# Quarterly Report to Shareholders

Empire Company Limited ("Empire") is a diversified Canadian company headquartered in Stellarton, Nova Scotia. Empire's key businesses are retail food distribution (through 66.1% ownership of Sobeys Inc. ("Sobeys")), real estate (through two wholly-owned operating subsidiaries: Sobey Leased Properties Limited ("SLP"), and Crombie Properties Limited ("Crombie"), including 35.7% ownership of Genstar Development Partnership ("Genstar")), and corporate investment activities and other operations (which includes wholly-owned Empire Theatres Limited ("Empire Theatres")). With over $4.7 billion in assets, Empire employs approximately 34,000 people directly and through its subsidiaries.

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

The Company provided additional details concerning its third quarter results on a conference call held on Wednesday, March 9, 2005. Replay of the call is available on the Company's website (www.empireco.ca).

**Forward-looking Statements**

This quarterly report may include forward-looking statements that are subject to risks, uncertainties and competitive or economic factors that may cause actual results or events to differ materially from the results or events predicted in this discussion. In addition to the risks outlined in our Risk Management section of our fiscal 2004 Annual Report, factors which could cause actual results or events to differ include, but are not limited to: the ability to execute on operating company strategic initiatives; the impact of competition; general economic conditions; interest rate and currency exchange rate fluctuations; conditions affecting the North American equity markets; conditions affecting the growth and development of our real estate property portfolio; the ability of our operating companies to attract and retain quality employees and franchises; labor disruptions; environmental, health and safety issues; technological change; unexpected judicial or regulatory proceedings; and the availability of capital and the associated cost of capital. As a result of these risk factors and others, no guarantee can be given that the results implied by any forward-looking statements will necessarily materialize.

## Letter to Shareholders

On March 9, 2005, Empire announced operating earnings (net earnings before net capital gains and other items) for its third quarter ended January 29, 2005 of $46.3 million ($0.70 per share); an increase of 4.8 percent compared to the $44.2 million ($0.67 per share) reported in the third quarter last year.

Net earnings amounted to $47.7 million or $0.72 per share versus $53.0 million or $0.80 per share in the third quarter last year. Empire realized capital gains, net of tax, on the sale of investments and properties of $1.4 million in the third quarter as compared to a net capital gain realized in the third quarter last year of $8.8 million.

### Third Quarter Highlights

- *Revenue of $2.98 billion, up $180.0 million or 6.4 percent.*
- *Earnings before net capital gains and other items of $46.3 million, up $2.1 million or 4.8 percent over the third quarter last year.*
- *Earnings per share (before net capital gains and other items) of $0.70, an improvement of $0.03 over last year.*
- *Capital gains, net of tax, of $1.4 million in the quarter versus $8.8 million in the third quarter last year.*
- *Net earnings of $47.7 million, a decrease of $5.3 million or 10.0 percent from the $53.0 million reported in the third quarter last year.*

### Financial Performance

Consolidated revenue for the third quarter increased 6.4 percent to $2.98 billion, from $2.80 billion last year. Food distribution operations, through 66.1 percent owned Sobeys, reported revenue of $2.92 billion, an increase of $175.6 million or 6.4 percent over the third quarter last year. Same-store sales increased 3.8 percent. There was modest food price inflation across the country.

During the third quarter, 11 new corporate and franchised stores were opened and another five stores were expanded. At January 29, 2005, Sobeys had 24.4 million square feet of retail space in operation, including all new and acquired stores, a 5.7 percent increase over the prior year.

Real estate operations reported revenue (net of inter-segment revenues) of $43.2 million, an increase of $3.4 million or 8.5 percent over the third quarter last year. Commercial property revenues grew by $1.2 million or 3.8 percent while revenue from residential operations, through our 35.7 percent interest in Genstar, increased by $2.2 million or 28.2 percent.

Consolidated operating income (operating earnings before interest and income taxes) in the third quarter totaled $113.5 million, an increase of $3.1 million or 2.8 percent compared to the third quarter last year.

The food division contributed operating income of $76.4 million, a decrease of $0.7 million or 0.9 percent compared to the third quarter last year. The decline in food distribution operating income reflects a $3.6 million increase in depreciation and amortization charges. The increase in depreciation expense reflects Sobeys' continued investment in its retail stores and supporting infrastructure.

The real estate division contributed operating income of $32.1 million, an improvement of $3.7 million or 13.0 percent against the comparable period last year. Operating income generated from commercial properties increased by $0.4 million or 1.8 percent while operating income from residential operations increased by $3.3 million or 50.0 percent over the third quarter last year.

Trailing (last four quarters) funds from operations for the real estate division was $62.7 million, up 5.0 percent from the four quarter trailing funds from operations of $59.7 million for the same period last year. Funds from operations in the third quarter equaled $17.6 million, a 14.3 percent increase over the prior year.

Interest expense in the third quarter decreased $2.4 million to $20.4 million largely as a result of a reduction in interest expense connected to short-term debt.

Empire's effective income tax rate in the third quarter increased to 33.9 percent compared to 32.0 percent in the third quarter last year.

Realized net capital gains totaled $1.4 million in the third quarter, primarily as a result of selling portfolio investments. The realized net capital gain in the third quarter last year equalled $8.8 million.

Net earnings for the third quarter were $47.7 million, a decrease of $5.3 million from the $53.0 million reported in the third quarter last year.

**Financial Condition**

The financial condition of Empire continues to improve. The ratio of funded debt to capital at the end of the third quarter equalled 40.0 percent versus 41.7 percent at the beginning of the fiscal year. Operating income in the third quarter provided 5.6 times coverage of interest expense compared to 4.8 times coverage in the third quarter last year.

At January 29, 2005, Empire's investment portfolio had a market value of $390.6 million on a cost base of $300.5 million, resulting in an unrealized gain of $90.1 million. This compares to an unrealized gain of $73.5 million at the end of the second quarter.

The purchase of property, equipment and other assets in the third quarter equalled $98.0 million ($244.3 million fiscal year-to-date) as compared to $109.0 million in the same quarter last year ($303.7 million last fiscal year-to-date). Investment in food distribution property and equipment, primarily related to new store development, accounted for $78.3 million of total capital investment in the quarter and $182.6 million fiscal year-to-date. Capital expenditures for the real estate division in the third quarter equalled $6.6 million, reflecting fixed asset additions and improvements to existing commercial properties.

**Dividend Declaration**

The Board of Directors declared a quarterly dividend of $0.12 per share on both the Non-Voting Class A shares and the Class B common shares that will be payable on April 29, 2005, to shareholders of record on April 15, 2005. In addition, the Board declared regular dividends on Empire's outstanding preferred shares.

In conclusion, we are pleased with our consolidated operating results and the progress made to date by each of our operating businesses in executing against their respective plans. With respect to our food division, we continue to be very pleased with same-store and total sales growth. We are confident in our strategy and in our ability to build long-term sustainable growth in value.

Paul D. Sobey
President & Chief Executive Officer

March 9, 2005

## EMPIRE COMPANY LIMITED
## CONSOLIDATED BALANCE SHEETS
(In millions)

| | **January 29 2005 Unaudited** | April 30 2004 Audited *Restated (Note 1)* | January 31 2004 Unaudited *Restated (Note 1)* |
|---|---|---|---|
| **ASSETS** | | | |
| Current | | | |
| Cash and cash equivalents | **$ 158.1** | $ 202.2 | $ 129.5 |
| Receivables | **298.9** | 329.5 | 305.2 |
| Income taxes receivable | **12.5** | - | - |
| Inventories | **543.5** | 483.6 | 513.1 |
| Prepaid expenses | **40.8** | 49.3 | 36.9 |
| Future income taxes | **-** | - | 1.7 |
| | **1,053.8** | 1,064.6 | 986.4 |
| Investments, at cost (quoted market value $291.8; April 30, 2004 $312.6; January 31, 2004 $266.4) | **247.3** | 278.0 | 237.4 |
| Investments, at equity (realizable value $116.0; April 30, 2004 $92.4; January 31, 2004 $78.2) | **70.4** | 60.8 | 60.5 |
| Current assets and marketable investments | **1,371.5** | 1,403.4 | 1,284.3 |
| Property and equipment | **2,348.5** | 2,288.1 | 2,231.7 |
| Other assets (Note 3) | **310.5** | 324.0 | 298.2 |
| Goodwill | **670.4** | 656.9 | 595.2 |
| | **$ 4,700.9** | $ 4,672.4 | $ 4,409.4 |
| **LIABILITIES** | | | |
| Current | | | |
| Bank indebtedness (Note 4) | **$ 176.1** | $ 140.8 | $ 145.2 |
| Accounts payable and accrued liabilities | **1,045.7** | 1,141.2 | 943.2 |
| Income taxes payable | **-** | 7.2 | 9.8 |
| Future income taxes | **42.6** | 46.3 | - |
| Long-term debt due within one year (Note 5) | **242.1** | 81.5 | 77.2 |
| | **1,506.5** | 1,417.0 | 1,175.4 |
| Long-term debt (Note 5) | **701.7** | 903.9 | 887.0 |
| Deferred revenue | **3.8** | 6.6 | 4.8 |
| Employee future benefit obligation | **94.7** | 90.4 | 81.0 |
| Future income taxes | **156.6** | 137.6 | 189.6 |
| Minority interest | **558.3** | 543.9 | 533.0 |
| | **3,021.6** | 3,099.4 | 2,870.8 |
| Contingency (Note 16) | | | |
| **SHAREHOLDERS' EQUITY** | | | |
| Capital stock (Note 6) | **196.8** | 196.7 | 196.2 |
| Retained earnings | **1,483.7** | 1,376.9 | 1,342.4 |
| Cumulative translation adjustment | **(1.2)** | (0.6) | - |
| | **1,679.3** | 1,573.0 | 1,538.6 |
| | **$ 4,700.9** | $ 4,672.4 | $ 4,409.4 |

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

**EMPIRE COMPANY LIMITED**
**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS**
(Unaudited, in millions)

| | 39 Weeks Ended (See Note 14) | |
|---|---|---|
| | **January 29 2005** | January 31 2004 |
| Retained earnings, beginning of period as previously reported | **$ 1,380.7** | $ 1,230.6 |
| Adjustment due to adoption of new accounting standard (Note 1) | **(3.8)** | (3.8) |
| Retained earnings, beginning of period as restated | **1,376.9** | 1,226.8 |
| Net earnings | **132.0** | 132.1 |
| | **1,508.9** | 1,358.9 |
| Refundable taxes recovered | **-** | 5.0 |
| Dividends declared | | |
| Preferred shares | **(0.3)** | (0.3) |
| Common shares | **(23.7)** | (19.8) |
| | **(24.0)** | (20.1) |
| Premium on common shares purchased for cancellation | **(1.2)** | (1.4) |
| Retained earnings, end of period | **$ 1,483.7** | $ 1,342.4 |

