HUDSON'S BAY COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THIRTEEN AND TWENTY-SIX WEEKS ENDED AUGUST 1, 2015

Dated September 9, 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis ("MD&A") is intended to assist readers in understanding the business environment, strategies and performance and risk factors of Hudson's Bay Company and its direct and indirect subsidiaries and predecessors or other entities controlled or jointly controlled by them, referred to herein as "HBC", the "Company", "we", "us", or "our". It should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company and notes thereto for the thirteen and twenty-six week periods ended August 1, 2015. Unless otherwise indicated, all amounts are expressed in Canadian dollars.

The contents of this MD&A were approved by the Company's Audit Committee. This MD&A reflects information as of September 9, 2015.

Basis of Presentation

Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

General Information

Hudson's Bay Company is a Canadian corporation amalgamated under the *Canada Business Corporations Act*. In January 2012, through an internal reorganization, Lord & Taylor LLC ("Lord & Taylor") became a wholly owned subsidiary of HBC. On November 26, 2012, the Company completed an initial public offering (the "IPO") of its common shares (the "Common Shares"), which trade on the Toronto Stock Exchange under the symbol "HBC."

On November 4, 2013, the Company completed its acquisition of all of the outstanding shares of Saks Incorporated ("Saks"), in an all-cash transaction valued at U.S.$2,973 million ($3,097 million), including assumed debt (the "Saks Acquisition").

On July 9, 2015, the Company and RioCan Real Estate Investment Trust ("RioCan") closed the first tranche of their joint venture ("RioCan-HBC JV") focused on real estate growth opportunities in Canada. The second tranche of the RioCan-HBC JV is expected to close later in 2015.

On July 22, 2015, the Company and Simon Property Group Inc. ("Simon") closed their real estate joint venture ("HBC-Simon JV") focused on credit tenant, net-leased and multi-tenant retail buildings in the United States and internationally.

References in this MD&A to Department Store Group ("DSG") refer to the Company as structured prior to the acquisition of Saks (i.e., excluding Saks). Home Outfitters merged into the home business at Hudson's Bay during the second quarter of Fiscal 2014. As such, Home Outfitters is reported within DSG effective the third quarter of Fiscal 2014.

References to the "Queen Street Sale" in this MD&A refer to the sale of the Company's downtown Toronto flagship store and adjacent Simpson's Tower office complex in the first quarter of Fiscal 2014 (see note 22 of the unaudited interim condensed consolidated financial statements for the thirteen and twenty-six week periods ended August 1, 2015).

Accounting Periods

This MD&A is based on the unaudited interim condensed consolidated financial statements and accompanying notes thereto for the thirteen and twenty-six week periods ended August 1, 2015.

Forward-Looking Statements

Certain statements in this MD&A regarding our current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements or any other future events or developments, including without limitation statements under the headings “Overview – Our Business” and “Outlook”, and in regards to the closing of the second tranche of the RioCan-HBC JV, the timing and completion of the contemplated acquisition of Kaufhof (defined herein) and the anticipated sale of at least 40 Kaufhof owned or partially-owned properties to the HBC-Simon JV, constitute forward-looking statements within the meaning of applicable securities laws. The words “may”, “will”, “would”, “should”, “could”, “expects”, “plans”, “intends”, “trends”, “indications”, “anticipates”, “believes”, “estimates”, “predicts”, “likely” or “potential”, or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements.

Forward-looking statements are based on current estimates and assumptions made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate and reasonable in the circumstances. However, there can be no assurance that such estimates and assumptions will prove to be correct.

Many factors could cause our actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, which are discussed in greater detail in the Company’s Annual Information Form for Fiscal 2014 filed on SEDAR on April 30, 2015 and in the “Risk Factors” section of this MD&A: ability to execute retailing growth strategies, ability to continue same store sales growth, changing consumer preferences, marketing and advertising program success, damage to brands and dependence on vendors, ability to realize synergies and growth from the Saks Acquisition, ability to make successful acquisitions and investments, constating documents discouraging favorable takeover attempts, successful inventory management, loss or disruption in centralized distribution centers, ability to upgrade and maintain our information systems to support the organization and protect against cyber-security threats, privacy breach, risks relating to our size and scale, loss of key personnel, ability to attract and retain qualified employees, deterioration in labour relations, ability to maintain pension plan surplus, funding requirement of Saks pension plan, limits on insurance policies, loss of intellectual property rights, insolvency risk of parties which we do business with or their unwillingness to perform their obligations, exposure to changes in the real estate market, successful completion of the second tranche of the RioCan-HBC JV, successful operation of the joint ventures to allow us to realize the anticipated benefits, loss of flexibility with respect to properties in the joint ventures, successful completion of the Kaufhof acquisition as contemplated and within the anticipated timeline, the ability of the HBC-Simon JV to enter into definitive documentation, secure acceptable debt financing or satisfy other conditions in order to complete the acquisition of 40 Kaufhof properties, exposure to environmental liabilities, liabilities associated with Target Corporation, changes in demand for current real estate assets, increased competition, change in spending of consumers, international operational risks, fluctuations in the U.S. and Canadian dollars, increase in raw material costs, seasonality of business, extreme weather conditions or natural disasters, ability to manage indebtedness and cash flow, risks related with increasing indebtedness, restrictions of existing credit facilities reducing flexibility, ability to maintain adequate financial processes and controls, ability to maintain dividends, ability of a small number of shareholders to influence the business, uncontrollable sale of the Company’s common shares by significant shareholders could affect share price, increase in regulatory liability, increase in product liability or recalls, increase in litigation, developments in the credit card and financial services industries, other risks inherent to our business and/or factors beyond our control which could have a material adverse effect on us. Additional risks and uncertainties are discussed in the Company’s materials filed with the Canadian securities regulatory authorities from time to time. These factors are not intended to represent a complete list of the factors that could affect us; however, these factors should be considered carefully.

The purpose of the forward-looking statements is to provide the reader with a description of management’s current expectations regarding the Company’s financial performance and may not be appropriate for other purposes; readers should not place undue reliance on forward-looking statements made herein. To the extent any forward-looking information in this MD&A constitutes future-oriented financial information or financial outlooks, within the meaning of securities laws, such information is being provided to demonstrate the potential of the Company and readers are cautioned that this information may not be appropriate for any other purpose. Future-oriented financial information and financial outlooks, as with forward-looking information generally, are based on assumptions and subject to risks, uncertainties and other factors. Furthermore, unless otherwise stated, the forward-looking statements contained in this MD&A are made as of the date of this MD&A, and we have no intention and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities law. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Non-IFRS Measures

This MD&A makes reference to certain non-IFRS measures. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, they should not be considered in isolation or as a substitute for analysis of our financial information reported under IFRS. We use non-IFRS measures including gross profit, EBITDA, EBITDAR, Adjusted EBITDAR, Adjusted EBITDA, Normalized Net Loss and Normalized Selling, General & Administrative Expenses to provide investors with supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We also believe that securities analysts, investors, rating agencies and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Our management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess our ability to meet our future debt service, capital expenditure and working capital requirements.

For additional detail, refer to our tables outlining the relevant definitions and reconciliations of Net Earnings (Loss) to EBITDA, Adjusted EBITDAR and Adjusted EBITDA, and Net Earnings (Loss) to Normalized Net Loss.

This MD&A also makes reference to certain financial results expressed on a constant currency basis. In calculating the same store sales change on a constant currency basis, prior year foreign exchange rates are applied to both current year and prior year same store sales. This enhances the ability to compare underlying sales trends by excluding the impact of foreign currency exchange rate fluctuations. Definitions and calculations of same store sales differ among companies in the retail industry.

Second Quarter Events

- On May 27, 2015, the Company announced the appointment of Dan Caspersen as Executive Vice President, Human Resources.
- On June 10, 2015, the Company declared a quarterly dividend, which was paid on July 15, 2015 to shareholders of record at the close of business June 30, 2015, in the amount of $0.05 per Common Share.
- On June 15, 2015, the Company announced that it had entered into a definitive agreement with Metro AG to acquire Galeria Holding ("Kaufhof"), the parent company of Germany's leading department store Galeria Kaufhof, for an enterprise value of approximately €2.8 billion. The acquisition is subject to customary closing conditions and is currently expected to close in the third quarter of 2015.
- On June 15, 2015, the Company announced that it had entered into an agreement in principle with Simon pursuant to which the HBC-Simon JV intends to purchase at least 40 of Kaufhof's owned or partially-owned properties for approximately €2.4 billion, subject to definitive documentation, securing acceptable debt financing and certain other conditions.
- On July 9, 2015, the Company and RioCan announced that they closed the first tranche of the previously announced RioCan-HBC JV.
- On July 22, 2015, the Company announced that it had closed the previously announced HBC-Simon JV.
- The Company opened four Saks Fifth Avenue OFF 5TH ("OFF 5TH") stores, which are located in Los Angeles, California; San Francisco, California; Stamford, Connecticut and Las Vegas, Nevada. The Company closed one Saks Fifth Avenue store located in Santa Barbara, California and one Home Outfitters store located in Burnaby, British Columbia.

Subsequent Events

- On August 18, 2015, the Company announced the appointment of Janet Schalk as Chief Information Officer.

Overview

Our Business

Hudson's Bay Company, founded in 1670, is North America's oldest company. HBC operates four iconic retail banners – Hudson's Bay, Lord & Taylor, Saks Fifth Avenue and OFF 5TH. Our portfolio of brands offers a compelling assortment of apparel, accessories, shoes, beauty and home merchandise. Hudson’s Bay is Canada's leading department store with 90 full-line locations, two outlet stores and thebay.com. Lord & Taylor offers high-quality and fashionable merchandise in 50 full-line department store locations, primarily in the northeastern and mid-Atlantic U.S., four Lord & Taylor outlet locations and lordandtaylor.com. Saks Fifth Avenue, one of the world's pre-eminent luxury specialty retailers, comprises 38 U.S. stores, five international licensed stores and saks.com. OFF 5TH offers great brands at great values through 85 U.S. stores and saksoff5th.com. Home Outfitters is Canada's largest kitchen, bed and bath specialty superstore with 66 locations. The Company also operates two Zellers clearance centres in Canada.

We intend to continue to grow our retail sales primarily through the following strategies:

- *Driving Growth Across All Channels.* We are focused on driving growth both within and across our store and digital channels. We are building our capabilities and enhancing our store experience to allow our customers to shop seamlessly across stores and digital and believe that serving our customers across all channels results in increased spend and loyalty. We are also strengthening our digital presence through HBC Digital, our team that manages digital commerce and marketing strategy and execution for our digital brands, and continuing to differentiate our store merchandise and experience to grow these channels.

- *Expanding Our Off-Price Business.* We have refined the OFF 5TH business model to offer more national brands at a clearer value proposition in an easier-to-shop environment. We intend to accelerate the pace of new store openings and have introduced a larger OFF 5TH format.

