



**2014 Q1 INTERIM
CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

For the Thirteen Weeks Ended

May 3, 2014

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

(unaudited)

(millions of Canadian dollars, except per share amounts)

| | Notes | Thirteen weeks ended | |
|---|-------|----------------------|--|
| | | May 3, 2014 | May 4, 2013 (restated – see note 2) |
| Retail sales | | 1,855 | 884 |
| Cost of sales | 9 | (1,139) | (528) |
| Selling, general and administrative expenses | | (681) | (344) |
| Depreciation and amortization | 5 | (82) | (29) |
| Gain on sale and leaseback transaction | 17 | 308 | — |
| Operating income (loss) | | 261 | (17) |
| Total interest expense, net | | (71) | (12) |
| Acquisition-related finance costs | | (4) | — |
| Finance costs | 6 | (75) | (12) |
| Earnings (loss) before income tax | | 186 | (29) |
| Income tax (expense) benefit | 8 | (10) | 7 |
| Net earnings (loss) for the period - continuing operations | | 176 | (22) |
| Net loss for the period - discontinued operations, net of taxes | 18 | — | (60) |
| Net earnings (loss) for the period | | 176 | (82) |
| Net earnings (loss) per common share - basic and diluted | 11 | | |
| Continuing operations | | 0.97 | (0.19) |
| Discontinued operations | | — | (0.49) |
| | | 0.97 | (0.68) |

(See accompanying notes to the unaudited interim Condensed Consolidated Financial Statements)

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited)

| | Thirteen weeks ended | |
|---|----------------------|---|
| (millions of Canadian dollars) | May 3, 2014 | May 4, 2013 <small>(restated - see note 2)</small> |
| Net earnings (loss) for the period | 176 | (82) |
| Other comprehensive income (loss), net of tax: | | |
| Items that may be reclassified subsequently to earnings or loss: | | |
| Currency translation adjustment | (29) | 6 |
| Net gain on net investment hedge, net of taxes of nil (2013: nil) | 8 | — |
| Net loss on derivatives designated as cash flow hedges, net of taxes of nil (2013: nil) | — | (1) |
| Reclassification to non-financial assets of net losses on derivatives designated as cash flow hedges, net of taxes of \$1 (2013: nil) | (2) | (1) |
| Other comprehensive (loss) income | (23) | 4 |
| Total comprehensive income (loss) | 153 | (78) |

(See accompanying notes to the unaudited interim Condensed Consolidated Financial Statements)

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the thirteen weeks ended May 3, 2014 and May 4, 2013

(unaudited)

| (millions of Canadian dollars) | Notes | Share Capital | Retained Earnings | Contributed Surplus | Accumulated Other Comprehensive Income (Loss) ("AOCI") | | | Total AOCI | Total Equity | |
|--|-------|---------------|-------------------|---------------------|--|-------------------|----------------------|------------|--------------|--------------|
| | | | | | Currency Translation Adjustment | Employee Benefits | Net Investment Hedge | | | |
| As at February 1, 2014 | | 1,420 | 496 | 43 | 149 | (6) | (54) | 3 | 92 | 2,051 |
| Impact of change in accounting policy | 2 | — | (5) | — | (3) | — | — | — | (3) | (8) |
| As at February 1, 2014 (restated) | | 1,420 | 491 | 43 | 146 | (6) | (54) | 3 | 89 | 2,043 |
| Total comprehensive income..... | | — | 176 | — | (29) | — | 8 | (2) | (23) | 153 |
| Share based compensation | 15 | — | — | 3 | — | — | — | — | — | 3 |
| Dividends..... | 11 | — | (9) | — | — | — | — | — | — | (9) |
| As at May 3, 2014 | | 1,420 | 658 | 46 | 117 | (6) | (46) | 1 | 66 | 2,190 |

| (millions of Canadian dollars) | Notes | Share Capital | Retained Earnings | Contributed Surplus | Accumulated Other Comprehensive Income (Loss) ("AOCI") | | | Total AOCI | Total Equity | |
|--|-------|---------------|-------------------|---------------------|--|-------------------|----------------------|------------|--------------|--------------|
| | | | | | Currency Translation Adjustment | Employee Benefits | Net Investment Hedge | | | |
| As at February 2, 2013 | | 246 | 797 | 33 | (12) | (51) | — | — | (63) | 1,013 |
| Impact of change in accounting policy | 2 | — | (4) | — | (1) | — | — | — | (1) | (5) |
| As at February 2, 2013 (restated) | | 246 | 793 | 33 | (13) | (51) | — | — | (64) | 1,008 |
| Total comprehensive loss (restated) | | — | (82) | — | 6 | — | — | (2) | 4 | (78) |
| Share based compensation | 15 | — | — | 2 | — | — | — | — | — | 2 |
| Dividends..... | | — | (11) | — | — | — | — | — | — | (11) |
| As at May 4, 2013 (restated) | | 246 | 700 | 35 | (7) | (51) | — | (2) | (60) | 921 |

