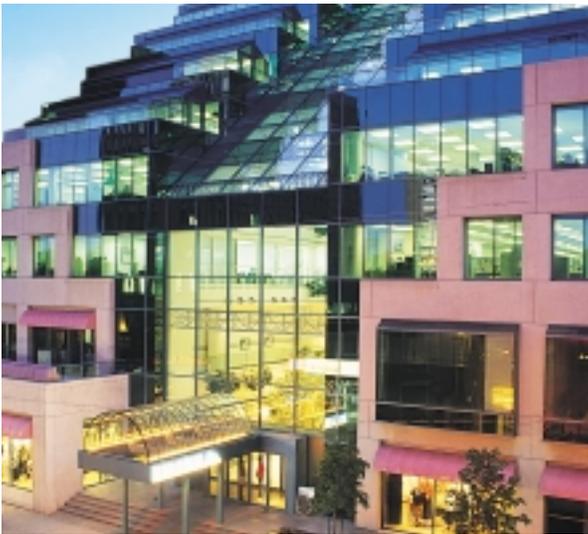


# EMPIRE COMPANY LIMITED

THIRD QUARTER REPORT | NINE MONTHS ENDED JANUARY 31, 2004



EMPIRE



## Quarterly Report to Shareholders

Empire Company Limited (“Empire” or the “Company”) is a diversified Canadian Company whose key businesses include food distribution, real estate and corporate investment activities. Guided by conservative business principles, our primary goal is to grow long-term shareholder value through income and cash flow growth and equity appreciation. We accomplish this through direct ownership and equity participation in businesses that have the potential for long-term growth and profitability.

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

### Forward-looking Statements

Certain forward-looking statements may be included in this quarterly report. Such statements are based on management’s assumptions and beliefs in light of information currently available. These forward-looking statements are subject to inherent uncertainties and risks, including but not limited to: business and economic conditions generally in the Company’s operating regions; pricing pressures and other competitive factors; results of the Company’s ongoing efforts to reduce costs; equity price risk; and the availability and terms of financing. Consequently, actual results and events may vary significantly from those included in or contemplated or implied by such statements.

# Letter to Shareholders

On March 5, 2004, Empire Company Limited announced its financial results for the third quarter ended January 31, 2004.

## Third Quarter Highlights

- Revenue of \$2.79 billion, up \$154.9 million or 5.9 percent.
- Earnings before net capital gains and other items of \$44.2 million, up \$4.9 million or 12.5 percent over the third quarter last year.
- Earnings per share on a fully diluted basis (before net capital gains and other items) of \$0.67, an improvement of 7 cents or 11.7 percent compared to last year.
- Capital gains, net of tax, of \$8.8 million in the quarter (there were no capital gains or losses recorded in the third quarter last year).
- Net earnings of \$53.0 million, up \$13.7 million from \$39.3 million last year.

## Financial Overview

The Company reported operating earnings (net earnings before net capital gains and other items) for its third quarter ended January 31, 2004 of \$44.2 million or \$0.67 per share, an increase of 12.5 percent compared to the \$39.3 million earnings (\$0.60 per share) recorded in the third quarter last year. Capital gains and other items, net of tax, equaled \$8.8 million in the third quarter resulting in net earnings of \$53.0 million versus \$39.3 million in the third quarter last year. There were no capital gains and other items, net of tax, recorded in the third quarter last year.

### Revenue

Sales for the third quarter increased 5.9 percent to \$2.79 billion, from \$2.64 billion in the third quarter last year. Food distribution operations, through 65.0 percent owned Sobeys Inc., reported revenue of \$2.74 billion, an increase of 5.6 percent over the third quarter last year. The increase in revenues by the food division is primarily attributed to same-store sales growth of 1.5 percent combined with additional sales contributed by new and expanded stores. Sobeys Inc. reported low food price inflation in each of its operating regions in the third quarter.

Real estate operations reported revenue, net of inter-company elimination, of \$39.8 million, an increase of \$7.6 million or 23.6 percent over the third quarter last year. The growth in real estate revenues primarily reflects continued solid performance from our 35.8 percent interest in Genstar's residential land development business combined with same-property revenue growth as a result of increased occupancy levels and higher overall rental renewal rates. Revenues also increased as a result of contribution from a community shopping centre property in Hamilton, Ontario which was acquired during the first quarter this year.

### Operating Income

Operating income (operating earnings before interest and income taxes) in the third quarter totaled \$110.4 million, an increase of \$2.8 million or 2.6 percent compared to the third quarter last year.

The food division contributed operating income of \$77.1 million, a decrease of \$5.5 million or 6.7 percent compared to the third quarter last year. The decrease in food division operating income is largely attributed to investments made in support of the food division's store format, offering and re-bannering strategy as well as the impact of lower retail prices in an increasingly competitive environment. Also impacting operating income was a \$6.8 million increase in depreciation charges over the third quarter last year, reflective of the food division's continued capital investment program.

The real estate division contributed operating income of \$28.4 million, an improvement of \$6.6 million or 30.3 percent against the comparable period last year. This improvement was driven by solid revenue growth combined with continued control over operating expenses. Real estate funds from operations amounted to \$15.4 million in the third quarter, an increase of \$3.4 million or 28.3 percent over the third quarter last year. Trailing (last four quarters) funds from operations for the real estate division equals \$59.7 million compared to \$52.7 million a year earlier.

#### Interest Expense

Interest expense for the third quarter of fiscal 2004 increased \$0.3 million to \$22.8 million largely as a result of an increase in average borrowing levels in the real estate division.

#### Income Taxes

The Company's effective income tax rate in the third quarter decreased to 32.0 percent compared to 33.3 percent last year mainly reflecting a decline in Canadian federal and provincial income tax rates.

#### Capital Gains

The Company realized net capital gains of \$8.8 million in the third quarter, primarily as a result of selling portfolio investments, including the balance of its common share holding in Delhaize Le Lion.

#### Net Earnings

Net earnings for the third quarter were \$53.0 million, an increase of \$13.7 million from the \$39.3 million reported in the third quarter last year. Improved net earnings performance was the result of a \$4.9 million increase in operating earnings, and the \$8.8 million realized net capital gain recorded in the third quarter.

#### Consolidated Financial Condition

The financial condition of the Company continues to improve. The ratio of debt to capital at the end of the third quarter equaled 41.8 percent versus 45.9 percent a year earlier and 45.9 percent at the beginning of the current fiscal year. Operating income in the third quarter provided 4.84 times coverage of interest expense.

At January 31, 2004, Empire's investment portfolio had a market value of \$344.6 million on a carrying value of \$297.9 million, resulting in an unrealized gain of \$46.7 million. The market value of investments compared to book cost has increased by \$115.4 million since the beginning of the fiscal year to the end of the third quarter. The total return on the portfolio for the nine months ended January 31, 2004 was 42.6 percent compared to 26.4 percent for the

S&P/TSX Composite index and 11.0 percent for the S&P 500 index (in Canadian dollars) over the same nine-month period.

During the third quarter, Empire purchased 323,600 common shares of Sobeys Inc., increasing its ownership to 65.0 percent of Sobeys issued and outstanding common shares.

Capital investment of \$109.0 million during the quarter and \$303.7 million year-to-date reflects the Company's ongoing commitment to invest cash flow back into growth opportunities in each of its core businesses. The food division reported investment in property and equipment, primarily related to new store development, of \$85.7 million in the quarter and \$235.5 million year-to-date. During the third quarter, 16 new corporate and franchised stores were opened or replaced and another 5 stores were expanded. Year-to-date, a total of 40 corporate and franchised stores have been opened or replaced and another 17 stores were expanded. Sobeys has also completed the re-bannering of 51 stores in the third quarter and 69 stores year-to-date. At January 31, 2004, Sobeys had 23.1 million square feet of retail space in operation, a 3.4 percent increase over the prior year.

