



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE THIRTEEN AND TWENTY-SIX WEEKS
ENDED AUGUST 3, 2013**

Dated September 11, 2013

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 as "HBC", the "Company", "we", "us", or "our". It should be read in conjunction with the unaudited interim condensed consolidated financial statements and notes thereto for the thirteen and twenty-six week periods ended August 3, 2013. It should also be read in conjunction with the audited consolidated financial statements for the fiscal year ended February 2, 2013 and the related notes and MD&A, which are available on the Company's website at www.hbc.com and on SEDAR at www.sedar.com. 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 September 11, 2013.

Basis of Presentation

Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain previously reported figures have been restated due to the implementation of revised International Accounting Standard 19 – Employee Benefits ("IAS 19R"). See "New Accounting Policies – Employee Benefits" and "Changes in Accounting Policies Including Initial Adoption".

HBC is a 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 ("Lord & Taylor") on October 2, 2006.

On January 11, 2012, HBTC completed a reorganization to combine its retail operations, HBC and Lord & Taylor. As part of the reorganization, HBC acquired Lord & Taylor from HBTC. The acquisition of Lord & Taylor by HBC was a merger of entities under common control and as such the two entities are presented for financial reporting purposes as if the two entities have been consolidated since HBC's acquisition by HBTC.

On November 26, 2012, the Company closed the initial public offering (the "IPO") of its common shares (the "Common Shares").

The Company owns and operates department stores across Canada and regionally within the United States under the Hudson's Bay, Lord & Taylor and Home Outfitters banners. On April 19, 2012, the Company's Board of Directors approved a plan to discontinue the Company's discount store operations. See "Supplemental Information – Discontinued Operations".

Accounting Periods

This MD&A is based on the unaudited interim condensed consolidated financial statements and notes thereto for the thirteen week and twenty-six week periods ended August 3, 2013. Our Fiscal Year consists of either a 52 or 53-week period ending on the Saturday nearest to January 31. "Fiscal 2012" was 53 weeks and is a reference to the Company's fiscal year ended on February 2, 2013. "Fiscal 2013" will be 52 weeks and will end on February 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 heading "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 2012 filed on SEDAR on April 30, 2013, which is available at www.sedar.com: 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 ability to continue to improve same store sales, our ability to retain our senior management team who possess specialized market knowledge, our dependence on our ability to attract and retain quality employees, maintaining good relations with non-unionized and unionized employees, our dependence on successful inventory management, increased commodity prices, including for cotton, may affect our profitability, our dependence on our advertising and marketing programs, a material disruption in our computer systems, our ability to execute our growth strategy, our ability to execute our plan to reduce operating expenses, our ability to comply with the covenants in our credit facilities, our ability to incur more debt, breaches of privacy, risks arising from regulation and litigation, product liability claims and product recalls, fluctuations in the value of the Canadian dollar in relation to the U.S. dollar, risks associated with doing business abroad, disruption to our centralized distribution centres, risks associated with operating freehold and leasehold property, environmental risks associated with operating freehold and leasehold property, our obligations under the agreement entered into with Target Corporation, our ability to maintain the brand value of our various retail banners, the value of the brands we offer could diminish due to factors beyond our control, current store locations may become less desirable, inability to protect our trademarks and other proprietary rights, risks related to our size and scale, insurance related risks, pension related risks, our constating documents could discourage takeover attempts, risks related to our ability to maintain financial and management processes and controls, volatile market price for our Common Shares, our ability to pay dividends is dependent on our ability to generate sufficient income, expenses relating to being a public company, influence by our principal shareholders, our principal shareholders have a material percentage of the Common Shares which 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. In addition to the risks outlined above, please refer to the Risk Factors in the Short Form Prospectus dated August 30, 2013 for specific risks related to the Acquisition (as defined below), the Offering (as defined below) and the post-Acquisition business and operations of the Company and Saks Incorporated (“Saks”). 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 those 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 and Normalized Net Earnings (Loss) – Continuing Operations 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 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.

