

EMPIRE

Expanding Value

Empire Company Limited

Second Quarter Report Fiscal 2007

Q2

Twenty-Six Weeks Ended Nov 4, 2006

Quarterly Report to Shareholders

Empire is a diversified Canadian company headquartered in Stellarton, Nova Scotia. Empire's key businesses are food retailing through a 72.1% ownership interest in Sobeys Inc. ("Sobeys"), real estate through two wholly-owned operating subsidiaries: Sobeys Leased Properties Limited ("SLP"), and ECL Properties Limited ("ECL") (formerly Crombie Properties Limited), including a 35.7% ownership interest in Genstar Development Partnership ("Genstar") and a 48.1% ownership interest in Crombie Real Estate Investment Trust ("Crombie REIT"); and corporate investment activities and other operations which includes wholly-owned Empire Theatres Limited ("Empire Theatres") and a 27.6% ownership position in the Wajax Income Fund ("Wajax"). With approximately \$5.2 billion in assets, Empire employs approximately 37,000 people directly and through its subsidiaries.

Contents	Page
• Letter to Shareholders	2
• Consolidated Financial Statements	
• Consolidated Balance Sheets	6
• Consolidated Statements of Retained Earnings	7
• Consolidated Statements of Earnings	8
• Consolidated Statements of Cash Flows	9
• Notes to the Consolidated Financial Statements	10
• Management's Discussion and Analysis	20
• Shareholder and Investor Information	47

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

The Company provided additional details concerning its second quarter results on a conference call held on Wednesday, December 13, 2006. Replay of the call is available on the Company's website (www.empireco.ca).

Forward-looking Statements

This quarterly report contains forward-looking statements which reflect management's expectations regarding the Company's objectives, plans, goals, strategies, future growth, results of operations, performance and business prospects and opportunities. Forward-looking statements are typically identified by words or phrases such as "anticipates", "expects", "believes", "estimates", "intends" and other similar expressions. 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. These uncertainties and risks are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including those in the Risk Management section of the annual MD&A included in the Company's 2006 Annual Report. 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.

Letter to Shareholders

On December 13, 2006, Empire Company Limited (TSX: EMP.A) announced earnings before capital gains and other items for its second quarter ended November 4, 2006 of \$51.2 million (\$0.78 per share) compared to \$47.8 million (\$0.73 per share) in the second quarter last year. This quarterly report includes the Company's consolidated financial statements along with management's discussion and analysis for the second quarter of fiscal 2007.

The Company realized capital gains and other items, net of tax, of \$6.0 million (\$0.09 per share) in the second quarter as compared to \$0.8 million (\$0.01 per share) in the second quarter last year. Net earnings in the second quarter amounted to \$57.2 million (\$0.87 per share) versus \$48.6 million (\$0.74 per share) in the second quarter last year.

Second Quarter Highlights

- *Revenue of \$3.31 billion, up \$60.1 million or 1.8 percent over the second quarter last year (up 3.3 percent when excluding the impact of: the sale of Sobeys' Cash and Carry operations, the sale of 44 properties to Crombie REIT; the decline in Sobeys' wholesale tobacco sales; Sobeys' acquisition of Achille de la Chevrotière Ltée and its associated companies ("ADL") and also from the theatre acquisition).*
- *Earnings before capital gains and other items of \$51.2 million, up \$3.4 million or 7.1 percent over the second quarter last year.*
- *Earnings per share, before capital gains and other items, net of tax, of \$0.78, an improvement of 5 cents or 6.8 percent compared to the \$0.73 per share recorded in the second quarter last year.*
- *Net earnings of \$57.2 million (\$0.87 per share) versus \$48.6 million (\$0.74 per share) last year, a 17.7 percent increase.*

Financial Overview

Consolidated revenue for the second quarter was \$3.31 billion, an increase of \$60.1 million or 1.8 percent from the second quarter last year. The growth in food division sales was partially offset by a reduction in revenue from the real estate division as a result of the sale of 44 properties to Crombie REIT in the fourth quarter last year.

The food division generated sales of \$3.25 billion, an increase of \$65.3 million or 2.0 percent over the second quarter last year. During the second quarter of fiscal 2007, Sobeys' same-store sales (sales from food stores in the same locations in both reporting periods) increased by 2.4 percent.

The growth in food retail sales was driven by 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. Food division sales growth in the second quarter was also positively impacted by \$50.0 million as a result of the acquisition of ADL on August 27, 2006. This acquisition included 25 owned or franchised retail store operations, other wholesale supply agreements and a distribution facility in Rouyn-Noranda, Quebec.

Sobeys continued to experience declines in its wholesale tobacco sales in the second quarter of fiscal 2007. Wholesale tobacco sales declined \$20.0 million in the second quarter of fiscal 2007 compared to the second quarter last year. Sales growth was also negatively impacted by the disposition on March 31, 2006 of Sobeys' Cash and Carry business in Ontario and Quebec. Cash and Carry sales in the second quarter last year were \$59.9 million.

Excluding the impact of the wholesales tobacco decline, the disposition of the food division's Cash and Carry business, and the impact of the ADL acquisition, Sobeys' sales growth would have been 3.0 percent for the second quarter.

During the second quarter, Sobeys acquired 27 corporate and franchised stores and opened or relocated 13 corporate or franchised stores compared to 12 corporate and franchised stores opened or relocated during the second quarter last year. Of the 27 acquisitions, 25 relate to the ADL purchase as mentioned. An additional four stores were expanded during the quarter compared to three stores expanded during the second quarter of fiscal 2006. Nine stores were closed during the quarter of fiscal 2007 compared to 20 in the second quarter last year. There were 15 stores rebannered in the second quarter of fiscal 2007 compared to one store in the same quarter last year.

At the end of the second quarter Sobeys' square footage totalled 26.1 million, a 4.4 percent increase over the second quarter last year.

Real estate division revenue (net of inter-segment) equalled \$26.2 million, a decrease of \$20.2 million over the \$46.4 million recorded in the second quarter last year. Commercial property revenue declined \$25.0 million over the second quarter last year. This revenue decline was expected given the sale of 44 commercial properties to Crombie REIT in the fourth quarter of last year. At the end of the second quarter, Empire Company maintained a 48.1 percent ownership position in Crombie REIT which is equity accounted.

Revenue from residential operations equalled \$17.2 million in the second quarter compared to \$12.4 million last year, a \$4.8 million or 38.7 percent increase. Genstar continued to benefit from strong housing markets in Western Canada.

Investments and other operations recorded revenue of \$35.8 million in the second quarter versus \$20.8 million in the second quarter last year. The \$15.0 million increase was largely the result of the acquisition of 28 movie theatres by wholly-owned Empire Theatres towards the end of the second quarter of last fiscal year.

Consolidated operating income (earnings before minority interest, income taxes, capital gain and other items and interest expense) in the second quarter totalled \$116.2 million, a decrease of \$5.9 million or 4.8 percent compared to the \$122.1 million reported in the second quarter last year.

The food division contributed operating income of \$82.9 million during the second quarter, a decrease of \$1.2 million or 1.4 percent from the second quarter last year. Second quarter food division operating margin (operating income divided by revenue) was 2.55 percent compared to 2.64 percent in the second quarter last year. Included in the second quarter fiscal 2007 operating income was a \$6.3 million increase in food division's depreciation and amortization expense (\$55.0 million in the current quarter, compared to \$48.7 million for the same quarter last year), reflecting Sobeys continued capital investments. Also included in food division operating income were \$11.1 million (\$4.6 million in the second quarter of fiscal 2006) of pre-tax costs related to the business process and system initiative as outlined in the Company's Management Discussion and Analysis section included in the 2006 Annual Report.

The real estate division contributed operating income of \$29.0 million, a decrease of \$6.6 million from the \$35.6 million recorded in the second quarter last year. Operating income generated from commercial properties declined \$10.3 million while operating income from residential operations increased \$3.7 million from the second quarter last year. The decline in commercial property operating income was anticipated as a result of the sale of 44 commercial properties to Crombie REIT in the fourth quarter of last fiscal year. Residential operating income benefited from the growth in revenues from higher lot sales, primarily in Western Canada.

Investments and other operations' operating income, net of corporate expenses, equalled \$4.3 million compared to \$2.4 million in the second quarter last year. The increase was largely the result of increased equity earnings from Empire's 27.6 percent ownership position in Wajax Income Fund.

Interest expense decreased \$6.6 million, to \$15.5 million from \$22.1 million in the second quarter last year, primarily as a result of a \$6.2 million decline in interest expense on long-term debt. Consolidated long-term debt, including the current portion, declined \$85.5 million from the second quarter last year, primarily due to the sale of 44 commercial properties to Crombie REIT in the fourth quarter of last fiscal year, partially offset by the issuance of \$125 million in Medium Term Notes ("MTN") by Sobeys in the second quarter. This MTN has a maturity date of October 6, 2036 and a coupon rate of 5.79 percent.

Capital gains and other items, net of tax, amounted to \$6.0 million in the second quarter largely as a result of the sale of investments compared to \$0.8 million in the second quarter last year.

Consolidated net earnings, including capital gain and other items, net of tax totalled \$57.2 million (\$0.87 per share) versus \$48.6 million (\$0.74 per share) in the second quarter last year.

Consolidated Financial Condition

The consolidated financial condition of the Company showed continued strength. The ratio of funded debt to total capital at the end of the second quarter equalled 34.1 percent versus 42.6 percent at the end of the second quarter last year. Operating income provided 7.5 times coverage of interest expense in the second quarter versus 5.5 times coverage last year.

At November 4, 2006, the market value of Empire's investments at cost plus investments at equity totalled \$821.4 million on a cost base of \$522.3 million, resulting in an unrealized gain of \$299.1 million. This compares to an unrealized gain of \$306.8 million at the beginning of the fiscal year and an unrealized gain of \$117.7 million at the end of the second quarter last fiscal year.

The total return on the investment portfolio, excluding the investment in Crombie REIT and Genstar U.S. Investments, for the twelve-month period ended September 30, 2006 was 17.4 percent as compared to a 9.2 percent return for the S&P/TSX Composite Index and a 6.4 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 second quarter equalled \$119.6 million as compared to \$120.3 million in the same quarter last year. Investment in food division property and equipment and other assets accounted for \$102.0 million of the total capital investment in the second quarter. Capital expenditures for the real estate division and investments and other operations in the second quarter equalled \$6.1 million and \$11.5 million, respectively.

During the second quarter Empire purchased a total of 310,700 common shares of Sobeys for a total consideration of \$12.1 million, resulting in an ownership interest at the end of the second quarter of 72.1 percent. This increased ownership position had a minimal impact on total earnings for Empire in the second quarter.

Dividend Declaration

The Board of Directors declared a quarterly dividend of \$0.15 per share on both the Non-Voting Class A shares and the Class B common shares that will be payable on January 31, 2007 to shareholders of record on January 15, 2007. In addition, the Board declared regular dividends on the Company's outstanding preferred shares.

We are pleased with our results in the second quarter which reflect a continued focus on our core operating businesses. Empire recorded increased earnings while the food division continued to make significant investment in Ontario in support of their business process and systems initiatives. We continue to be supportive of Sobeys' strategy of improving its operational focus and efficiencies. Our ongoing sales and earnings growth is a testament to the leadership teams in each of our businesses who remain focused on the successful execution of their respective business plans.

A handwritten signature in black ink, reading "Paul D. Sobey". The signature is written in a cursive, flowing style with a large, prominent "S" at the end.

