EMPIRE

Clearly focused on our strengths

EMPIRE COMPANY LIMITED
Second Quarter Report | Twenty-Six Weeks Ended November 3, 2007

Quarterly Report to Shareholders

Empire is a diversified Canadian company headquartered in Stellarton, Nova Scotia. Empire's key businesses include food, real estate, and investments and other operations. Food is carried out through wholly-owned Sobeys Inc. ("Sobeys"). The real estate business is carried out through two wholly-owned operating subsidiaries: Sobey Leased Properties Limited ("SLP") and ECL Properties Limited ("ECL"), which includes a 35.7 percent ownership interest in Genstar Development Partnership and a 43.3 percent interest in Genstar Development Partnership II (collectively referred to as "Genstar") and a 48.1 percent ownership interest in Crombie Real Estate Investment Trust ("Crombie REIT"). Corporate investment activities and other operations includes wholly-owned ETL Canada Holdings Limited ("Empire Theatres"); Kepec Resources Limited ("Kepec"), a joint venture with APL Oil and Gas Limited which has ownership interests in various oil and gas properties in Alberta; and a 27.6 percent ownership position in Wajax Income Fund ("Wajax"). With over $13 billion in annual revenue and more than $5.8 billion in assets, Empire employs approximately 40,000 people directly and through its subsidiaries.

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

The Company provided additional details concerning its second quarter results on a conference call held on Thursday, December 13, 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 2007 Annual Report. When relying on forward-looking statements to make decisions, the Company cautions readers not to place undue reliance on these statements, as a number of important factors could cause actual results to differ materially from any estimates or intentions expressed in such forward-looking statements. The Company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the Company.

Letter to Shareholders

On December 13, 2007, Empire Company Limited (TSX: EMP.A) announced earnings before capital gains and other items, net of tax, for its second quarter ended November 3, 2007 of $59.9 million ($0.91 per share) compared to $49.8 million ($0.76 per share) in the second quarter last year, a 20.3 percent increase.

Net earnings amounted to $58.4 million ($0.89 per share) versus $55.8 million ($0.85 per share) in the second quarter last year. The Company realized capital losses and other items, net of tax, in the second quarter of $1.5 million ($0.02 per share) compared to capital gains and other items, net of tax, of $6.0 million ($0.09 per share) in the second quarter last year.

Second Quarter Financial Highlights (versus the second quarter last year)

- *Revenue of $3.48 billion, up $131.3 million or 3.9 percent.*
- *Sobeys' same-store sales increased 2.3 percent.*
- *Earnings before capital gains and other items, net of tax, of $59.9 million, up $10.1 million or 20.3 percent.*
- *Earnings per share, before capital gains and other items, net of tax, of $0.91, an improvement of 15 cents per share.*
- *Net earnings of $58.4 million ($0.89 per share), a $2.6 million increase.*
- *Funded debt to total capital of 45.0 percent compared to 33.8 percent a year earlier.*

In the second quarter, the food division recorded an $11.1 million or 13.9 percent increase in operating income, representing a 22 basis point improvement as a percentage of sales.

Financial Overview

Revenue

Consolidated revenue for the second quarter equalled $3.48 billion compared to $3.35 billion last year, an increase of $131.3 million or 3.9 percent.

Food division revenue equalled $3.41 billion, an increase of $155.1 million or 4.8 percent compared to the second quarter last fiscal year. During the second quarter of fiscal 2008 Sobeys' same-store sales (sales from stores in the same locations in both reporting periods) increased by 2.3 percent.

The growth in retail food sales was a direct result of Sobeys continued implementation of sales and merchandising initiatives across the country, coupled with an increase in retail selling square footage resulting from the development of new stores and an ongoing program to enlarge and renovate existing store assets. Sales were also driven by the acquisition of Achille de la Chevrotière Ltée and its associated companies ("ADL") on August 27, 2006 and by the acquisition of Thrifty Foods on September 12, 2007. These two acquisitions positively impacted second quarter sales by $103.5 million versus the second quarter last year.

As noted in prior quarters, a major Canadian tobacco supplier began to sell and distribute directly to some of Sobeys' customers resulting in a decline in tobacco sales. This change in distribution along with lower market demand for tobacco reduced sales on an annual basis by $123.9 million in fiscal 2007 and by $30.1 million during the second quarter of fiscal 2008. Margins on tobacco sales are significantly lower than on other products, therefore the loss of these sales does not have a material impact on earnings.

Excluding the impact of the wholesale tobacco decline and the ADL and Thrifty Foods acquisitions, second quarter sales growth for the food division would have been 2.5 percent.

During the second quarter, 26 corporate and franchised stores were opened, acquired or relocated compared to 40 corporate and franchised stores opened or relocated during the second quarter of last year. Twenty of the current quarter store additions resulted from the Thrifty Foods acquisition while in the second quarter last year 25 stores were acquired as part of the purchase of ADL. An additional six stores were expanded during the second quarter compared to four stores expanded during the second quarter last year. A total of 19 stores were closed during the quarter compared to nine stores closed in the second quarter last year. There were 13 stores rebannered in the second quarter of fiscal 2008 compared to 15 stores rebannered in the second quarter of last year.

At the end of the second quarter Sobeys' square footage totalled 27.0 million, a 3.4 percent increase over the second quarter last year.

Real estate division revenue (net of inter-segment transactions) equalled $28.1 million, a decrease of $38.1 million from the $66.2 million recorded in the second quarter last year. Commercial property revenue increased by $1.0 million while revenue from residential operations decreased by $39.1 million. The decline in residential real estate revenue was anticipated reflecting the completion of a major condominium project in the second quarter last year along with an expected slowing of residential lot sales.

Investments and other operations recorded revenues of $50.1 million in the second quarter versus $35.8 million in the second quarter last year. The increase is primarily attributable to higher revenue for Empire Theatres due to the strong summer product, and from the change in its year-end which resulted in the traditionally strong month of July being reported in the second quarter of fiscal 2008 whereas it was included in the first quarter of fiscal 2007.

Consolidated operating income in the second quarter totalled $118.2 million, an increase of $5.2 million or 4.6 percent over the $113.0 million recorded in the second quarter last year.

The food division contributed operating income of $90.8 million, an increase of $11.1 million or 13.9 percent from the $79.7 million recorded in the second quarter last year. Second quarter operating margin, which is operating income divided by revenue, was 2.67 percent compared to 2.45 percent in the second quarter last year. Included in the second quarter fiscal 2008 operating income was an $8.2 million increase in food division depreciation and amortization expense, primarily reflecting Sobeys' continued capital investments. During the second quarter, the food division incurred $4.8 million of pre-tax costs related to business process and system initiative costs as compared to $11.1 million in the second quarter last year.

The real estate division contributed operating income of $21.5 million, a decrease of $7.5 million from the $29.0 million recorded in the second quarter last year. Operating income generated from commercial properties increased $0.4 million while operating income from residential operations decreased by $7.9 million versus the second quarter last year. The decline in residential operating income was anticipated largely as a result of the completion of the Martello condominium project and slower than expected residential lot sales activity in western Canada relative to the same quarter last year.

Investments and other operations' operating income, net of corporate expenses, equalled $5.9 million compared to $4.3 million in the second quarter last year. The increase primarily reflects improved operating performance from wholly-owned Empire Theatres Limited.

Interest expense equalled $27.4 million, an increase of $11.9 million from the $15.5 million recorded in the second quarter last year. This increase was expected as a result of long-term debt, including amounts due within one year and liabilities related to assets held for sale, increasing $972.2 million from the beginning of the fiscal year primarily as a result of indebtedness associated with the funding of Sobeys' privatization which was finalized on June 15, 2007.

In the second quarter of fiscal 2008, Empire recorded minority interest expense of $1.2 million compared to $15.0 million in the second quarter last year. The decrease in minority interest expense is primarily the result of Empire increasing its ownership position in Sobeys to 100.0 percent on June 15, 2007. Empire's ownership position in Sobeys at the end of the second quarter last year was 72.1 percent.

Earnings before capital gains and other items, net of tax, equalled $59.9 million in the second quarter as compared to $49.8 million in the same quarter last year, a 20.3 percent increase. The $10.1 million increase in earnings before capital gains and other items, net of tax, reflected the growth in second quarter operating income of $5.2 million, the $13.8 million decline in minority interest and a $3.0 million decrease in income tax expense, partially offset by the $11.9 million increase in interest expense as mentioned.

Capital losses and other items, net of tax, equalled $1.5 million in the second quarter as compared to capital gains and other items, net of tax, of $6.0 million in the second quarter last year. During the second quarter, Sobeys had a $30.0 million exposure to Canadian Asset-Backed Commercial Paper ("ABCP"). These ABCP were rated by Dominion Bond Rating Service as R-1 (High). At November 3, 2007, pending a resolution of the liquidity issue, Sobeys has recorded an impairment loss of $3.0 million pre-tax ($1.9 million net of tax). The Company estimated the impairment loss using a discounted cash flow approach. It is possible that the amount ultimately recovered may differ from the estimate. The Company continues to investigate the implications of the default and the remedies available. In addition, these investments have been reclassified as long-term assets rather than cash and cash equivalents due to the uncertainty as to the timing of collection.

Consolidated net earnings totalled $58.4 million ($0.89 per share) versus $55.8 million ($0.85 per share) in the second quarter last year, a 4.7 percent increase.

Consolidated Financial Condition

The ratio of funded debt to total capital at the end of the second quarter equalled 45.0 percent versus 33.8 percent at the end of the second quarter last year. The higher debt ratio was expected and is largely attributed to advances of $787.7 million incurred under a revolving-term credit facility which assisted in the funding of the privatization of Sobeys.

The privatization of Sobeys was also financed with proceeds of $278.0 million generated from the sale of certain portfolio investments completed in the first quarter of fiscal 2008. At November 3, 2007, Empire's investment portfolio, including its 27.6 percent interest in Wajax (TSX: WJX.UN) and its 48.1 percent interest in Crombie REIT (TSX: CRR.UN), carried a market value of $410.9 million on a cost base of $140.5 million, resulting in an unrealized gain of $270.4 million. This compares to an unrealized gain of $384.6 million at the beginning of the fiscal year and an unrealized gain of $299.1 million at the end of the second quarter last fiscal year.

The purchase of property and equipment in the second quarter equalled $123.8 million as compared to $110.4 million in the same quarter last year. Investment in food division property and equipment accounted for $114.9 million of the total capital investment in the second quarter. Capital expenditures for the real estate division and investments and other operations in the second quarter equalled $6.5 million and $2.4 million, respectively.

Privatization of Sobeys

On April 26, 2007, Empire and Sobeys jointly announced that they had entered into an arrangement agreement (the "Arrangement") pursuant to which Empire would acquire all of the outstanding common shares of Sobeys that it did not then own at a price of $58.00 per share. The transaction valued the Sobeys shares not then owned by Empire at approximately $1.06 billion.

The Arrangement became effective upon registration of the final Court order with the Nova Scotia Registry of Joint Stock Companies at the close of business on June 15, 2007. Subsequently, the Sobeys common shares ceased trading on the Toronto Stock Exchange, and were de-listed at the close of business on June 18, 2007.

The acquisition was financed by funds of $278.0 million generated primarily from the sale of certain portfolio investments and by advances of $787.7 million under new credit facilities (the "Credit Facilities"). At the time of financing, the Credit Facilities consisted of a $950.0 million unsecured revolving credit facility maturing on June 8, 2010 (subject to annual one-year extensions at the request of the Company) and a $50.0 million unsecured non-revolving credit facility that matured on June 30, 2007. The unsecured non-revolving credit facility was repaid on June 30, 2007 with funds drawn from the unsecured revolving credit facility.

The Credit Facilities are subject to certain financial covenants. Interest on the debt varies based on the designation of the loan (bankers' acceptances ("BA") rate loans, Canadian prime rate loans, U.S. base rate loans or LIBOR loans), fluctuations in the underlying rates, and, in the case of BA rate loans or LIBOR loans, the margin applicable to the financial covenants. On June 18, 2007, Empire entered into two delayed fixed rate interest swaps. The first swap, in an amount of $200.0 million is for a period of three years at a fixed interest rate of 4.998 percent. The second swap in an amount of $200.0 million is for a period of five years at a fixed interest rate of 5.051 percent. Both swaps became effective on July 23, 2007.

On June 27, 2007, pursuant to the terms of the Credit Facilities, Empire and Sobeys filed notice with the lenders requesting the establishment of a new $300.0 million five-year credit facility in favour of Sobeys at the same interest rate as and substantially on the same terms and conditions as the Credit Facilities. On July 23, 2007, Sobeys drew down $300.0 million from the new credit facility, the proceeds of which were used to pay a dividend to Empire. Empire used the proceeds from the $300.0 million dividend to reduce its indebtedness under the Credit Facilities and the Credit Facilities were reduced to $650.0 million accordingly. On that date, Empire transferred the second swap to Sobeys.

On July 30, 2007, Sobeys exercised an option under its new credit facility to increase the size of the credit from $300.0 million to $600.0 million. At the same time, Sobeys terminated its previously existing $300.0 million operating credit facility which would have expired on December 20, 2010.

Acquisition of Thrifty Foods

On September 12, 2007 Sobeys acquired all the assets of Thrifty Foods for an amount of $261.8 million. The assets acquired include 20 full-service supermarkets, a main distribution centre and a wholesale division on Vancouver Island and the lower mainland of British Columbia. The acquisition was accounted for using the purchase method with the results of Thrifty Foods being consolidated as of the acquisition date.

The similarities between Sobeys and Thrifty Foods were very clear to us as we were looking at the acquisition: an unwavering focus on food, dedicated employees, a great service culture and strong values, including a strong commitment to their communities. This acquisition provides Sobeys with a presence in the expanding British Columbia market and a base for continued growth in the province. We are pleased that our results from Thrifty Foods are tracking ahead of expectation.

Dividend Declaration

The Board of Directors declared a quarterly dividend of $0.165 per share on both the Non-Voting Class A shares and the Class B common shares that will be payable on January 31, 2008 to shareholders of record on January 14, 2008. In addition, the Board declared regular dividends on the Company’s outstanding preferred shares. The dividends are eligible dividends as defined for the purposes of the Income Tax Act (Canada) and applicable provincial legislation and, therefore, qualify for the favourable tax treatment applicable to such dividends.

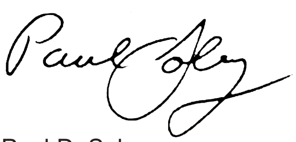
Closing Remarks

Empire’s growth in second quarter operating earnings was largely the result of having 100 percent ownership of Sobeys following the privatization completed last June. Sobeys’ continued solid same store-sales and operating income growth resulted from consistently competitive pricing and programs, innovation, cost management initiatives and improving day to day execution.

Going forward with respect to the Food Division, we remain very supportive of Sobeys’ food-focused strategy and their intention to continue to invest in infrastructure and productivity improvements necessary to build a healthy and sustainable retail business for the long-term.

With respect to Real Estate, the management group intends to continue its policy of maximizing and prudently reinvesting its cash flow to further strengthen and diversify its portfolio of residential and commercial properties.

Empire management remains committed to executing operational and capital allocation decisions that will grow the Company’s cash flow and net asset value in each of our businesses over the long-term.