The table below presents summary financial performance for the third quarter and nine months ended January 31, 2004.

### Summary Table of Consolidated Financial Results

(\$ in millions, except per share data)

	Three Months Ended January 31		Nine Months Ended January 31	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Segmented Revenue (net of elimination entries)				
Food Division	\$2,741.4	\$2,594.9	\$8,243.7	\$7,846.0
Real Estate Division	39.8	32.2	114.8	101.9
Other Operations	17.3	16.5	49.1	47.9
	<u>\$2,798.5</u>	<u>\$2,643.6</u>	<u>\$8,407.6</u>	<u>\$7,995.8</u>
Segmented Operating Income				
Food Division	\$77.1	\$82.6	\$229.4	\$249.6
Real Estate Division	28.4	21.8	79.5	71.0
Investments & Other Operations	4.9	3.2	14.4	13.9
	<u>\$110.4</u>	<u>\$107.6</u>	<u>\$323.3</u>	<u>\$334.5</u>
Earnings before net capital gains (losses) and other items	\$44.2	\$39.3	\$122.8	\$118.1
Capital gains (losses) and other items, net of tax	8.8	-	9.3	(0.2)
Net earnings	<u>\$53.0</u>	<u>\$39.3</u>	<u>\$132.1</u>	<u>\$117.9</u>
<u>Per Share, diluted</u>				
Earnings before net capital gains and other items	\$0.67	\$0.60	\$1.86	\$1.79
Net capital gains	0.13	-	0.14	-
Net earnings	<u>\$0.80</u>	<u>\$0.60</u>	<u>\$2.00</u>	<u>\$1.79</u>

## **Subsequent Events**

Subsequent to the end of the third quarter, on February 1, 2004, Sobeys Inc. completed its purchase of substantially all of the assets of Comisso's Food Markets Limited and Comisso's Grocery Distributors Limited, upon receiving all required regulatory approvals, for a purchase price of approximately \$61.0 million subject to working capital and purchase price adjustments.

Subsequent to the end of the third quarter, on February 1, 2004, Empire's wholly-owned subsidiary, Crombie Properties Limited, completed the purchase of six properties previously owned by Comisso's Properties Inc., predominately located in Southern Ontario and the Niagara Peninsula for a purchase price of \$42.5 million.

## **Dividend Declaration**

The Board of Directors declared a quarterly dividend of 10.0¢ per share on both the Class A and Class B common shares that will be payable on April 30, 2004, to shareholders of record on April 15, 2004. In addition, the Board declared regular dividends on the Company's outstanding preferred shares.

## **Outlook**

Sobeys Inc. confirmed March 4, 2004 that they expect to achieve sales growth of six percent over fiscal 2003, including sales generated by the Comisso's assets acquired in the fourth quarter. Sobeys expects fiscal 2004 net earnings per share to be slightly below fiscal 2003 net earnings per share of \$2.72, inclusive of a net gain from non-recurring items expected to be approximately \$0.07 per share in the fourth quarter.

Empire's shareholders continue to be well served by our unwavering commitment to each of our core businesses. We remain committed to building sustainable shareholder value through long-term profitability and growth in each of our operating businesses.

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

Paul D. Sobey  
President & Chief Executive Officer

March 12, 2004

**EMPIRE COMPANY LIMITED**  
**CONSOLIDATED BALANCE SHEETS**

(In millions)

	<b>January 31 2004 Unaudited</b>	April 30 2003 Audited	January 31 2003 Unaudited
<b>ASSETS</b>			
Current			
Cash and cash equivalents	\$ 129.5	\$ 316.8	\$ 135.2
Receivables	305.2	348.8	309.0
Inventories	522.4	478.2	540.2
Prepaid expenses	36.9	37.1	41.9
Future income taxes	1.7	-	-
Discontinued operations	-	1.9	3.8
	<u>995.7</u>	<u>1,182.8</u>	<u>1,030.1</u>
Investments, at cost (quoted market value \$266.4; April 30,2003 \$288.9; January 31,2003 \$344.9)	237.4	345.7	417.1
Investments, at equity (realizable value \$78.2; April 30,2003 \$29.8; January 31,2003 \$29.1)	60.5	41.7	41.2
Current assets and marketable investments	<u>1,293.6</u>	<u>1,570.2</u>	<u>1,488.4</u>
Property and equipment	2,231.7	2,105.2	2,045.9
Other assets (Note 3)	893.4	840.7	809.7
	<u>\$ 4,418.7</u>	<u>\$ 4,516.1</u>	<u>\$ 4,344.0</u>
<b>LIABILITIES</b>			
Current			
Bank indebtedness	\$ 145.2	\$ 99.3	\$ 160.4
Accounts payable and accrued liabilities	943.2	1,037.4	943.8
Income taxes payable	13.2	43.5	52.9
Future income taxes	-	18.4	3.3
Long-term debt due within one year	77.2	188.9	182.7
	<u>1,178.8</u>	<u>1,387.5</u>	<u>1,343.1</u>
Long-term debt	887.0	923.1	842.6
Deferred revenue	4.8	6.7	8.7
Employee future benefit obligation	81.0	77.1	74.8
Minority interest	535.1	539.2	525.9
Future income taxes	189.6	155.4	153.7
	<u>2,876.3</u>	<u>3,089.0</u>	<u>2,948.8</u>
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock	196.2	196.0	195.9
Retained earnings	1,346.2	1,230.6	1,198.8
Foreign currency translation adjustment	-	0.5	0.5
	<u>1,542.4</u>	<u>1,427.1</u>	<u>1,395.2</u>
	<u>\$ 4,418.7</u>	<u>\$ 4,516.1</u>	<u>\$ 4,344.0</u>

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

**EMPIRE COMPANY LIMITED**  
**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS**  
**NINE MONTHS ENDED JANUARY 31**  
(Unaudited, in millions)

	<u>2004</u>	<u>2003</u>
Balance, beginning of period	<b>\$ 1,230.6</b>	\$ 1,094.5
Net earnings	<u>132.1</u>	<u>117.9</u>
	<b>1,362.7</b>	1,212.4
Refundable taxes recovered	<u>5.0</u>	<u>3.7</u>
Dividends declared		
Preferred shares	<b>0.3</b>	0.3
Common shares	<u>19.8</u>	<u>16.3</u>
	<b>20.1</b>	16.6
Premium on common shares purchased for cancellation	<u>1.4</u>	<u>0.7</u>
Balance, end of period	<b><u>\$ 1,346.2</u></b>	<b><u>\$ 1,198.8</u></b>

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

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

	Three Months Ended January 31		Nine Months Ended January 31	
	2004	2003	2004	2003
Revenue	\$ 2,798.5	\$ 2,643.6	\$ 8,407.6	\$ 7,995.8
Cost of sales, selling and administrative expenses	<u>2,648.2</u>	<u>2,502.0</u>	<u>7,974.8</u>	<u>7,567.3</u>
	150.3	141.6	432.8	428.5
Depreciation	<u>43.7</u>	<u>36.7</u>	<u>122.4</u>	<u>106.0</u>
	106.6	104.9	310.4	322.5
Investment income (Note 4)	<u>3.8</u>	<u>2.7</u>	<u>12.9</u>	<u>12.0</u>
Operating income	<u>110.4</u>	<u>107.6</u>	<u>323.3</u>	<u>334.5</u>
Interest expense				
Long-term debt	19.9	22.7	65.7	67.0
Short-term debt	<u>2.9</u>	<u>(0.2)</u>	<u>4.0</u>	<u>2.3</u>
	<u>22.8</u>	<u>22.5</u>	<u>69.7</u>	<u>69.3</u>
	87.6	85.1	253.6	265.2
Capital gain (loss) and other items (Note 5)	<u>11.0</u>	<u>(0.9)</u>	<u>11.6</u>	<u>(0.9)</u>
	<u>98.6</u>	<u>84.2</u>	<u>265.2</u>	<u>264.3</u>
Income taxes				
Current income taxes	17.9	5.4	73.4	68.9
Future income taxes	<u>12.3</u>	<u>22.0</u>	<u>14.0</u>	<u>25.1</u>
	<u>30.2</u>	<u>27.4</u>	<u>87.4</u>	<u>94.0</u>
	68.4	56.8	177.8	170.3
Minority interest	<u>15.4</u>	<u>17.5</u>	<u>45.7</u>	<u>52.4</u>
Net earnings	<u>\$ 53.0</u>	<u>\$ 39.3</u>	<u>\$ 132.1</u>	<u>\$ 117.9</u>
Net earnings per share (Note 2)				
Basic	<u>\$ 0.81</u>	<u>\$ 0.60</u>	<u>\$ 2.01</u>	<u>\$ 1.80</u>
Diluted	<u>\$ 0.80</u>	<u>\$ 0.60</u>	<u>\$ 2.00</u>	<u>\$ 1.79</u>

