HUDSON'S BAY COMPANY

# 2013 Q1 INTERIM
# CONDENSED CONSOLIDATED
# FINANCIAL STATEMENTS

For the Thirteen Weeks Ended

**May 4, 2013**

## HUDSON'S BAY COMPANY

## CONDENSED CONSOLIDATED STATEMENTS OF LOSS

## (unaudited)

| (millions of Canadian dollars, except per share amounts) | Notes | Thirteen weeks ended May 4, 2013 | Thirteen weeks ended April 28, 2012 (restated – see note 2) |
|---|---|---|---|
| Retail sales | | **884.0** | 848.2 |
| Cost of sales | 9 | **(527.8)** | (507.1) |
| Selling, general and administrative expenses | | **(371.7)** | (381.3) |
| **Operating loss** | | **(15.5)** | (40.2) |
| Finance costs | 6 | **(12.1)** | (24.8) |
| **Loss before income tax** | | **(27.6)** | (65.0) |
| Income tax benefit | 8 | **6.4** | 18.0 |
| **Net loss for the period - continuing operations** | | **(21.2)** | (47.0) |
| Net loss for the period - discontinued operations, net of taxes | 4 | **(59.5)** | (82.7) |
| **Net loss for the period** | | **(80.7)** | (129.7) |
| | | | |
| **Net loss per common share - basic and diluted** | 12 | | |
| Continuing operations | | **(0.18)** | (0.45) |
| Discontinued operations | | **(0.49)** | (0.79) |
| | | **(0.67)** | (1.24) |

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

**HUDSON'S BAY COMPANY**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

**(unaudited)**

| (millions of Canadian dollars) | Thirteen weeks ended May 4, 2013 | Thirteen weeks ended April 28, 2012 (restated – see note 2) |
|---|---|---|
| **Net loss for the period** | **(80.7)** | (129.7) |
| **Other comprehensive income (loss), net of tax:** | | |
| **Items that may be reclassified subsequently to earnings or loss:** | | |
| Currency translation adjustment | **6.8** | (9.6) |
| Net loss on derivatives designated as cash flow hedges, net of taxes of \$0.3 (2012 - \$1.4) | **(1.0)** | (4.2) |
| Reclassification to non-financial assets of net losses on derivatives designated as cash flow hedges, net of taxes of \$0.3 (2012 - \$0.4) | **(0.9)** | (1.1) |
| Reclassification to earnings of net (losses) gains on derivatives designated as cash flow hedges, net of taxes of \$0.2 (2012 - \$0.5) | **(0.4)** | 1.4 |
| Other comprehensive income (loss) | **4.5** | (13.5) |
| **Total comprehensive loss** | **(76.2)** | (143.2) |

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

## HUDSON'S BAY COMPANY

## CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

### For the thirteen weeks ended May 4, 2013 and April 28, 2012
### (unaudited)

| (millions of Canadian dollars) | Notes | Share Capital | Retained Earnings | Contributed Surplus | Accumulated Other Comprehensive (Loss) Income ("AOCI") Currency Translation Adjustment | Employee Future Benefits | Cash Flow Hedges | Total AOCI | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| **As at February 2, 2013** | | **246.1** | **792.2** | **32.5** | (11.5) | (61.6) | 0.3 | **(72.8)** | **998.0** |
| Impact of change in accounting policy | 2 | — | 4.7 | — | — | 10.3 | — | 10.3 | 15.0 |
| **As at February 2, 2013 (restated)** | | **246.1** | **796.9** | **32.5** | (11.5) | (51.3) | 0.3 | **(62.5)** | **1,013.0** |
| Total comprehensive loss | | — | (80.7) | — | 6.8 | — | (2.3) | 4.5 | (76.2) |
| Share based compensation | 16 | — | — | 2.4 | — | — | — | — | 2.4 |
| Dividends | 12 | — | (11.3) | — | — | — | — | — | (11.3) |
| **As at May 4, 2013** | | **246.1** | **704.9** | **34.9** | (4.7) | (51.3) | (2.0) | **(58.0)** | **927.9** |

| (millions of Canadian dollars) | Note | Share Capital | Retained Earnings | Contributed Surplus | Accumulated Other Comprehensive (Loss) Income ("AOCI") Currency Translation Adjustment | Employee Future Benefits | Cash Flow Hedges | Total AOCI | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| **As at January 28, 2012** | | **2.2** | **938.1** | **60.6** | (9.8) | (35.9) | 0.7 | **(45.0)** | **955.9** |
| Impact of change in accounting policy | 2 | — | (5.0) | — | — | 5.5 | — | 5.5 | 0.5 |
| **As at January 29, 2012 (restated)** | | **2.2** | **933.1** | **60.6** | (9.8) | (30.4) | 0.7 | **(39.5)** | **956.4** |
| Total comprehensive loss | | — | (129.7) | — | (9.6) | — | (3.9) | (13.5) | (143.2) |
| Share based compensation | | — | — | (7.3) | — | — | — | — | (7.3) |
| Dividends | | — | (12.5) | — | — | — | — | — | (12.5) |
| **As at April 28, 2012** | | **2.2** | **790.9** | **53.3** | (19.4) | (30.4) | (3.2) | **(53.0)** | **793.4** |

