# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THIRTEEN AND THIRTY-NINE WEEKS ENDED NOVEMBER 1, 2014

**Dated December 8, 2014**

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

*The following management's discussion and analysis ("MD&A") is intended to assist readers in understanding the business environment, strategies and performance and risk factors of Hudson's Bay Company and its direct and indirect subsidiaries and predecessors or other entities controlled by them, referred to herein as "HBC", the "Company", "we", "us", or "our". It should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company and notes thereto for the thirteen and thirty-nine week periods ended November 1, 2014. Unless otherwise indicated, all amounts are expressed in millions of Canadian dollars.*

*The contents of this MD&A were approved by the Company's Audit Committee. This MD&A reflects information as of December 8, 2014.*

### Basis of Presentation

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

### General Information

Hudson's Bay Company is a Canadian corporation continued under the *Canada Business Corporations Act* and domiciled in Canada. On July 16, 2008, HBC was acquired by Hudson's Bay Trading Company, LP ("HBTC"), a limited partnership now domiciled in the Cayman Islands. NRDC L&T B LLC, 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 completed its acquisition of all of the outstanding shares of Saks Incorporated ("Saks"), in an all-cash transaction valued at U.S.$2,973 million ($3,097 million), including debt assumed (the "Saks Acquisition").

References in this MD&A to Department Store Group ("DSG") refer to the Company as structured prior to the acquisition of Saks (i.e., excluding Saks) and was previously referred to as Legacy HBC. As Home Outfitters merged into the home business at Hudson's Bay during the second quarter, this is the first quarter that Home Outfitters will be reported within DSG.

References to the "Queen Street Sale" in this MD&A refer to the sale of the Company's downtown Toronto flagship store and adjacent Simpson's Tower office complex in the first quarter of Fiscal 2014 (see note 18 of the unaudited interim condensed consolidated financial statements for the thirteen and thirty-nine weeks ended November 1, 2014).

### Accounting Periods

This MD&A is based on the unaudited interim condensed consolidated financial statements and accompanying notes thereto for the thirteen and thirty-nine weeks ended November 1, 2014.

### Forward-Looking Statements

Certain statements in this MD&A regarding our current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements or any other future events or developments, including without limitation statements under the headings "Real Estate Strategy" and "Outlook", constitute forward-looking statements. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely" or "potential", or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements.

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

Many factors could cause our actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, which are discussed in greater detail in the "Risk Factors" section of the Company's Annual Information Form for Fiscal 2013 filed on SEDAR on May 2, 2014: significant competition in the retail industry; changing consumer preferences; changing consumer spending; the prospect of unfavourable economic and political conditions; the seasonal nature of our business, unseasonable weather conditions or natural disasters; our substantial amount of indebtedness and our ability to comply with the covenants in our credit facilities; our ability to integrate Saks with the legacy business and to realize cost synergies and growth opportunities related thereto; our ability to achieve the full amount of cost synergies that are anticipated, or achieve the cost synergies on the schedule anticipated, from the Saks Acquisition; our dependence on key personnel who would be difficult to replace; our dependence on our advertising and marketing programs; a material disruption in our computer systems; our ability to upgrade, maintain and secure our information systems to support the needs of the organization and protect against increased and evolving cyber security threats; our ability to execute our growth strategy; fluctuations in the value of the Canadian dollar in relation to the U.S. dollar; risks associated with doing business abroad; risks associated with operating freehold and leasehold property and surfacing value from our real estate portfolio; environmental risks associated with operating freehold and leasehold property; our ability to meet our obligations under the agreement entered into with Target Corporation; inability to protect our trademarks and other proprietary rights; pension related risks; our constating documents could discourage takeover attempts; risks related to our ability to maintain financial and management processes and controls; our ability to pay dividends is dependent on our ability to generate sufficient income and cash flows; influence by our principal shareholders; our principal shareholders have a material percentage of the Common Shares that may have an impact on the trading price of the Common Shares; and our principal shareholders may sell their Common Shares at a time in the future and such timing will be beyond our control and may affect the trading price of the Common Shares; other risks inherent to our business and/or factors beyond our control that could have a material adverse effect on us. Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time. These factors are not intended to represent a complete list of the factors that could affect us; however, these factors should be considered carefully.

The purpose of the forward-looking statements is to provide the reader with a description of management's expectations regarding the Company's financial performance and may not be appropriate for other purposes; readers should not place undue reliance on forward-looking statements made herein. Furthermore, unless otherwise stated, the forward-looking statements contained in this MD&A are made as of the date of this MD&A, and we have no intention and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

**Non-IFRS Measures**

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

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

**Third Quarter Events**

- On September 4, 2014, Andrea Wong was appointed as a director of the Company. Ms. Wong is considered to be an independent director. The Board of the Company is now comprised of ten directors.

- On September 17, 2014, the Company declared a quarterly dividend, paid on October 15, 2014, to shareholders of record at the close of business September 30, 2014, in the amount of $0.05 per Common Share.

- During the quarter, the Company signed a lease in New York City with Brookfield Property Partners L.P. to open an 85,000 square foot Saks Fifth Avenue store in Brookfield Place at 225 Liberty Street, and a 55,000 square foot Saks Fifth Avenue OFF 5TH ("OFF 5TH") store at One Liberty Plaza in Lower Manhattan. In addition, the Company has leased 400,000 square feet of office space, adjacent to the Saks Fifth Avenue store at Brookfield Place. This space will serve as the home office for the Company's New York City based corporate associates, the majority of whom will move into this space mid to late 2016. The new Saks Fifth Avenue store is slated to open in the spring of 2016, while the new OFF 5TH store is expected to open in the fall of 2017.

- During the third quarter, the Company opened one Hudson's Bay Outlet in Mirabel, Quebec; one Lord & Taylor store in Albany, New York; and three OFF 5TH stores located in Costa Mesa, California; Eagan, Minnesota; and Columbus, Ohio.

- During the quarter, the Company announced it will be partnering with upscale food merchant Pusateri's in its Canadian Saks Fifth Avenue stores in Toronto (Eaton Centre and Sherway Gardens). These stores are planned to open in 2016.

- During the quarter, the Company entered into a co-branded and private label credit card agreement with Capital One Financial Corporation ("Capital One"), subject to certain closing conditions that resulted in Capital One becoming the exclusive issuer for both private label and co-branded credit cards at all Company banners, including Hudson's Bay, Lord & Taylor, Saks Fifth Avenue, OFF 5TH and Home Outfitters. The agreement has an effective date of January 1, 2015 with an initial term of seven years, followed by automatic successive options to renew, each for a term of one year, unless either the Company or Capital One provides written notice to terminate.

