EMPIRE

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

Empire Company Limited
Quarterly Report
Third Quarter Fiscal 2006
Thirty-Nine Weeks Ended February 4, 2006

Quarterly Report to Shareholders

Empire is a diversified Canadian company headquartered in Stellarton, Nova Scotia. Empire's key businesses are retail food distribution (through 68.3% ownership of Sobeys Inc. ("Sobeys")), real estate (through two wholly-owned operating subsidiaries: Sobey Leased Properties Limited ("SLP"), and ECL Properties Limited ("ECL"), 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 $5.2 billion in assets, Empire employs approximately 37,000 people directly and through its subsidiaries.

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

The Company provided additional details concerning its third quarter results on a conference call held on Thursday, March 16, 2006. Replay of the call is available on the Company's website (www.empireco.ca).

Forward-looking Statements

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

Letter to Shareholders

On March 16, 2006, Empire announced operating earnings for its third quarter ended February 4, 2006 of $47.7 million or $0.72 per share on a fully diluted basis compared to $46.2 million or $0.70 per share on a fully diluted basis in the third quarter last year.

Net earnings amounted to $56.0 million or $0.85 per share on a fully diluted basis versus $47.6 million or $0.72 per share last year on a fully diluted basis. The Company realized a net capital gain on the sale of investments of $8.3 million in the third quarter as compared to a net capital gain of $1.4 million realized on the sale of investments in the third quarter last year.

Third Quarter Highlights

- *Revenue of $3.26 billion, up $285.9 million or 9.6 percent over the third quarter last year.*
- *Earnings before net capital gain (loss) and other items of $47.7 million, up $1.5 million or 3.2 percent over the third quarter last year.*
- *Capital gain and other items, net of tax, of $8.3 million in the quarter versus a $1.4 million net capital gain in the third quarter last year.*
- *Net earnings of $56.0 million, up $8.4 million from $47.6 million reported in the third quarter last year.*
- *Funded debt to total capital of 41.1 percent compared to 41.4 percent at the start of the fiscal year.*

Financial Performance

	Fiscal 2006			Fiscal 2005	Reported	Adjusted
($ in millions)	Reported Revenue	VIE Impact*	Adjusted Revenue	Reported Revenue	Growth over Fiscal 2005	Growth over Fiscal 2005
Third Quarter	$3,264	$120	$3,144	$2,978	9.6%	5.6%
Fiscal Year-to-Date	$9,912	$432	$9,480	$9,075	9.2%	4.5%

* *Effective for the fourth quarter ended May 7, 2005, the Company implemented Accounting Guideline 15 "Consolidation of Variable Interest Entities" which required the Company to consolidate certain entities that are deemed to be subject to control of the Company on a basis other than through ownership of a voting interest in the entity.*

Revenue for the third quarter was $3.26 billion compared to $2.98 billion last year, a 9.6 percent increase. The food division generated sales of $3.17 billion, an increase of $254.9 million or 8.7 percent over the third quarter last year. Impacting sales growth in the third quarter of fiscal 2006 was the consolidation of Variable Interest Entities ("VIEs"), which accounted for approximately $120 million or 4.0 percentage points of the increase in Empire's revenue over the third quarter last year. Excluding the impact of VIEs, revenue grew by 5.6 percent in the third quarter over the same period last year.

In the third quarter, 25 corporate and franchised stores were opened or replaced, compared to 11 corporate and franchised stores opened or replaced during the third quarter last year. An additional seven stores were expanded during the quarter compared to five store expansions in the third quarter last year. At the end of the third quarter Sobeys had 25.3 million square feet of retail space, a 3.7 percent increase over the end of the third quarter last year.

Sobeys' same-store sales, sales from stores in the same locations in both reporting periods, increased by 4.1 percent during the third quarter compared to the same period last year. Same-store sales growth exceeded inflation in each of Sobeys' four operating regions.

Empire’s ownership interest in Sobeys was 68.3 percent at the end of the third quarter compared to 66.1 percent a year earlier.

Real estate operations reported revenue (net of inter-segment revenues) of $47.9 million, an increase of $4.7 million or 10.9 percent over the third quarter last year. Commercial property revenues increased $2.7 million or 8.1 percent to reach $35.9 million. Revenue from residential operations, through a 35.7 percent interest in Genstar Development Partnership (”Genstar”), increased $2.0 million or 20.0 percent compared to the same period last year to reach $12.0 million.

Revenue from other operations, primarily Empire Theatres, amounted to $44.6 million, an increase of $26.3 million over the third quarter last year. Other operations revenue in the third quarter of fiscal 2006 benefited from 13 weeks of operations of 28 movie-theatres acquired in the second quarter of fiscal 2006.

Consolidated operating income (operating earnings before minority interest, interest expense and income taxes) in the third quarter totalled $118.3 million, an increase of $5.0 million or 4.4 percent compared to the third quarter last year.

The food division contributed operating income of $78.6 million, an increase of $2.4 million or 3.1 percent compared to the third quarter last year. Third quarter operating margin, which is operating income divided by revenue, was 2.48 percent in the third quarter compared to 2.61 percent in the third quarter last year. Impacting operating income growth was a $7.1 million increase in food division depreciation and amortization expense, reflecting Sobeys continued capital investments. Also included in food division operating income are business process and system initiative costs in the Ontario region amounting to $4.9 million. These costs include the severance, labour, implementation and training costs associated with the Ontario region systems implementation as well as the cost of writing off the Commisso’s brand name in the third quarter. As part of the transformation of the Ontario business, the food division is converting 12 Commisso’s stores in Ontario to the Sobeys and Price Chopper banners.

The real estate division contributed operating income of $32.2 million, relatively unchanged from the $32.1 million recorded in the third quarter last year. Operating income generated from commercial properties declined $2.0 million while operating income from residential operations increased $2.1 million over the third quarter last year, reflecting continued strong performance in Western Canada and from U.S. joint venture activities.

Trailing (last four quarters) funds from operations (net earnings, before net capital gain (loss) and other items, plus depreciation) for the real estate division now equals $74.2 million versus $62.7 million for the prior twelve-month period.

Investments and other operations’ operating income equalled $7.5 million in the third quarter compared to $5.0 million in the third quarter last year. The increase is attributed to higher operating income for theatre operations and increased equity earnings from Empire’s 27.6 percent ownership interest in Wajax Income Fund.

Interest expense increased $1.2 million, to $21.6 million from $20.4 million in the third quarter last year. Funded indebtedness increased largely as a result of funding the acquisition of 28 movie-theatres in the second quarter of fiscal 2006 and as a result of the purchase in the fourth quarter last year of 1.5 million common shares of Sobeys Inc., net of proceeds from investment sales.

The Company recorded a net capital gain of $8.3 million in the third quarter as a result of the sale of portfolio investments. A net capital gain of $1.4 million was realized from the sale of investments in the third quarter last year.

Consolidated net earnings, including net capital gains, totalled $56.0 million or $0.85 per share on a fully diluted basis versus $47.6 million or $0.72 per share on a fully diluted basis in the third quarter last year, a 17.6 percent increase. Excluding net capital gains, Empire recorded earnings of $47.7 million or $0.72 per share on a fully diluted basis in the third quarter versus $46.2 million or $0.70 per share on a fully diluted basis in the third quarter last year, a 3.2 percent increase.

Consolidated Financial Condition

The ratio of funded debt to capital at the end of the third quarter equalled 41.1 percent versus 41.4 percent at the beginning of the fiscal year. Operating income provided 5.5 times coverage of interest expense in the third quarter, unchanged from the third quarter last year.

At February 4, 2006, Empire's investment portfolio carried a market value of $505.5 million on a cost base of $340.9 million, resulting in an unrealized gain of $164.6 million. At the end of the third quarter last year, the unrealized capital gain on the investment portfolio was $90.1 million.

Since the beginning of the fiscal year to the end of the third quarter, the Company has realized capital gains and other items, primarily from the sale of investments, of $37.6 million.

The total return on the investment portfolio for the twelve-month period ended December 31, 2005 was 27.4 percent as compared to a 24.1 percent return for the S&P/TSX Composite Index and a 1.6 percent return for the S&P 500 Index (in Canadian dollars) over the same time period.

The purchase of property, equipment and other assets in the third quarter equalled $204.1 million ($418.9 million fiscal year-to-date) as compared to $98.1 million in the same quarter last year ($244.4 million last fiscal year-to-date). Investment in food division property, equipment and other assets accounted for $147.7 million of the total capital investment in the third quarter and $322.8 million fiscal year-to-date. Capital expenditures for the real estate division amounted to $27.6 million in the third quarter and $55.4 million fiscal year-to-date. Capital expenditures for corporate and other operations equalled $28.8 million in the third quarter and $40.7 million fiscal year-to-date.

Dividend Declaration

The Board of Directors declared a quarterly dividend of $0.14 per share on both the Non-Voting Class A shares and the Class B common shares that will be payable on April 28, 2006, to shareholders of record on April 14, 2006. In addition, the Board declared regular dividends on the Company's outstanding preferred shares.

In conclusion, all of our operating companies posted higher earnings in the quarter and are making tangible progress towards the execution of their respective business plans.

We are pleased to see that the execution of Sobeys' food-focused strategy continues to drive strong same store sales growth and that we remain on track with respect to ongoing productivity, supply chain and systems initiatives.

On the real estate side of the business, we look forward to the successful launch of Crombie REIT's initial public offering towards the end of March and are committed to a significant ownership interest in this newly-formed entity.

Paul D. Sobey
President & Chief Executive Officer
March 16, 2006

EMPIRE COMPANY LIMITED
CONSOLIDATED BALANCE SHEETS
(in millions)

	February 4 2006 Unaudited	May 7 2005 Audited	January 29 2005 Unaudited *Restated (Note 1)*
ASSETS			
Current			
Cash and cash equivalents	**$ 171.3**	$ 281.7	$ 158.1
Receivables	**274.9**	257.8	298.9
Income taxes receivable	**-**	15.0	12.5
Inventories	**726.6**	639.6	543.5
Prepaid expenses	**50.6**	52.3	40.8
Assets held for sale (Note 16)	**13.7**	-	-
	1,237.1	1,246.4	1,053.8
Investments, at cost (quoted market value $348.3; May 7, 2005 $320.9; January 29, 2005 $291.8)	**297.3**	270.8	247.3
Investments, at equity (realizable value $157.2; May 7, 2005 $162.4; January 29, 2005 $116.0)	**43.6**	72.9	70.4
Current assets and marketable investments	**1,578.0**	1,590.1	1,371.5
Property and equipment	**2,135.5**	2,429.8	2,357.8
Other assets (Note 4)	**240.4**	212.9	298.7
Long-term assets held for sale (Note 16)	**556.6**	11.5	11.8
Goodwill	**713.5**	684.9	670.4
	$ 5,224.0	$ 4,929.2	$ 4,710.2
LIABILITIES			
Current			
Bank indebtedness	**$ 253.4**	$ 219.4	$ 176.1
Accounts payable and accrued liabilities	**1,130.3**	1,149.1	1,045.8
Income tax payable	**1.2**	-	-
Future income taxes	**47.9**	52.4	43.7
Long-term debt due within one year (Note 5)	**43.8**	247.0	243.3
Liabilities relating to assets held for sale (Note 16)	**43.5**	-	-
	1,520.1	1,667.9	1,508.9
Long-term debt (Note 5)	**684.8**	727.4	710.8
Long-term lease obligation	**13.1**	12.3	12.3
Deferred revenue	**0.9**	3.0	3.8
Employee future benefit obligation	**98.0**	94.5	94.7
Future income taxes	**100.0**	158.8	150.7
Long-term liabilities relating to assets held for sale (Note 16)	**345.2**	-	-
Minority interest	**606.1**	556.3	555.3
	3,368.2	3,220.2	3,036.5
SHAREHOLDERS' EQUITY			
Capital stock (Note 6)	**195.0**	194.6	196.8
Retained earnings	**1,662.1**	1,515.5	1,478.1
Cumulative translation adjustment	**(1.3)**	(1.1)	(1.2)
	1,855.8	1,709.0	1,673.7
	$ 5,224.0	$ 4,929.2	$ 4,710.2

Contingent liabilities (Note 17)
See accompanying notes to the unaudited interim period consolidated financial statements.