Paul D. Sobey
President & Chief Executive Officer

December 13, 2006

EMPIRE COMPANY LIMITED
CONSOLIDATED BALANCE SHEETS

(In millions)

	November 4 2006 Unaudited	May 6 2006 Audited	November 5 2005 Unaudited
ASSETS			
Current			
Cash and cash equivalents	\$ 211.6	\$ 341.1	\$ 191.4
Receivables	311.3	275.4	307.0
Income taxes receivable	-	-	14.5
Inventories	755.7	694.3	728.7
Prepaid expenses	60.8	51.5	62.0
	<u>1,339.4</u>	<u>1,362.3</u>	<u>1,303.6</u>
Investments, at cost (quoted market value \$433.2; May 6, 2006 \$398.9; November 5, 2005 \$391.6)	366.1	359.9	350.0
Investments, at equity (realizable value \$388.2; May 6, 2006 \$425.3; November 5, 2005 \$125.2)	156.2	157.5	49.1
Property and equipment	2,262.2	2,143.6	2,545.4
Assets held for sale	22.6	23.1	23.5
Other assets (Note 4)	305.9	273.3	228.6
Goodwill	766.1	731.8	718.7
	<u>\$ 5,218.5</u>	<u>\$ 5,051.5</u>	<u>\$ 5,218.9</u>
LIABILITIES			
Current			
Bank indebtedness	\$ 155.8	\$ 98.6	\$ 356.1
Accounts payable and accrued liabilities	1,177.1	1,241.8	1,162.8
Income taxes payable	50.1	35.8	-
Future income taxes	45.9	46.1	52.8
Long-term debt due within one year	93.3	95.4	74.7
Liabilities relating to assets held for sale	7.1	7.1	-
	<u>1,529.3</u>	<u>1,524.8</u>	<u>1,646.4</u>
Long-term debt (Note 5)	792.1	707.3	896.2
Long-term lease obligation	23.2	20.8	13.3
Other liabilities (Note 6)	21.1	18.9	0.9
Employee future benefits obligation	101.5	97.3	99.0
Future income taxes	119.9	131.8	157.8
Minority interest	576.4	585.4	596.5
	<u>3,163.5</u>	<u>3,086.3</u>	<u>3,410.1</u>
SHAREHOLDERS' EQUITY			
Capital stock (Note 7)	196.2	195.1	195.0
Contributed surplus	0.2	0.2	-
Retained earnings	1,860.0	1,771.0	1,615.1
Cumulative translation adjustment	(1.4)	(1.1)	(1.3)
	<u>2,055.0</u>	<u>1,965.2</u>	<u>1,808.8</u>
	<u>\$ 5,218.5</u>	<u>\$ 5,051.5</u>	<u>\$ 5,218.9</u>
Contingent liabilities (Note 16)			
Subsequent event (Note 18)			

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

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

	November 4 2006	November 5 2005
	<u> </u>	<u> </u>
Balance, beginning of period	\$ 1,771.0	\$ 1,515.5
Net earnings	110.5	122.4
Adjustment to minority interest (Note 15)	<u> -</u>	<u> (3.7)</u>
	<u>1,881.5</u>	<u>1,634.2</u>
 Dividends		
Preferred shares	(0.2)	(0.1)
Common shares	(19.7)	(18.3)
	<u>(19.9)</u>	<u>(18.4)</u>
 Premium on common shares purchased for cancellation	(1.6)	(0.7)
Balance, end of period	<u>\$ 1,860.0</u>	<u>\$ 1,615.1</u>

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)

	Nov. 4, 2006	Nov. 5, 2005	Nov. 4, 2006	Nov. 5, 2005
	<i>(13 weeks)</i>	<i>(13 weeks)</i>	<i>(26 weeks)</i>	<i>(26 weeks)</i>
		<i>Restated (Note 1)</i>		<i>Restated (Note 1)</i>
Revenue	\$ 3,313.5	\$ 3,253.4	\$ 6,687.3	\$ 6,584.8
Operating expenses				
Cost of sales, selling and administrative expenses	3,146.8	3,083.2	6,353.0	6,250.4
Depreciation and amortization	61.7	56.0	119.4	108.9
	105.0	114.2	214.9	225.5
Investment income (Note 8)	11.2	7.9	22.5	16.7
Operating income	116.2	122.1	237.4	242.2
Interest expense				
Long-term debt	13.2	19.4	26.1	39.3
Short-term debt	2.3	2.7	3.7	3.8
	15.5	22.1	29.8	43.1
	100.7	100.0	207.6	199.1
Capital gain and other items (Note 9)	7.4	1.1	7.4	27.4
Earnings before income taxes and minority interest	108.1	101.1	215.0	226.5
Income taxes				
Current	33.5	38.1	70.4	70.0
Future	1.8	(4.5)	0.6	(0.6)
	35.3	33.6	71.0	69.4
Earnings before minority interest	72.8	67.5	144.0	157.1
Minority interest	15.6	18.9	33.5	34.7
Net earnings	\$ 57.2	\$ 48.6	\$ 110.5	\$ 122.4
Earnings per share (Note 3)				
Basic	\$ 0.87	\$ 0.75	\$ 1.68	\$ 1.87
Diluted	\$ 0.87	\$ 0.74	\$ 1.68	\$ 1.86
Weighted average number of common shares outstanding, in millions				
Basic	65.5	65.5	65.5	65.5
Diluted	65.7	65.7	65.7	65.7

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

EMPIRE COMPANY LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
PERIODS ENDED

(Unaudited, in millions)

	Nov. 4, 2006	Nov. 5, 2005	Nov. 4, 2006	Nov. 5, 2005
	<i>(13 weeks)</i>	<i>(13 weeks)</i>	<i>(26 weeks)</i>	<i>(26 weeks)</i>
Operating Activities				
Net earnings	\$ 57.2	\$ 48.6	\$ 110.5	\$ 122.4
Items not affecting cash (Note 10)	87.9	78.7	167.2	129.0
Preferred dividends	(0.1)	-	(0.2)	(0.1)
	<u>145.0</u>	<u>127.3</u>	<u>277.5</u>	<u>251.3</u>
Net change in non-cash working capital	(146.4)	(69.6)	(153.7)	(131.3)
Cash flows (used in) from operating activities	<u>(1.4)</u>	<u>57.7</u>	<u>123.8</u>	<u>120.0</u>
Investing Activities				
Net decrease (increase) in investments	10.1	(50.3)	(2.7)	(76.0)
Net proceeds from sale of Wajax Income Fund	-	-	-	50.5
Purchase of shares in subsidiary, Sobeys Inc.	(12.1)	-	(48.6)	-
Purchase of property, equipment and other assets	(119.6)	(120.3)	(247.2)	(207.1)
Proceeds from sale of other property	23.7	6.6	27.3	11.3
Business acquisitions, net of cash acquired	(90.4)	(87.3)	(95.9)	(87.3)
Cash flows used in investing activities	<u>(188.3)</u>	<u>(251.3)</u>	<u>(367.1)</u>	<u>(308.6)</u>
Financing Activities				
Increase in bank indebtedness	1.6	153.3	57.2	136.7
(Decrease) increase in construction loans	(2.4)	1.3	-	2.0
Issue of long-term debt	134.8	175.1	135.4	183.7
Repayment of long-term debt	(40.9)	(189.6)	(56.6)	(213.5)
Minority interest	(1.3)	4.6	(1.6)	7.7
Issue of Non-Voting Class A shares	0.1	-	1.0	0.8
Repurchase of Non-Voting Class A shares for cancellation	-	-	(1.9)	(0.8)
Common dividends	(9.8)	(9.3)	(19.7)	(18.3)
Cash flows from financing activities	<u>82.1</u>	<u>135.4</u>	<u>113.8</u>	<u>(98.3)</u>
Decrease in cash and cash equivalents	(107.6)	(58.2)	(129.5)	(90.3)
Cash and cash equivalents, beginning of period	319.2	249.6	341.1	281.7
Cash and cash equivalents, end of period	<u>\$ 211.6</u>	<u>\$ 191.4</u>	<u>\$ 211.6</u>	<u>\$ 191.4</u>

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

EMPIRE COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

November 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 6, 2006, as set out in the 2006 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 2006 annual consolidated financial statements. Selected changes in accounting policies adopted in fiscal 2007 and those changes adopted in 2006 are noted below:

a) Vendor consideration

During the first quarter of fiscal 2007, the Company implemented, on a retroactive basis, Emerging Issues Committee Abstract ("EIC") 156, "Accounting by a Vendor for Consideration Given to a Customer (including a Reseller of the Vendor's Products)". This abstract requires a vendor to generally record cash consideration given to a customer as a reduction to the selling price of the vendor's products or services and reflect it as a reduction of revenue when recognized in the statement of earnings.

Prior to the implementation of EIC-156, the Company recorded certain sales incentives paid to independent franchisees, associates and independent accounts in cost of sales, selling and administrative expenses on the statement of earnings. Accordingly, the implementation of EIC-156 on a retroactive basis, resulted in a reduction in both revenue and cost of sales, selling and administrative expenses during the second quarter and the first half of fiscal 2007 of \$35.2 and \$70.7 respectively (2006 - \$32.2 and \$62.5). As reclassifications, these changes did not impact net earnings or earnings per share.

b) Vendor allowances

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).

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 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.

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

(Unaudited, in millions, except per share amounts)

1. Summary of Significant Accounting Policies (continued)

Portfolio investments

Portfolio investments are accounted for under the cost method. Investment income is recognized on an accrual basis. Portfolio investments are written down when the inherent loss is determined to be other than temporary. Gains and losses on sale of investments are recorded in earnings as realized.

Revenue recognition

Food 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, affiliated stores and independent accounts. Revenue received from non-VIE franchised 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 at the time active employees are compensated. The cost of defined benefit pension plans and other benefit plans is accrued based on actuarial valuations, which are determined using the projected benefit method prorated 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 percent 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 the Company's Supplemental Executive Retirement Plan, the impact of changes in the plan provisions are amortized over 5 years. For other benefit plans, actuarial gains and losses are recognized immediately.

EMPIRE COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

November 4, 2006

(Unaudited, in millions, except per share amounts)

1. Summary of Significant Accounting Policies (continued)

Use of estimates

The preparation of 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. Actual results could differ from those estimates.

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 \$44.0. On June 29, 2005, the underwriter exercised their over-allotment option to purchase 375,000 Wajax 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
	<hr/> 29.4
Equity share of income fund conversion-related items	3.1
Capital gain before income taxes	26.3
Income taxes	2.1
Net capital gain	<hr/> <u>\$ 24.2</u>

In the fourth quarter of fiscal 2006, the Capital gain before income taxes was adjusted to \$25.6 and the Net capital gain was adjusted to \$23.5.

3. Earnings Per Share

Earnings per share amounts are 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 all the outstanding stock options were exercised and share purchase loans were repaid at the beginning of the period.

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

(Unaudited, in millions, except per share amounts)

3. Earnings Per Share (continued)

Earnings applicable to common shares is comprised of the following:

	2006 (13 weeks)	2005 (13 weeks)	2006 (26 weeks)	2005 (26 weeks)
Operating earnings	\$ 51.2	\$ 47.8	\$ 104.5	\$ 97.4
Capital gain and other items, net of tax of \$1.4; \$0.3; \$1.4; \$2.4	6.0	0.8	6.0	25.0
Net earnings	<u>57.2</u>	<u>48.6</u>	<u>110.5</u>	<u>122.4</u>
Preferred share dividends	<u>(0.1)</u>	<u>-</u>	<u>(0.2)</u>	<u>(0.1)</u>
Earnings applicable to common shares	<u>\$ 57.1</u>	<u>\$ 48.6</u>	<u>\$ 110.3</u>	<u>\$ 122.3</u>

Earnings per share is comprised of the following:

Operating earnings	\$ 0.78	\$ 0.74	\$ 1.59	\$ 1.49
Capital gain and other items	0.09	0.01	0.09	0.38
Basic earnings per share	<u>\$ 0.87</u>	<u>\$ 0.75</u>	<u>\$ 1.68</u>	<u>\$ 1.87</u>
Operating earnings	\$ 0.78	\$ 0.73	\$ 1.59	\$ 1.48
Capital gain and other items	0.09	0.01	0.09	0.38
Diluted earnings per share	<u>\$ 0.87</u>	<u>\$ 0.74</u>	<u>\$ 1.68</u>	<u>\$ 1.86</u>

4. Other Assets

	November 4 2006	May 6 2006	November 5 2005
Loans and mortgages receivable	\$ 66.5	\$ 68.4	\$ 45.8
Deferred costs	186.1	177.7	154.2
Intangibles (less accumulated amortization of \$9.3; May 6, 2006 \$7.6; November 5, 2005 \$3.6)	53.3	27.2	28.6
	<u>\$ 305.9</u>	<u>\$ 273.3</u>	<u>\$ 228.6</u>

5. Long-Term Debt

On October 6, 2006, Sobeys Inc. (a subsidiary of the Company) issued new Medium Term Notes of \$125.0, interest rate of 5.8%, maturing on October 6, 2036.

6. Other Liabilities

	November 4 2006	May 6 2006	November 5 2005
Deferred revenue	\$ 6.5	\$ 3.3	\$ 0.9
Deferred hedge gain	9.6	10.2	-
Above market leases from acquisitions	4.6	5.0	-
Asset retirement obligations	0.4	0.4	-
	<u>\$ 21.1</u>	<u>\$ 18.9</u>	<u>\$ 0.9</u>

EMPIRE COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

November 4, 2006

(Unaudited, in millions, except per share amounts)

7. Capital Stock

During the first half of fiscal 2007, under a normal course issuer bid which expired on July 27, 2006, the Company purchased for cancellation 46,047 (2006 - 20,254) Non-Voting Class A shares. The purchase price was \$1.9 of which \$1.6 of the purchase price (representing the premium on common shares purchased for cancellation) was charged to retained earnings. During the first half of fiscal 2007, 46,047 (2006 - 20,254) Non-Voting Class A shares were issued under the Company's stock option and share purchase plans to certain officers and employees for \$1.0 (2006 - \$0.8). Loans receivable from officers and employees of \$4.2 (May 6, 2006 - \$4.6; November 5, 2005 - \$4.7) under the Company's share purchase plan are classified as a reduction of Shareholders' Equity.