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

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

| | 13 Weeks Ended | | 39 Weeks Ended (See Note 14) | |
|---|---|---|---|---|
| | **January 29 2005** | January 31 2004 | **January 29 2005** | January 31 2004 |
| Revenue | **$ 2,978.5** | $ 2,798.5 | **$ 9,075.0** | $ 8,407.6 |
| Cost of sales, selling and administrative expenses | **2,821.5** | 2,647.9 | **8,604.8** | 7,974.5 |
| | **157.0** | 150.6 | **470.2** | 433.1 |
| Depreciation and amortization | **49.0** | 44.0 | **145.3** | 122.7 |
| | **108.0** | 106.6 | **324.9** | 310.4 |
| Investment income (Note 7) | **5.5** | 3.8 | **15.3** | 12.9 |
| Operating income | **113.5** | 110.4 | **340.2** | 323.3 |
| Interest expense | | | | |
| Long-term debt | **19.8** | 20.7 | **60.3** | 65.7 |
| Short-term debt | **0.6** | 2.1 | **3.1** | 4.0 |
| | **20.4** | 22.8 | **63.4** | 69.7 |
| | **93.1** | 87.6 | **276.8** | 253.6 |
| Capital gain (loss) and other items (Note 8) | **1.7** | 11.0 | **(2.3)** | 11.6 |
| Earnings before income taxes and minority interest | **94.8** | 98.6 | **274.5** | 265.2 |
| Income taxes | | | | |
| Current | **19.1** | 17.9 | **79.5** | 73.3 |
| Future | **12.8** | 12.3 | **15.3** | 14.1 |
| | **31.9** | 30.2 | **94.8** | 87.4 |
| Earnings before minority interest | **62.9** | 68.4 | **179.7** | 177.8 |
| Minority interest | **15.2** | 15.4 | **47.7** | 45.7 |
| Net earnings | **$ 47.7** | $ 53.0 | **$ 132.0** | $ 132.1 |
| Earnings per share, basic and diluted (Note 2) | **$ 0.72** | $ 0.80 | **$ 2.00** | $ 2.00 |

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

# EMPIRE COMPANY LIMITED
## CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in millions)

| | 13 Weeks Ended | | 39 Weeks Ended (See Note 14) | |
|---|---|---|---|---|
| | **January 29 2005** | January 31 2004 | **January 29 2005** | January 31 2004 |
| **Operating Activities** | | | | |
| Net earnings | **$ 47.7** | $ 53.0 | **$ 132.0** | $ 132.1 |
| Items not affecting cash (Note 9) | **82.6** | 74.8 | **220.6** | 192.3 |
| Preferred dividends | **(0.1)** | (0.1) | **(0.3)** | (0.3) |
| | **130.2** | 127.7 | **352.3** | 324.1 |
| Net change in non-cash working capital | **8.0** | 1.1 | **(127.5)** | (124.9) |
| Cash flows from operating activities | **138.2** | 128.8 | **224.8** | 199.2 |
| **Investing Activities** | | | | |
| Net decrease in investments | **6.0** | 82.0 | **27.6** | 93.5 |
| Purchase of shares in subsidiary, Sobeys Inc. | **(5.7)** | (12.1) | **(34.9)** | (73.2) |
| Purchase of property, equipment and other assets | **(98.0)** | (109.0) | **(244.3)** | (303.7) |
| Proceeds from sale of property | **7.5** | 5.6 | **29.1** | 17.4 |
| Business acquisitions, net of cash acquired | **(4.8)** | - | **(18.1)** | - |
| Cumulative translation adjustment | **(0.6)** | (0.4) | **(0.6)** | (0.5) |
| Cash flows used in investing activities | **(95.6)** | (33.9) | **(241.2)** | (266.5) |
| **Financing Activities** | | | | |
| Increase (decrease) in bank indebtedness | **7.9** | (34.5) | **35.3** | 45.9 |
| Decrease in construction loans | **-** | (3.8) | **(1.2)** | (2.1) |
| Issue of long-term debt | **13.9** | 4.3 | **25.1** | 10.1 |
| Repayment of long-term debt | **(18.5)** | (21.5) | **(65.5)** | (165.7) |
| Minority interest | **1.1** | 1.5 | **3.0** | 6.0 |
| Issue of Non-Voting Class A shares | **-** | 0.1 | **0.9** | 1.1 |
| Purchase of Non-Voting Class A shares for cancellation | **-** | (1.8) | **(1.6)** | (1.8) |
| Common dividends | **(7.9)** | (6.6) | **(23.7)** | (19.8) |
| Refundable taxes | **-** | 1.6 | **-** | 5.0 |
| Cash flows used in financing activities | **(3.5)** | (60.7) | **(27.7)** | (121.3) |
| Increase (decrease) in cash from continuing operations | **39.1** | 34.2 | **(44.1)** | (188.6) |
| Discontinued operations | **-** | 0.2 | **-** | 1.3 |
| Increase (decrease) in cash and cash equivalents | **39.1** | 34.4 | **(44.1)** | (187.3) |
| Cash and cash equivalents, beginning of period | **119.0** | 95.1 | **202.2** | 316.8 |
| Cash and cash equivalents, end of period | **$ 158.1** | $ 129.5 | **$ 158.1** | $ 129.5 |

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

**EMPIRE COMPANY LIMITED**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**JANUARY 29, 2005**
(Unaudited, in millions, except per share amounts)

## 1. Summary of Significant Accounting Policies

### Interim financial statements

The unaudited interim period consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These interim consolidated financial statements do not include all of the disclosures included in the Company's annual consolidated financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended April 30, 2004, as set out in the 2004 Annual Report.

### Generally accepted accounting principles

The accounting policies used in the preparation of these interim consolidated financial statements conform with those used in the Company's 2004 annual consolidated financial statements except as noted below:

#### a) Sources of generally accepted accounting principles (GAAP)

During fiscal 2004, the Canadian Institute of Chartered Accountants (CICA) introduced Handbook Section 1100, "Generally accepted accounting principles", which deleted the reference to industry practice that had previously constituted a source for Canadian GAAP. The Company had been following industry practice with respect to depreciation and lease accounting. Section 1100 now requires the Company to recognize depreciation of real estate buildings, rental expense and income from tenant leases on a straight-line basis. During the first quarter, the Company has adopted this handbook section prospectively without restatement.

*Depreciation*

The sinking fund method was used to record depreciation of the real estate buildings, calculated as an amount which, compounded annually at the rate of 5%, would have fully amortized the cost of the buildings over their estimated useful lives ranging from 20 to 40 years. Effective May 1, 2004 the straight-line method is now used to record depreciation of the real estate buildings. Depreciation is determined with reference to each rental property's book value, its estimated useful life (not greater than 40 years) and its residual value. Adoption of the straight-line method has resulted in additional depreciation of $0.9 during the first three quarters. An additional $0.3 of depreciation expense will be recorded in the last quarter of the Company's current fiscal year as a result of adopting this policy.

*Real estate leases*

Rental expense was recognized in accordance with the lease agreements with landlords. Effective May 1, 2004 the Company has changed its policy to record real estate lease expense on a straight-line basis. Additional real estate lease expense of $1.5 was recorded in the first three quarters as a result of this policy change in the food distribution reporting segment, with an additional $0.5 of expense expected to be recorded during the balance of the fiscal year. Real estate revenue was recognized in accordance with the lease agreements with tenants. The Company has changed its policy to record income on a straight-line basis. Adoption of this policy resulted in recognition of additional straight-line real estate revenue of $1.7 during the first three quarters. An additional $0.5 of revenue is expected to be recorded in the real estate segment in the last quarter of the current fiscal year as a result of the new policy.

## 1. Summary of Significant Accounting Policies (continued)

### b) Asset retirement obligations
During the first quarter, the CICA Handbook Section 3110, “Asset retirement obligations”, was adopted retroactively. This section establishes standards for the recognition, measurement and disclosure of legal obligations associated with the costs to retire long-lived assets. A liability associated with the retirement of long-lived assets is recorded in the period in which the legal asset is capitalized as part of the related asset and depreciated over its useful life. Subsequent to the initial measurement of the asset retirement obligation, the obligation is adjusted to reflect the passage of time and changes in the estimated future costs underlying the obligation. There has been no impact on the Company from the adoption of this section.

### c) Hedging
Accounting Guideline (AcG) 13, “Hedging relationships”, came into effect during the first quarter. This guideline addresses the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting and provides guidance with respect to the discontinuance of hedge accounting. There was no effect on the Company of adopting this guideline. Pursuant to the requirements of AcG 13, the Company has formally identified and documented loans denominated in US dollars as hedges for a portion of its US investments.

### d) Vendor allowances
In January 2004, the CICA’s Emerging Issues Committee (EIC) issued Abstract 144, “Accounting by a customer (including a reseller) for certain consideration received from a vendor”. EIC-144 outlines that cash consideration received from a vendor is presumed to be a reduction in the prices of the vendor’s products or services and should be accounted for as a reduction in cost of sales and related inventory, when recognized in the customer’s income statement and balance sheet. Certain exceptions apply if the consideration is a payment for assets or services delivered to the vendor or for reimbursement of costs incurred, to sell the vendor’s products, provided certain conditions are met. The Company adopted EIC-144 in the second quarter, adjusting for it retroactively, with restatement of the comparative periods for the current and prior fiscal year (see Note 13).

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

### Stock-based compensation
At the beginning of fiscal 2003, the Company adopted the CICA Handbook Section 3870, “Stock-based compensation and other stock-based payments”. In fiscal 2004, the Company adopted the EIC Abstract 132, “Share purchase financing”. This abstract requires share purchase loans that are not treated as assets on the balance sheet to be accounted for as stock-based compensation. There was no effect on the Company upon implementation of this section and abstract.

### 1. Summary of Significant Accounting Policies (continued)

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

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

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

The impact of changes in plan amendments is amortized on a straight-line basis over the expected average remaining service life (EARSL) of active members. Except for the other benefit plans, the actuarial gains and losses and the impact of changes in the actuarial basis in excess of 10% of the greater of the projected benefit obligation and the market value of assets are amortized on a straight-line basis over the EARSL of the active members. For other benefit plans, actuarial gains and losses are recognized immediately.

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

**EMPIRE COMPANY LIMITED**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**JANUARY 29, 2005**
(Unaudited, in millions, except per share amounts)

### 2. Earnings Per Share

Earnings per share amounts are calculated on the weighted average number of shares outstanding during the period (2005 - 65,756,335 shares; 2004 - 65,778,292 shares) and after providing for preferred share dividends accrued to the balance sheet date. Diluted earnings per share amounts are calculated on the assumption that all the outstanding stock options were exercised and share purchase loans were repaid at the beginning of the period.

Earnings applicable to common shares is comprised of the following:

| | 13 Weeks | | 39 Weeks | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| Operating earnings | **$ 46.3** | $ 44.2 | **$ 133.8** | $ 122.8 |
| Capital gain (loss) and other items, net of tax of $0.3; $2.2; $(0.5); $2.3 | **1.4** | 8.8 | **(1.8)** | 9.3 |
| Net earnings | **47.7** | 53.0 | **132.0** | 132.1 |
| Preferred share dividends | **(0.1)** | (0.1) | **(0.3)** | (0.3) |
| Earnings applicable to common shares | **$ 47.6** | $ 52.9 | **$ 131.7** | $ 131.8 |
| Earnings per share is comprised of the following: | | | | |
| Operating earnings | **$ 0.70** | $ 0.67 | **$ 2.03** | $ 1.86 |
| Capital gain (loss) and other items | **0.02** | 0.13 | **(0.03)** | 0.14 |
| Basic earnings per share | **$ 0.72** | $ 0.80 | **$ 2.00** | $ 2.00 |
| Diluted earnings per share | **$ 0.72** | $ 0.80 | **$ 2.00** | $ 2.00 |

### 3. Other Assets

| | **January 29 2005** | April 30 2004 | January 31 2004 |
|---|---|---|---|
| Loans and mortgages receivable | **$ 148.5** | $ 147.8 | $ 139.0 |
| Deferred costs | **134.2** | 146.8 | 135.4 |
| Assets for realization | **11.8** | 16.3 | 17.7 |
| Intangibles (less accumulated amortization of $1.6; April 30, 2004 $0.5; January 31, 2004 $0.3) | **16.0** | 13.1 | 6.1 |
| | **$ 310.5** | $ 324.0 | $ 298.2 |

### 4. Bank Indebtedness

Under the terms of a credit agreement entered into between the Company and a banking syndicate, a revolving term credit facility of $300.0 was established. This 364-day revolving unsecured facility was renewed on June 1, 2004. Various provisions of the agreement provide the Company with the ability to extend the facility for a minimum period of two years.