(See accompanying notes to the unaudited interim Condensed Consolidated Financial Statements)

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

As at May 3, 2014, May 4, 2013, February 1, 2014 and February 2, 2013

(unaudited)

| (millions of Canadian dollars) | Notes | May 3, 2014 | (restated – see note 2) | | |
|--|-------|--------------|-------------------------|------------------|------------------|
| | | | May 4, 2013 | February 1, 2014 | February 2, 2013 |
| Assets | | | | | |
| Cash | 7 | 39 | 27 | 21 | 48 |
| Trade and other receivables | | 130 | 66 | 137 | 74 |
| Inventories | 9 | 2,034 | 1,094 | 2,026 | 994 |
| Financial assets | | 6 | 4 | 8 | 3 |
| Other current assets..... | | 76 | 42 | 71 | 32 |
| Income taxes recoverable..... | | 24 | 3 | 23 | — |
| Assets of discontinued operations..... | | — | 117 | 2 | 269 |
| Total current assets..... | | 2,309 | 1,353 | 2,288 | 1,420 |
| Property, plant and equipment | | 3,949 | 1,350 | 4,110 | 1,335 |
| Intangible assets..... | | 963 | 232 | 981 | 233 |
| Goodwill | | 219 | — | 219 | — |
| Pensions and employee benefits | | 67 | 31 | 72 | 38 |
| Deferred tax assets | | 225 | 220 | 249 | 214 |
| Other assets..... | | 11 | 12 | 13 | 12 |
| Total assets | | 7,743 | 3,198 | 7,932 | 3,252 |
| Liabilities | | | | | |
| Loans and borrowings..... | 10 | 428 | 369 | 532 | 132 |
| Trade payables..... | | 616 | 359 | 585 | 400 |
| Other payables and accrued liabilities | | 552 | 267 | 486 | 279 |
| Deferred revenue | | 127 | 105 | 152 | 110 |
| Provisions | | 185 | 86 | 149 | 85 |
| Income taxes payable..... | | 2 | 2 | 10 | 3 |
| Financial liabilities..... | | — | 2 | 1 | 1 |
| Liabilities of discontinued operations | | — | 189 | 89 | 343 |
| Total current liabilities..... | | 1,910 | 1,379 | 2,004 | 1,353 |
| Loans and borrowings..... | 10 | 2,426 | 722 | 2,923 | 719 |
| Provisions | | 17 | 14 | 16 | 14 |
| Financial liabilities..... | | 28 | — | 24 | — |
| Pensions and employee benefits | | 97 | 71 | 96 | 70 |
| Deferred tax liabilities | | 617 | — | 630 | — |
| Other liabilities | | 458 | 91 | 196 | 88 |
| Total liabilities..... | | 5,553 | 2,277 | 5,889 | 2,244 |
| Shareholders' Equity | | | | | |
| Share capital | | 1,420 | 246 | 1,420 | 246 |
| Retained earnings..... | | 658 | 700 | 491 | 793 |
| Contributed surplus..... | | 46 | 35 | 43 | 33 |
| Accumulated other comprehensive income (loss) .. | | 66 | (60) | 89 | (64) |
| Total shareholders' equity | | 2,190 | 921 | 2,043 | 1,008 |
| Total liabilities and shareholders' equity..... | | 7,743 | 3,198 | 7,932 | 3,252 |

(See accompanying notes to the unaudited interim Condensed Consolidated Financial Statements)

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the thirteen weeks ended May 3, 2014 and May 4, 2013

