clearly focused on

our strengths

EMPIRE COMPANY LIMITED

Second Quarter Report | 26 Weeks Ended November 1, 2008

QUARTERLY REPORT TO SHAREHOLDERS

Empire Company Limited ("Empire or the Company") is a Canadian company headquartered in Stellarton, Nova Scotia. Empire's key businesses include food retailing, real estate, and investments and other operations. Food retailing is carried out through wholly-owned Sobeys Inc. ("Sobeys"). The real estate business is carried out through a wholly-owned operating subsidiary: ECL Properties Limited ("ECL"), which includes a 100.0 percent ownership interest in ECL Developments Limited ("ECL Developments"), as well as a 35.7 percent ownership interest in Genstar Development Partnership and a 43.3 percent interest in Genstar Development Partnership II (collectively referred to as "Genstar") and a 47.9 percent ownership interest in Crombie Real Estate Investment Trust ("Crombie REIT"). The results of Sobey Leased Properties Limited ("Sobey Leased Properties"), until April 22, 2008, were consolidated under the real estate business; results after April 22, 2008 are reported under Sobeys. Corporate investment activities and other operations includes wholly-owned ETL Canada Holdings Limited ("Empire Theatres"); Kepec Resources Limited ("Kepec"), a joint venture with APL Oil and Gas Limited which has ownership interests in various oil and gas properties in Alberta; and a 27.6 percent ownership position in Wajax Income Fund ("Wajax"). With over $14 billion in annual revenue and approximately $5.8 billion in assets, Empire employs approximately 42,000 people directly and through its subsidiaries.

Contents　　　　Page

- Letter to Shareholders 2
- Consolidated Financial Statements
  - Consolidated Balance Sheets 5
  - Consolidated Statements of Retained Earnings 6
  - Consolidated Statements of Accumulated Other Comprehensive Loss 6
  - Consolidated Statements of Earnings 7
  - Consolidated Statements of Comprehensive Income 8
  - Consolidated Statements of Cash Flows 9
  - Notes to the Consolidated Financial Statements 10
- Management's Discussion and Analysis 23
- Shareholder and Investor Information 46

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

The Company provided additional details concerning its second quarter results on a conference call held on Thursday, December 11, 2008. Replay of the call is available on the Company's website (www.empireco.ca).

Forward-looking Statements

This quarterly report contains forward-looking statements which reflect management's expectations regarding the Company's objectives, plans, goals, strategies, future growth and financial condition, results of operations, performance and business prospects and opportunities. Forward-looking statements are typically identified by words or phrases such as "anticipates", "expects", "believes", "estimates", "intends" and other similar expressions. These statements are based on management's assumptions and beliefs in light of the information currently available to them. These forward-looking statements are subject to inherent uncertainties, risks and other factors that could cause actual results to differ materially from such statements. These uncertainties and risks are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including those in the Risk Management section of the annual MD&A included in the Company's 2008 Annual Report. When relying on forward-looking statements to make decisions, the Company cautions readers not to place undue reliance on these statements, as a number of important factors could cause actual results to differ materially from any estimates or intentions expressed in such forward-looking statements. The Company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the Company, other than as required by Canadian security regulations.

LETTER TO SHAREHOLDERS

Empire Company Limited (TSX: EMP.A) announced earnings of $63.2 million ($0.96 per share) before capital gains and other items for its second quarter ended November 1, 2008 as compared to $59.9 million ($0.91 per share) in the second quarter last year, a $3.3 million or 5.5 percent increase.

Second Quarter Highlights

- *Revenue of $3.73 billion, up $243.1 million or 7.0 percent.*
- *Sobeys Inc. ("Sobeys") same-store sales increased 5.4 percent.*
- *Earnings before capital gains and other items of $63.2 million, up $3.3 million or 5.5 percent.*
- *Earnings per share of $0.96, before capital gains and other items versus $0.91 per share last year.*
- *Capital gains and other items, net of tax, of $2.5 million versus capital losses and other items, net of tax, of $1.5 million last year.*
- *Net earnings of $65.7 million ($1.00 per share), a $7.3 million or 12.5 percent increase.*
- *Funded debt to total capital of 37.4 percent, improving from 39.8 percent at the end of the last fiscal year and from 45.0 percent at the end of Q2 last year.*

Financial Overview

Consolidated revenue for the second quarter equalled $3.73 billion compared to $3.48 billion last year, an increase of $243.1 million or 7.0 percent. Sobeys' revenue equalled $3.66 billion, an increase of $253.5 million or 7.4 percent compared to the second quarter last year. Sobeys' second quarter same-store sales increased 5.4 percent. Sobeys' retail sales growth resulted from increased retail selling square footage from new and acquired stores and store enlargements, coupled with the continued implementation of sales and merchandising initiatives and moderate food price inflation. Adjusting for the impact of the Thrifty Foods acquisition on September 12, 2007, second quarter sales growth for Sobeys and Empire consolidated would have been 5.5 percent and 5.0 percent, respectively.

Real estate division revenue (net of inter-segment transactions) in the second quarter was $17.2 million, a decrease of $10.9 million from the $28.1 million recorded in the second quarter last year. Commercial property revenue declined by $6.9 million while residential property revenue decreased by $4.0 million from the second quarter last year. The decline in commercial property revenue was primarily due to the sale of 61 properties to Crombie REIT in the fourth quarter of last fiscal year. The decline in residential property revenue was also expected, reflecting a slowdown in residential lot sales in Western Canada.

Investments and other operations generated revenue of $50.6 million in the second quarter versus $50.1 million in the second quarter last year.

Consolidated operating income (earnings before capital gains and other items, minority interest, interest expense and income tax) in the second quarter was $113.4 million, a decrease of $4.8 million from the second quarter last year.

The contributors to the change in consolidated operating income from the second quarter last year are as follows:

(i) Sobeys' operating income contribution to Empire in the second quarter totalled $94.7 million, an increase of $3.9 million or 4.3 percent from the $90.8 million recorded in the second quarter last year. Included in Sobeys second quarter fiscal 2009 operating income contribution to Empire was a $6.2 million increase in depreciation and amortization expense, reflecting Sobeys continued capital investments.

(ii) Commercial property operating income for the quarter was $4.5 million as compared to $11.7 million in the second quarter last fiscal year, a decline of $7.2 million. This decline is largely attributed to the sale of certain Sobey Leased Properties' assets (61 properties) to Crombie REIT on April 22, 2008, which generated total proceeds of $428.5 million, as Sobey Leased Properties accounted for operating income of $7.3 million in the second quarter last fiscal year. The reduction in operating income from Sobey Leased Properties was partially offset through increased equity accounted earnings from our 47.9 percent interest in Crombie REIT which contributed $3.8 million to operating income in the second quarter versus a $2.4 million contribution in the second quarter last year, a $1.4 million increase.

(iii) Residential property operating income contribution in the second quarter was $7.5 million, a decrease of $2.3 million from the $9.8 million recorded in the second quarter last year as a result of lower residential lot sales activity in Western Canada.

(iv) Investments and other operations (net of corporate expenses) contributed operating income of $6.7 million in the second quarter compared to $5.9 million in the second quarter last year. Equity accounted earnings generated from the Company's 27.6 percent interest in Wajax amounted to $5.1 million in the second quarter versus $5.4 million in the second quarter last year. Operating income generated from other operations, net of corporate expenses, amounted to $1.6 million, up from $0.5 million in the second quarter last year.

Interest expense in the second quarter amounted to $20.4 million, a decrease of $7.0 million or 25.5 percent compared to the $27.4 million recorded in the same quarter last year.

The decline in interest expense reflects the lower funded debt levels which are principally related to cash proceeds received on the sale of certain Sobey Leased Properties' assets in the fourth quarter last year, along with lower interest rates on floating rate indebtedness. Consolidated funded debt was $1,475.8 million at the end of the second quarter of fiscal 2009 compared to $1,881.0 million at the end of the second quarter last year, a $405.2 million or 21.5 percent decrease.

The effective income tax rate for the second quarter was 29.4 percent versus 32.7 percent in the second quarter last year. The reduction in the effective income tax rate largely relates to general federal corporate income tax rate reductions ranging from 1.0 to 3.5 percent by January 2012, as approved by the Canadian Government during the third quarter of fiscal 2008.

In the second quarter of fiscal 2009 Empire recorded minority interest expense of $2.5 million compared to minority interest expense of $1.2 million in the second quarter last year.

For the 13 weeks ended November 1, 2008, Empire recorded earnings before capital gains and other items of $63.2 million ($0.96 per share) versus $59.9 million ($0.91 per share) last year, a $3.3 million or 5.5 percent increase. The increase in earnings before capital gains and other items reflects a $7.0 million reduction in interest expense and a $2.4 million decline in income taxes, partially offset by a $4.8 million decline in operating income and a $1.3 million increase in minority interest as mentioned.

The Company reported capital gains and other items, net of tax, of $2.5 million ($0.04 per share) in the second quarter as compared to capital losses and other items, net of tax, of $1.5 million ($0.02 per share) in the same quarter last year. Capital gains and other items in the second quarter of fiscal 2009 were largely the result of the sale of non-core property.

Consolidated net earnings in the second quarter equalled $65.7 million ($1.00 per share) as compared to $58.4 million ($0.89 per share) last year, an increase of 12.5 percent.

Liquidity and Capital Resources

The Company maintains the following sources of liquidity: (i) cash and cash equivalents on hand; (ii) unutilized bank credit facilities; and (iii) cash generated from operating activities. The Company anticipates that these sources of liquidity will be sufficient to meet expected cash outflows over the next year.

At November 1, 2008, cash and cash equivalents were $174.1 million versus $133.1 million at November 3, 2007 and $191.4 million at fiscal year-end, May 3, 2008.

At the end of the second quarter, November 1, 2008, Empire's investment portfolio, including its 27.6 percent interest in Wajax (TSX: WJX.UN) and its 47.9 percent interest in Crombie REIT (TSX: CRR.UN), carried a market value of $313.4 million on a carrying value of $39.4 million, resulting in an unrealized gain of $274.0 million. This compares to an unrealized gain of $388.2 million at the end of fiscal 2008 and $270.4 million at the end of the second quarter last year.

At the end of the second quarter of fiscal 2009, on a non-consolidated basis, Empire maintained authorized bank lines for operating, general and corporate purposes of $650.0 million, of which approximately $346 million or 53 percent was utilized. On a consolidated basis, Empire's authorized bank credit facilities exceeded borrowings by approximately $781 million at November 1, 2008 versus $691 million at May 3, 2008.

Consolidated Financial Condition

The Company's financial condition at the end of the second quarter remained healthy.

Consolidated funded debt declined $97.7 million to $1,475.8 million at the end of the second quarter of fiscal 2009 as compared to $1,573.5 million at the end of fiscal 2008 and $1,881.0 million at the end of the second quarter last fiscal year. The ratio of funded debt to capital improved to 37.4 percent from 39.8 percent at the end of fiscal 2008 and from 45.0 percent at the end of the second quarter last year.

Consolidated purchases of property and equipment totalled $75.9 million in the second quarter of fiscal 2009 compared to $125.0 million in the second quarter last year.

During the second quarter, Sobeys opened, acquired or relocated 11 corporate and franchised stores compared to 26 corporate and franchised stores opened, acquired or relocated during the second quarter of last year. An additional three stores were expanded during the first quarter compared to six stores expanded during the second quarter last year. A total of seven stores were closed during the quarter compared to 19 stores closed in the second quarter last year. There were five stores rebannered in the second quarter of fiscal 2009 compared to 13 stores rebannered in the second quarter of last year.

At November 1, 2008, Sobeys' square footage totalled 27.4 million square feet, a 1.5 percent increase over the 27.0 million square feet operated at the end of the second quarter last year.

Dividend Declaration

The Board of Directors declared a quarterly dividend of $0.175 per share on both the Non-Voting Class A shares and the Class B common shares that will be payable on January 30, 2009 to shareholders of record on January 15, 2009. The Board also declared regular dividends on the Company's outstanding preferred shares. The dividends are eligible dividends as defined for the purposes of the Income Tax Act (Canada) and applicable provincial legislation and, therefore, qualify for the favourable tax treatment applicable to such dividends.

Closing Remarks

Empire's second quarter growth is largely the result of continued strong performance of Sobeys. Along with the positive earnings trend, we continue to be pleased with Sobeys same-store sales growth, which increased 5.4 percent in the second quarter. The positive growth trend in same-store sales and earnings reflects a steadfast focus on day-to-day execution, the impact of merchandising innovations and disciplined implementation of cost and productivity initiatives.

Paul D. Sobey
President & Chief Executive Officer

December 11, 2008

EMPIRE COMPANY LIMITED
CONSOLIDATED BALANCE SHEETS
(in millions)

	November 1 2008 Unaudited	May 3 2008 Audited
ASSETS		
Current		
Cash and cash equivalents	**$ 174.1**	$ 191.4
Receivables	**311.0**	291.1
Inventories	**875.5**	820.2
Prepaid expenses	**60.6**	62.0
Mortgages, loans and other	**63.7**	69.9
	1,484.9	1,434.6
Investments (realizable value $1.3; May 3, 2008 $1.6)	**1.3**	1.6
Investments, at equity (realizable value $312.1; May 3, 2008 $429.6) (Note 3)	**38.1**	41.4
Mortgages, loans and other	**57.6**	56.3
Other assets (Note 4)	**158.4**	175.5
Property and equipment	**2,509.4**	2,457.3
Assets held for sale	**22.3**	60.3
Intangibles (less accumulated amortization of $27.5; May 3, 2008 $21.3)	**346.4**	346.8
Goodwill	**1,160.2**	1,159.1
	$ 5,778.6	$ 5,732.9
LIABILITIES		
Current		
Bank indebtedness (Note 5)	**$ 40.5**	$ 92.1
Accounts payable and accrued liabilities	**1,392.3**	1,348.4
Income taxes payable	**30.4**	15.5
Future income taxes	**34.9**	32.9
Long-term debt due within one year	**59.7**	60.4
Liabilities relating to assets held for sale	**6.2**	6.4
	1,564.0	1,555.7
Long-term debt	**1,369.4**	1,414.6
Employee future benefits obligation (Note 12)	**114.3**	110.7
Future income taxes	**108.7**	125.5
Other long-term liabilities	**115.4**	106.5
Minority interest	**37.0**	37.6
	3,308.8	3,350.6
SHAREHOLDERS' EQUITY		
Capital stock	**193.5**	195.7
Contributed surplus	**1.1**	0.5
Retained earnings	**2,303.7**	2,207.6
Accumulated other comprehensive loss	**(28.5)**	(21.5)
	2,469.8	2,382.3
	$ 5,778.6	$ 5,732.9
Contingent liabilities (Note 14)		

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

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

	November 1 2008	November 3 2007
Balance, beginning of period as previously reported	**$ 2,207.6**	$ 1,939.6
Adjustment due to implementation of new accounting standard (Note 1)	**(21.5)**	-
Adjustment due to change in accounting policy	**-**	(4.3)
Balance, beginning of period as restated	**2,186.1**	1,935.3
Net earnings	**140.8**	200.7
Dividends		
Preferred shares	**(0.1)**	(0.2)
Common shares	**(23.1)**	(21.6)
Balance, end of period	**$ 2,303.7**	$ 2,114.2

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

	November 1 2008	November 3 2007
Balance, beginning of period	**$ (21.5)**	$ (0.6)
Transition adjustment as of May 6, 2007	**-**	77.2
Adjusted balance, beginning of period	**(21.5)**	76.6
Acquired comprehensive loss from purchase of minority interest in Sobeys Inc.	**-**	(0.6)
Other comprehensive loss for the period	**(7.0)**	(89.3)
Balance, end of period	**$ (28.5)**	$ (13.3)

