 1.9 percent over the same quarter last year. The growth in Sobeys' sales is a direct result of modest inflation, increased retail selling square footage from new stores and enlargements, coupled with the ongoing implementation of sales and merchandising initiatives, improved store level execution and product and services innovation.

Investments and other operations recorded sales of $55.3 million in the second quarter compared to $53.2 million in the second quarter of last year, an increase of $2.1 million or 3.9 percent.

Consolidated sales for the first half of fiscal 2012 was $8.19 billion compared to $7.93 billion in the first half of fiscal 2011, an increase of $260.5 million or 3.3 percent. Sobeys' sales equalled $8.09 billion versus $7.83 billion in the first half of fiscal 2011, an increase of $261.4 million or 3.3 percent. Sobeys' same-store sales grew 1.8 percent during the first half of fiscal 2012. Investments and other operations recorded sales of $106.4 million in the first half of fiscal 2012 compared to $104.9 million in the first half of fiscal 2011, an increase of $1.5 million or 1.4 percent.

The change in sales for each division is explained in the section which follows, entitled "Operating Performance by Division".

Gross Profit

Consolidated gross profit increased $2.6 million over the same quarter last year to $992.2 million for the 13 weeks ended November 5, 2011. Gross margin, which is gross profit divided by sales, decreased 77 basis points to 24.58 percent in the 13 weeks ended November 5, 2011 from 25.35 percent in the comparable period last year. The decrease in gross margin is partially a result of a one-time shift in the prior year of some items between cost of goods sold and selling and administrative expenses.

Consolidated gross profit for the first half of fiscal 2012 increased $32.9 million compared to the prior year. During this same period, gross margin decreased 39 basis points to 24.65 percent compared to 25.04 percent in the first half of fiscal 2011.

Operating Income

Consolidated operating income in the second quarter was $125.8 million, an increase of $11.1 million or 9.7 percent from the $114.7 million recorded in the second quarter last year.

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

- Sobeys' operating income contribution to Empire in the second quarter totalled $109.8 million, an increase of $8.1 million or 8.0 percent from the $101.7 million recorded in the second quarter last year.
- Investments and other operations (net of corporate expenses) contributed operating income of $16.0 million in the second quarter compared to $13.0 million in the second quarter last year.
    - Crombie REIT equity accounted earnings for the quarter were $4.8 million compared to $4.4 million in the second quarter last fiscal year, an increase of $0.4 million.
    - Real estate partnerships contributed operating income to Empire of $2.9 million, a decrease of $0.8 million from the $3.7 million recorded in the second quarter last year.
    - Other operations (net of corporate expenses) contributed operating income of $8.3 million compared to $(0.3) million in the same quarter last year, an increase of $8.6 million.
    - Investments and other operations' (net of corporate expenses) operating income in the second quarter of last year included $5.2 million in equity accounted earnings generated from the Company's investment in Wajax Income Fund ("Wajax"), which was sold during the second quarter of fiscal 2011.

Fiscal year-to-date operating income equalled $274.7 million, an increase of $11.5 million or 4.4 percent from the comparable period last year. Operating income from Sobeys increased to $245.2 million for the first half of fiscal 2012 from $235.0 million last year, an increase of $10.2 million or 4.3 percent. Investments and other operations' operating income in the first half of fiscal 2012 increased $1.3 million or 4.6 percent to $29.5 million from $28.2 million last year.

The change in operating income for each division is explained in the section which follows, entitled "Operating Performance by Division".

Finance Costs

Finance costs, net of finance income, in the second quarter amounted to $15.0 million, a decrease of $4.2 million from the $19.2 million recorded in the second quarter last year. The decrease in net finance costs reflects lower funded debt levels which resulted in a $3.9 million decrease in finance costs, along with an increase in finance income of $0.3 million.

Finance costs, net of finance income, for the 26 weeks ended November 5, 2011 was $31.6 million, a decrease of $8.6 million from the same period last year. The decrease in net finance costs reflects lower funded debt levels, which served to lower finance costs by $7.4 million, along with an increase in finance income of $1.2 million.

Consolidated funded debt was $1,104.4 million at the end of the second quarter compared to $1,168.0 million at the end of the second quarter last year, a $63.6 million or 5.4 percent decrease. The decrease in consolidated funded debt from the same quarter last year was primarily due to a $23.6 million decline in funded debt at Sobeys along with reduced debt at the Empire corporate level largely as a result of the sale of properties.

Income Taxes

The effective income tax rate for the second quarter was 27.2 percent versus 26.8 percent (excluding the gain on the sale of Wajax) in the second quarter last year. The effective income tax rate for the first half of fiscal 2012 was 27.1 percent versus 28.0 percent (excluding the gain on the sale of Wajax) in the first half of last year. The decrease in the effective income tax rate for the first half of fiscal 2012 is due to lower income tax rates across the different jurisdictions in which Empire operates.

Net Earnings

Consolidated net earnings, net of minority interest, in the second quarter equalled $78.1 million ($1.15 per share) compared to $142.9 million ($2.09 per share) in the second quarter last year. The decrease of $64.8 million in net earnings, net of minority interest, is largely due to the realization of a gain (net of tax) of $76.2 million from the sale of Wajax last year, partially offset by the increase in operating income and reduced net finance costs as mentioned earlier.

Consolidated net earnings, net of minority interest, for the 26 weeks ended November 5, 2011 equalled $167.3 million ($2.46 per share) compared to $229.2 million ($3.35 per share) in the same period last year. The decrease of $61.9 million in net earnings, net of minority interest, is largely due to the realization of a gain (net of tax) of $76.2 million from the sale of Wajax last year, partially offset by the increase in operating income and reduced net finance costs as described above.

The following table presents Empire's segmented net earnings, net of minority interest, for the 13 and 26 weeks ended November 5, 2011 compared to the 13 and 26 weeks ended October 30, 2010.

	13 Weeks Ended				26 Weeks Ended			
($ in millions, net of tax)	**Nov. 5, 2011**	Oct. 30, 2010	($) Change	(%) Change	**Nov. 5, 2011**	Oct. 30, 2010	($) Change	(%) Change
Food retailing	**$ 68.5**	$ 59.7	$ 8.8	14.7%	**$ 150.0**	$ 138.5	$ 11.5	8.3%
Investments and other operations	**9.6**	83.2	(73.6)	(88.5%)	**17.3**	90.7	(73.4)	(80.9%)
Consolidated	**$ 78.1**	$ 142.9	$ (64.8)	(45.3%)	**$ 167.3**	$ 229.2	$(61.9)	(27.0%)

Adjusted Net Earnings

The table below adjusts reported net earnings for the gain on sale of Wajax in the second quarter last year and for items considered not indicative of underlying business performance.

	13 Weeks Ended		26 Weeks Ended	
($ in millions, net of tax)	**Nov. 5, 2011**	Oct. 30, 2010	**Nov. 5, 2011**	Oct. 30, 2010
Net earnings, net of minority interest, reported	**$ 78.1**	$ 142.9	**$ 167.3**	$ 229.2
Adjustments:				
Gain on sale of Wajax	**-**	(76.2)	**-**	(76.2)
Sobeys' distribution and store closure costs	**-**	15.7	**-**	15.7
Sobeys' organizational reset costs	**2.9**	-	**2.9**	-
Gain on disposal of assets	**(1.3)**	(11.4)	**(4.0)**	(13.4)
Dilution gain	**(5.1)**	(1.1)	**(7.0)**	(0.9)
	(3.5)	(73.0)	**(8.1)**	(74.8)
Adjusted net earnings, net of minority interest	**$ 74.6**	$ 69.9	**$ 159.2**	$ 154.4
Adjusted net earnings by division:				
Food retailing	**$ 69.8**	$ 64.0	**$ 148.2**	$ 140.8
Investments and other operations	**4.8**	5.9	**11.0**	13.6
Adjusted net earnings, net of minority interest	**$ 74.6**	$ 69.9	**$ 159.2**	$ 154.4

Excluding the impact of the above-noted items, Empire recorded adjusted net earnings, net of minority interest, in the second quarter of $74.6 million ($1.10 per share) for the 13 weeks ended November 5, 2011 compared to $69.9 million ($1.02 per share) recorded in the second quarter last year.

For the first half of fiscal 2012, excluding the impact of the above-noted items, Empire recorded adjusted net earnings, net of minority interest, of $159.2 million ($2.34 per share) for the 26 weeks ended November 5, 2011 compared to $154.4 million ($2.26 per share) recorded in the first half of last year.

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

QUARTERLY RESULTS OF OPERATIONS

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

	Fiscal 2012		Fiscal 2011				Fiscal 2010 (1)	
	Q2	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3
	(13 Weeks)	**(13 Weeks)**	(14 Weeks)	(13 Weeks)	(13 Weeks)	(13 Weeks)	(13 Weeks)	(13 Weeks)
($ in millions, except per share information)	**Nov. 5, 2011**	**Aug. 6, 2011**	May 7, 2011	Jan. 29, 2011	Oct. 30, 2010	July 31, 2010	May 1, 2010	Jan. 30, 2010
Sales	**$ 4,036.3**	**$ 4,154.2**	$ 4,149.8	$ 3,877.0	$ 3,904.1	$ 4,025.9	$ 3,836.8	$ 3,836.2
Operating income (2)	**125.8**	**148.9**	122.3	140.2	114.7	148.5	118.5	110.3
Net earnings (3)	**78.1**	**89.2**	82.6	88.8	142.9	86.3	73.5	68.3
Per share information, basic								
Net earnings (3)	**$ 1.15**	**$ 1.31**	$ 1.21	$ 1.31	$ 2.09	$ 1.26	$ 1.07	$ 1.00
Basic weighted average number of shares outstanding (in millions) (4)	**67.9**	**67.9**	67.9	67.9	68.2	68.5	68.4	68.4
Per share information, diluted								
Net earnings (3)	**$ 1.15**	**$ 1.31**	$ 1.21	$ 1.30	$ 2.09	$ 1.26	$ 1.07	$ 0.99
Diluted weighted average number of shares outstanding (in millions) (4)	**68.0**	**68.0**	68.0	68.0	68.3	68.5	68.5	68.5

(1) Amounts have been prepared in accordance with CGAAP.

(2) Certain balances have been reclassified for changes to comparative figures (see Note 20 to the Company's second quarter unaudited consolidated financial statement).

(3) Net of minority interest.

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

Consolidated sales and operating earnings growth have been influenced by the Company's investing activities, the competitive environment, cost management initiatives, food price and general industry trends, the cyclicality of both residential and commercial real estate, and by other risk factors as outlined in the fiscal 2011 annual MD&A. There have been no material changes to the disclosures as contained in the "Critical Accounting Estimates", "Risk Management", "Outlook" or "Contingent Liabilities" sections of the Company's fiscal 2011 MD&A other than as noted in this MD&A.

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

OPERATING PERFORMANCE BY DIVISION

Food Retailing

Empire's food retailing division is carried out through its wholly-owned subsidiary, Sobeys, which conducts business through more than 1,300 retail grocery stores (corporately owned and franchised) which operate in every province across Canada.

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

For the 13 and 26 weeks ended November 5, 2011, Sobeys opened, replaced, expanded, renovated, acquired and/or converted the banners in 23 and 37 stores, respectively, compared to 28 and 51 stores in the same periods of fiscal 2011. During the first half of fiscal 2012, Sobeys continued to execute a number of initiatives in support of its food-focused strategy including product and service innovations, productivity initiatives, and business process, supply chain and system upgrades.

One example of these initiatives is the continued conversion of Price Chopper stores to FreshCo discount stores. During the first half of fiscal 2012, Sobeys opened seven additional FreshCo discount stores compared to 27 FreshCo stores opened in the first half of fiscal 2011. These FreshCo discount stores offer low prices without many of the compromises which would typically be experienced at traditional discount grocery retailers. FreshCo shoppers enjoy fresh merchandise at low prices with an expanded selection of meats and produce, including high quality choices and seasonal, locally-produced products. During the 13 and 26 weeks ended November 5, 2011, Sobeys incurred approximately $0.2 million and $0.6 million, respectively, in start up costs (excluding fixed asset write-offs) related to this initiative (2011 - $2.5 million and $4.6 million).

Business Process and Information System Transformation and Rationalization Costs

During the second quarter of fiscal 2012, Sobeys continued to make progress in the implementation of its system-wide business process optimization and rationalization initiatives that are designed to reduce complexity and improve processes and efficiency. These system-wide business process and rationalization initiatives support all aspects of the business including operations, merchandising, distribution, human resources, and administration.

The business process and information systems implementation in Quebec began in the first quarter of fiscal 2010. The business process and system initiative costs primarily include labour, implementation and training costs associated with these initiatives. During the 13 and 26 weeks ended November 5, 2011, $2.6 million and $5.8 million, respectively, of pre-tax costs were incurred related to these initiatives (2011 - $2.4 million and $5.0 million).

On October 13, 2011, Sobeys announced an organizational reset of the current regions to position itself for accelerated growth and performance. Total costs associated with this initiative to date were $4.1 million. These expenses were mainly consulting and severance costs of $2.7 million and $1.4 million, respectively.

On January 28, 2011, Sobeys announced plans to build a new distribution centre in Terrebonne, Quebec, utilizing the same automated equipment and technology as the Vaughan, Ontario distribution centre. The new facility will allow Sobeys to significantly increase its warehouse and distribution capacity in Quebec, while reducing overall distribution costs and improving service to its store network and customers. Additional costs, excluding capital asset additions, of $0.8 million and $1.3 million, respectively, have been recorded for the 13 and 26 weeks ended November 5, 2011 compared to $ nil in the same periods

last year. However, during the final two quarters of fiscal 2011, Sobeys recognized $6.2 million of pre-tax costs associated with this initiative.

The table below summarizes Sobeys' contribution to Empire's consolidated sales, operating income and net earnings, net of minority interest:

	13 Weeks Ended				26 Weeks Ended			
($ in millions)	**Nov. 5, 2011**	Oct. 30, 2010	($) Change	(%) Change	**Nov. 5, 2011**	Oct. 30, 2010	($) Change	(%) Change
Sales	**$ 3,983.8**	$ 3,853.2	$ 130.6	3.4%	**$ 8,089.9**	$ 7,828.5	$ 261.4	3.3%
Operating income [(1)]	**109.8**	101.7	8.1	8.0%	**245.2**	235.0	10.2	4.3%
Net earnings, net of minority interest	**68.5**	59.7	8.8	14.7%	**150.0**	138.5	11.5	8.3%

[(1)] *Certain balances have been reclassified for changes to comparative figures (see Note 20 to the Company's second quarter unaudited consolidated financial statement).*

Sales

Food retailing division sales for the second quarter were $3.98 billion compared to $3.85 billion for the same quarter last year, an increase of $130.6 million or 3.4 percent. During the second quarter, Sobeys' same-store sales showed an increase of 1.9 percent compared to the second quarter of fiscal 2011.

Fiscal year-to-date sales for the food retailing division were $8.09 billion compared to $7.83 billion last year, an increase of $261.4 million or 3.3 percent. Same-store sales grew by 1.8 percent in the first half of fiscal 2012 compared to the same period last year.

The growth in sales is a direct result of modest inflation, increased retail selling square footage from new stores and enlargements, coupled with the ongoing implementation of sales and merchandising initiatives, improved store level execution, and product and services innovation.

Gross Profit

Sobeys recorded gross profit of $950.5 million in the second quarter, a decrease of $0.7 million over the second quarter last year. Gross margin, which is gross profit divided by sales, decreased 82 basis points in the second quarter of fiscal 2012 to 23.91 percent from 24.73 percent in the second quarter last year. Approximately half of this decrease is a result of a one-time shift in the prior year of some items between cost of goods sold and selling and administrative expenses.

Sobeys recorded gross profit for the first half of fiscal 2012 of $1,943.2 million, an increase of $32.8 million or 1.7 percent compared to $1,910.4 million for the same period in the prior year. For the 26 weeks ended November 5, 2011 gross margin decreased 39 basis points to 24.06 percent compared to 24.45 percent last year.

EBITDA

Sobeys recorded EBITDA for the second quarter of fiscal 2012 of $193.7 million compared to $198.6 million for the same period prior year, a decrease of 2.5 percent or $4.9 million. As a percent of sales, EBITDA decreased 29 basis points to 4.87 percent from 5.16 percent in the second quarter last year. These decreases were primarily due to gains on disposal of properties of $32.0 million in the second quarter of the prior year compared to $5.3 million in the current quarter. The gains on disposal of property were mainly the result of gains on the sale of properties to Crombie REIT of $5.7 million in the current quarter compared to $29.0 million in the second quarter of last year. Also affecting EBITDA margin in the second quarter last year were pre-tax costs related to Price Chopper store closures in Ontario of $16.1 million combined with $5.4 million in one-time severance costs related to the closure of the Brantford, Ontario distribution center. EBITDA in the second quarter of this fiscal year was affected by costs related to an organizational reset of $4.1 million. Excluding these items, Sobeys' adjusted EBITDA for the second quarter was $192.5 million (4.84 percent of sales) compared to $188.1 million (4.89 percent of sales) last year.