Paul D. Sobey
President & Chief Executive Officer

December 13, 2007

EMPIRE COMPANY LIMITED
CONSOLIDATED BALANCE SHEETS
(In millions)

	November 3 2007 Unaudited	May 5 2007 Audited *Restated (Note 1)*	November 4 2006 Unaudited *Restated (Note 1)*
ASSETS			
Current			
Cash and cash equivalents	**$ 133.1**	$ 294.9	$ 211.6
Receivables	**313.6**	312.3	289.5
Mortgages, loans and other receivables	**16.0**	14.5	21.8
Income taxes receivable	**-**	3.6	-
Inventories	**838.0**	757.5	755.7
Prepaid expenses	**71.5**	51.4	60.8
	1,372.2	1,434.2	1,339.4
Investments, at cost (quoted market value $1.6; May 5, 2007 $283.1; November 4, 2006 $433.2)	**1.6**	189.7	366.1
Investments, at equity (realizable value $409.3; May 5, 2007 $434.0; November 4, 2006 $388.2) (Note 4)	**138.9**	142.8	156.2
Mortgages, loans and other receivables (Note 5)	**62.5**	65.1	66.5
Other assets (Note 6)	**180.0**	126.0	110.1
Property and equipment (Note 7)	**2,503.0**	2,409.1	2,335.0
Assets held for sale	**61.4**	24.1	22.6
Intangibles (less accumulated amortization of $15.7; May 5, 2007 $11.7; November 4, 2006 $9.3)	**395.9**	38.2	53.3
Goodwill	**1,152.0**	786.6	766.1
	$ 5,867.5	$ 5,215.8	$ 5,215.3
LIABILITIES			
Current			
Bank indebtedness	**$ 26.9**	$ 30.1	$ 155.8
Accounts payable and accrued liabilities	**1,272.2**	1,260.3	1,177.1
Income taxes payable	**29.4**	-	50.1
Future income taxes	**37.1**	40.4	45.9
Long-term debt due within one year	**80.5**	82.5	93.3
Liabilities relating to assets held for sale	**6.6**	6.8	7.1
	1,452.7	1,420.1	1,529.3
Long-term debt (Note 8)	**1,767.0**	792.6	792.1
Employee future benefits obligation	**104.6**	102.1	101.5
Future income taxes	**135.5**	130.4	118.7
Other long-term liabilities (Note 9)	**65.6**	50.9	44.3
Minority interest	**45.1**	588.6	575.8
	3,570.5	3,084.7	3,161.7
SHAREHOLDERS' EQUITY			
Capital stock (Note 10)	**195.8**	196.1	196.2
Contributed surplus	**0.3**	0.3	0.2
Retained earnings	**2,114.2**	1,935.3	1,858.6
Accumulated other comprehensive loss	**(13.3)**	(0.6)	(1.4)
	2,297.0	2,131.1	2,053.6
	$ 5,867.5	$ 5,215.8	$ 5,215.3

Contingent liabilities (Note 19)

Subsequent Events (Note 22)

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

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

	November 3 2007	November 4 2006 Restated (Note 1)
Balance, beginning of period as previously reported	**$ 1,939.6**	$ 1,771.0
Adjustment due to change in accounting policy (Note 1)	**(4.3)**	-
Balance, beginning of period as restated	**1,935.3**	1,771.0
Net earnings	**200.7**	109.1
Dividends		
Preferred shares	**(0.2)**	(0.2)
Common shares	**(21.6)**	(19.7)
Premium on common shares purchased for cancellation	**-**	(1.6)
Balance, end of period	**$ 2,114.2**	$ 1,858.6

EMPIRE COMPANY LIMITED
CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS
26 WEEKS ENDED
(Unaudited, in millions)

	November 3 2007	November 4 2006
Balance, beginning of period (Note 1)	**$ (0.6)**	$ (1.1)
Transition adjustment as of May 6, 2007 (Note 1)	**77.2**	-
Adjusted balance, beginning of period	**76.6**	(1.1)
Acquired comprehensive income (loss) from purchase of minority interest in Sobeys Inc.	**(0.6)**	-
Other comprehensive income (loss) for the period	**(89.3)**	(0.3)
Balance, end of period	**$ (13.3)**	$ (1.4)

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)

	November 3 2007 (13 weeks)	November 4 2006 (13 weeks) Restated (Note 1)	**November 3 2007 (26 weeks)**	November 4 2006 (26 weeks) Restated (Note 1)
Revenue	**$ 3,484.8**	$ 3,353.5	**$ 7,004.2**	$ 6,734.4
Operating expenses				
Cost of sales, selling and administrative expenses	**3,297.8**	3,184.5	**6,628.9**	6,392.6
Depreciation and amortization	**76.7**	67.2	**146.5**	130.1
	110.3	101.8	**228.8**	211.7
Investment income (Note 11)	**7.9**	11.2	**16.9**	22.5
Operating income	**118.2**	113.0	**245.7**	234.2
Interest expense				
Long-term debt	**25.3**	13.2	**45.1**	26.1
Short-term debt	**2.1**	2.3	**3.1**	3.7
	27.4	15.5	**48.2**	29.8
	90.8	97.5	**197.5**	204.4
Capital gains and other items (Note 12)	**(2.6)**	7.4	**98.3**	7.4
Earnings before income taxes and minority interest	**88.2**	104.9	**295.8**	211.8
Income taxes				
Current	**35.4**	33.5	**88.2**	70.4
Future	**(6.8)**	0.6	**(6.0)**	(0.6)
	28.6	34.1	**82.2**	69.8
Earnings before minority interest	**59.6**	70.8	**213.6**	142.0
Minority interest	**1.2**	15.0	**12.9**	32.9
Net earnings	**$ 58.4**	$ 55.8	**$ 200.7**	$ 109.1
Earnings per share (Note 3)				
Basic	**$ 0.89**	$ 0.85	**$ 3.06**	$ 1.66
Diluted	**$ 0.89**	$ 0.85	**$ 3.05**	$ 1.66
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 COMPREHENSIVE INCOME
PERIODS ENDED
(Unaudited, in millions)

	November 3 2007 (13 weeks)	November 4 2006 (13 weeks) Restated (Note 1)	**November 3 2007 (26 weeks)**	November 4 2006 (26 weeks) Restated (Note 1)
Net earnings	**$ 58.4**	$ 55.8	**$ 200.7**	$ 109.1
Other comprehensive income, net of income taxes				
Reclassification of gains on available-for-sale financial assets to net earnings	**-**	-	**(78.7)**	-
Unrealized losses on derivatives designed as cash flow hedges:				
Interest rate hedging instruments	**(4.6)**	-	**(3.2)**	-
Foreign exchange hedging instruments	**(2.0)**	-	**(3.7)**	-
Energy hedging instruments	**(2.6)**	-	**(2.6)**	-
Share of comprehensive income (loss) of entities accounted using the equity method	**(0.8)**	-	**(1.1)**	-
Exchange losses on translation of self-sustaining foreign operations	**-**	-	**-**	(0.3)
	(10.0)	-	**(89.3)**	(0.3)
Comprehensive income	**$ 48.4**	$ 55.8	**$ 111.4**	$ 108.8

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

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

	November 3 2007 *(13 weeks)*	November 4 2006 *(13 weeks)* *Restated (Note 1)*	**November 3 2007 *(26 weeks)***	November 4 2006 *(26 weeks)* *Restated (Note 1)*
Operating Activities				
Net earnings	**$ 58.4**	$ 55.8	**$ 200.7**	$ 109.1
Items not affecting cash (Note 13)	**69.2**	86.1	**159.5**	165.4
Preferred dividends	**(0.1)**	(0.1)	**(0.2)**	(0.2)
	127.5	141.8	**360.0**	274.3
Net change in non-cash working capital	**(19.5)**	(140.6)	**(49.5)**	(147.8)
Cash flows from operating activities	**108.0**	1.2	**310.5**	126.5
Investing Activities				
Net decrease (increase) in investments	**1.7**	10.1	**191.0**	(2.7)
Purchase of shares in subsidiary, Sobeys Inc.	**-**	(12.1)	**(1,065.7)**	(48.6)
Purchase of property and equipment	**(123.8)**	(110.4)	**(232.9)**	(246.4)
Proceeds on disposal of property and equipment	**1.0**	23.7	**6.7**	27.3
Mortgages, loans and other receivables	**(1.9)**	(1.9)	**1.1**	(4.0)
(Increase) decrease in other assets	**(57.0)**	(9.9)	**(59.6)**	0.5
Business acquisitions, net of cash acquired (Note 16)	**(268.4)**	(90.4)	**(269.1)**	(95.9)
Cash flows used in investing activities	**(448.4)**	(190.9)	**(1,428.5)**	(369.8)
Financing Activities				
(Decrease) increase in bank indebtedness	**(1.2)**	1.6	**(3.2)**	57.2
Decrease in construction loans	**-**	(2.4)	**(1.1)**	-
Issue of long-term debt	**186.4**	134.8	**1,000.0**	135.4
Repayment of long-term debt	**(20.8)**	(40.9)	**(36.0)**	(56.6)
Minority interest	**(1.2)**	(1.3)	**18.5**	(1.6)
Repurchase of preferred shares	**(0.8)**	-	**(0.8)**	-
Issue of Non-Voting Class A shares	**-**	0.1	**0.4**	1.0
Repurchase of Non-Voting Class A shares	**-**	-	**-**	(1.9)
Common dividends	**(10.9)**	(9.8)	**(21.6)**	(19.7)
Cash flows from financing activities	**151.5**	82.1	**956.2**	113.8
Decrease in cash and cash equivalents	**(188.9)**	(107.6)	**(161.8)**	(129.5)
Cash and cash equivalents, beginning of period	**322.0**	319.2	**294.9**	341.1
Cash and cash equivalents, end of period	**$ 133.1**	$ 211.6	**$ 133.1**	$ 211.6

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

(Unaudited, in millions, except per share amounts)

1. Summary of Significant Accounting Policies

Interim financial statements

The unaudited interim period consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). These interim consolidated financial statements do not include all of the disclosures included in the Company's annual consolidated financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended May 5, 2007, as set out in the 2007 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 2007 annual consolidated financial statements except as noted below:

Adopted during fiscal 2008

Accounting changes

In July 2006, the Canadian Institute of Chartered Accountants ("CICA") issued section 1506 of the CICA Handbook, "Accounting Changes", which describes the criteria for changing accounting policies, along with the accounting and disclosure for changes in accounting policies, changes in accounting estimates and correction of errors. These changes came into effect as of January 1, 2007 and are applicable for the Company's first quarter of fiscal 2008.

Financial instruments

On May 6, 2007, the Company implemented the CICA Handbook Sections 3855, "Financial Instruments - Recognition and Measurement", 3865, "Hedges", 1530, "Comprehensive Income", 3251, "Equity", and 3861, "Financial Instruments - Disclosure and Presentation". These standards have been applied without restatement of prior periods. The transitional adjustments resulting from these standards are recognized in the opening balances of retained earnings and accumulated other comprehensive income.

This new standard, Section 3855, "Financial Instruments - Recognition and Measurement", requires the Company to revalue all of its financial assets and liabilities, including derivatives and embedded derivatives in certain contracts, at fair value on the initial date of implementation and at each subsequent financial reporting date. Non-financial derivatives must be recorded at fair value on the consolidated balance sheet unless they are exempt from derivative treatment based upon expected purchase, sale or usage requirements.

This standard also requires the Company to classify financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purpose of ongoing measurements. Classification choices for financial assets include: a) held for trading - measured at fair value with changes in fair value recorded in net earnings; b) held to maturity - recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is derecognized or impaired; c) available-for-sale - measured at fair value with changes in fair value recognized in other comprehensive income for the current period until realized through disposal or impairment; and d) loans and receivables - recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is no longer recognized or impaired. Classification choices for financial liabilities include: a) held for trading - measured at fair value with changes in fair value recorded in net earnings and b) other - measured at amortized cost with gains and losses recognized in net earnings in the period that the liability is no longer recognized. Subsequent measurement for these assets and liabilities are based on either fair value or amortized cost using the effective interest method, depending upon their classification. Any financial asset or liability can be classified as held for trading as long as its fair value is reliably determinable.

1. Summary of Significant Accounting Policies (continued)

In accordance with the new standard, the Company's financial assets and liabilities are generally classified and measured as follows:

Asset/Liability	Classification	Measurement
Cash	Available-for-sale	Fair value
Cash equivalents	Held to maturity	Amortized cost
Receivables	Loans and receivables	Amortized cost
Mortgages, loans and other receivables	Loans and receivables	Amortized cost
Investments, at cost	Available-for-sale	Fair value
Bank indebtedness	Other liabilities	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost

Other balance sheet accounts, such as inventories, prepaid expenses, investments (at equity), other assets, property and equipment, intangibles, goodwill, current and long-term future income taxes, other long-term liabilities, and minority interest are not within the scope of the new accounting standards as they are not financial instruments.

Transaction costs other than those related to financial instruments classified as held for trading, which are expensed as incurred, are added to the fair value of the financial asset or financial liability on initial recognition and amortized using the effective interest method.

Embedded derivatives are required to be separated and measured at fair values if certain criteria are met. Under an election permitted by the new standard, management reviewed contracts entered into or modified subsequent to May 3, 2003 and determined that the Company does not currently have any significant embedded derivatives in its contracts that require separate accounting treatment.

Section 3855 also requires that obligations undertaken through issuance of a guarantee that meets the definition of a guarantee pursuant to Accounting Guideline 14, "Disclosure of Guarantees", be recognized at fair value at inception. No subsequent remeasurement at fair value is required unless the financial guarantee qualifies as a derivative.

The fair value of a financial instrument is the estimated amount that the Company would receive or pay to terminate the instrument agreement at the reporting date. To estimate the fair value of each type of financial instrument various market value data and other valuation techniques were used as appropriate. The fair value of cash approximated its carrying value. The fair value of currency swaps was estimated based on discounting of the forward rate at the reporting date compared to the forward rate in the contract. The fair value of interest rate swaps was estimated by discounting net cash flows of the swaps at market and forward interest rates for swaps of the same remaining maturities. The fair value of energy contracts was estimated based on the market variable rate and forward variable rate.

Hedges

Section 3865, "Hedges", replaces Accounting Guideline 13, "Hedging Relationships". The requirements for identification, designation, documentation and assessment of effectiveness of hedging relationships remain substantially unchanged. Section 3865 addresses the accounting treatment of qualifying hedging relationships and the necessary disclosures and also requires all derivatives in hedging relationships to be recorded at fair value.

The Company has cash flow hedges which are used to manage exposure to fluctuations in foreign currency exchange rates and variable interest and energy rates on variable rate assets and liabilities. For cash flow hedges, the effective portion of the change in fair value of the hedging item is recorded in other comprehensive income. To the extent the change in fair value of the derivative is not completely offset by the change in fair value of the hedged item, the ineffective portion of the hedging relationship is recorded immediately in net earnings. Amounts accumulated in other comprehensive income are reclassified to net earnings when the hedged item is recognized in net earnings. When a hedging instrument in a cash flow hedge expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in accumulated

(Unaudited, in millions, except per share amounts)

1. Summary of Significant Accounting Policies (continued)

other comprehensive income relating to the hedge is carried forward until the hedged item is recognized in net earnings. When the hedged item ceases to exist as a result of its expiry or sale, or if an anticipated transaction is no longer expected to occur, the cumulative gain or loss in accumulated other comprehensive income is immediately reclassified to net earnings.

Comprehensive income

In accordance with Section 1530, "Comprehensive Income", the Company has chosen to report a new financial statement entitled "Consolidated Statements of Comprehensive Income", which is comprised of net earnings and other comprehensive income. Other comprehensive income represents the change in shareholders' equity from transactions and other events from non-owner sources and includes unrealized gains and losses on financial assets that are classified as available-for-sale, and changes in the fair value of the effective portion of cash flow hedging instruments. The accumulated other comprehensive income (i.e. the portion of comprehensive income not already included in net earnings) is being presented as a separate line in shareholders' equity. In accordance with the new standard, $0.6 relating to unrealized losses resulting from translation of self-sustaining foreign operations which had previously been classified as cumulative translation adjustment within shareholders' equity is now presented within accumulated other comprehensive income.

Equity

Section 3251, "Equity", which replaced Section 3250, "Surplus", establishes standards for the presentation of equity and changes in equity during the reporting period and requires the Company to present separately equity components and changes in equity arising from i) net earnings; ii) other comprehensive income; iii) other changes in retained earnings; iv) changes in contributed surplus; v) changes in share capital; and vi) changes in reserves. New consolidated statements of changes in shareholders' equity are included in the unaudited interim period consolidated financial statements.

Financial instruments - disclosure and presentation

Section 3861, "Financial Instruments - Disclosure and Presentation", which replaces 3860, of the same title, establishes standards for the presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them.

The following table summarizes the transition adjustments recorded upon implementation:

	Transition Adjustments
Consolidated Balance Sheet	
Investments, at cost	$ 94.4
Other assets	(4.5)
Other liabilities	2.5
Long-term debt	2.7
Future income taxes	(18.5)
Minority interest	0.6
Accumulated other comprehensive income	(77.2)

Deferred charges

The Company adopted CICA Section 3855, “Financial Instruments – Recognition and Measurement”, effective for the first quarter of fiscal 2008. As a consequence of adopting this section, Section 3070, “Deferred Charges”, was withdrawn. As a result, the Company reviewed its Deferred Costs classifications included with Other Assets and determined the following changes were necessary:

Deferred store marketing

Deferred store marketing costs, primarily comprised of store renovation and expansion costs, were reclassified and included with equipment, fixtures and vehicles as part of the Company’s property and equipment balance sheet group.

1. Summary of Significant Accounting Policies (continued)

Prior year balances were reclassified which resulted in an increase in property and equipment and decrease in other assets of $106.2 at May 5, 2007 and $72.8 at November 4, 2006 as well as an increase in depreciation expense and decrease in cost of sales, selling and administrative expenses of $25.3 for the year ended May 5, 2007 and $5.5 and $10.7 for the 13 and 26 weeks ended November 4, 2006 respectively. There is no impact on net earnings or earnings per share as a result of this change.

Deferred repositioning costs

Effective for the first quarter of fiscal 2008, the Company changed its accounting policy for the treatment of certain deferred costs associated with major repositioning or branding efforts of the Company. Due to the withdrawal of the primary source of GAAP, Section 3070, "Deferred Charges", the Company looked to other sources of existing and proposed GAAP for guidance in determining its future policy for such costs. Based on this review, the Company determined, in setting the new policy, that it would be more appropriate to expense these types of costs in the period incurred as it provides more relevant information on expenditures associated with repositioning and branding efforts.

