2014 ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended

January 31, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Hudson's Bay Company

We have audited the accompanying consolidated financial statements of Hudson's Bay Company, which comprise the consolidated balance sheets as at January 31, 2015, February 1, 2014 and February 2, 2013, and the consolidated statements of earnings (loss), consolidated statements of comprehensive income (loss), consolidated statements of shareholders' equity and consolidated statements of cash flows for the 52 weeks ended January 31, 2015 and February 1, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Hudson's Bay Company as at January 31, 2015, February 1, 2014 and February 2, 2013, and its financial performance and its cash flows for the 52 weeks ended January 31, 2015 and February 1, 2014 in accordance with International Financial Reporting Standards.

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants

April 6, 2015
Toronto, Canada

HUDSON'S BAY COMPANY

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

For the 52 weeks ended January 31, 2015 and February 1, 2014
(millions of Canadian dollars, except per share amounts)

	Notes	January 31, 2015 (Fiscal 2014)	(restated – see note 2(z)) February 1, 2014 (Fiscal 2013)
Retail sales		**8,169**	5,223
Cost of sales	10	**(4,893)**	(3,217)
Selling, general and administrative expenses		**(2,759)**	(1,826)
Depreciation and amortization	5	**(344)**	(175)
Gain on sale and leaseback transaction	28	**308**	—
Operating income		**481**	5
Total interest expense, net		**(218)**	(95)
Acquisition-related finance costs		**(44)**	(166)
Finance costs	6	**(262)**	(261)
Earnings (loss) before income tax — continuing operations		**219**	(256)
Income tax benefit	7	**19**	79
Net earnings (loss) for the year — continuing operations		**238**	(177)
Net loss for the year — discontinued operations, net of income taxes	29	**—**	(82)
Net earnings (loss) for the year		**238**	(259)
Basic net earnings (loss) per common share	21		
Continuing operations		**1.31**	(1.31)
Discontinued operations		**—**	(0.61)
		1.31	(1.92)
Diluted net earnings (loss) per common share	21		
Continuing operations		**1.30**	(1.34)
Discontinued operations		**—**	(0.61)
		1.30	(1.95)

(See accompanying notes to the Consolidated Financial Statements)

HUDSON'S BAY COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the 52 weeks ended January 31, 2015 and February 1, 2014
(millions of Canadian dollars)

	January 31, 2015 (Fiscal 2014)	(restated – see note 2(z)) February 1, 2014 (Fiscal 2013)
Net earnings (loss)	**238**	(259)
Other comprehensive income, net of tax:		
Item that will not be reclassified to earnings or loss:		
Net actuarial (loss) gain of employee benefit plans, net of taxes of $4 (2013: $16)	**(6)**	45
Items that may be reclassified subsequently to earnings or loss:		
Currency translation adjustment	**236**	159
Net loss on net investment hedge, net of taxes of $4 (2013: $4)	**(2)**	(54)
Net gain on derivatives designated as cash flow hedges, net of taxes of $3 (2013: $4)	**13**	10
Reclassification to non-financial assets of net losses on derivatives designated as cash flow hedges, net of taxes of $2 (2013: $2)	**(5)**	(4)
Reclassification to earnings of net losses on derivatives designated as cash flow hedges, net of taxes of $2 (2013: $1)	**(6)**	(3)
Other comprehensive income	**230**	153
Total comprehensive income (loss)	**468**	(106)

(See accompanying notes to the Consolidated Financial Statements)

HUDSON'S BAY COMPANY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the 52 weeks ended January 31, 2015 and February 1, 2014
(millions of Canadian dollars)

					Accumulated Other Comprehensive Income (Loss) ("AOCI")					
	Notes	Share Capital	Retained Earnings	Contributed Surplus	Currency Translation Adjustment	Employee Benefits	Net Investment Hedge	Cash Flow Hedges	Total AOCI	Total Shareholders' Equity
As at February 2, 2013		**246**	**797**	**33**	(12)	(51)	—	—	**(63)**	**1,013**
Impact of change in accounting policy	2(z)	—	(4)	—	(1)	—	—	—	(1)	(5)
As at February 3, 2013 (restated)		**246**	**793**	**33**	(13)	(51)	—	—	**(64)**	**1,008**
Comprehensive loss (restated)		—	(259)	—	159	45	(54)	3	153	(106)
Share based compensation	19	—	—	10	—	—	—	—	—	10
Issuance of common shares	20	1,174	—	—	—	—	—	—	—	1,174
Dividends	20	—	(43)	—	—	—	—	—	—	(43)
As at February 1, 2014 (restated)		**1,420**	**491**	**43**	146	(6)	(54)	3	**89**	**2,043**
Comprehensive income		—	238	—	236	(6)	(2)	2	230	468
Share based compensation	19	—	—	17	—	—	—	—	—	17
Dividends	20	—	(36)	—	—	—	—	—	—	(36)
As at January 31, 2015		**1,420**	**693**	**60**	382	(12)	(56)	5	**319**	**2,492**

(See accompanying notes to the Consolidated Financial Statements)

HUDSON'S BAY COMPANY

CONSOLIDATED BALANCE SHEETS

As at January 31, 2015, February 1, 2014 and February 2, 2013
(millions of Canadian dollars)

	Notes	**January 31, 2015 (Fiscal 2014)**	(restated – note 2(z) and note 4) February 1, 2014 (Fiscal 2013)	(restated – note 2(z)) February 2, 2013 (Fiscal 2012)
ASSETS				
Cash	8	**168**	21	48
Trade and other receivables	9	**212**	137	74
Inventories	10	**2,349**	2,048	994
Financial assets	18	**24**	8	3
Income taxes recoverable		**7**	23	—
Other current assets		**69**	71	32
Assets of discontinued operations	29	—	2	269
Total current assets		**2,829**	2,310	1,420
Property, plant and equipment	11	**4,606**	4,110	1,335
Intangible assets	12	**1,076**	980	233
Goodwill	12	**237**	208	—
Pensions and employee benefits	17	**69**	72	38
Deferred tax assets	7	**240**	249	214
Other assets		**15**	13	12
Total assets		**9,072**	7,942	3,252
LIABILITIES				
Loans and borrowings	14	**265**	532	132
Trade payables		**945**	585	400
Other payables and accrued liabilities		**603**	489	273
Other liabilities	13	**76**	—	—
Deferred revenue		**130**	152	110
Provisions	15	**115**	149	85
Income taxes payable		**8**	10	3
Financial liabilities	18	**2**	1	1
Liabilities of discontinued operations	29	—	89	343
Total current liabilities		**2,144**	2,007	1,347
Loans and borrowings	14	**2,859**	2,923	719
Provisions	15	**63**	16	14
Financial liabilities	18	**68**	24	—
Pensions and employee benefits	17	**109**	96	70
Deferred tax liabilities	7	**668**	631	—
Other liabilities	13	**669**	202	94
Total liabilities		**6,580**	5,899	2,244
SHAREHOLDERS' EQUITY				
Share capital	20	**1,420**	1,420	246
Retained earnings		**693**	491	793
Contributed surplus		**60**	43	33
Accumulated other comprehensive income (loss)		**319**	89	(64)
Total shareholders' equity		**2,492**	2,043	1,008
Total liabilities and shareholders' equity		**9,072**	7,942	3,252

(See accompanying notes to the Consolidated Financial Statements)

On behalf of the Board:

Director

Director

HUDSON'S BAY COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the 52 weeks ended January 31, 2015 and February 1, 2014
(millions of Canadian dollars)

	Notes	January 31, 2015 (Fiscal 2014)	(restated – see note 2(z)) February 1, 2014 (Fiscal 2013)		
			Continuing operations	Discontinued operations	Total
Operating activities					
Net earnings (loss) for the year		**238**	(177)	(82)	(259)
Deduct: Income tax benefit	7, 29	**(19)**	(79)	(28)	(107)
Add: Finance costs	6	**262**	261	—	261
Operating income (loss)		**481**	5	(110)	(105)
Net cash income taxes received		**4**	1	93	94
Interest paid in cash		**(143)**	(82)	—	(82)
Items not affecting cash flows:					
Proceeds on sale of leasehold interests recognized	29	—	—	(33)	(33)
Depreciation and amortization	5	**344**	175	—	175
Impairment of property, plant and equipment		**1**	4	—	4
Net defined benefit pension and employee benefits expense		**6**	21	6	27
Other operating activities		**(57)**	(14)	—	(14)
(Gain) loss on sale and leaseback transaction and sale of assets		**(308)**	—	16	16
Share based compensation	19	**17**	10	—	10
Redemption of share based compensation grants	19	—	(3)	(5)	(8)
Changes in operating working capital:					
(Increase) decrease in trade and other receivables		**(165)**	22	8	30
(Increase) decrease in inventories		**(86)**	180	151	331
Decrease in other assets		**9**	5	6	11
Increase (decrease) in trade and other payables, accrued liabilities and provisions		**326**	(165)	(211)	(376)
Increase (decrease) in other liabilities		**118**	5	(7)	(2)
Net cash inflow from (outflow for) operating activities		**547**	164	(86)	78
Investing activities					
Acquisition of Saks, net of cash acquired	4	—	(2,766)	—	(2,766)
Capital investments		**(426)**	(292)	—	(292)
Proceeds from landlord incentives		**113**	42	—	42
		(313)	(250)	—	(250)
Proceeds from lease termination and other non-capital landlord incentives		**71**	4	—	4
Proceeds from sale of assets		**35**	—	3	3
Proceeds from sale and leaseback transaction	28	**650**	—	—	—
Other investing activities		**(2)**	(1)	—	(1)
Net cash inflow from (outflow for) investing activities		**441**	(3,013)	3	(3,010)
Financing activities					
Long-term loans and borrowings:					
Issuance		**1,420**	2,659	—	2,659
Repayments		**(1,882)**	(684)	—	(684)
Borrowing costs		**(48)**	(85)	—	(85)
Net decrease in other long-term borrowings		—	(2)	—	(2)
		(510)	1,888	—	1,888
Short-term loans and borrowings:					
Net (repayments to) borrowings from asset-based credit facilities		**(287)**	36	—	36
Borrowing costs		**(2)**	(14)	—	(14)
Net decrease in other short-term borrowings		**(13)**	—	—	—
		(302)	22	—	22
Issuance of common shares	20	—	1,039	—	1,039
Dividends paid	20	**(36)**	(43)	—	(43)
Net cash (outflow for) inflow from financing activities		**(848)**	2,906	—	2,906
Foreign exchange gain (loss) on cash		**7**	(1)	—	(1)
Increase (decrease) in cash		**147**	56	(83)	(27)
Transfer from continuing operations		—	(83)	83	—
Increase (decrease) in cash		**147**	(27)	—	(27)
Cash at beginning of year		**21**	48	—	48
Cash at end of year		**168**	21	—	21

(See accompanying notes to the Consolidated Financial Statements)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. GENERAL INFORMATION

Hudson's Bay Company ("HBC" or the "Company") is a Canadian corporation continued under the Canada Business Corporations Act and domiciled in Canada.

On November 26, 2012, the Company completed an initial public offering (the "IPO") of its common shares, which trade on the Toronto Stock Exchange.

On November 4, 2013, the Company acquired Saks Incorporated ("Saks") whereby all of the issued and outstanding shares (other than shares owned by Saks and its subsidiaries) of Saks were purchased through Lord & Taylor Acquisition Inc. ("L&T Acquisition"), a wholly-owned subsidiary of the Company for U.S.$16.00 per share in an all-cash transaction (the "Acquisition") valued at U.S.$2,973 million ($3,097 million), including debt assumed (see note 4).

The Company owns and operates department stores in Canada and the United States under Hudson's Bay, Lord & Taylor, Saks Fifth Avenue, Saks Fifth Avenue OFF 5TH ("OFF 5TH") and Home Outfitters banners. The address of the registered office of HBC is 401 Bay Street, Suite 500, Toronto, ON, M5H 2Y4.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements for the year ended January 31, 2015 were authorized for issuance by the Board of Directors of HBC on April 6, 2015.

b) Basis of presentation

These consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through the statements of earnings (loss). In accordance with IFRS, the Company has:

- provided comparative financial information; and
- applied the same accounting policies throughout all periods presented.

The preparation of financial statements in accordance with IFRS requires the use of critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. These areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in note 3.

c) Basis of consolidation

These consolidated financial statements of the Company include the accounts of HBC and its subsidiaries. Inter-company transactions, balances, revenues and expenses have been eliminated.

d) Fiscal year

The fiscal year of the Company consists of a 52 or 53 week period. Fiscal years 2014 and 2013 represent 52 week periods ended on January 31, 2015 and February 1, 2014, respectively. References to years in the consolidated financial statements and notes to the consolidated financial statements relate to fiscal years rather than calendar years.

e) Foreign currency translation

i) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These consolidated financial statements are presented in Canadian dollars, which is HBC's functional currency and the presentation currency of the Company.

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the foreign exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at balance sheet date foreign exchange rates are recognized in net earnings (loss), except when included in other comprehensive income as qualifying cash flow or net investment hedges.

iii) Foreign operations

The results and financial position of L&T Acquisition and its subsidiaries including Lord & Taylor Holdings LLC ("L&T") and Saks, which have a U.S. dollar functional currency, are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing foreign exchange rate at the date of each balance sheet;
- revenues and expenses are translated at average foreign exchange rates;
- equity transactions are translated at foreign exchange rates on the date the transactions occur; and
- all resulting foreign exchange translation differences are recognized as currency translation adjustment in the consolidated statements of comprehensive income (loss).

f) Business combinations and goodwill

Business combinations are accounted for using the acquisition method.

Consideration transferred is measured at fair value, which is calculated as the sum of the fair value of the assets acquired (including cash), liabilities assumed, any contingent consideration and equity interests issued by the Company.

Transaction costs incurred in connection with a business combination are expensed in the period as incurred.

Goodwill is measured as the difference between the fair value of the consideration transferred and the fair value of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. Goodwill is not amortized.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to cash-generating units ("CGUs") or groups of CGUs based on the level at which it is monitored by management. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose.

Where goodwill forms part of a CGU and part of the operations within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operation disposed of and the portion of the CGU retained.

g) Cash

Cash consists of cash on hand, deposits in banks and short-term deposits with maturities of less than 3 months and includes restricted funds. Restricted cash represents amounts deposited in escrow accounts which are maintained and managed by an independent agent.

h) Trade and other receivables

Trade and other receivables consisting of credit card issuer, vendor and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less allowance for impairment. An allowance for impairment of accounts receivable is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

i) 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. Net realizable value is the estimated selling price determined at the item level using gross profit expectation and historical markdown rates for similar items in the ordinary course of business, less estimated costs required to sell.