- *Bringing Saks Fifth Avenue and OFF 5TH to Canada.* We intend to leverage our existing Canadian infrastructure, institutional knowledge and experience to efficiently and effectively bring Saks Fifth Avenue and OFF 5TH to Canada. We believe there is an opportunity to open up to seven Saks Fifth Avenue stores and up to 25 OFF 5TH stores in Canada over the coming years, with the first full-line and OFF 5TH stores planned to open in 2016.

In addition, we believe there is an opportunity to realize significant operating margin improvements through the following initiatives:

- *Saks Acquisition Synergies.* The targeted annualized Saks Acquisition synergies of approximately $100 million by 2016 are currently expected to be realized in a variety of areas, including (i) administration and other shared services; (ii) store expenses; (iii) information technology infrastructure; and (iv) gross profit enhancements.

- *Operating Expense Management.* We will continue to aggressively manage our operating expenses and leverage our significantly increased scale to optimize costs.

- *Gross Profit Enhancements.* We will continue to work to increase our gross profit through (i) upgrading technology to better plan, buy and allocate merchandise; and (ii) using our evolving digital commerce fulfillment functionalities to optimize inventory productivity across each banner.

In addition to successfully operating and integrating our retail business and banners, the Company has demonstrated a history of surfacing and leveraging value from its substantial real estate holdings, which also serves to strengthen the Company's balance sheet and operating business. Previous transactions and initiatives include the 2011 sale of the Zellers leases for $1.8 billion, along with the sale and leaseback of the Queen Street property in Toronto for $650 million and the U.S.$1.25 billion mortgage financing of the ground portion of the Saks Fifth Avenue flagship property in New York City in Fiscal 2014.

As previously announced, the first tranche of the RioCan-HBC JV and the HBC-Simon JV transactions closed in the second quarter of Fiscal 2015. The joint ventures create new growth platforms for the Company; real estate in the United States, Canada and internationally. The Company also entered into an agreement in principle with Simon pursuant to which the HBC-Simon JV intends to purchase at least 40 of the Kaufhof owned or partially-owned properties from HBC following HBC's acquisition of Kaufhof. We believe these joint ventures to be the optimal structures to fund the expansion of our real estate portfolio. It is expected that future property acquisitions will diversify the asset portfolios and tenant base of each joint venture and create additional value for our shareholders. Importantly, the transactions are structured to facilitate an IPO or other monetization transaction of each joint venture at a future date. See the "Real Estate Joint Ventures" section of this MD&A.

Highlights of the thirteen week period ended August 1, 2015

- Retail sales, which include digital commerce sales from all banners, were $2,038 million for the thirteen week period ended August 1, 2015, an increase of $269 million or 15.2% from $1,769 million for the thirteen week period ended August 2, 2014.

- Consolidated same store sales increased by 14.3% and on a constant currency basis by 4.2% over the comparable thirteen week period in Fiscal 2014. On a constant currency basis, same store sales increased by 4.9% at DSG and by 0.1% at Saks Fifth Avenue and 12.7% at OFF 5TH on a local currency basis.

- Digital commerce sales increased by 30.0% on a constant currency basis over the thirteen week period ended August 2, 2014, reflecting the Company's continued strategic focus on growing this channel.

- Gross profit rate as reported was 40.1% of retail sales, or a 50 basis point improvement over the thirteen week period ended August 2, 2014.

- Adjusted EBITDAR was $139 million compared to $142 million for the second quarter of Fiscal 2014, a decrease of $3 million. As a percentage of retail sales, Adjusted EBITDAR was 6.8% compared to 8.0% for the second quarter of Fiscal 2014.

- Adjusted EBITDA was $66 million compared to $81 million for the second quarter of Fiscal 2014, a decrease of $15 million. As a percentage of retail sales, Adjusted EBITDA was 3.2% compared to 4.6% for the second quarter of Fiscal 2014.

Highlights of the twenty-six week period ended August 1, 2015

- Retail sales, which include digital commerce sales from all banners, were $4,110 million for the twenty-six week period ended August 1, 2015, an increase of $486 million or 13.4% from $3,624 million for the twenty-six week period ended August 2, 2014.

- Consolidated same store sales increased by 12.9% and on a constant currency basis by 3.5% over the comparable twenty-six week period in Fiscal 2014. On a constant currency basis, same store sales increased by 4.9% at DSG and by 0.4% at Saks Fifth Avenue and 11.5% at OFF 5TH on a local currency basis.

- Digital commerce sales increased by 26.8% on a constant currency basis over the twenty-six week period ended August 2, 2014, reflecting the Company's continued strategic focus on growing this channel.

- Gross profit rate as reported was 40.5% of retail sales, or a 140 basis point improvement over the twenty-six week period ended August 2, 2014. Adjusting for the negative impact associated with the amortization of inventory related purchase accounting adjustments in the first half of Fiscal 2014, the comparable gross profit rate was 40.2%. On a comparable basis, gross profit was realized at a 30 basis point improvement when compared to the prior year.

- Adjusted EBITDAR was $305 million compared to $303 million for the twenty-six week period ended August 2, 2014, an increase of $2 million. As a percentage of retail sales, Adjusted EBITDAR was 7.4% compared to 8.4% for the first half of Fiscal 2014.

- Adjusted EBITDA was $162 million compared to $178 million for the twenty-six week period ended August 2, 2014, a decrease of $16 million. As a percentage of retail sales, Adjusted EBITDA was 3.9% compared to 4.9% for the first half of Fiscal 2014.

Factors Affecting Our Performance

Retail Sales

The majority of our sales are from branded merchandise purchased directly from the brand owners or their licensees. We focus on offering a broad selection of branded and private-label merchandise appealing to the fashion taste of our customers. The quality and breadth of our selection allow us to change the mix of our merchandise based on fashion trends and individual store locations, and enable us to address a broad customer base.

Same Store Sales

The Company calculates same store sales on a year-over-year basis from stores operating for at least 13 months and includes online sales and clearance store sales. Stores undergoing remodeling remain in the same store sales calculation base unless the store is closed for a significant period of time. Effective Fiscal 2015, the calculation for same store sales for our operating segments (DSG, Saks Fifth Avenue and OFF 5TH) excludes sales related accounting adjustments. In calculating the same store sales change on a constant currency basis, prior year foreign exchange rates are applied to both current year and prior year same store sales. This enhances the ability to compare underlying sales trends by excluding the impact of foreign currency exchange rate fluctuations. Same Store Sales results disclosed under 'Summary of Consolidated Quarterly Results' have been updated to reflect this revised approach. Definitions and calculations of same store sales differ among companies in the retail industry.

Gross Profit

Our cost of sales consists mainly of merchandise purchases, including transportation and distribution costs. Purchases are variable and proportional to our sales volume. We record vendor rebates as a reduction of inventory cost. All costs directly associated with transportation and distribution, excluding central storage costs and any idle capacity, are capitalized as merchandise inventories.

We work to manage gross margin in a number of different ways. We manage the level of promotional activity relative to regular price activity and manage inventory levels to minimize the need for substantial clearance activity. We source private-label products and directly import certain branded products from overseas markets including, among others, China, India, Indonesia, Bangladesh, Vietnam, Cambodia and Europe. As a result, our cost of sales for our Canadian operations is impacted by the fluctuation of foreign currencies against the Canadian dollar. In particular, we purchase a significant amount of our imported merchandise from suppliers in Asia using U.S. dollars. Therefore, our cost of sales is impacted by the fluctuation of the U.S. dollar against the Canadian dollar.

We enter into forward contracts to hedge some of our exposure to fluctuations in the value of the U.S. dollar against the Canadian dollar. Increases in the price of merchandise, raw materials, fuel and labour, or their reduced availability, could increase our cost of goods and negatively impact our financial results. Generally, we offset these cost increases with pricing adjustments in order to maintain a consistent mark-up on the merchandise, which might cause changes in our unit volume but typically has a minimal impact on our gross profit rates.

Foreign Exchange

Our net investment in Lord & Taylor Acquisition Inc. ("L&T Acquisition"), the indirect parent of Lord & Taylor and Saks, whose functional currency is U.S. dollars, presents a foreign exchange risk to HBC, whose functional currency is Canadian dollars. Since the Saks Acquisition, the Company was using a net investment hedge to mitigate this risk. The Company had designated U.S.$800 million of the U.S.$2,000 million senior secured term loan facility with Bank of America, N.A., as an administrative agent, (the "Senior Term Loan B"), as a hedge of the first U.S.$800 million of net assets of L&T Acquisition. In Fiscal 2014, the hedge was subsequently reduced to U.S.$350 million upon pay down of certain debt, and further to nil, upon pay down of a portion of the Senior Term Loan B. The Senior Term Loan B was repaid in full during the Company's second quarter using proceeds from the joint ventures which resulted in the disposal of the hedging instrument previously designated as part of its net investment hedge.

Foreign currency translation of the net earnings (loss) of L&T Acquisition impacts consolidated net earnings (loss). Foreign currency translation of the Company's investment in L&T Acquisition impacts other comprehensive income (loss).

Selling, General & Administrative Expenses ("SG&A")

Our SG&A consists of store labour and maintenance costs, store occupancy costs, advertising and marketing costs, salaries and related benefits of corporate and field management associates, administrative office expenses, services purchased and other related expenses. SG&A includes buying and occupancy costs and excludes transportation and distribution centre costs included in inventory and cost of sales. It also includes pension, restructuring and other non-recurring items and excludes depreciation and amortization expenses. Although our average hourly wage rate is higher than the minimum wage, an increase in the mandated minimum wage could significantly increase our payroll costs unless we realize offsetting productivity gains and cost reductions.

Our occupancy costs are driven primarily by rent expense, which may include escalation clauses over existing lease terms, including option periods. We believe that our existing leases are generally consistent with current market rates. When entering new leases, we are generally able to negotiate leases at attractive market rates due to the increased consumer traffic that our stores generate in strip malls and shopping centres.

Under our legacy credit agreements, we earned royalty payments from credit card issuers based on the total of Company and other sales charged to either the Private Label Credit Cards ("PLCC") or MasterCard. Royalty rates changed based on the year-to-date credit volume of out-of-store credit card sales. We also received bounty payments from credit card issuers for each approved PLCC or MasterCard account. Bounty and royalty payments were recognized based on expected or actual performance over the life of the credit card agreements. With respect to the legacy credit agreement for Saks, the Company earned a blend of royalty payments, bounty payments and shared in the income and losses of the legacy credit program. In addition, pursuant to a servicing agreement with a credit card issuer, the Company received compensation for providing key customer service functions including new account openings, transaction authorizations, billing adjustments and customer inquiries. All credit card revenues related to the legacy credit agreements are included as a reduction of SG&A in our financial statements. We had no risk of credit loss on the credit card receivables in the underlying portfolio.

