HUDSON'S BAY COMPANY

2014 Q2 INTERIM
CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

For the Thirteen and Twenty-Six Weeks Ended

August 2, 2014

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF (LOSS) EARNINGS

(unaudited)

(millions of Canadian dollars, except per share amounts)	Notes	Thirteen weeks ended Aug 2, 2014	Thirteen weeks ended Aug 3, 2013 (restated – see note 2)	Twenty-six weeks ended Aug 2, 2014	Twenty-six weeks ended Aug 3, 2013 (restated – see note 2)
Retail sales		**1,769**	948	**3,624**	1,832
Cost of sales	9	**(1,069)**	(580)	**(2,208)**	(1,108)
Selling, general and administrative expenses		**(652)**	(327)	**(1,333)**	(671)
Depreciation and amortization	5	**(81)**	(31)	**(163)**	(60)
Gain on sale and leaseback transaction	18	**—**	—	**308**	—
Operating (loss) income		**(33)**	10	**228**	(7)
Total interest expense		**(36)**	(17)	**(107)**	(29)
Acquisition-related finance income (costs)		**7**	(60)	**3**	(60)
Finance costs	6	**(29)**	(77)	**(104)**	(89)
(Loss) earnings before income tax		**(62)**	(67)	**124**	(96)
Income tax benefit	8	**26**	1	**16**	8
Net (loss) earnings for the period — continuing operations		**(36)**	(66)	**140**	(88)
Net loss for the period — discontinued operations, net of taxes	19	**—**	(15)	**—**	(75)
Net (loss) earnings for the period		**(36)**	(81)	**140**	(163)
Basic net (loss) earnings per common share	12				
Continuing operations		**(0.20)**	(0.55)	**0.77**	(0.74)
Discontinued operations		—	(0.13)	—	(0.62)
		(0.20)	(0.68)	**0.77**	(1.36)
Diluted net (loss) earnings per common share	12				
Continuing operations		**(0.23)**	(0.55)	**0.75**	(0.74)
Discontinued operations		—	(0.13)	—	(0.62)
		(0.23)	(0.68)	**0.75**	(1.36)

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

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(unaudited)

(millions of Canadian dollars)	Thirteen weeks ended **Aug 2, 2014**	Thirteen weeks ended Aug 3, 2013 (restated – see note 2)	Twenty-six weeks ended **Aug 2, 2014**	Twenty-six weeks ended Aug 3, 2013 (restated – see note 2)
Net (loss) earnings for the period	**(36)**	(81)	**140**	(163)
Other comprehensive (loss) income, net of tax:				
Items that may be reclassified subsequently to earnings or loss:				
Currency translation adjustment	**(12)**	15	**(41)**	21
Net gain on net investment hedge, net of taxes of nil and nil (2013 — nil and nil)	**1**	—	**9**	—
Net gains on derivatives designated as cash flow hedges, net of taxes of nil and nil (2013 — $3 and $2), respectively	**—**	7	**—**	6
Reclassification to non-financial assets of net gains (losses) on derivatives designated as cash flow hedges, net of taxes of nil and $1 (2013 — nil and $1), respectively	**1**	(1)	**(1)**	(2)
Reclassification to earnings of net losses on derivatives designated as cash flow hedges, net of taxes of nil and nil (2013 — nil and nil), respectively	**—**	(1)	**—**	(1)
Other comprehensive (loss) income	**(10)**	20	**(33)**	24
Total comprehensive (loss) income	**(46)**	(61)	**107**	(139)

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

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the twenty-six weeks ended August 2, 2014 and August 3, 2013

(unaudited)

(millions of Canadian dollars)	Notes	Share Capital	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Income (Loss) ("AOCI") Currency Translation Adjustment	Employee Benefits	Net Investment Hedge	Cash Flow Hedges	Total AOCI	Total Equity
As at February 1, 2014		**1,420**	**496**	**43**	149	(6)	(54)	3	**92**	**2,051**
Impact of change in accounting policy	2	—	(5)	—	(3)	—	—	—	(3)	(8)
As at February 1, 2014 (restated)		**1,420**	**491**	**43**	146	(6)	(54)	3	**89**	**2,043**
Total comprehensive income		—	140	—	(41)	—	9	(1)	(33)	107
Share based compensation	16	—	—	6	—	—	—	—	—	6
Dividends	12	—	(18)	—	—	—	—	—	—	(18)
As at August 2, 2014		**1,420**	**613**	**49**	105	(6)	(45)	2	**56**	**2,138**