(unaudited)

| (millions of Canadian dollars) | Notes | May 3, 2014 | May 4, 2013 (restated – see note 2) | | |
|---|-------|--------------|--|-------------------------|--------------|
| | | | Continuing operations | Discontinued operations | Total |
| Operating activities | | | | | |
| Net earnings (loss) for the period | | 176 | (22) | (60) | (82) |
| Add: Income tax expense (benefit)..... | | 10 | (7) | (30) | (37) |
| Add: Finance costs | 6 | 75 | 12 | — | 12 |
| Operating income (loss) | | 261 | (17) | (90) | (107) |
| Net cash income taxes (paid) received | | (1) | (3) | 6 | 3 |
| Interest paid in cash | | (40) | (10) | — | (10) |
| Items not affecting cash flows: | | | | | |
| Proceeds on sale of leasehold interests recognized.... | | — | — | (33) | (33) |
| Depreciation and amortization..... | 5 | 82 | 29 | — | 29 |
| Net defined benefit pension and employee benefits expense..... | | 7 | 7 | 6 | 13 |
| Other operating activities | | — | (5) | — | (5) |
| (Gain) loss on sale and leaseback transaction and sale of assets..... | | (308) | — | 15 | 15 |
| Share based compensation..... | 15 | 3 | 2 | — | 2 |
| Redemption of share based compensation grants | 15 | — | (2) | (4) | (6) |
| Changes in operating working capital: | | | | | |
| Decrease in trade and other receivables | | 6 | 8 | 3 | 11 |
| (Increase) decrease in inventories | | (29) | (97) | 152 | 55 |
| (Increase) decrease in other current assets..... | | (6) | (16) | 5 | (11) |
| Increase (decrease) in trade and other payables, accrued liabilities and provisions | | 20 | (45) | (112) | (157) |
| Increase (decrease) in other liabilities | | 14 | (2) | (1) | (3) |
| Net cash inflow from (outflow for) operating activities .. | | 9 | (151) | (53) | (204) |
| Investing activities | | | | | |
| Capital expenditures..... | | (85) | (39) | — | (39) |
| Proceeds from sale of assets | | 35 | — | — | — |
| Proceeds from sale and leaseback transaction | 17 | 650 | — | — | — |
| Net cash inflow from (outflow for) investing activities .. | | 600 | (39) | — | (39) |
| Financing activities | | | | | |
| Long-term loans and borrowings:..... | | | | | |
| Repayments..... | | (511) | (2) | — | (2) |
| | | (511) | (2) | — | (2) |
| Short-term loans and borrowings: | | | | | |
| Net (repayments) borrowings from asset-based credit facilities | | (68) | 235 | — | 235 |
| Net decrease in other short-term borrowings..... | | (3) | — | — | — |
| Dividends paid | | (9) | (11) | — | (11) |
| Net cash (outflow for) inflow from financing activities . | | (591) | 222 | — | 222 |
| Increase (decrease) in cash | | 18 | 32 | (53) | (21) |
| Transfer to continuing operations..... | | — | (53) | 53 | — |
| Increase (decrease) in cash | | 18 | (21) | — | (21) |
| Cash at beginning of period..... | | 21 | 48 | — | 48 |
| Cash at end of period | | 39 | 27 | — | 27 |

(See accompanying notes to the unaudited interim Condensed Consolidated Financial Statements)

HUDSON'S BAY COMPANY

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(For the Thirteen Weeks Ended May 3, 2014, unaudited)

NOTE 1. BASIS OF PREPARATION

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

On November 4, 2013, the 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.

The Company owns and operates stores across 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

Statement of Compliance

The unaudited interim condensed consolidated financial statements were prepared using the same accounting policies and methods as those used in the annual audited consolidated financial statements for the year ended February 1, 2014, except as outlined below. The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"), and therefore, do not contain all disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. Accordingly, certain information and note disclosures normally included in annual financial statements prepared in accordance with IFRS, have been omitted or condensed.

The preparation of unaudited interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates which requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the unaudited interim financial statements have been set out in note 2 of the annual audited consolidated financial statements for the year ended February 1, 2014.

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

These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended February 1, 2014.

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Audit Committee of HBC on June 2, 2014.

Accounting Standards Implemented in Fiscal 2014

Financial Instruments

In December 2011, the IASB amended IAS 32 – Financial Instruments: Presentation ("IAS 32") to clarify the requirements which permit offsetting a financial asset and liability in the financial statements. The Company implemented IAS 32 at the beginning of its 2014 fiscal year and the implementation did not have an impact on its results of operations, financial position

and disclosure.

In June 2013, the IASB amended IAS 39 – Financial Instruments: Recognition and Measurement (“IAS 39”), providing guidance on novation of over-the-counter derivatives and continued designation for hedge accounting. The amendments to IAS 39 must be applied retrospectively for annual periods beginning on or after January 1, 2014. The Company implemented IAS 39 at the beginning of its 2014 fiscal year and the implementation did not have an impact on its results of operations, financial position and disclosure.

