EMPIRE

What we value

Empire Company Limited
Second Quarter Report | Twenty-Six Weeks Ended October 30, 2004

Quarterly Report to Shareholders

Empire is a diversified Canadian company headquartered in Stellarton, Nova Scotia. Empire's key businesses are retail food distribution (through 65.9% ownership of Sobeys Inc. ("Sobeys")), real estate (through two wholly-owned operating subsidiaries: Sobey Leased Properties Limited ("SLP"), and Crombie Properties Limited ("Crombie"), including 35.7% ownership of Genstar Development Partnership ("Genstar")), and corporate investment activities and other operations (which includes wholly-owned Empire Theatres Limited ("Empire Theatres")). With over $4.6 billion in assets, Empire employs approximately 34,000 people directly and through its subsidiaries.

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

The Company provided additional details concerning its second quarter results on a conference call held on Friday, December 10, 2004. Replay of the call is available on the Company's website (www.empireco.ca).

Forward-looking Statements

This quarterly report may include forward-looking statements that are subject to risks, uncertainties and competitive or economic factors that may cause actual results or events to differ materially from the results or events predicted in this discussion. In addition to the risks outlined in our Risk Management section of our fiscal 2004 Annual Report, factors which could cause actual results or events to differ include, but are not limited to: the ability to execute on operating company strategic initiatives; the impact of competition; general economic conditions; interest rate and currency exchange rate fluctuations; conditions affecting the North American equity markets; conditions affecting the growth and development of our real estate property portfolio; the ability of our operating companies to attract and retain quality employees and franchises; labor disruptions; environmental, health and safety issues; technological change; unexpected judicial or regulatory proceedings; and the availability of capital and the associated cost of capital. As a result of these risk factors and others, no guarantee can be given that the results implied by any forward-looking statements will necessarily materialize.

Letter to Shareholders

On December 10, 2004, Empire Company Limited announced its financial results for the second quarter ended October 30, 2004.

Second Quarter Highlights

- Revenue of $3.02 billion, up $228.4 million or 8.2 percent over the second quarter last year.
- Earnings before net capital (loss) gain and other items of $43.0 million, up $4.0 million or 10.3 percent over the second quarter last year.
- Earnings per share (before net capital (loss) gain and other items) of $0.66, an improvement of 7 cents or 11.9 percent compared to last year.
- Capital loss and other items, net of tax, of $3.0 million in the quarter versus $2.2 million in the second quarter last year.
- Net earnings of $40.0 million, up $3.2 million or 8.7 percent from $36.8 million in the second quarter last year.

Financial Overview

The Company reported operating earnings (net earnings before net capital loss and other items) for its second quarter ended October 30, 2004 of $43.0 million or $0.66 per share, an increase of 10.3 percent over the $39.0 million, or $0.59 per share, reported in the second quarter last year.

Net earnings amounted to $40.0 million or $0.61 per share versus $36.8 million or $0.56 per share last year. The Company realized a net capital loss on the sale of investments of $3.0 million in the second quarter as compared to a net capital loss realized in the second quarter last year of $2.2 million.

Financial Performance

Consolidated revenue for the second quarter increased 8.2 percent to $3.02 billion, from $2.79 billion last year. Food distribution operations, through 65.9 percent owned Sobeys Inc., reported revenue of $2.97 billion, an increase of $224.8 million or 8.2 percent over the second quarter last year. Sales grew in all operating regions. Same store sales increased 3.5 percent. There was modest food price inflation across the country. During the second quarter, two new corporate stores were opened and another two stores were expanded. At October 30, 2004, Sobeys had 24.2 million square feet of retail space in operation, a 5.7 percent increase over the prior year.

Real estate operations reported revenues (net of inter-segment revenues) of $39.5 million, an increase of $1.0 million or 2.6 percent over the second quarter last year. Commercial property revenues grew by $2.6 million or 8.3 percent while revenue from residential operations, through a 35.7 percent interest in Genstar Development Partnership, declined by $1.6 million or 22.5 percent. The growth in commercial property revenues primarily reflected the positive impact of the acquisition of six properties in Ontario from Commisso's Properties Inc., higher occupancy levels along with generally higher rental renewal rates at the start of the fourth quarter last fiscal year. The decrease in residential revenue from our interest in Genstar reflects a slowdown in lot sales relative to the prior year.

Consolidated operating income (operating earnings before interest and income taxes) in the second quarter totaled $111.8 million, an increase of $6.9 million or 6.6 percent compared to the second quarter last year.

The food division contributed operating income of $81.4 million, an increase of $5.4 million or 7.1 percent compared to the second quarter last year. Impacting operating income growth was a $7.0 million increase in food division depreciation expense over the prior year reflecting the food division's continued investment in new stores and in its existing retail store network. The second quarter last year included costs related to the power failure in Ontario, an adverse outcome in a long-standing real estate lawsuit and closure costs related to the Grande Prairie and Peace River, Alberta distribution centres. These costs totaled $10.1 million.

The real estate division contributed operating income of $26.6 million, relatively unchanged from the $26.7 million recorded in the second quarter last year. Operating income generated from commercial properties increased by $1.1 million or 5.3 percent while operating income from residential operations decreased by $1.2 million or 20.0 percent over the second quarter last year.

Trailing (last four quarters) funds from operations (net earnings plus depreciation) for the real estate division equaled $60.4 million versus $55.7 million for the prior twelve-month period.

Interest expense for the second quarter of fiscal 2005 decreased $1.8 million, or 7.9 percent, to $21.1 million largely as a result of a decrease in average borrowing levels.

The effective income tax rate in the second quarter was 34.6 percent compared to 33.7 percent in the second quarter last year.

The Company realized a net capital loss of $3.0 million in the second quarter, the result of selling investments during the quarter. The realized net capital loss in the second quarter last year equaled $2.2 million.

Net earnings for the second quarter were $40.0 million, an increase of $3.2 million from the $36.8 million reported in the second quarter last year.

Financial Condition

The financial condition of the Company continues to improve. The ratio of funded debt to capital at the end of the second quarter equaled 40.5 percent versus 41.7 percent at the beginning of the fiscal year. Operating income in the second quarter provided 5.3 times coverage of interest expense versus 4.6 times coverage in the second quarter last year.

At October 30, 2004, Empire's investment portfolio carried a market value of $375.7 million on a cost base of $302.2 million, resulting in an unrealized gain of $73.5 million.

The purchase of property, equipment and other assets in the second quarter equaled $70.5 million ($146.3 million fiscal year-to-date) as compared to $110.5 million in the same quarter last year ($204.6 million last fiscal year-to-date). Investment in food distribution property and equipment, primarily related to new store development, accounted for $62.2 million of total capital investment in the quarter and $104.3 million fiscal year-to-date. Capital expenditures for the real estate division in the second quarter equaled $7.5 million, reflecting fixed asset additions and improvements to existing commercial properties.

Dividend Declaration

The Board of Directors declared a quarterly dividend of $0.12 per share on both the Non-Voting Class A shares and the Class B common shares that will be payable on January 31, 2005, to shareholders of record on January 14, 2005. In addition, the Board declared regular dividends on the Company's outstanding preferred shares.

In conclusion, we are pleased with our consolidated financial results and the progress made to date by each of our businesses in executing against their respective operating plans. They continue to perform well and we remain confident that the fundamentals of each of our operating businesses will continue to improve during the remainder of the fiscal year.

Paul D. Sobey
President & Chief Executive Officer

December 10, 2004

EMPIRE COMPANY LIMITED
CONSOLIDATED BALANCE SHEETS
(In millions)

	October 30 2004 Unaudited	April 30 2004 Audited *Restated (Note 1)*	October 31 2003 Unaudited *Restated (Note 1)*
ASSETS			
Current			
Cash and cash equivalents	**$ 119.0**	$ 202.2	$ 95.1
Receivables	**294.0**	329.5	323.1
Income taxes receivable	**12.1**	-	-
Inventories	**563.2**	483.6	541.8
Prepaid expenses	**51.5**	49.3	55.9
Future income taxes	**-**	-	1.8
	1,039.8	1,064.6	1,017.7
Investments, at cost (quoted market value $291.8; April 30, 2004 $312.6; October 31, 2003 $357.7)	**251.5**	278.0	334.2
Investments, at equity (realizable value $103.5; April 30, 2004 $92.4; October 31, 2003 $46.2)	**70.3**	60.8	44.1
Current assets and marketable investments	**1,361.6**	1,403.4	1,396.0
Property and equipment	**2,314.6**	2,288.1	2,194.8
Other assets (Note 3)	**309.1**	324.0	282.1
Goodwill	**668.9**	656.9	591.9
	$ 4,654.2	$ 4,672.4	$ 4,464.8
LIABILITIES			
Current			
Bank indebtedness	**$ 168.2**	$ 140.8	$ 179.7
Accounts payable and accrued liabilities	**1,064.0**	1,141.2	1,013.1
Income taxes payable	**-**	7.2	4.4
Future income taxes	**46.8**	46.3	-
Long-term debt due within one year	**233.3**	81.5	88.1
	1,512.3	1,417.0	1,285.3
Long-term debt	**715.1**	903.9	897.1
Deferred revenue	**4.7**	6.6	5.3
Employee future benefit obligation	**93.6**	90.4	79.6
Future income taxes	**139.6**	137.6	177.4
Minority interest	**548.8**	543.9	527.4
	3,014.1	3,099.4	2,972.1
SHAREHOLDERS' EQUITY			
Capital stock (Note 4)	**196.7**	196.7	196.4
Retained earnings	**1,444.0**	1,376.9	1,295.9
Cumulative translation adjustment	**(0.6)**	(0.6)	0.4
	1,640.1	1,573.0	1,492.7
	$ 4,654.2	$ 4,672.4	$ 4,464.8

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

EMPIRE COMPANY LIMITED
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
26 WEEKS ENDED (See Note 12)
(Unaudited, in millions)

	October 30 2004	October 31 2003
Retained earnings, beginning of period as previously reported	**$ 1,380.7**	$ 1,230.6
Adjustment due to adoption of new accounting standard (Note 1)	**(3.8)**	(3.8)
Retained earnings, beginning of period as restated	**1,376.9**	1,226.8
Net earnings	**84.3**	79.1
	1,461.2	1,305.9
Refundable taxes recovered	**-**	3.4
Dividends declared		
Preferred shares	**(0.2)**	(0.2)
Common shares	**(15.8)**	(13.2)
	(16.0)	(13.4)
Premium on common shares purchased for cancellation	**(1.2)**	-
Retained earnings, end of period	**$ 1,444.0**	$ 1,295.9