Costs comprise all variable costs, and certain fixed costs, incurred in bringing inventories to their present location and condition. Storage and administrative overheads are expensed as incurred. Supplier rebates and discounts are recorded as a reduction in the cost of purchases unless they relate to a reimbursement of specific incremental expenses.

Merchandise that is subject to consignment or licensee (concession) agreements is not included in inventories.

j) Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Freehold land is stated at cost less any impairment loss. Cost includes expenditures that can be directly attributed to the acquisition of the asset and capitalized borrowing costs. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Company and the cost can be reliably measured. The carrying amount of the replaced asset is derecognized.

Freehold land and assets under construction are not depreciated. Depreciation commences when the assets are available for use and is recognized on a straight-line basis to depreciate the cost of the assets to their estimated residual value over their estimated useful lives. When significant parts of an asset have different useful lives, they are accounted for as separate components of the asset and depreciated over their respective estimated useful lives.

Estimated useful lives are as follows:

Asset	Amortization Periods
Buildings	up to 70 years
Leasehold improvements	up to 20 years
Fixtures and fittings	up to 19 years
Assets held under finance leases	up to 50 years

Although the table reflects maximum amortization periods, most assets are amortized over shorter periods. The assets' useful lives and residual values are reviewed, and adjusted if appropriate, annually.

k) Intangible assets

Private label brands and banner names with indefinite lives are measured at cost less any accumulated impairment losses and are not amortized.

Intangible assets with finite useful lives are carried at cost less accumulated amortization and impairment losses. These assets are amortized on a straight-line basis over their estimated useful lives.

Estimated useful lives are as follows:

Asset	Amortization Periods
Software including internally developed costs	up to 7 years
Banner names	indefinite
Private label brands	indefinite
Credit cards	up to 5 years
Favourable lease rights	up to 75 years

The assets' useful lives and residual values are reviewed, and adjusted if appropriate, annually.

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company, including employee costs, are recognized as intangible assets.

l) Impairment of non-financial assets

The carrying amount of property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Indefinite life intangible assets and goodwill are tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset may be impaired.

An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell ("FVLCTS") and value in use. The FVLCTS of an asset is assessed, where practicable, by external valuators. Value in use is estimated as the present value of the future cash flows that the Company expects to derive from the asset. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are largely independent cash inflows (CGUs). With the exception of certain corporate assets, which are tested at the entity level, all assets are tested for impairment at the store level asset grouping.

Any impairment loss identified for a particular CGU is allocated to the assets within that unit on a pro-rata basis, except where the recoverable amount of an asset is based on FVLCTS, in which case no portion of the impairment loss is allocated to that asset. Any impairment charge is recognized in net earnings (loss) in the year in which it occurs. Where an impairment loss subsequently reverses due to a change in the original estimate, the impairment loss is reversed but is restricted to increasing the carrying value of the relevant assets to the carrying value that would have been recognized had the original impairment not occurred.

m) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made. Recoveries from third parties and other contingent gains are recognized when realized.

i) Self-insurance

The Company purchases third party insurance for automobile, product, workers' compensation, medical and general liability claims that exceed a certain dollar level. The Company is responsible for the payment of claims below these insured limits. Provisions for self-insurance are determined actuarially on a discounted basis based on claims filed and an estimate of claims incurred but not yet reported.

ii) Restructuring

Provisions for restructuring costs are recognized when the Company has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

iii) Onerous leases and contracts

Provisions for onerous leases are recognized when the Company believes that the unavoidable costs of meeting future lease obligations exceed the economic benefits expected to be received under the lease. Provisions for onerous contracts are recognized when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under that contract, and only after any impairment losses on assets dedicated to that contract have been recognized. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

iv) Asset retirement obligations

Asset retirement obligations are recognized for operating leases where the Company has a legal or constructive obligation to remove leasehold improvements and replace or remove other structures at the end of the lease term, and for owned locations and at locations subject to ground leases with similar requirements. Obligations are also booked for owned properties for constructive or legal obligations (such as environmental remediation). The obligation is measured at the present value of expected costs to settle the obligation using estimated cash flows and capitalized and amortized over the useful life of the asset to which it relates.

v) Legal

Legal provisions are recognized where there is a present obligation as a result of a past event, it is probable that there will be an outflow of economic resources and the amount can be reliably estimated.

n) Leases

Leases in which a significant portion of the risks and rewards of ownership are transferred to the Company are classified as finance leases. All other leases are classified as operating leases.

Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. The property, plant and equipment acquired under finance leases are depreciated over the lesser of the economic life of the asset or the lease term.

Payments made under operating leases (net of any incentives received from the lessor) are charged to net earnings (loss) on a straight-line basis over the term of the lease. Income from operating leases is recognized on a straight-line basis over the term of the lease. The lease term includes renewals where management is reasonably certain the renewal option will be exercised.

The accounting treatment of a sale and leaseback transaction depends upon the substance of the transaction and whether the sale price reflects fair value. For sale and finance leasebacks, any gain or loss from the sale is deferred and amortized over the term of the lease. For sale and operating leasebacks, if the transaction is established at fair value, any gain or loss is recognized immediately. If the sale price is below fair value, any gain or loss is recognized immediately except that if the loss is compensated for by future lease payments at below market price, the loss is deferred and amortized in proportion to the lease payments over the term of the lease. If the sale price is above fair value, the excess over fair value is deferred and amortized over the term of the lease.

o) Income taxes

Deferred income tax is recognized on taxable temporary differences arising from differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is recognized for all taxable temporary differences, except to the extent where it arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and at the time of transaction, affects neither accounting profit nor taxable profit. Deferred income tax is determined using income tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets have been recognized in respect of non-capital losses and temporary differences giving rise to deferred income tax assets because it is expected that these assets will be recovered by way of reversal of taxable temporary differences and management's expectation of future taxable profits within the loss expiry period.

Income tax expense or benefit comprises current and deferred income taxes. Income tax is recognized in net 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 or benefit is calculated on the basis of the tax laws enacted or substantively enacted at the date of the balance sheet.

Deferred tax assets and liabilities are only netted when the Company has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to realize or settle current tax assets or liabilities simultaneously in future periods.

p) Employee benefits

i) Short-term employee benefits

Liabilities for wages, salaries (including non-monetary benefits), vacation entitlement and bonuses are measured on an undiscounted basis and are recognized in selling, general and administrative expenses as the related service is provided. A liability is recognized for the amount expected to be paid under short-term bonus plans if the Company has a present legal or constructive obligation to this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

ii) 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 sheets in respect of defined benefit pension plans 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 using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses are recognized in other comprehensive income in the period in which they arise. Past service costs are recognized in selling, general and administrative expenses in the year in which they arise. For funded plans, surpluses are recognized only to the extent that the surplus is considered recoverable. Recoverability is primarily based on 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 employee benefit expenses are incurred, which are as the related employee services are rendered.

iii) Other long-term employee benefits

The Company provides long-term disability benefits to certain employees dependent on the legal employer. The entitlement to these benefits is usually conditional on the completion of a minimum service period. The expected costs of these benefits are recognized when an event occurs that causes the long-term disability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in net earnings (loss) in the period in which they arise. These obligations are calculated annually.

iv) Termination benefits

Termination benefits are recognized as an expense and a liability at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

v) Share based payments

The Company operates share based incentive plans under which it receives services from certain employees as consideration. For equity settled awards, the fair value of the grant of equity interests is recognized as an expense over the period that the related service is rendered with a corresponding increase in equity. For cash-settled awards, the fair value of the liability is remeasured at the end of each reporting period, with the change in fair value

recognized as an expense over the period that the related service is rendered. Certain awards provide the Company with a choice of settlement in cash or by issuing equity. In these cases, the award is accounted for as a cash-settled award when the Company has a present obligation to settle in cash.

The total amount to be expensed is determined by reference to the fair value of the equity interests granted. The total amount expensed is recognized over the vesting period on a tranche basis, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the estimate of the number of equity interests that are expected to vest is revised. The impact of the revision to original estimates, if any, is recognized in selling, general and administrative expenses.

q) Financial assets

Financial assets have been classified in one of the following categories: at fair value through profit or loss, loans and receivables and held-to-maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed immediately to net earnings (loss). Subsequent changes in the fair value of financial assets at fair value through profit or loss are also recorded in net earnings (loss).

ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than twelve months after the balance sheet date, which are classified as non-current assets. Loans and receivables are measured at amortized cost using the effective interest rate method.

iii) Held-to-maturity

Held-to-maturity investments are financial instruments with fixed or determinable payments and fixed maturities that the Company has the intention and ability to hold to maturity. They are included in current assets, except for maturities greater than twelve months after the balance sheet date, which are classified as non-current assets. Held-to-maturity investments are measured at amortized cost using the effective interest rate method.

The Company’s non-derivative financial assets are classified and measured as follows:

Asset	Category
Cash	Loans and receivables
Restricted cash	Loans and receivables
Short-term deposits	Held-to-maturity
Trade and other receivables	Loans and receivables

iv) Impairment

The Company assesses, at each reporting date, whether there is an indicator that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is evidence of impairment as a result of one or more events that has occurred after the initial recognition of an asset and that event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

v) Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has occurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

r) Financial liabilities

Trade payables and financial liabilities included in other payables and accrued liabilities are recognized initially at fair value, net of transaction costs incurred and subsequently measured at amortized cost using the effective interest method.

Loans and borrowings are recognized initially at fair value, net of transaction costs incurred. Loans and borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in net earnings (loss) as finance costs over the period of the borrowings using the effective interest method, unless related to a qualifying asset (note 2(t)).

Loans and borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

s) Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Company designates certain derivatives as:

(a) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge);

(b) hedges of foreign currency exposure (net investment hedge);

(c) hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge).

When a derivative financial instrument is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in net earnings (loss).

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the maturity of the remaining hedged item is more than twelve months and as a current asset or liability when the remaining maturity of the hedged item is less than twelve months.

The Company does not use derivatives for trading or speculative purposes. The Company had cash flow hedges outstanding as at January 31, 2015 and February 1, 2014 and a net investment hedge outstanding as at February 1, 2014.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in net earnings (loss) within selling, general and administrative expenses. Amounts accumulated in other comprehensive income are recycled in net earnings (loss) in the periods when the hedged item affects earnings (loss).

When a forecasted transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or property, plant and equipment), the gains and losses previously deferred in accumulated other comprehensive income (loss) are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in cost of sales in the case of inventory or in depreciation in the case of property, plant and equipment.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in accumulated other comprehensive income (loss) and is recognized when the forecasted transaction is ultimately recognized in net earnings (loss). When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to net earnings (loss).

Derivatives at fair value through profit or loss

Changes in the fair value of derivatives embedded in a host contract and derivatives that are not distinguished in a hedging relationship are recognized immediately in net earnings (loss). Embedded derivatives (elements of contracts whose cash flows move independently from the host contract) are required to be separated and measured at their respective fair values unless certain criteria are met. The Company has recorded the fair value of embedded derivatives in HBC's U.S. dollar denominated purchase orders with certain non-U.S. based vendors. The fair value of these embedded derivatives is recorded in financial assets or financial liabilities, depending on the embedded derivative's fair value.

Due to the variability of the share issue price and certain features of the equity investment agreements related to the Acquisition, forward contracts ("Equity Commitment Forwards") were recognized and accounted for as derivative financial instruments which were classified as fair value through profit or loss and measured at fair value.

In connection with the Acquisition, the Company also issued warrants. Certain features of the warrants result in their presentation as derivative financial liabilities that are classified as fair value through profit or loss and recorded at fair value.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheets if:

- There is currently a legally enforceable right to offset recognized amounts; and
- There is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition or construction of qualifying assets are capitalized to the cost of the asset. Qualifying assets are those that necessarily take a substantial period of time to prepare for their intended use. All other borrowing costs are recognized in net earnings (loss) in the period in which they occur.

u) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of sales tax and estimated returns.

The Company recognizes revenue when the amount can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities as described below. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

i) Retail merchandise sales

Revenue consists of sales through retail stores of the banners operated by the Company and includes sales through the Company's e-commerce ("Digital Commerce") operations. Merchandise sales through retail stores are recognized at the time of delivery to the customer which is generally at point of sale. Merchandise sales through Digital Commerce are recognized upon estimated receipt by the customer.

It is the Company's policy to sell merchandise to the customer with a right to return within a specified period. Accumulated experience is used to estimate and provide for such returns. Where it is determined that the Company acts as an agent rather than a principal in a transaction, revenue is recognized to the extent of the commission.

ii) Gift cards

The Company sells gift cards through its retail stores, websites and selected third parties with no administrative fee charges or expiration dates. No revenue is recognized at the time gift cards are sold. Revenue is recognized as a merchandise sale when the gift card is redeemed by the customer.

The Company also recognizes income when the likelihood of the gift card being redeemed by the customer is remote ("gift card breakage"). Gift card breakage is estimated based on historical redemption patterns and is recognized in proportion to the redemption of gift card balances.

v) Credit operations

Legacy agreements

Under the legacy credit program agreements, the Company earns royalty payments from credit card issuers based on the total of Company and other sales charged to either Private Label Credit Cards ("PLCC") or MasterCards. Royalty rates change based on the year-to-date credit volume of out-of-store credit card sales. The Company also receives bounty payments from credit card issuers for each approved PLCC or MasterCard account. Bounty and royalty payments are recognized based on expected or actual performance over the life of the credit card agreements. In addition, pursuant to a servicing agreement with a credit card issuer, the Company receives compensation for providing key customer service functions including new account openings, transaction authorizations, billing adjustments and customer inquiries. All credit revenues are included as a reduction of selling, general and administrative expenses.

New credit card program

Effective January 1, 2015, under a new credit card agreement with a credit card issuer, the Company shares in the income and losses of the credit card program related to private label and co-branded credit cards at Hudson's Bay and Saks. The effective date for Lord & Taylor is June 2015. Income (loss) from the credit card program is included in selling, general and administrative expenses.

w) Vendor allowances

The Company receives cash or allowances from vendors, the most significant of which are in respect of markdown allowances, volume rebates and advertising. Such amounts are recorded as a reduction of the cost of purchases.

Rebates that are based on specified cumulative purchase volumes are recognized if the rebate is probable and reasonably estimable; otherwise these rebates are recognized when earned. These rebates are applied as a reduction of the cost of purchases.

x) Loyalty programs

Award credits are accounted for as a separate component of the sales transaction in which they are granted and therefore, part of the fair value of the consideration received is allocated to the award credits. This allocation is reported as deferred revenue until the award credits are redeemed by the customer. The amount deferred is based on points outstanding that the Company estimates will be redeemed by customers and the estimated fair value of those points. The points expected to be redeemed are based on many factors, including an actuarial review, where required, of customers' past experience and trends.

y) Assets held for sale and discontinued operations

Non-current assets and groups of assets and liabilities which comprise disposal groups are presented as assets held for sale, where the asset or disposal group is available for sale in its present condition and the sale is highly probable. For this purpose, the sale is considered highly probable if management is committed to a plan to achieve the sale; there is an active program to find a buyer; the non-current asset or disposal group is being actively marketed at a reasonable price; the sale is anticipated to be completed within 1 year from the date of classification, and; it is unlikely there will be changes to the plan.