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

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

	Three Months Ended		Nine Months Ended	
	January 31		January 31	
	2004	2003	2004	2003
<b>Operating</b>				
Net earnings	\$ 53.0	\$ 39.3	\$ 132.1	\$ 117.9
Items not affecting cash (Note 6)	74.8	85.9	192.3	193.7
Preferred dividends	(0.1)	(0.1)	(0.3)	(0.3)
	127.7	125.1	324.1	311.3
Net change in non-cash working capital	1.1	(47.3)	(124.9)	(176.5)
Cash flows from operating activities	128.8	77.8	199.2	134.8
<b>Investing</b>				
Net decrease in investments	82.0	1.3	93.5	62.7
Purchase of shares in subsidiary, Sobeys Inc.	(12.1)	(5.1)	(73.2)	(5.1)
Purchase of property, equipment and other assets	(109.0)	(124.8)	(303.7)	(304.5)
Proceeds from sale of property	5.6	14.1	17.4	34.1
Decrease in deferred foreign currency translation adjustment gains	(0.4)	-	(0.5)	-
Cash flows used in investing activities	(33.9)	(114.5)	(266.5)	(212.8)
<b>Financing</b>				
Bank indebtedness	(34.5)	(4.3)	45.9	(46.8)
Construction loans	(3.8)	0.6	(2.1)	1.0
Issue of long-term debt	4.3	16.4	10.1	24.4
Repayment of long-term debt	(21.5)	(19.4)	(165.7)	(60.7)
Minority interest	1.5	-	6.0	3.3
Issue of Non-Voting Class A shares	0.1	0.1	1.1	1.6
Purchase of Non-Voting Class A shares for cancellation	(1.8)	-	(1.8)	(1.6)
Common dividends	(6.6)	(5.5)	(19.8)	(16.3)
Refundable taxes	1.6	1.4	5.0	3.7
Cash flows used in financing activities	(60.7)	(10.7)	(121.3)	(91.4)
Increase (decrease) in cash from continuing operations	34.2	(47.4)	(188.6)	(169.4)
Discontinued operations	0.2	0.1	1.3	2.0
Increase (decrease) in cash and cash equivalents	34.4	(47.3)	(187.3)	(167.4)
Cash and cash equivalents, beginning of period	95.1	182.5	316.8	302.6
Cash and cash equivalents, end of period	\$ 129.5	\$ 135.2	\$ 129.5	\$ 135.2

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

**EMPIRE COMPANY LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JANUARY 31, 2004**

(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. The accounting policies used in the preparation of these interim consolidated financial statements conform with those used in the Company's annual consolidated financial statements except as noted below under "Long-lived assets". These interim consolidated financial statements do not include all of the disclosures included in the Company's annual consolidated financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended April 30, 2003, as set out in the 2003 Annual Report.

**Long-lived assets**

Effective May 1, 2003, the Company adopted the Canadian Institute of Chartered Accountants' new handbook sections 3063 and 3475. Section 3063 provides guidance on the recognition, measurement and disclosure of the impairment of long-lived assets. There was no impact of the application of Section 3063. Section 3475 provides guidance on the recognition, measurement, presentation and disclosure of long-lived assets to be disposed of. During the current fiscal year land previously held for development has been listed for sale and reclassified as "Assets for realization". These parcels of land are expected to be sold within a twelve month period and there is no longer an intent to develop the land for future use.

**Stock-based compensation plans**

The Company has a stock option plan that allows holders to purchase Non-Voting Class A shares at \$6.555 per share. Options expire at dates from June 2004 to October 2006. At January 31, 2004 42,074 options were outstanding and no new options were granted during the period. During the nine months ended January 31, 2004, 25,000 options were exercised resulting in 25,000 Non-Voting Class A shares being issued.

**2. Earnings Per Share**

Basic earnings per share amounts are calculated using the weighted average number of shares outstanding during the period, excluding shares held as security for loans receivable from officers and employees (2004 - 65,488,000 shares; 2003 - 65,500,000 shares) and after providing for preferred share dividends accrued to the balance sheet date. Diluted earnings per share amounts are calculated on the assumption that all the outstanding stock options were exercised at the beginning of the period (2004 - 65,820,000 shares; 2003 - 65,856,000 shares). Effective October 7, 2002 both the Class A shares and Class B shares were split on the basis of two-for-one.

Earnings applicable to common shares is comprised of the following:

	<b>Three Months</b>		<b>Nine Months</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Operating earnings	\$ 44.2	\$ 39.3	\$ 122.8	\$ 118.1
Capital gain (loss) and other items, net of tax of \$2.2; \$(0.9); \$2.3; \$(0.7)	<b>8.8</b>	-	<b>9.3</b>	<b>(0.2)</b>
Net earnings	<b>53.0</b>	39.3	<b>132.1</b>	117.9
Preferred share dividends	<b>0.1</b>	0.1	<b>0.3</b>	0.3
Earnings applicable to common shares	<b>\$ 52.9</b>	\$ 39.2	<b>\$ 131.8</b>	\$ 117.6

Earnings per share is comprised of the following:

Operating earnings	\$ 0.68	\$ 0.60	\$ 1.87	\$ 1.80
Capital gain and other items	<b>0.13</b>	-	<b>0.14</b>	-
Basic earnings per share	<b>\$ 0.81</b>	\$ 0.60	<b>\$ 2.01</b>	\$ 1.80
Diluted earnings per share	<b>\$ 0.80</b>	\$ 0.60	<b>\$ 2.00</b>	\$ 1.79

**EMPIRE COMPANY LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JANUARY 31, 2004**

(Unaudited, in millions, except per share amounts)

**3. Other Assets**

	January 31 2004	April 30 2003	January 31 2003
Loans and mortgages receivable	\$ 139.0	\$ 132.3	\$ 105.5
Deferred charges	135.4	139.1	136.6
Assets for realization	17.7	-	-
Intangibles (less accumulated amortization of \$0.3)	6.1	-	-
Goodwill	595.2	569.3	567.6
	<u>\$ 893.4</u>	<u>\$ 840.7</u>	<u>\$ 809.7</u>

The Company's subsidiary, Sobeys Inc. acquires franchisee stores as part of their operations. The fair value of the net assets acquired during the year consist of inventory of \$1.8, fixed assets of \$2.5, intangible assets of \$6.4 and assumed liabilities of \$0.1, for total proceeds of \$10.6. The purchase method was used to account for these acquisitions and the results of the acquired stores are included in the consolidated financial statements. The intangible assets are amortized on a straight-line basis over 10 years.