For the first half of fiscal 2012, Sobeys recorded EBITDA of $414.1 million compared to $409.0 million last year, an increase of 1.2 percent or $5.1 million. This increase relates to increased sales and the corresponding increase in gross profit for the first half compared to the same period in the prior year. As a percent of sales, EBITDA decreased 10 basis points to 5.13 percent from 5.23 percent. Adjusting for the pre-tax charges as summarized in the table below, Sobeys' adjusted EBITDA for the first half would be $405.1 million compared to $395.8 million last year.

	13 Weeks Ended		26 Weeks Ended	
($ in millions)	**Nov. 5, 2011**	Oct. 30, 2010	**Nov. 5, 2011**	Oct. 30, 2010
EBITDA (as reported by Sobeys)	**$ 193.7**	$ 198.6	**$ 414.1**	$ 409.0
Adjustments:				
Gain on disposal of assets	**(5.3)**	(32.0)	**(13.1)**	(34.7)
Store closure costs	**-**	16.1	**-**	16.1
Severance	**-**	5.4	**-**	5.4
Organizational reset	**4.1**	-	**4.1**	-
	(1.2)	(10.5)	**(9.0)**	(13.2)
Adjusted EBITDA	**$ 192.5**	$ 188.1	**$ 405.1**	$ 395.8

Operating Income

Sobeys' operating income contribution to Empire in the second quarter was $109.8 million compared to $101.7 million last year, an increase of $8.1 million or 8.0 percent. Operating income margin in the second quarter equalled 2.76 percent versus 2.64 percent in the same quarter last year.

Sobeys' operating income contribution to Empire in the first half of fiscal 2012 was $245.2 million compared to $235.0 million last year, an increase of $10.2 million or 4.3 percent. Operating income margin in the first half of fiscal 2012 equalled 3.03 percent versus 3.00 percent in the same period last year.

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

Net Earnings

Sobeys contributed net earnings, net of minority interest, of $68.5 million to Empire for the second quarter, an increase of $8.8 million or 14.7 percent over the $59.7 million recorded in the same period last year.

Sobeys contributed net earnings, net of minority interest, of $150.0 million to Empire for the first half of fiscal 2012, an increase of $11.5 million or 8.3 percent over the $138.5 million recorded in the same period last year.

Adjusted Net Earnings

Sobeys contributed adjusted net earnings, net of minority interest, of $69.8 million to Empire for the second quarter, compared to $64.0 million last year, an increase of $5.8 million or 9.1 percent. Included in the adjustments for Sobeys are organizational reset costs of $2.9 million, gains on disposal of assets of $1.3 million, and dilution gains of $0.3 million.

Sobeys contributed adjusted net earnings, net of minority interest, of $148.2 million to Empire for the first half of fiscal 2012, compared to $140.8 million last year, an increase of $7.4 million or 5.3 percent. Included in the adjustments for Sobeys are organizational reset costs of $2.9 million, gains on disposal of assets of $4.4 million, and dilution gains of $0.3 million.

Investments and Other Operations

Empire's investments and other operations segment consists of its equity investments in real estate, wholly-owned Empire Theatres, and Kepec. Empire Theatres is the second largest movie exhibitor in Canada which, as of November 5, 2011, owned 51 locations representing 386 screens.

Empire's real estate investments are focused primarily on (i) the ownership of retail and office properties through a 44.6 percent ownership interest in Crombie REIT, and (ii) residential land development principally in select communities in Ontario, Western Canada and the United States through its investments in Genstar.

Genstar equity accounted earnings and net earnings, net of minority interest, recorded in the second quarter ended November 5, 2011 were impacted by an increase in the ownership interest in Genstar Development Partnership II from 44.8 percent last fiscal year to 45.9 percent during the first quarter of fiscal 2012.

The table below presents sales, operating income and net earnings, net of minority interest, for the investments and other operations segment.

	13 Weeks Ended			26 Weeks Ended		
($ in millions)	**Nov. 5, 2011**	Oct. 30, 2011	($) Change	**Nov. 5, 2011**	Oct. 30, 2011	($) Change
Sales	**$ 55.3**	$ 53.2	$ 2.1	**$ 106.4**	$ 104.9	$ 1.5
Operating income						
Crombie REIT [1]	**4.8**	4.4	0.4	**9.6**	8.8	0.8
Real estate partnerships [2]	**2.9**	3.7	(0.8)	**10.4**	11.6	(1.2)
Wajax	**-**	5.2	(5.2)	**-**	8.6	(8.6)
Other, net of corporate expenses [3][4]	**8.3**	(0.3)	8.6	**9.5**	(0.8)	10.3
	16.0	13.0	3.0	**29.5**	28.2	1.3
Net earnings, net of minority interest [5]	**$ 9.6**	$ 83.2	$ (73.6)	**$ 17.3**	$ 90.7	$(73.4)

(1) 44.6 percent equity accounted interest in Crombie REIT (Oct. 30, 2011 – 46.6 percent interest).

(2) 40.7 percent equity accounted interest in Genstar Development Partnership, 45.9 percent equity accounted interest in Genstar Development Partnership II, and 42.1 percent equity accounted interests in each of GDC Investments 4, L.P., GDC Investments 5, L.P., and GDC Investments 6, L.P. (collectively referred to as "Genstar").

(3) Operating income for the 13 and 26 weeks ended November 5, 2011 includes other income of $7.4 million (2011 - $1.7 million) and $9.8 million (2011 – $1.7 million), respectively.

(4) Certain balances have been reclassified for changes to comparative figures (see Note 20 to the Company's second quarter unaudited consolidated financial statement).

(5) Net earnings, net of minority interest, for the 13 and 26 weeks ended October 30, 2010 includes a net gain on the sale of the Company's 27.5 percent ownership interest in Wajax of $76.2 million.

At November 5, 2011, Empire's investment portfolio, including equity accounted investments in Crombie REIT and Genstar, consisted of:

	Nov. 5, 2011			May 7, 2011			Oct. 30, 2010		
($ in millions)	**Market Value**	**Carrying Value**	**Unrealized Gain**	Market Value	Carrying Value	Unrealized Gain	Market Value	Carrying Value	Unrealized Gain
Investment in Crombie REIT	**$ 443.7**	**$ 124.4**	**$ 319.3**	$ 403.8	$ 91.0	$ 312.8	$ 393.6	$ 90.9	$ 302.7
Investment in Genstar [1]	**130.2**	**130.2**	**-**	121.1	121.1	-	109.1	109.1	-
Canadian Digital Cinema Partnership [1]	**7.0**	**7.0**	**-**	-	-	-	-	-	-
Other investments [1][2]	**13.6**	**13.6**	**-**	14.3	14.3	-	11.6	11.6	-
	$ 594.5	**$ 275.2**	**$ 319.3**	$ 539.2	$ 226.4	$ 312.8	$ 514.3	$ 211.6	$ 302.7

(1) Assumes market value equals book value.

(2) Includes Crombie REIT convertible unsecured subordinated debentures with market value of $13.0 million (May 7, 2011 - $11.9 million, Oct. 30, 2010 - $11.4 million).

Sales

Investments and other operations' sales equalled $55.3 million in the second quarter ended November 5, 2011 versus $53.2 million in the second quarter last year, a $2.1 million or 3.9 percent increase, primarily driven by an increase in sales recorded by Empire Theatres, and was partially offset by lower commercial property sales.

Operating Income

Investments and other operations (net of corporate expenses) contributed operating income of $16.0 million compared to $13.0 million in the second quarter last year. Equity accounted earnings generated from the Company's investments in real estate partnerships (Genstar) amounted to $2.9 million compared to $3.7 million in the same quarter last year, a decrease of $0.8 million primarily as a result of lower margins on residential lot sales. Equity accounted earnings from the Company's investment in Crombie REIT were $4.8 million in the second quarter of fiscal 2012 compared to $4.4 million in the second quarter last year, a $0.4 million increase primarily driven by higher property revenues and the resulting higher property net operating income reported by Crombie REIT. As a result of the sale of Wajax in the second quarter last year, there were no equity accounted earnings in the second quarter of fiscal 2012 from Wajax compared to $5.2 million in the second quarter of last year. Operating income from other operations (net of corporate expenses) improved to $8.3 million from $(0.3) million in the second quarter last year. The improvement in operating income from other operations was primarily due to dilution gains resulting from changes in the Company's ownership interest in Crombie REIT.

Net Earnings

Investments and other operations (net of corporate expenses) contributed $9.6 million to Empire's consolidated second quarter fiscal 2012 net earnings, net of minority interest, compared to a contribution of $83.2 million in net earnings, net of minority interest, in the second quarter last year. The decrease is primarily attributed to the net gain on the sale of Wajax of $76.2 million in the second quarter last year, partially offset by the $3.0 million increase in operating income as mentioned above. Adjusting for items not considered indicative of underlying business performance, adjusted net earnings for the second quarter of fiscal 2012 from investment and other operations (net of corporate expenses) was $4.8 million compared to $5.9 million last year.

During the first half of fiscal 2012, investments and other operations (net of corporate expenses) contributed $17.3 million to Empire's consolidated net earnings, net of minority interest, compared to a contribution of $90.7 million net earnings, net of minority interest, in the first half of last year. The decrease is primarily attributed to the net gain on the sale of Wajax of $76.2 million in the second quarter last year, as discussed, offset by the impact of a $1.3 million increase in operating income and lower net finance costs of $3.6 million. Adjusting for items not considered indicative of underlying business performance, adjusted net earnings for the first half of fiscal 2012 from investment and other operations (net of corporate expenses) was $11.0 million compared to $13.6 million last year.

CONSOLIDATED FINANCIAL CONDITION

Capital Structure and Key Financial Condition Measures

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

($ in millions, except per share and ratio calculations)		**Nov. 5, 2011**		May 7, 2011		Oct. 30, 2010
Shareholders' equity, net of minority interest	**$**	**3,273.2**	$	3,168.0	$	3,005.2
Book value per share	**$**	**48.11**	$	46.56	$	43.84
Bank indebtedness	**$**	**6.0**	$	-	$	-
Long-term debt, including current portion [1]	**$**	**1,098.4**	$	1,152.4	$	1,168.0
Funded debt to total capital		**25.2%**		26.7%		28.0%
Net funded debt to net total capital ratio [2]		**15.6%**		14.5%		17.5%
Debt to annualized EBITDA [3]		**1.2x**		1.3x		1.4x
EBITDA to net finance costs [4]		**14.1x**		11.5x		10.6x
Total assets	**$**	**6,538.6**	$	6,477.0	$	6,267.6

(1) Includes liabilities relating to assets held for sale.
(2) Net funded debt to net total capital reduces funded debt by cash and cash equivalents.
(3) Annualizes Q2 YTD F2012 and Q2 YTD F2011 EBITDA; uses full year actual EBITDA for May 7, 2011.
(4) Calculation uses trailing 26-week EBITDA and net finance costs, except for May 7, 2011 which uses trailing 12-month EBITDA and net finance costs.

See Non-GAAP measures section for definition of funded debt, total capital and EBITDA.

Shareholders' Equity

The Company's share capital on November 5, 2011 consisted of:

	Authorized Number of Shares	Issued and Outstanding Number of Shares	$ Millions
Preferred shares, par value $25 each, issuable in series			
Series 2, cumulative, redeemable, rate of 75% of prime	2,679,000	164,900	$ 4.1
2002 Preferred shares par value $25 each, issuable in series	989,480,000	-	-
Non-Voting Class A shares, without par value	257,044,056	33,687,747	311.7
Class B common shares, without par value, voting	40,800,000	34,260,763	7.6
			$ 323.4

There were 33,687,747 Non-Voting Class A and 34,260,763 Class B common shares outstanding at November 5, 2011, for a total of 67,948,510. This is unchanged from the previous fiscal year-end and an increase of 3,828 shares from the second quarter last year. The increase is due to the issuance of 3,828 Non-Voting Class A shares under Empire's long-term incentive plan.

At November 5, 2011, Empire had 638,818 options outstanding compared to 583,673 options outstanding at October 30, 2010.

As at December 15, 2011, the Company had Non-Voting Class A and Class B common shares outstanding of 33,687,747 and 34,260,763, respectively, as well as 638,818 options to acquire in aggregate 638,818 Non-Voting Class A shares.

Dividends paid to common shareholders amounted to $15.3 million in the second quarter ($0.225 per share) versus $13.6 million ($0.20 per share) in the second quarter last fiscal year.

Liabilities

Historically, Empire has financed a significant portion of its assets through the use of long-term debt. Long-term assets are generally financed with fixed rate, long-term debt, thereby reducing both interest rate and refinance risk. Total long-term debt (including the current portion of long-term debt) at November 5, 2011 was $1,098.4 million, representing 99.5 percent of Empire's total funded debt of $1,104.4 million.

Consolidated funded debt has decreased $48.0 million since the start of the fiscal year, May 7, 2011 ($1,152.4 million) and by $63.6 million since the second quarter last year ($1,168.0 million) to $1,104.4 million at the end of the second quarter of fiscal 2012. The decrease in funded debt from the second quarter last year was primarily due to a $23.6 million decline in funded debt at Sobeys along with reduced debt at the Empire corporate level largely as a result of the sale of properties.

The ratio of funded debt to total capital has improved by 2.8 percentage points since the second quarter last year to 25.2 percent as a result of higher equity levels due to growth in retained earnings and lower funded debt levels as mentioned earlier.

Included in long-term debt due within one year is $200 million related to Sobeys' credit facility which matures on July 23, 2012. Management intends to renew or replace this credit facility prior to its maturity.

The long-term debt is segmented by division as follows:

Long-term debt (including current portion) ($ in millions)	Nov. 5 2011	May 7, 2011	Oct. 30, 2010
Food retailing	**$ 974.2**	$ 999.3	$ 997.8
Investments and other operations	**124.2**	153.1	170.2
Total	**$ 1,098.4**	$ 1,152.4	$ 1,168.0

For additional disclosure on Empire's bank indebtedness and long-term debt, see Notes 10 and 11 to the Company's annual audited financial statements for fiscal 2011.

On September 14, 2009, Dominion Bond Rating Service ("DBRS") upgraded Sobeys' credit rating from BBB (low) with a positive trend to BBB with a stable trend. On January 12, 2010, Standard and Poors ("S&P") upgraded its credit rating on Sobeys from BB+ with a positive trend to BBB- with a stable trend. On December 1, 2011, S&P reaffirmed its credit rating on Sobeys at BBB- with a stable trend.

Empire's EBITDA to net finance costs in the second quarter was 14.1 times, up from 10.6 times recorded for the second quarter last fiscal year. The increase over the same quarter last year is due to a decline in net finance costs of 21.9 percent and an increase in EBITDA of 6.3 percent.

Financial Instruments

As part of Empire's risk management strategy, the Company actively monitors its exposures to various financial risks including interest rate risk, foreign exchange price risk and commodity price risk. From time to time, Empire or one of its subsidiaries will use a financial instrument for the purpose of mitigating its exposure to one or more types of financial risk. Empire and its subsidiaries do not use financial instruments for speculative purposes. The Company's use of these instruments has not had a material impact on consolidated earnings for the 13 and 26 weeks ended November 5, 2011 or for the comparative periods in fiscal 2011.

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

In-Place Financial Instruments

Empire utilizes interest rate instruments from time to time to prudently manage its exposure to interest rate volatility and also to fix future long-term debt maturities that are expected to be refinanced. At November 5, 2011, there were three interest rate hedges in place with a fair value of $(6.0) million. Sensitivity analysis has been prepared to determine the impact of a change in the underlying forward rate curves on the fair values reported as of November 5, 2011. A parallel shift up/(down) in the underlying forward rate curve of 0.25 percent would impact the fair value of the swaps by plus or minus $0.4 million and impact other comprehensive income by plus or minus $0.3 million.

In July 2008, Sobeys entered into a floating-for-floating currency swap with a fixed rate of $1.015 Canadian Dollar ("CAD") / United States Dollar ("USD") to mitigate the currency risk associated with a USD denominated variable rate lease. The terms of the swap match the lease terms. As of November 5, 2011, Sobeys recognized a liability of $0.3 million relating to this instrument. Sobeys estimates that a 10.0 percent increase/(decrease) in applicable foreign currency exchange rates would impact the fair value of the swap by plus or minus $0.9 million and would impact other comprehensive income by plus or minus $0.6 million.