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

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

	November 1 2008 *(13 weeks)*	November 3 2007 *(13 weeks)*	**November 1 2008 *(26 weeks)***	November 3 2007 *(26 weeks)*
Revenue	**$ 3,727.9**	$ 3,484.8	**$ 7,506.1**	$ 7,004.2
Operating expenses				
Cost of sales, selling and administrative expenses	**3,543.2**	3,297.8	**7,124.0**	6,628.9
Depreciation and amortization	**80.3**	76.7	**160.3**	146.5
	104.4	110.3	**221.8**	228.8
Investment income (Note 7)	**9.0**	7.9	**19.1**	16.9
Operating income	**113.4**	118.2	**240.9**	245.7
Interest expense				
Long-term debt	**19.3**	25.3	**39.4**	45.1
Short-term debt	**1.1**	2.1	**2.1**	3.1
	20.4	27.4	**41.5**	48.2
	93.0	90.8	**199.4**	197.5
Capital gains (losses) and other items (Note 8)	**2.0**	(2.6)	**8.1**	98.3
Earnings before income taxes and minority interest	**95.0**	88.2	**207.5**	295.8
Income taxes				
Current	**36.2**	35.4	**71.9**	88.2
Future	**(9.4)**	(6.8)	**(11.8)**	(6.0)
	26.8	28.6	**60.1**	82.2
Earnings before minority interest	**68.2**	59.6	**147.4**	213.6
Minority interest	**2.5**	1.2	**6.6**	12.9
Net earnings	**$ 65.7**	$ 58.4	**$ 140.8**	$ 200.7
Earnings per share (Note 2)				
Basic	**$ 1.00**	$ 0.89	**$ 2.14**	$ 3.06
Diluted	**$ 1.00**	$ 0.89	**$ 2.14**	$ 3.05
Weighted average number of common shares outstanding, in millions				
Basic	**65.6**	65.6	**65.6**	65.6
Diluted	**65.7**	65.7	**65.7**	65.7

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

EMPIRE COMPANY LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
PERIODS ENDED
(Unaudited, in millions)

	November 1 2008 (13 weeks)	November 3 2007 (13 weeks)	**November 1 2008 (26 weeks)**	November 3 2007 (26 weeks)
Net earnings	**$ 65.7**	$ 58.4	**$ 140.8**	$ 200.7
Other comprehensive income, net of income taxes				
Reclassification of gains on available-for-sale financial assets to earnings	**-**	-	**-**	(78.7)
Unrealized losses on available-for-sale financial assets	**(0.3)**	-	**(0.3)**	-
Unrealized losses on derivatives designated as cash flow hedges	**(6.4)**	(9.2)	**(6.5)**	(9.5)
Reclassification of loss on derivative instruments designated as cash flow hedges to earnings	**0.6**	-	**1.2**	-
Share of comprehensive income (loss) of entities accounted using the equity method	**(2.3)**	(0.8)	**(1.4)**	(1.1)
	(8.4)	(10.0)	**(7.0)**	(89.3)
Comprehensive income	**$ 57.3**	$ 48.4	**$ 133.8**	$ 111.4

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

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

	November 1 2008 *(13 weeks)*	November 3 2007 *(13 weeks)*	**November 1 2008 *(26 weeks)***	November 3 2007 *(26 weeks)*
Operating Activities				
Net earnings	**$ 65.7**	$ 58.4	**$ 140.8**	$ 200.7
Items not affecting cash (Note 9)	**78.6**	70.4	**165.1**	161.4
Preferred dividends	**-**	(0.1)	**(0.1)**	(0.2)
	144.3	128.7	**305.8**	361.9
Net change in non-cash working capital	**(25.7)**	(29.3)	**(39.7)**	(63.0)
Cash flows from operating activities	**118.6**	99.4	**266.1**	298.9
Investing Activities				
Net decrease in investments	**-**	1.7	**-**	191.0
Purchase of shares in subsidiary, Sobeys Inc.	**-**	-	**-**	(1,065.7)
Purchase of property and equipment	**(75.9)**	(125.0)	**(192.5)**	(234.8)
Proceeds on disposal of property and equipment	**28.9**	1.0	**57.9**	6.7
Mortgages, loans and other	**6.0**	7.9	**4.9**	14.6
Increase in other assets	**(10.8)**	(57.0)	**(9.7)**	(59.6)
Business acquisitions (Note 13)	**(5.4)**	(268.4)	**(11.8)**	(269.1)
Cash flows used in investing activities	**(57.2)**	(439.8)	**(151.2)**	(1,416.9)
Financing Activities				
Decrease in bank indebtedness	**(13.0)**	(1.2)	**(51.6)**	(3.2)
Increase (decrease) in construction loans	**1.4**	-	**1.4**	(1.1)
Issue of long-term debt	**35.6**	186.4	**41.0**	1,000.0
Repayment of long-term debt	**(65.4)**	(20.8)	**(90.4)**	(36.0)
Minority interest	**(3.8)**	(1.2)	**(7.2)**	18.5
Repurchase of preferred shares	**(0.9)**	(0.8)	**(2.3)**	(0.8)
Issue of Non-Voting Class A shares	**-**	-	**-**	0.4
Common dividends	**(11.6)**	(10.9)	**(23.1)**	(21.6)
Cash flows (used in) from financing activities	**(57.7)**	151.5	**(132.2)**	956.2
Increase (decrease) in cash and cash equivalents	**3.7**	(188.9)	**(17.3)**	(161.8)
Cash and cash equivalents, beginning of period	**170.4**	322.0	**191.4**	294.9
Cash and cash equivalents, end of period	**$ 174.1**	$ 133.1	**$ 174.1**	$ 133.1

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

EMPIRE COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 1, 2008
(Unaudited, in millions)

1. Summary of Significant Accounting Policies

The unaudited interim period consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of Empire Company Limited (the "Company"), all subsidiary companies, including 100% owned Sobeys Inc. ("Sobeys") and its subsidiaries and variable interest entities ("VIEs") which the Company is required to consolidate.

Interim Consolidated financial statements

These interim consolidated financial statements do not include all of the disclosures included in the Company's annual consolidated financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended May 3, 2008, as set out in the 2008 Annual Report.

Generally accepted accounting principles

The accounting standards and policies used in the preparation of these interim consolidated financial statements conform with those used in the Company's 2008 annual consolidated financial statements except as noted below:

Adopted during fiscal 2009

Inventories

During the first quarter of fiscal 2009, the Company implemented Canadian Institute of Chartered Accountants (“CICA”) Section 3031, “Inventories”, which was issued in June 2007 and has replaced existing Section 3030 with the same title. The new section establishes that inventories should be measured at the lower of cost and net realizable value, with guidance on the determination of cost, including allocation of overheads and other costs incurred in bringing the inventories to their present location and condition. Costs such as storage costs are specifically excluded from the cost of inventories and are expensed in the period incurred. The standard also requires the use of either first in, first out or weighted average cost formula to measure the cost of inventories of similar nature and use. Techniques, such as the retail method, used to measure the cost of inventory may be used if the results approximate cost. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company applied the standard to the opening inventory for the fiscal year beginning May 4, 2008 and adjusted retained earnings by the difference in the measurement of cost in opening inventory of a similar nature and use (prior periods were not restated).

Following adoption of Section 3031, warehouse inventories are valued at the lower of cost and net realizable value with cost being determined on a weighted average cost basis. Retail inventories are valued at the lower of cost and net realizable value. Cost is determined using a weighted average cost using either the standard cost method or a retail method. The retail method uses the anticipated selling price less normal profit margins, on a weighted average cost basis. Real estate inventory of residential properties is valued at the lower of cost and net realizable value.

The cost of inventories is comprised of directly attributable costs and includes the purchase price plus other costs incurred in bringing the inventories to their present location and condition, such as freight. The cost is reduced by the value of rebates and allowances received from vendors. The Company estimates net realizable value as the amount that inventories are expected to be sold taking into consideration fluctuations of retail price due to seasonality less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in retail selling price, the amount of the write-down previously recorded is reversed. Costs that do not contribute to bringing inventories to their present location and condition, such as storage and administrative overheads, are specifically excluded from the cost of inventories and are expensed in the period incurred.

The initial impact of measuring inventories under the new standard is a decrease to the carrying amount of opening inventories as at May 4, 2008 of $27.9 and a decrease in income taxes payable of $6.4. Opening retained earnings has been adjusted by $21.5, equal to the change in opening inventories net of tax.

1. Summary of Significant Accounting Policies (continued)

The cost of inventory recognized as an expense during the second quarter and first half of fiscal 2009 was $2,802.0 and $5,641.0 respectively. The cost of inventories recognized as an expense during the second quarter and first half of fiscal 2009 includes $12.0 and $22.9 respectively for the write-down of inventories below cost to net realizable value. There were no reversals of inventories written down previously.

Capital disclosures

In October 2006, the CICA issued Section 1535, “Capital Disclosures”. This section establishes standards for disclosing information about an entity’s capital and how it is managed. The standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007 and is applicable for the Company’s first quarter of fiscal 2009 (see Note 6). The adoption of Section 1535 did not have an impact on the Company's financial results or position.

Financial instruments - disclosure and financial instruments - presentation

Section 3862, “Financial Instruments - Disclosure”, and Section 3863, “Financial Instruments - Presentation”, replace Section 3861, “Financial Instruments - Disclosure and Presentation”. These standards are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007 and are applicable for the Company’s first quarter of fiscal 2009 (see Note 11). Section 3862 requires increased disclosures regarding the risks associated with financial instruments such as credit risk, liquidity risk and market risk and the techniques used to identify, monitor and manage these risks. In accordance with the transitional provision of Section 3862, comparative information about the nature and extent of risks arising from financial instruments is not required in the year of adoption. Section 3863 carries forward standards for presentation of financial instruments and non-financial derivatives and provides additional guidance for the classification of financial instruments between liabilities and equity and has no significant impact on the Company’s financial statements.

Future changes in accounting policies

Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which replaced existing Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development'. The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008 and is applicable for the Company's first quarter of fiscal 2010. The Company is currently evaluating the impact of this new standard.

EMPIRE COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 1, 2008
(Unaudited, in millions, except per share amounts)

2. Earnings Per Share

Earnings applicable to common shares is comprised of the following:

	2008 (13 weeks)	2007 (13 weeks)	**2008 (26 weeks)**	2007 (26 weeks)
Operating earnings	**$ 63.2**	$ 59.9	**$ 133.5**	$ 120.3
Capital gains (losses) and other items, net of income taxes of $(0.5); $(1.1); $0.8; $17.9	**2.5**	(1.5)	**7.3**	80.4
Net earnings	**65.7**	58.4	**140.8**	200.7
Preferred share dividends	**-**	(0.1)	**(0.1)**	(0.2)
Earnings applicable to common shares	**$ 65.7**	$ 58.3	**$ 140.7**	$ 200.5
Earnings per share is comprised of the following:				
Operating earnings	**$ 0.96**	$ 0.91	**$ 2.03**	$ 1.83
Net capital gains (losses) and other items	**0.04**	(0.02)	**0.11**	1.23
Basic earnings per share	**$ 1.00**	$ 0.89	**$ 2.14**	$ 3.06
Operating earnings	**$ 0.96**	$ 0.91	**$ 2.03**	$ 1.83
Net capital gains (losses) and other items	**0.04**	(0.02)	**0.11**	1.22
Diluted earnings per share	**$ 1.00**	$ 0.89	**$ 2.14**	$ 3.05

3. Investments, at Equity

	November 1 2008	May 3 2008
Wajax Income Fund (27.6% interest)	**$ 32.7**	$ 31.6
Crombie REIT (47.9% interest)	**5.3**	9.5
U.S. residential real estate partnerships	**0.1**	0.3
	$ 38.1	$ 41.4

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

	November 1 2008
Balance, beginning of period	**$ 31.6**
Equity earnings	**10.6**
Share of comprehensive loss	**(0.1)**
Distributions received	**(9.4)**
Balance, end of period	**$ 32.7**

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

	November 1 2008
Balance, beginning of period	**$ 9.5**
Equity earnings	**8.4**
Share of comprehensive loss	**(2.0)**
Distributions received	**(10.6)**
Balance, end of period	**$ 5.3**

4. Other Assets

Asset-backed commercial paper

Included in other assets is $30.0 of third-party asset-backed commercial paper against which the Company has taken a pre-tax impairment provision in the amount of $7.5 in fiscal 2008. The Company updated its analysis of the net carrying value as at November 1, 2008, including factors such as estimated cash flow scenarios and risk adjusted discount rates, and no further provision was determined to be required. The Company continues to monitor this investment for impairment. The assumptions used in estimating the fair value of the investments are subject to change based on market conditions which could result in further adjustments to earnings in the future.

5. Bank Indebtedness

On November 15, 2007, Sobeys established and utilized a new unsecured non-revolving credit facility of $30.0 which matured on May 15, 2008 and was subsequently extended to August 15, 2008 and October 14, 2008.

On October 22, 2008, Sobeys established a new unsecured revolving term credit facility of $30.0 maturing January 15, 2009 in place of the non-revolving facility that matured on October 14, 2008. This facility has not yet been utilized; however, any interest payable would fluctuate with changes in the bankers' acceptance rate, Canadian prime rate or LIBOR.

6. Capital Management

The Company's objectives when managing capital are: i) ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans, ii) to minimize the cost of capital while taking into consideration current and future industry, market and economic risks and conditions, iii) to maintain an optimal capital structure that provides necessary financial flexibility while also ensuring compliance with any financial covenants, and; iv) to maintain an investment grade credit rating with each rating agency that assesses the credit worthiness of the Company.

The Company monitors and makes adjustments to its capital structure, when necessary, in light of changes in economic conditions, the objectives of its shareholders, the cash requirements of the business and the condition of capital markets.

The Company considers its total capitalization to include all interest bearing debt, including bank loans, bankers' acceptances, long-term debt (including the current portion thereof) and shareholders' equity, net of cash. The calculation is set out in the following table:

	November 1 2008	May 3 2008
Bank indebtedness	**$ 40.5**	$ 92.1
Long-term debt due within one year	**59.7**	60.4
Liabilities relating to assets held for sale	**6.2**	6.4
Long-term debt	**1,369.4**	1,414.6
Funded debt	**1,475.8**	1,573.5
Less: cash and cash equivalents	**(174.1)**	(191.4)
Net funded debt	**1,301.7**	1,382.1
Shareholders' equity	**2,469.8**	2,382.3
Capital under management	**$ 3,771.5**	$ 3,764.4

Although the Company does not include operating leases in its definition of capital, the Company does give consideration to its obligations under operating leases when assessing its total capitalization.

6. Capital Management (continued)

The primary investments undertaken by the Company include additions to the selling square footage of its store network via the construction of new, relocated and expanded stores, including related leasehold improvements and features and the purchase of land bank sites for future store construction. The Company makes capital investments in information technology and its distribution capabilities to support an expanding store network. In addition, the Company makes capital expenditures in support of its real estate and other operations. The Company largely relies on its cash flow from operations to fund its capital investment program and dividend distributions to its shareholders. This cash flow is supplemented, when necessary, through the borrowing of additional debt. No changes were made to these objectives in the current period.

Management monitors certain key ratios to effectively manage capital:

	November 1 2008	May 3 2008
Funded debt to total capital[1]	**37.4%**	39.8%
Funded debt to EBITDA[2]	**1.88x**	2.02x
EBITDA to interest expense	**7.93x**	7.35x

(1) Total capital is funded debt plus shareholders' equity.
(2) EBITDA is comprised of EBITDA for each of the 52 week periods then ended. EBITDA (operating income plus depreciation and amortization) is a non-GAAP financial measure. Non-GAAP financial measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other reporting issuers.

As part of existing debt agreements, two financial covenants are monitored and communicated, as required by the terms of credit agreements, on a quarterly basis by management to ensure compliance with the agreements. The covenants are: i) adjusted total debt/EBITDA - calculated as funded debt plus letters of credit, guarantees and commitments divided by EBITDA (for previous 52 weeks); and ii) debt service coverage ratio – calculated as EBITDA divided by interest expense plus repayments of long-term debt (all amounts are based on previous 52 weeks).

The Company was in compliance with these covenants during the period.