Impairment of Assets

In May 2013, the IASB amended IAS 36 – Impairment of Assets (“IAS 36”), providing guidance on recoverable amount disclosures for non-financial assets. The Company implemented IAS 36 at the beginning of its 2014 fiscal year and the implementation did not have an impact on its results of operations, financial position and disclosure.

Levies

In May 2013, the IASB issued IFRIC 21 providing guidance on the accounting for levies imposed by governments. The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. It also clarifies that a levy liability is accrued rateably over a reporting period only if the activity that triggers payment occurs over such period, in accordance with the relevant legislation.

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

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

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

The Company implemented IFRIC 21 retrospectively in the first quarter of fiscal 2014. The impact of the implementation is summarized as follows:

Consolidated Statements of Loss

| <u>(millions of Canadian dollars, except per share amounts)</u> | Thirteen weeks ended May 4, 2013 | Year ended Feb 1, 2014 |
|---|--|---------------------------|
| Increase in selling, general and administrative expenses | (2) | (2) |
| Increase in income tax benefit..... | 1 | 1 |
| Increase in net loss – continuing operations..... | (1) | (1) |
| Increase in net loss | (1) | (1) |
| Net loss per common share - basic and diluted | | |
| Continuing operations | (0.01) | (0.01) |

Consolidated Statements of Comprehensive Loss

| <u>(millions of Canadian dollars)</u> | Thirteen weeks ended May 4, 2013 | Year ended Feb 1, 2014 |
|---|--|---------------------------|
| Increase in net loss | (1) | (1) |
| Decrease in currency translation adjustment | (1) | (2) |
| Increase in other comprehensive loss | (1) | (2) |
| Increase in total comprehensive loss | (2) | (3) |

Consolidated Balance Sheets

| <u>(millions of Canadian dollars)</u> | May 4, 2013 | Feb 1, 2014 | Feb 2, 2013 |
|--|-------------|-------------|-------------|
| Increase in goodwill | — | 5 | — |
| Increase in deferred tax assets | 5 | — | 4 |
| Increase in other payables and accrued liabilities | 12 | 18 | 9 |
| Decrease in deferred tax liabilities | — | (5) | — |
| Decrease in retained earnings | (5) | (5) | (4) |
| Decrease in accumulated other comprehensive income | (2) | (3) | (1) |

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

New Accounting Standards Not Yet Implemented

Financial Instruments

In November 2009, the IASB issued IFRS 9 – Financial Instruments: Classification and Measurement (“IFRS 9”), which contained requirements for financial assets. The IASB added requirements for financial liabilities in October 2010. IFRS 9 will replace IAS 39 in its entirety. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, the approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The effective date for implementation of this standard has been tentatively set for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is assessing the potential impact of this standard.

NOTE 3. SEASONALITY

The Company’s operations are seasonal in nature. Accordingly, retail sales will vary by quarter based on consumer spending behaviour. Historically, the Company’s revenues and earnings are highest in the fourth quarter due to the holiday season. The Company is able to adjust certain variable costs in response to seasonal revenue patterns; however, costs such as occupancy are fixed, causing the Company to report a disproportionate level of earnings in the fourth quarter. This business seasonality results in quarterly performance that is not necessarily indicative of annual performance.

NOTE 4. ACQUISITION OF SAKS

The Company has not yet finalized the purchase price allocation for the acquisition of Saks, including goodwill and therefore, the identifiable net assets acquired, disclosed in the Company’s financial statements for the year ended February 1, 2014, are subject to change.

The analysis for the allocation of goodwill to cash generating units (“CGUs”) or groups of CGUs which will benefit from the synergies from the acquisition has not yet been completed and as such, goodwill cannot be reliably allocated at this time. This is the case as the Company is still in the process of identifying total synergies and where in terms of groups of CGUs these synergies will be realized. The initial allocation of goodwill is required to be completed by the end of fiscal 2014.