Interest payable on this facility fluctuates with changes in the prime interest rate.

### 5. Long-Term Debt

During the previous quarter, a medium term note of $175.0 at an interest rate of 7.6% had been classified as current as repayment is due November 1, 2005.

**EMPIRE COMPANY LIMITED**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**JANUARY 29, 2005**
(Unaudited, in millions, except per share amounts)

## 6. Capital Stock

During the first three quarters, the Company purchased for cancellation 61,129 (2004 - 68,477) Non-Voting Class A shares. The purchase price was $1.6 of which $1.2 of the purchase price (representing the premium on common shares purchased for cancellation) was charged to retained earnings. During the period 42,129 (2004 - 59,429) Non-Voting Class A shares were issued under the Company's stock option and share purchase plans to certain officers and employees for $0.9 (2004 - $1.1). Loans receivable from officers and employees of $4.7 (April 30, 2004 $4.3; January 31,2004 $4.8) under the Company's share purchase plan are classified as a reduction of Shareholders' Equity.

## 7. Investment Income

| | 13 Weeks | | 39 Weeks | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| Dividend and interest income | **$ 2.0** | $ 2.2 | **$ 6.6** | $ 8.9 |
| Share of income of investments accounted for by the equity method | **3.5** | 1.6 | **8.7** | 4.0 |
| | **$ 5.5** | $ 3.8 | **$ 15.3** | $ 12.9 |

## 8. Capital Gain (Loss) and Other Items

| | 13 Weeks | | 39 Weeks | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| Gain (loss) on sale of investments | **$ 1.8** | $ 11.1 | **$ (2.2)** | $ 11.9 |
| Other items | **(0.1)** | (0.1) | **(0.1)** | (0.3) |
| | **$ 1.7** | $ 11.0 | **$ (2.3)** | $ 11.6 |

## 9. Supplementary Cash Flow Information

| | 13 Weeks | | 39 Weeks | |
|---|---|---|---|---|
| **a) Items not affecting cash** | **2005** | 2004 | **2005** | 2004 |
| Depreciation and amortization | **$ 49.0** | $ 44.0 | **$ 145.3** | $ 122.7 |
| Future income taxes | **12.8** | 12.3 | **15.3** | 14.1 |
| Amortization of deferred items | **9.1** | 5.9 | **23.0** | 17.7 |
| Equity in earnings of other companies, net of dividends received | **(1.9)** | (1.6) | **(6.5)** | (4.0) |
| Minority interest | **12.5** | 12.8 | **39.2** | 37.9 |
| Employee future benefit obligation | **1.1** | 1.4 | **4.3** | 3.9 |
| | **$ 82.6** | $ 74.8 | **$ 220.6** | $ 192.3 |
| **b) Other cash flow information** | | | | |
| Net interest paid | **$ 24.4** | $ 17.0 | **$ 56.7** | $ 63.1 |
| Net income taxes paid | **$ 11.8** | $ 31.5 | **$ 100.3** | $ 122.2 |

**EMPIRE COMPANY LIMITED**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**JANUARY 29, 2005**
(Unaudited, in millions, except per share amounts)

**10. Segmented Information**

| | 13 Weeks | | 39 Weeks | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| **Revenue** | | | | |
| Food distribution | **$ 2,917.0** | $ 2,741.4 | **$ 8,894.7** | $ 8,243.7 |
| Real estate | | | | |
| Commercial | **33.2** | 32.0 | **101.3** | 94.5 |
| Inter-segment | **16.0** | 13.2 | **43.8** | 37.6 |
| Residential | **10.0** | 7.8 | **22.7** | 20.3 |
| | **59.2** | 53.0 | **167.8** | 152.4 |
| Other operations | **18.3** | 17.3 | **56.3** | 49.1 |
| | **2,994.5** | 2,811.7 | **9,118.8** | 8,445.2 |
| Elimination | **(16.0)** | (13.2) | **(43.8)** | (37.6) |
| | **$ 2,978.5** | $ 2,798.5 | **$ 9,075.0** | $ 8,407.6 |
| **Operating income** | | | | |
| Food distribution | **$ 76.4** | $ 77.1 | **$ 238.5** | $ 229.4 |
| Real estate | | | | |
| Commercial | **22.2** | 21.8 | **66.1** | 62.8 |
| Residential | **9.9** | 6.6 | **20.9** | 16.7 |
| Other operations | **2.1** | 2.9 | **7.8** | 7.5 |
| Investment income | **4.7** | 3.8 | **14.0** | 12.9 |
| Corporate expenses | **(1.8)** | (1.8) | **(7.1)** | (6.0) |
| | **$ 113.5** | $ 110.4 | **$ 340.2** | $ 323.3 |

| | **January 29 2005** | April 30 2004 | January 31 2004 |
|---|---|---|---|
| **Identifiable assets** | | | |
| Food | | | |
| Food distribution | **$ 2,607.0** | $ 2,610.1 | $ 2,483.1 |
| Goodwill | **666.6** | 656.9 | 595.2 |
| | **3,273.6** | 3,267.0 | 3,078.3 |
| Real estate | **1,020.2** | 989.8 | 945.2 |
| Investments | **300.5** | 324.6 | 283.1 |
| Other (including goodwill of $3.8; April 30, 2004 $ - ; January 31, 2004 $ - ) | **106.6** | 91.0 | 102.8 |
| | **$ 4,700.9** | $ 4,672.4 | $ 4,409.4 |

**EMPIRE COMPANY LIMITED**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**JANUARY 29, 2005**
(Unaudited, in millions, except per share amounts)

## 11. Employee Future Benefits

During the Company's third quarter, and year-to-date, the net employee pension and future benefit expense was $5.5 and $16.6 respectively (2004 - $8.0 and $19.9). The expense included costs for the Company's defined contribution pension plans, defined benefit pension plans, post-retirement benefit plans, and post-employment benefit plans.

## 12. Business Acquisitions

**Sobeys Inc.**
During the first three quarters the Company increased its ownership interest in its subsidiary, Sobeys Inc., from 65.0% to 66.1% by way of purchase of shares on the open market. The acquisition was accounted for using the purchase method with operating results being included in the consolidated financial statements from the date of each share acquisition. The cash consideration paid was $34.9, goodwill increased by $7.2 and minority interest decreased by $27.7.

**Other acquisitions**
During the first three quarters the Company acquired franchisee stores and prescription files in its food distribution segment as part of its normal course of operations and acquired four cinemas in Nova Scotia and New Brunswick in its other operations segment for total cash consideration of $18.2. The acquisitions were accounted using the purchase method with net identifiable assets recorded at $11.8 (including intangible assets of $4.1) and goodwill recorded at $6.4.

## 13. Vendor Allowances

The Company receives allowances from certain vendors, whose products are purchased for resale. Included in these vendor programs are allowances for volume purchases, exclusivity allowances, listing fees and other allowances. Due to the retroactive implementation of EIC-144, the timing of recognition of certain volume allowances has changed, resulting in the Company recording a decrease in opening retained earnings for fiscal 2004 of $3.8 (net of income tax affect of $3.4 and minority interest of $2.1) and a decrease to inventory of $9.3. The implementation of EIC-144 did not result in a material change in the annual net earnings for fiscal 2004 or in the current or prior year's quarterly net earnings. The fiscal 2005 full year impact of this adoption is not anticipated to be significant to net earnings, provided that inventory levels, inventory turnover and vendor allowances remain relatively consistent.

## 14. Change in Fiscal Year-end

Effective for fiscal 2005, Empire's fiscal year-end is changing from April 30th to the first Saturday in May. As such, the quarter-end dates and fiscal year-end will be consistent with Sobeys Inc. The amounts for fiscal 2005 are for the thirteen weeks and thirty-nine weeks ended January 29, 2005. The comparative figures are for the three months and nine months ended January 31, 2004.

## 15. Indemnities

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

## 16. Contingency

Subsequent to the third quarter, Sobeys Inc., received notice from Canada Revenue Agency (CRA) that it is proposing a reassessment related to Goods and Services Tax (GST) for fiscal years 1999 and 2000. The proposed reassessment relates to GST on sales of tobacco products to status Indians. CRA asserts that Sobeys Inc. was obliged to collect GST on the sales of these tobacco products to status Indians. The total tax, interest and penalties in the proposed reassessment are approximately $13.0. Sobeys Inc. has reviewed this matter, has received legal advice and believes it was not required to collect GST. Sobeys Inc. is challenging this proposed reassessment and if necessary will defend against any reassessments to the appropriate judicial bodies. Accordingly, the Company has not recorded any of the proposed tax, interest or penalties in its financial statements.

## 17. Comparative Figures

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

# Management's Discussion and Analysis

## Interim Report
## For the 39 weeks ended January 29, 2005

## Dated March 9, 2005

This document has been prepared for the purpose of providing management's discussion and analysis ("MD&A") of the financial condition and results of operations for Empire Company Limited ("Empire" or the "Company") for the 13 weeks and 39 weeks ended January 29, 2005, as compared to the three months and nine months ended January 31, 2004. In fiscal 2005, the fiscal year-end of the Company has changed to the first Saturday in May to be consistent with its major subsidiary, Sobeys Inc.

This MD&A also provides analysis of the operating performance of the Company's divisions, discussion of cash flows, the impact of risks, and the outlook for the business.

This discussion and analysis should be read in conjunction with: the unaudited Interim Consolidated Financial Statements of the Company and notes thereto for the 39-week period ended January 29, 2005; the Company's fiscal 2005 quarterly MD&A reports; the MD&A included in Empire's 2004 Annual Report and the Consolidated Financial Statements and notes thereto for the fiscal year ended April 30, 2004. These documents are available on the Company's web site at www.empireco.ca and on SEDAR at www.sedar.com. To request a printed copy, you may e-mail the Company at investor.relations@empireco.ca.

The discussion may contain forward-looking statements about the Company based on management's assumptions and beliefs in light of information currently available to them. There are measures included in this MD&A that do not have a standardized meaning under Canadian generally accepted accounting principles ("GAAP"). Management includes these measures because it believes certain investors use these measures as a means of assessing relative financial performance. Additional information relating to forward-looking statements and non-GAAP measures is provided towards the end of this document.

**Overview of the Business**

Empire is a diversified Canadian company headquartered in Stellarton, Nova Scotia. Empire's key businesses are retail food distribution (through 66.1% ownership of Sobeys Inc. ("Sobeys")), real estate (through two wholly-owned operating subsidiaries: Sobey Leased Properties Limited ("SLP"), and Crombie Properties Limited ("Crombie"), including 35.7% ownership of Genstar Development Partnership ("Genstar")), and corporate investment activities and other operations (which includes wholly-owned Empire Theatres Limited ("Empire Theatres")). With over $4.7 billion in assets, Empire employs approximately 34,000 people directly and through its subsidiaries.

## Consolidated Operating Results

The consolidated financial overview presented below reports on the financial performance for the third quarter and for the first 39 weeks of fiscal 2005 relative to the comparable periods last year.