To mitigate the currency risk associated with the Company's Euro purchases, Sobeys entered into forward currency contracts with staggered maturities to act as a hedge against the effect of changes in the value of the CAD relative to the Euro. As at November 5, 2011, Sobeys had recognized an asset of $0.4 million representing the fair value of Euro denominated forward currency contracts. Sobeys estimates that a 10.0 percent increase/(decrease) in applicable exchange rates would impact the fair value by plus or minus $3.0 million and other comprehensive income by plus or minus $2.1 million.

Fair Value Methodology

When a financial instrument is designated as a hedge for financial accounting purposes, it is classified as fair value through profit and loss ("FVTPL") on the balance sheet and recorded at fair value. The estimated fair values of the financial instruments as at November 5, 2011 were based on relevant market prices and information available at the reporting date. The Company determines fair value of each financial instrument by reference to external and third-party quoted bid, ask, and mean prices, as appropriate, in an active market. In inactive markets, fair values are based on internal and external valuation models, such as discounted cash flows using market observed inputs. Fair values determined using valuation models require the use of assumptions to determine the amount and timing of forecasted future cash flows and discount rates. The Company primarily uses external market inputs, including factors such as interest yield curves and forward exchange rates. Changes in interest rates and exchange rates, along with other factors, may cause the fair value amounts to change in subsequent periods. The fair value of these financial instruments reflects the amount the Company would pay or receive if it were to settle the contracts at the reporting date.

For additional disclosure on Empire's use of financial instruments, see Notes 1 and 22 to the Company's annual audited financial statements for the 53 weeks ended May 7, 2011.

LIQUIDITY AND CAPITAL RESOURCES

The Company maintains the following sources of liquidity:

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

At November 5, 2011, consolidated cash and cash equivalents were $500.3 million versus $532.6 million at October 30, 2010 and $615.9 million at fiscal year-end, May 7, 2011.

At the end of the second quarter of fiscal 2012, on a non-consolidated basis, Empire directly maintained an authorized bank line for operating, general and corporate purposes of $450.0 million, of which approximately $102.3 million or 22.7 percent was utilized. During the second quarter, at the non-consolidated level, Empire extended the term of its authorized bank line for one year to a maturity date of

June 30, 2014. On a consolidated basis, Empire's authorized bank credit facilities exceeded borrowings by approximately $725 million at November 5, 2011.

The Company anticipates that the above mentioned in-place sources of liquidity will adequately meet its short-term and long-term financial requirements. The Company mitigates potential liquidity risk by ensuring its various sources of funds are diversified by term to maturity and source of credit.

Empire and its subsidiaries have provided covenants to its lenders in support of various financing facilities. All covenants were complied with for the 13 weeks ended November 5, 2011 and for the fiscal year ended May 7, 2011.

The following table highlights major cash flow components for the 13 and 26 weeks ended November 5, 2011 compared to the 13 and 26 weeks ended October 30, 2010.

	13 Weeks Ended		26 Weeks Ended	
($ in millions)	**Nov. 5, 2011**	Oct. 30, 2010	**Nov. 5, 2011**	Oct. 30, 2010
Net earnings	**$ 80.7**	$ 146.1	**$ 177.3**	$ 236.7
Non-cash and other cash items	**122.9**	61.7	**277.2**	234.5
Net change in non-cash working capital	**(107.7)**	(21.2)	**(101.4)**	(92.9)
Income taxes paid	**(30.1)**	(32.5)	**(92.1)**	(110.3)
Cash flows from operating activities	**65.8**	154.1	**261.0**	268.0
Cash flows (used in) from investing activities	**(169.6)**	42.9	**(263.6)**	(8.0)
Cash flows (used in) from financing activities	**(33.6)**	(157.5)	**(113.0)**	(124.7)
(Decrease) increase in cash and cash equivalents	**$ (137.4)**	$ 39.5	**$ (115.6)**	$ 135.3

Operations

Second quarter cash flows from operating activities equalled $65.8 million compared to $154.1 million in the comparable period last year, an $88.3 million decrease. This decline is primarily attributed to a decrease in net earnings of $65.4 million and a decrease in the net change in non-cash working capital of $86.5 million, partially offset by an increase in non-cash and other cash items of $61.2 million and by a decline in income taxes paid of $2.4 million.

The first 26 weeks of fiscal 2012 generated cash flows from operating activities of $261.0 million compared to $268.0 million last year. The decrease of $7.0 million is attributed to a decrease in net earnings of $59.4 million and a decrease in the net change in non-cash working capital of $8.5 million, partially offset by a decrease in income taxes paid of $18.2 million and by an increase in non-cash and other cash items of $42.7 million.

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

Non-Cash Working Capital (Quarter-Over-Quarter)			13 Weeks Ended	
			Nov. 5, 2011	Oct. 30, 2010
			Increase (Decrease) in	Increase (Decrease) in
($ in millions)	**Nov. 5, 2011**	Aug. 6, 2011	Cash Flows	Cash Flows
Receivables	**$ 350.5**	$ 336.7	$ (13.8)	$ 4.0
Inventories	**874.5**	835.6	(38.9)	(45.3)
Prepaid expenses	**76.6**	77.7	1.1	3.8
Income taxes receivable	**37.8**	35.8	(2.0)	(1.0)
Accounts payable and accrued liabilities	**(1,606.6)**	(1,662.0)	(55.4)	0.2
Provisions	**(27.5)**	(26.8)	0.7	10.8
Income taxes payable	**(15.2)**	(16.5)	(1.3)	3.7
Impact of reclassifications on working capital [(1)]	**(1.9)**		1.9	2.6
Total	**$ (311.8)**	$ (419.5)	$ (107.7)	$ (21.2)

(1) Reclassifications primarily relate to business acquisitions.

The net change in non-cash working capital of $(107.7) million in the second quarter was largely due to an increase in inventories of $38.9 million, an increase in receivables of $13.8 million and a decrease in accounts payable and accrued liabilities of $55.4 million. In the second quarter of fiscal 2012, the increase in inventories and decrease in accounts payable and accrued liabilities compared to the first quarter was due to the timing of inventory purchases through the quarter and their associated payment.

Investment

Cash used in investing activities of $169.6 million in the second quarter increased $212.5 million compared to cash from investing activities of $42.9 million in the same period last year. The increase was the result of the $115.3 million in net proceeds from the sale of Wajax which occurred in the second quarter last year, a decrease of $89.2 million in the proceeds on disposal of property, equipment and investment property, an increase in other assets of $5.1 million, and an increase in business acquisitions of $9.4 million, partially offset by an increase in loans and other receivables of $8.4 million.

For the first half of fiscal 2012, cash used in investing activities was $263.6 million, an increase of $255.6 million from cash used in investing activities of $8.0 million last year. The increase was the result of the $115.3 million in net proceeds from the sale of Wajax in the prior year as discussed, a decrease of $62.6 million in the proceeds on disposal of property, equipment and investment property, an increase in property, equipment and investment property purchases of $30.6 million, an increase in other assets of $14.2 million, an increase in business acquisitions of $11.2 million, and a decrease in loans and other receivables of $22.8 million, partially offset by a decrease in the additions to intangibles of $5.8 million.

Consolidated purchases of property equipment and investment properties totalled $164.2 million in the second quarter of fiscal 2012 compared to $162.0 million in the second quarter last year. Proceeds on disposal of property, equipment and investment properties declined from $118.7 million in the second quarter last year to $29.5 million in the second quarter of fiscal 2012. The decrease is mainly due to a $70.9 million decrease in proceeds from the sale and leaseback transactions with Crombie REIT, as three properties were sold in the second quarter of fiscal 2012 ($24.6 million proceeds) compared to ten properties ($95.5 million proceeds) in the same period last year.

For the first half of fiscal 2012, consolidated purchases of property equipment and investment properties totalled $272.9 million compared to $242.3 million last year. Proceeds on disposal of property, equipment and investment properties declined $62.6 million from the first half of last year to $81.5 million in the first half of fiscal 2012. Proceeds on disposal in the first half of fiscal 2012 include the sale of six properties to Crombie REIT for net proceeds of $56.6 million. In addition, the Company sold its 50 percent interest in two properties to a third party for $14.6 million during the first quarter of fiscal 2012.

The table below outlines the number of stores Sobeys invested in during the 13 and 26 weeks ended November 5, 2011 compared to 13 and 26 weeks ended October 30, 2010:

Sobeys' Corporate and Franchised Store Construction Activity

	13 Weeks Ended		26 Weeks Ended	
# of Stores	**Nov. 5, 2011**	Oct. 30, 2010	**Nov. 5, 2011**	Oct. 30, 2010
Opened/acquired/relocated	**15**	7	**23**	15
Expanded	**1**	2	**4**	6
Rebannered/redeveloped	**7**	19	**10**	30
Closed	**13**	4	**25**	9

The following table shows Sobeys' square footage changes for the 13 and 52 weeks ended November 5, 2011 by type:

Sobeys' Square Footage Changes
(in thousands)

Square Feet	Nov. 5, 2011 vs. Aug. 6, 2011	Nov. 5, 2011 vs. Oct. 30, 2010
Opened	267	1,095
Relocated	-	39
Acquired	-	10
Expanded	2	80
Closed	(137)	(660)
Net Change	132	564

At November 5, 2011, Sobeys' square footage totalled 28.9 million square feet, a 2.1 percent increase over the 28.3 million square feet operated at the end of the second quarter last year.

Financing

Financing activities during the second quarter used $33.6 million of cash compared to $157.5 million of cash used in the same quarter last year. The decrease of $123.9 million in cash flows used in financing activities when compared to the same quarter last year is primarily the result of: (i) a decrease in long-term debt repayment of $67.1 million; (ii) the repurchase of Non-Voting Class A shares of $27.7 million last year ($ nil this year); (iii) a change in bank indebtedness of $22.1 million; and (iv) an increase in the issuance of long-term debt of $8.9 million.

During the first half of fiscal 2012, financing activities used $113.0 million of cash compared to $124.7 million of cash used in financing activities in the same period last year. The decrease of $11.7 million in cash flows used in financing activities when compared to the same period last year is primarily the result of: (i) a decrease in long-term debt repayment of $112.9 million compared to the same quarter last year; (ii) a decrease in the repurchase of Non-Voting Class A shares of $27.7 million compared to last year; (iii) an increase in bank indebtedness of $6.0 million in the second quarter compared to a decrease of $4.1 million last year; and (iv) a decrease in the issuance of long-term debt of $135.4 million.

The Company believes that its cash and cash equivalents, future operating cash flows, and available credit facilities will enable it to fund future capital investments, pension plan contributions, working capital, and ongoing business requirements. The Company believes it has sufficient funding in place to meet these requirements and other long-term obligations.

Free Cash Flow

Free cash flow (see Non-GAAP measures section in this MD&A) is used to measure the change in the Company's cash available for additional investing, dividends and/or debt reduction. The following table reconciles free cash flow to GAAP cash flows used in operating activities for the 13 and 26 weeks ended November 5, 2011 and October 30, 2010.

	13 Weeks Ended		26 Weeks Ended	
($ in millions)	**Nov. 5, 2011**	Oct. 30, 2010	**Nov. 5, 2011**	Oct. 30, 2010
Cash flow from operating activities	**$ 65.8**	$ 154.1	**$ 261.0**	$ 268.0
Less: Property, equipment and investment property purchases	**164.2**	162.0	**272.9**	242.3
Free cash flow	**$ (98.4)**	$ (7.9)	**$ (11.9)**	$ 25.7

Free cash flow generation in the second quarter of fiscal 2012 was $(98.4) million compared to $(7.9) million in the second quarter last year. The $90.5 million decrease in free cash flow from the second quarter last fiscal year was due to an $88.3 million decrease in cash flow from operations, primarily due to a decrease in net earnings, an increase in non-cash working capital, a slight increase in property, equipment and investment property purchases, and was partially offset by an increase in non-cash and other cash items. For the first half of fiscal 2012, free cash flow generation was $(11.9) million compared to $25.7 million last year. The $37.6 million decrease in free cash flow from the first half of last fiscal year was due to a $30.6 million increase in property, equipment and investment property purchases and a $7.0 million reduction in cash flow from operating activities.

CONTROLS AND ACCOUNTING POLICIES

Changes in Accounting Policies

IFRS

The accompanying unaudited, interim consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting" which resulted in changes to accounting policies as compared with the most recent annual consolidated financial statements prepared under previous Canadian GAAP for the 53 weeks ended May 7, 2011. The significant accounting policies set out in Note 3 of the Company's first quarter, unaudited, interim consolidated financial statements as at and for the 13 weeks ended August 6, 2011 have been applied consistently throughout the Company for all periods presented in this MD&A and related unaudited, interim consolidated financial statements, except as noted in the "Quarterly Results of Operations" section of this MD&A.

An explanation of the impact of transition to IFRS on the Company's reported consolidated balance sheets, consolidated statements of earnings, consolidated statements of comprehensive income and consolidated statements of cash flows is provided in Note 21 of the accompanying unaudited, interim consolidated financial statements.

Future Changes in Accounting Policies:

(i) Financial Instruments

In November 2009, the IASB issued IFRS 9, "Financial Instruments", which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement". The replacement is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 is the first phase of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2013.

(ii) Financial Instruments: Disclosures

In October 2010, the IASB issued amendments to IFRS 7, "Financial Instruments: Disclosures", which require increased disclosure for transactions involving the transfer of financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011.

(iii) Deferred Tax: Recovery of Underlying Assets

In December 2010, the IASB issued amendments to IAS 12, “Income Taxes”, which introduce an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. The amendments are effective for annual periods beginning on or after January 1, 2012.

(iv) Consolidated Financial Statements

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

(v) Joint Arrangements

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

(vi) Disclosure of Interests in Other Entities

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

(vii) Fair Value Measurements

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

(viii) Employee Benefits

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

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

Critical Accounting Estimates

The 2011 annual MD&A includes a detailed discussion of various critical accounting estimates management is required to make in the preparation of its financial statements. The following is an update to those Critical Accounting Estimates as a result of the transition to IFRS.

Impairment of Non-Financial Assets

Goodwill and intangibles with indefinite useful lives are reviewed for impairment at least annually by assessing the recoverable amount of each cash generating unit or groups of cash generating units to which the goodwill or the indefinite life intangibles relates. The recoverable amount is the higher of fair value less costs to sell and value in use. When the recoverable amount of the cash generating units is less than the carrying amount an impairment loss is recognized immediately as selling and administrative expenses. Impairment losses related to goodwill and indefinite life intangibles cannot be reversed.

Long-lived tangible and intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount is the higher of fair value less costs to sell and value in use. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit(s) to which the asset belongs. The Company has primarily determined a cash generating unit to be an individual operation or operating unit. Corporate assets such as head offices and distribution centres do not individually generate separate cash inflows and are therefore aggregated for testing with the stores they service. When the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount (or cash generating unit) is reduced to the recoverable amount. An impairment loss is recognized as selling and administrative expenses or cost of sales immediately in net earnings or loss.

Where an impairment loss subsequently reverses, other than related to goodwill, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate, but is limited to the carrying amount that would have been determined if no impairment loss had been recognized in prior periods. A reversal of impairment loss is recognized immediately in net earnings or loss.

In the process of measuring expected future cash flows, management makes assumptions about future growth of profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause significant adjustments to the Company's assets within subsequent financial years.

Pension Benefit Plans and Other Benefit Plans

The cost of the Company's pension benefits for defined contribution plans are expensed at the time active employees are compensated. The cost of defined benefit pension plans and other benefit plans is accrued based on actuarial valuations, which are determined using the projected unit credit 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 plan amendments is recognized as an expense and amortized on a straight-line basis over the average period until the benefits are vested. To the extent that increases in the obligation related to past service have vested immediately following the changes in the original plan, the Company recognizes past service cost immediately.

In measuring its defined benefit liability the Company will recognize all of its actuarial gains and losses immediately into other comprehensive income.

Controls and Procedures

Management of Empire, which includes the Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining internal control over financial reporting ("ICFR") as that term is defined in National Instrument 52-109 "Certificate of Disclosure in Issuers' Annual and Interim Filings". The control framework management used to design and assess the effectiveness of ICFR is The Internal Control Integrated Framework published by the Committee of Sponsoring Organization of the Treadway Commission. There have been no changes in the Company's ICFR during the period beginning August 7, 2011 and ended November 5, 2011 that have materially affected, or are reasonably likely to materially affect, Empire's ICFR.

