HUDSON'S BAY COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THIRTEEN AND FIFTY-TWO WEEKS ENDED FEBRUARY 1, 2014

Dated April 2, 2014

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 by them, referred to herein as "HBC", the "Company", "we", "us", or "our". It should be read in conjunction with the audited consolidated financial statements and notes thereto for our fiscal year ended February 1, 2014. Unless otherwise indicated, all amounts are expressed in millions of Canadian dollars.

The Board of Directors, on the recommendation of its Audit Committee, approved the contents of this MD&A. This MD&A reflects information as of April 2, 2014.

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"). Certain previously reported figures have been restated due to the implementation of revised International Accounting Standard 19 – Employee Benefits ("IAS 19R"). See "New Accounting Policies – Employee Benefits" and "Changes in Accounting Policies Including Initial Adoption".

General Information

Hudson's Bay Company is a Canadian corporation continued under the *Canada Business Corporations Act* and domiciled in Canada. On July 16, 2008, HBC was acquired by Hudson's Bay Trading Company, LP ("HBTC"), a limited partnership now domiciled in the Cayman Islands. NRDC L&T B LLC ("L&T B"), a Delaware limited liability company, is the managing partner of HBTC. HBTC had previously acquired Lord & Taylor Holdings LLC ("L&T") on October 2, 2006.

On January 11, 2012, HBTC completed a reorganization to combine its retail operations, HBC and L&T and as part of the reorganization, HBC acquired L&T from HBTC. The acquisition of L&T by HBC was a merger of entities under common control and as such the two entities are presented for financial reporting purposes as if the two entities have been consolidated since HBC's acquisition by HBTC.

On November 26, 2012, the Company completed the initial public offering (the "IPO") of its common shares (the "Common Shares").

The Acquisition

On November 4, 2013 (the "Acquisition Date"), the Company completed its acquisition of all of the outstanding shares of Saks Incorporated ("Saks"), in an all-cash transaction valued at U.S.$2,973.2 million, including debt (the "Acquisition"). In addition, the Company incurred approximately $220.0 million of acquisition-related expenses. The Acquisition was completed in accordance with the previously announced definitive merger agreement dated as of July 28, 2013.

The Acquisition was financed by a combination of new debt financing and approximately U.S.$1.0 billion of new equity issued by way of a combination of a public offering of 16,050,000 subscription receipts at $17.15 per subscription receipt and two private placements of Common Shares and Common Share purchase warrants.

For further details regarding the Acquisition, please refer to the Company's Business Acquisition Report dated December 6, 2013, which is available on the Company's website at www.hbc.com and on SEDAR at www.sedar.com.

References in this MD&A to "Legacy HBC" refer to the Company as structured prior to the acquisition of Saks (i.e., excluding Saks).

Unless otherwise specified, the Company's financial information outlined herein includes Saks' operating results from the Acquisition Date.

Accounting Periods

This MD&A is based on the audited consolidated financial statements and accompanying notes thereto for Fiscal 2013, Fiscal 2012 and Fiscal 2011. During Fiscal 2011, we changed our convention and began reporting our year end on the Saturday nearest to January 31. Therefore, our Fiscal Year consists of a 52- or 53-week period. "Fiscal 2013" and "Fiscal 2011" were 52 weeks and are references to the Company's fiscal years ended on February 1, 2014 and January 28, 2012, respectively. "Fiscal 2012" was 53 weeks and is a reference to the Company's fiscal year ended on February 2, 2013. Similarly, the fourth quarter of Fiscal 2012 was 14 weeks while the fourth quarter of Fiscal 2013 was 13 weeks.

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 heading "Outlook", constitute forward-looking statements. 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 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 "Risk Factors" section of this MD&A: significant competition in the retail industry, changing consumer preferences, changing consumer spending, the prospect of unfavourable economic and political conditions, the seasonal nature of our business, unseasonable weather conditions or natural disasters, our substantial amount of indebtedness and our ability to comply with the covenants in our credit facilities, our ability to integrate Saks with the pre-Acquisition business and to realize cost synergies and growth opportunities related thereto, our ability to achieve the full amount of cost synergies that are anticipated, or achieve the cost synergies on the schedule anticipated, from the Acquisition, our dependence on key personnel who would be difficult to replace, our dependence on our advertising and marketing programs, a material disruption in our computer systems, our ability to upgrade, maintain and secure our information systems to support the needs of the organization and protect against increased and evolving cyber security threats, our ability to execute our growth strategy, fluctuations in the value of the Canadian dollar in relation to the U.S. dollar, risks associated with doing business abroad, risks associated with operating freehold and leasehold property, environmental risks associated with operating freehold and leasehold property, our obligations under the agreement entered into with Target Corporation, inability to protect our trademarks and other proprietary rights, pension related risks, our constating documents could discourage takeover attempts, risks related to our ability to maintain financial and management processes and controls, our ability to pay dividends is dependent on our ability to generate sufficient income, influence by our principal shareholders, our principal shareholders have a material percentage of the Common Shares which may have an impact on the trading price of the Common Shares, and our principal shareholders may sell their Common Shares at a time in the future and such timing will be beyond our control and may affect the trading price of the Common Shares, 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 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. 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 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 those 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, Normalized EBITDA and Normalized Net (Loss) Earnings – Continuing Operations 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 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.

We have also included in this document a reference to Normalized EBITDA from Legacy HBC operations which is defined as Normalized EBITDA excluding Normalized EBITDA pertaining to Saks. This measure will be excluded from future reporting. For additional detail, refer to our tables outlining the reconciliations of Net (Loss) Earnings – Continuing Operations to EBITDA and Normalized EBITDA and Net (Loss) Earnings – Continuing Operations to Normalized Net Earnings - Continuing Operations.

Recent Events

- On November 4, 2013, the Company completed its acquisition of all of the outstanding shares of Saks.

- 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 for a purchase price of $650.0 million (the "Queen Street Sale"). The Company will lease the entire retail and office complex back for a base term of twenty-five years with renewal options of up to approximately twenty-five additional years. The property will serve as the site of Canada's first Saks Fifth Avenue location. In addition, the Company agreed to lease space in Toronto's Sherway Gardens for a second Saks Fifth Avenue store in Canada. A portion of the proceeds was used to retire in entirety the Company's U.S.$300.0 million Second Lien Term Loan (the "Junior Term Loan") and permanently pay down U.S.$150.0 million of its U.S.$2,000.0 million First Lien Term Loan (the "Senior Term Loan B"). The balance of the net proceeds was used to reduce the outstanding balance of the Company's Canadian revolving credit facility. Over time, a portion of the proceeds will be used to fund the Company's strategic investments including the expansion of Saks Fifth Avenue into Canada and growth initiatives such as our HBC Digital and Saks OFF 5TH businesses.

- On March 20, 2014, the Company declared a quarterly dividend, payable on April 15, 2014 to shareholders of record at the close of business on March 31, 2014, of $0.05 per Common Share.

Overview

Our Business

Hudson's Bay Company, founded in 1670, is North America's longest continually operated company. Today, HBC offers customers a range of retailing categories and shopping experiences primarily in the United States and Canada. Our leading banners – Hudson's Bay, Saks Fifth Avenue, Lord & Taylor and Saks Fifth Avenue OFF 5TH – offer a compelling assortment of apparel, accessories, shoes, beauty and home merchandise. Hudson's Bay is Canada's most prominent national branded department store with 90 full-line locations, one outlet store and thebay.com. Saks Fifth Avenue, one of the world's pre-eminent luxury specialty retailers, comprises 39 U.S. stores, five international licensed stores and saks.com. Lord & Taylor operates 49 full-line locations primarily in the northeastern and mid-Atlantic U.S., four Lord & Taylor outlet locations and lordandtaylor.com. OFF 5TH offers value-oriented merchandise through 72 U.S. stores and saksoff5th.com. Home Outfitters is Canada's largest kitchen, bed and bath specialty superstore with 69 locations. Zellers operates two clearance centers. The Company has substantively completed the discontinuation of its discount store business. See "Supplemental Information – Discontinued Operations".

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

- *Digital Growth*. We have created HBC Digital to manage digital commerce and marketing strategy and execution for our digital brands: thebay.com, lordandtaylor.com, saks.com and saksoff5th.com. In partnership with leadership across the enterprise, HBC Digital leverages talent and best practices to deliver outstanding digital experiences for our customers.

- *Expanding Our Off-Price Business.* We are implementing a refined Saks OFF 5TH business model that offers a clearer value proposition in an easier to shop environment. We intend to accelerate the new store opening cadence.

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

- *Growing Our Top 10 Stores under Each Banner*. We are focusing on driving productivity at the ten largest sales volume locations at each of Hudson's Bay, Lord & Taylor and Saks Fifth Avenue. By focusing our investments on these stores, we can increase the sales productivity and contribution margins of these specific locations as well as enhance the brand equity of each of our banners.

In addition, we believe there is an opportunity to realize significant operating margin improvements through gross margin and operating expense enhancements as well as $100 million of annualized targeted synergies to be achieved as a result of the Acquisition by Fiscal 2016:

- *Gross Profit Enhancements.* We will continue to work to increase our gross margin 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.

- *Operating Expense Management.* We will continue to aggressively manage our operating expenses and leverage our significantly increased scale to optimize costs. Since our IPO, the Company has realized most of its targeted $60.0 million of annual operating cost savings related to the discontinuation of the discount store business, with the remainder expected to be realized within the next twelve to eighteen months. These savings have been achieved through the reduction of information technology expenses, occupancy costs, distribution costs and other corporate overhead.

- *Acquisition Synergies.* The targeted annualized Acquisition synergies of approximately $100.0 million 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.

Highlights of the 13-week period ended February 1, 2014

- Consolidated same store sales which include Saks increased 6.6% for the comparable 13-week period, or 2.1% excluding the impact of foreign exchange. On a local currency basis, same store sales at Hudson's Bay increased 5.2%, Lord & Taylor decreased by 1.3% and Saks increased by 3.1%.

- Digital commerce sales grew $193.0 million to $252.3 million, an increase of approximately 326% for the comparable 13-week period. The majority of the increase related to the inclusion of Saks' in the fourth quarter of Fiscal 2013. Digital commerce in the Lord & Taylor and Hudson's Bay banners grew by approximately 59%, reflecting the Company's continued strategic focus on growing this channel.

- Gross profit rate was 36.8% of retail sales, or a decrease of 0.8 percentage points compared to the 14-week period ended February 2, 2013 principally due to the inclusion of Saks and reflecting amortization of inventory related purchase price accounting adjustments.

- Normalized EBITDA was $253.5 million compared to $177.1 million for the fourth quarter of Fiscal 2012, an increase of $76.4 million, primarily relating to the inclusion of Saks. Normalized EBITDA from Legacy HBC was $163.6 million.

- Normalized Net Earnings for the Period - Continuing Operations were $81.5 million or $0.45 per common share compared to $97.6 million or $0.85 per common share for the fourth quarter of Fiscal 2012, a decrease of $16.1 million or $0.40 per common share.

Highlights of Fiscal 2013

- Consolidated same store sales which include Saks sales since the Acquisition increased 5.4% over the comparable 52-week period, or 2.8% excluding the impact of foreign exchange. On a local currency basis, same store sales at Hudson's Bay increased by 6.2%, Lord & Taylor decreased by 0.7% and Saks increased by 3.1 %.

- Digital commerce sales grew $232.1 million to $369.6 million, an increase of approximately 169% for the comparable 52-week period. The majority of the increase related to the inclusion of Saks' digital business in the fourth quarter of Fiscal 2013. Digital commerce in the Lord & Taylor and Hudson's Bay banners grew by approximately 52%, reflecting the Company's continued strategic focus on growing this channel.

- Gross profit rate was 38.4% of retail sales, a decrease of 0.6 percentage points compared to the 53-week period ended February 2, 2013.

- Normalized EBITDA was $406.8 million compared to $310.0 million for Fiscal 2013, an increase of $96.8 million, primarily relating to the inclusion of Saks. Normalized EBITDA from Legacy HBC was $316.9 million.

- Normalized Net Earnings - Continuing Operations were $80.0 million or $0.59 per common share compared to $72.1 million or $0.67 per common share for Fiscal 2012, a $7.9 million improvement or $0.08 per common share.

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 — Consolidated (continuing operations)

The Company calculates same store sales on a year-over-year basis from stores operating for at least 13 months, online sales and clearance store sales. Stores undergoing remodeling remain in the same store sales calculation unless the store is closed for a significant period of time. This calculation includes the impact of foreign currency translation. In addition, based on our reporting convention, our Fiscal 2011 and Fiscal 2013 were 52 weeks while Fiscal 2012 was 53 weeks. Similarly, the fourth quarter of Fiscal 2012 was 14 weeks, as opposed to 13 weeks for the fourth quarter of each of Fiscal 2013 and Fiscal 2011. Notwithstanding the difference in time periods, the Company presents same store sales based on 52-week or 13-week periods, as applicable. For the fourth quarter of Fiscal 2013 and for Fiscal 2013, Saks same-store sales have been included in consolidated same-store sales since the Acquisition Date. 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 China, India, Indonesia, Bangladesh, Vietnam, Cambodia and Europe. As a result, our cost of sales 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 LLC and Saks Incorporated, whose functional currency is U.S. dollars, presents a foreign exchange risk to HBC, whose functional currency is Canadian dollars. HBC is using a net investment hedge to mitigate this risk. HBC has designated U.S.$800.0 million of the Term Loan B as a hedge of the first U.S.$800.0 million of net assets of L&T Acquisition. Foreign currency translation of the net earnings of L&T Acquisition will impact consolidated net earnings. Foreign currency translation of HBC's investment in L&T Acquisition will impact other comprehensive income (loss).

Selling, General & Administrative Expenses

Our Selling, General & Administrative Expenses ("SG&A") consist of store labour and maintenance costs, store occupancy costs, advertising and marketing costs and 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, 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 the existing lease term including option periods. We believe that our existing leases are generally favourable to current market rates. When entering new leases, we are generally able to negotiate leases at attractive market rates due to the increased consumer traffic which our stores generate in strip malls and shopping centres.

We earn royalty and new account bounty payments from credit card issuers based on sales charged both in-store and/or out-of-store to either Hudson's Bay Private Label Credit Cards, Hudson's Bay branded MasterCards or Saks branded MasterCards. These royalty and/or bounty payments are recorded as a reduction of SG&A in our financial statements. We have no risk of credit loss on the credit card receivables in the underlying portfolio.

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 movements and amortization charges related to embedded derivatives. 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, CDOR and LIBOR.

In connection with the Acquisition, we issued Common Share purchase warrants related to the equity commitments we received from HS Investment L.P. ("HSILP"), an affiliate of Ontario Teachers' Pension Plan, and West Face Long Term Opportunities Global Master L.P. ("WF Fund"), a fund advised by West Face Capital Inc. Due to the variability of the Common Share issue price and certain other features, including potential price protection provisions, the equity commitments had been recognized prior to the closing of the Acquisition as forward contracts ("Equity Commitment Forwards") and were accounted for as derivative financial instruments. The non-cash charges associated with the warrants and the Equity Commitment Forwards 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 and Equity Commitment Forwards as finance costs based on their end of period valuations. The Company recorded mark-to-market gains and losses on the Equity Commitment Forwards until the commitment period ended on November 4, 2013 at which time the Company derecognized the Equity Commitment Forwards and reclassified the related financial liability of $129.9 million to share capital.

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, category killers, 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. The Company's sales are impacted by discretionary spending by consumers. Consumer spending 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 the weather or natural disasters.

Seasonality

The quarterly sales and earnings of the Company and other retail companies 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.

New Accounting Policies – Employee Benefits

In June 2011, the IASB amended IAS 19 — Employee Benefits. The amendments provided clarification on the recognition of termination benefits and eliminated the option to defer actuarial gains and losses (known as the corridor approach) related to defined benefit plans. Net interest on the net benefit plan assets and liabilities as calculated under the amended IAS 19 is now included in finance costs. The Company adopted the amended IAS 19 standard retrospectively in the first quarter of Fiscal 2013. The impact of the amendments to IAS 19 for each of the quarters on the consolidated statement of earnings (loss) in Fiscal 2012 is summarized as follows:

	Fiscal Quarter Ended				Fiscal Year Ended
(millions of Canadian dollars except per share amounts)	**April 28, 2012**	**July 28, 2012**	**October 27, 2012**	**February 2, 2013**	**February 2, 2013**
	$	$	$	$	$
Decrease (increase) in SG&A	6.6	(1.8)	(5.8)	(4.3)	(5.3)
Decrease (increase) in finance costs	0.1	-	0.2	(0.1)	0.2
(Decrease) increase in income tax benefit	(1.8)	0.4	1.6	1.2	1.4
Decrease (increase) in net loss for the period – continuing operations	4.9	(1.4)	(4.0)	(3.2)	(3.7)
(Increase) decrease in net loss for the period – discontinued operations	(0.6)	37.4	(8.4)	(15.0)	13.4
Decrease (increase) in net loss for the period	4.3	36.0	(12.4)	(18.2)	9.7
Increase (decrease) in net earnings (loss) per Common Share — basic and diluted[(1)]					
Continuing operations	0.05	(0.01)	(0.04)	(0.03)	(0.03)
Discontinued operations	(0.01)	0.35	(0.08)	(0.13)	0.12
	0.04	0.34	(0.12)	(0.16)	0.09

Note:

(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.