8. Investment Income

	2006 (13 weeks)	2005 (13 weeks)	2006 (26 weeks)	2005 (26 weeks)
Dividend and interest income	\$ 2.5	\$ 2.1	\$ 4.9	\$ 4.2
Share of earnings of entities accounted using the equity method	<u>8.7</u>	<u>5.8</u>	<u>17.6</u>	<u>12.5</u>
	<u>\$ 11.2</u>	<u>\$ 7.9</u>	<u>\$ 22.5</u>	<u>\$ 16.7</u>

9. Capital Gain 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 on sale of investments	7.0	1.5	7.0	1.5
Other items	0.4	(0.4)	0.4	(0.4)
	<u>\$ 7.4</u>	<u>\$ 1.1</u>	<u>\$ 7.4</u>	<u>\$ 27.4</u>

10. Supplementary Cash Flow Information

	2006 (13 weeks)	2005 (13 weeks)	2006 (26 weeks)	2005 (26 weeks)
a) Items not affecting cash				
Depreciation and amortization	\$ 61.7	\$ 56.0	\$ 119.4	\$ 108.9
Future income taxes	1.8	(4.5)	0.6	(0.6)
Amortization of deferred items	7.1	6.8	14.5	15.8
Equity in earnings of other entities, net of dividends received	(1.0)	(0.3)	(2.5)	(3.8)
Minority interest	12.9	16.0	28.1	29.2
Stock-based compensation	0.3	0.2	0.5	0.3
Long-term lease obligation	2.2	0.8	2.4	1.0
Employee future benefits obligation	2.9	3.7	4.2	4.5
Gain on sale of Wajax Income Fund	-	-	-	(26.3)
	<u>\$ 87.9</u>	<u>\$ 78.7</u>	<u>\$ 167.2</u>	<u>\$ 129.0</u>
b) Other cash flow information				
Net interest paid	\$ 23.2	\$ 26.2	\$ 31.6	\$ 39.2
Net income taxes paid	<u>\$ 39.1</u>	<u>\$ 27.3</u>	<u>\$ 70.0</u>	<u>\$ 74.5</u>

EMPIRE COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

November 4, 2006

(Unaudited, in millions, except per share amounts)

11. Segmented Information

	2006 (13 weeks)	2005 (13 weeks) <i>Restated (Note 1)</i>	2006 (26 weeks)	2005 (26 weeks) <i>Restated (Note 1)</i>
Revenue				
Food	\$ 3,251.5	\$ 3,186.2	\$ 6,557.6	\$ 6,456.3
Real estate				
Commercial	9.0	34.0	18.7	68.0
Inter-segment	8.3	13.1	16.5	26.4
Residential	17.2	12.4	30.9	18.9
	34.5	59.5	66.1	113.3
Investment and other operations	35.8	20.8	80.1	41.6
	3,321.8	3,266.5	6,703.8	6,611.2
Elimination	(8.3)	(13.1)	(16.5)	(26.4)
	\$ 3,313.5	\$ 3,253.4	\$ 6,687.3	6,584.8

	2006 (13 weeks)	2005 (13 weeks)	2006 (26 weeks)	2005 (26 weeks)
Operating income				
Food	\$ 82.9	\$ 84.1	\$ 171.2	\$ 167.8
Real estate				
Commercial	11.3	21.6	23.1	43.1
Residential	17.7	14.0	31.3	22.3
Investment and other operations	6.6	5.0	16.6	14.0
Corporate expenses	(2.3)	(2.6)	(4.8)	(5.0)
	\$ 116.2	\$ 122.1	\$ 237.4	\$ 242.2

	November 4 2006	May 6 2006	November 5 2005
Identifiable assets			
Food	\$ 3,248.4	\$ 3,119.5	\$ 2,929.5
Goodwill	726.0	691.7	681.4
	3,974.4	3,811.2	3,610.9
Real estate	616.5	634.7	1,051.7
Investment and other operations (including goodwill of \$40.1; May 6, 2006 \$40.1; November 5, 2005 \$37.3)	627.6	605.6	556.3
	\$ 5,218.5	\$ 5,051.5	\$ 5,218.9

	2006 (13 weeks)	2005 (13 weeks)	2006 (26 weeks)	2005 (26 weeks)
Capital expenditure				
Food	\$ 102.0	\$ 90.0	\$ 219.1	\$ 167.4
Real estate	6.1	22.5	9.7	27.8
Investment and other operations	11.5	7.8	18.4	11.9
	\$ 119.6	\$ 120.3	\$ 247.2	\$ 207.1

EMPIRE COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

November 4, 2006

(Unaudited, in millions, except per share amounts)

12. Employee Future Benefits

During the Company's second quarter and first half of fiscal 2007, the net employee future benefit expense was \$6.1 and \$12.2 respectively (2006 - \$6.0 and \$12.0). 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.

13. Business Acquisitions

During the first two quarters, the Company increased its ownership interest in Sobeys Inc. from 70.3% to 72.1% by way of purchase of shares on the open market. The acquisition was accounted using the purchase method with operating results being included in the consolidated financial statements from the date of each share acquisition. The cash consideration paid was \$48.6, goodwill increased by \$13.0 and minority interest decreased by \$35.6.

During the first two quarters, Sobeys Inc. acquired franchisee stores and prescription files for total cash consideration of \$17.0. The acquisitions were accounted using the purchase method with net identifiable assets recorded at \$16.9 (including intangible assets of \$7.4) and goodwill recorded at \$0.1.

On August 27, 2006, Sobeys Inc. acquired substantially all of the food distribution assets of Achille de la Chevrotière Ltée and its associated companies ("ADL") for an amount of \$78.9. The assets acquired include 25 owned or franchised retail store operations, other wholesale supply agreements and distribution facilities in Rouyn-Noranda, Quebec. Eighteen of the franchised retail store operations are considered VIEs under the Company's policy (see Note 15). They have been included in the consolidated results of the Company. The acquisition was accounted using the purchase method with the results of ADL being consolidated since the acquisition date. Management is currently carrying out a detailed analysis and changes may be made to the allocation of the excess consideration paid over net assets acquired as information becomes available. The measurement and allocation of finite and infinite intangible assets is also currently underway. Management expects to finalize the purchase price allocation in the third quarter of fiscal 2007. As a result, the actual amount allocated to each of the identifiable assets, assumed liabilities and related operating results may vary from the preliminary amounts, and the differences could be significant. The preliminary purchase price allocation, which has incorporated management's preliminary assessment of fair value, is as follows:

Consideration	
Cash	\$ 62.2
Working capital adjustments	13.5
Acquisition costs	3.2
Total consideration paid	<u>78.9</u>
Net assets acquired	
Current assets	25.2
Long-term assets	25.8
Current liabilities assumed	(14.7)
Long-term liabilities assumed	(0.6)
Total net assets acquired	<u>35.7</u>
Excess consideration paid over net assets acquired	<u>\$ 43.2</u>
Preliminary allocation of excess of consideration paid over net assets acquired	
Intangible assets	\$ 21.5
Goodwill	21.7
	<u>\$ 43.2</u>

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

(Unaudited, in millions, except per share amounts)

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. 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 can be estimated. During the second quarter and first half of fiscal 2007, the Company has recognized \$3.9 and \$5.6 respectively (2006 - \$1.9 and \$3.0) of allowances in income where it is probable that the minimum purchase level will be met and the amount of allowance can be estimated.

15. Variable Interest Entities

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

The Company has identified the following entities as VIEs:

Franchise Affiliates

The Company has identified 261 (May 6, 2006 - 273) franchise affiliate 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 franchise affiliates and the entity providing warehouse and distribution services effective at the fourth quarter of fiscal 2005.

In the second quarter of the prior year, a charge of \$3.7 (net of minority interest of \$2.0) to retained earnings was required to reflect additional minority interest in the VIEs.

16. Contingent Liabilities

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

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

(Unaudited, in millions, except per share amounts)

16. Contingent Liabilities (continued)

On June 21, 2005, Sobeys Inc. 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 obliged to collect GST on 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. During the second quarter of fiscal 2006, Sobeys Inc. filed a Notice of Objection with CRA. Accordingly, the Company has not recorded in its statement of earnings any of the tax, interest or penalties in the notice of reassessment. Sobeys Inc. has deposited with CRA funds to cover the total tax, interest and penalties in the reassessment and has recorded this amount as a long-term receivable from CRA pending resolution of the matter.

The Company and certain subsidiaries are presently under audit by CRA and certain provincial taxing authorities for fiscal years 2001 through 2006. The principle matters under audit are:

- a) The tax treatment of gains realized on the sale of shares in Hannaford Bros. Co. ("Hannaford") in fiscal 2001;
- b) The tax treatment of gains realized on the sale of shares in Delhaize America Inc. in fiscal years 2001 and 2002; and
- c) The taxation of income from certain of the Company's real estate investments for fiscal years 2003 to 2006.

A reassessment has been received in respect of the sale of shares of Hannaford and a further reassessment is expected. In the event that the tax authorities are successful in respect of the Hannaford transaction, which the Company believes is very unlikely, the maximum potential exposure in excess of provisions taken is approximately \$40.0.

The Company will appeal the reassessments in respect of the sale of Hannaford shares, and any other reassessments, as and when they are received, unless settlement is otherwise reached. The Company expects that it will be substantially successful on its appeals of each of these reassessments. The Company also believes that the ultimate resolution of these matters will not, in any event, have a material impact on earnings because it has made adequate provisions for each of these matters. Should the ultimate outcome materially differ from the provisions established, the effective tax rate and earnings of the Company could be materially affected, negatively or positively, in the period in which the matters are resolved.

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

17. Related Party Transactions

On October 2, 2006, the Company sold two commercial properties to Crombie REIT, an equity accounted investment, for cash proceeds of \$31.9, which was fair market value. Since the sale was to an equity accounted investment, no gain was recorded on the sale.

EMPIRE COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 5, 2006

(Unaudited, in millions, except per share amounts)

18. Subsequent Event

On November 21, 2006, Sobeys Inc. announced plans to build a new distribution centre in Vaughan, Ontario. Utilizing automation technology, the new facility is expected to significantly increase the Company's warehouse and distribution capacity while reducing overall distribution costs and improving service to its store network and customers. The Company expects a significant number of positions will be eliminated at its Milton and Whitby, Ontario distribution centres when the new facility becomes fully operational in 2009. The Company is currently assessing the related integration and rationalization costs associated with this project, including the estimated severance and termination benefits.

19. 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

SECOND QUARTER FISCAL 2007

- Management’s Discussion and Analysis21
- Forward-Looking Information21
- Non-GAAP Financial Measures22
- Overview of the Business22
- Operational Changes22
- Consolidated Operating Results24
- Management’s Explanation of Consolidated Results25
 - Revenue25
 - Operating Income26
 - Interest Expense.....27
 - Income Tax Expense27
 - Minority Interest27
 - Operating Earnings.....27
 - Capital Gain and Other Items.....28
 - Net Earnings.....28
 - Quarterly Results of Operations29
- Operating Performance by Division29
 - Food29
 - Real Estate31
 - Investments and Other Operations.....33
- Financial Condition37
 - Capital Structure and Key Financial Condition Measures37
 - Shareholders Equity37
 - Liabilities.....38
 - Financial Instruments39
- Liquidity and Capital Resources39
 - Operating Activities.....40
 - Investing Activities41
 - Financing Activities42
- Accounting Policy Changes42
- Critical Accounting Estimates43
- Related Party Transactions44
- Contingencies44
- Subsequent Event.....45
- Contractual Obligations45
- Risk Management45
- Non-GAAP Financial Measures45

Management's Discussion and Analysis

The following is Management's Discussion and Analysis ("MD&A") of the consolidated financial results of Empire Company Limited ("Empire" or the "Company") for the 13 and 26 weeks ended November 4, 2006, as compared to the 13 and 26 weeks ended November 5, 2005. This discussion and analysis should be read in conjunction with the Company's unaudited interim period consolidated financial statements and accompanying notes for the 13 and 26 weeks ended November 4, 2006, the audited annual consolidated financial statements and accompanying notes for the 52 weeks ended May 6, 2006 and the related annual MD&A as contained on pages 25 through 64 of Empire's 2006 Annual Report. Information about the Company, including the Annual Report and Annual Information Form, can be found on SEDAR at www.sedar.com.