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

**HUDSON'S BAY COMPANY**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**As at May 4, 2013, April 28, 2012, February 2, 2013 and January 29, 2012**

**(unaudited)**

| (millions of Canadian dollars) | Notes | May 4, 2013 | April 28, 2012 (restated – see note 2) | February 2, 2013 (restated – see note 2) | January 29, 2012 (restated – see note 2) |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash | 7 | **27.4** | 49.6 | 48.3 | 42.4 |
| Trade and other receivables | | **66.2** | 67.8 | 74.3 | 124.0 |
| Inventories | 9 | **1,093.7** | 1,072.9 | 994.3 | 1,814.2 |
| Financial assets | | **3.6** | 2.6 | 3.1 | 5.7 |
| Other current assets | | **41.6** | 27.8 | 31.1 | 20.9 |
| Income taxes recoverable | | **3.4** | — | — | — |
| Assets of discontinued operations held for sale | 4 | **116.7** | 1,039.4 | 268.6 | — |
| **Total current assets** | | **1,352.6** | 2,260.1 | 1,419.7 | 2,007.2 |
| Property, plant and equipment | 10 | **1,350.2** | 1,253.3 | 1,335.0 | 1,401.1 |
| Intangible assets | | **231.6** | 222.9 | 233.0 | 224.6 |
| Pensions and employee benefits | | **31.3** | 84.3 | 38.3 | 91.0 |
| Deferred tax assets | | **215.3** | 200.5 | 209.5 | 257.5 |
| Other assets | | **11.8** | 9.6 | 12.1 | 12.1 |
| **Total assets** | | **3,192.8** | 4,030.7 | 3,247.6 | 3,993.5 |
| **Liabilities** | | | | | |
| Loans and borrowings | 11 | **369.2** | 528.8 | 132.1 | 291.0 |
| Trade payables | | **359.3** | 411.6 | 400.4 | 613.0 |
| Other payables and accrued liabilities | | **255.7** | 262.5 | 269.7 | 700.5 |
| Deferred revenue | | **104.9** | 125.4 | 109.9 | 132.5 |
| Provisions | | **85.7** | 83.4 | 84.6 | 75.4 |
| Income taxes payable | | **1.6** | 8.3 | 3.0 | 102.0 |
| Financial liabilities | | **2.4** | 5.0 | 0.9 | 1.9 |
| Liabilities of discontinued operations held for sale | 4 | **188.7** | 760.3 | 342.9 | — |
| **Total current liabilities** | | **1,367.5** | 2,185.3 | 1,343.5 | 1,916.3 |
| Loans and borrowings | 11 | **721.5** | 890.6 | 718.5 | 901.7 |
| Provisions | | **13.8** | 12.3 | 13.5 | 24.5 |
| Financial liabilities | | **—** | 3.5 | — | — |
| Pensions and employee benefits | | **70.7** | 77.0 | 70.3 | 75.4 |
| Other liabilities | | **91.4** | 68.6 | 88.8 | 119.2 |
| **Total liabilities** | | **2,264.9** | 3,237.3 | 2,234.6 | 3,037.1 |
| **Shareholders' Equity** | | | | | |
| Share capital | 12 | **246.1** | 2.2 | 246.1 | 2.2 |
| Retained earnings | | **704.9** | 790.9 | 796.9 | 933.1 |
| Contributed surplus | | **34.9** | 53.3 | 32.5 | 60.6 |
| Accumulated other comprehensive loss | | **(58.0)** | (53.0) | (62.5) | (39.5) |
| **Total shareholders' equity** | | **927.9** | 793.4 | 1,013.0 | 956.4 |
| **Total liabilities and shareholders' equity** | | **3,192.8** | 4,030.7 | 3,247.6 | 3,993.5 |

