HUDSON'S BAY COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THIRTEEN WEEKS ENDED MAY 3, 2014

Dated June 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 unaudited interim condensed consolidated financial statements and notes thereto for the thirteen week period ended May 3, 2014. Unless otherwise indicated, all amounts are expressed in millions of Canadian dollars.

The contents of this MD&A were approved by the Company's Audit Committee. This MD&A reflects information as of June 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").

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 November 4, 2013 (the "Saks 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 million ($3,097 million), including debt assumed (the "Saks Acquisition").

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

References in this MD&A to "DSG" refer to the "Department Store Group" consisting of the Hudson's Bay and Lord & Taylor banners.

Accounting Periods

This MD&A is based on the unaudited interim condensed consolidated financial statements and accompanying notes thereto for the thirteen week period ended May 3, 2014.

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 the Company’s Annual Information Form for Fiscal 2013 filed on SEDAR on May 2, 2014: 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 legacy 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 Saks 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, Normalized Net (Loss) Earnings and Normalized Selling, General & Administrative Expenses (“Normalized SG&A”) 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.

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

First Quarter Events

- 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 million (the “Queen Street Sale”). The Company has leased the entire retail and office complex back for a base term of twenty-five years with renewal options of up to approximately twenty-five years. The property will serve as the site of one of Canada’s first Saks Fifth Avenue locations. The Company also agreed to lease space in Toronto’s Sherway Gardens for another Saks Fifth Avenue store in Canada.

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

Subsequent Events

- On May 7, 2014 the Company announced that Paul V. Beesley will be joining the Company as Chief Financial Officer, effective June 2014. Mr. Beesley will report to HBC's Office of the Chairman, which consists of Richard Baker, Governor and CEO and Donald Watros, President. Mr. Watros also has been serving as HBC’s Interim CFO and will relinquish that role when Mr. Beesley joins the Company.

- On May 12, 2014, the Company’s largest shareholder, Hudson's Bay Company (Luxembourg) S.à r.l. (“LuxCo”) and an affiliate thereof entered into an agreement with a syndicate of underwriters to sell as a secondary offering a total of 7,870,000 common shares of the Company which closed on June 2, 2014. The Company did not receive any proceeds from the offering. Following the offering, LuxCo may distribute approximately 59.7 million common shares of the Company to its ultimate shareholders on a pro rata basis.

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, Lord & Taylor, together, referred to as DSG, and Saks – which includes Saks Fifth Avenue and Saks Fifth Avenue OFF 5TH (“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. Lord & Taylor operates 49 full-line locations primarily in the northeastern and mid-Atlantic U.S., four Lord & Taylor outlet locations and lordandtaylor.com. Saks Fifth Avenue, one of the world's pre-eminent luxury specialty retailers, comprises 39 U.S. stores, five international licensed stores and saks.com. OFF 5TH offers value-oriented merchandise through 75 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.

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 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 and OFF 5TH 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 OFF 5TH stores in Canada over the coming years.

- *Growing Our Top Stores under Each Banner.* We are focusing on driving productivity at the 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 profit and operating expense enhancements as well as $100 million of annualized targeted synergies to be achieved as a result of the Saks Acquisition by Fiscal 2016 as follows:

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

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

- *Saks Acquisition Synergies.* The targeted annualized Saks Acquisition synergies of approximately $100 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 thirteen-week period ended May 3, 2014

- Consolidated same store sales, which include Saks, increased 8.6% for the comparable thirteen-week period, or 2.8% on a local currency basis. On a local currency basis, same store sales increased by 2.5% in the DSG**,** increased by 2.6% at Saks Fifth Avenue and increased by 15.1% at OFF 5TH.

- Digital commerce sales grew to $207 million, an increase of $186 million compared to the thirteen-week period ended May 4, 2013. The inclusion of Saks in the first quarter of Fiscal 2014 contributed $162 million while Legacy HBC, off of a smaller base, more than doubled, reflecting the Company's continued strategic focus on growing this channel.

- Gross profit rate, excluding amortization of inventory related purchase price accounting adjustments, was 40.6% of retail sales, or a 30 basis points improvement over the thirteen-week period ended May 4, 2013.

- Normalized SG&A as a percentage of retail sales was 35.4 % for the thirteen-week period ended May 3, 2014, compared to 37.0% for the thirteen-week period ended May 4, 2013, a 1.6% improvement.