Selected Consolidated Financial Information *($ in millions, except per share amounts)*

| | 13 Weeks Ended | | 39 Weeks Ended | |
|---|---|---|---|---|
| | January 29, 2005 | January 31, 2004 | January 29, 2005 | January 31, 2004 |
| Revenue | | | | |
| Food Distribution | $ 2,917.0 | $ 2,741.4 | $ 8,894.7 | $ 8,243.7 |
| Real Estate, net of inter-segment | 43.2 | 39.8 | 124.0 | 114.8 |
| Other Operations | 18.3 | 17.3 | 56.3 | 49.1 |
| Consolidated revenue | $ 2,978.5 | $ 2,798.5 | $ 9,075.0 | $ 8,407.6 |
| Operating income | | | | |
| Food Distribution | $ 76.4 | $ 77.1 | $ 238.5 | $ 229.4 |
| Real Estate | 32.1 | 28.4 | 87.0 | 79.5 |
| Investments & Other Operations | 5.0 | 4.9 | 14.7 | 14.4 |
| Consolidated operating income | $ 113.5 | $ 110.4 | $ 340.2 | $ 323.3 |
| Interest expense | 20.4 | 22.8 | 63.4 | 69.7 |
| Income taxes (from operating activities) | 31.6 | 28.0 | 95.3 | 85.1 |
| Minority interest | 15.2 | 15.4 | 47.7 | 45.7 |
| Operating earnings | $ 46.3 | $ 44.2 | $ 133.8 | $ 122.8 |
| Capital (loss) gain and other items, net of tax | 1.4 | 8.8 | (1.8) | 9.3 |
| Net earnings | $ 47.7 | $ 53.0 | $ 132.0 | $ 132.1 |
| Cash flows from operating activities | $ 138.2 | $ 128.8 | $ 224.8 | $ 199.2 |
| Total assets | $ 4,700.9 | $ 4,409.4 | | |
| Total long-term liabilities | $ 1,515.1 | $ 1,695.4 | | |
| Per Share, basic and diluted | | | | |
| Operating Earnings | $ 0.70 | $ 0.67 | $ 2.03 | $ 1.86 |
| Capital (loss) gain and other items, net of tax | 0.02 | 0.13 | (0.03) | 0.14 |
| Net earnings | $ 0.72 | $ 0.80 | $ 2.00 | $ 2.00 |
| Basic and diluted weighted average number of shares outstanding | 65.8 | 65.8 | 65.8 | 65.8 |
| Annualized dividends per share | $ 0.48 | $ 0.40 | | |

## Management's Explanation of Consolidated Results

Revenue and financial performance of each of the Company's businesses (food distribution, real estate, and investments and other operations) for the 13 weeks and 39 weeks ended January 29, 2005 are discussed in detail in further sections of this MD&A.

### Consolidated Revenue

Each of Empire's operating businesses contributed to the growth in the Company's consolidated revenue of $180.0 million, or 6.4 percent, in the third quarter of fiscal 2005 compared to the third quarter of the prior fiscal year. The food division accounted for 97.9 percent of total consolidated revenue with the real estate division accounting for 1.5 percent, and other operations, the remaining 0.6 percent. This revenue mix between divisions is relatively consistent with the historical revenue mix and is expected to be relatively unchanged for the balance of fiscal 2005. Third quarter revenue growth was largely driven by 6.4 percent growth in food division revenues over the third quarter last year. The fiscal year-to-date revenue growth of 7.9 percent was also driven by Sobeys' 7.9 percent growth in revenues over the same period last year.

### Consolidated Operating Earnings

Third quarter consolidated operating earnings increased $2.1 million, or 4.8 percent, over last year, largely as a result of a $3.1 million increase in operating income and a $2.4 million decline in interest expense, partially offset by a $3.6 million increase in income taxes (on operations).

The increase in operating income is the result of revenue growth being partially offset by a 13.4 basis point reduction in consolidated operating margin, which is operating income divided by sales. Margin was impacted by higher depreciation expense of $5.0 million, up 11.4 percent, over the third quarter last year. Margin was also affected by an increase in consolidated cost of sales and selling and administrative expense, as a percentage of sales, of 11 basis points.

The increase in depreciation expense was primarily attributed to the food division's continued investment in new stores and the modernization of its existing retail store network and supporting infrastructure. The higher cost of sales and selling and administrative expense primarily reflects the increased revenue performance of the Company net of expenditures on the food division's smart retailing store productivity initiative, retail brands, and business process initiatives. While management is pleased with the execution of store productivity improvement initiatives to date, it is also recognized that there is an opportunity and need to further reduce the overall cost structure.

The decline in interest expense is largely the result of lower short-term debt interest expense. Short-term interest rates in Canada for 30-90 day term borrowings were on average lower than the comparable period last year, as well, last year's interest expense included additional standby fees on authorized credit lines.

The increase in income taxes was the result of higher pre-tax earnings and an increase in the effective income tax rate for the third quarter to 33.9 percent from 32.0 percent in the third quarter last year.

On a fiscal year-to-date basis, consolidated operating earnings increased $11.0 million, or 8.9 percent as a result of operating income growth of $16.9 million and reduced interest expense of $6.3 million being partially offset by higher income taxes of $10.2 million and increased minority interest of $2.0 million. The increase in operating income was attributable to the fiscal year-to-date revenue growth of 7.9 percent being partially offset by the effect of lower operating margin which was impacted by a $22.6 million increase in depreciation expense.

The increase in fiscal year-to-date income taxes was the result of higher pre-tax earnings and a slight increase in the effective income tax rate, from 33.6 percent last year to 34.4 percent.

The increase in fiscal year-to-date minority interest reflects higher earnings by the food division, partially offset by an increase in Empire's ownership interest in Sobeys from 65.0 percent at January 31, 2004, to 66.1 percent at January 29, 2005.

**Quarterly Results of Operations**

The following table summarizes selected consolidated financial information from the Company's unaudited Interim Consolidated Financial Statements for each of the eight most recently completed quarters. This information was prepared in accordance with Canadian GAAP.

| *($ in millions, except per share amounts)* | Fiscal 2005 | | | Fiscal 2004 | | | | Fiscal 2003 |
|---|---|---|---|---|---|---|---|---|
| | **Q3** | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 |
| Revenue | **$2,978.5** | $3,022.8 | $3,073.7 | $2,876.4 | $ 2,798.5 | $2,794.4 | $2,814.7 | $ 2,624.7 |
| Operating income | **113.5** | 111.8 | 114.9 | 100.3 | 110.4 | 104.9 | 108.0 | 110.4 |
| Operating earnings | **46.3** | 43.0 | 44.5 | 41.1 | 44.2 | 39.0 | 39.6 | 41.8 |
| Net capital gain (loss) and other items | **1.4** | (3.0) | (0.2) | (0.1) | 8.8 | (2.2) | 2.7 | (5.8) |
| Net earnings | **$ 47.7** | $ 40.0 | $ 44.3 | $ 41.0 | $ 53.0 | $ 36.8 | $ 42.3 | $ 36.0 |
| Per Share, basic and diluted | | | | | | | | |
| Operating earnings(1) | **$ 0.70** | $ 0.66 | $ 0.67 | $ 0.63 | $ 0.67 | $ 0.59 | $ 0.60 | $ 0.64 |
| Net capital gain (loss) and other items | **0.02** | (0.05) | – | – | 0.13 | (0.03) | 0.04 | (0.09) |
| Net earnings | **$ 0.72** | $ 0.61 | $ 0.67 | $ 0.63 | $ 0.80 | $ 0.56 | $ 0.64 | $ 0.55 |
| Weighted average number of shares outstanding *(in millions)* | **65.8** | 65.7 | 65.8 | 65.8 | 65.8 | 65.8 | 65.8 | 65.8 |

*(1) Earnings before net capital gain (loss) and other items.*

The Company's operations are impacted to some degree by certain holiday periods during the year; however the Company's businesses are not materially cyclical or seasonal.

Sales and operating earnings growth have been influenced by the Company's investing activities, the competitive environment, operating efficiencies, sales and merchandising initiatives, general industry trends and risk factors as outlined in the Company's fiscal 2004 MD&A and further outlined in the Company's first quarter fiscal 2005 MD&A dated September 9, 2004.

# Operating Overview & Performance by Segment

## Food Distribution

Empire's food distribution operations are carried on through its 66.1 percent ownership in Sobeys. Sobeys conducts business through more than 1,300 retail grocery stores (corporately owned and franchised) which operate in four retail regions: Sobeys West, Sobeys Ontario, Sobeys Quebec, and Sobeys Atlantic. Empire's ownership interest in Sobeys has increased by 1.1 percentage points over the third quarter of fiscal 2004 and by 1.1 percentage points from the previous year-end, April 30, 2004.

**Revenue**

Sobeys' sales for the third quarter were $2.92 billion compared to $2.74 billion for the same quarter last year, an increase of $175.6 million, or 6.4 percent. Year-over-year same-store sales grew by 3.8 percent. Same store sales growth was positively impacted by approximately 0.5 percent due to increased alcohol sales in the Quebec region resulting from a retail store labour disruption at Société des Alcools du Québec ("SAQ"). Sobeys does not anticipate a similar impact on same store sales in the fourth quarter of the current fiscal year as this labour disruption has been resolved. Food price inflation increased during the third quarter but remained modest across the country.

Fiscal year-to-date sales increased 7.9 percent from the prior year, with same-store sales growth of 3.4 percent.

Sales growth, for both the quarter and year-to-date, was driven by Sobeys' continued implementation of sales and merchandising initiatives across the country coupled with an increase in retail selling square footage resulting from the development and acquisition of new stores and wholesale business and an ongoing program to enlarge and renovate existing store assets.

**Operating Income**

Sobeys' earnings before interest, taxes, depreciation and amortization charges ("EBITDA") for the third quarter was $119.0 million, an increase of $2.9 million, or 2.5 percent, compared to the $116.1 million recorded in the same quarter last year. EBITDA as a percentage of sales decreased from 4.24 percent to 4.08 percent when compared to the third quarter fiscal 2004 results. The increase in EBITDA dollars reflects the increased sales performance by Sobeys, net of expenditures on smart retailing, store productivity initiatives, retail brands and business process improvement initiatives. Gross margin percentage remained relatively consistent with the same quarter last year.

Fiscal year-to-date EBITDA generated by Sobeys increased $28.9 million, or 8.6 percent, to $365.7 million from the $336.8 million reported in the comparable period of fiscal 2004. EBITDA as a percentage of sales increased to 4.11 percent in the first 39 weeks of the year compared to 4.09 percent last year. Included in the previous year EBITDA were one-time second quarter pre-tax costs of $10.1 million related to the uninsured cost of the power failure in Ontario ($4.9 million pre-tax), the adverse outcome in a long-standing real estate lawsuit ($4.0 million pre-tax) and closure costs related to the Grande Prairie and Peace River, Alberta distribution centres ($1.2 million pre-tax).

Earnings before interest and taxes ("EBIT"), or operating income, recorded by Sobeys for the third quarter decreased $0.7 million, or 0.9 percent, to $76.4 million. Operating margin for the third quarter declined to 2.62 percent from 2.81 percent in the same quarter last year. The decline in EBIT margin is largely attributable to a $3.6 million increase in depreciation and amortization expense ($42.6 million in the current quarter compared to $39.0 million in the same quarter last year) combined with the previously mentioned decline in EBITDA as a percentage of sales. The increase in depreciation and amortization expense reflects Sobeys' continued investment in new stores and in the modernization of its existing retail store network and supporting infrastructure.