Effective January 1, 2015, we entered into a new credit card program that has replaced our legacy credit card programs. Under this program, we share in the income and losses of the credit card program related to private label and co-branded credit cards at Hudson's Bay, Lord & Taylor and Saks. The new credit card program was effective as of January 1, 2015 with respect to Hudson's Bay and Saks. In June 2015, we completed the transition to include Lord & Taylor's active participation to the program. Income related to the new program is included in SG&A.

Finance Costs

Our finance costs are expenses derived from the financing activities of the Company, including interest expense on long and short-term borrowings, gains or losses on the early extinguishment of debt and fair value gains or losses and amortization charges related to embedded derivatives. In addition to credit ratings and credit spreads, our finance costs are dependent on fluctuations in the underlying indexes used to calculate interest rates, including, but not limited to the Canadian prime rate, the Canadian Dealer Offered Rate and the London Interbank Offered Rate.

In connection with the Saks Acquisition, we issued Common Share purchase warrants to H.S. Investment L.P. (“HSILP”), an affiliate of Ontario Teachers' Pension Plan, and to West Face Long Term Opportunities Global Master L.P., a fund advised by West Face Capital Inc. The non-cash charges associated with the warrants fluctuate with changes in the Common Share price and other factors, as they require mark-to-market adjustments each reporting period. We record the mark-to-market valuation adjustment of these warrants as finance costs based on their end-of-period valuations.

Weather

Extreme weather conditions in the areas in which the Company’s stores are located could adversely affect the Company’s business. For example, frequent or unusually heavy snowfall, ice storms, rainstorms, earthquakes, or other extreme weather conditions over a prolonged period could make it difficult for the Company’s customers to travel to its stores and thereby reduce the Company’s sales and profitability. The Company’s business is also susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season could result in lower sales and more promotional activity to clear merchandise at the end of the season. Reduced sales from extreme or prolonged unseasonable weather conditions could adversely affect the Company’s operating results.

Competition

The Company conducts its retail merchandising business under highly competitive conditions. Although the Company is one of North America’s largest retailers, it has numerous and varied competitors at the national and local levels, including conventional and specialty department stores, other specialty stores, mass merchants, value retailers, discounters, and internet and mail-order retailers. Competition may intensify as new competitors enter into the markets in which our banners operate including U.S. competitors entering into the Canadian market, and/or if our competitors enter into business combinations or alliances. Competition is characterized by many factors, including assortment, advertising, price, quality, service, location, reputation and credit availability. If the Company does not compete effectively with regard to these factors, its results of operations could be materially and adversely affected.

Consumer Trends

The fashion and retail industries are subject to sudden shifts in consumer trends and consumer spending. The Company’s sales and operating results depend, in part, on its ability to predict or respond to changes in fashion trends and consumer preferences in a timely manner. The Company develops new retail concepts and continuously adjusts its market positioning in branded and private-label merchandise and product categories in an effort to satisfy customer demand. Any sustained failure to anticipate, identify and respond to emerging trends in lifestyle and consumer preferences could have a material adverse effect on the Company’s business. Consumers’ discretionary spending impacts the Company’s sales and may be affected by many factors outside of the Company’s control, including general economic conditions, consumer disposable income levels, consumer confidence levels, the availability, cost and level of consumer debt, the costs of basic necessities and other goods, and the effects of weather or natural disasters.

Seasonality

The quarterly sales and earnings of the Company are significantly impacted by customer sales patterns. As a result, sales in the fiscal fourth quarter, due to the holiday shopping season, represent a much greater portion of our annual sales volume and a substantial portion of our annual earnings. We generate approximately one-third of our sales during the fourth quarter of each fiscal year due to the Christmas and holiday shopping season.

Selected Consolidated Financial Information

The following tables set out summary unaudited consolidated financial information and supplemental information for the periods indicated. The summary financial information set out below has been derived from unaudited interim condensed consolidated financial statements, prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, for the thirteen and twenty-six week periods ended August 1, 2015. The unaudited financial information presented has been prepared on a basis consistent with our audited consolidated financial statements for Fiscal 2014. In the opinion of our management, such unaudited financial data reflects all adjustments, consisting of normal and recurring adjustments, necessary for a fair presentation of the results for those periods. The results of operations for interim periods are not necessarily indicative of the results to be expected for a full year or any future period.

	Thirteen week period ended				**Twenty-six week period ended**			
(millions of Canadian dollars except per share amounts)	**August 1, 2015**		**August 2, 2014**		**August 1, 2015**		**August 2, 2014**	
	$	% (1)	$	% (1)	$	% (1)	$	% (1)
Earnings Results								
Retail sales	2,038	100.0%	1,769	100.0%	4,110	100.0%	3,624	100.0%
Cost of sales	(1,220)	(59.9%)	(1,069)	(60.4%)	(2,446)	(59.5%)	(2,208)	(60.9%)
Gross profit	818	40.1%	700	39.6%	1,664	40.5%	1,416	39.1%
Selling, general & administrative expenses	(775)	(38.0%)	(652)	(36.9%)	(1,555)	(37.8%)	(1,333)	(36.8%)
Depreciation and amortization	(101)	(4.9%)	(81)	(4.6%)	(201)	(4.9%)	(163)	(4.5%)
Gain on contribution of assets to joint ventures	133	6.5%	—	—	133	3.2%	—	—
Gain on Queen Street Sale	—	—	—	—	—	—	308	8.5%
Operating income (loss)	75	3.7%	(33)	(1.9%)	41	1.0%	228	6.3%
Finance costs	(52)	(2.6%)	(29)	(1.6%)	(99)	(2.4%)	(104)	(2.9%)
Share of net earnings (loss) in joint ventures, net of income taxes	(4)	(0.2%)	—	—	(4)	(0.1%)	—	—
Earnings (loss) before income tax	19	0.9%	(62)	(3.5%)	(62)	(1.5%)	124	3.4%
Income tax benefit	48	2.4%	26	1.5%	75	1.8%	16	0.5%
Net Earnings (loss)	67	3.3%	(36)	(2.0%)	13	0.3%	140	3.9%
Net Earnings (loss) per Common Share – basic	0.37		(0.20)		0.07		0.77	
Net Earnings (loss) per Common Share – diluted	0.33		(0.23)		0.07		0.75	
Weighted average Common Shares outstanding - basic (millions)	182		182		182		182	
Weighted average Common Shares outstanding - diluted (millions)	188		182		185		182	
Supplemental Information								
EBITDA (2)	56	2.7%	58	3.3%	133	3.2%	103	2.8%
Adjusted EBITDAR (2)	139	6.8%	142	8.0%	305	7.4%	303	8.4%
Adjusted EBITDA (2)	66	3.2%	81	4.6%	162	3.9%	178	4.9%
Normalized Net Loss for the period (2)	(53)	(2.6%)	(28)	(1.6%)	(86)	(2.1%)	(55)	(1.5%)
Normalized Net Loss per Common Share – basic and diluted (2)	(0.29)		(0.15)		(0.47)		(0.30)	
Declared dividend per Common Share	0.05		0.05		0.10		0.10	

	Thirteen week period ended		Twenty-six week period ended	
	August 1, 2015	August 2, 2014	August 1, 2015	August 2, 2014
Reported Retail Sales Percentage Change				
Consolidated	15.2%	86.6%	13.4%	97.8%
Same Store Sales Percentage Change [3]				
Consolidated	14.3%	5.0%	12.9%	6.8%
Consolidated (constant currency basis)	4.2%	1.9%	3.5%	2.3%
DSG [4]	4.9%	1.1%	4.9%	1.8%
Saks Fifth Avenue [5]	0.1%	0.3%	0.4%	1.4%
OFF 5TH [5]	12.7%	15.2%	11.5%	15.2%
Store Information				
Store count [6]				
Hudson's Bay	90	90		
Lord & Taylor	50	49		
Saks Fifth Avenue	38	39		
OFF 5TH	85	77		
Home Outfitters	66	69		
Total	329	324		
Gross leasable area/Square footage (thousands) [6]				
Hudson's Bay	16,123	16,123		
Lord & Taylor	6,898	6,798		
Saks Fifth Avenue	4,741	4,769		
OFF 5TH	2,423	2,114		
Home Outfitters	2,413	2,515		
Total	32,598	32,319		

Balance Sheet Data	August 1, 2015	August 2, 2014 [7]	January 31, 2015
	$	$	$
Cash	58	38	168
Trade and other receivables	168	114	212
Inventories	2,539	2,050	2,349
Current assets	2,900	2,328	2,829
Property, plant and equipment	3,672	3,962	4,606
Intangible assets	1,030	951	1,076
Goodwill	244	204	237
Investment in joint venture [8]	313	—	—
Total assets	8,497	7,758	9,072
Current liabilities [9]	1,660	1,459	1,803
Loans and borrowings (including current portion)	2,287	2,744	2,969
Finance leases (including current portion)	281	141	155
Investment in joint venture [8]	49	—	—
Other liabilities (including current portion) [10]	842	526	745
Shareholders' equity	2,526	2,138	2,492

Notes:

(1) As a percentage of retail sales.

(2) See below for relevant definitions and tables for a reconciliation of Net Earnings (Loss) to EBITDA, Adjusted EBITDAR and Adjusted EBITDA and a reconciliation of Net Earnings (Loss) to Normalized Net Loss.

(3) The Company calculates same store sales on a year-over-year basis from stores operating for at least 13 months and includes digital commerce sales and clearance store sales. The calculation for same store sales excludes sales related accounting adjustments for DSG, Saks Fifth Avenue and OFF 5TH. Consolidated same store sales include results for all banners.

(4) Excludes Home Outfitters for Fiscal 2014 (see "General Information") and is calculated on a constant currency basis.

(5) Same store sales of Saks Fifth Avenue and OFF 5TH are calculated in U.S. dollars.

(6) Hudson's Bay Company operates two Hudson's Bay Outlets, two Zellers clearance centers and four Lord & Taylor Outlets that are excluded from the store count and gross leasable area.
(7) Restated for measurement period adjustments based on new information relating to deferred taxes. Please see note 4 of unaudited interim condensed consolidated financial statements for thirteen and twenty-six week periods ended August 1, 2015.
(8) See 'Real Estate Joint Ventures' section.
(9) Excludes current loans and borrowings of $318 million as at August 1, 2015, $455 million as at August 2, 2014 and $246 million as at January 31, 2015; current other liabilities of $76 million as at August 1, 2015, $25 million as at August 2, 2014 and $76 million as at January 31, 2015; and current finance leases of $20 million as at August 1, 2015, $17 million as at August 2, 2014 and $19 million as at January 31, 2015.
(10) Includes deferred landlord incentives of $443 million as at August 1, 2015, $224 million as at August 2, 2014 and $356 million as at January 31, 2015.

