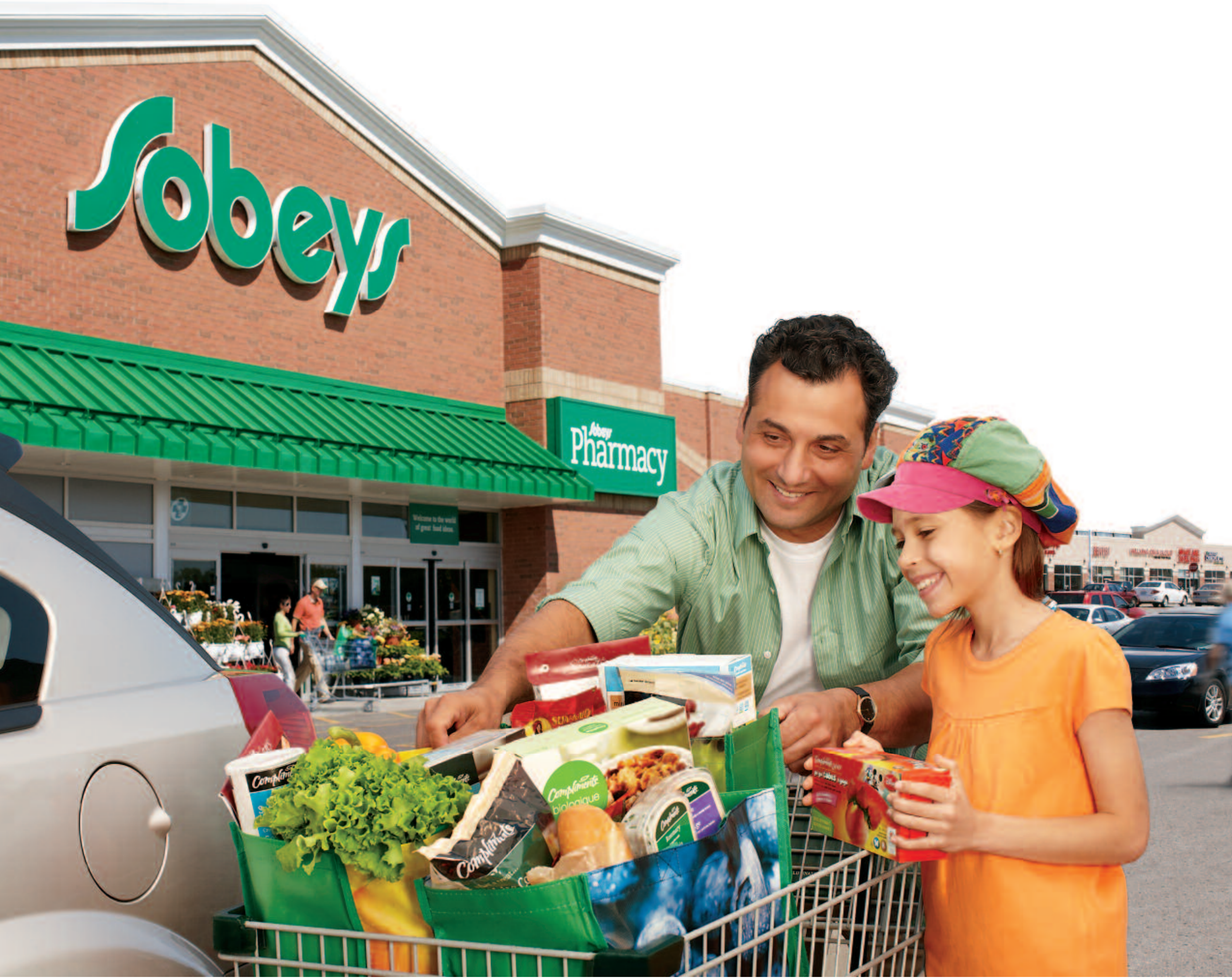

CLEARLY FOCUSED ON
OUR STRENGTHS

EMPIRE COMPANY LIMITED

Second Quarter Report | 26 Weeks Ended October 31, 2009

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 47.4 percent ownership interest in Crombie Real Estate Investment Trust ("Crombie REIT"). Corporate investment activities and other operations includes wholly-owned ETL Canada Holdings Limited ("Empire Theatres"); Kepec Resources Limited ("Kepec"), a party to 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 $15 billion in annual revenue and approximately $6.0 billion in assets, Empire and its related companies, including its franchisees and affiliates, employ over 90,000 people.

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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 10, 2009. 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, financial condition, results of operations, cash flows, performance, business prospects and opportunities. All statements other than statements of historical facts included in this quarterly report, including statements regarding the Company's objectives, plans, goals, strategies, future growth, financial condition, results of operations, cash flows, performance, business prospects and opportunities may constitute forward-looking information. Expressions such as "anticipates", "expects", "believes", "estimates", "intends", "could", "may", "plans", "predicts", "projects", "will", "would", "foresees", "remain confident that" and other similar expressions or the negative of these terms are generally indicative of forward-looking statements.

These forward looking statements include the following items: (a) the Company's expectation that its sources of liquidity will be sufficient to meet expected cash outflows over the next year and its short-term and long-term financial instruments, both of which could be impacted by changing capital market conditions as well as uncertainties that could cause the outcome to differ significantly from expectation; and (b) the Company's intention to renew or replace its credit facilities which mature within the next twelve months, which could be impacted by the credit environment. These statements are based on Empire management's reasonable assumptions and beliefs in light of the information currently available to them. The forward-looking information contained in this quarterly report is presented for the purpose of assisting the Company's security holders in understanding its financial position and results of operation as at and for the periods ended on the dates presented and the Company's strategic priorities and objectives and may not be appropriate for other purposes. By its very nature, forward-looking information requires the Company to make assumptions and is subject to inherent risks and uncertainties, which give rise to the possibility that the Company's predictions, forecasts, expectations or conclusions will not prove to be accurate, that the Company's assumptions may not be correct and that the Company's objectives, strategic goals and priorities will not be achieved. Although the Company believes that the predictions, forecasts, expectations or conclusions reflected in the forward-looking information are reasonable, it can give no assurance that such matters will prove to have been correct. Such forward-looking information is not fact but only reflections of management's estimates and expectations. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. These factors include but are not limited to: changes in general industry, market and economic conditions, competition from existing and new competitors, energy prices, supply issues, inventory management, changes in demand due to seasonality of the business, interest rates, changes in laws and regulations, operating efficiencies and cost saving initiatives. In addition, these uncertainties and risks are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the Risk Management section of the annual Management's Discussion and Analysis included in the Company's Annual Report.

Empire cautions that the list of important factors is not exhaustive and other factors could also adversely affect our results. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such forward-looking information. Forward-looking statements may not take into account the effect on the Company's business of transactions occurring after such statements have been made. For example, dispositions, acquisitions, asset write-downs or other changes announced or occurring after such statements are made may not be reflected in forward-looking statements. The forward-looking information in this quarterly report reflects the Company's expectations as of December 10, 2009, and is subject to change after this date. 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 applicable securities laws.

LETTER TO SHAREHOLDERS

Empire Company Limited (TSX: EMP.A) announced financial results for its second quarter ended October 31, 2009. For the second quarter, the Company recorded earnings before capital gains (losses) and other items of $72.1 million ($1.06 per share) compared to $63.1 million ($0.96 per share) in the second quarter last year, a $9.0 million or 14.3 percent increase.

Second Quarter Highlights

- *Revenue of $3.87 billion, up $146.8 million or 3.9 percent.*
- *Sobeys' same-store sales increased 2.7 percent.*
- *Earnings before capital gains (losses) and other items of $72.1 million ($1.06 per share) compared to $63.1 million ($0.96 per share) last year.*
- *Capital gains (losses) and other items, net of tax, of ($1.7) million versus $2.5 million last year.*
- *Net earnings of $70.4 million ($1.03 per share) compared to $65.6 million ($1.00 per share) last year.*
- *Net debt to total capital of 27.5 percent, down from 28.6 percent at the end of the last fiscal year and 34.5 percent at the end of Q2 last year.*

The reader should note that as a result of the equity issue completed on April 24, 2009, Empire had a diluted weighted average number of shares outstanding of 68.5 million in the second quarter ended October 31, 2009 compared to 65.7 million in the second quarter last year.

Dividend Declaration

The Board of Directors declared a quarterly dividend of 18.5 cents per share on both the Non-Voting Class A shares and the Class B common shares that will be payable on January 29, 2010 to shareholders of record on January 15, 2010. 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.

Consolidated Financial Overview

Consolidated revenue for the second quarter equalled $3.87 billion compared to $3.73 billion last year, an increase of $146.8 million or 3.9 percent. Sobeys' revenue equalled $3.81 billion, an increase of $146.9 million or 4.0 percent compared to the second quarter last year. Sobeys' second quarter same-store sales increased 2.7 percent.

Real estate division revenue in the second quarter was $18.7 million, an increase of $1.0 million from the $17.7 million recorded in the second quarter last year. Commercial property revenue increased by $0.7 million while residential property revenue increased by $0.3 million from the second quarter last year.

Investments and other operations recorded revenue of $52.3 million in the second quarter versus $50.6 million in the second quarter last year, an increase of $1.7 million.

Consolidated operating income in the second quarter was $120.7 million, an increase of $7.4 million or 6.5 percent from the $113.3 million recorded in the second quarter last year.

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

(i) Sobeys' operating income contribution to Empire in the second quarter totalled $106.3 million, an increase of $11.7 million or 12.4 percent from the $94.6 million recorded in the second quarter last year.

(ii) Residential property operating income contribution in the second quarter was $7.3 million, a decrease of $0.2 million from the $7.5 million recorded in the second quarter last year.

(iii) Commercial property operating income for the quarter was $6.3 million compared to $4.5 million in the second quarter last fiscal year, an increase of $1.8 million. Crombie REIT contributed $4.9 million to operating income in the second quarter versus a $3.8 million contribution in the second quarter last year.

(iv) Investments and other operations (net of corporate expenses) contributed operating income of $0.8 million in the second quarter compared to $6.7 million in the second quarter last year. Equity accounted earnings generated from the Company's 27.6 percent interest in Wajax amounted to $1.9 million in the second quarter versus $5.1 million in the second quarter last year. Operating income generated from other operations (net of corporate expenses) amounted to ($1.1) million compared to $1.6 million in the second quarter last year.

Interest expense in the second quarter amounted to $18.0 million, a decrease of $2.4 million or 11.8 percent from the $20.4 million recorded in the same quarter last year. The decline in interest expense largely reflects lower funded debt levels which are principally related to repaying debt with the net proceeds of $129.1 million from the equity issue completed on April 24, 2009, as well as with free cash flow generated by Sobeys.

Consolidated funded debt was $1,284.1 million at the end of the second quarter of fiscal 2010 compared to $1,475.8 million at the end of the second quarter last year, a $191.7 million or 13.0 percent decrease.

The Company's effective income tax rate for the second quarter was 29.6 percent compared to 29.4 percent in the second quarter of fiscal 2009.

For the 13 weeks ended October 31, 2009, Empire recorded earnings before capital gains (losses) and other items of $72.1 million ($1.06 per share) versus $63.1 million ($0.96 per share) last year, a $9.0 million or 14.3 percent increase. The increase in earnings before capital gains (losses) and other items is the result of a $7.4 million increase in operating income, a $2.4 million reduction in interest expense and a $2.3 million decline in minority interest, partially offset by an increase in income taxes of $3.1 million.

Empire's per share earnings were impacted by an increase in the weighted average number of shares outstanding, to 68.5 million on a diluted basis from 65.7 million last year, as a result of an equity issue completed April 24, 2009.

The table below presents Empire's segmented earnings before capital gains (losses) and other items by division for the 13 and 26 weeks ended October 31, 2009 compared to the 13 and 26 weeks ended November 1, 2008.

	13 Weeks Ended			26 Weeks Ended		
($ in millions)	**Oct. 31, 2009**	Nov. 1, 2008[1]	($) Change	**Oct. 31, 2009**	Nov. 1, 2008[1]	($) Change
Food retailing[2]	**$ 64.9**	$ 53.9	$ 11.0	**$ 134.1**	$ 112.1	$ 22.0
Real estate	**8.8**	7.4	1.4	**14.9**	20.5	(5.6)
Investments & other operations	**(1.6)**	1.8	(3.4)	**(4.7)**	1.4	(6.1)
Consolidated	**$ 72.1**	$ 63.1	$ 9.0	**$ 144.3**	$ 134.0	$ 10.3

(1) Amounts have been restated as a result of a change in accounting policy and a reclassification with respect to goodwill and intangible assets. Please refer to note 1 of the unaudited consolidated financial statements for the second quarter ended October 31, 2009.

(2) Includes the impact of depreciation and amortization related to the privatization of Sobeys in June 2007.

The Company recorded capital gains (losses) and other items, net of tax, of ($1.7) million in the second quarter compared to $2.5 million in the second quarter last year, largely as a result of Empire's equity share of an interest rate swap agreement which was settled by Crombie REIT during the quarter. This was partially offset by a $1.1 million fair value adjustment to Sobeys' asset-backed commercial paper. Capital gains and other items, net of tax, in the second quarter last year of $2.5 million were largely the result of the sale of non-core properties.

The table below presents capital gains (losses) and other items, net of tax, for the 13 and 26 weeks ended October 31, 2009 compared to the 13 and 26 weeks ended November 1, 2008.

	13 Weeks Ended			26 Weeks Ended		
($ in millions)	**Oct. 31, 2009**	Nov. 1, 2008	($) Change	**Oct. 31, 2009**	Nov. 1, 2008	($) Change
Equity share of Crombie REIT's other expenses	**$ (3.1)**	$ -	$ (3.1)	**$ (3.1)**	$ -	$ (3.1)
Change in fair value of Canadian third-party asset-backed commercial paper	**1.1**	-	1.1	**1.1**	-	1.1
(Loss) gain on sale of properties	**(0.1)**	2.9	(3.0)	**0.1**	7.7	(7.6)
Foreign exchange gains (losses)	**0.4**	(0.4)	0.8	**0.7**	(0.4)	1.1
Tax recovery related to sale of shares in Hannaford Bros. Co.	**-**	-	-	**17.0**	-	17.0
	$ (1.7)	$ 2.5	$ (4.2)	**$ 15.8**	$ 7.3	$ 8.5

Consolidated net earnings in the second quarter equalled $70.4 million ($1.03 per share) compared to $65.6 million ($1.00 per share) last year. The increase of $4.8 million compared to the second quarter last year is attributed to the $9.0 million increase in earnings before capital gains (losses) and other items, partially offset by the $4.2 million decline in net capital gains and other items, as discussed.

The table below presents Empire's segmented net earnings for the 13 and 26 weeks ended October 31, 2009 compared to the 13 and 26 weeks ended November 1, 2008.

	13 Weeks Ended			26 Weeks Ended		
($ in millions)	**Oct. 31, 2009**	Nov. 1, 2008(1)	($) Change	**Oct. 31, 2009**	Nov. 1, 2008(1)	($) Change
Food retailing(2)	**$ 66.0**	$ 53.9	$ 12.1	**$ 135.2**	$ 112.1	$ 23.1
Real estate	**5.7**	10.3	(4.6)	**11.8**	27.4	(15.6)
Investments & other operations	**(1.3)**	1.4	(2.7)	**13.1**	1.8	11.3
Consolidated	**$ 70.4**	$ 65.6	$ 4.8	**$ 160.1**	$ 141.3	$ 18.8

(1) Amounts have been restated as a result of a change in accounting policy and a reclassification with respect to goodwill and intangible assets. Please refer to note 1 of the unaudited consolidated financial statements for the second quarter ended October 31, 2009.
(2) Includes the impact of depreciation and amortization related to the privatization of Sobeys in June 2007.