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

	Februrary 4, 2006	January 29, 2005 *Restated (Note 1)*
Balance, beginning of period as previously reported	**$ 1,515.5**	$ 1,380.7
Adjustment due to adoption of accounting standards (Note 1)	**(3.4)**	(9.2)
Balance, beginning of period as restated	**1,512.1**	1,371.5
Net earnings	**178.4**	131.8
	1,690.5	1,503.3
Dividends		
Preferred shares	**(0.2)**	(0.3)
Common shares	**(27.5)**	(23.7)
	(27.7)	(24.0)
Premium on common shares purchased for cancellation	**(0.7)**	(1.2)
Balance, end of period	**$ 1,662.1**	$ 1,478.1

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

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

	February 4 2006 *(13 weeks)*	January 29 2005 *(13 weeks)* *Restated (Note 1)*	**February 4 2006 *(39 weeks)***	January 29 2005 *(39 weeks)* *Restated (Note 1)*
Revenue	**$ 3,264.4**	$ 2,978.5	**$ 9,911.7**	$ 9,075.0
Cost of sales, selling and administrative expenses	**3,093.5**	2,821.4	**9,406.4**	8,604.6
	170.9	157.1	**505.3**	470.4
Depreciation and amortization	**60.2**	49.3	**169.1**	146.0
	110.7	107.8	**336.2**	324.4
Investment income (Note 7)	**7.6**	5.5	**24.3**	15.3
Operating income	**118.3**	113.3	**360.5**	339.7
Interest expense				
Long-term debt	**18.7**	19.8	**58.0**	60.3
Short-term debt	**2.9**	0.6	**6.7**	3.1
	21.6	20.4	**64.7**	63.4
	96.7	92.9	**295.8**	276.3
Capital gain (loss) and other items (Note 8)	**10.2**	1.7	**37.6**	(2.3)
Earnings before income taxes and minority interest	**106.9**	94.6	**333.4**	274.0
Income taxes				
Current	**36.7**	19.2	**106.7**	79.5
Future	**0.9**	12.6	**0.3**	15.1
	37.6	31.8	**107.0**	94.6
Earnings before minority interest	**69.3**	62.8	**226.4**	179.4
Minority interest	**13.3**	15.2	**48.0**	47.6
Net earnings	**$ 56.0**	$ 47.6	**$ 178.4**	$ 131.8
Earnings per share (Note 3)				
Basic	**$ 0.86**	$ 0.73	**$ 2.72**	$ 2.01
Diluted	**$ 0.85**	$ 0.72	**$ 2.71**	$ 2.00
Weighted average number of common shares outstanding, in millions				
Basic	**65.5**	65.5	**65.5**	65.5
Diluted	**65.8**	65.8	**65.8**	65.8

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

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

	February 4 2006 (13 weeks)	January 29 2005 (13 weeks) Restated (Note 1)	**February 4 2006 (39 weeks)**	January 29 2005 (39 weeks) Restated (Note 1)
Operating Activities				
Net earnings	**$ 56.0**	$ 47.6	**$ 178.4**	$ 131.8
Items not affecting cash (Note 9)	**80.8**	82.7	**208.5**	221.0
Preferred dividends	**(0.1)**	(0.1)	**(0.2)**	(0.3)
	136.7	130.2	**386.7**	352.5
Net change in non-cash working capital	**38.7**	8.2	**(92.6)**	(127.4)
Cash flows from operating activities	**175.4**	138.4	**294.1**	225.1
Investing Activities				
Net decrease (increase) in investments	**56.9**	6.0	**(19.1)**	27.6
Net proceeds from sale of Wajax Income Fund	**-**	-	**50.5**	-
Purchase of shares in subsidiary, Sobeys Inc.	**-**	(5.7)	**-**	(34.9)
Purchase of property, equipment and other assets	**(204.1)**	(98.1)	**(418.9)**	(244.4)
Proceeds from sale of property	**0.9**	7.5	**12.2**	29.1
Business acquisitions, net of cash acquired	**(0.2)**	(4.7)	**(87.5)**	(18.1)
Cumulative translation adjustment	**-**	(0.6)	**-**	(0.6)
Cash flows used in investing activities	**(146.5)**	(95.6)	**(462.8)**	(241.3)
Financing Activities				
(Increase) in bank indebtedness	**(102.7)**	7.9	**34.0**	35.3
Increase in construction loans	**(2.0)**	-	**-**	(1.2)
Issue of long-term debt	**72.7**	13.9	**271.1**	25.1
Repayment of long-term debt	**(11.9)**	(18.5)	**(225.4)**	(65.5)
(Decrease) increase in long-term lease obligation	**(0.2)**	(0.2)	**0.8**	(0.2)
(Decrease) increase in minority interest	**(1.4)**	1.1	**6.6**	3.0
Issue of Non-Voting Class A shares	**-**	-	**0.8**	0.9
Repurchase of Non-Voting Class A shares for cancellation	**-**	-	**(0.8)**	(1.6)
Common dividends	**(9.2)**	(7.9)	**(27.5)**	(23.7)
Cash flows (used in) from financing activities	**(54.7)**	(3.7)	**59.6**	(27.9)
(Decrease) increase in cash and cash equivalents	**(25.8)**	39.1	**(109.1)**	(44.1)
Cash and cash equivalents, beginning of period	**198.4**	119.0	**281.7**	202.2
Cash and cash equivalents, end of period (*)	**$ 172.6**	$ 158.1	**$ 172.6**	$ 158.1

(*) Cash and cash equivalents at February 4, 2006 includes $1.3 shown in Assets held for sale (Note 16).

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

EMPIRE COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
February 4, 2006

(Unaudited, in millions, except per share amounts)

1. Summary of Significant Accounting Policies

Interim financial statements

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

Generally accepted accounting principles

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

a) Real estate leases

On February 7, 2005, the Office of the Chief Accountant of the U.S. Securities and Exchange Commission (SEC) issued a clarification in respect of accounting for various components of property leases and leasehold improvements on which U.S. and Canadian accounting governing bodies had been largely silent. As a result of the SEC clarification the Company has adopted the following two accounting policies. Lease inducements received as a reimbursement for leasehold improvement costs are amortized over the term of the lease. The total lease expense is amortized straight-line over the entire term of the lease including rent free periods related to store fixturing. A store fixturing period varies by store but is generally considered to be one month prior to the store opening. The Company has adopted this guideline retroactively with restatement (see Note 13).

b) Vendor allowances

In January 2004, the Canadian Institute of Chartered Accountants (CICA) Emerging Issues Committee (EIC) issued Abstract 144, "Accounting by a customer (including a reseller) for certain consideration received from a vendor". EIC-144 outlines that cash consideration received from a vendor is presumed to be a reduction in the prices of the vendor's products or services and should be accounted for as a reduction in cost of sales and related inventory, when recognized in the customer's income statement and balance sheet. Certain exceptions apply if the consideration is a payment for assets or services delivered to the vendor or for reimbursement costs incurred to sell the vendor's products, provided certain conditions are met. The Company adopted EIC-144 in November 2004, adjusting for it retroactively, with restatement of the comparative periods.

During the first quarter of fiscal 2006, the Company adopted the amendment to EIC-144 issued in January 2005. The amendment requires disclosure of the amount of any vendor allowances that have been recognized in income but for which the full requirements for entitlement have not yet been met (see Note 14).

1. Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

EMPIRE COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
February 4, 2006
(Unaudited, in millions, except per share amounts)

1. Summary of Significant Accounting Policies (continued)

Use of estimates

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

2. Sale of Wajax Income Fund

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

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

EMPIRE COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
February 4, 2006
(Unaudited, in millions, except per share amounts)

3. Earnings Per Share

Basic earnings per share is calculated by dividing the earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated using the treasury method and assumes that outstanding stock options were exercised and that share purchase loans were repaid at the beginning of the period.

Earnings applicable to common shares is comprised of the following:

	2006 (13 weeks)	2005 (13 weeks) Restated (Note 1)	**2006 (39 weeks)**	2005 (39 weeks) Restated (Note 1)
Operating earnings	**$ 47.7**	$ 46.2	**$ 145.1**	$ 133.6
Capital gain (loss) and other items, net of tax of $1.9; $0.3; $4.3; $(0.5)	**8.3**	1.4	**33.3**	(1.8)
Net earnings	**56.0**	47.6	**178.4**	131.8
Preferred share dividends	**(0.1)**	(0.1)	**(0.2)**	(0.3)
Earnings applicable to common shares	**$ 55.9**	$ 47.5	**$ 178.2**	$ 131.5
Earnings per share is comprised of the following:				
Operating earnings	**$ 0.73**	$ 0.71	**$ 2.21**	$ 2.04
Capital gain and other items	**0.13**	0.02	**0.51**	(0.03)
Basic earnings per share	**$ 0.86**	$ 0.73	**$ 2.72**	$ 2.01
Diluted earnings per share	**$ 0.85**	$ 0.72	**$ 2.71**	$ 2.00

4. Other Assets

	February 4 2006	May 7 2005	January 29 2005
Loans and mortgages receivable	**$ 63.6**	$ 41.7	$ 148.5
Deferred costs	**152.5**	149.6	134.2
Intangibles (less accumulated amortization of $4.2; May 7, 2005 $2.4; January 29, 2005 $1.6)	**24.3**	21.6	16.0
	$ 240.4	$ 212.9	$ 298.7

Loans receivable decreased by $98.5 as a result of the consolidation of VIEs (see Note 15).

5. Long-Term Debt

On October 21, 2005, the Company filed a short form base shelf prospectus providing for the issuance of up to $500.0 of unsecured Medium Term Notes. On October 28, 2005, the Company issued new Medium Term Notes of $175.0, maturing October 29, 2035.

On November 1, 2005, Medium Term Notes of $175.0 were repaid according to the terms of the agreement.

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6. Capital Stock

During the period, under a normal course issuer bid which expires on July 27, 2006, the Company purchased for cancellation 20,254 (2005 – 61,129) Non-Voting Class A shares. The purchase price was $0.8 of which $0.7 of the purchase price (representing the premium on common shares purchased for cancellation) was charged to retained earnings. During the period 20,254 (2005 – 42,129) Non-Voting Class A shares were issued under the Company's stock option and share purchase plans to certain officers and employees for $0.8 (2005 - $0.9). Loans receivable from officers and employees of $4.7 (May 7, 2005 - $4.4; January 29, 2005 - $4.7) under the Company's share purchase plan are classified as a reduction of Shareholders' Equity.

7. Investment Income

	2006 (13 weeks)	2005 (13 weeks)	**2006 (39 weeks)**	2005 (39 weeks)
Dividend and interest income	**$ 2.1**	$ 2.0	**$ 6.3**	$ 6.6
Share of income of investments accounted for by the equity method	**5.5**	3.5	**18.0**	8.7
	$ 7.6	$ 5.5	**$ 24.3**	$ 15.3

8. Capital Gain (loss) and Other Items

	2006 (13 weeks)	2005 (13 weeks)	**2006 (26 weeks)**	2005 (26 weeks)
Gain on sale of Wajax Income Fund (Note 2)	**$ -**	$ -	**$ 26.3**	$ -
Gain (loss) on sale of investments	**10.1**	1.8	**11.6**	(2.2)
Other items	**0.1**	(0.1)	**(0.3)**	(0.1)
	$ 10.2	$ 1.7	**$ 37.6**	$ (2.3)

9. Supplementary Cash Flow Information

	2006 (13 weeks)	2005 (13 weeks)	**2006 (39 weeks)**	2005 (39 weeks)
a) Items not affecting cash		Restated (Note 1)		Restated (Note 1)
Depreciation and amortization	**$ 60.2**	$ 49.3	**$ 169.1**	$ 146.0
Future income taxes	**0.9**	12.6	**0.3**	15.1
Amortization of deferred items	**6.4**	9.1	**22.2**	23.0
Equity in earnings of other companies, net of dividends received	**1.3**	(1.9)	**(2.5)**	(6.5)
Minority interest	**11.3**	12.5	**40.5**	39.1
Employee future benefit obligation	**0.7**	1.1	**5.2**	4.3
Gain on sale of Wajax Income Fund	**-**	-	**(26.3)**	-
	$ 80.8	$ 82.7	**$ 208.5**	$ 221.0

(Unaudited, in millions, except per share amounts)

9. Supplementary Cash Flow Information (continued)

b) Other cash flow information

Net interest paid	**$ 14.3**	$ 24.4	**$ 53.5**	$ 56.7
Net income taxes paid	**$ 21.3**	$ 11.8	**$ 95.8**	$ 100.3

10. Segmented Information

	2006 (13 weeks)	2005 (13 weeks)	**2006 (39 weeks)**	2005 (39 weeks)
Revenue				
Food	**$ 3,171.9**	$ 2,917.0	**$ 9,690.7**	$ 8,894.7
Real estate				
Commercial	**35.9**	33.2	**103.9**	101.3
Inter-segment	**13.6**	16.0	**40.0**	43.8
Residential	**12.0**	10.0	**30.9**	22.7
	61.5	59.2	**174.8**	167.8
Other operations	**44.6**	18.3	**86.2**	56.3
	3,278.0	2,994.5	**9,951.7**	9,118.8
Elimination	**(13.6)**	(16.0)	**(40.0)**	(43.8)
	$ 3,264.4	$ 2,978.5	**$ 9,911.7**	9,075.0

	2006 (13 weeks)	2005 (13 weeks) Restated (Note 1)	**2006 (39 weeks)**	2005 (39 weeks) Restated (Note 1)
Operating income				
Food	**$ 78.6**	$ 76.2	**$ 246.4**	$ 238.0
Real estate				
Commercial	**20.2**	22.2	**63.3**	66.1
Residential	**12.0**	9.9	**34.3**	20.9
Other operations	**2.9**	2.1	**5.5**	7.8
Investment income	**6.6**	4.7	**18.0**	14.0
Corporate expenses	**(2.0)**	(1.8)	**(7.0)**	(7.1)
	$ 118.3	$ 113.3	$ **360.5**	$ 339.7

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10. Segmented Information (continued)

	February 4 2006	May 7 2005	January 29 2005 Restated (Note 1)
Identifiable assets			
Food	**$ 2,913.7**	$ 2,829.0	$ 2,616.3
Goodwill	**681.3**	681.1	666.6
	3,595.0	3,510.1	3,282.9
Real estate	**1,087.0**	1,017.9	1,020.2
Investments	**370.0**	325.9	300.5
Other (including goodwill of $32.2; May 7, 2005 $3.8; January 29, 2005 $3.8)	**172.0**	75.3	106.6
	$ 5,224.0	$ 4,929.2	$ 4,710.2

	2006 (13 weeks)	2005 (13 weeks) Restated (Note 1)	2006 (39 weeks)	2005 (39 weeks) Restated (Note 1)
Capital expenditures				
Food	**$ 147.7**	$ 85.2	**$ 322.8**	$ 203.7
Real estate	**27.6**	6.6	**55.4**	28.9
Corporate and other	**28.8**	6.3	**40.7**	11.8
	$ 204.1	$ 98.1	**$ 418.9**	$ 244.4

11. Employee Future Benefits

During the Company's third quarter and year-to-date of fiscal 2006, the net employee future benefit expense was $5.7 and $17.7 respectively (2005 - $5.5 and $16.6). The expense included costs for the Company's defined contribution pension plans, defined benefit pension plans, post-retirement benefit plans and post-employment benefit plans.