Selected Consolidated Financial Information

The following tables set out summary consolidated financial information and supplemental information for the periods indicated. The summary annual financial information set out below for each of Fiscal 2013, Fiscal 2012 and Fiscal 2011 has been derived from consolidated financial statements, prepared in accordance with IFRS. The summary financial information set out below for the quarters ended February 1, 2014 and February 2, 2013 is unaudited. The unaudited financial information presented has been prepared on a basis consistent with our audited consolidated financial statements for Fiscal 2013. 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.

Based on the Company's reporting convention, our Fiscal 2013 and Fiscal 2011 were 52 weeks while Fiscal 2012 was 53 weeks. Similarly, the fourth quarter of Fiscal 2012 was 14 weeks, while the fourth quarter of Fiscal 2013 was 13 weeks. Notwithstanding the difference in time periods, the Company presents same store sales based on 52-week or 13-week periods, as applicable.

Unless otherwise specified, the Company's financial information outlined herein includes Saks' operating results from the Acquisition Date.

(millions of Canadian dollars except per square foot and per share amounts)	Fiscal Year 2013		(restated[1]) 2012		2011[2]		Fiscal Quarter Ended February 1, 2014		(restated[1]) February 2, 2013	
	$	%[3]	$	%	$	%	$	%[3]	$	%
Earnings Results										
Retail sales	5,223.4	100.0%	4,077.0	100.0%	3,849.6	100.0%	2,407.6	100.0%	1,386.5	100.0%
Cost of sales	(3,216.8)	(61.6%)	(2,487.0)	(61.0%)	(2,306.0)	(59.9%)	(1,521.2)	(63.2%)	(864.9)	(62.4%)
Gross profit	2,006.6	38.4%	1,590.0	39.0%	1,543.6	40.1%	886.4	36.8%	521.6	37.6%
Selling, General & Administrative Expenses	(1,823.9)	(34.9%)	(1,370.4)	(33.6%)	(1,256.6)	(32.6%)	(794.7)	(33.0%)	(360.8)	(26.0 %)
Depreciation & Amortization	(175.6)	(3.4%)	(104.1)	(2.6%)	(90.6)	(2.4%)	(84.3)	(3.5%)	(31.0)	(2.2%)
Operating income	7.1	0.1%	115.5	2.8%	196.4	5.1%	7.4	0.3%	129.8	9.4%
Total interest expense, net	(95.2)		(97.1)		(142.9)		(55.3)		(13.3)	
Acquisition-related finance (costs) income	(166.1)		-		-		17.2		-	
Finance costs	(261.3)	(5.0%)	(97.1)	(2.3%)	(142.9)	(3.7%)	(38.1)	(1.6%)	(13.3)	(1.0%)
(Loss) earnings before income tax	(254.2)	(4.9%)	18.4	0.5%	53.5	1.4%	(30.7)	(1.3%)	116.5	8.4%
Income tax benefit (expense)	78.5	1.5%	9.4	0.2%	3.8	0.1%	68.1	2.9%	(26.1)	(1.9%)
Net (loss) earnings — continuing operations	(175.7)	(3.4%)	27.8	0.7%	57.3	1.5%	37.4	1.6%	90.4	6.5%
Net (loss) earnings — discontinued operations, net of taxes	(82.4)		(62.9)		1,391.7		(8.3)		(3.6)	
Net (loss) earnings	(258.1)		(35.1)		1,449.0		29.1		86.8	
Supplemental Information – Continuing Operations										
EBITDA[4]	216.3	4.1%	244.7	6.0%	309.3	8.0%	97.4	4.0%	163.8	11.8%
Normalized EBITDA[4]	406.8	7.8%	310.0	7.6%	312.9	8.1%	253.5	10.5%	177.1	12.8%
Legacy HBC Normalized EBITDA[4]	316.9	7.5%	310.0	7.6%	312.9	8.1%	163.6	11.6%	177.1	12.8%
Normalized Net Earnings[4]	80.0	1.5%	72.1	1.8%	68.1	1.8%	81.5	3.4%	97.6	7.0%
Same Store Sales Percentage Change[5]										
HBC continuing operations [6]	5.4%		4.0%		3.7%		6.6%		2.1%	
HBC continuing operations [6] (excluding impact of foreign exchange)	2.8%		3.7%		6.5%		2.1%		2.7%	
Hudson's Bay[6]	6.2%		5.4%		6.8%		5.2%		6.1%	
Lord & Taylor[6]	(0.7%)		2.2%		7.1%		(1.3%)		(2.9%)	
Saks[6]	3.1%		N/A		N/A		3.1%		N/A	
Store Information										
Sales per square foot[7]										
Hudson's Bay	145		140		133					
Lord & Taylor	212		218		210					
Store count[8]										
Hudson's Bay	90		90		91					
Lord & Taylor	49		48		46					
Home Outfitters	69		69		69					
Saks	112		N/A		N/A					
Total square footage ('000)	32,332		25,343		25,381					

(millions of Canadian dollars except per square foot and per share amounts)	Fiscal Year		
	2013	*(restated[1])* 2012	2011[2]
Balance Sheet and Cash Flow Data			
Cash	20.8	48.3	42.4
Trade and other receivables	137.2	74.3	124.0
Inventories[9]	2,025.5	994.3	1,814.2
Current assets[10]	2,288.4	1,419.7	2,007.2
Property, plant and equipment[11]	4,110.4	1,335.0	1,401.1
Intangible assets[12]	981.4	233.0	224.6
Goodwill[13]	213.6	-	-
Total assets	7,927.0	3,247.6	3,993.5
Current liabilities[14]	1,454.6	1,211.4	1,625.8
Loans and borrowings (including current portion) [15]	3,454.9	850.6	1,192.7
Shareholders' equity	2,050.7	1,013.0	955.9
Total capital expenditures[16] — continuing operations	291.5	202.9	166.1

Notes:

(1) Certain previously reported figures have been restated due to the implementation of IAS 19R. For more information, please refer to "New Accounting Policies – Employee Benefits" and "Changes in Accounting Policies Including Initial Adoption."

(2) Fiscal 2011 has not been restated for the implementation of IAS 19R.

(3) Legacy HBC items described as a percentage of sales have been calculated using retail sales of $4,217.4 million for Fiscal 2013 and $1,401.6 million for the fourth quarter of Fiscal 2013.

(4) See tables below for a reconciliation of Net (Loss) Earnings - Continuing Operations to EBITDA and Normalized EBITDA and a reconciliation of Net (Loss) Earnings - Continuing Operations to Normalized Net Earnings – Continuing Operations.

(5) The Company calculates same store sales on a year-over-year basis from stores operating for at least 13 months, online sales and clearance store sales. Consolidated same store sales include results for all banners including, Hudson's Bay, Lord & Taylor, Saks and Home Outfitters.

(6) Same store sales of HBC and Hudson's Bay exclude Vancouver Olympic Sales for Fiscal 2011. Lord & Taylor and Saks same store sales are calculated in U.S. dollars. Same store sales for Saks include both the Full line and OFF 5TH operations.

(7) Sales per square foot are calculated as the total revenue for the period divided by the gross leasable area as of the end of the period. This metric is used by management to measure the productivity of the Company's retail operations. Sales per square foot for Hudson's Bay includes Home Outfitters. For Lord & Taylor sales per square foot is calculated in U.S. dollars.

(8) Hudson's Bay Company operates one Hudson's Bay Outlet and two Zellers stores and Lord & Taylor operates four Lord & Taylor Outlets which are excluded from the store count and gross leasable area. Lord & Taylor also leased two Lord & Taylor Home stores which were closed in March 2013 and are excluded from store count and gross leasable area. Saks OFF 5TH stores are included in store count and gross leasable area. Since February 1, 2014 one Saks OFF 5TH store has opened and two full line stores were closed.

(9) Includes inventories related to Saks of $998.5 million as of February 1, 2014 and to discontinued operations as of January 28, 2012 of $844.2 million.

(10) Includes current assets related to Saks of $1,130.6 million as of February 1, 2014.

(11) Includes property, plant and equipment related to Saks of $2,575.4 million as of February 1, 2014.

(12) Includes intangible assets related to Saks of $724.3 million as of February 1, 2014.

(13) Includes goodwill related to Saks of $213.6 million as of February 1, 2014.

(14) Excludes current loans and borrowings of $531.6 million, $132.1 million and $291.0 million as of February 1, 2014, February 2, 2013 and January 28, 2012, respectively, includes, trade payables, other payables and accrued liabilities and provisions related to Saks of $459.7 million as of February 1, 2014 and of discontinued operations as of January 28, 2012 of $629.1 million.

(15) Includes loans and borrowings related to Saks of $118.6 million as of February 1, 2014.

(16) Capital expenditures from continuing operations are inclusive of software development costs and are stated gross of vendor allowances and landlord incentives. Capital expenditures presented include those associated with Saks of $45.9 million in the fourth quarter of Fiscal 2013 and exclude those associated with discontinued operations of $4.1 million in Fiscal 2011.

The following table shows the reconciliation of Net (Loss) Earnings - Continuing Operations to EBITDA as well as Normalized EBITDA.

	Fiscal Year			Fiscal Quarter Ended	
(millions of Canadian dollars)	**2013**	*(restated[(1)])* **2012**	**2011[(2)]**	**February 1, 2014**	*(restated([1]))* **February 2, 2013**
	$	$	$	$	$
Net (Loss) Earnings - Continuing Operations	(175.7)	27.8	57.3	37.4	90.4
Finance costs	261.3	97.1	142.9	38.1	13.3
Income tax (benefit) expense	(78.5)	(9.4)	(3.8)	(68.1)	26.1
Pension expense (recovery) (non-cash)	20.8	11.8	12.1	(0.6)	(6.4)
Depreciation and amortization	175.6	104.1	90.6	84.3	31.0
Impairment and other non-cash expenses	4.1	13.3	10.2	4.1	9.4
Share based compensation	8.7	-	-	2.2	-
EBITDA	**216.3**	244.7	309.3	97.4	163.8
Normalization adjustments					
Acquisition related expenses	70.4	-	-	65.2	-
Saks integration expenses	53.1	-	-	44.0	-
Amortization of Saks inventory purchase accounting adjustments	39.3	-	-	39.3	-
Restructuring and other	27.7	75.3	22.3	7.6	23.3
Real estate gains	-	(10.0)	(5.6)	-	(10.0)
Foreign exchange gains on capital transactions	-	-	(13.1)	-	-
Normalized EBITDA	**406.8**	310.0	312.9	253.5	177.1
Less: Saks Normalized EBITDA	**89.9**	-	-	89.9	-
Legacy HBC Normalized EBITDA	**316.9**	310.0	312.9	163.6	177.1

Notes:
(1) Certain previously reported figures have been restated due to the implementation of IAS 19R. For more information, please refer to "New Accounting Policies – Employee Benefits" and "Changes in Accounting Policies Including Initial Adoption."
(2) Fiscal 2011 has not been restated for the implementation of IAS 19R.

The following table shows the reconciliation of Net (Loss) Earnings - Continuing Operations to Normalized Net Earnings - Continuing Operations.

(millions of Canadian dollars)	Fiscal Year 2013	Fiscal Year *(restated[3])* 2012	Fiscal Year 2011[4]	Fiscal Quarter Ended February 1, 2014	Fiscal Quarter Ended *(restated[3])* February 2, 2013
	$	$	$	$	$
Net (Loss) Earnings – Continuing Operations	(175.7)	27.8	57.3	37.4	90.4
Normalization Adjustments					
Acquisition-related finance costs and expenses, net of tax	222.5	-	-	37.0	-
Restructuring and other, net of tax	20.3	53.6	16.1	5.4	17.3
Financing related adjustments, net of tax[1]	7.6	6.6	18.0	4.1	1.4
Saks integration expenses, net of tax	33.5	-	-	26.8	-
Real estate gains, net of tax	-	(5.9)	(5.3)	-	(5.9)
Foreign Exchange Gains on Capital Transactions, net of tax	-	-	(9.6)	-	-
Amortization of Saks inventory purchase accounting adjustments, net of tax	23.6	-	-	23.6	-
Tax related adjustments[2]	(51.8)	(10.0)	(8.4)	(52.8)	(5.6)
Total normalizing adjustments	255.7	44.3	10.8	44.1	7.2
Normalized Net Earnings - Continuing Operations	80.0	72.1	68.1	81.5	97.6

Notes:

(1) Includes write-off of deferred financing costs, gain on early extinguishment of debt, fair market value movement in embedded derivatives and amortization of loan renewal options. Please refer to note 6 of the Company's audited consolidated financial statements for the fiscal years ended February 1, 2014 and February 2, 2013.

(2) Includes reversal of valuation allowances on deferred tax assets, impact of tax rate change and revaluation of Lord & Taylor deferred tax assets as a result of change in tax status. Please refer to note 7 of the Company's audited consolidated financial statements for the fiscal year ended February 1, 2014.

(3) Certain previously reported figures have been restated due to the implementation of IAS 19R. For more information, please refer to "New Accounting Policies – Employee Benefits" and "Changes in Accounting Policies Including Initial Adoption."

(4) Fiscal 2011 has not been restated for the implementation of IAS 19R.

EBITDA is a non-IFRS measure that we use to assess our operating performance. EBITDA is defined as net earnings before interest expense, income tax, non-cash share based compensation expense, depreciation and amortization expense, impairment and other non-cash expenses and pension expense (non-cash). The Company's Canadian defined benefit pension plan is currently over-funded, and as a result pension expense is adjusted as management does not expect to make any payments in the foreseeable future.

Normalized EBITDA is defined as EBITDA 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. Normalized Net Earnings (Loss) – Continuing Operations is defined as net earnings (losses) adjusted to exclude: (i) business and organization restructuring/realignment charges; (ii) merger/acquisition costs and expenses; and (iii) normalizing adjustments, including those related to purchase accounting, if any, related to transactions that are not associated with day-to-day operations. We have included Normalized EBITDA and Normalized Net Earnings (Loss) – Continuing Operations to provide investors with supplemental measures of our operating performance. We believe Normalized EBITDA and Normalized Net Earnings (Loss) – Continuing Operations 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 and other interested parties frequently use EBITDA, Normalized EBITDA, and Normalized Net Earnings (Loss) – Continuing Operations in the evaluation of issuers, many of which present similar metrics when reporting their results. Our management also uses Normalized 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, Normalized EBITDA, or Normalized Net Earnings (Loss) – Continuing Operations differently than we do, these metrics are not comparable to similarly titled measures reported by other companies.

Supplemental Information — Discontinued Operations

During 2012, the Company announced its intention to discontinue store operations at Fields and most of the store operations at Zellers. The Company completed the wind-down of its 169 Fields stores in 2012 and as of March 31, 2014, only two Zellers locations remained open. The direct results of these two operations have been reflected in the Company's financial statements as "discontinued operations". Certain shared service and corporate overhead costs previously allocated to Zellers and Fields have been included in continuing operations' SG&A and therefore the Company's SG&A is reflective of the larger organization.

The following table sets forth the major components of the Company's (loss) earnings from discontinued operations:

	Fiscal Year						Fiscal Quarter Ended			
(millions of Canadian dollars)	**2013**		*(restated[(1)])* **2012**		**2011[(3)]**		**February 1, 2014**		*(restated[(1)])* **February 2, 2013**	
	$	%	$	%	$	%	$	%	$	%
Retail sales	145.8	100.0%	2,374.5	100.0%	3,288.6	100.0%	-	-	537.4	100.0%
Cost of sales	(162.4)	(111.4%)	(1,778.2)	(74.9%)	(2,159.7)	(65.7%)	-	-	(429.2)	(79.9%)
Selling, General & Administrative Expenses[(2)]	(127.0)	(87.1%)	(935.9)	(39.4%)	(1,026.2)	(31.2%)	(10.8)	-	(167.7)	(31.2%)
Operating (loss) income	(143.6)	(98.5%)	(339.6)	(14.3%)	102.7	3.1%	(10.8)	-	(59.5)	(11.1%)
Finance income (expense)	-	-	0.4	0.0%	0.7	0.0%	0.2	-	(0.2)	(0.0%)
(Loss) earnings before income taxes	(143.6)	(98.5%)	(339.2)	(14.3%)	103.4	3.1%	(10.6)	-	(59.7)	(11.1%)
Income tax benefit (expense)	32.5	22.3%	94.8	4.0%	(29.3)	(0.9%)	2.3	-	(0.3)	(0.1%)
Net (loss) earnings from discontinued operations, net of taxes	(111.1)	(76.2%)	(244.4)	(10.3%)	74.1	2.3%	(8.3)	-	(60.0)	(11.2%)
Sales of leasehold interests, net of taxes	28.7		181.5		1,317.6		-	-	56.4	
Net (loss) earnings for the period — discontinued operations, net of taxes	(82.4)		(62.9)		1,391.7		(8.3)	-	(3.6)	

Notes:

(1) Certain previously reported figures have been restated due to the implementation of IAS 19R. For more information, please refer to "New Accounting Policies – Employee Benefits" and "Changes in Accounting Policies Including Initial Adoption."