The consolidated financial statements and the accompanying notes have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are reported in Canadian dollars.

These consolidated financial statements include the accounts of Empire and its subsidiaries and variable interest entities ("VIEs") which the Company is required to consolidate. Included in the Company's 2006 Annual Report, on page 92, is a glossary of terms used throughout this MD&A. The information contained in this MD&A is current to December 13, 2006, unless otherwise noted.

Forward-Looking Information

This discussion contains forward-looking statements which reflect management's expectations regarding the Company's objectives, plans, goals, strategies, future growth, results of operations, performance and business prospects and opportunities. These forward-looking statements include the following items:

- Sobeys' expectations regarding tobacco sales decline, which could be impacted by further changes in the sales and distribution practices of tobacco suppliers;
- Management's belief that the growth in residential lot sales is not sustainable over the long-term which may be impacted by general economic conditions in the Western housing market;
- Management's opinion that equity markets will continue to be superior to fixed income or money market investment returns over the long-term, which could be impacted by general economic and market conditions which could cause declining investment returns;
- The Company's expectations related to pending tax matters with Canada Revenue Agency ("CRA"), which could be determined differently by CRA, which could in turn cause the Company's effective tax rate and its earnings to be affected negatively or positively in the period in which the matters are resolved;
- Sobeys' expectations that the new distribution centre announced for Ontario will reduce overall distribution costs which could be impacted by the number of positions eliminated at its Milton and Whitby, Ontario distribution centres; and
- The Company's expectations that its capital resources and liquidity position will meet its capital and liquidity requirements over the next year.

Forward-looking statements are typically identified by words or phrases such as “anticipates”, “expects”, “believes”, “estimates”, “intends” and other similar expressions. 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. These uncertainties and risks are discussed in the Company’s materials filed with the Canadian securities regulatory authorities from time to time, including those in the Risk Management section of the annual MD&A included in the Company’s 2006 Annual Report.

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.

Non-GAAP Financial Measures

There are measures included in this MD&A that do not have a standardized meaning under Canadian 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 a 72.1 percent ownership interest in 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), which includes a 35.7 percent ownership interest in Genstar Development Partnership (“Genstar”) and a 48.1 percent ownership interest in Crombie Real Estate Investment Trust (“Crombie REIT”); and corporate investment activities and other operations which includes wholly-owned Empire Theatres Limited (“Empire Theatres”) and a 27.6 percent ownership position in Wajax Income Fund (“Wajax”). With approximately \$5.2 billion in assets, Empire employs approximately 37,000 people directly and through its subsidiaries.

Operational Changes

Listed below are a summary of events that impacted the trailing 12 months ended November 4, 2006 and which affect the comparability of information for the 13-week and 26-week periods ended November 4, 2006 versus the 13-week and 26-week periods ended November 5, 2005:

- On August 27, 2006, Sobeys completed the acquisition of Achille de la Chevrotière Ltée and its associated companies (“ADL”), which included 25 owned or franchised retail store operations, other wholesale supply agreements and distribution facilities;
- For the trailing 12 months ended November 4, 2006, Empire has acquired 2,557,750 common shares of Sobeys, increasing its ownership position from 68.3 percent at November 5, 2005 to its current position of 72.1 percent;

- On March 23, 2006, the Company completed the sale of 44 commercial properties to Crombie REIT. For both the quarter and year-to-date periods ended November 4, 2006, the Company is equity accounting its 48.1 percent ownership in Crombie REIT, whereas for the 13-week and 26-week periods ended November 5, 2005, the results included 100 percent of the operations related to these 44 commercial properties; and
- On September 30, 2005, Empire Theatres acquired 28 movie theatres. There are approximately four weeks of operations related to these newly acquired theatres for both the quarter and year-to date ended November 5, 2005, whereas there are 13 weeks and 26 weeks included in the current quarter and year-to-date ended November 4, 2006, respectively.

The reader should note that management explains the impact of the above events when discussing the operating results for food, real estate and investments and other operations, respectively.

Consolidated Operating Results

The consolidated financial overview provided below reports on the financial performance for the 13 and 26 weeks ended November 4, 2006 relative to the same periods last year.

(\$ in millions, except per share information)	13 Weeks Ended				26 Weeks Ended			
	November 4, 2006		November 5, 2005		November 4, 2006		November 5, 2005	
	\$	% of Revenue						
Revenue								
Food	\$ 3,251.5	98.13%	\$ 3,186.2	97.93%	\$ 6,557.6	98.06%	\$ 6,456.3	98.05%
Real Estate, net of inter-segment	26.2	0.79	46.4	1.43	49.6	0.74	86.9	1.32
Investments and other operations	35.8	1.08	20.8	0.64	80.1	1.20	41.6	0.63
Consolidated revenue	\$ 3,313.5	100.00%	\$ 3,253.4	100.00%	\$ 6,687.3	100.00%	\$ 6,584.9	100.00%
Operating income								
Food	\$ 82.9		\$ 84.1		\$ 171.2		\$ 167.8	
Real Estate, net of inter-segment	29.0		35.6		54.4		65.4	
Investments and other operations	4.3		2.4		11.8		9.0	
Consolidated operating income	\$ 116.2	3.51%	\$ 122.1	3.75%	\$ 237.4	3.55%	\$ 242.2	3.68%
Interest expense	15.5	0.47	22.1	0.68	29.8	0.45	43.1	0.65
Income taxes								
(from operating activities)	33.9	1.02	33.3	1.02	69.6	1.04	67.0	1.02
Minority interest								
(from operating activities)	15.6	0.47	18.9	0.58	33.5	0.50	34.7	0.53
Operating earnings	\$ 51.2	1.55%	\$ 47.8	1.47%	\$ 104.5	1.56%	\$ 97.4	1.48%
Capital gain and other items, net of tax	6.0	0.18	0.8	0.02	6.0	0.09	25.0	0.38
Net earnings	\$ 57.2	1.73%	\$ 48.6	1.49%	\$ 110.5	1.65%	\$ 122.4	1.86%
Cash flows (used in) from								
operating activities	\$ (1.4)	(0.04%)	\$ 57.7	1.77%	\$ 123.8	1.85%	\$ 120.0	1.82%
Total assets	\$ 5,218.5		\$ 5,218.9					
Total long-term liabilities	\$ 1,634.2		\$ 1,763.7					
Basic earnings per share								
Operating earnings	\$ 0.78		\$ 0.74		\$ 1.59		\$ 1.49	
Capital gain and other items, net of tax	0.09		0.01		0.09		0.38	
Net earnings	\$ 0.87		\$ 0.75		\$ 1.68		\$ 1.87	
Basic weighted average number of shares outstanding (in millions)	65.5		65.5		65.5		65.5	
Diluted earnings per share								
Operating earnings	\$ 0.78		\$ 0.73		\$ 1.59		\$ 1.48	
Capital gain and other items, net of tax	0.09		0.01		0.09		0.38	
Net earnings	\$ 0.87		\$ 0.74		\$ 1.68		\$ 1.86	
Diluted weighted average number of shares outstanding (in millions)	65.7		65.7		65.7		65.7	
Annualized dividends per share	\$ 0.60		\$ 0.56					

Management's Explanation of Consolidated Results

The following is a review of Empire's consolidated financial performance for the 13-week and 26-week periods ended November 4, 2006 compared to the 13-week and 26-week periods ended November 5, 2005.

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

Each of the Company's operating businesses, with the exception of commercial real estate, contributed to the growth in consolidated second quarter revenue of \$60.1 or 1.8 percent. The food division generated revenue of \$3.25 billion, an increase of \$65.3 million or 2.0 percent over the second quarter last year. During the second quarter of fiscal 2007, the food division reported same-store sales growth (sales from stores in the same locations in both reporting periods) of 2.4 percent. Real estate revenue (net of inter-segment elimination) declined 43.5 percent in the second quarter primarily as a result of the sale of 44 properties to Crombie REIT in the fourth quarter of fiscal 2006. Investments and other operations reported a revenue increase of 72.1 percent.

Fiscal year-to-date revenue growth of \$102.5 million or 1.6 percent was largely driven by a \$101.3 million or 1.6 percent growth in food division sales over the comparable period last year, with same-store sales growth of 2.6 percent. Real estate revenues declined \$37.3 million or 42.9 percent while revenue from investments and other operations increased by \$38.5 million or 92.5 percent over the prior year.

Items impacting revenue comparability:

- Sobeys' sales were negatively impacted by the disposition on March 31, 2006 of its Cash and Carry business in Ontario and Quebec;
- The sale of 44 properties to Crombie REIT has reduced the quarter and year-to-date sales when compared to the prior year;
- Sobeys continued to experience declines in its tobacco sales. Late in the second quarter of fiscal 2007 a major Canadian tobacco supplier began to sell and distribute directly to certain Sobeys' customers, further impacting the decline;
- Revenue was positively impacted by the acquisition on August 27, 2006 of ADL. The acquisition included 25 owned or franchised retail store operations, other wholesale supply agreements and a distribution facility in Rouyn-Noranda, Quebec; and
- Revenue for the quarter and year-to-date ended November 4, 2006, include 13 weeks and 26 weeks of revenue, respectively, related to the acquisition of the 28 movie theatres, whereas the quarter and year-to-date ended November 5, 2005, both reflect approximately four weeks of revenue from the acquired movie theatres.

As shown in the following tables, excluding the impact of: the sale of the Cash and Carry business; the sale of 44 properties to Crombie REIT; the decline in wholesale tobacco sales; the ADL acquisition and the theatre acquisition, sales growth would have been 3.3 percent for the second quarter and 3.7 percent on a year-to-date basis.

Revenue Table

	13 Weeks Ended				26 Weeks Ended			
	Nov. 4, 2006 (\$)	Nov. 5, 2005 (\$)	Change (\$)	Change (%)	Nov. 4, 2006 (\$)	Nov. 5, 2005 (\$)	Change (\$)	Change (%)
(\$ in millions)								
Financially reported sales	\$3,313.5	\$3,253.4	\$ 60.1	1.8%	\$ 6,687.3	\$ 6,584.8	\$ 102.5	1.6%
Impact of:								
Cash and Carry disposal			(59.9)				(121.6)	
Sale of 44 commercial properties to Crombie REIT			(29.0)				(58.2)	
Wholesale tobacco decline			(20.0)				(45.4)	
ADL acquisition			50.0				50.0	
Theatre acquisition ⁽¹⁾			12.3				33.4	
Subtotal			(46.6)				(141.8)	
			<u>\$ 106.7</u>	<u>3.3%</u>			<u>\$ 244.3</u>	<u>3.7%</u>

(1) The revenue impact for theatres revenue, reflected in the above tables, represents the additional 9 weeks and 22 weeks of revenue for the quarter and year-to-date, respectively.

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, operating earnings before minority interest, interest expense, income taxes and capital gain and other items, in the second quarter of fiscal 2007 totalled \$116.2 million compared to \$122.1 million in the second quarter last year, a decrease of \$5.9 million or 4.8 percent. The decrease in operating income is the result of a \$6.6 million or 18.5 percent decrease in operating income contribution from the real estate division and a decrease in the food division's operating income of \$1.2 million or 1.4 percent, both partially offset by an increase in operating income from investments and other operations of \$1.9 million or 79.2 percent.

Fiscal year-to-date operating income declined by \$4.8 million or 2.0 percent which was attributed to an \$11.0 million or 16.8 percent decline in real estate division operating income, partially offset by a \$3.4 million or 2.0 percent growth in food division operating income and an increase in operating income from investments and other operations of \$2.8 million or 31.1 percent over the comparable period last year.

The operating income for the 13-week and 26-week periods ended November 4, 2006 were impacted by the sale of 44 commercial properties to Crombie REIT in the fourth quarter last year. This disposition resulted in a reduction to operating income for the 13-week and 26-week periods ended November 4, 2006 of approximately \$8.4 million and \$17.2 million, respectively.

Operating income for the 13-week and 26-week periods ended November 4, 2006 were also impacted by business process and system initiative costs that were incurred by the food division. The business process and system initiative costs include severance, labour, implementation and training costs associated with the business process and systems implementation and totalled \$11.1 million on a pre-tax basis in the second quarter (\$4.6 million in the second quarter last year) and \$18.4 million year-to-date (\$8.4 million year-to-date last year).

Excluding the impact of the reduction in operating income related to the sale of properties to Crombie REIT and the business process and system initiative costs for Sobeys, consolidated operating income would have been \$135.7 million for the current quarter (\$126.7 million in the second quarter last year) and \$273.0 million year-to-date this year (\$250.6 million year-to-date last year), an improvement of 7.1 percent for the quarter and 8.9 percent year-to-date.