Consolidated Financial Condition

The Company's financial condition has improved since the start of the fiscal year.

Total funded debt of $1,284.1 million has declined $18.8 million since the end of the fiscal year, May 2, 2009 ($1,302.9 million) and by $191.7 million since the second quarter last year ($1,475.8 million). The decrease over the second quarter last fiscal year is primarily the result of repaying debt with net proceeds of $129.1 million from the equity issue completed on April 24, 2009 and free cash flow generation by Sobeys. The ratio of funded debt to total capital has declined by 6.2 percentage points since the second quarter last year to 31.2 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 October 31, 2009, consolidated cash and cash equivalents were $210.9 million versus $231.6 million at fiscal year-end, May 2, 2009 and $174.1 million at November 1, 2008.

At the end of the second quarter of fiscal 2010, on a non-consolidated basis, Empire directly maintained authorized bank lines for operating, general and corporate purposes of $650 million, of which approximately $289 million or 44 percent were utilized. On a consolidated basis, Empire's authorized bank credit facilities exceeded borrowings by approximately $941 million at October 31, 2009 versus $958 million at August 1, 2009.

Included in the current portion of long-term debt and bank indebtedness is $372.3 million of debt outstanding under three credit facilities that mature within the next twelve months. Empire's management intends to renew or replace each of the credit facilities governing this debt prior to their maturity. To that end, management has held preliminary discussions with the financial institutions providing each of the facilities and has developed a timeline for renegotiating each of the credit facilities to ensure the new facilities are in place prior to the maturity of the existing facilities. However, given the current credit environment, it is expected that the terms of the renewed or replacement credit facilities will not be as favorable as those of the in-place facilities.

Cash used in investing activities of $135.2 million in the second quarter (2009 - $55.0 million) consisted primarily of purchases of property and equipment of $112.1 million compared to purchases of property and equipment of $76.2 million in the second quarter last year. Proceeds on disposal of property and equipment decreased $22.0 million from the second quarter last year to $6.9 million in the second quarter of the current year. Proceeds on disposal of property and equipment in the second quarter last year of $28.9 million were related to the sale of several non-core properties.

Cash used in investing activities for the second quarter of fiscal 2010 includes an investment of $10.0 million in Crombie REIT convertible unsecured subordinated debentures. The debentures mature on June 30, 2015 and have a coupon of 6.25 percent per annum.

At October 31, 2009, Sobeys' square footage totalled 27.8 million square feet, a 1.5 percent increase over the 27.4 million square feet operated at the end of the second quarter last year.

Summary

Empire's consolidated earnings and financial condition continued to strengthen in the second quarter of fiscal 2010 compared to the second quarter last year. The key driver of Empire's growth continues to be Sobeys which recorded a 20.4 percent increase in operating earnings. The positive trend in earnings reflects ongoing growth in Sobeys' same-store sales, the impact of merchandising innovations and the disciplined implementation of supply chain and other productivity initiatives.

Going forward our key priorities have not changed. We remain committed to investing in businesses that we know and understand.

We intend to remain focused on our core strengths in food retailing and real estate. Sobeys has been able to continue to grow sales and profitability in a competitive market but we are not complacent. We will continue to support Sobeys as it innovates, executes and grows in a manner that is consistent with being widely recognized as the best food retailer in the country.

We also intend to remain committed to the development of free-standing grocery stores and food anchored shopping plazas as ECL Developments continues to build on the synergies between Sobeys and Crombie REIT.

Our corporate success and sustainability has been made possible by more than 90,000 employees at Empire and its related companies, including franchisees and affiliates. They have been instrumental in creating a successful and exciting organization and that success has in turn created a winning environment.

Paul D. Sobey
President & Chief Executive Officer

December 10, 2009

EMPIRE COMPANY LIMITED
CONSOLIDATED BALANCE SHEETS
(in millions)

	October 31 2009 Unaudited	May 2 2009 Audited *Restated (Note 1)*	November 1 2008 Unaudited *Restated (Note 1)*
ASSETS			
Current			
Cash and cash equivalents	**$ 210.9**	$ 231.6	$ 174.1
Receivables	**329.8**	318.7	311.0
Loans and other receivables	**78.7**	55.8	63.7
Income taxes receivable	**17.0**	4.9	-
Inventories (Note 2)	**891.8**	842.8	875.5
Prepaid expenses	**53.4**	63.9	56.3
	1,581.6	1,517.7	1,480.6
Investments, at realizable value	**11.6**	1.1	1.3
Investments, at equity (realizable value $401.7; May 2, 2009 - $254.4; November 1, 2008 - $312.1) (Note 4)	**56.4**	18.8	38.1
Loans and other receivables	**78.0**	75.3	57.6
Other assets (Note 5)	**86.8**	89.0	98.1
Property and equipment	**2,554.6**	2,567.8	2,482.6
Assets held for sale	**20.4**	8.5	22.3
Intangibles	**447.5**	441.5	433.5
Goodwill	**1,171.6**	1,171.4	1,160.2
	$ 6,008.5	$ 5,891.1	$ 5,774.3
LIABILITIES			
Current			
Bank indebtedness	**$ 77.4**	$ 45.9	$ 40.5
Accounts payable and accrued liabilities	**1,481.6**	1,487.1	1,392.3
Income taxes payable	**-**	-	30.4
Future income taxes	**42.3**	40.5	33.6
Long-term debt due within one year (Note 6)	**366.3**	133.0	59.7
Liabilities relating to assets held for sale	**-**	-	6.2
	1,967.6	1,706.5	1,562.7
Long-term debt (Note 6)	**840.4**	1,124.0	1,369.4
Employee future benefits obligation	**121.5**	118.4	114.3
Future income taxes	**84.6**	89.5	108.7
Other long-term liabilities	**128.4**	135.0	115.4
Minority interest	**39.0**	38.9	37.0
	3,181.5	3,212.3	3,307.5
SHAREHOLDERS' EQUITY			
Capital stock	**324.5**	324.5	193.5
Contributed surplus	**2.4**	1.7	1.1
Retained earnings	**2,535.8**	2,401.1	2,300.7
Accumulated other comprehensive loss (Note 7)	**(35.7)**	(48.5)	(28.5)
	2,827.0	2,678.8	2,466.8
	$ 6,008.5	$ 5,891.1	$ 5,774.3

Contingent liabilities (Note 16)
Subsequent event (Note 19)

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)

	October 31 2009	November 1 2008 *Restated (Note 1)*
Balance, beginning of period as previously reported	**$ 2,405.8**	$ 2,207.6
Adjustment due to implementation of new accounting standard (Note 1)	**(4.7)**	(25.0)
Balance, beginning of period as restated	**2,401.1**	2,182.6
Net earnings	**160.1**	141.3
Dividends		
Preferred shares	**-**	(0.1)
Common shares	**(25.4)**	(23.1)
Balance, end of period	**$ 2,535.8**	$ 2,300.7

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

	October 31 2009 *(13 weeks)*	November 1 2008 *(13 weeks)* *Restated (Note 1)*	**October 31 2009 *(26 weeks)***	November 1 2008 *(26 weeks)* *Restated (Note 1)*
Net earnings	**$ 70.4**	$ 65.6	**$ 160.1**	$ 141.3
Other comprehensive income				
Unrealized gains (losses) on available-for-sale financial assets, net of income taxes of $0.1; $(0.1); $0.1; $(0.1)	**0.3**	(0.3)	**0.4**	(0.3)
Unrealized gains (losses) on derivatives designated as cash flow hedges, net of income taxes of $1.0; $(3.2); $2.2; $(3.2)	**2.2**	(6.4)	**4.2**	(6.5)
Reclassification of loss on derivative instruments designated as cash flow hedges to earnings, net of income taxes of $0.7; $0.3; $1.5; $0.6	**1.5**	0.6	**3.0**	1.2
Share of comprehensive income of entities accounted using equity method, net of income taxes of $0.7; $(1.2); $3.8; $(0.7)	**1.3**	(2.3)	**6.8**	(1.4)
Foreign currency translation adjustment	**(1.0)**	-	**(1.6)**	-
	4.3	(8.4)	**12.8**	(7.0)
Comprehensive income	**$ 74.7**	$ 57.2	**$ 172.9**	$ 134.3

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)

	October 31 2009 *(13 weeks)*	November 1 2008 *(13 weeks)* *Restated (Note 1)*	**October 31 2009 *(26 weeks)***	November 1 2008 *(26 weeks)* *Restated (Note 1)*
Revenue	**$ 3,874.7**	$ 3,727.9	**$ 7,843.2**	$ 7,506.1
Operating expenses				
Cost of sales, selling and administrative expenses	**3,675.2**	3,540.6	**7,439.1**	7,118.0
Depreciation and amortization	**85.8**	83.0	**167.8**	165.6
	113.7	104.3	**236.3**	222.5
Investment income (Note 8)	**7.0**	9.0	**14.6**	19.1
Operating income	**120.7**	113.3	**250.9**	241.6
Interest expense				
Long-term debt	**16.8**	19.3	**34.2**	39.4
Short-term debt	**1.2**	1.1	**2.0**	2.1
	18.0	20.4	**36.2**	41.5
	102.7	92.9	**214.7**	200.1
Capital (losses) gains and other items (Note 9)	**(3.0)**	2.0	**(2.4)**	8.1
Earnings before income taxes and minority interest	**99.7**	94.9	**212.3**	208.2
Income taxes (Note 10)				
Current	**38.9**	36.2	**57.8**	73.4
Future	**(9.8)**	(9.4)	**(10.8)**	(13.1)
	29.1	26.8	**47.0**	60.3
Earnings before minority interest	**70.6**	68.1	**165.3**	147.9
Minority interest	**0.2**	2.5	**5.2**	6.6
Net earnings	**$ 70.4**	$ 65.6	**$ 160.1**	$ 141.3
Earnings per share (Note 3)				
Basic	**$ 1.03**	$ 1.00	**$ 2.34**	$ 2.15
Diluted	**$ 1.03**	$ 1.00	**$ 2.34**	$ 2.15
Weighted average number of common shares outstanding, in millions				
Basic	**68.4**	65.6	**68.4**	65.6
Diluted	**68.5**	65.7	**68.5**	65.7

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

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

	October 31 2009 (13 weeks)	November 1 2008 (13 weeks) Restated (Note 1)	October 31 2009 (26 weeks)	November 1 2008 (26 weeks) Restated (Note 1)
Operating Activities				
Net earnings	$ 70.4	$ 65.6	$ 160.1	$ 141.3
Items not affecting cash (Note 11)	86.7	78.6	176.1	163.8
Preferred dividends	-	-	-	(0.1)
	157.1	144.2	336.2	305.0
Net change in non-cash working capital	(93.5)	(27.8)	(65.6)	(38.9)
Cash flows from operating activities	63.6	116.4	270.6	266.1
Investing Activities				
Net increase in investments	(10.4)	-	(46.0)	-
Purchase of property and equipment	(112.1)	(76.2)	(213.8)	(197.8)
Proceeds on disposal of property and equipment	6.9	28.9	64.5	57.9
Loans and other receivables	1.7	6.0	(25.4)	4.9
Increase in other assets	(9.9)	(8.3)	(2.6)	(4.4)
Businesss acquisitions (Note 15)	(11.4)	(5.4)	(14.5)	(11.8)
Cash flows used in investing activities	(135.2)	(55.0)	(237.8)	(151.2)
Financing Activities				
Increase (decrease) in bank indebtedness	7.6	(11.6)	31.5	(50.2)
Issue of long-term debt	21.9	35.6	66.5	41.0
Repayment of long-term debt	(33.5)	(65.4)	(121.0)	(90.4)
Minority interest	(1.4)	(3.8)	(5.1)	(7.2)
Repurchase of preferred shares	-	(0.9)	-	(2.3)
Common dividends	(12.7)	(11.6)	(25.4)	(23.1)
Cash flows used in financing activities	(18.1)	(57.7)	(53.5)	(132.2)
(Decrease) increase in cash and cash equivalents	(89.7)	3.7	(20.7)	(17.3)
Cash and cash equivalents, beginning of period	300.6	170.4	231.6	191.4
Cash and cash equivalents, end of period	$ 210.9	$ 174.1	$ 210.9	$ 174.1

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

EMPIRE COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2009
(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 2, 2009, as set out in the 2009 Annual Report. The Consolidated Statements of Accumulated Other Comprehensive Loss which were previously disclosed on page 63 of the 2009 Annual Report are replaced by Note 7 to the interim consolidated financial statements.

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 2009 annual consolidated financial statements except as noted below:

Adopted during fiscal 2010

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. As a result of adopting Section 3064, Emerging Issues Committee Abstract 27, "Revenues and Expenditures During the Pre-operating Period", no longer applies. The Company has implemented these requirements effective for the first quarter of fiscal 2010 retroactively with restatement of the comparative period in accordance with the transitional provisions. The initial impact under the new standard as at May 2, 2009 was a decrease to prepaid expenses of $6.9, a decrease to other assets of $62.4, a decrease in property and equipment of $33.7, an increase to intangibles of $96.1, a decrease of future tax liabilities of $2.2 as well as a reduction of retained earnings of $4.7. The impact of implementation on the balance sheet as at November 1, 2008 was a decrease of prepaid expenses of $4.3, a decrease to other assets of $60.3, a decrease in property and equipment of $26.8, an increase to intangibles of $87.1, a decrease in future tax liabilities of $1.3 and an opening retained earnings reduction of $3.5. For the 13 and 26 weeks ended November 1, 2008, cost of sales, selling and administrative expenses decreased $2.6 and $6.0, depreciation and amortization expense increased $2.7 and $5.3 and income taxes increased $Nil and $0.2 respectively.

Adopted during fiscal 2009

Inventories

In June 2007, the CICA issued Section 3031, "Inventories", which replaced section 3030 with the same title. The Company applied the standard prospectively to opening inventory and retained earnings for fiscal 2009 in accordance with the transitional provisions. The initial impact of measuring inventories under the new standard using a consistent cost formula for inventories with a similar nature and use was a decrease to the carrying amount of opening inventories of $27.9 and a decrease to income taxes payable of $6.4. Opening retained earnings was reduced by $21.5, equal to the change in opening inventories, net of tax.

1. Summary of Significant Accounting Policies (continued)

Future changes in accounting policies

Business combinations, consolidated financial statements and non-controlling interests

In January 2009, the CICA issued three new accounting standards which are based on the International Accounting Standards Board's International Financial Reporting Standard 3, "Business Combinations". Section 1582, "Business Combinations", which replaces Section 1581 with the same title, aims to improve the relevance, reliability and comparability of the information provided in financial statements about business combinations. This section is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2011 and assets and liabilities that arose from business combinations that preceded the adoption of this standard should not be adjusted upon adoption. Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests", replace Section 1600, "Consolidated Financial Statements", and establish standards for the preparation of consolidated financial statements and for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards apply to interim and annual consolidated financial statements beginning on or after January 1, 2011. Earlier adoption of all three standards is permitted as of the beginning of a fiscal year, however if an entity chooses to early adopt, all three standards must be adopted concurrently. The Company is currently evaluating the impact of these new standards.

Financial Instruments - Disclosures

In June 2009, the CICA issued amendments to the existing Section 3862, "Financial Instruments - Disclosures", to more closely align the section with those required under IFRS. The amendments include enhanced disclosure requirements relating to fair value measurements of financial instruments and liquidity risks. These amendments apply for annual financial statements with fiscal years ending after September 30, 2009. The adoption of the amendments to Section 3862 are not expected to have a material impact on the disclosures of the Company.

2. Inventories

The cost of inventories recognized as an expense during the 13 and 26 weeks ended October 31, 2009 was $2,909.4 and $5,890.6 respectively (2008 - $2,802.0 and $5,641.0). The cost of inventories recognized as an expense during the second quarter and year-to-date included $7.2 and $20.3 respectively (2008 - $12.0 and $22.9) for the write-down of inventories below cost to net realizable value. There were no reversals of inventories written down previously.