The following table shows the reconciliation of Net Earnings (Loss) to EBITDA, Adjusted EDITDAR as well as Adjusted EBITDA:

	Thirteen week period ended		Twenty-six week period ended	
(millions of Canadian dollars)	**August 1, 2015**	**August 2, 2014**	**August 1, 2015**	**August 2, 2014**
	$	$	$	$
Net Earnings (Loss)	67	(36)	13	140
Finance costs	52	29	99	104
Income tax benefit	(48)	(26)	(75)	(16)
Share of net (earnings) loss in joint ventures, net of income taxes	4	—	4	—
Gain on contribution of assets to joint ventures	(133)	—	(133)	—
Gain on Queen Street Sale (1)	—	—	—	(308)
Non-cash pension expense (2)	7	7	13	14
Depreciation and amortization	101	81	201	163
Share based compensation (2)	6	3	11	6
EBITDA	**56**	58	**133**	103
Normalization and rent adjustments				
Saks Acquisition and integration related expenses (2)	6	21	15	35
Kaufhof transaction costs (2)	9	—	9	—
Joint ventures transaction costs (2)	31	—	32	—
Amortization of Saks inventory purchase price accounting adjustment	—	2	—	40
Foreign exchange adjustment (2), (3)	(31)	—	(26)	—
Restructuring and other (2)	(5)	—	(1)	—
Joint ventures rent expense	1	—	1	—
Third party rent expense	72	61	142	125
Total normalizing and rent adjustments	83	84	172	200
Adjusted EBITDAR	**139**	142	**305**	303
Third party rent expense	(72)	(61)	(142)	(125)
Cash rent to joint ventures	(8)	—	(8)	—
Cash distributions from joint ventures	7	—	7	—
Adjusted EBITDA	**66**	81	**162**	178

Notes:
(1) Realigned from normalization adjustments in prior year presentation to EBITDA in the current year.
(2) Item included in the determination of Normalized SG&A. Total for the thirteen and twenty-six week periods ended August 1, 2015 was $23 million and $53 million, respectively (August 2, 2014: $31 million and $55 million, respectively).
(3) Represents the impact of unrealized gains related to the translation of U.S. dollar denominated asset and liability balances.

The following table shows the reconciliation of Net Earnings (Loss) to Normalized Net Loss:

(millions of Canadian dollars)	Thirteen week period ended August 1, 2015	Thirteen week period ended August 2, 2014	Twenty-six week period ended August 1, 2015	Twenty-six week period ended August 2, 2014
	$	$	$	$
Net Earnings (Loss)	**67**	(36)	**13**	140
Normalization Adjustments [(1)]				
Gain on contribution of assets to joint venture	(107)	—	(107)	—
Gain on Queen Street Sale	—	—	—	(261)
Saks Acquisition and integration related expenses and finance costs [(2)]	(2)	7	12	20
Kaufhof transaction costs	6	—	6	—
Joint ventures transaction costs	20	—	21	—
Restructuring and other	(4)	—	(2)	—
Financing related adjustments [(3)]	13	—	13	22
Amortization of Saks inventory purchase price accounting adjustment	—	1	—	24
Foreign exchange adjustment [(4)]	(26)	—	(22)	—
Tax related adjustments [(5)]	(20)	—	(20)	—
Total normalizing adjustments	(120)	8	(99)	(195)
Normalized Net Loss	**(53)**	(28)	**(86)**	(55)

Notes:
(1) Net of tax as appropriate.
(2) Includes the recognition of non-cash finance income (cost) related to Common Share purchase warrants of $5 million and ($3) million for the thirteen and twenty-six week periods ended August 1, 2015, respectively (August 2, 2014: $7 million and $3 million, respectively).
(3) Includes write-off of deferred financing costs and in the prior year, penalties on early extinguishment of debt.
(4) Represents the impact of unrealized gains related to the translation of U.S. dollar denominated asset and liability balances.
(5) Relates to a capital loss realized upon repayment of U.S. dollar denominated debt.

EBITDA is a non-IFRS measure that we use to assess our operating performance. EBITDA is defined as net earnings (loss) before finance costs, income tax, share of net earnings (loss) in joint ventures, the gain on contribution of assets to joint ventures, the gain on Queen Street Sale, non-cash share based compensation expense, depreciation and amortization expense, impairment and other non-cash expenses and non-cash pension expense. The Company's Canadian defined benefit pension plan is currently in a surplus position and as a result, pension expense is adjusted as management does not expect to make any payments in the foreseeable future. EBITDAR is defined as EBITDA before rent expenses to third-parties and the real estate joint ventures.

Adjusted EBITDAR is defined as EBITDAR adjusted to exclude: (i) business and organization restructuring/realignment charges; (ii) merger/acquisition costs and expenses; and (iii) normalizing adjustments, if any, related to transactions that are not associated with day-to-day operations. Adjusted EBITDA is defined as Adjusted EBITDAR less rent to third-parties, less cash rent to the real estate joint ventures plus cash distributions from the real estate joint ventures. Normalized Net Loss is defined as net earnings (loss) adjusted to exclude: (i) business and organization restructuring/realignment charges; (ii) merger/acquisition costs and expenses; (iii) normalizing adjustments, including those related to purchase accounting, if any, related to transactions that are not associated with day-to-day operations. Normalized SG&A is defined as SG&A adjusted to exclude: (i) business and organization restructuring/realignment charges; (ii) merger/acquisition costs and expenses; (iii) normalizing adjustments, if any, related to transactions that are not associated with day-to-day operations. We have included EBITDA, EBITDAR, Adjusted EBITDAR, Adjusted EBITDA, Normalized Net Loss and Normalized SG&A to provide investors and others with supplemental measures of our operating performance. We believe EBITDA, EBITDAR, Adjusted EBITDAR, Adjusted EBITDA, Normalized Net Loss and Normalized SG&A are important supplemental measures of operating performance because they eliminate items that have less bearing on our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We also believe that securities analysts, investors, rating agencies and other interested parties frequently use EBITDA, EBITDAR, Adjusted EBITDAR, Adjusted EBITDA, Normalized Net Loss and Normalized SG&A in the evaluation of issuers, many of which present similar metrics when reporting their results. Our management also uses Adjusted EBITDA in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess our ability to meet our future debt service, capital expenditure and working capital requirements and our ability to pay dividends on our shares. As other companies may calculate EBITDA, EBITDAR, Adjusted EBITDAR, Adjusted EBITDA, Normalized Net Loss or Normalized SG&A differently than we do, these metrics are not comparable to similarly titled measures reported by other companies.

Results of Operations

Thirteen Week Period Ended August 1, 2015 Compared to the Thirteen Week Period Ended August 2, 2014

Retail Sales

Retail sales, which include digital commerce sales from all banners, were $2,038 million for the thirteen week period ended August 1, 2015, an increase of $269 million or 15.2% from $1,769 million for the thirteen week period ended August 2, 2014. Comparative growth at DSG and Saks in the quarter was further enhanced by currency improvement on the translation of U.S. dollar denominated sales.

Consolidated same store sales increased by 14.3% and on a constant currency basis by 4.2% over the comparable thirteen week period in Fiscal 2014. On a constant currency basis, same store sales increased 4.9% at DSG and by 0.1% at Saks Fifth Avenue and 12.7% at OFF 5TH on a local currency basis.

Digital commerce sales increased by 30.0% on a constant currency basis over the thirteen week period ended August 2, 2014, reflecting the Company's continued strategic focus on growing this channel.

In terms of merchandise category performance, sales growth at DSG was driven by menswear, ladies apparel, home products and cosmetics. Sales growth at Saks Fifth Avenue was driven by menswear and cosmetics while at OFF 5TH, was driven by women's shoes, women's accessories and menswear.

Gross Profit

Gross profit as reported was $818 million for the thirteen week period ended August 1, 2015, compared to $700 million for the thirteen week period ended August 2, 2014. Improved performance at DSG and Saks, combined with additional improvements in reported gross profit dollars as a result of favourable currency conversion on U.S. dollar denominated sales, resulted in overall improvements in the quarterly gross profit.

Gross profit rate as reported was 40.1% of retail sales, a 50 basis point improvement over the thirteen week period ended August 2, 2014.

Selling, General & Administrative Expenses

SG&A was $775 million for the thirteen week period ended August 1, 2015, compared to $652 million for the thirteen week period ended August 2, 2014. For the thirteen week period ended August 1, 2015, Normalized SG&A was $752 million compared to $621 million for the thirteen week period ended August 2, 2014, or a $131 million increase. Normalized SG&A has been calculated as SG&A above, excluding non-cash pension expense, share-based compensation, Saks Acquisition and integration related expenses, Kaufhof, HBC-Simon JV and RioCan-HBC JV related transaction costs, foreign exchange adjustment and restructuring and other. In addition to these normalization adjustments, SG&A has also been negatively impacted in the quarter by the translation impact resulting from the conversion of U.S. dollar denominated expenses into Canadian dollars.

Excluding normalization items of $23 million ($31 million in the prior year) and exclusive of the impact of foreign exchange, Normalized SG&A as a percentage of retail sales was 36.9% in the second quarter compared to 35.1% for the prior year, an increase of 180 basis points.

The current quarter's SG&A expenses included the impact of incremental strategic investments in our HBC digital business and pre-opening costs associated with the introduction of Saks to Canada and accelerated OFF 5TH openings in the U.S. SG&A in the thirteen week period ended August 1, 2015 also includes the negative impact associated with the conforming change in the classification of advertising credits between SG&A and gross profit as they relate to the Saks business adopted in the fourth quarter of Fiscal 2014. These increases are partially offset by operating synergies of $14 million realized in the second quarter. Absent these identified items, Normalized SG&A expenses as a percentage of retail sales were 36.5% compared to 35.1% for the prior year.

In addition to being on track to achieve $100 million in synergies as part of the Saks Acquisition, the Company believes that there are opportunities for additional synergies and cost savings from further operational efficiencies due to our increased scale. As such, the Company has embarked on a program to further identify and implement these savings within and across its businesses. The benefits of this program are expected to be realized beginning in the third quarter of Fiscal 2015 and will continue into Fiscal 2016.

EBITDA, Adjusted EBITDAR and Adjusted EBITDA

EBITDA was $56 million in the thirteen week period ended August 1, 2015, compared to $58 million in the thirteen week period ended August 2, 2014, a decrease of $2 million.

Adjusted EBITDAR was $139 million compared to $142 million for the second quarter of Fiscal 2014, a decrease of $3 million. As a percentage of retail sales, Adjusted EBITDAR was 6.8% compared to 8.0% for the second quarter of Fiscal 2014.