7. Investment Income

	2008 (13 weeks)	2007 (13 weeks)	**2008 (26 weeks)**	2007 (26 weeks)
Dividend and interest income	**$ 0.1**	$ 0.1	**$ 0.1**	$ 1.0
Share of earnings of entities accounted using the equity method	**8.9**	7.8	**19.0**	15.9
	$ 9.0	$ 7.9	**$ 19.1**	$ 16.9

8. Capital Gains (Losses) and Other Items

	2008 (13 weeks)	2007 (13 weeks)	**2008 (26 weeks)**	2007 (26 weeks)
Gain on sale of investments	**$ -**	$ -	**$ -**	$ 100.9
Other items	**2.0**	0.4	**8.1**	0.4
Change in fair value of Canadian third party asset-backed commercial paper (Note 4)	**-**	(3.0)	**-**	(3.0)
	$ 2.0	$ (2.6)	**$ 8.1**	$ 98.3

EMPIRE COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 1, 2008
(Unaudited, in millions)

9. Supplementary Cash Flow Information

	2008 (13 weeks)	2007 (13 weeks)	**2008 (26 weeks)**	2007 (26 weeks)
a) Items not affecting cash				
Depreciation and amortization	**$ 80.3**	$ 76.7	**$ 160.3**	$ 146.5
Future income taxes	**(9.4)**	(6.8)	**(11.8)**	(6.0)
(Gain) loss on disposal of assets	**(1.8)**	1.2	**(6.2)**	1.9
Amortization of other assets	**0.5**	0.9	**1.6**	3.5
Provision on asset-backed commercial paper	**-**	3.0	**-**	3.0
Equity in earnings of other entities, net of dividends received	**1.6**	(0.7)	**1.2**	(0.7)
Minority interest	**2.5**	1.2	**6.6**	12.9
Stock-based compensation	**-**	-	**0.6**	2.2
Long-term lease obligation	**0.8**	(2.7)	**2.4**	(1.3)
Employee future benefits obligation	**2.0**	1.3	**3.6**	2.5
Rationalization costs (Note 16)	**2.1**	(3.7)	**6.8**	(3.1)
	$ 78.6	$ 70.4	**$ 165.1**	$ 161.4
b) Other cash flow information				
Net interest paid	**$ 22.2**	$ 30.6	**$ 34.2**	$ 45.7
Net income taxes paid	**$ 12.5**	$ 32.5	**$ 49.7**	$ 76.6

10. Segmented Information

	2008 (13 weeks)	2007 (13 weeks)	**2008 (26 weeks)**	2007 (26 weeks)
Segmented revenue				
Food retailing	**$ 3,660.1**	$ 3,406.6	**$ 7,371.6**	$ 6,847.6
Real estate				
Sobeys Leased Properties Limited	**-**	5.2	**-**	10.5
Other Commercial	**3.5**	5.2	**8.1**	10.1
Inter-segment	**0.5**	8.5	**0.8**	16.5
Residential	**13.7**	17.7	**33.7**	42.9
	17.7	36.6	**42.6**	80.0
Investment and other operations	**50.6**	50.1	**92.7**	93.1
	3,728.4	3,493.3	**7,506.9**	7,020.7
Elimination	**(0.5)**	(8.5)	**(0.8)**	(16.5)
	$ 3,727.9	$ 3,484.8	**$ 7,506.1**	$ 7,004.2

	2008 (13 weeks)	2007 (13 weeks)	**2008 (26 weeks)**	2007 (26 weeks)
Segmented operating income				
Food retailing	**$ 94.7**	$ 90.8	**$ 200.2**	$ 186.0
Real estate				
Sobeys Leased Properties Limited	**-**	7.3	**-**	14.5
Crombie REIT	**3.8**	2.4	**8.4**	6.3
Other Commercial	**0.7**	2.0	**1.9**	3.8
Residential	**7.5**	9.8	**21.2**	25.8
Investment and other operations				
Wajax Income Fund	**5.1**	5.4	**10.6**	9.6
Other operations, net of corporate expenses	**1.6**	0.5	**(1.4)**	(0.3)
	$ 113.4	$ 118.2	**$ 240.9**	$ 245.7

10. Segmented Information (continued)

	November 1 2008	May 3 2008
Identifiable assets		
Food retailing	**$ 4,148.4**	$ 4,052.7
Goodwill	**1,120.1**	1,119.0
	5,268.5	5,171.7
Real estate	**254.1**	282.0
Investment and other operations (including goodwill of $40.1; May 3, 2008 $40.1)	**256.0**	279.2
	$ 5,778.6	$ 5,732.9

	2008 *(13 weeks)*	2007 *(13 weeks)*	**2008 *(26 weeks)***	2007 *(26 weeks)*
Depreciation and amortization				
Food retailing	**$ 74.9**	$ 68.7	**$ 148.6**	$ 130.5
Real estate	**0.1**	1.8	**0.1**	3.5
Investment and other operations	**5.3**	6.2	**11.6**	12.5
	$ 80.3	$ 76.7	**$ 160.3**	$ 146.5

	2008 *(13 weeks)*	2007 *(13 weeks)*	**2008 *(26 weeks)***	2007 *(26 weeks)*
Capital expenditures				
Food retailing	**$ 69.3**	$ 114.9	**$ 171.6**	$ 191.2
Real estate	**4.1**	6.5	**17.1**	28.0
Investment and other operations	**2.5**	3.6	**3.8**	15.6
	$ 75.9	$ 125.0	**$ 192.5**	$ 234.8

11. Financial Instruments

Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily ABCP (Note 4), accounts receivable, mortgages, loans and other, derivative contracts and guarantees.

The Company's maximum exposure to credit risk corresponds to the carrying amount for all loans and receivables, the fair market value of derivative contracts represented on the balance sheet and guarantee contracts for franchise affiliates.

The Company mitigates credit risk associated with its trade accounts receivable, mortgages, loans and other receivables through established credit approvals, limits and a regular monitoring process. The Company generally considers the credit quality of its financial assets that are neither past due or impaired to be solid. The Company regularly monitors collection performance and pledged security for all of its accounts receivable, mortgages, loans and other receivables to ensure adequate payments are being received and adequate security is available. Pledged security can vary by agreement, but generally includes inventory, fixed assets including land and/or building, as well as personal guarantees. Credit risk is further mitigated due to the large number of customers and their dispersion across geographic areas. The Company only enters into derivative contracts with Canadian chartered banks to minimize credit risk.

11. Financial Instruments (continued)

Receivables are substantially comprised of balances due from independent accounts, franchisee or affiliate locations as well as rebates and allowances from vendors. The due date of these amounts can vary by agreement but in general balances over 30 days are considered past due. None of the receivable balances are considered impaired. The aging of the receivables is as follows:

	November 1, 2008	August 2, 2008
0-30 days	$ 255.5	$ 233.2
31-90 days	25.5	23.7
Greater than 90 days	64.3	70.0
Total receivables before allowance for doubtful accounts	345.3	326.9
Less: allowance for doubtful accounts	(34.3)	(34.9)
Receivables	$ 311.0	$ 292.0

Interest earned on past due accounts is recorded as a reduction to cost of sales, selling and administrative expense in the statement of earnings. Mortgages, loans and other are all current as of November 1, 2008.

Allowance for doubtful accounts is reviewed at each balance sheet date. An allowance is taken on accounts receivable from independent accounts, as well as accounts receivable, mortgages, loans and other receivables from franchise or affiliate locations and is recorded as a reduction to its respective receivable account on the balance sheet. The Company updates its estimate of allowance for doubtful accounts based on past due balances from independent accounts and based on an evaluation of recoverability net of security assigned for franchise or affiliate locations. Current and long-term accounts receivable, mortgage or loans receivable are reviewed on a regular basis and are written-off when collection is considered unlikely. The change in allowance for doubtful accounts is recorded as cost of sales, selling and administrative expenses in the statement of earnings and is presented as follows:

	26 Weeks Ended November 1, 2008	13 Weeks Ended November 1, 2008	13 Weeks Ended August 2, 2008
Allowance, beginning of period	$ 28.7	$ 34.9	$ 28.7
Provision for losses	7.8	1.2	6.6
Recoveries	(0.2)	(0.1)	(0.1)
Write-off's	(2.0)	(1.7)	(0.3)
Allowance, end of period	$ 34.3	$ 34.3	$ 34.9

Liquidity risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they come due. The Company actively maintains a committed credit facility to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements at a reasonable cost.

The Company monitors capital markets and the related conditions. Market conditions allowing, the Company will access debt capital markets for various long-term debt maturities and as other liabilities come due or as assessed to be appropriate in order to minimize risk and optimize pricing.

11. Financial Instruments (continued)

The following table summarizes the carrying amount and the contractual maturities of both the interest and principal portion of significant financial liabilities on an undiscounted basis as at November 1, 2008:

	2009	2010	2011	2012	2013	Thereafter	Total
Accounts payable	$ 1,392.3	$ -	$ -	$ -	$ -	$ -	$ 1,392.3
Bank indebtedness	40.5	-	-	-	-	-	40.5
Interest rate swaps payable[(1)]	10.6	20.9	13.4	10.7	2.5	-	58.1
Long-term debt	84.8	116.6	550.4	80.5	340.4	1,110.4	2,283.1

(1) Represents the payable fixed interest (will be partially offset by the floating interest received).

Fair value of financial instruments

The fair value of a financial instrument is the estimated amount that the Company would receive or pay to settle the financial assets and financial liabilities as at the reporting date.

The book value of cash and cash equivalents, receivables, mortgages, loans and other, and accounts payable and accrued liabilities approximate fair values at the balance sheet date.

The fair value of the variable rate long-term debt is assumed to approximate its carrying amount. The fair value of other long-term liabilities has been estimated by discounting future cash flows at a rate offered for debt of similar maturities and credit quality.

The following table summarizes the classification of the Company's financial instruments, as well as their carrying amounts and fair values:

November 1, 2008	Held for Trading (Required)	Held for Trading (Designated)	Available for Sale	Loans and Receivables	Other Financial Liabilities	Total Carrying Amount	Fair Value
Financial Assets							
Cash and cash equivalents	$ -	$ 174.1	$ -	$ -	$ -	$ 174.1	$ 174.1
Receivables	-	-	-	311.0	-	311.0	311.0
Mortgages, loans and other	-	-	-	121.3	-	121.3	121.3
Investments	-	-	1.3	-	-	1.3	1.3
Other assets[(1)]	1.8	26.5	-	-	-	28.3	28.3
Total financial assets	$ 1.8	$ 200.6	$ 1.3	$ 432.3	$ -	$ 636.0	$ 636.0
Financial Liabilities							
Bank indebtedness	$ -	$ -	$ -	$ -	$ 40.5	$ 40.5	$ 40.5
Accounts payable and accrued liabilities	-	-	-	-	1,392.3	1,392.3	1,392.3
Long-term debt	-	-	-	-	1,435.3	1,435.3	1,277.3
Other long-term liabilities[(2)]	29.1	-	-	-	-	29.1	29.1
Total financial liabilities	$ 29.1	$ -	$ -	$ -	$ 2,868.1	$ 2,897.2	$ 2,739.2

(1) The total carrying value of financial assets included in other assets is $28.3.
(2) Only the derivative liability portion is presented here.

EMPIRE COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 1, 2008
(Unaudited, in millions)

11. Financial Instruments (continued)

May 3, 2008	Held for Trading (Required)	Held for Trading (Designated)	Available for Sale	Loans and Receivables	Other Financial Liabilities	Total Carrying Amount	Fair Value
Financial Assets							
Cash and cash equivalents	$ -	$ 191.4	$ -	$ -	$ -	$ 191.4	$ 191.4
Receivables	-	-	-	291.1	-	291.1	291.1
Mortgages, loans and other	-	-	-	126.2	-	126.2	126.2
Investments	-	-	1.6	-	-	1.6	1.6
Other assets[(1)]	2.3	26.4	-	-	-	28.7	28.7
Total financial assets	$ 2.3	$ 217.8	$ 1.6	$ 417.3	$ -	$ 639.0	$ 639.0
Financial Liabilities							
Bank indebtedness	$ -	$ -	$ -	$ -	$ 92.1	$ 92.1	$ 92.1
Accounts payable and accrued liabilities	-	-	-	-	1,348.4	1,348.4	1,348.4
Long-term debt	-	-	-	-	1,481.4	1,481.4	1,415.5
Other long-term liabilities[(2)]	21.7	-	-	-	-	21.7	21.7
Total financial liabilities	$ 21.7	$ -	$ -	$ -	$2,921.9	$2,943.6	$2,877.7

(1) The total carrying value of financial assets included in other assets is $28.7.
(2) Only the derivative liability portion is presented here.

Derivative financial instruments

Derivative financial instruments are recorded on the consolidated balance sheet at fair value unless the derivative instrument is a contract to buy or sell a non-financial item in accordance with the Company's expected purchase, sale or usage requirements, referred to as a "normal purchase or normal sale". Changes in the fair values of derivative financial instruments are recognized in earnings unless it qualifies and is designated as an effective cash flow hedge or a normal purchase or normal sale. Normal purchases and normal sales are exempt from the application of the standard and are accounted for as executory contracts. Changes in fair value of a derivative financial instrument designated as a cash flow hedge are recorded in other assets and liabilities with the effective portion recorded in accumulated other comprehensive income.

Interest rate risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. Financial instruments that potentially subject the Company to interest rate risk include financial liabilities with floating interest rates. The majority of the Company's long-term debt is at a fixed interest rate or hedged with interest rate swaps. Bank indebtedness and approximately 30 percent of the Company's long-term debt is exposed to interest rate risk due to floating rates.

Net earnings is sensitive to the impact of a change in interest rates on the average balance of interest bearing financial liabilities during the period. For the six month period ending November 1, 2008, the Company's average floating-rate indebtedness was $779.1 of which $420.0 has been hedged with interest rate swaps. Accordingly, a difference of 0.25 percent in the applicable interest rate would have impacted net earnings by $0.3 and other comprehensive income by $1.8.

Foreign currency exchange risk

The Company conducts the vast majority of its business in Canadian dollars. The Company's foreign currency exchange risk principally relates to purchases made in U.S. dollars. In addition, the Company also uses forward contracts to fix the exchange rate on some of its expected requirements for Euros and U.S. dollars. Amounts received or paid related to instruments used to hedge foreign exchange, including any gains and losses, are recognized in the cost of purchases. The Company does not consider its exposure to foreign currency exchange risk to be material.

11. Financial Instruments (continued)

Commodity price risk

Commodity price risk is the risk that the fair value of certain financial instruments or the Company's future cash flows will fluctuate as a result of changes in the market price of commodities. The Company has attempted to mitigate commodity price risk to electricity prices through the use of financial derivative swap contracts while closely monitoring other commodity prices to determine the appropriate course of action. The Company estimates that a 10 percent increase (decrease) in applicable commodity prices would have impacted the half-year net earnings by $2.8 and other comprehensive income by $0.8.

12. Employee Future Benefits

During the Company's second quarter and first half of fiscal 2009, the net employee future benefit expense was $8.7 and $16.8 respectively (2007 - $5.7 and $11.5). The expense included costs for the Company's defined contribution pension plans, defined benefit pension plans, post-retirement benefit plans and post-employment benefit plans.

13. Business Acquisitions

Sobeys acquired franchisee stores and prescription files during the period. The results of these acquisitions have been included in the consolidated financial results of the Company, and were accounted for through the use of the purchase method. As illustrated in the table below, the acquisition of certain franchise stores resulted in the acquisition of intangible assets. The method of amortization of limited life intangibles is on a straight-line basis over the estimated useful life of the intangible.

	2008 ***(13 weeks)***	2007 *(13 weeks)*	**2008** ***(26 weeks)***	2007 *(26 weeks)*
Franchisees				
Inventory	**$ 1.5**	$ 1.6	**$ 3.2**	$ 2.1
Property and equipment	**0.3**	0.3	**1.4**	0.5
Intangibles	**0.5**	1.0	**2.9**	1.0
Goodwill	**0.3**	1.9	**1.2**	1.9
Other assets	**0.1**	0.7	**0.4**	0.7
Cash consideration	**$ 2.7**	$ 5.5	**$ 9.1**	$ 6.2
Prescription files				
Intangibles	**2.7**	1.1	**2.7**	1.1
Cash consideration	**$ 2.7**	$ 1.1	**$ 2.7**	$ 1.1

Included in the 13 and 26 weeks ended November 3, 2007 was an estimated acquisition cost of $261.8 related to Thrifty Foods. The final purchase price allocation was completed during the fourth quarter of the previous year.