- Normalized EBITDA was $97 million compared to $29 million for the first quarter of Fiscal 2013 and includes negative impacts of adopting IFRIC 21 of $8 million compared to $2 million for the first quarter of Fiscal 2013 (see New Accounting Policies - Levies section). The increase in Normalized EBITDA of $68 million primarily relates to the inclusion of Saks. As a percentage of retail sales, Normalized EBITDA increased to 5.2% from 3.3% for the first quarter of Fiscal 2013, an increase of 1.9%.

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

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. For the first quarter of Fiscal 2014, Saks' same-store sales have been included in consolidated same-store sales. 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, 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.$350 million of the First Lien Term Loan ("Senior Term Loan B") as a hedge of the first U.S.$350 million of net assets of L&T Acquisition. Foreign currency translation of the net earnings (loss) of L&T Acquisition will impact consolidated net earnings (loss). 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 gains or losses 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 Saks Acquisition, we issued Common Share purchase warrants to H.S. Investment L.P. ("HSILP"), an affiliate of Ontario Teachers' Pension Plan, and to West Face Long Term Opportunities Global Master L.P. ("WF Fund"), a fund advised by West Face Capital Inc. The non-cash charges associated with the warrants fluctuate with changes in the Common Share price and other factors, as they require mark-to-market adjustments each reporting period. We record the mark-to-market valuation adjustment of these warrants as finance costs based on their end of period valuations.

Weather

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

Competition

The Company conducts its retail merchandising business under highly competitive conditions. Although the Company is one of North America's largest retailers, it has numerous and varied competitors at the national and local levels, including conventional and specialty department stores, other specialty stores, 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 - Levies

In May 2013, the IASB issued IFRIC 21– Levies ("IFRIC 21"), 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. It also clarifies that a levy liability is accrued rateably over a reporting period only if the activity that triggers payment occurs over such period, in accordance with the relevant legislation.

Property taxes are charged by a government in accordance with legislation, are based on underlying property value, and include both real and personal property. As such, real and personal property taxes are within the scope of IFRIC 21. Prior to the adoption of IFRIC 21, the Company recorded all property taxes rateably over the relevant tax year.

Property tax legislation in various jurisdictions in Canada does not clearly define a single obligating event that gives rise to a liability to pay annual property taxes. As such, at any date within the year, the only amount of property taxes that an owner can reasonably estimate they are liable for is a pro rata estimate of annual property taxes based on the number of days of ownership. Rateable recognition of property taxes in Canada, therefore, continues to be appropriate under IFRIC 21.

In the majority of the U.S. tax jurisdictions in which the Company operates, the obligating event for real and personal property taxes is ownership of the property on the day of the year for which the tax is imposed.

The Company implemented IFRIC 21 retrospectively in the first quarter of fiscal 2014. Given that clear interpretive guidance on the application of IFRIC 21 is not yet available, the adoption of this standard required management to exercise significant judgment. As a result, judgments made by management in determining the impact of this adoption included in our reported results may vary materially on an inter-quarter basis from conclusive interpretive guidance when it becomes available.

The impact of the implementation is summarized as follows:

(millions of Canadian dollars except per share amounts)	Fiscal Quarter Ended				Fiscal Year Ended
	May 4, 2013	**Aug. 3, 2013**	**Nov. 2, 2013**	**Feb. 1, 2014**	**February 1, 2014**
(Increase) decrease in selling, general and administrative expenses	(2)	2	(1)	(1)	(2)
Income tax benefit (expense)	1	(1)	-	1	1
Net (loss) earnings for the period – continuing operations	(1)	1	(1)	-	(1)
Net (loss) earnings for the period	(1)	1	(1)	-	(1)
Net (loss) earnings per common share	(0.01)	0.01	(0.01)	-	(0.01)
Increase (decrease) in Normalized EBITDA	(2)	2	(1)	(1)	(2)

The impact of the implementation of IFRIC 21 for the thirteen weeks ended May 3, 2014 was an increase in selling, general and administrative expenses of $8 million and a decrease in Normalized EBITDA of $8 million, a decrease in income tax expense of $3 million and an overall decrease in net earnings of $5 million.