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

Interest Expense

The \$6.6 million decrease in the second quarter of fiscal 2007 consolidated interest expense compared to the same quarter last year is primarily due to a \$6.2 million reduction in interest expense connected to long-term debt. For the 26 weeks ended November 4, 2006, interest expense declined to \$29.8 million, a \$13.3 million decrease from last year.

For the second quarter ended November 4, 2006, long-term debt was \$85.5 million lower than the same quarter last year. The decrease in interest expense for both the quarter and year-to-date is primarily related to the repayment of long-term debt as a result of the sale of 44 commercial properties to Crombie REIT in March 2006, partially offset by the issuance of \$125 million Series E Medium term notes ("MTN") in the second quarter by the food division. This MTN has a maturity date of October 6, 2036 (30 years) and a coupon rate of 5.79 percent.

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

Income Tax Expense

The effective income tax rate for the second quarter was 33.7 percent versus 33.3 percent in the second quarter last year. The effective income tax rate for the 26 weeks ended November 4, 2006 was 33.5 percent compared to 33.6 percent last year.

Minority Interest

In the second quarter of fiscal 2007, Empire recorded minority interest expense of \$15.6 million compared to \$18.9 million in the second quarter last year. The decrease of \$3.3 million in minority interest expense is primarily the result of an increase in Empire's ownership in Sobeys from 68.3 percent at November 5, 2005, to 72.1 percent at November 4, 2006. Empire purchased 0.3 million common shares of Sobeys in the second quarter of fiscal 2007 and 2.6 million common shares for the trailing twelve-months ended November 4, 2006.

Operating Earnings

The \$3.4 million or 7.1 percent improvement in operating earnings (earnings before capital gain and other items) over the prior year was the result of the \$6.6 million reduction in interest expense and the \$3.3 million decrease in minority interest, offset in part by the \$5.9 million decrease in operating income and the \$0.6 million increase in income tax expense, as discussed.

The \$7.1 million or 7.3 percent increase in operating earnings in the first 26 weeks of the fiscal year is attributed to the \$13.3 million reduction in interest expense and the \$1.2 million reduction in minority interest, partially offset by the \$4.8 million decrease in operating income and the \$2.6 million increase in income tax expense, as discussed.

Capital Gain and Other Items

The Company generated capital gain and other items, net of tax, of \$6.0 million in the second quarter largely as a result of a gain on the sale of investments. Capital gain and other items, net of tax, of \$0.8 million was realized primarily from the sale of investments in the second quarter last year.

On a fiscal year-to date basis, the Company recorded capital gain and other items, net of tax, consistent with the second quarter, as there was no capital gain generated during the first quarter of fiscal 2007. Capital gain and other items, net of tax, of \$25.0 million was generated year-to date last fiscal year largely as the result of a \$24.2 million gain on the sale of Wajax Income fund units in the first quarter.

Net Earnings

Consolidated net earnings, including capital gain and other items, net of tax, totalled \$57.2 million (\$0.87 per share) in the second quarter, an increase of \$8.6 million or 17.7 percent over the second quarter last year. Net earnings for the 26 weeks ended November 4, 2006 totalled \$110.5 million (\$1.68 per share), a decrease of \$11.9 million or 9.7 percent over the \$122.4 million (\$1.86 per diluted share) reported in the same period last year. The decline in net earnings on a year-to-date basis reflects the higher capital gain and other items for the previous fiscal year-to-date.

Quarterly Results of Operations

The following table is a summary of selected financial information from the Company's unaudited interim period consolidated financial statements for each of the eight most recently completed quarters. The consolidation of VIEs results in higher sales and lower margins as a percent of sales due to the addition of the VIE retail sales. The Company began consolidating VIEs in the fourth quarter of fiscal 2005 and prior quarters have not been restated. Accordingly, the third quarter of fiscal 2005 does not include the impact of consolidating VIEs.

(\$ in millions, except per share information)	Fiscal 2007		Fiscal 2006 ⁽¹⁾				Fiscal 2005 ⁽¹⁾	
	Q2 (13 weeks) Nov. 4/06	Q1 (13 weeks) Aug. 5/06	Q4 (13 weeks) May 6/06	Q3 (13 weeks) Feb. 4/06	Q2 (13 weeks) Nov. 5/05	Q1 (13 weeks) Aug. 6/05	Q4 (14 weeks) May 7/05	Q3 (13 weeks) Jan. 29/05
Revenue	\$3,313.5	\$3,373.8	\$3,212.6	\$3,228.5	\$3,253.4	\$3,331.4	\$3,321.0	\$2,942.7
Operating income	116.2	121.2	130.9	118.3	122.1	120.1	124.0	113.3
Operating earnings ⁽²⁾	51.2	53.3	56.9	47.7	47.8	49.6	49.3	46.2
Capital gain and other items, net of tax	6.0	-	61.5	8.3	0.8	24.2	5.5	1.4
Net earnings	\$ 57.2	\$ 53.3	\$ 118.4	\$ 56.0	\$ 48.6	\$ 73.8	\$ 54.8	\$ 47.6
Per share information, diluted								
Operating earnings	\$ 0.78	\$ 0.81	\$ 0.87	\$ 0.72	\$ 0.73	\$ 0.75	\$ 0.75	\$ 0.70
Capital gain and other items, net of tax	0.09	-	0.93	0.13	0.01	0.37	0.08	0.02
Net earnings	\$ 0.87	\$ 0.81	\$ 1.80	\$ 0.85	\$ 0.74	\$ 1.12	\$ 0.83	\$ 0.72
Diluted weighted average number of shares outstanding (in millions)	65.7	65.7	65.7	65.7	65.7	65.7	65.7	65.8

(1) All quarters prior to the first quarter of fiscal 2007 have been restated to reflect the retroactive adjustments related to EIC-156. Please see the section entitled "EIC-156" in this MD&A.

(2) Operating earnings is net earnings before capital gain and other items, net of tax.

Sales and operating earnings growth have been influenced by the Company's investing activities, the competitive environment, general industry trends and by other risk factors as outlined in the fiscal 2006 annual MD&A as contained in the Company's Annual Report.

Operating Performance by Division

Food

Empire's food division is carried out through its controlling ownership position in Sobeys.

Sobeys conducts business through approximately 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 equalled 72.1 percent at the end of the second quarter fiscal 2007, compared to a 70.3 percent ownership interest at the end of fiscal 2006 and a 68.3 percent ownership interest at the end of the second quarter of fiscal 2006.

Sales

Food division sales for the second quarter of fiscal 2007 were \$3.25 billion compared to \$3.19 billion for the same quarter last year, an increase of \$65.3 million or 2.0 percent. During the second quarter of fiscal 2007, Sobeys' same-store sales (sales from stores in the same locations in both reporting periods) increased by 2.4 percent.

Fiscal year-to-date, sales increased 1.6 percent from the prior year, with same-store sales growth of 2.6 percent. Same-store sales growth does not include wholesale sale declines as described below.

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. Sales growth was also positively impacted by the acquisition on August 27, 2006 of ADL.

Sobeys continued to experience declines in its wholesale tobacco sales in the second quarter of fiscal 2007. Wholesale tobacco sales declined \$20.0 million in the second quarter of fiscal 2007 compared to the second quarter of the prior year (\$45.4 million on a fiscal year-to-date basis). Sobeys' sales growth was also negatively impacted by the disposition on March 31, 2006 of its Cash and Carry business in Ontario and Quebec. Cash and Carry sales in the second quarter last year were \$59.9 million (\$121.6 million on a fiscal year-to-date basis). As shown in the table below, excluding the impact of the Cash and Carry disposition, the wholesale tobacco decline, and the impact of the ADL acquisition, Sobeys' sales growth would have been 3.0 percent for the quarter and 3.4 percent on a fiscal year-to-date basis.

	13 Weeks Ended				26 Weeks Ended			
	Nov. 4, 2006	Nov. 5, 2005	Change	Change	Nov. 4, 2006	Nov. 5, 2005	Change	Change
(\$ in millions)	(\$)	(\$)	(\$)	(%)	(\$)	(\$)	(\$)	(%)
Sobeys' financially reported sales	\$3,251.5	\$3,186.2	\$ 65.3	2.0%	\$6,557.6	\$6,456.3	\$ 101.3	1.6%
Impact of:								
Cash and Carry disposal			(59.9)				(121.6)	
Wholesale tobacco decline			(20.0)				(45.4)	
ADL acquisition			50.0				50.0	
Subtotal			(29.9)				(117.0)	
			\$ 95.2	3.0%			\$ 218.3	3.4%

Late in the second quarter of fiscal 2007 a major Canadian tobacco supplier began to sell and distribute directly to certain of Sobeys' customers further impacting the decline in sales. This change is expected to reduce sales on an annual basis by approximately \$300.0 million. Margins on tobacco sales are significantly lower than on other products therefore the loss of these sales are not expected to have a material impact on earnings. Sobeys is currently exploring options to mitigate the financial impact of this decision.

Operating Income

Sobeys' operating income was \$82.9 million during the second quarter of fiscal 2007, a 1.4 percent decrease from the second quarter last year, with an operating income margin of 2.55 percent compared to 2.64 percent in the second quarter of fiscal 2006. Included in the second quarter of fiscal 2007 operating income was a \$6.3 million increase in depreciation and amortization expense (\$55.0 million in the current quarter compared to \$48.7 million for the same quarter last year), reflecting Sobeys'

continued capital investments. Also included in operating income are business process and system initiative costs of \$11.1 million (\$4.6 million in the second quarter of fiscal 2006) as mentioned. Sobeys completed the systems implementation in Ontario subsequent to quarter-end in accordance with its plans. This implementation supports all aspects of Sobeys' Ontario business including operations, merchandising distribution and finance and is an important enabler of further initiatives in Ontario, including the new distribution facility in Ontario announced on November 21, 2006. Excluding these costs from both fiscal years, Sobeys' operating income would total \$94.0 million, an increase of \$5.3 million, or 6.0 percent increase over the prior year. This represents an operating income margin of 2.89 percent, an 11 basis point improvement over the prior fiscal year.

For the 26 weeks ended November 4, 2006, Sobeys' operating income increased by \$3.4 million to \$171.2 million, an increase of 2.0 percent over the \$167.8 million reported last year. Operating income as a percent of sales was 2.61 percent for fiscal 2007 compared to 2.60 percent in fiscal 2006. Adjusting for business process and system initiative costs in both fiscal years, Sobeys' operating income would total \$189.6 million representing an operating income margin of 2.89 percent, a 16 basis point improvement over the same period last year.

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

Net Earnings

Sobeys' second quarter fiscal 2007 net earnings equalled \$47.2 million, an increase of 3.1 percent compared to the \$45.8 million recorded in the second quarter of fiscal 2006. Net earnings for the 26 weeks ended November 4, 2006 totalled \$97.1 million, an increase of 3.3 percent compared to the \$94.0 million reported in the same period last year. Adjusting for Empire's ownership interest in Sobeys of 72.1 percent and therefore adjusting , minority interest, results in a net earnings contribution to Empire of \$33.9 million (\$31.3 million last year) and \$69.0 million (\$64.2 million last year) for the 13-week and 26-week periods ended November 4, 2006, respectively.

Sobeys' net earnings for the 13-week and 26-week periods ended November 4, 2006 included the increased depreciation and amortization expense, and the business process and system initiative costs referred to above.