- On October 15, 2014, Hudson's Bay Company (Luxembourg) S.à r.l. ("LuxCo"), a significant shareholder of HBC, pursuant to a resolution of its sole shareholder HBTC, underwent a simplified voluntary dissolution in accordance with the laws of the Grand Duchy of Luxembourg. As a result, LuxCo distributed its assets to HBTC, including 20,562,000 common shares of HBC. On October 21, 2014, HBTC distributed 9,646,819 common shares of HBC to its partners, on a pro rata basis. HBC anticipates that HBTC will make additional distributions to its partners in the future.

**Subsequent Events**

- Subsequent to quarter-end, on November 24, 2014 the Company announced plans for a U.S.$1.25 billion, 20-year mortgage on the ground portion of its Saks Fifth Avenue flagship in New York City, located at 611 Fifth Avenue (the "Saks Mortgage"). This transaction closed on December 3, 2014. In connection with this transaction, lenders Bank of America, N.A., Morgan Stanley Bank, N.A., Goldman Sachs Mortgage Company and The Bank of Nova Scotia independently commissioned a leading international appraiser to provide appraisals of the land and the building. The independent appraiser valued the entire property at $4.1 billion based on the assumption that the entire property is net leased by Saks Fifth Avenue at an estimated current fair market rent.

  All proceeds from the financing, net of associated cash expenses, were utilized to permanently pay down

approximately U.S.$1.2 billion of HBC's Senior Term Loan B, which currently bears interest at a floating rate of 4.75% and matures in 2020. With a fixed interest rate of less than 4.40% on the Saks Mortgage, this transaction will result in a reduction to annualized cash interest expense of at least $5 million. The Saks Mortgage is interest-only and does not require any principal amortization over its 20 year term. The transaction will result in approximately U.S.$76 million of one-time expenses, including approximately U.S.$33 million that are non-cash and will be reflected in finance costs in the fourth quarter of Fiscal 2014. The remaining U.S.$43 million of expenses, which includes a mortgage recording tax of U.S.$35 million, are expected to be capitalized and amortized as finance costs over the term of the loan.

Following this transaction, approximately 80% of HBC's debt is backed by high-quality real estate, inventory and receivables, allowing the Company to benefit from attractive debt pricing, with limited or no recourse to HBC's other retail operations. Additionally, the Company's capital structure is greatly enhanced through securing 20 year money. Prior to this transaction, the weighted-average term to maturity of HBC's funded debt was 5.3 years compared to 11.5 years pro forma this transaction. As well, a reduction in the amount of floating rate debt from 89% to 45% of funded debt is extremely beneficial from a risk management perspective.

- Jon Nordeen joined the Company as Chief Information Officer, effective November 19, 2014.
- On December 8, 2014, the Company announced the appointment of Ian Putnam as Executive Vice President, Chief Corporate Development Officer.

**Overview**

*Our Business*

Hudson's Bay Company, founded in 1670, is North America's longest continually operated company. Today, HBC offers customers a range of retailing categories and shopping experiences primarily in the United States and Canada. Our leading banners – Hudson's Bay, Lord & Taylor, and Saks – which includes Saks Fifth Avenue and OFF 5TH – offer a compelling assortment of apparel, accessories, shoes, beauty and home merchandise. Hudson's Bay is Canada's most prominent national branded department store with 90 full-line locations, two outlet stores and thebay.com. Lord & Taylor operates 50 full-line locations, primarily in the northeastern and mid-Atlantic U.S., four Lord & Taylor outlet locations and lordandtaylor.com. Saks Fifth Avenue, one of the world's pre-eminent luxury specialty retailers, comprises 39 U.S. stores, five international licensed stores and saks.com. OFF 5TH offers value-oriented merchandise through 80 U.S. stores and saksoff5th.com. Home Outfitters is Canada's largest kitchen, bed and bath specialty superstore with 69 locations. The Company also operates two Zellers clearance centers in Canada.

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

- *Driving Digital Growth.* HBC Digital manages digital commerce and marketing strategy and execution for our digital brands: thebay.com, lordandtaylor.com, saks.com and saksoff5th.com. By partnering with leadership across the Company's various banners, HBC Digital leverages talent and best practices to deliver outstanding digital experiences for our customers.

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

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

- *Growing Our Top Stores under Each Banner.* We are focusing on driving productivity at the largest sales volume locations at each of Hudson's Bay, Lord & Taylor and Saks Fifth Avenue. By focusing our

investments on these stores, we can increase the sales productivity and contribution margins of these specific locations, as well as enhance the brand equity of each of our banners.

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

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

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

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

*Real Estate Strategy*

The Company continues to make progress in its consideration of alternatives to potentially surface value from its real estate portfolio which, in addition to the Saks Fifth Avenue flagship, includes the Lord & Taylor Fifth Avenue flagship, the Saks Beverly Hills flagship and 62 other owned and ground leased locations in the United States, together with 13 locations in Canada, including flagship properties in many of Canada's major urban centres. As previously announced, HBC expects to be in position to communicate details of this review by the release of its Fiscal 2014 annual financial statements in the spring of next year.

*Highlights of the thirteen week period ended November 1, 2014*

- Retail sales, which include digital commerce sales from all banners, were $1,913 million for the thirteen week period ended November 1, 2014, an increase of $929 million or 94.4% from $984 million for the thirteen week period ended November 2, 2013. The increase is primarily attributable to the inclusion of Saks.

- Consolidated same store sales, which include Saks, increased 7.1% over the comparable thirteen week period in Fiscal 2013, or 2.7% on a local currency basis. On a local currency basis, same store sales increased by 1.7% at DSG**,** 1.0% at Saks Fifth Avenue and 19.2% at OFF 5TH.

- Digital commerce sales grew to $228 million, an increase of $192 million compared to the thirteen week period ended November 2, 2013. The inclusion of Saks contributed $166 million, while DSG increased by 73%, reflecting the Company's continued strategic focus on growing this channel.

- Gross profit rate was 41.1% of retail sales, or a 90 basis point improvement over the thirteen week period ended November 2, 2013.

- Normalized EBITDA was $116 million compared to $63 million for the third quarter of Fiscal 2013. These amounts include the impact resulting from adoption of a new accounting interpretation issued by the IASB (see New Accounting Policies - Levies section) in an amount of $2 million in the third quarter of 2014 compared to negative $1 million for the third quarter of Fiscal 2013. The year-over-year increase in Normalized EBITDA of $53 million primarily relates to the inclusion of Saks. As a percentage of retail sales, Normalized EBITDA decreased to 6.1% from 6.4% for the third quarter of Fiscal 2013.

*Highlights of the thirty-nine week period ended November 1, 2014*

- Retail sales were $5,537 million for the thirty-nine week period ended November 1, 2014, an increase of $2,721 million or 96.6% from $2,816 million for the thirty-nine week period ended November 2, 2013. The increase is primarily attributable to the inclusion of Saks.

- Consolidated same store sales, which include Saks, increased 6.9% over the comparable thirty-nine week period in Fiscal 2013, or 2.5% on a local currency basis. On a local currency basis, same store sales increased by 1.0% at DSG**,** 1.9% at Saks Fifth Avenue and 16.6 % at OFF 5TH.