12. Business Acquisitions

On September 30, 2005, Empire Theatres Limited (a subsidiary of the Company) acquired 27 theatres with 202 screens located in Ontario and Western Canada from Cineplex Galaxy LP. On October 21, 2005 Empire Theatres Limited further acquired one theatre with 4 screens in Western Canada from Motion Picture Distribution LP. The total cash consideration of the acquisitions was $87.8. The acquisitions were accounted using the purchase method with net identifiable assets recorded at $59.4 (including intangible assets of $6.0) and goodwill recorded at $28.4. The allocation of purchase price is preliminary and the actual calculation for the purchase price will be based on the estimated fair value of the assets acquired and liabilities assumed at the effective date of the acquisition. Accordingly, the purchase price will be adjusted subsequent to completion of the acquisition and the final purchase price allocation process.

13. Real Estate Leases

During fiscal 2005 the Company reviewed its practices related to lease accounting and determined that adjustments were required to align to the recent clarification of lease accounting guidelines. The first adjustment related to lease allowances and incentives. Historically the Company classified lease allowances as a reduction of the related capital assets, which effectively reduced the depreciation expense over the expected life of the asset. The guideline clarification suggests these lease allowances should be recorded as a deferred credit and amortized as a reduction of lease expense over the term of the lease. The second adjustment related to rent expense to be recorded during a store's fixturing period. The Company is often granted a fixturing period during which rent is not charged. The fixturing period is generally considered to be one month prior to the store opening. Historically, when the Company was granted a fixturing period, rent expense was not recorded as none was being charged and the store was not yet open. The clarification of the accounting guidance however requires that the fixturing period be considered a free-rent period that should be included in the term of the lease. Since lease expense must be recognized on a straight-line basis over the lease term, an appropriate portion of the straight-line expense must be recorded for the fixturing period. The third adjustment related to the capitalization of long-term leases. An evaluation was completed in the fourth quarter of fiscal 2005 and certain long-term leases were identified as capital leases. These changes have been accounted for on a retroactive basis with restatement resulting with the following net impact on the comparative statements for the period ended February 4, 2006:

- As at January 29, 2005 a reduction to retained earnings of $5.4.

- A reduction in net income for the 39 week period ended January 29, 2005 of $0.2 from $132.0 to $131.8, and a nil reduction in earnings per share.

- As at January 29, 2005 an increase to Property and equipment, Future income taxes, Long-term debt and Long-term lease obligation of $9.3, $5.9, $10.3 and $12.3 respectively, and a decrease in minority interest of $3.0.

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

14. Vendor Allowances

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

Certain allowances from vendors are contingent on the Company achieving minimum purchase levels. The Company recognizes these allowances in income in accordance with EIC-144 when it is probable that the minimum purchase level will be met, and the amount of allowance is estimable. As of the third quarter of fiscal 2006, the Company recognized $2.1 of allowances in income whereby the minimum purchase level had not yet been met.

15. Variable Interest Entities

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

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

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

Independent Franchisees

The Company has identified 294 (May 7, 2005 – 287) independent franchisee stores whose franchise agreements result in the Company being deemed the primary beneficiary of the entity according to AcG-15. The results for these entities were consolidated with the results of the Company.

Warehouse and Distribution Agreement

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

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

(Unaudited, in millions, except per share amounts)

15. Variable Interest Entities (continued)

Consolidated Balance sheet as at February 4, 2006

	Before AcG-15 Impact	Impact of the Implementation of AcG-15	After AcG-15 Impact
Assets			
Current			
Cash and cash equivalents	$ 140.6	$ 30.7	$ 171.3
Receivables	303.9	(29.0)	274.9
Inventories	600.7	125.9	726.6
Prepaid expenses	42.4	8.2	50.6
Assets held for sale	13.7	-	13.7
	1,101.3	135.8	1,237.1
Investments, at cost (quoted market value $348.3)	297.3	-	297.3
Investments, at equity (realizable value $157.2)	43.6	-	43.6
Current assets and marketable investments	1,442.2	135.8	1,578.0
Property and equipment	2,102.1	33.4	2,135.5
Other assets	338.9	(98.5)	240.4
Long-term assets held for sale	556.6	-	556.6
Goodwill	713.5	-	713.5
	$ 5,153.3	$ 70.7	$ 5,224.0
LIABILITIES			
Current			
Bank indebtedness	$ 253.4	$ -	$ 253.4
Accounts payable and accrued liabilities	1,099.3	31.0	1,130.3
Income taxe payable	1.0	0.2	1.2
Future income taxes	47.9	-	47.9
Long-term debt due within one year	42.0	1.8	43.8
Liabilities relating to assets held for sale	43.5	-	43.5
	1,487.1	33.0	1,520.1
Long-term debt	669.4	15.4	684.8
Long-term lease obligation	13.1	-	13.1
Deferred revenue	0.9	-	0.9
Employee future benefit obligation	98.0	-	98.0
Future income taxes	100.0	-	100.0
Long-term liabilities relating to assets held for sale	345.2	-	345.2
Minority interest	570.8	35.3	606.1
	3,284.5	83.7	3,368.2
SHAREHOLDERS' EQUITY			
Capital stock	195.0	-	195.0
Retained earnings	1,675.1	(13.0)	1,662.1
Cumulative translation adjustment	(1.3)	-	(1.3)
	1,868.8	(13.0)	1,855.8
	$ 5,153.3	$ 70.7	$ 5,224.0

15. Variable Interest Entities (continued)

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

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

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

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

It has been determined that a charge of $3.7 (net of minority interest of $2.0) to retained earnings was required in the second quarter of fiscal 2006 to reflect additional minority interest in the VIE's. Additional adjustments of $0.3 (net of minority interest of 0.1) to retained earnings are reflective of changes in the amount of VIE entities required to be consolidated.

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

(Unaudited, in millions, except per share amounts)

15. Variable Interest Entities (continued)

Consolidated Statement of Earnings for the 39 weeks ended February 4, 2006

	Before AcG-15 Impact	Impact of the Implementation of AcG-15	After AcG-15 Impact
Revenue	$ 9,480.0	$ 431.7	$ 9,911.7
Operating expenses			
Cost of sales, selling and administrative expenses	8,986.1	420.3	9,406.4
Depreciation and amortization	165.1	4.0	169.1
	328.8	7.4	336.2
Investment income	24.3	-	24.3
Operating income	353.1	7.4	360.5
Interest expense			
Long-term debt	56.9	1.1	58.0
Short-term debt	6.7	-	6.7
	63.6	1.1	64.7
	289.5	6.3	295.8
Capital gain and other items	37.6	-	37.6
Earnings before income taxes and minority interest	327.1	6.3	333.4
Income taxes	105.2	1.8	107.0
Earnings before minority interest	221.9	4.5	226.4
Minority interest	44.0	4.0	48.0
Net earnings	$ 177.9	$ 0.5	$ 178.4
Earnings per share			
Basic	$ 2.71	$ 0.01	$ 2.72
Diluted	$ 2.70	$ 0.01	$ 2.71

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

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

(Unaudited, in millions, except per share amounts)

16. Assets Held for Sale

During the quarter ended February 4, 2006, the Board of Directors of the Company approved a plan ("Plan") and initiated a program to dispose of 44 real estate properties which are currently held in wholly-owned subsidiaries and which were included in the Real estate segment of the business. In accordance with Section 3475 of the CICA Handbook, the assets and liabilities of these properties have been reclassified as held for sale.

Under the Plan, a real estate investment trust ("Crombie REIT") was formed on January 1, 2006 and will purchase the 44 real estate properties from the Company. On February 10, 2006, Crombie REIT filed an amended and restated preliminary prospectus relating to the purchase of these properties. On March 10, 2006, Crombie REIT filed a final prospectus and signed an underwriting agreement relating thereto. It is anticipated that this transaction will close on March 23, 2006, but in any event no later than March 31, 2006. The Company will take back an interest in Crombie REIT giving the Company effective ownership of 49.5% of the 44 real estate properties. Crombie REIT has granted an over-allotment option to the underwriters exercisable up to 30 days after closing, and if exercised in full, will reduce the Company's ownership percentage to 48.3%. The Company decided to form Crombie REIT in order to access alternate sources of capital and growth opportunities for the Real estate segment while retaining a significant economic interest in its existing properties.

Also included in the assets held for sale is one real estate property of the Real estate segment with a net carrying value of $7.5 and certain assets of the Food segment with a net carrying value of $8.9. These assets are listed for potential sale to outside parties and it is expected that these properties will be disposed of in the next twelve months.

The February 4, 2006 carrying amount of the major classes of assets and liabilities held for sale are as follows:

Assets		
Cash and cash equivalents	$	1.3
Receivables		5.7
Prepaid expenses		6.7
Current assets held for sale		13.7
Property and equipment		555.6
Other assets		1.0
Long-term assets held for sale		556.6
Total assets held for sale		570.3
Liabilities		
Accounts payable and accrued liabilities		22.3
Long-term debt due within one year		21.2
Current liabilities relating to assets held for sale		43.5
Long-term debt		279.9
Employee future benefit obligation		1.7
Future income taxes		63.6
Long-term liabilities relating to assets held for sale		345.2
Total liabilities relating to assets held for sale	$	388.7

In preparation for the sale of the 44 properties to Crombie REIT, on February 9, 2006, Crombie Developments Limited (a subsidiary of the Company) signed a commitment letter with a Canadian chartered bank (who will act as conduit lender) for $144.2 of commercial mortgage backed securities ("CMBS mortgages") secured by 18 of the properties. The proceeds from the CMBS mortgages are expected to be received prior to closing the Crombie REIT transaction. The proceeds will be used to redeem certain Crombie Developments Limited debt, including prepayment penalties. In addition, on February 13, 2006, Crombie Developments Limited entered into a series of bond forward contracts that effectively fix the interest rate on the CMBS mortgages at 5.42%. The maturity dates range from 8-12 years. Crombie REIT will assume the CMBS mortgages upon the purchase of the 44 properties.The Company has also entered into a $50.0 delayed start interest rate swap, commencing March 27, 2006, with a fixed rate of 4.38% to mature February 1, 2010 to hedge a revolving credit facility of Crombie REIT. The interest rate swap will be assumed by Crombie REIT on closing.

17. Contingent Liabilities

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

On January 19, 2006, E.C.L. Investments Limited (a subsidiary of the Company) received notice from CRA that it is proposing a reassessment for fiscal year 2001 related to the disposition of its shares in Hannaford Bros. Co. The Company has signed a waiver that effectively postpones the issuance of this reassessment. Due to the complexity of this matter, it is not possible to determine the amounts that may ultimately be assessed against the Company. Management believes that it has recorded adequate accruals in relation to this matter. Any settlement in excess of these accruals will be charged to earnings.

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.

18. 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 FEBRUARY 4, 2006

Management's Discussion and Analysis

The following is Management's Discussion and Analysis ("MD&A") of the consolidated financial results of Empire Company Limited ("Empire" or the "Company") for the 13 weeks and 39 weeks ended February 4, 2006, as compared to the 13 weeks and 39 weeks ended January 29, 2005. This MD&A also provides analysis of the operating performance of the Company's divisions as well as a discussion of cash flows and the financial condition of the Company.

This discussion and analysis should be read in conjunction with the Company's unaudited interim consolidated financial statements and accompanying notes for the 13 and 39 weeks ended February 4, 2006, the audited annual consolidated financial statements and accompanying notes for the 53 weeks ended May 7, 2005 and the related annual MD&A as contained on pages 19 through 57 of Empire's 2005 Annual Report. Additionally, information about the Company, including the Annual Report and Annual Information Form, can be found on SEDAR at www.sedar.com.