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

## HUDSON'S BAY COMPANY

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

## (unaudited)

| | | May 4, 2013 | | | April 28, 2012 (restated – see note 2) | | |
|---|---|---|---|---|---|---|---|
| | Notes | Continuing operations | Discontinued operations | Total | Continuing operations | Discontinued operations | Total |
| **Operating activities** | | | | | | | |
| Net loss for the period | | **(21.2)** | **(59.5)** | **(80.7)** | (47.0) | (82.7) | (129.7) |
| Add: Income tax benefit | | **(6.4)** | **(30.2)** | **(36.6)** | (18.0) | (43.1) | (61.1) |
| Add: Finance costs (income) | | **12.1** | **—** | **12.1** | 24.8 | (0.3) | 24.5 |
| Loss before income tax and finance costs | | **(15.5)** | **(89.7)** | **(105.2)** | (40.2) | (126.1) | (166.3) |
| Net cash income taxes (paid) received | | **(3.4)** | **6.1** | **2.7** | (0.2) | (1.6) | (1.8) |
| Interest (paid) received | | **(10.0)** | **—** | **(10.0)** | (23.1) | 0.2 | (22.9) |
| Items not affecting cash flows: | | | | | | | |
| Proceeds on sale of leasehold interests recognized | 4 | **—** | **(33.4)** | **(33.4)** | — | (61.3) | (61.3) |
| Depreciation and amortization | 5 | **29.0** | **—** | **29.0** | 23.1 | 3.0 | 26.1 |
| Impairment of property, plant and equipment | 10 | **—** | **—** | **—** | 2.8 | — | 2.8 |
| Net defined benefit pension and employee benefits expense | | **7.1** | **6.0** | **13.1** | 6.8 | 2.5 | 9.3 |
| Other operating activities | | **(5.1)** | **(0.1)** | **(5.2)** | (6.3) | (0.3) | (6.6) |
| Loss (gain) on sale of assets | | **0.1** | **15.2** | **15.3** | (0.3) | (8.9) | (9.2) |
| Share based compensation | 16 | **2.4** | **—** | **2.4** | — | — | — |
| Redemption of share based compensation grants | 16 | **(1.5)** | **(4.5)** | **(6.0)** | (5.0) | (2.4) | (7.4) |
| Changes in operating working capital: | | | | | | | |
| Decrease in trade and other receivables | | **7.7** | **3.4** | **11.1** | 1.9 | 14.6 | 16.5 |
| (Increase) decrease in inventories | | **(96.9)** | **151.5** | **54.6** | (78.3) | 7.1 | (71.2) |
| (Increase) decrease in other current assets | | **(16.2)** | **4.8** | **(11.4)** | (7.8) | (11.7) | (19.5) |
| (Decrease) increase in trade and other payables, accrued liabilities and provisions | | **(47.3)** | **(112.0)** | **(159.3)** | (10.2) | 96.0 | 85.8 |
| (Decrease) increase in other liabilities | | **(1.2)** | **(0.8)** | **(2.0)** | (0.2) | 23.4 | 23.2 |
| **Net cash outflow for operating activities** | | **(150.8)** | **(53.5)** | **(204.3)** | (137.0) | (65.5) | (202.5) |
| **Investing activities** | | | | | | | |
| Capital expenditures | | **(33.6)** | **—** | **(33.6)** | (19.2) | (0.3) | (19.5) |
| Software development costs | | **(5.5)** | **—** | **(5.5)** | (6.7) | — | (6.7) |
| Proceeds from sale of assets | | **—** | **0.6** | **0.6** | 0.2 | 9.4 | 9.6 |
| Other investing activities | | **0.3** | **—** | **0.3** | (0.6) | — | (0.6) |
| **Net cash (outflow for) inflow from investing activities** | | **(38.8)** | **0.6** | **(38.2)** | (26.3) | 9.1 | (17.2) |
| **Financing activities** | | | | | | | |
| Long-term loans and borrowings: | | | | | | | |
| Repayments | | **(2.3)** | **—** | **(2.3)** | (2.2) | — | (2.2) |
| Borrowing costs | | **—** | **—** | **—** | (0.5) | — | (0.5) |
| | | **(2.3)** | **—** | **(2.3)** | (2.7) | — | (2.7) |
| Short-term loans and borrowings: | | | | | | | |
| Net borrowings from asset-based credit facilities | | **235.1** | **—** | **235.1** | 242.2 | — | 242.2 |
| Dividends paid | | **(11.3)** | **—** | **(11.3)** | (12.5) | — | (12.5) |
| **Net cash inflow from financing activities** | | **221.5** | **—** | **221.5** | 227.0 | — | 227.0 |
| Foreign exchange gains (losses) on cash | | **0.1** | **—** | **0.1** | (0.1) | — | (0.1) |
| Increase (decrease) in cash | | **32.0** | **(52.9)** | **(20.9)** | 63.6 | (56.4) | 7.2 |
| Transfer to continuing operations | | **(52.9)** | **52.9** | **—** | (56.4) | 56.4 | — |
| (Decrease) increase in cash | | **(20.9)** | **—** | **(20.9)** | 7.2 | — | 7.2 |
| **Cash at beginning of period** | | **48.3** | **—** | **48.3** | 42.4 | — | 42.4 |
| **Cash at end of period** | | **27.4** | **—** | **27.4** | 49.6 | — | 49.6 |

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

## NOTE 1. BASIS OF PREPARATION

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

On November 26, 2012 the Company completed an initial public offering (the "Offering") of its common shares.