Selected Consolidated Financial Information

The following tables set out summary unaudited consolidated financial information and supplemental information for the periods indicated. The summary financial information set out below has been derived from unaudited interim condensed consolidated financial statements, prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") for the thirteen weeks ended May 3, 2014. The unaudited financial information presented has been prepared on a basis consistent with our audited consolidated financial statements for Fiscal 2013, after the retrospective application of IFRIC 21. 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.

(millions of Canadian dollars except per share amounts)	Fiscal Quarter Ended			
			(restated[7])	
	May 3, 2014		**May 4, 2013**	
	$	%[1]	$	%[1]
Earnings Results				
Retail sales	1,855	100.0%	884	100.0%
Cost of sales	(1,139)	(61.4%)	(528)	(59.7%)
Gross profit	716	38.6%	356	40.3%
Selling, general & administrative expenses	(681)	(36.7%)	(344)	(38.9%)
Gain on Queen Street Sale	308	16.6%	-	-
Depreciation and amortization	(82)	(4.4%)	(29)	(3.3%)
Operating income (loss)	261	14.1%	(17)	1.9%
Total interest expense, net	(71)		(12)	
Saks Acquisition-related finance costs	(4)		-	
Finance costs	(75)	(4.0%)	(12)	(1.4%)
Earnings (loss) before income tax	186	10.0%	(29)	(3.3%)
Income tax (expense) benefit	(10)	(0.5%)	7	0.8%
Net earnings (loss) — continuing operations	176	9.5%	(22)	(2.5%)
Net loss — discontinued operations, net of taxes	-		(60)	
Net earnings (loss)	176		(82)	

(millions of Canadian dollars except per share amounts)	Fiscal Quarter Ended May 3, 2014		(restated[7]) May 4, 2013	
Net Earnings (Loss) per Common Share — Basic and Diluted				
Continuing operations	0.97		(0.19)	
Discontinued operations	-		(0.49)	
	0.97		(0.68)	
Weighted average Common Shares outstanding — basic and diluted (millions)	182		120	
Supplemental Information – Continuing Operations				
EBITDA[2]	353	19.0%	21	2.4%
Normalized EBITDA[2]	97	5.2%	29	3.3%
Normalized net loss for the period[2]	(27)	1.5%	(15)	1.7%
Normalized net loss per Common Share — basic and diluted[2]	(0.15)		(0.13)	
Declared dividend per Common Share	0.05		0.09	
Same Store Sales Percentage Change[3]				
Continuing operations	8.6%		4.0%	
Continuing operations (excluding impact of foreign exchange)	2.8%		3.2%	
Hudson's Bay	N/A		7.6%	
Lord & Taylor[4]	N/A		(1.4%)	
DSG[8]	2.5%		3.9 %	
Saks Fifth Avenue[4]	2.6%		N/A	
OFF 5TH[4]	15.1%		N/A	
Store count[5]				
Hudson's Bay	90		90	
Lord & Taylor	49		48	
Saks Fifth Avenue	39		N/A	
OFF 5TH	73		N/A	
Home Outfitters	69		69	
Total	320		207	
Square footage ('000)[5]				
Hudson's Bay	16,123		16,118	
Lord & Taylor	6,789		6,710	
Saks Fifth Avenue	4,768		N/A	
OFF 5TH	1,995		N/A	
Home Outfitters	2,515		2,515	
Total	32,190		25,343	

Balance Sheet Data	May 3, 2014	May 4, 2013 (restated[7])	February 1, 2014 (restated[7])
	$	$	$
Cash	39	27	21
Trade and other receivables	130	66	137
Inventories	2,034	1,094	2,026
Current assets	2,309	1,353	2,288
Property, plant and equipment	3,949	1,350	4,110
Intangible assets	963	232	981
Goodwill	219	-	219
Total assets	7,743	3,198	7,932
Current liabilities[6]	1,482	1,010	1,472
Loans and borrowings (including current portion)	2,854	1,091	3,455
Shareholders' equity	2,190	921	2,043

Notes:

(1) As a percentage of retail sales.

(2) See tables below for a reconciliation of Net Earnings (Loss) to EBITDA and Normalized EBITDA and a reconciliation of Net Earnings (Loss) to Normalized Net Loss.

(3) The Company calculates same store sales on a year-over-year basis from stores operating for at least 13 months, 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.