Operating income for the first 39 weeks of fiscal 2005 increased by 4.0 percent to $238.5 million compared to the same period in fiscal 2004, with an operating margin of 2.68 percent compared to 2.78 percent in fiscal 2004. Impacting EBIT is a $19.8 million increase in depreciation and amortization expense ($127.2 million current year-to-date compared to $107.4 million last year).

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

**Interest Expense**

Sobeys' interest expense in the third quarter decreased $1.1 million, to $8.9 million due to lower long-term borrowing levels. Sobeys' interest coverage (EBIT divided by interest expense) for the third quarter improved to 8.6 times compared to 7.7 times for the same quarter last year, due to the decline in interest expense.

Sobeys' interest expense declined $5.2 million, or 16.0 percent, in the first 39 weeks of the year to $27.2 million from $32.4 million reported last year, due to lower long-term borrowing levels. Interest coverage improved to 8.8 times compared to 7.1 times for the same period last year.

The majority of Sobeys' debt is long-term and at fixed rates, accordingly there is limited exposure to interest rate volatility. Sobeys' is exposed to interest rate risk when arranging new debt.

**Income Tax Expense**

Sobeys' effective income tax rate for the third quarter was 33.5 percent compared to 34.4 percent in quarter three of fiscal 2004. The decrease in the tax rate in the third quarter reflects a change in the timing of realization of tax benefits. The fiscal year-to-date effective tax rate decreased slightly to 34.3 percent from 34.5 percent last year.

**Net Earnings**

Sobeys' third quarter fiscal 2005 net earnings (before allocation of minority interest) totalled $44.9 million, an increase of 2.0 percent, compared to the $44.0 million recorded in the same quarter of fiscal 2004.

Sobeys' net earnings fiscal year-to-date (before allocation of minority interest) totalled $138.9 million, an increase of 7.6 percent, compared to the $129.1 million recorded during the same period of fiscal 2004.

**Food Division Outlook**

Management remains confident in Sobeys' strategy. Sobeys' offerings will continue to improve in each operating region and Sobeys will remain competitive in increasingly competitive markets. Sales and earnings are expected to continue to grow in fiscal 2005 and beyond in a manner consistent with Sobeys' intention to build a healthy and sustainable business for the long term.

## Real Estate

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

At the end of the third quarter, real estate operations had 13.2 million square feet under ownership compared to 12.8 million square feet a year earlier. The growth in square feet under ownership over the prior year was primarily attributed to Crombie's focus on new commercial property development in Ontario, including the acquisition in the fourth quarter of the previous fiscal year of properties formerly owned by Commisso's Properties Ltd ("Commisso's").

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

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

| *($ in millions)* | 13 Weeks Ended | | 39 Weeks Ended | |
|---|---|---|---|---|
| | Jan. 29, 2005 | Jan. 31, 2004 | Jan. 29, 2005 | Jan. 31, 2004 |
| Revenue | | | | |
| Commercial | $ 33.2 | $ 32.0 | $ 101.3 | $ 94.5 |
| Residential | 10.0 | 7.8 | 22.7 | 20.3 |
| | $ 43.2 | $ 39.8 | $ 124.0 | $ 114.8 |
| Operating income | | | | |
| Commercial | $ 22.2 | $ 21.8 | $ 66.1 | $ 62.8 |
| Residential | 9.9 | 6.6 | 20.9 | 16.7 |
| | $ 32.1 | $ 28.4 | $ 87.0 | $ 79.5 |
| Operating earnings | | | | |
| Commercial | $ 6.0 | $ 7.9 | $ 17.8 | $ 17.8 |
| Residential | 6.6 | 3.7 | 13.6 | 11.5 |
| | $ 12.6 | $ 11.6 | $ 31.4 | $ 29.3 |
| Funds from operations | | | | |
| Commercial | $ 10.9 | $ 11.6 | $ 31.5 | $ 29.2 |
| Residential | 6.7 | 3.8 | 13.9 | 11.9 |
| | $ 17.6 | $ 15.4 | $ 45.4 | $ 41.1 |

### Revenue

Real estate revenue (net of inter-segment revenue) in the third quarter increased 8.5 percent to $43.2 million from $39.8 million last year. Commercial property revenue increased $1.2 million or 3.8 percent while residential revenue increased $2.2 million or 28.2 percent from the third quarter last year. The growth in commercial property revenue is primarily attributed to higher occupancy levels and the impact of property development, including six properties acquired from Commisso's in Southwestern Ontario at the beginning of the fourth quarter last year. The increase in residential revenue is attributable to higher lot sales recorded by Genstar.

Fiscal year-to-date revenues increased 8.0 percent over the prior year. For the 39 weeks ended January 29, 2005, commercial revenues were up 7.2 percent as a result of improved occupancy levels and the impact of property acquisitions, including the Commisso's properties acquired at the beginning of the fourth quarter last year. Residential revenues increased $2.4 million or 11.8 percent as a result of growth in lot sales given a relatively healthy housing market.

Leasing activity continues to be stronger with an overall (retail plus office) occupancy rate of 93.4 percent compared to 93.1 percent a year ago. The retail occupancy rate was 94.1 percent at the end of the third quarter compared to 93.6 percent a year earlier. The office occupancy rate at the end of the third quarter was 90.5 percent compared to 90.0 percent a year ago.

**Operating Income**

Real estate operating income in the third quarter totalled $32.1 million, a $3.7 million or 13.0 percent increase from last year. The real estate division contributed 28.3 percent of Empire's third quarter consolidated operating income compared to a 25.7 percent contribution in the third quarter last year. The increase in operating income is largely the result of higher contribution from residential real estate operations as a result of exceptionally strong lot sales activity. We do not believe that this trend is sustainable over the longer-term. Residential earnings growth is highly correlated to the health of the housing industry, particularly in Western Canada which is correlated to the level of interest rates and general economic conditions.

For the 39 weeks ended January 29, 2005, the real estate division contributed operating income of $87.0 million, up 9.4 percent versus the same period last year. The real estate division generated 25.6 percent of Empire's consolidated operating income compared to 24.6 percent last year. The increase in real estate operating income fiscal year-to-date reflects a $3.3 million increase in operating revenue generated from commercial property operations and a $4.2 million increase in operating income generated from residential operations. The increase in commercial property operating income is largely attributed to higher commercial occupancy rates, the impact of the acquired Commisso's properties and continued attention to the control of operating costs. Residential operating revenue increased as a result of growth in lot sales, particularly in Western Canadian markets where the bulk of Genstar's land is held for sale.

**Interest Expense**

Interest expense for the real estate division in the third quarter equalled $11.2 million compared to $11.7 million last year. The real estate division's interest expense for the 39 weeks ended January 29, 2005 totalled $34.7 million versus $34.1 million in the comparable period last year.

The decline in interest expense in the quarter was primarily due to short-term borrowing rates in Canada being lower than the third quarter last year. Higher interest expense fiscal year-to-date was primarily the result of higher funded debt levels, largely as a result of funding the Commisso's acquisition in the fourth quarter of the previous fiscal year.

**Operating Earnings**

Third quarter real estate division operating earnings equalled $12.6 million versus $11.6 million last year. Residential operations contributed $6.6 million in earnings versus $3.7 million in the third quarter last year as a result of exceptionally strong sales activity at Genstar. Commercial operations contributed $6.0 million in earnings compared to $7.9 million in the third quarter last year.

The reduction in commercial operations earnings of $1.9 million over the third quarter last year is primarily due to higher income taxes in the third quarter last year and early lease buyout amounts received in the third quarter last year.

For the 39 weeks ended January 29, 2005, the real estate division recorded operating earnings of $31.4 million versus $29.3 million in the comparable period last year, a 7.2 percent increase.

**Funds from Operations**

Trailing (last four quarters) funds from operations for the real estate division were $62.7 million, up 5.0 percent from the four quarter trailing funds from operations of $59.7 million for the same period in the prior year. Funds from operations in the third quarter equalled $17.6 million, a 14.3 percent increase over the third quarter last year.

Funds from operations generated by commercial real estate operations equalled $10.9 million in the third quarter of fiscal 2005, down $0.7 million or 6.0 percent versus last year, while funds from operations generated by residential real estate operations equalled $6.7 million in the third quarter, up $2.9 million or 76.3 percent compared to the same period last year.

**Real Estate Division Outlook**

Empire's real estate management group will continue its policy of maximizing and prudently reinvesting its cash flow to further strengthen its portfolio of residential and commercial properties.

The real estate management group expects overall retail occupancy levels to remain strong through the remainder of fiscal 2005 as a result of the continuing diligence of our leasing team and general economic conditions.

## Investments and Other Operations

The third component of Empire's business is its investments, consisting of an investment portfolio of common equity investments, and other operations. At January 29, 2005, Empire's investments carried a market value, excluding cash and cash equivalents, of $390.6 million on a carrying value of $300.5 million, resulting in an unrealized gain (excluding the value of a hedge put in place to protect against a stronger Canadian dollar versus the U.S. dollar) of $90.1 million. This compares to an unrealized gain of $66.2 million at the end of fiscal 2004 and an unrealized gain of $46.7 million at the end of the third quarter last year.

**Portfolio Composition**

| *($ in millions Canadian)* | Market Value | % of Portfolio | Cost | Hedge Value (1) | Unrealized Gain |
|---|---|---|---|---|---|
| Canadian equities | $ 184.1 | 47.1% | $ 132.9 | $ - | $ 51.2 |
| U.S. equities | 106.2 | 27.2 | 112.9 | 6.8 | 0.1 |
| Wajax | 98.8 | 25.3 | 53.2 | - | 45.6 |
| Preferred and other | 1.5 | 0.4 | 1.5 | - | - |
| | $ 390.6 | 100.0% | $ 300.5 | $ 6.8 | $ 96.9 |

*(1) Hedge value refers to the mark-to-market value of having hedged $52.0 million U.S. at an average Canadian/U.S. exchange rate of 1.3716 via U.S. bank loans.*

The tables below present the return performance for Empire's investments, relative to Canadian and U.S. equity benchmarks for the calendar years ended December 31st, as well as on a two and three-year annualized compounded return basis. Investment returns are measured using a calendar quarter-end cycle, consistent with industry practice.

**Total Investment Return**
*(Annual Returns for Periods Ended December 31st)*

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Empire Investment Portfolio | 24.6% | 42.4% | (17.4)% |
| S&P/TSX Composite Index | 14.5% | 26.7% | (12.4)% |
| S&P 500 Index (in CDN $) | 3.3% | 5.3% | (22.9)% |

**Total Investment Return**
*(Annualized Compound Returns for Periods Ended December 31st, 2004)*

| | 2-Year | 3-Year |
|---|---|---|
| Empire Investment Portfolio | 33.2% | 13.6% |
| S&P/TSX Composite Index | 20.5% | 8.3% |
| S&P 500 Index (in CDN $) | 4.3% | (5.7)% |

The total return on the Empire investment portfolio, as independently benchmarked against the performance of over 100 equity fund managers, has been ranked as first quartile (i.e. in the top 25 percent of surveyed equity fund managers) investment return performance over one, two and three-year trailing annualized periods ended December 31, 2004.

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

**Performance Attribution**

The increase of $16.6 million in investment market value over book cost for the third quarter ended January 29, 2005, was largely the result of a $12.4 million increase in the unrealized gain position in the Wajax investment combined with an increase in value of a majority of liquid common equities in the portfolio.