14. Contingent Liabilities

Contingencies

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

The Company and a subsidiary have been reassessed in respect to the tax treatment of gains realized on the sale of shares in Hannaford Bros. Co. ("Hannaford') in fiscal 2001. In the event that the tax authorities are successful in respect of the Hannaford transaction, which the Company believes is unlikely, the maximum potential exposure in excess of provisions taken is approximately $23.9. The Company has appealed the reassessments in respect of the sale of Hannaford shares. The Company expects that it will be substantially successful on its appeals of each of these

14. Contingent Liabilities (continued)

reassessments. The Company also believes that the ultimate resolution of these matters will not, in any event, have a material impact on earnings because it has made adequate provisions for each of these matters. Should the ultimate outcome materially differ from the provisions established, the effective tax rate and earnings of the Company could be materially affected, negatively or positively, in the period in which the matters are resolved.

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

15. Stock-Based Compensation

Deferred share units

Members of the Board of Directors may elect to receive all or any portion of their fees in Deferred Share Units ("DSUs") in lieu of cash. The number of DSUs received is determined by the market value of the Company's Non-Voting Class A shares on each director's fee payment date. Additional DSUs are received as dividend equivalents. DSUs cannot be redeemed for cash until the holder is no longer a director of the Company. The redemption value of a DSU equals the market value of an Empire Company Limited Non-Voting Class A share at the time of the redemption. On an ongoing basis, the Company values the DSU obligation at the current market value of a corresponding number of Non-Voting Class A shares and records any increase in the DSU obligation as an operating expense. At November 1, 2008, there were 75,302 (May 3, 2008 – 64,877) DSUs outstanding. During the second quarter and first half of fiscal 2009, the compensation expense was $0.3 and $1.0 respectively (2007 - $0.3 and $1.0).

Stock option plan

During the first half of fiscal 2009, the Company granted an additional 189,967 options under the Stock Option plan for employees of the Company whereby options are granted to purchase Non-Voting Class A Shares. These options allowed holders to purchase Non-Voting Class A Shares at $40.26 per share and expire in July 2016. The options vest over 4 years with 50 percent of the options vesting only if certain financial targets are attained in a given fiscal year. These options have been treated as stock-based compensation.

The compensation cost relating to the period was determined to be $0.6 (2007 - $0.0) with amortization of the cost over the vesting period. The total increase in contributed surplus in relation to the Stock Option compensation cost was $0.6. The compensation cost was calculated using the Black-Scholes model with the following assumptions:

Expected life	8 years
Risk-free interest rate	3.50%
Expected volatility	20.1%
Dividend yield	1.75%

Phantom performance option plan

In June 2007, the Board of Directors approved a Phantom Performance Option Plan for eligible employees of Sobeys. Under the plan, units are granted at the discretion of the Board based on a notional equity value of Sobeys tied to a specified formula. The units have a three-year vesting period with a third of the units vesting each year. As the notional fair value of Sobeys changes, the employees are entitled to the incremental increase in the notional equity value over a five-year period. The Company recognizes a compensation expense equal to the change in notional value over the original grant value on a straight-line basis over the vesting period. After the vesting period, any change in incremental notional equity value is recognized as a compensation expense immediately. This is recorded as a liability until settlement and is re-measured at each interim and annual reporting period of the Company. At November 1, 2008, 1,027,611 units were outstanding and for the second quarter and first half of fiscal 2009 the Company recognized $1.1 and $1.8 respectively (2007 - $0.1 and $0.2) of compensation expense associated with this plan.

16. Business Rationalization Costs

During the second quarter and first half of fiscal 2009 severance costs of approximately $2.6 and $9.6 have been incurred and recognized respectively (2007 - $1.8 and $6.8). Additional rationalization costs are anticipated and will be quantified and disclosed throughout fiscal 2009 as they are available. The costs associated with the organizational change are recorded as incurred as cost of sales, selling and administrative expenses in the statement of earnings. The liability at May 3, 2008 was $5.9 and is $12.7 at November 1, 2008. Costs incurred as of May 3, 2008 were $17.0, which includes a portion of the costs incurred in the 26 weeks ended November 3, 2007. The total combined incurred and anticipated amount at November 1, 2008 is $26.6.

17. Comparative Figures

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

	Page
Forward-Looking Information	24
Non-GAAP Financial Measures	25
Overview of the Business	25
Acquisition of Thrifty Foods	25
Sale of 61 Properties to Crombie REIT	25
Consolidated Operating Results	26
Management's Explanation of Consolidated Results	26
Revenue	26
Operating Income	27
Interest Expense	28
Income Tax Expense	28
Minority Interest	28
Earnings Before Capital Gains and Other Items	28
Capital Gains and Other Items	28
Net Earnings	29
Quarterly Results of Operations	29
Operating Performance by Division	29
Food Retailing	29
Real Estate	32
Investments and Other Operations	33
Financial Condition	36
Capital Structure and Key Financial Condition Measures	36
Shareholders' Equity	36
Liabilities	37
Financial Instruments	37
Liquidity and Capital Resources	38
Operating Activities	39
Investing Activities	40
Financing Activities	41
Free Cash Flow	41
Accounting Policy Changes	41
Critical Accounting Estimates	43
Internal Controls Over Financial Reporting	43
Related Party Transactions	43
Designation of Eligible Dividends	43
Contingent Liabilities	44
Other Matters	44
Risk Management	44
Employee Future Benefit Obligations	45
Non-GAAP Financial Measures	45

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis ("MD&A") of the consolidated financial results of Empire Company Limited ("Empire" or the "Company") for the 13 and 26 weeks ended November 1, 2008, as compared to the 13 and 26 weeks ended November 3, 2007. This discussion and analysis should be read in conjunction with the Company's unaudited interim period consolidated financial statements and accompanying notes for the 13 and 26 weeks ended November 1, 2008, the audited annual consolidated financial statements and accompanying notes for the 52 weeks ended May 3, 2008 and the related annual MD&A as contained on pages 27 through 68 of Empire's 2008 Annual Report. Information about the Company, including its Annual Report and Annual Information Form, can be found on SEDAR at www.sedar.com.

The consolidated financial statements and the accompanying notes have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and are reported in Canadian dollars.

These consolidated financial statements include the accounts of Empire and its subsidiaries and their variable interest entities ("VIEs") which the Company is required to consolidate. Included in the Company's 2008 Annual Report, on page 106, is a glossary of terms used throughout this MD&A. The information contained in this MD&A is current to December 11, 2008, unless otherwise noted.

Forward-Looking Information

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

- The Company's expectation that there will not be a material adverse impact on its business as a result of the global disruption in the market for third-party asset-backed commercial paper ("ABCP") liquidity;

- Sobeys' expectations that administrative and business rationalization activities as well as system process initiatives in prior years and upcoming quarters will have a cost impact as expected and will provide thereafter annualized cost reductions, both of which could be impacted by the final scope and scale of these activities;

- Sobeys' expectations that the new Ontario distribution centre, which is expected to open in the first quarter of fiscal 2010, will reduce overall distribution costs, which could be impacted by the number of positions eliminated at other distribution centres in Ontario;

- Management's belief that the growth rate in residential lot sales will continue to be impacted by general economic conditions, particularly in the Western Canada housing market, with lot sales likely to slow moderately from the level experienced in fiscal 2008;

- The Company's expectations on future capital spending for its real estate and food retailing divisions, which could be impacted by the availability of labour, capital resource allocation decisions, as well as general economic and market conditions;

- The Company's expectation that certain real estate property held by ECL Properties can be successfully redeveloped or leased up to the point where such property can be offered for sale to Crombie REIT and if refused by Crombie REIT, then offered to a third party;

- The Company's expectations regarding the purchase of 69,100 Series 2 Preferred Shares for cancellation by the end of calendar 2008 could be impacted by market conditions and availability of sellers;

- Management's expectations that funded debt to capital ratio will improve in fiscal 2009;

- The Company's expectations that its capital resources, liquidity position and both its operational and capital structure are sufficient to meet its ongoing business requirements, including any financial obligations over the next year, given the current economic environment;

- The Company's expectations relating to pending tax matters with Canada Revenue Agency ("CRA"), which could be determined differently by CRA. This could cause the Company's effective tax rate and its earnings to be affected positively or negatively in the period the matter is resolved; and

- The Company's expectations that pension benefit expenses relating to its defined benefit pension plans may increase as a result of declining financial markets.

Forward-looking statements are typically identified by words or phrases such as "anticipates", "expects", "believes", "estimates", "intends" and other similar expressions. These statements are based on management's assumptions and beliefs in light of the information currently available to them. These forward-looking statements are subject to inherent uncertainties, risks and other factors that could cause actual results to differ materially from such statements. These uncertainties and risks are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including those discussed in the Risk Management section of this MD&A.

When relying on forward-looking statements to make decisions, the Company cautions readers not to place undue reliance on these statements, as a number of important factors could cause actual results to differ materially from any estimates or intentions expressed in such forward-looking statements. The Company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the Company, other than as required by Canadian security regulations.

Non-GAAP Financial Measures

There are measures included in this MD&A that do not have a standardized meaning under Canadian GAAP. Management includes these measures because it believes certain investors use these measures as a means of assessing relative financial performance. Additional information relating to non-GAAP financial measures is provided at the end of this document.

Overview of the Business

Empire's key businesses include food retailing, real estate, and investments and other operations. Food retailing is carried out through wholly-owned Sobeys Inc. ("Sobeys"). The real estate business is carried out through a wholly-owned operating subsidiary ECL Properties Limited ("ECL"), which includes a 100.0 percent ownership interest in ECL Developments Limited ("ECL Developments"), as well as a 35.7 percent ownership interest in Genstar Development Partnership and a 43.3 percent interest in Genstar Development Partnership II (collectively referred to as "Genstar") and a 47.9 percent ownership interest in Crombie REIT. The results of Sobey Leased Properties Limited ("Sobey Leased Properties") until April 22, 2008 were consolidated under the real estate business; results after April 22, 2008 are reported under Sobeys. Corporate investment activities and other operations includes wholly-owned ETL Canada Holdings Limited ("Empire Theatres"); Kepec Resources Limited ("Kepec"), a joint venture with APL Oil and Gas Limited which has ownership interests in various oil and gas properties in Alberta; and a 27.6 percent ownership position in Wajax Income Fund ("Wajax").

With over $14 billion in annual revenue and approximately $5.8 billion in assets, Empire employs approximately 42,000 people directly and through its subsidiaries.

Acquisition of Thrifty Foods

On September 12, 2007, Sobeys acquired all the assets and assumed certain liabilities of Thrifty Foods for $253.6 million. The assets acquired consisted of 20 full-service supermarkets, a main distribution centre and a wholesale division on Vancouver Island and the lower mainland of British Columbia. The acquisition was accounted for using the purchase method with the results of Thrifty Foods being consolidated as of the acquisition date. The measurement and allocation of finite and infinite intangible assets, and goodwill (approximately $174.0 million of which is deductible for tax) was completed during the fourth quarter of fiscal 2008 and is outlined in Note 25 of the audited annual consolidated financial statements of the Company for fiscal 2008.

Sale Of 61 Properties To Crombie REIT

On April 22, 2008, the Company's real estate division sold 61 properties to Crombie REIT. Included in the proceeds were additional Class B Units of Crombie Limited Partnership (which are convertible on a one for one basis into Units of Crombie REIT). The investment in Class B Units maintained the Company's interest in Crombie REIT at

approximately 48 percent after Crombie REIT issued additional units as a result of the underwriting banks exercising their over-allotment option. The Company's investment in Crombie REIT is accounted using the equity method. Details of the sale are outlined in Note 3 of the audited annual consolidated financial statements of the Company for fiscal 2008.

As part of the transaction, Sobeys entered into new lease agreements (the "Sobeys Leases") with respect to their occupancy in a portion of the 61 commercial properties. The Sobeys Leases have terms of between 17 and 23 years (except for three leases which have an outside date of 12 years) (the "Outside Date"). Each Sobeys Lease is based on an initial term of two years and thereafter alternating between successive periods of three years and two years until the applicable Outside Date. The Outside Date may be extended at Sobeys' option by up to four consecutive further periods of five years each. The minimum rents under the Sobeys Leases will range from $8 per square foot to $14 per square foot with rental increases every five years.

Consolidated Operating Results

The consolidated financial overview provided below reports on the financial performance for the 13 and 26 weeks ended November 1, 2008 relative to the same periods last year.

Summary Table of Consolidated Financial Results

	13 Weeks Ended				26 Weeks Ended			
	Nov. 1, 2008		Nov. 3, 2007		**Nov. 1, 2008**		Nov. 3, 2007	
($ in millions, except per share information)	**$**	**% of Revenue**	$	% of Revenue	**$**	**% of Revenue**	$	% of Revenue
Revenue	**$ 3,727.9**	**100.00%**	$ 3,484.8	100.00%	**$ 7,506.1**	**100.00%**	$ 7,004.2	100.00%
Operating income	**113.4**	**3.04**	118.2	3.39	**240.9**	**3.21**	245.7	3.51
Operating earnings	**63.2**	**1.69**	59.9	1.72	**133.5**	**1.78**	120.3	1.72
Capital gains and other items, net of tax	**2.5**	**0.07**	(1.5)	(0.04)	**7.3**	**0.10**	80.4	1.15
Net earnings	**$ 65.7**	**1.76%**	$ 58.4	1.68%	**$ 140.8**	**1.88%**	$ 200.7	2.87%
Basic earnings per share								
Operating earnings	**$ 0.96**		$ 0.91		**$ 2.03**		$ 1.83	
Capital gains and other items, net of tax	**0.04**		(0.02)		**0.11**		1.23	
Net earnings	**$ 1.00**		$ 0.89		**$ 2.14**		$ 3.06	
Basic weighted average number of shares outstanding (in millions)	**65.6**		65.6		**65.6**		65.6	
Diluted earnings per share								
Operating earnings	**$ 0.96**		$ 0.91		**$ 2.03**		$ 1.83	
Capital gains and other items, net of tax	**0.04**		(0.02)		**0.11**		1.22	
Net earnings	**$ 1.00**		$ 0.89		**$ 2.14**		$ 3.05	
Diluted weighted average number of shares outstanding (in millions)	**65.7**		65.7		**65.7**		65.7	
Dividends per share	**$ 0.175**		$ 0.165		**$ 0.350**		$ 0.330	

Management's Explanation of Consolidated Results

The following is a review of Empire's consolidated financial performance for the 13 and 26 weeks ended November 1, 2008 compared to the 13 and 26 weeks ended November 3, 2007.

Revenue

Consolidated revenue for the second quarter of fiscal 2009 was $3.73 billion compared to $3.48 billion for the same quarter last year, an increase of $243.1 million or 7.0 percent.

For the second quarter ended November 1, 2008, the food retailing division contributed revenue of $3.66 billion versus $3.41 billion in the second quarter last year, an increase of $253.5 million or 7.4 percent. Sobeys' retail sales for the second quarter of fiscal 2009 were positively impacted by increased retail selling square footage from new stores, enlargements and the acquisition of Thrifty Foods on September 12, 2007, coupled with the continued implementation of sales and merchandising initiatives and moderate food price inflation.

Adjusting for the impact of the Thrifty Foods acquisition, second quarter sales growth for Sobeys and Empire consolidated would have been 5.5 percent and 5.0 percent, respectively. During the second quarter of fiscal 2009, the food retailing division's same-store sales growth (sales from stores in the same locations in both reporting periods) increased 5.4 percent.

Real estate revenue (net of inter-segment amounts) of $17.2 million declined $10.9 million or 38.8 percent in the second quarter of fiscal 2009 primarily as a result of a decrease in revenue from commercial operations due to the sale of 61 properties to Crombie REIT as discussed, along with lower residential property revenues due to weaker lot sales.

Investments and other operations reported revenues of $50.6 million in the second quarter of fiscal 2009 compared to $50.1 million in the second quarter of last year, an increase of $0.5 million or 1.0 percent.

Fiscal year-to-date consolidated revenue growth of $501.9 million or 7.2 percent was largely driven by a $524.0 million or 7.7 percent growth in food division sales over the comparable period last year, with same-store sales growth of 4.2 percent. Real estate revenues (net of inter-segment amounts) decreased $21.7 million or 34.2 percent while revenue from investment and other operations decreased by $0.4 million.