(Unaudited, in millions, except per share amounts)

3. Earnings Per Share

Earnings applicable to common shares is comprised of the following:

	2009 (13 weeks)	2008 (13 weeks) Restated (Note 1)	**2009 (26 weeks)**	2008 (26 weeks) Restated (Note 1)
Operating earnings	**$ 72.1**	$ 63.1	**$ 144.3**	$ 134.0
Capital (losses) gains and other items, net of income taxes of $(1.3); $(0.5); $(18.2); $0.8	**(1.7)**	2.5	**15.8**	7.3
Net earnings	**70.4**	65.6	**160.1**	141.3
Preferred share dividends	-	-	**-**	(0.1)
Earnings applicable to common shares	**$ 70.4**	$ 65.6	**$ 160.1**	$ 141.2

Included in income taxes of $(18.2) for the 26 weeks ended October 31, 2009 is an income tax recovery of $17.0 (see Note 10).

Earnings per share is comprised of the following:

	2009 (13 weeks)	2008 (13 weeks)	**2009 (26 weeks)**	2008 (26 weeks)
Operating earnings	**$ 1.06**	$ 0.96	**$ 2.11**	$ 2.04
Net capital (losses) gains and other items	**(0.03)**	0.04	**0.23**	0.11
Basic earnings per share	**$ 1.03**	$ 1.00	**$ 2.34**	$ 2.15
Operating earnings	**$ 1.06**	$ 0.96	**$ 2.11**	$ 2.04
Net capital (losses) gains and other items	**(0.03)**	0.04	**0.23**	0.11
Diluted earnings per share	**$ 1.03**	$ 1.00	**$ 2.34**	$ 2.15

4. Investments, at Equity

	October 31 2009	May 2 2009	November 1 2008
Wajax Income Fund (27.6% interest)	**$ 30.4**	$ 31.0	$ 32.7
Crombie REIT (47.4% interest)	**14.1**	(19.7)	5.3
U.S. residential real estate partnerships	**11.9**	7.5	0.1
	$ 56.4	$ 18.8	$ 38.1

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

	October 31 2009	November 1 2008
Balance, beginning of period	**$ 31.0**	$ 31.6
Equity earnings	**4.6**	10.6
Share of comprehensive loss	**(0.1)**	(0.1)
Distributions received	**(5.1)**	(9.4)
Balance, end of period	**$ 30.4**	$ 32.7

(Unaudited, in millions)

4. Investments, at Equity (continued)

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

	October 31 2009	November 1 2008
Balance, beginning of period	$ **(19.7)**	$ 9.5
Equity earnings		
Continuing operations	**9.8**	8.4
Other expenses	**(4.7)**	-
Share of comprehensive income	**10.7**	(2.0)
Distributions received	**(12.0)**	(10.6)
Interest acquired in Crombie REIT	**30.0**	-
Balance, end of period	$ **14.1**	$ 5.3

On June 25, 2009, Crombie REIT closed a bought-deal public offering of units at a price of $7.80 per unit. In satisfaction of its pre-emptive right with respect to the public offering, the Company subscribed for $30.0 of Class B Units (which are convertible on a one-for-one basis into units of Crombie REIT). Consequently the Company's interest in Crombie REIT was reduced from 47.9% to 47.4%.

5. Other Assets

Asset-backed commercial paper

Included in other assets is $30.0 (May 2, 2009 - $30.0) of third-party asset-backed commercial paper (“ABCP”) which the Company estimates the fair value to be $19.1 (May 2, 2009 - $17.8), approximately 64 percent (May 2, 2009 - 59 percent) of the face value. On January 21, 2009, the Company derecognized the existing held-to-maturity assets and received restructured ABCP MAV II notes: A1 - $7.8, A2 - $17.5, B - $3.2, C - $0.9 and $0.6 of tracking notes (the “restructured notes”) as designated in the Montreal Accord as well as accrued interest. The A1 and A2 notes received an A rating from the Dominion Bond Rating Service (“DBRS”). The remaining notes have not yet been rated. The restructured notes are floating rate notes with expected payouts in January 2017. The Company has classed these notes as held for trading and as a result will be fair valued at each reporting period. During fiscal 2009, the Company received $1.0 of interest and recorded a $4.7 pre-tax provision. The Company updated its analysis of the fair value of the restructured notes, including factors such as estimated cash flow scenarios and risk adjusted discount rates, and a pre-tax gain of $1.3 was recorded during the 13 weeks ended October 31, 2009. This increase in value is primarily due to a decrease in credit spreads which resulted in a lower discount rate assumption.

Discount rates vary depending upon the credit rating of the restructured long-term floating rate notes. Discount rates have been estimated using Government of Canada benchmark rates plus expected spreads for similarly rated instruments with similar maturities and structure. The Company has performed a sensitivity analysis on estimated discount rates used in the fair value analysis and determined that a change of one percent would result in a pre-tax change in the fair value of these investments of approximately $1.5 (May 2, 2009 - $1.3).

On August 11, 2009, DBRS downgraded the A2 notes from A to BBB (low) under a negative watch. The downgrade did not have a material change in the fair value of the notes. Continuing uncertainties regarding the value of assets which underlie the ABCP, the amount and timing of cash flows and the outcome of the restructuring process could give rise to a further material change in the value of the Company’s investment in ABCP which could impact the Company’s future earnings. The Company believes it has sufficient credit facilities to satisfy its financial obligations as they come due and does not expect there will be a material adverse impact on its business as a result of this current third-party ABCP liquidity issue.

(Unaudited, in millions)

6. Long-Term Debt

During the first quarter, the Company's credit facility ($285.0 as of October 31, 2009) was classified as current as it matures on June 8, 2010.

On November 8, 2007, Sobeys established a revolving credit facility of $75.0 that is currently unutilized. The maturity date is November 8, 2010. The interest rate was floating and fluctuated with changes in the bankers' acceptance rate, Canadian prime rate or LIBOR. On June 12, 2009, Sobeys repaid, although did not cancel, this facility.

7. Accumulated Other Comprehensive Loss

The following table provides further detail regarding the composition of accumulated other comprehensive loss:

	October 31 2009	May 2 2009	November 1 2008
Balance, beginning of period	**$ (48.5)**	$ (21.5)	$ (21.5)
Other comprehensive income (loss) for the period	**12.8**	(27.0)	(7.0)
Balance, end of period	**$ (35.7)**	$ (48.5)	$ (28.5)

An estimated net loss of $10.7 recorded in accumulated other comprehensive loss related to the cash flow hedges as at October 31, 2009 (November 1, 2008 - $8.0), is expected to be reclassified to net earnings during the next 12 months. Remaining amounts will be reclassified to net earnings over periods up to nine years.

8. Investment Income

	2009 (13 weeks)	2008 *(13 weeks)*	***2009 (26 weeks)***	2008 *(26 weeks)*
Dividend and interest income	**$ 0.2**	$ 0.1	**$ 0.2**	$ 0.1
Share of earnings of entities accounted using the equity method	**6.8**	8.9	**14.4**	19.0
	$ 7.0	$ 9.0	**$ 14.6**	$ 19.1

9. Capital (Losses) Gains and Other Items

	2009 (13 weeks)	2008 *(13 weeks)*	***2009 (26 weeks)***	2008 *(26 weeks)*
Equity share of Crombie REIT's other expenses	**$ (4.7)**	$ -	**$ (4.7)**	$ -
Change in fair value of Canadian third-party asset-backed commercial paper (Note 5)	**1.3**	-	**1.3**	-
(Loss) gain on sale of property	**(0.1)**	2.4	**0.1**	8.5
Foreign exchange gains (losses)	**0.5**	(0.4)	**0.9**	(0.4)
	$ (3.0)	$ 2.0	**$ (2.4)**	$ 8.1

(Unaudited, in millions)

10. Income Taxes

The effective tax rate for the 26 weeks ended October 31, 2009 of 22.1% differs from the combined statutory rate of 30.4% due to the settlement negotiated with Canada Revenue Agency relating to the tax treatment of gains realized on the sale of shares in Hannaford Bros. Co. in fiscal 2001. Income tax expense was reduced in the first quarter by $17.0 as a result of this settlement.

11. Supplementary Cash Flow Information

	2009 (13 weeks)	2008 (13 weeks) Restated (Note 1)	**2009 (26 weeks)**	2008 (26 weeks) Restated (Note 1)
a) Items not affecting cash				
Depreciation and amortization	**$ 85.8**	$ 83.0	**$ 167.8**	$ 165.6
Future income taxes	**(9.8)**	(9.4)	**(10.8)**	(13.1)
Gain on disposal of assets	**(1.7)**	(1.8)	**(1.5)**	(6.2)
Amortization of other assets	**2.5**	(2.2)	**0.3**	(3.7)
Equity in earnings of other entities, net of dividends received	**6.7**	1.6	**7.4**	1.2
Minority interest	**0.2**	2.5	**5.2**	6.6
Stock-based compensation	**0.3**	-	**0.7**	0.6
Long-term lease obligation	**1.1**	0.8	**3.9**	2.4
Employee future benefits obligation	**1.6**	2.0	**3.1**	3.6
Rationalization costs (Note 18)	-	2.1	**-**	6.8
	$ 86.7	$ 78.6	**$ 176.1**	$ 163.8
b) Other cash flow information				
Interest paid	**$ 24.3**	$ 22.2	**$ 34.2**	$ 34.2
Income taxes paid	**$ 28.0**	$ 12.5	**$ 73.4**	$ 49.7

12. Segmented Information

	2009 (13 weeks)	2008 (13 weeks)	**2009 (26 weeks)**	2008 (26 weeks)
Segmented revenue				
Food retailing	**$ 3,807.0**	$ 3,660.1	**$ 7,713.7**	$ 7,371.6
Real estate				
Residential	**14.0**	13.7	**25.4**	33.7
Commercial	**4.7**	4.0	**8.4**	8.9
	18.7	17.7	**33.8**	42.6
Investment and other operations	**52.3**	50.6	**99.6**	92.7
	3,878.0	3,728.4	**7,847.1**	7,506.9
Elimination of inter-segment	**(3.3)**	(0.5)	**(3.9)**	(0.8)
	$ 3,874.7	$ 3,727.9	**$ 7,843.2**	$ 7,506.1

(Unaudited, in millions)

12. Segmented Information (continued)

	2009 **(13 weeks)**	2008 (13 weeks) Restated (Note 1)	**2009** **(26 weeks)**	2008 (26 weeks) Restated (Note 1)
Segmented operating income				
Food retailing	**$ 106.3**	$ 94.6	**$ 227.9**	$ 200.9
Real estate				
Residential	**7.3**	7.5	**12.4**	21.2
Crombie REIT	**4.9**	3.8	**9.8**	8.4
Commercial	**1.4**	0.7	**1.1**	1.9
Investment and other operations				
Wajax Income Fund	**1.9**	5.1	**4.6**	10.6
Other operations, net of corporate expenses	**(1.1)**	1.6	**(4.9)**	(1.4)
	$ 120.7	$ 113.3	**$ 250.9**	$ 241.6

	October 31 **2009**	May 2 2009 Restated (Note 1)	November 1 2008 Restated (Note 1)
Identifiable assets			
Food retailing (excluding goodwill)	**$ 4,292.6**	$ 4,272.1	$ 4,144.1
Goodwilll	**1,130.8**	1,130.6	1,120.1
Food retailing	**5,423.4**	5,402.7	5,264.2
Real estate	**295.9**	223.1	254.1
Investment and other operations (including goodwill of $40.8; May 2, 2009 - $40.8; November 1, 2008 - $40.1)	**289.2**	265.3	256.0
	$ 6,008.5	$ 5,891.1	$ 5,774.3

	2009 **(13 weeks)**	2008 (13 weeks) Restated (Note 1)	**2009** **(26 weeks)**	2008 (26 weeks) Restated (Note 1)
Depreciation and amortization				
Food retailing	**$ 80.5**	$ 77.6	**$ 157.2**	$ 153.9
Real estate	**0.4**	0.1	**0.9**	0.1
Investment and other operations	**4.9**	5.3	**9.7**	11.6
	$ 85.8	$ 83.0	**$ 167.8**	$ 165.6

	2009 **(13 weeks)**	2008 (13 weeks) Restated (Note 1)	**2009** **(26 weeks)**	2008 (26 weeks) Restated (Note 1)
Capital expenditures				
Food retailing	**$ 96.8**	$ 71.8	**$ 176.6**	$ 176.9
Real estate	**12.9**	4.1	**30.4**	17.1
Investment and other operations	**2.4**	0.3	**6.8**	3.8
	$ 112.1	$ 76.2	**$ 213.8**	$ 197.8

(Unaudited, in millions)

13. Related-Party Transaction

On September 30, 2009, the Company purchased $10.0 of convertible unsecured subordinated debentures (the "Debentures") from Crombie REIT, pursuant to a bought-deal prospectus offering for a total of $85.0. The Debentures have a maturity date of June 30, 2015. The Debentures have a coupon of 6.25% per annum and each $1,000 principal amount of Debenture is convertible into approximately 90.9091 units of Crombie REIT, at any time, at the option of the holder, based on a conversion price of $11.00 per unit. The Debentures have been classified as available-for-sale and are included in investments, at realizable value.

14. Employee Future Benefits

During the 13 and 26 weeks ended October 31, 2009 , the net employee future benefit expense was $10.3 and $20.5 respectively (2008 - $8.7 and $16.8). 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.

15. Business Acquisitions

Sobeys acquires franchisee and non-franchisee stores and prescription files. 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 franchisee and non-franchisee stores resulted in the acquisition of intangible assets. The method of amortization of limited life intangibles is on a straight-line basis over its estimated useful life.

	2009 ***(13 weeks)***	2008 *(13 weeks)*	**2009** ***(26 weeks)***	2008 *(26 weeks)*
Stores				
Inventory	**$ 2.2**	$ 1.5	**$ 3.2**	$ 3.2
Property and equipment	**1.3**	0.3	**3.0**	1.4
Intangibles	**3.7**	0.5	**3.7**	2.9
Goodwill	-	0.3	**0.2**	1.2
Other (liabilities) assets	**(1.6)**	0.1	**(1.4)**	0.4
Cash consideration	**$ 5.6**	$ 2.7	**$ 8.7**	$ 9.1
Prescription files				
Intangibles	**$ 5.8**	$ 2.7	**$ 5.8**	$ 2.7
Cash consideration	**$ 5.8**	$ 2.7	**$ 5.8**	$ 2.7

16. 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 the tax authorities.

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

(Unaudited, in millions)

17. 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 October 31, 2009, there were 95,372 (May 2, 2009 - 84,195) DSUs outstanding. During the second quarter and first half of the current fiscal year, the compensation expense was $0.4 and $0.4 respectively (2008 - $0.3 and $1.0).

Stock option plan

During the first quarter, the Company granted an additional 162,399 options under the stock option plan for employees of the Company whereby options are granted to purchase Non-Voting Class A Shares. These options allow holders to purchase Non-Voting Class A Shares at $46.04 per share and expire in June 2017. The options vest over four 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 13 and 26 weeks ended October 31, 2009 was $0.3 and $0.7 respectively (2008 - $Nil and $0.6) with amortization of the cost over the vesting period. The total increase in contributed surplus in relation to the stock option compensation cost was $0.7 (2008 - $0.6). The compensation cost was calculated using the Black-Scholes model with the following assumptions:

Expected life	5.25 years
Risk-free interest rate	2.625%
Expected volatility	22.8%
Dividend yield	1.60%

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. Upon implementation, the units had a three year vesting period with 33.3 percent of the units vesting each year. Subsequent issuances have a four year vesting period with 25.0 percent 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 an accrued liability until settlement and is remeasured at each interim and annual reporting period of the Company. As at October 31, 2009, 1,411,994 units (November 1, 2008 - 1,027,611) were outstanding. For the 13 and 26 weeks ended October 31, 2009, the Company recognized $3.9 and $6.0 respectively (2008 - $1.1 and $1.8) of compensation expense associated with this plan.