(millions of Canadian dollars)	Notes	Share Capital	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Income (Loss) ("AOCI") Currency Translation Adjustment	Employee Benefits	Net Investment Hedge	Cash Flow Hedges	Total AOCI	Total Equity
As at February 2, 2013		**246**	**797**	**33**	(12)	(51)	—	—	**(63)**	**1,013**
Impact of change in accounting policy	2	—	(4)	—	(1)	—	—	—	(1)	(5)
As at February 2, 2013 (restated)		**246**	**793**	**33**	(13)	(51)	—	—	**(64)**	**1,008**
Total comprehensive loss (restated)		—	(163)	—	21	—	—	3	24	(139)
Share based compensation	16	—	—	5	—	—	—	—	—	5
Dividends		—	(23)	—	—	—	—	—	—	(23)
As at August 3, 2013 (restated)		**246**	**607**	**38**	8	(51)	—	3	**(40)**	**851**

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

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

As at August 2, 2014, August 3, 2013, February 1, 2014 and February 2, 2013

(unaudited)

(millions of Canadian dollars)	Notes	August 2, 2014	(restated – see note 2) August 3, 2013	(restated – see note 2 and note 4) February 1, 2014	(restated – see note 2) February 2, 2013
Assets					
Cash	7	**38**	26	21	48
Trade and other receivables		**114**	62	137	74
Inventories	9	**2,050**	1,016	2,048	994
Financial assets		**5**	7	8	3
Other current assets		**84**	47	71	32
Income taxes recoverable		**37**	5	23	—
Assets of discontinued operations		—	63	2	269
Total current assets		**2,328**	1,226	2,310	1,420
Property, plant and equipment		**3,962**	1,407	4,110	1,335
Intangible assets		**951**	238	980	233
Goodwill		**208**	—	212	—
Pensions and employee benefits		**63**	24	72	38
Deferred tax assets		**238**	219	249	214
Other assets		**12**	12	13	12
Total assets		**7,762**	3,126	7,946	3,252
Liabilities					
Loans and borrowings	10	**472**	383	532	132
Trade payables		**662**	330	585	400
Other payables and accrued liabilities		**502**	249	488	273
Other liabilities	11	**40**	6	6	6
Deferred revenue		**132**	105	152	110
Provisions		**155**	84	149	85
Income taxes payable		**7**	2	10	3
Financial liabilities		**1**	25	1	1
Liabilities of discontinued operations		—	144	89	343
Total current liabilities		**1,971**	1,328	2,012	1,353
Loans and borrowings	10	**2,413**	719	2,923	719
Provisions		**17**	15	16	14
Financial liabilities		**21**	35	24	—
Pensions and employee benefits		**97**	71	96	70
Deferred tax liabilities		**619**	—	636	—
Other liabilities	11	**486**	107	196	88
Total liabilities		**5,624**	2,275	5,903	2,244
Shareholders' Equity					
Share capital		**1,420**	246	1,420	246
Retained earnings		**613**	607	491	793
Contributed surplus		**49**	38	43	33
Accumulated other comprehensive income (loss)		**56**	(40)	89	(64)
Total shareholders' equity		**2,138**	851	2,043	1,008
Total liabilities and shareholders' equity		**7,762**	3,126	7,946	3,252

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

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the twenty-six weeks ended August 2, 2014 and August 3, 2013

(unaudited)