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)

	13 Weeks Ended		26 Weeks Ended (*See Note 12*)	
	October 30 2004	October 31 2003	**October 30 2004**	October 31 2003
Revenue	**$ 3,022.8**	$ 2,794.4	**$ 6,096.5**	$ 5,609.1
Cost of sales, selling and administrative expenses	**2,867.9**	2,652.2	**5,783.3**	5,326.6
	154.9	142.2	**313.2**	282.5
Depreciation and amortization	**48.3**	40.3	**96.3**	78.7
	106.6	101.9	**216.9**	203.8
Investment income (Note 5)	**5.2**	3.0	**9.8**	9.1
Operating income	**111.8**	104.9	**226.7**	212.9
Interest expense				
Long-term debt	**20.1**	22.4	**40.5**	45.8
Short-term debt	**1.0**	0.5	**2.5**	1.1
	21.1	22.9	**43.0**	46.9
	90.7	82.0	**183.7**	166.0
Capital (loss) gain and other items (Note 6)	**(3.7)**	(2.7)	**(4.0)**	0.6
Earnings before income taxes and minority interest	**87.0**	79.3	**179.7**	166.6
Income taxes				
Current	**31.9**	17.8	**60.4**	55.5
Future	**(1.2)**	9.3	**2.5**	1.7
	30.7	27.1	**62.9**	57.2
Earnings before minority interest	**56.3**	52.2	**116.8**	109.4
Minority interest	**16.3**	15.4	**32.5**	30.3
Net earnings	**$ 40.0**	$ 36.8	**$ 84.3**	$ 79.1
Earnings per share, basic and diluted (Note 2)	**$ 0.61**	$ 0.56	**$ 1.28**	$ 1.20

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

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

	13 Weeks Ended		26 Weeks Ended (*See Note 12*)	
	October 30 2004	October 31 2003	**October 30 2004**	October 31 2003
Operating				
Net earnings	**$ 40.0**	$ 36.8	**$ 84.3**	$ 79.1
Items not affecting cash (Note 7)	**65.8**	69.8	**138.0**	117.5
Preferred dividends	**(0.1)**	(0.1)	**(0.2)**	(0.2)
	105.7	106.5	**222.1**	196.4
Net change in non-cash working capital	**(40.9)**	(78.6)	**(135.5)**	(126.0)
Cash flows from operating activities	**64.8**	27.9	**86.6**	70.4
Investing				
Net decrease in investments	**12.8**	16.8	**21.6**	11.5
Purchase of shares in subsidiary, Sobeys Inc.	**(21.8)**	-	**(29.2)**	(61.1)
Purchase of property, equipment and other assets	**(70.5)**	(110.5)	**(146.3)**	(204.6)
Proceeds from sale of property	**10.9**	7.5	**21.6**	11.8
Business acquisitions, net of cash acquired	**(1.1)**	-	**(13.3)**	-
Cumulative translation adjustment	**(0.2)**	-	**-**	(0.1)
Cash flows used in investing activities	**(69.9)**	(86.2)	**(145.6)**	(242.5)
Financing				
Increase in bank indebtedness	**14.8**	18.6	**27.4**	80.4
Increase (decrease) in construction loans	**(0.1)**	2.1	**(1.2)**	1.7
Issue of long-term debt	**3.5**	5.5	**11.2**	15.7
Repayment of long-term debt	**(23.5)**	(124.8)	**(47.0)**	(144.2)
Minority interest	**0.2**	2.0	**1.9**	4.5
Issue of Non-Voting Class A shares	**-**	0.3	**0.9**	1.0
Purchase of Non-Voting Class A shares for cancellation	**-**	-	**(1.6)**	-
Common dividends	**(7.9)**	(6.6)	**(15.8)**	(13.2)
Refundable taxes	**-**	1.8	**-**	3.4
Cash flows used in financing activities	**(13.0)**	(101.1)	**(24.2)**	(50.7)
Decrease in cash from continuing operations	**(18.1)**	(159.4)	**(83.2)**	(222.8)
Discontinued operations	**-**	1.1	**-**	1.1
Decrease in cash and cash equivalents	**(18.1)**	(158.3)	**(83.2)**	(221.7)
Cash and cash equivalents, beginning of period	**137.1**	253.4	**202.2**	316.8
Cash and cash equivalents, end of period	**$ 119.0**	$ 95.1	**$ 119.0**	$ 95.1

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

EMPIRE COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 30, 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. 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 theyear ended April 30, 2004, as set out in the 2004 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 2004 annual consolidated financial statements except as noted below:

a) Sources of generally accepted accounting principles (GAAP)

During fiscal 2004, the Canadian Institute of Chartered Accountants (CICA) introduced Handbook Section 1100, "Generally accepted accounting principles", which deleted the reference to industry practice that had previously constituted a source for Canadian GAAP. The Company had been following industry practice with respect to depreciation and lease accounting. Section 1100 now requires the Company to recognize depreciation of real estate buildings, rental expense and income from tenant leases on a straight-line basis. During the first quarter, the Company has adopted this handbook section prospectively without restatement.

Depreciation
The sinking fund method was used to record depreciation of the real estate buildings, calculated as an amount which, compounded annually at the rate of 5%, would have fully amortized the cost of the buildings over their estimated useful lives ranging from 20 to 40 years. Effective May 1, 2004 the straight-line method is now used to record depreciation of the real estate buildings. Depreciation is determined with reference to each rental property's book value, its estimated useful life (not greater than 40 years) and its residual value. Adoption of the straight-line method has resulted in additional depreciation of $0.6 during the period. An additional $0.6 of depreciation expense will be recorded in the balance of the Company's current fiscal year as a result of adopting this policy.

Real estate leases
Rental expense was recognized in accordance with the lease agreements with landlords. Effective May 1,2004 the Company has changed its policy to record real estate lease expense on a straight-line basis. Additional real estate lease expense of $1.0 was recorded in the first two quarters as a result of this policy change in the food distribution reporting segment, with an additional $1.0 of expense expected to be recorded during the balance of the fiscal year. Real estate revenue was recognized in accordance with the lease agreements with tenants. The Company has changed its policy to record income on a straight-line basis. Adoption of this policy resulted in recognition of additional straight-line real estate revenue of $1.0 during the period. An additional $0.8 of revenue is expected to be recorded in the real estate segment in the remaining six months of the current fiscal year as a result of the new policy.

1. Summary of Significant Accounting Policies (continued)

b) Asset retirement obligations

During the first quarter, the CICA Handbook Section 3110, "Asset retirement obligations"01, was adopted retroactively. This section establishes standards for the recognition, measurement and disclosure of legal obligations associated with the costs to retire long-lived assets. A liability associated with the retirement of long-lived assets is recorded in the period in which the legal asset is capitalized as part of the related asset and depreciated over its useful life. Subsequent to the initial measurement of the asset retirement obligation, the obligation is adjusted to reflect the passage of time and changes in the estimated future costs underlying the obligation. There has been no impact on the Company from the adoption of this section.

c) Hedging

Accounting Guideline (AcG) 13, "Hedging relationships", came into effect during the first quarter. This guideline addresses the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting and provides guidance with respect to the discontinuance of hedge accounting. There was no effect on the Company of adopting this guideline. Pursuant to the requirements of AcG 13, the Company has formally identified and documented loans denominated in US dollars as hedges for a portion of its US investments.

d) Vendor allowances

In January 2004, the CICA's Emerging Issues Committee (EIC) issued Abstact 144, "Accounting by a customer (including a reseller) for certain consideration received from a vendor". EIC-144 outlines that cash consideration received from a vendor is presumed to be a reduction in the prices of the vendor's products or services and should be accounted for as a reduction in cost of sales and related inventory, when recognized in the customer's income statement and balance sheet. Certain exceptions apply if the consideration is a payment for assets or services delivered to the vendor or for reimbursement of costs incurred, to sell the vendor's products, provided certain conditions are met. The Company adopted EIC-144 in the second quarter, adjusting for it retroactively, with restatement of the comparative periods for the current and prior fiscal year (see Note 11).

Inventories

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

Stock-based compensation

At the beginning of fiscal 2003, the Company adopted the CICA Handbook Section 3870, "Stock-based compensation and other stock-based payments". In fiscal 2004, the Company adopted the EIC Abstract 132, "Share purchase financing". This abstract requires share purchase loans that are not treated as assets on the balance sheet to be accounted for as stock-based compensation. There was no effect on the Company upon implementation of this section and abstract.

1. Summary of Significant Accounting Policies (continued)

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

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

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

The impact of changes in plan amendments is amortized on a straight-line basis over the expected average remaining service life (EARSL) of active members. Except for the other benefit plans, the actuarial gains and losses and the impact of changes in the actuarial basis in excess of 10% of the greater of the projected benefit obligation and the market value of assets are amortized on a straight-line basis over the EARSL of the active members. For other benefit plans, actuarial gains and losses are recognized immediately.

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

EMPIRE COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 30, 2004
(Unaudited, in millions, except per share amounts)

2. Earnings Per Share

Earnings per share amounts are calculated on the weighted average number of shares outstanding during the period (2004 - 65,766,542 shares; 2003 - 65,792,534 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 and share purchase loans were repaid at the beginning of the period.