18. Business Rationalization Costs

For the 13 and 26 weeks ended October 31, 2009, severance costs of $Nil have been incurred and recognized (2008 - $2.6 and $9.6). 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 as of October 31, 2009 was $12.2 (November 1, 2008 - $12.7). Costs incurred as of October 31, 2009 were $27.7.

19. Subsequent Event

On November 5, 2009, a subsidiary of the Company agreed to sell eight commercial properties to Crombie REIT. The selling price of the properties is approximately $62.0, excluding closing and transaction costs. The sales are expected to close in stages over the next six months as due diligence and mortgage financing for the properties are finalized. The properties are classified as property and equipment as they are at various stages of completion.

20. Comparative Figures

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis ("MD&A") of the consolidated financial results of Empire Company Limited ("Empire" or the "Company") for the 13 and 26 weeks ended October 31, 2009 compared to the 13 and 26 weeks ended November 1, 2008. 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 October 31, 2009, the audited annual consolidated financial statements and accompanying notes for the 52 weeks ended May 2, 2009 and the related annual MD&A as contained on pages 23 through 60 of Empire's 2009 Annual Report. Information about the Company, including the Annual Report and Annual Information Form, can be found on SEDAR at www.sedar.com.

The consolidated financial statements and the accompanying notes have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are reported in Canadian dollars.

These unaudited consolidated financial statements include the accounts of Empire and its subsidiaries and variable interest entities ("VIEs") which the Company is required to consolidate. Included in the Company's 2009 Annual Report, on page 100, is a glossary of terms used throughout this MD&A. The information contained in this MD&A is current to December 10, 2009, 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, financial condition, results of operations, cash flows, performance, business prospects and opportunities. All statements other than statements of historical facts included in this MD&A, including statements regarding the Company's objectives, plans, goals, strategies, future growth, financial condition, results of operations, cash flows, performance, business prospects and opportunities may constitute forward-looking information. Expressions such as "anticipates", "expects", "believes", "estimates", "intends", "could", "may", "plans", "predicts", "projects", "will", "would", "foresees", "remain confident that" and other similar expressions or the negative of these terms are generally indicative of forward-looking information.

These statements are based on Empire management's reasonable assumptions and beliefs in light of the information currently available to them. The forward-looking information contained in this MD&A is presented for the purpose of assisting the Company's security holders in understanding its financial position and results of operation as at and for the periods ended on the dates presented and the Company's strategic priorities and objectives and may not be appropriate for other purposes. By its very nature, forward-looking information requires the Company to make assumptions and is subject to inherent risks and uncertainties which give rise to the possibility that the Company's predictions, forecasts, expectations or conclusions will not prove to be accurate, that the Company's assumptions may not be correct and that the Company's objectives, strategic goals and priorities will not be achieved. Although the Company believes that the predictions, forecasts, expectations or conclusions reflected in the forward-looking information are reasonable, it can give no assurance that such matters will prove to have been correct. Such forward-looking information is not fact but only reflections of management's estimates and expectations. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. These factors include but are not limited to: changes in general industry, market and economic conditions, competition from existing and new competitors, energy prices, supply issues, inventory management, changes in demand due to seasonality of the business, interest rates, changes in laws and regulations, operating efficiencies and cost saving initiatives. In addition, these uncertainties and risks are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the Risk Management section of the annual MD&A for the 52 weeks ended May 2, 2009.

Empire cautions that the list of important factors is not exhaustive and other factors could also adversely affect its results. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such forward-looking information. Forward-looking statements may not take into account the effect on the Company's business of transactions occurring after such statements have been made. For example, dispositions, acquisitions, asset write-downs or other changes announced or occurring after such statements are made may not be reflected in forward-looking statements. The forward-looking information in this MD&A reflects the Company's expectations as of December 10, 2009, and is subject to change after this date.

These forward looking statements include the following items:

- The Company's belief that it has sufficient unused capacity under its credit facilities to satisfy its financial obligations as they come due and its 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, both of which could be impacted by the challenging economic environment;
- The Company's expectation that its operational and capital structure are sufficient to meet its ongoing business requirements in the current economic environment in Canada;
- The Company's belief that its cash and cash equivalents, future operating cash flows and available credit facilities will enable the Company to fund future capital investments, pension plan contributions, working capital and ongoing business requirements, and its belief that it has sufficient funding in place to meet these requirements and other long term obligations, all of which could be impacted by uncertainty in the economy at this time;
- The Company's anticipation that its in place sources of liquidity will adequately meet its short-term and long-term financial requirements which may be impacted by uncertainty in the economy at this time;
- The Company's intention to renew or replace each of the three credit facilities which mature within the next 12 months which could be impacted by the credit environment;
- The Company's expectation regarding the purchase of additional Series 2 Preferred Shares for cancellation by the end of calendar 2009 could be impacted by market conditions and availability of sellers;
- 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;
- Sobeys' expectations that the new distribution centre opened in Ontario will reduce overall distribution costs;
- 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;
- The Company's expected contributions to its registered defined benefits, which could be impacted by fluctuations in asset values due to market uncertainties;
- The Company's expected use and estimated fair values of financial instruments which could be impacted by, among other things, changes in interest rates, foreign exchange rates and commodity prices; and
- The Company's expectations relating to the anticipated sale of eight properties to Crombie REIT which could be impacted by the terms and conditions of closing.

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 47.4 percent ownership interest in Crombie REIT. Corporate investment activities and other operations include wholly-owned ETL Canada Holdings Limited ("Empire Theatres"); Kepec Resources Limited ("Kepec"), a party to 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 $15 billion in annual revenue and approximately $6.0 billion in assets, Empire and its related companies, including its franchisees and affiliates, employ over 90,000 people.

Consolidated Operating Results

The consolidated financial overview provided below reports on the financial performance for the 13 and 26 weeks ended October 31, 2009 relative to the same periods last year.

	13 Weeks Ended				26 Weeks Ended			
	Oct. 31, 2009		Nov. 1, 2008[1]		**Oct. 31, 2009**		Nov. 1, 2008[1]	
($ in millions, except per share information)	**$**	**% of Revenue**	$	% of Revenue	**$**	**% of Revenue**	$	% of Revenue
Revenue	**$ 3,874.7**	**100.00%**	$ 3,727.9	100.00%	**$ 7,843.2**	**100.00%**	$ 7,506.1	100.00%
Operating income	**120.7**	**3.12**	113.3	3.04	**250.9**	**3.20**	241.6	3.22
Operating earnings	**72.1**	**1.86**	63.1	1.69	**144.3**	**1.84**	134.0	1.79
Capital gains (losses) and other items, net of tax	**(1.7)**	**(0.04)**	2.5	0.07	**15.8**	**0.20**	7.3	0.09
Net earnings	**$ 70.4**	**1.82%**	$ 65.6	1.76%	**$ 160.1**	**2.04%**	$ 141.3	1.88%
Basic earnings per share								
Operating earnings	**$ 1.06**		$ 0.96		**$ 2.11**		$ 2.04	
Capital gains (losses) and other items, net of tax	**(0.03)**		0.04		**0.23**		0.11	
Net earnings	**$ 1.03**		$ 1.00		**$ 2.34**		$ 2.15	
Basic weighted average number of shares outstanding (in milllions)[2]	**68.4**		65.6		**68.4**		65.6	
Diluted earnings per share								
Operating earnings	**$ 1.06**		$ 0.96		**$ 2.11**		$ 2.04	
Capital gains (losses) and other items, net of tax	**(0.03)**		0.04		**0.23**		0.11	
Net earnings	**$ 1.03**		$ 1.00		**$ 2.34**		$ 2.15	
Diluted weighted average number of shares outstanding (in milllions)[2]	**68.5**		65.7		**68.5**		65.7	
Dividends per share	**$ 0.185**		$ 0.175		**$ 0.370**		$ 0.350	

(1) Amounts have been restated as a result of a change in accounting policy and a reclassification with respect to goodwill and intangible assets. Please see the section entitled "Accounting Policy Changes" in this MD&A.

(2) The increase in the weighted average number of shares outstanding reflects an equity issue completed on April 24, 2009 which resulted in a total of 2,713,000 shares being issued.

Management's Explanation of Consolidated Results

The following is a review of Empire's consolidated financial performance for the 13 and 26 weeks ended October 31, 2009 compared to the 13 and 26 weeks ended November 1, 2008.

Revenue

Consolidated revenue for the second quarter of fiscal 2010 was $3.87 billion compared to $3.73 billion for the same quarter last year, an increase of $146.8 million or 3.9 percent.

For the second quarter ended October 31, 2009, the food retailing division contributed revenue of $3.81 billion versus $3.66 billion in the second quarter last year, an increase of $146.9 million or 4.0 percent. The growth in sales continues to be a direct result of increased retail selling square footage from new stores and enlargements, coupled with the continued implementation of sales and merchandising initiatives, improved store level execution and product and services innovation. During the second quarter of fiscal 2010, the food retailing division's same-store sales grew by 2.7 percent.

Real estate revenue in the second quarter was $18.7 million, an increase of $1.0 million from the $17.7 million recorded in the second quarter last year. Commercial property revenue increased by $0.7 million while residential property revenue increased by $0.3 million from the second quarter of last year.

Investments and other operations reported revenue of $52.3 million in the second quarter of fiscal 2010 compared to $50.6 million in the second quarter of last year, an increase of $1.7 million.

Consolidated revenue for the first half of fiscal 2010 was $7.84 billion compared to $7.51 billion for the first half last year, an increase of $337.1 million or 4.5 percent. Sales growth was largely driven by a $342.1 million or 4.6 percent growth in food retailing division sales over the comparable period last year, with same-store sales growth of 3.4 percent. Real estate division revenue decreased $8.8 million or 20.7 percent while revenue from investments and other operations increased by $6.9 million or 7.4 percent.

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

Operating Income

Consolidated operating income in the second quarter was $120.7 million, an increase of $7.4 million or 6.5 percent from the $113.3 million recorded in the second quarter last year.

The 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 $106.3 million, an increase of $11.7 million or 12.4 percent from the $94.6 million recorded in the second quarter last year.
- Residential property operating income contribution in the second quarter was $7.3 million, a decrease of $0.2 million from the $7.5 million recorded in the second quarter last year.
- Commercial property operating income for the quarter was $6.3 million compared to $4.5 million in the second quarter last fiscal year, an increase of $1.8 million. Crombie REIT contributed $4.9 million to operating income in the second quarter versus a $3.8 million contribution in the second quarter last year.
- Investments and other operations (net of corporate expenses) contributed operating income of $0.8 million in the second quarter compared to $6.7 million in the second quarter last year. Equity accounted earnings generated from the Company’s 27.6 percent interest in Wajax amounted to $1.9 million in the second quarter versus $5.1 million in the second quarter last year. Operating income generated from other operations (net of corporate expenses) amounted to ($1.1) million compared to $1.6 million in the second quarter last year.

Fiscal year-to-date operating income equalled $250.9 million, an increase of $9.3 million or 3.8 percent from the comparable period last year. The positive variance is the result of a $27.0 million or 13.4 percent increase in food retailing division operating income over the comparable period last year, partially offset by a decrease in operating income from investments and other operations of $9.5 million and an $8.2 million or 26.0 percent decline in real estate division operating income.

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 $18.0 million, a decrease of $2.4 million or 11.8 percent from the $20.4 million recorded in the second quarter last year. The decline in interest expense largely reflects lower funded debt levels which are principally related to repaying debt with the net proceeds of $129.1 million from the equity issue completed on April 24, 2009, as well as from free cash flow generated by Sobeys which was used in part to reduce funded debt. For the 26 weeks ended October 31, 2009, interest expense amounted to $36.2 million, a decrease of $5.3 million from the $41.5 million recorded last year.

Consolidated funded debt was $1,284.1 million at the end of the second quarter of fiscal 2010 compared to $1,475.8 million at the end of the second quarter last year, a $191.7 million or 13.0 percent decrease.

Income Taxes

The effective income tax rate for the second quarter (excluding the impact of capital gains (losses) and other items) was 29.6 percent versus 29.4 percent in the second quarter last year. The effective income tax rate for the first half of fiscal 2010 (excluding the impact of capital gains (losses) and other items) was 30.4 percent versus 29.7 percent in the first half of last year.

Earnings Before Capital Gains (Losses) and Other Items

Empire recorded earnings before capital gains (losses) and other items for the second quarter of fiscal 2010 of $72.1 million ($1.06 per share) compared to $63.1 million ($0.96 per share) recorded in the second quarter last year. The $9.0 million or 14.3 percent improvement in earnings before capital gains (losses) and other items over the prior year was the result of a $7.4 million increase in operating income, a $2.4 million decrease in interest expense and a $2.3 million decrease in minority interest, partially offset by a $3.1 million increase in income taxes.

The $10.3 million or 7.7 percent increase in operating earnings in the first 26 weeks of the fiscal year is attributed to a $9.3 million increase in operating income, a $5.3 million decrease in interest expense and a $1.4 million reduction in minority interest, partially offset by a $5.7 million increase in income tax expense.

Empire had a diluted weighted average number of shares outstanding of 68.5 million in the second quarter ended October 31, 2009 compared to 65.7 million in the second quarter last year, the increase being the result of the equity issue completed on April 24, 2009. For the 26 weeks ended October 31, 2009, Empire had a diluted weighted average number of shares outstanding of 68.5 million compared to 65.7 million in the 26 weeks ended November 1, 2008.

The following table presents Empire's segmented earnings before capital gains (losses) and other items by division for the 13 and 26 weeks ended October 31, 2009 compared to the 13 and 26 weeks ended November 1, 2008.

	13 Weeks Ended			26 Weeks Ended		
($ in millions)	**Oct. 31, 2009**	Nov. 1, 2008[1]	($) Change	**Oct. 31, 2009**	Nov. 1, 2008[1]	($) Change
Food retailing [2]	**$ 64.9**	$ 53.9	$ 11.0	**$ 134.1**	$ 112.1	$ 22.0
Real estate	**8.8**	7.4	1.4	**14.9**	20.5	(5.6)
Investments & other operations	**(1.6)**	1.8	(3.4)	**(4.7)**	1.4	(6.1)
Consolidated	**$ 72.1**	$ 63.1	$ 9.0	**$ 144.3**	$ 134.0	$ 10.3

(1) Amounts have been restated as a result of a change in accounting policy and a reclassification with respect to goodwill and intangible assets. Please see the section entitled "Accounting Policy Changes" in this MD&A.

(2) Includes the impact of depreciation and amortization related to the privatization of Sobeys in June 2007.

Capital Gains (Losses) and Other Items

The Company recorded capital gains (losses) and other items, net of tax, of ($1.7) million in the second quarter compared to $2.5 million in the second quarter last year, largely as a result of Empire's equity share of an interest rate swap agreement which was settled by Crombie REIT during the quarter. This was partially offset by a $1.1 million fair value adjustment to Sobeys' ABCP. Capital gains and other items, net of tax, in the second quarter last year of $2.5 million were largely the result of the sale of non-core properties.

The Company recorded capital gains (losses) and other items, net of tax, of $15.8 million in the 26 weeks ended October 31, 2009 compared to $7.3 million in the 26 weeks ended November 1, 2008. Capital gains and other items in the first half of fiscal 2010 consist primarily of a $17.0 million tax settlement related to the sale of shares in Hannaford Bros. Co. in fiscal 2001. Capital gains and other items in the first half of last year were the result of the sale of non-core properties. Excluding the impact of the Hannaford Bros. Co. tax settlement, capital gains (losses) and other items, net of tax, in the first half of fiscal 2010 were ($1.2) million.