NOTE 5. DEPRECIATION AND AMORTIZATION

| (millions of Canadian dollars) | Thirteen weeks ended | |
|-------------------------------------|----------------------|-------------|
| | May 3, 2014 | May 4, 2013 |
| Property, plant and equipment | 64 | 22 |
| Intangible assets | 19 | 9 |
| Deferred credits | (1) | (2) |
| | <u>82</u> | <u>29</u> |

NOTE 6. FINANCE COSTS

| (millions of Canadian dollars) | Thirteen weeks ended | |
|--|----------------------|-------------|
| | May 3, 2014 | May 4, 2013 |
| Interest expense on long-term borrowings | 35 | 8 |
| Interest expense on short-term borrowings | 6 | 4 |
| Write-off of deferred financing costs (note 10)..... | 18 | — |
| Penalties and fees on term loans (note 10) | 12 | — |
| Total interest expense, net | 71 | 12 |
| Finance related costs on warrants (note 16) | 4 | — |
| Acquisition-related finance costs | 4 | — |
| | <u>75</u> | <u>12</u> |

NOTE 7. CASH

For the purpose of the unaudited interim condensed consolidated statements of cash flows, cash includes cash on hand and in banks and investments in money market instruments. Cash as at May 3, 2014, May 4, 2013, February 1, 2014 and February 2, 2013 as shown in the unaudited interim condensed consolidated balance sheets is comprised of the following:

| (millions of Canadian dollars) | May 3, 2014 | May 4, 2013 | Feb 1, 2014 | Feb 2, 2013 |
|--------------------------------|-------------|-------------|-------------|-------------|
| Cash..... | 25 | 21 | 19 | 43 |
| Restricted cash | 14 | 6 | 2 | 5 |
| | <u>39</u> | <u>27</u> | <u>21</u> | <u>48</u> |

NOTE 8. INCOME TAXES

Income tax expense (benefit) for the thirteen weeks ended May 3, 2014 was \$10 million (2013: (\$7 million)). The effective income tax rate of 5.4% (2013: 24.1%) for the first quarter of 2014 decreased compared to the first quarter of 2013 primarily due to the effect of international tax rate differentials and the favourable tax treatment related to the sale and leaseback transaction (note 17).

NOTE 9. INVENTORIES

Inventories on hand at May 3, 2014, May 4, 2013, February 1, 2014, and February 2, 2013 were available for sale. The cost of merchandise inventories recognized as expense for the thirteen weeks ended May 3, 2014 were \$1,139 million (2013: \$528 million).

The write-down of merchandise inventories below cost to net realizable value as at May 3, 2014 was \$34 million (May 4, 2013: \$21 million; February 1, 2014: \$47 million; February 2, 2013: \$34 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.

NOTE 10. LOANS AND BORROWINGS

The Company's debt consists of Canadian and U.S. asset based revolving credit facilities, term loans, mortgages and finance lease obligations.

a) Current loans and borrowings

| (millions of Canadian dollars) | May 3, 2014 | May 4, 2013 | Feb 1, 2014 | Feb 2, 2013 |
|---|-------------|-------------|-------------|-------------|
| HBC Revolving Credit Facility | 54 | 205 | 88 | — |
| U.S. Revolving Credit Facility | 378 | — | 418 | — |
| Lord & Taylor Revolving Credit Facility | — | 169 | — | 138 |
| Current portion of long-term loans and borrowings | 21 | 10 | 54 | 10 |
| | <u>453</u> | <u>384</u> | <u>560</u> | <u>148</u> |
| Less: unamortized costs | (25) | (15) | (28) | (16) |
| | <u>428</u> | <u>369</u> | <u>532</u> | <u>132</u> |

The amounts outstanding and availability under the Company's revolving credit facilities were as follows:

HBC Revolving Credit Facility

| (millions of Canadian dollars) | May 3, 2014 | May 4, 2013 | Feb 1, 2014 | Feb 2, 2013 |
|---|-------------|-------------|-------------|-------------|
| Gross borrowing base availability | 551 | 594 | 479 | 561 |
| Drawings | (54) | (205) | (88) | — |
| Outstanding letters of credit | (9) | (9) | (9) | (15) |
| Borrowing base availability net of drawings and letters of credit | <u>488</u> | <u>380</u> | <u>382</u> | <u>546</u> |

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. The Company is not required to repay the balance outstanding as at May 3, 2014 until the maturity date of June 15, 2017.

U.S. Revolving Credit Facility

| (millions of Canadian dollars) | May 3, 2014 | Feb 1, 2014 |
|---|-------------|-------------|
| Gross borrowing base availability (U.S. \$950) | 1,043 | 1,058 |
| Drawings | (378) | (418) |
| Outstanding letters of credit | (9) | (9) |
| Borrowing base availability net of drawings and letters of credit | <u>656</u> | <u>631</u> |

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 May 3, 2014 until the maturity date of November 4, 2018.