(4) 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.

(5) Hudson's Bay Company operates one Hudson's Bay Outlet, 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. OFF 5TH stores are included in store count and gross leasable area.

(6) Excludes current loans and borrowings of $428 million as of May 3, 2014, $369 million as of May 4, 2013 and $532 million as of February 1, 2014.

(7) Certain previously reported figures have been restated due to the implementation of IFRIC 21. For more information, please refer to "New Accounting Policies – Levies" and "Changes in Accounting Policies Including Initial Adoption".

(8) Based on realignment of banners by management, DSG has replaced separate Hudson's Bay and Lord & Taylor reporting of same store sales percentage change.

The following table shows the reconciliation of Net Earnings (loss) to EBITDA as well as Normalized EBITDA:

(millions of Canadian dollars)	Fiscal Quarter Ended May 3, 2014	Fiscal Quarter Ended May 4, 2013 (restated[7])
	$	$
Net Earnings (Loss) - Continuing Operations	176	(22)
Finance costs	75	12
Income tax expense (benefit)	10	(7)
Pension expense (non-cash)	7	7
Depreciation and amortization	82	29
Share based compensation	3	2
EBITDA	**353**	21
Normalization adjustments		
Gain on Queen Street Sale	(308)	-
Saks acquisition and integration related expenses	14	-
Amortization of Saks inventory purchase accounting adjustments	38	-
Restructuring and other	-	8
Normalized EBITDA	**97**	29

Note:

(1) Certain previously reported figures have been restated due to the implementation of IFRIC 21. For more information, please refer to "New Accounting Policies – Levies" and "Changes in Accounting Policies Including Initial Adoption".

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

	Fiscal Quarter Ended	
		(restated[2])
(millions of Canadian dollars)	**May 3, 2014**	**May 4, 2013**
	$	$
Net Earnings (Loss) – Continuing Operations	176	(22)
Normalization Adjustments		
Gain on Queen Street Sale, net of tax	(261)	-
Saks acquisition and integration related expenses and finance costs, net of tax	13	-
Restructuring and other, net of tax	-	6
Financing related adjustments, net of tax[1]	22	-
Amortization of Saks inventory purchase accounting adjustments, net of tax	23	-
Tax related adjustments	-	1
Total normalizing adjustments	(203)	7
Normalized Net Loss	**(27)**	(15)

Notes:

(1) Includes write-off of deferred financing costs and losses and penalties on early extinguishment of debt.

(2) Certain previously reported figures have been restated due to the implementation of IFRIC 21. For more information, please refer to "New Accounting Policies – Levies" and "Changes in Accounting Policies Including Initial Adoption".

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; (iii) normalizing adjustments, if any, related to transactions that are not associated with day-to-day operations and (iv) EBITDA related to discontinued operations. Normalized Net Earnings (Loss) is defined as net earnings (loss) adjusted to exclude: (i) business and organization restructuring/realignment charges; (ii) merger/acquisition costs and expenses; (iii) normalizing adjustments, including those related to purchase accounting, if any, related to transactions that are not associated with day-to-day operations and (iv) net earnings (loss) related to discontinued operations. Normalized SG&A is defined as SG&A adjusted to exclude: (i) business and organization restructuring/realignment charges; (ii) merger/acquisition costs and expenses; (iii) normalizing adjustments, if any, related to transactions that are not associated with day-to-day operations and (iv) expenses related to discontinued operations. We have included Normalized EBITDA, Normalized Net Earnings (Loss) and Normalized SG&A to provide investors with supplemental measures of our operating performance. We believe Normalized EBITDA, Normalized Net Earnings (Loss) and Normalized SG&A are important supplemental measures of operating performance because they eliminate items that have less bearing on our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We also believe that securities analysts, investors and other interested parties frequently use EBITDA, Normalized EBITDA, Normalized Net Earnings (Loss) and Normalized SG&A 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, Normalized Net Earnings (Loss) or Normalized SG&A differently than we do, these metrics are not comparable to similarly titled measures reported by other companies.

Results of Operations

Thirteen-Week Period Ended May 3, 2014 Compared to the Thirteen-Week Period Ended May 4, 2013

Retail Sales

Retail sales, which include digital commerce sales from all banners, were $1,855 million for the thirteen-week period ended May 3, 2014, an increase of $971 million or 110%, from $884 million for the thirteen-week period ended May 4, 2013. The increase is primarily attributable to the inclusion of Saks.