The Company owns and operates department stores across Canada and regionally within the United States under Hudson's Bay, Home Outfitters and Lord & Taylor banners. The Company has substantively completed the discontinuation of its discount store business. The address of the registered office of HBC is 401 Bay Street, Toronto, ON, M5H 2Y4.

## NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

### Statement of Compliance

The unaudited interim condensed consolidated financial statements were prepared using the same accounting policies and methods as those used in the annual audited consolidated financial statements for the year ended February 2, 2013 except for the new accounting standards below which have been adopted on February 3, 2013. The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board (''IASB''), and therefore, do not contain all disclosures required by International Financial Reporting Standards (''IFRS'') for annual financial statements. Accordingly, certain information and note disclosures normally included in annual financial statements prepared in accordance with IFRS, have been omitted or condensed.

The preparation of unaudited interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates which requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the unaudited interim financial statements have been set out in note 2 of the annual audited consolidated financial statements for the year ended February 2, 2013. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended February 2, 2013.

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Board of Directors of HBC on June 11, 2013.

### Accounting Standards Implemented in Fiscal 2013

### Employee Benefits

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

**Consolidated Statements of Loss**

| (millions of Canadian dollars, except per share amounts) | Year ended Feb 2, 2013 | Thirteen weeks ended Apr 28, 2012 |
|---|---|---|
| (Increase) decrease in selling, general and administrative expenses | (8.6) | 5.8 |
| Decrease in finance costs | 3.5 | 0.9 |
| Increase (decrease) in income tax benefit | 1.4 | (1.8) |
| (Increase) decrease in net loss – continuing operations | (3.7) | 4.9 |
| Decrease (increase) in net loss – discontinued operations | 13.4 | (0.6) |
| Decrease in net loss | 9.7 | 4.3 |
| **Net (loss) earnings per common share - basic and diluted** | | |
| Continuing operations | (0.03) | 0.05 |
| Discontinued operations | 0.12 | (0.01) |
| | 0.09 | 0.04 |

**Consolidated Statements of Comprehensive Loss**

| (millions of Canadian dollars) | Year ended Feb 2, 2013 | Thirteen weeks ended Apr 28, 2012 |
|---|---|---|
| Decrease in net loss | 9.7 | 4.3 |
| Decrease in net defined benefit plan actuarial loss net of taxes of $1.8 | 4.8 | — |
| Decrease in other comprehensive loss | 4.8 | — |
| Decrease in total comprehensive loss | 14.5 | 4.3 |

**Consolidated Balance Sheets**

| (millions of Canadian dollars) | Feb 2, 2013 | Apr 28, 2012 | Jan 29, 2012 |
|---|---|---|---|
| Decrease in assets of discontinued operations held for sale | (5.0) | — | — |
| Decrease in pensions and employee benefits - asset | — | (1.4) | — |
| Increase in deferred tax assets | — | 0.4 | — |
| Decrease in provisions | (1.9) | (8.3) | (0.7) |
| Increase in income taxes payable | 0.5 | 2.2 | 0.2 |
| (Decrease) increase in liabilities of discontinued operations held for sale | (18.6) | 0.3 | — |
| Increase (decrease) in retained earnings | 4.7 | (0.7) | (5.0) |
| Decrease in accumulated other comprehensive loss | 10.3 | 5.5 | 5.5 |

### Fair Value Measurement

In May 2011, the IASB issued IFRS 13 — Fair Value Measurement ("IFRS 13"), which is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosure about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. The Company implemented this standard prospectively in the first quarter of fiscal 2013 and there were no measurement impacts on the Company's unaudited interim condensed consolidated financial statements. Implementation of IFRS 13 has resulted in additional disclosures in Note 17 to these unaudited interim condensed consolidated financial statements.

### Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10 — Consolidated Financial Statements ("IFRS 10") which replaces portions of IAS 27 — Consolidated and Separate Financial Statements ("IAS 27") and all of SIC-12 — Consolidation — Special Purpose Entities. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities. The standard requires an entity to consolidate an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. As a consequence, IAS 27 has been amended but retains the existing guidance for separate financial statements. The Company implemented the standard at the beginning of its 2013 fiscal year and the implementation did not have an impact on its results of operations, financial position and disclosures.

**Disclosure of Involvement with Other Entities**

In May 2011, the IASB issued IFRS 12 — Disclosure of Interests in Other Entities ("IFRS 12") which establishes disclosure requirements for an entity's interests in other entities, such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosure requirements and introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The Company implemented the standard at the beginning of its 2013 fiscal year and the implementation did not have an impact on its results of operations, financial position and disclosures.