Lord & Taylor Revolving Credit Facility

| (millions of Canadian dollars) | May 3, 2014 | May 4, 2013 | Feb 1, 2014 | Feb 2, 2013 |
|---|-------------|-------------|-------------|-------------|
| Gross borrowing base availability (U.S.\$350 through Nov 4, 2013)..... | — | 353 | — | 313 |
| Drawings | — | (169) | — | (138) |
| Outstanding letters of credit | — | (2) | — | (2) |
| Borrowing base availability net of drawings and letters of credit | <u>—</u> | <u>182</u> | <u>—</u> | <u>173</u> |

b) Long-term loans and borrowings

| (millions of Canadian dollars) | May 3, 2014 | May 4, 2013 | Feb 1, 2014 | Feb 2, 2013 |
|---|--------------|-------------|--------------|-------------|
| Senior Term Loan B | 2,031 | — | 2,228 | — |
| Junior Term Loan | — | — | 334 | — |
| Yorkdale Mortgage | 49 | — | 49 | — |
| Lord & Taylor Mortgage (U.S.\$250)..... | 275 | 252 | 279 | 249 |
| HBC Term Loan (Canadian properties)..... | — | 250 | — | 250 |
| Lord & Taylor Term Loan (U.S. properties) | — | 207 | — | 205 |
| Other mortgages | — | 11 | 10 | 12 |
| Real estate finance leases..... | 116 | — | 118 | — |
| Equipment finance leases and other..... | 39 | 24 | 42 | 26 |
| | <u>2,510</u> | <u>744</u> | <u>3,060</u> | <u>742</u> |
| Less: unamortized costs | (63) | (12) | (83) | (13) |
| Less: amounts due within one year | (21) | (10) | (54) | (10) |
| | <u>2,426</u> | <u>722</u> | <u>2,923</u> | <u>719</u> |

On February 3, 2014, the Company repaid a mortgage outstanding with a final balloon payment of \$10 million.

On February 25, 2014, proceeds from the sale and leaseback transaction (note 17) 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. In connection with the repayment of the Junior Term Loan and Senior Term Loan B, \$13 million and \$5 million, respectively, of deferred financing costs were written off. In addition, \$12 million of penalties and fees for early repayment of the Senior Term Loan B and the Junior Term Loan were incurred.

NOTE 11. SHARE CAPITAL

On March 20, 2014 the Company's Board of Directors declared a dividend of \$0.05 per common share which was paid on April 15, 2014 to shareholders of record at the close of business on March 31, 2014.

The weighted average number of common shares outstanding for the thirteen weeks ended May 3, 2014 is 182 million (2013: 120 million) for both basic and diluted earnings per share.

NOTE 12. RELATED PARTY TRANSACTIONS

The ultimate controlling party of the Company is L&T B.

Transactions between HBC and its subsidiaries, 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 two year lease with SP 35 L.P. (the "Landlord") for approximately 31,000 square feet in Shrewsbury, NJ. The lease was amended on January 17, 2013 to include three renewal options. The first two renewal options are for terms of two and three years respectively at an annual cost of U.S.\$400 thousand. The third renewal option is for a term of five years at an annual cost of U.S.\$500 thousand. The first renewal option was exercised. Amounts charged to the Company under the rental arrangement for the thirteen weeks ended May 3, 2014 were U.S.\$100 thousand (2013: U.S.\$100 thousand). The Landlord is an affiliate of National Realty & Development Corp. ("NRDC"). Richard Baker and Robert Baker, the principals of NRDC, are directors of the Company.

On February 25, 2014, the Company 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 H.S. Investments L.P. ("HSILP"), a shareholder of the Company, for a purchase price of \$650 million (note 17).

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

NOTE 13. CONTINGENT LIABILITIES

As of May 3, 2014, there are a number of claims against the Company where the likely outcome is both quantifiable and estimable in varying amounts and for which provisions have been made in these unaudited interim condensed consolidated financial statements, as appropriate. It is not possible to determine the amounts that may ultimately be assessed against the Company with respect to these claims, but management believes that any such amounts would not have a material impact on the business or financial position of the Company.

NOTE 14. SEGMENTED REPORTING

The Company has one reportable operating 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 service function.