Consolidated same store sales increased by 8.6%, or 2.8% excluding the impact of foreign exchange. On a local currency basis, same store sales in the DSG increased 2.5%, at Saks Fifth Avenue increased 2.6% and at OFF 5TH increased 15.1%.

Digital commerce sales totaled $207 million for the thirteen-week period ended May 3, 2014. The inclusion of Saks contributed $162 million while Legacy HBC off of a smaller base more than doubled to $45 million for the thirteen-week period ended May 3, 2014**.**

In terms of merchandise category performance, sales growth at DSG was driven by menswear and beauty. Sales growth at Saks Fifth Avenue was driven by menswear and accessories. Sales growth at OFF 5TH was strong across all categories.

Gross Profit

Gross profit was $716 million for the thirteen-week period ended May 3, 2014, compared to $356 million for the thirteen-week period ended May 4, 2013. The increase in gross profit is primarily attributed to the inclusion of Saks. Gross profit as a percentage of retail sales, excluding amortization of inventory related purchase price accounting adjustments, was 40.6% of retail sales, or an increase of 30 basis points compared to the thirteen-week period ended May 4, 2013. The increase in percentage was driven by the inclusion of Saks, a higher gross profit entity. This total increase in rate was partially offset by declines in the gross profit rate within Legacy HBC.

Selling, General & Administrative Expenses

SG&A was $681 million for the thirteen-week period ended May 3, 2014, compared to $344 million for the thirteen-week period ended May 4, 2013. The increase in SG&A is primarily attributed to the inclusion of Saks. Normalized SG&A as a percentage of retail sales calculated as SG&A excluding Saks acquisition and integration related expenses, non-cash pension expense and share based compensation totaling $24 million for the thirteen-week period ended May 3, 2014 and restructuring and other, non-cash pension expense and share based compensation totaling $17 million for the thirteen-week period ended May 4, 2013, was 35.4 % for the thirteen-week period ended May 3, 2014, compared to 37.0% for the thirteen-week period ended May 4, 2013, or a 1.6% improvement. The improvement in SG&A as a percentage of retail sales is attributed to the inclusion of Saks, whose lower SG&A as a percentage of retail sales was partially offset by an adverse change in SG&A related to Legacy HBC. The deterioration at Legacy HBC was driven by increased rents related to the Queen Street Sale and additional investments in digital commerce. We believe that we remain on track to achieve our expected $50 million in synergy savings for 2014.

EBITDA and Normalized EBITDA

EBITDA was $353 million in the thirteen-week period ended May 3, 2014, compared to $21 million in the thirteen-week period ended May 4, 2013 and includes negative impacts of adopting IFRIC 21 of $8 million compared to $2 million for the first quarter of Fiscal 2013 (see New Accounting Policies - Levies section). The increase in EBITDA of $332 million was driven by the inclusion of a gain of $308 million on the Queen Street Sale and the inclusion of Saks.

Normalized EBITDA was $97 million, or 5.2% of retail sales, in the thirteen-week period ended May 3, 2014, compared to $29 million, or 3.3% of retail sales, in the thirteen-week period ended May 4, 2013, an increase of $68 million, or a 1.9% increase as a percentage of retail sales.

Finance Costs

Finance costs were $75 million in the thirteen-week period ended May 3, 2014 compared to $12 million for the thirteen-week period ended May 4, 2013, an increase of $63 million. The increase is a result of incremental interest costs primarily associated with the debt acquired as a result of funding the Saks Acquisition. Total incremental interest of $27 million related to changes in our long term debt structure as a result of the Acquisition was realized in the thirteen-week period ended May 3, 2014. A non-cash charge of $18 million was also incurred for the write-off of deferred financing costs and penalties of $12 million were incurred in connection with early repayment of debt as a result of the application of proceeds on the Queen Street Sale. In addition, approximately $4 million of net Saks Acquisition-related financing costs were recognized, all of which were non-cash. The non-cash Saks Acquisition-related expense 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 (Expense) Benefit

Income tax expense was $10 million in the thirteen-week period ended May 3, 2014, compared to an income tax benefit of $7 million for the thirteen-week period ended May 4, 2013. The effective income tax rate of 5.4% for the thirteen-week period ended May 3, 2014 decreased from 24.1% for the thirteen-week period ended May 4, 2013 primarily due to the effect of international tax rate differentials and the favourable tax treatment related to the Queen Street Sale.