- Digital commerce sales grew to $597 million, an increase of $515 million compared to the thirty-nine week period ended November 2, 2013. The inclusion of Saks in the first three quarters of Fiscal 2014 contributed $444 million, while DSG increased by 86%, reflecting the Company's continued strategic focus on growing this channel.

- Gross profit rate, excluding amortization of inventory related purchase price accounting adjustments, was 40.5% of retail sales, or a 70 basis point improvement over the thirty-nine week period ended November 2, 2013.

- Normalized EBITDA was $294 million compared to $152 million for the comparable thirty-nine week period ended in Fiscal 2013, and includes no net impact resulting from the adoption of the new accounting interpretation issued by the IASB referenced above, compared to a negative impact $1 million for the thirty-nine week period ended November 2, 2013. The increase in Normalized EBITDA of $142 million primarily relates to the inclusion of Saks. As a percentage of retail sales, Normalized EBITDA decreased to 5.3% from 5.4% for the thirty-nine week period ended November 2, 2013.

**Factors Affecting Our Performance**

*Retail Sales*

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

*Same Store Sales*

The Company calculates same store sales on a year-over-year basis from stores operating for at least 13 months, and includes online sales and clearance store sales. Stores undergoing remodeling remain in the same store sales calculation unless the store is closed for a significant period of time. Unless otherwise noted, this calculation includes the impact of foreign currency translation. Since the fourth quarter of Fiscal 2013, Saks' same store sales have been included in consolidated same store sales. Definitions and calculations of same store sales differ among companies in the retail industry.

*Gross Profit*

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

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

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

*Foreign Exchange*

Our net investment in Lord & Taylor Acquisition Inc. ("L&T Acquisition"), the indirect parent of Lord & Taylor LLC and Saks, whose functional currency is U.S. dollars, presents a foreign exchange risk to HBC, whose functional currency is Canadian dollars. HBC is using a net investment hedge to mitigate this risk. HBC has designated U.S.$350 million of the Senior Term Loan B as a hedge of the first U.S.$350 million of net assets of L&T Acquisition. Foreign currency translation of the net earnings (loss) of L&T Acquisition will impact consolidated net earnings (loss). Foreign currency translation of HBC's investment in L&T Acquisition will impact other comprehensive income (loss).

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

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

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

We earn royalty payments from credit card issuers based on the total of Company and other sales charged to either the Private Label Credit Cards ("PLCC") or MasterCard. We also receive bounty payments from credit card issuers for each approved PLCC or MasterCard account. 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 SG&A in our financial statements. We have no risk of credit loss on the credit card receivables in the underlying portfolio.

*Finance Costs*

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

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

*Weather*

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

*Competition*

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

*Consumer Trends*

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

*Seasonality*

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

**New Accounting Policies - Levies**

In May 2013, the IASB issued IFRIC 21 – Levies ("IFRIC 21"), providing guidance on the accounting for levies imposed by governments. The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. It also clarifies that a levy liability is accrued rateably over a reporting period only if the activity that triggers payment occurs over such period, in accordance with the relevant legislation. See "Changes in Accounting Policies Including Initial Adoption" section of this MD&A.

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

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

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

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

The impact of the implementation is summarized as follows:

| | Thirteen week period ended | | | | Fifty-two week period ended |
|---|---|---|---|---|---|
| **(millions of Canadian dollars except per share amounts)** | **May 4, 2013** | **Aug. 3, 2013** | **Nov. 2, 2013** | **Feb. 1, 2014** | **Feb. 1, 2014** |
| (Increase) decrease in selling, general and administrative expenses | (2) | 2 | (1) | (1) | (2) |
| Increase (decrease) in income tax benefit | 1 | (1) | - | 1 | 1 |
| (Increase) decrease in net (loss) earnings for the period – continuing operations | (1) | 1 | (1) | - | (1) |
| (Increase) decrease in net (loss) earnings for the period | (1) | 1 | (1) | - | (1) |
| Net (loss) earnings per common share | (0.01) | 0.01 | (0.01) | - | (0.01) |
| (Decrease) increase in Normalized EBITDA | (2) | 2 | (1) | (1) | (2) |

The impact of the implementation for the thirteen and thirty-nine weeks ended November 1, 2014 is summarized as follows:

| **(millions of Canadian dollars)** | **Thirteen week period ended Nov. 1, 2014** | **Thirty-nine week period ended Nov. 1, 2014** |
|---|---|---|
| Decrease in selling, general and administrative expenses | 2 | — |
| Decrease in income tax benefit | (1) | — |
| Decrease in net loss – continuing operations | 1 | — |
| Increase in Normalized EBITDA | 2 | — |

## Selected Consolidated Financial Information

The following tables set out summary unaudited consolidated financial information and supplemental information for the periods indicated. The summary financial information set out below has been derived from unaudited interim condensed consolidated financial statements, prepared in accordance with International Accounting Standard 34, Interim Financial Reporting for the thirteen and thirty-nine weeks ended November 1, 2014. The unaudited financial information presented has been prepared on a basis consistent with our audited consolidated financial statements for Fiscal 2013, other than the retrospective application of IFRIC 21 and measurement period adjustments as described in note 2 and note 4 of the unaudited interim condensed consolidated financial statements for the thirteen and thirty-nine weeks ended November 1, 2014. In the opinion of our management, such unaudited financial data reflects all adjustments, consisting of normal and recurring adjustments, necessary for a fair presentation of the results for those periods. The results of operations for interim periods are not necessarily indicative of the results to be expected for a full year or any future period.