**Investment Income**

Investment income generated by the investment portfolio equalled $4.7 million in the third quarter, an increase of $0.9 million over the $3.8 million recorded in the third quarter last year. The increase was largely the result of a $1.1 million increase in equity earnings from Wajax compared to the third quarter last year. Dividend income was $0.2 million lower than third quarter last year.

For the 39 weeks ended January 29, 2005, investment income generated by the investment portfolio increased $1.1 million, or 8.5 percent, to $14.0 million from $12.9 million a year earlier. The year-over-year increase in investment income was attributed to higher equity earnings from Wajax of $3.4 million, offset by a $2.3 million reduction in dividend and interest income. Dividend income declined from the prior year as a result of asset allocation decisions which lowered average portfolio dividend yield.

**Other Operations Revenue**

Other operations' revenue, primarily generated by Empire Theatres, reached $18.3 million compared to $17.3 million last year, an increase of 5.8 percent. Fiscal year-to-date, other operations recorded revenues of $56.3 million, up 14.7 percent from the comparable period last year.

Revenue growth at Empire Theatres in the quarter and fiscal year-to-date was primarily the result of the modernization of the existing theatre network; theatre development in Western Canada through a joint-venture with Landmark Cinemas of Canada Limited; and contribution of four theatres purchased from Viacom Canada Inc. in the first quarter.

### Operating Earnings

Third quarter operating earnings from investments (net of corporate expenses) and other operations equalled $4.0 million, unchanged from the third quarter last year. The increase in investment income of $0.9 million, primarily due to higher equity earnings contribution by Wajax, was offset by higher income tax expense and lower earnings from other operations.

For the 39 weeks ended January 29, 2005, investments (net of corporate expenses) and other operations operating earnings totalled $11.2 million versus $10.1 million last year. The $1.1 million improvement was primarily the result of stronger contribution from Wajax, partially offset by lower dividend income and higher corporate costs compared to last year.

### Capital Gain

In the third quarter investments and other operations generated a net capital gain of $1.4 million compared to $8.9 million in the third quarter last year. Fiscal year-to-date, net capital loss generated by investments and other operations totalled $1.8 million versus a net capital gain of $9.5 million in the comparable period last year. Net capital gains and losses are primarily from the sale of common equity investments.

### Net Earnings

Investments (net of corporate expenses) and other operations contribution to Empire consolidated net earnings declined $7.5 million versus the third quarter last year. The decline was the result of higher realized net capital gains on the sale of investments in the third quarter last year.

Fiscal year-to-date, investments (net of corporate expenses) and other operations contributed $9.4 million in net earnings versus $19.6 million last year. The decline was largely as a result of net capital gains recorded on the sale of investments of $9.5 million in the comparable period last year.

### Investment Portfolio and Other Operations Outlook

Growth in the portfolio will be dependent on a number of factors, including investor sentiment in the U.S. and Canada. Equity markets may continue to remain volatile.

With respect to Empire Theatres' outlook, management recognizes that future growth will remain highly dependent on a steady supply of quality film product and the continued modernization of the existing theatre network. Based on the quality of releases expected through the remainder of fiscal 2005, an experienced operations team, and planned screen development, management looks forward to continued revenue growth in this business.

## Net Asset Value

At the end of the third quarter, management calculated Empire's consolidated net asset value to equal $2,352 million ($35.77 per share), an increase of $307 million from the net asset value of $2,045 million ($31.08 per share) calculated at April 30, 2004, and an improvement of $124 million from the net asset value of $2,228 million ($33.89 per share) calculated at the end of the second quarter of fiscal 2005.

| *($ in millions except per share information)* | January 29, 2005 Net Asset Value | % of Total | April 30, 2004 Net Asset Value | % of Total |
|---|---|---|---|---|
| Food Distribution[1] | $ 1,474 | 60% | $ 1,226 | 58% |
| Real Estate[2] | 486 | 20 | 452 | 21 |
| Investments and Other Operations[3] | 485 | 20 | 453 | 21 |
| | $ 2,445 | 100% | $ 2,131 | 100% |
| Corporate & preferred shares | (93) | | (86) | |
| Net asset value | $ 2,352 | | $ 2,045 | |
| Per share | $ 35.77 | | $ 31.08 | |

1 Food distribution's net asset value at January 29, 2005 equals the 43.17 million common shares of Sobeys owned at fiscal quarter-end multiplied by the closing market price of a Sobeys' common share on that date. Food distribution net asset value at April 30, 2004 equalled the 42.81 million common shares of Sobeys owned at fiscal year-end April 30, 2004 times the closing market price of a Sobeys' common share on that date.

2 Real estate group's net asset value has been calculated at 9 times trailing funds from commercial operations of $43.0 million plus five times trailing funds from residential operations of $19.7 million.

3 Investment division's net asset value is derived primarily from stated public market values of securities in the portfolio.

At January 29, 2005, approximately 78 percent of Empire's net asset value was derived from assets that are valued by publicly available market prices and traded on recognized public stock exchanges. This includes Sobeys' common shares and securities held in Empire's investment portfolio. For each dollar increase in Sobeys' share price, Empire's net asset value increases by $0.66 per share.

### Capital Structure and Key Financial Condition Measures

| *($ in millions, except ratio calculations)* | January 29, 2005 | April 30, 2004 | January 31, 2004 |
|---|---|---|---|
| Shareholder's equity | $ 1,679.3 | $ 1,573.0 | $ 1,538.6 |
| Minority interest | 558.3 | 543.9 | 533.0 |
| Short-term debt | 176.1 | 140.8 | 145.2 |
| Long-term debt, including current portion | 943.8 | 985.4 | 964.2 |
| Funded debt to total capital ratio | 40.0% | 41.7% | 41.8% |
| Net debt to capital ratio | 36.4% | 36.9% | 38.9% |
| Interest coverage (1) | 5.16x | 4.62x | 4.65x |
| Total assets | $ 4,700.9 | $ 4,672.4 | $ 4,409.4 |

*(1) Calculated as trailing last four quarter operating income divided by interest expense.*

### Shareholders Equity

Book value per share was $25.38 at January 29, 2005, compared to $23.81 at April 30, 2004 and $23.24 at January 31, 2004.

Total shares outstanding at January 29, 2005 equalled 65,735,810, relatively unchanged from the previous fiscal year-end (April 30, 2004) and January 31, 2004. There were 30,850,585 Non-Voting

Class A shares outstanding and 34,885,225 Class B common shares outstanding at January 29, 2005. At January 29, 2005, Empire had 27,674 options outstanding with an expiry date of October 2006. There were no options exercised in the third quarter.

During the first quarter, Empire repurchased enough Class A Non-Voting shares to offset the dilutive effect of shares issued to fulfill the Company's obligation under its stock option and share purchase plans. During the 39-week period ended January 29, 2005, Empire purchased 61,129 Non-Voting Class A shares for cancellation under its Normal Course Issuer Bid. No shares were repurchased in the third quarter.

At March 9, 2005, Empire had 30,850,585 Non-Voting Class A shares and 34,885,225 Class B common shares outstanding, along with 27,674 Options outstanding expiring in October, 2006. Options allow holders to purchase Non-Voting Class A shares at $6.555 per share.

Dividends paid to Non-Voting Class A and Class B common shareholders in the third quarter amounted to $7.9 million ($0.12 per share) versus $6.6 million ($0.10 per share) in the same period last year. Fiscal year-to-date, the Company has paid Non-Voting Class A and Class B common dividends totalling $23.7 million ($0.36 per share) versus $19.8 million ($0.30 per share) in the comparable period last year.

**Liabilities**

Empire finances a significant portion of its assets through the use of bank indebtedness and long-term debt. Total fixed rate, long-term debt (including the current portion of long-term debt) at January 29, 2005 equalled $943.8 million (84.3 percent of Empire's total funded debt), a decline of $41.6 million from the end of the fiscal year. Long-term debt has declined by $20.4 million from the third quarter last year largely as a result of scheduled debt repayments.

Long-term debt, including the current portion of long-term debt, by operating segment is detailed below:

| *($ in millions)* | January 29, 2005 | April 30, 2004 | January 31, 2004 |
|---|---|---|---|
| Food Distribution | $ 426.6 | $ 442.8 | $ 446.7 |
| Real Estate | 512.8 | 538.2 | 513.1 |
| Other Operations | 4.4 | 4.4 | 4.4 |
| Total | $ 943.8 | $ 985.4 | $ 964.2 |

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

Trailing last four quarters interest coverage at the end of the third quarter was 5.16 times, improved from the 4.62 times reported at the fiscal year ended April 30, 2004 and the 4.65 times recorded at the end of the third quarter last year. The improvement over April 30, 2004 was the result of reduced interest expense and higher operating income on a trailing twelve-month basis to the end of the current quarter versus the trailing twelve months ended April 30, 2004.

Since fiscal year-end, the consolidated funded debt to total capital ratio has declined 1.7 percentage points as a result of higher retained earnings and slightly lower funded debt. The net debt (debt less cash and cash equivalents) to total capital ratio has decreased 0.6 percentage points.

Empire has a corporate unsecured debt rating of BBB- (stable trend) from Standard & Poor's and a debt rating of BBB (negative trend) from Dominion Bond Rating Service. Sobeys has a corporate unsecured debt rating of BBB- (stable trend) from Standard and Poor's and a debt rating of BBB high (negative trend) from Dominion Bond Rating Service. On April 26, 2004, Dominion Bond Rating Service put the Company and Sobeys on a negative trend as a result of increased competitive pressures which have impacted margins.

Empire and its subsidiaries have provided covenants to its lenders in support of various financing facilities. All covenants were complied with year-to-date in fiscal 2005 and in fiscal 2004.

**Hedging Instruments**

Empire and its subsidiaries utilize hedging instruments from time to time to mitigate risk exposure, not for speculative purposes. Hedging instruments are used to manage exposure to interest rate volatility and to manage exposure to volatility in the Canadian to U.S. dollar exchange rate.

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

Sobeys had in place interest rate hedges on $3.0 million of its funded debt at a fixed rate of 6.36 percent at January 29, 2005. The total amount of these hedges amortizes with Sobeys' debt repayment. Subsequent to the end of the third quarter, the debt was repaid and the hedge was fully amortized.

At January 29, 2005, the real estate division had an interest rate exchange agreement outstanding with a gross notional amount of $16.0 million at a rate of 4.22 percent. This swap commenced December 15, 2004 and matures December 15, 2007.

At the end of the third quarter, Crombie had in place a delayed start swap to hedge a balloon payment of $5.5 million due September 7, 2007 upon maturity of a 6.24 percent First Mortgage Bond. This swap commences September 7, 2007, and terminates September 7, 2017. Crombie pays interest at a fixed rate of 6.16 percent quarterly and receives a floating rate based on the 90-day bankers' acceptance rate quarterly.

Also at the end of the third quarter, Crombie had in place a delayed start swap to hedge a balloon payment of $22.3 million due November 30, 2007 upon the maturity of a 12.00 percent General Mortgage Bond. This swap commences November 30, 2007, and terminates November 30, 2017. Crombie pays interest at a fixed rate of 6.18 percent quarterly and receives a floating rate based on the 90-day bankers' acceptance rate quarterly.

To mitigate the currency risk associated with the Company's U.S. dollar common equity investments, Empire has designated U.S. dollar bank loans as hedges. At the end of the third quarter, Empire had in place U.S. dollar based bankers' acceptances totalling $52.0 million, unchanged from the end of the second quarter and the beginning of the fiscal year. These U.S. dollar bankers' acceptances equalled 83.7 percent of the market value of the designated U.S. common equity investments at January 29, 2005. The average foreign exchange rate (Canadian dollar/U.S. dollar) associated with the U.S. dollar bank loans is 1.3716. The fair market value of this hedge at the end of the second quarter was $6.8 million as a result of the foreign exchange rate moving to 1.2408 at the end of the third quarter from 1.3710 at the beginning of the fiscal year.