Related-Party Transactions

The Company rents premises from Crombie REIT. In addition, Crombie REIT provides administrative and management services to the Company pursuant to a management cost sharing agreement, dated March 23, 2006, between a subsidiary of Crombie REIT and ECL Properties Limited, a subsidiary of the Company. The rental payments are at exchange amount which represents the amount negotiated between the parties as part of the lease agreement. The charges incurred for administrative and management services are on a cost recovery basis (billed at the cost incurred by the invoicing party). For the 13 and 26 weeks ended November 5, 2011, the aggregate rental payments to Crombie REIT were $19.3 million and $42.2 million, respectively (13 and 26 weeks ended October 30, 2010 - $17.0 million and $35.7 million). For the 13 and 26 weeks ended November 5, 2011, charges incurred for administrative and management services were $0.3 and $0.9 million, respectively (13 and 26 weeks ended October 30, 2010 - $0.5 million and $0.9 million). The Company has non-interest bearing notes payable to Crombie REIT in the amount of $3.8 million related to the subsidy payments to Crombie REIT pursuant to an omnibus subsidy agreement dated March 23, 2006 between certain subsidiaries of Crombie REIT and ECL Properties Limited.

The Company has provided Crombie REIT with fixed rate second mortgages in the amount of $ nil (October 30, 2010 - $5.8 million). During the quarter ended November 5, 2011 Crombie REIT repaid the second mortgages, in the amount of $5.6 million, in their entirety. The second mortgages had a weighted average interest rate of 5.38 percent with a maturity date of March 2014. For the 13 and 26 weeks ended November 5, 2011, Empire received interest income related to the second mortgages of $0.1 million and $0.2 million, respectively (13 and 26 weeks ended October 30, 2010 – $0.1 and $0.1 million).

During the quarter ended October 30, 2010 the Company sold and leased back ten properties from Crombie REIT. Cash consideration received for the properties was recorded at the fair market value of $95.5 million.

During the quarter ended August 6, 2011 the Company sold three properties to Crombie REIT, two of which were leased back, for net proceeds of $32.0 million, which was fair market value. As part of this transaction, first mortgage loans totalling $8.6 million were paid in full.

On October 20, 2011 Crombie REIT closed a bought-deal public offering of units at a price of $12.85 per unit. In satisfaction of its pre-emptive right with respect to the public offering the Company subscribed for $30.0 million of Class B limited partnership units (which are convertible on a one for one basis into units of Crombie REIT). Consequently, as a result of the Company's subscription of Class B limited partnership units and the conversion of Crombie REIT debentures during the quarter, the Company's interest in Crombie REIT was reduced from 45.9 percent to 44.6 percent.

On October 31, 2011 the Company acquired a property from Crombie REIT for $5.0 million, which management believes is equal to the fair market value of the property. As the property was leased by the Company from Crombie REIT, an additional $2.0 million was paid for the cancellation of the lease, with total cash consideration paid of $7.0 million.

During the quarter ended November 5, 2011 the Company sold and leased back three properties from Crombie REIT. Cash consideration received for the properties was recorded at the fair market value of $24.6 million.

On a fully diluted basis (assuming conversion of all outstanding convertible securities of Crombie REIT) the Company's interest in Crombie REIT would be approximately 40.3 percent.

SUBSEQUENT EVENTS

The Company has entered into sale agreements for four properties. Crombie REIT is the purchaser of three of the properties with an approximate combined sale price of $67.3 million. The fourth property has an approximate sale price of $5.1 million and is to a third party. The Company expects the transactions to close in the third quarter subject to normal due diligence and post closing adjustments.

On December 15, 2011, the Company announced that it will redeem all of its Preferred Shares, Series 2 on January 31, 2012 at a cost of $4.1 million including all dividends accrued and unpaid.

On December 15, 2011 the Company announced an agreement with Shell Canada to purchase approximately 250 retail gas locations in Atlantic Canada and Quebec. It is expected that the network to be acquired will include corporate owned and dealer operated locations and will have annual fuel volumes in excess of 1 billion litres. The transaction is subject to regulatory approval and customary conditions and is expected to close in the Company's fourth quarter. The Company expects to use existing cash balances to finance the transaction.

DESIGNATION OF ELIGIBLE DIVIDENDS

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

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

EMPLOYEE FUTURE BENEFIT OBLIGATIONS

For the 13 and 26 weeks ended November 5, 2011, the Company contributed $1.5 million and $3.0 million, respectively (13 and 26 weeks ended October 30, 2010 - $1.5 million and $2.9 million) to its registered defined benefit plans. The Company expects to contribute approximately $6.1 million in fiscal 2012 to these plans. The Company continues to assess the impact of the capital markets on its funding requirements.

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

Dated: December 15, 2011
Stellarton, Nova Scotia, Canada

Empire Company Limited
Consolidated Balance Sheets
As At
Unaudited (in millions of Canadian dollars)

	November 5 2011	May 7 2011[1]	October 30 2010[1]
ASSETS			
Current			
Cash and cash equivalents	**$ 500.3**	$ 615.9	$ 532.6
Receivables	**350.5**	346.6	342.3
Inventories (Note 5)	**874.5**	823.0	850.4
Prepaid expenses	**76.6**	69.6	50.6
Loans and other receivables	**45.9**	52.4	49.4
Income taxes receivable	**37.8**	27.4	33.0
Assets held for sale	**77.2**	59.4	24.5
	1,962.8	1,994.3	1,882.8
Loans and other receivables	**71.9**	71.7	80.9
Investments	**13.6**	14.3	11.6
Investments, at equity (Note 6)	**261.6**	212.1	200.0
Other assets	**61.1**	55.3	48.4
Property and equipment	**2,422.2**	2,398.1	2,296.4
Investment property	**76.3**	73.8	91.8
Intangibles	**445.7**	449.2	455.4
Goodwill	**1,191.7**	1,178.4	1,172.6
Deferred tax assets	**31.7**	29.8	27.7
	$ 6,538.6	$ 6,477.0	$ 6,267.6
LIABILITIES			
Current			
Bank indebtedness	**$ 6.0**	$ -	$ -
Accounts payable and accrued liabilities	**1,606.6**	1,623.2	1,550.0
Income taxes payable	**15.2**	27.8	17.5
Provisions (Note 7)	**27.5**	29.9	39.5
Long-term debt due within one year	**238.2**	49.4	57.1
Liabilities relating to assets held for sale	**-**	12.7	-
	1,893.5	1,743.0	1,664.1
Provisions (Note 7)	**37.0**	34.3	32.0
Long-term debt (Note 8)	**860.2**	1,090.3	1,110.9
Other long-term liabilities	**175.2**	138.3	151.3
Employee future benefits obligation (Note 17)	**134.1**	122.3	149.1
Derivative financial liabilities	**6.2**	9.6	13.5
Deferred tax liabilities	**122.7**	135.4	106.1
	3,228.9	3,273.2	3,227.0
SHAREHOLDERS' EQUITY			
Capital stock	**323.4**	323.4	323.3
Contributed surplus	**5.2**	4.7	4.0
Retained earnings	**2,955.9**	2,858.0	2,697.6
Accumulated other comprehensive loss	**(11.3)**	(18.1)	(19.7)
	3,273.2	3,168.0	3,005.2
Minority interest	**36.5**	35.8	35.4
	3,309.7	3,203.8	3,040.6
	$ 6,538.6	$ 6,477.0	$ 6,267.6

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

On Behalf of the Board

(signed) "*Paul Sobey*" — Director

(signed) "*Rob Dexter*" — Director

[1] *In preparing its fiscal 2011 comparative information, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). See Note 21 to these unaudited, interim consolidated financial statements for an explanation of the transition to International Financial Reporting Standards ("IFRS").*

Empire Company Limited
Consolidated Statements of Earnings
Unaudited (in millions of Canadian dollars)

	13 Weeks Ended		26 Weeks Ended	
	November 5 2011	**October 30 2010**(1)(2)	**November 5 2011**	**October 30 2010**(1)(2)
Sales	**$ 4,036.3**	$ 3,904.1	**$ 8,190.5**	$ 7,930.0
Other income (Note 9)	**9.5**	16.0	**15.9**	18.7
Share of earnings from investments, at equity	**7.7**	13.3	**19.4**	29.0
Operating expenses				
Cost of sales	**3,044.1**	2,914.5	**6,171.6**	5,944.0
Selling and administrative expenses	**883.6**	904.2	**1,779.5**	1,770.5
Operating income	**125.8**	114.7	**274.7**	263.2
Finance costs, net (Note 10)	**15.0**	19.2	**31.6**	40.2
Gain on sale of Wajax (Note 4)	**-**	81.3	**-**	81.3
Earnings before income taxes	**110.8**	176.8	**243.1**	304.3
Income taxes	**30.1**	30.7	**65.8**	67.6
Net earnings	**$ 80.7**	$ 146.1	**$ 177.3**	$ 236.7
Earnings for the period attributable to:				
Minority interest	**$ 2.6**	$ 3.2	**$ 10.0**	$ 7.5
Owners of the parent	**78.1**	142.9	**167.3**	229.2
	$ 80.7	$ 146.1	**$ 177.3**	$ 236.7
Earnings per share (Note 11)				
Basic	**$ 1.15**	$ 2.09	**$ 2.46**	$ 3.35
Diluted	**$ 1.15**	$ 2.09	**$ 2.46**	$ 3.35
Weighted average number of common shares outstanding, in millions (Note 11)				
Basic	**67.9**	68.2	**67.9**	68.3
Diluted	**68.0**	68.3	**68.0**	68.4

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

(1) *In preparing its fiscal 2011 comparative information, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. See Note 21 to these unaudited, interim consolidated financial statements for an explanation of the transition to IFRS.*
(2) *Comparative figures (see Note 20).*

Empire Company Limited **Consolidated Statements of Comprehensive Income** **Unaudited (in millions of Canadian dollars)**	*13 Weeks Ended* **November 5 2011**	 **October 30 2010**[(1)]	*26 Weeks Ended* **November 5 2011**	 **October 30 2010**[(1)]
Net earnings	**$ 80.7**	$ 146.1	**$ 177.3**	$ 236.7
Other comprehensive income				
Unrealized gains (losses) on derivatives designated as cash flow hedges (net of income taxes of $(0.1) and $0.1 for the 13 and 26 weeks to date (October 30, 2010 - $(0.6) and $(0.4)))	**0.3**	1.6	**(0.1)**	1.0
Reclassification of losses on derivative instruments designated as cash flow hedges to earnings (net of income taxes of $(0.6) and $(1.2) for the 13 and 26 weeks to date (October 30, 2010 - $(0.6) and $(1.3)))	**1.1**	1.4	**2.4**	2.9
Unrealized gains on available for sale financial assets (net of income taxes of $(0.3) and $(0.2) for the 13 and 26 weeks to date (October 30, 2010 - $(0.1) and $(0.1)))	**1.1**	0.8	**0.8**	0.6
Reclassification of losses on available for sale financial assets to earnings (net of income taxes of $ nil and $ nil for the 13 and 26 weeks to date (October 30, 2010 - $ nil and $ nil))	**0.1**	-	**0.1**	-
Actuarial losses on defined benefit plans (net of income taxes of $6.2 and $13.4 for the 13 and 26 weeks to date (October 30, 2010 - $1.1 and $5.1))	**(18.0)**	(3.0)	**(38.8)**	(14.7)
Share of other comprehensive income of investments, at equity (net of income taxes of $(0.2) and $(0.3) for the 13 and 26 weeks to date (October 30, 2010 - $(0.2) and $(0.4)))	**0.4**	0.6	**0.7**	1.4
Exchange differences on translation of foreign operations	**3.0**	(0.6)	**2.9**	0.2
Total comprehensive income	**$ 68.7**	$ 146.9	**$ 145.3**	$ 228.1
Total comprehensive income for the period attributable to:				
Minority interest	**$ 2.6**	$ 3.2	**$ 10.0**	$ 7.5
Owners of the parent	**66.1**	143.7	**135.3**	220.6
	$ 68.7	$ 146.9	**$ 145.3**	$ 228.1

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

[(1)] *In preparing its fiscal 2011 comparative information, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. See Note 21 to these unaudited, interim consolidated financial statements for an explanation of the transition to IFRS.*

Empire Company Limited **Consolidated Statements of Changes in Shareholders' Equity** **Unaudited (in millions of Canadian dollars)**	**Capital Stock**	**Contributed Surplus**	**Accumulated Other Comprehensive Loss**	**Retained Earnings**	**Total Attributable to Parent**	**Minority Interest**	**Total Equity**
Balance at May 2, 2010[1]	$ 328.0	$ 3.2	$ (25.8)	$ 2,533.4	$ 2,838.8	$ 34.2	$2,873.0
Dividends	-	-	-	(27.3)	(27.3)	-	(27.3)
Employee share options	-	0.8	-	-	0.8	-	0.8
Redemption of capital stock	(4.7)	-	-	(23.0)	(27.7)	-	(27.7)
Capital transactions with special purpose entities	-	-	-	-	-	(6.3)	(6.3)
Transactions with owners	(4.7)	0.8	-	(50.3)	(54.2)	(6.3)	(60.5)
Net earnings	-	-	-	229.2	229.2	7.5	236.7
Other comprehensive income							
Unrealized gains on derivatives designated as cash flow hedges	-	-	1.0	-	1.0	-	1.0
Reclassification of losses on derivative instruments designated as cash flow hedges to earnings	-	-	2.9	-	2.9	-	2.9
Unrealized gains on available for sale financial assets	-	-	0.6	-	0.6	-	0.6
Actuarial losses on defined benefit plans	-	-	-	(14.7)	(14.7)	-	(14.7)
Share of other comprehensive income of investments, at equity	-	-	1.4	-	1.4	-	1.4
Exchange differences on translation of foreign operations	-	-	0.2	-	0.2	-	0.2
Total comprehensive income for the period	-	-	6.1	214.5	220.6	7.5	228.1
Balance at October 30, 2010[1]	$ 323.3	$ 4.0	$ (19.7)	$ 2,697.6	$ 3,005.2	$ 35.4	$3,040.6
Dividends	-	-	-	(27.2)	(27.2)	-	(27.2)
Employee share options	0.1	0.7	-	-	0.8	-	0.8
Capital transactions with special purpose entities	-	-	-	-	-	(1.1)	(1.1)
Transactions with owners	0.1	0.7	-	(27.2)	(26.4)	(1.1)	(27.5)
Net earnings	-	-	-	171.4	171.4	1.5	172.9
Other comprehensive income							
Unrealized losses on derivatives designated as cash flow hedges	-	-	(0.7)	-	(0.7)	-	(0.7)
Reclassification of losses on derivative instruments designated as cash flow hedges to earnings	-	-	2.6	-	2.6	-	2.6
Unrealized gains on available for sale financial assets	-	-	0.4	-	0.4	-	0.4
Actuarial gains on defined benefit plans	-	-	-	16.2	16.2	-	16.2
Share of other comprehensive income of investments, at equity	-	-	1.1	-	1.1	-	1.1
Exchange differences on translation of foreign operations	-	-	(1.8)	-	(1.8)	-	(1.8)
Total comprehensive income for the period	-	-	1.6	187.6	189.2	1.5	190.7
Balance at May 7, 2011[1]	$ 323.4	$ 4.7	$ (18.1)	$ 2,858.0	$ 3,168.0	$ 35.8	$3,203.8

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

[1] *In preparing its fiscal 2011 comparative information, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. See Note 21 to these unaudited, interim consolidated financial statements for an explanation of the transition to IFRS.*

Empire Company Limited
Consolidated Statements of Changes in Shareholders' Equity
Unaudited (in millions of Canadian dollars)

	Capital Stock	Contributed Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Total Attributable to Parent	Minority Interest	Total Equity
Balance at May 7, 2011[(1)]	$ 323.4	$ 4.7	$ (18.1)	$ 2,858.0	$ 3,168.0	$ 35.8	$3,203.8
Dividends	-	-	-	(30.6)	(30.6)	-	(30.6)
Employee share options	-	0.5	-	-	0.5	-	0.5
Capital transactions with special purpose entities	-	-	-	-	-	(9.3)	(9.3)
Transactions with owners	-	0.5	-	(30.6)	(30.1)	(9.3)	(39.4)
Net earnings	-	-	-	167.3	167.3	10.0	177.3
Other comprehensive income							
Unrealized losses on derivatives designated as cash flow hedges	-	-	(0.1)	-	(0.1)	-	(0.1)
Reclassification of losses on derivative instruments designated as cash flow hedges to earnings	-	-	2.4	-	2.4	-	2.4
Unrealized gains on available for sale financial assets	-	-	0.8	-	0.8	-	0.8
Reclassification of losses on available for sale financial assets to earnings	-	-	0.1	-	0.1	-	0.1
Actuarial losses on defined benefit plans	-	-	-	(38.8)	(38.8)	-	(38.8)
Share of other comprehensive income of investments, at equity	-	-	0.7	-	0.7	-	0.7
Exchange differences on translation of foreign operations	-	-	2.9	-	2.9	-	2.9
Total comprehensive income for the period	-	-	6.8	128.5	135.3	10.0	145.3
Balance at November 5, 2011	$ 323.4	$ 5.2	$ (11.3)	$ 2,955.9	$ 3,273.2	$ 36.5	$3,309.7

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

[(1)] In preparing its fiscal 2011 comparative information, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. See Note 21 to these unaudited, interim consolidated financial statements for an explanation of the transition to IFRS.