| (millions of Canadian dollars except per share amounts) | Thirteen week period ended | | | | Thirty-nine week period ended | | | |
|---|---|---|---|---|---|---|---|---|
| | November 1, 2014 | | *(restated [1])* November 2, 2013 | | November 1, 2014 | | *(restated [1])* November 2, 2013 | |
| | $ | % [2] | $ | % [2] | $ | % [2] | $ | % [2] |
| **Earnings Results** | | | | | | | | |
| Retail sales | 1,913 | 100.0% | 984 | 100.0% | 5,537 | 100.0% | 2,816 | 100.0% |
| Cost of sales | (1,126) | (58.9%) | (588) | (59.8%) | (3,334) | (60.2%) | (1,696) | (60.2%) |
| Gross profit | 787 | 41.1% | 396 | 40.2% | 2,203 | 39.8% | 1,120 | 39.8% |
| Selling, general & administrative expenses | (690) | (36.0%) | (359) | (36.5%) | (2,023) | (36.5%) | (1,030) | (36.6%) |
| Depreciation and amortization | (84) | (4.4%) | (31) | (3.1%) | (247) | (4.5%) | (91) | (3.2%) |
| Gain on Queen Street Sale | — | — | — | — | 308 | 5.5% | — | — |
| Operating income (loss) | 13 | 0.7% | 6 | 0.6% | 241 | 4.3% | (1) | — |
| Total interest expense, net | (35) | (1.9%) | (11) | (1.1%) | (142) | (2.6%) | (40) | (1.4%) |
| Acquisition-related finance costs | (12) | (0.6%) | (123) | (12.5%) | (9) | (0.1%) | (183) | (6.5%) |
| Finance costs | (47) | (2.5%) | (134) | (13.6%) | (151) | (2.7%) | (223) | (7.9%) |
| (Loss) earnings before income tax | (34) | (1.8%) | (128) | (13.0%) | 90 | 1.6% | (224) | (7.9%) |
| Income tax benefit | 21 | 1.1% | 2 | 0.2% | 37 | 0.7% | 10 | 0.3% |
| Net (loss) earnings for the period — continuing operations | (13) | (0.7%) | (126) | (12.8%) | 127 | 2.3% | (214) | (7.6%) |
| Net earnings (loss) for the period — discontinued operations, net of taxes | — | | 1 | | — | | (74) | |
| Net (loss) earnings for the period | (13) | | (125) | | 127 | | (288) | |
| **Net (Loss) Earnings per Common Share — Basic and Diluted** | | | | | | | | |
| Continuing operations | (0.07) | | (1.05) | | 0.70 | | (1.79) | |
| Discontinued operations | — | | — | | — | | (0.61) | |
| | (0.07) | | (1.05) | | 0.70 | | (2.40) | |
| Weighted average Common Shares outstanding — basic and diluted (millions) | 182 | | 120 | | 182 | | 120 | |
| **Supplemental Information – Continuing Operations** | | | | | | | | |
| EBITDA [3] | 108 | 5.6% | 46 | 4.7% | 519 | 9.4% | 118 | 4.2% |
| Normalized EBITDA [3] | 116 | 6.1% | 63 | 6.4% | 294 | 5.3% | 152 | 5.4% |
| Normalized net earnings (loss) for the period [3] | 3 | 0.2% | 8 | 0.8% | (52) | (0.9%) | (2) | (0.1%) |
| Normalized net earnings (loss) per Common Share — basic and diluted [3] | 0.02 | | 0.07 | | (0.29) | | (0.02) | |
| Declared dividend per Common Share | 0.05 | | 0.09375 | | 0.15 | | 0.28125 | |

| | Thirteen week period ended | | Thirty-nine week period ended | |
|---|---|---|---|---|
| | | *(restated [1])* | | *(restated [1])* |
| | **November 1, 2014** | **November 2, 2013** | **November 1, 2014** | **November 2, 2013** |
| **Same Store Sales Percentage Change [4]** | | | | |
| Continuing operations | 7.1% | 5.7% | 6.9% | 4.4% |
| Continuing operations (local currency basis) | 2.7% | 3.8% | 2.5% | 3.3% |
| DSG [6] | 1.7% | 4.5% | 1.0% | 3.9% |
| Saks Fifth Avenue [5] | 1.0% | N/A | 1.9% | N/A |
| OFF 5TH [5] | 19.2% | N/A | 16.6% | N/A |
| **Store Information** | | | | |
| Store count [7] | | | | |
| Hudson's Bay | 90 | 90 | | |
| Lord & Taylor | 50 | 49 | | |
| Saks Fifth Avenue | 39 | N/A | | |
| OFF 5TH | 80 | N/A | | |
| Home Outfitters | 69 | 69 | | |
| Total | 328 | 208 | | |
| Gross leasable area/Square footage (thousands) [7] | | | | |
| Hudson's Bay | 16,123 | 16,118 | | |
| Lord & Taylor | 6,898 | 6,790 | | |
| Saks Fifth Avenue | 4,795 | N/A | | |
| OFF 5TH | 2,199 | N/A | | |
| Home Outfitters | 2,515 | 2,515 | | |
| Total | 32,530 | 25,423 | | |

| **Balance Sheet Data** | | *(restated [1])* | *(restated [1], [10])* |
|---|---|---|---|
| **(millions of Canadian dollars)** | **November 1, 2014** | **November 2, 2013** | **February 1, 2014** |
| | $ | $ | $ |
| Cash | 44 | 26 | 21 |
| Restricted funds | - | 1,052 | - |
| Trade and other receivables | 128 | 84 | 137 |
| Inventories | 2,578 | 1,317 | 2,048 |
| Current assets | 2,926 | 2,598 | 2,310 |
| Property, plant and equipment | 4,111 | 1,459 | 4,110 |
| Intangible assets | 976 | 241 | 980 |
| Goodwill | 211 | - | 209 |
| Total assets | 8,542 | 4,549 | 7,943 |
| Adjusted current liabilities [8] | 1,858 | 2,308 | 1,474 |
| Loans and borrowings (including current portion) | 3,176 | 1,277 | 3,455 |
| Other liabilities (including current portion) [9] | 549 | 118 | 202 |
| Shareholders' equity | 2,175 | 718 | 2,043 |

Notes:

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

(2) As a percentage of retail sales.

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

(4) The Company calculates same store sales on a year-over-year basis from stores operating for at least 13 months, online sales and clearance store sales. Consolidated same store sales include results for all banners.

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

(6) Excludes Home Outfitters for the thirteen and thirty-nine week periods ended November 2, 2013 (see General Information) and is calculated in local currencies.

(7) Hudson's Bay Company operates two Hudson's Bay Outlets, two Zellers stores and four Lord & Taylor Outlets that are excluded from the store count and gross leasable area.

(8) Excludes current loans and borrowings of $689 million as at November 1, 2014, $558 million as at November 2, 2013 and $532 million as at February 1, 2014; and other liabilities of $49 million as at November 1, 2014, $6 million as at November 2, 2013 and February 1, 2014.
(9) Includes deferred landlord incentives of $240 million as at November 1, 2014, $94 million as at November 2, 2013 and $169 million as at February 1, 2014.
(10) During the second quarter of Fiscal 2014, the Company identified measurement period adjustments based on new information relating primarily to inventories. Please see note 4 of the unaudited interim condensed consolidated financial statements for the thirteen and thirty-nine weeks ended November 1, 2014 for additional disclosure on the impacts of the adjustments to previously reported amounts.

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

| | Thirteen week period ended | | Thirty-nine week period ended | |
|---|---|---|---|---|
| | | *(restated [1])* | | *(restated [1])* |
| **(millions of Canadian dollars)** | **November 1, 2014** | **November 2, 2013** | **November 1, 2014** | **November 2, 2013** |
| | $ | $ | $ | $ |
| **Net (Loss) Earnings – Continuing Operations** | (13) | (126) | 127 | (214) |
| Finance costs | 47 | 134 | 151 | 223 |
| Income tax benefit | (21) | (2) | (37) | (10) |
| Non-cash pension expense | 6 | 7 | 20 | 21 |
| Depreciation and amortization | 84 | 31 | 247 | 91 |
| Share based compensation | 5 | 2 | 11 | 7 |
| **EBITDA** | **108** | 46 | **519** | 118 |
| **Normalization Adjustments** | | | | |
| Gain on Queen Street Sale | - | - | (308) | - |
| Saks acquisition and integration related expenses | 14 | 12 | 49 | 14 |
| Amortization of Saks inventory purchase price accounting adjustments | - | - | 40 | - |
| Restructuring and other | (6) | 5 | (6) | 20 |
| Total normalizing adjustments | 8 | 17 | (225) | 34 |
| **Normalized EBITDA** | **116** | 63 | **294** | 152 |

Note:
(1) Certain previously reported figures have been restated due to the implementation of IFRIC 21. For more information, please refer to “New Accounting Policies – Levies”.