Sobeys' fiscal year-to-date sales were positively influenced by the acquisition of Thrifty Foods on September 12, 2007. Adjusting for the impact of the Thrifty Foods acquisition, fiscal year-to-date sales growth for Sobeys and Empire consolidated would have been 4.4 percent and 4.0 percent, respectively.

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

Operating Income

Consolidated operating income (earnings before capital gains and other items, minority interest, interest expense and income taxes) in the second quarter of fiscal 2009 totalled $113.4 million, a decrease of $4.8 million or 4.1 percent decrease from the second quarter last year.

The major contributors to the change in consolidated operating income from the second quarter last year are as follows:

- Sobeys' operating income contribution to Empire in the second quarter totalled $94.7 million, an increase of $3.9 million or 4.3 percent from the $90.8 million recorded in the second quarter last year. Included in Sobeys second quarter fiscal 2009 operating income contribution to Empire was a $6.2 million increase in depreciation and amortization expense, reflecting Sobeys continued capital investments.

- Commercial property operating income for the quarter was $4.5 million as compared to $11.7 million in the second quarter last fiscal year, a decline of $7.2 million. This decline is attributed to the sale of certain Sobey Leased Properties' assets (61 properties) to Crombie REIT on April 22, 2008 for total proceeds of $428.5 million as Sobey Leased Properties accounted for operating income of $7.3 million in the second quarter last fiscal year. The reduction in operating income from Sobey Leased Properties was partially offset through increased equity accounted earnings from our 47.9 percent interest in Crombie REIT which contributed $3.8 million to operating income in the second quarter versus a $2.4 million contribution in the second quarter last year, a $1.4 million increase.

- Residential property operating income contribution in the second quarter was $7.5 million, a decrease of $2.3 million from the $9.8 million recorded in the second quarter last year as a result of lower residential lot sales activity in Western Canada.

- Investments and other operations, net of corporate expenses, contributed operating income of $6.7 million in the second quarter compared to $5.9 million in the second quarter last year. Equity accounted earnings generated from the Company's 27.6 percent interest in Wajax amounted to $5.1 million in the second quarter versus $5.4 million last year. Operating income generated from other operations, net of corporate expenses, amounted to $1.6 million, up from $0.5 million in the second quarter last year.

Fiscal year-to-date operating income equalled $240.9 million, a decrease of $4.8 million or 2.0 percent which was attributed to an $18.9 million or 37.5 percent decline in real estate division operating income and a decrease in operating income from investments and other operations of $0.1 million or 1.1 percent, partially offset by an $14.2 million or 7.6 percent increase in food division operating income over the comparable period last year. The decline in real estate operating income is largely the result of the sale of 61 properties to Crombie REIT in the fourth quarter of fiscal 2008 as discussed (a $14.5 million impact).

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

Interest Expense

Interest expense in the second quarter amounted to $20.4 million, a decrease of $7.0 million or 25.5 percent compared to the $27.4 million recorded in the same quarter last year. For the 26 weeks ended November 1, 2008, interest expense amounted to $41.5 million, a decrease of $6.7 million over last year.

The decline in interest expense reflects the lower funded debt levels which are principally related to cash proceeds received on the sale of certain Sobey Leased Properties assets in the fourth quarter last year, along with lower interest rates on floating rate indebtedness. Consolidated funded debt was $1,475.8 million at the end of the second quarter of fiscal 2009 compared to $1,881.0 million at the end of the second quarter last year, a $405.2 million or 21.5 percent decrease.

Income Tax Expense

The effective income tax rate for the second quarter was 29.4 percent versus 32.7 percent in the second quarter of fiscal 2008. The effective income tax rate for the 26 weeks ended November 1, 2008 was 29.7 percent compared to 32.6 percent in the same period last fiscal year. The reduction in the effective income tax rate in fiscal 2009 largely relates to general federal corporate income tax rate reductions ranging from 1.0 to 3.5 percent, by January 2012, approved by the Canadian Government during the third quarter of fiscal 2008.

Minority Interest

In the second quarter of fiscal 2009, Empire recorded minority interest expense of $2.5 million compared to $1.2 million in the second quarter last year. The increase in minority interest expense is primarily related to Sobeys and the performance of it’s VIE stores relative to the same quarter last year.

On a fiscal year-to-date basis, Empire recorded minority interest expense of $6.6 million compared to $12.9 million in the same period last year. The decrease in minority interest expense is primarily the result of Empire increasing its ownership position in Sobeys to 100.0 percent on June 15, 2007 resulting in a weighted average ownership position in the first half of fiscal 2009 of 100.0 percent compared to a weighted average ownership position in the first half of last fiscal year of 93.7 percent.

Earnings before Capital Gains and Other Items

Empire recorded earnings before capital gains and other items for the second quarter of fiscal 2009 of $63.2 million compared to $59.9 million recorded in the second quarter last year. The $3.3 million or 5.5 percent improvement in earnings before capital gains and other items over the prior year was the result of a $7.0 million decrease in interest expense and a $2.4 million decrease in income taxes, partially offset by a $4.8 million decrease in operating income and an $1.3 million increase in minority interest expense, as discussed.

The $13.2 million or 11.0 percent increase in operating earnings in the first 26 weeks of the fiscal year is attributed to a $5.0 million decrease in income tax expense, a $6.3 million reduction in minority interest and a $6.7 million decrease in interest expense, partially offset by a $4.8 million decrease in operating income.

Capital Gains and Other Items

There were capital gains and other items, net of tax, of $2.5 million generated in the second quarter of fiscal 2009 compared to capital losses, net of tax, of $1.5 million generated during the second quarter last year. Capital gains and other items in the second quarter of fiscal 2009 were the result of the sale of non-core property. Second quarter fiscal 2008 capital losses and other items were primarily related to the adjustment recorded by Sobeys on its $30.0 million investment in ABCP.

On a fiscal year-to-date basis, the Company recorded capital gains and other items, net of tax, of $7.3 million largely as a result of the sale of non-core properties as compared to $80.4 million in the first half of last year as a result of the sale of the liquid portfolio.

Net Earnings

Consolidated net earnings in the second quarter equalled $65.7 million compared to $58.4 million in the second quarter last year. The increase in net earnings of $7.3 million or 12.5 percent compared to the second quarter of last year is attributed to the $3.3 million increase in earnings before capital gains and other items and the $4.0 million increase in realized capital gains and other items, net of tax, as discussed.

Net earnings for the 26 weeks ended November 1, 2008 totalled $140.8 million compared to the $200.7 million reported in the same period last year. The decrease in net earnings of $59.9 million compared to the second quarter of last year is attributed to the $73.1 million decrease in realized capital gains and other items, net of tax, partially offset by the $13.2 million increase in earnings before capital gains and other items, as discussed.

Quarterly Results of Operations

The following table is a summary of selected financial information from the Company's unaudited interim period consolidated financial statements for each of the eight most recently completed quarters.

	Fiscal 2009		Fiscal 2008				Fiscal 2007[1]	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
($ in millions, except per share information)	**(13 weeks) Nov. 1/08**	(13 weeks) Aug. 2/08	(13 weeks) May 3/08	(13 weeks) Feb. 2/08	(13 weeks) Nov. 3/07	(13 weeks) Aug. 4/07	(13 weeks) May 5/07	(13 weeks) Feb. 3/07
Revenue	**$ 3,727.9**	$ 3,778.2	$ 3,557.8	$ 3,503.0	$ 3,484.8	$ 3,519.4	$ 3,350.4	$ 3,281.9
Operating income	**113.4**	127.5	136.2	90.7	118.2	127.5	124.0	72.9
Operating earnings[2]	**63.2**	70.3	73.6	48.9	59.9	60.4	64.1	32.9
Capital gains (losses) and other items, net of tax	**2.5**	4.8	(7.1)	(0.3)	(1.5)	81.9	0.7	(1.0)
Net earnings	**$ 65.7**	$ 75.1	$ 66.5	$ 48.6	$ 58.4	$ 142.3	$ 64.8	$ 31.9
Per share information, diluted								
Operating earnings	**$ 0.96**	$ 1.07	$ 1.12	$ 0.73	$ 0.91	$ 0.92	$ 0.98	$ 0.49
Capital gains (losses) and other items, net of tax	**0.04**	0.07	(0.11)	0.01	(0.02)	1.24	0.01	(0.01)
Net earnings	**$ 1.00**	$ 1.14	$ 1.01	$ 0.74	$ 0.89	$ 2.16	$ 0.99	$ 0.48
Diluted weighted average number of shares outstanding (in millions)	**65.7**	65.7	65.7	65.7	65.7	65.7	65.7	65.7

(1) Amounts have been restated as a result of a reclassification and change with respect to deferred charges. Please see the sections entitled "Deferred Charges" in the annual MD&A as contained in Empire's 2008 Annual Report.

(2) Operating earnings is earnings before capital gains (losses) and other items.

Sales and operating earnings growth have been influenced by the Company's investing activities, the competitive environment, the economic environment, general industry trends and by other risk factors as outlined in the fiscal 2008 annual MD&A, as contained on pages 27 - 68 of the Company's 2008 Annual Report.

Operating Performance by Division

Food Retailing

Empire's food retailing division is carried out through its wholly-owned subsidiary, Sobeys.

Sobeys conducts business through more than 1,300 retail grocery stores (corporately owned and franchised) which operate in every province across Canada under retail banners that include Sobeys, IGA, IGA *extra*, Foodland, Price Chopper and Thrifty Foods, as well as Lawtons Drug Stores.

Sobeys' financial contribution to Empire during the second quarter reflects Empire's weighted average ownership of 100.0 percent for the quarter ended November 1, 2008 and November 3, 2007. The table below presents Sobeys' contribution to Empire's consolidated sales, operating income and net earnings:

	13 Weeks Ended				26 Weeks Ended			
($ in millions)	**Nov. 1, 2008**	Nov. 3, 2007	($) Change	(%) Change	**Nov. 1, 2008**	Nov. 3, 2007	($) Change	(%) Change
Sales	**$ 3,660.1**	$ 3,406.6	$ 253.5	7.4%	**$ 7,371.6**	$ 6,847.6	$ 524.0	7.7%
Operating income [(1)]	**94.7**	90.8	3.9	4.3%	**$ 200.2**	$ 186.0	$ 14.2	7.6%
Net earnings [(1)]	**54.0**	47.0	7.0	14.9%	**$ 111.6**	$ 91.9	$ 19.7	21.4%

(1) Adjusted for the impact of the amortization and depreciation of various items related to the privatization of Sobeys.

Sales

Food retailing division sales for the second quarter of fiscal 2009 were $3.66 billion compared to $3.41 billion for the same quarter last year, an increase of $253.5 million or 7.4 percent. During the second quarter of fiscal 2009 Sobeys' same-store sales (sales from stores in the same locations in both reporting periods) increased by 5.4 percent. Fiscal year-to-date sales increased 7.7 percent or $524.0 million from the prior year, with same-store sales growth of 4.2 percent.

Sobeys' retail sales growth was the direct result of increased retail selling square footage from new stores, store enlargements and the acquisition of Thrifty Foods on September 12, 2007, coupled with the continued implementation of sales and merchandising initiatives and moderate food price inflation.

As shown in the table below, excluding the impact of the Thrifty Foods acquisition, second quarter sales growth for Sobeys would have been 5.5 percent over the second quarter last year and fiscal year-to-date sales growth would have been 4.4 percent.

	13 Weeks Ended				26 Weeks Ended			
($ in millions)	**Nov. 1, 2008 ($)**	Nov. 3, 2007 ($)	($) Change	(%) Change	**Nov. 1, 2008 ($)**	Nov. 3, 2007 ($)	($) Change	(%) Change
Sobeys' financially reported sales	**$ 3,660.1**	$ 3,406.6	$ 253.5	7.4%	**$ 7,371.6**	$ 6,847.6	$ 524.0	7.7%
Impact of Thrifty acquistion			(67.5)				(224.8)	
			$ 186.0	5.5%			$ 299.2	4.4%

Business Process and Information System Transformation and Rationalization Costs

In fiscal 2006, Sobeys began its business process and information systems transformation plan by focusing on the significant opportunity to upgrade information processing and decision support capabilities. The system and processes that were implemented were developed over several years and were focused on standardizing and streamlining the "back shop" in support of Sobeys' food focused strategy. These changes allow Sobeys to leverage technology investments, improve efficiencies and are expected to lower costs over the long-term.

Sobeys completed the implementation of this system in Ontario during the third quarter of fiscal 2007 and in Western Canada during the second quarter of fiscal 2008. The business process and system initiative costs primarily included labour, implementation and training costs associated with these initiatives. For the 13 weeks ended November 1, 2008 there were no pre-tax costs incurred related to these initiatives ($4.8 million in the second quarter of fiscal 2008).

These implementations support all aspects of the business including operations, merchandising, distribution and finance. It is an important enabler of further initiatives such as a new distribution facility in Ontario that was announced on November 21, 2006.

When opened in the first quarter of fiscal 2010, the new distribution centre, located in Vaughan, Ontario, will utilize automation technology and is expected to significantly increase Sobeys' warehouse and distribution capacity while reducing overall distribution costs and improving service to its store network and customers. During the third quarter of fiscal 2007, Sobeys recognized $5.3 million of severance costs related to the development of this automated facility.

During the second quarter and first half of fiscal 2009, Sobeys recognized $2.5 million and $7.4 million of severance costs, respectively, related to the development of this automated facility, which also included the severance costs associated with a rationalization of certain administrative functions in Ontario. The new distribution centre is expected to provide annual distribution savings in excess of these costs and any additional business rationalization or restructuring costs incurred leading up to its opening.

During the first quarter of fiscal 2008, Sobeys also performed a rationalization of administrative functions in its National and other regional departments. An additional $2.2 million of rationalization costs were incurred in the first half of fiscal 2009 ($1.2 million in the first half of fiscal 2008).

Sobeys expects to incur additional administrative rationalization costs in the remainder of fiscal 2009, enabled by its continuing business process and systems initiative. The dollar value of these additional costs will be quantified and disclosed throughout fiscal 2009.

Operating Income

Sobeys reported operating income of $96.0 million during the second quarter of fiscal 2009, a $4.2 million or 4.6 percent increase from the second quarter last year. Operating income margin in the second quarter equalled 2.62 percent compared to 2.69 percent in the second quarter of fiscal 2008. Reported operating income for Sobeys during the second quarter of fiscal 2009 included a $5.5 million increase in depreciation and amortization expense over the same quarter last year, reflecting Sobeys' continued capital investments.

After adjusting for the impact of the amortization and depreciation of various items related to the privatization as discussed, Sobeys' operating income contribution to Empire in the second quarter of fiscal 2009 was $94.7 million (second quarter of fiscal 2008 - $90.8 million). Sobeys' operating income margin in the second quarter after adjusting for above items equalled 2.59 percent compared to 2.67 percent in the second quarter of fiscal 2008.

For the 26 weeks ended November 1, 2008, Sobeys' reported operating income increased by $15.2 million to $202.8 million, an increase of 8.1 percent over the $187.6 million reported last year. Operating income as a percent of sales was 2.75 percent for the fiscal year-to-date compared to 2.74 for the same period last year. Reported operating income for Sobeys during the first half of fiscal 2009 included a $16.3 million increase in depreciation and amortization expense over the same period last year.

After adjusting for the impact of the amortization and depreciation of various items related to the privatization as discussed, Sobeys' operating income contribution to Empire in the first half of fiscal 2009 was $200.2 million (first half of fiscal 2008 - $186.0 million). Sobeys' operating income margin for the fiscal year-to-date after adjusting for above items equalled 2.72 percent compared to 2.72 percent for the same period last year.

Net Earnings

Sobeys' recorded second quarter fiscal 2009 net earnings of $54.9 million, an increase of $7.2 million or 15.1 percent compared to the $47.7 million recorded in the second quarter of fiscal 2008, which included a $3.0 million pre-tax change in the fair value of Canadian third-party ABCP.

Adjusting for the impact of the depreciation and amortization related to the privatization and the related tax impact, Sobeys contributed net earnings of $54.0 million to Empire for the second quarter of fiscal 2009, an increase of $7.0 million or 14.9 percent over the $47.0 million recorded last year.