The following summarizes retail sales, operating income (loss), non-current assets and total assets by geographic area:

| (millions of Canadian dollars) | Thirteen weeks ended | |
|--------------------------------|----------------------|-------------|
| | May 3, 2014 | May 4, 2013 |
| Total retail sales | | |
| Canada | 581 | 557 |
| United States | 1,274 | 327 |
| | <u>1,855</u> | <u>884</u> |

| (millions of Canadian dollars) | Thirteen weeks ended | |
|--------------------------------------|----------------------|--|
| | May 3, 2014 | May 4, 2013 (restated – see note 2) |
| Total operating income (loss) | | |
| Canada | 275 | (26) |
| United States | (14) | 9 |
| | <u>261</u> | <u>(17)</u> |

| (millions of Canadian dollars) | May 3, 2014 | (restated – see note 2) | | |
|---|--------------|-------------------------|--------------|--------------|
| | | May 4, 2013 | Feb 1, 2014 | Feb 2, 2013 |
| Non-current assets⁽¹⁾ | | | | |
| Canada..... | 574 | 621 | 695 | 623 |
| United States | 4,568 | 973 | 4,628 | 957 |
| | <u>5,142</u> | <u>1,594</u> | <u>5,323</u> | <u>1,580</u> |
| Total assets | | | | |
| Canada..... | 1,634 | 1,766 | 1,749 | 1,888 |
| United States | 6,109 | 1,432 | 6,183 | 1,364 |
| | <u>7,743</u> | <u>3,198</u> | <u>7,932</u> | <u>3,252</u> |

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

NOTE 15. SHARE BASED COMPENSATION

Senior executive options transactions were as follows:

| | May 3, 2014 | | May 4, 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 | — | — | — | — |
| Exercised | — | — | — | — |
| Forfeited..... | (413,334) | \$17.00 | (200,500) | \$17.00 |
| Expired..... | — | — | — | — |
| Outstanding at end of period..... | 6,149,269 | \$17.13 | 5,890,000 | \$17.00 |
| Share options exercisable at end of period..... | — | — | — | — |

The following table summarizes information about the senior executive share options outstanding and exercisable as at May 3, 2014:

| Range of exercise prices | Number of outstanding options | Weighted average remaining contractual life | Weighted average exercise price | Number exercisable at May 3, 2014 | Weighted average exercise price |
|--------------------------|-------------------------------|---|---------------------------------|-----------------------------------|---------------------------------|
| \$17.00 to \$17.47 | 5,576,318 | 8.57 | \$17.00 | — | — |
| \$18.00 to \$18.85 | 572,951 | 9.65 | \$18.48 | — | — |
| Total | 6,149,269 | 8.67 | \$17.13 | — | — |

Other management options transactions were as follows:

| | May 3, 2014 | | May 4, 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 | — | — | — | — |
| Exercised | — | — | — | — |
| Forfeited..... | (41,600) | \$17.04 | (45,600) | \$17.00 |
| Expired..... | — | — | — | — |
| Outstanding at end of period..... | 928,000 | \$17.03 | 884,200 | \$17.00 |
| Share options exercisable at end of period..... | — | — | — | — |

The following table summarizes information about the other management share options outstanding and exercisable as at May 3, 2014:

| Range of exercise prices | Number of outstanding options | Weighted average remaining contractual life | Weighted average exercise price | Number exercisable at May 3, 2014 | Weighted average exercise price |
|--------------------------|-------------------------------|---|---------------------------------|-----------------------------------|---------------------------------|
| \$17.00 to \$17.47 | 928,000 | 5.69 | \$17.03 | — | — |

During the thirteen weeks ended May 3, 2014, the Company recognized \$2 million (2013: \$2 million) in compensation expense related to share options.

In addition, nil (2013: \$6 million) was paid during the thirteen weeks ended May 3, 2014 related to the redemption of long-term incentive plan units. The liability for future payments related to these redemptions as at May 3, 2014 was nil (May 4, 2013: \$2 million; February 1, 2014: nil; February 2, 2013: \$8 million).

During the thirteen weeks ended May 3, 2014, the Company granted 49,727 deferred share units (“DSUs”) and 30,120

restricted share units (“RSUs”) with grant date fair values of \$833 thousand and \$500 thousand respectively. The fair values of the grants were 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. RSUs were granted under similar terms and conditions as those granted concurrently with the IPO.

Compensation expense recorded for the thirteen weeks ended May 3, 2014 related to DSUs, phantom shares, PSUs and RSUs was \$1 million (2013: nil).

NOTE 16. FINANCIAL INSTRUMENTS

The fair value of the HBC Revolving Credit Facility, U.S. Revolving Credit Facility, Lord & Taylor Revolving Credit Facility, Senior Term Loan B, Junior Term Loan, Yorkdale Mortgage, HBC Term Loan, Lord & Taylor Mortgage, Lord & Taylor Term Loan and other mortgages 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. These instruments are classified within Level 2 of the fair value hierarchy.