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

In the third quarter of fiscal 2006, in accordance with Section 3475 of the CICA Handbook, the assets and liabilities relating to certain properties were reclassified as held for sale. There are 44 real estate properties which are currently held in wholly-owned subsidiaries and included in the real estate segment of the business that the Board of Directors of the Company have approved for disposition to a Real Estate Investment Trust which is to be known as the Crombie REIT.

Additional information relating to the assets held for sale is provided on page 45 of this document.

Non-GAAP Financial Measures

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

Overview of the Business

Empire is a diversified Canadian company headquartered in Stellarton, Nova Scotia. Empire's key businesses are food retailing - through 68.3% ownership of Sobeys Inc. ("Sobeys"), real estate through two wholly-owned operating subsidiaries: Sobey Leased Properties Limited ("SLP"), and ECL Properties Limited ("ECL"), formerly Crombie Properties Limited, including 35.7% ownership of Genstar Development Partnership ("Genstar"); and corporate investment activities and other operations which includes an approximately 27.6% ownership position in the Wajax Income Fund ("Wajax") and wholly-owned Empire Theatres Limited ("Empire Theatres"). With $5.2 billion in assets, Empire employs approximately 37,000 people directly and through its subsidiaries.

Consolidated Operating Results

The consolidated financial overview provided below reports on the financial performance for the 13 and 39 weeks ended February 4, 2006 relative to the same periods last year.

Summary Table of Consolidated Financial Results

($ in millions, except per share information)	13 Weeks Ended February 4, 2006 $	% of Revenue	13 Weeks Ended January 29, 2005 $	% of Revenue	39 Weeks Ended February 4, 2006 $	% of Revenue	39 Weeks Ended January 29, 2005 $	% of Revenue
Revenue								
Food	$ 3,171.9	97.17%	$ 2,917.0	97.94%	$ 9,690.7	97.77%	$ 8,894.7	98.01%
Real Estate, net of inter-segment	47.9	1.47	43.2	1.45	134.8	1.36	124.0	1.37
Other Operations	44.6	1.36	18.3	0.61	86.2	0.87	56.3	0.62
Consolidated revenue	$ 3,264.4	100.00%	$ 2,978.5	100.00%	$ 9,911.7	100.00%	$ 9,075.0	100.00%
Operating income								
Food	$ 78.6		$ 76.2		$ 246.4		$ 238.0	
Real Estate, net of inter-segment	32.2		32.1		97.6		87.0	
Other Operations	7.5		5.0		16.5		14.7	
Consolidated operating income	$ 118.3	3.62%	$ 113.3	3.80%	360.5	3.64%	339.7	3.74%
Interest expense	21.6	0.66	20.4	0.68	64.7	0.65	63.4	0.70
Income taxes (from operating activities)	35.7	1.09	31.5	1.06	102.7	1.05	95.1	1.05
Minority interest	13.3	0.41	15.2	0.51	48.0	0.48	47.6	0.52
Operating earnings	$ 47.7	1.46%	$ 46.2	1.55%	$ 145.1	1.46%	$ 133.6	1.47%
Capital gain (loss) and other items, net of tax	8.3	0.25	1.4	0.05	33.3	0.34	(1.8)	(0.02)
Net earnings	$ 56.0	1.71%	$ 47.6	1.60%	$ 178.4	1.80%	$ 131.8	1.45%
Cash flows from operating activities	$ 175.4	5.37%	$ 138.4	4.65%	$ 294.1	2.97%	$ 225.1	2.48%
Total assets	$ 5,224.0		$ 4,710.2					
Total long-term liabilities	$ 1,848.1		$ 1,527.6					
Basic earnings per share								
Operating earnings	$ 0.73		$ 0.71		$ 2.21		$ 2.04	
Capital gain (loss) and other items, net of tax	0.13		0.02		0.51		(0.03)	
Net earnings	$ 0.86		$ 0.73		$ 2.72		$ 2.01	
Basic weighted average number of shares outstanding (in millions)	65.5		65.5					
Diluted earnings per share								
Operating earnings	$ 0.72		$ 0.70		$ 2.20		$ 2.03	
Capital gain (loss) and other items, net of tax	0.13		0.02		0.51		(0.03)	
Net earnings	$ 0.85		$ 0.72		$ 2.71		$ 2.00	
Diluted weighted average number of shares outstanding (in millions)	65.8		65.8					
Annualized dividends per share	$ 0.56		$ 0.48					

The 13 weeks and 39 weeks ended January 29, 2005 have been restated to reflect the retroactive adjustment related to lease accounting. Please see the section entitled Accounting Standards – "Lease Accounting" in the fiscal 2005 annual MD&A.

Forward-looking Information

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

Management's Explanation of Consolidated Results

The following is a review of Empire's consolidated financial performance for the 13-week and 39-week periods ended February 4, 2006 compared to the same periods last year.

Revenue and financial performance of each of the Company's businesses (food, real estate, and investments and other operations) are discussed in detail in the section entitled "Operating Performance by Division" in this MD&A.

Revenue

The following shows third quarter and fiscal year-to-date revenues adjusted to eliminate the impact of VIE consolidation:

	Fiscal 2006			**Fiscal 2005**	Reported	Adjusted
($ in millions)	Reported Revenue	VIE Impact*	Adjusted Revenue	Reported Revenue	Growth over Fiscal 2005	Growth over Fiscal 2005
Third Quarter	$3,264	$120	$3,144	$2,978	9.6%	5.6%
Fiscal Year-to-date	$9,912	$432	$9,480	$9,075	9.2%	4.5%

** Effective for the fourth quarter ended May 7, 2005, the Company implemented Accounting Guideline 15 "Consolidation of Variable Interest Entities" which required the Company to consolidate certain entities that are deemed to be subject to control of the Company on a basis other than through ownership of a voting interest in the entity.*

Each of Empire's operating businesses contributed to the growth in consolidated third quarter revenue of $285.9 million or 9.6 percent. The food division generated sales of $3.17 billion, an increase of $254.9 million or 8.7 percent over the third quarter last year. Real estate operations recorded revenue (net of inter-segment elimination) of $47.9 million, an increase of $4.7 million or 10.9 percent over the third quarter last year. Other operations, primarily Empire Theatres, generated revenue of $44.6 million in the third quarter, an increase of $26.3 million, over the third quarter last year. Other operations revenue in the third quarter of fiscal 2006 benefited from 13 weeks of operations of 28 movie-theatres acquired in the second quarter of fiscal 2006.

Fiscal year-to-date revenue growth of $836.7 million or 9.2 percent was largely driven by a $796.0 million or 8.9 percent growth in food division sales over the comparable period last year. Real estate revenues grew by $10.8 million or 8.7 percent while other operations revenues increased by $29.9 million or 53.1 percent over the prior year. Other operations benefited from the 28-movie theatre acquisition as discussed above.

Impacting revenue growth for both the third quarter and fiscal year-to-date was the consolidation of VIEs, which accounted for approximately $120 million or 4.0 percentage points of the increase in revenues compared to the third quarter and $432 million or 4.7 percentage points of the increase in revenues compared to the first 39 weeks of fiscal 2005. Excluding the impact of VIEs, consolidated revenue increased 5.6 percent in the third quarter and by 4.5 percent fiscal year-to-date.

Please refer to the section entitled "Operating Performance by Division" for an explanation of the change in revenue by division.

Operating Income

Consolidated operating income in the third quarter totalled $118.3 million, an increase of $5.0 million or 4.4 percent compared to the third quarter last year. The increase is the result of a $2.4 million or 3.1 percent increase in operating income from the food division, a $0.1 million or 0.3 percent increase in operating income from the real estate division and a $2.5 million or 50.0 percent increase in operating income contribution from investments and other operations.

Fiscal year-to-date operating income growth of $20.8 million or 6.1 percent was attributed to a $10.6 million or 12.2 percent growth in real estate division operating income; an $8.4 million or 3.5 percent growth in food division operating income; and an increase in operating income from investments and other operations of $1.8 million or 12.2 percent growth over the comparable period last year.

Operating income for the 13-week and 39-week periods ended February 4, 2006 were impacted by higher depreciation and amortization expense for the food division along with business and system initiative costs incurred for Sobeys Ontario region.

Please refer to the section entitled "Operating Performance by Division" for an explanation of the change in the third quarter operating income by division.

Interest Expense

Interest expense increased $1.2 million, to $21.6 million, from $20.4 million in the third quarter last year. Funded debt has increased $153.7 million from the third quarter last year largely as a result of funding the acquisition of 28 movie-theatres in the second quarter of fiscal 2006 and as a result of the purchase in the fourth quarter of last year of 1.5 million common shares of Sobeys for $58.6 million, net of proceeds from investment sales.

Interest coverage, which is operating income divided by interest expense, equalled 5.5 times in the third quarter, unchanged from the third quarter last year.

Funded debt levels increased $90.1 million and $153.7 million from fiscal year-end and the same time period last year, respectively. This includes funded debt of $301.1 million relating to assets for sale as described in Note 16 to the unaudited interim period consolidated financial statements. Interest expense on long-term debt declined marginally from the third quarter last year primarily as a result of a decline in the weighted average interest rate on the Company's long-term debt.

For the 39 weeks ended February 4, 2006, interest expense was $64.7 million, a $1.3 million increase over the prior year. Interest coverage for the trailing 39 weeks ended February 4, 2006, equalled 5.6 times compared to 5.4 times for the comparable period last year.

The majority of the Company's debt is long-term in nature carrying fixed interest rates; accordingly, there is limited exposure to interest rate volatility. The Company is exposed to interest rate risk when arranging new debt. Interest rate swaps and bond forwards are utilized from time to time to mitigate such risk.

Income Tax Expense

Income tax expense increased by $5.8 million over the third quarter last year and by $12.4 million fiscal year-to-date over the comparable period last year. The respective increases in income tax expense are the result of higher taxable income and higher effective income tax rates. Earnings before income taxes increased by $3.8 million from operations and by $8.5 million due to increased capital gains on investments. The effective income tax rate, before net capital gains, for the third quarter was 36.9 percent versus 33.9 percent in the third quarter last year. The increase in the effective tax rate during the quarter was primarily the result of adjustments to statutory rates during the quarter, along with the impact of VIEs. The effective income tax rate, before net capital gains and losses, for the 39 weeks ended February 4, 2006 was 34.7 percent compared to 34.4 percent last year.

Minority Interest

In the third quarter of fiscal 2006, Empire recorded minority interest expense of $13.3 million compared to $15.2 million in the third quarter last year. The decrease in third quarter minority interest was primarily related to Empire's increased ownership position in Sobeys offset in part by Sobeys recording higher minority interest as a result of inclusion of VIEs.

For the trailing twelve months ended February 4, 2006, Empire purchased 1.5 million common shares of Sobeys, resulting in the increase in ownership to 68.3 percent from 66.1 percent a year ago. No common shares of Sobeys were purchased by Empire in the first 39 weeks of fiscal 2006.

Operating Earnings

The $1.5 million or 3.2 percent improvement in operating earnings in the third quarter (earnings before net capital gains (losses) and other items) over the same quarter last year was the result of the $5.0 million increase in operating income, the $1.2 million increase in interest expense, the $4.2 million increase in income tax expense and the $1.9 million decrease in minority interest, as previously discussed.

The $11.5 million or 8.6 percent increase in operating earnings in the first 39 weeks of the fiscal year is attributed to the $20.8 million increase in operating income, a $1.3 million increase in interest expense, a $7.6 million increase in income tax expense and a $0.4 million increase in minority interest as discussed.

Net Capital Gain (Loss)

The Company generated a net capital gain of $8.3 million in the third quarter largely as a result of investment sales. A net capital gain of $1.4 million was realized from the sale of investments in the third quarter last year.

On a fiscal year-to-date basis, the Company recorded net capital gains of $33.3 million compared to a $1.8 million net capital loss last year. The capital gains to date in fiscal 2006 are largely the result of a

$24.2 million gain on the sale of Wajax Income Fund units in the first quarter and $9.5 million of gains related to the sale of investments.

Net Earnings

Net earnings, including net capital gains (losses) and other items, totalled $56.0 million ($0.85 per share, on a fully diluted basis) in the third quarter, an increase of $8.4 million or 17.6 percent over the third quarter last year. Net earnings for the 39 weeks ended February 4, 2006 totalled $178.4 million ($2.71 per share, on a fully diluted basis), an increase of $46.6 million or 35.3 percent over the $131.8 million ($2.00 per share, on a fully diluted basis) reported in the same period last year.

The consolidation of VIEs served to increase net earnings by $1.2 million ($0.02 per share) in the third quarter and positively affected net earnings for the 39-weeks ended February 4, 2006 by $0.5 million ($0.01 per share).