**4. Investment Income**

	Three Months		Nine Months	
	2004	2003	2004	2003
Dividend and interest income	\$ 2.2	\$ 2.7	\$ 8.9	\$ 11.9
Share of income of companies accounted for by the equity method	1.6	-	4.0	0.1
	<u>\$ 3.8</u>	<u>\$ 2.7</u>	<u>\$ 12.9</u>	<u>\$ 12.0</u>

**5. Capital Gain (Loss) and Other Items**

	Three Months		Nine Months	
	2004	2003	2004	2003
Gain (loss) on sale of investments	\$ 11.1	\$ (1.1)	\$ 11.9	\$ (1.1)
Foreign currency translation loss	-	-	(0.2)	-
Gain (loss) on disposal of properties	(0.1)	0.2	(0.1)	0.2
	<u>\$ 11.0</u>	<u>\$ (0.9)</u>	<u>\$ 11.6</u>	<u>\$ (0.9)</u>

**6. Supplementary Cash Flow Information**

	Three Months		Nine Months	
	2004	2003	2004	2003
<b>a) Items not affecting cash</b>				
Depreciation	\$ 43.7	\$ 36.7	\$ 122.4	\$ 106.0
Future income taxes	12.3	26.4	14.1	26.6
Amortization of other assets	6.2	5.5	18.0	12.5
Equity in earnings of other companies, net of dividends received	(1.6)	-	(4.0)	(0.1)
Minority interest	12.8	15.2	37.9	45.6
Employee future benefit obligation	1.4	2.1	3.9	3.1
	<u>\$ 74.8</u>	<u>\$ 85.9</u>	<u>\$ 192.3</u>	<u>\$ 193.7</u>
<b>b) Other cash flow information</b>				
Interest paid	\$ 17.0	\$ 24.0	\$ 63.1	\$ 63.0
Income taxes paid	\$ 31.5	\$ 15.7	\$ 122.2	\$ 80.6

**EMPIRE COMPANY LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JANUARY 31, 2004**

(Unaudited, in millions, except per share amounts)

**7. Segmented Information**

	<b>Three Months</b>		<b>Nine Months</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
<b>Revenue</b>				
Food distribution	<b>\$ 2,741.4</b>	\$ 2,594.9	<b>\$ 8,243.7</b>	\$ 7,846.0
Real estate				
Outside	<b>39.8</b>	32.2	<b>114.8</b>	101.9
Inter-segment	<b>13.2</b>	12.7	<b>37.6</b>	36.0
	<b>53.0</b>	44.9	<b>152.4</b>	137.9
Other operations	<b>17.3</b>	16.5	<b>49.1</b>	47.9
	<b>2,811.7</b>	2,656.3	<b>8,445.2</b>	8,031.8
Elimination	<b>(13.2)</b>	(12.7)	<b>(37.6)</b>	(36.0)
	<b>\$ 2,798.5</b>	\$ 2,643.6	<b>\$ 8,407.6</b>	\$ 7,995.8
<b>Operating income</b>				
Food distribution	<b>\$ 77.1</b>	\$ 82.6	<b>\$ 229.4</b>	\$ 249.6
Real estate	<b>28.4</b>	21.8	<b>79.5</b>	71.0
Other operations	<b>2.9</b>	2.7	<b>7.5</b>	7.8
Investment income	<b>3.8</b>	2.7	<b>12.9</b>	12.0
Corporate expenses	<b>(1.8)</b>	(2.2)	<b>(6.0)</b>	(5.9)
	<b>\$ 110.4</b>	\$ 107.6	<b>\$ 323.3</b>	\$ 334.5

**8. Other Item**

During the current fiscal year the Company acquired 1,946,100 additional common shares of its subsidiary, Sobeys Inc., to increase its ownership percentage from 62.0% to 65.0% of the outstanding common shares. The cost of the investment was \$67.1, goodwill increased by \$23.7 and minority interest decreased by \$43.4.

**9. Comparative Figures**

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

**10. Subsequent Event**

On December 3, 2003, the Company's subsidiary, Sobeys Inc. entered into a definitive agreement to purchase substantially all of the assets of Comisso's Food Markets Limited and Comisso's Grocery Distributors Limited. Concurrently, Empire's subsidiary, Crombie Properties Limited announced the purchase of the real estate assets of Comisso's Properties Inc. These transactions were completed February 1, 2004. Upon receipt of federal regulatory approvals, including consent from the Competition Bureau, Sobeys Inc. paid approximately \$61.0 on closing, subject to working capital and purchase price adjustments. The total consideration paid by Crombie Properties Limited was \$42.5, and was financed partly by an assumption of existing mortgages in the amount of \$32.0.

## **Management's Discussion and Analysis**

### **Interim Report for the Nine Months Ended January 31, 2004**

The purpose of this document is to provide a third quarter update to the information contained in the Management's Discussion and Analysis ("MD&A") section of the Empire Company Limited 2003 Annual Report.

Empire Company Limited ("Empire" or the "Company") assumes that the reader of this document has access to and has read the MD&A in the 2003 Annual Report. Empire's 2003 Annual Report can be downloaded in the portable document format (PDF) from the Company's web site at <http://empireco.ca> under the tab, Investor Centre, "Annual Reports." To request a printed copy, you may also contact Empire's transfer agent, CIBC Mellon Trust Company of Canada, at (800) 387-0825, or via e-mail at [investor.relations@empireco.ca](mailto:investor.relations@empireco.ca).

This document provides a discussion and analysis of the interim consolidated financial condition and results of operations of Empire Company Limited ("Empire" or the "Company") for the three-month period and the nine-month period ended January 31, 2004, as compared to the same period last year. This document should be read in conjunction with: the unaudited Interim Consolidated Financial Statements of Empire Company Limited and notes thereto for the nine-month period ended January 31, 2004; "Management's Discussion and Analysis" included in the Annual Report of the Company for the fiscal year ended April 30, 2003; and the audited Consolidated Financial Statements and notes thereto for the fiscal year ended April 30, 2003.

This discussion may contain forward-looking statements about the future performance of the Company. The statements are based on management's assumptions and beliefs in light of information currently available to them. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements.

Additional financial information has been filed electronically with various securities commissions in Canada through SEDAR.

### **OVERVIEW OF THE BUSINESS**

Empire is a diversified Canadian company headquartered in Stellarton, Nova Scotia. Empire's key businesses are retail food distribution (through 65.0% ownership of Sobeys Inc. ("Sobeys")), real estate (through two wholly-owned operating subsidiaries: Sobey Leased Properties Limited ("SLP"), and Crombie Properties Limited ("Crombie"), formerly the Atlantic Shopping Centres group of companies, including 35.8% ownership of Genstar Development Partnership ("Genstar")), and corporate investment activities and other operations (which includes wholly-owned Empire Theatres Limited). With over \$4.4 billion in assets, Empire employs approximately 33,000 people directly and through its subsidiaries.

## CONSOLIDATED FINANCIAL OVERVIEW

The consolidated financial overview provided below reports on the financial performance in the third quarter and the first nine months of fiscal 2004 relative to last year.

### Summary Table of Consolidated Financial Results (\$ in millions, except per share amounts)

	Three Months Ended January 31		Nine Months Ended January 31	
	2004	2003	2004	2003
Revenue <i>(net of inter-company elimination)</i>				
Food Distribution	\$2,741.4	\$2,594.9	\$8,243.7	\$7,846.0
Real Estate	39.8	32.2	114.8	101.9
Other Operations	17.3	16.5	49.1	47.9
	<u>\$2,798.5</u>	<u>\$2,643.6</u>	<u>\$8,407.6</u>	<u>\$7,995.8</u>
Operating Income				
Food Distribution	\$ 77.1	\$ 82.6	\$ 229.4	\$ 249.6
Real Estate	28.4	21.8	79.5	71.0
Investments and Other Operations	4.9	3.2	14.4	13.9
	<u>110.4</u>	<u>107.6</u>	<u>323.3</u>	<u>334.5</u>
Interest expense	22.8	22.5	69.7	69.3
Income taxes (from operating activities)	28.0	28.3	85.1	94.7
Minority interest	15.4	17.5	45.7	52.4
Operating earnings	<u>44.2</u>	<u>39.3</u>	<u>122.8</u>	<u>118.1</u>
Capital gains (losses) and other items, net	8.8	-	9.3	(0.2)
Net earnings	<u>\$ 53.0</u>	<u>\$ 39.3</u>	<u>\$ 132.1</u>	<u>\$ 117.9</u>
<b>Per Share <i>(fully diluted)</i></b>				
Operating earnings	\$ 0.67	\$ 0.60	\$ 1.86	\$ 1.79
Capital gains and other items, net of tax	0.13	-	0.14	-
Net earnings	<u>\$ 0.80</u>	<u>\$ 0.60</u>	<u>\$ 2.00</u>	<u>\$ 1.79</u>

### Management's Explanation of Consolidated Results

Each of Empire's operating businesses contributed to growth in the Company's consolidated revenue; an increase of 5.9 percent in the third quarter against an increase of 6.4 percent in the same quarter last year. Revenue and financial

performance of each of the Company's businesses (food distribution; real estate; investments and other operations) are discussed in detail in further sections of this MD&A.