Earnings applicable to common shares is comprised of the following:

	13 Weeks		26 Weeks	
	2004	2003	**2004**	2003
Operating earnings	**$ 43.0**	$ 39.0	**$ 87.5**	$ 78.6
Capital (loss) gain and other items, net of tax of $(0.7); $(0.5); $(0.8); $0.1	**(3.0)**	(2.2)	**(3.2)**	0.5
Net earnings	**40.0**	36.8	**84.3**	79.1
Preferred share dividends	**0.1**	0.1	**0.2**	0.2
Earnings applicable to common shares	**$ 39.9**	$ 36.7	**$ 84.1**	$ 78.9
Earnings per share is comprised of the following:				
Operating earnings	**$ 0.66**	$ 0.59	**$ 1.33**	$ 1.19
Capital (loss) gain and other items	**(0.05)**	(0.03)	**(0.05)**	0.01
Basic earnings per share	**$ 0.61**	$ 0.56	**$ 1.28**	$ 1.20
Diluted earnings per share	**$ 0.61**	$ 0.56	**$ 1.28**	$ 1.20

3. Other Assets

	October 30 2004	April 30 2004	October 31 2003
Loans and mortgages receivable	$ 151.0	$ 147.8	$ 141.3
Deferred costs	133.0	146.8	137.4
Assets for realization	11.5	16.3	3.4
Intangibles (less accumulated amortization of $1.0; April 30, 2004 $0.5)	13.6	13.1	-
	$ 309.1	$ 324.0	$ 282.1

4. Capital Stock

During the first two quarters, the Company purchased for cancellation 61,129 (2003 - Nil) Non-Voting Class A shares. The purchase price was $1.6 of which $1.2 of the purchase price (representing the premium on common shares purchased for cancellation) was charged to retained earnings. During the period 42,129 (2003 - 52,660) Non-Voting Class A shares were issued under the Company's stock option and share purchase plans to certain officers and employees for $0.9 (2003 - $1.0). Loans receivable from officers and employees of $4.8 (April 30, 2004 $4.3; October 31,2003 $4.9) under the Company's share purchase plan are classified as a reduction of Shareholders' Equity.

5. Investment Income

	13 Weeks		26 Weeks	
	2004	2003	**2004**	2003
Dividend and interest income	**$ 2.2**	$ 1.8	**$ 4.6**	$ 6.7
Share of income of companies accounted for by the equity method	**3.0**	1.2	5.2	2.4
	$ 5.2	$ 3.0	**$ 9.8**	$ 9.1

(Unaudited, in millions, except per share amounts)

6. Capital (Loss) Gain and Other Items

	13 Weeks		26 Weeks	
	2004	2003	**2004**	2003
(Loss) gain on sale of investments	**$ (3.7)**	$ (2.7)	**$ (4.0)**	$ 0.8
Other items	**-**	-	**-**	(0.2)
	$ (3.7)	$ (2.7)	**$ (4.0)**	$ 0.6

7. Supplementary Cash Flow Information

	13 Weeks		26 Weeks	
a) Items not affecting cash	**2004**	2003	**2004**	2003
Depreciation and amortization	**$ 48.3**	$ 40.3	**$ 96.3**	$ 78.7
Future income taxes	**(1.2)**	9.4	**2.5**	1.8
Amortization of deferred items	**6.6**	6.3	**13.9**	11.8
Equity in earnings of other companies, net of dividends received	**(2.7)**	(1.2)	**(4.6)**	(2.4)
Minority interest	**13.4**	12.8	**26.7**	25.1
Employee future benefit obligation	**1.4**	2.2	**3.2**	2.5
	$ 65.8	$ 69.8	**$ 138.0**	$ 117.5

b) Other cash flow information

Net interest paid	**$ 17.5**	$ 31.3	**$ 32.3**	$ 46.1
Net income taxes paid	**$ 31.8**	$ 11.9	**$ 88.5**	$ 90.7

8. Segmented Information

	13 Weeks		26 Weeks	
	2004	2003	**2004**	2003
Revenue				
Food distribution	**$ 2,966.7**	$ 2,741.9	**$ 5,977.7**	$ 5,502.3
Real estate				
Outside	**39.5**	38.5	**80.8**	75.0
Inter-segment	**14.0**	12.0	**27.8**	24.4
	53.5	50.5	**108.6**	99.4
Other operations	**16.6**	14.0	**38.0**	31.8
	3,036.8	2,806.4	**6,124.3**	5,633.5
Elimination	**(14.0)**	(12.0)	**(27.8)**	(24.4)
	$ 3,022.8	$ 2,794.4	**$ 6,096.5**	$ 5,609.1
Operating income				
Food distribution	**$ 81.4**	$ 76.0	**$ 162.1**	$ 152.3
Real estate	**26.6**	26.7	**54.9**	51.1
Other operations	**1.5**	1.5	**5.7**	4.6
Investment income	**4.8**	3.0	**9.3**	9.1
Corporate expenses	**(2.5)**	(2.3)	**(5.3)**	(4.2)
	$ 111.8	$ 104.9	**$ 226.7**	$ 212.9

(Unaudited, in millions, except per share amounts)

8. Segmented Information (continued)	**October 30 2004**	April 30 2004	October 31 2003
Identifiable assets			
Food			
Food distribution	**$ 2,571.1**	$ 2,610.1	$ 2,479.9
Goodwill	**665.1**	656.9	591.9
	3,236.2	3,267.0	3,071.8
Real estate	**1,021.0**	989.8	940.6
Investments	**302.2**	324.6	378.3
Other (including goodwill of $3.8; April 30, 2004 $ - ; October 31, 2003 $ -)	**94.8**	91.0	74.1
	$ 4,654.2	$ 4,672.4	$ 4,464.8

9. Employee Future Benefits

During the Company's second quarter, and year-to-date, the net employee pension and future benefit expense was $5.5 and $11.1 respectively (2003 - $6.0 and $11.9). 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.

10. Business Acquisitions

Sobeys Inc.
During the first two quarters the Company increased its ownership interest in its subsidiary, Sobeys Inc., from 65.0% to 65.9% 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 $29.2, goodwill increased by $5.5 and minority interest decreased by $23.7.

Other acquisitions
During the first two quarters the Company acquired franchisee stores and prescription files in its food distribution segment as part of its normal course of operations and acquired four cinemas in Nova Scotia and New Brunswick in its other operations segment for total cash consideration of $13.4. The acquisitions were accounted using the purchase method with net identifiable assets recorded at $7.0 (including intangible assets of $1.2) and goodwill recorded at $6.4.

11. Vendor Allowances

The Company receives allowances from certain vendors, whose products are purchased for resale. Included in these vendor programs are allowances for volume purchases, exclusivity allowances, listing fees and other allowances. Due to the retroactive implementation of EIC-144, the timing of recognition of certain volume allowances has changed, resulting in the Company recording a decrease in opening retained earnings for fiscal 2004 of $3.8 (net of income tax receivable of $3.4 and minority interest of $2.1) and a decrease to inventory of $9.3. The implementation of EIC-144 did not result in a material change in the annual net earnings for fiscal 2004 or in the current or prior year's quarterly net earnings. The fiscal 2005 full year impact of this adoption is not anticipated to be significant to net earnings, provided that inventory levels, inventory turnover and vendor allowances remain relatively consistent.

12. Change in Fiscal Year-end

Effective for fiscal 2005, Empire's fiscal year-end is changing from April 30th to the first Saturday in May. As such, the quarter-end dates and fiscal year-end will be consistent with Sobeys Inc.The amounts for fiscal 2005 are for the thirteen weeks and twenty-six weeks ended October 30, 2004. The comparative figures are for the three months and six months
ended October 31, 2003.

13. Comparative Figures

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

Management's Discussion and Analysis

Interim Report
For the 26 weeks ended October 30, 2004

Dated December 10, 2004

This document has been prepared for the purpose of providing management's discussion and analysis ("MD&A") of the financial condition and results of operations for Empire Company Limited ("Empire" or the "Company") for the 13 weeks and 26 weeks ended October 30, 2004, as compared to the three months and six months ended October 31, 2003. In fiscal 2005, the fiscal year-end of the Company has changed to the first Saturday in May to be consistent with its major subsidiary.

This MD&A also provides analysis of the operating performance of the Company's divisions, discussion of cash flows, the impact of risks, and the outlook for the business.

This discussion and analysis should be read in conjunction with: the unaudited Interim Consolidated Financial Statements of the Company and notes thereto for the 26-week period ended October 30, 2004; the MD&A included in Empire's First Quarter Report; the MD&A included in Empire's fiscal 2004 Annual Report and the Consolidated Financial Statements and notes thereto for the fiscal year ended April 30, 2004. Empire's 2004 Annual Report and First Quarter Report can be downloaded in portable document format ("pdf") from the Company's web site at www.empireco.ca. To request a printed copy, you may e-mail the Company at investor.relations@empireco.ca.

The discussion may contain forward-looking statements about the Company based on management's assumptions and beliefs in light of information currently available to them. There are measures included in this MD&A that do not have a standardized meaning under Canadian generally accepted accounting principles ("GAAP"). Management includes these measures because it believes certain investors use these measures as a means of evaluating relative financial performance. Additional information relating to forward-looking statements and non-GAAP measures is provided towards the end of this document.

Overview of the Business

Empire is a diversified Canadian company headquartered in Stellarton, Nova Scotia. Empire's key businesses are retail food distribution (through 65.9% ownership of Sobeys Inc. ("Sobeys")), real estate (through two wholly-owned operating subsidiaries: Sobey Leased Properties Limited ("SLP"), and Crombie Properties Limited ("Crombie"), including 35.7% ownership of Genstar Development Partnership ("Genstar")), and corporate investment activities and other operations (which includes wholly-owned Empire Theatres Limited ("Empire Theatres")). With over $4.6 billion in assets, Empire employs approximately 34,000 people directly and through its subsidiaries.

Consolidated Operating Results

The consolidated financial overview provided below reports on the financial performance in the second quarter and the first 26 weeks of fiscal 2005 relative to the comparable periods last year.

Selected Consolidated Financial Information
($ in millions, except per share amounts)

	13 Weeks Ended		26 Weeks Ended	
	October 30, 2004	October 31, 2003	October 30, 2004	October 31, 2003
Revenue				
Food Distribution	$ 2,966.7	$ 2,741.9	$ 5,977.7	$ 5,502.3
Real Estate, net of inter-segment	39.5	38.5	80.8	75.0
Other Operations	16.6	14.0	38.0	31.8
Consolidated revenue	$ 3,022.8	$ 2,794.4	$ 6,096.5	$ 5,609.1
Operating income				
Food Distribution	$ 81.4	$ 76.0	$ 162.1	$ 152.3
Real Estate	26.6	26.7	54.9	51.1
Investments & Other Operations	3.8	2.2	9.7	9.5
Consolidated operating income	$ 111.8	$ 104.9	$ 226.7	$ 212.9
Interest expense	21.1	22.9	43.0	46.9
Income taxes (from operating activities)	31.4	27.6	63.7	57.1
Minority interest	16.3	15.4	32.5	30.3
Operating earnings	$ 43.0	$ 39.0	$ 87.5	$ 78.6
Capital (loss) gain and other items, net of tax	(3.0)	(2.2)	(3.2)	0.5
Net earnings	$ 40.0	$ 36.8	$ 84.3	$ 79.1
Cash flows from operating activities	$ 64.8	$27.9	$ 86.6	$ 70.4
Total assets	$ 4,654.2	$ 4,464.8		
Total long-term liabilities	$ 1,501.8	$ 1,686.8		
Per Share, basic and diluted				
Operating Earnings	$ 0.66	$ 0.59	$ 1.33	$ 1.19
Capital (loss) gain and other items, net of tax	(0.05)	(0.03)	(0.05)	0.01
Net earnings	$ 0.61	$ 0.56	$ 1.28	$ 1.20
Basic and diluted weighted average number of shares outstanding	65.7	65.8	65.8	65.8
Annualized dividends per share	0.48	0.40		

Management's Explanation of Consolidated Results

Revenue and financial performance of each of the Company's businesses (food distribution, real estate, and investments and other operations) for the 13 weeks and 26 weeks ended October 30, 2004 are discussed in detail in further sections of this MD&A.

