EMPIRE

Expanding Value

Empire Company Limited

Third Quarter Report Fiscal 2007

Q3

Thirty-nine Weeks Ended February 3, 2007

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 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 $5.1 billion in assets, Empire employs approximately 37,000 people directly and through its subsidiaries.

Contents **Page**

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 third quarter results on a conference call held on Thursday, March 15, 2007. 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 March 15, 2007 Empire Company Limited (TSX: EMP.A) announced earnings before capital gain (loss) and other items for its third quarter ended February 3, 2007 of $36.1 million ($0.54 per share on a fully diluted basis) compared to $47.7 million ($0.72 per share on a fully diluted basis) in the third quarter last year.

Included in earnings for the third quarter are $20.2 million of pre-tax costs incurred by Sobeys Inc. related to its business process and system initiative, severance in both its Atlantic and Ontario regions as a result of business rationalization, along with fixed asset and inventory write-offs. Sobeys incurred $4.9 million of pre-tax costs related to its business process and system initiative in the third quarter last fiscal year.

This $20.2 million impact on Sobeys' third quarter operating income resulted in a $9.8 million impact on Empire's net earnings in its third quarter ($0.15 per share) compared to a $2.2 million impact on Empire's net earnings in the third quarter last year ($0.03 per share).

Net earnings in the third quarter amounted to $35.1 million ($0.53 per share on a fully diluted basis) versus $56.0 million ($0.85 per share on a fully diluted basis) in the third quarter last year. The Company realized a capital loss and other items, net of tax, of $1.0 million ($0.01 per share) in the third quarter compared to a realized capital gain, net of tax, of $8.3 million ($0.13 per share) in the third quarter last year.

Third Quarter Financial Highlights

- *Revenue of $3.28 billion, up $46.7 million or 1.4 percent.*
- *Sobeys' same-store sales increased 1.8 percent.*
- *Sobeys incurred pre-tax costs totalling $20.2 million related to its business process and system initiative and rationalization costs.*
- *Earnings before capital gain (loss) and other items of $36.1 million, down $11.6 million from the third quarter last year.*
- *Fully diluted earnings per share, before capital gain (loss) and other items, net of tax, of $0.54 compared to $0.72 per share recorded in the third quarter last year.*
- *Net earnings of $35.1 million ($0.53 per share on a fully diluted basis) versus $56.0 million ($0.85 per share on a fully diluted basis) last year.*
- *Funded debt to total capital of 31.3 percent compared to 34.9 percent a year ago.*

Financial Overview

Consolidated revenue for the third quarter was $3.28 billion, an increase of $46.7 million or 1.4 percent from the third quarter last year. Growth in food division sales of $94.7 million was partially offset by a $32.8 million reduction in revenue from the real estate division largely as a result of the sale of 44 properties to Crombie REIT in the fourth quarter last fiscal year and by a $15.2 million reduction in investments and other operations revenue. The decline in investments and other operations revenue is largely due to a change in fiscal year-end for Empire Theatres Limited to align with industry practice. Because of this change, the third quarter contained only nine weeks of theatres' revenue versus 13 weeks in the third quarter last fiscal year.

There are several items that impacted revenue comparability for the 13 weeks and 39 weeks ended February 3, 2007, as compared to the 13 weeks and 39 weeks ended February 4, 2006, as follows:

- 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 fiscal 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 Sobeys acquisition on August 27, 2006 of Achille de la Chevrotière Ltée and its associated companies ("ADL"). The acquisition included 25 owned or franchised retail store operations, other wholesale supply agreements and a distribution facility in Rouyn-Noranda, Quebec;
- Empire Theatres changed its fiscal year-end from the last Thursday in April to the last Thursday in December effective December 28, 2006. This change in Empire Theatres' fiscal year-end was made to align with industry practice. However, because of this change, the third quarter and fiscal year-to-date ended February 3, 2007 contained nine weeks and 35 weeks of operations, respectively, while the quarter and fiscal year-to-date ended February 4, 2006 contained 13 weeks and 39 weeks of operations, respectively; and
- Revenue for the quarter and fiscal year-to-date ended February 3, 2007, include nine weeks and 35 weeks of revenue, respectively, related to the acquisition of the 28 movie theatres, whereas the quarter and fiscal year-to-date ended February 4, 2006, reflect 13 weeks and 17 weeks, respectively, of revenue from the acquired movie theatres.

The food division generated sales of $3.23 billion compared to $3.14 billion for the same quarter last year, an increase of 3.0 percent. Sobeys' same-store sales (sales from stores in the same locations in both reporting periods) increased by 1.8 percent in the third quarter.

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 third quarter 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 third quarter of fiscal 2007. Wholesale tobacco sales declined $41.0 million in the third quarter compared to the same 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 third quarter last fiscal year were $48.1 million.

Excluding the impact of the wholesale 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 3.9 percent for the third quarter.

There were no corporate or franchised stores acquired by the food division in the third quarter. A total of 14 corporate and franchised stores were opened or relocated in the third quarter compared to 25 corporate or franchised stores opened or relocated during the third quarter last year. An additional nine stores were expanded during the quarter compared to seven stores expanded during the third quarter of fiscal 2006. Ten stores were closed during the third quarter of fiscal 2007 compared to 20 in the third quarter last year. There were five stores rebannered in the third quarter of fiscal 2007 compared to one store in the same quarter last year.

Net retail square footage increased during the third quarter of fiscal 2007 by 252,482 square feet. At the end of the third quarter Sobeys' square footage totalled 26.3 million, a 4.0 percent increase over the third quarter last year.

Real estate division revenue (net of inter-segment) equalled $21.8 million, a decrease of $32.8 million over the $54.6 million recorded in the third quarter last year. Commercial property revenue declined $26.8 million over the third 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. These properties accounted for approximately $31.0 million of revenue in the third quarter last year. At the end of the third quarter, Empire Company maintained a 48.1 percent ownership position in Crombie REIT which is equity accounted. Revenue from residential operations equalled $12.1 million in the third quarter compared to $18.1 million last year, a $6.0 million or 33.1 percent decrease. The decline in residential operations revenue is largely attributed to the timing of land parcel and lot sales which are now expected to be finalized in the fourth quarter.

Consolidated operating income (earnings before minority interest, income taxes, capital gain (loss) and other items, and interest expense) in the third quarter totalled $79.7 million, a decrease of $38.6 million or 32.6 percent, compared to the $118.3 million reported in the third quarter last year.

The food division contributed operating income of $54.8 million during the third quarter, a decrease of $23.8 million or 30.3 percent from the third quarter last year. Third quarter food division operating margin (operating income divided by revenue) was 1.70 percent compared to 2.51 percent in the third quarter last year.

Impacting third quarter fiscal 2007 operating income was a $3.9 million increase in food division depreciation and amortization expense reflecting Sobeys continued capital investments. Of greater impact to third quarter food division operating income was $20.2 million of pre-tax costs ($4.9 million pre-tax in the third quarter of fiscal 2006) consisting of $7.0 million of pre-tax costs related to its business process and system initiative and $13.2 million of pre-tax costs related to business rationalization costs, the major component being severance in both its Atlantic and Ontario regions. The business process and system initiative costs primarily include labour, implementation and training costs associated with the business process and system implementation as well as final costs associated with exiting the Commisso's banner. Operating income was also impacted by Sobeys' commitment to sustain its price position as competition intensified, particularly in Ontario.

Sobeys expects to incur additional administrative rationalization costs in its next two quarters as a result of its continuing business process and system initiative. The dollar value of these additional costs will be quantified and disclosed in future quarters. Sobeys also expects to incur distribution rationalization costs in the fourth quarter related to its Quebec distribution network. Sobeys recently announced the closure of two small facilities, one in Anjou and one in the Abitibi region of Quebec. Rationalization costs related to these facilities of approximately $5.4 million are expected to be incurred in the fourth quarter; annualized savings of approximately $5.0 million are expected thereafter.

The real estate division contributed third quarter operating income of $17.5 million, a decrease of $14.7 million from the $32.2 million recorded in the third quarter last year. Operating income generated from commercial properties declined $8.0 million while operating income from residential operations decreased $6.7 million from the third 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. The decline in residential operating income reflects the reduction in residential selling activity as mentioned.

Investments and other operations' operating income, net of corporate expenses, equalled $7.4 million in the third quarter compared to $7.5 million in the same quarter last year. An increase in dividend and interest income and equity earnings from Empire's 27.6 percent interest in Wajax Income Fund was more than offset by a decline in operating income from Empire Theatres Limited. The decline in Empire Theatres' operating income primarily reflects weaker overall film product in the third quarter of fiscal 2007 versus the same quarter last year which negatively impacted overall attendance levels.

Interest expense in the third quarter decreased $5.7 million, to $15.9 million from $21.6 million in the third quarter last year as a result of a $4.6 million decline in interest expense on long-term debt and a $1.1 million decrease in interest expense on short-term debt. The decline in long-term interest expense is largely the result of the formation of Crombie REIT in the fourth quarter of last fiscal year and the related transfer of long-term indebtedness connected to the 44 commercial properties sold to the REIT.

Capital loss and other items, net of tax, amounted to $1.0 million in the third quarter as a result of the sale of investments compared to a capital gain and other items, net of tax, of $8.3 million in the third quarter last year.

Consolidated net earnings, including capital gain (loss) and other items, net of tax, totalled $35.1 million ($0.53 per share) versus $56.0 million ($0.85 per share) in the third 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 third quarter equalled 31.3 percent versus 34.9 percent at the end of the third quarter last year. Operating income provided 5.0 times coverage of interest expense in the third quarter versus 5.5 times coverage last year.

At February 3, 2007, the market value of Empire's investments at cost plus investments at equity totalled $720.3 million on a cost base of $337.3 million, resulting in an unrealized gain of $383.0 million. This compares to an unrealized gain of $306.8 million at the beginning of the fiscal year and an unrealized gain of $164.6 million at the end of the third quarter last fiscal year.

The purchase of property, equipment and other assets in the third quarter equalled $134.8 million as compared to $202.0 million in the same quarter last year. Investment in food division property and equipment and other assets accounted for $118.7 million of the total capital investment in the third quarter. Capital expenditures for investments and other operations in the third quarter equalled $16.1 million.