Real Estate

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

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

(\$ in millions)	13 Weeks Ended			26 Weeks Ended		
	Nov. 4, 2006	Nov. 5, 2005	% Change	Nov. 4, 2006	Nov. 5, 2005	% Change
Revenue						
Commercial	\$ 17.3	\$ 47.1	(63.3%)	\$ 35.2	\$ 94.4	(62.7%)
Residential	17.2	12.4	38.7%	30.9	18.9	63.5%
	34.5	59.5	(42.0%)	66.1	113.3	(41.7%)
Inter-segment	(8.3)	(13.1)	(36.6%)	(16.5)	(26.4)	(37.5%)
	\$ 26.2	\$ 46.4	(43.5%)	\$ 49.6	\$ 86.9	(42.9%)
Operating Income						
Commercial	\$ 11.3	\$ 21.6	(47.7%)	\$ 23.1	\$ 43.1	(46.4%)
Residential	17.7	14.0	26.4%	31.3	22.3	40.4%
	\$ 29.0	\$ 35.6	(18.5%)	\$ 54.4	\$ 65.4	(16.8%)
Net Earnings						
Commercial	\$ 5.0	\$ 6.5	(23.1%)	\$ 10.0	\$ 12.5	(20.0%)
Residential	10.9	8.7	25.3%	19.2	14.4	33.3%
	\$ 15.9	\$ 15.2	4.6%	\$ 29.2	\$ 26.9	8.6%
Funds from Operations						
Commercial	\$ 6.4	\$ 11.1	(42.3%)	\$ 13.1	\$ 21.7	(39.6%)
Residential	10.9	8.8	23.9%	19.4	14.7	32.0%
	\$ 17.3	\$ 19.9	(13.1%)	\$ 32.5	\$ 36.4	(10.7%)

Revenue

Real estate division revenues (net of inter-segment amounts) during the second quarter ended November 4, 2006 declined \$20.2 million or 43.5 percent from the second quarter last year largely as a result of a decline in commercial property revenues due to the sale of 44 commercial properties to Crombie REIT in the fourth quarter last year. The revenue from the 44 properties equalled approximately \$29.0 million in the second quarter last year. This decrease was partially offset by an increase in residential revenue over the second quarter last year of \$4.8 million. Genstar continued to benefit from strong housing markets in Western Canada. Management continues to caution that the pace of growth experienced in residential lot sales is not sustainable over the long-term.

On a fiscal year-to-date basis, revenue decreased \$37.3 million or 42.9 percent over the comparable period last year. The decrease was the result of lower commercial operation revenue of \$49.3 million for the 26 weeks ended November 4, 2006 relative to the prior fiscal year, primarily as a result of the sale of 44 commercial properties to Crombie REIT, which reduced revenue by approximately \$58.2 million year-to-date, partially offset by higher revenue from residential operations.

Operating Income

During the second quarter of fiscal 2007, real estate division operating income declined \$6.6 million or 18.5 percent compared to the second quarter last year as the result of a \$10.3 million decline in commercial operations operating income, partially offset by a \$3.7 million increase in residential operating income. The growth in residential operating income is attributed to the continued strong

housing market, particularly in Calgary and Edmonton, Alberta markets. The commercial operating income decline is primarily attributed to the sale of 44 commercial properties to Crombie REIT in March 2006.

For the 26 weeks ended November 4, 2006, the real estate division contributed operating income of \$54.4 million compared to \$65.4 million last fiscal year. The decrease of \$11.0 million or 16.8 percent was the result of a decline in operating income from commercial activities of \$20.0 million, primarily related to the sale of 44 commercial properties to Crombie REIT as mentioned, offset in part by a \$9.0 million increase in operating income from residential activities.

The real estate division contributed 22.9 percent of Empire's consolidated operating income in the first two quarters of fiscal 2007 compared to a 27.0 percent contribution in the first two quarters of last fiscal year.

Net Earnings

Real estate division net earnings contribution in the second quarter amounted to \$15.9 million compared to \$15.2 million last year, a \$0.7 million or 4.6 percent increase. The earnings increase largely reflects the \$6.6 million reduction in operating income as discussed, more than offset by a \$6.5 million reduction in interest expense due to lower long-term debt levels, lower income tax expense of \$0.7 million and an increase in capital gain, net of tax, of \$0.1 million.

For the 26 weeks ended November 4, 2006, real estate division net earnings equalled \$29.2 million versus \$26.9 million in the comparable period last fiscal year. The increase of \$2.3 million or 8.6 percent is primarily attributed to a \$4.8 million increase in earnings from residential operations, partially offset by a decline of \$2.5 million in earnings contribution from commercial operations. Earnings have benefited from continued strong performance in residential lot sales in the first half of fiscal 2007, along with positive earnings contribution from U.S. residential investment activities.

Funds from Operations

Funds from operations in the second quarter of \$17.3 million decreased \$2.6 million or 13.1 percent compared to last year as a result of lower operating earnings. Trailing (last four quarters) funds from operations for the real estate division was \$72.6 million, a decrease of 0.5 percent from the prior year four quarter trailing funds from operations of \$73.0 million.

Investments and Other Operations

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

Investment Value

At the end of the second quarter, Empire's total investments, excluding its investment in Genstar U.S. investments and in Crombie REIT, carried a market value of \$569.5 million on a cost base of \$401.6 million, resulting in an unrealized gain of \$167.9 million.

The table below presents a reconciliation of the consolidated balance sheet investments, both equity and cost, to those related to the investment and other operations division:

(\$ in millions)	November 4, 2006			May 6, 2006			November 5, 2005		
	Market Value	Cost Value	Unrealized Gain	Market Value	Cost Value	Unrealized Gain	Market Value	Cost Value	Unrealized Gain
Investments, at cost	\$ 433.2	\$ 366.1	\$ 67.1	\$ 398.9	\$ 359.9	\$ 39.0	\$ 391.6	\$ 350.0	\$ 41.6
Investments, at equity	388.2	156.2	232.0	425.3	157.5	267.8	125.2	49.1	76.1
Less: Crombie REIT	254.0	111.3	142.7	220.7	112.8	107.9	-	-	-
Less: Genstar U.S. ⁽¹⁾	9.4	9.4	-	11.6	11.6	-	15.1	15.1	-
Plus: Hedge Value	11.5	-	11.5	15.4	-	15.4	9.0	-	9.0
	\$ 569.5	\$ 401.6	\$ 167.9	\$ 607.3	\$ 393.0	\$ 214.3	\$ 510.7	\$ 384.0	\$ 126.7

(1) Assumes market value equals book value.

During the second quarter of fiscal 2007 there were realized capital gains of \$7.0 million compared to a \$1.5 million capital gain in the second quarter last year. Total realized capital gains from investments sales for the first half of fiscal 2007 were \$7.0 million compared to \$27.8 million in the first half of fiscal 2006. The total unrealized gain position at the end of fiscal 2006 was \$214.3 million. The unrealized gain at the end of the second quarter last year was \$126.7 million.

Realized capital gains fiscal year-to-date, plus unrealized capital gains, combined to equal \$174.9 million at the end of the second quarter. This compares to a total realized gain on investment sales plus capital gains at the end of fiscal 2006 equal to \$251.5 million. The decrease in the realized plus unrealized gain position of \$77.0 million since the end of fiscal 2006 is largely the result of a decrease in the valuation of Wajax which was partially offset by an increase in other stocks.

Portfolio Composition

At November 4, 2006, Empire's investment portfolio (excluding cash) consisted of:

(Canadian \$ in millions)	Market Value	% of Total	Cost	Unrealized Gain (Loss)		
				Nov. 4, 2006	May 6, 2006	Nov. 5, 2005
Canadian equities	\$ 241.0	42.3%	\$ 162.1	\$ 78.9	\$ 68.8	\$ 61.0
Wajax	124.8	21.9	35.5	89.3	159.9	76.1
US equities	190.7	33.5	202.5	(11.8)	(29.8)	(19.4)
Preferred shares & other	1.5	0.3	1.5	-	-	-
Hedge value ⁽¹⁾	11.5	2.0	-	11.5	15.4	9.0
Total	\$ 569.5	100.0%	\$ 401.6	\$ 167.9	\$ 214.3	\$ 126.7

(1) The hedge value of \$11.5 includes a deferred foreign exchange gain of \$9.6 million at November 4, 2006. There was a deferred foreign exchange gain of \$10.2 included at May 6, 2006.

Empire's direct debt matched to the investment portfolio as of November 4, 2006 was \$135.7 million, representing approximately 24 percent of the investment portfolio's market value, including the hedge value. Management considers a ratio of debt to investment value of no greater than 35 percent as prudent.

Investment Return

The table below presents the total return performance for Empire's investments relative to Canadian and U.S. equity benchmark returns for the three months ended September 30, 2006, as well as on an annualized one through four-year basis for periods ended September 30, 2006.

**Empire Investment Portfolio Total Return
For Periods ending September 30, 2006**

	One Quarter	Annualized Returns			
		One Year	Two Years	Three Years	Four Years
Empire Portfolio	2.3%	17.4%	23.5%	25.2%	26.7%
Median Manager	3.3%	8.8%	16.1%	15.9%	15.8%
S&P/TSX Index	1.9%	9.2%	18.9%	18.9%	19.8%
S&P 500 Index in (C\$)	5.7%	6.4%	4.8%	5.4%	5.4%

Empire's investment return for the three months ended September 30, 2006 of 2.3 percent was below the median manager return of 3.3 percent over the same time period. The relative under-performance of the portfolio is largely attributed to a negative return for the three months period ended September 30, 2006 for Wajax Income Fund, which is the largest holding in the investment portfolio.

On a one through four-year trailing basis the portfolio return has exceeded the median manager return. The total return on the Empire investment portfolio, as independently benchmarked against the performance of over 100 equity fund managers, has been ranked as first quartile (first quartile means the top 25 percent of surveyed equity fund managers) investment return performance over one through four-year trailing periods ended September 30, 2006.

Despite the volatility in equity markets, management continues to believe that equity market returns will be superior over the long-term 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 November 4, 2006, Empire had hedged approximately 75 percent of the market value of its U.S. based common equity investments by way of \$143 million of forward currency contracts. The average foreign exchange rate associated with these U.S. forward currency contracts is \$1.1395. The fair value of the hedge was \$1.9 million at the end of the second quarter.

The forward currency contracts replaced U.S. dollar borrowings which were repaid with a portion of the net cash proceeds from the closing of the Crombie REIT initial public offering on March 23, 2006. The repayment of the U.S. based borrowings resulted in a deferred hedge gain of \$10.2 million which will be realized on the eventual disposition of the underlying U.S. dollar portfolio investments. During the second quarter of fiscal 2007, \$0.6 million of this deferred gain was realized on the sale of a U.S. investment, resulting in a deferred hedge gain of \$9.6 million at the end of the second quarter.

Revenue

Investments and other operations' revenue, primarily generated by Empire Theatres, equalled \$35.8 million in the second quarter ended November 4, 2006 versus \$20.8 million in the second quarter last year. Fiscal year-to-date revenues, for investments and other operations, increased \$38.5 million or 92.5 percent over the comparable period last year to reach \$80.1 million.

The revenue growth for both the quarter and fiscal year-to-date is primarily attributed to the acquisition of the 28 movie theatres towards the end of the second quarter of fiscal 2006 as previously discussed.

Investment Income

Investment income (excluding equity earnings from Crombie REIT and Genstar's U.S. investments) equalled \$7.5 million in the second quarter, an increase of \$2.2 million over the \$5.3 million recorded in the second quarter last year. The increase is largely the result of equity earnings from Wajax being \$1.8 million higher than the second quarter last year. Dividend income was \$0.4 million higher than the second quarter last year. Corporate expenses, including depreciation, amounted to \$2.3 million in the second quarter, slightly lower than the second quarter last year.

On a fiscal year-to-date basis, investment income amounted to \$15.0 million compared to \$11.4 million over the same period last fiscal year. The \$3.6 million increase was the result of higher equity earnings from Wajax of \$2.9 million plus an increase in dividend income of \$0.7 million.

Operating Earnings

Investment (net of corporate expenses) and other operations' operating earnings equalled \$1.6 million in the second quarter, a decrease of \$0.2 million or 14.3 percent from the second quarter last year.

For the 26-weeks ended November 4, 2006, investment (net of corporate expenses) and other operations' operating earnings amounted to \$6.5 million, relatively unchanged from the \$6.4 million recorded last year. Increased theatre expenses, as well as higher interest expense, as discussed was essentially offset by higher equity earnings contribution from Wajax.

The increase in interest expense resulted from higher bank loans to fund new portfolio investments, as well as an increase in the number of shares owned in Sobeys relative to the second quarter last year.

Empire's non-consolidated bank loans equaled \$135.7 million at the end of the second quarter versus \$71.2 million at the beginning of the fiscal year. Over the trailing four quarters ended November 4, 2006, Empire has purchased 2,557,750 common shares of Sobeys resulting in an increase in ownership percentage from 68.3 percent a year ago to 72.1 percent at the end of the second quarter.

Capital Gain and Other Items

Capital gains, net of tax, realized in second quarter amounted to \$5.8 million compared to \$0.7 million in the second quarter last year. On a fiscal year-to-date basis, capital gains, net of tax, on the sale of investments equalled \$5.8 million as compared to \$24.9 million last fiscal year-to-date. The capital gain, net of tax, recorded in the quarter and for the year-to-date is due to the sale of common equity investments. The bulk of the net capital gain last fiscal year resulted from the sale of 2.875 million units of the Wajax Income Fund in the first quarter.