The table below presents capital gains (losses) and other items, net of tax, for the 13 and 26 weeks ended October 31, 2009 compared to the 13 and 26 weeks ended November 1, 2008.

	13 Weeks Ended			26 Weeks Ended		
($ in millions)	**Oct. 31, 2009**	Nov. 1, 2008	($) Change	**Oct. 31, 2009**	Nov. 1, 2008	($) Change
Equity share of Crombie REIT's other expenses	**$ (3.1)**	$ -	$ (3.1)	**$ (3.1)**	$ -	$ (3.1)
Change in fair value of Canadian third-party asset-backed commercial paper	**1.1**	-	1.1	**1.1**	-	1.1
(Loss) gain on sale of properties	**(0.1)**	2.9	(3.0)	**0.1**	7.7	(7.6)
Foreign exchange gains (losses)	**0.4**	(0.4)	0.8	**0.7**	(0.4)	1.1
Tax recovery related to sale of shares in Hannaford Bros. Co.	**-**	-	-	**17.0**	-	17.0
	$ (1.7)	$ 2.5	$ (4.2)	**$ 15.8**	$ 7.3	$ 8.5

Net Earnings

Consolidated net earnings in the second quarter of fiscal 2010 equalled $70.4 million ($1.03 per share) compared to $65.6 million ($1.00 per share) in the second quarter last year. The increase in net earnings of $4.8 million is attributed to the $9.0 million increase in earnings before capital gains and other items, partially offset by the $4.2 million decrease in capital gains and other items, net of tax, as discussed.

Net earnings for the 26 weeks ended October 31, 2009 totalled $160.1 million ($2.34 per share) compared to the $141.3 million ($2.15 per share) reported in the same period last year. The increase in net earnings of $18.8 million is attributed to the $10.3 million increase in earnings before capital gains and other items and the $8.5 million increase in realized net capital gains and other items.

The following table presents Empire's segmented net earnings for the 13 and 26 weeks ended October 31, 2009 compared to the 13 and 26 weeks ended November 1, 2008.

	13 Weeks Ended			26 Weeks Ended		
($ in millions)	**Oct. 31, 2009**	Nov. 1, 2008[1]	($) Change	**Oct. 31, 2009**	Nov. 1, 2008[1]	($) Change
Food retailing [2]	**$ 66.0**	$ 53.9	$ 12.1	**$ 135.2**	$ 112.1	$ 23.1
Real estate	**5.7**	10.3	(4.6)	**11.8**	27.4	(15.6)
Investments & other operations	**(1.3)**	1.4	(2.7)	**13.1**	1.8	11.3
Consolidated	**$ 70.4**	$ 65.6	$ 4.8	**$ 160.1**	$ 141.3	$ 18.8

(1) Amounts have been restated as a result of a change in accounting policy and a reclassification with respect to goodwill and intangible assets. Please see the section entitled "Accounting Policy Changes" in this MD&A.

(2) Includes the impact of depreciation and amortization related to the privatization of Sobeys in June 2007.

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 2010		Fiscal 2009[1]				Fiscal 2008[1]	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	(13 Weeks)	(13 Weeks)	(13 Weeks)	(13 Weeks)	(13 Weeks)	(13 Weeks)	(13 Weeks)	(13 Weeks)
($ in millions, except per share information)	**Oct. 31. 2009**	Aug. 1, 2009	May 2, 2009	Jan. 31, 2009	Nov. 1, 2008	Aug. 2, 2008	May 3, 2008	Feb. 2, 2008
Revenue	**$ 3,874.7**	$ 3,968.5	$ 3,709.0	$ 3,800.0	$ 3,727.9	$ 3,778.2	$ 3,557.8	$ 3,503
Operating income	**120.7**	130.2	109.0	115.6	113.3	128.3	136.2	90.7
Operating earnings [2]	**72.1**	72.2	62.6	65.0	63.1	70.9	73.6	48.9
Capital gains (losses) and other items, net of tax	**(1.7)**	17.5	(0.8)	(3.5)	2.5	4.8	(7.1)	(0.3)
Net earnings	**$ 70.4**	$ 89.7	$ 61.8	$ 61.5	$ 65.6	$ 75.7	$ 66.5	$ 48.6
Per share information, basic								
Operating earnings	**$ 1.06**	$ 1.05	$ 0.95	$ 0.99	$ 0.96	$ 1.08	$ 1.12	$ 0.74
Capital gains (losses) and other items, net of tax	**(0.03)**	0.26	(0.01)	(0.05)	0.04	0.07	(0.11)	-
Net earnings	**$ 1.03**	$ 1.31	$ 0.94	$ 0.94	$ 1.00	$ 1.15	$ 1.01	$ 0.74
Basic weighted average number of shares outstanding (in millions) [3]	**68.4**	68.4	65.9	65.6	65.6	65.6	65.6	65.6
Per share information, diluted								
Operating earnings	**$ 1.06**	$ 1.05	$ 0.95	$ 0.99	$ 0.96	$ 1.08	$ 1.12	$ 0.74
Capital gains (losses) and other items, net of tax	**(0.03)**	0.26	(0.01)	(0.05)	0.04	0.07	(0.11)	-
Net earnings	**$ 1.03**	$ 1.31	$ 0.94	$ 0.94	$ 1.00	$ 1.15	$ 1.01	$ 0.74
Diluted weighted average number of shares outstanding (in millions) [3]	**68.5**	68.5	66.0	65.7	65.7	65.7	65.7	65.7

(1) Amounts have been restated as a result of a change in accounting policy and a reclassification with respect to goodwill and intangible assets. Please see the section entitled "Accounting Policy Changes" in this MD&A.
(2) Operating earnings is earnings before capital gains (losses) and other items.
(3) The increase in the weighted average number of shares outstanding reflects an equity issue completed on April 24, 2009 which resulted in a total of 2,713,000 shares being issued.

For the most recent eight quarters, the Company's financial results have continued to show improvement on a trailing four quarter basis compared to prior periods on the same basis. The Company does experience some seasonality, as evidenced in the results presented above, in particular, during the summer months and over holidays.

Consolidated sales and operating earnings growth have been influenced by the Company's investing activities, the competitive environment, general industry trends and by other risk factors as outlined in the fiscal 2009 annual MD&A, as contained on pages 23 - 60 of the Company's 2009 Annual Report. There have been no material changes to the disclosures as contained in the "Critical Accounting Estimates", "Risk Management" or "Outlook" sections of the Company's fiscal 2009 MD&A other than as noted in this MD&A.

Operating Performance by Division

Food Retailing

Empire's food retailing division is carried out through its wholly-owned subsidiary, Sobeys, which conducts business through more than 1,300 retail grocery stores (corporately owned and franchised) which operate in every province across Canada.

Sobeys' strategy is focused on delivering the best food shopping experience to its customers in the right format, right-sized stores, supported by superior customer service. The five distinct store formats deployed by Sobeys to satisfy its customers' principal shopping requirements are the full service, fresh service, convenience service, community service and price service formats. Sobeys remains focused on improving the product, service and merchandising offerings within each format by expanding and renovating its current store base, while continuing to build new stores. Sobeys' six major banners: Sobeys, IGA *extra*, IGA, Price Chopper, Foodland and Thrifty Foods are the primary focus of these format development efforts.

For the 13 and 26 weeks ended October 31, 2009, Sobeys opened, replaced, expanded, renovated, acquired and/or converted the banners in 12 and 34 stores, respectively (13 and 26 weeks ended November 1, 2008 – 19 and 39, respectively). During the second quarter of fiscal 2010, Sobeys continued to execute a number of initiatives in support of its food-focused strategy including product and service innovations, productivity initiatives and business process, supply chain and system upgrades.

Business Process and Information System Transformation and Rationalization Costs

Sobeys continues to make significant progress in the implementation of system-wide business process optimization and rationalization initiatives that are designed to reduce complexity and improve processes and efficiency throughout Sobeys. The business process and information systems implementation began in Quebec in the first quarter of fiscal 2010. The business process and system initiative costs primarily included labour, implementation and training costs associated with these initiatives. During the second quarter and first half of fiscal 2010, $2.8 million and $6.4 million (2009 - $nil and $nil, respectively) of pre-tax costs respectively were incurred related to these initiatives.

These implementations support all aspects of the business including operations, merchandising, distribution, human resources and administration. They are an important enabler of further initiatives including the new distribution facility in Ontario.

The new distribution centre, in Vaughan, Ontario, utilizes automation technology and equipment 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 second quarter and first half of fiscal 2010, no severance costs were required related to the development of this automated facility (2009 - $2.5 million and $7.4 million, respectively). Amounts in the first half of fiscal 2009 also included the severance costs associated with a resulting rationalization of certain administrative functions in Ontario. The new distribution centre is expected to provide annual distribution savings in excess of these costs incurred in fiscal 2009. In the second quarter, the distribution centre became fully operational and is meeting expectations.

During fiscal 2008 and 2009, Sobeys also performed a rationalization of administrative functions in its National and other regional departments. No additional rationalization costs were incurred in the second quarter and first half of fiscal 2010 (2009 - $0.1 million and $2.2 million, respectively).

The table below summarizes Sobeys' contribution to Empire's consolidated sales, operating income and net earnings:

	13 Weeks Ended		Year-over-Year		26 Weeks Ended		Year-over-Year	
($ in millions)	**Oct. 31, 2009**	Nov. 1, 2008[1]	($) Change	(%) Change	**Oct. 31, 2009**	Nov. 1, 2008[1]	($) Change	(%) Change
Sales	**$ 3,807.0**	$ 3,660.1	$ 146.9	4.0%	**$ 7,713.7**	$ 7,371.6	$ 342.1	4.6%
Operating income[2]	**106.3**	94.6	11.7	12.4%	**227.9**	200.9	27.0	13.4%
Capital gains and other items	**1.1**	-	1.1	-	**1.1**	-	1.1	-
Net earnings[2]	**66.0**	53.9	12.1	22.4%	**135.2**	112.1	23.1	20.6%

(1) Amounts have been restated as a result of a change in accounting policy and a reclassification with respect to goodwill and intangible assets. Please see the section entitled "Accounting Policy Changes" in this MD&A.
(2) Includes the impact of depreciation and amortization related to the privatization of Sobeys in June 2007.

Sales

Food retailing division sales for the second quarter of fiscal 2010 were $3.81 billion compared to $3.66 billion for the same quarter last year, an increase of $146.9 million or 4.0 percent. During the second quarter of fiscal 2010, Sobeys' same-store sales increased by 2.7 percent.

On a fiscal year-to-date basis, food retailing division sales were $7.71 billion compared to $7.37 billion in the same period last year, a $342.1 million or 4.6 percent increase. Fiscal year-to-date same-store sales grew by 3.4 percent.

Operating Income

Sobeys reported operating income of $107.6 million during the second quarter of fiscal 2010, an $11.7 million or 12.2 percent increase from the second quarter last year. Operating income margin in the second quarter equalled 2.83 percent compared to 2.62 percent in the second quarter of fiscal 2009.

After deducting the impact of the depreciation and amortization related to the privatization, Sobeys' operating income contribution to Empire in the second quarter of fiscal 2010 was $106.3 million (second quarter of fiscal 2009 - $94.6 million). Sobeys' operating income margin in the second quarter after adjusting for above items equalled 2.79 percent compared to 2.58 percent in the second quarter of fiscal 2009.

Sobeys reported operating income of $230.5 million during the 26 weeks ended October 31, 2009, a $27.0 million or 13.3 percent increase from the same period last year. Operating income margin in the first half of fiscal 2010 equalled 2.99 percent compared to 2.76 percent in the first half of fiscal 2009.

After deducting the impact of the depreciation and amortization related to the privatization, Sobeys' operating income contribution to Empire in the 26 weeks ended October 31, 2009 was $227.9 million (first half of fiscal 2009 - $200.9 million). Sobeys' operating income margin in the first half of fiscal 2010 after adjusting for the above items equalled 2.95 percent compared to 2.73 percent in the first half of fiscal 2009.

Capital Gains and Other Items

For the second quarter of fiscal 2010, Sobeys reported capital gains and other items, net of tax, of $1.1 million compared to no capital gains or other items in the same quarter last year. Capital gains and other items reported in the current quarter and first half of fiscal 2010 relate to a fair value adjustment to Sobeys' investment in asset-backed commercial paper.

Net Earnings

Sobeys' second quarter net earnings equalled $66.9 million, an increase of $12.1 million or 22.1 percent compared to the $54.8 million recorded in the second quarter of fiscal 2009.

Deducting the impact of the depreciation and amortization related to the privatization and the related tax impact, Sobeys contributed net earnings of $66.0 million to Empire for the second quarter of fiscal 2010, an increase of $12.1 million or 22.4 percent over the $53.9 million recorded in the same period last year.

Sobeys' net earnings for the 26 weeks ended October 31, 2009 equalled $137.0 million, an increase of $23.1 million or 20.3 percent compared to the $113.9 million recorded in the same period of fiscal 2009.

Deducting the impact of the depreciation and amortization related to the privatization and the related tax impact, Sobeys contributed net earnings of $135.2 million to Empire for the first half of fiscal 2010, an increase of $23.1 million or 20.6 percent over the $112.1 million recorded in the same period 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 47.4 percent ownership interest in Crombie REIT and residential land development through an 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 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)	**Oct. 31, 2009**	Nov. 1, 2008	($) Change	**Oct. 31, 2009**	Nov. 1, 2008	($) Change
Revenue						
Residential	**$ 14.0**	$ 13.7	$ 0.3	**$ 25.4**	$ 33.7	$ (8.3)
Commercial	**4.7**	4.0	0.7	**8.4**	8.9	(0.5)
	$ 18.7	$ 17.7	$ 1.0	**$ 33.8**	$ 42.6	$ (8.8)
Operating income						
Residential	**$ 7.3**	$ 7.5	$ (0.2)	**$ 12.4**	$ 21.2	$ (8.8)
Crombie REIT(1)	**4.9**	3.8	1.1	**9.8**	8.4	1.4
Commercial	**1.4**	0.7	0.7	**1.1**	1.9	(0.8)
	$ 13.6	$ 12.0	$ 1.6	**$ 23.3**	$ 31.5	$ (8.2)
Net earnings						
Residential	**$ 5.1**	$ 4.9	$ 0.2	**$ 8.5**	$ 14.5	$ (6.0)
Commercial	**3.7**	2.5	1.2	**6.4**	6.0	0.4
Capital gains (losses), net of tax	**(3.1)**	2.9	(6.0)	**(3.1)**	6.9	(10.0)
	$ 5.7	$ 10.3	$ (4.6)	**$ 11.8**	$ 27.4	$ (15.6)
Funds from operations(2)						
Residential	**$ 5.1**	$ 4.9	$ 0.2	**$ 8.5**	$ 14.5	$ (6.0)
Commercial	**4.1**	2.6	1.5	**7.3**	6.1	1.2
	$ 9.2	$ 7.5	$ 1.7	**$ 15.8**	$ 20.6	$ (4.8)

(1) Equity accounted earnings in Crombie REIT during the period.

(2) Operating earnings plus depreciation and amortization.

Revenue

Real estate division revenue amounted to $18.7 million for the second quarter ended October 31, 2009, a $1.0 million or 5.7 percent increase from the second quarter last year. The increase is attributed to both higher commercial and residential property revenues.

For the 26 weeks ended October 31, 2009, real estate division revenue amounted to $33.8 million, a $8.8 million or 20.7 percent decrease from the same period last year. The decline is attributed largely to lower residential property revenues from Genstar related to weaker lot sales experienced in Empire's first quarter.