Dividend Declaration

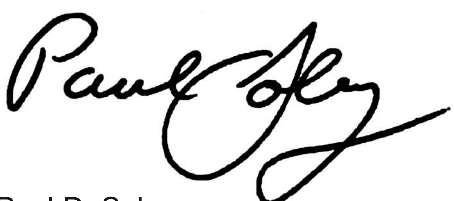
The Board of Directors declared a quarterly dividend of $0.15 per share on both the Non-Voting Class A shares and the Class B common shares that will be payable on April 30, 2007 to shareholders of record on April 13, 2007. In addition, the Board declared regular dividends on the Company's outstanding preferred shares.

Closing Remarks

First on the residential real estate side of the business, we expect much stronger performance in the fourth quarter and, in fact, a record year for our residential real estate operation.

Second, with respect to commercial real estate, the decline in earnings was clearly anticipated due to the formation of Crombie REIT. Our investment in Crombie REIT has added approximately $60 million in value since the initial public offering. We are intently focused on generating property flow involving ECL Developments and Crombie REIT and feel that we have added the depth and resources necessary to facilitate material long-term growth in this business.

Finally, we support Sobeys as its management intelligently invests now to build a much stronger food focused company. The $20.2 million of pre-tax costs incurred in the third quarter were material, but were necessary. Revamping the Ontario and West business process and system is critically important to Sobeys. It is important that we build a healthy and sustainable infrastructure for the long-term. We are confident that our investment, although significant to our third quarter results, will be more than recovered in longer term growth in operating performance.



Paul D. Sobey
President & Chief Executive Officer

March 15, 2007

EMPIRE COMPANY LIMITED
CONSOLIDATED BALANCE SHEETS
(In millions)

	February 3 2007 Unaudited	May 6 2006 Audited	February 4 2006 Unaudited
ASSETS			
Current			
Cash and cash equivalents	**$ 203.4**	$ 341.1	$ 164.3
Receivables	**328.4**	275.4	274.9
Inventories	**772.8**	694.3	726.6
Prepaid expenses	**51.9**	51.5	50.6
Assets held for sale (Note 3)	**-**	-	13.7
	1,356.5	1,362.3	1,230.1
Investments, at cost (quoted market value $280.0; May 6, 2006 $398.9; February 4, 2006 $348.3)	**189.7**	359.9	297.3
Investments, at equity (realizable value $440.3; May 6, 2006 $425.3; February 4, 2006 $157.2)	**147.6**	157.5	43.6
Property and equipment	**2,278.7**	2,143.6	2,135.5
Other assets (Note 5)	**299.1**	273.3	247.4
Long-term assets held for sale (Note 3)	**23.9**	23.1	556.6
Goodwill	**786.0**	731.8	713.5
	$ 5,081.5	$ 5,051.5	$ 5,224.0
LIABILITIES			
Current			
Bank indebtedness	**$ 39.0**	$ 98.6	$ 253.4
Accounts payable and accrued liabilities	**1,176.2**	1,241.8	1,130.3
Income taxes payable	**17.9**	35.8	1.2
Future income taxes	**44.0**	46.1	47.9
Long-term debt due within one year	**77.3**	95.4	43.8
Liabilities relating to assets held for sale (Note 3)	**6.9**	7.1	43.5
	1,361.3	1,524.8	1,520.1
Long-term debt (Note 6)	**805.7**	707.3	684.8
Long-term lease obligation	**23.8**	20.8	13.1
Other liabilities (Note 7)	**13.8**	18.9	0.9
Employee future benefits obligation	**102.6**	97.3	98.0
Future income taxes	**109.2**	131.8	100.0
Long-term liabilities relating to assets held for sale (Note 3)	**-**	-	345.2
Minority interest	**585.2**	585.4	606.1
	3,001.6	3,086.3	3,368.2
SHAREHOLDERS' EQUITY			
Capital stock (Note 8)	**196.0**	195.1	195.0
Contributed surplus	**0.2**	0.2	-
Retained earnings	**1,885.1**	1,771.0	1,662.1
Cumulative translation adjustment	**(1.4)**	(1.1)	(1.3)
	2,079.9	1,965.2	1,855.8
	$ 5,081.5	$ 5,051.5	$ 5,224.0

Contingent liabilities (Note 17)

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

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

	February 3 2007	February 4 2006
Balance, beginning of period	**$ 1,771.0**	$ 1,515.5
Adjustment to minority interest (Note 16)	**-**	(3.4)
Net earnings	**145.6**	178.4
Dividends		
Preferred shares	**(0.3)**	(0.2)
Common shares	**(29.6)**	(27.5)
Premium on common shares purchased for cancellation	**(1.6)**	(0.7)
Balance, end of period	**$ 1,885.1**	$ 1,662.1

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

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

	Feb. 3, 2007 *(13 weeks)*	Feb. 4, 2006 *(13 weeks)* Restated (Note 1)	**Feb. 3, 2007** *(39 weeks)*	Feb. 4, 2006 *(39 weeks)* Restated (Note 1)
Revenue	**$ 3,281.9**	$ 3,235.2	**$10,016.3**	$ 9,837.0
Operating expenses				
Cost of sales, selling and administrative expenses	**3,153.8**	3,064.3	**9,553.9**	9,331.7
Depreciation and amortization	**59.7**	60.2	**179.1**	169.1
	68.4	110.7	**283.3**	336.2
Investment income (Note 9)	**11.3**	7.6	**33.8**	24.3
Operating income	**79.7**	118.3	**317.1**	360.5
Interest expense				
Long-term debt	**14.1**	18.7	**40.2**	58.0
Short-term debt	**1.8**	2.9	**5.5**	6.7
	15.9	21.6	**45.7**	64.7
	63.8	96.7	**271.4**	295.8
Capital gain (loss) and other items (Note 10)	**(1.2)**	10.2	**6.2**	37.6
Earnings before income taxes and minority interest	**62.6**	106.9	**277.6**	333.4
Income taxes				
Current	**15.7**	36.7	**86.1**	106.7
Future	**2.2**	0.9	**2.8**	0.3
	17.9	37.6	**88.9**	107.0
Earnings before minority interest	**44.7**	69.3	**188.7**	226.4
Minority interest	**9.6**	13.3	**43.1**	48.0
Net earnings	**$ 35.1**	$ 56.0	**$ 145.6**	$ 178.4
Earnings per share (Note 4)				
Basic	**$ 0.54**	$ 0.85	**$ 2.22**	$ 2.72
Diluted	**$ 0.53**	$ 0.85	**$ 2.21**	$ 2.71
Weighted average number of common shares outstanding, in millions				
Basic	**65.6**	65.5	**65.6**	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)

	Feb. 3, 2007 *(13 weeks)*	Feb. 4, 2006 *(13 weeks)*	**Feb. 3, 2007** *(39 weeks)*	Feb. 4, 2006 *(39 weeks)*
Operating Activities				
Net earnings	**$ 35.1**	$ 56.0	**$ 145.6**	$ 178.4
Items not affecting cash (Note 11)	**93.1**	80.3	**260.3**	209.3
Preferred dividends	**(0.1)**	(0.1)	**(0.3)**	(0.2)
	128.1	136.2	**405.6**	387.5
Net change in non-cash working capital	**(79.5)**	38.7	**(238.1)**	(92.6)
Cash flows from operating activities	**48.6**	174.9	**167.5**	294.9
Investing Activities				
Net decrease (increase) in investments	**182.5**	56.9	**179.8**	(19.1)
Net proceeds from sale of Wajax Income Fund	**-**	-	**-**	50.5
Purchase of shares in subsidiary, Sobeys Inc.	**-**	-	**(48.6)**	-
Purchase of property, equipment and other	**(134.8)**	(202.0)	**(378.7)**	(409.1)
Proceeds from sale of other property	**29.9**	0.9	**57.2**	12.2
Business acquisitions, net of cash acquired	**-**	(0.2)	**(90.3)**	(87.5)
Cash flows from (used in) investing activities	**77.6**	(144.4)	**(280.6)**	(453.0)
Financing Activities				
(Decrease) increase in bank indebtedness	**(116.8)**	(102.7)	**(59.6)**	34.0
Decrease in construction loans	**-**	(2.0)	**-**	-
Issue of long-term debt	**5.6**	70.6	**138.9**	254.3
Repayment of long-term debt	**(14.4)**	(11.9)	**(71.0)**	(225.4)
Minority interest	**1.9**	(1.1)	**(1.6)**	6.6
Repurchase of preferred shares	**(0.8)**	-	**(0.8)**	-
Issue of Non-Voting Class A shares	**-**	-	**1.0**	0.8
Repurchase of Non-Voting Class A shares	**-**	-	**(1.9)**	(0.8)
Common dividends	**(9.9)**	(9.2)	**(29.6)**	(27.5)
Cash flows (used in) from financing activities	**(134.4)**	(56.3)	**(24.6)**	42.0
Decrease in cash and cash equivalents	**(8.2)**	(25.8)	**(137.7)**	(116.1)
Cash and cash equivalents, beginning of period	**211.6**	191.4	**341.1**	281.7
Cash and cash equivalents, end of period (*)	**$ 203.4**	$ 165.6	**$ 203.4**	$ 165.6

(*) Cash and cash equivalents at February 4, 2006 includes $1.3 in Assets held for sale (Note 3).

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

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 third quarter and year-to-date of fiscal 2007 of $36.1 and $106.8, respectively (2006 - $35.9 and $98.4). 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 15).

Inventories

Warehouse inventories are valued at the lower of cost and net realizable value with cost being determined substantially on a first-in, first-out ("FIFO") basis. Retail inventories are valued at the lower of cost and net realizable value. Cost is determined using FIFO or the retail method. The

1. Summary of Significant Accounting Policies (continued)

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.

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 pro-rated on service and management's best estimate of the expected long-term rate of return on plan assets, salary escalation, retirement ages and expected growth rate of health care costs.

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

The impact of changes in plan amendments is amortized on a straight-line basis over the expected average remaining service life ("EARSL") of active members. For pension benefit plans, the actuarial gains and losses and the impact of changes in the actuarial basis in excess of 10 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.

(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
	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	$ 24.2

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. Sale of Property to Crombie REIT

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

(Unaudited, in millions, except per share amounts)

3. Sale of Property to Crombie REIT (continued)

In the fourth quarter of fiscal 2006, the Company's real estate segment completed the Plan and sold the properties to Crombie Real Estate Investment Trust ("Crombie REIT"). Included in the proceeds was an interest in Crombie REIT giving the Company effective ownership of 48.3%. The Company's investment in Crombie REIT is accounted using the equity method.