Net Earnings

Investments (net of corporate expenses) and other operations contributed \$7.4 million to Empire's consolidated second quarter net earnings (12.9 percent of Empire's consolidated net earnings). This compares to a \$2.1 million net earnings contribution in the second quarter last year (4.3 percent of Empire's consolidated net earnings). The increase is primarily the result of higher realized investment capital gains, net of tax, during the second quarter this year.

For the 26 weeks ended November 4, 2006, investments (net of corporate expenses) and other operations contributed \$12.3 million to Empire's consolidated net earnings (11.1 percent of consolidated net earnings) compared to a \$31.3 million contribution last fiscal year-to-date (25.6 percent of consolidated net earnings). The decrease was primarily the result of the \$19.0 million decrease in capital gain, net of tax.

Financial Condition

Capital Structure and Key Financial Condition Measures

The Company's financial condition at the end of the second quarter showed continued strength as indicated by the financial condition measures in the table below.

(\$ in millions, except per share and ratio calculations)	Nov. 4, 2006	May 6, 2006	Nov. 5, 2005
Shareholders' equity	\$ 2,055.0	\$ 1,965.2	\$ 1,808.8
Book value per share	31.14	29.77	27.39
Minority interest	576.4	585.4	596.5
Bank indebtedness	155.8	98.6	356.1
Long-term debt, including current portion ⁽¹⁾	908.6	823.5	984.2
Funded debt to total capital	34.1%	31.9%	42.6%
Net debt to capital ratio ⁽²⁾	29.3%	22.8%	38.8%
Debt to EBITDA	1.55x	1.35x	2.01x
Interest coverage	7.50x	5.86x	5.52x
Total assets	\$ 5,218.5	\$ 5,051.5	\$ 5,218.9

(1) Includes long-term lease obligations.

(2) Net debt to total capital reduces funded debt by cash and cash equivalents.

Shareholders Equity

Book value per common share was \$31.14 at November 4, 2006, compared to \$29.77 at May 6, 2006 and \$27.39 at November 5, 2005. The increase in book value largely reflects the Company's earnings growth.

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

Authorized	Number of Shares
Preferred shares, par value of \$25 each, issuable in series	2,846,000
2002 Preferred shares par value of \$25 each, issuable in series	992,000,000
Non-Voting Class A shares, without par value	259,108,445
Class B common shares, without par value, voting	40,800,000

Issued and Outstanding	Number of Shares
Preferred shares, Series 2 cumulative, redeemable, rate of 75% of prime	331,900
Non-Voting Class A shares	31,175,047
Class B common shares	34,560,763

Total common shares outstanding at November 4, 2006 of 65,735,810 were unchanged from the previous fiscal year-end, May 6, 2006 and November 5, 2005. There were 31,175,047 Non-Voting Class A shares outstanding and 34,560,763 Class B common shares outstanding at November 4, 2006.

At November 4, 2006, Empire had no options outstanding compared to 27,674 options outstanding at November 5, 2005. There were 27,674 options exercised during the first half of fiscal 2007.

During the first half of fiscal 2007, Empire repurchased enough Non-Voting Class A shares to offset the dilutive effect of shares issued to fulfill the Company's obligation under its stock option and share purchase plans. The number of Non-Voting Class A shares repurchased for cancellation equalled 46,047 in the first half of fiscal 2007.

On July 25, 2006, Empire filed a Notice of Intention to make a Normal Course Issuer Bid with the Toronto Stock Exchange to purchase for cancellation up to 623,200 shares representing approximately 2.0 percent of the issued and outstanding Non-Voting Class A shares. The Board of Directors and senior management of Empire are of the opinion that from time to time the purchase of Class A Non-Voting shares at the prevailing market prices is a worthwhile use of funds and in the best interests of Empire and its shareholders. The Normal Course Issuer Bid expires on July 27, 2007.

As at December 13, 2006, the Company had total Non-Voting Class A plus Class B Common shares outstanding of 65,735,810.

Dividends paid to common shareholders amounted to \$9.8 million in the second quarter (\$0.15 per share) versus \$9.3 million (\$0.14 per share) in the second quarter last year. On a fiscal year-to-date basis, the Company had paid common dividends totalling \$19.7 million (0.30 per share) versus \$18.3 million (\$0.28 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 November 4, 2006 was \$697.5 million, representing 65.5 percent of Empire's total funded debt of \$1,064.4 million. Funded debt has increased \$142.3 million since the end of the fiscal year, May 6, 2006 (\$922.1 million) but declined \$275.9 million since the second quarter last year. The significant decline over the second quarter last year is primarily the result of the repayment of indebtedness connected to the 44 properties sold to Crombie REIT in March 2006, partially offset by the \$125 million MTN issued by Sobeys in the second quarter of fiscal 2007.

The majority of Empire's funded debt is long-term in nature. The long-term debt, excluding bank indebtedness, is segmented by division as follows:

Long-term debt (\$ in millions)	Nov. 4, 2006	May 6, 2006	Nov. 5, 2005
Food	\$ 632.5	\$ 510.8	\$ 474.5
Real estate	232.8	253.9	505.6
Investments and other operations	43.3	58.8	4.1
Total	\$ 908.6	\$ 823.5	\$ 984.2

On October 6, 2006, Sobeys issued a \$125.0 million Series E MTN with a maturity date of October 6, 2036 (30 years) and a coupon rate of 5.79 percent. The proceeds of this issue are intended for general corporate purposes.

Empire predominantly finances its long-term assets with fixed rate, long-term debt, thereby reducing both interest rate and refinancing risk.

Interest coverage in the second quarter was 7.5 times, improved from the 5.9 times reported for the fiscal year ended May 6, 2006 and the 5.5 times recorded for the second quarter last year. The improved interest coverage over the second quarter last year was the result of reduced interest expense.

Since fiscal year-end, the consolidated funded debt to total capital ratio has increased 2.2 percentage points to 34.1 percent as a result of higher debt levels. The net debt (debt less cash and cash equivalents) to total capital ratio increased 6.5 percentage points to 29.3 percent since fiscal year-end as a result of a decrease in cash of \$129.5 million and the higher debt levels as discussed.

Empire and its subsidiaries have provided covenants to its lenders in support of various financing facilities. All covenants were complied with for the 26 weeks ended November 4, 2006 and for fiscal 2006.

Financial Instruments

Empire utilizes interest rate instruments from time to time to prudently manage its exposure to interest rate volatility and also to fix future long-term debt maturities that are expected to be refinanced. At November 4, 2006, there were no interest rate hedges in place by Empire directly or with any of its operating companies.

To mitigate the currency risk associated with the Company's U.S. dollar investments, including its investment in Genstar—U.S. investments, Empire has entered into and designated \$155 million CAD of forward currency contracts with staggered maturities to act as a hedge against the effect of a stronger Canadian dollar relative to the U.S. dollar. The fair value of these currency forwards at November 4, 2006 was \$2.0 million CAD. Approximately 75 percent of the market value of U.S. dollar common equities in the Empire investment portfolio are hedged at an average foreign exchange rate of \$1.1395. These forward exchange contracts have variable maturities over the next year and are anticipated to be extended at maturity. Empire and its subsidiaries utilize hedging instruments as deemed appropriate to mitigate risk exposure, not for speculative purposes.

Liquidity and Capital Resources

Empire's liquidity remained strong at November 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 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.

At November 4, 2006, cash and cash equivalents were \$211.6 million versus \$191.4 million at November 5, 2005 and \$341.1 million at fiscal year-end, May 6, 2006.

On a non-consolidated basis, Empire maintains authorized bank lines for operating, general and corporate purposes of \$325.0 million, of which \$135.7 million or 41.7 percent was utilized at November 4, 2006. On a consolidated basis, Empire's authorized bank credit facilities exceeded borrowings by \$458.7 million at November 4, 2006, versus \$626.4 million at May 6, 2006.

The following table highlights major cash flow components for the 13 weeks and 26 weeks ended November 4, 2006 compared to the 13 weeks and 26 weeks ended November 5, 2005.

Major Cash Flow Components:

(\$ in millions)	13 Weeks Ended		26 Weeks Ended	
	Nov. 4, 2006	Nov. 5, 2005	Nov. 4, 2006	Nov. 5, 2005
Earnings for common shareholders	\$ 57.1	\$ 48.6	\$ 110.3	\$ 122.3
Items not affecting cash	87.9	78.7	167.2	129.0
	145.0	127.3	277.5	251.3
Net change in non-cash working capital	(146.4)	(69.6)	(153.7)	(131.3)
Cash flows (used in) from operating	(1.4)	57.7	123.8	120.0
Cash flows used in investing activities	(188.3)	(251.3)	(367.1)	(308.6)
Cash flows from financing activities	82.1	135.4	113.8	98.3
Decrease in cash and cash equivalents	\$ (106.2)	\$ (115.9)	\$ (253.3)	\$ (210.3)

Operating Activities

Second quarter cash flows from operating activities equalled negative \$1.4 million compared to positive \$57.7 million in the comparable period last year. The decrease of \$59.1 million is largely attributed to a decrease in the change in non-cash working capital of \$76.8 million partially offset by an increase in items not affecting cash of \$9.2 million and by an increase in net earnings available for common shareholders of \$8.5 million as discussed.

On a fiscal year-to-date basis, after adjusting for the one-time gain on the sale of Wajax Income Fund units of \$26.3 million in fiscal 2006, earnings for common shareholders increased \$14.3 million and items not affecting cash, primarily depreciation and amortization, increased \$11.9 million. Non-cash working capital decreased \$22.4 million, resulting in a \$3.8 million increase in cash flows from operating activities for the 26 weeks ended November 4, 2006.

The following tables presents non-cash working capital changes on a quarter-over-quarter basis and on a year-over-year basis, respectively.

Non-Cash Working Capital (Quarter-Over-Quarter)

(\$ in millions)	Nov. 4, 2006	Aug. 5, 2006	Q2 F2007 vs. Q1 F2007 Increase (Decrease) in Cash Flows	Q2 F2006 vs. Q1 F2006 Increase (Decrease) in Cash Flows
Receivables	\$ 311.3	\$ 278.5	\$ (32.8)	\$ (35.6)
Inventories	755.7	717.4	(38.3)	(52.5)
Prepaid expenses	60.8	58.1	(2.7)	(0.1)
Accounts payable and accrued liabilities	(1,177.1)	(1,264.1)	(87.0)	1.8
Income taxes payable	(50.1)	(39.2)	10.9	14.3
Impact of business acquisitions on working capital	(16.2)	-	16.2	2.5
Other items	12.7	-	(12.7)	-
Total	\$ (102.9)	\$ (249.3)	\$ (146.4)	\$ (69.6)

Non-Cash Working Capital (Year-Over-Year)

(\$ in millions)	Nov. 4, 2006	Nov. 5, 2005	Year-Over- Year Increase (Decrease) in Cash Flows
Receivables	\$ 311.3	\$ 307.0	\$ (4.3)
Inventories	755.7	728.7	(27.0)
Prepaid expenses	60.8	62.0	1.2
Accounts payable and accrued liabilities	(1,177.1)	(1,162.8)	14.3
Income taxes payable	(50.1)	14.5	64.6
Impact of business acquisitions on working capital	(19.0)	-	19.0
Other items	14.5	-	(14.5)
Total	\$ (103.9)	\$ (50.6)	\$ 53.3

In the second quarter receivables and inventories increased \$32.8 million and \$38.3 million respectively, while accounts payable decreased \$87.0 million compared to the first quarter ended August 5, 2006. The increase in inventory is primarily attributed to higher inventory in the food division, reflecting seasonal buying patterns typical in the business as Sobeys prepares to meet its December selling requirements and is also necessary to support Sobeys' higher sales volume due to the increased square footage in its expanded store network. The decrease in accounts payable and accrued liabilities of \$87.0 million was primarily due to the timing of payables related to Sobeys' capital program.

Investing Activities

Cash used in investing activities of \$188.3 million in the second quarter was \$63.0 million lower than in the second quarter of last fiscal year. The decrease in cash used in investing activities was mainly the result of a decrease in investments in the current year of \$10.1 million compared to an increase in investments last year of \$50.3 million along with higher proceeds on the sale of other property of \$23.7 million this year compared to \$6.6 million last year, partially offset by cash used to purchase 310,700 common shares of Sobeys in the amount of \$12.1 million.

Consolidated purchases of property, equipment and other assets totalled \$119.6 million in the second quarter of fiscal 2007 compared to \$120.3 million in the second quarter last year. The bulk of this capital spending was the result of Sobeys' commitment to growing and improving its store network and Sobeys' acquisition of ADL.

Company-wide capital investment includes on-balance sheet capital expenditures, all known capital investments by franchise affiliates and capital investment by third-party landlords. Company-wide capital investment for Sobeys totalled \$144.0 million for the second quarter of fiscal 2007, an increase of \$12.0 million over the second quarter of the previous year. Sobeys remains committed to improving and growing its store network. Company-wide capital investment for the first half of the year totalled \$304.0 million compared to \$256.0 million in the first half of 2006.