**Other Comprehensive Income Presentation**

In June 2011, the IASB amended IAS 1 — Presentation of Financial Statements (the "IAS 1 amendment") to require companies to group together items within other comprehensive income that may be reclassified to the profit or loss section of the income statement. The amendments reaffirm the existing requirements that items in other comprehensive income and profit or loss should be presented as either a single statement or two consecutive statements. As a result of the adoption of the IAS 1 amendment the Company has modified its presentation of other comprehensive income in these unaudited interim condensed consolidated financial statements.

**Financial Instruments: Asset and Liability Offsetting - Disclosures**

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

**New Accounting Standards**

**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 – Financial Instruments: Recognition and Measurement ("IAS 39") in its entirety. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, the approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015 and early adoption is permitted. The Company is assessing the potential impact of this standard.

**Financial Instruments: Asset and Liability Offsetting - Presentation**

In December 2011, the IASB amended IAS 32 – Financial Instruments: Presentation ("IAS 32") to clarify the requirements which permit offsetting a financial asset and liability in the financial statements. The IAS 32 amendments will be applied retrospectively for annual periods beginning on or after January 1, 2014. The Company is assessing the potential impact of the IAS 32 amendments.

## NOTE 3. SEASONALITY

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

## NOTE 4. DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES HELD FOR SALE

### Discontinued Operations

The Company substantively completed the discontinuation of its discount store business which consists of the Zellers and Fields banners. The plan was approved by the Company's Board of Directors on April 19, 2012. The decision followed the sale of certain Zellers' leasehold interests to Target Corporation. As a result of these changes, the Company has reflected the discount store operations as discontinued operations in the unaudited interim condensed consolidated statements of loss.

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

| | Thirteen weeks ended | |
|---|---|---|
| **(millions of Canadian dollars)** | **May 4, 2013** | Apr 28, 2012 (restated – see note 2) |
| Net loss from discontinued operations, net of taxes | **(88.2)** | (114.1) |
| Sale of leasehold interests, net of taxes | **28.7** | 31.4 |
| **Net loss for the period - discontinued operations, net of taxes** | **(59.5)** | (82.7) |

Net loss from discontinued operations is as follows:

| | Thirteen weeks ended | |
|---|---|---|
| **(millions of Canadian dollars)** | **May 4, 2013** | Apr 28, 2012 (restated – see note 2) |
| Retail sales | **145.8** | 663.9 |
| Cost of sales | **(162.4)** | (440.8) |
| Selling, general and administrative expenses | **(106.4)** | (385.6) |
| **Operating loss** | **(123.0)** | (162.5) |
| Finance income | **—** | 0.3 |
| **Loss before income tax** | **(123.0)** | (162.2) |
| Income tax benefit | **34.8** | 48.1 |
| **Net loss for the period** | **(88.2)** | (114.1) |

Net earnings from the sale of leasehold interests in the thirteen weeks ended May 4, 2013 were $28.7 million (2012: $31.4 million), net of income taxes of $4.6 million (2012: $5.0 million).

Historically, the Zellers and Fields banners were allocated overhead and shared services costs in accordance with the Company's cost sharing agreements. Certain of these costs do not qualify as discontinued operations as they are not directly attributable to the discount store operations. Consequently, operating income related to continuing operations may not be indicative of future operating results.

**Assets Held for Sale**

The unaudited interim condensed consolidated balance sheet for May 4, 2013 reflects assets and liabilities held for sale relating to the discontinuance of the Zellers and Fields businesses. IFRS does not permit the restatement of balance sheets of periods prior to the businesses being designated as held for sale. The following table sets out the assets and liabilities relating to Zellers and Fields businesses as of May 4, 2013, April 28, 2012, February 2, 2013 and January 29, 2012.

| | | (restated – see note 2) | | |
|---|---|---|---|---|
| **(millions of Canadian dollars)** | **May 4, 2013** | Apr 28, 2012 | Feb 2, 2013 | Jan 29, 2012 |
| Trade and other receivables | **7.3** | 39.0 | 10.8 | 56.0 |
| Inventories | **—** | 806.6 | 151.5 | 844.2 |
| Financial assets | **—** | 0.4 | — | — |
| Other current assets | **0.2** | 11.9 | 4.7 | 1.0 |
| Income taxes recoverable | **91.1** | — | 62.2 | — |
| Property, plant and equipment | **3.1** | 126.2 | 19.4 | 130.6 |
| Deferred tax assets | **15.0** | 52.6 | 19.9 | 61.1 |
| Other assets - non-current | **—** | 2.7 | 0.1 | 3.2 |
| **Assets of discontinued operations held for sale** | **116.7** | 1,039.4 | 268.6 | |
| Trade payables | **14.1** | 179.0 | 41.6 | 215.3 |
| Other payables and accrued liabilities | **31.0** | 341.0 | 100.6 | 382.7 |
| Provisions - current | **137.5** | 198.2 | 184.9 | 30.4 |
| Income taxes payable | **—** | 23.5 | — | 93.7 |
| Provisions - non-current | **6.1** | 12.1 | 11.7 | 12.1 |
| Other liabilities | **—** | 6.5 | 4.1 | 46.6 |
| **Liabilities of discontinued operations held for sale** | **188.7** | 760.3 | 342.9 | |