This change in accounting policy was applied retrospectively resulting in a $9.1 decrease in other assets, a $3.2 decrease in long-term future tax liabilities, and a $4.3 decrease in earnings (net of minority interest of $1.6) at May 5, 2007. For the year ended May 5, 2007, earnings per share basic and diluted would decrease by $0.06 per share. The effect for the 13 and 26 weeks ended November 3, 2007 is a $0.9 and $1.8 decrease in cost of sales, selling and administrative expenses, a $0.3 and $0.6 increase in income taxes and an increase in basic and diluted earnings of $0.01 and $0.02 per share respectively. The effect for the quarter ended November 4, 2006 is a $3.2 increase in cost of sales, selling and administrative expenses, a $1.2 decrease in income taxes, a $0.6 decrease in minority interest and a decrease in basic and diluted earnings of $0.02 per share.

Adopted during fiscal 2007

Vendor consideration

During the first quarter of fiscal 2007, the Company implemented, on a retroactive basis, Emerging Issues Committee Abstract 156 ("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 sales and cost of sales, selling and administrative expenses. As reclassifications, these changes did not impact net earnings or earnings per share.

Future changes in accounting policies

Inventories

In March 2007, the CICA issued Section 3031, “Inventories”, which has replaced existing Section 3030 with the same title. The new Section establishes that inventories should be measured at the lower of cost and net realizable value, with guidance on the determination of cost. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008 and is applicable for the Company’s first quarter of fiscal 2009. The Company is currently evaluating the impact of this new standard.

Capital disclosures

In October 2006, the CICA issued section 1535 of the CICA Handbook, “Capital Disclosures”. This section establishes standards for disclosing information about an entity’s capital and how it is managed. The standard is effective for interim

(Unaudited, in millions, except per share amounts)

1. Summary of Significant Accounting Policies (continued)

and annual financial statements relating to fiscal years beginning on or after October 1, 2007 and is applicable for the Company's first quarter of fiscal 2009. The Company does not expect that the adoption of this standard will have a significant impact on its financial statements.

Financial instruments - disclosure and financial instruments - presentation

Section 3862, "Financial Instruments - Disclosure" and Section 3863, "Financial Instruments - Presentation", replace Section 3861, "Financial Instruments - Disclosure and Presentation". Section 3862 requires increased disclosures regarding the risks associated with financial instruments such as credit risk, liquidity risk and market risks and the techniques used to identify, monitor and manage these risks. Section 3863 carries forward standards for presentation of financial instruments and non-financial derivatives and provides additional guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity. These standards are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007 and are applicable for the Company's first quarter of fiscal 2009. The Company does not expect the adoption of these standards to have a significant impact on its financial disclosure and results of operations.

Cash and cash equivalents

Cash and cash equivalents are defined as cash, treasury bills and guaranteed investments with a maturity less than 90 days at date of acquisition.

Inventories

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

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.

Property and equipment

Property and equipment is recorded at net book value, being original cost less accumulated depreciation and any writedowns for impairment.

Depreciation on real estate buildings is calculated using the straight-line method with reference to each property's book value, its estimated useful life (not exceeding 40 years) and its residual value. Deferred leasing costs are amortized over the terms of the related leases.

Depreciation of other property and equipment is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Equipment, fixtures and vehicles	3 – 20 years
Buildings	10 – 40 years
Leasehold improvements	Lesser of lease term and 7 - 10 years

Property and equipment is reviewed for impairment annually. The carrying value of the property and equipment is also reviewed whenever events or changes in circumstances indicate that the carrying value of property and equipment may not be recoverable. The assets are impaired when the carrying value exceeds the sum of the undiscounted future cash flows expected from use and

1. Summary of Significant Accounting Policies (continued)

eventual disposal. If property and equipment is determined to be impaired, the impairment loss is measured at the excess of the carrying value over fair value.

Assets to be disposed are classified as held for sale and are no longer depreciated. Assets held for sale are recognized at the lower of book value and fair value less cost of disposal.

The Company follows the full cost method of accounting for its exploration and development of petroleum and natural gas reserves. Costs initially capitalized are depleted and depreciated using the unit-of-production method based on production volumes, before royalties, in relation to the Company's share of estimated proved petroleum and natural gas reserves.

Capitalization of costs

Construction projects
Certain subsidiary companies and joint ventures capitalize interest during the construction period until the project opening date. The amount of interest capitalized to construction in progress in the current period was $0.5 (2006 - $0.9).

Commercial properties
Certain subsidiaries and joint ventures capitalize the direct carrying and operating costs applicable to the unleased areas of each new project for a reasonable period from the project opening date until a certain level of occupancy is reached. No amounts were capitalized in fiscal 2007 or 2008.

Development properties and land held for future development
A subsidiary company capitalizes interest, real estate taxes and other expenses to the extent that they relate to properties for immediate development. To the extent that the resulting carrying value exceeds its fair market value, the excess is charged against income. The carrying costs on the balance of properties held for future development are capitalized as incurred. An amount of $0.4 (2006 - $Nil) was capitalized during the period.

Leases

Leases meeting certain criteria are accounted for as capital leases. The imputed interest is charged against income. If the lease contains a term that allows ownership to pass to the Company or there is a bargain purchase option the capitalized value is depreciated over the estimated useful life of the related asset. Otherwise the capitalized value is depreciated on a straight-line basis over the lesser of the lease term and its estimated useful life. Capital lease obligations are reduced by rental payments net of imputed interest. All other leases are accounted for as operating leases.

Lease allowances and incentives received are recorded as a deferred credit and amortized as a reduction of lease expense over the term of the leases. Real estate lease expense is amortized straight-line over the entire term of the lease including free rent periods related to store fixturing. A store fixturing period varies by store but is generally considered to be one month prior to the store opening.

Goodwill

Goodwill represents the excess of the purchase price of the business acquired over the fair value of the underlying net tangible and intangible assets acquired at the date of acquisition. Goodwill is not amortized but rather is subject to an annual impairment review or more frequently if circumstances exist that might indicate the value is impaired. Should the carrying value exceed the fair value, the carrying value will be written down to the fair value.

Intangibles

Intangibles arise on the purchase of a new business, existing franchises and the acquisition of pharmacy prescription files. Amortization on limited life intangibles is recorded on a straight-line basis over 10-15 years. Intangible assets with indefinite useful lives are not amortized but rather are subject to an annual impairment review or more frequently if circumstances exist that might indicate their value is impaired. Should the carrying value exceed the fair value of intangible assets (e.g. trademarks), the carrying value will be written down to the fair value.

1. Summary of Significant Accounting Policies (continued)

Assets held for sale

Certain land and buildings have been listed for sale and reclassified as “Assets held for sale” in accordance with CICA Handbook Section 3475, “Disposal of Long-lived Assets and Discontinued Operations”. These assets are expected to be sold within a twelve month period, are no longer productive assets and there is no longer an intent to develop for future use. Assets held for sale are valued at the lower of book value and fair value less cost of disposal.

Store opening expenses

Opening expenses of new stores and store conversions are written off on a straight-line basis during the first year of operation.

Future income taxes

The Company accounts for income taxes under the liability method. The difference between the tax basis of assets and liabilities and their carrying value on the balance sheet is used to calculate future tax assets and liabilities. The future tax assets and liabilities have been measured using substantively enacted tax rates that will be in effect when the differences are expected to reverse.

Deferred revenue

Deferred revenue consists of long-term supplier purchase agreements, rental revenue arising from the sale of subsidiaries and gains on sale leaseback transactions. Deferred revenue is being taken into income on a straight-line basis over the term of the related agreements and included in other long-term liabilities.

Foreign currency translation

Assets and liabilities of self-sustaining foreign investments are translated at exchange rates in effect at the balance sheet date. The revenues and expenses are translated at average exchange rates for the year. Cumulative gains and losses on translation are shown in accumulated other comprehensive income.

Other assets and liabilities are translated at the exchange rate in effect at the balance sheet date. These exchange gains or losses are recognized in operating income. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the average exchange rate for the period.

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.

(Unaudited, in millions, except per share amounts)

1. Summary of Significant Accounting Policies (continued)

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 five years. For other benefit plans, actuarial gains and losses are recognized immediately.

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. Certain of these estimates require subjective or complex judgments by management that may be uncertain. Some of these items include the valuation of inventories, goodwill, employee future benefits, valuation of asset-backed commercial paper and income taxes. Changes to these estimates could materially impact the financial statements. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results could differ materially from these estimates.

Earnings per share

Earnings per share is calculated by dividing the earnings available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method.

2. Privatization of Sobeys Inc.

On April 26, 2007, the Company and Sobeys Inc. ("Sobeys") jointly announced that they had entered into an arrangement agreement ("the Arrangement") pursuant to which the Company would acquire all of the outstanding common shares of Sobeys that it did not then own at a price of $58.00 per share.

The Arrangement required various approvals to comply with applicable corporate and securities laws. The Sobeys shareholders approved the Arrangement at a special shareholders' meeting held on June 9, 2007 by the requisite majority; the Supreme Court of Nova Scotia gave its sanction to the Arrangement on June 13, 2007; the Arrangement became effective upon registration of the final Court order with the Nova Scotia Registry of Joint Stock Companies at the close of business on June 15, 2007, at which time the Company acquired all the outstanding shares of Sobeys that it did not previously own. Subsequently, the Sobeys common shares ceased trading on the Toronto Stock Exchange, and were de-listed at the close of business on June 18, 2007.

The acquisition was accounted for using the purchase method with operating results being included in the consolidated financial statements as of the acquisition date. The preliminary purchase price allocation is as follows:

Consideration	
Cash	$ 1,061.7
Acquisition costs	4.0
Total consideration paid	1,065.7
Carrying amount of net assets acquired	576.5
Excess consideration paid over net assets acquired	$ 489.2
Preliminary allocation of excess consideration paid over net assets acquired	
Amortizable intangible assets	$ 40.0
Indefinite-life intangible assets	300.0
Goodwill	161.6
Future income taxes	(13.0)
Accumulated other comprehensive loss	0.6
	$ 489.2

(Unaudited, in millions, except per share amounts)

2. Privatization of Sobeys Inc. (continued)

The acquisition was financed by funds of $278.0, received primarily from sale of certain portfolio investments, and by advances of $787.7 under new credit facilities (see Note 8).

Management is currently carrying out a detailed analysis and changes will be made to the allocation of the excess consideration paid over net assets acquired as information becomes available. For example, since the measurement of the fair value of property and equipment had not been completed at the time of the preliminary allocation, property and equipment has been recorded at book value. The measurement and allocation of finite and infinite intangible assets is also underway. At this point, indefinite-life intangible assets have been identified as intangible assets acquired as part of the purchase and are not subject to amortization for accounting purposes. As the valuation is finalized, this assumption may change which may impact intangible amortization and future income taxes. Management expects to finalize the purchase price allocation in fiscal 2008. As a result, the actual amounts allocated to the identifiable assets acquired and liabilities assumed and the related operating results will vary from the preliminary amounts, and such differences could be material.

3. Earnings Per Share

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

Earnings applicable to common shares is comprised of the following:

	2007 (13 weeks)	2006 (13 weeks) *Restated (Note 1)*	**2007 (26 weeks)**	2006 (26 weeks) *Restated (Note 1)*
Operating earnings	**$ 59.9**	$ 49.8	**$ 120.3**	$ 103.1
Capital gains and other items, net of income taxes of $(1.1); $1.4; $17.9; $1.4	**(1.5)**	6.0	**80.4**	6.0
Net earnings	**58.4**	55.8	**200.7**	109.1
Preferred share dividends	**(0.1)**	(0.1)	**(0.2)**	(0.2)
Earnings applicable to common shares	**$ 58.3**	$ 55.7	**$ 200.5**	$ 108.9
Earnings per share is comprised of the following:				
Operating earnings	**$ 0.91**	$ 0.76	**$ 1.83**	$ 1.57
Capital gains and other items	**(0.02)**	0.09	**1.23**	0.09
Basic earnings per share	**$ 0.89**	$ 0.85	**$ 3.06**	$ 1.66
Operating earnings	**$ 0.91**	$ 0.76	**$ 1.83**	$ 1.57
Capital gains and other items	**(0.02)**	0.09	**1.22**	0.09
Diluted earnings per share	**$ 0.89**	$ 0.85	**$ 3.05**	$ 1.66

4. Investments, at Equity

	November 3 2007	May 5 2007	November 4 2006
Wajax Income Fund (27.6% interest)	**$ 32.9**	$ 32.2	$ 35.5
Crombie REIT (48.1% interest)	**105.4**	109.3	111.3
U.S. residential real estate partnerships	**0.6**	1.3	9.4
	$ 138.9	$ 142.8	$ 156.2

(Unaudited, in millions, except per share amounts)

4. Investments, at Equity (continued)

The Company's carrying value of its investment in Wajax Income Fund is as follows:

	November 3 2007	November 4 2006
Balance, beginning of period	**$ 32.2**	$ 33.1
Equity earnings	**9.6**	10.1
Distributions received	**(8.9)**	(7.7)
Balance, end of period	**$ 32.9**	$ 35.5

The Company's carrying value of its investment in Crombie REIT is as follows:

	November 3 2007	November 4 2006
Balance, beginning of period	**$ 109.3**	$ 112.8
Equity earnings	**6.3**	5.5
Share of comprehensive income (loss)	**(1.7)**	-
Distributions received	**(8.5)**	(7.0)
Balance, end of period	**$ 105.4**	$ 111.3

5. Mortgages, Loans and Other Receivables

	November 3 2007	May 5 2007	November 4 2006
Loans receivable	**$ 57.1**	$ 62.7	$ 70.9
Mortgages receivable	**0.6**	0.6	0.3
Other	**20.8**	16.3	17.1
	78.5	79.6	88.3
Less amount due within one year	**16.0**	14.5	21.8
	$ 62.5	$ 65.1	$ 66.5

Loans receivable

Loans receivable represent long-term financing to certain retail associates. These loans are primarily secured by inventory, fixtures and equipment, bear various interest rates and have repayment terms up to ten years. The carrying amount of the loans receivable approximates fair value based on the variable interest rates charged on the loans and the operating relationship of the associates with the Company.

6. Other Assets

Restricted cash

Other assets include restricted cash of $3.9 (May 5, 2007 - $5.7; November 4, 2006 - $5.4) held by VIEs as security for third party loans and financial derivatives at fair value.

Asset-backed commercial paper

As of November 3, 2007, Sobeys held third-party asset-backed commercial paper (“ABCP”) with an original cost of $30.0 that was in default. These ABCP were rated by the Dominion Bond Rating Service (“DBRS”) as R-1 (high), the highest credit rating for commercial paper since the ABCP are backed by AAA (high) rated assets. During the quarter a global disruption in the market for such commercial paper resulted in a constraint on the liquidity of ABCP. DBRS placed certain of the ABCP “under Review with Developing Implications” following an announcement on August 16, 2007 that a consortium representing banks, asset providers and major investors had agreed in principle to a long-term proposal and interim agreement regarding the ABCP (commonly referred to as

(Unaudited, in millions, except per share amounts)

6. Other Assets (continued)

"the Montreal Proposal"). Under this proposal, the affected ABCP would be converted into term floating rate notes maturing no earlier than the scheduled termination dates of the underlying assets. The Montreal Proposal called for the investors to continue to roll their ABCP during the standstill period. On September 6, 2007, a pan-Canadian committee consisting of major investors was formed to oversee the proposed restructuring process of the ABCP. On October 16, 2007, it was announced that the committee expected that the restructuring would be completed on or before December 14, 2007. As of November 3, 2007, all of the ABCP held by Sobeys were part of the Montreal Proposal.

These investments were initially classified as held-to-maturity instruments by the Company and were carried at an amortized cost. Due to the lack of liquidity and a yield on these instruments, an impairment loss of $3.0 pre-tax was recognized in the quarter. The Company estimated the impairment loss using a discounted cash flow approach. It is possible that the amount ultimately recovered may differ from the estimate. The Company continues to investigate the implications of the default and the remedies available. In addition, these investments have been reclassified as long-term assets rather than cash and cash equivalents due to the uncertainty as to the timing of collection.

Cash flow hedges

Cash flow hedges (Note 1) are grouped together and classified as either an other asset or other liability as required based on their fair value determination.