When a component of an entity has been disposed of or is classified as held for sale and it represents a separate major line of business or geographical area of operations, the related results of operations and gain or loss on disposition are presented in discontinued operations.

z) New accounting standards implemented in the current year

Financial Instruments

In December 2011, the IASB amended IAS 32 – Financial Instruments: Presentation ("IAS 32") to clarify the requirements that permit offsetting a financial asset and liability in the financial statements. IAS 32 is effective for annual periods beginning on or after January 1, 2014. The Company has applied the standard at the beginning of its 2014 fiscal year and the implementation did not have an impact on its results of operations, financial position or 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 or 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 amendments to IAS 36 must be applied retrospectively for annual periods beginning on or after January 1, 2014. 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 or disclosure.

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 at the beginning of its 2014 fiscal year.

The impact of the implementation is summarized as follows:

Consolidated Statement of Loss

(millions of Canadian dollars, except per share amounts)	2013
Increase in selling, general and administrative expenses	(2)
Increase in income tax benefit	1
Increase in net loss – continuing operations	(1)
Net loss per common share - basic and diluted	
Continuing operations	(0.01)

Consolidated Statement of Comprehensive Loss

(millions of Canadian dollars)	2013
Increase in net loss	(1)
Decrease in currency translation adjustment	(2)
Decrease in other comprehensive income	(2)
Increase in total comprehensive loss	(3)

Consolidated Balance Sheets

(millions of Canadian dollars)	Feb 1, 2014	Feb 2, 2013
Increase in goodwill	5	—
Increase in deferred tax assets	—	4
Increase in other payables and accrued liabilities	18	9
Decrease in deferred tax liabilities	(5)	—
Decrease in retained earnings	(5)	(4)
Decrease in accumulated other comprehensive income	(3)	(1)

The net impact of the implementation of IFRIC 21 for fiscal 2014 was nil.

aa) Future accounting standards not yet adopted

Financial Instruments

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

Classification and measurement

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

Impairment

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

Hedge accounting

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

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

Revenue

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15"), which provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 is effective for annual periods beginning on or after January 1, 2017, and must be applied retrospectively. Early adoption is permitted. The Company is assessing the potential impact of IFRS 15.

Joint Arrangements

In May 2014, the IASB amended IFRS 11 – Joint Arrangements ("IFRS 11") to require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 – Business Combinations principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amended IFRS 11 is effective for annual periods beginning on or after January 1, 2016, and must be applied prospectively. Early adoption is permitted. The Company is assessing the potential impact of the amendments to IFRS 11.

NOTE 3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 2, and the preparation of the consolidated financial statements, management is required 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 the 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:

Business combinations

Fair value of assets acquired and liabilities assumed in a business combination is estimated based on information available at the date of acquisition and involves considerable judgment in determining the fair values assigned to property, plant and equipment and intangible assets acquired and liabilities assumed on acquisition. The determination of these fair values involves analysis including the use of discounted cash flows, estimated future margins, future growth rates, market rents and capitalization rates. There is measurement uncertainty inherent in this analysis and actual results could differ from estimates.

Inventory valuation

Inventory is valued at the lower of cost and net realizable value. Current selling price and historical trends for estimating future markdowns are utilized to estimate net realizable value. Inventory valuation also incorporates a write-down to reflect future losses on the disposition of obsolete merchandise.

Inventory is adjusted to reflect estimated losses ("shortage") incurred since the last inventory count. Shortage is estimated based on historical experience as a percentage of sales for the period from the date of the last inventory count to the end of the fiscal year.

Loyalty programs

Where loyalty award credits are issued in connection with a sales transaction which includes the loyalty program, a portion of the revenue has been deferred based on expected redemptions of points outstanding (note 2(x)). The amount of revenue deferred relating to the loyalty programs is sensitive to changes in customer behaviour and the impact of changes in the loyalty programs. Deferred revenue reported in the consolidated balance sheets relates entirely to the loyalty programs.

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. Details of asset impairments are set out in note 11.

Impairment of goodwill

The Company uses judgment in determining the grouping of assets to identify its CGUs for purposes of testing for impairment of goodwill. In testing for impairment, goodwill acquired in a business combination is allocated to CGUs that are expected to benefit from the synergies of the business combination. The calculations for impairment testing involve significant estimates and assumptions. Items estimated include cash flows, discount rates and assumptions on revenue growth rates. These estimates could affect the Company's future results if the current estimates of future performance and fair values change. Judgment is also exercised to determine whether an indication of impairment is present that would require the completion of an impairment test in addition to the annual testing. Details of the allocation of goodwill and impairment testing are set out in note 12.

Valuation of warrants

In connection with the Acquisition, the Company issued warrants. The classification of these instruments as financial liabilities is an area of significant judgment. The Company records a mark-to-market valuation adjustment on the warrants as finance costs based on a valuation at the end of each reporting period.

Provisions

Provisions have been made for various items including asset retirement obligations, general insurance liability and termination costs. Asset retirement obligations are based on uncertain estimates of remediation and the timing of the remediation. The Company purchases third party insurance for automobile, product, workers' compensation, medical and general liability claims that exceed a certain dollar level. The Company is responsible for the payment of claims below these insured limits. The self-insurance provision is based on claims filed and an estimate of claims incurred but not yet reported. Details of the Company's provisions are set out in note 15.

In the context of provisions for onerous contracts including leases, the Company uses judgment in determining when the expected benefits to be derived by the Company from a contract are lower than the unavoidable costs of meeting its obligations under the contract.

Sales returns

Sales returns are estimated on the basis of historical returns and are recorded so as to allocate them to the same period as the original revenue is recorded.

Share based compensation

The Company operates a share option plan, phantom share plan, restricted share unit plan, performance share unit plan and profits interests plan for employees. The grant date fair values are calculated using valuation models, which use a number of assumptions and estimates, including expected volatility, the risk-free interest rate, the dividend yield, the non-marketability discount and the expected life of the grants. Details of these assumptions and estimates are set out in note 19.

Income taxes

The Company recognizes expected liabilities for income taxes based on an estimation of the likely income taxes due, which requires judgment as to the ultimate income tax determination of certain items. In addition, the Company has made estimates of future profitability in relation to an assessment of the recoverability of income tax losses. Details of the income tax expense and deferred taxes are set out in note 7.

Pensions and employee benefits

The Company operates various defined benefit plans for its employees. The present value of the plans' liabilities recognized at the balance sheet date and net financing charges recognized in net earnings (loss) are dependent on the interest rate of high quality corporate bonds. Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates, as set out in note 17.

Lease accounting

The Company leases a significant number of store locations as part of its operations. The determination of classification between finance and operating leases requires the exercise of management judgment, including estimates of fair value, the useful and economic lives of the leased assets, the existence of lower than market renewal options and appropriate discount rates. Finance leases and operating leases are discussed in notes 14 and 16, respectively.

Management judgment is also exercised in the assessment of sale and leaseback transactions, including the determination of leaseback classification between finance and operating leases, the fair value of the leased back property and appropriate discount rates.

NOTE 4. ACQUISITION OF SAKS

Acquisition

On November 4, 2013, the Company acquired all of the issued and outstanding shares of Saks (other than shares owned by Saks and its subsidiaries), an omni-channel luxury retailer, for U.S.$16.00 per share in an all-cash transaction valued at U.S.$2,973 million ($3,097 million), including debt assumed.

The Acquisition consideration of $2,797 million was financed through a subscription receipts offering (note 20), the issuance of common shares pursuant to equity commitments to H.S. Investment L.P. ("HSILP"), an entity affiliated with Ontario Teachers' Pension Plan Board, and to West Face Long Term Opportunities Global Master L.P. ("WF Fund"), a fund advised by West Face Capital Inc. (note 20), and the incurrence of U.S.$2,000 million and U.S.$300 million term loans (note 14). As consideration for the equity commitments of HSILP and WF Fund, the Company issued 6.75 million warrants (notes 18 and 20).

Purchase Price Allocation

The Company has finalized the purchase price allocation for the acquisition of Saks including goodwill. The following table summarizes the fair value of the consideration given and the final fair values assigned to the assets acquired and liabilities assumed:

(millions of Canadian dollars)	
Cash	31
Trade and other receivables	68
Inventories	1,117
Other current assets	50
Property, plant and equipment	2,414
Intangible assets	681
Goodwill	195
Other assets	4
Loans and borrowings – revolving credit facility	(299)
Loans and borrowings – finance leases	(123)
Loans and borrowings – other	(2)
Trade payables	(275)
Other payables and accrued liabilities	(236)
Deferred revenue	(41)
Provisions	(51)
Deferred tax liabilities	(639)
Pensions and employee benefits	(29)
Other liabilities	(68)
Total identifiable net assets acquired and consideration given	2,797

Measurement Period Adjustments

During fiscal 2014, the Company identified measurement period adjustments based on new information relating primarily to inventories. The impacts of the adjustments to previously reported amounts are as follows:

Consolidated Balance Sheets

(millions of Canadian dollars)	Nov 4, 2013	Feb 1, 2014
Increase in inventories	21	22
Decrease in intangible assets	(1)	(1)
Decrease in goodwill	(10)	(11)
Increase in other payables and accrued liabilities	9	9
Increase in deferred tax liabilities	1	1

NOTE 5. DEPRECIATION AND AMORTIZATION

(millions of Canadian dollars)	2014	2013
Property, plant and equipment	**271**	129
Intangible assets	**77**	46
Deferred credits	**(4)**	(3)
Other	**—**	3
	344	175

NOTE 6. FINANCE COSTS

(millions of Canadian dollars)	2014	2013
Interest expense on long-term borrowings	**132**	61
Interest expense on short-term borrowings	**22**	21
Write-off of deferred financing costs (note 14)	**52**	13
Net interest on pensions and employee benefits (note 17)	**1**	1
Penalties and fees (note 14)	**12**	—
Interest income	**(1)**	(1)
Total interest expense, net	**218**	95
Finance related costs on warrants (note 18)	**44**	—
Change in fair value of Equity Commitment Forwards (note 18)	**—**	153
Dividend equivalent on subscription receipts	**—**	1
Bridge financing transaction fees	**—**	12
Acquisition-related finance costs	**44**	166
	262	261

In connection with financing the Acquisition in fiscal 2013, the Company secured a bridge financing facility in the amount of U.S.$900 million to fund potential delays related to closing the uncommitted equity and debt financing transactions. Although the facility was not drawn upon, the Company incurred bridge financing transaction fees related to the facility which were included in finance costs in fiscal 2013.

NOTE 7. INCOME TAXES

The major components of the income tax benefit and the statutory income tax rate for fiscal 2014 and 2013 are as follows:

(millions of Canadian dollars)	2014	(restated – see note 2(z)) 2013
Current tax expense (benefit)	**8**	(3)
Deferred tax benefit	**(27)**	(76)
Income tax benefit	**(19)**	(79)
Statutory income tax rate	**26.3%**	26.3%

Reconciliations of the income tax benefit at the above rates with the amounts presented in the consolidated statements of earnings (loss) are as follows:

(millions of Canadian dollars)	2014	(restated – see note 2(z)) 2013
Earnings (loss) before income tax — continuing operations	**219**	(256)
Income tax expense (benefit) calculated at statutory income tax rate	**57**	(67)
Change in income taxes resulting from:		
Permanent differences	**(34)**	56
Increase (decrease) in valuation allowance	**1**	(53)
Adjustments related to prior years	**(8)**	9
Effect of international tax rate differentials	**(37)**	(19)
Recognition of losses	**—**	(4)
Other	**2**	(1)
Income tax benefit	**(19)**	(79)

The changes in the components of net deferred tax assets and liabilities for fiscal 2014 and 2013 are as follows:

	Year ended January 31, 2015				
(millions of Canadian dollars)	Feb 1, 2014	Recognized in net earnings	Recognized in other comprehensive income	Net foreign currency exchange	Jan 31, 2015
Property, plant and equipment	**(466)**	**(40)**	**—**	**(76)**	**(582)**
Employee benefits	**22**	**(6)**	**1**	**—**	**17**
Pensions	**(8)**	**4**	**3**	**2**	**1**
Other assets	**(217)**	**48**	**1**	**(28)**	**(196)**
Long-term liabilities and other	**55**	**31**	**4**	**4**	**94**
Tax losses and other carryforward amounts	**245**	**(9)**	**—**	**17**	**253**
	(369)	**28**	**9**	**(81)**	**(413)**
Valuation allowance	**(13)**	**(1)**	**—**	**(1)**	**(15)**
Net deferred tax (liabilities) assets	**(382)**	**27**	**9**	**(82)**	**(428)**

Comprising:

	Feb 1, 2014	Jan 31, 2015
Deferred tax assets	249	240
Deferred tax liabilities	(631)	(668)
	(382)	**(428)**

	Year ended February 1, 2014 (restated – see note 2(z) and note 4)							
(millions of Canadian dollars)	Feb 2, 2013	Assumed through business combination	Transferred from assets of discontinued operations	Recognized in net loss	Recognized in other comprehensive income	Recognized in equity	Net foreign currency exchange	Feb 1, 2014
Property, plant and equipment	100	(502)	12	(40)	—	—	(36)	(466)
Employee benefits	18	—	6	(2)	—	—	—	22
Pensions	(10)	5	—	12	(16)	—	1	(8)
Other assets	8	(210)	(20)	21	—	—	(16)	(217)
Long-term liabilities and other	41	22	24	(42)	3	5	2	55
Tax losses and other carryforward amounts	65	61	37	74	—	—	8	245
	222	(624)	59	23	(13)	5	(41)	(369)
Valuation allowance	(8)	(15)	(44)	53	—	—	1	(13)
Net deferred tax assets (liabilities)	214	(639)	15	76	(13)	5	(40)	(382)

Comprising:

	Feb 2, 2013	Feb 1, 2014
Deferred tax assets	214	249
Deferred tax liabilities	—	(631)
	214	(382)

The realization of the deferred income tax assets is dependent on the generation of future taxable income during the years in which those temporary differences become deductible. Based on management's projection of future taxable income and tax planning strategies, management expects to realize these net deferred income tax assets in advance of expiry.