(2) Selling, General & Administrative Expenses includes depreciation and amortization.

(3) Fiscal 2011 has not been restated for the implementation of IAS 19R.

The Company will cease reporting discontinued operations in Fiscal 2014.

Results of Operations

Thirteen-Week Period Ended February 1, 2014 Compared to the Fourteen-Week Period Ended February 2, 2013

The following section provides an overview of our financial performance during the 13-week period ended February 1, 2014 compared to the 14-week period ended February 2, 2013. Unless otherwise specified, the Company's financial information outlined herein includes Saks' operating results from the Acquisition Date.

Retail Sales

Retail sales, which include Digital commerce sales from all banners, were $2,407.6 million for the 13-week period ended February 1, 2014, an increase of $1,021.1 million, or 73.6%, from $1,386.5 million for the 14-week period ended February 2, 2013. The increase is primarily attributable to the inclusion of Saks. Consolidated same store sales increased by 6.6% (2.1% excluding impact of foreign exchange), with an increase of 5.2% at Hudson's

Bay, a decrease of 1.3% at Lord & Taylor and an increase of 3.1% at Saks. Digital commerce sales increased 311.1% to $252.3 million for the 13-week period ended February 1, 2014; the majority of the increase related to the inclusion of Saks. Digital commerce sales related to the Hudson's Bay and Lord & Taylor banners increased by approximately 53% (59% on a 13-week basis) to $94.0 million for the 13-week period ended February 1, 2014.

Sales at Hudson's Bay included strong performance of men's apparel, ladies' shoes, outerwear, handbags and accessories, new Topshop/Topman stores and Olympics merchandise. Sales at Lord & Taylor showed positive performance in men's apparel and outerwear offset by cosmetics, handbags and accessories, jewelry and ladies' shoes. Saks Fifth Avenue's strongest sales growth categories were women's ready-to-wear, menswear and accessories.

Gross Profit

Gross profit was $886.4 million, or 36.8% of retail sales, for the 13-week period ended February 1, 2014, compared to $521.6 million, or 37.6% of retail sales, for the 14-week period ended February 2, 2013. The increase in gross profit was primarily attributed to the inclusion of Saks. The decrease in gross profit as a percentage of sales was primarily attributed to the inclusion of the amortization of inventory related purchase price accounting adjustments related to the Acquisition.

Selling, General & Administrative Expenses

SG&A was $794.7 million for the 13-week period ended February 1, 2014, compared to $360.8 million for the 14-week period ended February 2, 2013 or an increase of $433.9 million. The increase is primarily attributed to costs associated with the inclusion of Saks and additional costs related specifically to the Acquisition. Adjusting for Saks acquisition-related costs and other non-recurring expenses of $42.9 million for the 13-week period ended February 1, 2014 and $39.1 million for the 14-week period ended February 2, 2013, SG&A as a percentage of retail sales would have been 22.8 % and 23.2%, respectively. The dollar increase in SG&A was primarily driven by the following factors: an increase in non-cash share based compensation, a decrease in non-cash pension income and an increase in costs associated with our strategic initiatives (including Topshop/Topman and digital commerce). These net increases were partially offset by additional expense reductions realized in the quarter related to optimizing our corporate infrastructure to reflect the wind-down of discontinued operations.

EBITDA and Normalized EBITDA

EBITDA was $97.4 million in the 13-week period ended February 1, 2014, compared to $163.8 million in the 14-week period ended February 2, 2013 or a decrease of $66.4 million. Normalized EBITDA was $253.5 million, or 10.5% of retail sales, in the 13-week period ended February 1, 2014, compared to $177.1 million, or 12.8% of retail sales, in the 14-week period ended February 2, 2013, an increase of $76.4 million, or a 230 basis point decrease as a percentage of retail sales. Increases in Normalized EBITDA were primarily the result of the inclusion of Saks.

Legacy HBC Normalized EBITDA for the 13-week period ended February 1, 2014 was $163.6 million, or 11.6% of Legacy HBC retail sales, a decrease of $13.5 million or 120 basis points as a percentage of retail sales from the fourth quarter of Fiscal 2012.

Finance Costs

Finance costs were $38.1 million in the 13-week period ended February 1, 2014 compared to $13.3 million for the 14-week period ended February 2, 2013, an increase of $24.8 million. The increase is a result of interest costs associated with the Acquisition related debt of $35.5 million in the 13-week period ended February 1, 2014. In addition, a non-cash charge of $6.9 million was incurred for the write-off of deferred financing costs when the associated debt was refinanced as a result of the Acquisition. The increase was offset by $17.2 million of net Acquisition-related financing income, of which $18.3 million of income was non-cash. The non-cash Acquisition-related income represents the required mark to market adjustments of the warrants issued to HSILP and WF Fund based on HBC's closing share price (see notes 6 and 18 of the audited consolidated financial statements for the year ended February 1, 2014).

Income Tax Benefit (Expense)

Income tax benefit was $68.1 million in the 13-week period ended February 1, 2014, compared to an expense of $26.1 million for the 14-week period ended February 2, 2013. During the 13-week period ended February 1, 2014, the Company recognized an income tax benefit of $52.8 million associated with a decrease in the valuation allowances recorded against deferred income tax assets, most of which related to tax attributes of Zellers which amalgamated with HBC on February 2, 2014. The effective income tax rate, adjusted for the reversal of the valuation allowance, was 49.8% for the 13-week period ended February 1, 2014 increased from 22.4% for the 14-week period ended February 2, 2013 primarily due to the effect of international tax rate differentials and non-deductible permanent differences related to acquisition-related finance and transaction costs.

Net Earnings — Continuing Operations

Net Earnings - Continuing Operations were $37.4 million in the 13-week period ended February 1, 2014 compared to $90.4 million in the 14-week period ended February 2, 2013, a decrease of $53.0 million. The reduction in Net Earnings is primarily the result of adjustments related to non-cash finance costs and other acquisition related costs further identified in the reconciliation of Net (Loss) Earnings – Continuing Operations to Normalized Net Earnings-Continuing Operations.

Normalized Net Earnings — Continuing Operations

Normalized Net Earnings - Continuing Operations were $81.5 million in the 13-week period ended February 1, 2014 compared to of $97.6 million in the 14-week period ended February 2, 2013, a decrease of $16.1 million.

Net Loss — Discontinued Operations

Net Loss - Discontinued Operations was $8.3 million in the 13-week period ended February 1, 2014 compared to $3.6 million for the 14-week period ended February 2, 2013. During the first quarter of Fiscal 2013, the Company completed the closure of most Zellers stores.

Fifty-two Week Period Ended February 1, 2014 Compared to the Fifty-three Week Period Ended February 2, 2013

The following section provides an overview of our financial performance during the 52-week period ended February 1, 2014 compared to the 53-week period ended February 2, 2013.

Retail Sales

Retail sales were $5,223.4 million in Fiscal 2013, an increase of $1,146.4 million, or 28.1%, from $4,077.0 million in Fiscal 2012. The increase is primarily attributable to the inclusion of Saks. Consolidated same store sales increased by 5.4% (2.8% excluding the impact of foreign exchange), with an increase of 6.2% at Hudson's Bay and a decrease of 0.7% at Lord & Taylor. Digital commerce sales related to Hudson's Bay and Lord & Taylor banners increased by approximately 51% (54% on a 52 week basis) to $211.3 million for the 52-week period ended February 1, 2014.

Sales at Hudson's Bay included strong performance of ladies' and men's apparel, ladies' shoes, handbags and accessories and Topshop/Topman stores. Sales at Lord & Taylor were driven by men's apparel, outerwear and handbags and accessories, offset by ladies' apparel and shoes.

Gross Profit

Gross profit was $2,006.6 million, or 38.4% of retail sales, in Fiscal 2013, compared to $1,590.0 million, or 39.0% of retail sales, in Fiscal 2012. The increase in gross profit was primarily attributed to the inclusion of Saks.

The decrease in gross profit as a percentage of sales was primarily attributed to the amortization of inventory related purchase price accounting adjustments related to the Acquisition.

Selling, General & Administrative Expenses

SG&A was $1,823.9 million for the 52-week period ended February 1, 2014, compared to $1,370.4 million for the 53-week period ended February 2, 2013 or an increase of $453.5 million. The increase is primarily attributed to costs associated with the inclusion of Saks and additional costs related specifically to the Acquisition. Adjusting for Saks acquisition-related costs and other non-recurring expenses of $77.3 million in Fiscal 2013 and $95.0 million in Fiscal 2012, SG&A as a percentage of retail sales would have been 31.1% and 31.3%, respectively. The dollar increase in SG&A was primarily driven by the following factors: an increase in non-cash share based compensation, an increase in non-cash pension expense and a decreased return from credit operations and an increase in costs associated with our strategic initiatives (including Topshop/Topman and digital commerce). These increases were partially offset by additional expense reductions realized during the year related to optimizing our corporate infrastructure to reflect the wind-down of discontinued operations.

EBITDA and Normalized EBITDA

EBITDA was $216.3 million in Fiscal 2013 compared to $244.7 million in Fiscal 2012, a decrease of $28.4 million. Normalized EBITDA was $406.8 million, or 7.8% of retail sales, in Fiscal 2013 compared to $310.0 million, or 7.6% of retail sales, in Fiscal 2012, an increase of $96.8 million, or 20 basis points as a percentage of retail sales. Legacy HBC Normalized EBITDA in Fiscal 2013 was $316.9 million, or 7.5% of Legacy HBC retail sales, an increase of $6.9 million and relatively flat as a percentage of retail sales from Fiscal 2012.

Finance Costs

Finance costs were $261.3 million for the 52-week period ended February 1, 2014 compared to $97.1 million for the 53-week period ended February 2, 2013, an increase of $164.2 million. This increase was driven by $166.1 million of Acquisition related financing costs, of which $153.3 million were non-cash, $11.7 million related to the bridge facility financing fee and the dividend equivalent on the subscription receipts of $1.1 million . The non-cash expenses included $153.2 million related to the changes in fair value of Equity Commitment Forwards and $0.1 million in finance related costs on warrants (see notes 6 and 18 to the audited consolidated financial statements for the fifty-two weeks ended February 1, 2014). In addition, other non-cash expenses included the write-off of $12.8 million in deferred financing costs. Interest expense associated with the debt incurred to finance the Acquisition in the fourth quarter of Fiscal 2013 was comparable to interest costs associated with loans and borrowings outstanding during Fiscal 2012. In Fiscal 2012, outstanding loans and borrowings were repaid by a combination of the IPO proceeds, operating income and the wind-down of discontinued operations.

Income Tax Benefit

Income tax benefit was $78.5 million in Fiscal 2013 compared to $9.4 million in Fiscal 2012, an increase of $69.1 million. During the 13-week period ended February 1, 2014, the Company recognized an income tax benefit of $52.8 associated with a decrease in the valuation allowances recorded against deferred income tax assets. For Fiscal 2013, the effective income tax rate adjusted for the reversal of the valuation allowance was 10.1% compared to 51.1% for Fiscal 2012. The change is primarily due to the effect of international tax rate differentials and non-deductible permanent differences related to acquisition-related finance and transaction costs.

Net (Loss) Earnings — Continuing Operations

Net Loss — Continuing Operations was $175.7 million in Fiscal 2013 compared to Net Earnings – Continuing Operations of $27.8 million in Fiscal 2012, a decrease of $203.5 million. The significant increase in Net Loss is primarily the result of non-cash finance costs and other acquisition related costs further identified in the reconciliation of Net (Loss) Earnings-Continuing Operations to Normalized Net Earnings-Continuing Operations.

Normalized Net Earnings — Continuing Operations

Normalized Net Earnings — Continuing Operations were $80.0 million in Fiscal 2013 compared to $72.0 million in Fiscal 2012, an increase of $8.0 million.

Net Loss — Discontinued Operations

Net Loss — Discontinued Operations was $82.4 million in Fiscal 2013 compared to net loss of $62.9 million in Fiscal 2012, an increase in loss of $19.5 million. The higher net loss is primarily due to fewer Zellers stores in operation during Fiscal 2013. During the first quarter of Fiscal 2013, the Company completed the closure of most Zellers stores.

Summary of Consolidated Quarterly Results

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

	Fiscal Quarter Ended							
					(restated[4])			
(millions of Canadian dollars except per share amounts)	**Feb. 1, 2014**	**Nov. 2, 2013**	**Aug. 3, 2013**	**May 4, 2013**	**Feb. 2, 2013**	**Oct. 27, 2012**	**July 28, 2012**	**April 28, 2012**
	$	$	$	$	$	$	$	$
Retail sales	2,407.6	984.1	947.7	884.0	1,386.5	930.4	911.9	848.2
Normalized EBITDA	253.5	64.3	58.0	31.0	177.1	47.9	58.9	26.1
Net (loss) earnings								
Continuing operations	37.4	(124.9)	(67.0)	(21.2)	90.4	(12.5)	(3.1)	(47.0)
Discontinued operations	(8.3)	0.7	(15.3)	(59.5)	(3.6)	(1.9)	25.3	(82.7)
	29.1	(124.2)	(82.3)	(80.7)	86.8	(14.4)	22.2	(129.7)
Net Earnings (Loss) per Common Share — Basic [1]								
Continuing Operations	0.21	(1.04)	(0.56)	(0.18)	0.78	(0.12)	(0.03)	(0.45)
Discontinued Operations	(0.05)	-	(0.13)	(0.49)	(0.03)	(0.02)	0.24	(0.79)
Net Earnings (Loss) per Common Share—Diluted [1]								
Continuing Operations	0.11	(1.04)	(0.56)	(0.18)	0.78	(0.12)	(0.03)	(0.45)
Discontinued Operations	(0.05)	-	(0.13)	(0.49)	(0.03)	(0.02)	0.24	(0.79)
Same Store Sales Percentage Change[2]								
Continuing Operations	6.6%	5.7%	3.5%	4.0%	2.1%	3.5%	3.9%	7.8%
Continuing Operations (excluding impact of foreign exchange)	2.1%	3.8%	3.0%	3.2%	2.7%	3.9%	2.0%	6.9%
Hudson's Bay	5.2%	6.4%	6.2%	7.6%	6.1%	4.5%	3.2%	7.4%
Lord & Taylor[3]	(1.3%)	1.6%	(1.2%)	(1.4%)	(2.9%)	5.2%	1.5%	7.5%
Saks[3]	3.1%	N/A	N/A	N/A	N/A	N/A	N/A	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, digital commerce sales and clearance store sales.

(3) Same store sales of Lord & Taylor and Saks are calculated in U.S. dollars.

(4) Certain previously reported figures for Fiscal 2012 have been restated due to the implementation of IAS 19R. For more information, please refer to "New Accounting Policies – Employee Benefits" and "Changes in Accounting Policies Including Initial Adoption."

Outlook

Fiscal 2014 will be HBC's first full year operating Saks Fifth Avenue and Saks OFF 5TH, while Fiscal 2013 financial results only included Saks results for the fourth quarter of Fiscal 2013. Our Fiscal 2014 outlook incorporates management's views on the current and expected operating environment and expected investments in the sales and margin enhancement initiatives outlined in the *Our Business* section of this MD&A, as well as the realization of approximately $50 million of synergies savings from the integration of Saks also described in the *Our Business* section of this MD&A. Our Fiscal 2014 guidance also incorporates, as previously disclosed, the annualized impact of the Queen Street Sale: (i) a reduction in finance costs of approximately $42 million, (ii) an increase in rent expense (SG&A) of approximately $30 million and (iii) approximately $29 million of non-recurring finance costs primarily due to the early extinguishment of debt, which will be reflected in the first quarter of 2014.

The following guidance is fully qualified by the *Forward-Looking Statements* section at the beginning of this MD&A:

- Total sales of $7.8 billion to $8.1 billion. This implies low-to-mid single-digit consolidated same store sales growth calculated on a constant-currency basis, driven in part by strong digital sales growth.
- Normalized EBITDA of $580.0 million to $620.0 million.
- Net capital investments of $380.0 million to $420.0 million.