(millions of Canadian dollars)	Notes	Aug 2, 2014	Aug 3, 2013 (restated – see note 2) Continuing operations	Discontinued operations	Total
Operating activities					
Net earnings (loss) for the period		**140**	(88)	(75)	(163)
Deduct: Income tax benefit	8	**(16)**	(8)	(26)	(34)
Add: Finance costs	6	**104**	89	1	90
Operating income (loss)		**228**	(7)	(100)	(107)
Net cash income taxes received (paid)		**5**	(4)	49	45
Interest paid in cash		**(71)**	(20)	—	(20)
Items not affecting cash flows:					
Proceeds on sale of leasehold interests recognized		—	—	(33)	(33)
Depreciation and amortization	5	**163**	60	—	60
Net defined benefit pension and employee benefits expense		**14**	14	6	20
Other operating activities		**(3)**	(5)	—	(5)
(Gain) loss on sale and leaseback transaction and sale of assets		**(308)**	—	16	16
Share based compensation	16	**6**	5	—	5
Redemption of share based compensation grants	16	—	(2)	(4)	(6)
Changes in operating working capital:					
(Increase) decrease in trade and other receivables		**(3)**	8	8	16
(Increase) decrease in inventories		**(34)**	(7)	151	144
(Increase) decrease in other current assets		**(15)**	(21)	5	(16)
Increase (decrease) in trade and other payables, accrued liabilities and provisions		**7**	(99)	(156)	(255)
Decrease in other liabilities		**(25)**	(5)	(1)	(6)
Net cash outflow for operating activities		**(36)**	(83)	(59)	(142)
Investing activities					
Capital investments of $177 million (2013: $99 million) less landlord incentives of $60 million (2013: $24 million)		**(117)**	(75)	—	(75)
Proceeds from lease terminations and other non-capital landlord incentives		**47**	—	—	—
Proceeds from sale of assets		**35**	—	1	1
Proceeds from sale and leaseback transaction	18	**650**	—	—	—
Net cash inflow from (outflow for) investing activities		**615**	(75)	1	(74)
Financing activities					
Long-term loans and borrowings:					
Issued		—	255	—	255
Repayments		**(514)**	(266)	—	(266)
Borrowing costs		—	(5)	—	(5)
		(514)	(16)	—	(16)
Short-term loans and borrowings:					
Net (repayments to) borrowings from asset-based credit facilities		**(23)**	233	—	233
Net decrease in other short-term borrowings		**(6)**	—	—	—
Dividends paid		**(18)**	(23)	—	(23)
Net cash (outflow for) inflow from financing activities		**(561)**	194	—	194
Foreign exchange loss on cash		**(1)**	—	—	—
Increase (decrease) in cash		**17**	36	(58)	(22)
Transfer to continuing operations		—	(58)	58	—
Increase (decrease) in cash		**17**	(22)	—	(22)
Cash at beginning of period		**21**	48	—	48
Cash at end of period		**38**	26	—	26

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The unaudited interim condensed consolidated financial statements 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 that require management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the unaudited interim financial statements have been set out in note 2 of the annual audited consolidated financial statements for the year ended February 1, 2014.

The unaudited interim condensed consolidated financial statements were prepared using the same accounting policies and methods as those used in the annual audited consolidated financial statements for the year ended February 1, 2014, except as outlined below.

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

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

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Audit Committee of HBC on September 11, 2014.

Accounting Standards Implemented in Fiscal 2014

Financial Instruments

In December 2011, the IASB amended IAS 32 – Financial Instruments: Presentation ("IAS 32") to clarify the requirements 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. It also clarifies that a levy liability is accrued rateably over a reporting period only if the activity that triggers payment occurs over such period, in accordance with the relevant legislation.

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

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

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

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

Consolidated Statements of Loss

(millions of Canadian dollars, except per share amounts)	Thirteen weeks ended Aug 3, 2013	Twenty-six weeks ended Aug 3, 2013	Year ended Feb 1, 2014
Decrease (increase) in selling, general and administrative expenses	2	—	(2)
(Decrease) increase in income tax benefit	(1)	—	1
Decrease (increase) in net loss – continuing operations	1	—	(1)
Decrease (increase) in net loss	1	—	(1)
Net earnings (loss) per common share - basic and diluted			
Continuing operations	0.01	—	(0.01)

Consolidated Statements of Comprehensive Loss

(millions of Canadian dollars)	Thirteen weeks ended Aug 3, 2013	Twenty-six weeks ended Aug 3, 2013	Year ended Feb 1, 2014
Decrease (increase) in net loss	1	—	(1)
Increase (decrease) in currency translation adjustment	1	—	(2)
Increase in other comprehensive income (loss)	1	—	(2)
Increase in total comprehensive income (loss)	2	—	(3)

Consolidated Balance Sheets

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

The impact of the implementation of IFRIC 21 for the thirteen and twenty-six weeks ended August 2, 2014 was:

(millions of Canadian dollars)	Thirteen weeks ended Aug 2, 2014	Twenty-six weeks ended Aug 2, 2014
Decrease (increase) in selling, general and administrative expenses	6	(2)
(Decrease) increase in income tax benefit	(2)	1
Increase (decrease) in net earnings – continuing operations	4	(1)

New Accounting Standards Not Yet Implemented

Financial Instruments

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

Revenue

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customer ("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.