Adjusted EBITDA was $66 million, compared to $81 million in the thirteen week period ended August 2, 2014, a decrease of $15 million. As a percentage of sales, Adjusted EBITDA margin was 3.2% in the second quarter of Fiscal 2015 compared to 4.6% in the second quarter of the prior year.

Finance Costs

Finance costs were $52 million in the thirteen week period ended August 1, 2015 compared to $29 million for the thirteen week period ended August 2, 2014, an increase of $23 million. The increase is primarily related to $18 million write-off of deferred financing costs in connection with the repayment in full of Senior Term Loan B from proceeds received from the joint ventures (see note 12 in the Company's unaudited interim condensed consolidated financial statements).

Income Tax Benefit

Income tax benefit was $48 million in the thirteen week period ended August 1, 2015, compared to $26 million for the thirteen week period ended August 2, 2014. The effective income tax rate for the thirteen week period ended August 1, 2015 decreased compared to the prior year primarily due to the recognition of capital losses related to net foreign exchange losses arising on the repayment of U.S. dollar denominated debt in the current year and international tax rate differentials in the prior year.

Net Earnings (Loss)

Net Earnings were $67 million in the thirteen week period ended August 1, 2015 compared to a Net Loss of $36 million in the thirteen week period ended August 2, 2014, an increase of $103 million. The increase is primarily the result of the inclusion of the gain recognized on the contribution of assets to the joint ventures of $133 million.

Normalized Net Loss

Normalized Net Loss was $53 million in the thirteen week period ended August 1, 2015 compared to a Normalized Net Loss of $28 million in the thirteen week period ended August 2, 2014, an increase in loss of $25 million.

Twenty-Six Week Period Ended August 1, 2015 Compared to the Twenty-Six Week Period Ended August 2, 2014

Retail Sales

Retail sales, which include digital commerce sales from all banners, were $4,110 million for the twenty-six week period ended August 1, 2015, an increase of $486 million or 13.4% from $3,624 million for the twenty-six week period ended August 2, 2014. Comparative growth at DSG and Saks in the quarter was further enhanced by currency improvement on the translation of U.S. dollar denominated sales.

Consolidated same store sales increased by 12.9% and on a constant currency basis by 3.5% over the comparable twenty-six week period in Fiscal 2014. On a constant currency basis, same store sales increased 4.9% at DSG and by 0.4% at Saks Fifth Avenue and 11.5% at OFF 5TH on a local currency basis.

Digital commerce sales increased by 26.8% on a constant currency basis over the twenty-six week period ended August 2, 2014, reflecting the Company's continued strategic focus on growing this channel.

In terms of merchandise category performance, sales growth at DSG was driven by menswear, ladies apparel, home products and ladies shoes. Sales growth at Saks Fifth Avenue was driven by womenswear while at OFF 5TH was driven by women’s shoes, women’s accessories and menswear.

Gross Profit

Gross profit as reported was $1,664 million for the twenty-six week period ended August 1, 2015, compared to $1,416 million for the twenty-six week period ended August 2, 2014. Adjusting for the negative impact associated with the amortization of inventory related purchase accounting adjustments in the first half of Fiscal 2014 of $40 million, the comparable gross profit in the twenty-six week period ended August 2, 2014 was $1,456 million, which represents a year-over-year improvement of $208 million. Improved performance at DSG and Saks, combined with additional improvements in reported gross profit dollars as a result of favourable currency conversion on U.S. dollar denominated sales, resulted in overall improvements in the quarterly gross profit.

Gross profit rate as reported was 40.5% of retail sales, a 140 basis point improvement over the twenty-six week period ended August 2, 2014. Adjusting the gross profit rate in Fiscal 2014 for the item identified above, the comparable gross profit rate in 2014 was 40.2%.

Selling, General & Administrative Expenses

SG&A was $1,555 million for the twenty-six week period ended August 1, 2015, compared to $1,333 million for the twenty-six week period ended August 2, 2014. For the twenty-six week period ended August 1, 2015, Normalized SG&A was $1,502 million compared to $1,278 million for the twenty-six week period ended August 2, 2014, or a $224 million increase. Normalized SG&A has been calculated as SG&A above, excluding non-cash pension expense, share-based compensation, Saks Acquisition and integration related expenses, Kaufhof, HBC-Simon JV and RioCan-HBC JV related transaction costs, foreign exchange adjustment and restructuring and other. In addition to these normalization adjustments, SG&A has also been negatively impacted in the first half of the year by the translation impact resulting from the conversion of U.S. dollar denominated expenses into Canadian dollars.

Excluding adjusting items of $53 million ($55 million in the prior year), exclusive of the impact of foreign exchange, Normalized SG&A as a percentage of retail sales was 36.5% compared to 35.3% for the prior year, an increase of 120 basis points.

The current year SG&A expenses continue to include the impact of incremental strategic investments in our HBC digital business, higher occupancy costs associated with a half year of the Queen Street Sale and pre-opening costs associated with the introduction of Saks to Canada and accelerated OFF 5TH openings in the U.S. SG&A in the twenty-six week period ended August 1, 2015 also includes the negative impact associated with the conforming change in the classification of advertising credits between SG&A and gross profit as they relate to the Saks business adopted in the fourth quarter of Fiscal 2014. These increases are partially offset by operating synergies of $29 million realized in the first half of the year. Absent these items, Normalized SG&A expenses as a percentage of retail sales were 36.2% compared to 35.3% for the prior year.

In addition to being on track to achieve $100 million in synergies as part of the Saks Acquisition, the Company believes that there are opportunities for additional synergies and cost savings from further operational efficiencies due to our increased scale. As such, the Company has embarked on a program to further identify and implement these savings within and across its businesses. The benefits of this program are expected to be realized beginning in the third quarter of Fiscal 2015 and will continue into Fiscal 2016.

EBITDA, Adjusted EBITDAR and Adjusted EBITDA

EBITDA was $133 million in the twenty-six week period ended August 1, 2015, compared to $103 million in the twenty-six week period ended August 2, 2014, an increase of $30 million.

Adjusted EBITDAR was $305 million compared to $303 million for the twenty-six week period ended August 2, 2014, an increase of $2 million. As a percentage of retail sales, Adjusted EBITDAR was 7.4% compared to 8.4% for the first half of Fiscal 2014.

Adjusted EBITDA was $162 million, compared to $178 million in the twenty-six week period ended August 2, 2014, a decrease of $16 million. As a percentage of sales, Adjusted EBITDA was 3.9% compared to 4.9% in the prior year.

Finance Costs

Finance costs were $99 million in the twenty-six week period ended August 1, 2015 compared to $104 million for the twenty-six week period ended August 2, 2014, a decrease of $5 million. The decrease is primarily related to penalties of $12 million in connection with early repayment of debt in the prior year and finance cost versus income in the prior year related to Common Share purchase warrants.

Income Tax Benefit

Income tax benefit was $75 million for the twenty-six week period ended August 1, 2015 compared to $16 million for the twenty-six week period ended August 2, 2014. The effective income tax rate for the twenty-six week period ended August 1, 2015 increased compared to the prior year primarily due to benefits of net foreign exchange losses related to the repayment of U.S. dollar denominated debt in the current year and the favourable tax treatment related to the Queen Street Sale in the prior year.

Net Earnings

Net Earnings were $13 million in the twenty-six week period ended August 1, 2015 compared to $140 million in the twenty-six week period ended August 2, 2014, a decrease of $127 million. The decrease is primarily the result of inclusion of the gain recognized on the Queen Street Sale of $308 million in the first quarter of Fiscal 2014 offset in part by inclusion of the gain on contribution of assets to joint ventures in the current year.

Normalized Net Loss

Normalized Net Loss was $86 million in the twenty-six week period ended August 1, 2015 compared to a Normalized Net Loss of $55 million in the twenty-six week period ended August 2, 2014, an increase in loss of $31 million.

Real Estate Joint Ventures

The joint ventures with Simon and RioCan have created new growth platforms for the Company. The joint ventures have mandates to grow beyond the initial contributions of the partners and, it is expected that future property acquisitions will diversify the asset portfolios and tenant base of each joint venture creating additional value for our shareholders.

On closing of the first tranche of the RioCan-HBC JV, HBC contributed 7 owned or ground leased properties (including Hudson's Bay flagship properties in downtown Vancouver, Calgary, Ottawa, and Montreal) with approximately 2.6 million square feet and valued at approximately $1.3 billion. RioCan contributed a 50% interest in two mall properties in Ontario (Oakville Place and Georgian Mall). RioCan has committed to contribute additional funds for an eventual pro forma equity stake of approximately 25% based on the first tranche closing. HBC received $352 million in cash proceeds from new debt issued at the RioCan-HBC JV. The balance of RioCan's contributions will consist of approximately $53 million in tenant allowances and approximately $125 million to be used to fund future property acquisitions to increase the value and diversify the tenant base of the RioCan-HBC JV. These contributions are expected to be made by the third anniversary of the closing date.

The second tranche of the RioCan-HBC JV is expected to close later in 2015. On closing of the second tranche of the RioCan-HBC JV, the Company is expected to contribute three additional ground leased properties, being Yorkdale Shopping Centre, Scarborough Town Centre and Square One (the "YSS Properties"), totaling 735,926 square feet, to an entity related to the RioCan-HBC JV later in 2015. Once completed, RioCan's eventual pro forma equity stake in the RioCan-HBC JV is expected to be approximately 20%. The Superior Court of Ontario determined that landlord consent to the assignment of these three ground leased properties to the joint ventures is not required under the terms of the applicable leases. The landlord has appealed this decision.

On closing of the HBC-Simon JV, the Company contributed 42 owned or ground leased properties, including the Saks Fifth Avenue Beverly Hills flagship and the Westchester and Manhasset Lord & Taylor stores, valued at approximately U.S.$1.7 billion. The contributed properties total approximately 5.4 million square feet. HBC received U.S.$600 million in cash proceeds from new debt issued at the HBC-Simon JV. Simon contributed an initial amount of U.S.$1 million upon closing and has committed to contribute up to a total of U.S.$278 million to the HBC-Simon JV. This includes U.S.$100 million for improvements to properties contributed by HBC to the HBC-Simon JV. The balance of Simon's U.S.$178 million commitment along with approximately U.S.$246 million in proceeds remaining from the third-party debt of the joint venture is intended to be used to partially fund the acquisition by HBC-Simon JV of at least 40 of Kaufhof's owned or partially-owned properties immediately following the completion of HBC's previously announced acquisition of Kaufhof which is expected to close in the third quarter.

The joint ventures will have established and dedicated management teams focused on overseeing the contributed properties and growing the portfolio, with support from HBC, Simon and RioCan. Each joint venture's board of directors is comprised of four directors, two of whom have been appointed by each of HBC, Simon and RioCan. Unanimous Board consent is required for all major operating decisions.