This guidance reflects a U.S. dollar exchange rate assumption of USD:CAD = 1:1.09 for Fiscal 2014. Significant variation in this exchange rate assumption would impact the guidance.

Liquidity and Capital Resources

Cash Flows

Our 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:

	Fiscal Year			Fiscal Quarter Ended	
(millions of Canadian dollars)	**2013**	**2012**	**2011**	**February 1, 2014**	**February 2, 2013**
	$	$	$	$	$
Continuing operations					
Operating activities	204.2	80.8	29.3	307.9	220.5
Investing activities – excluding Acquisition of Saks	(288.4)	(197.3)	(222.6)	(108.8)	(61.3)
Investing activities - Acquisition of Saks, net of cash acquired	(2,765.7)	-	-	(2,765.7)	-
Financing activities	2,906.2	(232.1)	(1,679.5)	2,552.7	(345.6)
Increase (decrease) in cash from continuing operations	56.3	(348.6)	(1,872.8)	(13.9)	(186.4)
(Decrease) increase in cash from discontinued operations	(83.0)	354.5	1,867.3	10.2	196.8
Foreign exchange losses on cash	(0.8)	-	(9.3)	(1.7)	-
Cash beginning of period	48.3	42.4	57.2	26.2	37.9
Cash end of period	20.8	48.3	42.4	20.8	48.3

Net Cash Inflow Operating Activities

Cash flows from operating activities increased to $204.2 million in Fiscal 2013 from $80.8 million in Fiscal 2012, an increase of $123.4 million. This was due to decreased investment in working capital.

Net Cash Outflow Investing Activities

Cash flows used in investing activities relating to continuing operations increased from $197.3 million in Fiscal 2012 to $3,054.1 million in Fiscal 2013, an increase of $2,856.8 million. The increase is primarily due to the acquisition of Saks of $2,765.7 million and an increase in capital expenditures of $88.6 million, to $291.5 million in Fiscal 2013.

Capital Expenditures

The tables below summarize our investments by major areas:

(millions of Canadian dollars)	Fiscal Year 2013	2012	2011
	$	$	$
Merchandising	176.9	118.1	108.5
Information technology	28.0	24.7	21.9
Digital commerce	48.8	31.6	10.4
Maintenance	37.8	28.5	25.3
Total capital expenditures — continuing operations [(1)]	291.5	202.9	166.1
Capital expenditures — discontinued operations	-	-	4.1
Total capital expenditures	291.5	202.9	170.2

Note:

(1) Capital expenditures are inclusive of software development costs and include capital expenditures related to Saks in Q4 of $45.9 million.

In addition to capital investments, we received combined vendor allowances and landlord incentives related to capital expenditures of $41.3 million, $27.0 million, and $21.7 million in Fiscal 2013, Fiscal 2012 and Fiscal 2011, respectively. Accordingly, capital expenditures net of vendor allowances and landlord incentives were $250.2, $175.9 and $148.5 million. Vendor allowances and landlord incentives received are included in our cash provided by operations in our consolidated statements of cash flows. However, operationally we view these as an offset to our capital expenditures.

Acquisition of Saks

The following table summarizes the estimated fair value of the consideration given and the fair value assigned to the assets acquired and liabilities assumed in connection with the Acquisition:

(millions of Canadian dollars)	
Cash	31.3
Trade and other receivables	67.8
Inventories	1,096.5
Other current assets	50.3
Property, plant and equipment	2,413.7
Intangible assets	682.4
Goodwill	199.7
Other assets	4.1
Loans and borrowings – revolving credit facility	(298.9)
Loans and borrowings – finance leases	(123.3)
Loans and borrowings – other	(2.2)
Trade payables	(275.1)
Other payables and accrued liabilities	(222.4)
Deferred revenue	(41.4)
Provisions	(50.8)
Deferred tax liabilities	(637.9)
Pensions and employee benefits	(29.2)
Other liabilities	(67.6)
Total identifiable net assets acquired and consideration given	**2,797.0**

The impact of the Acquisition on the consolidated statements of cash flows for Fiscal 2013 is as follows:

(millions of Canadian dollars)	
Total identifiable net assets acquired	2,797.0
Cash acquired	(31.3)
Acquisition of Saks	**2,765.7**

The Company believes goodwill identified relates primarily to synergies which are expected to be achievable over a 36-month period. These synergies are currently expected to be realized in the following areas:

- Administration and other shared services: Reduce expenses by expanding the existing multi-banner shared service organization to include Saks.
- Store expenses: Leverage increased purchasing scale for non-merchandise items.
- IT infrastructure and Digital Commerce: Capitalize on Saks' recent IT system enhancements in order to maximize Digital Commerce business across all retail banners and to reorganize certain business processes to fully leverage a consolidated IT infrastructure and surrounding network architecture and tools.
- Gross profit: Leverage the Saks Off 5TH infrastructure to more efficiently liquidate residual merchandise from all banners. Achieve greater purchasing power of merchandise across all banners.

In Fiscal 2013 acquisition-related costs of $104.0 million were incurred related to external legal fees, consulting fees, due diligence costs and investment banking fees. These costs have been included in selling, general and administrative expenses and finance costs in the consolidated statements of loss.

Net Cash Flow Financing Activities

Cash flows from financing activities relating to continuing operations increased from an outflow of $232.1 million in Fiscal 2012 to an inflow of $2,906.2 million in Fiscal 2013, an increase of $3,138.3 million. The increase was primarily due to the financing obtained for the Acquisition including new term loans, repayment of existing debt and the issuance of Common Shares.

Cash Balances and Liquidity

Our 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; (iv) debt service; and (v) the wind down of discontinued operations. 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.

Our primary sources of funds are cash flows provided by operations, 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 economic conditions, capital markets, and our financial condition.

The Company may consider additional acquisitions of, and investments in, retail businesses, and other complimentary assets 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

We anticipate 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. We expect 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 which would affect the ability to meet its obligations as and when they fall due.

HBC Revolving Credit Facility

HBC is party to a credit facility with Bank of America, N.A. (through its Canadian branch), Wells Fargo Financial Corporation Canada, GE Canada Finance Holding Company, JPMorgan Chase Bank, N.A., Toronto Branch, CIBC Asset-Based Lending, Merrill Lynch, Pierce, Fenner & Smith Incorporated, GE Capital Markets (Canada) Limited, GE Capital Markets, Inc. and certain other financial institutions (the "HBC Revolving Credit Facility"). As of February 1, 2014, HBC owed $87.6 million under the HBC Revolving Credit Facility. HBC is in compliance with all covenants contained in the HBC Revolving Credit Facility.

The HBC Revolving Credit Facility has total availability of $750.0 million (reduced from $1,100.0 million pursuant to an amendment dated June 15, 2012, which also extended the maturity date to June 15, 2017). The HBC Revolving Credit Facility is subject to a borrowing base, based predominantly on eligible inventory of HBC (excluding L&T Acquisition and its subsidiaries) and certain eligible equipment and eligible credit card receivables of HBC and certain of its subsidiaries (excluding L&T Acquisition and its subsidiaries). The HBC Revolving Credit Facility bears interest based on various rates depending on which facility is utilized, including the Canadian prime rate, CDOR rate, United States index rate and LIBOR. The HBC Revolving Credit Facility is available to finance working capital requirements, capital expenditures or other general corporate purposes and to make certain restricted payments, investments and repayments of indebtedness. As the HBC Revolving Credit Facility is available for and used to finance working capital requirements, capital expenditures and other general corporate purposes, it has been classified in the consolidated balance sheets as part of current loans and borrowings. However, the Company is not required to repay the balance outstanding as at February 1, 2014 until the maturity date of June 15, 2017.

The HBC Revolving Credit Facility contains restrictive covenants customary for facilities of this nature, including restrictions on the incurrence of indebtedness, restrictions on capital expenditures and restrictions on payments to affiliates and shareholders. It also includes events of default and representations and warranties that are customary for credit facilities of this nature.

The HBC Revolving Credit Facility is secured by a first priority security interest over all inventory and accounts receivable in Canada.

On November 4, 2013, the Company entered into an amendment to the HBC Revolving Credit Facility to reflect certain changes to the terms necessary in connection with the Acquisition.

Yorkdale Mortgage

On May 22, 2013 the Company entered into an agreement with Murray & Company Holdings Limited for a $50.0 million mortgage (the "Yorkdale Mortgage"). The Yorkdale Mortgage matures in 10 years, bears interest at 4.89% per annum over a 25 year amortization schedule and is secured by a first mortgage of a leasehold interest of the Hudson's Bay store at the Yorkdale Shopping Centre in Toronto, Ontario.

The Yorkdale Mortgage contains representations and warranties, positive and negative covenants, reporting requirements and events of default which, in each case, are customary for mortgages of this nature. The Company is in compliance with all covenants contained in the Yorkdale Mortgage.

Senior Term Loan B

On November 4, 2013, the Company entered into a U.S.$2,000.0 million senior secured term loan facility with Bank of America, N.A., as the administrative agent.

The Senior Term Loan B matures November 4, 2020 and carries an initial interest at a rate of LIBOR plus 3.75% per annum. The agreement is structured such that LIBOR will be deemed to be not less than 1% per annum ("LIBOR Floor"). The Senior Term Loan B is subject to quarterly principal repayments equal to 0.25% and mandatory prepayments. A portion of the proceeds from Senior Term Loan B was used to repay in full the existing HBC senior term loan facility ("HBC Term Loan") and the Lord & Taylor amended and restated credit facility ("Lord & Taylor Term Loan"). The remainder was used to finance the Acquisition.

The Senior Term Loan B is secured by a second lien over all of our inventory and accounts receivables, a first lien over substantially all other assets as well as a pledge of the shares of certain of the Company's subsidiaries. The Senior Term Loan B contains customary representations and warranties, positive and negative covenants, reporting requirements and events of default. The Company is in compliance with all covenants contained in the Senior Term Loan B credit agreement.

On February 25, 2014, the Company, using part of the proceeds of the Queen Street Sale, permanently paid down U.S.$150 million of the Senior Term Loan B.

Junior Term Loan

Concurrently with the close of Senior Term Loan B, the Company obtained an incremental junior secured term facility of U.S.$300.0 million. The Junior Term Loan was scheduled to mature on November 4, 2021 and had an initial interest rate of LIBOR (with a LIBOR Floor) plus 7.25% per annum. The remaining credit terms of the Junior Term Loan were substantially consistent with the Senior Term Loan B with the exception that the Junior Term Loan was not subject to quarterly principal repayments. On February 25, 2014, the Company, using part of the proceeds of the Queen Street Sale, permanently paid down and retired the Junior Term Loan in its entirety.

U.S. Revolving Credit Facility

L&T Acquisition is party to a credit agreement with Bank of America, N.A. as Administrative Agent and Collateral Agent dated November 4, 2013. As of February 1, 2014, L&T Acquisition owed U.S.$375.0 million under the U.S. Revolving Credit Facility. L&T Acquisition is in compliance with all covenants contained in the U.S. Revolving Credit Facility.

The U.S. Revolving Credit Facility provides a U.S.$950.0 million revolving line of credit through November 4, 2018 and refinanced revolving credit facilities previously in place with Saks and Lord & Taylor. This revolving line of credit is subject to a borrowing base, based predominantly on eligible inventory and accounts receivable of Lord & Taylor, Saks and their respective subsidiaries. The U.S. Revolving Credit Facility is available to finance working capital needs, capital expenditures, operating activities and to support the issuance of standby letters of credit. The U.S. Revolving Credit Facility has multiple interest rate charge options that are based on the U.S. prime rate, Federal Funds rate and LIBOR. As the U.S. Revolving Credit Facility is available for and used to finance working capital requirements, capital expenditures and other operating activities, it has been classified in the consolidated balance sheets as part of current loans and borrowings. However, the Company is not required to repay the balance outstanding as at February 1, 2014 until the maturity date of November 4, 2018.

The U.S. Revolving Credit Facility contains restrictive covenants customary for credit facilities of this nature, including restrictions on the incurrence of indebtedness, financial maintenance covenants, restrictions on capital expenditures and restrictions on payments to affiliates and shareholders. It also includes events of default and representations and warranties that are customary for credit facilities of this nature.

The U.S. Revolving Credit Facility is secured by a first lien security interest over all inventory and accounts receivables in the United States (Lord & Taylor and Saks).

Lord & Taylor Mortgage

On September 7, 2012, Lord & Taylor entered into a U.S.$250.0 million syndicated floating rate senior mortgage loan with an affiliate of CIBC World Markets Inc., as Administrative Agent of the syndicate of lenders, which matures on September 10, 2017 (the "Lord & Taylor Mortgage"). Lord & Taylor utilized the net proceeds of this loan, approximately U.S.$242.5 million, to reduce the balance of the Lord & Taylor Term Loan.

Interest is charged on the Lord & Taylor Mortgage at a rate of LIBOR plus 3.0%. The Company has entered into interest rate swap arrangements, the effect of which is to fix the interest rate related to the Lord & Taylor Mortgage at 3.85%.

The Lord & Taylor Mortgage has no mandatory principal repayments during the first three years, with monthly amortization payments required during the final two years, based upon a 30 year straight-line amortization schedule with an interest rate of 7%. Lord & Taylor has the ability to prepay the Lord & Taylor Mortgage after the first two years with a fee to the lenders of 2%, which fee drops to 1% after three years, and without fees after September 10, 2016. Any prepayments are applied to reduce the then remaining scheduled installments.

The Lord & Taylor Mortgage contains customary representations and warranties, positive and negative covenants, reporting requirements and events of default. Lord & Taylor is in compliance with all covenants contained in the Lord & Taylor Mortgage. As security for the Lord & Taylor Mortgage the Company granted a first priority mortgage in the Fifth Avenue Lord & Taylor property.

Contractual Obligations

Our significant contractual obligations and commitments as of February 1, 2014 are as follows:

		Fiscal Year					
(millions of Canadian dollars[1])	**Total**	**2014**	**2015**	**2016**	**2017**	**2018**	**Thereafter**
	$	$	$	$	$	$	$
Lease financing							
Operating lease arrangements[2][3]	2,514.2	256.8	243.8	223.6	194.0	167.2	1,428.8
Short-term borrowings[4]							
HBC Revolving Credit Facility	87.6	87.6	-	-	-	-	-
U.S. Revolving Credit Facility	417.7	417.7	-	-	-	-	-
Long-term borrowings[5]							
Senior Term Loan B[6]	2,227.6	22.3	22.3	22.3	22.3	22.3	2,116.1
Junior Term Loan[6]	334.1	-	-	-	-	-	334.1
Yorkdale Mortgage	49.4	1.1	1.1	1.2	1.3	1.3	43.4
Lord & Taylor Mortgage	278.5	-	-	-	278.5	-	-
Other Mortgages	9.8	9.8	-	-	-	-	-
Finance leases and other[5]	160.8	20.7	18.1	10.6	1.2	0.9	109.3
Purchase obligations[7]	156.2	68.7	10.3	10.4	10.6	9.8	46.4
Other obligations[8]	1,079.3	1,055.8	-	-	-	23.5	-
Total obligations	7,315.2	1,940.5	295.6	268.1	507.9	225.0	4,078.1

Notes:

(1) U.S. dollar denominated debt translated to Canadian dollars at a rate of U.S.$1.00: C$1.1138

(2) Represents future minimum lease payments under non-cancellable operating leases. Minimum lease payments are defined as the payments over the lease term that the Company is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with any guaranteed amounts.

(3) Included in these figures are future minimum payments relating to Zellers of $9.1 million, $7.3 million, $6.9 million, $6.7 million, $6.0 million and $20.3 million for Years 1-5 and thereafter, respectively.

(4) The HBC Revolving Credit Facility matures June 15, 2017 and the U.S. Revolving Credit Facility matures November 4, 2018. These amounts have been reflected as due in Year 1 as they are credit lines which can be repaid in full at any time, and are used to finance working capital needs.

(5) Includes liability related to real estate finance leases of $118.1 million, all of which was assumed through the acquisition of Saks. The liability includes $79.1 million primarily related to presumed lease renewals that the Company is not contractually committed to.

(6) On February 25, 2014, the Company closed its agreement to sell its downtown Toronto flagship retail complex and the Simpson's Tower located at 401 Bay Street to an affiliate of The Cadillac Fairview Corporation Limited for a purchase price of $650.0 million. Proceeds of the transaction were used to retire in entirety the Junior Term Loan and permanently pay down U.S.$150.0 million of the Senior Term Loan B.