Empire Company Limited Consolidated Statements of Cash Flows Unaudited (in millions of Canadian dollars)	*13 Weeks Ended* November 5 2011	 October 30 2010(1)	*26 Weeks Ended* November 5 2011	 October 30 2010(1)
Operations				
Net earnings	**$ 80.7**	$ 146.1	**$ 177.3**	$ 236.7
Non-cash and other cash items (Note 12)	**122.9**	61.7	**277.2**	234.5
Net change in non-cash working capital	**(107.7)**	(21.2)	**(101.4)**	(92.9)
Income taxes paid	**(30.1)**	(32.5)	**(92.1)**	(110.3)
Cash flows from operating activities	**65.8**	154.1	**261.0**	268.0
Investment				
Net increase in investments	**(30.5)**	(30.0)	**(32.2)**	(30.1)
Net proceeds from sale of Wajax	**-**	115.3	**-**	115.3
Property, equipment and investment property purchases	**(164.2)**	(162.0)	**(272.9)**	(242.3)
Proceeds on disposal of property, equipment and investment property	**29.5**	118.7	**81.5**	144.1
Additions to intangibles	**(10.8)**	(10.9)	**(14.8)**	(20.6)
Loans and other receivables	**21.3**	12.9	**6.3**	29.1
(Increase) decrease in other assets	**(4.0)**	1.1	**(11.3)**	2.9
Business acquisitions (Note 14)	**(13.5)**	(4.1)	**(19.9)**	(8.7)
Interest received	**4.4**	4.5	**9.0**	8.6
Decrease in minority interest	**(1.8)**	(2.6)	**(9.3)**	(6.3)
Cash flows (used in) from investing activities	**(169.6)**	42.9	**(263.6)**	(8.0)
Financing				
Increase (decrease) in bank indebtedness	**1.0**	(21.1)	**6.0**	(4.1)
Issue of long-term debt	**28.6**	19.7	**43.6**	179.0
Repayment of long-term debt	**(27.4)**	(94.5)	**(100.0)**	(212.9)
Repurchase of Non-Voting Class A shares	**-**	(27.7)	**-**	(27.7)
Interest paid	**(20.5)**	(20.3)	**(32.0)**	(31.7)
Dividends paid, common shares	**(15.3)**	(13.6)	**(30.6)**	(27.3)
Cash flows used in financing activities	**(33.6)**	(157.5)	**(113.0)**	(124.7)
(Decrease) increase in cash and cash equivalents	**(137.4)**	39.5	**(115.6)**	135.3
Cash and cash equivalents, beginning of period	**637.7**	493.1	**615.9**	397.3
Cash and cash equivalents, end of period	**$ 500.3**	$ 532.6	**$ 500.3**	$ 532.6

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

(1) In preparing its fiscal 2011 comparative information, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. See Note 21 to these unaudited, interim consolidated financial statements for an explanation of the transition to IFRS.

1. Reporting entity

Empire Company Limited ("Empire" or the "Company") is a diversified Canadian company whose key businesses include food retailing and corporate investment activities. The Company is incorporated in Canada and the address of its registered office of business is 115 King Street, Stellarton, Nova Scotia, B0K 1S0, Canada. The unaudited, interim consolidated financial statements for the period ended November 5, 2011 include the accounts of Empire, all subsidiary companies, including 100 percent owned Sobeys Inc. ("Sobeys"), and certain enterprises considered special purpose entities ("SPEs"), where control is achieved on a basis other than through ownership of a majority of voting rights. Investments in which the Company has significant influence and investments in significant joint ventures are accounted for using the equity method. The Company's fiscal year ends on the first Saturday in May. As a result, the fiscal year is usually 52 weeks but results in a duration of 53 weeks every five to six years.

2. Basis of preparation

Presentation of financial statements

These unaudited, interim consolidated financial statements have been prepared on the basis of IFRS in effect or available for early adoption at the Company's first IFRS annual reporting date, May 5, 2012. Standards that will be effective or available for voluntary early adoption in the annual financial statements for the year ending May 5, 2012 are subject to change and to the issue of additional interpretations, and therefore cannot be determined with certainty. Accordingly, assumptions have been made about the accounting policies expected to be adopted when the first annual IFRS financial statements are prepared as at May 5, 2012.

The preparation of these unaudited, interim consolidated financial statements in accordance with International Accounting Standards ("IAS") 34, "Interim Financial Reporting", resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared previously under Canadian GAAP for the 53 weeks ended May 7, 2011. The significant accounting policies set out in Note 3 of the Company's first quarter, unaudited, interim consolidated financial statements as at and for the 13 weeks ended August 6, 2011 ("Q1 interim consolidated financial statements") have been applied consistently throughout the Company and to all periods presented in these unaudited, interim consolidated financial statements. These unaudited, interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the 53 weeks ended May 7, 2011, the transition to IFRS as detailed in Note 21 of these unaudited, interim consolidated financial statements, and the transition to IFRS and selected annual disclosures as detailed in Notes 18 and 19 of the Q1 interim consolidated financial statements except for the changes to presentation as explained in Note 20 of these Q2 interim consolidated financial statements.

Statement of compliance

These unaudited, interim consolidated financial statements have been prepared in accordance with IAS 34. Accordingly, certain information and note disclosures normally included in annual consolidated financial statements have been omitted or condensed. These unaudited, interim consolidated financial statements have been prepared adopting IFRS 1, "First-time Adoption of International Financial Reporting Standards", as the interim period presented is part of the first fiscal year ending May 5, 2012 for which the Company will issue IFRS financial statements.

An explanation of how the transition to IFRS has affected the Company's reported consolidated balance sheets, consolidated statements of earnings, consolidated statements of comprehensive income and consolidated statements of cash flows is provided in Note 21.

The unaudited, interim consolidated financial statements were authorized for issue by the Board of Directors on December 15, 2011.

3. Summary of significant accounting policies

(a) Basis of consolidation

The financial statements for the Company include the accounts of the Company and all of its subsidiary undertakings drawn up to the reporting date. Subsidiaries, including SPEs, are all entities over which the Company has the power to control the financial and operating policies so as to benefit from its activities. All subsidiaries have a reporting date within five weeks of the Company's reporting date. Where necessary, adjustments have been made to reflect transactions between the reporting dates of the Company and its subsidiaries.

All intercompany transactions, balances, income, and expenses are eliminated in preparing the consolidated financial statements.

Earnings or losses and other comprehensive income of subsidiaries acquired or disposed of during the period are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Minority interest represents the portion of a subsidiary's earnings and losses and net assets that is not held by the Company. If losses in a subsidiary applicable to a minority interest exceed the minority interest in the subsidiary's equity, the excess is allocated to the minority interest except to the extent that the majority has a binding obligation and is able to cover the losses.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis, except the following assets and liabilities which are stated at their fair value: derivative financial instruments, financial instruments classified as fair value through profit and loss, customer loyalty and financial instruments classified as available for sale. Certain property, equipment, and investment properties were restated to their fair value at May 2, 2010 when the Company elected to use fair value as deemed cost for certain assets as permitted by IFRS 1.

(c) Use of estimates and judgments

The preparation of consolidated financial statements, in conformity with IFRS, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Certain of these estimates require subjective or complex judgments by management that may be uncertain. Some of these items include the valuation of inventories, goodwill, valuation of asset-backed commercial paper, provisions, impairments, employee future benefits, stock-based compensation, loyalty programs, useful lives of property and equipment and intangibles for purposes of depreciation and amortization and income taxes. Changes to these estimates could materially impact the financial statements. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results could differ from these estimates.

(d) Future accounting policies

(i) Financial instruments

In November 2009, the International Accounting Standards Board ("IASB") issued IFRS 9, "Financial Instruments", which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement". The replacement is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 is the first phase of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2013.

(ii) Financial instruments: disclosures

In October 2010, the IASB issued amendments to IFRS 7, "Financial Instruments: Disclosures", which require increased disclosure for transactions involving the transfer of financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011.

(iii) Deferred tax: recovery of underlying assets

In December 2010, the IASB issued amendments to IAS 12, "Income Taxes", which introduce an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. The amendments are effective for annual periods beginning on or after January 1, 2012.

(iv) Consolidated financial statements

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

(v) Joint arrangements

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

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

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

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

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

4. Sale of Wajax Income Fund

On October 5, 2010, the Company sold its 27.5 percent ownership interest in Wajax Income Fund ("Wajax"). Details of the sale were as follows:

Net proceeds	$ 115.3
Book value	34.0
Gain before income taxes	81.3
Income taxes	5.1
Net gain	$ 76.2

5. Inventories

The cost of inventories recognized as an expense during the 13 and 26 weeks ended November 5, 2011 was $3,027.3 and $6,139.4 respectively (October 30, 2010 - $2,898.1 and $5,910.5). The Company has recorded during the 13 and 26 weeks ended November 5, 2011 $0.6 and $15.0 respectively (October 30, 2010 - $2.0 and $14.6) as an expense for the write-down of inventories below cost to net realizable value for inventories on hand as at November 5, 2011. There were no reversals of inventories written down previously (October 30, 2010 - $ nil).

6. Investments, at equity

The carrying values of the investments, at equity are as follows:

	November 5 2011	**May 7 2011**	**October 30 2010**
Crombie Real Estate Investment Trust	**$ 124.4**	$ 91.0	$ 90.9
Canadian real estate partnerships	**90.8**	88.0	85.6
U.S. real estate partnerships	**39.4**	33.1	23.5
Canadian Digital Cinema Partnership (Note 14)	**7.0**	-	-
Total	**$ 261.6**	$ 212.1	$ 200.0

The fair values of the investments based on a stock exchange are as follows:

	November 5 2011	May 7 2011	October 30 2010
Crombie Real Estate Investment Trust	**$ 443.7**	$ 403.8	$ 393.6

The Canadian and U.S. real estate partnerships and Canadian Digital Cinema Partnership are not publicly listed on a stock exchange and hence published price quotes are not available.

7. Provisions

The provisions carrying amounts are comprised of the following:

November 5, 2011 (26 Weeks Ended)	Lease Contracts	Legal	Other	Total
Opening balance	**$ 32.9**	**$ 7.1**	**$ 24.2**	**$ 64.2**
Provisions made	**7.1**	**1.7**	**6.8**	**15.6**
Provisions used	**(6.9)**	**(1.6)**	**(5.8)**	**(14.3)**
Provisions reversed	**(0.9)**	**(0.3)**	**(0.1)**	**(1.3)**
Change due to discounting	**0.2**	**-**	**0.1**	**0.3**
Closing balance	**$ 32.4**	**$ 6.9**	**$ 25.2**	**$ 64.5**
Current	**$ 10.1**	**$ 6.9**	**$ 10.5**	**$ 27.5**
Non-current	**22.3**	**-**	**14.7**	**37.0**
	$ 32.4	**$ 6.9**	**$ 25.2**	**$ 64.5**

May 7, 2011 (53 Weeks Ended)	Lease Contracts	Legal	Other	Total
Opening balance	$ 20.9	$ 10.8	$ 16.6	$ 48.3
Provisions made	21.0	3.8	21.4	46.2
Provisions used	(6.1)	(5.8)	(12.7)	(24.6)
Provisions reversed	(3.9)	(1.7)	(1.5)	(7.1)
Change due to discounting	1.0	-	0.4	1.4
Closing balance	$ 32.9	$ 7.1	$ 24.2	$ 64.2
Current	$ 9.9	$ 7.1	$ 12.9	$ 29.9
Non-current	23.0	-	11.3	34.3
	$ 32.9	$ 7.1	$ 24.2	$ 64.2

October 30, 2010 (26 Weeks Ended)	Lease Contracts	Legal	Other	Total
Opening balance	$ 20.9	$ 10.8	$ 16.6	$ 48.3
Provisions made	18.2	1.9	12.0	32.1
Provisions used	(2.0)	(0.8)	(3.3)	(6.1)
Provisions reversed	(1.8)	(1.3)	-	(3.1)
Change due to discounting	0.2	-	0.1	0.3
Closing balance	$ 35.5	$ 10.6	$ 25.4	$ 71.5
Current	$ 10.5	$ 10.6	$ 18.4	$ 39.5
Non-current	25.0	-	7.0	32.0
	$ 35.5	$ 10.6	$ 25.4	$ 71.5

Lease contracts
Lease contract provisions are recorded when the expected benefits to be derived by the Company from a contract are lower than the unavoidable costs of meeting the obligations under the contract. The Company records onerous contract provisions for closed store and theatre locations where it has entered into a lease contract. The provision is measured at the lower of the expected cost to terminate the lease and the expected net cost of continuing the contract. The net cost is derived by considering both the lease payment and sublease income received. Once the store or theatre is closed, a liability is recorded to reflect the present value of the expected liability associated with any lease contract and other contractually obligated costs. Discounting of provisions resulting from lease contracts has been calculated using pre-tax discount rates ranging between 7 and 9 percent.

Legal costs
Legal provisions relate to claims of $6.9 that are outstanding as at November 5, 2011 (May 7, 2011 - $7.1, October 30, 2010 - $10.6) that arose in the ordinary course of business.

Other costs
In accordance with legal and environmental policy requirements the Company has recorded provisions for locations requiring environmental restoration. These provisions primarily relate to decommissioning liabilities recorded for gas station locations owned by the Company at the net present value of the estimated future remediation costs. Discounting of environmental related provisions has been calculated using pre-tax discount rates ranging between 7 and 9 percent.

The Company continues to complete the rationalization of administration functions and has also begun to incur costs associated with the development of a new distribution centre in Terrebonne, Quebec. These provisions relate mainly to severance costs.

The Company has obligations to provide various forms of support to Crombie Real Estate Investment Trust ("Crombie REIT") pursuant to various agreements between the parties. These amounts are included in other provisions.

8. Long-term debt

On June 1, 2010, Sobeys filed a short form prospectus providing for the issuance of up to $500.0 of unsecured medium term notes. On June 7, 2010, Sobeys issued new medium term notes of $150.0, bearing an interest rate of 6.64 percent, maturing on June 7, 2040.

On June 4, 2010, the Company renewed its credit facilities, which were reduced from $650.0 to $450.0, maturing on June 30, 2013. On August 22, 2011, the Company extended the term of its credit facilities to a maturity date of June 30, 2014.

9. Other income

	13 Weeks Ended		26 Weeks Ended	
	November 5 2011	October 30 2010	**November 5 2011**	October 30 2010
Gain on disposal of assets	**$ 1.7**	$ 14.3	**$ 5.1**	$ 17.0
Dilution gains	**7.3**	1.5	**10.0**	1.3
Investment income	**0.5**	0.2	**0.8**	0.4
Total	**$ 9.5**	$ 16.0	**$ 15.9**	$ 18.7

10. Finance costs, net

Finance income and finance costs are reported on a net basis in the consolidated statements of earnings.

	13 Weeks Ended		26 Weeks Ended	
	November 5 2011	**October 30 2010**	**November 5 2011**	**October 30 2010**
Finance income				
Interest income from cash and cash equivalents	**$ 0.9**	$ 0.6	**$ 2.3**	$ 1.1
Finance costs				
Interest expense on financial liabilities measured at amortized cost	**13.7**	15.8	**28.6**	33.3
Fair value (gains) losses on forward exchange contracts	**(0.3)**	0.4	**(0.1)**	0.6
Losses on cash flow hedges reclassified from other comprehensive income	**1.6**	2.0	**3.5**	4.2
Net pension finance costs	**0.9**	1.6	**1.9**	3.2
Total finance costs	**15.9**	19.8	**33.9**	41.3
Finance costs, net	**$ 15.0**	$ 19.2	**$ 31.6**	$ 40.2

11. Earnings per share

Earnings applicable to common shares are comprised of the following:

	13 Weeks Ended		26 Weeks Ended	
	November 5 2011	**October 30 2010**	**November 5 2011**	**October 30 2010**
Earnings before net gain on sale of Wajax	**$ 78.1**	$ 66.7	**$ 167.3**	$ 153.0
Gain on sale of Wajax (net of income taxes of $(5.1) and $(5.1))	**-**	76.2	**-**	76.2
Earnings applicable to common shares	**$ 78.1**	$ 142.9	**$ 167.3**	$ 229.2

Earnings per share is comprised of the following:

	13 Weeks Ended		26 Weeks Ended	
	November 5 2011	**October 30 2010**	**November 5 2011**	**October 30 2010**
Earnings before net gain on sale of Wajax	**$ 1.15**	$ 0.98	**$ 2.46**	$ 2.24
Net gain on sale of Wajax	**-**	1.11	**-**	1.11
Basic earnings per share	**$ 1.15**	$ 2.09	**$ 2.46**	$ 3.35
Earnings before net gain on sale of Wajax	**$ 1.15**	$ 0.98	**$ 2.46**	$ 2.24
Net gain on sale of Wajax	**-**	1.11	**-**	1.11
Diluted earnings per share	**$ 1.15**	$ 2.09	**$ 2.46**	$ 3.35

The weighted average number of outstanding shares as at November 5, 2011 used for basic earnings per share amounted to 67,948,510 (October 30, 2010 - 68,351,403) shares.