Quarterly Results of Operations

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

The consolidation of VIEs results in higher revenue and lower margins as a percent of revenue, due to the addition of VIE retail sales. The Company began consolidating VIEs in the fourth quarter of fiscal 2005 and prior quarters have not been restated. The first three quarters of fiscal 2006 and the fourth quarter of fiscal 2005 include the impact of consolidating the VIEs.

($ in millions, except per share information)

	Fiscal 2006			Fiscal 2005				Fiscal 2004
	Q3 (13 weeks) Feb. 4/06	Q2 (13 weeks) Nov. 5/05	Q1 (13 weeks) Aug. 6/05	Q4 (14 weeks) May 7/05 [2]	Q3 (13 weeks) Jan. 29/05 [2]	Q2 (13 weeks) Oct. 30/04 [2]	Q1 (13 weeks) July 31/04 [2]	Q4 (13 weeks) Apr. 30/04 [2]
Revenue	$3,264.4	$3,285.6	$3,361.7	$3,360.2	$2,978.5	$3,022.8	$3,073.7	$2,876.4
Operating income	118.3	122.1	120.1	124.0	113.3	111.6	114.8	100.9
Operating earnings[1]	47.7	47.8	49.6	49.3	46.2	43.0	44.5	41.0
Net capital gain (loss) and other items	8.3	0.8	24.2	5.5	1.4	(3.0)	(0.2)	(0.1)
Net earnings	$ 56.0	$ 48.6	$ 73.8	$ 54.8	$ 47.6	$ 40.0	$ 44.3	$ 40.9
Per Share, diluted								
Operating earnings[1]	$ 0.72	$ 0.73	$ 0.75	$ 0.75	$ 0.70	$ 0.66	$ 0.67	$ 0.62
Net capital gain (loss) and other items	0.13	0.01	0.37	0.08	0.02	(0.05)	-	-
Net earnings	$ 0.85	$ 0.74	$ 1.12	$ 0.83	$ 0.72	$ 0.61	$ 0.67	$ 0.62
Weighted average number of shares outstanding (in millions)	65.8	65.8	65.8	65.8	65.8	65.8	65.8	65.8

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

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

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

Operating Performance by Division

Food Division

Empire's food division is carried out through 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 at the end of the third quarter equalled 68.3 percent as compared to 66.1 percent at the end of the third quarter last year.

Sales

Third quarter and fiscal year-to-date 2006 sales adjusted to eliminate the impact of VIE consolidation were as follows:

	Fiscal 2006			**Fiscal 2005**	Reported	Adjusted
($ in millions)	Reported Revenue	VIE Impact	Adjusted Revenue	Reported Revenue	Growth over Fiscal 2005	Growth over Fiscal 2005
Third Quarter	$3,172	$120	$3,052	$2,917	8.7%	4.6%
Fiscal Year-to-date	$9,691	$432	$9,259	$8,895	8.9%	4.1%

Food division sales for the third quarter of fiscal 2006 were $3.17 billion compared to $2.92 billion for the same quarter last year, an increase of $254.9 million or 8.7 percent. During the third quarter of fiscal 2006, Sobeys' same-store sales, that is sales from stores in the same locations in both reporting periods, increased by 4.1 percent. Same-store sales growth exceeded inflation in each of Sobeys' four operating regions.

On a fiscal year-to-date basis, sales increased 8.9 percent from the prior year, with same-store growth of 4.0 percent.

Impacting sales growth for both the third quarter and fiscal year-to-date was the consolidation of VIEs, which accounted for approximately $120 million or 4.1 percentage points of the increase in sales compared to the third quarter last year and $432 million or 4.8 percentage points of the increase in sales compared to the 39 weeks of fiscal 2005. Excluding the impact of VIEs, sales grew by 4.6 percent in the third quarter and by 4.1 percent for the fiscal year-to-date.

Sobeys continued to experience declines in its wholesale tobacco sales in the third quarter of fiscal 2006. Wholesale tobacco sales declined $34.8 million compared to the third quarter of fiscal 2005. Excluding this decline and the impact of VIEs, Sobeys sales growth would have been 5.8 percent.

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

Earnings before Interest, Income Taxes, Depreciation and Amortization

Sobeys' EBITDA ("earnings before interest, income taxes, depreciation and amortization") in the third quarter of fiscal 2006 increased $9.5 million or 8.0 percent to $128.6 million from $119.1 million reported in the third quarter of fiscal 2005. EBITDA as a percent of sales decreased from 4.08 percent in the third quarter of fiscal 2005 to 4.05 percent in the third quarter of fiscal 2006. Excluding VIEs, EBITDA as a percent of sales was 4.10 percent, a two basis point increase from the same quarter last year.

Sobeys' EBITDA for the first 39 weeks of fiscal 2006 increased by 7.0 percent to $391.5 million compared to the $365.9 million reported for the same period last year. Excluding VIEs, EBITDA as a percent of sales was 4.11 percent, consistent with the same period last year.

Included in Sobeys' EBIT for the 13 weeks and 39 weeks ended February 4, 2006 are $4.9 million and $13.3 million, respectively, of costs related to the Ontario business process and system initiative outlined in the annual MD&A included in Sobeys' 2005 Annual Report. These costs include the severance, labour, implementation and training costs associated with the Ontario systems implementation as well as the cost of writing off the Commisso's brand name in the third quarter. As part of the transformation of the Ontario business the Company is converting 12 Commisso's stores in Ontario to the Sobeys and Price Chopper banners. Excluding these costs and the impact of VIEs, Sobeys' EBITDA increased by 8.1 percent over the same 13-week period in the prior fiscal year and EBITDA as a percentage of sales would have been 4.22 percent, a 14 basis point improvement over the third quarter last year. On a fiscal year-to-date basis, excluding these costs and the impact of VIEs, Sobeys' EBITDA increased by 7.2 percent over the same 39-week period in the prior fiscal year and EBITDA as a percentage of sales would have been 4.24 percent, a 13 basis point improvement over the prior fiscal year.

Contributing to the increase in food division EBITDA was the growth in sales and increased gross margin as a result of improved productivity initiatives and changes in product mix, compared to the same period last fiscal year.

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

Sobeys' earnings before interest, income taxes, depreciation, amortization and rent ("EBITDAR") for the third quarter of fiscal 2006 increased $24.3 million or 12.9 percent to $212.1 million compared to $187.8 million in the same quarter last year. Sobeys leases a substantial portion of its store locations. Sobeys' gross rent expense of $83.5 million in the third quarter of fiscal 2006 and $68.7 million in the third quarter of fiscal 2005 is added to EBITDA to arrive at EBITDAR, a measure of operating performance excluding the impact of capital and how it is financed. EBITDAR as a percent of sales in the third quarter of fiscal 2006 was 6.68 percent compared to 6.43 percent in the third quarter of fiscal 2005.

On a fiscal year-to-date basis, Sobeys' EBITDAR increased $72.0 million to $642.2 million, an increase of 12.6 percent over the $570.2 reported for the same period last fiscal year. EBITDAR as a percent of sales for the 39 weeks ended February 4, 2006 equalled 6.62 percent compared to 6.41 percent reported last year.

Earnings before Interest and Income Taxes

Sobeys' EBIT ("earnings before interest and income taxes") increased to $78.6 million during the third quarter of fiscal 2006, a 3.1 percent increase from the third quarter last year. EBIT margin equalled 2.48 percent compared to 2.61 percent in the third quarter of fiscal 2005. Included in the third quarter of fiscal 2006 EBIT was a $7.1 million increase in Sobeys' depreciation and amortization expense ($50.0 million current quarter compared to $42.9 million for the same quarter last year), reflecting Sobeys continued capital investments. Also included in EBIT are the Ontario business process and system initiative costs as outlined above. Adjusting for these costs and the impact of VIEs, Sobeys' EBIT would have totalled $81.3 million representing an EBIT margin of 2.66 percent, a five basis point improvement over the prior fiscal year.

For the 39 weeks ended February 4, 2006, Sobeys' EBIT increased by $8.4 million to $246.4 million, an increase of 3.5 percent over the $238.0 million reported last year. EBIT as a percent of sales was 2.54 percent for the first 39 weeks of fiscal 2006 versus 2.68 percent for the comparable period last fiscal year. Adjusting for Ontario business program and system initiative costs and the impact of VIEs, Sobeys' EBIT would have totalled $252.3 million representing an EBIT margin of 2.72 percent, a four basis point improvement over the comparable period last fiscal 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 to improve margins over time.

Net Earnings

Sobeys' third quarter fiscal 2006 net earnings totalled $45.7 million, an increase of $0.9 million or 2.0 percent compared to the $44.8 million recorded in the third quarter of fiscal 2005. Net earnings for the 39 weeks ended February 4, 2006 totalled $139.7 million, relatively unchanged from the $138.6 million reported in the same period last fiscal year.

Net earnings for the third quarter and fiscal year-to-date reflect the increased depreciation and amortization expense and the Ontario business process and system initiative costs referred to above and discussed in Sobeys 2005 Annual Report.

The consolidation of VIEs resulted in a $1.8 million and $0.8 million increase in Sobeys' net earnings for the 13-week and the 39-week periods ended February 4, 2006, respectively.

The Ontario business process and system initiative costs reduced Sobeys' earnings per share by $0.05 for the third quarter of fiscal 2006 and by $0.14 for the first 39 weeks of fiscal 2006.

Real Estate Division

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

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

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

	13 Weeks Ended		39 Weeks Ended	
($ in millions)	February 4, 2006	January 29, 2005	February 4, 2006	January 29, 2005
Revenue				
Commercial	$ 35.9	$ 33.2	$ 103.9	$ 101.3
Residential	12.0	10.0	30.9	22.7
	$ 47.9	$ 43.2	$ 134.8	$ 124.0
Operating Income				
Commercial	$ 20.2	$ 22.2	$ 63.3	$ 66.1
Residential	12.0	9.9	34.3	20.9
	$ 32.2	$ 32.1	$ 97.6	$ 87.0
Operating Earnings				
Commercial	$ 5.5	$ 6.0	$ 17.9	$ 17.8
Residential	7.7	6.6	22.1	13.6
	$ 13.2	$ 12.6	$ 40.0	$ 31.4
Funds from Operations				
Commercial	$ 11.0	$ 10.8	$ 32.7	$ 31.5
Residential	7.8	6.7	22.5	13.9
	$ 18.8	$ 17.5	$ 55.2	$ 45.4

Revenue

Real estate division revenue (net of inter-segment amounts) increased $4.7 million or 10.9 percent from the third quarter last fiscal year. Commercial property revenues increased $2.7 million over the prior year largely as a result of the addition of a property in Stratford, Ontario as well as a slight increase in occupancy rates. Revenue from residential operations increased by $2.0 million. The increase in residential revenue from the Company's interest in Genstar is primarily due to stronger residential lot sales in Western Canada.

On a fiscal year-to-date basis, revenue increased $10.8 million or 8.7 percent over the comparable period last year. This increase was primarily the result of higher revenues from residential operations of $8.2 million as a result of exceptional lot sales. Commercial operations revenue grew $2.6 million for the 39-weeks ended February 4, 2006 relative to the prior fiscal year, largely reflecting an extra month of revenue from the Commisso's acquisition, which occurred on February 1, 2004, as well as higher occupancy levels.

Overall (retail plus office) occupancy rate equalled 93.8 percent at the end of the third quarter compared to 93.4 percent a year ago. Office occupancy rate at the end of the third quarter was 89.5 percent, unchanged from a year ago. The retail occupancy rate was 94.5 percent at the end of the third quarter compared to 94.1 percent a year earlier.

Operating Income

Operating income in the third quarter was relatively unchanged from the same quarter last year, up $0.1 million. Increased residential operating income of $2.1 million or 21.2 percent was largely offset by a decline in operating income for commercial property operations of $2.0 million or 9.0 percent. The growth in residential operating income is attributed to exceptional demand from housing lots in the primary markets in which it operates. As well, equity earnings contribution from Genstar's U.S. residential operations amounted to $1.0 million in the third quarter as compared to $0.8 million contribution in the third quarter last fiscal year. This equity earnings contribution did not affect revenue but did positively impact operating income. The decline in commercial property operating income was the result of increases in property taxes, general operating expenses and depreciation expense.

For the 39 weeks ended February 4, 2006, the real estate division contributed operating income of $97.6 million compared to $87.0 million last fiscal year. The increase of $10.6 million or 12.2 percent was solely the result of higher operating income from residential activities of $13.4 million as operating income from commercial activities declined by $2.8 million over the prior fiscal year. The decline in commercial property operating income is largely due to a $1.1 million increase in depreciation expense, increased property taxes associated with higher appraised values and increased repairs and maintenance expense. The overall increase in commercial property costs and expenses more than offset the increase in commercial property rental income from increased occupancy levels. Operating income from residential activities grew $5.0 million as a result of increased equity earnings from Genstar U.S. operations.

The real estate division contributed 27.1 percent of Empire's consolidated operating income in the first three quarters of fiscal 2006 compared to a 25.6 percent contribution in the comparable period last year.