Net Earnings (Loss)

Net Earnings were $176 million in the thirteen-week period ended May 3, 2014 compared to a net loss of $82 million in the thirteen-week period ended May 4, 2013, an increase of $258 million. The increase in Net Earnings is primarily the result of the inclusion of Saks and the gain recognized on the Queen Street Sale.

Normalized Net Loss

Normalized Net Loss was $27 million in the thirteen-week period ended May 3, 2014 compared to normalized net loss of $15 million in the thirteen-week period ended May 4, 2013, an increase in loss of $12 million.

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)	**May 3, 2014**	**Feb. 1, 2014**	**Nov. 2, 2013**	**Aug. 3, 2013**	**May 4, 2013**	**Feb. 2, 2013[6]**	**Oct. 27, 2012[6]**	**July 28, 2012[6]**
	$	$	$	$	$	$	$	$
Retail sales	1,855	2,408	984	948	884	1,387	930	912
Normalized EBITDA	97	253	63	60	29	177	48	60
Net earnings (loss)								
Continuing operations	176	37	(126)	(66)	(22)	90	(13)	(3)
Discontinued operations	-	(8)	1	(15)	(60)	(4)	(2)	25
	176	29	(125)	(81)	(82)	86	(15)	22
Net Earnings (Loss) per Common Share — Basic[1]								
Continuing Operations	0.97	0.21	(1.05)	(0.55)	(0.19)	0.78	(0.12)	(0.03)
Discontinued Operations	-	(0.05)	-	(0.13)	(0.49)	(0.03)	(0.02)	0.24
Net Earnings (Loss) per Common Share— Diluted[1]								
Continuing Operations	0.97	0.11	(1.05)	(0.55)	(0.19)	0.78	(0.12)	(0.03)
Discontinued Operations	-	(0.05)	-	(0.13)	(0.49)	(0.03)	(0.02)	0.24
Same Store Sales Percentage Change[2]								
Continuing Operations	8.6%	6.6%	5.7%	3.5%	4.0%	2.1%	3.5%	3.9%
Continuing Operations (excluding impact of foreign exchange)	2.8%	2.1%	3.8%	3.0%	3.2%	2.7%	3.9%	2.0%
Hudson's Bay	N/A	5.2%	6.4%	6.2%	7.6%	6.1%	4.5%	3.2%
Lord & Taylor[3]	N/A	(1.3%)	1.6%	(1.2%)	(1.4%)	(2.9%)	5.2%	1.5%
DSG[5]	2.5 %	2.8 %	4.5 %	3.2%	3.9 %	2.9%	4.8%	2.5 %
Saks Fifth Avenue[3]	2.6%	2.1 %	N/A	N/A	N/A	N/A	N/A	N/A
OFF 5TH[3]	15.1%	7.9 %	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 Fifth Avenue and OFF 5TH are calculated in U.S. dollars.

(4) Certain previously reported figures have been restated due to the implementation of IFRIC 21. For more information, please refer to "New Accounting Policies –Levies" and "Changes in Accounting Policies Including Initial Adoption".

(5) Based on realignment of banners by management, DSG has replaced separate Hudson's Bay and Lord & Taylor reporting of same store sales percentage change.

(6) Fiscal 2012 has not been restated for the implementation of IFRIC 21 as the effect for these periods is not considered material.

Outlook

Fiscal 2014 is HBC's first full year including Saks, while Fiscal 2013 financial results only included Saks results for the fourth quarter. 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 the $100 million targeted annualized synergy 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) $30 million of non-recurring finance costs primarily due to the early extinguishment of debt.

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 million to $620 million.
- Net capital investments of $380 million to $420 million, net of landlord incentives.

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. The actual average exchange rate for the 13-week period ended May 3, 2014 was USD:CAD = 1:1.10.