For the 26 weeks ended November 1, 2008, Sobeys' reported net earnings of $113.4 million, an increase of $13.9 million or 14.0 percent compared to the $99.5 million recorded in the same period last fiscal year.

Adjusting for the impact of the depreciation and amortization related to the privatization and the related tax impact, as well as for the change in Empire's weighted average of ownership position in Sobeys (100.0 percent in the first half of fiscal 2009 compared to 93.7 percent in the first half of last fiscal year), the food retailing division contributed net earnings of $111.6 million to Empire for the second quarter of fiscal 2009, an increase of $19.7 million or 21.4 percent over the $91.9 million recorded last year.

Real Estate

Empire's real estate operations are focused on the development of food-anchored shopping plazas, ownership of retail and office properties through a 47.9 percent ownership interest in Crombie REIT and residential land development through its ownership interest in Genstar.

Commercial real estate operations are conducted through ECL and its wholly-owned subsidiary, ECL Developments, while residential land development is primarily conducted through Genstar, which operates principally in high growth communities in Ontario and Western Canada.

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

	13 Weeks Ended				26 Weeks Ended			
($ in millions)	**Nov. 1, 2008**	Nov. 3, 2007	($) Change	(%) Change	**Nov. 1, 2008**	Nov. 3, 2007	($) Change	(%) Change
Revenue (net of inter-segement amounts)								
Sobeys Leased Properties[1]	**$ -**	$ 5.2	$ (5.2)	(100.0%)	**$ -**	$ 10.5	$ (10.5)	(100.0%)
Other commercial	**3.5**	5.2	(1.7)	(32.7%)	**8.1**	10.1	(2.0)	(19.8%)
Inter-segment	**0.5**	8.5	(8.0)	(94.1%)	**0.8**	16.5	(15.7)	(95.2%)
Residential	**13.7**	17.7	(4.0)	(22.6%)	**33.7**	42.9	(9.2)	(21.4%)
	17.7	36.6	(18.9)	(51.6%)	**42.6**	80.0	(37.4)	(46.8%)
Elimination	**(0.5)**	(8.5)	(32.6)	(94.1%)	**(0.8)**	(16.5)	(64.3)	(95.2%)
	$ 17.2	$ 28.1	$ (10.9)	(38.8%)	**$ 41.8**	$ 63.5	$ (21.7)	(34.2%)
Operating income								
Sobeys Leased Properties[1]	**$ -**	$ 7.3	$ (7.3)	(100.0%)	**$ -**	$ 14.5	$ (14.5)	(100.0%)
Crombie REIT[2]	**3.8**	2.4	1.4	58.3%	**8.4**	6.3	2.1	33.3%
Other commercial	**0.7**	2.0	(1.3)	(65.0%)	**1.9**	3.8	(1.9)	(50.0%)
Residential	**7.5**	9.8	(2.3)	(23.5%)	**21.2**	25.8	(4.6)	(17.8%)
	$ 12.0	$ 21.5	$ (9.5)	(44.2%)	**$ 31.5**	$ 50.4	$ (18.9)	(37.5%)
Net earnings								
Commercial	**$ 5.4**	$ 5.0	$ 0.4	8.0%	**$ 12.9**	$ 11.0	$ 1.9	17.3%
Residential	**4.9**	6.6	(1.7)	(25.8%)	**14.5**	17.3	(2.8)	(16.2%)
	$ 10.3	$ 11.6	$ (1.3)	(11.2%)	**$ 27.4**	$ 28.3	$ (0.9)	(3.2%)
Funds from operations[3]								
Commercial	**$ 2.6**	$ 6.9	$ (4.3)	(62.3%)	**$ 6.1**	$ 14.4	$ (8.3)	(57.6%)
Residential	**4.9**	6.6	(1.7)	(25.8%)	**14.5**	17.5	(3.0)	(17.1%)
	$ 7.5	$ 13.5	$ (6.0)	(44.4%)	**$ 20.6**	$ 31.9	$ (11.3)	(35.4%)

(1) On April 22, 2008, Sobey Leased Properties sold 61 properties to Crombie REIT with the remaining assets of Sobey Leased Properties transferred to Sobeys.

(2) Equity accounted earnings in 47.9 percent owned Crombie REIT.

(3) Operating earnings excluding capital gains plus depreciation.

Revenue

Real estate division revenue (net of inter-segment amounts) in the second quarter was $17.2 million, a decrease of $10.9 million from the $28.1 million recorded in the second quarter last year. Commercial property revenue declined by $6.9 million while residential property revenue decreased by $4.0 million from the second quarter last year. The decline in commercial property revenue in the second quarter was primarily due to the sale of 61 properties to Crombie REIT in the fourth quarter of last fiscal year ($5.2 million impact). The decline in residential property revenue was also expected, largely reflecting a slowdown in residential lot sales in Western Canada.

On a fiscal year-to-date basis, real estate division revenue (net of inter-segment amounts) declined $21.7 million or 34.2 percent from the $63.5 million in the comparable period last year. The decrease was the result of the items mentioned above affecting the second quarter.

Operating Income

Second quarter real estate division operating income was $12.0 million versus $21.5 million in the same quarter last year. The $9.5 million decline in real estate division operating income is largely as a result of a $7.3 million decrease in operating income from Sobey Leased Properties. The decrease in Sobey Leased Properties operating income is attributed to the sale of 61 properties to Crombie REIT in the fourth quarter last year with the remaining properties transferred to Sobeys. Other commercial property operating income declined by $1.3 million as a result of the sale of certain non-core properties and higher general and administrative expenses. Residential property operating income declined by $2.3 million as a result of lower residential lot sales activity in Western Canada, as mentioned. Equity accounted earnings from Empire's 47.9 percent interest in Crombie REIT increased $1.4 million largely as a result of the effect of purchasing the 61 Sobey Leased Properties in the fourth quarter last fiscal year.

For the 26 weeks ended November 1, 2008, the real estate division contributed operating income of $31.5 million compared to $50.4 million last fiscal year. The decrease of $18.9 million or 37.5 percent was the result of a decline in operating income contribution from Sobey Leased Properties of $14.5 million, a decline in operating income from residential activities of $4.6 million and a decline in the operating income from other commercial operations of $1.9 million, partially offset by an increase of $2.1 million in the equity earnings contribution by Crombie REIT.

Capital Gains

Capital gains, net of tax, for the real estate division amounted to $2.9 million in the second quarter of fiscal 2009 as a result of the sale of commercial properties that were deemed non-core. There were capital losses in the second quarter last year for the real estate division of $0.1 million.

Capital gains, net of tax, for the real estate division amounted to $6.9 million for the fiscal year-to-date as a result of the sale of commercial properties that was deemed non-core. Capital losses for the fiscal year-to-date last year were $0.1 million.

Net Earnings

Real estate division net earnings contribution to Empire in the second quarter amounted to $10.3 million compared to $11.6 million last year, a $1.3 million or 11.2 percent decrease. The earnings decline largely reflects the $9.5 million decrease in operating income as discussed, partially offset by a $3.5 million reduction in interest expense, a $3.0 million increase in net capital gains and a decrease in income taxes of $1.7 million.

Real estate division net earnings contribution in the fiscal year-to-date amounted to $27.4 million compared to $28.3 million in the same period last fiscal year, a $0.9 million or 3.2 percent decrease. The earnings decrease largely reflects an $18.9 million decrease in operating income, partially offset by a $6.8 million reduction in interest expense, a $7.0 million increase in net capital gains and a decrease in income taxes of $4.2 million.

Funds from Operations

Funds from operations in the second quarter of $7.5 million decreased $6.0 million or 44.4 percent compared to funds from operations in the second quarter of last fiscal year as a result of the decline in operating earnings. Trailing (last four quarters) funds from operations for the real estate division was $53.1 million, a decrease of 10.2 percent from the trailing (last four quarters) funds from operations of $59.1 million reported as on August 2, 2008.

Investments and Other Operations

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

Investment Value

At the end of the second quarter, Empire's total investments, excluding its investment in Genstar U.S. investments and in Crombie REIT, carried a market value of $111.2 million on a cost base of $34.0 million, resulting in an unrealized pre-tax gain of $77.2 million.

The table below presents a reconciliation of the consolidated balance sheet investments, both equity and cost:

	Nov. 1, 2008			May 3, 2008			Nov. 3, 2007		
(in millions)	**Market Value**	**Carrying Value**	**Unrealized Gain**	Market Value	Carrying Value	Unrealized Gain	Market Value	Carrying Value	Unrealized Gain
Investments	**$ 1.3**	**$ 1.3**	**$ -**	$ 1.6	$ 1.6	$ -	$ 1.6	$ 1.6	$ -
Investments, at equity	**312.1**	**38.1**	**274.0**	429.6	41.4	388.2	409.3	138.9	270.4
Total Investments	**313.4**	**39.4**	**274.0**	431.2	43.0	388.2	410.9	140.5	270.4
Less: Crombie REIT	**202.1**	**5.3**	**196.8**	275.9	9.5	266.4	249.8	105.4	144.4
Less: Genstar U.S. [(1)]	**0.1**	**0.1**	**-**	0.3	0.3	-	0.6	0.6	-
	$ 111.2	**$ 34.0**	**$ 77.2**	$ 155.0	$ 33.2	$ 121.8	$ 160.5	$ 34.5	$ 126.0

(1) Assumes market value equals book value.

There were realized pre-tax capital losses in the second quarter of fiscal 2009 of $0.6 million compared to realized pre-tax capital gains of $0.7 million in the same quarter last year. On a fiscal year-to-date basis, realized pre-tax capital gains were $0.4 million in the current fiscal year compared to $101.3 million in the same period last year. The year-to-date capital gains for last year were primarily related to the sale of the liquid investment portfolio in the first quarter of last fiscal year.

Portfolio Composition

At November 1, 2008, Empire's investment portfolio (excluding cash and equity accounted investments in Crombie REIT and Genstar U.S.) consisted of:

				Unrealized Gain		
($ in millions)	**Market Value**	**% of Total**	**Cost**	**Nov. 1, 2008**	May 3, 2008	Nov. 3, 2007
Wajax	**$ 109.9**	**98.8%**	**$ 32.7**	**$ 77.2**	$ 121.8	$ 126.0
Preferred shares & other	**1.3**	**1.2%**	**1.3**	**-**	-	-
Total	**$ 111.2**	**100.0%**	**$ 34.0**	**$ 77.2**	$ 121.8	$ 126.0

The table below presents investments and other operation's financial highlights for the 13 and 26 weeks ended November 1, 2008 compared to the same period last year:

	13 Weeks Ended				26 Weeks Ended			
($ in millions)	**Nov. 1, 2008**	Nov. 3, 2007	($) Change	(%) Change	**Nov. 1, 2008**	Nov. 3, 2007	($) Change	(%) Change
Revenue	**$ 50.6**	$ 50.1	$ 0.5	1.0%	**$ 92.7**	$ 93.1	$ (0.4)	(0.4%)
Operating Income								
Wajax Income Fund	**5.1**	5.4	(0.3)	(5.6%)	**10.6**	9.6	1.0	10.4%
Other operations, net of corporate expenses	**1.6**	0.5	1.1	220.0%	**(1.4)**	(0.3)	(1.1)	366.7%
Total operating income	**6.7**	5.9	0.8	13.6%	**9.2**	9.3	(0.1)	(1.1%)
Operating earnings	**1.8**	(0.7)	2.5	-	**1.4**	(1.9)	3.3	-
Capital gains and other items, net of tax	**(0.4)**	0.5	(0.9)	-	**0.4**	82.4	(82.0)	(99.5%)
Net earnings	**$ 1.4**	$ (0.2)	$ 1.6	-	**$ 1.8**	$ 80.5	$ (78.7)	(97.8%)

Revenue

Investments and other operations' revenue, primarily generated by Empire Theatres, equalled $50.6 million in the second quarter ended November 1, 2008 versus $50.1 million in the second quarter last fiscal year, an increase of $0.5 million or 1.0 percent.

Fiscal year-to-date revenues, for investments and other operations, decreased $0.4 million or 0.4 percent from the comparable period last year to reach $92.7 million.

Operating Income

Investments and other operations' operating income, net of corporate expenses, was $6.7 million in the second quarter ended November 1, 2008 compared to $5.9 million in the second quarter last fiscal year. Equity accounted earnings generated from the Company's 27.6 percent interest in Wajax amounted to $5.1 million in the second quarter versus $5.4 million last year, a 5.6 percent decrease. Operating income generated from other operations, net of corporate expenses, increased to $1.6 million from $0.5 million in the second quarter last year, with the most significant factor being higher operating income from Empire Theatres.

For the 26 weeks ended November 1, 2008, investments and other operations, net of corporate expenses, contributed operating income of $9.2 million, essentially unchanged from to the $9.3 million recorded in the same period last year. A decline in operating income generated from other operations, net of corporate expenses of $1.1 million was partially offset by equity accounted earnings from Wajax increasing by $1.0 million.

Operating Earnings

Investments and other operations' operating earnings, net of corporate expenses, equalled $1.8 million in the second quarter of fiscal 2009 compared to a loss of $0.7 million in the same quarter last year, an increase of $2.5 million. This increase was largely the result of stronger operating performance by Empire Theatres and from lower interest expense due to the reduced funded debt outstanding in the second quarter of fiscal 2009 compared to the same quarter last year. Corporate expenses, including depreciation, amounted to $2.9 million in the second quarter unchanged from the same quarter last year.

For the 26 weeks ended November 1, 2008 investments and other operations' operating earnings, net of corporate expenses, equalled $1.4 million compared to a loss of $1.9 million last fiscal year, an increase of $3.3 million. This increase was largely the result of lower interest expense, as discussed.

Capital Gains

During the second quarter of fiscal 2009, there were capital losses, net of tax of $0.4 million compared to capital gains, net of tax, of $0.5 million. The capital gains in the second quarter for both this fiscal year and last fiscal year were primarily foreign exchange related.

On a fiscal year-to-date basis, capital gains, net of tax, on the sale of investments equalled $0.4 million as compared to $82.4 million last fiscal year-to-date. The capital gains, net of tax, recorded for the fiscal year-to-date are primarily due to the sale of a non-core Theatre location in the first quarter of fiscal 2009. The bulk of the net capital gains recorded for the fiscal year-to-date last year were related to the sale of the liquid investment portfolio.

Net Earnings

Investments and other operations, net of corporate expenses, contributed $1.4 million to Empire's consolidated second quarter fiscal 2009 net earnings. This compares to a $0.2 million net loss in the second quarter last year. This improvement is largely the result of stronger operating performance by Empire Theatres and lower interest expense as discussed.

For the 26 weeks ended November 1, 2008 investments and other operations, net of corporate expenses, contributed $1.8 million to Empire's consolidated net earnings as compared to $80.5 million in the same period last year. The decrease is primarily the result of the capital gains, net of tax, realized in the first quarter of last year related to the sale of the liquid investment portfolio.

Financial Condition

Capital Structure and Key Financial Condition Measures

The Company's financial condition at the end of the second quarter remained healthy as indicated by the capital structure and key financial condition measures in the table below.

($ in millions, except per share and ratio calculations)	**Nov. 1, 2008**	May 3, 2008	Nov. 3, 2007
Shareholders' equity	**$ 2,469.8**	$ 2,382.3	$ 2,297.0
Book value per share	**$ 37.50**	$ 36.14	$ 34.84
Minority interest	**$ 37.0**	$ 37.6	$ 45.1
Bank indebtedness	**$ 40.5**	$ 92.1	$ 26.9
Long-term debt, including current portion (1)	**$ 1,435.3**	$ 1,481.4	$ 1,854.1
Total assets	**$ 5,778.6**	$ 5,732.9	$ 5,893.0
Funded debt to total capital	**37.4%**	39.8%	45.0%
Net funded debt to capital ratio (2)	**34.5%**	36.7%	43.2%
Funded debt to EBITDA (3)	**1.88x**	2.02x	2.56x
EBITDA to interest expense (3)	**7.93x**	7.35x	9.35x

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

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

(3) Calculation uses trailing 12-month EBITDA and interest expense.