Operating Earnings

Real estate division operating earnings in the third quarter amounted to $13.2 million compared to $12.6 million last year, a $0.6 million or 4.8 percent increase. The earnings increase reflects the $1.1 million increase in operating earnings from residential activities due to continued growth in lot sales in Western Canada as well as higher equity earnings from Genstar U.S. operations, offset by a $0.5 million decline in earnings contribution from commercial property operations. Commercial property costs and operating expenses grew at a faster rate than revenue in the third quarter largely as a result of increased repairs and maintenance and higher property taxes.

For the 39 weeks ended February 4, 2006, real estate division operating earnings amounted to $40.0 million versus $31.4 million in the comparable period last fiscal year. The increase of $8.6 million or 27.4 percent is primarily attributed to an $8.5 million increase in earnings from residential operations over the prior fiscal year. Earnings have benefited from exceptional residential lot sales in the first three quarters of fiscal 2006, along with positive earnings contribution from U.S. investment activities.

Net Capital Gain (Loss)

There were no material capital gains or losses recorded by the real estate division this fiscal year-to-date or for last fiscal year-to-date.

Funds from Operations

Trailing (last four quarters) funds from operations for the real estate division equalled $74.2 million, up 18.3 percent from the prior four quarter trailing funds from operations of $62.7 million.

Funds from operations in the third quarter equalled $18.8 million, an increase of $1.3 million over the third quarter last year largely as a result of earnings contribution from residential operations as discussed. Funds from operations for residential operations increased $1.1 million over the third quarter last year while funds from operations for commercial real estate operations increased by $0.2 million.

Investments and Other Operations

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

At the end of the third quarter, Empire's investment portfolio carried a market value of $505.5 million on a cost base of $340.9 million, resulting in an unrealized gain of $164.6 million. Realized capital gains from the sale of investments and other items equalled $10.2 million in the third quarter. Total realized capital gains from investment sales and other items in the first three quarters of fiscal 2006 equalled $37.6 million.

Realized capital gains fiscal year-to-date, plus unrealized capital gains, combined to equal $202.2 million at the end of the third quarter. This compares to a total realized gain on investment sales plus unrealized investment gain position at the end of fiscal 2005 equal to $143.1 million. The increase in the realized plus unrealized gain position of $59.1 million, since the end of fiscal 2005, is largely the result of an increase in the valuation of Wajax and financial services stocks.

At February 4, 2006, Empire's investment portfolio (excluding cash and value of a currency hedge) consisted of:

$ in millions (Canadian)	**Market Value**	**% of Portfolio**	**Cost**	**Unrealized Gain (Loss)**
Canadian equities	$ 208.5	41.2%	$ 136.3	$ 72.2
Foreign equities	138.3	27.4	159.5	(21.2)
Wajax	146.2	28.9	32.6	113.6
Preferred Shares & Other [1]	12.5	2.5	12.5	-
	$ 505.5	100.0%	$ 340.9	$ 164.6

[1] *Includes a joint venture equity interest by Genstar in various U.S. residential builder deals at cost.*

The unrealized gain position is enhanced when adding the value of a currency hedge which amounted to $10.8 million at the end of the third quarter.

Empire's corporate bank indebtedness at the end of the third quarter equalled $171.8 million Canadian equivalent (includes $81.0 million U.S. borrowings), equivalent to 34.0 percent of investment market value at the end of the third quarter. Empire corporate bank indebtedness has decreased $87.8 million since the end of the second quarter largely as a result of a $40 million transfer from Empire Theatres Limited (due to their drawdown of a syndicated loan facility) and proceeds received on net investment sales.

Revenue

Other operations revenue, primarily generated by Empire Theatres, equalled $44.6 million in the third quarter versus $18.3 million in the third quarter last year. The $26.3 million increase is largely the result of revenues associated with 28 movie-theatres acquired in the second quarter.

Fiscal year-to-date revenues for other operations increased $29.9 million or 53.1 percent over the comparable period last year. The growth in revenue was the result of the movie-theatre acquisition as mentioned.

Investment Return

The table below presents the return performance for Empire's investments relative to Canadian and U.S. equity benchmarks for the three months ended December 31, 2005, as well as on an annualized one-year, two-year and three-year basis for the periods ending December 31, 2005.

Empire Investment Portfolio
Total Return
For Periods ending December 31, 2005

		Annualized Returns		
	One Quarter	One Year	Two Years	Three Years
Empire Investment Portfolio	8.6%	27.4%	26.1%	30.9%
Median Manager	3.4%	18.7%	15.2%	16.7%
S&P/TSX Composite Index	2.9%	24.1%	19.2%	21.7%
S&P500 Index (in Cdn$)	2.5%	1.6%	2.4%	3.4%

Empire's investment return for the three months ended December 31st of 8.6 percent was above the S&P/TSX Index return of 2.9 percent over the same time period and resulted in a first quartile (first quartile means the top 25 percent of surveyed equity fund managers) performance ranking. The out performance is largely attributed to positive returns from Empire's investment in Wajax Income Fund and from various financial services stocks.

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 investment return performance over one, two and three-year trailing periods ended December 31, 2005.

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

Hedging Investment Currency Risk

At February 4, 2006, Empire had hedged approximately two-thirds of the cost of its U.S. based common equity investments by way of $81.0 million in U.S. dollar denominated short-term borrowings. The weighted average foreign exchange rate associated with these U.S. dollar bank loans is $1.29105. The fair value of the hedge was approximately $10.8 million at the end of the third quarter. Since the start of the fiscal year the value of the hedge has increased by approximately $5.5 million.

Investment Income

Investment income (excludes equity earnings from Genstar's U.S. joint-venture investments) equalled $6.6 million in the third quarter, an increase of $1.9 million over the third quarter last year, largely as a result of higher equity earnings from Wajax. Dividend income was relatively unchanged from the third quarter last fiscal year.

On a fiscal year-to-date basis, investment income amounted to $18.0 million compared to $14.0 million over the same period last fiscal year. The $4.0 million increase was the result of higher equity earnings from Wajax of $4.3 million offset by a reduction in dividend income of $0.3 million.

Operating Earnings

Investment (net of corporate expenses) and other operations' operating earnings equalled $3.3 million in the third quarter compared to $4.0 million in the third quarter last year, a decrease of $0.7 million. The decline is primarily due to a $2.0 increase in corporate interest expense net of income taxes of $0.8 million. Higher interest expense is the result of additional bank loans drawn in connection with the closing of the theatre acquisition in the second quarter and for new investment purchases, including the purchase of 1.5 million Sobeys common shares in the fourth quarter of last fiscal year.

For the 39-weeks ended February 4, 2006, investment (net of corporate expenses) and other operations' operating earnings amounted to $9.7 million versus $11.2 million last year. The decrease in operating earnings of $1.5 million was primarily the result of: (i) reduced earnings contribution from Empire Theatres due largely to poor film product quality during the first two quarters of the fiscal year, and (ii) higher interest expense as a result of increased average bank indebtedness incurred to fund the theatres acquisition, as mentioned, and to fund the purchase of additional Sobeys common shares as mentioned. The impact of these two factors was partially offset by higher equity earnings from Wajax.

Capital Gain (Loss)

Net capital gains realized in third quarter amounted to $8.3 million compared to a $1.4 million in the third quarter last year. On a fiscal year-to-date basis, net capital gains on the sale of investments equalled $33.2 million as compared to a $1.8 million net capital loss last fiscal year-to-date. A major component of the net capital gain this fiscal year is attributed to the sale of 2.875 million units of Wajax in the first quarter, which resulted in a net capital gain of $24.2 million.

Net Earnings

Investments (net of corporate expenses) and other operations contributed $11.6 million to Empire's consolidated third quarter net earnings (20.7 percent of consolidated net earnings). This compares to $5.4 million contribution in the third quarter last fiscal year. The increase in net earnings contribution over the third quarter last fiscal year is due to higher net capital gains of $6.9 million as mentioned, partially offset by the $0.7 million decrease in operating income as discussed.

For the 39-weeks ended February 4, 2006, investments (net of corporate expenses) and other operations contributed $42.9 million to Empire's consolidated net earnings (24.0 percent of consolidated net earnings) compared to a $9.4 million contribution last fiscal year-to-date (7.1 percent of consolidated net earnings). The increase in net earnings of $33.5 million over the prior fiscal year-to-date was the result of the $35.0 million increase in net capital gains partially offset by the $1.5 million decrease in operating earnings as mentioned.

Financial Condition

Management believes that the Company's capital structure and financial condition can be evaluated based on a review of the financial data contained in the table below.

($ in millions, except ratio calculations)	**Feb. 4, 2006[(1)]**	May 7, 2005	Jan. 29, 2005
Shareholders' equity	**$ 1,855.8**	$ 1,709.0	$ 1,673.7
Minority interest	**606.1**	556.3	555.3
Bank indebtedness	**253.4**	219.4	176.1
Long-term debt, including current portion	**1,029.7**	974.4	954.1
Funded debt to total capital ratio	**41.1%**	41.4%	40.6%
Net debt to capital ratio	**37.7%**	35.1%	37.0%
Interest coverage	**5.5x**	5.3x	5.5x
Total assets	**$ 5,224.0**	$ 4,929.2	$ 4,710.2

(1) For February 4, 2006, bank indebtedness, long-term debt, and debt ratios include amounts related to real estate that were reclassified to assets/liabilities related to assets held for sale in the third quarter of fiscal 2006 (see Note 16 to the unaudited interim financial statements of the Company as of February 4, 2006).

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

Shareholders Equity

Book value per common share was $28.10 as at February 4, 2006 as compared to $25.87 at May 7, 2005 and $25.29 per share at January 29, 2005.

Total common shares outstanding at February 4, 2006 equalled 65,735,810 unchanged from the previous fiscal year-end (May 7, 2005) and the third quarter last year, January 29, 2005. There were 31,175,047 Non-Voting Class A shares outstanding and 34,560,763 Class B common shares outstanding at the end of the third quarter, February 4, 2006.

At February 4, 2006, Empire had 27,674 options outstanding with an expiry date of October 2006. There were no options exercised in the first 39 weeks of fiscal 2006.

During the 39-week period ended February 4, 2006, Empire purchased for cancellation 20,254 Non-voting Class A shares under a Normal Course Issuer Bid which expires on July 27, 2006. No shares were purchased for cancellation in the third quarter of fiscal 2006. For the 39-weeks ended January 29, 2005, Empire purchased for cancellation 61,129 Non-Voting Class A shares.

At March 16, 2006, Empire had 31,175,047 Non-Voting Class A shares and 34,560,763 Class B common shares outstanding. There were 27,674 options outstanding on March 16, 2006, each exercisable for one Non-voting Class A share.

Dividends paid to common shareholders amounted to $9.2 million in the third quarter ($0.14 per share) versus $7.9 million ($0.12 per share) in the third quarter last year. On a fiscal year-to-date basis, the Company has paid common dividends totalling $27.5 million ($0.42 per share) versus $23.7 million ($0.36 per share) in the comparable period last fiscal 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 February 4, 2006 was $1,029.7 million, representing 79.4 percent of Empire's total funded debt. The amount of long-term debt (including the current portion) increased $55.3 million from the end of the fiscal year, May 7, 2005 ($974.4 million) and $75.6 million from the third quarter last year ($954.1 million), respectively.

Long-term debt (including current portion) by operating segment is detailed below:

($ in millions)	**Feb. 4, 2006**(1)	May 7, 2005	Jan. 29, 2005
Food Distribution	**$ 474.1**	$ 457.8	$ 436.9
Real Estate	**496.7**	512.2	512.8
Other Operations	**58.9**	4.4	4.4
Total	**1,029.7**	974.4	954.1

(1) Includes $301.1 million of long-term debt associated with assets held for sale.

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

Interest coverage remained healthy in the third quarter at 5.5 times, relatively consistent with the 5.3 times coverage for the fiscal year ended May 7, 2005 and unchanged from the the third quarter last fiscal year.

Since the beginning of the fiscal year, the consolidated funded debt to total capital ratio, where funded debt includes long-term debt associated with assets held for sale, has decreased 0.3 percentage points. Excluding the long-term debt associated with assets held for sale, the funded debt to total capital ratio equalled 34.9 percent, versus 41.4 percent at the beginning of the fiscal year.

Empire and its subsidiaries have provided covenants to its lenders in support of various financing facilities. All covenants were complied with for the 39-weeks ended February 4, 2006 and for fiscal 2005.

Hedging Instruments

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

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

The food division had no interest rate hedges in place at the end of the third quarter.

At the end of the third quarter, the real estate division had one interest rate exchange agreement outstanding with a notional amount of $16.0 million at a rate of 4.22 percent. This swap carried a fair value of negative $0.04 million at the end of the third quarter. As well, Crombie has entered into delayed start swaps in order to fix the interest rate on certain maturing debt tranches in future periods. These delayed start swaps totalling $27.8 million carried a fair value of negative $3.0 million at the end of the third quarter.

To mitigate the currency risk associated with the Company's U.S. dollar denominated investments, Empire has designated U.S. dollar denominated bank loans as hedges. Empire Company directly has in place U.S. dollar denominated based bankers acceptances totalling $81.0 million, equal to approximately two-thirds of the market value of U.S. common equity investments held at the end of the third quarter. The fair market value of this hedge at the end of the third quarter was approximately $10.8 million.