Consolidated Revenue

Each of Empire's operating businesses contributed to the growth in the Company's consolidated revenue of $228.4 million, or 8.2 percent, in the second quarter of fiscal 2005 compared to the second quarter of the prior fiscal year. The food division accounted for 98.2 percent of consolidated revenue with the real estate division accounting for 1.3 percent of total revenue, and other operations, the remaining 0.5 percent. This revenue mix between divisions is relatively consistent with the historical revenue mix and is expected to be relatively unchanged for the balance of fiscal 2005. Second quarter revenue growth was largely driven by an 8.2 percent growth in food division revenues over the second quarter last year. The fiscal year-to-date revenue growth of 8.7 percent was also driven by Sobeys' 8.6 percent growth in revenues over the same period last year.

Consolidated Operating Earnings

Second quarter consolidated operating earnings growth of $4.0 million, or 10.3 percent, over last year was largely the result of the growth in revenue being partially offset by a 5.5 basis point reduction in consolidated operating margin, which is operating income divided by sales. Margin was impacted by an increase in depreciation expense of $7.7 million, or 19.1 percent, over the second quarter last year. The higher depreciation expense was primarily attributed to the food division's continued investment in new stores and the modernization of its existing retail store network and supporting infrastructure. Second quarter operating income growth of $6.9 million and a reduction in interest expense of $1.8 million were partially offset by higher income taxes of $3.8 million and an increase in minority interest of $0.9 million.

The increase in income taxes was the result of higher pre-tax earnings and an increase in the effective income tax rate for the second quarter to 34.6 percent from 33.7 percent in the second quarter last year.

The increase in minority interest expense was the result of higher net earnings reported by the food division, partially offset by the increase in Empire's ownership in Sobeys from 64.5 percent at October 31, 2003 to 65.9 percent at October 30, 2004.

On a fiscal year-to-date basis, the growth in operating earnings of $8.9 million, or 11.3 percent, was again attributable to the fiscal year-to-date revenue growth of 8.7 percent being partially offset by the effect of lower operating margin which was impacted by a $17.1 million increase in depreciation expense. Fiscal year-to-date operating income growth of $13.8 million and a reduction in interest expense of $3.9 million was partially offset by higher income taxes of $6.6 million and an increase in minority interest of $2.2 million.

The increase in fiscal year-to-date income taxes was the result of higher pre-tax earnings and a slight increase in the effective income tax rate, from 34.4 percent last year to 34.7 percent.

The increase in fiscal year-to-date minority interest reflects higher earnings by the food division, partially offset by Empire's increased ownership as mentioned.

Quarterly Results of Operations

The following table summarizes selected consolidated financial information from the Company's unaudited interim consolidated financial statements for each of the eight most recently completed quarters. This information was prepared in accordance with Canadian GAAP.

Financial Information by Quarter

($ in millions, except per share amounts)	Fiscal 2005		Fiscal 2004				Fiscal 2003	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	$3,022.8	$3,073.7	$2,876.4	$2,798.5	$2,794.4	$2,814.7	$ 2,624.7	$2,643.6
Operating income	111.8	114.9	100.3	110.4	104.9	108.0	110.4	107.6
Operating earnings	43.0	44.5	41.1	44.2	39.0	39.6	41.8	39.3
Net capital gain (loss) and other items	(3.0)	(0.2)	(0.1)	8.8	(2.2)	2.7	(5.8)	–
Net earnings	$40.0	$ 44.3	$ 41.0	$ 53.0	$ 36.8	$ 42.3	$ 36.0	$ 39.3
Per Share, basic and diluted								
Operating earnings[(1)]	$0.66	$ 0.67	$ 0.63	$ 0.67	$ 0.59	$ 0.60	$ 0.64	$ 0.60
Net capital gain (loss) and other items	(0.05)	–	–	0.13	(0.03)	0.04	(0.09)	–
Net earnings	$0.61	$ 0.67	$ 0.63	$ 0.80	$ 0.56	$ 0.64	$ 0.55	$ 0.60
Weighted average number of shares outstanding	65.7	65.8	65.8	65.8	65.8	65.8	65.8	65.9
(1) Earnings before net capital gain (loss) and other items.								

The Company operations are impacted to some degree by certain holiday periods in the year; however the Company's businesses are not materially cyclical or seasonal.

Sales and operating earnings growth have been influenced by the Company's investing activities, the competitive environment, operating efficiencies, sales and merchandising initiatives, general industry trends and risk factors as outlined in the Company's fiscal 2004 MD&A and the first quarter fiscal 2005 MD&A dated September 9, 2004.

Operating Overview & Performance by Segment

Food Distribution

Empire's food distribution operations are carried on through its 65.9 percent ownership in Sobeys. Sobeys conducts business through more than 1,300 retail grocery stores (corporately owned and franchised) which operate in four retail regions: Sobeys West, Sobeys Ontario, Sobeys Quebec, and Sobeys Atlantic. Empire's ownership interest in Sobeys has increased by 1.5 percentage points over the second quarter of fiscal 2004 and by 0.9 percentage points from the previous year-end, April 30, 2004.

Revenue

Sobeys' sales for the second quarter were $2.97 billion compared to $2.74 billion for the same quarter last year, an increase of $224.8 million, or 8.2 percent. Year-over-year same-store sales grew by 3.5 percent. There was modest food price inflation across the country.

Fiscal year-to-date sales increased 8.6 percent from the prior year, with same-store sales growth of 3.2 percent.

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

Operating Income

Sobeys' EBITDA for the second quarter was $123.8 million, an increase of $12.7 million, or 11.4 percent, compared to the $111.1 million recorded in the same quarter last year. EBITDA as a percentage of sales increased from 4.05 percent to 4.17 percent when compared to the second quarter fiscal 2004 results. Included in EBITDA for the second quarter of the previous year were one-time pre-tax costs totaling $10.1 million related to the uninsured cost of a power failure in Ontario ($4.9 million pre-tax), the adverse outcome in a long-standing real estate lawsuit ($4.0 million pre-tax) and closure costs related to the Grande Prairie and Peace River, Alberta distribution centres ($1.2 million pre-tax). The increase in Sobey's second quarter EBITDA reflects the strong sales performance and the absence of the one-time costs that were incurred last year, as mentioned, net of the expenditures that Sobeys has made on its Smart Retailing, Retail Brands and Business Process Improvement initiatives along with continued price competitiveness and promotional intensity.

Fiscal year-to-date EBITDA generated by the food division increased $26.0 million, or 11.8 percent, to $246.7 million from $220.7 million reported in the comparable period of fiscal 2004. EBITDA as a percentage of sales increased to 4.13 percent in the first half of the year compared to 4.01 percent last year.

Operating income or EBIT recorded by the food division for the second quarter increased $5.4 million, or 7.1 percent, to $81.4 million. Operating margin for the second quarter declined slightly to 2.74 percent from 2.77 percent in the same quarter last year. The decline in second quarter EBIT margin from last year largely reflects a $7.0 million increase in depreciation charges ($42.1 million in the second quarter compared to $35.1 million in the same quarter last year). This increase in depreciation expense reflects Sobeys' continued investment in new stores and in the modernization of its existing retail store network and supporting infrastructure.

Operating income for the first half of fiscal 2005 increased by 6.4 percent to $162.1 million compared to the same period in fiscal 2004, with an operating margin of 2.71 percent compared to 2.77 percent in fiscal 2004.

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

Interest Expense

Sobeys' interest expense in the second quarter decreased 16.8 percent, or $1.8 million, to $8.9 million due to lower long-term borrowing levels, largely related to the repayment of the $100 million Series B Medium Term Note (MTN) that matured in October, 2003. Sobeys' interest coverage for the second quarter improved to 9.1 times compared to 7.1 times for the same quarter last year, due to the decline in interest costs and the increase in operating income.

The food division's interest expense declined $4.1 million, or 18.3 percent, in the first half of the year to $18.3 million from $22.4 million reported last year. Interest coverage improved to 8.9 times compared to 6.8 times for the same period last year.

The majority of Sobeys' debt is at fixed rates, accordingly there is limited exposure to interest rate volatility. The Company is exposed to interest rate risk when arranging new debt.

Income Tax Expense

Sobeys' effective income tax rate for the second quarter was 34.8 percent compared to 33.8 percent in quarter two of fiscal 2004. The increase in the tax rate in the second quarter reflects a change in the timing of realization of tax planning benefits. The fiscal year-to-date effective tax rate increased slightly to 34.6 percent from 34.5 percent last year.

Net Earnings

Sobeys' second quarter fiscal 2005 net earnings (before allocation of minority interest) totaled $47.3 million, an increase of $4.1 million, or 9.5 percent, compared to the $43.2 million recorded in the same quarter of fiscal 2004.

Sobeys' net earnings fiscal year-to-date (before allocation of minority interest) totaled $94.0 million, an increase of $8.9 million, or 10.5 percent, compared to the $85.1 million recorded during the same period of fiscal 2004.

Food Division Outlook

Management remains confident in Sobeys' strategy. Sobeys' offerings will continue to improve in each operating region and Sobeys will remain competitive in increasingly competitive markets. Sales and earnings are expected to continue to grow in fiscal 2005 and beyond in a manner consistent with Sobeys' intention to build a healthy and sustainable business for the long term.

Sobeys is committed to building sustainable worth for all its constituents.