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 Quarter Ended	
(millions of Canadian dollars)	**May 3, 2014**	**May 4, 2013**
	$	$
Continuing operations		
Operating activities	9	(151)
Investing activities	600	(39)
Financing activities	(591)	222
Increase in cash from continuing operations	18	32
Decrease in cash from discontinued operations	-	(53)
Cash beginning of period	21	48
Cash end of period	39	27

Net Cash Flow Operating Activities

Cash flows from operating activities increased to $9 million for the thirteen-week period ended May 3, 2014 from an outflow of $151 million for the thirteen-week period ended May 4, 2013, an increase of $160 million. This was due to decreased investments in working capital.

Net Cash Flow Investing Activities

Cash flows used in investing activities increased from an outflow of $39 million for the thirteen-week period ended May 4, 2013 to an inflow of $600 million for the thirteen-week period ended May 3, 2014, an increase of $639 million. The inflow is primarily due to proceeds realized from the Queen Street Sale.

Net Cash Flow Financing Activities

Cash flows for financing activities decreased from an inflow of $222 million for the thirteen-week period ended May 4, 2013 to an outflow of $591 million for the thirteen-week period ended May 3, 2014, a decrease of $813 million. The outflow of $591 million was primarily due to applying proceeds from the Queen Street Sale to permanently retire the Second Lien Term Loan ("Junior Term Loan"), and U.S. $150 million related to the Senior Term Loan B along with the reduction of the outstanding balance of the Company's Canadian revolving credit facility.

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; and (iv) debt service. Working capital requirements are at their highest in the latter half of the fiscal year as inventory builds through the Fall, peaking just before the holiday selling season.

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.

A portion of the proceeds of the Queen Street Sale was used to retire in entirety the Company's U.S.$300 million Junior Term Loan and permanently pay down U.S.$150 million of its U.S.$2,000 million 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.

Please refer to the Company's management's discussion and analysis for the thirteen and fifty-two weeks ended February 1, 2014 for details regarding the Company's credit facilities and loans.

Contractual Obligations

The Company has a number of obligations related to leases, lease guarantees, loans and borrowings, procurement obligations, pensions and other obligations. In the period up to June 2, 2014, other than the repayment of the Junior Term Loan, the partial repayment of the Senior Term Loan B, the reduction of the outstanding balance of the Company's Canadian revolving credit facility (each, as mentioned above) and reduction of certain lease obligations as a result of agreements with landlords, there were no material changes to the Company's contractual obligations compared to those identified at year-end. For a complete description of the contractual obligations of the Company, please refer to management's discussion and analysis for the thirteen and fifty-two weeks ended February 1, 2014.

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 million as at May 3, 2014.

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 (loss).

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 net earnings (loss) in the period in which the change occurs. Short-term deposits are classified as held to maturity, which are measured at amortized cost using the effective interest method. All other financial assets are classified as loans and receivables and measured at amortized cost using the effective interest method.

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

The Company determines the fair value of its long-term loans and borrowings using a discounted cash flow model, taking into consideration the fixed interest rate spread included in the related debt compared to fixed interest rate spreads on similar debt available in the market at the balance sheet dates. The fair values of foreign currency options, interest rate swaps and forward foreign currency contracts reflect the estimated amounts that the Company would receive or pay if it were to settle the contracts at the reporting date.

As a result of the Saks Acquisition, the Company recognized warrants 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 earnings (loss) in the period in which the change occurs. The fair values are determined using the Black-Scholes option pricing model. For a complete description of the derivative financial instruments of the Company and related risks, please refer to note 18 to the Company's Fiscal 2013 audited consolidated financial statements and the Company's management's discussion and analysis for the thirteen and fifty-two weeks ended February 1, 2014.

Tax Matters

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

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

Related Party Transactions

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

On May 6, 2011, a subsidiary of L&T Acquisition entered into a two year lease with SP 35 L.P. (the "Landlord") for approximately 31,000 square feet in Shrewsbury, NJ. The lease was amended on January 17, 2013 to include three renewal options. The first two renewal options are for terms of two and three years respectively at an annual cost of $400 thousand U.S. dollars. The third renewal option is for a term of five years at an annual cost of $500 thousand U.S. dollars. The first renewal option was exercised. Amounts charged to the Company under the rental arrangement for the thirteen weeks ended May 3, 2014 were $100 thousand U.S. dollars (2013: $100 thousand U.S. dollars). 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.

On February 25, 2014, the Company completed the sale of its downtown Toronto flagship store and adjacent Simpson's Tower office complex to an affiliate of The Cadillac Fairview Corporation Limited, an affiliate of HSILP, for a purchase price of $650 million. 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.