## NOTE 5. DEPRECIATION AND AMORTIZATION

| | **Thirteen weeks ended** | |
|---|---|---|
| **(millions of Canadian dollars)** | **May 4, 2013** | Apr 28, 2012 |
| Included in selling, general and administrative expenses: | | |
| Property, plant and equipment | **21.7** | 22.0 |
| Intangible assets | **8.8** | 6.0 |
| Deferred credits | **(1.6)** | (2.1) |
| Other | **0.1** | 0.2 |
| | **29.0** | 26.1 |

## NOTE 6. FINANCE COSTS

| | **Thirteen weeks ended** | |
|---|---|---|
| **(millions of Canadian dollars)** | **May 4, 2013** | Apr 28, 2012 (restated – see note 2) |
| Interest expense on long-term borrowings | **8.2** | 18.0 |
| Interest expense on short-term borrowings | **4.2** | 8.2 |
| Interest income | **(0.1)** | (0.5) |
| Net interest on pensions and employee benefits | **(0.2)** | (0.9) |
| | **12.1** | 24.8 |

## NOTE 7. CASH

For the purpose of the unaudited interim condensed consolidated statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments. Cash as at May 4, 2013, April 28, 2012, February 2, 2013 and January 29, 2012 as shown in the unaudited interim condensed consolidated balance sheets is comprised of the following:

| (millions of Canadian dollars) | May 4, 2013 | Apr 28, 2012 | Feb 2, 2013 | Jan 29, 2012 |
|---|---|---|---|---|
| Cash | **21.4** | 46.1 | 43.0 | 42.4 |
| Restricted cash | **6.0** | 3.5 | 5.3 | — |
| | **27.4** | 49.6 | 48.3 | 42.4 |

## NOTE 8. INCOME TAXES

Income tax benefit for the thirteen weeks ended May 4, 2013 was $6.4 million (2012: $18.0 million). The effective income tax rate of 23.2% (2012: 27.7%) for the first quarter of 2013 decreased compared to the first quarter of 2012 primarily due to a decrease in prior year recoveries.

## NOTE 9. INVENTORIES

Inventories on hand at May 4, 2013, April 28, 2012, February 2, 2013, and January 29, 2012 were available for sale. The cost of merchandise inventories related to continuing operations recognized as expense for the thirteen weeks ended May 4, 2013 were $527.8 million (2012: $507.1 million).

The write-down of merchandise inventories below cost to net realizable value related to continuing operations as at May 4, 2013 was $21.2 million (April 28, 2012: $16.1 million; February 2, 2013: $33.9 million; January 29, 2012: $31.5 million). There was no reversal of write-downs previously taken on merchandise inventories that are no longer estimated to sell below cost. Inventory has been pledged as security for certain borrowing agreements.

## NOTE 10. PROPERTY, PLANT AND EQUIPMENT

Each reporting period, the Company conducts a review of its cash generating units ("CGU's") in order to determine any indication of impairment losses or reversals of previously recorded impairment losses. During the thirteen weeks ended May 4, 2013 the Company did not recognize any impairment losses on property, plant and equipment. In the thirteen weeks ended April 28, 2012 impairment losses of $2.8 million were recognized relating to changes to the Company's logistics infrastructure as a result of volume declines associated with the closure of the Zellers banner.

## NOTE 11. LOANS AND BORROWINGS

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

### a) Current loans and borrowings

| (millions of Canadian dollars) | May 4, 2013 | Apr 28, 2012 | Feb 2, 2013 | Jan 29, 2012 |
|---|---|---|---|---|
| HBC Revolving Credit Facility | **205.1** | 360.5 | — | 155.0 |
| Lord & Taylor Revolving Credit Facility | **168.8** | 158.9 | 137.8 | 125.2 |
| Current portion of long-term loans and borrowings | **10.1** | 24.1 | 10.0 | 27.6 |
| | **384.0** | 543.5 | 147.8 | 307.8 |
| Less: unamortized costs | **(14.8)** | (14.7) | (15.7) | (16.8) |
| | **369.2** | 528.8 | 132.1 | 291.0 |

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

**HBC Revolving Credit Facility**

| (millions of Canadian dollars) | May 4, 2013 | Apr 28, 2012 | Feb 2, 2013 | Jan 29, 2012 |
|---|---|---|---|---|
| Gross borrowing base availability | **594.1** | 1,104.9 | 560.7 | 1,063.1 |
| Drawings | **(205.1)** | (360.5) | — | (155.0) |
| Outstanding letters of credit | **(8.6)** | (23.6) | (14.4) | (29.0) |
| Borrowing base availability net of drawings and letters of credit | **380.4** | 720.8 | 546.3 | 879.1 |