Real Estate

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

At the end of the second quarter, real estate operations had 12.9 million square feet under ownership compared to 12.2 million square feet a year earlier. The growth in square feet under ownership over the prior year was primarily attributed to Crombie's focus on new commercial property acquisitions and development in Ontario.

Commercial real estate operations are conducted through Crombie 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, funds from operations and operating earnings for the real estate division's commercial operations and residential operations.

($ in millions)	13 Weeks Ended		26 Weeks Ended	
	Oct. 30, 2004	Oct. 31, 2003	Oct. 30, 2004	Oct. 31, 2003
Revenue				
Commercial	$34.0	$31.4	$68.2	$62.5
Residential	5.5	7.1	12.6	12.5
	$39.5	$38.5	$80.8	$75.0
Operating income				
Commercial	$21.8	$20.7	$43.9	$41.0
Residential	4.8	6.0	11.0	10.1
	$26.6	$26.7	$54.9	$51.1
Operating earnings				
Commercial	$6.0	$5.3	$11.8	$9.9
Residential	3.0	4.7	7.0	7.8
	$9.0	$10.0	$18.8	$17.7
Funds from operations				
Commercial	$10.4	$9.2	$20.6	$17.5
Residential	3.1	4.8	7.2	8.1
	$13.5	$14.0	$27.8	$25.6

Revenue

Real estate revenue (net of inter-segment revenue) in the second quarter increased 2.6 percent to $39.5 million from $38.5 million last year. Commercial property revenue increased 8.3 percent while residential revenue declined 22.5 percent from the second quarter last year.

Fiscal year-to-date revenues increased 7.7 percent over the prior year. For the 26 weeks ended October 30, 2004, commercial revenues were up 9.1 percent and residential revenues were up 0.8 percent.

The growth in real estate revenues in the second quarter and fiscal year-to-date primarily reflects increased tenant revenues from the existing commercial property portfolio and contribution from the six Commisso's properties purchased in the fourth quarter last year. The decline in residential revenue reflects a slowdown in lot sales relative to last year.

Leasing activity continues to be stronger than anticipated with an overall (retail plus office) occupancy rate of 93.0 percent compared to 92.3 percent a year ago. The retail occupancy rate was 93.8 percent at the end of the second quarter compared to 92.9 percent a year earlier. The office occupancy rate at the end of the second quarter was 89.4 percent compared to 89.8 percent a year ago.

Operating Income

Real estate operating income in the second quarter totaled $26.6 million, a $0.1 million a decrease from last year. The real estate division contributed 23.8 percent of Empire's second quarter consolidated operating income compared to a 25.5 percent contribution in the second quarter last year. The decrease in operating income in the quarter resulted from lower year-over-year operating income contribution from residential real estate operations, reflecting a very strong performance in the second quarter last year, partially offset by a $1.1 million improvement in commercial real estate's operating income.

For the 26 weeks ended October 30, 2004, the real estate division contributed operating income of $54.9 million, up 7.4 percent versus the same period last year. The real estate division generated 24.2 percent of Empire's consolidated operating income compared to 24.0 percent last year. The increase in real estate operating income fiscal year-to-date largely reflects the increase in revenues and continued attention to the control of operating costs.

Interest Expense

Interest expense for the real estate division in the second quarter equaled $11.5 million compared to $11.1 million last year. Real estate's interest expense for the 26 weeks ended October 30, 2004 totaled $23.5 million versus $22.4 million in the comparable period last year.

Higher interest expense in the quarter and fiscal year-to-date was primarily the result of higher funded debt levels, largely as a result of funding the Commisso's acquisition in the fourth quarter of the previous fiscal year.

Operating Earnings

Second quarter operating earnings generated from commercial real estate operations totaled $6.0 million, up $0.7 million, or 13.2 percent over the comparable period last year. Residential real estate operating earnings amounted to $3.0 million in the second quarter, a decrease of $1.7 million compared to last year. Lower earnings in the current quarter from residential real estate operations was the result of a slowdown in lot sales relative to last year.

The decline in operating earnings for the real estate division was the result of the decline in residential operating income combined with the increase in interest expense and income tax expense.

For the 26 weeks ended October 30, 2004, the real estate division recorded operating earnings of $18.8 million versus $17.7 million in the comparable period last year. Lower operating earnings in the second quarter, as discussed, were more than offset by improved first quarter performance.

Net Earnings

Real estate division net earnings in the second quarter amounted to $9.0 million compared to $10.0 million last year. The real estate division did not record a net capital (loss) gain in the second quarter this year or in the second quarter of fiscal 2004.

Fiscal year-to-date, real estate recorded net income of $18.8 million versus $17.6 million in the comparable period last year. In the first two quarters of fiscal 2004, real estate recorded a net capital loss of $0.1 million. The real estate division did not record a net capital (loss) gain in the current period.

Funds from Operations

Trailing (last four quarters) funds from operations for the real estate division were $60.4 million, up 8.4 percent from the prior four quarter trailing funds from operations of $55.7 million. Funds from operations in the second quarter of $13.5 million was $0.5 million lower than the second quarter last year as a result of lower net earnings, as previously discussed.

Funds from operations generated by commercial real estate operations equaled $10.4 million in the second quarter of fiscal 2005, up $1.2 million or 13.0 percent versus last year, while funds from operations generated by residential real estate operations equaled $3.1 million in the second quarter, down $1.7 million or 35.4 percent compared to the same period last year.

Real Estate Division Outlook

Empire's real estate management group will continue its policy of maximizing and prudently reinvesting its cash flow to further strengthen and diversify its portfolio of residential and commercial properties.

The real estate management group expects overall retail occupancy levels to remain strong through the remainder of fiscal 2005 as a result of the continuing diligence of our leasing team and general economic conditions.

Investments and Other Operations

The third component of Empire's business is its investments, consisting of an investment portfolio of common equity investments, and other operations. At October 30, 2004, Empire's investments carried a market value, excluding cash and cash equivalents, of $375.7 million on a carrying value of $302.2 million, resulting in an unrealized gain of $73.5 million. This compares to an unrealized gain of $66.2 million at the end of fiscal 2004 and an unrealized gain of $25.6 million at the end of the second quarter last year.

Portfolio Composition

($ in millions Canadian)	Market Value	% of Portfolio	Cost	Unrealized Gain (Loss)
Canadian equities	$ 185.9	49.5%	$ 137.1	$ 48.8
U.S. equities	104.4	27.8	112.9	(8.5)
Wajax	83.9	22.3	50.7	33.2
Preferred and other	1.5	0.4	1.5	-
	$ 375.7	100.0%	$ 302.2	$ 73.5

The tables below present the return performance for Empire's portfolio investments, excluding Wajax Limited ("Wajax"), relative to Canadian and U.S. equity benchmarks for the periods ended September 30th, as well as on a two and three-year annualized compounded return basis. Investment returns are measured using a calendar quarter-end cycle, consistent with industry practice.

Total Investment Return
(Annual Returns for Periods Ended September 30th)

	2004	2003	2002
Empire Investment Portfolio	28.7%	33.7%	5.5%
S&P/TSX Composite Index	18.8%	22.4%	-8.1%
S&P 500 Index (in CDN $)	6.6%	5.7%	-20.0%

Total Investment Return
(Annualized Compound Returns for Periods Ended September 30th, 2004)

	2-Year	3-Year
Empire Investment Portfolio	31.2%	22.0%
1st Quartile Manager Return	17.7%	9.2%
Median Manager Return	15.4%	4.2%
S&P/TSX Composite Index	20.6%	10.2%
S&P 500 Index (in CDN $)	6.1%	-3.4%

The total return on the Empire investment portfolio, as independently benchmarked against the performance of over 100 equity fund managers, has been ranked as first quartile (ie. in the top 25 percent of surveyed equity fund managers) investment return performance over one, two and three-year trailing periods ended September 30, 2004.

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

Performance Attribution

The increase in investment market value over book cost of $18.3 million during the second quarter ended October 30, 2004, was largely the result of a $12.4 million increase in the unrealized gain position of Wajax, the realization of a net capital loss of $3.0 million on the sale of investments in the second quarter, and growth in the unrealized gain of financial services common equities held in the portfolio.

Investment Income

Investment income equaled $5.2 million in the second quarter, an increase of $2.2 million over the $3.0 million recorded in the second quarter last year. The increase was largely the result of an increase in equity earnings of $1.8 million, primarily from Wajax, relative to the second quarter last year. Dividend income was $0.4 million higher than second quarter last year.

For the 26 weeks ended October 30, 2004, investment income increased $0.7 million, or 7.7 percent, to $9.8 million from $9.1 million a year earlier. The year-over-year increase in investment income was attributed to higher equity earnings, primarily from Wajax, of $2.8 million, offset by a $2.1 million reduction in dividend and interest income. Dividend income declined from the prior year as a result of asset allocation decisions which lowered average portfolio dividend yield.

Other Operations Revenue

Other operations' revenue, primarily generated by Empire Theatres, reached $16.6 million compared to $14.0 million last year, an increase of 18.6 percent. Fiscal year-to-date, other operations recorded revenues of $38.0 million, up 19.5 percent from the comparable period last year.

Revenue growth at Empire Theatres in the quarter and fiscal year-to-date was primarily the result of the modernization of existing theatre locations combined with the contribution of four theatres purchased from Viacom Canada Inc. in the first quarter.

Operating Earnings

Second quarter operating earnings from investments (net of corporate expenses) and other operations equaled $3.0 million compared to $1.2 million in the second quarter last year. The $1.8 million increase was largely the result of the increase in investment income as mentioned.

For the 26 weeks ended October 30, 2004, investments (net of corporate expenses) and other operations operating earnings totaled $7.2 million versus $6.1 million last year. The $1.1 million improvement was primarily the result of stronger contribution from Wajax and other operations, partially offset by lower dividend and interest income compared to last year.

Capital Loss

Net capital loss realized in the second quarter of fiscal 2005 was $3.0 million compared to $2.2 million in the second quarter last year. Fiscal year-to-date, net capital loss generated by investments and other operations totaled $3.2 million versus a net capital gain of $0.6 million in the comparable period last year. Net capital (loss) gain recorded fiscal year-to-date primarily resulted from the sale of common equity investments.

Net Earnings

Investments (net of corporate expenses) and other operations contribution to Empire consolidated net earnings improved $1.0 million versus the second quarter last year. The improvement was the result of higher investment income, as previously discussed, partially offset by slightly lower operating earnings contribution from other operations.