NOTE 3. SEASONALITY

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

NOTE 4. ACQUISITION OF SAKS

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

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

During the thirteen weeks ended August 2, 2014, the Company identified measurement period adjustments based on new information relating primarily to inventories. The impacts of the adjustments to previously reported amounts are as follows:

Consolidated Balance Sheets

(millions of Canadian dollars)	**Nov 4, 2013**	**Feb 1, 2014**	**May 3, 2014**
Increase in inventories	21	22	22
Decrease in intangible assets	(1)	(1)	(1)
Decrease in goodwill	(7)	(7)	(7)
Increase in other payables and accrued liabilities	8	8	8
Increase in deferred tax liabilities	5	6	6

NOTE 5. DEPRECIATION AND AMORTIZATION

	Thirteen weeks ended		**Twenty-six weeks ended**	
(millions of Canadian dollars)	**Aug 2, 2014**	Aug 3, 2013	**Aug 2, 2014**	Aug 3, 2013
Property, plant and equipment	**65**	21	**129**	43
Intangible assets	**16**	10	**35**	19
Deferred credits	**—**	—	**(1)**	(2)
	81	31	**163**	60

NOTE 6. FINANCE COSTS

	Thirteen weeks ended		**Twenty-six weeks ended**	
(millions of Canadian dollars)	**Aug 2, 2014**	Aug 3, 2013	**Aug 2, 2014**	Aug 3, 2013
Interest expense on long-term borrowings	**30**	6	**65**	14
Interest expense on short-term borrowings	**5**	5	**11**	9
Write-off of deferred financing costs	**—**	6	**18**	6
Net interest on pensions and employee benefits	**1**	**—**	**1**	**—**
Penalties and fees on term loans	**—**	—	**12**	—
Total interest expense	**36**	17	**107**	29
Finance related (income) costs on warrants (note 17)	**(7)**	11	**(3)**	11
Change in fair value of Equity Commitment Forwards (note 17)	**—**	49	—	49
Acquisition-related finance (income) costs	**(7)**	60	**(3)**	60
	29	77	**104**	89

NOTE 7. CASH

For the purpose of the unaudited interim condensed consolidated statements of cash flows, cash includes cash on hand and in banks and investments in money market instruments. Cash as shown in the unaudited interim condensed consolidated balance sheets is comprised of the following:

(millions of Canadian dollars)	**Aug 2, 2014**	Aug 3, 2013	Feb 1, 2014	Feb 2, 2013
Cash	**25**	22	19	43
Restricted cash	**13**	4	2	5
	38	26	21	48

NOTE 8. INCOME TAXES

Income tax benefit for the thirteen and twenty-six weeks ended August 2, 2014 was $26 million and $16 million, respectively (2013: $1 million and $8 million, respectively).

The effective income tax rate of 41.9% (2013: 1.5%) for the thirteen weeks ended August 2, 2014 increased compared to the prior year 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.

The effective income tax rate of (12.9%) (2013: 8.3%) for the twenty-six weeks ended August 2, 2014 decreased compared to the prior year primarily due to the favourable tax treatment related to the sale and leaseback transaction (note 18) and the effect of international tax rate differentials in the current year, offset in part by non-deductible permanent differences in the prior year, principally consisting of acquisition-related finance costs.

NOTE 9. INVENTORIES

Inventories on hand at August 2, 2014, August 3, 2013, February 1, 2014, and February 2, 2013 were available for sale. The cost of merchandise inventories recognized as expense for the thirteen and twenty-six weeks ended August 2, 2014 was $1,069 million and $2,208 million, respectively (2013: $580 million and $1,108 million, respectively).

The write-down of merchandise inventories below cost to net realizable value as at August 2, 2014 was $41 million (August 3, 2013: $27 million; February 1, 2014: $47 million; February 2, 2013: $34 million). There was no reversal of write-downs previously taken on merchandise inventories that are no longer estimated to sell below cost. Inventory has been pledged as security for certain borrowing agreements.

NOTE 10. LOANS AND BORROWINGS

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

a) Current loans and borrowings

(millions of Canadian dollars)	**Aug 2, 2014**	Aug 3, 2013	Feb 1, 2014	Feb 2, 2013
HBC Revolving Credit Facility	**7**	205	88	—
U.S. Revolving Credit Facility	**470**	—	418	—
Lord & Taylor Revolving Credit Facility	—	172	—	138
Current portion of long-term loans and borrowings	**19**	20	54	10
	496	397	560	148
Less: unamortized costs	**(24)**	(14)	(28)	(16)
	472	383	532	132

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

HBC Revolving Credit Facility

(millions of Canadian dollars)	**Aug 2, 2014**	Aug 3, 2013	Feb 1, 2014	Feb 2, 2013
Gross borrowing base availability	**500**	535	479	561
Drawings	**(7)**	(205)	(88)	—
Outstanding letters of credit	**(9)**	(8)	(9)	(15)
Borrowing base availability net of drawings and letters of credit	**484**	322	382	546

As the HBC Revolving Credit Facility is available for and used to finance working capital requirements, capital expenditures and other general corporate purposes, it has been classified in the unaudited interim condensed consolidated balance sheets as part of current loans and borrowings. The Company is not required to repay the balance outstanding as at August 2, 2014 until the maturity date of June 15, 2017.