The revenue increase of \$154.9 million or 5.9 percent over the third quarter last year is largely due to an increase in food division revenues of \$146.5 million or 5.6 percent. Real estate revenues, net of inter-company elimination, improved \$7.6 million or 23.6 percent from the third quarter last year. Revenues from other operations increased \$0.8 million or 4.8 percent from the third quarter last year.

The \$411.8 million or 5.1 percent increase in consolidated revenue for the nine months ended January 31, 2004 largely reflects the growth in food division revenues of \$397.7 million or 5.1 percent over the prior year.

The Company's operating income (operating earnings before interest and taxes) increased by 2.6 percent in the third quarter and declined by 3.3 percent year-to-date. The increase in operating income in the quarter was attributed to a 30.3 percent increase in real estate division operating income, a 53.1 percent increase in operating income from investments and other operations, partially offset by a 6.7 percent decline in operating income from the food division. The year-to-date decline in operating income of \$11.2 million is the result of a \$20.2 million or 8.1 percent decrease in food division operating income contribution from the prior year, offset by an \$8.5 million or 12.0 percent increase in real estate operating income and a \$0.5 million or 3.6 percent increase in operating income from investments and other operations.

The effective income tax rate for the third quarter was 32.0 percent versus 33.3 percent in the third quarter of fiscal 2003. The decrease in rate is primarily the result of a decline in both Canadian federal and provincial income tax rates.

The Company incurs minority interest expense as a consequence of not owning 100.0 percent of Sobeys Inc. For the third quarter minority interest equaled \$15.4 million, a decrease of \$2.1 million or 12.0 percent from the \$17.5 million recorded in the third quarter last year. The decline in minority interest is attributed to an increase in Empire's ownership interest in Sobeys, from 62.0 percent last year to 65.0 percent at the end of the third quarter this year, along with Sobeys reporting a \$1.8 million decline in net earnings in the third quarter relative to the third quarter last year.

Consolidated earnings before net capital gains (losses) and other items or operating earnings increased by \$4.9 million or 12.5 percent in the third quarter and by \$4.7 million or 4.0 percent on a year-to-date basis.

The Company realized net capital gains of \$8.8 million in the third quarter of fiscal 2004, primarily as a result of selling various common equities, including the balance of its common share holding in Delhaize Le Lion.

Consolidated net earnings for the third quarter and year-to-date increased by 34.9 percent and 12.0 percent respectively, positively impacted by capital gains and higher operating income from the real estate division. The increase in realized net capital gains was \$8.8 million in the third quarter compared to the third quarter last year and \$9.5 million on a year-to-date basis. The increase in real estate division operating income is discussed in further detail in the real estate section of this MD&A.

## **OPERATING OVERVIEW & PERFORMANCE BY SEGMENT**

### **Food Distribution**

Empire's food distribution business is carried on through its 65.0 percent ownership of Sobeys. Sobeys conducts business through close to 1,300 retail stores (corporately owned and franchised) which operate in four retail regions: Sobeys West, Sobeys Ontario, Sobeys Quebec, and Sobeys Atlantic.

Sales for the third quarter were \$2.74 billion compared to \$2.59 billion for the same quarter last year, an increase of \$146.5 million or 5.6 percent. Same-store sales grew by 1.5 percent in the third quarter. Food price inflation remained low during the quarter in all operating regions.

Year-to-date, sales increased 5.1 percent over the same period last year with same-store sales growth of 1.4 percent. Sales growth is primarily a reflection of a 3.4 percent increase in retail selling square footage in Sobeys store network during the past twelve months as a result of new store openings and enlargements, its aggressive pricing posture and Sobeys' continued implementation of sales and merchandising initiatives.

Third quarter fiscal 2004 net earnings contribution to Empire totaled \$28.6 million (after-tax and minority interest), an increase of \$0.3 million or 1.0 percent compared to the \$28.3 million contributed in the third quarter of fiscal 2003.

Empire purchased a total of 1.95 million common shares of Sobeys Inc. between July 1, 2003 and January 31, 2004, resulting in an increase in ownership of Sobeys, from 62.0 percent to 65.0 percent. The increased ownership level at the end of the third quarter fiscal 2004, relative to last year, accounts for a \$1.3 million increase in third quarter earnings relative to last year.

The fact that earnings contribution in the third quarter was relatively unchanged despite the increase in ownership level and sales growth of 5.6 percent in the quarter is largely attributable to continued investments incurred in support of the food division store format, offering and re-bannering strategy, as well as the impact of lower retail prices in increasingly competitive markets across the country.

Year-to-date earnings contribution of \$83.4 million is down \$1.7 million or 2.0 percent from last year as a result of a difficult retail selling environment, costs related to the accelerated implementation of Sobeys store format, offering and re-bannering strategy, and to one-time items incurred in the first half of this fiscal year. These one-time items included the cost of an Ontario power failure, an adverse outcome in a long standing lawsuit and closure costs related to two redundant Western Canada distribution centres. Year-to-date earnings also reflect the increased depreciation expense as well as the positive impact of lower effective income tax rates.

Sobeys' earnings before interest, taxes, depreciation, and amortization charges ("EBITDA") for the third quarter equaled \$115.8 million, an increase of 1.1 percent or \$1.3 million versus the \$114.5 million recorded in the same quarter last year. EBITDA as a percentage of sales declined from 4.41 percent a year ago to 4.22 percent in the third quarter this year. The EBITDA margin decline primarily reflects the impact of lower retail prices in an increasingly competitive environment.

Sobeys' operating income or earnings before interest and taxes ("EBIT") for the third quarter decreased \$5.5 million, or 6.7 percent, to \$77.1 million. Operating margin, which is operating income divided by sales, for the third quarter declined to 2.81 percent from 3.18 percent in the same quarter last year. Operating margin was negatively affected by lower retail prices in increasingly competitive markets across the country. Operating income for the first nine months of fiscal 2004 decreased by \$20.2 million or 8.1 percent to \$229.4 million compared to the same period in fiscal 2003, with operating margins of 2.78 percent below the 3.18 percent recorded in fiscal 2003. Also contributing to this three and nine-month decline was a \$6.8 million increase in depreciation charges (\$38.7 million in the current quarter compared to \$31.9 million last year) reflective of the Sobeys' continued capital investment program.

Interest expense recorded by Sobeys in the third quarter decreased 3.8 percent or \$0.4 million to \$10.0 million largely as a result of a reduction in long-term debt relative to last year.

## **Real Estate**

The real estate division is focused on the development and management of its existing property portfolio, while also pursuing accretive acquisitions and developments in Ontario.

With the acquisition of six properties in Ontario on February 1, 2004, the real estate division now manages over 1.0 million square feet of property in Ontario and Quebec. With this acquisition, total square feet under ownership equals 12.8 million square feet compared to 12.1 million square feet at the end of the third

quarter last year. The trend towards increasing the percentage of total property square footage in Ontario relative to the total portfolio is expected to continue.