4. 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.

Earnings applicable to common shares is comprised of the following:

	2007 (13 weeks)	2006 (13 weeks)	**2007 (39 weeks)**	2006 (39 weeks)
Operating earnings	**$ 36.1**	$ 47.7	**$ 140.6**	$ 145.1
Capital gain (loss) and other items, net of tax of $(0.2); $1.9; $1.2; $4.3	**(1.0)**	8.3	**5.0**	33.3
Net earnings	**35.1**	56.0	**145.6**	178.4
Preferred share dividends	**(0.1)**	(0.1)	**(0.3)**	(0.2)
Earnings applicable to common shares	**$ 35.0**	$ 55.9	**$ 145.3**	$ 178.2
Earnings per share is comprised of the following:				
Operating earnings	**$ 0.55**	$ 0.72	**$ 2.14**	$ 2.21
Capital gain (loss) and other items	**(0.01)**	0.13	**0.08**	0.51
Basic earnings per share	**$ 0.54**	$ 0.85	**$ 2.22**	$ 2.72
Operating earnings	**$ 0.54**	$ 0.72	**$ 2.13**	$ 2.20
Capital gain (loss) and other items	**(0.01)**	0.13	**0.08**	0.51
Diluted earnings per share	**$ 0.53**	$ 0.85	**$ 2.21**	$ 2.71

5. Other Assets

	February 3 2007	May 6 2006	February 4 2006
Loans and mortgages receivable	**$ 60.5**	$ 68.4	$ 63.6
Deferred costs	**201.8**	177.7	159.5
Intangibles (less accumulated amortization of $10.4 May 6, 2006 $7.6; February 4, 2006 $4.2)	**36.8**	27.2	24.3
	$ 299.1	$ 273.3	$ 247.4

(Unaudited, in millions, except per share amounts)

6. 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.

7. Other Liabilities

	February 3 2007	May 6 2006	February 4 2006
Deferred revenue	**$ 6.4**	$ 3.3	$ 0.9
Deferred hedge gain	**2.5**	10.2	-
Above market leases from acquisitions	**4.5**	5.0	-
Asset retirement obligations	**0.4**	0.4	-
	$ 13.8	$ 18.9	$ 0.9

8. Capital Stock

During the period, 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 third quarter, the Company purchased for cancellation 31,900 Series 2 preferred shares for $0.8. During the period 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 $3.6 (May 6, 2006 - $4.6; February 4, 2006 - $4.7) under the Company's share purchase plan are classified as a reduction of Shareholders' Equity.

9. Investment Income

	2007 (13 weeks)	2006 (13 weeks)	**2007 (39 weeks)**	2006 (39 weeks)
Dividend and interest income	**$ 2.8**	$ 2.1	**$ 7.7**	$ 6.3
Share of earnings of entities accounted using the equity method	**8.5**	5.5	**26.1**	18.0
	$ 11.3	$ 7.6	**$ 33.8**	$ 24.3

10. Capital Gain (Loss) and Other Items

	2007 (13 weeks)	2006 (13 weeks)	**2007 (39 weeks)**	2006 (39 weeks)
Gain on sale of Wajax Income Fund (Note 2)	**$ -**	$ -	**$ -**	$ 26.3
Gain (loss) on sale of investments	**(0.8)**	10.1	**6.2**	11.6
Other items	**(0.4)**	0.1	**-**	(0.3)
	$ (1.2)	$ 10.2	**$ 6.2**	$ 37.6

(Unaudited, in millions, except per share amounts)

11. Supplementary Cash Flow Information

	2007 (13 weeks)	2006 (13 weeks)	**2007 (39 weeks)**	2006 (39 weeks)
a) Items not affecting cash				
Depreciation and amortization	**$ 59.7**	$ 60.2	**$ 179.1**	$ 169.1
Future income taxes	**2.2**	0.9	**2.8**	0.3
Amortization of deferred items	**6.9**	6.4	**21.4**	22.2
Equity in earnings of other entities, net of dividends received	**2.5**	1.3	**-**	(2.5)
Minority interest	**6.7**	10.7	**34.8**	39.9
Stock-based compensation	**0.2**	0.3	**0.7**	0.6
Long-term lease obligation	**0.6**	(0.2)	**3.0**	0.8
Employee future benefits obligation	**1.1**	0.7	**5.3**	5.2
Rationalization costs (Note 19)	**13.2**	-	**13.2**	-
Gain on sale of Wajax Income Fund	**-**	-	**-**	(26.3)
	$ 93.1	$ 80.3	**$ 260.3**	$ 209.3
b) Other cash flow information				
Net interest paid	**$ 8.3**	$ 14.3	**$ 36.6**	$ 53.5
Net income taxes paid	**$ 63.0**	$ 21.3	**$ 133.0**	$ 95.8

12. Segmented Information

	2007 (13 weeks)	2006 (13 weeks)	**2007 (39 weeks)**	2006 (39 weeks)
Revenue		*Restated (Note 1)*		*Restated (Note 1)*
Food	**$ 3,230.7**	$ 3,136.0	**$ 9,788.3**	$ 9,592.3
Real estate				
Commercial	**9.7**	36.5	**29.2**	104.7
Inter-segment	**9.0**	13.6	**25.5**	40.0
Residential	**12.1**	18.1	**89.3**	53.8
	30.8	68.2	**144.0**	198.5
Investment and other operations	**29.4**	44.6	**109.5**	86.2
	3,290.9	3,248.8	**10,041.8**	9,877.0
Elimination	**(9.0)**	(13.6)	**(25.5)**	(40.0)
	$ 3,281.9	$ 3,235.2	**$ 10,016.3**	$ 9,837.0

	2007 (13 weeks)	2006 (13 weeks)	**2007 (39 weeks)**	2006 (39 weeks)
Operating income				
Food	**$ 54.8**	$ 78.6	**$ 226.0**	$ 246.4
Real estate				
Commercial	**12.2**	20.2	**35.3**	63.3
Residential	**5.3**	12.0	**36.6**	34.3
Investment and other operations	**9.7**	9.5	**26.3**	23.5
Corporate expenses	**(2.3)**	(2.0)	**(7.1)**	(7.0)
	$ 79.7	$ 118.3	**$ 317.1**	$ 360.5

(Unaudited, in millions, except per share amounts)

12. Segmented Information (continued)

	February 3 2007	May 6 2006	February 4 2006
Identifiable assets			
Food	**$ 3,247.2**	$ 3,119.5	$ 2,913.7
Goodwill	**745.9**	691.7	681.3
	3,993.1	3,811.2	3,595.0
Real estate	**616.5**	634.7	1,087.0
Investment and other operations (including goodwill of $40.1; May 6, 2006 $40.1; February 4, 2006 $32.2)	**471.9**	605.6	542.0
	$ 5,081.5	$ 5,051.5	$ 5,224.0

	2007 (13 weeks)	2006 (13 weeks)	**2007 (39 weeks)**	2006 (39 weeks)
Capital expenditure				
Food	**$ 118.7**	$ 145.6	**$ 334.5**	$ 313.0
Real estate	**-**	27.6	**9.7**	55.4
Investment and other operations	**16.1**	28.8	**34.5**	40.7
	$ 134.8	$ 202.0	**$ 378.7**	$ 409.1

13. Employee Future Benefits

During the Company's third quarter and year-to-date of fiscal 2007, the net employee future benefit expense was $6.1 and $18.3 respectively (2006 - $5.7 and $17.7). 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.

14. 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 period, Sobeys Inc. acquired franchisee stores and prescription files for total cash consideration of $11.1. The acquisitions were accounted using the purchase method with net identifiable assets recorded at $10.8 (including intangible assets of $5.5) and goodwill recorded at $0.3.

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 $79.2. The assets acquired include 25 owned or franchised retail store operations, other wholesale supply agreements and distribution facilities in Rouyn-Noranda, Quebec. Sixteen of the franchised retail store operations are considered VIEs under the Company's policy (see Note 16). They have been

(Unaudited, in millions, except per share amounts)

14. Business Acquisitions (continued)

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. During the third quarter, management carried out a detailed analysis and changes were made to the preliminary allocation of the excess consideration paid over net assets acquired as disclosed in the second quarter. The measurement and allocation of intangible assets was also completed and amended from $21.5 to $6.8. As a result goodwill was adjusted from $21.7 to $41.3 to reflect the finalized valuation of ADL. The final purchase price allocation, which has incorporated management's assessment of fair value, is as follows:

Consideration	
Cash	$ 75.8
Acquisition costs	3.4
Total consideration paid	79.2
Net assets acquired	
Current assets	28.0
Long-term assets	27.7
Current liabilities assumed	(20.0)
Long-term liabilities assumed	(4.6)
Total net assets acquired	31.1
Excess consideration paid over net assets acquired	$ 48.1
Allocation of excess of consideration paid over net assets acquired	
Intangible assets	$ 6.8
Goodwill	41.3
	$ 48.1

15. 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. By the third quarter of fiscal 2007, the Company recognized $2.1 (February 4, 2006 - $2.1) of allowances in income where it is probable that the minimum purchase level will be met and the amount of allowance can be estimated.

16. 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

16. Variable Interest Entities (continued)

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 269 (May 6, 2006 - 273; February 4, 2006 - 294) 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 prior period of fiscal year 2006, a charge of $3.4 (net of minority interest of $1.9) to retained earnings was required to reflect additional minority interest in the VIEs.

17. 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.

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.

17. Contingent Liabilities (continued)

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.

Reassessments have been received in respect of the sale of shares of Hannaford. 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 has appealed the reassessments in respect of the sale of Hannaford shares. 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.

In the third quarter, Sobeys Inc. was named as a defendant in a lawsuit brought by beneficiaries of a multi-employer pension plan. The lawsuit alleges mismanagement of certain pension plan investments by the trustees of the pension plan and seeks, among other remedies, payment of $1 billion in damages from the trustees and the contributing employers, of which Sobeys Inc. is one of approximately 440. Sobeys Inc. played no role in the management of the pension plan and intends to contest the lawsuit. Accordingly, the Company has not recorded in its statement of earnings any amount related to this lawsuit.

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.

18. 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.