The weighted average number of shares for the purpose of diluted earnings per share can be reconciled to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	13 Weeks Ended		26 Weeks Ended	
	November 5 2011	**October 30 2010**	**November 5 2011**	**October 30 2010**
Weighted average number of shares used in basic earnings per share	**67,948,510**	68,244,544	**67,948,510**	68,351,403
Shares deemed to be issued for no consideration in respect of stock-based payments	**95,661**	66,608	**88,027**	55,003
Weighted average number of shares used in diluted earnings per share	**68,044,171**	68,311,152	**68,036,537**	68,406,406

12. Supplementary cash flow information

	13 Weeks Ended		26 Weeks Ended	
	November 5 2011	**October 30 2010**	**November 5 2011**	**October 30 2010**
Non-cash items				
Depreciation	**$ 75.1**	$ 73.8	**$ 151.2**	$ 146.1
Deferred tax provision	**4.3**	(1.6)	**(2.8)**	(5.3)
Amortization of intangibles	**9.4**	9.3	**18.6**	17.9
Impairment of non-financial assets	**0.4**	8.9	**0.7**	12.1
Gain on disposal of assets	**(9.2)**	(15.9)	**(14.2)**	(18.6)
Amortization of deferred items	**0.3**	0.3	**0.6**	0.6
Equity in earnings of other entities, net of dividends received	**(0.9)**	9.2	**2.3**	14.3
Employee future benefits obligation	**0.7**	4.1	**1.5**	6.2
Increase (decrease) in long-term lease obligation	**0.6**	(7.4)	**1.0**	(4.0)
(Decrease) increase in long-term provisions	**(4.2)**	13.6	**2.7**	12.3
Stock-based compensation	**0.2**	0.4	**0.5**	0.8
Gain on sale of Wajax	**-**	(81.3)	**-**	(81.3)
	76.7	13.4	**162.1**	101.1
Cash items				
Interest received	**(4.4)**	(4.5)	**(9.0)**	(8.6)
Interest paid	**20.5**	20.3	**32.0**	31.7
Income taxes paid	**30.1**	32.5	**92.1**	110.3
	46.2	48.3	**115.1**	133.4
Total	**$ 122.9**	$ 61.7	**$ 277.2**	$ 234.5

13. Segmented information

The Board of Directors has determined that the primary segmental reporting format is by business segment, based on the Company's management and internal reporting structure. The Company operates principally in two business segments: food retailing and investments and other operations. The food segment consists of distribution of food products in Canada. Inter-segment transactions are carried out at market prices.

Segment results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Each of these operating segments is managed separately as each of these segments requires different technologies and other resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices. The measurement policies the Company uses for segment reporting under IFRS 8, “Operating Segments”, are the same as those used in its consolidated financial statements.

No asymmetrical allocations have been applied between segments.

The sales and operating income generated by each of the group's business segments are summarized as follows:

	13 Weeks Ended		26 Weeks Ended	
	November 5 2011	**October 30 2010**	**November 5 2011**	**October 30 2010**
Segmented sales				
Food retailing	**$ 3,983.8**	$ 3,853.2	**$ 8,089.9**	$ 7,828.5
Investments and other operations	**55.3**	53.2	**106.4**	104.9
	4,039.1	3,906.4	**8,196.3**	7,933.4
Elimination of inter-segment	**2.8**	2.3	**5.8**	3.4
Total	**$ 4,036.3**	$ 3,904.1	**$ 8,190.5**	$ 7,930.0

	13 Weeks Ended(1)		26 Weeks Ended(1)	
	November 5 2011	**October 30 2010**	**November 5 2011**	**October 30 2010**
Segmented operating income				
Food retailing	**$ 109.8**	$ 101.7	**$ 245.2**	$ 235.0
Investments and other operations				
Wajax Income Fund	**-**	5.2	**-**	8.6
Crombie REIT	**4.8**	4.4	**9.6**	8.8
Real estate partnerships	**2.9**	3.7	**10.4**	11.6
Other operations, net of corporate expenses	**8.3**	(0.3)	**9.5**	(0.8)
	16.0	13.0	**29.5**	28.2
Total	**$ 125.8**	$ 114.7	**$ 274.7**	$ 263.2

(1) Certain balances have been reclassified for changes to comparative figures in the current quarter (see Note 20).

	November 5 2011	**May 7 2011**	**October 30 2010**
Total assets by segment			
Food retailing	**$ 6,004.3**	$ 5,964.4	$ 5,749.5
Investments and other operations	**534.3**	512.6	518.1
	$ 6,538.6	$ 6,477.0	$ 6,267.6

Segment operating income can be reconciled to group profit as follows:

	13 Weeks Ended(1)		26 Weeks Ended(1)	
	November 5 2011	**October 30 2010**	**November 5 2011**	**October 30 2010**
Total operating income	**$ 125.8**	$ 114.7	**$ 274.7**	$ 263.2
Finance costs, net	**15.0**	19.2	**31.6**	40.2
Gain on sale of Wajax	**-**	81.3	**-**	81.3
Total	**$ 110.8**	$ 176.8	**$ 243.1**	$ 304.3

(1) Certain balances have been reclassified for changes to comparative figures in the current quarter (see Note 20).

The investments and other operations consists of the investments, at equity in Wajax Income Fund, Crombie REIT, real estate partnerships, and various other corporate operations.

14. Business acquisitions and formations

The Company acquired franchisee and non-franchisee stores and prescription files. The results of these acquisitions have been included in the consolidated financial results of the Company since their acquisition dates, and were accounted for through the use of the purchase method. Goodwill recorded on the acquisition relates to the acquired work force and customer base of the existing store location, along with the synergies expected from combining the efforts of the acquired stores with existing stores.

The following table represents the amounts of identifiable assets from resulting acquisitions for the respective periods:

	13 Weeks Ended		26 Weeks Ended	
	November 5 2011	October 30 2010	**November 5 2011**	October 30 2010
Stores				
Inventories	**$ 1.9**	$ 2.4	**$ 3.0**	$ 5.9
Property and equipment	**1.8**	-	**3.1**	-
Intangibles	**0.2**	1.5	**0.3**	2.5
Goodwill	**9.4**	-	**13.3**	-
Other assets	**0.2**	0.2	**0.2**	0.3
Cash consideration	**$ 13.5**	$ 4.1	**$ 19.9**	$ 8.7

The businesses acquired had sales of $16.7 and $24.7 and losses of $0.9 and $1.2 for the 13 and 26 weeks ended November 5, 2011 respectively.

If these businesses had all been acquired on May 8, 2011, for the 13 and 26 weeks ended November 5, 2011 sales for the Company from these businesses would have been $29.1 and $34.5 and net loss would have been $2.3 and $2.8 respectively.

Canadian Digital Cinema Partnership
During the first quarter of fiscal 2012, the Company formed Canadian Digital Cinema Partnership (“CDCP”), a joint venture with Cineplex Inc. (“Cineplex”). The costs of implementing digital projection systems in the venturers' theatres will be funded by CDCP, through a separate credit facility, which is non-recourse to the venturers, and the collection of virtual print fees from distributors.

Empire transferred digital projectors valued at $7.6 in exchange for a 21.8 percent interest in CDCP. Cineplex and Empire each have 50 percent of the voting rights of CDCP. Empire accounts for its investment in CDCP using the equity method.

The digital projection systems leased from CDCP will replace most of Empire's remaining 35 millimeter projection systems and allow Empire to add additional 3D screens to the circuit.

15. Related party transactions

Related party transactions are with Crombie REIT. The Company holds a 44.6 percent ownership interest and accounts for its investment using the equity method.

During the quarter ended October 30, 2010, the Company sold and leased back ten properties from Crombie REIT. Cash consideration received for the properties was recorded at the exchange amount of $95.5, resulting in a pre-tax gain of $11.3, which was recognized in the consolidated statements of earnings.

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

On October 20, 2011, Crombie REIT closed a bought-deal public offering of units at a price of $12.85 per unit. In satisfaction of its pre-emptive right with respect to the public offering, the Company subscribed for $30.0 of Class B units (which are convertible on a one for one basis into units of Crombie REIT). Consequently, as a result of the Company's subscription of Class B units and the conversion of Crombie REIT debentures during the quarter, the Company's interest in Crombie REIT was reduced from 45.9 to 44.6 percent.

On October 31, 2011, the Company acquired a property from Crombie REIT for $5.0, which management believes is equal to the fair market value of the property. As the property was leased by the Company from Crombie REIT, an additional $2.0 was paid for the cancellation of the lease and recognized in the consolidated statements of earnings, with total cash consideration paid of $7.0.

During the quarter ended November 5, 2011, the Company sold and leased back three properties from Crombie REIT. Cash consideration received for the properties was recorded at the exchange amount of $24.6, resulting in a pre-tax gain of $2.1, which has been recognized in the consolidated statements of earnings.

During the quarter ended November 5, 2011, fixed rate secured mortgages provided to Crombie REIT in the amount of $5.6 were repaid in their entirety.

16. Contingent liabilities

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

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

17. Employee future benefits

During the second quarter of fiscal 2012, the net employee future benefits expense reported in net earnings was $7.9 (October 30, 2010 - $8.7). For the 26 weeks ended November 5, 2011 it was $16.2 (October 30, 2010 - $17.4). Actuarial losses before taxes on defined benefit pension plans for the 13 and 26 weeks ended November 5, 2011 were $24.3 and $52.2 respectively (October 30, 2010 - $4.1 and $19.8). These losses have been recognized in other comprehensive income.

18. Stock-based compensation

Deferred share units

Members of the Board of Directors may elect to receive all or any portion of their fees in deferred share units (“DSUs”) in lieu of cash. The number of DSUs received is determined by the market value of the Company’s Non-Voting Class A shares on each directors’ fee payment date. Additional DSUs are received as dividend equivalents. DSUs cannot be redeemed for cash until the holder is no longer a director of the Company. The redemption value of a DSU equals the market value of an Empire Non-Voting Class A share at the time of redemption. On an ongoing basis, the Company values the DSU obligation at the current market value of a corresponding number of Non-Voting Class A shares and records any increase in the DSU obligation as selling and administrative expenses on the consolidated statements of earnings. At November 5, 2011 there were 112,285 (October 30, 2010 - 113,605) DSUs outstanding. During the 13 and 26 weeks ended November 5, 2011, the compensation expense was $0.6 and $1.2 respectively (October 30, 2010 - $0.5 and $1.1).

Stock option plan

During the first quarter, the Company granted an additional 73,247 options under the stock option plan for employees of the Company whereby options are granted to purchase Non-Voting Class A shares. These options allow holders to purchase Non-Voting Class A shares at $54.40 per share and expire in June 2019. The options vest over four years. These options have been treated as stock-based compensation.

The compensation cost relating to the 13 and 26 weeks ended November 5, 2011 was $0.2 and $0.5 respectively (October 30, 2010 - $0.4 and $0.8) with amortization of the cost over the vesting period. The total increase in contributed surplus in relation to the stock option compensation cost was $0.5 (October 30, 2010 - $0.8). The compensation cost was calculated using the Black-Scholes model with the following assumptions:

Expected life	5.25 years
Risk-free interest rate	2.34%
Expected volatility	20.0%
Dividend yield	1.65%

19. Subsequent events

The Company has entered into sale agreements for four properties. Crombie REIT is the purchaser of three of the properties with an approximate combined sale price of $67.3. The fourth property has an approximate sale price of $5.1 and is to a third party. The Company expects the transactions to close in the third quarter subject to normal due diligence and post closing adjustments.

On December 15, 2011, the Company announced that it will redeem all of its Preferred Shares, Series 2 on January 31, 2012 at a cost of $4.1 including all dividends accrued and unpaid.

On December 15, 2011 the Company announced an agreement with Shell Canada to purchase approximately 250 retail gas locations in Atlantic Canada and Quebec. It is expected that the network to be acquired will include corporate owned and dealer operated locations and will have annual fuel volumes in excess of 1 billion litres. The transaction is subject to regulatory approval and customary conditions and is expected to close in the Company's fourth quarter. The Company expects to use existing cash balances to finance the transaction.

20. Comparative figures

During the quarter, the Company undertook a review of its reporting of certain items of other income and expense, which it had historically reported in its consolidated statements of earnings as capital gains and other items, and has chosen to adopt a new presentation for these items. As a result of this change, the line items of other income and dividend and interest income have been combined and capital gains (losses) and other items has been removed. The impact of this change for the previously reported first quarter ended August 6, 2011 was the removal of capital losses and other items and the reclassification of $1.5, resulting in a decrease in other income of $0.6, and an increase in selling and administrative expenses of $0.9. For the 13 and 26 weeks ended October 30, 2010, $21.5 previously reported as store and distribution centre closure costs within capital gains (losses) and other items has been reclassified as selling and administrative expenses. The remaining amount of $81.3 related to a gain on sale of Wajax, a significant and non-recurring item. The change in presentation had no affect on previously reported net earnings or earnings per share.

21. Explanation of transition to IFRS

The Company's financial statements for the year ending May 5, 2012 will be the first audited, annual consolidated financial statements in accordance with IFRS. For the impact of conversion to IFRS on the opening balance sheet date of May 2, 2010, including first time adoption exemptions applied, please refer to Note 18 of the Q1 interim consolidated financial statements.

The significant accounting policies set out in Note 3 of the Q1 interim consolidated financial statements have been applied in preparing the unaudited, interim consolidated financial statements for the 13 and 26 weeks ended November 5, 2011, the comparative information for the 13 and 26 weeks ended October 30, 2010 and the 53 weeks ended May 7, 2011 except for the changes to presentation as explained in Note 20. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position and financial performance and cash flows is set out in the following tables and the accompanying notes. Reconciliations from Canadian GAAP to IFRS of the consolidated balance sheets, consolidated statements of earnings, and consolidated statements of comprehensive income for the respective periods begin on page 54.

IFRS 1 requires an entity to reconcile equity, net earnings, and comprehensive income from Canadian GAAP to IFRS for comparative prior periods. The following represents the reconciliations for the respective periods for equity, net earnings, and comprehensive income.

Reconciliation of Equity

	Note	May 7, 2011	October 30, 2010
Total equity, Canadian GAAP		$ 3,249.0	$ 3,118.7
IFRS reclassifications			
Minority interest	i	35.8	35.4
Capital stock	i	2.9	2.9
Total IFRS reclassifications		38.7	38.3
IFRS adjustments			
Employee future benefits	a	(45.2)	(82.0)
Fair value as deemed cost	b, c	(32.5)	(34.5)
Impairments	d	(74.4)	(66.6)
Provisions	e	(4.6)	(5.8)
Leases	f	27.5	28.5
Customer loyalty programs	g	(2.1)	(1.3)
Investments, at equity	h	(1.4)	(1.1)
Investment in Crombie REIT	h	53.2	50.6
Presentation changes and other adjustments	i	(5.3)	(5.3)
Financial instruments	j	0.9	1.1
Total IFRS adjustments		(83.9)	(116.4)
Total equity, IFRS		$ 3,203.8	$ 3,040.6

Reconciliation of Net Earnings

	Note	53 Weeks Ended May 7, 2011	13 Weeks Ended October 30, 2010	26 Weeks Ended October 30, 2010
Net earnings, Canadian GAAP		$ 369.5	$ 132.8	$ 214.4
IFRS reclassifications				
Minority interest	i	9.0	3.2	7.5
IFRS adjustments				
Employee future benefits	a	21.6	0.5	1.0
Fair value as deemed cost	b, c	2.9	0.5	0.9
Impairments	d	(6.0)	0.5	1.8
Provisions	e	1.0	(0.2)	(0.2)
Leases	f	23.1	21.2	24.1
Customer loyalty programs	g	(0.7)	0.1	0.1
Investments, at equity	h	0.1	0.5	0.4
Investment in Crombie REIT	h	(10.4)	(12.9)	(13.0)
Presentation changes and other adjustments	i	(0.1)	-	(0.1)
Financial instruments	j	(0.4)	(0.1)	(0.2)
Total IFRS adjustments		31.1	10.1	14.8
Net earnings, IFRS		$ 409.6	$ 146.1	$ 236.7

Reconciliation of Comprehensive Income

	Note	53 Weeks Ended May 7, 2011	13 Weeks Ended October 30, 2010	26 Weeks Ended October 30, 2010
Comprehensive income, Canadian GAAP		$ 377.2	$ 136.6	$ 220.5
IFRS reclassifications		9.0	3.2	7.5
IFRS adjustments				
Adjustments to net earnings		31.1	10.1	14.8
Employee future benefits	a	1.5	(3.0)	(14.7)
Total IFRS adjustments		32.6	7.1	0.1
Comprehensive income, IFRS		$ 418.8	$ 146.9	$ 228.1

Explanatory notes for reconciliations of equity, net earnings, comprehensive income, and balance sheet items

(a) Employee future benefits
Under Canadian GAAP, all past service costs are generally amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendment, or a shorter period. Under IFRS, vested past service costs are to be immediately expensed while unvested past service costs are amortized on a straight-line basis until the benefits become vested.