(7) Includes contractual obligations to purchase goods or services of a material amount where the contract prescribes fixed or minimum volumes to be purchased or payments to be made within a fixed period of time for a set or variable price. These are only estimates of anticipated financial commitments under these arrangements and the amount of actual payments will vary. These purchase obligations do not include purchase orders issued or agreements made in the ordinary course of business which are solely for goods which are meant for resale, nor do they include any contracts which may be terminated on relatively short notice or with relatively insignificant cost or liability to the Company.

(8) Other obligations include trade and other payables, and derivative and other liabilities.

Leases

The Company has long-term operating lease obligations that are not capitalized on the consolidated balance sheet in accordance with IFRS. These leases are related to store locations, warehouse facilities and equipment and are reflected within “Operating lease arrangements” included in the table above. Leases typically have an original term ranging from 15 to 25 years and provide for renewal periods exercisable at the Company’s option. Operating leases relating to property typically require that the Company pays associated real estate taxes and common area maintenance costs in addition to the minimum lease payments noted above. Such costs vary from period to period and totaled $151.0 million and $180.8 million in Fiscal 2013 and Fiscal 2012, respectively. In addition to operating leases relating to store locations, the Company also holds finance leases related to equipment which are capitalized on the consolidated balance sheet in accordance with IFRS.

Lease Guarantees

As part of normal operations, the Company regularly reviews its real estate portfolio and store locations. Based on the reviews conducted in prior years, the Company has closed certain store premises that it deemed to be non-strategic. Where these premises were leased, when possible, the Company assigned its leases to other retail operators, but remained obligated to the landlord on those leases as the original tenant thereunder despite the assignment. If the assignee were to default on the lease agreement, the Company would remain obligated to the landlord for payment of amounts due under the lease. The terms of these assigned leases can extend up to the year 2023. As of February 1, 2014, these leases have future minimum lease payments of $150.1 million, of which $145.4 million relates to leases assigned to Target Corporation, in addition to other lease-related expenses, such as property taxes and common area maintenance. The Company’s obligation would be offset by payments from existing or future assignees and their obligations to the Company to comply with the assigned leases. Potential liabilities related to these guarantees may be subject to certain defences by the Company. The Company does not expect to make any significant payments with respect to these lease obligations and believes that the risk of significant loss is low.

Short-term and Long-term Borrowings

As of February 1, 2014, Company’s drawings on the HBC Revolving Credit Facility and the U.S. Revolving Credit Facility were $ 87.6 million and $417.7 million, respectively.

On May 22, 2013 the Company entered into the Yorkdale Mortgage. The Company used the proceeds of the $50.0 million Yorkdale mortgage to repay a portion of the HBC Term Loan.

On November 4, 2013 the Company entered into the U.S.$950.0 million U.S. Revolving Credit Facility. The U.S. Revolving Credit Facility is available for general corporate purposes.

Also, on November 4, 2013 the Company entered into the Senior Term Loan B and the Junior Term Loan. The $2,300.0 million proceeds were used to repay the HBC Term Loan and the Lord & Taylor Term Loan, while the remainder was used to finance the Acquisition.

On February 3, 2014, the Company repaid a mortgage outstanding in connection with its distribution center in Brampton, Ontario (see note 14 of the audited consolidated financial statements for the year ended February 1, 2014) with a final balloon payment of $9.6 million.

On February 25, 2014, the Company closed the Queen Street Sale. Proceeds of the transaction were used to retire in entirety the Junior Term Loan and to permanently pay down U.S.$150.0 million of the Senior Term Loan B. The balance of the net proceeds were used to reduce the outstanding balance of the HBC Revolving Credit Facility.

Procurement

The above contractual obligations table includes purchase orders for goods not for resale that are enforceable and legally binding on the Company and which specify all significant terms including: fixed or minimum quantities to be purchased; fixed minimum or variable price provisions; and the approximate timing of the transaction. The purchase obligations figures disclosed above also include obligations in respect of minimum royalty payments due to certain key suppliers.

Pensions

The defined benefit component of the Company's Canadian pension plan is currently over-funded, and as a result the Company does not expect to make significant contributions to it over the next five years, subject to the performance of the plan assets. The Company has non-pension Canadian employee benefit plans, which are not funded. For Canadian defined contribution plans, the Company pays contributions to pension plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. Contributions are recognized as an employee benefit expense as incurred, which is as the related employee service is rendered.

In the U.S., Saks sponsors a funded defined-benefit cash balance pension plan and an unfunded supplemental executive retirement plan for certain employees. The pension plan no longer admits new participants and in 2009 future benefit accruals were suspended. The funding policy requires contributions to the pension plan to be at least equal to the minimum funding requirement, as determined under the Employee Retirement Income Security Act of 1974. There are no funding requirements for the 2014 plan year.

Other

As of February 1, 2014, the Company had other long-term liabilities which included an accrued benefit plan liability and an accrued self-insurance provision. The Company also had obligations in respect of equity grants and incentive units which may be settled with cash or shares of the Company. These have not been classified as contractual obligations for the following reasons:

- future payments of accrued benefit plan liability, principally post-retirement benefits, depend on when and if retirees submit claims;
- future payments of equity grants and incentive units depend on whether the grants or incentive units have vested, and whether any will be elected to be cash settled; and
- future payments of insurance claims can extend over several years and depend on the timing of anticipated settlements and results of litigation.

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. The aggregate gross potential liability related to the Company's letters of credit is approximately $ 18.5 million at the end of Fiscal 2013.

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.

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.

Derivative financial instruments not designated within an effective hedging relationship and embedded derivatives are classified as fair value though profit or loss and measured at fair value with any changes in their fair values recognized in income 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 financing 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.

As a result of the Acquisition, the Company recognized Equity Commitment Forwards and warrants in the year ended February 1, 2014 which are classified as fair value through profit or loss and measured at fair value. Any changes in the fair value are recognized in net loss in the period in which the change occurs. The fair values of the warrants and Equity Commitment Forwards are determined using the Black-Scholes option pricing model and a forward pricing model, respectively. For a complete description of the derivative financial instruments of the Company and related risks, please refer to note 18 of the Company's audited consolidated financial statements for the fiscal year ended February 1, 2014.

Risks arising from Financial Instruments

Through its use of financial instruments, the Company has exposure to credit, liquidity and market risk. The following is a description of those risks and how the exposures are managed:

(i) Credit risk

Credit risk refers to the possibility that the Company can suffer financial losses due to the failure of the Company's counterparties to meet their payment obligations. The Company is exposed to minimal credit risk from customers, vendors, and financial counterparties as a result of ongoing credit evaluations and review of accounts receivable collectability. Credit risk is mitigated by various techniques including selecting counterparties based on acceptable credit ratings and minimizing the concentration of positions with individual counterparties.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by continuously monitoring actual and projected cash flows, taking into account the seasonality of the Company's working capital needs, sales and earnings. The HBC Revolving Credit Facility, the U.S. Revolving Credit Facility and the bank overdraft facilities are used to maintain liquidity.

(iii) Market risk

Market risk includes foreign currency risk and interest rate risk:

(a) Foreign currency risk

The Company is a Canadian dollar functional currency entity that purchases a significant amount of inventory for its Canadian operations in U.S. dollars. HBC enters into forward foreign exchange contracts and foreign currency options to reduce the foreign exchange risk with respect to these U.S. dollar denominated purchases.

In accordance with the Company's risk management policy, HBC may hedge up to 100% of all foreign currency transactions and economic exposures that are recognized on the consolidated balance sheet, or deemed as firm commitments (e.g. purchase orders that have been issued for goods and services in foreign currency). HBC may further hedge up to 70% of forecasted transactions (anticipated transactions for which there are no firm commitments).

Our net investment in Lord & Taylor and Saks, whose functional currency is U.S. dollars, presents a foreign currency risk to HBC, whose functional currency is Canadian dollars. HBC has entered into a net investment hedge with L&T Acquisition, the indirect parent of Lord & Taylor and Saks, to mitigate this risk. HBC has designated U.S.$800.0 million of the Term Loan B as a hedging instrument of the first U.S.$800.0 million of net assets of L&T Acquisition. Foreign currency translation of the net earnings of L&T Acquisition will impact consolidated net earnings. Foreign currency translation of HBC's investment in L&T Acquisition will impact other comprehensive income.

(b) Interest rate risk

The Company's interest rate risk arises from short-term and long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. The Company's variable rate borrowings are denominated in U.S. dollars and Canadian dollars.

Cash flow interest rate risk is mitigated by the use of interest rate swaps.

Classification of Financial Instruments

Derivative financial instruments not designated within an effective hedging relationship and embedded derivatives are classified as fair value though profit or loss and measured at fair value with any changes in their fair values recognized in income 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 financing costs.

The following table provides a summary of the fair values of financial instruments by classification as of February 1, 2014 and February 2, 2013:

(millions of Canadian dollars)	2013	2012
	$	$
Classified as fair value through profit or loss	(24.1)	(0.1)
Classified as loans and receivables	160.3	133.4
Classified as held to maturity	1.8	1.7
Financial derivatives designated as cash flow hedges	6.3	0.6
Classified as other liabilities	(4,500.8)	(1,547.7)

Fair Value of Financial Instruments

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. The fair value of foreign currency options are determined based on the difference between the exercise rate and the spot rate, volatility of exchange rates and market interest rates at the period-end date. Interest rate swaps are valued using a discounted cash flow model based on market interest rate curves at the period-end date. The forward foreign currency contracts are valued based on the difference between contract rates and spot rates at the period-end date, discounted to reflect the time-value of money. The fair values of embedded foreign currency derivatives reflect the estimated amounts the Company would receive or pay to settle forward foreign exchange contracts with similar terms using valuation techniques and observable market input data.

For Fiscal 2013, the Company recorded losses of $153.3 million on financial instruments related to the Acquisition. Specifically, losses were recorded on changes in fair value of Equity Commitment Forwards of $153.2 million and Warrants of $0.1 million. In addition, the Company recorded nil on the change in fair value of embedded foreign currency derivatives (2012: loss of $0.1 million) and nil on the change in fair values of the old HBC Term Loan embedded derivatives (2012: gain of $3.5 million).

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 provision for any tax matters. Should the ultimate tax liability materially differ from the provisions, the Company's effective tax rate and its earnings could be affected, positively or negatively, in the period in which the matters are resolved.

Related Party Transactions

Transactions between HBC and L&T Acquisition and their respective 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 two year lease with SP 35 L.P. (the "Landlord") for approximately 31,000 sq. ft. in Shrewsbury, NJ. The lease was amended on January 17, 2013 to include three renewal options. The first two renewal options are for terms of two and three years, respectively at an annual cost of U.S$0.4 million. The third renewal option is for a term of five years at an annual cost of U.S.$0.5 million.

The first renewal option was exercised. Amounts charged to the Company under the rental arrangement for Fiscal 2013 were $0.3 million (2012: $0.4 million). The Landlord is an affiliate of National Realty & Development Corp. (“NRDC”). Richard Baker and Robert Baker, the principals of NRDC, are directors of the Company.

Prior to November 26, 2012, agreements existed between HBC and other related parties including HBTC, True North Retail Investments Limited Partnership (“TNRI”), HBCL and NRDC, all of which are entities under common control, for the reimbursement of expenses and management fees. On November 26, 2012 these agreements were amended such that these entities are no longer entitled to management fees, or to have their expenses reimbursed. Amounts charged to the Company by HBTC, TNRI, and HBCL relating to the reimbursement of expenses were $1.4 million for Fiscal 2012. Amounts charged to the Company by HBTC under a management agreement were $1.5 million for Fiscal 2012. Amounts charged to the Company by NRDC under a property agreement were $3.3 million for Fiscal 2012.

In connection with the Target transaction, on September 29, 2012, Zellers and L&T B entered into a Fee Agreement that provided for a fee of $8.0 million payable to L&T B for advisory services. The fee was paid to L&T B on October 27, 2012.

During Fiscal 2012, a director of the Company worked for an investment banking firm that was part of the syndicate of investment banks involved in the Company’s IPO. Commissions of $0.4 million were paid in connection with this transaction.

During the year ended February 1, 2014, the Company received $0.3 million from HBTC relating to the reimbursement of expenses for services provided by HBC on their behalf.

All of the above amounts were recorded at the exchange value of the transaction.

In addition, 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 for a purchase price of $650.0 million. The Company has leased the entire retail and 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 lease 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.

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. The Company’s significant accounting policies are described in note 2 to the Fiscal 2013 audited consolidated financial statements.

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 2013 audited consolidated financial statements for further critical judgments and estimations):

Inventories

Inventories are valued at the lower of cost and net realizable value.

Cost is determined using the weighted average cost method based on individual items and, with respect to Saks, a retail inventory method that approximates cost. Costs comprise all variable costs such as the merchandise cost, freight and handling, incurred in bringing inventories to their present location and condition. Storage and administrative overheads are expensed as incurred. Supplier rebates and discounts received or receivable based on vendor agreements are recorded as a reduction in the cost of purchases unless they relate to a reimbursement of specific incremental expenses. The Company receives significant support from vendors for promotional markdown activity and reflects this support as an offset to the cost of markdowns taken in cost of goods sold.

Net realizable value is the estimated selling price determined at the item level using historical markdown rates for similar items in the ordinary course of business, less estimated costs required to sell. At each balance sheet date, the Company reviews its on-hand inventory to identify items selling below cost at that date and uses historical trends and current inventory mix to determine an additional reserve for the impact of future markdowns which will take the net realizable value of inventory on-hand below cost.

Physical inventories are generally taken within each merchandise department annually, and inventory records are adjusted accordingly resulting in an expense within cost of goods sold. The Company records a shrink reserve utilizing historical shrink rates to reflect the incremental expense between the time of the physical inventory count and the reporting date.

Loyalty Programs

Loyalty program accounting allocates a portion of consideration paid by the customer at the time merchandise or services are acquired to the value of the loyalty entitlement earned as part of the transaction. This portion of the consideration is treated as deferred revenue and recognized when the customer redeems points and ultimately acquires additional merchandise or services. The Company retains an external actuary to estimate the percentage of rewards points earned by customers that ultimately will be redeemed.

Impairment and reversal of impairment of long-lived assets

Long-lived assets are subject to impairment and impairment reversal reviews based on whether current or future events and circumstances suggest that their recoverable amount may be more or less than their carrying value. In certain instances, the recoverable amount is based on a calculation of expected future cash flows which includes management assumptions and estimates of future performance.

Impairment of goodwill

The Company uses judgment in determining the grouping of assets to identify its cash generating units ("CGUs") for purposes of testing for impairment of goodwill. In testing for impairment, goodwill acquired in a business combination is allocated to the CGUs that are expected to benefit from the synergies of the business combination. For the Acquisition, the Company has not yet completed its analysis for the allocation of goodwill to CGUs or groups of CGUs who will benefit from the synergies and as such, goodwill cannot be reliably allocated at this time. Judgment is also used to determine whether an indication of impairment is present which would require the completion of an impairment test.

Income Taxes

In connection with HBTC's reorganization on January 11, 2012 which resulted in Lord & Taylor becoming a wholly owned subsidiary of the Company, Lord & Taylor became a taxable entity. Prior to January 11, 2012, Lord & Taylor was considered a flow-through (limited liability corporations or "LLC", and limited partnerships) entity for tax purposes. The Company's accounting policies for the following types of entities are as follows:

(i) Taxable entities

The Company has recognized deferred income tax assets arising from differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements as well as those in respect of non-capital losses carried forward. The extent to which assets have been recognized reflects management's expectation that these assets will be recovered through the reversal of the differences between the tax and accounting basis as well as through future taxable profits being earned before expiry of the losses. A valuation allowance is recorded to the extent that management does not believe that the assets are recoverable. The Company has had significant movement in the valuation allowance in recent years as operating performance has improved, demonstrating the Company's ability to realize the timing differences and tax loss carry-forwards. The sale of leasehold interests caused management to record a valuation allowance on the deferred tax assets related to Zellers due to the expected inability to fully utilize the tax loss carry-forwards. This was subsequently reduced based on additional information that confirmed the extent to which restricted losses would not be recovered.

Income tax expense or benefit comprises current and deferred income taxes. Tax is recognized in the consolidated statements of earnings (loss), except to the extent that it relates to items recognized either in other comprehensive income or directly in equity. The income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the date of the balance sheet.

(ii) Flow-through entities

Lord & Taylor, as a limited liability company from the date of its acquisition by HBTC through January 10, 2012, was treated as a partnership for U.S. federal income tax purposes and in most states in which it operates. Lord & Taylor did not record a federal tax provision for deferred tax assets or liabilities related to federal tax prior to its acquisition by HBC.

Lord & Taylor operates stores in eleven states, plus the District of Columbia. Although most of these states follow the federal treatment of LLCs, four states require an LLC to file a state corporation or franchise tax return and pay any related taxes or submit income tax withholdings on the partners' behalf. Accordingly, a state income tax expense is recorded for estimated income attributable to those states.