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

| | Thirteen week period ended | | Thirty-nine week period ended | |
|---|---|---|---|---|
| | | *(restated [1])* | | *(restated [1])* |
| **(millions of Canadian dollars)** | **November 1, 2014** | **November 2, 2013** | **November 1, 2014** | **November 2, 2013** |
| | $ | $ | $ | $ |
| **Net (Loss) Earnings – Continuing Operations** | **(13)** | (126) | **127** | (214) |
| **Normalization Adjustments** | | | | |
| Gain on Queen Street Sale, net of tax | - | - | (261) | - |
| Saks acquisition and integration related expenses and finance costs, net of tax | 21 | 130 | 41 | 192 |
| Restructuring and other, net of tax | (5) | 4 | (5) | 15 |
| Financing related adjustments, net of tax [2] | - | - | 22 | 4 |
| Amortization of Saks inventory purchase price accounting adjustments, net of tax | - | - | 24 | - |
| Tax related adjustments | - | - | - | 1 |
| Total normalizing adjustments | 16 | 134 | (179) | 212 |
| **Normalized Net Earnings (Loss)** | **3** | 8 | **(52)** | (2) |

Notes:
(1) Certain previously reported figures have been restated due to the implementation of IFRIC 21. For more information, please refer to “New Accounting Policies – Levies” and “Changes in Accounting Policies Including Initial Adoption”.
(2) Includes write-off of deferred financing costs and penalties on early extinguishment of debt.

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

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

**Results of Operations**

***Thirteen Week Period Ended November 1, 2014 Compared to the Thirteen Week Period Ended November 2, 2013***

*Retail Sales*

Retail sales, which include digital commerce sales from all banners, were $1,913 million for the thirteen week period ended November 1, 2014, an increase of $929 million or 94.4% from $984 million for the thirteen week period ended November 2, 2013. The increase is primarily attributable to the inclusion of Saks.

Consolidated same store sales, which include Saks, increased by 7.1%, or 2.7% on a local currency basis. Same store sales on a local currency basis increased 1.7% at DSG, 1.0% at Saks Fifth Avenue and 19.2% at OFF 5TH.

Digital commerce sales totaled $228 million for the thirteen week period ended November 1, 2014. The inclusion of Saks contributed $166 million while DSG increased 73% year-over-year to $62 million for the thirteen week period ended November 1, 2014.

In terms of merchandise category performance, sales growth at DSG was driven by men's apparel, ladies' shoes, cosmetics and Topshop/Topman stores. Sales growth at Saks Fifth Avenue was driven by menswear, accessories and fragrances. Sales growth at OFF 5TH was strong across the majority of categories.

*Gross Profit*

Gross profit was $787 million for the thirteen week period ended November 1, 2014, compared to $396 million for the thirteen week period ended November 2, 2013. The increase in gross profit is primarily attributed to

the inclusion of Saks. Gross profit as a percentage of retail sales was 41.1%, or an increase of 90 basis points compared to the thirteen week period ended November 2, 2013. An improved gross profit rate at DSG, combined with higher gross profit rates at Saks, resulted in overall gross profit rate improvements.

*Selling, General & Administrative Expenses*

SG&A was $690 million for the thirteen week period ended November 1, 2014, compared to $359 million for the thirteen week period ended November 2, 2013. The increase in SG&A is primarily attributed to the inclusion of Saks.

For the thirteen week period ended November 1, 2014, Normalized SG&A was $671 million compared to $333 million for the thirteen week period ended November 2, 2013, a $338 million increase. Normalized SG&A has been calculated as SG&A excluding Saks acquisition and integration related expenses, restructuring and other, non-cash pension expense and share-based compensation.

Excluding normalization items of $19 million ($26 million in the prior year), Normalized SG&A as a percentage of retail sales was 35.1% compared to 33.8% for the prior year, an increase of 130 basis points. This increase was driven largely by strategic investments in our HBC digital business, higher occupancy costs associated with the Queen Street sale and leaseback transaction and performance-based incentive compensation, partially offset by the inclusion of Saks, which runs at a lower SG&A rate than DSG, and operating synergies. Absent these items, Normalized SG&A as a percentage of retail sales was 33.7%, essentially flat to the prior year.

*EBITDA and Normalized EBITDA*

EBITDA was $108 million in the thirteen week period ended November 1, 2014, compared to $46 million in the thirteen week period ended November 2, 2013, an increase of $62 million and includes positive impacts of adopting IFRIC 21 (see New Accounting Policies - Levies section) of $2 million compared to negative impacts of $1 million for the third quarter of Fiscal 2013.

Normalized EBITDA was $116 million, compared to $63 million in the thirteen week period ended November 2, 2013, an increase of $53 million. Expressed as a percentage of sales, Normalized EBITDA margin was 6.1% in the third quarter of 2014 compared to 6.4% in the third quarter of the prior year.

*Finance Costs*

Finance costs were $47 million in the thirteen week period ended November 1, 2014 compared to $134 million for the thirteen week period ended November 2, 2013, a decrease of $87 million. The decrease is primarily related to timing of non-cash mark-to-market adjustments on equity commitment forwards totaling $104 million (see notes 6 and 17 to the unaudited interim condensed consolidated financial statements for the thirteen and thirty-nine weeks ended November 1, 2014) and bridge financing fees of $12 million recorded in the thirteen week period ended November 2, 2013. Upon closing of the Saks Acquisition and at the end of the commitment period on November 4, 2013, the equity commitment forwards expired. These decreases were partially offset by a $24 million increase in interest expense on borrowings under the Company's Senior Term Loan B to partially finance the Saks Acquisition.

*Income Tax Benefit*

Income tax benefit was $21 million in the thirteen week period ended November 1, 2014, compared to an income tax benefit of $2 million for the thirteen week period ended November 2, 2013. The effective income tax rate of 61.8% for the thirteen week period ended November 1, 2014 increased from 1.6% for the thirteen week period ended November 2, 2013 primarily due to the effect of international tax rate differentials in the current year and non-deductible permanent differences in the prior year, principally consisting of acquisition-related finance costs.

*Net Loss – Continuing Operations*

Net Loss – Continuing Operations was $13 million in the thirteen week period ended November 1, 2014 compared to a Net Loss – Continuing Operations of $126 million in the thirteen week period ended November 2, 2013, a decrease in loss of $113 million. This improvement was primarily the result of reduced non-recurring expenses related to the Saks Acquisition in Fiscal 2014.