As a direct result of the policy differences between Canadian GAAP and IFRS, the expense calculated for defined benefit pension plans was lower under IFRS for the 53 weeks ended May 7, 2011 and the 13 and 26 weeks ended October 30, 2010.

Subsequent to the IFRS transition date, the Company adopted the policy to recognize actuarial gains and losses directly into other comprehensive income as they occur. This has resulted in adjustments to comprehensive income for the 53 weeks ended May 7, 2011 and the 13 and 26 weeks ended October 30, 2010.

The impact results in the following changes:

Consolidated balance sheets	May 7, 2011	October 30, 2010
Decrease in other assets	$ (60.4)	$ (60.8)
Increase in deferred tax assets	0.2	0.7
Increase in other long-term liabilities	(7.0)	(28.4)
Decrease (increase) in employee future benefits obligations	7.7	(20.5)
Decrease in deferred tax liabilities	14.3	27.0
Net change in retained earnings and equity	$ (45.2)	$ (82.0)

Consolidated statements of earnings	53 Weeks Ended May 7, 2011	13 Weeks Ended October 30, 2010	26 Weeks Ended October 30, 2010
Decrease in selling and administrative expenses	$ 29.4	$ 0.6	$ 1.3
Increase in income taxes	(7.8)	(0.1)	(0.3)
Net change in earnings	$ 21.6	$ 0.5	$ 1.0

Consolidated statements of comprehensive income	53 Weeks Ended May 7, 2011	13 Weeks Ended October 30, 2010	26 Weeks Ended October 30, 2010
Net change in earnings	$ 21.6	$ 0.5	$ 1.0
Actuarial gains (losses) on defined benefit pension plans	1.5	(3.0)	(14.7)
Net change in comprehensive income	$ 23.1	$ (2.5)	$ (13.7)

(b) Property and equipment
The Company has opted to utilize the IFRS 1 election to record certain property and equipment at a deemed cost equal to the asset's fair value.

Additional adjustments to cost of sales and selling and administrative expenses were required for the 53 weeks ended May 7, 2011 and the 13 and 26 weeks ended October 30, 2010 to add back the depreciation taken under Canadian GAAP for assets that utilized the IFRS 1 election at May 2, 2010.

The impact results in the following changes:

Consolidated balance sheets	May 7, 2011	October 30, 2010
Decrease in property and equipment	$ (34.3)	$ (36.6)
Increase in deferred tax assets	5.8	6.3
Decrease in deferred tax liabilities	1.7	1.8
Net change in retained earnings and equity	$ (26.8)	$ (28.5)

Consolidated statements of earnings	53 Weeks Ended May 7, 2011	13 Weeks Ended October 30, 2010	26 Weeks Ended October 30, 2010
Increase in other income	$ 0.2	$ -	$ -
Decrease in cost of sales	3.3	0.6	1.2
Decrease in selling and administrative expenses	0.1	-	-
Increase in income taxes	(1.0)	(0.1)	(0.3)
Net change in earnings	$ 2.6	$ 0.5	$ 0.9

(c) Investment property

Under Canadian GAAP, all land and building assets are included within property and equipment on the balance sheet. Under IFRS, any property which is held to earn rental income or is held for capital appreciation is required to be classified separately.

As a result, there were reclassifications between property and equipment and investment property of $80.8 as at May 7, 2011 and $99.1 as at October 30, 2010.

The Company has also opted to utilize the IFRS 1 election to record certain investment properties at a deemed cost equal to the properties' fair value. Additional adjustments to selling and administrative expenses were required for the 53 weeks ended May 7, 2011 and the 13 and 26 weeks ended October 30, 2010 to add back the depreciation taken under Canadian GAAP for assets that utilized the IFRS 1 election at May 2, 2010.

The impact results in the following changes:

Consolidated balance sheets	May 7, 2011	October 30, 2010
Decrease in property and equipment	$ (80.8)	$ (99.1)
Increase in investment property	73.8	91.8
Decrease in deferred tax liabilities	1.3	1.3
Net change in retained earnings and equity	$ (5.7)	$ (6.0)

Consolidated statements of earnings	53 Weeks Ended May 7, 2011	13 Weeks Ended October 30, 2010	26 Weeks Ended October 30, 2010
Decrease in selling and administrative expenses	$ 0.3	$ -	$ -
Net change in earnings	$ 0.3	$ -	$ -

(d) Impairment

Grouping of assets for impairment purposes are at a lower level under IFRS than under Canadian GAAP. IFRS tests asset groups for impairment at the independent cash generating unit level based on generation of cash inflows, which the Company has determined to be primarily an individual store or theatre. The change in level of impairment testing has resulted in an increase in the write down of assets at the date of transition to IFRS and for the 53 weeks ended May 7, 2011 and the 13 and 26 weeks ended October 30, 2010.

Additional adjustments to selling and administrative expenses were required for the 53 weeks ended May 7, 2011 and the 13 and 26 weeks ended October 30, 2010 to add back the depreciation taken under Canadian GAAP for assets that are now impaired under IFRS.

Empire completed a goodwill impairment analysis upon conversion to IFRS, May 2, 2010, and for the 53 weeks ended May 7, 2011 and no impairment was recorded.

The impact results in the following changes:

Consolidated balance sheets	May 7, 2011	October 30, 2010
Decrease in income taxes receivable	$ (2.4)	$ (1.0)
Decrease in property and equipment	(98.6)	(89.1)
Decrease in intangibles	(4.5)	(4.7)
Increase in deferred tax assets	11.5	8.9
Increase in income taxes payable	(0.1)	-
Decrease in other long-term liabilities	1.5	2.0
Decrease in deferred tax liabilities	18.2	17.3
Net change in retained earnings and equity	$ (74.4)	$ (66.6)

Consolidated statements of earnings	53 Weeks Ended May 7, 2011	13 Weeks Ended October 30, 2010	26 Weeks Ended October 30, 2010
Increase in other income	$ 3.9	$ 2.2	$ 2.2
Increase in cost of sales	(9.6)	-	-
(Increase) decrease in selling and administrative expenses	(1.1)	(0.8)	0.8
Decrease (increase) in income taxes	0.8	(0.9)	(1.2)
Net change in earnings	$ (6.0)	$ 0.5	$ 1.8

(e) Provisions
Under IFRS, provisions must be separately classified on the consolidated balance sheets. As a result, provision line items have been added to the consolidated balance sheets for both current and non-current provisions.

The Company has recorded provisions for any liabilities with uncertain timing and/or amounts for which it is probable that an outflow of resources will be required to settle the obligation. Provisions have been recorded and disclosed by category (Note 7).

Provision adjustments were not significant to the consolidated statements of earnings throughout fiscal 2011.

The impact results in the following changes:

Consolidated balance sheets	May 7, 2011	October 30, 2010
Increase in receivables	$ -	$ 0.8
Decrease in property and equipment	(0.4)	(0.4)
Increase in deferred tax assets	0.7	1.3
Decrease in accounts payable and accrued liabilities	53.7	58.5
Increase in current provisions	(29.9)	(39.5)
Decrease in long-term debt due within one year	0.3	0.2
Increase in non-current provisions	(34.3)	(32.0)
Decrease in long-term debt	2.6	2.4
Decrease in other long-term liabilities	1.6	1.7
Decrease in deferred tax liabilities	1.1	1.2
Net change in retained earnings and equity	$ (4.6)	$ (5.8)

Consolidated statements of earnings	53 Weeks Ended May 7, 2011	13 Weeks Ended October 30, 2010	26 Weeks Ended October 30, 2010
Increase in cost of sales	$ -	$ (0.3)	$ (0.3)
Decrease in selling and administrative expenses	2.0	0.3	0.4
Increase in finance costs, net	(0.6)	(0.2)	(0.3)
Increase in income taxes	(0.4)	-	-
Net change in income	$ 1.0	$ (0.2)	$ (0.2)

(f) Leases
Under Canadian GAAP, operating leases of the Company that were sub-leased to a third party or non-SPE franchisee were not recognized on a straight-line basis over the terms of the relevant leases. The rationale for not applying this methodology was that expenses and length of the lease were matched in the sub-lease income and term. Under IFRS, specific guidance exists for similar transactions and due to the legal requirement to pay and receive amounts separately and not settle simultaneously, these transactions must be recorded separately. As a result, a separate asset and liability has been recorded in the consolidated balance sheets as at May 7, 2011 and October 30, 2010 to reflect the lease asset to receive rental payments and lease obligation to make rental payments associated with the transaction.

Transactions where the Company sells and then leases back a property are treated differently under IFRS than Canadian GAAP. Under Canadian GAAP the gains incurred on the sale of the asset are deferred and amortized over the life of the lease subsequently entered. Under IFRS any gains associated with the sale must be recognized immediately if the transaction occurs at fair value unless the sale is to an investment, at equity in which case a portion of the gains would reduce the carrying value of the Company's equity investment. As a result, such gains have been recognized and have reduced the carrying value of the investment, at equity as at the transition date to IFRS and during the 53 weeks ended May 7, 2011 and the 13 and 26 weeks ended October 30, 2010.

Gains recognized during the 53 weeks ended May 7, 2011 and the 13 and 26 weeks ended October 30, 2010 resulted in an increase to net earnings in the consolidated statements of earnings.

Adjustments were also required to selling and administrative expenses during the 53 weeks ended May 7, 2011 and the 13 and 26 weeks ended October 30, 2010 to reverse the amortized gains recognized under Canadian GAAP for gains which were recognized in full under IFRS.

The impact results in the following changes:

Consolidated balance sheets	May 7, 2011	October 30, 2010
Increase in income taxes receivable	$ 0.6	$ -
Increase in other assets	8.9	8.5
Decrease in deferred tax assets	(0.6)	(0.5)
Decrease (increase) in income taxes payable	0.2	(1.0)
Decrease in other long-term liabilities	27.4	29.4
Increase in deferred tax liabilities	(9.0)	(7.9)
Net change in retained earnings and equity	$ 27.5	$ 28.5

Consolidated statements of earnings	53 Weeks Ended May 7, 2011	13 Weeks Ended October 30, 2010	26 Weeks Ended October 30, 2010
Increase in other income	$ 32.3	$ 28.8	$ 32.9
Increase in selling and administrative expenses	(1.2)	(0.3)	(0.2)
Increase in income taxes	(8.0)	(7.3)	(8.6)
Net change in earnings	$ 23.1	$ 21.2	$ 24.1

(g) Customer loyalty programs

IFRS requires a deferred revenue recognition approach for customer loyalty programs with the fair value of the award credits to be recognized as a separate component of the sales transaction. Under Canadian GAAP the Company accounted for customer loyalty programs as an expense, rather than using the deferred revenue recognition approach.

The IFRS consolidated balance sheets have been adjusted to recognize deferred revenue at each reporting period for the Club Sobeys, Club Thrifty Foods and AIR MILES® programs. Adjustments to the consolidated statements of earnings were also required for these programs to separately recognize the redemption costs of the award credits.

The impact results in the following changes:

Consolidated balance sheets	May 7, 2011	October 30, 2010
Increase in income taxes receivable	$ 0.8	$ 0.5
Decrease in other assets	(0.3)	(0.2)
Increase in accounts payable and accrued liabilities	(2.9)	(1.7)
Decrease in income taxes payable	0.3	-
Decrease in deferred tax liabilities	-	0.1
Net change in retained earnings and equity	$ (2.1)	$ (1.3)

Consolidated statements of earnings	53 Weeks Ended May 7, 2011	13 Weeks Ended October 30, 2010	26 Weeks Ended October 30, 2010
Decrease in sales	$ (23.6)	$ (7.2)	$ (13.9)
Decrease in cost of sales	4.2	1.7	1.4
Decrease in selling and administrative expenses	18.2	5.5	12.6
Decrease in income taxes	0.5	0.1	-
Net change in earnings	$ (0.7)	$ 0.1	$ 0.1

(h) Investments, at equity

Certain of the Company's real estate investments that were previously accounted for using the proportionate consolidation method are now accounted for using the equity method under IFRS. As a result of this change, the opening consolidated balance sheets impact was a decrease to cash and cash equivalents, inventories, prepaid expenses, loans and other receivables, property and equipment, bank indebtedness, accounts payable and accrued liabilities, and long-term debt. Other minor adjustments were made to ensure the impact of IFRS transitional adjustments for entities previously equity accounted are also reflected in these amounts.

The impact results in the following changes:

Consolidated balance sheets	**May 7, 2011**	**October 30, 2010**
Decrease in cash and cash equivalents	$ (1.0)	$ (5.0)
Decrease in inventories	(83.1)	(95.8)
Decrease in prepaid expenses	(0.6)	(0.5)
Decrease in current loans and other receivables	(29.3)	(11.2)
Increase in non-current loans and other receivables	-	0.9
Increase in investments, at equity	88.0	85.6
Decrease in property and equipment	(0.1)	(7.3)
Decrease in bank indebtedness	8.1	13.0
Decrease in accounts payable and accrued liabilities	15.9	15.8
Decrease in long-term debt due within one year	-	0.2
Decrease in long-term debt	0.7	3.2
Net change in retained earnings and equity	$ (1.4)	$ (1.1)

Consolidated statements of earnings	**53 Weeks Ended May 7, 2011**	**13 Weeks Ended October 30, 2010**	**26 Weeks Ended October 30, 2010**
Decrease in sales	$ (73.2)	$ (7.6)	$ (22.9)
Decrease in cost of sales	41.7	4.3	11.5
Decrease in selling and administrative expenses	0.2	-	-
Increase in share of earnings from investments, at equity	30.6	3.2	11.0
Decrease in finance costs, net	0.4	0.3	0.4
Increase in capital gains and other items	0.5	0.5	0.5
Increase in income taxes	(0.1)	(0.2)	(0.1)
Net change in earnings	$ 0.1	$ 0.5	$ 0.4

Investment in Crombie REIT and recognition of gains
IFRS allows for the recognition of gains on sales to an investment, at equity equal to the percentage interest held by external investors at the time of each sale. This impacts Empire's investment in Crombie REIT. Previously, under Canadian GAAP the recognition of gains on sales to Crombie REIT were not included in net earnings. Rather the gain reduced the carrying value of the Company's equity investment in Crombie REIT. Under IFRS, only the portion of gains on sales to Crombie REIT equal to the Company's ownership interest is deferred and reduces the carrying value of the Company's investment. Included in the portion of gains recognized is the allowed percentage on gains arising from sale leaseback transactions described in (f) Leases above.

Consolidated balance sheets	**May 7, 2011**	**October 30, 2010**
Increase in investments, at equity	$ 97.3	$ 89.2
Decrease in property and equipment	(7.8)	(7.8)
Increase in other long-term liabilities	(28.2)	(29.0)
Increase in deferred tax liabilities	(8.1)	(1.8)
Net change in retained earnings and equity	$ 53.2	$ 50.6

Consolidated statements of earnings	**53 Weeks Ended May 7, 2011**	**13 Weeks Ended October 30, 2010**	**26 Weeks Ended October 30, 2010**
Decrease in other income	$ (13.8)	$ (16.9)	$ (17.1)
Decrease in selling and administrative expenses	0.8	-	-
(Decrease) increase in share of earnings from investments, at equity	(0.3)	(0.1)	0.1
Decrease in income taxes	2.9	4.1	4.0
Net change in earnings	$ (10.4)	$ (12.9)	$ (13.0)

(i) Presentation changes and other adjustments
Certain presentation differences exist between IFRS and Canadian GAAP. As a result, changes were required to the consolidated balance sheets, consolidated statements of earnings, and consolidated statements of cash flows. The Company also had other minor adjustments that impacted the consolidated balance sheets and consolidated statements of earnings.

Consolidated balance sheets

Under IFRS, the Company is not permitted to report income taxes receivable and payable and deferred tax assets and liabilities on a net basis except under certain circumstances. As a result, income taxes payable and deferred tax assets have been reclassified to their own line items for IFRS reporting. These balances were previously netted with income taxes receivable and deferred tax liabilities respectively under Canadian GAAP.