Post-employment benefits

Post-employment benefits include pensions (both defined contribution and defined benefit) and non-pension post-retirement benefits (medical and life insurance benefits for retirees). The Company reports its obligations under these plans net of any plan assets.

The asset or liability recognized in the consolidated balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries.

Actuarial gains and losses (typically related to investment performance or interest rate movement different from management's assumptions) are excluded from operating income and are recognized in other comprehensive income in the period in which they arise. Past service costs are recognized in operating income in the year in which they arise. For funded plans, surpluses are recognized only to the extent to which the Company can unilaterally reduce future contributions to the plan.

For defined contribution plans, the Company pays contributions to pension plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. Contributions are recognized as an employee benefit expense as incurred, which is as the related employee service is rendered.

Valuation of Financial Instruments

In connection with the Acquisition, the Company issued warrants. Additionally, due to the variability of the share issue price and certain features of the investment agreements, forward contracts ("Equity Commitment Forwards") have been recognized and accounted for as derivative financial instruments. The classification of these instruments as financial liabilities is an area of significant judgment. The Company recorded the mark-to-market valuation adjustment of these warrants and Equity Commitment Forwards as finance costs based upon the end of period valuation.

Changes in Accounting Policies Including Initial Adoption

Accounting Standards Implemented in 2013

<u>Employee Benefits</u> — In June 2011, the IASB amended IAS 19 — Employee Benefits. The amendments provide clarification on the recognition of termination benefits; eliminate the existing option to defer actuarial gains and losses (known as the corridor approach) related to defined benefit plans; require changes from remeasurement of defined benefit plan assets and liabilities to be presented in the statement of other comprehensive income; and require additional disclosures. Net interest on the net benefit plan assets and liabilities as calculated under the amended IAS 19 is now included in finance costs in the statements of loss in accordance with IAS 1 – Presentation of Financial Statements. The Company adopted the amended IAS 19 standard retrospectively in the first quarter of Fiscal 2013. The impact of the amendments to IAS 19 is summarized in note 2(z) of the audited consolidated financial statements for the year ended February 1, 2014.

<u>Fair Value Measurement</u> — In May 2011, the IASB issued IFRS 13 — Fair Value Measurement ("IFRS 13"), which is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosure about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. The Company implemented this standard prospectively in the first quarter of Fiscal 2013 and there were no measurement impacts on the Company's consolidated financial statements. Implementation of IFRS 13 has resulted in additional disclosures in note 18 to the audited consolidated financial statements for the year ended February 1, 2014.

<u>Consolidated Financial Statements</u> — In May 2011, the IASB issued IFRS 10 — Consolidated Financial Statements ("IFRS 10") which replaces portions of IAS 27 — Consolidated and Separate Financial Statements ("IAS 27") and all of SIC-12 — Consolidation — Special Purpose Entities. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities. The standard requires an entity to consolidate an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. As a

consequence, IAS 27 has been amended but retains the existing guidance for separate financial statements. The Company implemented the standard at the beginning of Fiscal 2013 and the implementation did not have an impact on its results of operations, financial position and disclosures.

Disclosure of Involvement with Other Entities — In May 2011, the IASB issued IFRS 12 — Disclosure of Interests in Other Entities ("IFRS 12") which establishes disclosure requirements for an entity's interests in other entities, such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosure requirements and introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The Company implemented the standard at the beginning of Fiscal 2013 and the implementation resulted in additional disclosures in note 27 of the consolidated financial statements for the year ended February 1, 2013.

Other Comprehensive Income Presentation — In June 2011, the IASB amended IAS 1 — Presentation of Financial Statements to require companies to group together items within other comprehensive income that may be reclassified to the profit or loss section of the income statement. The amendments reaffirm the existing requirements that items in other comprehensive income and profit or loss should be presented as either a single statement or two consecutive statements. The amendments are effective for annual periods beginning on or after July 1, 2012. As a result of the adoption of the IAS 1 amendment, the Company has modified its presentation of other comprehensive income (loss) in its audited consolidated financial statements for the year ended February 1, 2014.

Financial Instruments: Asset and Liability Offsetting — Disclosures — In December 2011, the IASB amended IFRS 7 — Financial Instruments: Disclosures ("IFRS 7"), to require new disclosures on the effect of offsetting arrangements on the Company's financial position. The Company implemented IFRS 7 at the beginning of Fiscal 2013 and the implementation did not have an impact on its results of operations, financial position and disclosures.

Future Expected Changes

Financial Instruments: Classification and Measurement — The IASB has issued a new standard, IFRS 9, "Financial Instruments: Classification and Measurement" ("IFRS 9"). IFRS 9 will replace IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39") in its entirety. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, the approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The effective date for the implementation of this standard has been deferred. Early adoption is permitted. The Company is assessing the potential impact of this standard.

The IASB amendments to IAS 39 provide guidance on novation of over-the-counter derivatives and continued designation for hedge accounting. The amendments to IAS 39 must be applied retrospectively for annual periods beginning on or after January 1, 2014. The Company is assessing the potential impact of the IAS 39 amendments.

Financial Instruments: Presentation — The IASB amended IAS 32 – Financial Instruments: Presentation ("IAS 32") to clarify the requirements which permit offsetting a financial asset and liability in the financial statements. The IAS 32 amendments will be applied retrospectively for annual periods beginning on or after January 1, 2014. The Company is assessing the potential impact of the IAS 32 amendments.

Impairment of Assets — In May 2013, the IASB amended IAS 36 – Impairment of Assets ("IAS 36'), providing guidance on recoverable amount disclosures for non-financial assets. The amendments to IAS 36 must be applied retrospectively for annual periods beginning on or after January 1, 2014. The Company is assessing the potential impact of the IAS 36 amendments.

Levies — In May 2013, the IASB issued IFRIC 21 – Levies, providing guidance on the accounting for levies imposed by governments. The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for periods beginning on or after January 1, 2014. The Company is assessing the potential impact of IFRIC 21.

Management's Report on Disclosure Controls and Procedures and 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 and the Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

The Company's management, under the supervision of the Chief Executive Officer and the Chief Financial Officer, 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 52-109") is recorded, processed, summarized and reported within the time periods specified in the Canadian Securities Administrators' ("CSA") rules and forms.

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was conducted as of February 1, 2014 by the Company's management under the supervision of the Chief Executive Officer and the Chief Financial Officer. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of February 1, 2014, our disclosure controls and procedures are effective.

Internal Controls over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer 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.

The Company has evaluated the effectiveness of internal control over financial reporting as at February 1, 2014 in accordance with NI 52-109. This evaluation has allowed the Chief Executive Officer and the Chief Financial Officer to conclude that the Company's internal control over financial reporting is effective and provides reasonable assurance that the Company's financial reporting is reliable and that its consolidated financial statements are prepared in accordance with IFRS. In making this evaluation, management used the framework established in Internal Control-Integrated Framework (1992 COSO Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Limitation on Scope of Design

Management of the Company have determined to limit the scope of design of disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures of Saks, which was acquired on November 4, 2013.

This scope limitation is in accordance with section 3.3(1)(b) of NI 52-109, which allows for an issuer to limit the design of disclosure controls and procedures and internal control over financial reporting for a business that the issuer acquired not more than 365 days before the end of the financial period to which the Chief Executive Officer's and Chief Financial Officer's certification of annual filings relates.

The following is a summary of certain financial information related to Saks effective from the Acquisition Date:

(millions of Canadian dollars)	Fiscal Quarter Ended February 1, 2014
Retail sales	1,006.1
Net loss	(63.1)

(millions of Canadian dollars)	As at February 1, 2014
Current assets	1,130.6
Non-current assets	3,488.4
Current liabilities	(726.0)
Non-current liabilities	(862.7)

Changes in Internal Control Over Financial Reporting

With the exception of the internal controls relating to the Acquisition, there have been no changes in the Company's internal controls over financial reporting during Fiscal 2013 that has affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Risk Factors

Our business is intensely competitive and increased or new competition could have a material adverse effect on us.

The Company's banners conduct business under highly competitive conditions in the North American retail merchandising industry. Hudson's Bay, Lord & Taylor, Home Outfitters, Saks and OFF 5TH have numerous and varied competitors at national and local levels, including conventional and specialty department stores, other specialty stores, category killers, mass merchants, value retailers, discounters, and Internet and mail-order retailers. Some of these competitors have greater financial resources available to them, and as a result, may be able to devote greater resources to sourcing, selling or promoting their merchandise. Competition may intensify as new competitors enter into the markets in which our banners operate, including in the case of our existing banners, U.S. competitors entering the Canadian market, and/or as our competitors enter into business combinations or alliances. Competition is characterized by many factors, including assortment of brands and merchandise, advertising, marketing, promotional activities, price, quality, service, the shopping experience and environment, location, reputation and credit availability. The Company's banners also compete in particular markets with a substantial number of retailers that specialize in one or more types of products than our existing banners. A number of different competitive factors could have a material adverse effect on our business, results of operations and financial condition including: (i) increased operational efficiencies of competitors; (ii) competitive pricing strategies, including deep discount pricing by a broad range of retailers during periods of poor consumer confidence or economic instability; (iii) expansion of product offerings by existing competitors; (iv) entry by new competitors into markets in which our banners operate; and (v) adoption by existing competitors of innovative retail sales methods. If we do not compete effectively, our results of operations could be materially and adversely affected, resulting in lower sales, lower gross margin and/or higher operating expenses.

We face risks associated with consumer preferences, demand, and fashion trends.

The fashion and retail industries are subject to sudden shifts in consumer trends. Our sales and operating results will continue to depend in part on our ability to predict and respond to changes in fashion trends and consumer preferences in a timely manner and we continuously manage our portfolio of brands to respond to these consumer trends. We will continue to develop new retail concepts and continuously adjust our position in certain national and private-label brands and merchandise categories in an effort to satisfy customers of our existing brands. To the extent our predictions differ from our customers' preferences, we may be faced with excess inventories for some products and/or missed opportunities for others. Excess inventories can result in lower gross margins due to greater than anticipated discounts and markdowns that might be necessary to reduce inventory levels. Low inventory levels can adversely affect our ability to meet customer demand, which may lead to lost sales and diminished brand loyalty. Any sustained failure to anticipate, identify and respond to emerging trends in lifestyle and consumer preferences could have a material adverse effect on our business and any significant misjudgments regarding inventory levels could adversely impact our results of operations.

Furthermore, our ability to continue to attract and retain popular brands that are favoured by consumers is critical to our ability to respond to consumer preferences. If vendors of popular brands cease doing business with our banners, or the terms and conditions with such vendors (including vendor allowances and merchandise cost) change materially, including our ability to be an exclusive seller of certain brands, our results could be adversely effected. The Company does not have long term contracts with vendors and therefore our ability to continue to sell brands that are popular with consumers and, if applicable, to have exclusivity of certain brands, are dependent on ongoing positive relationships with our vendors.

Our business depends on discretionary spending of consumers.

Current economic conditions or a further deterioration in the Canadian and United States economies may adversely affect the discretionary spending of consumers, which would likely result in lower sales than expected on a quarterly or annual basis, as well as the potential for higher markdowns and increased promotional spending in response to lower demand. Future economic conditions affecting disposable consumer income, such as employment levels, consumer debt levels, lack of available credit, business conditions, fuel and energy costs, interest rates, tax rates and policies, and consumer confidence in future economic conditions could also adversely affect our business and financial results by reducing consumer spending or causing customers to shift their spending to other products.

Unfavourable economic and political conditions and other developments and risks may have an unfavourable impact on the operations of our banners. For example, unfavorable changes related to interest rates, rates of economic growth, fiscal and monetary policies of governments, inflation, deflation, consumer credit availability, consumer debt levels, tax rates and policy, unemployment trends, oil prices, and other matters that influence the availability and cost of merchandise, consumer confidence, spending and tourism could adversely impact our businesses and results of operations. In addition, unstable political conditions or civil unrest, including terrorist activities and worldwide military and domestic disturbances and conflicts, may disrupt commerce, our supply chain operations, international trade or result in political or economic instability and could have a material adverse effect on our business and results of operations.

Our primary focus is on selling branded apparel, cosmetics, shoes and accessories catering to a wide range of consumer demands between mass merchandisers and luxury retailers and which consumers may consider to be discretionary items. During times of unfavourable economic or political conditions, consumers may shop less frequently, limit the amount of their purchases and/or shift their spending to other products or retailers, which would likely result in lower sales, as well as the potential for higher markdowns and increased promotional spending in response to lower demand.

Additionally, several of our existing stores are located in tourist markets. A downturn in economic conditions, severe weather events or other events such as terrorist activity could impact travel and thus negatively affect the results of operations for stores located within these tourist markets. Increases in transportation and fuel costs, the financial condition of the airline industry and its impact on air travel, and sustained recessionary periods in Canada, the United States and internationally could also unfavorably impact results of the stores located within these tourist markets

Our revenues and cash requirements are affected by the seasonal nature of our businesses.

Our businesses are seasonal, with a high proportion of revenues and operating cash flows generated during the second half of the fiscal year, which includes the Fall and holiday selling seasons. A disproportionate amount of revenues fall in the fourth fiscal quarter, which coincides with the holiday season. In addition, we incur significant additional expenses in the period leading up to the months of November and December in anticipation of higher sales volume in those periods, including for additional inventory, advertising and employees. This seasonality in revenues, cash flows and expenses could adversely affect our businesses and financial condition.

Our businesses and operations may be affected by extreme or unseasonable weather conditions or natural disasters.

Extreme weather conditions in the areas in which our stores are located could adversely affect our businesses. For example, as evidenced by the impact on our stores of Hurricane Sandy, in the fourth quarter of 2012, frequent or unusually heavy snowfall, ice storms, rainstorms or other extreme weather conditions over a prolonged period could make it difficult for our customers to travel to our stores and thereby reduce our sales and profitability as our businesses depend on high customer traffic in our stores. Our businesses are 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 render a portion of our inventory incompatible with those unseasonable conditions, which could adversely affect our ability to execute our strategy to invest in our stores and right size departments to effectively present seasonal inventory. Reduced sales from extreme or prolonged unseasonable weather conditions could adversely affect our businesses, including lower gross margins due to greater than anticipated discounts and markdowns that might be necessary to reduce inventory levels.

In addition, natural disasters such as hurricanes, tornadoes and earthquakes, or a combination of these or other factors, could severely damage or destroy one or more of our stores or warehouses located in the affected areas, thereby disrupting our business operations.

We may not be able to continue same store sales growth.

The Company's success depends, in part, upon our ability to improve same store sales. Various factors affect same store sales, including competition, consumer trends and preferences, the general retail environment, the Company's ability to efficiently source and distribute products, changes in the Company's merchandising mix, competition, current economic conditions, the timing of release of new merchandise and promotional events, the success of marketing programs, weather conditions and changes in the other tenants in the shopping centres in which the Company's stores are located. These factors may cause the Company's same store sales results to differ materially from prior periods and from expectations. Past same store sales are no indication of future results, and there can be no assurance that the Company's same store sales will not decrease in the future. We have made and intend to continue to make significant capital investments to increase same store sales growth by optimizing store layout, vendor shops, merchandise and product offerings and presentation. Failure to continue to grow same store sales would likely adversely affect our revenue and return on investment.

We have a substantial amount of indebtedness which may adversely affect our cash flow and our ability to operate our business.

The Company's degree of leverage could have adverse consequences for the Company, including: limiting the Company's ability to obtain additional financing for working capital, capital expenditures, product development, debt service requirements, acquisitions and general corporate or other purposes; restricting the Company's flexibility and discretion to operate its business; limiting the Company's ability to declare dividends on its Common Shares; having to dedicate a portion of the Company's cash flows from operations to the payment of interest on its existing indebtedness and not having such cash flows available for other purposes; exposing the Company to increased interest expense on borrowings at variable rates; limiting the Company's ability to adjust to changing market conditions; placing the Company at a competitive disadvantage compared to its competitors that have less debt; making the Company vulnerable in a downturn in general economic conditions; and making the Company unable to make expenditures that are important to its growth and strategies.

We may not be able to successfully integrate Saks with our legacy business or achieve the full amount of the anticipated cost synergies or achieve the cost synergies on the schedule anticipated.

Our acquisition of Saks was significant, and we may not be able to successfully integrate and combine the operations, personnel and technology infrastructure of Saks with our pre-Acquisition operations. If integration is not managed successfully by our management, we may experience interruptions in our business activities, a deterioration in our employee and customer relationships, increased costs of integration and harm to our reputation, all of which could have a material adverse effect on our business, financial condition and results of operations. While management believes the corporate culture across all banners is generally aligned, we may still experience some difficulties in combining corporate cultures, maintaining employee morale and retaining key employees. The integration with Saks may also impose substantial demands on our management and the management of Saks. There is no assurance that improved operating results will be achieved as a result of the Acquisition or that the businesses of the Company and Saks will be successfully integrated in a timely manner.