The table below segments real estate division revenue and operating earnings contribution for Genstar and commercial properties.

(\$ in millions)	Three Months Ended January 31		Nine Months Ended January 31	
	2004	2003	2004	2003
Revenue				
Commercial properties	\$45.2	\$42.8	\$132.1	\$124.5
Genstar	7.8	2.1	20.3	13.4
	<u>53.0</u>	<u>44.9</u>	<u>152.4</u>	<u>137.9</u>
Inter-segment	(13.2)	(12.7)	(37.6)	(36.0)
	<u>\$39.8</u>	<u>\$32.2</u>	<u>\$114.8</u>	<u>\$101.9</u>
Operating Earnings <sup>(1)</sup>				
Commercial properties	\$ 7.9	\$ 7.1	\$ 17.8	\$ 16.0
Genstar	3.7	1.2	11.5	7.7
	<u>\$ 11.6</u>	<u>\$ 8.3</u>	<u>\$ 29.3</u>	<u>\$ 23.7</u>

(1) Net earnings before net capital gains and other items.

The real estate division had another solid quarter, recording revenues (net of inter-company revenue) of \$39.8 million in the third quarter compared to \$32.2 million last year, a 23.6 percent increase. Year-to-date revenues increased 12.7 percent.

The growth in real estate revenues in the quarter and for the nine months ended January 31, 2004 primarily reflects growth in residential revenue from our 35.8 percent interest in Genstar's residential land development business combined with same-property revenue growth as a result of increased occupancy levels and overall higher rental renewal rates. Year-over-year revenues also increased as a result of an acquisition of a community shopping centre property in Hamilton, Ontario during the first quarter of the current fiscal year.

Leasing activity has been stronger than anticipated with an overall (retail plus office) occupancy rate of 93.1 percent compared to 92.7 percent a year ago. The retail occupancy rate was 93.6 percent at the end of the third quarter compared to 93.2 percent a year earlier. The office occupancy rate at the end of the third quarter was 90.0 percent compared to 90.2 percent a year ago.

Real estate operating income in the third quarter totaled \$28.4 million, a \$6.6 million or 30.3 percent increase over the third quarter last year. Operating income was higher as a result of the increase in revenues over the prior year, as mentioned, along with continued controls over operating expenses.

Operating income for the first nine months of fiscal 2004 amounted to \$79.5 million, an increase of \$8.5 million or 12.0 percent over the same period last year. The increase on a year-to-date basis is attributed to higher contribution from Genstar and growth in same-property revenues, coupled with ongoing attention to expense controls. Operating costs, excluding depreciation, as a percentage of revenues fell from 40.2 percent in the first nine months of last year to 40.1 percent in the first nine months of fiscal 2004.

Interest expense for the real estate division in the third quarter equaled \$11.7 million compared to \$11.0 million last year. The increase is due to higher average funded debt levels relative to last year. Total real estate debt at the end of the third quarter amounted to \$547.4 million compared to \$544.0 million at the end of the third quarter last year.

Operating earnings contribution by the real estate division amounted to \$11.6 million in the third quarter compared to \$8.3 million last year, a \$3.3 million or a 39.8 percent increase. Genstar contributed \$2.5 million of the \$3.3 million increase in operating earnings contribution in the third quarter, while commercial plus other real estate operations accounted for \$0.8 million of the increase in operating earnings over the third quarter last year.

Operating earnings contribution to Empire for the first nine months of fiscal 2004 totaled \$29.3 million, up \$5.6 million or 23.6 percent compared to the \$23.7 million contribution for the same period last year.

There was a net capital loss of \$0.1 million in the third quarter by the real estate group versus a net capital loss of \$0.2 million reported in the third quarter last year.

Real estate's funds from operations amounted to \$15.4 million in the third quarter, an increase of \$3.4 million or 28.3 percent versus the same period last year. Trailing (last four quarters) funds from operations, or operating earnings plus depreciation, for the real estate division equaled \$59.7 million for the four quarters ended January 31, 2004 compared to \$52.7 million for the previous four quarter period.

### **Investments and Other Operations**

The third component of Empire's business is its investments, consisting of an investment portfolio of equity investments and other operations.

For the third quarter of fiscal 2004, revenue from Empire's other operations equaled \$17.3 million, a 4.8 percent increase from the same period last year. This result is primarily due to increased revenues at wholly-owned Empire Theatres due to reasonable film quality in the third quarter relative to last year.

For the nine-month period ended January 31, 2004, revenue generated by other operations increased 2.5 percent to reach \$49.1 million.

Operating income generated by investments and other operations for the three months ended January 31, 2004 was \$4.9 million, a \$1.7 million increase from the same period last year. Operating income excludes gains on investment sales. The increase is the result of improved theatres contribution, higher investment income and lower corporate expenses relative to the third quarter last year.

Operating income generated by investments and other operations for the nine months ended January 31, 2004 was \$14.4 million, a \$0.5 million increase from the same period last year. The increase is mainly the result of higher investment income compared to the prior year.

At January 31, 2004, Empire's total portfolio investments, excluding cash and cash equivalents, had a market value of \$344.6 million on a carrying value of \$297.9 million, resulting in an unrealized gain of \$46.7 million. This compares to a \$25.6 million unrealized gain at the end of the second quarter and a \$68.7 million unrealized loss at the start of the fiscal year.

The market value of investments, compared to book cost, has increased by \$115.4 million from the beginning of the fiscal year to the end of the third quarter.

The increase in investment value compared to book cost in the third quarter is primarily attributed to a 37.0 percent increase in the price of Wajax Limited shares, along with increased market values for North American common equities in the quarter.

Total return on the portfolio climbed from 33.4 percent at the end of the second quarter to 42.6 percent at the end of the third quarter. The total return of 42.6 percent to the end of the third quarter compares favourably to a 26.4 percent return posted for the S&P/TSX composite index, an 11.0 percent return for the S&P 500 Index (in Canadian dollars) and a 22.8 percent return for the S&P 500 Index (in U.S. dollars) over the same time period.

Investment income equaled \$3.8 million in the third quarter, an increase of \$1.1 million over last year. The equity earnings contribution from Wajax amounted to \$1.6 million in the quarter (2003 - nil), while dividend and interest income equaled \$2.2 million in the third quarter (2003 - \$2.7 million). Year-to-date investment income totaled \$12.9 million versus \$12.0 million last year. On a year-to-date basis, equity earnings contribution from Wajax amounted to \$4.0 million (2003 - \$0.1 million) and dividend and interest income equaled \$8.9 million (2003 - \$11.9 million).

The decrease in dividend and interest income during the third quarter and for the fiscal year-to-date relative to last year, is primarily due to a lower investment base as a result of investment sales made in the fourth quarter last fiscal year.

During the third quarter various common equity investments, including the balance of the common shares held in Delhaize Le Lion, were sold resulting in capital gains of \$11.1 million (\$0.13 per share). Proceeds from investment sales, net of purchases, for the fiscal year-to-date were largely used to reduce bank loans and to purchase 1.95 million common shares of Sobeys Inc.

At the end of the third quarter, Empire's direct debt equaled \$82.6 million compared to \$151.7 million at the end of the third quarter last year.

At January 31, 2004 Empire had hedged 66.0 percent of the cost of its U.S. common equities (70.0 percent on a market value basis) by way of \$37.0 million in U.S. dollar short-term borrowings. The Canadian equivalent of these U.S. dollar short-term borrowings at January 31, 2004 was \$50.9 million.

## CONSOLIDATED FINANCIAL POSITION

Empire ended the third quarter in a strong financial position. The ratio of debt to total capital at the end of the third quarter equaled 41.8 percent versus 45.9 percent at the start of the fiscal year and 45.9 percent a year earlier. Funded debt has decreased by \$76.3 million or by 6.4 percent over the last year while shareholders' equity has increased by \$147.2 million or by 10.6 percent over the same time period.