(Unaudited, in millions, except per share amounts)

19. Business Rationalization Costs

During the third quarter of fiscal 2007, Sobeys Inc. completed a rationalization of administrative functions in Atlantic Canada. Sobeys Inc. also began to incur costs associated with the development of a new grocery distribution centre in Vaughan, Ontario. These costs primarily relate to severance in both the Atlantic and Ontario regions along with fixed asset and inventory write-offs. Sobeys Inc. expects to incur additional administrative rationalization costs in the next two quarters associated with the Vaughan distribution centre and distribution rationalization costs related to its Quebec network. The dollar value of these additional costs will be quantified and disclosed in future quarters. The costs associated with the organizational change are recorded as incurred as cost of sales in the statement of earnings before tax as follows:

		Incurred	Anticipated	Total
Severance	Atlantic	$ 4.7	$ -	$ 4.7
	Ontario	5.3	-	5.3
	Quebec	-	5.4	5.4
Other costs		1.1	-	1.1
Asset write-offs		2.1	-	2.1
		$ 13.2	$ 5.4	$ 18.6

20. 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
THIRD QUARTER FISCAL 2007

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 39 weeks ended February 3, 2007, as compared to the 13 and 39 weeks ended February 4, 2006. 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 39 weeks ended February 3, 2007, 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 March 15, 2007, 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 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;
- The Company's expectations that residential operations sales activity will increase in the fourth quarter which could be impacted by further development delays or a slowdown in the demand for residential land and building lots;
- 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. This could cause the Company's effective tax rate and its earnings to be affected positively or negatively in the period in which the matters are resolved;
- Sobeys' expectations that the new distribution centre announced for Ontario and the closures of distribution centres in Quebec will reduce overall distribution costs, which could be impacted by the number of positions eliminated at Sobeys' distribution centres in Ontario and Quebec;
- Sobeys' expectations that administrative and business rationalization activities in the current quarter and upcoming quarters will involve costs and provide annualized cost reductions, both of which could be impacted by the final scope and scale of these activities; 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 $5.1 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 February 3, 2007 and which affect the comparability of information for the 13-week and 39-week periods ended February 3, 2007 versus the 13-week and 39-week periods ended February 4, 2006:

- 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 February 3, 2007, Empire has acquired 2,557,750 common shares of Sobeys, increasing its ownership position from 68.3 percent at February 4, 2006 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 February 3, 2007, the Company is equity accounting its 48.1 percent ownership in Crombie REIT, whereas for the 13-week and 39-week periods ended February 4, 2006, the results included 100 percent of the operations related to these 44 commercial properties;

- Empire Theatres changed its year-end from the last Thursday in April to the last Thursday in December effective December 28, 2006. This change in Empire Theatres' year-end was made to align with industry practice. However, because of this change, the third quarter and year-to-date ended February 3, 2007 contained nine weeks and 35 weeks of operations, respectively, while the quarter and year-to-date ended February 4, 2006 contained 13 weeks and 39 weeks of operations, respectively;

- On September 30, 2005, Empire Theatres acquired 28 movie theatres. There are approximately 13 and 17 weeks of operations related to these newly acquired theatres in the quarter and year-to-date ended February 4, 2006, respectively whereas there are nine weeks and 35 weeks included in the current quarter and year-to-date ended February 3, 2007, respectively; and

- Sobeys' was impacted by the disposition on March 31, 2006 of its Cash and Carry business in Ontario and Quebec.

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

Consolidated Operating Results

The consolidated financial overview provided below reports on the financial performance for the 13 and 39 weeks ended February 3, 2007 relative to the same periods last year.

($ in millions, except per share information)	13 Weeks Ended				39 Weeks Ended			
	February 3, 2007		February 4, 2006		**February 3, 2007**		February 4, 2006	
	$	**% of Revenue**	$	% of Revenue	**$**	**% of Revenue**	$	% of Revenue
Consolidated revenue(1)	**$ 3,281.9**	**100.00%**	$ 3,235.2	100.00%	**$10,016.3**	**100.00%**	$ 9,837.0	100.00%
Operating income	**79.7**	**2.43%**	118.3	3.66%	**317.1**	**3.17%**	360.5	3.66%
Operating earnings	**36.1**	**1.10%**	47.7	1.47%	**140.6**	**1.40%**	$ 145.1	1.48%
Capital gain (loss) and other items, net of tax	**(1.0)**	**(0.03%)**	8.3	0.26%	**5.0**	**0.05%**	33.3	0.34%
Net earnings	**$ 35.1**	**1.07%**	$ 56.0	1.73%	**$ 145.6**	**1.45%**	$ 178.4	1.81%
Basic earnings per share								
Operating earnings	**$ 0.55**		$ 0.72		**$ 2.14**		$ 2.21	
Capital gain (loss) and other items, net of tax	**(0.01)**		0.13		**0.08**		0.51	
Net earnings	**$ 0.54**		$ 0.85		**$ 2.22**		$ 2.72	
Basic weighted average number of shares outstanding (in millions)	**65.6**		65.5		**65.6**		65.5	
Diluted earnings per share								
Operating earnings	**$ 0.54**		$ 0.72		**$ 2.13**		$ 2.20	
Capital gain (loss) and other items, net of tax	**(0.01)**		0.13		**0.08**		0.51	
Net earnings	**$ 0.53**		$ 0.85		**$ 2.21**		$ 2.71	
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					

(1) All revenue figures prior to February 3, 2007 have been reclassified for residential real estate, related to Genstar. Historically, the gross profit from the sale was recorded as revenue; this has been reclassified to reflect the sale proceeds in revenue and the related costs of the lots in cost of sales. There is no impact on operating income or net earnings.

Management's Explanation of Consolidated Results

The 13 weeks and 39 weeks ended February 4, 2006 have been restated to reflect the retroactive adjustment related to EIC-156. Please see the section entitled "Accounting Policy Changes – Accounting for Consideration by a Vendor to a Customer (Including a Reseller of the Vendor's Products) ("EIC-156")" in this MD&A.

The following is a review of Empire's consolidated financial performance for the 13-week and 39-week periods ended February 3, 2007 compared to the 13-week and 39-week periods ended February 4, 2006.

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

Revenue

The consolidated revenue for the third quarter of fiscal 2007 was $3.28 billion, an increase of $46.7 million or 1.4 percent compared to the third quarter last year. Growth in Sobeys' sales of $94.7 million was partially offset by a $32.8 million reduction in revenue from the real estate division and a $15.2 million reduction in revenue from investments and other operations.

Items impacting revenue comparability are:

- 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 revenue 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;

- Empire Theatres changed its year-end from the last Thursday in April to the last Thursday in December effective December 28, 2006. This change in Empire Theatres' year-end was made to align with industry practice. However, because of this change, the third quarter and fiscal year-to-date ended February 3, 2007 contained nine weeks and 35 weeks of operations, respectively, while the quarter and fiscal year-to-date ended February 4, 2006 contained 13 weeks and 39 weeks of operations, respectively; and

- Revenue for the quarter and fiscal year-to-date ended February 3, 2007, include nine weeks and 35 weeks of revenue, respectively, related to the acquisition of the 28 movie theatres, whereas the quarter and fiscal year-to-date ended February 4, 2006, reflect 13 weeks and 17 weeks, respectively, of revenue from the acquired movie theatres.

As presented in the following table, 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 and the change in its year-end date, revenue growth would have been 3.7 percent for the third quarter and 4.0 percent on a fiscal year-to-date basis.

Revenue Table

	13 Weeks Ended				39 Weeks Ended			
($ in millions)	Feb. 3, 2007 ($)	Feb. 4, 2006 ($)	Change ($)	Change (%)	Feb. 3, 2007 ($)	Feb. 4, 2006 ($)	Change ($)	Change (%)
Finacially reported sales	$3,281.9	$3,235.2	$ 46.7	1.4%	$10,016.3	$9,837.0	$ 179.3	1.8%
Add (deduct) impact of:								
Cash and Carry disposal			48.1				169.7	
Sale of 44 commercial properties to Crombie REIT			31.0				89.2	
Wholesale tobacco decline			41.0				86.4	
ADL acquistion			(60.4)				(110.4)	
Theatre acquistion and year-end change(1)			13.9				(19.5)	
Subtotal			73.6				215.4	
			$ 120.3	3.7%			$ 394.7	4.0%

(1) The impact for theatres' revenue, reflected in the above table, represents the reduction of 4 weeks of revenue for both the current quarter and fiscal year-to-date as a result of Empire Theatres' fiscal year-end change as well as an additional 13 weeks of revenue in the current fiscal year-to-date as a result of the acquistion of 28 movie theatres in the second quarter of the prior fiscal year.

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 (loss) and other items, in the third quarter of fiscal 2007 totalled $79.7 million compared to $118.3 million in the third quarter last year, a decrease of $38.6 million or 32.6 percent. The decrease in operating income is the result of a $23.8 million or 30.3 percent decrease in operating income contribution from the food division and a decrease in real estate division operating income of $14.7 million or 45.7 percent.

Included in operating income for the third quarter are $20.2 million of pre-tax costs incurred by Sobeys related to its business process and system initiative, severance in both its Atlantic and Ontario regions as a result of business rationalization, along with fixed asset and inventory write-offs. Sobeys incurred $4.9 million of pre-tax costs related to its business process and system initiative in the third quarter last fiscal year.

Fiscal year-to-date operating income declined by $43.4 million or 12.0 percent which was attributed to a $25.7 million or 26.3 percent decline in real estate division operating income and a $20.4 million or 8.3 percent decline in food division operating income, partially offset by an increase in operating income from investments and other operations of $2.7 million or 16.4 percent over the comparable period last year.

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 $5.7 million decrease in the third quarter of fiscal 2007 consolidated interest expense compared to the same quarter last year is primarily due to a $4.6 million reduction in interest expense connected to long-term debt. For the 39 weeks ended February 3, 2007, interest expense declined to $45.7 million, a $19.0 million decrease from last year.

Long-term debt, including long-term debt related to properties sold to Crombie REIT, was $146.7 million higher in the third 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 of Medium Term Notes ("MTN") in the second quarter by the food division.

Short-term interest expense declined $1.2 million, to $5.5 million from $6.7 million year-to-date last year. The decrease in short-term interest expense is the result of proceeds generated from the sale of investments which were used in part to reduce bank indebtedness.