In addition, we have incurred costs associated with completing the Acquisition and integrating the operations of the Company and Saks. The substantial majority of these costs are non-recurring expenses, resulting from the Acquisition and consist of transaction costs related to the Acquisition, facilities and systems consolidation costs and employment related costs. Additional unanticipated costs may be incurred in the integration of the Company's and Saks' business. Although the Company expects that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses, may offset incremental transaction and merger related costs over time, this net benefit may not be achieved in the near term or at all.

We currently expect to achieve approximately \$100 million of annual cost synergies by the third year after the Acquisition. Actual cost synergies, the expenses required to realize the cost synergies and the sources of the cost synergies could differ materially from these estimates, and we cannot assure you that we will achieve the full amount of cost synergies on the schedule anticipated or at all or that these cost synergy programs will not have other adverse effects on our business.

We may not realize the growth opportunities that are anticipated from the Acquisition.

The benefits we expect to achieve as a result of the Acquisition will depend, in part, on our ability to realize anticipated growth opportunities. Our success in realizing these growth opportunities, and the timing of this realization, depends on the successful integration of Saks' business and operations with our business and operations. Even if we are able to integrate these businesses and operations successfully, this integration may not result in the realization of the full benefits of the growth opportunities we currently expect within the anticipated time frame or at all. While we anticipate that certain expenses will be incurred, such expenses are difficult to estimate accurately, and may exceed current estimates. Accordingly, the benefits from the Acquisition may be offset by unexpected costs incurred or delays in integrating the companies, which could cause our revenue assumptions to be inaccurate.

We depend on a limited number of key personnel who would be difficult to replace.

Our management teams of seasoned and committed industry veterans has been hand-picked from leading international retailers and has achieved success in transforming our businesses and improving our sales and operating margins. We believe our continued success and the execution of our growth strategy will depend, in part, on the continued service of our management teams.

Since we are managed by a relatively small group of senior executive officers, the loss of the technical knowledge, management expertise and knowledge of our operations of one or more members of our team could result in a diversion of management resources, as the remaining members of management would need to cover the duties of any senior executive who leaves us and would need to spend time usually reserved for managing our business to search for, hire and train new members of management. The loss of some or all of our team could negatively affect our ability to develop and pursue our growth strategy, which could adversely affect our business and financial condition. In addition, the market for key personnel in the industry in which we compete is highly competitive, and we may not be able to attract and retain key personnel with the skills and expertise necessary to manage our business.

In addition, the Company retained certain key personnel of Saks following the completion of the Saks Acquisition to continue to manage and operate Saks. The Company may not be successful in keeping the services of the executives and other employees that it needs to realize the anticipated benefits of the Acquisition. The Company's failure to retain key personnel to remain as part of the management team of Saks in the period following the Acquisition could have a material adverse effect on the business and operations of Saks and of the Company.

If we are unable to attract and retain qualified and skilled employees, our ability to rollout our formal customer service initiatives may be impaired which could materially adversely affect our businesses.

Our businesses are dependent upon attracting and retaining a large number of quality employees who reflect our brand images and cultures. Many of these employees are in entry level or part-time positions with historically high rates of turnover. If we are unable to hire, train and retain employees capable of consistently providing educated service and advice to our customers, we may not be able to maintain our competitive strength in offering our customers a favourable shopping experience or to fully realize the benefits expected to result from our formal customer service initiatives, which could lead to decreased foot traffic and sales, as well as to increased costs associated with hiring and training new employees.

Our ability to meet our labour needs while controlling the costs associated with hiring and training new employees is subject to external factors such as unemployment levels, prevailing wage rates, minimum wage legislation and changing demographics. Changes that adversely impact our ability to attract and retain quality employees could adversely affect our business.

Deterioration in labor relations could disrupt our business operations and increase costs, which could decrease liquidity and profitability.

The maintenance of a productive and efficient labour environment and, in the event of unionization of these employees, the successful negotiation of collective bargaining agreements, cannot be assured. Protracted and extensive work stoppages or labour disruptions such as strikes or lockouts could have a material adverse effect on the Company’s business, financial condition, liquidity and results of operations.

In addition, labour disputes at our vendors or manufacturers, particularly if such disputes result in work stoppages or labour disruptions such as strikes or lockouts could have a material adverse effect on the Company’s business, including our ability to plan, source and manage our merchandise mix and inventory levels and to respond to customer demands.

Our business depends on successful inventory management.

We must maintain sufficient inventory levels to operate our businesses successfully. However, we must also guard against accumulating excess inventory as we seek to minimize out-of-stock levels across all product categories and to maintain in-stock levels. A significant portion of the inventory sold by our banners is sourced and obtained from vendors located outside of Canada and the United States. Some of these vendors often require lengthy advance notice of our requirements in order to be able to supply products in the quantities requested. This usually requires that orders, and entering into purchase order contracts are made or entered into well in advance of the time these products will be offered for sale. As a result, we may experience difficulty in responding to a changing retail environment, which makes us vulnerable to changes in the price of merchandise, raw materials, fuel, labour and the fluctuation of foreign currencies. If we do not accurately anticipate the future demand for a particular product or the time it will take to obtain new inventory, our inventory levels will not be appropriate and our results of operations may be negatively impacted, including lower gross margins due to greater than anticipated discounts and markdowns that might be necessary to reduce inventory levels. Failure to successfully manage our inventory levels may also adversely affect our relationships with our vendors, including our ability to source certain national brands and our ability to be an exclusive seller of such brands.

In addition, political or financial instability, trade restrictions, tariffs, currency exchange rates, transport capacity and costs and other factors relating to foreign trade, each of which affects our ability to access suitable merchandise on acceptable terms, are beyond our control and could adversely impact our performance.

An increase in the cost of raw materials could increase our cost of goods sold.

The fabrics used by many manufacturers who supply our existing banners include synthetic fabrics, the raw materials of which include petroleum- based products. Our suppliers are also affected by the prices of natural fibres, including cotton, which is a raw material in many of our products. Inflationary pressures on commodity prices and other input costs, significant fluctuations or shortages of cotton or other raw materials may increase our cost of goods sold and could impair our ability to meet production or purchasing requirements in a timely manner. An inability to mitigate these cost increases could involve our having to pass on such cost increases, including as price increases to our customers or result in a change in our merchandise mix or inventory levels, and could result in a decrease in our profitability, while any related pricing actions could adversely affect our sales volume.

We depend on the success of our advertising and marketing programs.

Our business depends on high customer in-store traffic and effective marketing. We have undertaken many initiatives in this area including rejuvenating our advertising campaigns to reflect our fresh brand offerings and renovated stores. However, there can be no assurance as to our continued ability to effectively execute our advertising and marketing programs, and to maintain top-of-mind awareness of our banners, and any failure to do so could have a material adverse effect on our brand or reputation, which could adversely impact customers' opinion of and confidence in the Company and adversely affect the financial performance of the Company.

If we do not have the ability to successfully upgrade, maintain and secure our information systems to support the needs of the organization and protect against increased and evolving cyber-security threats, it could have an adverse effect on the Company's business.

We rely heavily on information systems to manage operations, including a full range of retail, financial, planning, sourcing and merchandising systems, and regularly make investments to upgrade, enhance or replace these systems. The reliability and capacity of information systems is critical. Despite our preventative efforts, these systems are vulnerable from time to time to damage or interruption from, among other things, security breaches, computer viruses, power outages and other technical malfunctions. Any disruptions affecting our information systems, or any delays or difficulties in transitioning to new systems or in integrating them with current systems in connection with the Acquisition, could have a material adverse impact on our businesses. In addition, our ability to continue to operate our businesses without significant interruption in the event of a disaster or other disruption depends in part on the ability of our information systems to operate in accordance with our disaster recovery and business continuity plans. Our existing systems could experience disruption in its operations due to unexpected issues with employee hiring, retention, supply chain, and training and installation of equipment or software, among other things.

Failure to execute our growth strategy could adversely affect our businesses or results of operations.

Our successes are dependent on our ability to identify, develop and execute our strategies. Our anticipated growth and success depends, in part, on our ability to successfully open and operate new stores, enhance and remodel existing stores on a timely and profitable basis, and optimize store performance by closing under-performing stores. The success of any future store openings will depend upon numerous factors, many of which are beyond our control, including the following:

- the ability to attract appropriate vendors;
- the competition for suitable store sites;
- the ability to negotiate favorable lease terms with landlords;
- the availability of associates to staff new stores and our ability to hire, train, motivate, and retain store personnel; and
- the ability to attract customers and generate sales sufficient to operate new stores profitably.

In the future, we may enter into additional markets or expand one or more of our existing banners or one or more of Saks' banners into new markets, such as Canada. These markets may have different competitive conditions, consumer trends, and discretionary spending patterns than existing markets, which may cause new stores in these markets to be less successful than stores in existing markets.

Our continued growth and success also depends, in part, on our ability to implement our digital commerce strategy and integrate those with the digital commerce strategy of Saks. Digital commerce retailing is rapidly evolving, and we must keep pace with changing customer expectations and new developments by competitors. If we do not make, improve, and develop relevant technology timely and in a manner that appeals to our customers, our ability to compete and our results of operations could be adversely affected. In addition, if there are performance issues with our customer-facing technology systems, we may experience a loss of customer confidence and sales, which could adversely affect our reputation and results of operations.

We continue to implement customer-oriented strategic programs designed to differentiate and strengthen our core merchandise content and service levels and expand and enhance our merchandise offerings. We also seek to improve the effectiveness of our marketing and advertising programs. If we fail to implement successfully some or all of these initiatives, we may be unable to retain or attract customers, which could adversely affect our financial results.

The successful implementation of our growth strategy also depends on our ability to effectively plan, source and manage our merchandise mix and inventory levels, leverage our competitive strengths, as well as certain factors which are beyond our control including general economic conditions and consumer confidence in future economic conditions. If we fail to execute any one or more of these initiatives or fail to fully realize the benefits expected to result from these initiatives, our business and results of operations, our ability to continue to grow and our ability to remain competitive, could be materially adversely impacted. Our results to date are not an indication of future results, and there can be no assurance that these initiatives will generate increased sales, increased sales per square foot or improve operating margins even if we were to successfully implement our growth strategy.

Our existing credit facilities contain restrictions that limit our flexibility in operating our business.

The Company’s existing credit facilities contain restrictive financial and other covenants which affect, among other things, the manner in which we may structure or operate our businesses. A failure by us to comply with our contractual obligations (including restrictive, financial and other covenants) or to pay our indebtedness and fixed costs could result in a variety of material adverse consequences, including the acceleration of our indebtedness and the exercise of remedies by our creditors, and such defaults could trigger additional defaults under other indebtedness or agreements. In such a situation, it is unlikely that we would be able to repay the accelerated indebtedness or fulfill our obligations under certain contracts, or otherwise cover our fixed costs. Also, the lenders under the financing arrangements could foreclose upon all or substantially all of our assets which secure our obligations.

Despite our substantial indebtedness level, we and our subsidiaries will still be able to incur significant additional amounts of debt, which could further exacerbate the risks associated with our substantial indebtedness.

We may be able to incur substantial additional indebtedness in the future. Although our credit facilities contain restrictions on the incurrence of additional indebtedness, such restrictions are subject to a number of qualifications and exceptions, and under certain circumstances, incurrence of indebtedness in accordance with such restrictions could be substantial. Under our current credit facilities and debt instruments we have the flexibility to incur indebtedness in the future. If our current debt levels are increased, the related risks that we now face could intensify.

A potential privacy breach could adversely affect our businesses.

The protection of customer, employee, and company data is critical to the Company. The regulatory environment in Canada and in the United States surrounding information security and privacy is increasingly demanding, with the frequent imposition of new and constantly changing requirements across business units. In addition, customers have a high expectation that we will adequately protect their personal information. A significant breach of customer, employee, or company data could attract a substantial amount of media attention, damage our customer relationships and reputation and result in lost sales, fines, or lawsuits.

Regulatory requirements including, but not limited to, trade, environmental, health and safety requirements may require costly expenditures and expose us to liability.

We are subject to customs, child labour, environmental, advertising and other laws, including consumer protection regulations and zoning and occupancy ordinances that regulate retailers generally and/or govern the importation, promotion and sale of merchandise and the operation of retail stores and warehouse facilities. Although we undertake to monitor changes in these laws, if these laws change without our knowledge, or are violated by importers, designers, manufacturers or distributors, we could experience delays in shipments and receipt of goods or be subject to fines or other penalties under the controlling regulations, any of which could adversely affect our business.

Litigation or regulatory developments in the credit card industry could adversely affect our businesses or financial condition.

We are subject to various federal, provincial, state and local laws, rules, regulations and initiatives, including laws and regulations with respect to the credit card industry, which may change from time to time. In addition, we are regularly involved in various litigation matters that arise in the ordinary course of our business. We may also be susceptible to various claims, including class action claims, relating to merchandise that is subject to a product recall or liability claim. Litigation or regulatory developments could adversely affect our business and financial condition.

We are subject to the risk of product liability claims and product recalls.

We sell products produced by third party manufacturers. Some of these products may expose us to product liability claims relating to personal injury, death or property damage caused by such products, and may require us to take action. One or more of our suppliers might not adhere to product safety requirements or our quality control standards, and we might not identify the deficiency before merchandise ships to our stores. If suppliers are unable or unwilling to recall products failing to meet our quality standards, we may be required to remove merchandise from our shelves or recall those products at a substantial cost. Product recalls, withdrawals or replacements may harm our reputation and acceptance of our products by customers, which may adversely affect our business and financial results. Product recalls, withdrawals, or replacements may also increase the amount of competition that we face. Some competitors may attempt to differentiate themselves from us by claiming that their products are produced in a manner or geographic area that is insulated from the issues that preceded the recalls, withdrawals, or replacements of our products.

Although we maintain liability insurance to mitigate potential claims, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available on economically reasonable terms or at all. Product liability claims and product recalls, withdrawals or replacements could adversely affect our business and financial results.

Fluctuations in the U.S. and Canadian dollars and foreign currencies could have an adverse impact on our business

There are risks associated with the implications of foreign currency movement on the Canadian and U.S. operations of the Company. The Company currently source private label products and direct import certain branded products from China and other overseas markets, including Bangladesh, India, Indonesia, Vietnam and Europe from vendors and manufacturers whose functional currency is not Canadian or U.S. dollars. Accordingly, fluctuations in the Canadian or U.S. dollar relative to the currencies of our vendors and manufacturers may adversely affect our inventory costs, which could result in higher costs and lower operating margins. We are also exposed to general market fluctuations of interest rates.

The Company enters into forward foreign exchange contracts to fix the cost of certain purchases of merchandise for its Canadian operations from foreign suppliers in Canadian dollars and utilizes certain derivatives as cash flow hedges of its exposures to foreign currency risk. There is no guarantee that such hedging strategies will be effective. In addition, currency hedging entails a risk of illiquidity and, to the extent the applicable foreign currency depreciates against the Canadian or U.S. dollar, as applicable, the risk of using hedges could result in losses greater than if the hedging had not been used. Also, hedging arrangements may have the effect of limiting or reducing the total returns to the Company if management's expectations concerning future events or market conditions prove to be incorrect, in which case the costs associated with the hedging strategies may outweigh their benefits.

The Company has foreign currency risk related to the consolidation of the results of Lord & Taylor and Saks which operate in U.S. dollars.

We are subject to risks from our international operations, such as foreign exchange, tariffs, taxes, inflation, increased costs, political risks and our ability to expand in certain international markets, which could impair the ability to compete and profitability.

The Company currently sources private label products and direct import certain branded products from China and other overseas markets, including Bangladesh, India, Indonesia, Vietnam and Europe, in addition to exchange rate fluctuations, will continue to be subject to risks generally associated with doing business abroad. We cannot predict the effect of various factors in the countries in which vendors or manufacturers who supply our existing banners are located, including, among others:

- economic trends in international markets;
- legal and regulatory changes, and our cost of compliance with such laws, including trade restrictions and tariffs;
- increase in transportation costs or delays;
- increase and volatility in labour costs;
- political unrest, terrorism and economic instability; and
- limitations on repatriation of earnings.

Any of the foregoing or other factors associated with doing business abroad could have a material adverse effect on our business and financial conditions, going forward including our ability to plan, source and manage our merchandise mix and inventory levels. While we do not control our vendors or manufacturers, any violation of applicable local laws or unethical conduct by our vendors or manufacturers, or any negative publicity about their business practices including production methods and labour practices, may also adversely affect the brand image and reputation of our banners.

The loss of, or disruption in, any of the centralized distribution centers could have a material adverse effect on our business and operations.