RioCan-HBC JV

The following provides additional information relating to the RioCan-HBC JV:

Condensed Statement of Earnings and Comprehensive Income

(millions of Canadian dollars)	Period from July 9, 2015 (date of formation) to August 1, 2015
Rental revenue	6
Property operating costs	—
Operating income	**6**
General and administrative expenses	(1)
Depreciation and amortization	(2)
Earnings before finance costs	**3**
Finance costs	—
Net earnings and comprehensive income	**3**

Condensed Balance Sheet

(millions of Canadian dollars)	August 1, 2015
Assets	
Investment properties	1,433
Other non-current assets	120
Total assets	**1,553**
Liabilities	
Loans and borrowings	12
Total current liabilities	**12**
Loans and borrowings	480
Total liabilities	**492**
Partners' Equity	
Partners' capital	1,062
Deficit	(1)
Total partners' equity	**1,061**
Total liabilities and partners' equity	**1,553**

Condensed Statement of Cash Flows

(millions of Canadian dollars)	August 1, 2015
Operating activities	
Net earnings for the period	3
Add: Finance costs	—
Earnings before finance costs	3
Items not affecting cash flows:	
Depreciation and amortization	2
Non-cash rental income	(1)
Net cash inflow from operating activities	**4**
Financing activities	
Long term loans and borrowings:	
Issued	352
Proceeds paid to HBC	(352)
Distributions paid	(4)
Net cash outflow for financing activities	**(4)**
Increase in cash	—
Cash at beginning of period	—
Cash at end of period	—

HBC-Simon JV

The following provides additional information relating to the HBC-Simon JV:

Condensed Statement of Loss and Comprehensive Loss

(millions of U.S. dollars)	Period from July 22, 2015 (date of formation) to August 1, 2015
Rental revenue	4
Property operating costs	(3)
Operating income	**1**
Depreciation and amortization	(2)
Loss before finance costs	**(1)**
Finance costs	(1)
Net loss and comprehensive loss	**(2)**

Condensed Balance Sheet

(millions of U.S. dollars)	August 1, 2015
Assets	
Cash	259
Total current assets	**259**
Investment properties	1,647
Total assets	**1,906**
Liabilities	
Due to HBC	5
Other current liabilities	10
Total current liabilities	**15**
Loans and borrowings	846
Total liabilities	**861**
Partners' Equity	
Partners' capital	1,049
Deficit	(4)
Total partners' equity	**1,045**
Total liabilities and partners' equity	**1,906**

Condensed Statement of Cash Flows

(millions of U.S. dollars)	August 1, 2015
Operating activities	
Net loss for the period	(2)
Add: Finance costs	1
Loss before finance costs	(1)
Interest paid in cash	(1)
Items not affecting cash flows:	
Depreciation and amortization	2
Changes in operating working capital	15
Net cash inflow from operating activities	**15**
Financing activities	
Long-term loans and borrowings:	
Issued	846
Proceeds paid to HBC	(600)
Distributions paid	(2)
Net cash inflow from financing activities	**244**
Increase in cash	259
Cash at beginning of period	—
Cash at end of period	**259**

Summary of Consolidated Quarterly Results

The following table summarizes quarterly financials of the Company for the past eight quarters.

(millions of Canadian dollars except per share amounts)	Fiscal Quarter Ended							
	Aug 1, 2015	May 2, 2015	Jan. 31, 2015	Nov. 1, 2014	Aug. 2, 2014	May 3, 2014	Feb. 1, 2014	Nov. 2, 2013
	$	$	$	$	$	$	$	$
Retail sales	2,038	2,072	2,632	1,913	1,769	1,855	2,407	984
Adjusted EBITDA	66	96	318	116	81	97	253	63
Net Earnings (Loss)								
Continuing operations	67	(54)	111	(13)	(36)	176	37	(126)
Discontinued operations	—	—	—	—	—	—	(8)	1
	67	(54)	111	(13)	(36)	176	29	(125)
Net Earnings (Loss) per Common Share - Basic [1]								
Continuing Operations	0.37	(0.30)	0.61	(0.07)	(0.20)	0.97	0.21	(1.05)
Discontinued Operations	—	—	—	—	—	—	(0.05)	—
Net Earnings (Loss) per Common Share - Diluted [1]								
Continuing Operations	0.33	(0.30)	0.60	(0.07)	(0.23)	0.97	0.11	(1.05)
Discontinued Operations	—	—	—	—	—	—	(0.05)	—
Reported Retail Sales Percentage Change								
Continuing Operations	15.2%	11.7%	9.3%	94.4%	86.6%	109.8%	73.5%	5.8%
Same Store Sales Percentage Change [2]								
Continuing Operations	14.3%	11.7%	8.7%	7.1%	5.0%	8.6%	6.6%	5.7%
Continuing Operations (constant currency basis)	4.2%	2.7%	3.2%	2.7%	1.9%	2.8%	2.2%	3.8%
DSG [3]	4.9%	4.9%	2.5%	1.4%	1.1%	2.6%	2.2%	4.9%
Saks Fifth Avenue [4]	0.1%	0.6%	2.3%	1.3%	0.3%	2.4%	2.5%	N/A
OFF 5TH [4]	12.7%	10.3%	11.4%	19.2%	15.2%	15.2%	8.0%	N/A

Notes:

(1) Net Earnings (Loss) per Common Share ("EPS") in each quarter is computed using the weighted-average number of Common Shares outstanding during that quarter, while EPS for the full year is computed using the weighted-average number of Common Shares outstanding during the year. Thus, the sum of the four quarters' EPS may not equal the full-year EPS.

(2) The Company calculates same store sales on a year-over-year basis from stores operating for at least 13 months and includes digital commerce sales and clearance store sales. The calculation for same store sales excludes sales related accounting adjustments for DSG, Saks Fifth Avenue and OFF 5TH. Consolidated same store sales include results for all banners.

(3) Based on realignment of banners by management, DSG has replaced separate Hudson's Bay and Lord & Taylor reporting of same store sales percentage and also includes Home Outfitters beginning the third quarter of Fiscal 2014 (see "General Information"). Same store sales for DSG are calculated on a constant currency basis.

(4) Same store sales of Saks Fifth Avenue and OFF 5TH are calculated in U.S. dollars.

Outlook

The Company's Fiscal 2015 outlook incorporates management's views and assumptions with respect to, among other considerations, economic conditions, the current and expected operating environment, competition, consumer preferences, currency and exchange rates, and its ability to successfully execute on its strategic priorities and initiatives. We are reaffirming our outlook for Fiscal 2015 as initially provided in April. The following outlook is fully qualified by the "Forward-Looking Statements" section of this MD&A and does not take into account the anticipated closing of the Kaufhof transaction:

- Total sales of between $9.0 and $9.3 billion. This implies low single digit consolidated same store sales growth, calculated on a constant currency basis.
- Capital investments, net of landlord incentives, of between $350 million and $400 million. This activity includes the addition of one Saks Fifth Avenue store and 15 OFF 5TH stores.

In Fiscal 2015, the Company intends to invest an incremental $50 million in strategic growth initiatives, including an accelerated pace of new store openings at OFF 5TH, strengthening its digital and all-channel presence and capabilities, and incurring pre-opening costs associated with the 2016 expansion of Saks and OFF 5TH into Canada.

This guidance reflects a U.S. dollar foreign exchange rate assumption of USD:CAD = 1:1.24 for Fiscal 2015. Significant variation in this foreign exchange rate assumption would impact the guidance. The actual average foreign exchange rate incorporated in the Company's reported sales results for Q2 2015 was USD:CAD = 1:1.25.

Liquidity and Capital Resources

Cash Flows

Total cash including restricted cash is managed to remain at minimal levels by drawing on or repaying our revolving credit facilities. Our liquidity and capital resources are primarily impacted by: (i) current cash and cash equivalents, (ii) operating activities, (iii) investing activities, and (iv) financing activities. The following table summarizes cash flows by activity:

	Thirteen week period ended		**Twenty-six week period ended**	
(millions of Canadian dollars)	**August 1, 2015**	**August 2, 2014**	**August 1, 2015**	**August 2, 2014**
	$	$	$	$
Operating activities	(118)	—	(328)	(36)
Investing activities	1,091	(30)	1,037	615
Financing activities	(950)	30	(818)	(561)
Increase (decrease) in cash	23	—	(109)	18
Foreign exchange loss on cash	—	(1)	(1)	(1)
Cash at beginning of period	35	39	168	21
Cash at end of period	58	38	58	38

Net Cash Flow - Operating Activities

Net cash outflow for operating activities was $118 million for the thirteen week period ended August 1, 2015 compared to nil for the thirteen week period ended August 2, 2014. The outflow is attributed primarily to higher investments in working capital in the current year.

For the twenty-six week period ended August 1, 2015, net cash outflow for operating activities was $328 million compared to $36 million for the twenty-six week period ended August 2, 2014, an increase in outflow of $292 million. The increase is due primarily to higher investments in working capital in the current year.

Net Cash Flow - Investing Activities

Net cash inflow from investing activities was $1,091 million for the thirteen week period ended August 1, 2015 compared to an outflow of $30 million for the thirteen week period ended August 2, 2014. The increase in net inflow of $1,121 million is primarily due to proceeds received from contribution of assets to the joint ventures.

For the twenty-six week period ended August 1, 2015 net cash inflow from investing activities was $1,037 million compared to $615 million for the twenty-six week period ended August 2, 2014, an increase of $422 million. This increase is due primarily to proceeds received from contribution of assets to the joint ventures, which was offset in part by proceeds from the Queen Street Sale in the prior year.

Net Cash Flow - Financing Activities

Net cash outflow for financing activities was $950 million for the thirteen week period ended August 1, 2015 compared to an inflow of $30 million for the thirteen week period ended August 2, 2014. The increase in net outflow of $980 million over the comparable period can be attributed primarily to the repayment of Senior Term Loan B in the current year.

For the twenty-six week period ended August 1, 2015, net cash outflow for financing activities was $818 million compared to $561 million for the twenty-six week period ended August 2, 2014, an increase in outflow of $257 million over the comparable period. The outflow in the current year primarily relates to the repayment of Senior Term Loan B during the second quarter.

Cash Balances and Liquidity

The Company’s primary needs for cash are to fund: (i) operations; (ii) capital expenditures in connection with our renovation programs and strategic initiatives; (iii) seasonal inventory purchases and other working capital requirements; and (iv) debt service. Working capital requirements are at their highest in the latter half of the fiscal year as inventory builds through the fall, peaking just before the holiday selling season.

The Company’s primary sources of funds are cash flows provided by operations, landlord incentives, our HBC and U.S. revolving credit facilities, and mortgage-backed real estate financing. Other potential sources of funding may include new corporate loans and mortgages, the sale and leaseback of real estate properties, selling real estate, selling other company assets or the issuance of equity. The availability of funding sources is dependent on, among other things, economic conditions, capital markets, and our financial condition.