*Normalized Net Earnings – Continuing Operations*

Normalized Net Earnings – Continuing Operations was $3 million in the thirteen week period ended November 1, 2014 compared to Normalized Net Earnings – Continuing Operations of $8 million in the thirteen week period ended November 2, 2013, a decrease of $5 million, primarily due to increased finance costs and depreciation and amortization expenses attributable to the Saks Acquisition.

***Thirty-nine Week Period Ended November 1, 2014 Compared to the Thirty-nine Week Period Ended November 2, 2013***

*Retail Sales*

Retail sales were $5,537 million for the thirty-nine week period ended November 1, 2014, an increase of $2,721 million or 96.6% from $2,816 million for the thirty-nine week period ended November 2, 2013.

Consolidated same store sales, which include Saks, increased 6.9% for the comparable thirty-nine week period, or 2.5% on a local currency basis. Same store sales on a local currency basis increased 1.0% at DSG**,** 1.9% at Saks Fifth Avenue and 16.6% at OFF 5TH.

Digital commerce sales totaled $597 million in the thirty-nine week period ended November 1, 2014. The inclusion of Saks contributed $444 million while DSG increased 86% year-over-year to $153 million.

In terms of merchandise category performance, sales growth at DSG was driven by men's apparel, ladies' shoes, cosmetics and Topshop/Topman stores. Sales growth at Saks Fifth Avenue was driven by menswear and accessories. Sales growth at OFF 5TH continues to be strong across the majority of categories.

*Gross Profit*

Gross profit for the thirty-nine week period ended November 1, 2014 was $2,203 million compared to $1,120 million for the thirty-nine week period ended November 2, 2013, an increase of $1,083 million, primarily due to the inclusion of Saks in the current reporting period. Gross margin rate, expressed as a percentage of retail sales, was 39.8% in both the current and prior year periods. Gross profit as a percentage of retail sales, excluding amortization of inventory-related purchase price accounting adjustments of $40 million, was 40.5% of retail sales, an increase of 70 basis points compared to the thirty-nine week period ended November 2, 2013.

*Selling, General & Administrative Expenses*

SG&A was $2,023 million or 36.5% of retail sales for the thirty-nine week period ended November 1, 2014, compared to $1,030 million or 36.6% of retail sales for the thirty-nine week period ended November 2, 2013. The increase in SG&A is primarily attributed to the inclusion of Saks.

For the thirty-nine week period ended November 1, 2014, Normalized SG&A was $1,949 million, compared to $968 million for the thirty-nine week period ended November 2, 2013, a $981 million increase. Normalized SG&A has been calculated as SG&A excluding Saks acquisition and integration related expenses, non-cash pension expense, restructuring and other, and share-based compensation for the thirty-nine week periods ended November 1, 2014 and November 2, 2013.

Excluding normalization items of $74 million ($62 million in the prior year), Normalized SG&A as a percentage of retail sales was 35.2% compared to 34.4% for the prior year, an increase of 80 basis points. This

increase was driven in large part by strategic investments in our HBC digital business, higher occupancy costs associated with the Queen Street sale and leaseback transaction and performance-based incentive compensation, partially offset by the inclusion of Saks, which runs at a lower SG&A rate than DSG, and operating synergies. Absent these items, Normalized SG&A as a percentage of retail sales was 34.4%, flat to the prior year. We currently believe that we remain on track to achieve our expected $50 million in synergy savings for Fiscal 2014.

*EBITDA and Normalized EBITDA*

EBITDA was $519 million or 9.4% of retail sales in the thirty-nine week period ended November 1, 2014 compared to $118 million or 4.2% of retail sales in the thirty-nine week period ended November 2, 2013, an increase of $401 million. EBITDA for the thirty-nine week period ended November 1, 2014 included no net impact resulting from the adoption of IFRIC 21 (see New Accounting Policies - Levies section) compared to a negative impact of $1 million for the comparable period in Fiscal 2013.

Normalized EBITDA was $294 million or 5.3% of retail sales in the thirty-nine week period ended November 1, 2014. This compares to Normalized EBITDA of $152 million or 5.4% of retail sales in the thirty-nine week period ended November 2, 2013, representing a year-over-year increase of $142 million.

*Finance Costs*

Finance costs were $151 million for the thirty-nine week period ended November 1, 2014 compared to $223 million for the thirty-nine week period ended November 2, 2013, a decrease of $72 million. The decrease is primarily related to timing of non-cash mark-to-market adjustments on equity commitment forwards totaling $153 million (see notes 6 and 17 to the unaudited interim condensed consolidated financial statements for the thirteen and thirty-nine weeks ended November 1, 2014), and bridge financing fees of $12 million recorded in the thirty-nine week period ended November 2, 2013 related to the Saks Acquisition. These decreases were partially offset by $75 million of increased interest expense on long-term borrowings related to the Saks Acquisition. In addition, increases in non-cash charges of $12 million were also incurred for the write-off of deferred financing costs, and penalties of $12 million were incurred in connection with the early repayment of debt from proceeds on the Queen Street Sale.

*Income Tax Benefit*

Income tax benefit was $37 million for the thirty-nine week period ended November 1, 2014 compared to $10 million for the thirty-nine week period ended November 2, 2013. The effective income tax rate of (41.1%) for the thirty-nine week period ended November 1, 2014 decreased from 4.5% for the thirty-nine week period ended November 2, 2013 primarily due to the effect of international tax rate differentials in the current year and the favourable tax treatment related to the Queen Street Sale offset in part by non-deductible permanent differences in the prior year, principally consisting of acquisition-related finance costs.

*Net Earnings – Continuing Operations*

Net Earnings – Continuing Operations were $127 million in the thirty-nine week period ended November 1, 2014 compared to a Net Loss – Continuing Operations of $214 million in the thirty-nine week period ended November 2, 2013, an increase of $341 million. The year-over-year increase is primarily the result of the gain recognized on the Queen Street Sale, offset in part by higher finance costs and depreciation and amortization attributable to the Saks Acquisition.

*Normalized Net Loss – Continuing Operations*

Normalized Net Loss – Continuing Operations was $52 million in the thirty-nine week period ended November 1, 2014 compared to a loss of $2 million in the thirty-nine week period ended November 2, 2013. The additional loss of $50 million is primarily due to increased finance costs and depreciation and amortization expenses attributable to the Saks Acquisition.