Operating Income

Second quarter real estate division operating income was $13.6 million versus $12.0 million in the same quarter last year. The $1.6 million increase in real estate division operating income is the result of a $1.8 million increase in commercial operating income, partially offset by a $0.2 million decline in residential property operating income. Equity accounted earnings in the second quarter of fiscal 2010 from Empire's 47.4 percent interest in Crombie REIT increased $1.1 million from the same quarter last year. Commercial operating income increased by $0.7 million in the second quarter of fiscal 2010 compared to the same quarter last year.

For the 26 weeks ended October 31, 2009, the real estate division contributed operating income of $23.3 million compared to $31.5 million last fiscal year. The decrease of $8.2 million or 26.0 percent was the result of a decline in operating income contributed by residential activities of $8.8 million and a $0.8 million decrease in operating income from commercial operations, partially offset by an increase in equity earnings from Crombie REIT of $1.4 million. The decline in residential property operating income is highly correlated with the decline in revenue as discussed.

Capital Gains (Losses)

There were capital gains (losses), net of tax, of ($3.1) million for the real estate division in the second quarter of fiscal 2010 compared to $2.9 million related to the sale of non-core commercial properties during the second quarter last year. The capital losses recorded in the second quarter of fiscal 2010 are related to Empire's equity share of an interest rate swap agreement which was settled by Crombie REIT during the quarter.

Capital gains (losses), net of tax, for the real estate division amounted to ($3.1) million for the 26 weeks ended October 31, 2009 compared to $6.9 million in the 26 weeks ended November 1, 2008. The capital gains, net of tax, recorded in the first half of fiscal 2009 were related to the sale of several non-core properties.

Net Earnings

Real estate division net earnings contribution in the second quarter amounted to $5.7 million compared to $10.3 million last year, a $4.6 million or 44.7 percent decrease. The earnings decrease is the result of the $6.0 million reduction in capital gains (losses), net of tax, and an increase in interest expense of $0.2 million, partially offset by a $1.6 million increase in operating income.

Real estate division net earnings contribution in the fiscal year-to-date amounted to $11.8 million compared to $27.4 million in the same period last year, a $15.6 million or 56.9 percent decrease. The earnings decrease reflects a $10.0 million decrease in net capital gains (losses), an $8.2 million decrease in operating income, and a $0.4 million increase in interest expense, partially offset by a $3.0 million decrease in income taxes.

Funds from Operations

Funds from operations in the second quarter of $9.2 million increased $1.7 million or 22.7 percent compared to the second quarter of last year largely as a result of higher operating earnings. Trailing (last four quarters) funds from operations for the real estate division were $33.7 million, an increase of 5.3 percent from the trailing (last four quarters) funds from operations of $32.0 million reported on August 1, 2009.

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 and wholly-owned Empire Theatres (the second largest movie exhibitor in Canada).

At October 31, 2009, Empire's investment portfolio (including equity accounted investments in Crombie REIT and Genstar U.S.) consisted of:

	Oct. 31, 2009			May 2, 2009			Nov. 1, 2008		
($ in millions)	**Market Value**	**Carrying Value**	**Unrealized Gain**	Market Value	Carrying Value	Unrealized Gain	Market Value	Carrying Value	Unrealized Gain
Investment in Crombie REIT	**$ 304.0**	**$ 14.1**	**$ 289.9**	$ 175.6	$ (19.7)	$ 195.3	$ 202.1	$ 5.3	$ 196.8
Investment in Wajax	**85.5**	**30.4**	**55.4**	71.3	31.0	40.3	109.9	32.7	77.2
Investment in Genstar U.S.(1)	**11.9**	**11.9**	**-**	7.5	7.5	-	0.1	0.1	-
Other Investments (2)	**11.6**	**11.6**	**-**	1.1	1.1	-	1.3	1.3	-
	$ 413.3	**$ 68.0**	**$ 345.3**	$ 255.5	$ 19.9	$ 235.6	$ 313.4	$ 39.4	$ 274.0

(1) Assumes market value equals book value.

(2) Includes a $10.4 million Crombie REIT convertible unsecured subordianted debenture

The following table presents investments and other operations' financial highlights for the 13 and 26 weeks ended October 31, 2009 compared to the same period last year:

	13 Weeks Ended			26 Weeks Ended		
($ in millions)	**Oct. 31, 2009**	Nov. 1, 2008	($) Change	**Oct. 31, 2009**	Nov. 1, 2008	($) Change
Revenue	**$ 52.3**	$ 50.6	$ 1.7	**$ 99.6**	$ 92.7	$ 6.9
Operating income						
Wajax	**1.9**	5.1	(3.2)	**4.6**	10.6	(6.0)
Other operations, net of corporate expenses	**(1.1)**	1.6	(2.7)	**(4.9)**	(1.4)	(3.5)
Total operating income	**0.8**	6.7	(5.9)	**(0.3)**	9.2	(9.5)
Operating earnings	**(1.6)**	1.8	(3.4)	**(4.7)**	1.4	(6.1)
Capital gains (losses) and other items, net of tax[(1)]	**0.3**	(0.4)	0.7	**17.8**	0.4	17.4
Net earnings	**$ (1.3)**	$ 1.4	$ (2.7)	**$ 13.1**	$ 1.8	$ 11.3

(1) First half fiscal 2010 capital gains and other items, net of tax, includes $17.0 million related to the settlement of Canada Revenue Agency tax reassessment relating to the fiscal 2001 sale of Hannaford Bros. Co. shares.

Revenue

Investments and other operations' revenue, primarily generated by Empire Theatres, equalled $52.3 million in the second quarter ended October 31, 2009 versus $50.6 million in the second quarter last year, a $1.7 million increase. Investments and other operations' revenue, equalled $99.6 million in the 26 weeks ended October 31, 2009 versus $92.7 million in the same period last year, a $6.9 million increase.

Operating Income

Investments and other operations (net of corporate expenses) contributed operating income of $0.8 million compared to $6.7 million in the second quarter last year. Equity accounted earnings generated from the Company's 27.6 percent interest in Wajax amounted to $1.9 million in the second quarter versus $5.1 million last year. Operating income generated from other operations (net of corporate expenses) declined to ($1.1) million from $1.6 million in the second quarter last year.

For the 26 weeks ended October 31, 2009, investments and other operations (net of corporate expenses) contributed operating income of ($0.3) million, a decline of $9.5 million from the $9.2 million recorded in the same period last year. Equity accounted earnings from Wajax declined by $6.0 million to $4.6 million for the 26 weeks ended October 31, 2009. Operating income generated in the first half of fiscal 2010 from other operations (net of corporate expenses) declined to ($4.9) million from ($1.4) million in the first half of last year.

Operating Earnings

Investments and other operations (net of corporate expenses) contributed operating earnings of ($1.6) million in the second quarter of fiscal 2010 compared to $1.8 million in the same quarter last year, a decrease of $3.4 million. This decrease was largely the result of lower equity earnings from Wajax due to the economic slowdown experienced since the second quarter last year.

For the 26 weeks ended October 31, 2009, investments and other operations (net of corporate expenses) equaled ($4.7) million compared to $1.4 million in the same period last year, a decrease of $6.1 million. The decrease was largely the result of lower equity earnings from Wajax as previously discussed.

Capital Gains (Losses)

During the second quarter of fiscal 2010, there were capital gains (losses) and other items, net of tax, of $0.3 million compared to ($0.4) million during the second quarter of fiscal 2009.

On a fiscal year-to-date basis, capital gains and other items, net of tax, equalled $17.8 million compared to $0.4 million in the prior year. Capital gains and other items, net of tax, in the current fiscal year are primarily related to the settlement of the tax reassessment for $17.0 million relating to the sale of Hannaford Bros. Co. in fiscal 2001. The capital gains in the first half of fiscal 2009 were primarily related to the sale of a non-core theatre location.

Net Earnings

Investments and other operations (net of corporate expenses) contributed ($1.3) million to Empire's consolidated second quarter fiscal 2010 net earnings compared to a $1.4 million net earnings contribution in the second quarter last year. The decrease is primarily due to a decline in operating earnings of $3.4 million, partially offset by the $0.7 million increase in capital gains (losses) and other items, net of tax, as discussed.

For the 26 weeks ended October 31, 2009, investments and other operations (net of corporate expenses) contributed $13.1 million to Empire's consolidated net earnings compared to $1.8 million in the same period last year. The increase is primarily related to the Hannafold Bros. Co. tax settlement of $17.0 million, net of tax, included in capital gains, as discussed.

Consolidated Financial Condition

Capital Structure and Key Financial Condition Measures

The Company's financial condition has improved since the start of the fiscal year as evidenced by the capital structure and key financial condition measures in the table below.

($ in millions, except per share and ratio calculations)	**Oct. 31, 2009**	May 2, 2009[1]	Nov. 1, 2008[1]
Shareholders' equity	**$ 2,827.0**	$ 2,678.8	$ 2,466.8
Book value per share	**$ 41.23**	$ 39.07	$ 37.46
Bank indebtedness	**$ 77.4**	$ 45.9	$ 40.5
Long-term debt, including current portion[2]	**$ 1,206.7**	$ 1,257.0	$ 1,435.3
Funded debt to total capital	**31.2%**	32.7%	37.4%
Net debt to total capital ratio[3]	**27.5%**	28.6%	34.5%
Debt to EBITDA[4]	**1.60x**	1.64x	1.87x
EBITDA to interest expense[4]	**10.68x**	9.84x	7.99x
Total assets	**$ 6,008.5**	$ 5,891.1	$ 5,774.3

(1) Amounts have been restated as a result of a change in accounting policy and a reclassification with respect to goodwill and intangible assets. Please see the section entitled "Accounting Policy Changes" in this MD&A.
(2) Includes liabilities related to assets held for sale.
(3) Net debt to total capital reduces funded debt by cash and cash equivalents.
(4) Calculation uses trailing 12-month EBITDA and interest expense.

Shareholders' Equity

The Company's share capital on October 31, 2009 consisted of:

	Authorized Number of Shares	**Issued and Outstanding Number of Shares**	**$ in Millions**
Preferred shares, par value $25 each, issuable in series, redeemable	2,682,100	168,000	$ 4.2
2002 Preferred shares par value $25 each, issuable in series, redeemable	992,000,000	-	-
Non-Voting Class A shares, without par value	259,107,435	34,197,498	316.1
Class B common shares, without par value, voting	40,800,000	34,260,763	7.6
			327.9
Employees' Share Plan			(3.4)
			$ 324.5

There were 34,197,498 Non-Voting Class A and 34,260,763 Class B common shares outstanding at October 31, 2009, for a total of 68,458,261, unchanged from the previous fiscal year-end and 2,713,000 shares higher than November 1, 2008. The increase over the second quarter last year is due to the issue of Non-Voting Class A shares which closed on April 24, 2009 at a price of $49.75 per share.

At October 31, 2009, Empire had 433,209 options outstanding compared to 282,733 options outstanding at November 1, 2008.

During the first half of fiscal 2010, there were no Series 2 preferred shares purchased for cancellation compared to 89,100 Series 2 preferred shares purchased for $2.3 million in the first half of last year. The Company plans to purchase on a best efforts basis additional Series 2 preferred shares by the end of calendar 2009. The Series 2 Preferred Shares are redeemable on the following basis; for the 12 months beginning: January 12, 2009 - $25.15; January 12, 2010 - $25.10; January 12, 2011 - $25.05; January 12, 2012 and thereafter - $25.00.

As at December 10, 2009, the Company had Non-Voting Class A and Class B common shares outstanding of 34,197,498 and 34,260,763, respectively, as well as 433,209 options to acquire in aggregate 433,209 Non-Voting Class A shares.

Dividends paid to common shareholders amounted to $12.7 million in the second quarter ($0.185 per share) versus $11.6 million ($0.175 per share) in the second quarter last fiscal year. For the 26 weeks ended October 31, 2009, dividends paid to common shareholders amounted to $25.4 million ($0.37 per share) versus $23.1 million ($0.35 per share) for the comparable period last 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 October 31, 2009 was $1,206.7 million, representing 94.0 percent of Empire's total funded debt of $1,284.1 million.

Total funded debt has decreased $18.8 million since the end of the fiscal year, May 2, 2009 ($1,302.9 million) and by $191.7 million since the second quarter last year ($1,475.8 million). The significant decrease over the second quarter last fiscal year is primarily the result of repaying debt with net proceeds of $129.1 million from the equity issue completed on April 24, 2009 along with the free cash flow generated by Sobeys which was used in part to reduce funded debt. The ratio of funded debt to total capital has declined by 6.2 percentage points since the second quarter last year to 31.2 percent as a result of the repayment of debt and the issuance of equity as discussed.

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)	**Oct. 31, 2009**	May 2, 2009	Nov. 1, 2008
Food retailing	**$ 864.8**	$ 954.0	$ 1,026.5
Real estate	**37.2**	39.6	47.8
Investments and other operations	**304.7**	263.4	361.0
Total	**$ 1,206.7**	$ 1,257.0	$ 1,435.3

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 2009 as detailed on pages 79 and 80 of the Company's Fiscal 2009 Annual Report.

On July 23, 2008, Dominion Bond Rating Service ("DBRS") changed its trend on Sobeys' credit rating from BBB (low) with a negative trend to BBB (low) with a stable trend. On July 30, 2008, Standard & Poor's ("S&P") changed its trend on Sobeys' credit rating from BB+ with a negative trend to BB+ with a stable trend. On June 26, 2009, DBRS confirmed its long-term debt rating of Sobeys at BBB (low) and revised the trend to positive from stable. On July 6, 2009, S&P confirmed its long-term debt rating of Sobeys at BB+ and revised the trend to positive from stable. During the second quarter of fiscal 2010, on September 14, 2009, DBRS upgraded Sobeys' credit rating to BBB with a stable trend.

Empire's EBITDA to interest expense ratio in the second quarter was 10.7 times, an increase from the 9.8 times reported at the prior fiscal year-end and up significantly from the 8.0 times recorded for the second quarter last fiscal year. The increase over the same quarter last year is due to the reduction in funded debt which resulted in lower interest expense in the second quarter of fiscal 2010 and from an increase in trailing 12-month EBITDA.

Empire and its subsidiaries have provided covenants to its lenders in support of various financing facilities. All covenants were complied with for the 26 weeks ended October 31, 2009 and for the fiscal year ended May 2, 2009.

Financial Instruments

As part of Empire's risk management strategy, the Company actively monitors its exposures to various financial risks including interest rate risk, foreign exchange price risk and commodity price risk. From time to time, Empire or one of its subsidiaries will use a financial instrument for the purpose of mitigating its exposure to one or more types of financial risk. Empire and its subsidiaries do not use financial instruments for speculative purposes. The Company's use of these instruments has not had a material impact on earnings for the 13 and 26 weeks ended October 31, 2009 or for the comparative periods in fiscal 2009.

When Empire or its subsidiaries enter into a financial instrument contract, the Company is exposed to potential credit risk associated with the counterparty of the contract defaulting. To mitigate this risk exposure, Empire's monitors the credit worthiness of the various contract counterparties on an ongoing basis and will take corrective actions as deemed appropriate should a counterparty's credit profile change dramatically.

<u>In-Place Financial Instruments</u>

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 October 31, 2009, there were four interest rate hedges in place with a fair value of ($25.3) million. Sensitivity analysis has been prepared to determine the impact of a change in the underlying forward rate curves on the fair values reported as of October 31, 2009. A parallel shift up/(down) in the underlying forward rate curve of 0.25 percent would impact in the fair value of the swaps by plus or minus $1.7 million and impact other comprehensive income by plus or minus $1.1 million.