U.S. Revolving Credit Facility

(millions of Canadian dollars)	Aug 2, 2014	Feb 1, 2014
Gross borrowing base availability (U.S. $950)	**1,038**	1,058
Drawings	**(470)**	(418)
Outstanding letters of credit	**(11)**	(9)
Borrowing base availability net of drawings and letters of credit	**557**	631

As the U.S. Revolving Credit Facility is available for and used to finance working capital requirements, capital expenditures and other operating activities, it has been classified in the unaudited interim condensed consolidated balance sheets as part of current loans and borrowings. However, the Company is not required to repay the balance outstanding as at August 2, 2014 until the maturity date of November 4, 2018.

Lord & Taylor Revolving Credit Facility

(millions of Canadian dollars)	Aug 2, 2014	Aug 3, 2013	Feb 1, 2014	Feb 2, 2013
Gross borrowing base availability (U.S.$350 through Nov 4, 2013)	—	307	—	313
Drawings	—	(172)	—	(138)
Outstanding letters of credit	—	(2)	—	(2)
Borrowing base availability net of drawings and letters of credit	—	133	—	173

b) Long-term loans and borrowings

(millions of Canadian dollars)	Aug 2, 2014	Aug 3, 2013	Feb 1, 2014	Feb 2, 2013
Senior Term Loan B	**2,021**	—	2,228	—
Junior Term Loan	—	—	334	—
Yorkdale Mortgage	**49**	50	49	—
Lord & Taylor Mortgage (U.S.$250)	**273**	260	279	249
HBC Term Loan (Canadian properties)	—	200	—	250
Lord & Taylor GE Capital Term Loan (U.S properties)	—	208	—	—
Lord & Taylor Term Loan (U.S. properties)	—	—	—	205
Other mortgages	—	11	10	12
Real estate finance leases	**115**	—	118	—
Equipment finance leases and other	**34**	22	42	26
	2,492	751	3,060	742
Less: unamortized costs	**(60)**	(12)	(83)	(13)
Less: amounts due within one year	**(19)**	(20)	(54)	(10)
	2,413	719	2,923	719

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

On February 25, 2014, proceeds from the sale and leaseback transaction described in note 18 were used to (1) retire in entirety the Junior Term Loan, which bore interest at a rate of 8.25%, (2) permanently pay down U.S.$150 million of the Senior Term Loan B, currently bearing interest at a rate of 4.75% and (3) reduce the outstanding balance of the HBC Revolving Credit Facility. In connection with the repayment of the Junior Term Loan and Senior Term Loan B, $18 million of deferred financing costs were written off and $12 million of penalties and fees for early repayment were incurred.

NOTE 11. OTHER LIABILITIES

(millions of Canadian dollars)	Aug 2, 2014	Aug 3, 2013	Feb 1, 2014	Feb 2, 2013
Deferred landlord incentives	**224**	89	169	71
Deferred gain on sale and leaseback transaction	**247**	—	—	—
Deferred proceeds from lease terminations	**25**	—	—	—
Other deferred revenue	**12**	14	13	15
Other liabilities	**18**	10	20	8
	526	113	202	94
Non-current	**486**	107	196	88
Current	**40**	6	6	6
	526	113	202	94

NOTE 12. SHARE CAPITAL

On June 19, 2014 and March 20, 2014 the Company's Board of Directors declared a dividend of $0.05 per common share, which was paid on July 15, 2014 and April 15, 2014 to shareholders of record at the close of business on June 30, 2014 and March 31, 2014, respectively.

The weighted average number of common shares outstanding for the thirteen and twenty-six weeks ended August 2, 2014 was 182 million (2013: 120 million) for both basic and diluted earnings per share.

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

	Thirteen weeks ended		Twenty-six weeks ended	
(millions of Canadian dollars or shares except per share amounts)	Aug 2, 2014	Aug 3, 2013	Aug 2, 2014	Aug 3, 2013
Net (loss) earnings from continuing operations for basic earnings per share	**(36)**	(66)	**140**	(88)
Net loss from discontinued operations for basic earnings per share	**—**	(15)	**—**	(75)
Net (loss) earnings for basic earnings per share	**(36)**	(81)	**140**	(163)
Net (loss) earnings from continuing operations for basic earnings per share	**(36)**	(66)	**140**	(88)
Impact of warrants	**(7)**	—	**(3)**	—
Net (loss) earnings from continuing operations for diluted earnings per share	**(43)**	(66)	**137**	(88)
Net loss from discontinued operations for diluted earnings per share	**—**	(15)	**—**	(75)
Net (loss) earnings for diluted earnings per share	**(43)**	(81)	**137**	(163)
Weighted average common shares outstanding	**182**	120	**182**	120
Dilutive effect of warrants	**—**	—	**—**	—
Diluted weighted average common shares outstanding	**182**	120	**182**	120
Basic net (loss) earnings per common share				
Continuing operations	**(0.20)**	(0.55)	**0.77**	(0.74)
Discontinued operations	**—**	(0.13)	**—**	(0.62)
	(0.20)	(0.68)	**0.77**	(1.36)
Diluted net (loss) earnings per common share				
Continuing operations	**(0.23)**	(0.55)	**0.75**	(0.74)
Discontinued operations	**—**	(0.13)	**—**	(0.62)
	(0.23)	(0.68)	**0.75**	(1.36)