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 third quarter was 28.4 percent versus 36.9 percent in the third quarter last year. The effective income tax rate for the 39 weeks ended February 3, 2007 was 32.3 percent compared to 34.7 percent last year. The main reason for both the quarter and year-to-date decrease is due to reductions in the Canadian federal and certain provincial statutory income tax rates and the application of those lower rates to future tax balances. In the third quarter of fiscal 2007, a $2.0 million reduction in future income tax expense was recognized by Sobeys as a result of these reductions in tax rates. In addition, during the third quarter of fiscal 2007 an adjustment to income taxes payable associated with VIEs reduced the effective tax rate for the quarter. This had a nominal impact on the annual effective tax rate.

Minority Interest

In the third quarter of fiscal 2007, Empire recorded minority interest expense of $9.6 million compared to $13.3 million in the third quarter last year. The decrease of $3.7 million in minority interest expense is primarily the result of lower Sobeys' earnings as well as an increase in Empire's ownership in Sobeys from 68.3 percent at February 4, 2006, to 72.1 percent at February 3, 2007. Empire purchased 2,557,750 common shares of Sobeys for the trailing twelve-months ended February 3, 2007. No purchases of Sobeys' common shares occurred in the third quarter of fiscal 2007.

Operating Earnings

The $11.6 million or 24.3 percent decrease in operating earnings (earnings before capital gain (loss) and other items) over the prior year was the result of the $38.6 million reduction in operating income partially offset by the $5.7 million reduction in interest expense, the $17.6 million reduction in income taxes and the $3.7 million decrease in minority interest, as discussed. As mentioned, $20.2 million of pre-tax costs resulted in a $9.8 million impact on Empire's net earnings.

The $4.5 million or 3.1 percent decrease in operating earnings in the first 39 weeks of the fiscal year is attributed to the $43.4 million decrease in operating income partially offset by the $19.0 million reduction in interest expense, the $15.0 million decrease in income tax expense, and the $4.9 million reduction in minority interest, as discussed.

Capital Gain (Loss) and Other Items

The Company generated capital loss and other items, net of tax, of $1.0 million in the third quarter largely as a result of a loss on the sale of investments. Capital gain and other items, net of tax, of $8.3 million was realized primarily from the sale of investments in the third quarter last year.

On a fiscal year-to date basis, the Company recorded capital gain and other items, net of tax, of $5.0 million compared to $33.3 million last year. Capital gain and other items, net of tax, of $33.3 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 (loss) and other items, net of tax, totalled $35.1 million ($0.53 per share) in the third quarter, a decrease of $20.9 million or 37.3 percent over the third quarter last year. Net earnings for the 39 weeks ended February 3, 2007 totalled $145.6 million ($2.21 per share), a decrease of $32.8 million or 18.4 percent over the $178.4 million ($2.71 per share) reported in the same period last year. The decline in net earnings on a fiscal year-to-date basis reflects the higher capital gain (loss) and other items for the previous fiscal year-to-date, as well as the decrease in operating earnings as discussed.

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.

	Fiscal 2007			Fiscal 2006 (1)				Fiscal 2005 (1)
($ in millions, except per share information)	Q3 (13 weeks) Feb. 3/07	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
Revenue (2)	$3,281.9	$3,353.4	$3,381.0	$3,227.9	$3,235.2	$3,263.7	$3,338.1	$3,333.3
Operating income	79.7	116.2	121.2	130.9	118.3	122.1	120.1	124.0
Operating earnings (3)	36.1	51.2	53.3	56.9	47.7	47.8	49.6	49.3
Capital gain (loss) and other items, net of tax	(1.0)	6.0	-	61.5	8.3	0.8	24.2	5.5
Net earnings	$ 35.1	$ 57.2	$ 53.3	$ 118.4	$ 56.0	$ 48.6	$ 73.8	$ 54.8
Per share information, diluted								
Operating earnings	$ 0.54	$ 0.78	$ 0.81	$ 0.87	$ 0.72	$ 0.73	$ 0.75	$ 0.75
Capital gain (loss) and other items, net of tax	(0.01)	0.09	-	0.93	0.13	0.01	0.37	0.08
Net earnings	$ 0.53	$ 0.87	$ 0.81	$ 1.80	$ 0.85	$ 0.74	$ 1.12	$ 0.83
Diluted weighted average number of shares outstanding (in millions)	65.7	65.7	65.7	65.7	65.7	65.7	65.7	65.7

(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) All revenue figures prior to February 3, 2007 have been reclassified for residential real estate, related to Genstar. Historically, the gross profit from the sale was recorded as revenue; this has been reclassified to reflect the sale proceeds in revenue and the related costs of the lots in cost of sales. There is no impact on operating income or net earnings.

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

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

Operating Performance by Division

Food

Empire's food division activities are 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 third 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 third quarter of fiscal 2006.
The table below presents sales, operating income and net earnings for Sobeys:

	13 Weeks Ended		Quarter over Quarter		39 Weeks Ended		Year over Year	
	Feb. 3,	Feb. 4,	Increase (Decrease)		Feb. 3,	Feb. 4,	Increase (Decrease)	
($ in millions)	2007	2006	$	%	2007	2006	$	%
Sales	$3,230.7	$3,136.0	$ 94.7	3.0%	$9,788.3	$9,592.3	$ 196.0	2.0%
Operating income	54.8	78.6	(23.8)	(30.3%)	226.0	246.4	(20.4)	(8.3%)
Net earnings	33.3	45.7	(12.4)	(27.1%)	130.4	139.7	(9.3)	(6.7%)

Sales

Food division sales for the third quarter of fiscal 2007 were $3.23 billion compared to $3.14 billion for the same quarter last year, an increase of $94.7 million or 3.0 percent. During the third quarter of fiscal 2007, Sobeys' same-store sales (sales from stores in the same locations in both reporting periods) increased by 1.8 percent.

Fiscal year-to-date, sales increased 2.0 percent from the prior year, with same-store sales growth of 2.4 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 third quarter of fiscal 2007. Wholesale tobacco sales declined $41.0 million in the third quarter of fiscal 2007 compared to the third quarter of the prior year ($86.4 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 third quarter last year were $48.1 million ($169.7 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 3.9 percent for the quarter and 3.6 percent on a fiscal year-to-date basis.

	13 Weeks Ended				39 Weeks Ended			
($ in millions)	Feb. 3, 2007 ($)	Feb. 4, 2006 ($)	Change ($)	Change (%)	Feb. 3, 2007 ($)	Feb. 4, 2006 ($)	Change ($)	Change (%)
Sobeys' financially reported sales	$3,230.7	$3,136.0	$ 94.7	3.0%	$9,788.3	$9,592.3	$ 196.0	2.0%
Add (deduct) impact of:								
Cash and Carry disposal			48.1				169.7	
Wholesale tobacco decline			41.0				86.4	
ADL acquistion			(60.4)				(110.4)	
Subtotal			28.7				145.7	
			$ 123.4	3.9%			$ 341.7	3.6%

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 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 continues to explore options to mitigate the financial impact of this decision.

Business Process and System Initiative and Business Rationalization Costs

Impacting earnings for the third quarter were costs related to the Sobeys' business process and system initiative as well as business rationalization and other costs. In total these costs had a $20.2 million pre-tax ($4.9 million pre-tax in the third quarter of fiscal 2006) impact on earnings which is equivalent to a $0.20 impact on Sobeys' basic earnings per share ($0.05 per share – Q3 2006).

These costs include:

- Business process and system initiative costs - for the 13 weeks ended February 3, 2007, $7.0 million ($4.9 million in the third quarter of fiscal 2006) of pre-tax costs were incurred related to the business process and system initiative outlined in Sobeys' MD&A included in their 2006 Annual Report. These business process and system initiative costs primarily include labour, implementation and training costs associated with the business process and system implementation as well as final costs associated with exiting the Commisso's banner. During the third quarter, Sobeys implemented the system in Ontario in accordance with its plans. This implementation supports all aspects of the 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 as further discussed below. Sobeys continues its work on the business process and systems initiative the Western Region.

- Business rationalization costs – during the third quarter, Sobeys also completed a rationalization of administrative functions in Atlantic Canada. This administrative rationalization was completed following the recent successful implementation of Sobeys' first phase of the business process and system initiative. Along with asset write-offs, in excess of 100 people were impacted by this rationalization. However, a number of these people were redeployed into Sobeys' retail store network. Pre-tax costs of $7.9 million were incurred in this rationalization. Sobeys expects full year annualized expense reductions in fiscal 2008 in excess of these costs.

- Ontario distribution network rationalization - 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. During the third quarter Sobeys recognized $5.3 million of severance costs associated with this rationalization. This new distribution centre when opened in fiscal 2009 is expected to provide annual distribution cost savings in excess of the costs incurred this quarter and any additional business rationalization or restructuring costs incurred leading up to its opening.

Sobeys expects to incur additional administrative rationalization costs, enabled by its continuing business process and system initiative. The dollar value of these additional costs will be quantified and disclosed in future quarters. Sobeys also expects to incur distribution rationalization costs in the fourth quarter related to its Quebec distribution network. Sobeys recently announced the closure of two small facilities, one in Anjou and one in the Abitibi region of Quebec. Rationalization costs related to these facilities of approximately $5.4 million are expected to be incurred in the fourth quarter and annualized savings of approximately $5.0 million are expected thereafter.

Operating Income

Sobeys' operating income equalled $54.8 million during the third quarter of fiscal 2007, a 30.3 percent decrease from the third quarter last year, with an operating income margin of 1.70 percent compared to 2.51 percent in the third quarter of fiscal 2006. Included in the third quarter of fiscal 2007 operating income was a $3.9 million increase in depreciation and amortization expense, reflecting Sobeys' continued capital investments. Also included in operating income are the business process and system initiative and the rationalization costs outlined previously, as well as Sobeys' commitment to sustain its price position as competition intensified, particularly in Ontario.

For the 39 weeks ended February 3, 2007, Sobeys' operating income decreased by $20.4 million to $226.0 million, a decrease of 8.3 percent compared to the $246.4 million reported last year. Operating income as a percent of sales was 2.31 percent for fiscal 2007 compared to 2.57 percent in fiscal 2006.