## Summary of Consolidated Quarterly Results

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

| | Fiscal Quarter Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | *(restated [1])* | | | | |
| **(millions of Canadian dollars except per share amounts)** | **Nov. 1, 2014** | **Aug. 2, 2014** | **May 3, 2014** | **Feb. 1, 2014** | **Nov. 2, 2013** | **Aug. 3, 2013** | **May 4, 2013** | **Feb. 2, 2013 [2]** |
| | $ | $ | $ | $ | $ | $ | $ | $ |
| Retail sales | 1,913 | 1,769 | 1,855 | 2,408 | 984 | 948 | 884 | 1,387 |
| Normalized EBITDA | 116 | 81 | 97 | 253 | 63 | 60 | 29 | 177 |
| Net (loss) earnings | | | | | | | | |
| Continuing operations | (13) | (36) | 176 | 37 | (126) | (66) | (22) | 90 |
| Discontinued operations | - | - | - | (8) | 1 | (15) | (60) | (4) |
| | (13) | (36) | 176 | 29 | (125) | (81) | (82) | 86 |
| **Net (Loss) Earnings per Common Share — Basic [3]** | | | | | | | | |
| Continuing Operations | (0.07) | (0.20) | 0.97 | 0.21 | (1.05) | (0.55) | (0.19) | 0.78 |
| Discontinued Operations | - | - | - | (0.05) | - | (0.13) | (0.49) | (0.03) |
| **Net (Loss) Earnings per Common Share— Diluted [3]** | | | | | | | | |
| Continuing Operations | (0.07) | (0.23) | 0.97 | 0.11 | (1.05) | (0.55) | (0.19) | 0.78 |
| Discontinued Operations | - | - | - | (0.05) | - | (0.13) | (0.49) | (0.03) |
| **Same Store Sales Percentage Change [4]** | | | | | | | | |
| Continuing Operations | 7.1% | 5.0% | 8.6% | 6.6% | 5.7% | 3.5% | 4.0% | 2.1% |
| Continuing Operations (excluding impact of foreign exchange) | 2.7% | 1.9% | 2.8% | 2.1% | 3.8% | 3.0% | 3.2% | 2.7% |
| DSG [5] | 1.7% | 1.1% | 2.5 % | 2.8 % | 4.5 % | 3.2% | 3.9 % | 2.9% |
| Saks Fifth Avenue [6] | 1.0% | 2.2% | 2.6% | 2.1 % | N/A | N/A | N/A | N/A |
| OFF 5TH [6] | 19.2% | 14.9% | 15.1% | 7.9 % | N/A | N/A | N/A | N/A |

Notes:

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

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

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

(4) The Company calculates same store sales on a year-over-year basis from stores operating for at least 13 months, and includes digital commerce sales and clearance store sales.

(5) Based on realignment of banners by management, DSG has replaced separate Hudson's Bay and Lord & Taylor reporting of same store sales percentage and also includes Home Outfitters beginning this quarter (see General Information). Same store sales for DSG are calculated in local currencies.

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

## Outlook

Fiscal 2014 is HBC's first full year including Saks, while Fiscal 2013 financial results only included Saks results for the fourth quarter. Our Fiscal 2014 outlook incorporates management's views on the current and expected operating environment and expected investments in the sales and margin enhancement initiatives outlined in the *Our Business* section of this MD&A, as well as the realization of approximately $50 million of the $100 million targeted annualized synergy savings from the integration of Saks, also described in the *Our Business* section of this MD&A. Our Fiscal 2014 guidance also incorporates, as previously disclosed, the annualized impact of the Queen Street Sale: (i) a reduction in finance costs of approximately $42 million; (ii) an increase in rent expense (SG&A) of approximately $30 million; and (iii) $30 million of non-recurring finance costs primarily related to the early extinguishment of debt.

The following guidance, which remains unchanged from the second quarter of 2014, is fully qualified by the *Forward-Looking Statements* section at the beginning of this MD&A:

- Total sales of $7.8 billion to $8.1 billion. This implies full year low-to-mid single-digit consolidated same store sales growth calculated on a constant-currency basis, driven in part by strong digital sales growth.
- Normalized EBITDA of $580 million to $620 million.
- Capital investments of $380 million to $420 million, net of landlord incentives.

This guidance reflects an average U.S. dollar exchange rate assumption of USD:CAD = 1:1.09 for Fiscal 2014. Significant variation in this exchange rate assumption would impact the guidance. The actual average exchange rate for the thirty-nine week period ended November 1, 2014 was USD:CAD = 1:10.

## Liquidity and Capital Resources

### Cash Flows

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

| | Thirty-nine week period ended | |
|---|---|---|
| **(millions of Canadian dollars)** | **November 1, 2014** | **November 2 , 2013** |
| | $ | $ |
| Continuing operations | | |
| Operating activities | (120) | (135) |
| Investing activities | 519 | (149) |
| Financing activities | (377) | 354 |
| Increase in cash from continuing operations | 22 | 70 |
| Foreign exchange gain on cash | 1 | 1 |
| Decrease in cash from discontinued operations | - | (93) |
| Cash at beginning of period | 21 | 48 |
| Cash at end of period | 44 | 26 |

*Net Cash Flow - Operating Activities*

Net cash outflow from operating activities was $120 million for the thirty-nine week period ended November 1, 2014 compared to $135 million for the thirty-nine week period ended November 2, 2013, a decrease of $15 million. This reduction was due primarily to improved cash from operations, offset by higher investment in working capital related to seasonal investments in inventory.

*Net Cash Flow - Investing Activities*

Net cash inflow from investing activities was $519 million for the thirty-nine week period ended November 1, 2014 compared to an outflow of $149 million for the thirty-nine week period ended November 2, 2013, an increase of $668 million. The increase was primarily due to proceeds received from the Queen Street Sale, the sale of other assets, lease terminations and landlord incentives, partially offset by increased capital investments.

*Net Cash Flow - Financing Activities*

Net cash outflow from financing activities was $377 million for the thirty-nine week period ended November 1, 2014 compared to an inflow of $354 million for the thirty-nine week period ended November 2, 2013, an increase in net outflow of $731 million over the comparable period. The year-over-year change was primarily due to applying proceeds from the Queen Street Sale to retire the Junior Term Loan and U.S.$150 million of Senior Term Loan B debt.

## Cash Balances and Liquidity

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

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

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

*Funding Capacity*

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

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

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

On February 25, 2014, the Company completed the sale of its downtown Toronto flagship store and adjacent Simpson's Tower office complex. A portion of the proceeds from such sale was used to retire in entirety the Company's U.S.$300 million Junior Term Loan and permanently pay down U.S.$150 million of its U.S.$2,000 million Senior Term Loan B. The balance of the net proceeds was used to reduce the outstanding balance of the Company's Canadian revolving credit facility.

On December 3, 2014, the Company obtained the Saks Mortgage. Net of associated fees and expenses, all proceeds were utilized to permanently pay down U.S.$1.2 billion of the Company's Senior Term Loan B.

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

## Contractual Obligations

The Company has a number of obligations related to leases, lease guarantees, loans and borrowings, procurement obligations, pensions and other obligations. In the period up to December 8, 2014, other than the repayment of the Junior Term Loan, the partial repayment of the Senior Term Loan B as a result of the Queen Street transaction, the additional partial repayment of $1.2 billion of the Senior Term Loan B as a result of Saks Mortgage, the reduction of the outstanding balance of the Company's Canadian revolving credit facility (each, as mentioned above) and reduction of certain lease obligations as a result of agreements with landlords, there were no material changes to the Company's contractual obligations compared to those identified at year-end. For a complete description of the contractual obligations of the Company, please refer to management's discussion and analysis for the thirteen and fifty-two weeks ended February 1, 2014.