Shareholders' Equity

The Company's share capital on November 1, 2008 consisted of:

	Authorized Number of Shares	**Issued and Outstanding Number of Shares**	**$ Millions**
Preferred shares, par value $25 each, issuable in series	2,683,200	169,100	$ 4.2
2002 Preferred shares par value $25 each, issuable in series	992,000,000	-	-
Non-Voting Class A shares, without par value	259,107,435	31,484,498	185.1
Class B common shares, without par value, voting	40,800,000	34,260,763	7.6
			$ 196.9
Employees' Share Plan			(3.4)
			$ 193.5

Total Non-Voting Class A plus Class B common shares outstanding at November 1, 2008 equalled 65,745,261, unchanged from the end of fiscal 2008 and November 3, 2007. During fiscal 2008, 300,000 Class B common shares were exchanged for 300,000 Non-Voting Class A shares of Empire.

At November 1, 2008, Empire had 282,733 options outstanding compared to no options outstanding at November 3, 2007.

There were no Empire Non-Voting Class A shares issued in the second quarter of fiscal 2009 or in the second quarter last year. During the first quarter of last year, 10,461 Non-Voting Class A shares were issued under Empire's share purchase plan to certain officers and employees for $0.4 million. There were no Empire Non-Voting Class A shares purchased in the first half of fiscal 2009 or fiscal 2008.

During the second quarter of fiscal 2009, the Company purchased for cancellation 33,000 Series 2 Preferred shares for $0.9 million compared to 34,000 Series 2 Preferred shares purchased for cancellation in the second quarter of last year for $0.8 million. On a fiscal year-to-date basis, the Company purchased for cancellation 89,100 Series 2 Preferred shares for $2.3 million compared to 34,000 Series 2 Preferred shares purchased in the same period last year for $0.8 million. The Company plans to purchase on a best efforts basis an additional 69,100 Series 2 Preferred shares by the end of calendar 2008.

As at December 11, 2008, the Company had Non-Voting Class A and Class B common shares outstanding of 31,484,498 and 34,260,763, respectively. In addition, Empire had 282,733 options outstanding as of December 11, 2008.

Dividends paid to common shareholders amounted to $11.6 million in the second quarter ($0.175 per share) versus $10.9 million ($0.165 per share) in the second quarter last fiscal year. Dividends paid to common shareholders amounted to $23.1 million in the first half of fiscal 2009 ($0.35 per share) versus $21.6 million ($0.33 per share) in the same period last fiscal year.

Liabilities

Historically, Empire has financed a significant portion of its assets through the use of long-term debt. Longer-term assets are generally financed with fixed rate, long-term debt, thereby reducing both interest rate and refinancing risk. Total long-term debt (including the current portion of long-term debt) at November 1, 2008 was $1,435.3 million, representing 97.3 percent of Empire's total funded debt of $1,475.8 million. Funded debt has decreased $97.7 million since the end of the fiscal year, May 3, 2008 ($1,573.5 million) and by $405.2 million since the second quarter last year ($1,881.0 million). The significant decrease over the second quarter last fiscal year is primarily the result of repaying debt with cash proceeds from the sale of 61 properties to Crombie REIT in the fourth quarter of fiscal 2008. Since the second quarter last year, the consolidated funded debt to total capital ratio has improved by 7.6 percentage points to 37.4 percent as a result of the repayment of debt as discussed. Management expects the funded debt to capital ratio to improve further in fiscal 2009.

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

Long-term debt (including current portion) ($ in millions)	**Nov. 1, 2008**	May 3, 2008	Nov. 3, 2007
Food retailing	**$ 1,026.5**	$ 1,010.2	$ 1,094.9
Real estate	**47.8**	50.7	216.4
Investments and other operations	**361.0**	420.5	542.8
Total	**$ 1,435.3**	$ 1,481.4	$ 1,854.1

For additional disclosure on Empire's bank indebtedness and long-term debt, see Notes 11 and 12 to the Company's annual audited financial statements for fiscal 2008 as detailed on pages 87 and 88 of the Company's Fiscal 2008 Annual Report and Note 5 to the Company's unaudited interim consolidated second quarter fiscal 2009 financial statements.

DBRS and S&P placed Sobeys' credit ratings under review when the privatization of Sobeys was announced. In the first quarter of fiscal 2008, both S&P and DBRS downgraded Sobeys' credit rating and both downgraded Sobeys' trend to negative. During the first quarter of fiscal 2009, both agencies changed their trends from negative to stable.

Empire's EBITDA to interest expense ratio in the second quarter was 7.9 times, up slightly from the 7.4 times recorded at fiscal year-end and down from the 9.3 times recorded for the second quarter last fiscal year. The decline over the same quarter last year is due to the higher interest expense related to the debt incurred to privatize Sobeys and acquire Thrifty Foods, as discussed.

Empire and its subsidiaries have provided covenants to its lenders in support of various financing facilities. All covenants were complied with for the 13 weeks ended November 1, 2008 and for fiscal 2008.

Financial Instruments

Empire utilizes interest rate instruments from time to time to prudently manage its exposure to interest rate volatility and also to fix future long-term debt maturities that are expected to be refinanced. At November 1, 2008, there were four interest rate hedges in place with Empire or one of its operating companies. On June 18, 2007, Empire entered into two delayed fixed rate interest swaps. The first swap in an amount of $200.0 million is three years in duration and carries a fixed interest rate of 4.998 percent. The second swap in an amount of $200.0 million is for a period of five years at a fixed interest rate of 5.051 percent. Both swaps became effective on July 23, 2007. Empire later transferred the second swap to Sobeys. Empire Theatres entered into two interest rate swaps on December 27, 2006, which fixed the interest rate on $20.0 million of the floating rate debt at 4.28 percent, plus a stamping fee for a five-year term. The fair value of these four interest rate swaps at November 1, 2008 was negative $27.2 million.

The Company also uses forward contracts to fix the exchange rate on some of its expected requirements for Euros and U.S. dollars. As of November 1, 2008, due to a devaluation of the Euro relative the Canadian dollar, Sobeys had recognized a liability of $0.1 million representing the fair value of three Euro denominated forward currency contracts.

In July 2008, Sobeys entered into a floating-for-floating currency swap with a fixed rate of $1.015 CAD/USD to mitigate the currency risk associated with a U.S. dollar denominated variable rate lease. The terms of the swap match the lease terms. As of November 1, 2008, Sobeys recognized an asset of $1.8 million relating to this instrument.

To mitigate the risk of changes in the market price of electricity, the Company uses financial derivative swap contracts with varying maturities as hedges against the rising costs. As of November 1, 2008, the Company recognized a liability of $1.8 million relating to these instruments.

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

Liquidity and Capital Resources

The Company maintains the following sources of liquidity:

- Cash and cash equivalents on hand;
- Unutilized bank credit facilities; and
- Cash generated from operating activities.

At November 1, 2008, cash and cash equivalents were $174.1 million versus $133.1 million at November 3, 2007 and $191.4 million at fiscal year-end, May 3, 2008.

At the end of the second quarter of fiscal 2009, on a non-consolidated basis, Empire maintained authorized bank lines for operating, general and corporate purposes of $650 million, of which approximately $346 million or 53 percent were utilized. Empire's non-consolidated credit facility of $650 million matures on June 8, 2010. It is Empire's intention to renew or replace this credit facility prior to its maturity. However, given the current credit environment, the terms of the renewed or replacement credit facility may not be as favorable as those of the in-place facility.

On a consolidated basis, Empire's authorized bank credit facilities exceeded borrowings by approximately $780 million at November 1, 2008 versus $691 million at May 3, 2008.

On October 22, 2008, Sobeys established a new unsecured revolving term credit facility of $30.0 million maturing January 15, 2009 in place of the non-revolving facility that matured on October 14, 2008. This facility has not yet been utilized; however, the interest rate will be floating and may be tied to the bankers' acceptance rate, Canadian prime rate or LIBOR. The Company is exposed to interest rate risk when arranging new debt as well as on certain floating interest rate credit facilities.

Given the recent developments in the financial markets, the Company's access to new avenues of credit, both short-term and long-term, may be limited for the foreseeable future. The Company anticipates that the above mentioned in-place sources of liquidity will meet its short-term and long-term financial requirements. The Company also mitigates potential liquidity risk by ensuring its various sources of funds are diversified by term to maturity and source of credit.

The table below highlights major cash flow components for the 13 and 26 weeks ended November 1, 2008 compared to the 13 and 26 weeks ended November 3, 2007.

Major Cash Flow Components:

	13 Weeks Ended		26 Weeks Ended	
($ in millions)	**Nov. 1, 2008**	Nov. 3, 2007	**Nov. 1, 2008**	Nov. 3, 2007
Earnings for common shareholders	**$ 65.7**	$ 58.3	**$ 140.7**	$ 200.5
Items not affecting cash	**78.6**	70.4	**165.1**	161.4
	144.3	128.7	**305.8**	361.9
Net change in non-cash working capital	**(25.7)**	(29.3)	**(39.7)**	(63.0)
Cash flows from operating activities	**118.6**	99.4	**266.1**	298.9
Cash flows used investing activities	**(57.2)**	(439.8)	**(151.2)**	(1,416.9)
Cash flows (used in) from financing activities	**(57.7)**	151.5	**(132.2)**	956.2
Increase (decrease) in cash and cash equivalents	**$ 3.7**	$ (188.9)	**$ (17.3)**	$ (161.8)

Operating Activities

Second quarter cash flows from operating activities equalled $118.6 million compared to $99.4 million in the comparable period last year. The increase of $19.2 million is largely attributed to increased net earnings available for common shareholders of $7.4 million as discussed, an increase in items not affecting cash of $8.2 million and an increase in the net change in non-cash working capital of $3.6 million.

On a fiscal year-to-date basis, cash flows from operating activities equalled $266.1 million compared to $298.9 million in the comparable period last year. The decrease of $32.8 million is attributed to a decrease in net earnings available for common shareholders of $59.8 million as discussed, partially offset by an increase in the net change in non-cash working capital of $23.3 million and an increase in items not affecting cash of $3.7 million. Net earnings to common shareholders in the first half of last fiscal year benefited from a net after-tax gain on the sale of investments of $81.9 million.

The following table presents the non-cash working capital for the second quarter of fiscal 2009 compared to the first quarter of fiscal 2009 and the change in non-cash working capital over the 13 weeks ended November 1, 2008 compared to the change in non-cash working capital over the 13 weeks ended November 3, 2007.

Non-Cash Working Capital (Quarter-Over-Quarter)			13 weeks ended	
			Nov. 1, 2008 Increase (Decrease) in Cash Flows	Nov. 3, 2007 Increase (Decrease) in Cash Flows
($ in millions)	**Nov. 1, 2008**	Aug. 2, 2008		
Receivables	**$ 311.0**	$ 292.0	$ (19.0)	$ (6.5)
Inventories	**875.5**	815.6	(59.9)	(81.9)
Prepaid expenses	**60.6**	69.9	9.3	2.6
Accounts payable and accrued liabilities	**(1,392.3)**	(1,372.7)	19.6	24.4
Income taxes payable	**(30.4)**	(9.2)	21.2	24.5
Impact of reclassifications on working capital[(1)]	**(3.1)**	-	3.1	7.6
Total	**$ (178.7)**	$ (204.4)	$ (25.7)	$ (29.3)

(1) Reclassifications primarily relate to business acquistions and rationalization costs and the adoption of the new inventory policy further explained on page 41.

The following table presents the non-cash working capital for the second quarter of fiscal 2009 compared to the second quarter of fiscal 2008 and the change in non-cash working capital over the 52 weeks ended November 1, 2008.

Non-Cash Working Capital (Year-Over-Year)			52 weeks ended Nov. 1, 2008 Increase (Decrease) in Cash Flows
($ in millions)	**Nov. 1, 2008**	Nov. 3, 2007	
Receivables	**$ 311.0**	$ 281.8	$ (29.2)
Inventories	**875.5**	838.0	(37.5)
Prepaid expenses	**60.6**	71.5	10.9
Accounts payable and accrued liabilities	**(1,392.3)**	(1,297.7)	94.6
Income taxes payable	**(30.4)**	(29.4)	1.0
Impact of reclassifications on working capital[(1)]	**62.2**	-	(62.2)
Total	**$ (113.4)**	$ (135.8)	$ (22.4)

(1) Reclassifications primarily relate to business acquistions and rationalization costs and the adoption of the new inventory policy further explained on page 41.

In the second quarter, the net change in non-cash working capital of negative $25.7 million was largely due to an inventory increase of $59.9 million and an increase in receivables of $19.0 million, partially offset by an income taxes payable increase of $21.2 million, a $19.6 million increase in accounts payable and accrued liabilities, a prepaid expense decrease of $9.3 million and the impact of reclassifications on working capital totalling $3.1 million.

The increase in accounts payable and accrued liabilities is mainly related to a $17.2 million increase at Sobeys which reflects increased inventory levels at Sobeys as well as increased operations. The increase in inventories is primarily related to an increase of $59.1 million at Sobeys which is the result of increased inventory requirements in as Sobeys prepares to meet its December selling requirements and is also necessary to support Sobeys' higher sales volume due to increased square footage in its expanded store network.

Compared to the second quarter of fiscal 2008, inventories increased $37.5 million and receivables increased $29.2 million while accounts payable and accrued liabilities increased by $94.6 million, prepaid expenses decreased $10.9 million and income taxes payable increased by $1.0 million.

The increase in inventory and related accounts payable and accrued liabilities is necessary to support Sobeys' higher sales volume due to the increased amount of square footage in its expanded store network. The increase in inventory is partially offset by the adoption of the new inventory policy as explained in the "Accounting Policy Changes" section of this MD&A. The impact of this policy on cash flow is reflected in the impact of reclassifications on working capital.

Investing Activities

Cash used in investing activities of $57.2 million in the second quarter was $382.6 million lower than in the second quarter of last fiscal year. The decrease in cash used in investing activities was largely the result of the acquisition of Thrifty Foods in the second quarter of last year for $253.6 million and the decrease of $49.1 million in property and equipment purchases in the current quarter compared to the same quarter last year.

Cash used in investing activities of $151.2 million in the first half of fiscal 2009 was $1,265.7 million lower than in the first half of last fiscal year. The decrease in cash used in investing activities was largely the result of the privatization of Sobeys in the first quarter of last fiscal year for $1,065.7 million, the acquisition of Thrifty Foods in the second quarter of last year as discussed and the decrease of $42.3 million in property and equipment purchases in the first half of fiscal 2009 compared to the same period last fiscal year.

Consolidated purchases of property and equipment totalled $75.9 million in the second quarter of fiscal 2009 compared to $125.0 million in the second quarter last year. On a fiscal year-to-date basis, consolidated purchases of property and equipment totalled $192.5 million in the first half of fiscal 2009 compared to $234.8 million in the same period last year. The decline in both the current quarter and the fiscal year-to-date is largely associated with fewer stores opened or acquired relative to the comparable periods in the prior year.

The table below outlines the number of stores Sobeys invested in during the second quarter of fiscal 2009 compared to fiscal 2008, as well as for the 26 weeks ended November 1, 2008 compared to the 26 weeks ended November 3, 2007.

Sobeys' Corporate and Franchised Store Construction Activity

	13 Weeks Ended		26 Weeks Ended	
# of Stores	**Nov. 1, 2008**	Nov. 3, 2007	**Nov. 1, 2008**	Nov. 3, 2007
Opened/Acquired/Relocated	**11**	26	**23**	77
Expanded	**3**	6	**7**	24
Rebannered/Redeveloped	**5**	13	**10**	49
Closed	**7**	19	**18**	38

The following table shows Sobeys' square footage changes for the 13 and 52 weeks ended November 1, 2008 by type:

Sobeys' Square Footage Changes
(in thousands)

Square Feet	Nov. 1, 2008 vs. Aug. 2, 2008	Nov. 1, 2008 vs. Nov. 3, 2007
Opened	213	644
Relocated	-	185
Acquired	-	-
Expanded	21	148
Closed	(119)	(557)
Net Change	115	420

At November 1, 2008, Sobeys' square footage totalled 27.4 million square feet, a 1.5 percent increase over the 27.0 million square feet operated at the end of the second quarter last year.