As at January 31, 2015, the Company's taxable entities including discontinued operations have non-capital tax losses carried forward of $770 million available in the United States and Canada as follows (millions of Canadian dollars):

Available until year ending	
January 2026	**72**
January 2027	**109**
January 2028	**216**
January 2029	**16**
January 2030	**1**
January 2031	**12**
January 2032	**6**
January 2033	**88**
January 2034	**192**
January 2035	**58**
	770

NOTE 8. CASH

For the purposes of the consolidated statements of cash flows, cash includes cash on hand and in banks. Cash as at January 31, 2015 and February 1, 2014 as presented in the consolidated balance sheets is comprised of the following:

(millions of Canadian dollars)	2014	2013
Cash	**153**	19
Restricted cash	**15**	2
	168	21

NOTE 9. TRADE AND OTHER RECEIVABLES

As at January 31, 2015 and February 1, 2014, trade and other receivables are comprised of:

(millions of Canadian dollars)	2014	2013
Trade receivables	**48**	41
Other receivables	**164**	96
	212	137

On January 4, 2013, the Company sold its leasehold interests in a property for U.S.$10 million of which U.S.$4 million was received upon transfer of the related property on January 31, 2013, the second installment of U.S.$3 million was received on January 31, 2014 and the final installment of U.S.$3 million was received on January 31, 2015. Accordingly, as at January 31, 2015, nil (February 1, 2014: U.S. $3 million) was included in other receivables.

The fair value of trade and other receivables approximates their carrying values because of the short term nature of these accounts. No valuation allowance was required at the end of either reporting period. Other receivables mainly comprise sundry receivables from vendors.

NOTE 10. INVENTORIES

Inventories on hand at January 31, 2015 and February 1, 2014 were available for sale. The cost of merchandise inventories related to continuing operations recognized as expense for fiscal 2014 was $4,893 million (2013: $3,217 million). The write-down of merchandise inventories below cost to net realizable value relating to continuing operations as at January 31, 2015 was $48 million (February 1, 2014: $47 million). There was no reversal of write-downs previously taken on merchandise inventories that are no longer estimated to sell below cost. Inventory has been pledged as security for certain borrowing agreements as described in note 14.

NOTE 11. PROPERTY, PLANT AND EQUIPMENT

	Year ended January 31, 2015					
(millions of Canadian dollars)	Freehold Land	Buildings	Leasehold Improvements	Fixtures & Fittings	Assets held under Finance Leases	Total
Cost						
Balance at beginning of year	1,055	2,085	456	801	283	4,680
Additions	—	55	134	199	5	393
Disposals	(97)	(41)	(4)	(21)	—	(163)
Net foreign currency exchange	118	275	55	97	33	578
Balance at end of year	**1,076**	**2,374**	**641**	**1,076**	**321**	**5,488**
Accumulated depreciation and impairment						
Balance at beginning of year	5	185	103	239	38	570
Depreciation expense	—	86	45	115	25	271
Impairment losses	—	—	1	—	—	1
Eliminated on disposal	—	(15)	(6)	(18)	—	(39)
Net foreign currency exchange	—	32	12	32	3	79
Balance at end of year	**5**	**288**	**155**	**368**	**66**	**882**
Net book value at end of year	**1,071**	**2,086**	**486**	**708**	**255**	**4,606**

	Year ended February 1, 2014					
(millions of Canadian dollars)	Freehold Land	Buildings	Leasehold Improvements	Fixtures & Fittings	Assets held under Finance Leases	Total
Cost						
Balance at beginning of year	473	569	273	376	48	1,739
Additions	—	47	52	128	5	232
Acquired through business combination	517	1,326	103	253	215	2,414
Disposals	—	—	(1)	(2)	—	(3)
Net foreign currency exchange	65	143	29	46	15	298
Balance at end of year	1,055	2,085	456	801	283	4,680
Accumulated depreciation and impairment						
Balance at beginning of year	5	130	70	171	28	404
Depreciation expense	—	41	25	53	10	129
Impairment losses	—	—	2	2	—	4
Eliminated on disposal	—	—	—	(2)	—	(2)
Net foreign currency exchange	—	14	6	15	—	35
Balance at end of year	5	185	103	239	38	570
Net book value at end of year	1,050	1,900	353	562	245	4,110

Certain property, plant and equipment have been pledged as security for borrowings as further described in note 14. There were $44 million in material capital commitments, net of leasehold improvement allowances as at January 31, 2015.

Impairment of Property, Plant and Equipment

During fiscal 2014 and 2013, the Company carried out a review of its CGUs to determine if there was any indication of impairment, or that a previously recorded impairment had reversed. The review led to the recognition of an impairment loss of $1 million in fiscal 2014 (2013: $4 million) relating to various store based CGUs, on a value in use basis, which has been recognized in net earnings (loss).

The impairment losses incurred in fiscal 2014 and fiscal 2013 relate to a decline in operating performance of certain Home Outfitters stores. These impairment losses affected the leasehold improvements and fixtures and fittings asset classes.

The recoverable amount of the relevant assets within each CGU was determined in each case as the higher of fair value less costs to sell, or value in use. In calculating the value in use, future cash flows are estimated using approved budgets/forecasts for the following fiscal year and future opportunities and risks are considered in determining an appropriate growth rate for future periods.

NOTE 12. INTANGIBLE ASSETS AND GOODWILL

(millions of Canadian dollars)	Year ended January 31, 2015						
	Goodwill	**Software**	**Favourable lease rights**	**Private label brands**	**Banner names**	**Credit cards**	**Total**
Cost							
Balance at beginning of year	**208**	**314**	**364**	**53**	**389**	**28**	**1,356**
Additions	**—**	**49**	**—**	**—**	**—**	**—**	**49**
Net foreign currency exchange	**29**	**19**	**51**	**8**	**55**	**4**	**166**
Balance at end of year	**237**	**382**	**415**	**61**	**444**	**32**	**1,571**
Accumulated amortization and impairment							
Balance at beginning of year	**—**	**139**	**28**	**—**	**—**	**1**	**168**
Amortization expense	**—**	**46**	**25**	**—**	**—**	**6**	**77**
Net foreign currency exchange	**—**	**5**	**7**	**—**	**—**	**1**	**13**
Balance at end of year	**—**	**190**	**60**	**—**	**—**	**8**	**258**
Net book value at end of year	**237**	**192**	**355**	**61**	**444**	**24**	**1,313**

(millions of Canadian dollars)	Year ended February 1, 2014 (restated – see note 4)						
	Goodwill	**Software**	**Favourable lease rights**	**Private label brands**	**Banner names**	**Credit cards**	**Total**
Cost							
Balance at beginning of year	—	204	131	27	—	—	362
Additions	—	48	—	—	—	—	48
Acquired through business combination	195	66	204	21	364	26	876
Disposals	—	(12)	—	—	—	—	(12)
Net foreign currency exchange	13	8	29	5	25	2	82
Balance at end of year	208	314	364	53	389	28	1,356
Accumulated amortization and impairment							
Balance at beginning of year	—	111	18	—	—	—	129
Amortization expense	—	37	8	—	—	1	46
Disposals	—	(11)	—	—	—	—	(11)
Net foreign currency exchange	—	2	2	—	—	—	4
Balance at end of year	—	139	28	—	—	1	168
Net book value at end of year	208	175	336	53	389	27	1,188

The banner names and private label brands have been assigned an indefinite useful life, as there is no foreseeable limit to the period over which the assets are expected to generate net cash inflows and the Company's intention is to continue to utilize these trade names for the foreseeable future.

Allocation and Impairment Testing of Goodwill

The Company completed the allocation of goodwill to groups of CGUs that will benefit from the synergies related to the Acquisition and performed its annual impairment test as at November 2, 2014, the first day of its fourth quarter. There was no goodwill recognized on the Company's balance sheet prior to the Acquisition.

The carrying amount of goodwill has been allocated to the Saks Fifth Avenue and OFF 5TH banners.

The recoverable amounts of banners are determined based on fair value less costs of disposal using an income approach that incorporates a discounted cash flow model. This approach requires the Company to estimate and take into account the amount, timing, and relative certainty of projected unlevered cash flows expected to be generated by the operating assets and requires that certain assumptions be made.

In determining fair value less costs of disposal, the forecasted cash flows are based on the Company's strategic business plans, as presented to and approved by the Board of Directors, and projected over a 5 year period. Non-recurring and unusual items have been adjusted for in the projected future cash flows. The Company selected discount rates representative of the current market assessment of the risks specific to each banner in the range of 7.0% to 12.0% for each calculation of fair value less costs of disposal. Applicable terminal growth rates were applied after the discrete projected period. These key assumptions are all considered Level 3 of the fair value hierarchy (note 18). As a result of this analysis, no impairment was identified for either banner to which goodwill has been allocated.

The Company believes that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of either of the banners.

NOTE 13. OTHER LIABILITIES

As at January 31, 2015 and February 1, 2014, other liabilities are comprised of:

(millions of Canadian dollars)	2014	2013
Deferred landlord incentives	**356**	169
Deferred gain on sale and leaseback transaction	**242**	—
Deferred proceeds from lease terminations	**49**	—
Other deferred credits	**11**	13
Other liabilities	**87**	20
	745	202
Non-current	**669**	202
Current	**76**	—
	745	202

Included in other liabilities is an interest-free advance of $65 million repayable in equal monthly installments of $2 million with a final payment on June 30, 2017.

NOTE 14. LOANS AND BORROWINGS

a) Current loans and borrowings

As at January 31, 2015 and February 1, 2014, current loans and borrowings are comprised of:

(millions of Canadian dollars)	2014	2013
HBC Revolving Credit Facility	**159**	88
U.S. Revolving Credit Facility	**108**	418
Current portion of long-term loans and borrowings	**23**	54
	290	560
Less: unamortized costs	**(25)**	(28)
	265	532

HBC Revolving Credit Facility

HBC is the borrower on an asset based credit facility (the "HBC Revolving Credit Facility") with Bank of America, N.A. as the administrative agent and collateral agent, made available through a credit agreement (the "Credit Agreement").

On December 17, 2014, the Company executed an amendment to the HBC Revolving Credit Facility to extend the maturity date from June 15, 2017 to December 17, 2019 and reduce the credit facility from $750 million to $600 million.

The HBC Revolving Credit Facility is subject to a borrowing base, based predominantly on eligible inventory and eligible credit card receivables of HBC, excluding L&T Acquisition and its subsidiaries. The HBC Revolving Credit Facility is

available for general corporate purposes and can be drawn in both U.S. and Canadian dollars. The HBC Revolving Credit Facility has multiple interest rate charge options that are based on the Canadian prime rate, the Canadian Dealer Offered Rate ("CDOR"), U.S. index rate and the London Interbank Offered Rate ("LIBOR").

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 January 31, 2015, until the maturity date of December 17, 2019.

The HBC Revolving Credit Facility is secured by a first priority security interest over all inventory and accounts receivable in Canada. The Credit Agreement contains a number of representations and warranties and positive and negative covenants. These provisions include, among other things, placing certain conditions and restrictions on making dividend payments and financial maintenance covenants. The Credit Agreement also contains extensive reporting requirements and a number of events of default.

HBC was in compliance with all covenants contained in the Credit Agreement as at January 31, 2015 and February 1, 2014.

The effective interest rate based on the average balance drawn and finance costs of the HBC Revolving Credit Facility for fiscal 2014 and 2013 was as follows:

(millions of Canadian dollars)	**2014**	**2013**
Average balance drawn, calculated on a daily basis	**53**	162
Finance costs	**8**	11
Effective interest rate	**15.1%**	6.6%

As at January 31, 2015 and February 1, 2014, details of the borrowing base availability on the HBC Revolving Credit Facility were as follows:

(millions of Canadian dollars)	**2014**	**2013**
Gross borrowing base availability	**457**	479
Drawings	**(159)**	(88)
Outstanding letters of credit	**(9)**	(9)
Borrowing base availability net of drawings and letters of credit	**289**	382

U.S. Revolving Credit Facility

In connection with the Acquisition, the L&T and Saks revolving credit facilities were refinanced through a new U.S. revolving credit facility. L&T Acquisition is the borrower pursuant to an asset based credit facility ("U.S. Revolving Credit Facility") with Bank of America, N.A. as the administrative agent and collateral agent, dated November 4, 2013.

The U.S. Revolving Credit Facility originally provided a U.S.$950 million revolving line of credit through November 4, 2018. On December 11, 2014, the Company executed an amendment to the U.S. Revolving Credit Facility to increase the credit facility to U.S.$1,100 million. This revolving line of credit is subject to a borrowing base, based predominantly on eligible inventory and accounts receivable of L&T, 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 January 31, 2015 until the maturity date of November 4, 2018.

The U.S. Revolving Credit Facility agreement contains restrictive covenants including restrictions on the incurrence of indebtedness, financial maintenance covenants, and restrictions on payments to affiliates and shareholders and also includes events of default, representations and warranties.

The U.S. Revolving Credit Facility is secured by a first lien security interest over all inventory and accounts receivables in

the United States (L&T and Saks).

The effective interest rate based on the average balance drawn and finance costs of the U.S. Revolving Credit Facility for fiscal 2014 and 2013 was as follows:

(millions of Canadian dollars)	2014	2013
Average balance drawn, calculated on a daily basis	**389**	362
Finance costs	**14**	3
Effective interest rate	**3.6%**	3.6%

As at January 31, 2015 and February 1, 2014, details of the borrowing base availability on the U.S. Revolving Credit Facility were as follows:

(millions of Canadian dollars)	2014	2013
Gross borrowing base availability	**1,348**	1,058
Drawings	**(108)**	(418)
Outstanding letters of credit	**(19)**	(9)
Borrowing base availability net of drawings and letters of credit	**1,221**	631

The U.S. Revolving Credit Facility contains certain non-financial operating covenants. L&T Acquisition was in compliance with all covenants as at January 31, 2015 and February 1, 2014.

In accordance with the U.S. Revolving Credit Facility, L&T Acquisition is limited in its ability to make distributions of earnings or returns of capital to its parent.

In connection with the refinancing of the L&T revolving credit facility on November 4, 2013, $2 million of deferred financing costs were written off.

b) Long-term loans and borrowings

As at January 31, 2015 and February 1, 2014, long-term loans and borrowings are comprised of:

(millions of Canadian dollars)	2014	2013
Senior Term Loan B	**826**	2,228
Junior Term Loan	**—**	334
Yorkdale Mortgage	**48**	49
Lord & Taylor Mortgage	**318**	279
Saks Mortgage	**1,599**	—
Other mortgage	**—**	10
Real estate finance leases	**130**	118
Equipment finance leases and other	**35**	42
	2,956	3,060
Less: unamortized costs	**(74)**	(83)
Less: amounts due within one year	**(23)**	(54)
	2,859	2,923

Maturities of long-term debt are as follows:

(millions of Canadian dollars)	
Fiscal year:	
2015	23
2016	19
2017	318
2018	3
2019	3
Thereafter	2,590
	2,956

Senior Term Loan B

On November 4, 2013, in connection with the closing of the Acquisition, the Company entered into an agreement for a U.S.$2,000 million senior secured term loan facility ("Senior Term Loan B") with Bank of America, N.A. as the administrative agent.