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 USD denominated variable rate lease. The terms of the swap match the lease terms. As of October 31, 2009, Sobeys recognized an asset of $0.4 million relating to this instrument. Sobeys estimates that a 10.0 percent increase (decrease) in applicable foreign currency exchange rates would impact the fair value of the swap by plus or minus $1.3 million and would impact other comprehensive income by plus or minus $1.0 million.

To mitigate the risk of changes in the market price of electricity, Sobeys uses financial derivative swap contracts with varying maturities as hedges against the rising costs. As of October 31, 2009, Sobeys recognized a liability of $2.3 million relating to these instruments. Sobeys estimates that a 10.0 percent increase (decrease) in applicable energy prices would impact the fair value of the swaps by plus or minus $0.3 million.

In October 2009, Sobeys entered into heating oil swaps to mitigate the price volatility of a portion of its future diesel fuel purchases. As diesel fuel derivative contracts are not actively traded on any organized futures exchange, there are limited opportunities to hedge diesel fuel prices directly; however, Sobeys uses heating oil derivatives due to the historically high correlations between changes in diesel fuel prices and heating oil prices. As of October 31, 2009, Sobey recognized no asset or liability relating to these instruments.

<u>Fair Value Methodology</u>

When a financial instrument is designated as a hedge for financial accounting purposes, it is classified as "Held for Trading" on the balance sheet and recorded at fair value. The estimated fair values of the financial instruments as at October 31, 2009 were based on relevant market prices and information available at the reporting date. The Company determines fair value of each financial instrument by reference to external and third party quoted bid, ask, and mean prices, as appropriate, in an active market. In inactive markets, fair values are based on internal and external valuation models, such as discounted cash flows using market observed inputs. Fair values determined using valuation models require the use of assumptions to determine the amount and timing of forecasted future cash flows and discount rates. The Company primarily uses external market inputs, including factors such as interest yield curves and forward exchange rates. Changes in interest rates and exchange rates, along with other factors, may cause the fair value amounts to change in subsequent periods. The fair value of these financial instruments reflects the amount the Company would pay or receive if it were to settle the contracts at the reporting date.

For additional disclosure on Empire's use of financial instruments, see Notes 1 and 22 to the Company's annual audited financial statements for fiscal 2009 as in the Company's 2009 Annual Report.

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 October 31, 2009, consolidated cash and cash equivalents were $210.9 million versus $231.6 million at fiscal year-end, May 2, 2009 and $174.1 million at November 1, 2008.

At the end of the second quarter of fiscal 2010, on a non-consolidated basis, Empire directly maintained authorized bank lines for operating, general and corporate purposes of $650 million, of which approximately $289 million or 44 percent were utilized. On a consolidated basis, Empire's authorized bank credit facilities exceeded borrowings by approximately $941 million at October 31, 2009 versus $958 million at August 1, 2009.

Included in the current portion of long-term debt and bank indebtedness is $372.3 million of debt outstanding under three credit facilities that mature within the next twelve months. Empire's management intends to renew or replace each of these credit facilities governing this debt prior to their maturity. To that end, management has held preliminary discussions with the financial institutions providing each of the facilities and has developed a timeline for renegotiating each of the credit facilities to ensure the new facilities are in place prior to the maturity of the existing facilities. However, given the current credit environment, it is expected that the terms of the renewed or replacement credit facilities will not be as favorable as those of the in-place facilities.

The Company anticipates that the above mentioned in-place sources of liquidity will adequately meet its short-term and long-term financial requirements. The Company 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 October 31, 2009 compared to the 13 and 26 weeks ended November 1, 2008.

Major Cash Flow Components

	13 Weeks Ended		26 Weeks Ended	
($ in millions)	**Oct. 31, 2009**	Nov. 1, 2008(1)	**Oct. 31, 2009**	Nov. 1, 2008(1)
Earnings for common shareholders	**$ 70.4**	$ 65.6	**$ 160.1**	$ 141.2
Items not affecting cash	**86.7**	78.6	**176.1**	163.8
	157.1	144.2	**336.2**	305.0
Net change in non-cash working capital	**(93.5)**	(27.8)	**(65.6)**	(38.9)
Cash flows from operating activities	**63.6**	116.4	**270.6**	266.1
Cash flows used in investing activities	**(135.2)**	(55.0)	**(237.8)**	(151.2)
Cash flows used in financing activities	**(18.1)**	(57.7)	**(53.5)**	(132.2)
Increase (decrease) in cash and cash equivalents	**$ (89.7)**	$ 3.7	**$ (20.7)**	$ (17.3)

(1) Amounts have been restated as a result of a change in accounting policy and a reclassification with respect to goodwill and intangible assets. Please see the section entitled "Accounting Policy Changes" in this MD&A.

Operating Activities

Second quarter cash flows from operating activities equalled $63.6 million compared to $116.4 million in the comparable period last year. The decrease of $52.8 million is largely attributed to a decrease in the net change in non-cash working capital of $65.7 million, partially offset by an increase in items not affecting cash of $8.1 million and an increase in earnings available for common shareholders of $4.8 million.

On a fiscal year-to-date basis, cash flows from operating activities equaled $270.6 million compared to $266.1 million in the comparable period last year. The increase of $4.5 million is attributed to an $18.9 million increase in earnings available to common shareholders and a $12.3 million increase in items not affecting cash, partially offset by a $26.7 million decrease in net change in non-cash working capital.

The following tables present non-cash working capital changes on a quarter-over-quarter basis and on a year-over-year basis.

Non-Cash Working Capital (Quarter-over-Quarter)

($ in millions)	Oct. 31, 2009	Aug. 1, 2009(1)	13 Weeks Ended Oct. 31, 2009 Increase (Decrease) in Cash Flows	13 Weeks Ended Nov. 1, 2008(1) Increase (Decrease) in Cash Flows
Receivables	**$ 329.8**	$ 319.3	$ (10.5)	$ (19.0)
Inventories	**891.8**	854.7	(37.1)	(59.9)
Prepaid expenses	**53.4**	68.0	14.6	9.4
Accounts payable and accrued liabilities	**(1,481.6)**	(1,556.1)	(74.5)	19.6
Income taxes receivable (payable)	**17.0**	28.8	11.8	21.2
Impact of reclassifications on working capital(2)	**(2.2)**	-	2.2	0.9
Total	**$ (191.8)**	$ (285.3)	$ (93.5)	$ (27.8)

(1) Amounts have been restated as a result of a change in accounting policy and a reclassification with respect to goodwill and intangible assets. Please see the section entitled "Accounting Policy Changes" in this MD&A.
(2) Reclassifications primarily relate to business acquisitions and rationalization costs and the adoption of the new goodwill and intangibles policy further explained on page 40.

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

($ in millions)	Oct. 31, 2009	Nov. 1, 2008(1)	52 Weeks Ended Oct. 31, 2009 Increase (Decrease) in Cash Flows
Receivables	**$ 329.8**	$ 311.0	$ (18.8)
Inventories	**891.8**	875.5	(16.3)
Prepaid expenses	**53.4**	56.3	2.9
Accounts payable and accrued liabilities	**(1,481.6)**	(1,392.3)	89.3
Income taxes receivable (payable)	**17.0**	(30.4)	(47.4)
Impact of reclassifications on working capital(2)	**9.9**	-	9.9
Total	**$ (199.5)**	$ (179.9)	$ 19.6

(1) Amounts have been restated as a result of a change in accounting policy and a reclassification with respect to goodwill and intangible assets. Please see the section entitled "Accounting Policy Changes" in this MD&A.
(2) Reclassifications primarily relate to business acquisitions and rationalization costs and the adoption of the new goodwill and intangibles policy further explained on page 40.

The net change in non-cash working capital of ($93.5) million in the second quarter was largely due to a decrease in accounts payable and accrued liabilities of $74.5 million, a $37.1 million increase in inventories and an increase in receivables of $10.5 million, partially offset by a $14.6 million decrease in prepaid expenses, an income taxes receivable decrease of $11.8 million and the impact of reclassifications on working capital totalling $2.2 million. The decrease in accounts payable and accrued liabilities is mainly related to a $66.6 million decrease at Sobeys related to significant accruals made in the first quarter of fiscal 2010 on the last day of the quarter, August 1, 2009 for rental payments which were due on the first day of the month.

Compared to the second quarter of fiscal 2009, accounts payable and accrued liabilities increased by $89.3 million, reclassifications impacted working capital by $9.9 million and prepaid expenses decreased by $2.9 million while income taxes receivables increased by $47.4 million, receivables increased by $18.8 million and inventories increased $16.3 million. The increase in receivables, inventories, 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.

Investing Activities

Cash used in investing activities of $135.2 million in the second quarter increased $80.2 million compared to cash used in investing activities of $55.0 million in the same period last year. For the 26 weeks ended October 31, 2009, cash used in investing activities equalled $237.8 million, an increase of $86.6 million compared to cash used in investing activities of $151.2 million in the same period last year.

Consolidated purchases of property and equipment totalled $112.1 million in the second quarter of fiscal 2010 compared to $76.2 million in the second quarter last year. For the 26 weeks ended October 31, 2009, consolidated purchases of property and equipment equaled $213.8 million compared to $197.8 million in the same period last year.

Proceeds on disposal of property and equipment decreased $22.0 million from the second quarter last year to $6.9 million in the second quarter of fiscal 2010. For the fiscal year-to-date, proceeds on disposal of property and equipment equaled $64.5 million compared to $57.9 million in the same period last year, a $6.6 million increase.

Proceeds on disposal in the first half of fiscal 2010 are largely related to the sale leaseback of a retail support centre located in Milton, Ontario to a third party. Proceeds on the sale were $51.0 million resulting in a pre-tax gain of $5.6 million which will be amortized over the life of the long-term lease agreement which has been entered into for the use of this facility. Proceeds on disposal for the second quarter of $28.9 million and for the first half of fiscal 2009 of $57.9 million were related to the sale of several non-core properties.

Cash used in investing activities for the second quarter of fiscal 2010 includes an investment of $10.0 million in Crombie REIT convertible unsecured subordinated debentures as discussed in the "Related Party Transactions" section of this MD&A.

In addition to the $10.0 million convertible debenture purchased in the second quarter, the first half of fiscal 2010 included an additional investment of $30.0 million in Crombie REIT Class B units as discussed in the "Related Party Transactions" section of this MD&A.

The table below outlines the number of stores Sobeys invested in during the 13 and 26 weeks ended October 31, 2009 compared to 13 and 26 weeks ended November 1, 2008:

Sobeys' Corporate and Franchised Store Construction Activity

	13 Weeks Ended		26 Weeks Ended	
# of Stores	**Oct. 31, 2009**	Nov. 1, 2008	**Oct. 31, 2009**	Nov. 1, 2008
Opened/Acquired/Relocated	**10**	11	**24**	22
Expanded	**2**	3	**5**	7
Rebannered/Redeveloped	**-**	5	**5**	10
Closed	**2**	7	**24**	18

The following table shows Sobeys' square footage changes for the 13 and 52 weeks ended October 31, 2009 by type:

Sobeys' Square Footage Changes
(in thousands)

Square Feet	Q2 F10 vs. Q1 F10	Q2 F10 vs. Q2 F09
Opened	118	891
Relocated	6	79
Acquired	-	33
Expanded	28	120
Closed	(14)	(737)
Net Change	138	386

At October 31, 2009, Sobeys' square footage totalled 27.8 million square feet, a 1.5 percent increase over the 27.4 million square feet operated at the end of the second quarter last year.

Financing Activities

Financing activities during the second quarter of fiscal 2010 used $18.1 million of cash compared to $57.7 million of cash used in financing activities in the same quarter last year. The decrease of $39.6 million in cash flows used in financing activities when compared to the same quarter last year is primarily the result of an increase in bank indebtedness of $7.6 million during the second quarter of fiscal 2010 compared to a decrease in bank indebtedness of $11.6 million last year and a decrease in repayment of long-term debt of $31.9 million, partially offset by a $13.7 million decrease in the issuance of long-term debt.

Financing activities during the 26 weeks ended October 31, 2009 used $53.5 million of cash compared to $132.2 million of cash used in financing activities in the same period last year. The variance of $78.7 million in cash flows used in financing activities in the 26 weeks ended October 31, 2009 when compared to the same period last year is primarily the result of an increase in bank indebtedness of $31.5 million during the fiscal year-to-date compared to a decrease in bank indebtedness of $50.2 million in the same period last year and an increase in issuance of long-term debt of $25.5 million, partially offset by an increase in the repayment of long-term debt of $30.6 million.

The Company believes that its cash and cash equivalents, future operating cash flows and available credit facilities will enable the Company to fund future capital investments, pension plan contributions, working capital and ongoing business requirements. The Company believes it has sufficient funding in place to meet these requirements and other long term obligations.

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, dividends and/or debt reduction. The following table reconciles free cash flow to GAAP cash flows used in operating activities for the 13 and 26 weeks ended October 31, 2009 and November 1, 2008.

($ in millions)	13 Weeks Ended **Oct. 31, 2009**	13 Weeks Ended Nov. 1, 2008[1]	26 Weeks Ended **Oct. 31, 2009**	26 Weeks Ended Nov. 1, 2008[1]
Cash flow from operating activities	**$ 63.6**	$ 116.4	**$ 270.6**	$ 266.1
Less: Property and equipment purchases	**112.1**	76.2	**213.8**	197.8
Free cash flow	**$ (48.5)**	$ 40.2	**$ 56.8**	$ 68.3

(1) Amounts have been restated as a result of a change in accounting policy and a reclassification with respect to goodwill and intangible assets. Please see the section entitled "Accounting Policy Changes" in this MD&A.

Free cash flow generation in the second quarter of fiscal 2010 was ($48.5) million compared to $40.2 million in the second quarter last year. The $88.7 million decline in free cash flow from the second quarter last fiscal year was due to a $52.8 million decrease in cash flow from operations due to a decrease in non-cash working capital and a $35.9 million increase in property and equipment purchases.

For the 26 weeks ended October 31, 2009, free cash flow equaled $56.8 million, a decrease of $11.5 million over the free cash flow reported in the same period last year. The decline in free cash flow is due to a $16.0 million increase in property and equipment purchases, partially offset by a $4.5 million increase in cash flow from operating activities.

Accounting Policy Changes

Accounting standards adopted during fiscal 2010

Goodwill and Intangible Assets

In February 2008, the Canadian Institute of Chartered Accountants ("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. As a result of adopting Section 3064, Emerging Issues Committee Abstract 27, "Revenues and Expenditures During the Pre-operating Period" no longer applies. The Company has implemented these requirements effective for the first quarter of fiscal 2010 with a retroactive restatement of the comparative period in accordance with the transitional provisions. The initial impact under the new standard as at May 2, 2009 was a decrease to prepaid expenses of $6.9 million, a decrease to other assets of $62.4 million, a decrease in property and equipment of $33.7 million, an increase to intangibles of $96.1 million, a decrease of future tax liabilities of $2.2 million as well as a reduction of retained earnings of $4.7 million. The impact of the implementation on the balance sheet as at November 1, 2008 was a decrease to prepaid expenses of $4.3 million, a decrease to other assets of $60.3 million, a decrease in property and equipment of $26.8 million, an increase to intangibles of $87.1 million, a decrease of future tax liabilities of $1.3 million and an opening retained earnings reduction of $3.5 million. For the 13 and 26 weeks ended November 1, 2008, cost of sales, selling and administration expenses decreased $2.6 million and $6.0 million, depreciation and amortization expense increased $2.7 million and $5.3 million and income taxes increased $Nil and $0.2 million, respectively.