Interest coverage, calculated for the trailing four quarter period ended January 31, 2004, was unchanged from the prior four quarter period at 4.65 times.

Empire's key financial condition measures as at January 31, 2004 are indicated in the following table:

### Capital Structure & Key Financial Condition Measures

	January 31 2004	April 30 2003	January 31 2003
Shareholders' equity (in millions)	\$1,542.4	\$1,427.1	\$1,395.2
Funded debt <sup>(1)</sup> (in millions)	\$1,109.4	\$1,211.3	\$1,185.7
Funded debt to total capital	41.8%	45.9%	45.9%
Interest coverage <sup>(2)</sup>	4.65x	4.79x	4.65x
Return on common equity <sup>(3)</sup>	11.4%	11.4%	11.5%

(1) Includes all interest bearing debt.

- (2) Operating income divided by interest expense. Operating income and interest expense are calculated for the trailing four quarter period.
- (3) Return on common equity is calculated by aggregating quarterly net earnings for the last four fiscal quarters, less preferred dividends, divided by average common shareholders' equity during the same period.

## **Assets**

Total assets at the end of the third quarter of \$4,418.7 million (April 30, 2003 - \$4,516.1 million) increased \$74.7 million or 1.7 percent over the \$4,344.0 million reported at January 31, 2003. The increase in total assets over the last twelve months is primarily attributed to: a \$185.8 increase in the book cost of property, plant and equipment which reflects both the food division's and the real estate division's capital expenditure programs; a \$33.5 million increase in loans and mortgages receivables; offset by a \$160.4 million decrease in the book cost of investments over the same time period. The decline in the book cost of investments is mainly attributable to investment sales of which proceeds were used to repay bank loans and to fund the purchase of 1.95 million common shares of Sobeys over the last twelve months.

## **Long-Term Debt**

Long-term debt, including the current portion, was \$964.2 million at January 31, 2004 compared to \$1,112.0 million at the end of fiscal 2003. The reduction of \$147.8 million is mainly attributed to scheduled long-term debt repayments, including the repayment by Sobeys of a \$100.0 million Series B Medium Term Note in October 2003.

The company anticipates ready availability of any required longer-term financing due to its investment grade credit rating, previous experience in the capital markets, and Sobeys existing short-term base shelf prospectus expiring February 19, 2005 which provides for the issuance of up to \$500.0 million of unsecured Medium Term Notes, of which \$100.0 million has been issued.

## **Shareholders' Equity**

Shareholder's equity increased \$115.3 million fiscal year-to-date, or 8.1 percent, to \$1,542.4 million. The book value of common shares at the end of the quarter was \$23.29 per share compared to \$21.05 at the end of the third quarter last year.

At January 31, 2003 there were 65,749,810 common shares outstanding versus 65,758,858 common shares outstanding a year earlier. Empire has a policy of repurchasing enough Class A Non-Voting shares to offset the dilutive effect of shares issued to fulfill the Company's obligation under stock option and share

purchase plans. The Company had 42,074 options outstanding at the end of the third quarter with expiry dates ranging from June 2004 to October 2006.

At the end of the third quarter, management calculated Empire's consolidated net asset value at \$2,202 million or \$33.53 per share, a 1.7 percent increase from the net asset value of \$2,166 million or \$32.92 per share calculated at April 30, 2003. Approximately 83 percent of Empire's calculated net asset value is based on publicly available market values, consisting of the market price for Sobeys Inc. common shares (TSX: SBY), the market price of Wajax Limited common shares (TSX: WJX) and the market price of each common equity comprising Empire's investment portfolio. The balance of Empire's NAV is primarily related to the real estate group, whose market value has been calculated at approximately 6.5 times trailing funds from operations of \$59.7 million.

Return on average common equity was 11.4 percent at the end of January 31, 2004, relatively unchanged from 11.5 percent a year earlier.

## **LIQUIDITY AND CAPITAL RESOURCES**

Short-term liquidity remains strong as a result of internally generated cash flow, net cash on hand, and bank credit lines for operating, general and corporate purposes. At January 31, 2004, Empire's non-consolidated bank line utilization equaled \$64.1 million, representing 19.7 percent of in-place authorized bank credit facilities of \$325.0 million.

Empire maintains access to the capital markets through established investment grade credit ratings with Dominion Bond Rating Service (DBRS) and Standard and Poor's (S&P). The Company's long-term debt is currently rated "BBB" by DBRS and "BBB-" by S&P. On January 15, 2004 DBRS confirmed its long-term debt rating for Empire at "BBB" with a stable trend. Also on January 15, 2004 DBRS confirmed Sobeys long-term debt rating, including its MTN rating, at "BBB (high)" with a stable outlook. On March 5, 2004 S&P confirmed Empire's long-term debt rating at "BBB-" with a stable trend.

### **Cash Flows from Operating Activities**

Cash flows from operating activities amounted to \$128.8 million in the third quarter compared to \$77.8 million in the third quarter last year. The increase of \$51.0 million was primarily attributed to improved working capital performance in the third quarter of fiscal 2004 compared to the third quarter of fiscal 2003. The working capital improvement is largely the result of a decrease in inventory levels of \$28.7 million. Inventories increased during the same period last year by \$39.8 million.

On a fiscal year-to-date basis, the \$64.4 million increase in cash flows from operating activities from the same period last year is attributed to improved

working capital performance of \$51.6 million and to the \$14.2 million increase in net earnings over the prior year.

The table below presents comparable working capital components (excluding cash) as at January 31, 2004 and January 31, 2003, along with the increase (decrease) in working capital since the end of the third quarter of fiscal 2003.

### Comparable Working Capital Components

(\$ in millions)	At January 31 2004	At January 31 2003	Increase (decrease) in Working Capital *
Receivables	\$ 305.2	\$ 309.0	\$ (3.8)
Inventories	522.4	540.2	(17.8)
Prepaid expenses	36.9	41.9	(5.0)
Accounts payable and accrued liabilities	(943.2)	(943.8)	0.6
Income taxes payable	(13.2)	(52.9)	39.7
	<u>\$ (91.9)</u>	<u>\$ (105.6)</u>	<u>\$ 13.7</u>

\*The reader should note that an increase in working capital is a use of cash and conversely a decrease in working capital is a source of cash.

### Cash Flows used in Investing Activities

For the three-month period ended January 31, 2004, cash flows used in investment activities equaled \$33.9 million versus \$114.5 million in the same period last year. The decrease in cash flows used in investing activities of \$80.6 million was primarily a result of an increase in the cash flow generated from portfolio investment sales net of purchases, being \$82.0 in the current quarter compared to \$1.3 million in the same quarter last year.

Capital investment of \$109.0 million during the quarter compares to \$124.8 million invested in the third quarter last year and reflects the Company's ongoing commitment to invest cash flow back into growth opportunities in each of its core businesses. Investment in food distribution property and equipment, primarily related to new store development, accounted for a significant percentage of total capital investment.

During the third quarter, 16 new corporate and franchised stores were opened or replaced compared to 12 during the third quarter of last year. An additional 5 stores were expanded during the quarter. Sobey's completed the re-bannering of 51 stores in the quarter compared to 12 in the same period last year. Year-to-date, 69 stores have been re-bannered versus 65 last year.

Net retail store additions by the food division totaled 189,000 square feet in the third quarter (528,000 square feet opened less 339,000 square feet closed). Year-to-date net retail store additions total 516,000 square feet (1,214,000 square feet opened less 698,000 square feet closed). At quarter end, Sobeys retail area totaled 23.1 million square feet, a 3.4 percent increase over a year ago.

On a fiscal year-to-date basis, cash flows used in investing activities were \$266.5 million compared to \$212.8 million in the same period last year. The increase of \$53.7 million largely reflects Empire's purchase of 1.95 million Sobeys common shares for \$67.1 million.