Senior Term Loan B matures November 4, 2020 and carries an interest 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"). Senior Term Loan B is subject to mandatory prepayments. The term loan is secured by a second lien over all 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.

A portion of the proceeds from Senior Term Loan B were used to repay in full the HBC Term Loan and the Lord & Taylor GE Capital Term Loan, while the remainder was used in financing the Acquisition. In connection with the repayment of the HBC Term Loan and Lord & Taylor GE Capital Term Loan, $1 million and $4 million of deferred financing costs were written off, respectively.

On February 25, 2014, HBC repaid U.S. $150 million of Senior Term Loan B (note 28). In connection with the repayment, $5 million of deferred financing costs were written off and $1 million of penalties and fees for early repayment were incurred (note 6).

On December 3, 2014, HBC repaid U.S. $1,200 million of Senior Term Loan B using proceeds from the Saks Mortgage. In connection with the repayment, $34 million of deferred financing costs were written off (note 6).

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 million (the "Junior Term Loan"). 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 Senior Term Loan B with the exception that the Junior Term Loan was not subject to Senior Term Loan B's previously required quarterly principal repayments.

The Junior Term Loan was secured by a third lien over all of the Company's inventory and accounts receivable, a second lien over substantially all other assets as well as a pledge of the shares of certain of the Company's subsidiaries. Proceeds from the Junior Term Loan were used to finance the Acquisition.

On February 25, 2014, HBC repaid the Junior Term Loan in full (note 28). In connection with the repayment of the Junior Term Loan, $13 million of deferred financing costs were written off and $11 million of penalties and fees for early repayment were incurred (note 6).

Yorkdale Mortgage

On May 22, 2013 the Company entered into an agreement with Murray & Company Holdings Limited for a $50 million mortgage (the "Yorkdale Mortgage"). The Yorkdale Mortgage matures on May 22, 2023, bears interest at 4.89% per annum over a twenty-five 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 proceeds of the Yorkdale Mortgage were used to partially prepay the HBC Term Loan. On December 1, 2014, Murray & Company Holdings Limited assigned the mortgage to GMI Servicing Inc.

Lord & Taylor Mortgage

On September 7, 2012, LT 424 LLC ("LT 424"), which is an indirect subsidiary of L&T, entered into a U.S.$250 million syndicated floating rate senior mortgage loan with an affiliate of CIBC World Markets Inc. as the administrative agent of the syndicate of lenders, which matures on September 10, 2017 (the "Lord & Taylor Mortgage").

The Lord & Taylor Mortgage is guaranteed by L&T. Interest is charged at a rate of LIBOR plus 3% and is structured to be interest only during the first 3 years, with monthly amortization payments required during the final 2 years, based on a thirty year amortization schedule at an interest rate of 7%. LT 424 has the ability to prepay the Lord & Taylor Mortgage after the

first 2 years with a fee to the lenders of 2%, which decreases to 1% after 3 years, and without fees after September 10, 2016. Any prepayments are applied to reduce the then remaining scheduled installments. As security for the Lord & Taylor Mortgage, LT 424 granted a first priority mortgage on the Fifth Avenue Lord & Taylor property.

The Lord & Taylor Mortgage contains representations and warranties, positive and negative covenants, reporting requirements and events of default. As at January 31, 2015 and February 1, 2014, the Company was in compliance with the covenants contained in the Lord & Taylor Mortgage.

On November 26, 2012, LT 424 entered into interest rate swap arrangements, the effect of which is to fix the floating portion of the interest rate related to the Lord & Taylor Mortgage at 0.85%. The swap arrangements are being accounted for as a cash flow hedge (note 18).

Saks Mortgage

On December 3, 2014, Saks Flagship Real Property LLC ("Saks Flagship"), an indirect subsidiary of Saks, obtained a U.S.$1,250 million, twenty year mortgage on the ground portion of its Saks Fifth Avenue flagship store in New York City, located at 611 Fifth Avenue (the "Saks Mortgage") with Bank of America, N.A. as the administrative agent.

The Saks Mortgage matures December 3, 2034, carries a fixed interest rate of 4.39% and requires interest only payments. The mortgage is secured by a first mortgage lien on the fee interest in the property, together with all ground lease rents, profits and revenue.

Net of associated fees and expenses, all proceeds from the Saks Mortgage were utilized to permanently pay down U.S.$1,200 million of Senior Term Loan B.

The Saks Mortgage contains representations and warranties, positive and negative covenants, reporting requirements and events of default. As at January 31, 2015, the Company was in compliance with the covenants contained in the Saks Mortgage.

HBC Term Loan (Canadian properties)

Concurrently with the closing of the IPO on November 26, 2012, the Company entered into an agreement with BMO Capital Markets and Canadian Imperial Bank of Commerce, as co-lead arrangers and joint bookrunners, and certain other lenders for a $250 million senior non-revolving term loan facility (the "HBC Term Loan").

The HBC Term Loan was paid in full on November 4, 2013, using a portion of the proceeds from Senior Term Loan B.

The HBC Term Loan had a maturity date of November 26, 2014, bore interest at the bankers' acceptance rate plus 2.25% stamping fee and was secured by a first priority security interest in certain of the real property of the Company and its subsidiaries (other than L&T and its subsidiaries). There were certain mandatory repayments in specified circumstances.

The HBC Term Loan contained representations and warranties, positive and negative covenants, reporting requirements and a number of events of default. The agreement contained covenants to maintain fixed charge coverage and leverage ratios.

Lord & Taylor GE Capital Term Loan

As part of the Lord & Taylor credit facility agreement with General Electric Capital Corporation executed on May 23, 2013, the Company obtained a U.S.$200 million term loan ("Lord & Taylor GE Capital Term Loan"). Together with cash on hand, the proceeds of the Lord & Taylor GE Capital Term Loan repaid the Lord & Taylor term loan (lender was Credit Suisse Securities LLC) in full. In connection with the repayment of the Lord & Taylor term loan, $6 million of deferred financing costs were written off and are included in finance costs (note 6).

The Lord & Taylor GE Capital Term Loan was repaid in full on November 4, 2013 using a portion of the proceeds of Senior Term Loan B.

Other mortgage

As at February 1, 2014, HBC had a mortgage outstanding with a principal balance of $10 million, which required annual payments of $3 million, including interest, and a final balloon payment of $10 million in February 2014. On February 3, 2014, the mortgage was repaid in full. The interest on the mortgage was 7.0% per annum, paid on a monthly basis.

Finance leases

As at January 31, 2015, the liability related to real estate finance leases was $130 million (February 1, 2014: $118 million). The liability includes $93 million (February 1, 2014: $79 million) primarily related to presumed lease renewals that the Company is not contractually committed to.

As at January 31, 2015, the liability related to equipment finance leases was $25 million (February 1, 2014: $32 million).

The future required minimum gross rental payments under finance leases for property and equipment, and their net present values as at January 31, 2015 are as follows:

(millions of Canadian dollars)	
Less than 1 year	30
Between 1 and 5 years	55
Thereafter	437
Total minimum lease payments	522
Less: imputed interest	(367)
Total finance lease obligations	**155**

NOTE 15. PROVISIONS

	Year ended January 31, 2015					
(millions of Canadian dollars)	Self Insurance	Severance, Restructuring & HR Legal	ARO's	Store Closing Costs	Other	Total
Balance at beginning of year	**62**	**64**	**16**	**18**	**5**	**165**
Additional provisions recognized	**39**	**48**	**1**	**1**	**3**	**92**
Utilized	**(39)**	**(80)**	**—**	**(17)**	**(3)**	**(139)**
Released	**—**	**(22)**	**—**	**(2)**	**(3)**	**(27)**
Transfer from liabilities of discontinued operations	**—**	**75**	**—**	**—**	**3**	**78**
Net foreign currency exchange	**6**	**1**	**2**	**—**	**—**	**9**
Balance at end of year	**68**	**86**	**19**	**—**	**5**	**178**
Non-current	**—**	**44**	**19**	**—**	**—**	**63**
Current	**68**	**42**	**—**	**—**	**5**	**115**
	68	**86**	**19**	**—**	**5**	**178**

	Year ended February 1, 2014					
(millions of Canadian dollars)	Self Insurance	Severance, Restructuring & HR Legal	ARO's	Store Closing Costs	Other	Total
Balance at beginning of year	34	51	14	—	—	99
Additional provisions recognized	30	53	1	1	—	85
Assumed through business combination	26	4	—	16	5	51
Utilized	(31)	(41)	—	—	—	(72)
Released	—	(5)	—	—	—	(5)
Net foreign currency exchange	3	2	1	1	—	7
Balance at end of year	62	64	16	18	5	165
Non-current	—	—	16	—	—	16
Current	62	64	—	18	5	149
	62	64	16	18	5	165

Self insurance

The Company purchases third party insurance for automobile, workers' compensation (U.S. only), medical (U.S. only) and general liability claims that exceed a certain dollar level. The Company is responsible for the payment of claims under these insured limits. The self-insurance provision is based on claims filed and an estimate of claims incurred but not yet reported. Insurance claims are settled on a case by case basis over a period which can exceed 7 years. The amounts that the Company will ultimately disburse could differ materially from the accrued amounts.

Severance, Restructuring & HR Legal

Severance and restructuring relates to Company initiatives to lower operating costs and improve profitability. The initiatives are associated with the closure of the discount store business and evaluation of stores with sub-optimal performance. Restructuring charges in prior years relating directly to the closure of Zellers stores were reported within discontinued operations. In fiscal 2014, the Company transferred the liability previously reported in discontinued operations to continuing operations.

During fiscal 2014, these initiatives included additional provisions related to Home Outfitters stores of $14 million (2013: nil). Severance charges of $26 million (2013: $13 million) were incurred for changes to senior leadership, management teams and other supporting employees as the Company continued to streamline its organizational and management structures as a result of the integration of its department store operations and the wind-down of Zellers. Severance charges of $2 million (2013: nil) were incurred related to store closures. During fiscal 2013, the Company incurred $29 million of severance and related expenses in connection with the Acquisition, $4 million related to the relocation of the information technology support function and $5 million related to realignment of the logistics network related to the consolidation of excess capacity at certain locations. As at January 31, 2015, $75 million (February 1, 2014: $58 million) remains accrued.

The Human Resources ("HR") legal component of the provision relates to compensation claims made by current and former employees. During fiscal 2014, the Company recorded a charge of $6 million (2013: $2 million). Compensation claims are settled on a case by case basis over an indeterminate period. The balance of the provision remaining as at January 31, 2015 was $11 million (February 1, 2014: $6 million).

Asset retirement obligations ("ARO's")

The Company has certain operating leases that require it to remove leasehold improvements and replace or remove other structures at the end of the lease term. The Company also has obligations to dispose of potentially hazardous materials (principally, asbestos) in accordance with relevant legislation. The estimate is based on the date of expiry of the lease or, where relevant, the mandatory timelines of relevant legislation.

Store closing costs

The Company continuously evaluates its real estate portfolio and closes underproductive stores in the normal course of business as leases expire or as other circumstances dictate. Store closing costs include lease termination fees, asset disposals and other closure activities.

NOTE 16. OPERATING LEASE ARRANGEMENTS

The Company conducts a substantial part of its operations from leased stores in shopping and power centres, and also leases warehouse facilities, administrative facilities and equipment.

Many of the Company's store leases require equal monthly rent payments over the lease term. However, numerous store lease agreements include rent holidays, rent escalation clauses and/or contingent rent provisions that require additional payments based on a percentage of sales in excess of specified levels. Rent for renewal periods of the Company's leases varies.

Rental expense related to operating leases charged to earnings in fiscal 2014 was $276 million (2013: $162 million).

Minimum payments under non-cancelable operating leases

The future minimum payments under non-cancelable operating leases are as follows:

(millions of Canadian dollars)	
Fiscal year:	
2015	143
2016	133
2017	123
2018	110
2019	99
Thereafter	1,064
Total minimum lease payments	**1,672**

Of the total minimum lease payments, $19 million relates to Zellers leases that were not assigned to Target Corporation ("Target") (note 29). For those leases which have been assigned to Target and for which the Company remains the lessee on the master lease agreement, HBC has guaranteed the commitment over the remaining term of the lease (note 25).

NOTE 17. PENSIONS AND EMPLOYEE BENEFITS

Aggregate information about the Company's Canadian ("CDN") and U.S. pension and benefit plans are presented below. The U.S. pension plans are sponsored by Saks for which there are no future benefit accruals for all remaining participants. Both L&T and Saks sponsor defined contribution plans (401(k) retirement savings plans) which are discussed in the Defined Contribution Pension Plans section below.

Amounts Recognized in Consolidated Balance Sheets

	2014			2013		
(millions of Canadian dollars)	CDN Pension Plans	CDN Benefit Plans	U.S. Pension Plans	CDN Pension Plans	CDN Benefit Plans	U.S. Pension Plans
Funded status	**69**	**(36)**	**(46)**	72	(35)	(31)
Less: current portion	**—**	**3**	**1**	—	3	2
	69	**(33)**	**(45)**	72	(32)	(29)
Other long-term employee benefits liability	**—**	**(31)**	**—**	—	(35)	—
Pension and employee benefits asset (liability)	**69**	**(64)**	**(45)**	72	(67)	(29)

The current portion of the pension and employee benefits liability is included in other payables and accrued liabilities in the consolidated balance sheets.

Employer contributions to defined benefit pension plans in fiscal 2015 will approximate $1 million.

Changes in the Fair Value of Plan Assets

(millions of Canadian dollars)	2014 CDN Pension Plans[1]	2014 CDN Benefit Plans	2014 U.S. Pension Plans	2013 CDN Pension Plans[1]	2013 CDN Benefit Plans	2013 U.S. Pension Plans
Fair value at beginning of year	**1,213**	**—**	**135**	1,240	—	—
Acquired through business combination	**—**	**—**	**—**	—	—	129
Return on plan assets (excluding interest)	**65**	**—**	**8**	68	—	1
Interest income	**103**	**—**	**4**	85	—	1
Employer contributions	**1**	**3**	—	—	4	—
Employee contributions	**10**	**—**	—	11	—	—
Administration costs	**(3)**	**—**	**(2)**	(3)	—	(1)
Benefits paid	**(125)**	**(3)**	**(14)**	(188)	(4)	(4)
Net foreign currency exchange	**—**	**—**	**20**	—	—	9
Fair value at end of year	**1,264**	—	**151**	1,213	—	135

[1] Includes defined contribution plan assets of $527 million (February 1, 2014: $512 million).