As at May 3, 2014, May 4, 2013, February 1, 2014 and February 2, 2013, the carrying value and fair value of these debt instruments were:

| (millions of Canadian dollars) | May 3, 2014 | May 4, 2013 | Feb 1, 2014 | Feb 2, 2013 |
|--------------------------------|--------------|-------------|-------------|-------------|
| Carrying value | 2,787 | 1,094 | 3,406 | 854 |
| Fair value | 2,812 | 1,098 | 3,446 | 857 |

Cash, restricted cash, trade and other receivables, trade payables and other payables and accrued liabilities are financial assets or liabilities that are carried at other than fair value in the unaudited interim condensed consolidated balance sheets. The fair value of these financial assets and liabilities approximate their carrying values at the balance sheet dates due to their short-term nature.

The fair values of foreign currency options, interest rate swaps, forward foreign currency contracts and warrants reflect the estimated amounts that 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 which utilize observable market input data. These instruments are classified within Level 2 of the fair value hierarchy.

As at May 3, 2014, May 4, 2013, February 1, 2014 and February 2, 2013, the fair value and carrying value of derivative financial assets and financial liabilities were:

| (millions of Canadian dollars) | May 3, 2014 | May 4, 2013 | Feb 1, 2014 | Feb 2, 2013 |
|--------------------------------|-------------|-------------|-------------|-------------|
| Financial assets | 6 | 4 | 8 | 3 |
| Financial liabilities | 28 | 2 | 25 | 1 |

Certain features of the warrants issued in connection with the Acquisition result in the warrants being presented as derivative financial liabilities recorded at fair value in the unaudited interim condensed consolidated balance sheet.

During the thirteen weeks ended May 3, 2014, in relation to the 1.5 million warrants issued to HSILP concurrently with the definitive merger agreement with Saks (“Merger Agreement Warrants”), the Company recognized finance related costs of \$1 million representing mark to market adjustments to the fair value as at May 3, 2014. As at May 3, 2014, the fair value of the Merger Agreement Warrants was \$6 million (May 4, 2013: nil, February 1, 2014: \$5 million; February 2, 2013: nil).

In relation to the 5.25 million warrants issued to HSILP and West Face Long Term Opportunities Global Master L.P. on November 4, 2013 upon closing of the transaction (“Acquisition Warrants”), the Company recognized finance related costs during the thirteen weeks ended May 3, 2014 of \$3 million representing the mark to market adjustments to the fair value as at May 3, 2014. As at May 3, 2014, the fair value of the Acquisition Warrants was \$22 million (May 4, 2013: nil; February 1, 2014: \$19 million; February 2, 2013: nil).

The fair values were determined using the Black-Scholes options pricing model using the assumptions outlined below.

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 assumptions related to the valuation of the warrants issued are as follows:

| | |
|--|------------|
| Share price – July 26, 2013 | \$16.49 |
| Share price – May 3, 2014..... | \$17.61 |
| Expected warrant volatility – Merger Agreement Warrants..... | 27% |
| Expected warrant volatility – Acquisition Warrants | 27% |
| Dividend yield..... | 1.14% |
| Risk free interest rate | 1.31% |
| Expected life – Merger Agreement Warrants | 4.25 years |
| Expected life – Acquisition Warrants | 4.5 years |

NOTE 17. 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 has been deferred and is being amortized over the term of the lease as a reduction in rent expense. The current and non-current portions of the deferred gain are included in other payables and accrued liabilities and other liabilities, respectively, in the consolidated balance sheet.

NOTE 18. DISCONTINUED OPERATIONS

| <u>(millions of Canadian dollars)</u> | Thirteen weeks ended | |
|--|-----------------------------|-------------|
| | May 3, 2014 | May 4, 2013 |
| Net loss from discontinued operations, net of taxes | — | (88) |
| Sale of leasehold interests, net of taxes | — | 28 |
| Net loss for the period — discontinued operations, net of taxes | — | (60) |

| <u>(millions of Canadian dollars)</u> | Thirteen weeks ended | |
|--|-----------------------------|--------------|
| | May 3, 2014 | May 4, 2013 |
| Retail sales..... | — | 146 |
| Cost of sales..... | — | (162) |
| Selling, general and administrative expenses | — | (107) |
| Loss before income tax | — | (123) |
| Income tax benefit | — | 35 |
| Net loss from discontinued operations, net of taxes | — | (88) |

NOTE 19. SUBSEQUENT EVENTS

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