7. Property and Equipment

	Cost	Accumulated Depreciation	November 3, 2007 Net Book Value
Food segment			
Land	$ 160.8	$ -	$ 160.8
Land held for development	141.1	-	141.1
Buildings	681.7	171.8	509.9
Equipment, fixtures and vehicles	2,158.8	1,380.0	778.8
Leasehold improvements	440.2	273.7	166.5
Construction in progress	154.3	-	154.3
Assets under capital leases	99.0	44.3	54.7
	3,835.9	1,869.8	1,966.1
Real estate & other segments			
Land	76.0	-	76.0
Land held for development	36.7	-	36.7
Buildings	365.0	98.3	266.7
Equipment	74.8	34.0	40.8
Leasehold improvements	53.9	13.3	40.6
Construction in progress	13.1	-	13.1
Petroleum and natural gas costs	81.3	18.3	63.0
	700.8	163.9	536.9
Total	$ 4,536.7	$ 2,033.7	$ 2,503.0

(Unaudited, in millions, except per share amounts)

7. Property and Equipment (continued)

	Cost	Accumulated Depreciation	May 5, 2007 Net Book Value *Restated (Note 1)*
Food segment			
Land	$ 152.8	$ -	$ 152.8
Land held for development	129.0	-	129.0
Buildings	673.2	161.7	511.5
Equipment, fixtures and vehicles	2,012.3	1,256.7	755.6
Leasehold improvements	397.9	243.9	154.0
Construction in progress	109.3	-	109.3
Assets under capital leases	83.1	34.5	48.6
	3,557.6	1,696.8	1,860.8
Real estate & other segments			
Land	78.8	-	78.8
Land held for development	26.8	-	26.8
Buildings	377.3	102.2	275.1
Equipment	72.7	32.6	40.1
Leasehold improvements	52.4	12.1	40.3
Construction in progress	21.8	-	21.8
Petroleum and natural gas costs	78.7	13.3	65.4
	708.5	160.2	548.3
Total	$ 4,266.1	$ 1,857.0	$ 2,409.1

	Cost	Accumulated Depreciation	November 4, 2006 Net Book Value *Restated (Note 1)*
Food segment			
Land	$ 150.7	$ -	$ 150.7
Land held for development	122.1	-	122.1
Buildings	630.9	147.7	483.2
Equipment, fixtures and vehicles	1,870.3	1,182.6	687.7
Leasehold improvements	355.9	228.9	127.0
Construction in progress	165.8	-	165.8
Assets under capital leases	83.9	30.9	53.0
	3,379.6	1,590.1	1,789.5
Real estate & other segments			
Land	82.1	-	82.1
Land held for development	24.7	-	24.7
Buildings	384.9	98.1	286.8
Equipment	71.5	29.9	41.6
Leasehold improvements	52.0	10.3	41.7
Construction in progress	9.7	-	9.7
Petroleum and natural gas costs	65.5	6.6	58.9
	690.4	144.9	545.5
Total	$ 4,070.0	$ 1,735.0	$ 2,335.0

(Unaudited, in millions, except per share amounts)

8. Long-Term Debt

	November 3 2007	May 5 2007	November 4 2006
First mortgage loans, average interest rate 9.3%, due 2008-2026	**$ 150.8**	$ 155.6	$ 162.4
Medium Term Notes, interest rate 5.8%, due October 6, 2036	**125.0**	125.0	125.0
Medium Term Notes, interest rate 6.1%, due October 29, 2035	**175.0**	175.0	175.0
Medium Term Notes, interest rate 7.2%, due February 26, 2018	**100.0**	100.0	100.0
Debentures, average interest rate 10.4%, due 2008-2016	**83.9**	88.8	90.9
Notes payable and other debt primarily at interest rates fluctuating with the prime rate	**166.1**	179.4	180.4
Credit facility, floating interest rate tied to bankers' acceptance rates, due June 8, 2010	**510.0**	-	-
Credit facility, floating interest rate tied to bankers' acceptance rates, due July 23, 2012	**485.0**	-	-
Construction loans, interest rates fluctuating with the prime rate	**0.5**	1.6	0.4
Unamortized financing costs	**(4.0)**	-	-
Capital lease obligations, net of imputed interest	**55.2**	49.7	51.3
	1,847.5	875.1	885.4
Less amount due within one year	**80.5**	82.5	93.3
	$ 1,767.0	$ 792.6	$ 792.1

The new credit facilities (the "Credit Facilities") consisted of a $950.0 unsecured revolving term credit maturing June 8, 2010 (subject to annual one-year extensions at the request of the Company) and a $50.0 unsecured non-revolving credit that matured on June 30, 2007. The Credit Facilities are subject to certain financial covenants. Interest on the debt varies based on the designation of the loan (bankers' acceptances ("BA") rate loans, Canadian prime rate loans, U.S. base rate loans or LIBOR loans), fluctuations in the underlying rates, and in the case of the BA rate loans or LIBOR loans, the margin applicable to the financial covenants. On June 18, 2007, the Company entered into two delayed fixed rate interest swaps. The first swap, in an amount of $200.0, is for a period of three years at a fixed interest rate of 5.00%. The second swap, in an amount of $200.0, is for a period of five years at a fixed interest rate of 5.05%. Both swaps became effective on July 23, 2007.

On June 27, 2007, pursuant to the terms of the Credit Facilities, the Company and Sobeys filed notice with the lenders requesting the establishment of a new $300.0 five-year credit in favour of Sobeys at the same interest rate and substantially on the same terms and conditions as the Credit Facilities. At July 23, 2007, Sobeys drew down $300.0 from its new credit facility, the proceeds of which were used to pay a dividend to the Company. The Company used the proceeds from the dividend to reduce its indebtedness under the Credit Facilities and the Credit Facilities were reduced to $650.0 accordingly. On that date, the Company also transferred the second swap to Sobeys.

On July 30, 2007, Sobeys exercised an option under its new credit facility to increase the size of the credit from $300.0 to $600.0. At the same time, Sobeys terminated its previously existing $300.0 operating credit which would have expired on December 20, 2010. At November 3, 2007, $485.0 of this new credit facility was drawn down.

9. Other Long-Term Liabilities

	November 3 2007	May 5 2007	November 4 2006
Long-term lease obligation	**$ 35.6**	$ 36.9	$ 23.2
Deferred revenue	**13.6**	6.5	6.5
Financial instruments	**12.0**	2.5	9.6
Above market leases from acquisitions	**3.8**	4.4	4.6
Asset retirement obligations	**0.6**	0.6	0.4
	$ 65.6	$ 50.9	$ 44.3

(Unaudited, in millions, except per share amounts)

10. Capital Stock

Authorized

Preferred shares, par value of $25 each, issuable in series. Series 2 cumulative, redeemable, rate of 75% of prime.	2,780,100
2002 Preferred Shares, par value of $25 each, issuable in series.	992,000,000
Non-Voting Class A shares, without par value.	259,107,435
Class B common shares, without par value, voting.	40,800,000

	No. of Shares	**November 3 2007**	May 5 2007	November 4 2006
Issued and outstanding				
Preferred shares, Series 2	**266,000**	**$ 6.7**	$ 7.5	$ 8.3
Non-Voting Class A	**31,184,498**	**184.9**	184.5	184.4
Class B common	**34,560,763**	**7.7**	7.7	7.7
		199.3	199.7	200.4
Employees share purchase plan		**(3.5)**	(3.6)	(4.2)
		$ 195.8	$ 196.1	$ 196.2

During the period 10,461 (2006 - 46,047) Non-Voting Class A shares were issued under the Company's share purchase plan to certain officers and employees for $0.4 (2006 - $1.0). During the period, the Company purchased for cancellation 34,000 Series 2 preferred shares for $0.8.

11. Investment Income

	2007 *(13 weeks)*	2006 *(13 weeks)*	**2007 *(26 weeks)***	2006 *(26 weeks)*
Dividend and interest income	**$ 0.1**	$ 2.5	**$ 1.0**	$ 4.9
Share of earnings of entities accounted using the equity method	**7.8**	8.7	**15.9**	17.6
	$ 7.9	$ 11.2	**$ 16.9**	$ 22.5

12. Capital Gains and Other Items

	2007 *(13 weeks)*	2006 *(13 weeks)*	**2007 *(26 weeks)***	2006 *(26 weeks)*
Gain on sale of investments	**$ -**	$ 7.0	**$ 100.9**	$ 7.0
Other items	**0.4**	0.4	**0.4**	0.4
Change in fair value of Canadian third party asset-backed commercial paper (Note 6)	**(3.0)**	-	**(3.0)**	-
	$ (2.6)	$ 7.4	**$ 98.3**	$ 7.4

13. Supplementary Cash Flow Information

	2007 (13 weeks)	2006 (13 weeks) *Restated (Note 1)*	**2007 (26 weeks)**	2006 (26 weeks) *Restated (Note 1)*
a) Items not affecting cash				
Depreciation and amortization	**$ 76.7**	$ 67.2	**$ 146.5**	$ 130.1
Future income taxes	**(6.8)**	0.6	**(6.0)**	(0.6)
Amortization of other assets	**0.9**	1.6	**3.5**	3.8
Provision on asset-backed commercial paper	**3.0**	-	**3.0**	-
Equity in earnings of other entities, net of dividends received	**(0.7)**	(1.0)	**(0.7)**	(2.5)
Minority interest	**1.2**	12.3	**12.9**	27.5
Stock-based compensation	**-**	0.3	**2.2**	0.5
Long-term lease obligation	**(2.7)**	2.2	**(1.3)**	2.4
Employee future benefits obligation	**1.3**	2.9	**2.5**	4.2
Rationalization costs (Note 21)	**(3.7)**	-	**(3.1)**	-
	$ 69.2	$ 86.1	**$ 159.5**	$ 165.4

(Unaudited, in millions, except per share amounts)

13. Supplementary Cash Flow Information (continued)

b) Other cash flow information

Net interest paid	**$ 30.6**	$ 23.2	**$ 45.7**	$ 31.6
Net income taxes paid	**$ 32.5**	$ 39.1	**$ 76.6**	$ 70.0

14. Segmented Information

	2007 (13 weeks)	2006 (13 weeks) *Restated (Note 1)*	**2007 (26 weeks)**	2006 (26 weeks) *Restated (Note 1)*
Revenue				
Food	**$ 3,406.6**	$ 3,251.5	**$ 6,847.6**	$ 6,557.6
Real estate				
Commercial	**10.4**	9.4	**20.6**	19.5
Inter-segment	**8.5**	8.3	**16.5**	16.5
Residential	**17.7**	56.8	**42.9**	77.2
	36.6	74.5	**80.0**	113.2
Investment and other operations	**50.1**	35.8	**93.1**	80.1
	3,493.3	3,361.8	**7,020.7**	6,750.9
Elimination	**(8.5)**	(8.3)	**(16.5)**	(16.5)
	$ 3,484.8	$ 3,353.5	**$ 7,004.2**	$ 6,734.4

	2007 (13 weeks)	2006 (13 weeks) *Restated (Note 1)*	**2007 (26 weeks)**	2006 (26 weeks) *Restated (Note 1)*
Operating income				
Food	**$ 90.8**	$ 79.7	**$ 186.0**	$ 168.0
Real estate				
Commercial	**11.7**	11.3	**24.6**	23.1
Residential	**9.8**	17.7	**25.8**	31.3
Investment and other operations	**8.8**	6.6	**15.4**	16.6
Corporate expenses	**(2.9)**	(2.3)	**(6.1)**	(4.8)
	$ 118.2	$ 113.0	**$ 245.7**	$ 234.2

	November 3 2007	May 5 2007 *Restated (Note 1)*	November 4 2006 *Restated (Note 1)*
Identifiable assets			
Food	**$ 3,816.3**	$ 3,399.9	$ 3,245.2
Goodwill	**1,111.9**	746.5	726.0
	4,928.2	4,146.4	3,971.2
Real estate	**664.4**	609.4	616.5
Investment and other operations (including goodwill of $40.1; May 5, 2007 $40.1; November 4, 2006 $40.1)	**274.9**	460.0	627.6
	$ 5,867.5	$ 5,215.8	$ 5,215.3

	2007 (13 weeks)	2006 (13 weeks) *Restated (Note 1)*	**2007 (26 weeks)**	2006 (26 weeks) *Restated (Note 1)*
Depreciation and amortization				
Food	**$ 68.7**	$ 60.5	**$ 130.5**	$ 116.9
Real estate	**1.8**	1.6	**3.5**	3.6
Investment and other operations	**6.2**	5.1	**12.5**	9.6
	$ 76.7	$ 67.2	**$ 146.5**	$ 130.1

(Unaudited, in millions, except per share amounts)

14. Segmented Information (continued)

	2007 (13 weeks)	2006 (13 weeks) *Restated (Note 1)*	**2007 (26 weeks)**	2006 (26 weeks) *Restated (Note 1)*
Capital expenditures				
Food	**$ 114.9**	$ 94.8	**$ 191.2**	$ 221.6
Real estate	**6.5**	6.1	**28.0**	9.6
Investment and other operations	**2.4**	9.5	**13.7**	15.2
	$ 123.8	$ 110.4	**$ 232.9**	$ 246.4

15. Employee Future Benefits

During the Company's second quarter and first half of fiscal 2008, the net employee future benefit expense was $5.7 and $11.5 respectively (2006 - $6.1 and $12.2). 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.

16. Business Acquisitions

During the first two quarters, Sobeys acquired franchisee stores and prescription files as part of its normal course of operations for total cash consideration of $7.3. The acquisitions were accounted for using the purchase method with net identifiable assets recorded at $5.4 (including intangible assets of $2.1) and goodwill recorded at $1.9. During the first two quarters of fiscal 2007, Sobeys acquired franchisee stores and prescription files for total cash consideration of $17.0. The acquisitions were accounted for using the purchase method with net identifiable assets recorded at $16.9 (including intangible assets of $7.4) and goodwill recorded at $0.1.

During the first half of fiscal 2007, the Company increased its ownership interest in Sobeys from 70.3% to 72.1% by way of purchase of shares on the open market. The acquisition was accounted for using the purchase method with operating results being included in the consolidated financial statements from the date of each share acquisition. The cash consideration paid was $48.6, goodwill increased by $13.0 and minority interest decreased by $35.6.

On September 12, 2007, Sobeys acquired all the assets of Thrifty Foods ("Thrifty") for an amount of $261.8. The assets acquired include 20 full-service supermarkets, a main distribution centre and a wholesale division on Vancouver Island and the Lower mainland of British Columbia. The acquisition was accounted for using the purchase method with the results of Thrifty being consolidated since the acquisition date. Management is currently carrying out a detailed analysis and changes will be made to the allocation of the excess consideration paid over net assets acquired as information becomes available. The measurement and allocation of finite and infinite intangible assets is also underway. Management expects to finalize the purchase price allocation in fiscal 2008. As a result, the actual amounts allocated to the identifiable assets acquired and liabilities assumed and the related operating results will vary from the preliminary amounts, and differences could be material. The preliminary purchase price allocation, which has incorporated management's preliminary assessment of fair value, is as follows:

Consideration	
Cash	$ 259.8
Acquisition costs	2.0
Total consideration paid	261.8
Net assets acquired	
Current assets	35.6
Long-term assets	41.3
Current liabilities assumed	(33.3)
Long-term liabilities assumed	(3.8)
Total net assets acquired	39.8
Excess consideration paid over net assets acquired	$ 222.0
Preliminary allocation of excess of consideration paid over net assets acquired	
Goodwill and identifiable intangible assets	$ 222.0

(Unaudited, in millions, except per share amounts)

16. Business Acquisitions (continued)

On August 27, 2006, Sobeys 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 18). They have been included in the consolidated results of the Company. The acquisition was accounted for using the purchase method with the results of ADL being consolidated since the acquisition date. During the third quarter of fiscal 2007, 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 of fiscal 2007. 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

17. 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. The Company recognizes these allowances as a reduction of cost of sales, selling and administrative expenses and related inventories in accordance with EIC-144. Certain allowances from vendors are contingent on the Company achieving minimum purchase levels. These allowances are recognized when it is probable that the minimum purchase level will be met and the amount of allowance can be estimated. During the second quarter and first half of fiscal 2008, the Company has recognized $2.0 (2006 - $3.9) and $3.7 (2006 - $5.6) of allowances in income where it is probable that the minimum purchase level will be met and the amount of allowance can be estimated.

18. Variable Interest Entities

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

The Company has identified the following entities as VIEs:

Franchise Affiliates
The Company has identified 288 (May 5, 2007 - 271; November 4, 2006 - 276) 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.

18. Variable Interest Entities (continued)

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.

19. Contingent Liabilities

Guarantees and commitments

During the second quarter of fiscal 2008 Sobeys entered into an additional guarantee contract. Under the terms of the guarantee should a franchise affiliate be unable to fulfill their lease obligation Sobeys would be required to fund the greater of $5.0 or 9.9 percent of the unfulfilled obligation balance. As at November 3, 2007 the value of the guarantee was $5.0.

During the second quarter of fiscal 2008 Sobeys also reduced its guaranteed obligation under a previous contract from $100.0 to approximately $70.0. The terms of this obligation are disclosed in Note 19 of the Company's 2007 Annual Report.

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 Canada Revenue Agency ("CRA") for fiscal years 1999 and 2000 related to the Goods and Service Tax ("GST"). CRA asserts that Sobeys 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 has reviewed this matter, has received legal advice, and believes it was not required to collect GST. During the second quarter of fiscal 2006, Sobeys filed a Notice of Objection with CRA. Accordingly, the Company has not recorded in its statement of earnings any of the tax, interest or penalties 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 unlikely, the maximum potential exposure in excess of provisions taken is approximately $24.0.

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.

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.

(Unaudited, in millions, except per share amounts)

20. Related Party Transactions

The Company rents premises from Crombie REIT. In addition, Crombie REIT provides administrative and management services to the Company. The rental payments are at fair value and the charges incurred for administrative and management services are on a cost recovery basis. The Company has non-interest bearing notes payable to Crombie REIT in the amount of $25.1.