Changes in the Defined Benefit Obligation

(millions of Canadian dollars)	2014 CDN Pension Plans[2]	2014 CDN Benefit Plans	2014 U.S. Pension Plans	2013 CDN Pension Plans[2]	2013 CDN Benefit Plans	2013 U.S. Pension Plans
Balance, beginning of year	**1,141**	**35**	**166**	1,202	37	—
Assumed through business combination	**—**	**—**	**—**	—	—	158
Current service cost	**17**	**—**	**—**	22	—	—
Past service cost	**1**	**—**	**—**	2	—	—
Settlements	**(12)**	**—**	**—**	1	—	—
Employee contributions	**10**	**—**	**—**	11	—	—
Interest expense	**100**	**1**	**5**	84	1	1
Benefits paid	**(125)**	**(3)**	**(14)**	(188)	(4)	(4)
Change in demographic assumptions	**2**	**—**	**4**	25	2	1
Change in financial assumptions	**70**	**2**	**12**	(13)	(1)	(1)
Experience adjustments	**(9)**	**1**	**1**	(5)	—	—
Net foreign currency exchange	**—**	**—**	**23**	—	—	11
Balance, end of year	**1,195**	**36**	**197**	1,141	35	166

[2] Includes defined contribution plan liabilities of $527 million (February 1, 2014: $512 million).

Cumulative Actuarial (Losses) Gains

The cumulative actuarial (losses) gains recognized in other comprehensive income for the Company's plans are as follows:

(millions of Canadian dollars)	2014 CDN Pension Plans	2014 CDN Benefit Plans	2014 U.S. Pension Plans	2013 CDN Pension Plans	2013 CDN Benefit Plans	2013 U.S. Pension Plans
Cumulative amount, beginning of year	**(2)**	**(7)**	**1**	(63)	(6)	**—**
Net actuarial gains (losses) recognized	**2**	**(3)**	**(9)**	61	(1)	1
Cumulative amount, end of year	**—**	**(10)**	**(8)**	(2)	(7)	1

Pension and Benefit Plan Expense

Fiscal 2014 and 2013 pension and benefit plan expense is comprised of the following:

(millions of Canadian dollars)	2014			2013		
	CDN Pension Plans	CDN Benefit Plans	U.S. Pension Plans	CDN Pension Plans	CDN Benefit Plans	U.S. Pension Plans
Current service cost	**17**	**—**	**—**	22	—	—
Past service cost	**1**	**—**	**—**	2	—	—
Settlements	**(12)**	**—**	**—**	1	—	—
Administration costs	**3**	**—**	**2**	3	—	1
Net expense recognized in selling, general and administrative expenses	**9**	**—**	**2**	28	—	1
Interest income on plan assets	**(103)**	**—**	**(4)**	(85)	—	(1)
Interest expense on plan obligations	**100**	**1**	**5**	84	1	1
Net (income) expense recognized in finance costs	**(3)**	**1**	**1**	(1)	1	—
Net expense recognized in net earnings (loss)	**6**	**1**	**3**	27	1	1
Changes in demographic assumptions	**2**	**—**	**4**	25	2	1
Changes in financial assumptions	**70**	**2**	**12**	(13)	(1)	(1)
Experience adjustments	**(9)**	**1**	**1**	(5)	—	—
Return on plan assets (excluding interest income)	**(65)**	**—**	**(8)**	(68)	—	(1)
Net (income) expense recognized in other comprehensive income	**(2)**	**3**	**9**	(61)	1	(1)
Net expense (income) recognized in comprehensive income (loss)	**4**	**4**	**12**	(34)	2	—

Defined Contribution Pension Plans

Included in CDN Pensions Plans' current service cost above is a $12 million expense in fiscal 2014 (2013: $15 million, of which $9 million related to continuing operations) that represents contributions made in connection with the defined contribution plans.

In fiscal 2014, Saks and L&T contributed $10 million (2013: $4 million) to their U.S. defined contribution plans.

Other Long Term Employee Benefits

During fiscal 2014, the Company recognized a $6 million (2013: $6 million) expense in selling, general and administrative expenses related to its other long term employee benefits.

Actuarial Assumptions

HBC and its non-executive employees contribute in equal amounts to HBC's defined contribution plans. The defined benefit plans are funded by employee contributions, as a percentage of salary, and by HBC to support the actuarial based pension benefits. The defined benefit plans provide benefits based on members' earnings and service.

The Company's pension and benefits obligation and expense are dependent on the assumptions used in calculating these amounts. These assumptions include discount rate, rate of compensation increase and overall Canadian health care cost trend rate.

	2014				2013			
	CDN Pension Plans	CDN Benefit Plans	CDN Other Long Term Benefits	U.S. Pension Plans	CDN Pension Plans	CDN Benefit Plans	CDN Other Long Term Benefits	U.S. Pension Plans
Defined benefit obligations, end of the fiscal year								
Discount rate	**3.40%**	**3.20%**	**2.75%**	**2.90%**	4.40%	4.20%	3.60%	3.80%
Rate of compensation increase	**3.00%**	**N/A**	**N/A**	**N/A**	3.00%	N/A	N/A	N/A
Net benefit expense for the fiscal year								
Discount rate	**4.40%**	**4.20%**	**3.60%**	**3.80%**	4.25%	4.00%	3.50%	3.80%
Rate of compensation increase	**3.00%**	**N/A**	**N/A**	**N/A**	3.25%	N/A	N/A	N/A
Health care trend rate:								
Defined benefit obligations, end of the fiscal year								
Immediate	**N/A**	**6.43%**	**6.43%**	**N/A**	N/A	6.04%	6.04%	N/A
Ultimate	**N/A**	**4.50%**	**4.50%**	**N/A**	N/A	4.50%	4.50%	N/A
Net benefit expense for the fiscal year								
Immediate	**N/A**	**6.04%**	**6.04%**	**N/A**	N/A	6.14%	6.14%	N/A
Ultimate	**N/A**	**4.50%**	**4.50%**	**N/A**	N/A	4.50%	4.50%	N/A
Life expectancy (years):								
Life expectancy from age 65								
Male	**86.5**	**86.5**	**N/A**	**85.9**	86.1	86.1	N/A	83.8
Female	**89.0**	**89.0**	**N/A**	**87.5**	88.3	88.3	N/A	85.6

Defined Benefit Obligation by Participant Status

	2014				2013			
	CDN Pension Plans[3]	CDN Benefit Plans	CDN Other Long Term Benefits	U.S. Pension Plans	CDN Pension Plans[3]	CDN Benefit Plans	CDN Other Long Term Benefits	U.S. Pension Plans
Active members	**185**	**1**	**44**	**57**	189	1	49	50
Vested deferred members	**59**	**—**	**—**	**60**	51	—	—	55
Retirees	**424**	**35**	**—**	**80**	389	34	—	61
Total	**668**	**36**	**44**	**197**	629	35	49	166

[3] Excludes plan liabilities of $527 million (February 1, 2014: $512 million) for defined contribution plan participants.

Assets by Class and Level

Supplemental information regarding the assets of the Company's pension plans by class and level according to the fair value hierarchy (see note 18) is presented below:

(millions of Canadian dollars)	2014 Level 1	2014 Level 2	2014 Level 3	2014 Total	2013 Level 1	2013 Level 2	2013 Level 3	2013 Total
CDN Pension Plans								
Short-term and cash	**51**	**11**	**—**	**62**	56	13	—	69
Canadian equities	**62**	**—**	**—**	**62**	56	—	—	56
Foreign equities	**80**	**—**	**—**	**80**	67	—	—	67
Real estate equities	**—**	**—**	**15**	**15**	—	—	22	22
Private equity funds and other	**—**	**—**	**185**	**185**	—	—	133	133
Pooled funds	**—**	**860**	**—**	**860**	—	866	—	866
	193	**871**	**200**	**1,264**	179	879	155	1,213
U.S. Pension Plans								
Pooled funds	**—**	**151**	**—**	**151**	—	135	—	135

Sensitivity analysis

The following table provide a sensitivity analysis of changes in the health care trend rate, discount rate, rate of compensation and life expectancy assumptions. Specifically, the impacts of the sensitivity analysis are shown as increases (decreases) to defined benefit obligations. The sensitivity analysis is hypothetical and should be used with caution. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

	2014				2013			
(millions of Canadian dollars)	CDN Pension Plans	CDN Benefit Plans	CDN Other Long Term Plans	U.S. Pension Plans	CDN Pension Plans	CDN Benefit Plans	CDN Other Long Term Plans	U.S. Pension Plans
Health care trend rate								
Effect of 1% increase	**N/A**	**3**	**1**	**N/A**	N/A	3	1	N/A
Effect of 1% decrease	**N/A**	**(2)**	**—**	**N/A**	N/A	(3)	—	N/A
Discount rate								
Effect of 1% increase	**(70)**	**(3)**	**(2)**	**(13)**	(65)	(3)	(3)	(9)
Effect of 1% decrease	**88**	**3**	**3**	**15**	80	4	3	10
Rate of compensation/inflation								
Effect of 1% increase	**5**	**N/A**	**N/A**	**N/A**	8	N/A	N/A	N/A
Effect of 1% decrease	**(4)**	**N/A**	**N/A**	**N/A**	(8)	N/A	N/A	N/A
Life expectancy								
Effect of 1 year increase	**21**	**2**	**N/A**	**(4)**	16	2	N/A	(3)
Effect of 1 year decrease	**(21)**	**(2)**	**N/A**	**4**	(16)	(2)	N/A	3

Supplementary executive retirement plan

The Company guarantees an annual pension to certain executives in the supplementary executive retirement plan (the "SERP") which is included in the CDN Pension Plans defined benefit obligation presented earlier. The Company's guaranteed obligation pursuant to the SERP for service up to November 10, 2005 is secured by a trust fund for certain members. Total assets of the trust fund as at January 31, 2015 were $71 million (February 1, 2014: $70 million). The obligation in respect of service after November 10, 2005 is not secured.

NOTE 18. FINANCIAL INSTRUMENTS

The following table provides a comparison of carrying and fair values of financial instruments as at January 31, 2015 and February 1, 2014:

(millions of Canadian dollars)	2014		2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Classified as fair value through profit or loss				
Embedded foreign currency derivatives[1]	**(1)**	**(1)**	(1)	(1)
Warrants[2]	**(68)**	**(68)**	(24)	(24)
Classified as loans and receivables				
Cash	**153**	**153**	19	19
Restricted cash	**15**	**15**	2	2
Trade and other receivables[5]	**212**	**212**	139	139
Classified as held to maturity				
Short-term deposits[3]	**2**	**2**	2	2
Financial derivatives designated as cash flow hedges				
Forward foreign currency contracts[3]	**22**	**22**	5	5
Interest rate swaps[4]	**(1)**	**(1)**	1	1
Classified as other liability				
Trade payables[5]	**(945)**	**(945)**	(589)	(589)
Other payables and accrued liabilities[5]	**(345)**	**(345)**	(228)	(228)
HBC Revolving Credit Facility	**(159)**	**(159)**	(88)	(88)
U.S. Revolving Credit Facility	**(108)**	**(108)**	(418)	(418)
Senior Term Loan B	**(826)**	**(830)**	(2,228)	(2,258)
Junior Term Loan	**—**	**—**	(334)	(345)
Yorkdale Mortgage	**(48)**	**(48)**	(49)	(49)
Lord & Taylor Mortgage	**(318)**	**(318)**	(279)	(279)
Saks Mortgage	**(1,599)**	**(1,599)**	—	—
Other mortgage	**—**	**—**	(10)	(10)
Other liability[6]	**(65)**	**(63)**	—	—

(1) Included in financial liabilities — current
(2) Included in financial liabilities — non-current
(3) Included in financial assets — current
(4) Included in financial liabilities — current (2013: included in financial assets — current)
(5) Includes assets/liabilities of discontinued operations (note 29)
(6) See note 13

The fair value of the HBC Revolving Credit Facility, U.S. Revolving Credit Facility, Senior Term Loan B, Junior Term Loan, Yorkdale Mortgage, Lord & Taylor Mortgage and Saks Mortgage are valued 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, forward foreign currency contracts, Equity Commitment Forwards and warrants reflect the estimated amounts the Company would receive or pay if it were to settle the contracts at the reporting date, and are determined using valuation techniques based on observable market input data. 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 using observable market input data.

The following table summarizes the change in fair value of financial instruments designated as fair value through profit or loss that has been recognized in net earnings (loss) for the year:

(millions of Canadian dollars)	2014	2013
Warrants	**44**	—
Equity Commitment Forwards	**—**	153
	44	153

The fair value of financial instruments are classified and measured according to the following fair value hierarchy:

- Level 1: fair value measurement using quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value measurement using inputs other than quoted prices included within Level 1 that are either directly or indirectly observable; and
- Level 3: fair value measurement using unobservable inputs in which little or no market activity exists, therefore, requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

All financial instruments measured at fair value are valued using inputs other than quoted prices that are observable for the asset or liability and are therefore categorized as Level 2 according to the fair value hierarchy.

Fair values of Level 2 financial instruments are determined using valuation models which require the use of inputs. Those inputs are based on external, readily observable market inputs, including factors such as interest rate yield curves, currency rates and price and rate volatilities, as applicable. Interest rate derivatives are valued using a discounted cash flow model based on market interest rate curves at the period-end date. The forward foreign currency contracts and embedded derivatives 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 foreign currency options and interest rate swaps are valued 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. Warrants are valued using the Black-Scholes option pricing model utilizing inputs including maturity, dividend yield, share price and volatility.

Capital management

The Company includes the following items in its definition of capital:

(millions of Canadian dollars)	**2014**	(restated – see note 2(z)) **2013**
Short-term loans and borrowings	**265**	532
Long-term loans and borrowings	**2,859**	2,923
Share capital	**1,420**	1,420
Contributed surplus	**60**	43
Retained earnings	**693**	491
	5,297	5,409

The Company's objectives when managing capital are to maintain ample liquidity to support the operations of the Company, prudently utilize long-term debt to finance the Company's long-term assets and investments and provide adequate returns to its shareholders.

The Company manages its capital structure, and makes adjustments to it, in light of changes to economic conditions and its strategic objectives. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new equity interests or sell assets to reduce debt.

Financial risk management

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

a) Credit risk

The Company's exposure to credit risk arises if a debtor or counterparty to a financial instrument fails to meet its obligations, and arises principally from short-term deposits, receivables, and derivative instruments that are in a gain position. Credit risk is mitigated by various techniques including selecting counterparties based on acceptable credit ratings and minimizing the concentration of positions with individual counterparties. There is no concentration of accounts receivable balances. The Company does not consider its exposure to credit risk to be material.

b) 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.