NOTE 13. RELATED PARTY TRANSACTIONS

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

On May 6, 2011, a subsidiary of L&T Acquisition entered into a two year lease with SP 35 L.P. (the "Landlord") for approximately 31,000 square feet in Shrewsbury, NJ. The lease was amended on January 17, 2013 to include three renewal options. The first two renewal options are for terms of two and three years, respectively, at an annual cost of U.S.$400 thousand. The third renewal option is for a term of five years at an annual cost of U.S.$500 thousand. The first renewal option was exercised. Amounts charged to the Company under the rental arrangement for the thirteen and twenty-six weeks ended August 2, 2014 were U.S.$100 thousand and U.S.$200 thousand, respectively (2013: U.S.$100 thousand and U.S.$200 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.

On February 25, 2014, the Company closed its agreement to sell its downtown Toronto flagship retail complex and the Simpson's Tower to an affiliate of The Cadillac Fairview Corporation Limited, an affiliate of H.S. Investments L.P. ("HSILP"), a shareholder of the Company, for a purchase price of $650 million (note 18).

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

NOTE 14. CONTINGENT LIABILITIES

As of August 2, 2014, the Company is involved in and potentially subject to various claims by third parties arising out of the normal course and conduct of its business. Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims and litigation, tax assessments and reassessments, to the extent not covered by the Company's insurance policies or otherwise provided for, not to be material to the interim condensed consolidated financial statements, but may have a material impact in future periods.

NOTE 15. SEGMENTED REPORTING

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

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

	Thirteen weeks ended		Twenty-six weeks ended	
(millions of Canadian dollars)	**Aug 2, 2014**	Aug 3, 2013	**Aug 2, 2014**	Aug 3, 2013
Total retail sales				
Canada	**619**	603	**1,200**	1,160
United States	**1,150**	345	**2,424**	672
	1,769	948	**3,624**	1,832

	Thirteen weeks ended		Twenty-six weeks ended	
(millions of Canadian dollars)	**Aug 2, 2014**	Aug 3, 2013 (restated – see note 2)	**Aug 2, 2014**	Aug 3, 2013 (restated – see note 2)
Total operating (loss) income				
Canada	**(18)**	(9)	**257**	(35)
United States	**(15)**	19	**(29)**	28
	(33)	10	**228**	(7)

(millions of Canadian dollars)	Aug 2, 2014	Aug 3, 2013 (restated – see note 2)	Feb 1, 2014 (restated – see note 2 and note 4)	Feb 2, 2013 (restated – see note 2)
Non-current assets(1)				
Canada	**594**	647	695	623
United States	**4,539**	1,010	4,620	957
	5,133	1,657	5,315	1,580
Total assets				
Canada	**1,641**	1,686	1,749	1,888
United States	**6,121**	1,440	6,197	1,364
	7,762	3,126	7,946	3,252

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

NOTE 16. SHARE BASED COMPENSATION

Senior executive option transactions were as follows:

	Twenty-six weeks ended			
	Aug 2, 2014		Aug 3, 2013	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of year	6,562,603	$17.13	6,090,500	$17.00
Granted	1,705,166	$17.54	343,500	$17.00
Exercised	—	—	—	—
Forfeited	(449,588)	$17.00	(408,500)	$17.00
Expired	—	—	—	—
Outstanding at end of period	7,818,181	$17.23	6,025,500	$17.00
Share options exercisable at end of period	—	—	—	—

During the thirteen and twenty-six weeks ended August 2, 2014, the grant date fair value of senior executive options granted was $9 million.