Proceeds on disposal of property and equipment were $28.9 million in the second quarter, up $27.9 million over the second quarter last year as a result of the disposition of properties that were deemed non-core. Proceeds on disposal of property and equipment for the first half of fiscal 2009 were $57.9 million compared to $6.7 million in the first half of last year. The proceeds on disposal in the current fiscal year are primarily due to the disposal of properties that were deemed non-core.

Financing Activities

Financing activities during the second quarter of fiscal 2009 used $57.7 million of cash compared to $151.5 million of cash generated from financing activities in the same quarter last year. The decrease of $209.2 million in cash flows from financing activities when compared to the same quarter last year is primarily the result of: (i) a decrease in long-term debt issuance of $150.8 million; (ii) a decrease in bank indebtedness of $13.0 million during the second quarter of fiscal 2009 compared to a decrease in bank indebtedness of $1.2 million last year; and (iii) an increase in repayment of long-term debt of $44.6 million. The decrease in long-term debt issuance is primarily related to the significant amount of long-term debt issued in the second quarter of last year to finance the acquisition of Thrifty Foods.

Financing activities during the first half of fiscal 2009 used $132.2 million of cash compared to $956.2 million of cash generated from financing activities in the same period last year. The decrease of $1,088.4 million in cash flows from financing activities in the first half of fiscal 2009 when compared to the same period last year is primarily the result of: (i) a decrease in long-term debt issuance of $959.0 million; (ii) a decrease in bank indebtedness of $51.6 million during the first half of fiscal 2009 compared to a decrease in bank indebtedness of $3.2 million in the same period last year; and (iii) an increase in repayment of long-term debt of $54.4 million. The Sobeys privatization completed in the first quarter of last year and the acquisition of Thrifty Foods completed in the second quarter of last year, as discussed, both required significant issuance of long-term debt to finance the transactions.

Free Cash Flow

Free cash flow (see Non-GAAP measures section at the end of this MD&A) is used to measure the change in the Company's cash available for additional investing and/or debt reduction. The following table reconciles free cash flow to Canadian GAAP cash flows used in operating activities for the 13 and 26 week periods ended November 1, 2008 and November 3, 2007.

Free Cash Flow

	13 Weeks Ended		26 Weeks Ended	
($ in millions)	**Nov. 1, 2008**	Nov. 3, 2007	**Nov. 1, 2008**	Nov. 3, 2007
Cash flow from operating activities	**$ 118.6**	$ 99.4	**$ 266.1**	$ 298.9
Less: Property and equipment purchases	**75.9**	125.0	**192.5**	234.8
Free cash flow	**$ 42.7**	$ (25.6)	**$ 73.6**	$ 64.1

Free cash flow generation in the second quarter of fiscal 2009 was $42.7 million compared to negative free cash flow of $25.6 million in the second quarter last year. The $68.3 million increase in free cash flow over the second quarter last fiscal year was due to a $49.1 million decrease in property and equipment purchases and a $19.2 million increase in cash flow from operations.

For the 26 weeks ended November 1, 2008, free cash flow equalled $73.6 million, an increase of $9.5 million over the free cash flow recorded for the same period last year. A decrease of $42.3 million in property and equipment purchases was partially offset by a $32.8 million decrease in cash flow from operating activities.

Accounting Policy Changes

Accounting standards adopted during fiscal 2009:

Inventories

During the first quarter of fiscal 2009 the Company implemented Canadian Institute of Chartered Accountants ("CICA") Section 3031, "Inventories" which was issued in June 2007 and has replaced existing Section 3030 with the same title. The new section establishes that inventories should be measured at the lower of cost and net realizable value, with guidance on the determination of cost, including allocation of overheads and other costs incurred in bringing the inventories to their present location and condition. Costs such as storage costs are specifically excluded from the cost of inventories and are expensed in the period incurred. The standard also requires the use of either first in, first out or weighted average cost formula to measure the cost of inventories of similar nature and use. Techniques, such as the retail method, used to measure the cost of inventory may be used if the results approximate cost. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company applied the standard to the opening inventory for the fiscal year beginning May 4, 2008 and adjusted retained earnings by the difference in the measurement of cost in opening inventory of a similar nature and use (prior periods were not restated).

Following adoption of Section 3031, warehouse inventories are valued at the lower of cost and net realizable value with cost being determined on a weighted average cost basis. Retail inventories are valued at the lower of cost and net realizable value. Cost is determined using a weighted average cost using either the standard cost method or a retail method. The retail method uses the anticipated selling price less normal profit margins, on a weighted average cost basis. Real estate inventory of residential properties is valued at the lower of cost and net realizable value.

The cost of inventories is comprised of directly attributable costs and includes the purchase price plus other costs incurred in bringing the inventories to their present location and condition, such as freight. The cost is reduced by the value of rebates and allowances received from vendors. The Company estimates net realizable value as the amount that inventories are expected to be sold for taking into consideration fluctuations of retail price due to seasonality less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in retail selling price, the amount of the write-down previously recorded is reversed. Costs that do not contribute to bringing inventories to their present location and condition, such as storage and administrative overheads, are specifically excluded from the cost of inventories and are expensed in the period incurred.

The initial impact of measuring inventories under the new standard is a decrease to the carrying amount of opening inventories as at May 4, 2008 of $27.9 million and a decrease in income taxes payable of $6.4 million. Opening retained earnings has been adjusted by $21.5 million, equal to the change in opening inventories net of tax.

The cost of inventory recognized as an expense during the second quarter and first half of fiscal 2009 was $2,802.0 million and $5,641.0 million, respectively. The cost of inventories recognized as an expense during the second quarter and first half of fiscal 2009 includes $12.0 million and $22.9 million, respectively, for the write-down of inventories below cost to net realizable value. There were no reversals of inventories written down previously.

Capital Disclosures

In October 2006, the CICA issued Section 1535, “Capital Disclosures”. This section establishes standards for disclosing information about an entity’s capital and how it is managed. The standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007 and is applicable for the Company’s first quarter of fiscal 2009. The adoption of Section 1535 did not have an impact on the Company’s financial results or position (see Note 6 to the unaudited interim consolidated second quarter fiscal 2009 financial statements).

Financial Instruments - Disclosure and Financial Instruments - Presentation

Section 3862, “Financial Instruments - Disclosure” and Section 3863, “Financial Instruments - Presentation” replace Section 3861, “Financial Instruments - Disclosure and Presentation”. These standards are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007 and are applicable for the Company’s first quarter of fiscal 2009 (see Note 11 to the unaudited interim consolidated second quarter fiscal 2009 financial statements). Section 3862 requires increased disclosures regarding the risks associated with financial instruments such as credit risk, liquidity risk and market risks and the techniques used to identify, monitor and manage these risks. In accordance with the transitional provision of Section 3862, comparative information about the nature and extent of risks arising from financial instruments is not required in the year of adoption. Section 3863 carries forward standards for presentation of financial instruments and non-financial derivatives and provides additional guidance for the classification of financial instruments between liabilities and equity and has no significant impact on the Company’s financial statements.

Future Changes in Accounting Policies

Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, “Goodwill and Intangible Assets”, which replaced existing Section 3062, “Goodwill and Other Intangible Assets” as well as Section 3450, “Research and Development”. The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008 and is applicable for the Company’s first quarter of fiscal 2010. The Company is currently evaluating the impact of this new standard.

International financial reporting standards

On February 13 2008, the Accounting Standards Board of Canada announced that Canadian generally accepted accounting principles for publicly accountable enterprises will be replaced by International Financial Reporting Standards ("IFRS"). IFRS must be adopted for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011, with restatement of comparative periods. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Company's reporting for the first quarter of fiscal 2012 for which the current and comparative information will be prepared under IFRS.

The Company has launched an internal initiative to govern the conversion process and is currently evaluating the potential impact of the conversion to IFRS on its financial statements. At this time, the impact on the Company's future financial position and results of operations is not reasonably determinable or estimable. The Company expects the transition to IFRS to impact accounting, financial reporting, internal control over financial reporting, information systems and business processes.

The Company has developed a formal project governance structure including a structured steering committee, as well as providing regular progress reports to senior management. The Company has also completed a diagnostic impact assessment, which involves a high level review of the major difference between current GAAP and IFRS, as well as establishing an implementation guideline. In accordance with this guideline the Company has established a staff training program and is in the process of completing analysis of the key decision areas and making recommendations on the same.

The Company will continue to assess the impact of the transition to IFRS and to review all of the proposed and ongoing projects of the International Accounting Standards Board to determine their impact on the Company. Additionally, the Company will continue to invest in training and resources throughout the transition period to facilitate a timely conversion.

Critical Accounting Estimates

Critical accounting estimates used by the Company's management are discussed in detail in the "Management's Discussion and Analysis" section of the 2008 Annual Report from pages 58 to 60.

Internal Controls Over Financial Reporting

Empire's management, with the participation of the CEO and CFO have designed internal controls over financial reporting (as that term is defined in MI 52-109) to provide reasonable assurance regarding the reliability of the Company's financial reporting and its preparation of financial statements for external purposes in accordance with Canadian GAAP. There have been no changes in the Company's internal controls over financial reporting during the 13 weeks ended November 1, 2008 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

Related Party Transactions

The Company rents premises from Crombie REIT. In addition, Crombie REIT provides administrative and management services to the Company. The rental payments are at fair value and the charges incurred for administrative and management services are on a cost recovery basis. The Company has non-interest bearing notes payable to Crombie REIT in the amount of $15.7 million.

On April 22, 2008, the Company sold 61 commercial properties to Crombie REIT for cash proceeds of $373.5 million plus additional Class B Units in Crombie Limited Partnership totalling $55.0 million, which was fair market value. In accordance with GAAP, the gain on this transaction of $144.3 million has been accounted for as a reduction in the carrying value of Crombie REIT because the purchaser is a related party. See Note 3 to the Company's annual audited financial statements for fiscal 2008 as detailed on page 82 of the Company's Fiscal 2008 Annual Report for more information.

Designation of Eligible Dividends

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

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

Contingent Liabilities

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

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

The Company and a subsidiary have been reassessed in respect to the tax treatment of gains realized on the sale of shares in Hannaford Bros. Co. ("Hannaford") in fiscal 2001. In the event that the tax authorities are successful in respect of the Hannaford transaction, which the Company believes is unlikely, the maximum potential exposure in excess of provisions taken is approximately $23.9 million. The Company has appealed the reassessments in respect of the sale of Hannaford shares. The Company expects that it will be substantially successful on its appeal of this reassessment. The Company also believes that the ultimate resolution of this matter will not, in any event, have a material impact on earnings because it has made adequate provisions for each of these matters. Should the ultimate outcome materially differ from the provision established, the effective tax rate and earnings of the Company could be materially affected, negatively or positively, in the period in which this matter is resolved.

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

Other Matters

Asset-Backed Commercial Paper

As of November 1, 2008, the Company held third-party ABCP with an original cost of $30.0 million that was in default. The ABCP was rated by the Dominion Bond Rating Service ("DBRS") as R-1 (high), the highest credit rating for commercial paper since the ABCP are backed by AAA (high) rated assets. The $30.0 million of ABCP held by the Company is entirely made up of cash and collateralized debt obligations. Collateralized debt obligations are a type of asset-backed security that is created by a portfolio of fixed-income assets which may include pools of bonds, credit card debt, commercial mortgage-backed securities and other loans.

The Company has taken a pre-tax impairment provision in the amount of $7.5 million in fiscal 2008 associated with the ABCP. The Company updated its analysis of the net carrying value as at November 1, 2008, including factors such as estimated cash flow scenarios and risk adjusted discount rates, and no further provision was determined to be required. The Company continues to monitor this investment for impairment. The assumptions used in estimating the fair value of the investments are subject to change based on market conditions which could result in further adjustments to earnings in the future.

See Note 7 to the Company's annual audited financial statements for fiscal 2008 for more information.

Risk Management

Risk and uncertainties related to economic and industry factors and the Company's management of this risk are discussed in detail in the "Management's Discussion and Analysis" section of the Company's fiscal 2008 annual report on pages 63 to 67, as well as Note 11 to the unaudited interim consolidated second quarter fiscal 2009 financial statements.

Over the course of the past several months economic conditions have worsened which has resulted in a potential risk to the Company. Management continues to closely monitor economic conditions, including interest rates, inflation, employment rates and capital markets. Management believes that although a weakening economy has an impact on all businesses and industries, the Company has an operational and capital structure that is sufficient to meet its ongoing business requirements.

Employee Future Benefit Obligations

As of the last actuarial valuation filed, the Company's registered defined benefits plans were adequately funded and in line with long-term expectations. However, due to recent losses caused by the current capital market activities, there is no assurance that these trends will continue. The Company may experience a significant increase in pension expense and funding requirements for its defined benefit plans in the near future. The Company continues to assess the impact of capital markets on its funding requirements.

Non-GAAP Financial Measures

There are measures included in this MD&A that do not have a standardized meaning under GAAP and therefore may not be comparable to similarly titled measures presented by publicly traded companies. The Company includes these measures because it believes certain investors use these measures as a means of assessing financial performance. Empire's definition of the non-GAAP terms are as follows:

- Operating income or earnings before interest and taxes ("EBIT") is calculated as operating earnings before minority interest, interest expense and income taxes.
- Earnings before interest, taxes, depreciation and amortization ("EBITDA") is calculated as EBIT plus depreciation and amortization.
- Operating earnings is calculated as net earnings before capital gains and other items.
- Funds from operations is calculated as operating earnings plus depreciation and amortization.
- Funded debt is all interest bearing debt, which includes bank loans, bankers' acceptances, long-term debt and debt related to assets held for sale.
- Total capital is calculated as funded debt plus equity.
- Same-store sales are sales from stores in the same locations in both reporting periods.
- Free cash flow is calculated as cash flow from operating activities, less property and equipment purchases.

The following table reconciles Empire's funded debt and total capital to GAAP measures reported in the unaudited interim period balance sheets as at November 1, 2008, May 3, 2008 and November 3, 2007, respectively:

($ in millions)	**Nov. 1, 2008**	May 3, 2008	Nov. 3, 2007
Bank indebtedness	**$ 40.5**	$ 92.1	$ 26.9
Long-term debt due within one year	**59.7**	60.4	80.5
Liabilities relating to assets held for sale	**6.2**	6.4	6.6
Long-term debt	**1,369.4**	1,414.6	1,767.0
Funded debt	**1,475.8**	1,573.5	1,881.0
Less: cash and cash equivalents	**(174.1)**	(191.4)	(133.1)
Net funded debt	**1,301.7**	1,382.1	1,747.9
Total shareholders' equity	**2,469.8**	2,382.3	2,297.0
Total capital under management	**$ 3,771.5**	$ 3,764.4	$ 4,044.9

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

Dated: December 11, 2008
Stellarton, Nova Scotia, Canada

SHAREHOLDER AND INVESTOR INFORMATION

EMPIRE COMPANY LIMITED
Head Office:
115 King St.
Stellarton, Nova Scotia
B0K 1S0
Telephone: (902) 755-4440
Fax: (902) 755-6477
Website: www.empireco.ca

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

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

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

STOCK EXCHANGE LISTING
The Toronto Stock Exchange

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

AVERAGE DAILY TRADING VOLUME (TSX:EMP.A)
73,361

DIVIDEND RECORD AND PAYMENT DATES FOR FISCAL 2009

Record Date	Payment Date
July 15, 2008	July 31, 2008
October 15, 2008	October 31, 2008
January 15, 2009	January 30, 2009
April 15, 2009*	April 30, 2009*

* Subject to the approval by Board of Directors

OUTSTANDING SHARES

As of December 11, 2008	
Non-Voting Class A shares	31,484,498
Class B common shares, voting	34,260,763

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

BANKERS
Bank of Montreal
Bank of Nova Scotia
Bank of Tokyo-Mitsubishi
Canadian Imperial Bank of Commerce
National Bank of Canada
Rabobank
Royal Bank of Canada
TD Canada Trust

SOLICITORS
Stewart McKelvey
Halifax, Nova Scotia

AUDITORS
Grant Thornton, LLP
New Glasgow, Nova Scotia

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

EMPIRE

COMPANY LIMITED

www.empireco.ca