Undiscounted contractual maturities (including interest) of the Company's financial liabilities are as follows:

(millions of Canadian dollars)	Trade and other payables	Derivatives	Loans and borrowings	Other liabilities	Total
Fiscal year:					
2015	1,290	1	418	27	1,736
2016	—	—	147	27	174
2017	—	—	441	11	452
2018	—	68	118	—	186
2019	—	—	118	—	118
Thereafter	—	—	3,992	—	3,992
	1,290	69	5,234	65	6,658

The HBC Revolving Credit Facility matures December 17, 2019 and the U.S. Revolving Credit Facility matures November 4, 2018. These amounts have been reflected as due in fiscal 2015 in the table above to be consistent with presentation in the consolidated balance sheets.

c) Market risk

The Company is exposed to foreign currency risk and interest rate risk:

i. Foreign currency risk

HBC 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. The forward foreign exchange contracts are designated and accounted for as a cash flow hedge of U.S. dollar 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 in the consolidated balance sheets, or deemed as firm commitments (e.g. purchase orders that have been issued for goods and services in foreign currency). It may further hedge up to 70% of forecasted transactions (anticipated transactions for which there are no firm commitments). HBC's net U.S. dollar exposure is determined based on entities with the Canadian dollar as their functional currency. HBC's net U.S. dollar exposure as at January 31, 2015 and February 1, 2014, excluding its investment in L&T Acquisition, is as follows:

U.S. Dollar Exposure (millions of U.S. dollars)	2014	2013
Trade payables	**(60)**	(56)
HBC Revolving Credit Facility	**(125)**	(5)
Senior Term Loan B	**(650)**	(2,000)
Junior Term Loan	—	(300)
Outstanding purchase orders	**(17)**	(20)
Forward foreign exchange contracts	**176**	161
U.S. dollar denominated inter-company receivables	**886**	1,503
Total exposure	**210**	(717)

The settlement dates of the forward foreign currency contracts range from February 2015 to December 2015 and the weighted average foreign exchange rate is 1.15.

For fiscal 2014, HBC recorded a gain of $11 million (2013: loss of $2 million) relating to the translation or settlement of foreign currency denominated monetary items.

The estimated gains and losses on derivatives designated as cash flow hedges expected to be reclassified to earnings within the next twelve months is a net gain of $11 million.

The Company's net investment in L&T Acquisition presents a foreign exchange risk to HBC. HBC used a net investment hedge to mitigate this risk. HBC had originally designated U.S.$800 million of Senior Term Loan B as a hedge of the first U.S.$800 million of net assets of L&T Acquisition. The hedge was subsequently reduced to U.S.$350 million upon pay down of certain debt (note 28) and further to nil, upon pay down of Senior Term Loan B (note 14). Foreign currency translation of the net earnings of L&T Acquisition impacts consolidated net earnings (loss). Foreign currency translation of HBC's investment in L&T Acquisition impacts other comprehensive income.

On an annualized basis, after considering the Company's hedge of its exposure to foreign currency risk, a strengthening of the U.S. dollar against the Canadian dollar by 1% at January 31, 2015 would have impacted net earnings for fiscal 2014 by nil (2013: increased net loss by $2 million).

ii. 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. During fiscal 2014 and 2013, the Company's variable rate borrowings were denominated in both U.S. and Canadian dollars.

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

The Senior Term Loan B, U.S. Revolving Credit Facility and the Lord & Taylor Mortgage all have a variable component to interest based on LIBOR. There is exposure to interest rate cash flow risk if variable rates rise.

On November 26, 2012, LT 424 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 interest rate swap is designated as a cash flow hedge. The net interest income received under this arrangement is included in finance costs. The arrangements have an effective date of September 7, 2012 and a maturity date of September 10, 2017.

An increase of 100 basis points in LIBOR over the past year would have decreased net earnings for fiscal 2014 by $5 million (2013: increased net loss by $3 million). This sensitivity analysis does not include the impact that an increase of 1% in LIBOR rates would have on the fair value of the interest rate swaps.

In connection with the Saks Mortgage transaction (note 14), the Company entered into 2 separate interest rate swap lock forward contracts (the "Rate Locks") during fiscal 2014 that resulted in the Company fixing the interest rate to be paid over the entire term of the mortgage. The Company designated the Rate Locks as hedges of the cash flows from the forecasted proceeds of the Saks Mortgage transaction. Each hedging relationship was assessed to be highly effective and as at January 31, 2015, a net realized loss of $9 million, with related deferred taxes of $4 million, was included in other comprehensive income representing the mark-to-market adjustments to fair value from the date of execution of each Rate Lock, October 10, 2014 and November 5, 2014, respectively, to December 3, 2014, the date of close of the Saks Mortgage.

The fair value of the Rate Locks was determined using a valuation technique that employs the use of market observable inputs and is based on the differences between the contract rate and the market rates as at the period-end date, taking into consideration discounting to reflect the time value of money.

The HBC Revolving Credit Facility described in note 14 bears interest at a variable rate based on the selected interest rate charge option plus a fixed spread. HBC is exposed to interest rate cash flow risk as the variable rate rises.

On an annualized basis, an increase of 100 basis points in the selected interest rate over the past year would have decreased net earnings for fiscal year 2014 by nil (2013: increased net loss by $3 million).

iii. Other risks

On July 29, 2013, to finance a portion of the consideration to acquire Saks, the Company received equity commitments from HSILP and WF Fund. The equity commitments from HSILP and WF Fund required the Company to issue its common shares (see note 20) at a future date at $17.00 per share (subject to adjustment in certain limited circumstances). Due to the variability of the share issue price and certain other features of the investment agreements with HSILP and WF Fund, Equity Commitment Forwards were recognized and accounted for as derivative financial instruments. On the date of the execution of the definitive merger agreement with Saks ("Merger Agreement"), the Equity Commitment Forwards were determined to be in an asset position. During fiscal 2013, the Company recognized an expense of $153 million representing the mark to market adjustments from the date of the execution of the Merger Agreement to November 4, 2013, the closing date of the Acquisition. The fair values were determined using a forward pricing model utilizing the assumptions outlined below. Upon closing of the Acquisition and at the end of the commitment period, the Company derecognized the Equity Commitment Forwards and reclassified the related financial liability of $130 million to share capital (note 20).

Certain features of the warrants issued in connection with the Acquisition (note 4) result in the warrants being presented as derivative financial liabilities recorded at fair value in the consolidated balance sheets.

During fiscal 2014 in relation to the 1.5 million warrants issued to HSILP concurrently with the execution of the Merger Agreement ("Merger Agreement Warrants"), the Company recognized finance related costs of $10 million (2013: $5 million) representing mark to market adjustments to fair value as at January 31, 2015. As at January 31, 2015, the fair value of the Merger Agreement Warrants was $15 million (February 1, 2014: $5 million).

In relation to the 5.25 million warrants issued to HSILP and WF Fund on November 4, 2013 upon closing of the Acquisition ("Acquisition Warrants"), the Company recognized finance related costs during fiscal 2014 of $34 million (2013: income of $5 million) representing mark to market adjustments to fair value as at January 31, 2015. As at January 31, 2015, the fair value of the Acquisition Warrants was $53 million (February 1, 2014: $19 million). The Company will continue to record mark to market gains and losses on the warrants until the earlier of the date of exercise or expiry.

The fair values of the warrants were determined using the Black-Scholes option pricing model using the assumptions outlined in the table below:

Share price – January 31, 2015	$23.42
Share price – February 1, 2014	$16.47
Share price – July 26, 2013	$16.49

	Jan 31, 2015	Feb 1, 2014
Expected volatility	**45%**	27%
Dividend yield	**0.85%**	1.31%
Risk free interest rate	**0.50%**	1.21%
Expected life – Merger Agreement Warrants	**3.5 years**	4.5 years
Expected life – Acquisition Warrants	**3.8 years**	4.8 years

NOTE 19. SHARE BASED COMPENSATION

Option Plan

The Company grants options to certain employees which allow each participant to exercise their share options to either subscribe for common shares or receive a cash payment at the option of the Company. The cash payment is calculated as the difference between the market price of the common shares as at the exercise date and the exercise price of the share option. The exercise price of each option equals the weighted average of the share price for the 5 day period preceding the date of grant. The Company uses the fair value method to account for share options issued which is established on the date of grant using the Black-Scholes option pricing model.

Senior executive options vest 50% in each of the fourth and fifth year following the grant date. The options have 7 to 10 year terms and will be forfeited immediately in the event a grantee's employment is terminated for cause, and after forty-five days in the event of a voluntary resignation or termination without cause. Share options are subject to a pro-rata vesting schedule if the grantee's employment is terminated. Of the senior executive options outstanding, 1,864,437 (2013: 2,003,109) shares have a performance condition and vest only if the weighted average closing share price for the twenty trading day period ending on the vesting date is at least 50% higher than the offering price of the company's IPO or if such performance condition is met after the vesting date but prior to the expiry date.

Senior executive option transactions were as follows:

	2014		2013	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of year	6,562,603	$17.13	6,090,500	$17.00
Granted	3,264,118	$19.70	975,603	$17.89
Forfeited	(881,124)	$17.14	(503,500)	$17.00
Outstanding at end of year	8,945,597	$18.07	6,562,603	$17.13
Share options exercisable at end of year	—	—	—	—

During fiscal 2014, the grant date fair value of senior executive options granted was $16 million (2013: $5 million).

The following table summarizes information about the senior executive share options outstanding and exercisable as at January 31, 2015:

Range of exercise prices	**Number of outstanding options**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price**	**Number exercisable at Jan 31, 2015**	**Weighted average exercise price**
$17.00 to $17.49	5,851,509	7.7	$17.01	—	—
$17.50 to $17.99	1,320,567	6.3	$17.61	—	—
$18.00 to $18.85	589,363	8.9	$18.47	—	—
$23.50 to $23.99	1,184,158	6.9	$23.58	—	—
Total	8,945,597	7.5	$18.07	—	—

Options issued to other management have a vesting period of 3 years and have a 7 year term with no performance condition. The options are forfeited immediately in the event a grantee's employment is terminated for cause, and after forty-five days in the event of a voluntary resignation or termination without cause. Share options are subject to a pro-rata vesting schedule if the grantee's employment is terminated.

Other management option transactions were as follows:

	2014		2013	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of year	969,600	$17.03	929,800	$17.00
Granted	1,042,400	$17.65	197,000	$17.17
Forfeited	(282,600)	$17.33	(157,200)	$17.01
Outstanding at end of year	1,729,400	$17.35	969,600	$17.03
Share options exercisable at end of year	—	—	—	—

During fiscal 2014, the grant date fair value of other management options granted was $5 million (2013: $1 million).

The following table summarizes information about the other management share options outstanding and exercisable as at January 31, 2015:

Range of exercise prices	**Number of outstanding options**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price**	**Number exercisable at Jan 31, 2015**	**Weighted average exercise price**
$17.00 to $17.49	955,800	5.1	$17.04	—	—
$17.50 to $17.99	756,000	6.3	$17.61	—	—
$23.50 to $23.99	17,600	6.9	$23.58	—	—
Total	1,729,400	5.7	$17.35	—	—

The assumptions used to measure the fair value at the grant date of senior executive and other management options granted during fiscal 2014 and 2013 under the Black-Scholes option pricing model were as follows:

	2014	2013
Expected dividend yield	0.9% to 1.2%	1.1% to 2.4%
Expected share price volatility	24.1% to 35.8%	30.3% to 38.7%
Risk-free interest rate	1.0% to 1.6%	1.4% to 1.6%
Expected life of options (years)	5.0 to 6.5	6.5

Phantom Share Plan

The Company grants phantom shares to certain employees. During fiscal 2014, the Company granted 183,150 (2013: nil) phantom share units with a grant date fair value of $3 million (2013: nil). Phantom share units have a vesting period of 3 years that will be settled in common shares of the Company or in cash at the Company's option. As at January 31, 2015, 271,125 (February 1, 2014: 166,500) phantom share units were outstanding.

Restricted Share Units

The Company grants restricted share units ("RSUs") to certain employees. During fiscal 2014, the Company granted 272,252 (2013: 115,980) RSUs with a term of 3 years, all of which are expected to vest. The grant date fair value of the RSUs was $5 million (2013: $2 million) and was determined based on the Company's share price at the date of the grant. RSUs were granted under similar terms and conditions as those granted concurrently with the IPO. As at January 31, 2015, 414,240 (February 1, 2014: 153,752) RSUs were outstanding.

Performance Share Units

Performance share unit ("PSUs") transactions were as follows:

	2014	2013
Outstanding at beginning of year	660,162	—
Granted	1,158,187	674,939
Forfeited	(155,594)	(14,777)
Outstanding at end of year	1,662,755	660,162
Weighted average contract life (years) remaining at end of year	2.0	2.9

During fiscal 2014, the grant date fair value of the PSUs granted was $20 million (2013: $10 million), of which $15 million (2013: $8 million) is expected to vest. The fair value was determined based on the Company's share price at the date of the grant and adjusted to reflect non-entitlement of dividends to PSUs. The PSUs vest 3 years from the date of grant at the end of that calendar year and are forfeited immediately in the event a grantee's employment is terminated for cause, and after forty-five days in the event of a voluntary resignation or termination without cause, subject to a pro-rata vesting schedule if the grantee's employment is terminated.

Deferred Share Units

The Company grants deferred share units ("DSUs") to members of the Board of Directors. During fiscal 2014, the Company granted 52,240 units (2013: 49,823) with a grant date fair value of $1 million (2013: $1 million). The fair value was determined based on the Company's share price at the date of grant. No Director will have the right to receive any benefit under the DSU plan until the participant ceases to be a Director. As at January 31, 2015, 110,221 (February 1, 2014: 57,981) DSUs were outstanding.

Share Based Compensation Expense

Total share based compensation expense for fiscal 2014 and 2013 is summarized as follows:

	2014	2013
Share options	**11**	7
Other share based compensation [(1)]	**6**	3
	17	10

(1) Includes Phantom shares, RSUs, PSUs and DSUs.

Long Term Incentive Plans

The Company and its subsidiaries maintain a long-term incentive plan ("LTIP") for certain senior executives. Under this plan a maximum of 100,000,000 incentive units may be granted, which entitle participants to receive cash payments or, at the sole discretion of the Board of Directors, shares of the granting entity in lieu of cash. As of January 28, 2012, the Company ceased making grants under this program.

Incentive units had up to a 10 year term, vested in equal installments over a 5 year service period, and were paid out upon a change of control event or an initial public offering, as defined in the LTIP. Each incentive unit was paid out based on the unit appreciation value, according to the terms of each grant.