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, ECL is exposed to foreign currency fluctuations. At the end of the third quarter, the U.S. dollar denominated asset exposure of ECL totalled $11.0 million. Crombie had $10.0 million in U.S. dollar denominated bankers' acceptances at the end of the third quarter. The fair value of this hedge at the end of the third quarter was $1.5 million.

Subsequent to the end of the third quarter, certain interest rate hedges relating to the debt to be incurred by Crombie REIT were entered into as a means of shielding the REIT from interest rate uncertainty. The interest rate on the Crombie REIT Commercial Mortgage Backed Securities ("CMBS") financing of $144.2 million was effectively locked in place as a result of transacting a series of 18 bond forwards (one forward for each CMBS tranche). Refer to the Assets Held for Sale section on page 21 of this MD&A.

With respect to hedging interest rate risk on the Crombie REIT Revolving Credit Facility, a $50 million interest rate swap with a fixed rate of 4.38 percent and a maturity date of February 1, 2010 was entered into commencing March 27, 2006. The Company has assumed the risk associated with these financial instruments until the closing in March 2006, at which time Crombie REIT will become the beneficiary.

Liquidity and Capital Resources

Empire's liquidity remained strong at February 4, 2006 as a result of the following sources of liquidity:

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

The Company anticipates that these sources of liquidity will be sufficient to meet its expected cash outflows.

At February 4, 2006, cash and cash equivalents equalled $171.3 million versus $281.7 million at May 7, 2005 and $158.1 million at January 29, 2005.

On a non-consolidated basis, Empire maintains authorized bank lines for operating, general and corporate purposes of $325.0 million, of which approximately 53 percent was utilized at February 4, 2006. 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 $556.8 million at February 4, 2006, versus $548.2 million capacity at May 7, 2005.

The table below highlights major cash flow components for the 13 weeks and 39 weeks ended February 4, 2006 compared to last fiscal year.

Major Cash Flow Components:

	13 Weeks Ended		39 Weeks Ended	
($ in millions)	**February 4, 2006**	January 29, 2005	**February 4, 2006**	January 29, 2005
Net earnings	**$ 56.0**	$ 47.6	**$ 178.4**	$ 131.8
Items not affecting cash	**80.8**	82.7	**208.5**	221.0
Preferred dividends	**(0.1)**	(0.1)	**(0.2)**	(0.3)
Net change in non-cash working capital	**38.7**	8.2	**(92.6)**	(127.4)
Cash flows from operating activities	**175.4**	138.4	**294.1**	225.1
Cash flows used in investing activities	**(146.5)**	(95.6)	**(462.8)**	(241.3)
Cash flows (used in) from financing activities	**(54.7)**	(3.7)	**59.6**	(27.9)
Decrease in cash and cash equivalents	**$ (25.8)**	$ 39.1	**$ (109.1)**	$ (44.1)

The 13 weeks and 39 weeks ended January 29, 2005 have been restated to reflect retroactive adjustments related to lease accounting. Please see the sections entitled "Lease Accounting" in the fiscal 2005 annual MD&A.

Operating Activities

Third quarter cash flows from operating activities of $175.4 million compares to $138.4 million in the comparable period last year. The increase of $37.0 million is attributed to increased net earnings of $8.4 million as discussed, a decrease in items not affecting cash of $1.9 million and an increase in the change in non-cash working capital of $30.5 million. An increase in depreciation and amortization expense of $10.9 million was more than offset by a decrease in future income taxes of $11.7 million. Other areas impacting items not affecting cash were a decrease in amortization of deferred items of $2.7 million, an increase in equity earnings of $3.2 million and a reduction in employee future benefit obligation of $0.4 million.

The following table presents non-cash working capital changes for the third quarter of fiscal 2006 as compared to the second quarter of fiscal 2006 and also the fiscal year-ended May 7, 2005, with VIEs included.

Non-Cash Working Capital
(Including VIEs)

($ in millions)	**Including VIEs as of Feb. 4, 2006**	Including VIEs as of Nov. 5, 2005	Quarter Increase (Decrease) in Cash flows	Including VIEs of May 7, 2005	Year-to-Date Increase (Decrease) in Cash flows
Receivables	**$ 274.9**	$ 307.0	$ 32.1	$ 257.8	$ (17.1)
Inventories	**726.6**	728.7	2.1	639.6	(87.0)
Prepaid expenses	**50.6**	62.0	11.4	52.3	1.7
Income taxes receivable (payable)	**(1.2)**	14.5	15.7	15.0	16.2
Accounts payable and accrued liabilities	**(1,130.3)**	(1,162.8)	(32.5)	(1,149.1)	(18.8)
Total	**$ (79.4)**	$ (50.6)	$ 28.8	$ (184.4)	$ (105.0)

The table below presents non-cash working capital changes compared to the third quarter last year excluding VIEs.

Non-Cash Working Capital
(Excluding VIEs)

($ in millions)	Feb. 4, 2006 Including VIEs	Feb. 4, 2006 Impact of VIEs	**Feb. 4, 2006 Excluding VIEs**	Jan. 29, 2005 Excluding VIEs	Year-Over-Year Increase (Decrease) in Cash Flows
Receivables	$ 274.9	$ (29.0)	**$ 303.9**	$ 298.9	$ (5.0)
Inventories	726.6	125.9	**600.7**	543.5	(57.2)
Prepaid expenses	50.6	8.2	**42.4**	40.8	(1.6)
Income taxes receivable (payable)	(1.2)	(0.2)	**(1.0)**	12.5	13.5
Accounts payable and accrued liabilities	(1,130.3)	(31.0)	**(1,099.3)**	(1,045.8)	53.5
Total	$ (79.4)	$ 73.9	**$ (153.3)**	$ (150.1)	$ 3.2

January 29, 2005 has been restated to reflect retroactive adjustments related to lease accounting and EIC-144. Please see the sections entitled "Lease Accounting" and "EIC-144" in the fiscal 2005 annual MD&A.

In the third quarter, accounts payable and accrued liabilities, receivables, income taxes receivable, and prepaid expenses, all showed declines of $32.5 million, $32.1 million, $15.7 million and $11.4 million, respectively, from the second quarter of fiscal 2006. Contributing to these changes is the reclassification of assets and liabilities of properties held for sale. This reclassification reduced accounts payable and accrued liabilities, receivables, and prepaid expenses by $22.3 million, $5.7 million, and $6.7 million, respectively. Also contributing to these declines was the impact of food division non-cash working capital changes.

In the third quarter, food division receivables decreased $25.5 million, and inventory levels declined $16.1 million compared to the second quarter of fiscal 2006. A portion of the decrease in food division receivables is related to the food division depositing funds with the Canada Revenue Agency ("CRA") to cover total taxes, interest and penalties of $13.6 million in a reassessment, which Sobeys is challenging. Sobeys reclassified this receivable to a long-term receivable in the third quarter of fiscal 2006. Food division inventories decreased from the second quarter of fiscal 2006 due to the impact of the December selling season on inventory levels. Food division accounts payable and accrued liabilities declined $41.9 million compared to the second quarter of fiscal 2006, reflecting lower supplier payables as inventory levels were reduced.

Compared to May 7, 2005 fiscal year-end levels, inventories increased $87.0 million, accounts payable and accrued liabilities decreased $18.8 million, receivables increased $17.1 million and income taxes receivable declined $16.2 million. These items were impacted by the reclassification of properties held for resale as discussed above. The bulk of the receivable and inventory increases relate to the food division where receivables increased $19.2 million and inventories grew $63.9 million since the beginning of the fiscal year.

The increase in inventory since year-end is necessary to support the food division's higher sales volume in its expanded store network.

Compared to January 29, 2005, excluding the impact of VIEs, receivables increased $5.0 million, inventories increased $57.2 million and accounts payable and accrued liabilities increased by $53.5 million. The bulk of these increases are attributed to the food division where receivables increased $3.7 million, inventories increased $41.6 million, and accounts payable and accrued liabilities grew by $49.5 million compared to the third quarter last fiscal year. The growth in food division inventories reflects higher sales and greater retail store square footage from continued capital investment. The inventory increase was more than offset by an increase in related payables.

Investing Activities

Cash used in investing activities of $146.5 million in the third quarter was significantly higher than the $95.6 million of cash used in the third quarter last year.

The increase was mainly the result of an increase in property, equipment and other asset purchases of $106.0 million over the third quarter last year, net of a decrease in investments of $50.9 million.

Investment in property, equipment and other assets amounted to $204.1 million in the third quarter versus $98.1 million in the third quarter last year. The food division accounted for $62.5 million of the increase, reflecting higher planned capital spending levels in the third quarter of fiscal 2006. During the quarter, the food division opened or replaced 25 corporate and franchised stores compared to 11 corporate and franchised stores opened or replaced during the third quarter of last year. An additional seven stores were expanded during the quarter compared to five stores expanded in the third quarter last year . A total of 20 stores were closed during the third quarter of fiscal 2006 compared to seven stores closed in the third quarter last year. There was one store rebannered in the third quarter of fiscal 2006 consistent with the same quarter last fiscal year.

Food division net retail store square footage increased during the third quarter of fiscal 2006 by 322,839 square feet (558,954 square feet opened, less 236,115 square feet closed). At February 4, 2006, Sobeys' square footage totalled 25.3 million square feet a 3.7 percent increase over the third quarter last fiscal year.

Capital expenditures for the real estate division equalled $27.6 million in the third quarter, up $21.0 million over the third quarter last year, as a result of ongoing property developments and land additions.

Capital expenditures for corporate and other operations amount to $28.8 million in the third quarter, an increase of $22.5 million over last year. The increase was primarily the result of expenditures by Empire's wholly-owned Kepec Resources Limited on various petroleum and natural gas properties in the Berland/Wild River area of Alberta.

For the 39 weeks ended February 4, 2006, cash used in investing activities increased by $221.5 million to $462.8 million. Investment in property, equipment and other assets for the 39 weeks ended February 4, 2006 amounted to $418.9 million, an increase of $174.5 over the same period last fiscal year. The food division accounted for $119.1 million of this increase, reflecting higher planned capital spending levels in the first 39 weeks of fiscal 2006. Capital expenditures increased $26.5 million and $28.9 million for the real estate division and for other operations, respectively, relative to last fiscal year-to-date.

Cash used for business acquisitions equalled $87.5 million for the 39 weeks ended February 4, 2006, $69.4 million higher than last fiscal year-to-date as a result of a the purchase by Empire Theatres of 27 theatres (202 screens) located in Ontario and Western Canada from Cineplex Galaxy LP. Empire Theatres also acquired one theatre with four screens in Western Canada from Alliance Atlantis Cinemas. The total cash consideration of these collective theatre acquisitions was $87.5 million.

Financing Activities

Financing activities during the third quarter used $54.7 million of cash compared to $3.7 million of cash used in the comparable period of fiscal 2005. The increase in cash flows used in financing activities was largely the result of decreased bank indebtedness partially offset by an increase in the issue of long-term debt.

Financing activities for the first 39 weeks of fiscal 2006 generated $59.6 million of cash compared to cash used of $27.9 million in the comparable period last fiscal year. The increase in cash flow generated from financing activities was the result of an increase in the issue of long-term debt of $246 million partially offset by an increase in debt repayment of approximately $160 million. Sobeys repaid, on maturity, a $175 million Series A MTN with the proceeds from the issuance of a new $175 million Series D MTN.

The Company's share capital was comprised of the following on February 4, 2006:

Authorized	Number of Shares
Preferred shares, Series 2, par value of $25 each, issuable in series as a class	994,846,000
Non-Voting Class A shares, without par value	259,174,746
Class B common shares, without par value, voting	40,800,000
Issued	
Preferred shares, Series 2	331,900
Non-Voting Class A	31,175,047
Class B common	34,560,763

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

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

As of March 16, 2006 the Company had total Class A Non-Voting plus Class B common shares outstanding of 65,735,810.

Assets Held for Sale

During the quarter ended February 4, 2006, the Board of Directors of the Company approved a plan ("Plan") and initiated a program to dispose of 44 real estate properties which are currently held in wholly-owned subsidiaries and which were included in the real estate segment of the business. In accordance with Section 3475 of the CICA Handbook, the assets and liabilities of these properties have been reclassified as held for sale.

Under the Plan, a real estate investment trust ("Crombie REIT") was formed on January 1, 2006 and will purchase the 44 real estate properties from the Company. On February 10, 2006, Crombie REIT filed an amended and restated preliminary prospectus relating to the purchase of these properties. On March 10, 2006, Crombie REIT filed a final prospectus and signed an underwriting agreement relating thereto. It is anticipated that this transaction will close on March 23, 2006, but in any event no later than March 31, 2006. The Company will take back an interest in Crombie REIT giving the Company effective ownership of 49.5 percent of the 44 real estate properties. Crombie REIT has granted an over-allotment option to the underwriters exercisable up to 30 days after closing, and if exercised in full will reduce the Company's ownership percentage to 48.3 percent. The Company decided to form Crombie REIT in order to access alternate sources of capital and growth opportunities for the Real Estate segment, while retaining a significant economic interest in its existing properties.