During the quarter, Sobeys acquired 27 corporate and franchised stores and opened or relocated 13 stores compared to 12 corporate and franchised stores opened or replaced during the second quarter of last year. Of the 27 acquisitions, 25 relate to the ADL purchase as discussed. An additional four stores were expanded during the quarter compared to three stores expanded during the second quarter of fiscal 2006. Nine stores were closed during the second quarter of fiscal 2007 compared to 20 in the second quarter last year. There were 15 stores rebannered in the second quarter of fiscal 2007 compared to one store in the in the same quarter last year.

Net retail store square footage increased during the second quarter by 533,088 square feet (99,800 square feet opened, 130,338 square feet for relocated stores, 415,422 square feet for acquired stores and 25,909 square feet for expanded stores less 183 square feet rebannered, and 138,198 square feet closed). At November 4, 2006, Sobeys' square footage totalled 26.1 million square feet, a 4.4 percent increase over the second quarter last year.

For the 26 weeks ended November 4, 2006, cash used in investing activities increased by \$58.5 million to \$367.1 million. Investment in property, equipment and other assets in the current fiscal year year-to-date amounted to \$247.2 million, an increase of \$40.1 million over the same period last year. The food division accounted for \$51.7 million of this increase, reflecting higher planned capital spending levels in the first half of fiscal 2007. Capital expenditures for real estate declined by \$18.1 million, while capital expenditures for investment and other operations increased \$6.5 million. Also reflected in the current year investing activities is the purchase of 1,248,950 common shares of Sobeys for \$48.6 million. As well, there was an increase in proceeds from the sale of other property of \$16.0 million, primarily due to the sale of two properties to Crombie REIT.

Financing Activities

Financing activities during the second quarter generated \$82.1 million of cash compared to \$135.4 million in the comparable period of fiscal 2006. Cash flows from financing activities in the second quarter largely reflect the MTN issuance of \$125 million by Sobeys and repayment of debt during the quarter of \$40.9 million. In the same quarter of the previous year the cash flows from financing activities of \$135.4 million was largely due to higher bank loans of \$153.3 million as a Sobeys issued \$175 million MTN was used to repay a maturing MTN.

Financing activities for the first half of fiscal 2006 generated \$113.8 million of cash compared to \$98.3 million in the comparable period last fiscal year.

Accounting Policy Changes

The following accounting standards have been implemented during fiscal 2007 and 2006:

Accounting for Consideration by a Vendor to a Customer (Including a Reseller of the Vendor's Products) ("EIC-156")

Issued in September 2005, EIC-156 addresses cash consideration, including a sales incentive, given by a vendor to a customer. This consideration is presumed to be a reduction of the selling price of the vendor's products and should therefore be classified as a reduction of sales in the vendor's income statement. These recommendations are effective for all interim and annual financial statements for fiscal years beginning on or after January 1, 2006.

Prior to the implementation of EIC-156, Sobeys recorded certain sales incentives paid to independent franchisees, associates and independent accounts in cost of sales, selling and administrative expenses. As reclassifications, these changes did not impact net earnings.

Effective in the first quarter of fiscal 2007, sales figures were retroactively restated as required by EIC-156. The following is a summary of the restatement of selected consolidated financial statements for each of the eight most recently completed quarters.

(\$ in millions)	Fiscal 2007		Fiscal 2006				Fiscal 2005	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	(13 weeks) Nov. 4, 2006	(13 weeks) Aug. 5, 2006	(13 weeks) May 6, 2006	(13 weeks) Feb. 4, 2006	(13 weeks) Nov. 5, 2005	(13 weeks) Aug. 6, 2005	(14 weeks) May 7, 2005	(13 weeks) Jan. 29, 2005
Sales as previously reported	\$3,348.7	\$3,409.3	\$3,249.4	\$3,264.4	\$3,285.6	\$3,361.7	\$3,360.2	\$2,978.5
Sales after reclassification	\$3,313.5	\$3,373.8	\$3,212.6	\$3,228.5	\$3,253.4	\$3,331.4	\$3,321.0	\$2,942.7
Reclassification between sales and cost of sales, selling and administrative expenses	\$ 35.2	\$ 35.5	\$ 36.8	\$ 35.9	\$ 32.2	\$ 30.3	\$ 39.2	\$ 35.8

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

During fiscal 2006, the Company adopted the amendment to EIC-144 issued in January 2005. The amendment requires disclosure of the amount of vendor allowances that have been recognized in income but for which the full requirements for entitlement have not yet been met. Certain allowances from vendors are contingent on the Company achieving minimum purchase levels. In accordance with EIC-144, the Company recognizes these allowances in income when it is probable that the minimum purchase level will be met, and the amount of allowance can be estimated. During the second quarter and first half of fiscal 2007, the Company has recognized \$3.9 million and \$5.6 million, respectively (2006 - \$1.9 million and \$3.0 million) of allowances in income where it is probable that the minimum purchase level will be met and the amount of allowance can be estimated.

Accounting for Conditional Asset Retirement Obligations (“EIC-159”)

This abstract provides guidance on when a conditional asset retirement obligation should be recognized in accordance with CICA 3110, Asset Retirement Obligations. The abstract was applied on a retroactive basis effective in the fourth quarter of fiscal 2006. The abstract requires an entity to recognize a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. A conditional asset retirement obligation refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement.

There was no effect on the Company of adopting this guideline and the Company will continue to monitor whether EIC-159 is applicable in the future.

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 2006 Annual Report on pages 55 and 57.

Related Party Transactions

On October 2, 2006, the Company sold two commercial properties to Crombie REIT, an equity accounted investment, for cash proceeds of \$31.9 million, which was fair market value. Since the sale was to an equity accounted investment, no gain was recorded on the sale.

Contingencies

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

On June 21, 2005, Sobeys received a notice of reassessment from CRA for the fiscal years 1999 and 2000 related to the Goods and Services Tax ("GST"). CRA asserts that Sobeys was obliged to collect GST on the sales of these tobacco products to status Indians. The total tax, interest and penalties in the proposed reassessment was \$13.6 million. Sobeys has reviewed this matter, has received legal advice and believes it was not required to collect GST. During the second quarter of fiscal 2006, Sobeys filed a Notice of Objection with CRA. Accordingly, Sobeys has not recorded in its statement of earnings any of the tax, interest or penalties set-out in the notice of reassessment. Sobeys has deposited with CRA funds to cover the total tax, interest and penalties in the reassessment and has recorded this amount as a long-term receivable from CRA pending resolution of the matter.

The Company and certain subsidiaries are presently under audit by CRA and certain provincial taxing authorities for fiscal years 2001 through 2006. The principle matters under audit are:

- a) The tax treatment of gains realized on the sale of shares in Hannaford Bros. Co. ("Hannaford") in fiscal 2001;
- b) The tax treatment of gains realized on the sale of shares in Delhaize America Inc. in fiscal years 2001 and 2002; and
- c) The taxation of income from certain of the Company's real estate investments for fiscal years 2003 to 2006.

A reassessment has been received in respect of the sale of shares of Hannaford and a further reassessment is expected. In the event that the tax authorities are successful in respect of the Hannaford transaction, which the Company believes is very unlikely, the maximum potential exposure in excess of provisions taken is approximately \$40.0.

The Company will appeal the reassessments in respect of the sale of Hannaford shares, and any other reassessments, as and when they are received, unless settlement is otherwise reached. The Company expects that it will be substantially successful on its appeals of each of these reassessments. The Company also believes that the ultimate resolution of these matters will not, in any event, have a material impact on earnings because it has made adequate provisions for each of these matters. Should the ultimate outcome materially differ from the provisions established, the effective tax rate and earnings of the Company could be materially affected, negatively or positively, in the period in which the matters are resolved.

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

Subsequent Events

On November 7, 2006, the Government of Canada approved a “Tax Fairness Plan” which intends to impose a tax on distributions from publicly traded income trusts and limited partnerships. In the document, the Government exempted Real Estate Investment Trusts (“REITs”) if the trusts met a series of conditions relating to the nature of their income and investments. Crombie’s management has reviewed these conditions and, based on their current understanding, are of the opinion that Crombie meets the conditions and thus would be exempt from the proposed distribution tax. Wajax is currently evaluating the impact of the new rules which may subject Wajax to tax on distributions beginning in 2011.

On November 21, 2006, Sobeys announced plans to build a new distribution centre in Vaughan, Ontario. Utilizing automation technology, the new facility is expected to significantly increase Sobeys warehouse and distribution capacity while reducing overall distribution costs and improving service to its store network and customers. Sobeys expects a significant number of positions will be eliminated at its Milton and Whitby, Ontario distribution centres when the new facility becomes fully operational in 2009. Sobeys is currently assessing the related integration and rationalization costs associated with this project, including the estimated severance and termination benefits.

Contractual Obligations

Sobeys determined that its gross and net operating lease obligations previously disclosed in its fiscal 2006 annual MD&A were understated by approximately \$20.0 million per year over the next seven years. The following table summarizes Empire’s revised obligations as of May 6, 2006:

(\$ in millions)	2007	2008	2009	2010	2011	Thereafter
Gross operating leases	\$ 253.6	\$ 226.5	\$ 204.3	\$ 188.9	\$ 170.3	\$ 1,406.4
Net operating leases	\$ 181.8	\$ 162.2	\$ 147.2	\$ 137.9	\$ 125.2	\$ 1,114.5

Risk Management

Risks and uncertainties related to economic and industry factors and the Company’s management of these risks are discussed in detail in the “Management’s Discussion and Analysis” section of the Company’s fiscal 2006 annual report on pages 58 to 62. These risks include changes in general economic conditions and interest rates and further changes to sales practices of tobacco companies.

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, interest expense and income taxes.
- EBITDA is calculated as EBIT plus depreciation and amortization.
- Operating earnings is calculated as net earnings before capital gain (loss) and other items.
- Funds from operations is calculated as operating earnings plus depreciation and amortization.
- 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.
- Company-wide capital investment includes on-balance sheet capital expenditures, all known capital investments by franchise affiliates and capital investments by third-party landlords.
- Same-store sales are sales from stores in the same locations in both reporting periods.

The following table reconciles Empire's funded debt and total capital to GAAP measures reported in the unaudited interim period balance sheets as at November 4, 2006, May 6, 2006 and November 5, 2005, respectively:

(\$ in millions)	Nov. 4, 2006	May 6, 2006	Nov. 5, 2005
Bank indebtedness	\$ 155.8	\$ 98.6	\$ 356.1
Long-term debt due within one year	93.3	95.4	74.7
Long-term debt	792.1	707.3	896.2
Long-term lease obligation	23.2	20.8	13.3
Funded debt	1,064.4	922.1	1,340.3
Total shareholders' equity	2,055.0	1,965.2	1,808.8
Total capital	\$ 3,119.4	\$ 2,887.3	\$ 3,149.1

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: December 13, 2006
 Stellarton, Nova Scotia, Canada
EMPIRE COMPANY LIMITED

SHAREHOLDER AND INVESTOR INFORMATION

Head Office:
115 King Street
Stellarton, Nova Scotia
B0K 1S0
Telephone: (902) 755-4440
Fax: (902) 755-6477
Internet: www.empireco.ca

INVESTOR RELATIONS AND INQUIRIES

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

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

AFFILIATED COMPANY WEB ADDRESSES

www.sobeys.com
www.empiretheatres.com

STOCK EXCHANGE LISTING

The Toronto Stock Exchange

STOCK SYMBOLS

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

AVERAGE DAILY TRADING VOLUME (TSX)

27,128

COMMON DIVIDEND RECORD AND PAYMENT DATES FOR FISCAL 2007

Record Date	Payment Date
July 15, 2006	July 31, 2006
October 13, 2006	October 31, 2006
January 15, 2007	January 31, 2007
April 13, 2007*	April 30, 2007*

* Subject to approval by the Board of Directors

OUTSTANDING SHARES

As of December 13, 2006:

Non-Voting Class A shares	31,175,047
Class B common shares, voting	34,560,763

TRANSFER AGENT

CIBC Mellon Trust Company
Investor Correspondence
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario
M5C 2W9
Telephone: (800) 387-0825
Email: enquires@cibcmellon.com

BANKERS

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

SOLICITORS

Stewart McKelvey
Halifax, Nova Scotia

AUDITORS

Grant Thornton, LLP
New Glasgow, NS

MULTIPLE MAILINGS

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

www.empireco.ca

E M P I R E
COMPANY LIMITED