**Lord & Taylor Revolving Credit Facility**

| (millions of Canadian dollars) | May 4, 2013 | Apr 28, 2012 | Feb 2, 2013 | Jan 29, 2012 |
|---|---|---|---|---|
| Gross borrowing base availability (U.S.$350.0) | **352.7** | 294.3 | 312.5 | 263.4 |
| Drawings | **(168.8)** | (158.9) | (137.8) | (125.2) |
| Outstanding standby letters of credit | **(2.2)** | (2.7) | (2.2) | (6.3) |
| Borrowing base availability net of drawings and standby letters of credit | **181.7** | 132.7 | 172.5 | 131.9 |

**b) Long-term loans and borrowings**

| (millions of Canadian dollars) | May 4, 2013 | Apr 28, 2012 | Feb 2, 2013 | Jan 29, 2012 |
|---|---|---|---|---|
| HBC Term Loan (Canadian properties) | **250.0** | — | 250.0 | — |
| Old HBC Term Loan (Canadian properties) | — | 448.9 | — | 448.9 |
| Lord & Taylor Mortgage (U.S.$250.0) | **252.0** | — | 249.3 | — |
| Lord & Taylor Term Loan (U.S. properties[1]) | **206.9** | 437.0 | 204.7 | 450.3 |
| Other mortgages | **11.2** | 13.3 | 11.7 | 13.7 |
| Equipment finance leases and other | **23.7** | 33.0 | 25.9 | 34.5 |
| | **743.8** | 932.2 | 741.6 | 947.4 |
| Less: unamortized costs | **(12.2)** | (17.5) | (13.1) | (18.1) |
| Less: amounts due within one year | **(10.1)** | (24.1) | (10.0) | (27.6) |
| | **721.5** | 890.6 | 718.5 | 901.7 |

[1] Balance as at May 4, 2013 was U.S.$205.3 million (April 28, 2012: U.S.$445.5 million; February 2, 2013: U.S.$205.3 million; January 29, 2012: U.S.$445.5 million).

## NOTE 12. SHARE CAPITAL

On March 15, 2013 the Company's Board of Directors declared a dividend of $0.09375 per common share which was paid on April 15, 2013 to shareholders of record at the close of business on March 28, 2013.

The weighted average number of common shares outstanding for the thirteen weeks ended May 4, 2013 is 120.0 million (2012: 104.7 million).

## NOTE 13. RELATED PARTY TRANSACTIONS

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

Transactions between HBC, L&T and their respective subsidiaries, which are related parties have been eliminated on consolidation and are not disclosed in this note.

On May 6, 2011, a subsidiary of L&T 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.$0.4 million. The third renewal option is for a term of five years at an annual cost of U.S.$0.5 million. The first renewal option was exercised. Amounts charged to the Company under the rental arrangement for the thirteen weeks ended May 4, 2013 were $0.1 million (2012: $0.3 million). The Landlord is an affiliate of National Realty & Development Corp. ("NRDC"), an entity under common control. Richard Baker and Robert Baker, the principals of NRDC, are also members of L&T B.

Prior to November 26, 2012, agreements existed between HBC and other related parties including HBTC, True North Retail Investments Limited Partnership (“TNRI”), Hudson’s Bay Company (Luxembourg) S. à r.l. (“HBCL”), and NRDC, all of which are entities under common control for the reimbursement of expenses and management fees. On November 26, 2012 these agreements were amended such that these entities will no longer be entitled to management fees, or to have their expenses reimbursed.

Amounts charged to the Company by HBTC, TNRI, and HBCL relating to the reimbursement of expenses were $0.5 million for the thirteen weeks ended April 28, 2012.

Amounts charged to the Company by HBTC under a management agreement were $0.5 million for the thirteen weeks ended April 28, 2012.

Amounts charged to the Company by NRDC under a property agreement were $1.0 million for the thirteen weeks ended April 28, 2012.

As at April 28, 2012 and January 29, 2012 $0.8 million was included in other current assets for fees paid or incurred under the agreements.

In October of 2012, the Company received a $3.2 million payment from TNRI to settle a receivable related to advances which had been outstanding at April 28, 2012 and January 29, 2012.

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

## NOTE 14. CONTINGENT LIABILITIES

As of May 4, 2013, there are a number of claims against the Company where the likely outcome is both quantifiable and estimable in varying amounts and for which provisions have been made in these unaudited interim condensed consolidated financial statements, as appropriate. It is not possible to determine the amounts that may ultimately be assessed against the Company with respect to these claims, but management believes that any such amounts would not have a material impact on the business or financial position of the Company.