The Company may consider additional acquisitions of, and investments in, retail businesses, and other complimentary assets, properties or companies. Transactions, if any, are expected to be financed through a combination of the following sources: cash on hand, borrowing under existing or new credit facilities and the issuance of long-term debt or other securities, including Common Shares.

Funding Capacity

The Company anticipates that we will be able to satisfy our working capital requirements, planned capital expenditures and debt service requirements with proceeds from cash flows from operations, short-term trade credit, seasonal borrowings under our revolving credit facilities and other sources of financing. The Company expects to generate adequate cash flow from operating activities to sustain current levels of operations.

Management believes that there is not a significant risk of default and/or arrears on lease payments, interest or principal payment of debt, or of a breach of debt covenants.

There is no provision in debt, lease, or other arrangements that could trigger an additional funding requirement for the Company. There are no legal or practical restrictions on the ability of subsidiaries to transfer funds to the Company that would affect the ability to meet its obligations as and when they fall due.

Please refer to the Company’s management’s discussion and analysis for the thirteen and fifty-two weeks ended January 31, 2015 for details regarding the Company’s credit facilities and loans.

Contractual Obligations

The Company has a number of obligations related to leases, lease guarantees, loans and borrowings, procurement obligations, pensions and other obligations. In the period up to September 9, 2015, other than the operating lease commitment discussed below, there were no material changes to the Company’s contractual obligations compared to those identified at year-end. For a complete description of the contractual obligations of the Company, please refer to management’s discussion and analysis for the thirteen and fifty-two weeks ended January 31, 2015.

As at August 1, 2015, future minimum payments under non-cancelable operating leases with the joint ventures are approximately $4.9 billion.

In the first quarter, we reported an error in the disclosure to note 16 of our annual financial statements for the year ended January 31, 2015 disclosed in note 18 of the unaudited interim condensed consolidated financial statements for the thirteen and twenty-six weeks ended August 1, 2015. The revised contractual obligations table from management's discussion and analysis for the thirteen and fifty-two weeks ended January 31, 2015 is as follows:

(millions of Canadian dollars)	Total	Fiscal Year 2015	2016	2017	2018	2019	Thereafter
	$	$	$	$	$		$
Lease financing							
Operating lease arrangements	3,546	263	264	271	245	218	2,285
Short-term borrowings							
HBC Revolving Credit Facility	159	159	—	—	—	—	—
U.S. Revolving Credit Facility	108	108	—	—	—	—	—
Long-term borrowings							
Senior Term Loan B	826	—	—	—	—	—	826
Yorkdale Mortgage	48	2	1	1	1	1	42
Lord & Taylor Mortgage	318	1	3	314	—	—	—
Saks Mortgage	1,599	—	—	—	—	—	1,599
Finance leases and other	165	20	15	3	2	2	123
Purchase obligations	151	66	20	15	12	11	27
Other obligations	1,424	1,318	27	11	68	—	—
Total obligations	8,344	1,937	330	615	328	232	4,902

The table should be read in conjunction with the footnotes outlined in the contractual obligations section of management's discussion and analysis for the thirteen and fifty-two weeks ended January 31, 2015.

Guarantees and Off-Balance Sheet Arrangements

The Company has guarantees and general indemnification commitments to counterparties. Historically, the Company has not made any significant payments with respect to these guarantees and indemnification provisions, and management believes that the risk of significant loss is low.

Standby and documentary letters of credit are used in connection with certain obligations mainly related to purchase orders and Workers Compensation Collateral requirements. The aggregate gross potential liability related to the Company's letters of credit is approximately $39 million as at August 1, 2015.

Other than in connection with the joint venture transactions with Simon and RioCan, the Company has not created, and is not party to, any special purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating its business. The Company does not have any relationships or arrangements with entities that are not consolidated into its financial statements that are reasonably likely to materially affect liquidity or the availability of capital resources. The joint ventures are accounted for using the equity method of accounting. As a result, indebtedness at the joint ventures is not consolidated on the Company's balance sheet and there is limited impact on cash flow. See the "Real Estate Joint Ventures" section of this MD&A.

During the thirteen weeks ended August 1, 2015, a subsidiary of the Company guaranteed third-party debt, which was obtained by HBC-Simon JV in conjunction with the closing of the transaction. The maximum aggregate liability of the Company under this guarantee will not exceed U.S. $250 million.

Financial Instruments and Other Instruments

The Company utilizes certain derivatives as cash flow hedges of its exposure to foreign currency risk and interest rate risk. The effective portion of the changes in the fair value of the hedging derivatives, net of taxes, is recognized in other comprehensive income (loss).

The Company enters into forward foreign exchange contracts to fix the cost in Canadian dollars of certain U.S. dollar based purchases of merchandise from foreign suppliers. These forward exchange contracts have been designated as cash flow hedges and reported at fair value in financial assets or financial liabilities, depending on their fair value. Once the inventory is recorded, the Company has elected to reclassify the related accumulated other comprehensive income (loss) amount to merchandise inventories. Subsequent changes in the fair value of the forward foreign exchange contracts are recorded in net earnings (loss).

Derivative financial instruments not designated within an effective hedging relationship and embedded derivatives are classified as fair value through profit or loss and measured at fair value with any changes in their fair values recognized in net earnings (loss) in the period in which the change occurs. Short-term deposits are classified as held to maturity, which are measured at amortized cost using the effective interest method. All other financial assets are classified as loans and receivables and measured at amortized cost using the effective interest method.

All other financial liabilities are classified as other liabilities and measured at amortized cost using the effective interest method. Interest income and expense are included in finance costs.

The Company determines the fair value of its long-term loans and borrowings using a discounted cash flow model, taking into consideration the fixed interest rate spread included in the related debt compared to fixed interest rate spreads on similar debt available in the market at the balance sheet dates.

The fair values of foreign currency options, interest rate swaps and forward foreign currency contracts reflect the estimated amounts that the Company would receive or pay if it were to settle the contracts at the reporting date.

In connection with the Saks Acquisition, the Company issued Common Share purchase warrants which, due to certain features, are being presented as financial liabilities. The warrants are classified as fair value through profit or loss and measured at fair value. Subsequent changes in the fair value are recognized in net earnings (loss) in the period in which the change occurs. The fair values of the warrants are determined using the Black-Scholes option pricing model. For a complete description of the derivative financial instruments of the Company and related risks, please refer to note 18 to the Company's audited consolidated financial statements for Fiscal 2014 and note 21 of the Company's unaudited interim condensed consolidated financial statements for the thirteen and twenty-six weeks ended August 1, 2015.

In connection with the announced definitive agreement to acquire Kaufhof from Metro (the "Announced Transaction"), the Company entered into 2 separate forward foreign exchange contracts (the "FX forward contracts") during the thirteen weeks ended August 1, 2015, that resulted in the Company eliminating its foreign currency exposure on a portion of the Announced Transaction.

The Company designated each FX forward contract as a hedge of the exposure to changes in USD/EUR related to the forecasted acquisition of Kaufhof from Metro denominated in EUR. Each hedging relationship was assessed to be highly effective and as at August 1, 2015, a net unrealized loss of $28 million, along with $7 million of deferred taxes was included in other comprehensive income representing the mark-to-market adjustment to fair value from the date of execution of each FX forward contract, June 18, 2015 and June 29, 2015, respectively to August 1, 2015. The Announced Transaction is expected to close in the Company's third quarter of Fiscal 2015. As the FX forward contracts are hedging the Announced Transaction, the amount recorded in accumulated other comprehensive income will transfer to goodwill and will only affect the statement of earnings (loss) in future periods when and if the goodwill recognized as part of the purchase price allocation for the Kaufhof acquisition affects earnings or loss.

The fair value of each FX forward contract was determined using a valuation technique that employs the use of market observable inputs and based on the differences between the contract rate and the market rates as at the period-end date, taking into consideration discounting to reflect the time value of money (see note 21 of the Company's unaudited interim condensed consolidated financial statements for the thirteen and twenty-six weeks ended August 1, 2015).

Tax Matters

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

The Company regularly reviews the potential for adverse outcomes in respect of tax matters. The Company believes that there are no tax matters that will have a material adverse effect on its liquidity, consolidated financial position or results of operations because the Company believes that it has adequate provisions for any tax matters. Should the ultimate tax liability materially differ from the provisions, the Company's effective tax rate and its earnings (loss) could be affected, positively or negatively, in the period in which the matters are resolved.

Related Party Transactions

Transactions between HBC and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed herein. Details of transactions with other related parties are disclosed below.

On May 6, 2011, a subsidiary of L&T Acquisition entered into a 2 year lease with SP 35 L.P. (the "Landlord") for approximately 31,000 square feet in Shrewsbury, NJ. The lease was amended on January 17, 2013 to include 3 renewal options. The first 2 renewal options are for terms of 2 and 3 years, respectively, at an annual cost of U.S.$440 thousand. The third renewal option is for a term of 5 years at an annual cost of U.S.$484 thousand. The first and second renewal options were exercised. Amounts charged to the Company under the rental arrangement for the thirteen and twenty-six week periods ended August 1, 2015 were U.S.$110 thousand and U.S.$220 thousand, respectively (2014: U.S.$100 thousand and U.S.$200 thousand, respectively). The Landlord is an affiliate of National Realty & Development Corp. ("NRDC"). Richard and Robert Baker, the principals of NRDC, are Directors of the Company.

On February 25, 2014, the Company completed the sale of its downtown Toronto flagship store and adjacent Simpson's Tower office complex to an affiliate of The Cadillac Fairview Corporation Limited, an affiliate of HSILP, for a purchase price of $650 million. 2380162 Ontario Limited, a subsidiary of Ontario Teachers' Pension Plan and successor in interest to HSILP, is a shareholder of the Company. The Company has leased the entire retail and a portion of office complex back for a base term of twenty-five years, with renewal options up to approximately twenty-five years. The transaction is considered to be a related party transaction because an affiliate of The Cadillac Fairview Corporation Limited is a related party of the Company by virtue of it being an affiliate of Ontario Teachers' Pension Plan Board, which indirectly holds the power to exercise control and direction over, and beneficial ownership of, more than 10% of the Company's outstanding voting shares. As part of this transaction, Saks has also agreed to lease space in Toronto's Sherway Gardens from The Cadillac Fairview Corporation Limited, which is also considered to be a related party transaction. Previously, the Company had entered into store leases with The Cadillac Fairview Corporation Limited or its affiliates for stores located at: Fairview Park in Kitchener, Ontario; Richmond Centre in Richmond, British Columbia; Chinook Centre and Market Mall, both in Calgary, Alberta; Polo Park Shopping Centre in Winnipeg, Manitoba; Masonville Place in London, Ontario; Markville Shopping Centre in Markham, Ontario; Limeridge Mall in Hamilton, Ontario; Fairview Pointe-Claire, in Pte-Claire, Quebec; Fairview Mall in Toronto, Ontario; Carrefour Laval in Laval, Quebec; Les Promenades St. Bruno in St. Bruno, Quebec; and Les Galeries D'Anjou in Montreal, Quebec. The leases contain representations and warranties, positive and negative covenants and events of default which, in each case, are customary to leases of this nature. The Company is in compliance with the covenants contained in the leases.