Fiscal year-to-date, investments (net of corporate expenses) and other operations contributed $4.0 million in net earnings versus $6.7 million last year. The decline was largely due to a net capital loss recorded on the sale of investments of $3.2 million fiscal year-to-date versus a net capital gain of $0.6 million in the comparable period last year.

Investment Portfolio and Other Operations Outlook

Growth in the portfolio will be dependent on a number of factors, including investor sentiment in the U.S. and Canada. Equity markets may continue to remain volatile.

With respect to Empire Theatres' outlook, management recognizes that future growth will remain highly dependent on a steady supply of quality film product. Based on the quality of releases expected through the remainder of fiscal 2005, an experienced operations team, and planned screen development, management looks forward to continued revenue growth in this business.

Net Asset Value

At the end of the second quarter, management calculated Empire's consolidated net asset value to equal $2,228 million ($33.89 per share), an increase of $183 million from the net asset value of $2,045 million ($31.08 per share) calculated at April 30, 2004, and an improvement of $139 million from the net asset value of $2,089 million ($31.78 per share) calculated at the end of the first quarter of fiscal 2005.

($ in millions except per share information)	October 30, 2004			April 30, 2004		
		Net Asset Value	% of Total		Net Asset Value	% of Total
Food Distribution[1]	$	1,367	59%	$	1,226	58%
Real Estate[2]		478	21		452	21
Investments and Other Operations[3]		461	20		453	21
	$	2,306	100%	$	2,131	100%
Corporate & preferred shares		(78)			(86)	
Net asset value	$	2,228		$	2,045	
Per share	$	33.89		$	31.08	

[1] Food distribution net asset value at October 30, 2004 equals the 43.046 million common shares of Sobeys owned at fiscal quarter-end multiplied by the closing market price of a Sobeys' common share on that date. Food distribution net asset value at April 30, 2004 equaled the 42.81 million common s h a r e s of Sobeys owned at fiscal year-end April 30, 2004 times the closing market price of a Sobeys' common share on that date.

[2] Real estate net asset value has been calculated at 9 times trailing funds from commercial operations of $43.9 million plus five times trailing funds from residential operations of $16.5 million.

[3] Investment net asset value is derived primarily from stated public market values of securities in the portfolio.

At October 30, 2004, approximately 79 percent of Empire's net asset value was derived from assets that are valued by publicly available market prices and traded on recognized public stock exchanges. This includes Sobeys' common shares and securities held in Empire's investment portfolio. For each dollar increase in Sobeys' share price, Empire's net asset value increases by $0.66 per share.

Capital Structure and Key Financial Condition Measures

($ in millions, except ratio calculations)		October 30, 2004		April 30, 2004		October 31, 2003
Shareholder's equity	$	1,640.1	$	1,573.0	$	1,492.7
Minority interest		548.8		543.9		527.4
Short-term debt		168.2		140.8		179.7
Long-term debt, including current portion		948.4		985.4		985.2
Funded debt to total capital ratio		40.5%		41.7%		43.8%
Net debt to capital ratio		37.8%		37.0%		41.7%
Interest coverage		4.99x		4.62x		4.63x
Total assets		4,654.2		4,672.4		4,464.8

Shareholders Equity

Book value per share was $24.78 at October 30, 2004, compared to $23.81 at April 30, 2004 and $22.52 at October 31, 2003.

Total shares outstanding at October 30, 2004 equaled 65,735,810, relatively unchanged from the previous fiscal year-end (April 30, 2004) and October 31, 2003. There were 30,850,585 Non-Voting

Class A shares outstanding and 34,885,225 Class B common shares outstanding at October 30, 2004. At October 30, 2004, Empire had 27,674 options outstanding with an expiry date of October 2006. There were no options exercised in the second quarter.

During the first quarter, Empire repurchased 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. During the 26-week period ended October 30, 2004, Empire purchased 61,129 Non-Voting Class A shares for cancellation under its Normal Course Issuer Bid. No shares were repurchased in the second quarter.

At December 10, 2004, Empire had 30,850,585 Non-Voting Class A shares and 34,885,225 Class B common shares outstanding. Empire had 27,674 options outstanding on December 10, 2004, each exercisable for one Non-Voting Class A share.

Dividends paid to Non-Voting Class A and Class B common shareholders in the second quarter amounted to $7.9 million ($0.12 per share) versus $6.6 million ($0.10 per share) in the same period last year. Fiscal year-to-date, the Company has paid Non-Voting Class A and Class B common dividends totaling $15.8 million ($0.24 per share) versus $13.2 million ($0.20 per share) in the comparable period last year.

Liabilities

Empire finances a significant portion of its assets through the use of bank indebtedness and long-term debt. Total fixed rate, long-term debt (including the current portion of long-term debt) at October 30, 2004 equaled $948.4 million (84.9 percent of Empire's total funded debt), a decline of $37.0 million from the end of the fiscal year. Long-term debt has declined by $36.8 million from the second quarter last year.

Long-term debt by operating segment is detailed below:

($ in millions)	October 30, 2004	April 30, 2004	October 31, 2003
Food Distribution	$ 418.5	$ 442.8	$ 457.9
Real Estate	525.4	538.2	522.8
Other Operations	4.5	4.4	4.5
Total	$ 948.4	$ 985.4	$ 985.2

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

Trailing last four quarters interest coverage at the end of the second quarter was 4.99 times, improved from the 4.62 times reported at the fiscal year ended April 30, 2004 and the 4.63 times recorded at the end of the second quarter last year. The improvement over April 30, 2004 was the result of reduced interest expense and higher operating income on a trailing twelve-month basis during the current quarter.

Since fiscal year-end, the consolidated funded debt to total capital ratio has declined 1.2 percentage points as a result of lower debt levels and higher retained earnings. The net debt (debt less cash and cash equivalents) to total capital ratio has increased 0.8 percentage points.

Empire has a corporate unsecured debt rating of BBB- (stable trend) from Standard & Poor's and a debt rating of BBB (negative trend) from Dominion Bond Rating Service. Sobeys has a corporate unsecured debt rating of BBB- (stable trend) from Standard and Poor's and a debt rating of BBB high (negative trend) from Dominion Bond Rating Service. On April 26, 2004, Dominion Bond Rating Service put the Company and Sobeys on a negative trend as a result of increased competitive pressures which have impacted margins.

Empire and its subsidiaries have provided covenants to its lenders in support of various financing facilities. All covenants were complied with year-to-date in fiscal 2005 and in fiscal 2004.

Hedging Instruments

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

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

Sobeys had in place interest rate hedges on $3.0 million of its funded debt at a fixed rate of 6.36 percent, maturing in January 2005. The total amount of these hedges amortizes with Sobeys' debt repayment. Accordingly the hedge amount was higher at fiscal 2004 year-end ($11.8 million) and at the end of the first quarter of fiscal 2005 ($7.4 million).

At October 30, 2004, the real estate division had an interest rate exchange agreement outstanding with a gross notional amount of $18.0 million at a rate of 4.015 percent. During the first quarter of fiscal 2005, Crombie extended the above-noted termination date of December 15, 2004 by entering into a delayed start swap which commences on December 15, 2004 and matures December 15, 2007. The notional amount on this delayed start swap is $16.0 million and the fixed rate is 4.22 percent.

At the end of the second quarter, Crombie had in place a delayed start swap to hedge a balloon payment of $5.5 million due September 7, 2007 upon maturity of a 6.24 percent First Mortgage Bond. This swap commences September 7, 2007, and terminates September 7, 2017. Crombie pays interest at a fixed rate of 6.16 percent quarterly and receives a floating rate based on the 90-day bankers' acceptance rate quarterly.

Also at the end of the second quarter, Crombie had in place a delayed start swap to hedge the balloon payment of $22.3 million due November 30, 2007 upon the maturity of the 12.00 percent General Mortgage Bonds. This swap commences November 30, 2007, and terminates November 30, 2017. Crombie pays interest at a fixed rate of 6.18 percent quarterly and receives a floating rate based on the 90-day bankers' acceptance rate quarterly.

To mitigate the currency risk associated with the Company's U.S. dollar investments, Empire has designated U.S. dollar bank loans as hedges. Empire and its subsidiaries use hedging instruments to mitigate risk exposure, not for speculative purposes. At the end of the second quarter, Empire had in place U.S. dollar based bankers' acceptances totaling $52.0 million, unchanged from the end of the first quarter and the beginning of the fiscal year. These U.S. dollar bankers' acceptances equaled 86.6 percent of the market value of the designated U.S. common equity investments at October 30, 2004. The average foreign exchange rate (Canadian dollar/ U.S. dollar) associated with the U.S. dollar bank loans is 1.3716. The fair market value of this hedge at the end of the second quarter was $8.0 million as a result of the foreign exchange rate moving to 1.2180 at the end of the second quarter from 1.3710 at the beginning of the fiscal year.

Sobeys uses foreign exchange contracts to fix the exchange rates associated with U.S. dollar purchases of products. These U.S. dollar purchases represents approximately two percent of Sobeys' total annual purchases. The maximum length of these contracts is 30 days.

Certain property investments made by Genstar are in the U.S. and as such Crombie is exposed to foreign currency fluctuations. At the end of the second quarter, the U.S. dollar asset exposure of Crombie totaled $14.5 million. Crombie had $10.0 million in U.S. dollar bankers' acceptances at the end of the second quarter.

Capital Resources and Sources of Liquidity

Empire's liquidity remained strong at October 30, 2004 as a result of:

- internally generated cash flow from operating activities;
- cash and cash equivalents on hand of $119.0 million;
- an improved working capital position;
- unutilized bank credit facilities of $615.7 million;
- ready availability of long-term debt financing; and
- an investment portfolio of liquid investments which carried a market value at October 30, 2004 of $375.7 million

The Company anticipates that these sources of liquidity will be sufficient to meet expected cash outflows over the next year. The Company normally refinances existing long-term debt as it matures, and maintains financial flexibility through its investment portfolio and access to the capital markets for additional long-term debt or equity financing. Longer-term financing is obtained by Sobeys through Canadian public debt markets via Sobeys' established MTN program pursuant to its amended shelf prospectus filed on February 17, 2003, which provided for the issuance of up to $500 million of MTN's. Sobeys also utilizes capital leases for the financing of selected properties and assets. The Company, along with Sobeys, anticipates continued ready access to financing sources as a result of in-place investment grade credit ratings and previous experience in the capital markets.