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

Critical Accounting Policies

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with IFRS. The Company's significant accounting policies are described in note 2 to the Fiscal 2013 audited consolidated financial statements and the Company's management's discussion and analysis for the thirteen and fifty-two weeks ended February 1, 2014 except as noted below.

During the quarter, the Company adopted IFRIC 21 – Levies ("IFRIC 21") which was effective for periods beginning on or after January 1, 2014 with a requirement for retrospective application. Given that clear interpretive guidance on the application of IFRIC 21 is not yet available, the adoption of this standard required management to exercise significant judgment. As a result, judgments made by management in determining the impact of this adoption included in the Company's reported results may vary materially on an inter-quarter basis from conclusive interpretive guidance when it becomes available.

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 unaudited interim condensed consolidated financial statements (see note 2 to the Fiscal 2013 audited consolidated financial statements for further critical judgments and estimations):

- Inventories
- Loyalty programs
- Impairment of property, plant and equipment and intangible assets
- Income taxes
- Share based compensation
- Post-employment benefits
- Valuation of financial instruments

Changes in Accounting Policies Including Initial Adoption

Accounting Standards Implemented in 2014

Financial Instruments - In December 2011, 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 Company implemented IAS 32 at the beginning of its 2014 fiscal year and the implementation did not have an impact on its results of operations, financial position and disclosure.

In June 2013, IASB amended IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39"), providing 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 implemented IAS 39 at the beginning of its 2014 fiscal year and the implementation did not have an impact on its results of operations, financial position and disclosure.

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 Company implemented IAS 36 at the beginning of its 2014 fiscal year and the implementation did not have an impact on its results of operations, financial position and disclosure.

Levies - In May 2013, the IASB issued IFRIC 21, 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. The Company adopted the standard retrospectively in the first quarter of Fiscal 2014**.** The impact of the amendments to IFRIC 21 is summarized in note 2 of the 2014 Q1 unaudited interim condensed consolidated financial statements.

Future Expected Changes

Financial Instruments - In November 2009, the IASB issued IFRS 9 – Financial Instruments: Classification and Measurement ("IFRS 9"), which contained requirements for financial assets. The IASB added requirements for financial liabilities in October 2010. IFRS 9 will replace 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 implementation of this standard has been tentatively set for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is assessing the potential impact of this standard.

Management's Report on Internal Controls over Financial Reporting

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer 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.

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.

Limitation on Scope of Design

The Chief Executive Officer and Chief Financial Officer 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 last day of the period covered by this MD&A.

The following is a summary of certain financial information related to Saks:

(millions of Canadian dollars)	**Fiscal Quarter Ended May 3, 2014**
Retail sales	931
Net loss	(9)

(millions of Canadian dollars)	**As at May 3, 2014**
Current assets	1,069
Non-current assets	3,478
Current liabilities	711
Non-current liabilities	880

These results are prepared under IFRS and may not be comparable to Saks' historical reporting prior to its acquisition by the Company.

Changes in Internal Control Over Financial Reporting

With the exception of the internal controls relating to the Saks Acquisition, there have been no changes in the Company's internal controls over financial reporting during the first quarter of Fiscal 2014 that has affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Additional Information

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

Risk Factors

For a detailed description of risk factors associated with the Company, refer to the "Risk Factors" section of the Company's Annual Information Form for Fiscal 2013 filed on SEDAR on May 2, 2014. The Company is not aware of any significant changes to the Company's risk factors from those disclosed at that time.

Dividends

The Company's Board of Directors approved the payment of a quarterly dividend on March 20, 2014, paid on April 15, 2014, to shareholders of record at the close of business March 31, 2014. The dividend was in the amount of $0.05 per Common Share and was designated as an "eligible dividend" for Canadian tax purposes.

Outstanding Share Data

The Company's authorized share capital consists of an unlimited number of Common Shares and an unlimited number of preferred shares issuable in series. As of June 2, 2014, the Company had 182,100,001 Common Shares issued and outstanding and no preferred shares issued and outstanding. As of June 2, 2014, the Company had 9,493,869 share options, 365,900 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 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 192.0 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 198.7 million Common Shares issued and outstanding on a fully diluted basis.