The following table summarizes information about the senior executive share options outstanding and exercisable as at August 2, 2014:

Range of exercise prices	**Number of outstanding options**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Number exercisable at Aug 2, 2014**	**Weighted average exercise price**
$17.00 to $17.49	5,714,828	8.28	$17.00	—	—
$17.50 to $17.99	1,513,990	6.76	$17.61	—	—
$18.00 to $18.85	589,363	9.40	$18.47	—	—
Total	7,818,181	8.07	$17.23	—	—

The assumptions used to measure the fair value of senior executive options granted during the thirteen weeks ended August 2, 2014 under the Black-Scholes option pricing model at the grant date were as follows:

Expected dividend yield	1.1%-1.2%
Expected share price volatility	35.8%
Risk-free interest rate	1.0-1.5%
Expected life of options	5 years

Other management option transactions were as follows:

	Twenty-six weeks ended			
	Aug 2, 2014		Aug 3, 2013	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of year	969,600	$17.03	929,800	$17.00
Granted	988,000	$17.55	127,800	$17.00
Exercised	—	—	—	—
Forfeited	(67,600)	$17.00	(90,400)	$17.00
Expired	—	—	—	—
Outstanding at end of period	1,890,000	$17.31	967,200	$17.00
Share options exercisable at end of period	—	—	—	—

During the thirteen and twenty-six weeks ended August 2, 2014, the grant date fair value of other management options granted was $5 million.

The following table summarizes information about the other management share options outstanding and exercisable as at August 2, 2014:

Range of exercise prices	**Number of outstanding options**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Number exercisable at Aug 2, 2014**	**Weighted average exercise price**
$17.00 to $17.49	993,200	5.6	$17.03	—	—
$17.50 to $17.99	896,800	6.8	$17.61	—	—
Total	1,890,000	6.2	$17.31	—	—

The assumptions used to measure the fair value of other management options granted during the thirteen weeks ended August 2, 2014 under the Black-Scholes option pricing model at the grant date were as follows:

Expected dividend yield	1.1%-1.2%
Expected share price volatility	35.8%
Risk-free interest rate	1.0-1.5%
Expected life of options	5 years

During the thirteen and twenty-six weeks ended August 2, 2014, the Company recognized $2 million and $4 million, respectively (2013: $1 million and $3 million, respectively) in compensation expense related to share options.

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

During the thirteen and twenty-six weeks ended August 2, 2014, the Company granted 1,184,792 performance share units (“PSUs”) (2013: 673,700) with a grant date fair value of $21 million (2013: $10 million).

During the thirteen and twenty-six weeks ended August 2, 2014, the Company granted 223,912 and 254,032 restricted share units (“RSUs”) (2013: 32,647) with grant date fair values of $3 million and $4 million, respectively (2013: $1 million). The fair values of the grants were determined based on the Company’s share price at the date of grant. RSUs were granted under similar terms and conditions as those granted concurrently with the initial public offering.

Compensation expense recorded for the thirteen and twenty-six weeks ended August 2, 2014 related to deferred share units, phantom shares, PSUs and RSUs was $1 million and $2 million, respectively (2013: $2 million).

NOTE 17. FINANCIAL INSTRUMENTS

The fair value of the HBC Revolving Credit Facility, U.S. Revolving Credit Facility, Lord & Taylor Revolving Credit Facility, Senior Term Loan B, Junior Term Loan, Yorkdale Mortgage, HBC Term Loan, Lord & Taylor Mortgage, Lord & Taylor Term Loan and other mortgages are valued using a discounted cash flow model, taking into consideration the fixed interest rate spread included in the related debt compared to fixed interest rate spreads on similar debt available in the market at the balance sheet dates. These instruments are classified within Level 2 of the fair value hierarchy.

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

(millions of Canadian dollars)	Aug 2, 2014	Aug 3, 2013	Feb 1, 2014	Feb 2, 2013
Carrying value	**2,820**	1,105	3,406	854
Fair value	**2,836**	1,104	3,446	857

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

The fair values of foreign currency options, interest rate swaps, forward foreign currency contracts and warrants reflect the estimated amounts that the Company would receive or pay if it were to settle the contracts at the reporting date and are determined using valuation techniques based on observable market input data. The fair values of embedded foreign currency derivatives reflect the estimated amounts the Company would receive or pay to settle forward foreign exchange contracts with similar terms using valuation techniques which utilize observable market input data. These instruments are classified within Level 2 of the fair value hierarchy.

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

(millions of Canadian dollars)	Aug 2, 2014	Aug 3, 2013	Feb 1, 2014	Feb 2, 2013
Financial assets	**5**	7	8	3
Financial liabilities	**22**	60	25	1

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

During the thirteen and twenty-six weeks ended August 2, 2014, in relation to the 1.5 million warrants issued to HSILP concurrently with the definitive merger agreement with Saks ("Merger Agreement Warrants"), the Company recognized finance related income of $2 million and $1 million, respectively (2013: $7 million and $7 million, respectively) representing mark to market adjustments to the fair value as at August 2, 2014. As at August 2, 2014, the fair value of the Merger Agreement Warrants was $5 million (August 3, 2013: $8 million, February 1, 2014: $5 million; February 2, 2013: nil).