## NOTE 15. SEGMENTED REPORTING

As a result of the divestiture of the Zellers and Fields banners, the Company has one reportable operating segment, Department Stores, which earns revenue from the sale of fashion apparel, accessories, cosmetics and home products to customers in a similar target market. The Department Stores segment which includes Hudson’s Bay, Lord & Taylor and Home Outfitters, is managed by the Chief Operating Decision Maker and supported by an integrated shared service function.

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

| | **Thirteen weeks ended** | |
|---|---|---|
| **(millions of Canadian dollars)** | **May 4, 2013** | Apr 28, 2012 |
| **Total retail sales** | | |
| Canada | **556.6** | 526.9 |
| United States | **327.4** | 321.3 |
| | **884.0** | 848.2 |

| | **Thirteen weeks ended** | |
|---|---|---|
| **(millions of Canadian dollars)** | **May 4, 2013** | Apr 28, 2012 (restated – see note 2) |
| **Total operating loss** | | |
| Canada | **(26.5)** | (53.5) |
| United States | **11.0** | 13.3 |
| | **(15.5)** | (40.2) |

| (millions of Canadian dollars) | May 4, 2013 | Apr 28, 2012 (restated – see note 2) | Feb 2, 2013 (restated – see note 2) | Jan 29, 2012 (restated – see note 2) |
|---|---|---|---|---|
| **Total assets** | | | | |
| Canada | **1,766.0** | 2,703.4 | 1,887.3 | 2,708.5 |
| United States | **1,426.8** | 1,327.3 | 1,360.3 | 1,285.0 |
| | **3,192.8** | 4,030.7 | 3,247.6 | 3,993.5 |

## NOTE 16. SHARE BASED COMPENSATION

Concurrent with the Offering, the Company established share options plans for certain employees and its Board of Directors as described in Note 19 to the Company's 2012 audited consolidated financial statements.

During the thirteen weeks ended May 4, 2013, $2.4 million of share based compensation expense was recognized. As at May 4, 2013, 6.9 million share options remains outstanding as result of the forfeiture of 0.3 million options. No share options were granted during the first quarter of 2013.

Also during the thirteen weeks ended May 4, 2013, $6.0 million (2012: $7.4 million) was paid related to the redemption of long-term incentive plan units. The liability for future payments related to these redemptions at May 4, 2013 is $2.4 million (April 28, 2012: nil; February 2, 2013: $8.4 million; January 29, 2012: nil).

## NOTE 17. FINANCIAL INSTRUMENTS

The fair value of the HBC Revolving Credit Facility, Lord & Taylor Revolving Credit Facility, HBC Term Loan, Lord & Taylor Mortgage and the Lord & Taylor Term Loan are valued using a discounted cash flow model, taking into consideration the fixed interest rate spread included in the related debt compared to fixed interest rate spreads on similar debt available in the market at the balance sheet dates. These instruments are classified within Level 2 of the fair value of the hierarchy. As at May 4, 2013, the carrying value and fair value of these debt instruments is $1,094.0 million and $1,097.6 million, respectively.

Cash, restricted cash, trade and other receivables, trade payables and other payables and accrued liabilities are financial assets or liabilities that are carried at other than fair value in the unaudited interim condensed consolidated balance sheets. The fair value of these financial assets and liabilities approximate their carrying values at May 4, 2013 due to their short-term nature.

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 and are determined using valuation techniques based on observable market input data. The fair values of embedded foreign currency derivatives reflect the estimated amounts the Company would receive or pay to settle forward foreign exchange contracts with similar terms using valuation techniques which utilize observable market input data. These instruments are classified within Level 2 of the fair value hierarchy. As at May 4, 2013, the fair value of derivative financial assets and financial liabilities are $3.6 million and $2.4 million, respectively.

## NOTE 18. SUBSEQUENT EVENTS

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

On May 23, 2013 the Company and General Electric Capital Corporation ("GE Capital") executed the Second Amended and Restated Credit Agreement (the "Lord & Taylor Credit Facility") that continues to provide a revolving line of credit (the "Lord & Taylor Revolving Credit Facility") and a new U.S.$200.0 million Term Loan (the "Lord & Taylor GE Capital Term Loan"). Together with cash on hand, the proceeds of the Lord & Taylor GE Capital Term Loan repaid the Lord & Taylor Term Loan (Lender was Credit Suisse Securities LLC) in full. The Lord & Taylor Credit Facility matures on May 23, 2018, currently bears interest at Libor plus 2.25% and is secured by first lien security on the majority of the owned and ground leased facilities (excluding the Fifth Avenue L&T flagship store) and the accounts receivable, inventory and furniture and fixtures of L&T.

The refinancing activities will result in a loss on the extinguishment of debt equal to approximately $5.8 million on a pre-tax basis which will be included as part of finance costs in the second quarter of fiscal 2013.

On June 11, 2013 the Company's Board of Directors declared a dividend of $0.09375 per common share, payable on July 15, 2013 to shareholders of record at the close of business on June 28, 2013.