Deferred tax assets and liabilities are classified as non-current under IFRS, whereas under Canadian GAAP a current and non-current portion was reported. Current deferred tax liabilities have been reclassified to non-current deferred tax liabilities for IFRS reporting.

The Company is required to disclose its derivative financial liabilities as a separate line item on the consolidated balance sheets under IFRS. As a result, derivative financial liabilities have been reclassified to its own line item for IFRS reporting out of other long-term liabilities where it was reported under Canadian GAAP.

Under IFRS, the Company reports minority interest within the equity section of the consolidated balance sheets, whereas under Canadian GAAP it was reported within the liabilities section.

Under IFRS, the Company reports loans receivable under the Company's share purchase plan as non-current loans and other receivables, whereas under Canadian GAAP it was reported as a reduction of capital stock.

The impact of presentation changes and other adjustments results in the following:

Consolidated opening balance sheets	**May 7, 2011**	**October 30, 2010**
Decrease in prepaid expenses	$ (5.0)	$ (5.3)
Increase in income taxes receivable	28.1	16.6
Increase in deferred tax assets	12.2	11.0
Increase in income taxes payable	(28.2)	(16.5)
Decrease in current deferred tax liabilities	46.6	49.1
Decrease in other long-term liabilities	9.6	13.5
Increase in non-current derivative financial liabilities	(9.6)	(13.5)
Increase in non-current deferred tax liabilities	(59.0)	(60.2)
Net change in retained earnings and equity	$ (5.3)	$ (5.3)

Consolidated statements of earnings

Other income is a new line item on the consolidated statements of earnings under IFRS. This line item reports the net gain (loss) on disposal of assets. Previously under Canadian GAAP these amounts were grouped with cost of sales, selling and administrative expenses.

Under IFRS the Company is required to disclose cost of sales and selling and administrative expenses as separate line items on the consolidated statements of earnings. Cost of sales and selling and administrative expenses were reported as a single line item under Canadian GAAP.

Finance costs, net is a new line item on the consolidated statements of earnings under IFRS. This line item includes both finance income and costs. Finance costs, net includes interest income from cash and cash equivalents, fair value gains and losses on other financial assets, interest expense on financial liabilities measured at amortized cost, fair value gains and losses on forward exchange contracts, gains and losses on cash flow hedges reclassified from other comprehensive income, and net pension finance costs.

The impact of presentation changes and other adjustments results in the following:

Consolidated statements of earnings	53 Weeks Ended May 7, 2011	13 Weeks Ended October 30, 2010	26 Weeks Ended October 30, 2010
Increase in sales	$ 24.4	$ 6.9	$ 13.6
Increase in other income	1.9	1.7	0.3
Increase in cost of sales	(6.0)	(1.0)	(2.0)
Increase in selling and administrative expenses	(377.0)	(97.4)	(186.6)
Decrease in depreciation	324.0	79.7	157.3
Decrease in amortization of intangibles	38.1	9.5	18.1
Increase in finance costs, net	(74.8)	(19.2)	(40.1)
Decrease in interest expenses and other financing charges	71.3	17.8	37.4
(Decrease) increase in capital gains and other items	(2.0)	2.0	2.0
Increase in income taxes	-	-	(0.1)
Net change in earnings	$ (0.1)	$ -	$ (0.1)

Consolidated statements of cash flows
New line items were added to the consolidated statements of cash flows for interest received, interest paid, and income taxes paid. Changes to the consolidated statements of cash flows were not material as a result of IFRS.

(j) Financial instruments
Under IFRS, long term liabilities must be discounted using a pre-tax discount rate. As a result, a non-interest bearing note payable has been adjusted to reflect this change.

The impact results in the following changes:

Consolidated opening balance sheet	May 7, 2011	October 30, 2010
Increase in accounts payable and accrued liabilities	$ (0.9)	$ (0.9)
Decrease in long-term debt	1.8	2.0
Net change in retained earnings	$ 0.9	$ 1.1

Consolidated statements of earnings	53 Weeks Ended May 7, 2011	13 Weeks Ended October 30, 2010	26 Weeks Ended October 30, 2010
Increase in finance costs, net	$ (0.4)	$ (0.1)	$ (0.2)
Net change in earnings	$ (0.4)	$ (0.1)	$ (0.2)

Empire Company Limited
Notes to the Unaudited Consolidated Financial Statements
November 5, 2011
(in millions of Canadian dollars)

Restated Consolidated Balance Sheets Under IFRS

	May 7, 2011				October 30, 2010			
	Canadian GAAP	IFRS Reclassifications	IFRS Adjustments	IFRS	Canadian GAAP	IFRS Reclassifications	IFRS Adjustments	IFRS
ASSETS								
Current								
Cash and cash equivalents	$ 616.9	$ -	$ (1.0)	$ 615.9	$ 537.6	$ -	$ (5.0)	$ 532.6
Receivables	346.6	-	-	346.6	341.5	-	0.8	342.3
Inventories	906.1	-	(83.1)	823.0	946.2	-	(95.8)	850.4
Prepaid expenses	75.2	-	(5.6)	69.6	56.4	-	(5.8)	50.6
Loans and other receivables	81.7	-	(29.3)	52.4	60.6	-	(11.2)	49.4
Income taxes receivable	0.3	28.1	(1.0)	27.4	16.9	16.6	(0.5)	33.0
Assets held for sale	-	59.4	-	59.4	-	24.5	-	24.5
	2,026.8	87.5	(120.0)	1,994.3	1,959.2	41.1	(117.5)	1,882.8
Loans and other receivables	68.8	2.9	-	71.7	77.1	2.9	0.9	80.9
Investments	14.3	-	-	14.3	11.6	-	-	11.6
Investments, at equity	26.8	-	185.3	212.1	25.2	-	174.8	200.0
Other assets	107.1	-	(51.8)	55.3	100.9	-	(52.5)	48.4
Property and equipment	2,620.1	-	(222.0)	2,398.1	2,536.7	-	(240.3)	2,296.4
Assets held for realization	59.4	(59.4)	-	-	24.5	(24.5)	-	-
Investment property	-	-	73.8	73.8	-	-	91.8	91.8
Intangibles	453.7	-	(4.5)	449.2	460.1	-	(4.7)	455.4
Goodwill	1,178.4	-	-	1,178.4	1,172.6	-	-	1,172.6
Deferred tax assets	-	11.2	18.6	29.8	-	10.8	16.9	27.7
	$ 6,555.4	$ 42.2	$ (120.6)	$ 6,477.0	$ 6,367.9	$ 30.3	$ (130.6)	$ 6,267.6

Restated Consolidated Balance Sheets Under IFRS (continued)

	May 7, 2011				October 30, 2010			
	Canadian GAAP	IFRS Reclassifications	IFRS Adjustments	IFRS	Canadian GAAP	IFRS Reclassifications	IFRS Adjustments	IFRS
LIABILITIES								
Current								
Bank indebtedness	$ 8.1	$ -	$ (8.1)	$ -	$ 13.0	$ -	$ (13.0)	$ -
Accounts payable and accrued liabilities	1,689.0	-	(65.8)	1,623.2	1,621.7	-	(71.7)	1,550.0
Income taxes payable	-	28.1	(0.3)	27.8	-	16.6	0.9	17.5
Provisions	-	-	29.9	29.9	-	-	39.5	39.5
Long-term debt due within one year	49.7	-	(0.3)	49.4	57.5	-	(0.4)	57.1
Liabilities relating to assets held for sale	12.7	-	-	12.7	-	-	-	-
Deferred tax liabilities	46.6	(46.6)	-	-	49.1	(49.1)	-	-
	1,806.1	(18.5)	(44.6)	1,743.0	1,741.3	(32.5)	(44.7)	1,664.1
Provisions	-	-	34.3	34.3	-	-	32.0	32.0
Long-term debt	1,095.4	-	(5.1)	1,090.3	1,118.5	-	(7.6)	1,110.9
Other long-term liabilities	143.2	(9.6)	4.7	138.3	140.5	(13.5)	24.3	151.3
Employee future benefits obligation	130.0	-	(7.7)	122.3	128.6	-	20.5	149.1
Derivative financial liabilities	-	9.6	-	9.6	-	13.5	-	13.5
Deferred tax liabilities	95.9	57.8	(18.3)	135.4	84.9	59.9	(38.7)	106.1
Minority interest	35.8	(35.8)	-	-	35.4	(35.4)	-	-
	3,306.4	3.5	(36.7)	3,273.2	3,249.2	(8.0)	(14.2)	3,227.0
SHAREHOLDERS' EQUITY								
Capital stock	320.5	2.9	-	323.4	320.4	2.9	-	323.3
Contributed surplus	4.7	-	-	4.7	4.0	-	-	4.0
Retained earnings	2,944.2	-	(86.2)	2,858.0	2,816.3	-	(118.7)	2,697.6
Accumulated other comprehensive loss	(20.4)	-	2.3	(18.1)	(22.0)	-	2.3	(19.7)
	3,249.0	2.9	(83.9)	3,168.0	3,118.7	2.9	(116.4)	3,005.2
Minority interest	-	35.8	-	35.8	-	35.4	-	35.4
	3,249.0	38.7	(83.9)	3,203.8	3,118.7	38.3	(116.4)	3,040.6
	$ 6,555.4	$ 42.2	$ (120.6)	$ 6,477.0	$ 6,367.9	$ 30.3	$ (130.6)	$ 6,267.6

Restated Consolidated Statements of Earnings Under IFRS

	53 Weeks Ended May 7, 2011				13 Weeks Ended October 30, 2010				26 Weeks Ended October 30, 2010			
	Canadian GAAP[1]	IFRS Reclassifications	IFRS Adjustments	IFRS	Canadian GAAP[1]	IFRS Reclassifications	IFRS Adjustments	IFRS	Canadian GAAP[1]	IFRS Reclassifications	IFRS Adjustments	IFRS
Sales	$ 16,029.2	$ 24.4	$ (96.8)	$ 15,956.8	$ 3,912.0	$ 6.9	$ (14.8)	$ 3,904.1	$ 7,953.2	$ 13.6	$ (36.8)	$ 7,930.0
Other income	1.0	1.9	22.6	25.5	0.2	1.7	14.1	16.0	0.4	0.3	18.0	18.7
Share of earnings from investments, at equity	28.8	-	30.3	59.1	10.2	-	3.1	13.3	17.9	-	11.1	29.0
Operating expenses												
Cost of sales	12,010.4	5.9	(39.5)	11,976.8	2,920.0	1.0	(6.5)	2,914.5	5,955.8	2.0	(13.8)	5,944.0
Selling and administrative expenses	3,210.6	377.0	(48.7)	3,538.9	812.0	97.4	(5.2)	904.2	1,598.8	186.6	(14.9)	1,770.5
Depreciation	324.0	(324.0)	-	-	79.7	(79.7)	-	-	157.3	(157.3)	-	-
Amortization of intangibles	38.1	(38.1)	-	-	9.5	(9.5)	-	-	18.1	(18.1)	-	-
Operating income	475.9	5.5	44.3	525.7	101.2	(0.6)	14.1	114.7	241.5	0.7	21.0	263.2
Finance costs, net	-	74.8	0.6	75.4	-	19.2	-	19.2	-	40.1	0.1	40.2
Interest expense and other financing charges	71.3	(71.3)	-	-	17.8	(17.8)	-	-	37.4	(37.4)	-	-
Capital gains and other items[2]	82.8	(2.0)	0.5	81.3	78.8	2.0	0.5	81.3	78.8	2.0	0.5	81.3
Earnings before income taxes and minority interest	487.4	-	44.2	531.6	162.2	-	14.6	176.8	282.9	-	21.4	304.3
Income taxes	108.9	-	13.1	122.0	26.2	-	4.5	30.7	61.0	-	6.6	67.6
Earnings before minority interest	378.5	-	31.1	409.6	136.0	-	10.1	146.1	221.9	-	14.8	236.7
Minority interest	9.0	(9.0)	-	-	3.2	(3.2)	-	-	7.5	(7.5)	-	-
Net earnings	$ 369.5	$ 9.0	$ 31.1	$ 409.6	$ 132.8	$ 3.2	$ 10.1	$ 146.1	$ 214.4	$ 7.5	$ 14.8	$ 236.7
Earnings for the period attributable to:												
Minority interest	$ -	$ 9.0	$ -	$ 9.0	$ -	$ 3.2	$ -	$ 3.2	$ -	$ 7.5	$ -	$ 7.5
Owners of the parent	-	369.5	31.1	400.6	-	132.8	10.1	142.9	-	214.4	14.8	229.2
	$ -	$ 378.5	$ 31.1	$ 409.6	$ -	$ 136.0	$ 10.1	$ 146.1	$ -	$ 221.9	$ 14.8	$ 236.7
Earnings per share												
Basic	$ 5.43			$ 5.88	$ 1.95			$ 2.09	$ 3.14			$ 3.35
Diluted	$ 5.42			$ 5.87	$ 1.94			$ 2.09	$ 3.13			$ 3.35
Weighted average number of common shares outstanding, in millions												
Basic	68.0			68.1	68.1			68.2	68.2			68.3
Diluted	68.2			68.2	68.3			68.3	68.4			68.4

[1] *Certain balances have been reclassified for changes to presentation adopted in the current quarter (see Note 20).*
[2] *Presented as Gain on sale of Wajax in the current consolidated statements of earnings.*

Restated Consolidated Statements of Comprehensive Income Under IFRS

	53 Weeks Ended May 7, 2011				13 Weeks Ended October 30, 2010				26 Weeks Ended October 30, 2010			
	Canadian GAAP	IFRS Reclassifications	IFRS Adjustments	IFRS	Canadian GAAP	IFRS Reclassifications	IFRS Adjustments	IFRS	Canadian GAAP	IFRS Reclassifications	IFRS Adjustments	IFRS
Net earnings	$ 369.5	$ 9.0	$ 31.1	$ 409.6	$ 132.8	$ 3.2	$ 10.1	$ 146.1	$214.4	$ 7.5	$ 14.8	$ 236.7
Other comprehensive income												
Unrealized gains on derivatives designated as cash flow hedges	0.3	-	-	0.3	1.6	-	-	1.6	1.0	-	-	1.0
Reclassification of losses on derivative instruments designated as cash flow hedges to earnings	5.5	-	-	5.5	1.4	-	-	1.4	2.9	-	-	2.9
Unrealized gains on available for sale financial assets	1.0	-	-	1.0	0.8	-	-	0.8	0.6	-	-	0.6
Actuarial gains (losses) on defined benefit pension plans	-	-	1.5	1.5	-	-	(3.0)	(3.0)	-	-	(14.7)	(14.7)
Share of other comprehensive income of investments, at equity	2.5	-	-	2.5	0.6	-	-	0.6	1.4	-	-	1.4
Foreign currency translation adjustment	(1.6)	-	-	(1.6)	(0.6)	-	-	(0.6)	0.2	-	-	0.2
Total comprehensive income	$ 377.2	$ 9.0	$ 32.6	$ 418.8	$ 136.6	$ 3.2	$ 7.1	$ 146.9	$ 220.5	$ 7.5	$ 0.1	$ 228.1
Total comprehensive income for the period attributable to:												
Minority interest	$ -	$ 9.0	$ -	$ 9.0	$ -	$ 3.2	$ -	$ 3.2	$ -	$ 7.5	$ -	$ 7.5
Owners of the parent	377.2	-	32.6	409.8	136.6	-	7.1	143.7	220.5	-	0.1	220.6
	$ 377.2	$ 9.0	$ 32.6	$ 418.8	$ 136.6	$ 3.2	$ 7.1	$ 146.9	$ 220.5	$ 7.5	$ 0.1	$ 228.1

SHAREHOLDER AND 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 & 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

STOCK EXCHANGE LISTING
The Toronto Stock Exchange

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

AVERAGE DAILY TRADING VOLUME (TSX: EMP.A)
81,842

DIVIDEND RECORD AND PAYMENT DATES FOR FISCAL 2012

Record Date	Payment Date
July 15, 2011	July 29, 2011
October 14, 2011	October 31, 2011
January 13, 2012	January 31, 2012
April 13, 2012*	April 30, 2012*

* Subject to the approval by Board of Directors

OUTSTANDING SHARES

As of December 15, 2011	
Non-Voting Class A shares	33,687,747
Class B common shares, voting	34,260,763

TRANSFER AGENT
CIBC Mellon Trust Company
c/o Canadian Stock Transfer Company Inc.
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Rabobank
Royal Bank of Canada
TD Bank Financial Group

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Stewart McKelvey
Halifax, Nova Scotia

AUDITORS
Grant Thornton, LLP
New Glasgow, Nova Scotia

MULTIPLE MAILINGS
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We are committed to ensuring the well-being of our customers, communities and company without compromising the ability of future generations to prosper on the planet that we all share. To learn more about what we are doing to minimize our environmental impact, please visit:

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