Cash and Cash Equivalents

At October 30, 2004, cash and cash equivalents amounted to $119.0 million versus $95.1 million at October 31, 2003 and $202.2 million at fiscal year-end, April 30, 2004. The decline in cash and cash equivalents from the end of fiscal 2004 reflects lower cash and cash equivalents being held by the food division.

Bank Credit Facilities

On a non-consolidated basis, Empire maintains authorized bank lines for operating, general and corporate purposes of $325.0 million, of which 22.9 percent was utilized at October 30, 2004, relatively unchanged with April 30, 2004 utilization. Financial instruments are used from time to time to manage the risk of short-term interest rate fluctuations on underlying short-term bank indebtedness. On a consolidated basis, Empire's authorized bank credit facilities exceeded borrowings by $615.7 million at October 30, 2004, versus $621.6 million at April 30, 2004.

Cash Flows

The table below highlights major cash flow components for the second quarter and the first 26 weeks of fiscal 2005 compared to last year.

Major Cash Flow Components:

($ in millions)	13 Weeks Ended October 30, 2004	13 Weeks Ended October 31, 2003	26 Weeks Ended October 30 2004	26 Weeks Ended October 31, 2003
Net earnings	$ 40.0	$ 36.8	$ 84.3	$ 79.1
Items not affecting cash	65.8	69.8	138.0	117.5
Preferred dividends	(0.1)	(0.1)	(0.2)	(0.2)
Net change in non-cash working capital	(40.9)	(78.6)	(135.5)	(126.0)
Cash flows from operating activities	64.8	27.9	86.6	70.4
Cash flows used in investing activities	(69.9)	(86.2)	(145.6)	(242.5)
Cash flows used in financing activities	(13.0)	(101.1)	(24.2)	(50.7)
Discontinued operations	-	1.1	-	1.1
Decrease in cash and cash equivalents	$ (18.1)	$ (158.3)	$ (83.2)	$ (221.7)

Cash Flows from Operating Activities

Second quarter cash flows from operating activities amounted to $64.8 million compared to $27.9 million in the comparable period last year. The increase of $36.9 million was primarily due to stronger earnings and a net change in non-cash working capital of negative $40.9 million versus a negative $78.6 million in the second quarter of last year.

On a fiscal year-to-date basis, cash flows from operating activities totaled $86.6 million versus $70.4 million in the comparable period last year. Items not affecting cash were $20.5 million higher than in the comparable last year primarily due to higher depreciation expense.

On an annual basis, cash flows from operating activities are expected to provide a large portion of Empire's fiscal 2005 funding requirements including its planned expenditures on property, equipment and other assets. In fiscal 2004, cash flows from operating activities of $467.0 million exceeded expenditures on property, equipment and other assets of $431.0 million. In fiscal 2003, cash flows from operating activities funded 80.5 percent of expenditures on property, equipment and other assets.

The Company's cash flows from operating activities can be highly influenced by net changes in non-cash working capital. The section below discusses the key components to Empire's net working capital position.

Net Working Capital

The table below details the primary working capital components and respective values at the end of the second quarter as compared to the first quarter fiscal 2005 and to the fiscal year ended April 30, 2004.

($ in millions)	Oct 30, 2004	July 31, 2004	Quarter Increase (Decrease) in Working Capital	Apr 30, 2004	Year-to-Date Increase (Decrease) in Working Capital
Receivables	$ 294.0	$ 344.4	$ (50.4)	$ 329.5	$ (35.5)
Inventories	563.2	527.8	35.4	483.6	79.6
Prepaid expenses	51.5	49.0	2.5	49.3	2.2
Accounts payable and accrued Liabilities	(1,064.0)	(1,121.4)	57.4	(1,141.2)	77.2
Income taxes receivable (payable)	12.1	15.5	(3.4)	(7.2)	19.3
Net change			$ 41.5		$ 142.8

At the end of the second quarter, Empire had increased its net working capital requirements by $41.5 million compared to the end of the first quarter. This increase was primarily the result of a decrease in accounts payable and accrued liabilities by the food division, partially offset by higher inventory levels for the food division compared to the previous year.

Receivables

In the second quarter consolidated receivables declined by $50.4 million from the first quarter, to end October 30, 2004 at $294.0 million. Receivables in the food division declined by $48.9 million primarily the result of a reclassification of $31.0 million of customer related payables. Historically some customer receivables were reported at a gross value and the customer payables were reported in accounts payable. During the quarter, Sobeys began netting the receivables and related payables for these customers.

Consolidated receivables declined by $35.5 million, or 10.8 percent, relative to fiscal year-end. The decrease in receivables and payables was largely attributed to the netting of receivables and payables by the food division as mentioned above, which occurred in the second quarter of fiscal 2005.

Inventory

Empire's consolidated inventories grew by $35.4 million from the first quarter to end October 30, 2004 at $563.2 million. The food division accounted for 91.0 percent of Empire's total inventory balance and $24.2 million of the consolidated inventory increase. The growth in inventory by the food division over the first quarter reflects additional inventory acquired for the December selling season.

At the end of the second quarter, Empire's consolidated inventories had grown by $79.6 million relative to fiscal year-end largely as a result of a $66.6 million increase in food division inventories and a $12.9 million increase in real estate inventories. The increase in food division inventory is the result of buying patterns typical in the business which enables Sobeys to more effectively service its December selling requirements and to more effectively service its growing customer and store base.

The increase in real estate inventory of $12.9 million since the start of the fiscal year was largely the result of developing residential land for resale. Theatres inventories were relatively consistent with the same quarter last year and the previous fiscal year-end.

Accounts Payable and Accrued Liabilities

Empire consolidated accounts payable and accrued liabilities decreased by $57.4 million from the first quarter, to end October 30, 2004 at $1,064.0 million. The food division accounted for 92.6 percent of Empire's total payable balance and $60.4 million of the consolidated payable decrease. The decline in food division accounts payable reflects the reclassification of $31.0 million of customer related payables as mentioned.

Consolidated accounts payable and accrued liabilities declined by $77.2 million since fiscal year-end, largely the result of the decline in food division accounts payables of $65.7 million. The decline in food division accounts payables was primarily attributed to the netting of receivable and payables as mentioned in the second quarter of fiscal 2005.

Cash Flows used in Investing Activities

Second quarter cash flows used in investing activities were $69.9 million compared to $86.2 million in the second quarter last year. The decline of $16.3 million was primarily due to purchases of property, equipment and other assets declining by $40.0 million relative to the second quarter last year partially offset by Sobeys repurchasing 0.7 million of its common shares in the second quarter for $21.8 million.

Fiscal year-to-date, cash used in investing activities of $145.6 million decreased by $96.9 million compared to the $242.5 million used in investing activities for the comparable period last year. The decline largely reflects a $58.3 million decrease in investment in property and equipment and $61.1 million used to purchase common shares of Sobeys in the first half of fiscal 2004 compared to $29.2 million used to purchase common shares of Sobeys in fiscal 2005 to-date.

Details on the nature of the Company's capital expenditures and business acquisitions are provided below.

Capital Expenditures

Consolidated purchases of property, equipment and other assets totaled $70.5 million in the second quarter of fiscal 2005, compared to $110.5 million in the second quarter last year.

Company-wide capital investment by the food division in the second quarter totaled $96.0 million, compared to $135 million invested during the second quarter of fiscal 2004.

This decrease was primarily attributed to lower capital spending by the food division due to a shift in the timing of capital activity. Sobeys' expects an acceleration of the investment in property and equipment in the second half of the current fiscal year.

Company-wide capital investment for the food division totaled $198 million for the first half of fiscal 2005.

During the second quarter, two corporate stores were opened compared to eleven corporate and franchised stores opened or replaced in the second quarter of last year. An additional two stores were expanded in the quarter. The Company rebannered seven stores in the quarter compared to 12 stores in the second quarter last year and year-to-date total of 19 stores compared to 18 last year.

In the second quarter, net retail square footage declined by 82,021 square feet (18,727 feet opened less 101,348 feet closed), reflecting the shift in timing of capital activity identified above.

Fiscal year-to-date net retail store additions totaled 227,435 square feet (446,192 feet opened less 218,757 feet closed). At October 30, 2004, Sobeys' square footage totaled 24.2 million square feet, a 5.7 percent increase over November 1, 2003.

Real estate investment in property, plant and equipment in the second quarter totaled $7.4 million compared to $8.1 million in the same period last year. The decline largely reflects increased land acquisitions and fixed asset additions to commercial properties in the second quarter last year.

The decrease in capital expenditures fiscal year-to-date was primarily attributed to lower capital spending by the food division due to a shift in the timing of capital activity. Sobeys' expects an acceleration of the investment in property and equipment in the second half of the current fiscal year.

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Cash Flows used in Financing Activities

Second quarter cash flows used in financing activities amounted to $13.0 million compared to $101.1 million in the second quarter last year. The change of $88.1 million was primarily related to the repayment of long-term debt of $23.5 million versus $124.8 million last year, combined with a reduced reliance on bank indebtedness relative to the second quarter last year. Repayment of long-term debt in the second quarter last year included the repayment by Sobeys of a $100 million Series B MTN in October, 2003.

Fiscal year-to-date, cash flows used in financing activities equaled $24.2 million compared to $50.7 million last year. The reduction of $26.5 million was largely attributed to the previously discussed repayment of the MTN in the second quarter last year, partially offset by the increase in share repurchases described above and the increased reliance on bank indebtedness.

The Company's share capital was comprised of the following on December 10, 2004:

Issued and Outstanding	Number of shares
Preferred shares, Series 2	431,900
Non-Voting Class A	30,850,585
Class B common	34,885,225

As of December 10, 2004 the Company had 27,674 Options outstanding expiring in October, 2006. Options allow holders to purchase Non-Voting Class A shares at $6.555 per share.

Dividend Payments

Dividends of $7.9 million ($0.12 per share) were paid in the second quarter of fiscal 2005 on Empire's Non-Voting Class A and Class B common shares, up from the $6.6 million ($0.10 per share) paid in the second quarter of fiscal 2004. The annualized dividend rate has increased from $0.40 to $0.48 per share. There was no material change in the number of shares outstanding year-over-year.

Fiscal year-to-date, Empire paid common dividends totaling $15.8 million, up from $13.2 million from the comparable period last year. The year-over-year increase reflects the increase in the quarterly dividend rate per share to $0.12 per share from $0.10 per share.