We depend on the orderly operation of the receiving and distribution process, which relies on adherence to shipping schedules and effective management of distribution centres. Although we believe that our current receiving and distribution processes are efficient, and that appropriate contingency plans are in place, unforeseen disruptions in operations due to fire, severe weather conditions, natural disasters, or other catastrophic events, labour disagreements, or other shipping problems may result in delays in the delivery of merchandise to our stores and customers. Additionally, freight cost is impacted by changes in fuel prices. Fuel prices affect freight cost both on inbound freight from vendors to the distribution centres and outbound freight from the distribution centres to our stores and customers.

Although we maintain business interruption and property insurance, management cannot be assured that our insurance coverage will be sufficient, or that insurance proceeds will be timely paid to us, if any of the distribution centres are damaged or shut down for any reason.

Ownership and leasing of real estate expose us to possible liabilities and losses.

Some of our stores are owned and some are leased. Accordingly, we are, and will continue to be subject to all of the risks associated with owning and leasing real estate. In particular, the value of the assets could decrease, and their costs to operate could increase, because of changes in the investment climate for real estate, demographic trends, and supply or demand for the use of the store, which may result from competition from similar stores in the area, as well as liability for environmental conditions.

For Saks, store leases generally require us to pay a fixed minimum rent and a variable amount based on a percentage of annual sales at that location. Generally, we will not be able to terminate these leases. If a store is not profitable, and we decide to close it, we may be committed to perform certain obligations under the applicable lease including, among other things, paying rent for the balance of the applicable lease term. In addition, as the leases expire, we may be unable to negotiate renewals, either on commercially acceptable terms or at all, which could cause us to close stores in desirable locations.

If an existing owned store is not profitable, and we decide to close the store, we may be required to record an impairment charge and/or exit costs associated with the disposal of the store.

In addition, we may not be able to close an unprofitable owned or leased store due to an existing operating covenant which may cause us to operate the location at a loss which could result in an impairment charge.

Failure to manage effectively these and other factors may affect our ability to build, purchase and lease new stores, which may have a material adverse effect on our financial results and future profitability.

There are potential environmental liabilities relating to our owned and leased real property.

As an owner and operator of both freehold and leasehold real property, we are subject to various federal, state and provincial laws relating to environmental matters. Such laws provide that we could be liable for the costs of removal and remediation of certain hazardous toxic substances released on or in our properties or disposed of at other locations. The failure to remove or remediate such substances, if any, could adversely affect an owner's ability to sell such real property or to borrow using such real property as collateral and could potentially also result in claims against the owner or operator.

In May 2011, a small PCB spill occurred in the rooftop transformers at the Montreal Downtown Hudson's Bay store. As a result, a small amount of PCBs was released into HBC drains and ultimately into the sewer. Remediation efforts were undertaken immediately. HBC worked with environmental consultants and remediation specialists, in conjunction with applicable regulatory authorities, to remediate as quickly and efficiently as possible. The transformers at the location were subsequently replaced in late 2011 as part of a previously scheduled replacement project. As a result, we are not aware, and do not believe, that there is any further PCB risk at this location. In January 2014, the Company was charged with certain infractions under the *Canadian Environmental Protection Act*. The Company is currently defending such charges.

We are subject to certain obligations under our agreement with Target that limit the flexibility of our business and could result in potential liabilities.

The Company is subject to risks relating to our continuing obligations with respect to the 189 leases assigned to Target or its designees pursuant to the agreement, dated January 12, 2011 between the Company, Zellers, Target Corporation and its affiliate (collectively "Target"), including our obligation to cooperate with Target and its designees with respect to the future development by Target and its designees of their stores and to pay certain out of pocket costs. Though we do not expect the cooperation costs to be material, we cannot predict all of the cooperation costs.

The Company and Zellers amalgamated on February 2, 2014. The Company is subject to risks relating to indemnification rights in favour of Target. This indemnification is for up to $1,825,000,000 with respect to the representations and warranties related to the assigned leases including a breach of a covenant by Zellers for one year from the relevant vacancy date and without limit on amount or time in certain circumstances. Any breach by Zellers of its representations, warranties or covenants under the agreement with Target could result in a substantial indemnification payment to Target, which could have a material adverse impact on the Company's working capital and financial condition, including our ability to effect our growth strategy. As at the date hereof, no indemnification claim has been made against Zellers or the Company.

Damage to our brands could have a material adverse effect on our results of operations.

The Company operates well-recognized brands that consumers may associate with a high level of customer service and quality merchandise. Failure to maintain merchandise quality and integrity, or ethical and socially responsible operations could adversely affect the brand image and reputation of our banners. Any negative publicity about, or significant damage to, our brand or reputation could negatively impact sales, reduce employee morale and productivity and diminish customer trust, any of which could harm our business, financial condition and results of operations.

The assumption of unknown liabilities in connection with the Acquisition may harm our financial condition and future prospects.

The Company is responsible for any historical liabilities of Saks. There may be liabilities that the Company failed to discover or was unable to quantify accurately or at all in the due diligence review that it conducted prior to the Acquisition which could have a material adverse effect on the Company's business, financial condition or future prospects.

We are dependent on our relationships with certain designers, vendors and other sources of merchandise.

As a retail company, we rely on the brands that are carried to attract customers. The Company promotes nationally branded, non-proprietary products, as well as private label, proprietary products. Damage to the reputation of any of these brands, or to the reputation of any supplier or manufacturer of these brands, could negatively impact consumer opinion of our banners or the related products, which could have an adverse impact on our financial performance.

In particular, Saks's relationships with established and emerging designers are a key factor in its position as a retailer of luxury merchandise, and a substantial portion of its revenues are attributable to its sales of designer merchandise. Many of its key vendors limit the number of retail outlets they use to sell their merchandise, and competition among retailers to obtain and sell these goods is intense. Saks' relationships with its designers have been a significant contributor to its past success. Although there are supply arrangements with some of its merchandising sources, there can be no assurance that such sources will continue to meet Saks's quality, style, and volume requirements. Moreover, nearly all of the top designer brands sold by Saks's are also sold by competing retailers, and many of these top designer brands also have their own dedicated retail stores and/or their own e-commerce sites. If one or more of these top designers were to cease providing Saks's with adequate supplies of merchandise or, conversely, were to increase sales of merchandise through their own stores or to the stores of other competitors, Saks's business could be adversely affected. In addition, any decline in the popularity or quality of any of these designer brands could adversely affect Saks's business.

Our current locations may become less desirable.

The success of any store depends substantially upon its location. There can be no assurance that current locations will continue to be desirable as demographic patterns change. Social or economic conditions where stores are located could decline in the future, thus resulting in potentially reduced sales in those locations. If we cannot obtain desirable locations at reasonable prices, our cost structure will increase and our revenues will be adversely affected.

Loss of our trademarks, service marks and other proprietary rights could have a material adverse effect on our result of operations.

We own some of the most recognized banners, brands and trademarks in the retail industry. We believe that these trademarks and other proprietary rights will be important to our success and our competitive position. Accordingly, we will continue to protect our trademarks and proprietary rights. However, the actions taken by us may be inadequate to prevent imitation of our products and concepts by others or to prevent others from claiming violations of their trademarks and proprietary rights by us. In addition, our intellectual property rights may not have the value that we believe they have. If we are unsuccessful in protecting our intellectual property rights, or if another party prevails in litigation against us relating to our intellectual property rights, the value and adequacy of our brand recognition or brand reputation could be diminished causing customer confusion and adversely affecting our sales and profitability and we may incur significant costs and may be required to change certain aspects of our operations, resulting in a reduction in shareholder value.

There are risks relating to our size and scale.

The Company operates under five banners in Canada and the U.S. The large size of our operations and our multiple banners expose us to the risk that systems and practices will not be implemented uniformly through the Company and that information will not be shared across the banners and countries in a timely and appropriate manner.

There are limits to the insurance policies we have in place that may have a materially adverse impact on our businesses.

We maintain directors and officers insurance, liability insurance, business interruption and property insurance and our insurance coverage reflects deductibles, self-insured retentions, limits of liability and similar provisions. However, there is no guarantee that our insurance coverage will be sufficient, or that insurance proceeds will be timely paid to us. In addition, there are types of losses we may incur but against which we cannot be insured or which we believe are not economically reasonable to insure, such as losses due to acts of war and certain natural disasters. If we incur these losses and they are material, our business, operating results and financial condition may be adversely affected. Also, certain material events may result in sizable losses for the insurance industry and materially adversely impact the availability of adequate insurance coverage or result in significant premium increases. Accordingly, we may elect to self-insure, accept higher deductibles or reduce the amount of coverage in response to such market changes.

The HBC pension plan is currently in a surplus but it may move into a deficit position which would require the Company to make cash payments to the plan, reducing cash available for our businesses.

The Company has a defined benefit pension plan (the "HBC Pension Plan"). The Plan's funded status, which fluctuates with market conditions, affects the amount of Company required contributions. Currently, the HBC Pension Plan is in a surplus position. As such, no payments in respect of past service funding deficits are required. However, it is possible that long-term interest rates and/or lower than expected asset returns could cause the HBC Pension Plan to move into a deficit position. If this occurs, the Company may be required to start remitting amounts necessary to amortize such deficit. Given the relative size of the HBC Pension Plan, a downward swing in the funded status of the HBC Pension Plan could have a significant impact on the Company's future cash funding requirements in respect of the HBC Pension Plan.

The pension committee monitors the HBC Pension Plan assets closely and follows strict guidelines to ensure that pension fund investment portfolios are diversified in-line with industry best practices. Nonetheless, pension fund assets are not immune to market fluctuations and the Company may be required to make cash contributions in the future. The Company believes that it has sufficiently strong cash flows to fund its operations, investing activities and commitments for the foreseeable future. The Company's cash flows from operations are subject to fluctuation due to various factors, including commodity, foreign exchange and interest rate risks.

Pension related accounting policies include various assumptions that incorporate a high degree of judgment and complexity. These assumptions may change in the future and may have a material impact on the accrued benefit obligations of the Company and the cost of the Plan, which is reflected in the Company's consolidated statement of earnings.

Funding requirements for Saks' pension plan may exceed expectations based on the performance of assets in its pension plan which would reduce cash on hand in our business.

Saks sponsors a funded defined-benefit cash balance pension plan ("Pension Plan") and an unfunded supplemental executive retirement plan ("SERP") for certain employees. Effective January 1, 2007, Saks amended the Pension Plan, suspending future benefit accruals for all participants, except certain “grandfathered participants”. Effective March 13, 2009, Saks amended the Pension Plan, suspending future benefit accruals for all remaining participants.

Saks records a liability associated with these plans equal to the excess of the benefit obligation over the fair value of plan assets. The benefit liability recorded at February 1, 2014 is $30.6 million. In Fiscal 2014, Saks is not required to contribute to the Pension Plan. If the performance of the assets in these pension plans does not meet Saks’s expectations, or if other actuarial assumptions are modified, Saks’s future cash payments, and therefore ours, to the plans could be higher than expected.

Their funding policy requires contributions to the Pension Plan be at least equal to the minimum funding requirement, as determined under the Employee Retirement Income Security Act (“ERISA”) of 1974. Saks may make additional contributions from time to time, generally not to exceed the maximum tax-deductible limitation. The Pension Plan and SERP obligations are valued annually as of Saks’ fiscal year-end balance sheet date. The projected unit credit method is utilized in computing the pension obligations. Net periodic benefit cost is based on actuarial models used to estimate the total benefits ultimately payable to participants and is allocated to the respective service periods. The actuarial assumptions used to calculate benefit costs are reviewed annually.

Under ERISA, the Pension Benefit Guaranty Corporation (“PBGC”), has the authority to terminate an underfunded pension plan under limited circumstances. In the event Saks’ pension plan is terminated for any reason while it is underfunded, we would incur a liability to the PBGC that may be equal to the entire amount of the underfunding.

Our articles and bylaws could delay and discourage favourable takeover attempts.

Certain provisions of the Company’s articles and bylaws may make it more difficult or impossible for a third party to acquire control of us or effect a change in our Board of Directors and management. These provisions include that at least 75% of the voting power of all then outstanding shares of our Common Shares entitled to vote generally at the election of directors will be required for (i) the approval of extraordinary business, and (ii) the amendment, alteration or repeal of certain provisions of our articles and by-laws.

These provisions could delay, defer or prevent us from experiencing a change of control and management and may adversely affect our Shareholders’ voting and other rights. Any delay or prevention of a change of control transaction and management could deter potential acquirers or prevent the completion of a transaction in which our shareholders could receive a substantial premium over the then current market price for their Common Shares.

The failure to maintain adequate financial and management processes and controls would have materially adverse consequences to our businesses.

We are responsible for establishing and maintaining adequate internal control over financial reporting, which is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Because of its inherent limitations internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. A failure to prevent or detect errors or misstatements may result in a decline in our stock price and harm our ability to raise capital.

Dividends are dependent on cash flows of our business. The declaration of dividends is at the discretion of the Board of Directors.

The declaration and payment of future dividends will be at the discretion of the Board of Directors, are subject to restrictions under the Company’s credit facilities and may be affected by various other factors, including the Company’s earnings, financial condition and legal or contractual restrictions. There can be no assurance that the Company will be in a position to pay dividends at the same rate (or at all) in the future.

Moreover, as the Company is a holding company for its operating subsidiaries and does not have any significant operations of its own, dividends or other distributions from its subsidiaries, including its subsidiaries carrying on the retail operations of Hudson's Bay, Lord & Taylor and Saks, are the Company's principal sources of cash to fund its obligations, including the payment of dividends if declared. There are or may be statutory, contractual, tax or other limitations on the ability of the Company's subsidiaries to make distributions to the Company. If the cash the Company receives from its subsidiaries pursuant to such distributions is insufficient, or if the subsidiaries are unable to make such distributions, the Company may be required to raise cash through the incurrence of debt, the issuance of additional equity or the sale of assets to fund its obligations. However, there can be no assurance that the Company would be able to raise cash by any of these means in a timely manner or on terms that are favourable to the Company.

We incur certain expenses to maintain our public company status.

We incur significant legal, accounting, insurance and other expenses as a result of being a public company, which may negatively impact our performance and could cause our results of operations and financial condition to suffer. Compliance with applicable securities laws and the rules of the TSX substantially increases our expenses, including our legal and accounting costs, and make some activities more time-consuming and costly.

A small number of our shareholders could significantly influence our business.

The Principal Shareholder, L&T B Group, Hanover HSILP and WF Fund each have significant influence with respect to all matters submitted to our shareholders for approval, including without limitation the election and removal of directors, amendments to our articles of incorporation and by-laws and the approval of any business combination. The Principal Shareholder, L&T B Group and Hanover are currently parties to a shareholders agreement pursuant to which L&T B Group has the right to nominate four or two directors, depending on the number of Common Shares it holds, and Hanover has the right to nominate four, three, two or one directors, depending on the number of Common Shares it holds.

The Company and HSILP have entered into the Nominating Rights Agreement which was effective on the Acquisition Date. Pursuant to the Nominating Rights Agreement, HSILP is entitled to nominate one director. This may delay or prevent an acquisition of the Company or cause the market price of our shares to decline. The interests of the Principal Shareholder, L&T B Group, Hanover, HSILP and West Face may not in all cases be aligned with interests of our other shareholders. In addition, the Principal Shareholder, the L&T B Group, Hanover, HSILP and West Face may have an interest in pursuing acquisitions, divestitures and other transactions that, in the judgment of its management, could enhance its equity investment, even though such transactions might involve risks to our shareholders and may ultimately affect the market price of the Common Shares.

The future sales of Common Shares by our significant shareholders could significantly impact the share price.

Subject to compliance with applicable securities laws, our officers, directors, principal shareholders and their affiliates may sell some or all of their Common Shares in the future. No prediction can be made as to the effect, if any, such future sales of Common Shares will have on the market price of the Common Shares prevailing from time to time. However, the future sale of a substantial number of Common Shares by our officers, directors, principal shareholders and their affiliates, or the perception that such sales could occur, could adversely affect prevailing market prices for the Common Shares.

Additional Information

Additional information relating to Hudson's Bay Company is available on SEDAR at www.sedar.com.

Dividends

The Company's Board of Directors approved the payment of a quarterly dividend on December 30, 2013 and on March 20, 2014 declared a quarterly dividend, payable on April 15, 2014, to shareholders of record at the close of business March 31, 2014. Each 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 April 2, 2014, the Company had 182,100,001 Common Shares issued and outstanding and no preferred shares issued and outstanding. As of April 2, 2014, the Company had 7,532,203 share options, 151,273 restricted share units and 6,750,000 warrants outstanding, all of which are convertible or exchangeable into Common Shares.

The Common Shares trade on the Toronto Stock Exchange under the symbol "HBC" and began trading on November 20, 2012. In addition there were approximately 25.0 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 189.8 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 196.5 million Common Shares issued and outstanding on a fully diluted basis.