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

Certain property investments made by Genstar are in the U.S. and as such Crombie is exposed to foreign currency fluctuations. At the end of the third quarter, the U.S. dollar asset exposure of Crombie totalled $14.5 million. To act as a hedge against a stronger Canadian dollar relative to the U.S. dollar, Crombie has designated U.S. dollar bank loans as hedges. These U.S. short-term borrowings totalled $10.0 million at the end of the third quarter.

## Capital Resources and Sources of Liquidity

Empire's liquidity remained strong at January 29, 2005 as a result of:

- internally generated cash flow from operating activities;
- cash and cash equivalents on hand of $158.1 million;
- an improved working capital position;
- unutilized consolidated bank credit facilities of $609.2 million;
- ready availability of long-term debt financing; and
- an investment portfolio of liquid investments which carried a market value at January 29, 2005 of $390.6 million.

The Company anticipates that these sources of liquidity will be sufficient to meet expected cash outflows over the next year. The Company normally refinances existing long-term debt as it matures, and maintains financial flexibility through its investment portfolio and access to the capital markets for additional long-term debt or equity financing. Longer-term financing has been obtained by Sobeys through Canadian public debt markets via Sobeys' established Medium Term Note ("MTN") program. Sobeys' Short Form Base Prospectus, which enabled the issuance of up to $500 million of MTNs, expired on January 20, 2005. In view of high levels of liquidity and access to committed credit facilities, Sobeys is determining whether or not it will renew its MTN program. Sobeys also utilizes capital leases for the financing of selected properties and assets. The Company, along with Sobeys, anticipates continued ready access to financing sources as a result of in-place investment grade credit ratings and previous experience in the capital markets.

## Cash and Cash Equivalents

At January 29, 2005, cash and cash equivalents amounted to $158.1 million versus $129.5 million at January 31, 2004 and $202.2 million at fiscal year-end, April 30, 2004. The decline in cash and cash equivalents from the end of fiscal 2004 reflects lower cash and cash equivalents being held by the food division.

## Bank Credit Facilities

On a non-consolidated basis, Empire maintains authorized bank lines for operating, general and corporate purposes of $325.0 million, of which 22.2 percent was utilized at January 29, 2005, relatively unchanged with April 30, 2004 utilization. Financial instruments are used from time to time to manage the risk of short-term interest rate fluctuations on underlying short-term bank indebtedness. On a consolidated basis, Empire's authorized bank credit facilities exceeded borrowings by $609.2 million at January 29, 2005, versus $621.6 million at April 30, 2004.

## Cash Flows

The following table highlights major cash flow components for the third quarter and the first 39 weeks of fiscal 2005 compared to last year.

| ($ in millions) | 13 Weeks Ended Jan. 29, 2005 | 13 Weeks Ended Jan. 31, 2004 | 39 Weeks Ended Jan. 29, 2005 | 39 Weeks Ended Jan. 31, 2004 |
|---|---|---|---|---|
| Net earnings | $ 47.7 | $ 53.0 | $ 132.0 | $ 132.1 |
| Items not affecting cash | 82.6 | 74.8 | 220.6 | 192.3 |
| Preferred dividends | (0.1) | (0.1) | (0.3) | (0.3) |
| Net change in non-cash working capital | 8.0 | 1.1 | (127.5) | (124.9) |
| Cash flows from operating activities | 138.2 | 128.8 | 224.8 | 199.2 |
| Cash flows used in investing activities | (95.6) | (33.9) | (241.2) | (266.5) |
| Cash flows used in financing activities | (3.5) | (60.7) | (27.7) | (121.3) |
| Discontinued operations | - | 0.2 | - | 1.3 |
| Increase (decrease) in cash and cash equivalents | $ 39.1 | $ 34.4 | $ (44.1) | $ (187.3) |

**Cash Flows from Operating Activities**

Third quarter cash flows from operating activities amounted to $138.2 million compared to $128.8 million in the same period last year. The increase of $9.4 million was primarily due to a favourable net change in non-cash working capital of $6.9 million compared to the third quarter of last year and an increase in items not affecting cash of 7.8 million (resulting primarily from higher depreciation) offset by a reduction in net earnings of $5.3 million.

On a fiscal year-to-date basis, cash flows from operating activities totalled $224.8 million versus $199.2 million in the comparable period last year. Items not affecting cash were $28.3 million higher than in the same period last year primarily due to higher depreciation expense of $22.6 million.

On an annual basis, cash flows from operating activities are expected to provide a large portion of Empire's fiscal 2005 funding requirements, including its planned expenditures on property, equipment and other assets. In fiscal 2004, cash flows from operating activities of $467.0 million exceeded expenditures on property, equipment and other assets of $431.0 million. In fiscal 2003, cash flows from operating activities funded 80.5 percent of expenditures on property, equipment and other assets.

The Company's cash flows from operating activities can be highly influenced by net changes in non-cash working capital. The section below discusses the key components to Empire's net working capital position.

**Net Working Capital**

The following table details the primary working capital components and respective values at the end of the third quarter as compared to the second quarter fiscal 2005, the fiscal year ended April 30, 2004 and the third quarter last year.

| ($ in millions) | Jan.29, 2005 | Oct. 30, 2004 | Quarter Increase (Decrease) in Working Capital | Apr. 30, 2004 | Year-to-Date Increase (Decrease) in Working Capital | Jan. 31, 2004 | Year-Over-Year Increase (Decrease) in Working Capital |
|---|---|---|---|---|---|---|---|
| Receivables | $298.9 | $294.0 | $4.9 | $329.5 | ($30.6) | $305.2 | ($6.3) |
| Inventories | 543.5 | 563.2 | (19.7) | 483.6 | 59.9 | 513.1 | 30.4 |
| Prepaid expenses | 40.8 | 51.5 | (10.7) | 49.3 | (8.5) | 36.9 | 3.9 |
| Accounts payable and accrued liabilities | (1,045.7) | (1,064.0) | 18.3 | (1,141.2) | 95.5 | (943.2) | (102.5) |
| Income taxes receivable (payable) | 12.5 | 12.1 | 0.4 | (7.2) | 19.7 | (9.8) | 22.3 |
| Net change | | | ($6.8) | | $136.0 | | ($52.2) |

At the end of the third quarter, Empire had decreased its net working capital requirements by $6.8 million compared to the end of the second quarter. This decline was primarily the result of a decrease in inventory for the food division and a decline in prepaid expenses for the food and real estate divisions, partially offset by lower accounts payable and accrued liabilities primarily for the food division. The decrease in inventory, quarter over quarter, for the food division reflects the sell-through of the seasonal merchandise that was required for the December selling season.

**Receivables**

In the third quarter consolidated receivables increased by $4.9 million from the second quarter, to end January 29, 2005 at $298.9 million. Receivables declined $30.6 million from the previous year-end and $6.3 million from the end of the third quarter last year.

The decline in receivables from the previous year-end is primarily the result of the reclassification of $31.0 million of customer related payables in the second quarter by the food division. Historically some customer receivables were reported at a gross value and the customer payables were reported in accounts payable. During the second quarter of fiscal 2005, Sobeys began netting the receivables and related payables for these customers.

**Inventory**

Empire's consolidated inventories declined by $19.7 million from the second quarter to end January 29, 2005 at $543.5 million. The food division accounted for 89.2 percent of Empire's total inventory balance and $27.3 million of the consolidated inventory decrease, which was partially offset by an increase in real estate inventories of $7.4 million. The decrease in inventory, quarter over quarter, for the food division is primarily due to the sell-through of the seasonal merchandise that was required for the December selling season, as previously mentioned.

At the end of the third quarter, Empire's consolidated inventories had grown by $59.9 million relative to fiscal year-end largely as a result of a $39.3 million increase in food division inventories and a $20.3 million increase in real estate inventories. The increase in food division inventory is the result of higher inventory levels required to support an expanded store network. The increase in real estate inventory is largely the result of a condominium development in Halifax, Nova Scotia.

Year over year, Empire's consolidated inventory increased $30.4 million as a result of higher inventory of $17.2 million for the food division, required to support the expanded store network, and higher inventory of $12.8 million for the real estate business, resulting from the condominium development as previously mentioned.

## Accounts Payable and Accrued Liabilities

Empire consolidated accounts payable and accrued liabilities decreased by $18.3 million from the second quarter, to end January 29, 2005 at $1,045.7 million. The food division accounted for 92.6 percent of Empire's total payable balance and $17.5 million of the consolidated payable decrease.

Consolidated accounts payable and accrued liabilities declined by $95.5 million since fiscal year-end, largely the result of the decline in food division accounts payables of $83.2 million. The decline in food division accounts payables was primarily attributed to the netting of receivables and payables as mentioned in the second quarter of fiscal 2005, along with a reduction in supplier trade payables and accrued construction liabilities.

Compared to January 31, 2004, accounts payable and accrued liabilities increased $102.5 million, largely resulting from higher payables of $92.6 million recorded by the food division. This increase is related to the increase in inventory, previously mentioned, combined with improved supplier trade payables.

## Cash Flows used in Investing Activities

Third quarter cash flows used in investing activities were $95.6 million compared to $33.9 million in the third quarter last year. The increase of $61.7 million was primarily due to a net increase in investments compared to the same period last year, partially offset by a reduction in the purchase of property, equipment and other assets by the food division.

Fiscal year-to-date, cash used in investing activities of $241.2 million decreased by $25.3 million compared to the $266.5 million of cash used in investing activities for the comparable period last year. The decline largely reflects a reduction in investment in property and equipment by the food division and in the funds used to purchase common shares of Sobeys in the first 39 weeks of fiscal 2005 compared to the same period last year. Details on the nature of the Company's capital expenditures are provided below.

## Capital Expenditures

Consolidated purchases of property, equipment and other assets totalled $98.0 million in the third quarter of fiscal 2005, compared to $109.0 million in the third quarter last year. For the 39-weeks ended January 29, 2005, consolidated purchases of property, equipment and other assets equalled $244.3 million versus $303.7 million for the comparable period last year. The bulk of total capital spending continues to be matched to the food division.

Company-wide capital investment by Sobeys in the third quarter totalled $110.0 million and $308.0 million for the 39-weeks of fiscal 2005. This spending is largely centered on retail store development. During the third quarter, Sobeys opened 11 corporate stores compared to 16 corporate and franchised stores opened or replaced in the third quarter of last year. An additional five stores were expanded in the quarter. Sobeys rebannered one store in the quarter compared to 51 stores in the third quarter last year and year-to-date, a total of 19 stores compared to 69 last year.

In the third quarter, Sobeys net retail square footage increased by 181,742 square feet (281,681 feet opened less 99,939 feet closed). Fiscal year-to-date net retail store additions totalled 389,001 square feet (714,697 feet opened less 325,696 feet closed). At January 29, 2005, Sobeys' square footage totalled 24.4 million square feet, a 5.7 percent increase over January 31, 2004.

The decrease in capital expenditures in the quarter and fiscal year-to-date was primarily attributed to lower capital spending by the food division due to a shift in the timing of capital activity and some delays in completing renovation projects during the quarter and fiscal year-to-date. Sobeys' expects an acceleration of its investment in property and equipment in the last quarter of the current fiscal year.