Future Changes in Accounting Policies

Business Combinations, Consolidated Financial Statements and Non-controlling Interests

In January 2009, the CICA issued three new accounting standards which are based on the International Accounting Standards Board's International Financial Reporting Standard ("IFRS") 3, "Business Combinations". Section 1582, "Business Combinations", which replaces Section 1581 with the same title, aims to improve the relevance, reliability and comparability of the information provided in financial statements about business combinations. This Section is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2011 and assets and liabilities that arose from business combinations that preceded the adoption of this standard should not be adjusted upon adoption. Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests", replace Section 1600, "Consolidated Financial Statements", and establish standards for the preparation of consolidated financial statements and for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards apply to interim and annual consolidated financial statements beginning on or after January 1, 2011. Earlier adoption of all three standards is permitted as of the beginning of a fiscal year, however if an entity chooses to early adopt, all three standards must be adopted concurrently. The Company is currently evaluating the impact of these new standards.

Financial Instruments – Disclosures

In June 2009, the CICA issued amendments to the existing Section 3862, “Financial Instruments – Disclosures”, to more closely align the section with those required under IFRS. The amendments include enhanced disclosure requirements relating to fair value measurements of financial instruments and liquidity risks. These amendments apply to annual financial statements with fiscal years ending after September 30, 2009. The adoption of the amendments to Section 3862 are not expected to have a material impact on the disclosures of the Company.

International Financial Reporting Standards

On February 13, 2008, the Accounting Standards Board of Canada announced that GAAP for publicly accountable enterprises will be replaced by 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 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 is currently evaluating the potential impact of the conversion to IFRS on its financial statements. A formal project governance structure has been developed to ensure regular progress reports are provided to senior management, a structured steering committee, as well as the Audit Committee and Board of Directors. The Company’s IFRS changeover plan is summarized below which details the Company’s progress towards completion of selected key activities.

At this time, the impact on the Company’s future financial position and results of operations is not reasonably determinable or estimable and can not be quantified. 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. Additional information will be provided as the Company moves towards the changeover date.

	KEY ACTIVITIES	MILESTONES/DEADLINES	PROGRESS TO DATE
Financial statement preparation	Review differences in Canadian GAAP/ IFRS accounting policies Evaluate and select IFRS policies & IFRS 1 choices Develop financial statement format and disclosure Quantify effects of changeover in initial IFRS 1 disclosures and fiscal 2011 financial statements	Steering Committee and Audit Committee sign off for all key IFRS accounting policy choices to occur during fiscal 2010 Draft skeleton IFRS annual and interim financial statements by the end of fiscal 2010 Final quantification of conversion effects on fiscal 2011 comparative period by fiscal 2012	Completed diagnostic impact assessment during fiscal 2009, which involved a high level review of major differences between IFRS and Canadian GAAP Analysis of IFRS accounting policy choices is ongoing IFRS 1 exemptions applicable to the entity have been identified; assessment of alternatives is underway In the process of obtaining approval for drafted skeleton annual and interim IFRS financial statements
Training and communication	Educate the Board of Directors, Audit Committee, management, key employees, and other stakeholders Communicate progress of changeover plan to internal and external stakeholders	Ongoing training provided to all groups to align with changeover Additional training will occur as needed during the changeover year Communicate project status updates regularly until completion of IFRS implementation	Completed training for general awareness of IFRS to broad group of finance employees, Board of Directors, and Audit Committee Frequent project status communications have been provided to internal and external stakeholders
Information systems	Determine if business processes require change to be IFRS compliant Determine if software requires upgrades, changes, or additions to support IFRS reporting requirements	IT implementation approach to be completed in fiscal 2010 Changes to systems and dual record-keeping process to be completed at the beginning of fiscal 2011	Assessment of business processes is underway in conjunction with work on accounting policies System impacts for IFRS differences are being assessed, including an assessment of dual record-keeping
Contractual arrangements and compensation	Assess the affect of IFRS on financial covenants, compensation arrangements, budgeting and planning Make any required changes to plans and arrangements	Complete necessary covenant negotiations during fiscal 2011 Complete review of compensation arrangements during fiscal 2011 Complete budgeting plan during fiscal 2011	Preliminary analysis is underway in conjunction with work on accounting policies, and also as part of the key performance indicators and budgeting IFRS project groups
Control environment	Assess and design internal controls over financial reporting (“ICFR”) for all accounting policy changes Assess and design disclosure controls and procedures (“DC&P”) for all identified accounting policy changes	Changes to ICFR and DC&P to be completed by fiscal 2011 Test and evaluate revised controls throughout fiscal 2011 Update Chief Executive Officer/Chief Financial Officer certification process by fiscal 2011	Analysis of control issues is underway in conjunction with the review of IFRS accounting issues and policies MD&A disclosures have begun IFRS communications committee, which includes Investor Relations, has been assembled and is engaged

Internal Controls Over Financial Reporting

Management is responsible for establishing and maintaining adequate ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The control framework management used to design and assess the effectiveness of ICFR is The Internal Control Integrated Framework published by the Committee of Sponsoring Organization of the Treadway Commission ("COSO"). There have been no changes in the Company's ICFR during the period beginning August 2, 2009 and ended October 31, 2009 that have materially affected, or are reasonably likely to materially affect, our ICFR.

Due to inherent limitations common to all ICFR and DC&P, management acknowledges that its ICFR and DC&P may not prevent or detect all misstatements. In addition, management's evaluation of ICFR and DC&P can provide only reasonable, not absolute, assurance that misstatements will be detected when resulting from fraud or error. Management does not consider this limitation to be a material weakness relating to ICFR or a weakness in DC&P that is significant.

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 exchange amount which represents the amount negotiated between the parties as part of the lease agreement. The charges incurred for administrative and management services are on a cost recovery basis (billed at the cost incurred by the invoicing party). For the 13 and 26 weeks ended October 31, 2009, rental payments to Crombie REIT were $14.4 million and $33.0 million, respectively (13 and 26 weeks ended November 1, 2008 - $13.6 million and $26.7 million, respectively). For the 13 and 26 weeks ended October 31, 2009, charges incurred for administrative and management services were $0.4 million and $1.0 million, respectively (13 and 26 weeks ended November 1, 2008 - $0.6 million and $1.5 million, respectively). The Company has non-interest bearing notes payable to Crombie REIT in the amount of $8.9 million related to the subsidy payments to Crombie REIT as outlined in Crombie's initial public offering prospectus.

On December 30, 2008, the Company entered into an agreement to provide Crombie REIT with additional financing through a $20.0 million demand loan facility with substantially the same terms and conditions that govern Crombie REIT's floating rate revolving credit facility. On December 30, 2008, the Company had advanced $10.0 million to Crombie REIT under this facility. On January 29, 2009, the $10.0 million advance was repaid in full. During Empire's second quarter, as a result of the improved financial market conditions, this facility was cancelled.

On February 12, 2009, coincident with Crombie REIT completing mortgage financing on eight properties with a Schedule I Canadian bank, Empire provided Crombie REIT with additional financial support through subordinate mortgages on the eight properties totalling $6.2 million. The terms and conditions of the subordinate mortgages are substantially the same as those governing the first mortgages from the Schedule I Bank except that the interest rate on the second mortgages from the Company will be 50 basis points higher than the interest rate charged by the Schedule I Bank. Concurrent with placing the $6.2 million in mortgage financing, the authorized amount of the demand loan facility between Empire and Crombie REIT was reduced from $20.0 million to $13.8 million prior to its cancellation in the second quarter as discussed.

On June 25, 2009, Crombie REIT closed a bought-deal public offering of units at a price of $7.80 per unit. In satisfaction of its pre-emptive right with respect to the public offering, the Company subscribed for approximately $30.0 million of Class B Units (which are convertible on a one-for-one basis into Units of Crombie REIT). Consequently the Company's interest in Crombie REIT was reduced from 47.9 percent to 47.4 percent.

On September 30, 2009, the Company purchased $10.0 million of convertible unsecured subordinated debentures (the "Debentures") from Crombie REIT, pursuant to a bought-deal prospectus offering of a total of $85.0 million. The Debentures have a maturity date of June 30, 2015. The Debentures have a coupon of 6.25 percent per annum and each $1,000 principal amount of Debenture is convertible into approximately 90.9091 units of Crombie REIT, at any time, at the option of the holder, based on a conversion price of $11.00 per unit. The Debentures have been classified as available-for-sale and are included in investments, at realizable value.

Subsequent to quarter end, on November 5, 2009, a subsidiary of Empire agreed to sell eight commercial properties to Crombie REIT. The selling price of the properties is approximately $62.0 million, excluding closing and transaction costs. The sales are expected to close in stages over the next six months as due diligence and mortgage financing for the properties are finalized. The properties are classified as property and equipment as they are at various stages of completion.

On a fully diluted basis (assuming conversion of all outstanding convertible securities of Crombie REIT), the Company's interest in Crombie REIT would be approximately 42.0 percent.

Designation of Eligible Dividends

The new dividend regime for the favourable tax treatment of "eligible dividends" came into effect on February 21, 2007 as a result of Bill C-28. 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.

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 October 31, 2009, the Company included in other assets $30.0 million (May 2, 2009 - $30.0 million) of third-party ABCP against which the Company estimates the fair value to be $19.1 million (May 2, 2009 - $17.8 million), approximately 64 percent (May 2, 2009 – 59 percent) of the face value. On January 21, 2009, the Company derecognized the existing held-to-maturity assets and received restructured ABCP MAV II notes: A1 - $7.8 million, A2 - $17.5 million, B - $3.2 million, C - $0.9 million and $0.6 million of tracking notes (the "restructured notes") as designated in the Montreal Accord as well as accrued interest. The A1 and A2 notes received an A rating from DBRS. The remaining notes have not yet been rated. The restructured notes are floating rate notes with expected payouts in January 2017. The Company has classified these notes as held for trading and as a result the notes will be fair valued at each reporting period. During fiscal 2009, the Company received $1.0 million of interest and recorded a $4.7 million pre-tax provision. The Company updated its analysis of the fair value of the restructured notes, including factors such as estimated cash flow scenarios and risk adjusted discount rates, and a pre-tax gain of $1.3 million was recorded during the 13 weeks ended October 31, 2009. This increase in value is primarily due to a decrease in credit spreads which resulted in a lower discount rate assumption.

Discount rates vary depending upon the credit rating of the restructured long-term floating rate notes. Discount rates have been estimated using Government of Canada benchmark rates plus expected spreads for similarly rated instruments with similar maturities and structure. The Company has performed a sensitivity analysis on estimated discount rates used in the fair value analysis and determined that a change of one percent would result in a pre-tax change in the fair value of these investments of approximately $1.5 million (May 2, 2009 - $1.3 million).

On August 11, 2009, DBRS downgraded the A2 notes to a BBB (low) under a negative watch. The downgrade did not have a material change in the fair value of the notes. Continuing uncertainties regarding the value of assets which underlie the ABCP, the amount and timing of cash flows and the outcome of the restructuring process could give rise to a further material change in the value of the Company's investment in ABCP which could impact the Company's future earnings. The Company believes it has sufficient credit facilities to satisfy its financial obligations as they come due and does not expect there will be a material adverse impact on its business as a result of this current third-party ABCP liquidity issue.

Economic Environment

Economic conditions have shown some improvement over the first two quarters of fiscal 2010, however management continues to regard conditions as unfavourable which could result in 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

For the 13 and 26 weeks ended October 31, 2009, the Company contributed $1.1 million and $2.1 million respectively (2009 - $nil and $nil, respectively) to its registered defined benefit plans. The Company expects to contribute approximately $4.1 million in fiscal 2010 to these plans. The Company continues to assess the impact of the 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 are 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.
- Net debt is calculated as funded debt less cash and cash equivalents.
- 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 flows 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 October 31, 2009, May 2, 2009 and November 1, 2008, respectively:

($ in millions)	**Oct. 31, 2009**	May 2, 2009(1)	Nov. 1, 2008(1)
Bank indebtedness	**$ 77.4**	$ 45.9	$ 40.5
Long-term debt due within one year	**366.3**	133.0	59.7
Liabilities relating to assets held for sale	**-**	-	6.2
Long-term debt	**840.4**	1,124.0	1,369.4
Funded debt	**1,284.1**	1,302.9	1,475.8
Less: cash and cash equivalents	**(210.9)**	(231.6)	(174.1)
Net funded debt	**1,073.2**	1,071.3	1,301.7
Total shareholders' equity	**2,827.0**	2,678.8	2,466.8
Total capital under management	**$ 3,900.2**	$ 3,750.1	$ 3,768.5

(1) Amounts have been restated as a result of a change in accounting policy and a reclassification with respect to goodwill and intangible assets. Please see the section entitled "Accounting Policy Changes" in this MD&A.

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

Dated: December 10, 2009
Stellarton, Nova Scotia, Canada

SHAREHOLDER AND INVESTOR INFORMATION

EMPIRE COMPANY LIMITED
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B0K 1S0
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Fax: (902) 755-6477
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 & 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)
163,248

DIVIDEND RECORD AND PAYMENT DATES FOR FISCAL 2010

Record Date	Payment Date
July 15, 2009	July 31, 2009
October 15, 2009	October 30, 2009
January 15, 2010	January 29, 2010
April 15, 2010*	April 30, 2010*

* Subject to the approval by Board of Directors.

OUTSTANDING SHARES

As of October 31, 2009	
Non-Voting Class A shares	34,197,498
Class B common shares, voting	34,260,763

TRANSFER AGENT
CIBC Mellon Trust Company
Investor Correspondence
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Toronto, Ontario
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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 Bank Financial Group

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.

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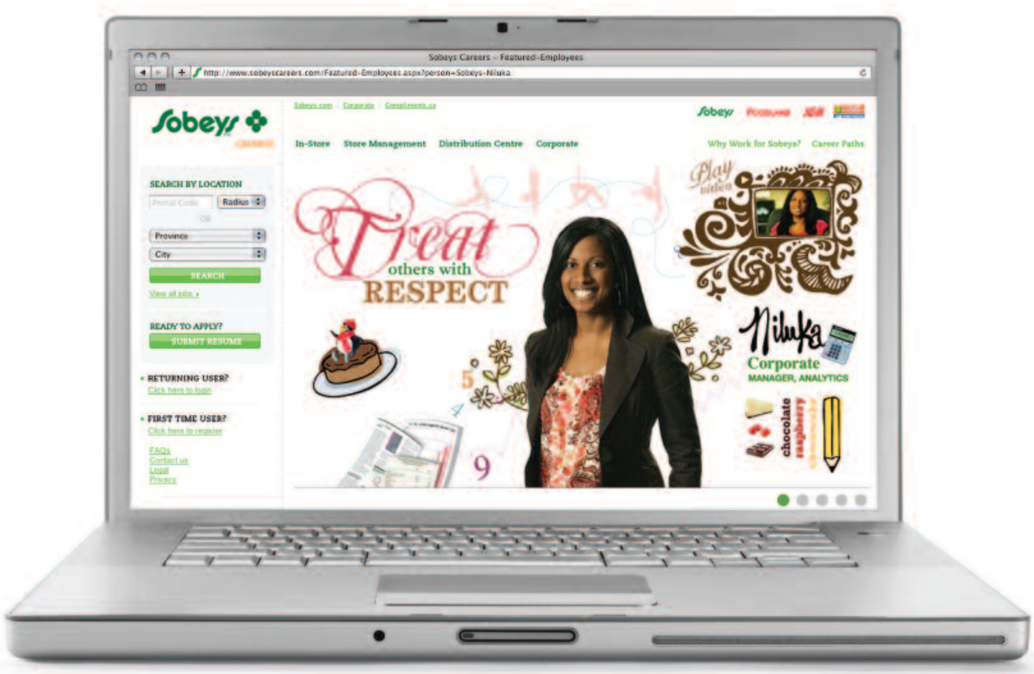

At Sobeyscareers.com it is all about "Careers that fit your life".
Launched in 2009, the site allows visitors to explore the endless opportunities and benefits offered by a career in our stores, distribution centres and offices.

www.empireco.ca