Investment in property, equipment and other assets amounted to \$303.7 million year-to-date, relatively unchanged from \$304.5 million last year. This expenditure level reflects the Company's continued commitment to maintain and renew its asset base and to invest in growth opportunities across Canada.

### **Cash Flows used in Financing Activities**

In the third quarter cash flows used in financing activities were \$60.7 million compared to \$10.7 million used in the third quarter last year, a \$50.0 million increase. In the three-month period ended January 31, 2004 bank indebtedness was reduced by \$34.5 million and long term debt was reduced by \$21.5 million. In the same period of the prior fiscal year bank indebtedness was reduced by \$4.3 million while long term debt was reduced by \$19.4 million. These flows represent \$32.3 million of the \$51.0 million increase in cash flows used. Another \$12.1 million is attributed to \$16.4 million of long-term debt issuance last year compared to \$4.3 million in new long-term debt issuance in the third quarter this year.

On a fiscal year-to-date basis, cash flows used in financing activities amounted to \$121.3 million compared to \$91.4 million used in the prior year, a \$29.9 million increase. The increase is mainly attributed to a \$105.0 million increase in the repayment of long-term debt compared to last year-to-date, coupled with a \$14.3 million decrease in the issuance of long-term debt and a \$92.7 million increase in bank indebtedness relative to the nine months year-to-date last year.

### **RISK MANAGEMENT**

Risk and uncertainties related to economic and industry factors and Empire's management of this risk, as discussed in detail in the "Management's Discussion and Analysis" section of the Company's 2003 annual report (pages 23-41), remain substantially unchanged.

## **ACCOUNTING STANDARDS**

### **Accounting Standards Implemented in Fiscal 2004**

During the first quarter of fiscal 2004, the Company adopted the following accounting pronouncements by the Canadian Institute of Chartered Accountants ("CICA"). Adoption of the following standards had no impact on net earnings.

#### **I. Impairment of Long-lived Assets**

Section 3063 provides guidance on the recognition, measurement, and disclosure of the impairment of long-lived assets.

#### **II. Disposal of Long-lived Assets and Discontinued Operations**

This standard provides guidance on the recognition, measurement, presentation, and disclosure of any long-lived assets not held for use and any discontinued operations. During the current fiscal year, land previously held for development has been listed for sale and reclassified as "assets for realization". These parcels of land are expected to be sold within a twelve-month period and there is no longer intent to develop the land for future use.

#### **III. Accounting for Real Estate Investment Acquisitions**

EIC 140 establishes a new standard of accounting for operating leases acquired in either an asset acquisition or a business combination, to be applied prospectively to asset acquisitions and business combinations initiated after September 12, 2003. This abstract dictates that an enterprise acquiring real estate, including office buildings, retail centres and/or apartment complexes, allocate a portion of the purchase price to in-place operating leases, based on their fair value, acquired in connection with the real estate property. A portion of the purchase price would also be allocated to the fair value of customer relationship(s) relating to the probability that existing tenants will renew their leases.

#### **IV. Hedging Relationships**

The CICA has issued Accounting Guideline Number 13, "Hedging Relationships", which will be applicable in the Company's next fiscal year. This guideline establishes certain conditions for the application of hedge accounting.

### **Accounting Standards being Examined for Future Periods**

The CICA has issued the following accounting pronouncements which are applicable to the Company's future fiscal periods. They are being examined for potential implications, if any.

## I. Consolidation of Variable Interest Entities

The CICA has issued Accounting Guideline Number 15, "Consolidation of Variable Interest Entities", which is applicable to the Company's third quarter of fiscal 2005 in relation to disclosure of and accounting for Variable Interest Entities. The purpose of this guideline is to provide guidance for determining when an enterprise includes the assets, liabilities and results of activities of certain entities that are subject to control on a basis other than ownership of voting interest.

A Variable Interest Entity (VIE) is any type of legal structure not controlled by voting equity, but rather by contractual or other financial arrangements. The Company has identified potential VIEs and is currently reviewing Accounting Guideline 15 to determine what extent, if any at all, consolidation or note disclosure will be required. If consolidation or potential VIEs were required, it is not expected to result in any material change in the reported earnings or underlying tax, legal or credit risks facing the Company.

## II. Section 1100, "Generally Accepted Accounting Principles"

Section 1100, "Generally Accepted Accounting Principles" ("GAAP"), deleted the reference to industry accounting practice, which had previously constituted a source of generally accepted accounting principles. The company has been following industry practice with respect to depreciation of real estate investment properties and lease accounting. The effect of a change in accounting for these items will be applied prospectively.

## **NON-GAAP MEASURES**

The measures of operating earnings, net asset value, EBITDA and funds from operations included in Management's Discussion and Analysis do not have a standardized meaning under Canadian GAAP and therefore may not be comparable to similarly titled measures presented by other companies. The Company includes operating earnings, net asset value, EBITDA and funds from operations because it believes certain investors use these measures as a means of measuring financial performance. Operating earnings is calculated as net earnings, before net capital gains (losses) and other items. Net asset value is calculated by management as an estimate of the market value of the Company's assets less indebtedness. EBITDA is calculated as operating income plus depreciation. Funds from operations is calculated as net earnings, before net capital gains (losses) and other items, plus depreciation.

## **SUBSEQUENT EVENTS**

Subsequent to the end of the third quarter, on February 1, 2004, Sobeys completed its purchase of substantially all of the assets of Commisso's Food Markets Limited and Commisso's Grocery Distributors Limited upon receiving all required regulatory approvals, for a purchase price of \$61.0 million subject to

working capital and purchase price adjustments. With the addition of 15 retail grocery stores, 6 cash and carry locations and the wholesale business to the Sobeys Ontario operations, management expects a positive impact on sales beginning in the fourth quarter of this fiscal year and a positive impact on earnings in fiscal 2005.

Subsequent to the end of the third quarter, on February 1, 2004, Empire's wholly-owned subsidiary, Crombie Properties Limited, completed the purchase of Commisso's Properties Inc., upon receiving all required regulatory approvals, for a purchase price of \$42.5 million. With the addition of six properties predominately located in Southern Ontario and the Niagara Peninsula, management expects a positive impact on sales and earnings beginning in the fourth quarter of this fiscal year.

## INVESTOR INFORMATION

### EMPIRE COMPANY LIMITED

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

### INVESTOR RELATIONS

For additional information  
please write to the company,  
c/o Stewart H. Mahoney, CFA  
Vice President, Treasury and Investor Relations  
E-mail: investor.relations@empireco.ca

### STOCK EXCHANGE LISTINGS

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)

30,859

### COMMON DIVIDEND RECORD AND PAYMENT DATES

Record Date	Payment Date
April 15th, 2004	April 30th, 2004
July 15th, 2004*	July 30st, 2004*
Oct. 15th, 2004*	Oct. 29th, 2004*
Jan. 14th, 2005*	Jan. 31th, 2005*

\*subject to approval by Board of Directors

### OUTSTANDING SHARES

As of March 12, 2004	
Non-voting Class A shares	30,864,585
Options exercisable with non-voting Class A shares	42,074
Class B common shares	34,885,225

### TRANSFER AGENT

CIBC Mellon Trust Company  
Telephone: (800) 387-0825  
E-mail enquiries @ CIBCMellon.com

### MULTIPLE MAILINGS

If you have more than one account, you may receive a separate annual report for each. If this occurs, please contact CIBC Mellon Trust Company, at the above contact information to eliminate the multiple mailings.

### INVESTOR INQUIRIES

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

Shareholders, analysts, and investors should direct their financial inquiries or requests to Stewart H. Mahoney.

### EXEMPLAIRE FRANÇAIS

Vous pouvez obtenir un exemplaire français  
Empire Company Limited  
Investor Relations  
115 King Street  
de ce rapport annuel en écrivant à:  
Stellarton, Nova Scotia

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