On May 18, 2015, a subsidiary of L&T Acquisition entered into a 10 year lease with Mack Properties Co. No. 6 LLC ("Mack Properties") for approximately 35,000 square feet in Paramus, NJ. The lease has 2 renewal options for terms of 10 and 5 years, respectively. There has been no amount charged to the Company under the rental arrangement for the thirteen and twenty-six week periods ended August 1, 2015 since the rent commencement date has not yet occurred. Mack Properties is owned by William Mack, a Director of the Company.

As at August 1, 2015, the Company has an outstanding receivable in the amount of $268 thousand due from Hudson's Bay Trading Company, LP, a shareholder of the Company, with respect to the reimbursement of expenses for services provided by HBC on their behalf.

During the thirteen week period ended August 1, 2015, the Company closed its agreements to sell and leaseback various Canadian and U.S. properties to RioCan-HBC JV and HBC-Simon JV, respectively. In connection with the transaction, HBC paid for certain cash reserves and financing and operating expenses on behalf of HBC-Simon JV for which the Company received a promissory note in the amount of $8 million. The promissory note matures on July 22, 2016 and carries an interest rate of 5% per annum. As at August 1, 2015, the promissory note had an outstanding balance of $7 million and was included in trade and other receivables.

The Company entered into management agreements with the joint ventures upon their closing. Pursuant to the management agreements, HBC will provide RioCan-HBC JV and HBC-Simon JV with advisory and administrative services in exchange for annual management fees of $3 million and U.S. $3 million, respectively. Fees related to the thirteen week period ended August 1, 2015 were waived by the Company.

During the thirteen week period ended August 1, 2015, the Company incurred aggregate rent expense of $5 million related to both RioCan-HBC JV and HBC-Simon JV. As at August 1, 2015, other current assets included prepaid rent to HBC-Simon JV of $12 million.

All of the above amounts have been recorded at the exchange value of the transaction.

Critical Accounting Policies

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with IFRS. Except as noted below, the Company's significant accounting policies are described in note 2 to the Fiscal 2014 audited consolidated financial statements and the Company's management's discussion and analysis for the thirteen and fifty-two weeks ended January 31, 2015.

The preparation of these financial statements requires management to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities, and reporting of income and expenses, that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ materially from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are certain critical judgments and estimations that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements (see note 3 to the Fiscal 2014 audited consolidated financial statements for further critical judgments and estimations):

- Inventories
- Loyalty programs
- Impairment and reversal of impairment of long-lived assets
- Impairment of goodwill
- Income taxes
- Post-employment benefits
- Valuation of financial instruments

As a result of the closing of the joint venture transactions, management has identified joint venture accounting as an additional area of critical judgement and estimations (see note 2 to the unaudited interim condensed consolidated financial statements for the thirteen and twenty-six weeks ended August 1, 2015).

Changes in Accounting Policies Including Initial Adoption

New Accounting Policies

Interest in Joint Ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Investments in joint ventures are accounted for using the equity method. Under the equity method, the investment in a joint venture is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the joint venture. When the Company's share of losses of a joint venture exceeds the Company's interest in that joint venture, the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the joint venture.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its joint venture arrangements. At each reporting date, the Company determines whether there is objective evidence that the investment in its joint ventures is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, and then recognizes the loss as 'Share of profit of a joint venture' in the consolidated statement of earnings (loss).

The Company has investments in 2 joint ventures. Both are structured using separate vehicles that give each party to the arrangement rights to the net assets of the joint venture.

The Company reclassifies its share of inter-company rental income from its share of earnings in the joint ventures to rent expense recorded in SG&A.

Future Expected Changes

Financial Instruments - In July 2014, the IASB issued IFRS 9 – Financial Instruments ("IFRS 9"), which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39").

Classification and measurement

Financial assets are classified and measured based on the business model under which they are managed and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified in a similar manner as under IAS 39, except that financial liabilities measured at fair value will have fair value changes resulting from changes in the entity's own credit risk recognized in other comprehensive income (loss) instead of net earnings (loss).

Impairment

The measurement of impairment of financial assets is based on an expected credit loss model. It is no longer necessary for a triggering event to have occurred before credit losses are recognized. IFRS 9 also includes new disclosure requirements about expected credit losses and credit risk.

Hedge accounting

The new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. The new model will provide more opportunities to apply hedge accounting to reflect actual risk management activities.

IFRS 9 will be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is assessing the potential impact of this standard.

Revenue - In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15"), which provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is assessing the potential impact of IFRS 15.

Joint Arrangements - In May 2014, the IASB amended IFRS 11 – Joint Arrangements ("IFRS 11") to require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 – Business Combinations principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments to IFRS 11 are effective for annual periods beginning on or after January 1, 2016, and must be applied prospectively. Early adoption is permitted. The Company is assessing the potential impact of the amendments to IFRS 11.

Management's Report on Internal Controls over Financial Reporting

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure.

The Company's management, under the supervision of the CEO and the CFO, has designed and maintained a set of disclosure controls and procedures to ensure that information required to be disclosed in filings made pursuant to National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filing ("NI 52-c109") is recorded, processed, summarized and reported within the time periods specified in the Canadian Securities Administrators' ("CSA") rules and forms.

Internal Controls over Financial Reporting

The CEO and the CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be designed effectively can provide only reasonable assurance with respect to financial reporting and financial statement preparation.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting during the first half of Fiscal 2015 that have affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Additional Information

Additional information relating to Hudson's Bay Company, including the most recently filed Annual Information Form, is available on SEDAR at www.sedar.com.

Risk Factors

For a detailed description of risk factors associated with the Company, refer to the “Risk Factors” section of the Company’s Annual Information Form for Fiscal 2014 filed on SEDAR on April 30, 2015. Additional risk factors related to the joint ventures with RioCan and Simon and the proposed Kaufhof acquisition are outlined below. The Company is not otherwise aware of any significant changes to the Company’s risk factors from those disclosed at that time.

We may not be able to successfully close the second tranche of the RioCan-HBC JV. There can be no assurance that we will receive the expected benefits from the joint ventures with RioCan and Simon.

Following a favourable court determination (which is currently subject to appeal), the second tranche of the RioCan-HBC JV, whereby HBC expects to contribute the YSS Properties to an entity related to the RioCan-HBC JV, is expected to close later in 2015. There can be no assurance that the appeal will be dismissed, or if heard the Court of Appeal will uphold the decision of the Superior Court of Ontario, or the transaction will close in accordance with the proposed timeline, or at all.

Further, there can be no assurance that the joint ventures with RioCan and Simon will provide the expected benefits, including, among others, enabling us to diversify the tenant base and identify new real estate growth opportunities such as future property acquisitions, or that we will be able to monetize our joint ventures at a future date.

We may not be able to successfully close the Kaufhof acquisition. There can be no assurance that we will receive the expected benefits from the Kaufhof acquisition.

The proposed Kaufhof acquisition, and the financing thereof, is subject to customary conditions and consents. The Kaufhof acquisition is expected to close in the third quarter of 2015. There can be no assurance that the conditions to closing, including applicable consents, will be obtained or the transaction will close in accordance with the proposed timeline, or at all. HBC believes that the Kaufhof acquisition will provide benefits to the Company, including, among others, the ability to significantly increase our Adjusted EBITDA and reduce our leverage and be accretive to our shareholders. However, there is a risk that some or all of the expected benefits of the acquisition may fail to materialize, or may not occur within the time periods anticipated by the Company. The realization of such benefits may be affected by a number of factors, many of which are beyond the control of the Company. The challenge of integrating previously independent businesses makes evaluating the Company’s business and future financial prospects difficult. The past financial performance of the Company may not be indicative of its future financial performance. Failure to realize the anticipated benefits of the acquisition may impact the financial performance of the Company.

We may not be successful in retaining the services of certain key personnel of Kaufhof following the acquisition.

We currently intend to retain certain key personnel of Kaufhof following the acquisition to continue to manage and operate Kaufhof and maintain relationships with customers, suppliers and other business partners. We will compete with other potential employers for employees, and we may not be successful in keeping the services of the executives and other employees that we need to realize the anticipated benefits of the acquisition. Our failure to retain key personnel to remain as part of the management team of Kaufhof in the period following the acquisition could have a material adverse effect on the business and operations of Kaufhof.

We may not be able to successfully complete the sale of 40 Kaufhof owned or partially-owned properties to HBC-Simon JV.

We have entered into an agreement in principle with Simon pursuant to which HBC-Simon JV intends to purchase at least 40 of Kaufhof's owned or partially-owned properties from us. There can be no assurance that we will agree upon or enter into definitive documentation with Simon to sell these properties to HBC-Simon JV. The completion of this transaction will also depend in part on the ability of HBC-Simon JV to obtain the necessary financing. HBC-Simon JV’s ability to complete the proposed financing on acceptable terms or at all will depend on a number of factors beyond its control, including general conditions affecting the markets from time to time and, accordingly, there can be no assurance that HBC-Simon JV will be able to acquire the Kaufhof properties from us.

Dividends

The Company's Board of Directors approved the payment of a quarterly dividend on June 10, 2015, which was paid on July 15, 2015, to shareholders of record at the close of business June 30, 2015. The dividend was in the amount of $0.05 per Common Share and was designated as an "eligible dividend" for Canadian tax purposes.

Outstanding Share Data

The Company's authorized share capital consists of an unlimited number of Common Shares and an unlimited number of preferred shares issuable in series. As of September 9, 2015, the Company had 182,100,001 Common Shares issued and outstanding and no preferred shares issued and outstanding. As of September 9, 2015, the Company had 11,744,827 share options, 347,328 restricted share units and 6,750,000 warrants outstanding, all of which are convertible or exchangeable into Common Shares.

The Company's Common Shares trade on the Toronto Stock Exchange under the symbol "HBC" and began trading on November 20, 2012. In addition, there are approximately 34 million Common Shares reserved for issuance for the exercise of share options, warrants and the settlement of restricted share units. Assuming exercise of all outstanding share options and the settlement of all outstanding restricted share units, there would be approximately 194.2 million Common Shares issued and outstanding on a fully diluted basis. Assuming exercise of all outstanding share options, the settlement of all outstanding restricted share units and the exercise of all outstanding warrants, there would be approximately 200.9 million Common Shares issued and outstanding on a fully diluted basis.