### Cash Flows used in Financing Activities

Third quarter cash flows used in financing activities amounted to $3.5 million compared to $60.7 million in the third quarter last year. The change of $57.2 million was primarily related to increased reliance on bank indebtedness relative to the third quarter last year by the real estate division.

Fiscal year-to-date, cash flows used in financing activities equalled $27.7 million compared to $121.3 million last year. The reduction of $93.6 million was largely attributed to the repayment of the Sobeys $100.0 million Series B MTN in the second quarter last year.

### Dividend Payments

Dividends of $7.9 million ($0.12 per share) were paid in the third quarter of fiscal 2005 on Empire's Non-Voting Class A shares and Class B common shares, up from the $6.6 million ($0.10 per share) paid in the third quarter of fiscal 2004. There was no material change in the number of shares outstanding year-over-year.

Fiscal year-to-date, Empire paid common dividends totalling $23.7 million, up from $19.8 million in the comparable period last year. The year-over-year increase reflects an increase in the quarterly dividend rate per share, to $0.12 per share from $0.10 per share, at the beginning of the fiscal year.

## Accounting Policy Changes

### Accounting Policy Changes Implemented in Fiscal 2005

During fiscal 2004, the Canadian Institute of Chartered Accountants ("CICA") introduced Handbook Section 1100, "Generally Accepted Accounting Principles", which deleted the reference to industry practice that had previously constituted a source for Canadian GAAP. The Company had been following industry practice with respect to depreciation and lease accounting. Section 1100 now requires the Company to recognize depreciation of real estate buildings, rental expense and income from tenant leases on a straight-line basis. During the first quarter, the Company adopted this handbook section prospectively without restatement.

The food division has also adopted this section prospectively without restatement and as a result Sobeys has changed its policy to record real estate lease expense on a straight-line basis. Additional real estate lease expense of $1.5 million was recorded by Sobeys in the first three quarters of fiscal 2005 as a result of this policy change. An additional $0.5 million of expense is expected to be recorded in the balance of Sobeys' 2005 fiscal year as a result of the adoption of this policy.

The real estate division has adopted this section prospectively without restatement and has commenced recording income from tenant leases on a straight-line basis resulting in additional real estate revenue of $1.7 million during the first three quarters and an expected additional $0.5 million during the remainder of fiscal 2005. In addition, the real estate division has changed its method of depreciation from the sinking fund method to the straight-line method, resulting in an incremental $0.9 million of depreciation expense during the first three quarters and an expected additional $0.3 million during the remainder of fiscal 2005.

Accounting guideline ("AcG") 13, "Hedging Relationships", came into effect during the current fiscal year. This guideline addresses the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting and provides guidance with respect to the discontinuance of hedge accounting. There was no effect on the Company of prospectively adopting this guideline.

During the first quarter of fiscal 2005, the CICA Handbook Section 3110, "Asset Retirement Obligations" was adopted. This section establishes standards for the recognition, measurement, and disclosure of legal obligations associated with the costs to retire long-lived assets. There has been no impact on the Company from the retroactive adoption of this section.

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

Sobeys receives allowances from certain vendors, whose products are purchased for resale. Included in these vendor programs are allowances for volume purchases, exclusivity allowances, listing fees, and other allowances. Due to the retroactive implementation of EIC-144, the timing of recognition of certain vendor allowances has changed, resulting in the Company recording a decrease in opening retained earnings for fiscal 2004 of $3.8 million (net of income tax affect of $3.4 million and minority interest of $2.1 million), and a decrease to inventory of $9.3 million. The implementation of EIC-144 did not result in a material change in the annual net earnings for fiscal 2004 or in the current or prior year's quarterly net earnings. The fiscal 2005 full-year impact of this adoption is not anticipated to be material to net earnings, provided that inventory levels, inventory turnover and vendor allowances remain relatively consistent.

Subsequent to the end of the Company's third quarter, a number of U.S. and Canadian public companies announced changes to their interpretation of generally accepted accounting principles related to leasing transactions. The Company has determined that it will follow these new interpretations and, if necessary, adjust its accounting for lease allowances received. Historically, in some instances, the Company classified lease allowances received as a reduction of either property and equipment or leasehold improvements and amortized these allowances over the estimated useful life of the related asset, matching the depreciation of the related asset. The Company has now determined that, in all cases, lease allowances received will be recorded as a deferred credit and amortized as a reduction of rent expense over the term of the related lease. In some cases, the lease term is a longer period of time than the estimated useful life of the related fixed asset. The Company has begun a review of all leases and at this time has not identified the need for any material adjustment to its financial statements. The Company's review will continue, and if it is determined an adjustment is necessary, that adjustment will be recorded in the Company's fourth quarter financial statements. Any necessary adjustment would not have an impact on the Company's historical or future revenues, cash flows or lease payments.

**Future Accounting Policy Changes**

During the previous fiscal year, the CICA issued AcG 15 "Consolidation of Variable Interest Entities", which is applicable to the Company's fourth quarter of fiscal 2005. Subsequently, on May 5, 2004, the CICA issued further guidance on this guideline. A Variable Interest Entity ("VIE") is any type of legal structure not controlled by voting equity, but rather by contractual and/or other financial arrangements. Sobeys has identified approximately 280 franchised stores that are potential VIEs and is currently reviewing the guidance to determine to what extent consolidation and note disclosure will be required in the fourth quarter of fiscal 2005. The consolidation of potential VIEs is not expected to result in any material change in the reported earnings or underlying tax, legal or credit risks facing Sobeys.

### Critical Accounting Estimates

The critical accounting estimates relating to: pension, post-retirement and post-employment benefits; goodwill and long-lived assets; and income taxes as discussed in the MD&A section of the Company's 2004 Annual Report (pages 44 & 45), remain substantially unchanged.

### Contingency

Subsequent to third quarter, Lumsden Brothers Limited, a wholesaling subsidiary of Sobeys, received notice from the Canada Revenue Agency ("CRA") that it is proposing a reassessment related to Goods and Services Tax ("GST") for fiscal years 1999 and 2000. The proposed reassessment relates to GST on sales of tobacco products to status Indians. CRA asserts that Lumsden was obliged to collect GST on the sales of these tobacco products to status Indians.

The total tax, interest and penalties in the proposed reassessment are approximately $13 million. Lumsden has reviewed this matter, has received legal advice, and believes it was not required to collect GST. Lumsden is challenging this proposed reassessment and if necessary will defend against any reassessments to the appropriate judicial bodies. Accordingly, the Company has not recorded any of the proposed tax, interest or penalties in its financial statements.

### Change in Fiscal Year-end

Effective for fiscal 2005, Empire's fiscal year-end has changed from April 30th to the first Saturday in May to be consistent with its major subsidiary, Sobeys. As such, the quarter-end dates and fiscal year-end date will be consistent with Sobeys. Concerning the Company's third quarter reporting, the comparative figures are for the three months and the nine months ended January 31, 2004.

### Contractual Obligations

There are no material changes to the Company's contractual obligations as presented on page 46 of the Company's 2004 Annual Report.

## Risk Management

Risk and uncertainties related to economic and industry factors and the Company's management of this risk, is discussed in detail in the "Management's Discussion and Analysis" section of the Company's 2004 Annual Report (pages 23-47), as well as the Company's fiscal 2005 first quarter MD&A (pages 37-40).

## Outlook

We are confident in our strategy and in our ability to build long-term sustainable growth in value. Our outlook assumes continued intense competition and conservative cost of capital assumptions. Management remains committed to executing operational and capital allocation decisions that will grow the cash flow and net asset value in each of our businesses over the long-term.

### Defining Forward-Looking Statements

Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" and similar expressions. In addition, any statement that may be made concerning future financial performance, ongoing business strategies or prospects, or possible future Company action, is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, risks, uncertainties, competitive or economic factors that may cause actual results or events to differ materially from the results or events predicted.

Forward-looking statements are not guarantees about future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by the Company due to, but not limited to: the ability to execute on operating company strategic initiatives; the impact of competition; general economic conditions; interest rate and currency exchange rate fluctuations; conditions affecting the North American equity markets; conditions affecting the growth and development of our real estate property portfolio; the ability of our operating companies to attract and retain quality employees and franchisees; labour disruptions; environmental, health and safety issues; technological change; unexpected judicial or regulatory proceedings; and the availability of capital and associated cost of capital. As a result of these risk factors and others, no guarantee can be given that the results implied by any forward-looking statements will necessarily materialize. The reader is cautioned to consider these and other factors carefully and not to place undue reliance on forward-looking statements.

### Defining Non-GAAP Measures

Empire's definition of the non-GAAP terms found in this document are as follows:

- EBITDA is calculated as operating income plus depreciation and intangible amortization.
- Operating income or EBIT is calculated as operating earnings plus interest expense and income taxes.
- Operating earnings is calculated as net earnings before net capital gain (loss) and other items.
- Funds from operations is calculated as operating earnings plus depreciation expense.
- Interest coverage is calculated as operating income divided by interest expense.
- Net working capital is calculated as receivables plus inventories, plus prepaid expenses, less accounts payable and accrued liabilities, less the current portion of future income taxes payable.
- Funded debt is calculated as bank indebtedness plus long-term debt due within one year, plus long-term debt.
- Net debt is calculated as funded debt less cash and cash equivalents.
- Total capital is calculated as funded debt plus shareholders' equity.
- Net asset value is management's estimate of the market value of the Company's assets less liabilities.
- Effective tax rate is calculated as income tax expense (from operating activities) divided by operating income less interest expense.
- Company-wide capital investment is a term used by the Food Distribution division. It equals on-balance sheet capital expenditures, all known capital investments by franchise affiliates and capital investments by third-party landlords.

The reader should know that the respective definitions, as stated above, are those used by Empire and may not be directly comparable to similar measures used by other companies.

## Other Matters

On November 24, 2004, the stock symbol for Empire's Non-voting Class A Shares changed from EMP.A to EMP.NV.A in accordance with the Toronto Stock Exchange's initiative to identify stock listings by the type of voting structure each issue offers. The name of the stock and the voting rights remain unchanged.

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

Dated: March 9, 2005
Stellarton, Nova Scotia, Canada

# INVESTOR INFORMATION

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Internet: www.empireco.ca

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

Communications regarding investor records including changes of address or ownership, should be directed to the Company's transfer agent, CIBC Mellon Trust Company.

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

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

**AVERAGE DAILY TRADING VOLUME**
27,793

**COMMON DIVIDEND RECORD AND PAYMENT DATES FOR FISCAL 2005***

| Record Date | Payment Date |
|---|---|
| July 15, 2004 | July 30, 2004 |
| October 15, 2004 | October 29, 2004 |
| January 14, 2005 | January 31, 2005 |
| April 15, 2005 | April 29, 2005 |

** subject to approval by Board of Directors*

**STOCK EXCHANGE LISTING**
The Toronto Stock Exchange

**OUTSTANDING SHARES**

| As of March 9, 2005 | |
|---|---|
| Non-Voting Class A shares | 30,850,585 |
| Options exercisable with Non-Voting Class A shares | 27,674 |
| Class B common shares | 34,885,225 |

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

**SOLICITORS**
Stewart McKelvey Stirling Scales
Halifax, Nova Scotia

**AUDITORS**
Grant Thornton, LLP
New Glasgow, Nova Scotia

**MULTIPLE MAILINGS**
If you have more than one account, you may receive a separate annual report for each. If this occurs, please contact CIBC Mellon Trust Company at (800) 387-0825 to eliminate the multiple mailings.

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