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' third quarter fiscal 2007 net earnings equalled $33.3 million, a decrease of 27.1 percent compared to the $45.7 million recorded in the third quarter of fiscal 2006. Net earnings for the 39 weeks ended February 3, 2007 totalled $130.4 million, a decrease of 6.7 percent compared to the $139.7 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 $24.0 million ($31.2 million last year) and $93.0 million ($95.4 million last year) for the 13-week and 39-week periods ended February 3, 2007, respectively.

Sobeys' net earnings for the 13-week and 39-week periods ended February 3, 2007 included the increased depreciation and amortization expense, and the business process and system initiative costs as well as business integration and rationalization costs referred to above and in Sobeys' 2006 Annual Report. Net earnings also include the impact of the consolidation of VIEs.

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 sales activity 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.

	13 Weeks Ended			39 Weeks Ended		
($ in millions)	**Feb. 3, 2007**	Feb. 4, 2006	% Change	**Feb. 3, 2007**	Feb. 4, 2006	% Change
Revenue						
Commercial	**$ 18.7**	$ 50.1	(62.7%)	**$ 54.7**	$ 144.7	(62.2%)
Residential[1]	**12.1**	18.1	(33.1%)	**89.3**	53.8	66.0%
	30.8	68.2	(54.8%)	**144.0**	198.5	(27.5%)
Inter-segment	**(9.0)**	(13.6)	(33.8%)	**(25.5)**	(40.0)	(36.3%)
	$ 21.8	$ 54.6	(60.1%)	**$ 118.5**	$ 158.5	(25.2%)
Operating Income						
Commercial	**$ 12.2**	$ 20.2	(39.6%)	**$ 35.3**	$ 63.3	(44.2%)
Residential	**5.3**	12.0	(55.8%)	**36.6**	34.3	6.7%
	$ 17.5	$ 32.2	(45.7%)	**$ 71.9**	$ 97.6	(26.3%)
Net Earnings						
Commercial	**$ 4.7**	$ 5.5	(14.5%)	**$ 14.6**	$ 18.0	(18.9%)
Residential	**3.3**	7.7	(57.1%)	**22.6**	22.1	2.3%
	$ 8.0	$ 13.2	(39.4%)	**$ 37.2**	$ 40.1	(7.2%)
Funds from Operations						
Commercial	**$ 6.4**	$ 11.0	(41.8%)	**$ 19.5**	$ 32.7	(40.4%)
Residential	**3.3**	7.8	(57.7%)	**22.8**	22.5	1.3%
	$ 9.7	$ 18.8	(48.4%)	**$ 42.3**	$ 55.2	(23.4%)

(1) All revenue figures prior to February 3, 2007 have been reclassified for residential real estate, related to Genstar. Historically, the gross profit from the sale was recorded as revenue; this has been reclassified to reflect the sale proceeds in revenue and the related costs of the lots in cost of sales. There is no impact on operating income or net earnings.

Revenue

Real estate division revenues (net of inter-segment amounts) during the third quarter ended February 3, 2007 declined $32.8 million or 60.1 percent from the third quarter last year. Commercial property revenue (net of inter-segment amounts) declined $26.8 million over the third quarter last year. This revenue decline was expected given the sale of 44 commercial properties to Crombie REIT, which accounted for approximately $31.0 million of revenue in the third quarter last year. Revenue from residential operations equalled $12.1 million in the third quarter compared to $18.1 million last year, a $6.0 million or 33.1 percent decrease. The decline in residential operations revenue is attributed to development and timing of land parcel and lot sales which are now expected to be finalized in the fourth quarter. Management continues to caution that the pace of growth experienced in residential lot sales is not sustainable over the long-term, but does expect continued strength in the Alberta market in the fourth quarter.

On a fiscal year-to-date basis, real estate division revenue decreased $40.0 million or 25.2 percent over the comparable period last year. The decrease was primarily the result of lower commercial operation revenue of $75.5 million for the 39 weeks ended February 3, 2007 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 $89.2 million year-to-date. This was partially offset by higher revenue from residential operations, primarily Genstar, as well as the completion of the Martello condominium project. The Company has no other condominium work in progress or planned in the future.

Operating Income

During the third quarter of fiscal 2007, real estate division operating income declined $14.7 million or 45.7 percent compared to the third quarter last year as the result of an $8.0 million decline in commercial operating income, and a $6.7 million decline in residential operating income. The commercial operating income decline was anticipated and is primarily attributed to the sale of 44 commercial properties to Crombie REIT in March 2006 which accounted for approximately $8.0 million of the decline. The residential operating income decline in the third quarter reflects the decrease in revenue due to timing of seasonal developments and lot sales as mentioned.

For the 39 weeks ended February 3, 2007, the real estate division contributed operating income of $71.9 million compared to $97.6 million last fiscal year. The decrease of $25.7 million or 26.3 percent was the result of a decline in operating income from commercial activities of $28.0 million, primarily related to the sale of 44 commercial properties to Crombie REIT as mentioned, partially offset by a $2.3 million increase in operating income from residential activities, primarily related to the completion of the Martello condominium project previously discussed.

The real estate division contributed 22.7 percent of Empire's consolidated operating income in the first three quarters of fiscal 2007 compared to a 27.1 percent contribution in the first three quarters of last fiscal year.

Net Earnings

Real estate division net earnings contribution in the third quarter amounted to $8.0 million compared to $13.2 million last year, a $5.2 million or 39.4 percent decrease. The earnings decline largely reflects the $14.7 million reduction in operating income as discussed and an increase in capital loss, net of tax, of $0.1 million, partially offset by a $6.2 million reduction in interest expense due to lower long-term debt levels as a result of the sale of 44 commercial properties to Crombie REIT and lower income tax expense of $3.4 million.

For the 39 weeks ended February 3, 2007, real estate division net earnings equalled $37.2 million versus $40.1 million in the comparable period last fiscal year. The decrease of $2.9 million or 7.2 percent is primarily attributed to the $25.7 million decrease in operating income as discussed, partially offset by reduced interest expense of $18.6 million and lower income tax expense of $4.2 million.

Funds from Operations

Funds from real estate operations in the third quarter of $9.7 million decreased $9.1 million or 48.4 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 $63.6 million, a decrease of 14.3 percent from the prior year four quarter trailing funds from operations of $74.2 million.

Investments and Other Operations

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

Investment Value

At the end of the third quarter, Empire's total investments, excluding its investment in Genstar U.S. investments and in Crombie REIT, carried a market value of $436.8 million on a cost base of $220.9 million, resulting in an unrealized gain of $215.9 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:

	February 3, 2007			May 6, 2006			February 4, 2006		
($ in millions)	Market Value	Cost Value	Unrealized Gain	Market Value	Cost Value	Unrealized Gain	Market Value	Cost Value	Unrealized Gain
Investments, at cost	$ 280.0	$ 189.7	$ 90.3	$ 398.9	$ 359.9	$ 39.0	$ 348.3	$ 297.3	$ 51.0
Investments, at equity	440.3	147.6	292.7	425.3	157.5	267.8	157.2	43.6	113.6
Less: Crombie REIT	279.1	110.2	168.9	220.7	112.8	107.9	-	-	-
Less: Genstar U.S. (1)	6.2	6.2	-	11.6	11.6	-	11.0	11.0	-
Plus: Hedge Value	1.8	-	1.8	15.4	-	15.4	10.8	-	10.8
	$ 436.8	$ 220.9	$ 215.9	$ 607.3	$ 393.0	$ 214.3	$ 505.3	$ 329.9	$ 175.4

(1) Assumes market value equals book value.

During the third quarter of fiscal 2007 there was a realized capital loss on the sale of investments equal to $0.8 million compared to a $10.1 million capital gain in the third quarter last year. The Company sold a significant portion of its U.S. equity investments during the third quarter due to perceived market risk and used the proceeds to reduce bank indebtedness. Total realized capital gain from investment sales year-to-date equalled $6.2 million compared to $37.9 million last fiscal year-to-date. The total unrealized gain position at the end of the third quarter was $215.9 compared to $214.3 million at the end of fiscal 2006 and $175.4 million at the end of the third quarter last year.

Realized capital gain fiscal year-to-date, plus unrealized capital gain, combined to equal $222.1 million at the end of the third 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 $29.4 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 February 3, 2007, Empire's investment portfolio (excluding cash) consisted of:

($ in millions Cdn.)	Market Value	% of Total	Cost	Unrealized Gain (Loss) Feb. 3, 2007	May 6, 2006	Feb. 4, 2006
Canadian equities	$ 230.6	52.8%	$ 144.9	$ 85.7	$ 68.8	$ 72.2
Wajax	155.0	35.5	31.2	123.8	159.9	113.6
US equities	47.9	11.0	43.3	4.6	(29.8)	(21.2)
Preferred shares & other	1.5	0.3	1.5	-	-	-
Hedge value (1)	1.8	0.4	-	1.8	15.4	10.8
Total	$ 436.8	100.0%	$ 220.9	$ 215.9	$ 214.3	$ 175.4

(1) The hedge value of $1.8 million is based on the ($0.7) million mark-to-market position of $31 million CAD in currency forwards carrying an average forward foreign exchange rate of $1.1475 CAD/USD plus $2.5 million in deferred foreign currency gains on the repayment of U.S. dollar loans.

Empire's direct debt matched to the investment portfolio as of February 3, 2007 was $25.2 million, representing approximately six 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 December 31, 2006, as well as on an annualized one through four-year basis for periods ended December 31, 2006.

Empire Investment Portfolio Total Return
For Periods ending December 31, 2006

	One Quarter	Annualized Returns One Year	Two Years	Three Years	Four Years
Empire Portfolio	4.0%	11.6%	18.5%	20.4%	25.6%
Median Manager	10.6%	16.1%	18.1%	16.3%	17.1%
S&P/TSX Index	10.4%	17.3%	20.6%	18.6%	20.6%
S&P 500 Index in (C$)	11.5%	15.7%	8.5%	6.7%	6.3%

Empire's investment return for the three months ended December 31, 2006 of 4.0 percent was below the median manager return of 10.6 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 December 31, 2006 for Wajax Income Fund, which is the largest holding in the investment portfolio.

On a two 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 three through four-year trailing periods ended December 31, 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 investment portfolio.