21. Business Rationalization Costs

During the third quarter of fiscal 2007, Sobeys completed a rationalization of administrative functions in Atlantic Canada. Sobeys 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. In the fourth quarter of fiscal 2007, Sobeys also recorded rationalization costs related to its Quebec distribution network of which $3.0 has been reversed in the second quarter of fiscal 2008 as a result of changes in management's estimates of the expected costs. During the first quarter of fiscal 2008, Sobeys incurred additional administrative rationalization costs. Sobeys expects to incur additional administrative rationalization costs in fiscal 2008 enabled by its continuing business process and system initiative. The dollar value of these additional costs will be quantified and disclosed throughout fiscal 2008. The costs associated with the organizational change are recorded as incurred as cost of sales, selling and administrative expenses in the statement of earnings before tax as follows:

	Liability at May 5, 2007	Incurred Fiscal 2008 (26 weeks)	Paid	Liability at November 3, 2007
Severance				
National	$ -	$ 1.2	$ 0.3	$ 0.9
Atlantic	3.2	-	1.0	2.2
Ontario	4.6	-	-	4.6
Quebec	4.3	(3.0)	-	1.3
Other costs	-	-	-	-
	12.1	(1.8)	1.3	9.0
Asset write-offs	-	-	-	-
	$ 12.1	$ (1.8)	$ 1.3	$ 9.0

	Incurred Fiscal 2007 (52 weeks)	Incurred Fiscal 2008 (26 weeks)	Anticipated	Total Incurred and Anticipated
Severance				
National	$ -	$ 1.2	$ -	$ 1.2
Atlantic	4.7	-	-	4.7
Ontario	5.3	-	-	5.3
Quebec	4.3	(3.0)	-	1.3
Other costs	1.1	-	-	1.1
	15.4	(1.8)	-	13.6
Asset write-offs	3.4	-	-	3.4
	$ 18.8	$ (1.8)	$ -	$ 17.0

22. Subsequent Events

On November 8, 2007, Sobeys established and drew down on a new unsecured revolving credit facility of $75.0. The maturity date is November 8, 2010. The interest rate will be floating and may be tied to the bankers' acceptance rate, Canadian prime rate or LIBOR.

On November 15, 2007, Sobeys established and drew down on a new unsecured non-revolving credit facility of $30.0. The maturity date is May 15, 2008. The interest rate will be floating and may be tied to the bankers' acceptance rate, Canadian prime rate or LIBOR.

23. Comparative Figures

Comparative figures have been reclassified, where necessary, to reflect the current period's presentation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

The following is Management's Discussion and Analysis ("MD&A") of the consolidated financial results of Empire Company Limited ("Empire" or the "Company") for the 13 and 26 weeks ended November 3, 2007, as compared to the 13 and 26 weeks ended November 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 26 weeks ended November 3, 2007, the audited annual consolidated financial statements and accompanying notes for the 52 weeks ended May 5, 2007 and the related annual MD&A as contained on pages 29 through 68 of Empire's 2007 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 2007 Annual Report, on page 100, is a glossary of terms used throughout this MD&A. The information contained in this MD&A is current to December 13, 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:

- The Company's estimate of the purchase price allocation for the Sobeys privatization and the Thrifty Foods acquisition could differ substantially from the actual allocation once the analysis is complete and could impact earnings, particularly intangible amortization and future income taxes;

- Sobeys' expectations that administrative and business rationalization activities will have a cost impact as expected which could be impacted by the final scope and scale of these activities;

- Sobeys' estimate of impairment loss on Asset-Backed Commercial Paper ("ABCP") is subject to measurement uncertainty and is dependent on the likelihood, nature and timing of future restructurings of ABCP;

- The Company's expectations regarding the purchase of 66,000 Series 2 Preferred shares for cancellation by the end of calendar 2007 could be impacted by market conditions and the availability of a seller;

- The Company's expectations that its capital resources and liquidity position will meet its capital and liquidity requirements over the next year; and

- The Company's expectations relating 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 the matter is resolved.

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 2007 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 include food, real estate, investments and other operations. Food is carried out through wholly-owned Sobeys Inc. ("Sobeys"). The real estate business is carried out through two wholly-owned operating subsidiaries: Sobey Leased Properties Limited ("SLP") and ECL Properties Limited ("ECL"), which includes a 35.7 percent ownership interest in Genstar Development Partnership and a 43.3 percent interest in Genstar Development Partnership II (collectively referred to as "Genstar") and a 48.1 percent ownership interest in Crombie Real Estate Investment Trust ("Crombie REIT"). Corporate investment activities and other operations includes wholly-owned ETL Canada Holdings Limited ("Empire Theatres"); Kepec Resources Limited ("Kepec"), a joint venture with APL Oil and Gas Limited which has ownership interests in various oil and gas properties in Alberta; and a 27.6 percent ownership position in Wajax Income Fund ("Wajax"). With over $13 billion in annual revenue and approximately $5.8 billion in assets, Empire employs approximately 40,000 people directly and through its subsidiaries.

Sobeys Privatization

On April 26, 2007, Empire and Sobeys jointly announced that they had entered into an arrangement agreement (the "Arrangement") pursuant to which Empire would acquire all of the outstanding common shares of Sobeys that it did not then own at a price of $58.00 per share. The transaction valued the Sobeys shares not then owned by Empire at approximately $1.06 billion.

The Arrangement required various approvals to comply with applicable corporate and securities laws. Sobeys' shareholders approved the Arrangement at a Special Shareholders' Meeting held on June 9, 2007 by the requisite majority; the Supreme Court of Nova Scotia gave its sanction to the Arrangement on June 13, 2007; the Arrangement became effective upon registration of the final Court order with the Nova Scotia Registry of Joint Stock Companies at the close of business on June 15, 2007, at which time Empire acquired all of the outstanding shares of Sobeys that it did not previously own. Subsequently, the Sobeys common shares ceased trading on the Toronto Stock Exchange, and were de-listed at the close of business on June 18, 2007.

The acquisition was accounted for using the purchase method with operating results being included in the consolidated financial statements as of the acquisition date. The preliminary purchase price allocation is as follows:

($ in millions)	
Consideration	
Cash	$ 1,061.7
Acquisition costs	4.0
Total consideration paid	1,065.7
Less: Carrying amount of net assets acquired	576.5
Excess consideration paid over net assets acquired	$ 489.2
Preliminary allocation of excess consideration paid over net assets acquired:	
Amortizable intangible assets	$ 40.0
Indefinite-life intangible assets	300.0
Goodwill	161.6
Future income taxes	(13.0)
Accumulated other comprehensive loss	0.6
	$ 489.2

Management is currently carrying out a detailed analysis and changes will be made to the allocation of the excess consideration paid over net assets acquired as information becomes available. The measurement and allocation of finite and infinite intangible assets is also underway. Management expects to finalize the purchase price allocation in fiscal 2008. As a result the actual amount allocated to the identifiable assets acquired and liabilities assumed and the related operating results may vary from the preliminary amounts, and differences could be material. For the 26 weeks ended November 3, 2007, the Company recognized $1.6 million of intangible amortization related to the preliminary allocation made to amortizable intangible assets.

The acquisition was financed by funds of $278.0 million generated primarily from the sale of certain portfolio investments and by advances of $787.7 million under new credit facilities (the “Credit Facilities”). At the time of financing, the Credit Facilities consisted of a $950.0 million unsecured revolving credit facility maturing on June 8, 2010 (subject to annual one-year extensions at the request of the Company) and a $50.0 million unsecured non-revolving credit facility that matured on June 30, 2007. The unsecured non-revolving credit facility was repaid on June 30, 2007 with funds drawn from the unsecured revolving credit facility.

The Credit Facilities are subject to certain financial covenants. Interest on the debt varies based on the designation of the loan (bankers' acceptances (“BA”) rate loans, Canadian prime rate loans, U.S. base rate loans or LIBOR loans), fluctuations in the underlying rates, and in the case of BA rate loans or LIBOR loans, the margin applicable to the financial covenants. On June 18, 2007, Empire entered into two delayed fixed rate interest swaps. The first swap in an amount of $200.0 million is three years in duration and carries a fixed interest rate of 4.998 percent. The second swap in an amount of $200.0 million is for a period of five years at a fixed interest rate of 5.051 percent. Both swaps became effective on July 23, 2007.

On June 27, 2007, pursuant to the terms of the Credit Facilities, Empire and Sobeys filed notice with the lenders requesting the establishment of a new $300.0 million five-year credit facility in favour of Sobeys at the same interest rate and substantially on the same terms and conditions as the Credit Facilities. At July 23, 2007, Sobeys drew down $300.0 million from its new credit facility, the proceeds of which were used to pay a dividend to the Company. The Company used the proceeds from the dividend to reduce its indebtedness under the Credit Facilities and the Credit Facilities were reduced to $650.0 million accordingly. On that date, the Company transferred the second swap to Sobeys.

On July 30, 2007, Sobeys exercised an option under its new Credit Facility to increase the size of the credit from $300.0 million to $600.0 million. At the same time, Sobeys terminated its previously existing $300.0 million operating Credit Facility which would have expired on December 20, 2010. At November 3, 2007, $485.0 million of this new Credit Facility was drawn down.

As mentioned, the closing date of the acquisition was on June 15, 2007, which was mid-way through the first quarter of fiscal 2008. As a result Empire owned 100 percent of Sobeys throughout the second quarter of fiscal 2008 compared to a 72.1 percent ownership interest at the end of the second quarter last year. This resulted in significantly lower minority interest expense during the first and second quarter of fiscal 2008, relative to the prior year.

Thrifty Foods Acquisition

On September 12, 2007, Sobeys acquired all the assets of Thrifty Foods for an amount of $261.8 million. The assets acquired include 20 full-service supermarkets, a main distribution center and a wholesale division on Vancouver Island and the lower mainland of British Columbia. The acquisition was accounted for using the purchase method with the results of Thrifty Foods being consolidated as of the acquisition date. Management is currently carrying out a detailed analysis and changes will be made to the allocation of the excess of consideration paid over the net assets acquired as information becomes available. The measurement and allocation of finite and infinite intangible assets is also currently underway. Management expects to finalize the purchase price allocation in the fourth quarter of fiscal 2008. As a result the actual amount allocated to each of the identifiable assets, assumed liabilities and related operating results may vary from the preliminary amounts and any differences could be material.

Consolidated Operating Results

The consolidated financial overview provided below reports on the financial performance for the 13 and 26 weeks ended November 3, 2007 relative to the same periods last year.

Summary Table of Consolidated Financial Results

	13 Weeks Ended				26 Weeks Ended			
	November 3, 2007		November 4, 2006 Restated [(1)]		**November 3, 2007**		November 4, 2006 Restated [(1)]	
($ in millions, except per share information)	**$**	**% of Revenue**	$	% of Revenue	**$**	**% of Revenue**	$	% of Revenue
Revenue	**$ 3,484.8**	**100.00%**	$ 3,353.5	100.00%	**$ 7,004.2**	**100.00%**	$ 6,734.4	100.00%
Operating income	**118.2**	**3.39%**	113.0	3.37%	**245.7**	**3.51%**	234.2	3.48%
Operating earnings	**59.9**	**1.72%**	49.8	1.48%	**120.3**	**1.72%**	103.1	1.53%
Capital gains and other items, net of tax	**(1.5)**	**0.04%**	6.0	0.18%	**80.4**	**1.15%**	6.0	0.09%
Net earnings	**$ 58.4**	**1.68%**	$ 55.8	1.66%	**$ 200.7**	**2.87%**	$ 109.1	1.62%
Basic earnings per share								
Operating earnings	**$ 0.91**		$ 0.76		**$ 1.83**		$ 1.57	
Capital gains and other items, net of tax	**(0.02)**		0.09		**1.23**		0.09	
Net earnings	**$ 0.89**		$ 0.85		**$ 3.06**		$ 1.66	
Basic weighted average number of shares outstanding (in millions)	**65.6**		65.5		**65.6**		65.5	
Diluted earnings per share								
Operating earnings	**$ 0.91**		$ 0.76		**$ 1.83**		$ 1.57	
Capital gains and other items, net of tax	**(0.02)**		0.09		**1.22**		0.09	
Net earnings	**$ 0.89**		$ 0.85		**$ 3.05**		$ 1.66	
Diluted weighted average number of shares outstanding (in millions)	**65.7**		65.7		**65.7**		65.7	
Dividends per share	**$ 0.165**		$ 0.150		**$ 0.330**		$ 0.300	

(1) The 13 and 26 weeks ended November 4, 2006 have been restated to reflect a change in accounting policy with respect to deferred charges. Please see the section titled "Deferred Charges" in this MD&A.

Management's Explanation of Consolidated Results

The following is a review of Empire's consolidated financial performance for the 13 and 26 weeks ended November 3, 2007 compared to the 13 and 26 weeks ended November 4, 2006.

Revenue

Consolidated revenue for the second quarter of fiscal 2008 was $3.48 billion compared to $3.35 billion for the same quarter last year, an increase of $131.3 million or 3.9 percent.

For the second quarter ended November 3, 2007, the food division contributed revenue of $3.41 billion versus $3.25 billion in the second quarter last year, an increase of $155.1 million or 4.8 percent. During the second quarter of fiscal 2008, the food division's same-store sales growth (sales from stores in the same locations in both reporting periods) increased 2.3 percent.

Real estate revenue (net of inter-segment elimination) decreased $38.1 million or 57.6 percent in the second quarter of fiscal 2008. Investment and other operations revenue increased $14.3 million over the second quarter last year.

Fiscal year-to-date revenue growth of $269.8 million or 4.0 percent was largely driven by a $290.0 million or 4.4 percent growth in food division sales over the comparable period last year, with same-store sales growth of 2.9 percent. Real estate revenues (net of inter-segment elimination) decreased $33.2 million or 34.3 percent while revenue from investment and other operations increased by $13.0 million or 16.2 percent over the prior year.

The following items impact revenue comparability:

- 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. A decline in wholesale tobacco sales impacted second quarter of fiscal 2008 revenues by $30.1 million relative to the second quarter last year and fiscal year-to-date sales by $81.7 million relative to the prior year.

- Sobeys' sales were positively influenced by the acquisition of Achille de la Chevrotière Ltée and its associated companies ("ADL") on August 27, 2006 and Thrifty Foods on September 12, 2007. These acquisitions collectively increased second quarter fiscal 2008 sales by $103.5 million and fiscal year-to-date sales by $160.3 million over the same period last fiscal year.

Excluding the impact of the decline in wholesale tobacco sales and the acquisition of ADL and Thrifty Foods, Empire's consolidated sales growth would have been 1.7 percent for the second quarter and 2.8 percent on a fiscal year-to-date basis.

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

Operating Income

Consolidated operating income in the second quarter of fiscal 2008 totalled $118.2 million compared to $113.0 million in the second quarter last year, an increase of $5.2 million or 4.6 percent. The increase was the result of an $11.1 million or 13.9 percent increase in operating income contribution from the food division, an increase in investment and other operations operating income, net of corporate expenses, of $1.6 million or 37.2 percent, partially offset by a $7.5 million or 25.9 percent decline in operating income from the real estate division.

Fiscal year-to-date operating income equalled $245.7 million, an increase of $11.5 million or 4.9 percent which was attributed to an $18.0 million or 10.7 percent increase in food division operating income, primarily offset by a $4.0 million or 7.4 percent decline in real estate division operating income and a decrease in operating income from investments and other operations of $2.5 million or 21.2 percent over the comparable period last year.

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

Interest Expense

The $11.9 million increase in the second quarter fiscal 2008 consolidated interest expense compared to the same quarter last year is the result of increased long-term borrowing levels. For the 26 weeks ended November 3, 2007, interest expense amounted to $48.2 million, an increase of $18.4 million over last year. Long-term debt, including amounts due within one year and liabilities related to assets held for sale, increased $961.6 million to $1,854.1 million at the end of the second quarter of fiscal 2008 compared to $892.5 million at the end of the same quarter of last year. This increase was largely the consequence of long-term debt incurred to finance the privatization of Sobeys as mentioned.

Income Tax Expense

The effective income tax rate for the second quarter was 32.7 percent versus 33.5 percent in the second quarter of fiscal 2007. The effective income tax rate for the 26 weeks ended November 3, 2007 was 32.6 percent compared to 33.5 percent last year.

Minority Interest

In the second quarter of fiscal 2008, Empire recorded minority interest expense of $1.2 million compared to $15.0 million in the second quarter last year. The decrease in minority interest expense is primarily the result of Empire increasing its ownership position in Sobeys to 100.0 percent on June 15, 2007 resulting in a weighted average ownership position in the second quarter of 100.0 percent. Empire's ownership position in Sobeys at the end of the second quarter last year was 72.1 percent.

Earnings Before Capital Gains (Losses) and Other Items

The $10.1 million or 20.3 percent improvement in net earnings before capital gains and other items, net of tax, over the prior year was the result of the $5.2 million increase in operating income, the $13.8 million decrease in minority interest and a $3.0 million decrease in income taxes partially offset by the $11.9 million increase in interest expense as mentioned.

The $17.2 million or 16.7 percent increase in operating earnings in the first 26 weeks of the fiscal year is attributed to the $11.5 million increase in operating income, a $4.1 million decrease in income tax expense and a $20.0 million reduction in minority interest, partially offset by an $18.4 million increase in interest expense.