The unit appreciation value reflected the performance of the equity value of the entity against a target equity value established at the grant date, according to the terms of the grant. These grants were made at the HBC level and at individual subsidiaries and ultimate amounts payable were determined based upon performance at either the HBC level or the individual subsidiary to which the grant relates.

During fiscal 2014, nil (2013: $8 million) was paid related to the redemption of long-term incentive plan units. The liability for future payments related to these redemptions as at January 31, 2015 was nil (February 1, 2014: nil).

NOTE 20. SHARE CAPITAL

As at January 31, 2015 the authorized shares of HBC consist of an unlimited number of common shares and an unlimited number of preferred shares issuable in series.

The holders of common shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the shareholders.

Common Shares

On July 29, 2013, to finance a portion of the consideration to acquire Saks, the Company received equity commitments from HSILP and WF Fund for the Canadian dollar equivalent of up to U.S.$500 million and U.S.$250 million of equity funding, respectively. As consideration for HSILP's equity commitment, concurrently with the execution of the Merger Agreement, the Company issued 1.5 million share purchase warrants to HSILP, and subsequently issued an additional 3.5 million warrants to HSILP upon the closing of the Acquisition. In consideration for WF Fund's commitment, upon closing of the Acquisition, the Company issued 1.75 million warrants to WF Fund (note 18).

On September 10, 2013 the Company issued 16,050,000 subscription receipts at a price of $17.15 per subscription receipt, for aggregate gross proceeds of $275 million, net of costs of $11 million. The subscription receipts were issued to finance a portion of the consideration required to acquire Saks. The net proceeds of the subscription receipts offering were held in escrow until closing of the Acquisition. Accordingly on November 4, 2013, the Company issued 16,050,000 common shares in exchange for the subscription receipts.

On November 4, 2013, upon closing of the Acquisition, the Company issued 30,673,530 common shares for proceeds of $521 million (U.S.$500 million) to HSILP and 15,376,471 common shares for proceeds of $261 million (U.S.$250 million) to WF Fund.

The change in common shares issued and outstanding is as follows:

(millions of Canadian dollars, except shares)	Number of Shares	Share Capital ($)
Issued and outstanding at February 2, 2013	120,000,000	246
Conversion of subscription receipts to common shares (net of offering costs, transaction costs and income taxes of $9 million)	16,050,000	266
Issuance of common shares to HSILP and WF Fund (net of transaction costs and income taxes of $4 million)	46,050,001	778
Fair value of Equity Commitment Forwards transferred to equity (note 18)	—	130
Issued and outstanding as at February 1, 2014 and January 31, 2015	182,100,001	1,420

During the year ended January 31, 2015, the Company declared and paid dividends to the holders of the common shares totaling $36 million (2013: $43 million).

Preferred Shares

The preferred shares are issuable at any time and from time to time in one or more series. The Board of Directors are authorized to fix before issue the number of, the consideration per share of, the designation of, and the provisions attaching to, the preferred shares of each series, which may include voting rights. The preferred shares of each series will rank on parity with the preferred shares of every other series and will be entitled to preference over the common shares and any other shares ranking junior to the preferred shares with respect to payment of dividends and distribution of any property or assets in the event of the Company's liquidation, dissolution or winding-up, whether voluntary or involuntary.

As at January 31, 2015 and February 1, 2014, there were no preferred shares issued and outstanding.

Warrants

As at January 31, 2015 and February 1, 2014, the 6.75 million warrants issued to HSILP and WF Fund as consideration for the equity commitments are outstanding. The warrants are exercisable into common shares of the Company at an exercise price of $17.00 per warrant which in certain circumstances is subject to adjustment. The warrants expire on November 4, 2018.

NOTE 21. EARNINGS (LOSS) PER COMMON SHARE

Net earnings (loss) per common share and weighted average common shares outstanding are calculated as follows:

(millions of Canadian dollars or shares except per share amounts)	2014	2013
Net earnings (loss) from continuing operations for basic earnings per share	**238**	(177)
Net loss from discontinued operations for basic earnings per share	—	(82)
Net earnings (loss) for basic earnings per share	**238**	(259)
Net earnings (loss) from continuing operations for basic earnings per share	**238**	(177)
Impact of warrants	—	(5)
Net earnings (loss) from continuing operations for diluted earnings per share	**238**	(182)
Net loss from discontinued operations for diluted earnings per share	—	(82)
Net earnings (loss) for diluted earnings per share	**238**	(264)
Weighted average common shares outstanding	**182**	135
Dilutive effect of options and RSUs	**1**	—
Diluted weighted average common shares outstanding	**183**	135
Basic net earnings (loss) per common share		
Continuing operations	**1.31**	(1.31)
Discontinued operations	**—**	(0.61)
	1.31	(1.92)
Diluted net earnings (loss) per common share		
Continuing operations	**1.30**	(1.34)
Discontinued operations	**—**	(0.61)
	1.30	(1.95)

Excluded from the computation of diluted net earnings (loss) per common share were 7,321,079 (2013: 9,183,476) potentially dilutive instruments, as they were anti-dilutive.

NOTE 22. RELATED PARTY TRANSACTIONS

Transactions between HBC and its subsidiaries (note 27), which are related parties, have been eliminated on consolidation and are not disclosed in this note. Details of transactions with other related parties are disclosed below.

On May 6, 2011, a subsidiary of L&T Acquisition entered into a 2 year lease with SP 35 L.P. (the "Landlord") for approximately 31,000 sq. ft. in Shrewsbury, NJ. The lease was amended on January 17, 2013 to include 3 renewal options. The first 2 renewal options are for terms of 2 and 3 years, respectively at an annual cost of U.S.$440 thousand. The third renewal option is for a term of 5 years at an annual cost of U.S.$484 thousand. The first and second renewal options were exercised. Amounts charged to the Company under the rental arrangement for fiscal 2014 were U.S.$440 thousand (2013: U.S.$376 thousand). The Landlord is an affiliate of National Realty & Development Corp. ("NRDC"). Richard and Robert Baker, the principals of NRDC, are Directors of the Company.

During fiscal 2014, the Company accrued $314 thousand (2013: $300 thousand) from Hudson's Bay Trading Company, LP, a shareholder of the Company, with respect to the reimbursement of expenses for services provided by HBC on their behalf.

On February 25, 2014, the Company closed its agreement to sell its downtown Toronto flagship retail complex and the Simpson's Tower to an affiliate of The Cadillac Fairview Corporation Limited, an affiliate of HSILP, for a purchase price of $650 million (note 28).

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

NOTE 23. COMPENSATION

The remuneration of key management personnel for fiscal 2014 and 2013 is as follows:

(millions of Canadian dollars)	2014	2013
Short-term benefits	**10**	9
Post-employment benefits	**1**	2
Other long-term benefits	**10**	9
Share based compensation	**8**	4
	29	24

The compensation noted in the above table forms part of the total employee benefits expense recorded by the Company in fiscal 2014 totaling $1,703 million (2013: $1,157 million, including discontinued operations).

NOTE 24. CONTINGENT LIABILITIES

As of January 31, 2015, the Company is involved in and potentially subject to various claims by third parties arising out of the normal course and conduct of its business. Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims and litigation, tax assessments and reassessments, to the extent not covered by the Company's insurance policies or otherwise provided for, not to be material to the consolidated financial statements, but may have a material impact in future periods.

NOTE 25. 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 2024. As of January 31, 2015, these leases have future minimum lease payments of $154 million (February 1, 2014: $150 million), of which $113 million (February 1, 2014: $145 million), relates to leases assigned to Target, in addition to other lease related expenses, such as property taxes and common area maintenance. The Company has a full, unconditional and continuing guarantee and indemnity from the ultimate parent of Target, regarding all ongoing obligations related to the store leases acquired by Target (or its affiliates) which include the assumption of all obligations and liabilities of Zellers arising under these leases after closing of such sale. 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 defenses 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.

In connection with the sale of leasehold interests to Target, the Company has indemnified Target up to a maximum of $1,825 million in respect of any damages arising from any failure to comply with any representation or warranty under the transaction agreement to be true, any failure of the Company to fulfill any of its obligations under the agreement, the use of any of the leased properties prior to transfer to Target, environmental liabilities associated with any of the leased properties, and any liabilities associated with the leased properties not assumed by Target.

From time to time, Saks has issued guarantees to landlords under leases of stores operated by its subsidiaries. Certain of these stores were sold in connection with the sale of the Saks Department Store Group to Belk, Inc. in 2005 and the sale of the Northern Department Store Group to The Bon-Ton Stores, Inc. in 2006. If the purchasers fail to perform certain obligations under the leases guaranteed, the Company could have obligations to landlords under such guarantees. The terms of these guaranteed leases can extend up to the year 2024. As of January 31, 2015, these leases have future minimum lease payments of $103 million (February 1, 2014: $105 million). Based on the information currently available, the Company does not believe that its potential obligations under these lease guarantees would be material.

In the normal course of business, the Company has entered into agreements pursuant to which the Company provides indemnification commitments to counterparties. These indemnification commitments require the Company to compensate counterparties for costs incurred as a result of breaches of representations or warranties, changes in laws or regulations or as a result of litigation claims that may be suffered by the counterparty as a result of the transaction. The Company also has director and officer indemnification agreements. The terms of the indemnification commitments will vary based on the contract. Given the nature of these indemnification commitments, the Company is unable to estimate the maximum potential liability but does not expect to make any significant payments with respect to these commitments.

NOTE 26. SEGMENTED REPORTING

The Company has one reportable segment, Department Stores, which earns revenue from the sale of fashion apparel, accessories, cosmetics and home products to customers in a similar target market. The Department Stores segment, which includes Hudson's Bay, Lord & Taylor, Saks Fifth Avenue, OFF 5TH and Home Outfitters, is managed by the Chief Operating Decision Maker and supported by an integrated shared services function.

The following summarizes retail sales from continuing operations, total operating income from continuing operations and total assets by geographic area:

(millions of Canadian dollars)	2014	2013
Total retail sales		
Canada	**2,810**	2,719
United States	**5,359**	2,504
	8,169	5,223

(millions of Canadian dollars)	2014	(restated – see note 2(z)) 2013
Total operating income (loss)		
Canada	**413**	38
United States	**68**	(33)
	481	5

(millions of Canadian dollars)	2014	(restated – see note 2(z) and note 4) 2013
Non-current assets[(1)]		
Canada	**666**	695
United States	**5,268**	4,616
	5,934	5,311
Total assets		
Canada	**1,903**	1,749
United States	**7,169**	6,193
	9,072	7,942

(1) Excludes deferred tax assets and pensions and employee benefits

NOTE 27. SUBSIDIARIES

Entities controlled by HBC are included in these consolidated financial statements. Control exists when the Company has the ability to direct the relevant activities and the return of an entity. The financial statements of such entities are included in the consolidated financial statements from the date control commences until the date that control ceases. Significant subsidiaries of the Company are:

Name of subsidiary	Country of incorporation and operation	Ownership interest 2014	Ownership interest 2013
Zellers Inc.	Canada	N/A	100%
Lord & Taylor LLC	United States	100%	100%
LT Propco LLC	United States	100%	100%
LT 424 LLC	United States	100%	100%
Saks Incorporated	United States	100%	100%
Saks Flagship Real Property LLC	United States	100%	N/A

NOTE 28. SALE AND LEASEBACK TRANSACTION

On February 25, 2014, the Company sold 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 million. 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. Proceeds of the transaction were used to retire in entirety the Junior Term Loan, which bore interest at a rate of 8.25%, permanently pay down U.S.$150 million of the Senior Term Loan B, currently bearing interest at a rate of 4.75% and reduce the outstanding balance of the HBC Revolving Credit Facility.

The total gain on the sale and leaseback transaction was $560 million, $308 million of which was recognized immediately in the consolidated statement of earnings (loss). The remaining $252 million of the gain was deferred and is being amortized over the term of the lease as a reduction in rent expense. The deferred gain is included in non-current other liabilities in the consolidated balance sheet.

NOTE 29. DISCONTINUED OPERATIONS

The Company has completed the discontinuation of its discount store business which consisted of the Zellers and Fields banners. The decision followed the sale of certain Zellers' leasehold interests to Target. As a result of these changes, the Company has reflected the discount store operations as discontinued operations in the consolidated statements of earnings (loss).

The results of operations relating to discontinued operations were as follows:

(millions of Canadian dollars)	2014	2013
Net loss from discontinued operations before sale of leasehold interests, net of income taxes	—	(111)
Sale of leasehold interests, net of income taxes of nil (2013: $4 million)	—	29
Net loss for the year — discontinued operations, net of income taxes	—	(82)

Net loss from discontinued operations is as follows:

(millions of Canadian dollars)	2014	2013
Retail sales	—	146
Cost of sales	—	(162)
Selling, general and administrative expenses	—	(127)
Operating loss and loss before income taxes	—	(143)
Income tax benefit	—	32
Net loss from discontinued operations before sale of leasehold interests	—	(111)

Assets and Liabilities of Discontinued Operations

The consolidated balance sheet for February 1, 2014 reflects assets and liabilities relating to the discontinuance of the Zellers and Fields businesses. The following table sets out the assets and liabilities relating to Zellers and Fields businesses included in discontinued operations as at January 31, 2015 and February 1, 2014.

(millions of Canadian dollars)	2014	2013
Trade and other receivables	—	2
Assets of discontinued operations	—	2
Trade payables	—	4
Other payables and accrued liabilities	—	7
Provisions - current	—	77
Provisions - non-current	—	1
Liabilities of discontinued operations	—	89

Sale of Leasehold Interests

On January 13, 2011, HBC announced an agreement with Target to sell leasehold interests in a number of its Zellers store locations.

Accordingly the Company recognized in discontinued operations proceeds for the assignment of the leases, operating the selected stores over the closure period, transferring the properties in broom swept condition and for the transfer of pharmacy records. During fiscal 2013, the Company recognized $33 million of proceeds on the sale of leasehold interests.

NOTE 30. SUBSEQUENT EVENTS

On February 11, 2015, a secondary offering was completed pursuant to which 2380162 Ontario Limited, a subsidiary of Ontario Teachers' Pension Plan and successor in interest to HSILP, sold 4,899,000 of the common shares of HBC which it held. The Company did not receive any proceeds from the offering.

On February 25, 2015, HBC announced that it has entered into agreements with each of Simon Property Group Inc. and RioCan Real Estate Investment Trust to form partnerships focused on real estate growth opportunities in the United States and Canada, respectively.

On March 9, 2015, HBC's Board of Directors declared a dividend of $0.05 per common share, payable on April 15, 2015 to shareholders of record as of March 31, 2015.