Hedging Investment Currency Risk

At February 3, 2007, Empire had hedged approximately 65 percent of the market value of its U.S. based common equity investments by way of $31 million CAD of forward currency contracts. The average foreign exchange rate associated with these U.S. forward currency contracts is $1.1475. The fair value of the hedge was negative $0.7 million at the end of the third 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 third quarter of fiscal 2007, $7.1 million of this deferred gain was realized on the sale of U.S. investments. On a year-to-date basis $7.7 million had been recognized, resulting in a deferred hedge gain of $2.5 million at the end of the third quarter.

The table below presents investments and other operations' financial highlights for the 13 and 39 weeks ended February 3, 2007 compared to the same period last year.

	13 Weeks Ended		Quarter over Quarter		39 Weeks Ended		Year over Year	
	Feb. 3,	Feb. 4,	Increase (Decrease)		Feb. 3,	Feb. 4,	Increase (Decrease)	
($ in millions)	2007	2006	$	%	2007	2006	$	%
Revenue	$ 29.4	$ 44.6	$ (15.2)	(34.1%)	$ 109.5	$ 86.2	$ 23.3	27.0%
Investment income	7.8	6.6	1.2	18.2%	22.8	18.0	4.8	26.7%
Operating earnings	4.0	3.3	0.7	21.2%	10.5	9.7	0.8	8.2%
Capital gain (loss) and other items, net of tax	(0.9)	8.3	(9.2)	(110.8%)	4.9	33.2	(28.3)	(85.2%)
Net earnings	$ 3.1	$ 11.6	$ (8.5)	(73.3%)	$ 15.4	$ 42.9	$ (27.5)	(64.1%)

Revenue

Investments and other operations' revenue, primarily generated by Empire Theatres, equalled $29.4 million in the third quarter ended February 3, 2007 versus $44.6 million in the third quarter last year. There are nine weeks of revenue included in the third quarter of fiscal 2007 compared to 13 weeks in the third quarter last year from Empire Theatres as a result of the change in Empire Theatres' year-end date which results in a $13.9 million reduction in revenue, as previously mentioned. Fiscal year-to-date revenues, for investments and other operations, increased $23.3 million or 27.0 percent over the comparable period last year to reach $109.5 million.

The revenue growth for the fiscal year-to-date is primarily attributed to the acquisition of the 28 movie theatres towards the end of the second quarter last year; the current year-to-date reflects approximately 35 weeks of revenue, whereas the prior year-to-date reflects approximately 17 weeks of revenue. The combined impact of the change in Empire Theatres' year-end date and the acquisition account for $19.5 million of the increase.

Investment Income

Investment income (excluding equity earnings from Crombie REIT and Genstar's U.S. investments) equalled $7.8 million in the third quarter, an increase of $1.2 million over the $6.6 million recorded in the third quarter last year. The increase is the result of dividend income that was $0.7 million higher than the third quarter last year and equity earnings from Wajax being $0.5 million higher than the third quarter last year.

On a fiscal year-to-date basis, investment income equalled to $22.8 million compared to $18.0 million over the same period last fiscal year. The $4.8 million increase was the result of higher equity earnings from Wajax of $3.4 million plus an increase in dividend income of $1.4 million.

Operating Earnings

Investment (net of corporate expenses) and other operations' operating earnings equalled $4.0 million in the third quarter, an increase of $0.7 million or 21.2 percent from the third quarter last year.

For the 39-weeks ended February 3, 2007, investment (net of corporate expenses) and other operations' operating earnings amounted to $10.5 million, an increase of $0.8 million from the $9.7 million recorded last year. Lower Empire Theatres' operating earnings were more than offset by lower interest expense, higher equity earnings contribution from Wajax and higher dividend income.

Empire's non-consolidated bank loans equaled $25.2 million at the end of the third quarter versus $71.2 million at the beginning of the fiscal year, and $171.8 million at the end of the third quarter last year. Cash proceeds from investments sales in the third quarter were used in part to reduce bank loans.

Capital Gain (Loss) and Other Items

Capital loss and other items, net of tax, realized from investment sales in third quarter amounted to $0.9 million compared to capital gain and other items, net of tax, of $8.3 million in the third quarter last year. On a fiscal year-to-date basis, capital gain and other items, net of tax, on the sale of investments equalled $4.9 million as compared to $33.2 million last fiscal year-to-date. The capital loss and other items, net of tax, recorded in the quarter and the capital gain and other items, net of tax, 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, leaving Empire to hold the equivalent of 4,577,994 units of Wajax.

Net Earnings

Investments (net of corporate expenses) and other operations contributed $3.1 million to Empire's consolidated third quarter net earnings compared to an $11.6 million net earnings contribution in the third quarter last year. The decrease is primarily the result of lower realized investment capital gain and other items, net of tax, during the third quarter this year.

For the 39 weeks ended February 3, 2007, investments (net of corporate expenses) and other operations contributed $15.4 million to Empire's consolidated net earnings compared to a $42.9 million contribution last fiscal year-to-date. The decrease was primarily the result of the $28.3 million decrease in capital gain and other items, net of tax.

Financial Condition

Capital Structure and Key Financial Condition Measures

The Company's financial condition at the end of the third quarter remained healthy as indicated by the following financial condition measures.

($ in millions, except per share and ratio calculations)	**Feb. 3, 2007**	May 6, 2006	Feb. 4, 2006
Shareholders' equity	**$ 2,079.9**	$ 1,965.2	$ 1,855.8
Book value per share	**31.53**	29.77	28.10
Minority interest	**585.2**	585.4	606.1
Bank indebtedness	**39.0**	98.6	253.4
Long-term debt, including current portion (1)	**906.8**	823.5	741.7
Funded debt to total capital	**31.3%**	31.9%	34.9%
Net debt to capital ratio (2)	**26.3%**	22.8%	30.9%
Debt to EBITDA	**1.47x**	1.35x	1.47x
Interest coverage	**5.01x**	5.86x	5.48x
Total assets	**5,081.5**	5,051.5	5,224.0

(1) Includes long-term lease obligations, however it does not include long-term liabilities related to assets held for sale.
(2) Net debt to total capital reduces funded debt by cash and cash equivalents.

Shareholders Equity

Book value per common share was $31.53 at February 3, 2007, compared to $29.77 at May 6, 2006 and $28.10 at February 4, 2006. The increase in book value largely reflects the Company's earnings growth.

The Company's share capital on February 3, 2007 consisted of:

	Authorized Number of Shares	**Issued & Outstanding Number of Shares**
Preferred shares, par value of $25 each, issuable in series	2,814,100	300,000
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	31,175,047
Class B common shares, without par value, voting	40,800,000	34,560,763

Total Non-Voting Class A plus Class B common shares outstanding at February 3, 2007 equalled 65,735,810 and were unchanged from the previous fiscal year-end, May 6, 2006 and also from the third quarter last year. There were 31,175,047 Non-Voting Class A shares outstanding and 34,560,763 Class B common shares outstanding at February 3, 2007.

At February 3, 2007, Empire had no options outstanding compared to 27,674 options outstanding at February 4, 2006. There were 27,674 options exercised during the second quarter of fiscal

2007. During the third quarter of fiscal 2007 the Company purchased for cancellation 31,900 Series 2 preferred shares for $0.8 million. The Company plans to purchase for cancellation an additional 100,000 Series 2 Preferred shares by the end of calendar 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.

On a fiscal year-to-date basis, Empire has repurchased for cancellation under its Normal Course Issuer Bid, 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 for the 39 weeks ended February 3, 2007.

As at March 15, 2007, the Company had total Non-Voting Class A plus Class B Common shares outstanding of 65,735,810.

Dividends paid to Non-Voting Class A and Class B common shareholders amounted to $9.9 million in the third quarter ($0.15 per share) versus $9.2 million ($0.14 per share) in the third quarter last year. On a fiscal year-to-date basis, the Company had paid dividends on its Non-Voting Class A and Class B common shares totalling $29.6 million (0.45 per share) versus $27.5 million ($0.42 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. Longer-term assets are generally financed with fixed rate, long-term debt, thereby reducing both interest rate and refinancing risk. Total fixed rate, long-term debt (including the current portion of long-term debt) at February 3, 2007 was $696.7 million, representing 73.7 percent of Empire's total funded debt of $945.8 million. Funded debt has increased $23.7 million since the end of the fiscal year, May 6, 2006 ($922.1 million) but has declined $49.3 million since the third quarter last year. The decline over the third 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[1] ($ in millions)	**February 3, 2007**	May 6, 2006	February 4, 2006
Food	**$ 633.6**	$ 510.8	$ 487.2
Real estate	**229.9**	253.9	195.6
Investments and other operations	**43.3**	58.8	58.9
Total	**$ 906.8**	$ 823.5	$ 741.7

(1) Long-term debt does not include long-term liabilities related to assets held for sale.

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.

Since fiscal year-end, the consolidated funded debt to total capital ratio has decreased 0.6 percentage points to 31.3 percent as higher debt levels were more than offset by growth in total capital.

The financial condition of the Company remains healthy as evidenced by a reduction in the ratio of funded debt to total capital.

Interest coverage in the third quarter was 5.0 times, down from the 5.9 times reported for the fiscal year ended May 6, 2006 and the 5.5 times recorded for the third quarter last year. The decline in the interest coverage ratio in the third quarter is the result of lower operating income partially offset by lower interest rates.

Empire and its subsidiaries have provided covenants to its lenders in support of various financing facilities. All covenants were complied with for the 39 weeks ended February 3, 2007 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 February 3, 2007, there were no interest rate hedges in place by Empire directly or with any of its operating companies, other than Empire Theatres. Empire Theatres entered into two interest rate swaps on December 27, 2006, which fixed the interest rate on $20.0 million of the floating rate debt at 4.28 percent plus a stamping fee, for a five year term. These swaps fixed the interest rate on approximately 40 percent of Empire Theatres' total indebtedness, all of which is borrowed at floating rates.

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 $37.6 million U.S. dollar 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 February 3, 2007 was negative $1.2 million Canadian. Approximately 65 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 $1.1475. 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 February 3, 2007 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 scheduled debt repayments.

At February 3, 2007, cash and cash equivalents equalled $203.4 million versus $164.3 million at February 4, 2006 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 $25.2 million or 7.7 percent was utilized at February 3, 2007. On a consolidated basis, Empire's authorized bank credit facilities exceeded borrowings by $651.6 million at February 3, 2007, versus $626.4 million at May 6, 2006.

The following table highlights major cash flow components for the 13 weeks and 39 weeks ended February 3, 2007 compared to the 13 weeks and 39 weeks ended February 4, 2006.