Capital Gains (Losses) and Other Items

The Company incurred capital losses and other items, net of tax, of $1.5 million in the second quarter of fiscal 2008 largely as a result of the ten percent fair value adjustment recorded by Sobeys on the $30.0 million of ABCP it held at the end of the second fiscal quarter. Capital gains and other items, net of tax, of $6.0 million were recorded in the second quarter last year.

On a fiscal year-to-date basis, the Company recorded capital gains and other items, net of tax, of $80.4 million largely as a result of the sale of the liquid portfolio as compared to $6.0 million in the first half of last year.

Net Earnings

The increase in second quarter net earnings of $2.6 million is attributed to the $10.1 million increase in operating earnings as discussed offset by the decline in capital gains, net of tax, and other items of $7.5 million from the prior year. Net earnings for the 26 weeks ended November 3, 2007 totalled $200.7 million, an increase of $91.6 million or 84.0 percent over the $109.1 million reported in the same period last year.

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.

Results by Quarter

	Fiscal 2008		Fiscal 2007				Fiscal 2006	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
($ in millions, except per share information)	(13 weeks) Nov. 3/07	(13 weeks) Aug. 4/07	(13 weeks) May 5/07[1]	(13 weeks) Feb. 3/07[1]	(13 weeks) Nov. 4/06[1]	(13 weeks) Aug. 5/06[1]	(13 weeks) May 6/06[1]	(13 weeks) Feb. 4/06[1]
Revenue	$3,484.8	$3,519.4	$3,350.4	$3,281.9	$3,353.4	$3,380.9	$3,226.6	$3,235.2
Operating income	118.2	127.5	124.0	73.0	113.0	121.2	130.9	118.3
Operating earnings[2]	59.9	60.4	64.2	32.8	49.8	53.3	56.9	47.7
Capital gains (losses) and other items, net of tax	(1.5)	81.9	0.7	(1.0)	6.0	-	61.5	8.3
Net earnings	$ 58.4	$ 142.3	$ 64.9	$ 31.8	$ 55.8	$ 53.3	$ 118.4	$ 56.0
Per share information, diluted								
Operating earnings	$ 0.91	$ 0.92	$ 0.98	$ 0.49	$ 0.76	$ 0.81	$ 0.87	$ 0.72
Capital gains (losses) and other items, net of tax	(0.02)	1.24	0.01	(0.01)	0.09	-	0.93	0.13
Net earnings	$ 0.89	$ 2.16	$ 0.99	$ 0.48	$ 0.85	$ 0.81	$ 1.80	$ 0.85
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) Amounts have been restated as a result of a reclassification and change in accounting policy with respect to deferred charges and the Company's adoption of EIC-156 in the first quarter of fiscal 2007. Please see the sections entitled "Deferred Charges" in this MD&A and "Accounting Policy Changes - Accounting for consideration by a vendor to a customer (Including a reseller of the Vendor's Products)("EIC-156") in the Company's 2007 Annual MD&A.

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

Sales and operating earnings growth have been influenced by the Company's investing activities, the competitive environment, general industry trends and by other risk factors as outlined in the fiscal 2007 annual MD&A, as contained on pages 29-68 of the Company's 2007 Annual Report.

Operating Performance by Division

Food Division

Sobeys conducts business through approximately 1,300 retail grocery stores (corporately owned and franchised) which operate in five retail regions: Sobeys West, Sobeys Ontario, Sobeys Quebec, Sobeys Atlantic and Thrifty Foods in British Columbia. Empire owned 100.0 percent of Sobeys throughout the second quarter of fiscal 2008, compared to a 72.1 percent ownership interest at the end of fiscal 2007 and a 72.1 percent ownership interest at the end of the second quarter of fiscal 2007.

Sobeys' financial contribution to Empire has been adjusted for the preliminary estimate of the amortization of intangible assets related to the purchase price allocation and to reflect Empire's weighted average ownership of 100.0 percent and 72.1 percent at November 3, 2007 and November 4, 2006, respectively. The table below presents Sobeys' contribution to Empire's consolidated sales and operating income:

	13 Weeks Ended		Year over Year		26 Weeks Ended		Year over Year	
($ in millions)	Nov. 3, 2007	Nov. 4, 2006 Restated [2]	($) Change	(%) Change	Nov. 3, 2007	Nov. 4, 2006 Restated [2]	($) Change	(%) Change
Sales	$ 3,406.6	$ 3,251.5	$ 155.1	4.8%	$ 6,847.6	$ 6,557.6	$ 290.0	4.4%
Operating income [1]	90.8	79.7	11.1	13.9%	186.0	168.0	18.0	10.7%

(1) Operating income amounts for the 13 and 26 weeks ended November 3, 2007 include amortization related to the preliminary allocation made to amortizable intangible assets ($1.0 million in the second quarter and $1.6 million fiscal year-to-date). There was no impact in the prior year.

(2) The 13 and 26 weeks ended November 4, 2006 have been restated to reflect a change in accounting policy with respect to deferred charges.

Sales

Food division sales for the second quarter of fiscal 2008 were $3.41 billion compared to $3.25 billion for the same quarter last year, an increase of $155.1 million or 4.8 percent. During the second quarter of fiscal 2008 Sobeys' same-store sales (sales from stores in the same locations in both reporting periods) increased by 2.3 percent. Year-to-date, sales increased 4.4 percent from the prior year, with same-store sales growth of 2.9 percent.

Sales growth for the quarter 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 were also driven by the acquisition of ADL on August 27, 2006 and Thrifty Foods on September 12, 2007.

As noted in prior quarters, a major Canadian tobacco supplier began to sell and distribute directly to some of Sobeys' customers resulting in a decline in sales. This change in distribution along with lower market demand for tobacco reduced sales on an annual basis by $123.9 million in fiscal 2007 and by $30.1 million during the second quarter of fiscal 2008. Margins on tobacco sales are significantly lower than on other products therefore the loss of these sales does not have a material impact on earnings.

As shown in the table below, excluding the impact of the wholesale tobacco decline and the ADL and Thrifty Foods acquisitions, second quarter sales growth would have been 2.5 percent and fiscal year-to-date sales growth would have been 3.2 percent.

	13 Weeks Ended				26 Weeks Ended			
($ in millions)	Nov. 3, 2007 ($)	Nov. 4, 2006 ($)	($) Change	(%) Change	Nov. 3, 2007 ($)	Nov. 4, 2006 ($)	($) Change	(%) Change
Sobeys' financially reported sales	$ 3,406.6	$ 3,251.5	$ 155.1	4.8%	$ 6,847.6	$ 6,557.6	$ 290.0	4.4%
Add (deduct) impact of:								
Major acquistions			(103.5)				(160.3)	
Wholesale tobacco decline			30.1				81.7	
Subtotal			(73.4)				(78.6)	
			$ 81.7	2.5%			$ 211.4	3.2%

Business Process and System Initiative and Business Rationalization Costs

During the first half of fiscal 2008, Sobeys continued to make significant progress in the implementation of system-wide business process optimization and rationalization initiatives that are designed to reduce complexity and improve processes and efficiency throughout Sobeys.

In fiscal 2006, Sobeys began its business process and information systems transformation plan by focusing on the significant opportunity to upgrade information processing and decision support capabilities and improve efficiencies in the Ontario region. The system and processes that were implemented were developed over several years and are also employed in Sobeys' Atlantic region. The Ontario roll-out standardized and streamlined the "back shop" in support of Sobeys' food-focused strategy. This move will allow Sobeys to leverage technology investments, improve efficiencies and lower costs over the long-term. During the third quarter of fiscal 2007 Sobeys completed the implementation of the system in the Ontario region. This implementation supports all aspects of Sobeys' Ontario business including operations, merchandising, distribution and finance and is an important enabler of further initiatives in Ontario including the new distribution facility in Ontario as discussed in the Company's fiscal 2007 annual MD&A.

A similar business process and system initiative began in the Western region during fiscal 2007 and was completed during the second quarter of 2008.

The business process and system initiative costs primarily include labour, implementation and training costs associated with the business process and system implementation. The business rationalization costs primarily include severance costs. During the second quarter of fiscal 2008, $4.8 million ($11.1 million in the second quarter of fiscal 2007) of pre-tax costs were incurred related to these initiatives. For the 26-weeks ended November 3, 2007, pre-tax costs of $9.8 million ($18.4 million in the first half of fiscal 2007) were incurred.

Sobeys expects to incur additional administrative rationalization costs in the remainder of fiscal 2008, enabled by its continuing business process and system initiative. The dollar value of these additional costs will be quantified and disclosed throughout fiscal 2008.

Operating Income

Sobeys' contributed operating income of $90.8 million in the second quarter of fiscal 2008, a $11.1 million or 13.9 percent increase from the second quarter last year. Operating income margin in the second quarter equalled 2.67 percent compared to 2.45 percent in the second quarter of fiscal 2007. Included in the second quarter fiscal 2008 operating income was a $7.2 million increase in depreciation and amortization expense ($67.7 million in the current quarter compared to $60.5 million for the same quarter last year), reflecting Sobeys' continued capital investments. Also, included in Sobeys' operating income are the business process and system initiative and rationalization costs as mentioned.

For the 26 weeks ended November 3, 2007, Sobeys' operating income increased by $18.0 million to $186.0 million, an increase of 10.7 percent over the $168.0 million reported last year. Operating income as a percent of sales was 2.72 percent for the fiscal year-to-date compared to 2.56 for the same period last year.

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

Real Estate Division

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

Commercial real estate operations are conducted through ECL and SLP, while residential land development is primarily conducted through Genstar, which operates principally in high growth communities in 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				26 Weeks Ended			
($ in millions)	**Nov. 3, 2007 ($)**	Nov. 4, 2006 ($)	($) Change	(%) Change	**Nov. 3, 2007 ($)**	Nov. 4, 2006 ($)	($) Change	(%) Change
Revenue								
Commercial	**$ 18.9**	$ 17.7	$ 1.2	6.8%	**$ 37.1**	$ 36.0	$ 1.1	3.1%
Residential	**17.7**	56.8	(39.1)	(68.8%)	**42.9**	77.2	(34.3)	(44.4%)
	36.6	74.5	(37.9)	(50.9%)	**80.0**	113.2	(33.2)	(29.3%)
Inter-segment	**(8.5)**	(8.3)	(0.2)	2.4%	**(16.5)**	(16.5)	-	0.0%
	$ 28.1	$ 66.2	$ (38.1)	(57.6%)	**$ 63.5**	$ 96.7	$ (33.2)	(34.3%)
Operating income								
Commercial [(1)]	**$ 11.7**	$ 11.3	$ 0.4	3.5%	**$ 24.6**	$ 23.1	$ 1.5	6.5%
Residential	**9.8**	17.7	(7.9)	(44.6%)	**25.8**	31.3	(5.5)	(17.6%)
	$ 21.5	$ 29.0	$ (7.5)	(25.9%)	**$ 50.4**	$ 54.4	$ (4.0)	(7.4%)
Funds from operations [(2)]								
Commercial	**$ 6.8**	$ 6.4	$ 0.4	6.3%	**$ 14.3**	$ 13.3	$ 1.0	7.5%
Residential	**6.7**	10.9	(4.2)	(38.5%)	**17.6**	19.3	(1.7)	(8.8%)
	$ 13.5	$ 17.3	$ (3.8)	(22.0%)	**$ 31.9**	$ 32.6	$ (0.7)	(2.1%)

(1) Commercial operating income includes equity earnings from Crombie REIT.

(2) Operating earnings plus depreciation.

Revenue

Real estate division revenues (net of inter-segment amounts) during the second quarter ended November 3, 2007 declined $38.1 million or 57.6 percent from the second quarter last year. The decline in residential real estate revenue was anticipated and primarily reflects the completion of the Martello condominium project last year. On a fiscal year-to-date basis, real estate division revenue declined $33.2 million or 34.3 percent over the comparable period last year. The decrease was the result of lower residential operation revenue of $34.3 million primarily as a result of the completion of the Martello condominium project in the prior year, which reduced revenue by approximately $33.6 million fiscal year-to-date, and to a lesser extent, as a result of the lower revenue from residential lot sales.

Operating Income

During the second quarter of fiscal 2008, real estate division operating income decreased $7.5 million or 25.9 percent compared to the second quarter last year primarily as the result of a $7.9 million decrease in residential operating income. The decline in residential operating income was anticipated largely as a result of the completion of the Martello condominium project in the second quarter last year and slower than expected residential lot sales activity in western Canada.

For the 26 weeks ended November 3, 2007, the real estate division contributed operating income of $50.4 million compared to $54.4 million last fiscal year. The decrease of $4.0 million or 7.4 percent was the result of a decline in operating income from residential activities of $5.5 million, related to slower residential lot sales and the completion of the Martello condominium project in the prior year as mentioned. The real estate division contributed 20.5 percent of Empire's consolidated operating income in the first two quarters of fiscal 2008 compared to a 23.2 percent contribution in the first two quarters of last fiscal year.

Funds from Operations

Funds from operations in the second quarter of $13.5 million decreased $3.8 million or 22.0 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 $73.9 million, an increase of 1.6 percent from the prior four quarter trailing funds from operations of $72.7 million.

Investments and Other Operations

The third component of Empire's business is its investments and other operations, consisting primarily of a 27.6 percent ownership interest in Wajax, wholly-owned Empire Theatres (the second largest movie exhibitor in Canada) and Kepec.

Investment Value

At the end of the second quarter, Empire's total investments, including its investment in Genstar U.S. investments and in Crombie REIT, carried a market value of $410.9 million on a cost base of $140.5 million, resulting in an unrealized gain of $270.4 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:

	Nov. 3, 2007			May 5, 2007			Nov. 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	$ 1.6	$ 1.6	$ -	$ 283.1	$ 189.7	$ 93.4	$ 433.2	$ 366.1	$ 67.1
Investments, at equity	409.3	138.9	270.4	434.0	142.8	291.2	388.2	156.2	232.0
Less: Crombie REIT	249.8	105.4	144.4	278.1	109.3	168.8	254.0	111.3	142.7
Less: Genstar U.S. (1)	0.6	0.6	-	1.3	1.3	-	9.4	9.4	-
Plus: Hedge Value	-	-	-	3.5	-	3.5	11.5	-	11.5
	$ 160.5	$ 34.5	$ 126.0	$ 441.2	$ 221.9	$ 219.3	$ 569.5	$ 401.6	$ 167.9

(1) Assumes market value equals book value.

Realized capital gains before tax during the second quarter of fiscal 2008 totalled $0.4 million compared to a $7.4 million capital gain in the second quarter of last year. Total realized capital gains from investment sales for the first half of fiscal 2008 were $101.3 million compared to $7.4 million in the first half of fiscal 2007. The total unrealized gain position equalled $126.0 million at the end of the second quarter as compared to $219.3 million at the end of fiscal 2007 and $167.9 million at the end of the second quarter last year.

Portfolio Composition

At November 3, 2007, Empire's investment portfolio (excluding cash, Crombie REIT and Genstar U.S. investments) consisted of:

				Unrealized Gain (Loss)		
($ in millions Cdn.)	Market Value	% of Total	Cost	Nov. 3, 2007	May 5, 2007	Nov. 4, 2006
Canadian equities	$ -	- %	$ -	$ -	$ 92.2	$ 78.9
Wajax	158.9	99.0	32.9	126.0	122.4	89.3
U.S. equities	-	-	-	-	1.2	(11.8)
Preferred shares & other	1.6	1.0%	1.6	-	-	-
Hedge value	-	-	-	-	3.5	11.5
Total	$ 160.5	100.0%	$ 34.5	$ 126.0	$ 219.3	$ 167.9

Hedging Investment Currency Risk

In conjunction with the sale of all U.S. equities by the end of the first quarter of fiscal 2008, there were no forward currency contracts outstanding. The foreign exchange contracts were collapsed to match the sale of underlying U.S. equity investments during the first quarter.

The table below presents investments and other operation's financial highlights for the 13 weeks and 26 weeks ended November 3, 2007 compared to the same period last year:

	13 Weeks Ended		Year over Year		26 Weeks Ended		Year over Year	
($ in millions)	**Nov. 3, 2007**	Nov. 4, 2006	($) Change	(%) Change	**Nov. 3, 2007**	Nov. 4, 2006	($) Change	(%) Change
Revenue	**$ 50.1**	$ 35.8	$ 14.3	39.9%	**$ 93.1**	$ 80.1	$ 13.0	16.2%
Investment income (1)	**5.5**	7.5	(2.0)	(26.7%)	**10.6**	15.0	(4.4)	(29.3%)
Operating income (2)	**5.9**	4.3	1.6	37.2%	**9.3**	11.8	(2.5)	(21.2%)
Capital gains and other items, net of tax	**0.5**	5.8	(5.3)	-	**82.4**	5.8	76.6	-

(1) Excludes equity earnings from Crombie REIT and Genstar U.S. investments.

(2) Net of corporate expenses.

Revenue

Investments and other operations' revenue, primarily generated by Empire Theatres, equalled $50.1 million in the second quarter ended November 3, 2007 versus $35.8 million in the second quarter last year. The increase is attributable to higher revenue for Empire Theatres due to the strong summer product, and from the change in its year-end which resulted in the traditionally strong month of July being reported in the second quarter of fiscal 2008 whereas it was included in the first quarter of fiscal 2007.