Empire Share Repurchases

During the second quarter of fiscal 2005, Empire did not repurchase or issue Empire Class A Non-Voting shares. There were no shares repurchased in the second quarter last year. Fiscal year-to-date there were 61,129 Class A Non-Voting shares repurchased compared to no shares repurchased for the comparable period last year.

Accounting Policy Changes

Accounting Policy Changes Implemented in Fiscal 2005

During fiscal 2004, the Canadian Institute of Chartered Accountants ("CICA") introduced Handbook Section 1100, "Generally Accepted Accounting Principles", which deleted the reference to industry practice that had previously constituted a source for Canadian GAAP. The Company had been following industry practice with respect to depreciation and lease accounting. Section 1100 now requires the Company to recognize depreciation of real estate building, rental expense and income from tenant leases on a straight-line basis. During the first quarter, the Company adopted this handbook section prospectively without restatement.

The food division has also adopted this section prospectively without restatement and as a result Sobeys has changed its policy to record real estate lease expense on a straight-line basis. Additional real estate lease expense of $1.0 million was recorded by Sobeys in the first two quarters of fiscal 2005 as a result of this policy change. An additional $1.0 million of expense is expected to be recorded in the balance of Sobeys' 2005 fiscal year as a result of the adoption of this policy.

The real estate division has adopted this section prospectively without restatement and has commenced recording income from tenant leases on a straight-line basis resulting in additional real estate revenue of $1.0 million during the first two quarters and an expected additional $0.8 million during the remainder of fiscal 2005. In addition, the real estate division has changed its method of depreciation from the sinking fund method to the straight-line method, resulting in an incremental $0.6 million of depreciation expense during the first two quarters and an expected additional $0.6 million during the remainder of fiscal 2005.

Accounting guideline (AcG) 13, "Hedging Relationships", came into effect during the current fiscal year. This guideline addresses the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting and provides guidance with respect to the discontinuance of hedge accounting. There was no effect on the Company of prospectively adopting this guideline.

During the first quarter of fiscal 2005, the CICA Handbook Section 3110, "Asset Retirement Obligations" was adopted. This section establishes standards for the recognition, measurement, and disclosure of legal obligations associated with the costs to retire long-lived assets. There has been no impact on the Company from the retroactive adoption of this section.

In January 2004, the CICA issued a new accounting standard EIC-144 titled "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor". EIC-144 provides that cash consideration received from a vendor is presumed to be a reduction in the prices of the vendor's products or services and should, therefore, be characterized as a reduction in cost of sales and related inventory when recognized in the customer's income statement and balance sheet. If the consideration is a payment for assets or services delivered to the vendor, the cash consideration should be characterized as revenue or other income. If it is a reimbursement of costs incurred to sell the vendor's products, the cash consideration should be characterized as a reduction of that cost, provided certain conditions are met. EIC-144 requires retroactive application to all financial statements for annual and interim periods ending after August 15, 2004. The Company adopted EIC-144 in the current fiscal year, adjusting for it retroactively, with restatement of the comparative periods for the current and prior fiscal year.

Sobeys receives allowances from certain vendors, whose products are purchased for resale. Included in these vendor programs are allowances for volume purchases, exclusivity allowances, listing fees, and other allowances. Due to the retroactive implementation of EIC-144, the timing of recognition of certain vendor allowances has changed, resulting in the Company recording a decrease in opening retained earnings for fiscal 2004 of $3.8 million (net of income tax receivable of $3.4 million and minority interest of $2.1 million), and a decrease to inventory of $9.3 million. The implementation of EIC-144 did not result in a material change in the annual earnings for fiscal 2004 or in the current or prior year's quarterly earnings. The fiscal 2005 full-year impact of this adoption is not anticipated to be material to net earnings, provided that inventory levels, inventory turnover and vendor allowances remain relatively consistent.

Future Accounting Policy Changes

During the previous fiscal year, the CICA issued Accounting Guideline Number 15 "Consolidation of Variable Interest Entities" which is applicable to Sobeys fourth quarter of fiscal 2005. Subsequently on May 5, 2004, the CICA issued further guidance on this guideline. A Variable Interest Entity ("VIE") is any type of legal structure not controlled by voting equity, but rather by contractual and/or other financial arrangements. Sobeys has identified potential VIE's and is currently reviewing the guidance to determine to what extent consolidation and note disclosure will be required. Sobeys currently serves approximately 185 low equity franchise stores. These franchise stores are required to purchase inventory from Sobeys and their primary indebtedness is to Sobeys. In addition, the franchise agreements contain provisions for the distribution of franchise store operating income and losses. Sobeys believes that it is likely that these low equity franchise stores are VIEs and that it is the primary beneficiary. Therefore, Sobeys believes it will be required to consolidate these entities in the fourth quarter of fiscal 2005. The consolidation of potential VIE's is not expected to result in any material change in the reported earnings or underlying tax, legal or credit risks facing Sobeys.

Critical Accounting Estimates

The critical accounting estimates relating to: pension, post-retirement and post-employment benefits; goodwill and long-lived assets; and income taxes as discussed in the MD&A section of the Company's fiscal 2004 Annual Report (pages 44 & 45), remain substantially unchanged.

Related Party Transactions

Sobeys continues to lease certain real property from Empire and certain of its subsidiaries at formula-determined rates that approximate fair market value over the life of the leases. The rates are determined based primarily on the financing of the actual costs incurred at the time of construction of the leased properties.

Change in Fiscal Year-end

Effective for fiscal 2005, Empire's fiscal year-end has changed from April 30th to the first Saturday in May to be consistent with its major subsidiary, Sobeys. As such, the quarter-end dates and fiscal year-end date will be consistent with Sobeys. Concerning the Company's second quarter reporting, the comparative figures are for the three months and the six months ended October 31, 2003.

Contractual Obligations

There are no material changes to the Company's contractual obligations as presented on page 46 of the Company's fiscal 2004 annual report.

Risk Management

Risk and uncertainties related to economic and industry factors and the Company's management of this risk, is discussed in detail in the "Management's Discussion and Analysis" section of the Company's fiscal 2004 annual report (pages 23-47), as well as the Company's fiscal 2005 first quarter MD&A (pages 37-40).

Outlook

Management continues to project stronger financial performance through the remainder of fiscal 2005, assuming continued intense competition and conservative cost of capital assumptions. Management remains committed to executing operational and capital allocation decisions that will grow the cash flow and net asset value in each of our businesses over the long-term.

Defining Forward-Looking Statements

Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" and similar expressions. In addition, any statement that may be made concerning future financial performance, ongoing business strategies or prospects, or possible future Company action, is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, risks, uncertainties, competitive or economic factors that may cause actual results or events to differ materially from the results or events predicted. Forward-looking statements are not guarantees about future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by the Company due to, but not limited to: the ability to execute on operating company strategic initiatives; the impact of competition; general economic conditions; interest rate and currency exchange rate fluctuations; conditions affecting the North American equity markets; conditions affecting the growth and development of our real estate property portfolio; the ability of our operating companies to attract and retain quality employees and franchisees; labor disruptions; environmental, health and safety issues; technological change; unexpected judicial or regulatory proceedings; and the availability of capital and the associated cost of capital. As a result of these risk factors and others, no guarantee can be given that the results implied by any forward-looking statements will necessarily materialize. The reader is cautioned to consider these and other factors carefully and not to place undue reliance on forward-looking statements.

Defining Non-GAAP Measures

Empire's definition of the non-GAAP terms found in this document are as follows:

- EBITDA is calculated as operating income plus depreciation and intangible amortization.
- Operating income or EBIT is calculated as operating earnings plus interest expense and income taxes.
- Operating earnings is calculated as net earnings before net capital gain (loss) and other items.
- Funds from operations is calculated as operating earnings plus depreciation expense.
- Interest coverage is calculated as operating income divided by interest expense.
- Net working capital is calculated as receivables plus inventories, plus prepaid expenses, less accounts payable and accrued liabilities, less the current portion of future income taxes payable.
- Funded debt is calculated as bank indebtedness plus long-term debt due within one year, plus long-term debt.
- Net debt is calculated as funded debt less cash and cash equivalents.
- Total capital is calculated as funded debt plus shareholders' equity.
- Net asset value is management's estimate of the market value of the Company's assets less liabilities.
- Effective tax rate is calculated as income tax expense (from operating activities) divided by operating income less interest expense.
- Company-wide capital investment is a term used by the Food Distribution division. It equals direct capital investment by Sobeys plus capital spending by franchisees and third parties.

Other Matters

On November 24, 2004, the stock symbol for Empire's Non-voting Class A Shares changed from EMP.A to EMP.NV.A in accordance with the Toronto Stock Exchange's initiative to identify stock listings by the type of voting structure each issue offers. The name of the stock and the voting rights remain unchanged.

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

Dated: December 10, 2004
Stellarton, Nova Scotia, Canada

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 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

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

AFFILIATED COMPANY WEB ADDRESSES
www.sobeys.com
www.empiretheatres.com
www.crombieproperties.com

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

AVERAGE DAILY TRADING VOLUME
24,365

COMMON DIVIDEND RECORD AND PAYMENT DATES FOR FISCAL 2005*

Record Date	Payment Date
July 15, 2004	July 30, 2004
October 15, 2004	October 29, 2004
January 14, 2005	January 31, 2005
April 15, 2005	April 29, 2005

* *subject to approval by Board of Directors*

STOCK EXCHANGE LISTING
The Toronto Stock Exchange

OUTSTANDING SHARES

As of December 10, 2004	
Non-Voting Class A common	30,850,585
Options exercisable with Class A common shares	27,674
Class B common, voting	34,885,225

TRANSFER AGENT
CIBC Mellon Trust Company
Telephone: (800) 387-0825
Email: enquiries@cibcmellon.com

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

SOLICITORS
Stewart McKelvey Stirling Scales
Halifax, Nova Scotia

AUDITORS
Grant Thornton, LLP
New Glasgow, Nova Scotia

MULTIPLE MAILINGS
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EXEMPLAIRE FRANÇAIS
Vous pouvez obtenir un exemplaire français de ce rapport annuel en écrivant à :

Empire Company Limited
Investor Relations
115 King Street
Stellarton, Nova Scotia
B0K 1S0

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COMPANY LIMITED

WWW.EMPIRECO.CA