Major Cash Flow Components:

	13 Weeks Ended		39 Weeks Ended	
($ in millions)	**Feb. 3, 2007**	Feb. 4, 2006	**Feb. 3, 2007**	Feb. 4, 2006
Earnings for common shareholders	**$ 35.0**	$ 55.9	**$ 145.3**	$ 178.2
Items not affecting cash	**93.1**	80.3	**260.3**	209.3
	128.1	136.2	**405.6**	387.5
Net change in non-cash working capital	**(79.5)**	38.7	**(238.1)**	(92.6)
Cash flows from operating activities	**48.6**	174.9	**167.5**	294.9
Cash flows from (used in) investing activities	**77.6**	(144.4)	**(280.6)**	(453.0)
Cash flows (used in) from financing activities	**(134.4)**	(56.3)	**(24.6)**	42.0
Decrease in cash and cash equivalents	**$ (8.2)**	$ (25.8)	**$ (137.7)**	$ (116.1)

Operating Activities

Third quarter cash flows from operating activities equalled $48.6 million compared to $174.9 million in the comparable period last year. The decline of $126.3 million is largely attributed to a decrease in the change in non-cash working capital of $118.2 million, and by a decrease in net earnings available for common shareholders of $20.9 million as discussed, partially offset by an increase in items not affecting cash of $12.8 million. The increase in items not affecting cash is primarily the result of Sobeys' rationalization costs for the Ontario and Atlantic regions of $13.2 million, previously 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 decreased $6.6 million and items not affecting cash, primarily Sobeys' rationalization costs and depreciation and amortization, increased $51.0 million. Non-cash working capital decreased $145.5 million, resulting in a $127.4 million decrease in cash flows from operating activities for the 39 weeks ended February 3, 2007.

The following tables present 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)	**Feb. 3, 2007**	Nov. 4, 2006	Q3 F2007 vs. Q2 F2007 Increase (Decrease) in Cash Flows	Q3 F2006 vs. Q2 F2006 Increase (Decrease) in Cash Flows
Receivables	**$ 328.4**	$ 311.3	$ (17.1)	$ 32.1
Inventories	**772.8**	755.7	(17.1)	2.1
Prepaid expenses	**51.9**	60.8	8.9	11.4
Accounts payable and accrued liabilities	**(1,176.2)**	(1,177.1)	(0.9)	(32.5)
Income taxes payable	**(17.9)**	(50.1)	(32.2)	15.7
Impact of rationalization costs on working capital	**12.6**	-	(12.6)	-
Impact of business acquisitions on working capital	**(0.1)**	-	0.1	-
Other items	**8.6**	-	(8.6)	9.9
Total	**$ (19.9)**	$ (99.4)	$ (79.5)	$ 38.7

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

($ in millions)	**Feb. 3, 2007**	Feb. 4, 2006	Year-Over-Year Increase (Decrease) in Cash Flows
Receivables	**$ 328.4**	$ 274.9	$ (53.5)
Inventories	**772.8**	726.6	(46.2)
Prepaid expenses	**51.9**	50.6	(1.3)
Accounts payable and accrued liabilities	**(1,176.2)**	(1,130.3)	45.9
Income taxes payable	**(17.9)**	(1.2)	16.7
Impact of rationalization costs on working capital	**12.6**	-	(12.6)
Impact of business acquisitions on working capital	**(13.9)**	-	13.9
Other items	**22.8**	(9.9)	(32.7)
Total	**$ (19.5)**	$ (89.3)	$ (69.8)

The net change in working capital of $(79.5) million in the third quarter was largely due to a $17.1 million increase in both receivables and inventories while income taxes payable decreased $32.2 million compared to the second quarter ended November 4, 2006. The increase in accounts receivable during the quarter is primarily due to higher franchise receivable balances at Sobeys. The increase in inventory is primarily attributed to higher inventory in the real estate division of $31.1 million as a result of land purchased for development, partially offset by a decrease in the food division inventory of $14.1 million. The decrease in inventory for the food division reflects lower inventory requirements following the December selling season. The decrease in taxes payable compared to the second quarter reflects the timing of tax remittances.

Year-over-year, non-cash working capital decreased $69.8 million. Sobeys contributed $39.3 million to this decrease related to increased receivables, inventory and associated payables necessary to support Sobeys' higher sales volume due to the increased amount of square footage in its expanded store network. The $69.8 million decrease was also significantly impacted by tax deposits with CRA related to reassessments, described in the section entitled "Contingencies" in this MD&A.

Investing Activities

Cash generated from investing activities equalled $77.6 million in the third quarter of fiscal 2007 compared to cash used in investing activities of $144.4 million in the third quarter last year. The difference was primarily attributed to increased sales of equities from the investment portfolio of $125.6 million from the third quarter last year, along with a reduction in the purchase of property and equipment of $67.2 million compared to the third quarter last year.

Consolidated purchases of property, equipment and other assets totalled $134.8 million in the third quarter of fiscal 2007 compared to $202.0 million in the third quarter last year. All operating companies contributed to the decline in capital expenditures compared to the third quarter last year. Sobeys' expenditures declined $26.9 million, real estate declined $27.6 million and investments and other operations declined $12.7 million.

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 $136.0 million for the third quarter of fiscal 2007, a decrease of $13.0 million over the third quarter of the previous year. Sobeys remains committed to improving and growing its store network. Year-to-date company-wide capital investment totalled $440.0 million compared to $405.0 million in the first 39 weeks of fiscal 2006.

During the quarter, Sobeys opened or relocated 14 corporate and franchises stores compared to 25 corporate and franchised stores opened or replaced during the third quarter of last year. An additional nine stores were expanded during the quarter compared to seven stores expanded during the third quarter of fiscal 2006. Ten stores were closed during the third quarter of fiscal 2007 compared to 20 in the third quarter last year. There were five stores rebannered in the third quarter of fiscal 2007 compared to one store in the same quarter last year.

Net retail store square footage increased during the third quarter by 252,482 square feet (191,978 square feet opened, 193,326 square feet for relocated stores, 40,094 square feet for expanded stores less 172,916 square feet closed). At February 3, 2007, Sobeys' square footage totalled 26.3 million square feet, a 4.0 percent increase over the third quarter last year.

For the 39 weeks ended February 3, 2007, cash used in investing activities decreased by $172.4 million to equal $280.6 million. An increase in proceeds from the sale of investments of $198.9 million, primarily due to the sale of equities from the investment portfolio in the third quarter of fiscal 2007, accounted for the majority of the change. Investment in property, equipment and other assets in the current fiscal year year-to-date amounted to $378.7 million, a decrease of $30.4 million over the same period last year. The food division accounted for an increase of $21.5 million which was more than offset by decreases in real estate and investment and other operations of $45.7 million and $6.2 million, respectively. Also reflected in the current year's investing activities is the purchase of 1,248,950 common shares of Sobeys for $48.6 million.

Financing Activities

Financing activities during the third quarter used $134.4 million of cash compared to $56.3 million of cash used in the comparable period of fiscal 2006. The variance is primarily due to a decline in the amount of long-term debt issued of $65.0 million along with a reduction in bank indebtedness of $116.8 million in the third quarter of fiscal 2007 compared to a $102.7 million reduction in the third quarter last year.

Financing activities for the 39 weeks ended February 3, 2007 used $24.6 million of cash compared to cash generated of $42.0 million for the 39-weeks ended February 4, 2006. This is primarily attributed to a $59.6 million reduction in bank indebtedness in fiscal 2007 compared to an increase of $34.0 million in fiscal 2006. This change was partially offset by an increase in long-term debt issued, net of repayments, of $39.0 million.

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.

	Fiscal 2007			Fiscal 2006				Fiscal 2005
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	(13 weeks)	(13 weeks)	(13 weeks)	(13 weeks)	(13 weeks)	(13 weeks)	(13 weeks)	(14 weeks)
($ in millions)	Feb. 3, 2007	Nov. 4, 2006	Aug. 5, 2006	May 6, 2006	Feb. 4, 2006	Nov. 5, 2005	Aug. 6, 2005	May 7, 2005
Sales as previously reported	$ 3,318.0	$3,348.7	$3,409.3	$3,249.4	$3,264.4	$3,285.6	$3,361.7	$3,360.2
Sales after reclassification	3,281.9	3,313.5	3,373.8	3,212.6	3,228.5	3,253.4	3,331.4	3,321.0
Reclassification between sales and cost of sales, selling and administrative expenses	36.1	35.2	35.5	36.8	35.9	32.2	30.3	39.2

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

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. As of the third quarter ended February 3, 2007, the Company has recognized $2.1 million (February 4, 2006 - $2.1 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 to 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 $32.4 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 third 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 principal 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.

Reassessments have been received in respect of the sale of shares of Hannaford. 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 million.

The Company has appealed the reassessments in respect of the sale of Hannaford shares. 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.

In the third quarter, Sobeys was named as a defendant in a lawsuit brought by beneficiaries of a multi-employer pension plan. The lawsuit alleges mismanagement of certain pension plan investments by the trustees of the pension plan and seeks, among other remedies, payment of $1 billion in damages from the trustees and the contributing employers, of which Sobeys is one of approximately 440. Sobeys played no role in the management of the pension plan and intends to contest the lawsuit. Accordingly, Sobeys has not recorded in its statement of earnings any amount related to this lawsuit.

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.

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.

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 February 3, 2007, May 6, 2006 and February 4, 2006, respectively:

($ in millions)	**Feb. 3, 2007**	May 6, 2006	Feb. 4, 2006
Bank indebtedness	**$ 39.0**	$ 98.6	$ 253.4
Long-term debt due within one year	**77.3**	95.4	43.8
Long-term debt	**805.7**	707.3	684.8
Long-term lease obligation	**23.8**	20.8	13.1
Funded debt	**945.8**	922.1	995.1
Total shareholders' equity	**2,079.9**	1,965.2	1,855.8
Total capital	**$ 3,025.7**	$ 2,887.3	$ 2,850.9

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

Dated: March 15, 2007
Stellarton, Nova Scotia, Canada

SHAREHOLDER AND INVESTOR INFORMATION

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Internet: www.empireco.ca

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

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)
25,971

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

OUTSTANDING SHARES
As of March 15, 2007:

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

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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

EMPIRE

COMPANY LIMITED