Fiscal year-to-date revenues, for investments and other operations, increased $13.0 million or 16.2 percent over the comparable period last year to reach $93.1 million. The increase is primarily the result of higher total revenue for Empire Theatres as a result of better product and the change in its year-end as mentioned.

Investment Income

Investment income (excludes equity earnings from Crombie REIT and Genstar's U.S. investments) equalled $5.5 million in the second quarter, a decrease of $2.0 million over the $7.5 million recorded in the second quarter last year. The decrease is largely the result of the sale of the majority of the liquid portfolio investments which reduced dividend income by $2.4 million, partially offset by higher equity earnings from Wajax of $0.4 million compared to the second quarter last year.

On a fiscal year-to-date basis, investment income amounted to $10.6 million compared to $15.0 million over the same period last fiscal year. The $4.4 million decrease was the result of lower dividend income by $3.9 million and lower equity earnings from Wajax of $0.5 million. The decline in dividend income was expected as a consequence of selling portfolio investments.

Operating Income

Investments (net of corporate expenses) and other operations' contributed operating income of $5.9 million in the second quarter of fiscal 2008, an increase of $1.6 million from the second quarter last year, primarily as a result of higher income from Empire Theatres.

For the 26 weeks ended November 3, 2007, investments (net of corporate expenses) and other operations' contributed operating income of $9.3 million, a decrease of $2.5 million from the same period last year, primarily as a result of lower investment income.

Corporate expenses, including depreciation, increased by $0.6 million in the second quarter and by $1.3 million fiscal year-to-date. The increase is primarily related to directors' compensation as Empire's share price movement over the quarter resulted in a charge related to deferred stock units.

Capital Gains and Other Items

Investments and other operations' capital gains and other items, net of tax, of $0.5 million were realized during the second quarter of fiscal 2008 compared to capital gains and other items, net of tax, of $5.8 million last year. The capital gains in the current fiscal quarter were primarily foreign exchange related.

On a fiscal year-to-date basis, capital gains, net of tax, on the sale of investments equalled $82.4 million as compared to $5.8 million last fiscal year-to-date. The capital gains, net of tax, recorded for the year-to-date are primarily due to the sale of the liquid portfolio. The bulk of the net capital gains recorded for the second quarter and fiscal year-to-date last year were related to the sale of common equity investments.

Financial Condition

Capital Structure and Key Financial Condition Measures

The Company's capital structure and key financial condition measures are presented in the table below.

($ in millions, except per share and ratio calculations)	**Nov. 3, 2007**	May 5, 2007	Nov. 4, 2006
Bank indebtedness	**$ 26.9**	$ 30.1	$ 155.8
Long-term debt, including current portion (1)	**$ 1,854.1**	$ 881.9	$ 892.5
Funded debt to total capital (2)	**45.0%**	30.0%	33.8%
Net debt to capital ratio (3)	**43.2%**	22.5%	29.0%
Debt to EBITDA	**2.85x**	1.42x	1.49x
Interest coverage	**4.31x**	7.33x	7.29x
Shareholders' equity	**$ 2,297.0**	$ 2,131.1	$ 2,053.6
Book value per share	**$ 34.84**	$ 32.31	$ 31.14
Minority interest	**$ 45.1**	$ 588.6	$ 575.8
Total assets	**$ 5,867.5**	$ 5,215.8	$ 5,215.3

(1) Includes liabilities related to assets held for sale.

(2) See non-GAAP financial measures.

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

Liabilities

Empire finances a significant portion of its assets through the use of bank indebtedness and long-term debt. The ratio of funded debt to total capital increased 11.2 percentage points, from 33.8 percent to 45.0 percent from the second quarter last year. Funded debt has increased $969.0 million since the end of the fiscal year, May 5, 2007 ($912.0 million) and $832.7 million since the second quarter last year ($1,048.3 million). The significant increase over year-end and the second quarter last year is the additional debt ($787.7 million) used to fund the privatization of Sobeys as discussed earlier, as well as the addition of $185.0 million in long-term debt used to fund the acquisition of Thrifty Foods.

DBRS and S&P placed Sobeys' credit ratings under review when the privatization of Sobeys was announced. On July 20, 2007, DBRS downgraded their rating on Sobeys' Medium Term Notes from BBB (high) to BBB (low). The trend remained negative. On July 31, 2007, S&P also downgraded Sobeys' credit ratings from BBB- to BB+. S&P also kept a negative trend in place.

Interest coverage in the second quarter was 4.3 times, down from the 7.3 times reported for the fiscal year ended May 5, 2007 and the 7.3 times recorded for the second quarter last year. The decline in the interest coverage over the second quarter last year and the end of the previous fiscal year was the result of the increased interest expense related to the additional borrowings to fund the Sobeys privatization and the acquisition of Thrifty Foods as discussed.

Empire and its subsidiaries have provided covenants to lenders in support of various financing facilities. All covenants were complied with for the 26 weeks ended November 3, 2007 and for fiscal 2007.

Shareholders' Equity

Book value per common share was $34.84 at November 3, 2007, compared to $32.31 at May 5, 2007 and $31.14 at November 4, 2006.

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

	Authorized Number of Shares	**Issued and Outstanding Number of Shares**
Preferred shares, par value $25 each, issuable in series.		
Series 2 cumulative, redeemable, rate of 75% of prime	2,780,100	266,000
2002 Preferred shares par value $25 each, issuable in series	992,000,000	-
Non-Voting Class A shares, without par value	259,107,435	31,184,498
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 November 3, 2007 equalled 65,745,261, relatively unchanged from the previous fiscal year-end (May 5, 2007) and November 4, 2006.

There were no options exercised during the first half of fiscal 2008 compared to 27,674 options exercised during the first half of fiscal 2007.

There were no Empire Non-Voting Class A shares purchased in the first half of fiscal 2008. During the 26 weeks ended November 4, 2006, Empire purchased enough Class A Non-Voting shares to offset the dilutive effect of shares issued to fulfill the Company's obligation under its stock option and share purchase plans. The number of Non-Voting Class A shares repurchased for cancellation equalled 46,047 in the first half of fiscal 2007.

As at December 13, 2007, the Company had Non-Voting Class A and Class B common shares outstanding of 31,184,498 and 34,560,763, respectively, as well as 266,000 Series 2 preferred shares.

During the second quarter of fiscal 2008 the Company purchased for cancellation 34,000 Series 2 preferred shares for $0.8 million. The Company plans to purchase for cancellation an additional 66,000 Series 2 preferred shares by the end of calendar 2007.

Dividends paid to common shareholders amounted to $10.9 million in the second quarter ($0.165 per share) versus $9.8 million ($0.15 per share) in the second quarter last year. On a fiscal year-to-date basis, the Company had paid common dividends totalling $21.6 million ($0.33 per share) versus $19.7 million ($0.30 per share) in the comparable period last fiscal year.

Financial Instruments

Empire utilizes interest rate derivative instruments from time to time to prudently manage its exposure to interest rate volatility and also to fix future long-term debt maturities which are expected to be refinanced.

At November 3, 2007, the Company had the following fixed rate interest rate swaps in place:

($ in millions) Company	Effective Date	Term	Nominal Amount	Interest Rate(1)
Empire	July 23, 2007	3 Years	$ 200.0	4.998%
Sobeys	July 23, 2007	5 Years	$ 200.0	5.051%
Empire Theatres	Dec. 27, 2006	5 Years	$ 20.0	4.280%

(1) Exchanged for Canadian bankers' acceptances, before stamping fee.

The mark-to-market values of the above noted interest rate hedges totalled negative $5.0 million at the end of the second quarter of fiscal 2008.

The Company historically used Canadian dollar forward currency contracts to act as a hedge against the effect of a stronger Canadian dollar in relation to the Company's U.S. dollar investments, including its investment in Genstar U.S. As a result of the sale of the majority of the liquid portfolio investments in the first quarter of fiscal 2008, there were no forward currency contracts related to U.S. dollar investments in place during the second quarter.

The Company also uses forward contracts to fix the exchange rate on some of its expected requirements for Euros and U.S. dollars. Amounts received or paid related to instruments used to hedge foreign exchange, including any gains and losses, are recognized in the cost of the purchases. The fair value of these contracts, in Canadian dollars, at November 3, 2007, was negative $4.7 million.

Empire and its subsidiaries utilize hedging instruments as deemed appropriate to mitigate risk exposure, not for speculative purposes.

Liquidity and Capital Resources

The Company maintains the following sources of liquidity:

- Cash and cash equivalents on hand;
- Availability of long-term debt financing;
- Unutilized bank credit facilities; and
- Cash generated from operating activities.

The Company anticipates that these sources of liquidity will be sufficient to meet expected cash outflows over the next year.

At November 3, 2007, cash and cash equivalents equalled $133.1 million versus $211.6 million at November 4, 2006 and $294.9 million at fiscal year-end, May 5, 2007.

At the end of the second quarter of fiscal 2008, Empire's authorized bank credit facilities exceeded borrowings by approximately $236.6 million at November 3, 2007, versus $661.0 million at May 5, 2007.

The table below highlights major cash flow components for the 13 and 26 weeks ended November 3, 2007 compared to the 13 and 26 weeks ended November 4, 2006.

Major Cash Flow Components

	13 Weeks Ended		26 Weeks Ended	
($ in millions)	**Nov. 3, 2007**	Nov. 4, 2006	**Nov. 3, 2007**	Nov. 4, 2006
Earnings for common shareholders	**$ 58.3**	$ 55.7	**$ 200.5**	$ 108.9
Items not affecting cash	**69.2**	86.1	**159.5**	165.4
	127.5	141.8	**360.0**	274.3
Net change in non-cash working capital	**(19.5)**	(140.6)	**(49.5)**	(147.8)
Cash flows from operating activities	**108.0**	1.2	**310.5**	126.5
Cash flows used in investing activities	**(448.4)**	(190.9)	**(1,428.5)**	(369.8)
Cash flows from financing activities	**151.5**	82.1	**956.2**	113.8
Decrease in cash and cash equivalents	**$ (188.9)**	$ (107.6)	**$ (161.8)**	$ (129.5)

Operating Activities

Second quarter cash flows from operating activities equalled $108.0 million compared to cash flows from operating activities of $1.2 million in the comparable period last year. The increase of $106.8 million is attributed to a decrease in the net change in non-cash working capital of $121.1 million and an increase in earnings for common shareholders of $2.6 million, partially offset by a decrease in items not affecting cash of $16.9 million.

On a fiscal year-to-date basis, cash flows from operating activities increased by $184.0 million over the prior year as a result of an increase in net earnings for common shareholders of $91.6 million and a decrease in the net change in non-cash working capital of $98.3 million, partially offset by a decrease in items not affecting cash of $5.9 million.

The following tables present non-cash working capital changes compared to the first quarter of fiscal 2008 and the second quarter ended November 4, 2006.

Non-Cash Working Capital (Quarter-Over-Quarter) ($ in millions)	**Nov. 3, 2007**	Aug. 4, 2007	Q2 F2008 VS Q1 F2008 Increase (Decrease) in Cash Flows	Q2 F2007 VS Q1 F2007 Increase (Decrease) in Cash Flows
Receivables	**$ 313.6**	$ 315.7	$ 2.1	$ (26.9)
Inventories	**838.0**	756.1	(81.9)	(38.3)
Prepaid expenses	**71.5**	74.1	2.6	(2.7)
Accounts payable and accrued liabilities	**(1,272.2)**	(1,246.6)	25.6	(87.0)
Income taxes receivable (payable)	**(29.4)**	(4.9)	24.5	10.9
Impact of rationalization costs on working capital	**(3.7)**	-	3.7	-
Impact of business acquisitions on working capital	**(3.9)**	-	3.9	16.2
Other items	**-**	-	-	(12.8)
Total	**$ (86.1)**	$ (105.6)	$ (19.5)	$ (140.6)

Non-Cash Working Capital (Year-Over-Year) ($ in millions)	**Nov. 3, 2007**	Nov. 4, 2006	Year-Over-Year Increase (Decrease) in Cash Flows
Receivables	**$ 313.6**	$ 289.5	$ (24.1)
Inventories	**838.0**	755.7	(82.3)
Prepaid expenses	**71.5**	60.8	(10.7)
Accounts payable and accrued liabilities	**(1,272.2)**	(1,177.1)	95.1
Income taxes receivable (payable)	**(29.4)**	(50.1)	(20.7)
Impact of rationalization costs on working capital	**9.0**	-	(9.0)
Impact of business acquisitions on working capital	**(1.1)**	-	1.1
Other items	**0.5**	-	(0.5)
Total	**$ (70.1)**	$ (121.2)	$ (51.1)

The net decrease in non-cash working capital of $19.5 million from the first quarter is largely the result of an $81.9 million increase in inventories offset by an increase in accounts payable and accrued liabilities of $25.6 million and an increase in income taxes payable of $24.5 million. The increase in inventory primarily reflects seasonal buying patterns typical in the business as Sobeys prepares to meet its December selling requirements as well as higher sales volume due to increased square footage in the food divisions expanded store network. The increase in accounts payable is necessary to support the increased inventory level.

The year-over-year decrease in cash flow of $51.1 million was largely the result of a $82.3 million increase in inventories, a $24.1 million increase in receivables, a $20.7 million decrease in income taxes payable and a $10.7 million increase in prepaid expenses, partially offset by a $95.1 million increase in accounts payable and accrued liabilities. The increase in inventory reflects higher inventory requirements to support Sobeys' increased sales volume and expanded store network. The decrease in taxes payable reflects the timing of instalment payments.

Investing Activities

Cash used in investing activities of $448.4 million in the second quarter was $257.5 million higher than in the second quarter of last fiscal year. The increase in cash used in investing activities was largely the result of cash used for business acquisitions of $268.4 million which included the Thrifty Foods acquisition.

Consolidated purchases of property and equipment totalled $123.8 million in the second quarter of fiscal 2008 compared to $110.4 million in the second quarter last year. Consolidated purchases of property and equipment for the first half of fiscal 2008 totalled $232.9 million compared to $246.4 million in the first half last year. The food division accounted for the majority of consolidated expenditures on property and equipment.

The table below outlines the number of stores Sobeys invested in during the second quarter of fiscal 2008 compared to the second quarter of fiscal 2007:

Sobeys' Corporate and Franchised Store Construction Activity

	13 Weeks Ended	
# of Stores	**Nov. 3, 2007**	Nov. 4, 2006
Opened/Acquired/Relocated	**26**	40
Expanded	**6**	4
Rebannered/Redeveloped	**13**	15
Closed	**(19)**	(9)

The following table shows Sobeys' square footage changes for the 13 weeks ended November 3, 2007 by type:

Sobeys' Square Footage Changes
For the 13 Weeks Ended November 3, 2007

Square Feet	
Opened	105,362
Relocated	38,252
Acquired	564,806
Expanded	41,875
Rebannered/Redeveloped	-
Closed	(246,111)
Net Change	504,184

At November 3, 2007, Sobeys' square footage totalled 27.0 million square feet, a 3.4 percent increase over the second quarter last year.

For the 26 weeks ended November 3, 2007, cash used in investing activities increased by $1,058.7 million to $1,428.5 million. The increase is largely due to the privatization of Sobeys by acquiring all of its shares not currently owned which amounted to $1,065.7 million.

Financing Activities

Financing activities during the second quarter of fiscal 2008 generated $151.5 million of cash compared to $82.1 million of cash generated in the comparable period of fiscal 2007. The increase of $69.4 million in cash flows from financing activities when compared to the same quarter last year is primarily the result of: (i) an increase in the issuance of long-term debt of $51.6 million, and (ii) a decrease in the repayment of long-term debt of $20.1 million. The Company issued $186.4 million in long-term debt in the second quarter primarily to fund the acquisition of Thrifty Foods versus issuance of long-term debt of $134.8 million in the second quarter last year.

Financing activities for the first half of fiscal 2008 generated $956.2 million compared to $113.8 million in the comparable period of last fiscal year. The increase of $842.4 million in cash flows from financing activities when compared to the same period last year is primarily the result of an increase in long-term debt issuance of $864.6 million, primarily for the purposes of funding the privatization of Sobeys and the acquisition of Thrifty Foods.

<u>Subsequent Events</u>

Subsequent to the quarter ending November 3, 2007, on November 8, 2007, Sobeys established and drew down on a new unsecured revolving credit facility of $75.0 million. The maturity date is November 8, 2010. The interest rate will be floating and may be tied to the bankers' acceptance rate, Canadian prime rate or LIBOR.

On November 15, 2007, Sobeys established and drew down on a new unsecured non-revolving credit facility of $30.0 million. The maturity date is May 15, 2008. The interest rate will be floating and may be tied to the BA rate, Canadian prime rate or LIBOR.

Accounting Policy Changes

Accounting standards adopted during fiscal 2008:

Accounting changes

In July 2006, the Canadian Institute of Chartered Accountants ("CICA") issued section 1506 of the CICA Handbook, "Accounting Changes", which describes the criteria for changing accounting policies, along with the accounting and disclosure for changes in accounting policies, changes in accounting estimates and corrections of errors. These changes came into effect as of January 1, 2007 and are applicable at the beginning of the Company's first quarter of fiscal 2008.