In relation to the 5.25 million warrants issued to HSILP and West Face Long Term Opportunities Global Master L.P. ("WF Fund") on November 4, 2013 upon closing of the transaction ("Acquisition Warrants"), the Company recognized finance related income during the thirteen and twenty-six weeks ended August 2, 2014 of $5 million and $2 million, respectively (2013: $4 million and $4 million, respectively), representing the mark to market adjustments to the fair value as at August 2, 2014. As at August 2, 2014, the fair value of the Acquisition Warrants was $16 million (August 3, 2013: $27 million; February 1, 2014: $19 million: February 2, 2013: nil). The Company will continue to record mark to market gains and losses on the warrants until the earlier of the date of exercise or expiry.

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

The Equity Commitments from HSILP and WF Fund required the Company to issue its common shares at a future date at $17.00 per share (subject to adjustment in certain limited circumstances). Due to the variability of the share issue price and certain other features of the investment agreements with HSILP and WF Fund, Equity Commitment Forwards were recognized and accounted for as derivative financial instruments. On the date of the execution of the Merger Agreement, the Equity Commitment Forwards were determined to be in an asset position. During the thirteen and twenty-six weeks ended August 3, 2013, the Company recognized $49 million expense representing the mark to market adjustment from the date of the execution, July 26, 2013, to August 3, 2013. As at August 3, 2013, the fair value of the Equity Commitment Forwards was a liability position of $25 million. The fair values were determined using a forward pricing model using the assumptions outlined below. The Company continued to record mark to market gains and losses on the Equity Commitment Forward until the commitment period ended on November 4, 2013.

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

Share price – August 2, 2014	$16.26
Share price – February 1, 2014	$19.82
Share price – August 3, 2013	$17.59
Share price – July 26, 2013	$16.49

	Aug 2, 2014	Aug 3, 2013	Feb 1, 2014
Expected warrant volatility – Merger Agreement Warrants	**26%**	36%	27%
Expected warrant volatility – Acquisition Warrants	**27%**	33%	27%
Expected Equity Commitment Forward volatility	**—**	33%	—
Dividend yield	**1.23%**	1.62%	1.31%
Risk free interest rate	**1.36%**	1.25%	1.21%
Expected life – Merger Agreement Warrants	**4.0 years**	5.0 years	4.5 years
Expected life – Acquisition Warrants	**4.25 years**	5.0 years	4.75 years
Expected life – Equity Commitment Forwards	**—**	up to Nov 4, 2013	—

NOTE 18. SALE AND LEASEBACK TRANSACTION

On February 25, 2014, the Company sold its downtown Toronto flagship retail complex and the Simpson's Tower located at 401 Bay Street to an affiliate of The Cadillac Fairview Corporation Limited for a purchase price of $650 million. The Company has leased the entire retail and office complex back for a base term of twenty-five years with renewal options of up to approximately twenty-five years. Proceeds of the transaction were used to retire in entirety the Junior Term Loan, which bore interest at a rate of 8.25%, permanently pay down U.S.$150 million of the Senior Term Loan B, currently bearing interest at a rate of 4.75% and reduce the outstanding balance of the HBC Revolving Credit Facility.

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

NOTE 19. DISCONTINUED OPERATIONS

	Thirteen weeks ended		**Twenty-six weeks ended**	
(millions of Canadian dollars)	**Aug 2, 2014**	Aug 3, 2013	**Aug 2, 2014**	Aug 3, 2013
Net loss from discontinued operations, net of taxes	**—**	(15)	**—**	(103)
Sale of leasehold interests, net of taxes of nil and nil (2013: nil and $4 million)	—	—	—	28
Net loss for the period — discontinued operations, net of taxes	—	(15)	—	(75)

	Thirteen weeks ended		**Twenty-six weeks ended**	
(millions of Canadian dollars)	**Aug 2, 2014**	Aug 3, 2013	**Aug 2, 2014**	Aug 3, 2013
Retail sales	**—**	—	**—**	146
Cost of sales	**—**	—	**—**	(162)
Selling, general and administrative expenses	—	(9)	—	(116)
Operating loss	**—**	(9)	**—**	(132)
Finance costs	**—**	(1)	**—**	(1)
Loss before income tax	**—**	(10)	**—**	(133)
Income tax (expense) benefit	—	(5)	—	30
Net loss from discontinued operations, net of taxes	—	(15)	—	(103)