## Guarantees and Off-Balance Sheet Arrangements

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

Standby and documentary letters of credit are used in connection with certain obligations mainly related to purchase orders. The aggregate gross potential liability related to the Company's letters of credit is approximately $26 million as at November 1, 2014.

The Company has not created, and is not party to, any special purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating its business. The Company does not have any relationships or arrangements with entities that are not consolidated into its financial statements that are reasonably likely to materially affect liquidity or the availability of capital resources.

## Financial Instruments and Other Instruments

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

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

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

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

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

As a result of the Saks Acquisition, the Company recognized warrants that are classified as fair value through profit or loss and measured at fair value. Any changes in the fair value are recognized in net earnings (loss) in the period in which the change occurs. The fair values are determined using the Black-Scholes option pricing model. For a complete description of the derivative financial instruments of the Company and related risks, please refer to Note 18 to the Company's Fiscal 2013 audited consolidated financial statements and the Company's Management's Discussion and Analysis for the thirteen and fifty-two weeks ended February 1, 2014.

In connection with the Saks Mortgage, the Company entered into an interest swap rate lock forward contract during the third quarter that resulted in the Company fixing the interest rate to be paid over the 20-year term for a portion of the mortgage. The interest swap rate lock forward contract was designated as a cash flow hedge within an effective hedging relationship and reported at fair value in financial assets or financial liabilities, depending on its fair value. Subsequent changes in the fair value of the instrument are recorded in other comprehensive income (loss) until the effective date of the 20-year mortgage term loan commitment. Subsequent to

the end of the third quarter, the Company entered into a second interest swap rate lock forward contract for the remaining portion of the Saks Mortgage and designated it as a cash flow hedge within an effective hedging relationship. The accounting treatment will be consistent with the accounting treatment of the initial interest swap rate lock forward contract entered into during the third quarter and as described above.

**Tax Matters**

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

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

**Related Party Transactions**

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

On May 6, 2011, a subsidiary of L&T Acquisition entered into a two year lease with SP 35 L.P. (the "Landlord") for approximately 31,000 square feet in Shrewsbury, NJ. The lease was amended on January 17, 2013 to include three renewal options. The first two renewal options are for terms of two and three years, respectively, at an annual cost of 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 and thirty-nine weeks ended November 1, 2014 were U.S.$100 thousand and U.S.$300 thousand, respectively (2013: U.S.$100 thousand and U.S.$300 thousand, respectively). 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.

During the thirteen and thirty-nine weeks ended November 1, 2014, the Company recorded a receivable from HBTC of $300 thousand (2013: $300 thousand) relating to the reimbursement of expenses for services provided by HBC on their behalf.

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

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

**Critical Accounting Policies**

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

During the first quarter of 2014, the Company adopted 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 if it becomes available.

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

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

The following are certain critical judgments and estimations that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the unaudited interim condensed consolidated financial statements. See note 2 to the Fiscal 2013 audited consolidated financial statements for further critical judgments and estimations.

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

**Changes in Accounting Policies Including Initial Adoption**

*Accounting Standards Implemented in 2014*

Financial Instruments - In December 2011, the IASB amended IAS 32 – Financial Instruments: Presentation ("IAS 32"), to clarify the requirements that 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 or 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 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 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, providing guidance on the accounting for levies imposed by governments. The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Company adopted the standard retrospectively in the first quarter of Fiscal 2014**.** The impact of the amendments to IFRIC 21 is summarized in note 2 of the 2014 unaudited interim condensed consolidated financial statements for the thirteen and thirty-nine weeks ended November 1, 2014.

*Future Expected Changes*

Financial Instruments - In November 2009, the IASB issued IFRS 9 – Financial Instruments: Classification and Measurement ("IFRS 9"), which contained requirements for financial assets. The IASB added requirements for financial liabilities in October 2010. IFRS 9 will replace IAS 39 in its entirety. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, the approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. This standard is effective 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 reporting 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.

**Management's Report on Internal Controls over Financial Reporting**

*Disclosure Controls and Procedures*

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

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

*Internal Controls over Financial Reporting*

The CEO and the CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be designed effectively can provide only reasonable assurance with respect to financial reporting and financial statement preparation.

*Limitation on Scope of Design*

The CEO and CFO have limited the scope of design of disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures of Saks, which was acquired on November 4, 2013.

This scope limitation is in accordance with section 3.3(1) (b) of NI 52-109, which allows for an issuer to limit the design of disclosure controls and procedures and internal control over financial reporting for a business that the issuer acquired not more than 365 days before the last day of the period covered by this MD&A.

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

| (millions of Canadian dollars) | Thirteen weeks ended November 1, 2014 | Thirty-nine weeks ended November 1, 2014 |
|---|---|---|
| Retail sales | 884 | 2,615 |
| Net earnings (loss) | 7 | (18) |

| (millions of Canadian dollars) | November 1, 2014 |
|---|---|
| Current assets | 1,353 |
| Non-current assets | 3,541 |
| Current liabilities | 1,070 |
| Non-current liabilities | 914 |

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

*Changes in Internal Control Over Financial Reporting*

There have been no changes in the Company's internal controls over financial reporting during the thirty-nine week period ended November 1, 2014 that have affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## Additional Information

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

## Risk Factors

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

## Dividends

The Company's Board of Directors approved the payment of a quarterly dividend on September 17, 2014, which was paid on October 15, 2014, to shareholders of record at the close of business September 30, 2014. The dividend was in the amount of $0.05 per Common Share and was designated as an "eligible dividend" for Canadian tax purposes.

## Outstanding Share Data

The Company's authorized share capital consists of an unlimited number of Common Shares and an unlimited number of preferred shares issuable in series. As of December 8, 2014, the Company had 182,100,001 Common Shares issued and outstanding and no preferred shares issued and outstanding. As of December 8, 2014, the Company had 9,866,580 share options, 411,906 restricted share units and 6,750,000 warrants outstanding, all of which are convertible or exchangeable into Common Shares.

The Company's Common Shares trade on the Toronto Stock Exchange under the symbol "HBC" and began trading on November 20, 2012. In addition, there were approximately 25 million Common Shares reserved for issuance for the exercise of share options, warrants and the settlement of restricted share units. Assuming exercise of all outstanding share options and the settlement of all outstanding restricted share units, there would be approximately 192.4 million Common Shares issued and outstanding on a fully diluted basis. Assuming exercise of all outstanding share options, the settlement of all outstanding restricted share units and the exercise of all outstanding warrants, there would be approximately 199.1 million Common Shares issued and outstanding on a fully diluted basis.