Subsequent to the end of the third quarter, on March 10, 2006, Crombie REIT filed a final prospectus with securities regulatory authorities relating to an initial public offering of 20,485,225 units at $10.00 per unit providing investors with a cash-on-cash yield of 8.0% paid annually through monthly distributions. Gross proceeds of the offering are expected to be approximately $204.8 million. The Toronto Stock Exchange has conditionally approved the listing of the Crombie REIT units under the symbol "CRR.UN", subject to fulfilling all of the requirements of the Toronto Stock Exchange.

Also included in the assets held for sale is one real estate property of the Real estate segment with a net carrying value of $7.5 and certain assets of the Food segment with a net carrying value of $8.9. These assets are listed for potential sale to outside parties and it is expected that these properties will be disposed of in the next twelve months.

In preparation for the sale of the 44 properties to Crombie REIT, on February 9, 2006, Crombie Developments Limited (a subsidiary of the Company) signed a commitment letter with a Canadian chartered bank (who will act as conduit lender) for $144.2 million of commercial mortgage backed securities ("CMBS mortgages") secured by 18 of the properties. The proceeds from the CMBS mortgages are expected to be received prior to closing the Crombie REIT transaction. The proceeds will be used to redeem certain Crombie Developments Limited debt, including prepayment penalties. In addition, on February 13, 2006, Crombie Developments Limited entered into a series of bond forward contracts that effectively fix the interest rates on the CMBS mortgages at 5.42%. The maturity dates range from 8-12 years. Crombie REIT will assume the CMBS mortgages upon the purchase of the 44 properties. The Company has also entered into a $50.0 million delayed start interest rate swap, commencing March 27, 2006, with a fixed rate of 4.38% to mature February 1, 2010 to hedge a revolving credit facility of Crombie REIT. The interest rate swap will be assumed by Crombie REIT on closing.

Accounting Policy Changes

AcG-15, Consolidation of Variable Interest Entities

AcG-15, consolidation of variable interest entities is discussed in detail in the "Management's Discussion and Analysis" section of the 2005 Annual Report on pages 47 to 49.

The Company has identified the following entities as VIEs:

Franchisees

The Company has identified 294 (May 7, 2005 – 287) independent franchisee stores whose franchise agreements result in the Company being deemed the primary beneficiary of the entity according to AcG-15. The results for these entities were consolidated with the results of the Company.

Warehouse and Distribution Agreement

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

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

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

> Accounts receivable and long-term notes receivable due from the franchisees were eliminated upon consolidation. Cash, inventories, fixed assets, accounts payable and debt financing of the fixed assets has been consolidated.
>
> A charge of $9.5 million has been recorded to opening retained earnings in the fourth quarter of fiscal 2005 (net of minority interest of $5.0 million), to reflect:
>
> 1. The reduction of inventory values of the franchisees that include charges from the Company for distribution costs and vendor allowances that are not recognized by the Company until final sale to customers,
>
> 2. Goodwill that is carried on the accounts of stores determined to be VIEs has been assessed as being impaired with no fair market value, and, as such, has been eliminated.
>
> It has been determined that a charge of $3.7 million (net of minority interest of $2.0 million) to retained earnings was required in the second quarter of fiscal 2006 to reflect additional minority interest in the VIEs. Additional adjustments of $0.3 million (net of minority interest of $0.1 million) to retained earnings are reflective of changes in the amount of VIE entities required to be consolidated. Minority interest represents the equity in the VIEs held by the common shareholder.

Consolidated Balance Sheet as at February 4, 2006
($ in millions)

	Before AcG-15 Impact	Impact of the Implementation of AcG-15	After AcG-15 Impact
ASSETS			
Current			
Cash and cash equivalents	$ 140.6	$ 30.7	$ 171.3
Receivables	303.9	(29.0)	274.9
Inventories	600.7	125.9	726.6
Prepaid expenses	42.4	8.2	50.6
Assets held for sale	13.7	-	13.7
	1,101.3	135.8	1,237.1
Investments, at cost (quoted market value $348.3)	297.3	-	297.3
Investments, at equity (realizable value $157.2)	43.6	-	43.6
Current assets and marketable investments	1,442.2	135.8	1,578.0
Property and equipment	2,102.1	33.4	2,135.5
Other assets	338.9	(98.5)	240.4
Long-term assets held for sale	556.6	-	556.6
Goodwill	713.5	-	713.5
	$ 5,153.3	$ 70.7	$ 5,224.0
LIABILITIES			
Current			
Bank indebtedness	$ 253.4	$ -	$ 253.4
Accounts payable and accrued liabilities	1,099.3	31.0	1,130.3
Income taxes payable	1.0	0.2	1.2
Future income taxes	47.9	-	47.9
Long-term debt due within one year	42.0	1.8	43.8
Liabilities relating to assets held for sale	43.5	-	43.5
	1,487.1	33.0	1,520.1
Long-term debt	669.4	15.4	684.8
Long-term lease obligation	13.1	-	13.1
Deferred revenue	0.9	-	0.9
Employee future benefit obligation	98.0	-	98.0
Future income taxes	100.0	-	100.0
Long-term liabilities relating to assets held for sale	345.2	-	345.2
Minority interest	570.8	35.3	606.1
	3,284.5	83.7	3,368.2
SHAREHOLDERS' EQUITY			
Capital stock	195.0	-	195.0
Retained earnings	1,675.1	(13.0)	1,662.1
Cumulative translation adjustment	(1.3)	-	(1.3)
	1,868.8	(13.0)	1,855.8
	$ 5,153.3	$ 70.7	$ 5,224.0

Consolidated Statement of Earnings for the 39 weeks ended February 4, 2006
($ in millions)

	Before AcG-15 Impact	Impact of the Implementation of AcG-15	After AcG-15 Impact
Revenue	$ 9,480.0	$ 431.7	$ 9,911.7
Operating expenses			
Cost of sales, selling and andministrative expenses	8,986.1	420.3	9,406.4
Depreciation and amortization	165.1	4.0	169.1
	328.8	7.4	336.2
Investment income	24.3	-	24.3
Operating income	353.1	7.4	360.5
Interest expense			
Long-term debt	56.9	1.1	58.0
Short-term debt	6.7	-	6.7
	63.6	1.1	64.7
	289.5	6.3	295.8
Capital gain and other items	37.6	-	37.6
Earning before income taxes and minority interest	327.1	6.3	333.4
Income taxes	105.2	1.8	107.0
Earnings before minority interest	221.9	4.5	226.4
Minority interest	44.0	4.0	48.0
Net earnings	$ 177.9	$ 0.5	$ 178.4
Earnings per share			
Basic	$ 2.71	$ 0.01	$ 2.72
Diluted	$ 2.70	$ 0.01	$ 2.71

The impact of implementation of AcG-15 on the consolidated statement of earnings of the Company can be explained as follows: Franchisee retail sales are recorded and sales from the Company's warehouse and cost of goods sold to the franchisee have been eliminated. The impact on all other financial statement line items including net earnings is immaterial.

Lease Accounting

Lease accounting is discussed in detail in the "Management's Discussion and Analysis" section of the 2005 Annual Report on pages 46 and 47.

These changes have been accounted for on a retroactive basis with restatement resulting with the following net impact on the comparative statements for the period ended February 4, 2006:

- As at January 29, 2005 a reduction to retained earnings of $5.4 million.
- A reduction in net income for the 39 week period ended January 29, 2005 of $0.2 million from $132.0 million to $131.8 million, with no impact on basic and diluted earnings per share.
- As at January 29, 2005 an increase to property and equipment, future income taxes, long-term debt and long-term lease obligation of $9.3 million, $5.9 million, $10.3 million and $12.3 million, respectively, and a decrease in minority interest of $3.0 million.

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

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

EIC-144, accounting by a customer (Including a Reseller) for certain consideration received from a vendor is discussed in detail in the “Management’s Discussion and Analysis” section of the 2005 Annual Report on pages 45 and 46.

In January 2005 the CICA issued an amendment to EIC-144 that required disclosure in all financial statements of the amount of any vendor rebate that has been recognized in income but for which the full requirements for entitlement have not yet been met. These amounts are permitted by EIC-144 to be recognized in income when it is probable that the requirement will be met, and the amount of rebate is estimable. During the first quarter of 2006, the Company adopted the disclosure as required by the amendment to EIC-144. As of the third quarter of fiscal 2006, the Company has recognized $2.1 million of allowances in income whereby the minimum purchase level had not yet been met.

Critical Accounting Estimates

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

Disclosure Controls

Based on an evaluation of the Company’s disclosure controls and procedures, the Company’s Chief Executive Officer and Chief Financial Officer have concluded as of February 4, 2006 that these controls and procedures operated effectively.

Contingencies

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

Lumsden has reviewed this matter, has received legal advice, and believes it was not required to collect GST. Lumsden is challenging this reassessment. Accordingly, Sobeys has not recorded in its statement of earnings any of the tax, interest or penalties set-out in the notice of reassessment, however Sobeys has deposited with CRA the funds to cover the total tax, interest and penalties in the reassessment and has recorded this amount as a receivable from CRA pending resolution of this matter. During the second quarter of fiscal 2006, Sobeys filed a notice of objection with CRA.

On January 19, 2006, E.C.L. Investments Limited (a subsidiary of the Company) received notice from CRA that it is proposing a reassessment for fiscal year 2001 related to the disposition of its shares of Hannaford Bros. Co. The Company has signed a waiver that effectively postpones the issuance of this reassessment. Due to the complexity of this matter, it is not possible to determine the amounts that may ultimately be assessed against the Company. Management believes that it has recorded adequate accruals in relation to this matter. Any settlement in excess of these accruals will be charged to earnings.

Risk Management

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

Non-GAAP Financial Measures

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

- Operating income or EBIT is calculated as operating earnings before minority interest plus interest expense and income taxes.
- EBITDA is calculated as operating income plus depreciation and intangible amortization.
- EBITDAR is calculated as EBITDA plus gross rent expense.
- Operating earnings is calculated as net earnings before capital gains (losses) and other items.
- Funds from operations is calculated as operating earnings plus depreciation and amortization expense.
- Interest coverage is calculated as operating income divided by interest expense.
- Funded debt is all interest bearing debt, which includes bank loans, bankers' acceptances, long-term debt and long-term lease obligations.
- Net debt is calculated as funded debt less cash and cash equivalents.
- Total capital is calculated as funded debt plus shareholders' equity.

The following table reconciles the Food division's EBITDA and EBITDAR to GAAP measures as reported in Sobeys' unaudited interim consolidated statement of earnings for the periods ended February 4, 2006 and January 29, 2005, respectively:

	13 Weeks Ended		39 Weeks Ended	
($ in millions)	February 4, 2006	January 29, 2005	February 4, 2006	January 29, 2005
EBIT	$ 78.6	$ 76.2	$ 246.4	$ 238.0
Depreciation	48.1	42.3	142.0	126.8
Amortization of intangibles	1.9	0.6	3.1	1.1
EBITDA	$ 128.6	$ 119.1	$ 391.5	$ 365.9
Gross Rent	83.5	68.7	250.7	204.3
EBITDAR	$ 212.1	$ 187.8	$ 642.2	$ 570.2

The following table reconciles Empire's funded debt and total capital to GAAP measures reported in the unaudited interim period balance sheets as at February 4, 2006, May 7, 2005 and January 29, 2005, respectively:

($ in millions)	February 4, 2006(1)	May 7, 2005	January 29, 2005
Bank indebtedness	$ 253.4	$ 219.4	$ 176.1
Long-term debt due within one year	65.0	247.0	243.3
Long-term debt	964.7	727.4	710.8
Long-term lease obligation	13.1	12.3	12.3
Funded Debt	1,296.2	1,206.1	1,142.5
Total Shareholders Equity	1,855.8	1,709.0	1,673.7
Total Capital	$ 3,152.0	$ 2,915.1	$ 2,816.2

(1) Long-term debt amounts include $21.2 million of long-term debt due with one year and $279.9 million of long-term debt in connection with assets held for sale.

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 16, 2006
Stellarton, Nova Scotia, Canada

INVESTOR INFORMATION

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

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

AFFILIATED COMPANY WEB ADDRESSES
www.sobeys.com
www.empiretheatres.com
www.eclproperties.com
www.crombiereit.com

STOCK EXCHANGE LISTING
The Toronto Stock Exchange

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

AVERAGE DAILY TRADING VOLUME (TSX)
32,840

COMMON DIVIDEND RECORD AND PAYMENT DATES FOR FISCAL 2006

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

OUTSTANDING SHARES

As of February 4, 2006	
Non-Voting Class A	31,175,047
Options exercisable with Class A common shares	27,674
Class B common, voting	34,560,763

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Royal Bank of Canada
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SOLICITORS
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AUDITORS
Grant Thornton, LLP
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EMPIRE

COMPANY LIMITED