Financial instruments

On May 6, 2007, the Company implemented the CICA Handbook Sections 3855, "Financial Instruments - Recognition and Measurement", 3865, "Hedges", 1530, "Comprehensive Income", 3251, "Equity" and 3861, "Financial Instruments - Disclosure and Presentation". These standards have been applied without restatement of prior periods. The transitional adjustments resulting from these standards are recognized in the opening balances of retained earnings and accumulated other comprehensive income.

Financial instruments – Recognition and Measurement

This new standard, Section 3855, "Financial Instruments - Recognition and Measurement" requires the Company to revalue all of its financial assets and liabilities, including derivatives and embedded derivatives in certain contracts, at fair value on the initial date of implementation and at each subsequent financial reporting date. Non-financial derivatives must be recorded at fair value on the consolidated balance sheet unless they are exempt from derivative treatment based upon expected purchase, sale or usage requirements.

This standard also requires the Company to classify financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purposes of ongoing measurements. Classification choices for financial assets include: a) held for trading - measured at fair value with changes in fair value recorded in net earnings; b) held to maturity - recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is derecognized or impaired; c) available for sale - measured at fair value with changes in fair value recognized in other comprehensive income for the current period until realized through disposal or impairment; and d) loans and receivables - recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is derecognized or impaired. Classification choices for financial liabilities include: a) held for trading - measured at fair value with changes in fair value recorded in net earnings and b) other - measured at amortized cost with gains and losses recognized in net earnings in the period that the liability is no longer recognized. Subsequent measurement for these assets and liabilities are based on either fair value or amortized cost using the effective interest method, depending upon their classification. Any financial asset or liability can be classified as held for trading as long as its fair value is reliably determinable.

In accordance with the new standard, the Company's financial assets and liabilities are generally classified and measured as follows:

Asset/Liability	Classification	Measurement
Cash	Available-for-sale	Fair value
Cash equivalents	Held to maturity	Amortized cost
Receivables	Loans and receivables	Amortized cost
Mortgages, loans and other receivables	Loans and receivables	Amortized cost
Investments, at cost	Available-for-sale	Fair value
Bank indebtedness	Other liabilities	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost

Other balance sheet accounts, such as inventories, prepaid expenses, investments (at equity), other assets, property and equipment, intangible assets, goodwill, current and future income taxes, other long-term liabilities and minority interest are not within the scope of the new accounting standard as they are not financial instruments.

Transaction costs, other than those related to financial instruments classified as held for trading which are expensed as incurred, are added to the fair value of the financial asset or financial liability on initial recognition and amortized using the effective interest method.

Embedded derivatives are required to be separated and measured at fair values if certain criteria are met. Under an election permitted by the new standard, management reviewed contracts entered into or modified subsequent to May 3, 2003 and determined that the Company does not currently have any significant embedded derivatives in its contracts that require separate accounting treatment.

Section 3855 also requires that obligations undertaken issuing a guarantee that meets the definition of a guarantee pursuant to Accounting Guideline 14, "Disclosure of Guarantees", be recognized at fair value at inception. No subsequent re-measurement at fair value is required unless the financial guarantee qualifies as a derivative.

The fair value of a financial instrument is the estimated amount that the Company would receive or pay to terminate the instrument agreement at the reporting date. To estimate the fair value of each type of financial instrument various market value data and other valuation techniques were used as appropriate. The fair values of cash approximated its carrying value. The fair value of currency basis swaps was estimated based on discounting of the forward rate at the reporting date compared to the forward rate in the contract. The fair value of interest rate swaps was estimated by discounting net cash flows of the swaps at market and forward interest rates for swaps of the same remaining maturities. The fair value of energy contracts was estimated based on the market variable rate and forward variable rate.

Hedges

Section 3865, "Hedges" replaces Accounting Guideline 13, "Hedging Relationships". The requirements for identification, designation, documentation and assessment of effectiveness of hedging relationships remain substantially unchanged. Section 3865 addresses the accounting treatment of qualifying hedging relationships and the necessary disclosures and also requires all derivatives in hedging relationships to be recorded at fair value.

The Company has cash flow hedges which are used to manage exposure to fluctuations in foreign currency exchange rates and variable interest rates and energy rates on variable rate assets and liabilities. For cash flow hedges, the effective portion of the change in fair value of the hedging item is recorded in other comprehensive income. To the extent the change in fair value of the derivative is not completely offset by the change in fair value of the hedged item, the ineffective portion of the hedging relationship is recorded immediately in net earnings. Amounts accumulated in other comprehensive income are reclassified to net earnings when the hedged item is recognized in net earnings. When a hedging instrument in a cash flow hedge expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in accumulated other comprehensive income relating to the hedge is carried forward until the hedged item is recognized in net earnings. When the hedged item ceases to exist as a result of its expiry or sale, or if an anticipated transaction is no longer expected to occur, the cumulative gain or loss in accumulated other comprehensive income is immediately reclassified to net earnings.

Comprehensive Income

In accordance with Section 1530, "Comprehensive Income", the Company has chosen to report a new financial statement entitled "Consolidated Statements of Comprehensive Income", which is comprised of net earnings and other comprehensive income. Other comprehensive income represents the change in shareholders' equity from transactions and other events from non-owner sources and includes unrealized gains and losses on financial assets that are classified as available-for-sale, and changes in the fair value of the effective portion of cash flow hedging instruments. The accumulated other comprehensive income (i.e. the portion of comprehensive income not already included in net earnings) is being presented as a separate line in shareholders' equity. In accordance with the new standard, $0.6 million relating to unrealized losses resulting from the translation of self-sustaining foreign operations which had previously been classified as cumulative translation adjustment within shareholders’ equity is now presented within accumulated other comprehensive income.

Equity

Section 3251, "Equity", which replaced Section 3250, "Surplus", establishes standards for the presentation of equity and changes in equity during the reporting period and requires the Company to present separately equity components and changes in equity arising from i) net earnings; ii) other comprehensive income; iii) other changes in retained earnings; iv) changes in contributed surplus; v) changes in share capital; and vi) changes in reserves. New consolidated statements of changes in shareholders' equity are included in the November 3, 2007 unaudited interim period consolidated financial statements.

Financial Instruments - Disclosure and Presentation

Section 3861, "Financial Instruments - Disclosure and Presentation", which replaces Section 3860, of the same title, establishes standards for the presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them.

The following table summarizes the transitional adjustments recorded upon implementation:

(In millions)	Transition Adjustments
Consolidated Balance Sheet	
Investments, at cost	$ 94.4
Other assets	(4.5)
Other liabilities	2.5
Long-term debt	2.7
Future income taxes	(18.5)
Minority interest	0.6
Accumulated other comprehensive income	(77.2)

Deferred Charges

The Company adopted CICA Section 3855, "Financial Instruments – Recognition and Measurement", effective for the first quarter of fiscal 2008. As a consequence of adopting this section, Section 3070, "Deferred Charges", was withdrawn. As a result, the Company reviewed its Deferred Costs classifications included with Other Assets and determined the following changes were necessary:

Deferred Store Marketing

Deferred store marketing costs, primarily comprised of store renovation and expansion costs, were reclassified and included with equipment, fixtures and vehicles as part of the Company's property and equipment balance sheet group. Prior year balances were reclassified which resulted in an increase in property and equipment and a decrease in other assets of $106.2 million at May 5, 2007 and $72.8 million at November 4, 2006 as well as an increase in depreciation expense and decrease in cost of sales, selling and administrative expenses of $25.3 million for the year ended May 5, 2007 and $5.5 million and $10.7 million for the 13 and 26 weeks ended November 4, 2006, respectively. There is no impact on net earnings or earnings per share as a result of this change.

Deferred Repositioning Costs

Effective for the first quarter of fiscal 2008, the Company changed its accounting policy for the treatment of certain deferred costs associated with major repositioning or branding efforts of the Company. Due to the withdrawal of the primary source of GAAP, Section 3070, "Deferred Charges", the Company looked to other sources of existing and proposed GAAP for guidance in determining its future policy for such costs. Based on this review, the Company determined, in setting the new policy, that it would be more appropriate to expense these types of costs in the period incurred as it provides more relevant information on expenditures associated with repositioning and branding efforts.

This change in accounting policy was applied retrospectively resulting in a $9.1 million decrease in other assets, a $3.2 million decrease in long-term future tax liabilities, and a $4.3 million decrease in earnings (net of minority interest of $1.6 million) at May 5, 2007. For the year ended May 5, 2007, earnings per share basic and diluted would decrease by $0.06 per share. The effect for the 13 and 26 weeks ended November 3, 2007 is a $0.9 million and $1.8 million decrease in cost of sales, selling and administrative expenses, a $0.3 million and $0.6 million increase in income taxes and an increase in basic and diluted earnings of $0.01 and $0.02 per share respectively. The effect for the quarter ended November 4, 2006, is a $3.2 million increase in costs of sales, selling and administrative expenses, a $1.2 million decrease in income taxes, a $0.6 million decrease in minority interest and a decrease in basic and diluted earnings of $0.02 per share.

Future Changes in Accounting Policies

Inventories

In March 2007, the CICA issued Section 3031, "Inventories", which has replaced existing Section 3030 with the same title. The new Section establishes that inventories should be measured at the lower of cost and net realizable value, with guidance on the determination of cost. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008 and is applicable for the Company's first quarter of fiscal 2009. The Company is currently evaluating the impact of this new standard.

Capital Disclosures

In October 2006, the CICA issued section 1535 of the CICA Handbook "Capital Disclosures". This section establishes standards for disclosing information about an entity's capital and how it is managed. The standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, and is applicable for the Company's first quarter of fiscal 2009. The Company does not expect that the adoption of this standard will have a significant impact on its financial statements.

Financial Instruments - Disclosure and Financial Instruments - Presentation

Section 3862 "Financial Instruments - Disclosure" and Section 3863, "Financial Instruments - Presentation", replace Section 3861, "Financial Instruments - Disclosure and Presentation". Section 3862 requires increased disclosures regarding the risks associated with financial instruments such as credit risk, liquidity risk and market risks and the techniques used to identify, monitor and manage these risks. Section 3863 carries forward standards for presentation of financial instruments and non-financial derivatives and provides additional guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity. These standards are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, and are applicable for the Company's first quarter of fiscal 2009. The Company does not expect the adoption of these standards to have a significant impact on its financial disclosure and results of operations.

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 2007 Annual Report on pages 58 and 59.

Disclosure Controls

Empire's management, with the participation of the CEO and CFO, reviewed and evaluated the Corporation's disclosure controls and procedures (as that term is defined in MI 52-109) as of November 3, 2007. Based on that evaluation the CEO and CFO concluded that the design and operation of the system of disclosure controls and procedures are effective.

Internal Controls Over Financial Reporting

Empire's management, with the participation of the CEO and CFO, reviewed and evaluated the design of the Corporation's internal controls over financial reporting (as that term is defined in MI 52-109) as of November 3, 2007. Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial reporting.

As a result of this evaluation, Management continues the process of remediating several control deficiencies. However, these deficiencies, even in aggregate, are not material in nature. Therefore, Empire's CEO and CFO concluded that the design of its internal controls over financial reporting is effective.

In addition, management evaluated whether there were changes in the internal controls over financial reporting during the interim period ended November 3, 2007 that materially affected, or were reasonably likely to materially affect, the internal controls over financial reporting. While there were no such changes, Sobeys continues to undergo a system transition initiative that will further enhance the internal controls.

Related Party Transactions

The Company rents premises from Crombie REIT. In addition, Crombie REIT provides administrative and management services to the Company. The rental payments are at fair value and the charges incurred for administration and management services are on a cost recovery basis. The Company has non-interest bearing notes payable to Crombie REIT in the amount of $25.1 million.

Designation of Eligible Dividends

The new dividend regime for the favourable tax treatment of "eligible dividends" has been brought into effect by Bill C-28, which came into effect on February 21, 2007. Passage of this bill has important implications for corporations paying eligible dividends. To be eligible dividends, dividends paid on or after February 21, 2007, must be designated as such at the time of payment.

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

Contingent Liabilities

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 tobacco products to status Indians. The total tax, interest and penalties in the reassessment was $13.6 million. Sobeys has reviewed this matter, has received legal advice, and believes it was not required to collect GST. During the second quarter of fiscal 2006, Sobeys filed a Notice of Objection with CRA. Accordingly, the Company has not recorded in its statement of earnings any of the tax, interest or penalties 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 resolutions 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 unlikely, the maximum potential exposure in excess of provisions taken is approximately $24.0 million. The Company has appealed the reassessments in respect of the sale of the 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.

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.

Other Matters

Asset-Backed Commercial Paper

As of November 3, 2007, Sobeys held third-party asset-backed commercial paper ("ABCP") with an original cost of $30.0 million that was in default. These ABCP were rated by the Dominion Bond Rating Service ("DBRS") as R-1 (high), the highest credit rating for commercial paper since the ABCP are backed by AAA (high) rated assets. During the quarter a global disruption in the market for such commercial paper resulted in a constraint on the liquidity of ABCP. DBRS placed certain of the ABCP "under Review with Developing Implications" following an announcement on August 16, 2007 that a consortium representing banks, asset providers and major investors had agreed in principle to a long-term proposal and interim agreement regarding the ABCP (commonly referred to as "the Montreal Proposal"). Under this proposal, the affected ABCP would be converted into term floating rate notes maturing no earlier than the scheduled termination dates of the underlying assets. The Montreal Proposal called for the investors to continue to roll their ABCP during the standstill period. On September 6, 2007, a pan-Canadian committee consisting of major investors was formed to oversee the proposed restructuring process of the ABCP. On October 16, 2007, it was announced that the committee expected that the restructuring would be completed on or before December 14, 2007. As of November 3, 2007, all of the ABCP held by Sobeys were part of the Montreal Proposal.

These investments were initially classified as held-to-maturity instruments by the Company and were carried at an amortized cost. Due to the lack of liquidity and a yield on these instruments, an impairment loss of $3.0 million pre-tax was recognized in the quarter. The Company estimated the impairment loss using a discounted cash flow approach. It is possible that the amount ultimately recovered may differ from the estimate. The Company continues to investigate the implications of the default and the remedies available. In addition, these investments have been reclassified as long-term assets rather than cash and cash equivalents due to the uncertainty as to the timing of collection.

Guarantees and Commitments

During the second quarter of fiscal 2008, Sobeys entered into an additional guarantee contract. Under the terms of the guarantee should a franchise affiliate be unable to fulfill their equipment lease obligation Sobeys would be required to fund the greater of $5.0 million or 9.9 percent of the unfulfilled obligation balance. As at November 3, 2007, the value of the guarantee was $5.0 million.

During the second quarter of fiscal 2008, Sobeys also reduced its guaranteed obligation under a previous contract from $100.0 million to approximately $70.0 million. The terms of this obligation are disclosed in Note 19 of the Company's 2007 Annual Report.

Risk Management

Risk and uncertainties related to economic and industry factors and the Company's management of this risk are discussed in detail in the "Management's Discussion and Analysis" section of the Company's fiscal 2007 annual report on pages 63 to 66.

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, income taxes and the change in fair value of Canadian third party ABCP.
- Operating earnings is calculated as net earnings before after tax capital gains (losses) 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, BA's, long-term debt and debt related to assets held for sale.
- Net debt is calculated as funded debt less cash and cash equivalents.
- Total capital is calculated as funded debt plus shareholders' equity.
- Same-store sales are sales from stores in the same locations in both reporting periods.

The following table reconciles Empire's funded debt and total capital to GAAP measures reported in the unaudited interim period balance sheets as at November 3, 2007, May 5, 2007 and November 4, 2006, respectively:

($ in millions)	**Nov. 3, 2007**	May 5, 2007	Nov. 4, 2006
Bank indebtedness	**$ 26.9**	$ 30.1	$ 155.8
Long-term debt due within one year	**80.5**	82.5	93.3
Liabilities relating to assets held for sale	**6.6**	6.8	7.1
Long-term debt	**1,767.0**	792.6	792.1
Funded debt	**1,881.0**	912.0	1,048.3
Total shareholders' equity	**2,297.0**	2,131.1	2,053.6
Total capital	**$ 4,178.0**	$ 3,043.1	$ 3,101.9

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

Dated: December 13, 2007
Stellarton, Nova Scotia, Canada

SHAREHOLDER AND INVESTOR INFORMATION

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INVESTOR RELATIONS AND INQUIRIES
Shareholders, analysts, and investors should direct their financial inquiries or requests to:
Stewart H. Mahoney, CFA
Vice President, Treasury 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)
57,243

DIVIDEND RECORD AND PAYMENT DATES FOR FISCAL 2008

Record Date	Payment Date
July 16, 2007	July 31, 2007
October 15, 2007	October 31, 2007
January 14, 2008	January 31, 2008
April 14, 2008*	April 30, 2008*

* Subject to the approval of the Board of Directors

OUTSTANDING SHARES

As of December 13, 2007	
Non-Voting Class A shares	31,184,498
Class B common shares, voting	34,560,763

TRANSFER AGENT
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National Bank of Canada
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AUDITORS
Grant Thornton, LLP
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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.

EMPIRE

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www.empireco.ca