Second Quarter Events

- On May 22, 2013, the Company entered into an agreement for a \$50.0 million mortgage on its Hudson's Bay store at the Yorkdale Shopping Centre in Toronto, Ontario. The proceeds of the mortgage were used to partially prepay Hudson's Bay Company's senior non-revolving term loan facility (the "HBC Term Loan").
- On May 23, 2013, the Company and General Electric Capital Corporation executed the Second Amended and Restated Credit Agreement that continues to provide a revolving line of credit and provides a new U.S.\$200.0 million term loan. Together with cash on hand, the proceeds of the new loan were used to repay the existing Lord & Taylor syndicated term loan (the "Lord & Taylor Term Loan") in full.
- On June 18, 2013, the Company announced that Bonnie Brooks, President of Hudson's Bay Company, was appointed Vice Chairman, Hudson's Bay Company. Liz Rodbell, Executive Vice President, for Hudson's Bay Company, will become President, Hudson's Bay Company. The transition into these new roles will be completed by the end of Fiscal 2013.
- On July 29, 2013, the Company and Saks announced that they had entered into a definitive merger agreement ("Merger Agreement") whereby the Company agreed to acquire all of the issued and outstanding shares of Saks (other than shares owned by Saks and its subsidiaries, the Company or Harry Acquisition Inc., an indirect wholly-owned subsidiary of the Company ("Merger Sub")) for U.S.\$16.00 per share in an all-cash transaction (the "Acquisition") valued at approximately U.S.\$2.9 billion, including debt. For more details on the terms and conditions of the Merger Agreement, please see the "Proposed Transactions" section of this document or refer to the Company's material change report dated July 30, 2013 (the "Material Change Report") and the Short Form Prospectus dated August 30, 2013, each of which are available from the Company's profile on www.sedar.com.
- On August 1, 2013, the Company opened its first Hudson's Bay Outlet store, located in the Greater Toronto Area featuring hundreds of brand name fashions, footwear and accessories for women, men and children.

Subsequent Events

- On August 20, 2013 the Company announced that it had entered into an underwriting agreement with a syndicate of underwriters to sell 16,050,000 subscription receipts (the "Subscription Receipts") at a price of \$17.15 per Subscription Receipt, for aggregate gross proceeds of \$275.3 million. (the "Offering"). The Company also granted the underwriters an over-allotment option to purchase up to an additional 1,605,000 Subscription Receipts for additional gross proceeds of up to \$27.5 million. The Company will use the proceeds from the Offering to finance a portion of the consideration in connection with the Acquisition. The Company announced the closing of the Offering on September 10, 2013.
- On August 30, 2013 the Company announced that it has been notified of the early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended ("HSR Act") applicable to the Acquisition.

- On September 6, 2013, the “go-shop” period outlined in the Merger Agreement expired. Saks is now subject to customary “no-shop” provisions which are outlined in the Merger Agreement.
- On September 11, 2013, the Company declared a quarterly dividend, payable on October 15, 2013 to shareholders of record at the close of business on September 30, 2013, in the amount of \$0.09375 per Common Share.

Overview

Our Business

We are a leading North American retailer. Through our three banners, we offer a wide selection of branded merchandise in Canada and the United States. In Canada, we operate Hudson’s Bay, Canada’s largest national branded department store. In the United States, we operate Lord & Taylor, a specialty department store with locations throughout the northeastern United States and in two major Midwestern cities. We also operate Home Outfitters, a kitchen, bed and bath superstore with locations across Canada. The Company continues to operate three Zellers stores.

Since 2008, we have transformed our business by significantly enhancing sales productivity and achieving substantial earnings growth. Sales productivity has been enhanced through improved brand and merchandise strategies, investment in high growth merchandise categories and the revitalization of our stores. We have achieved substantial earnings growth through a combination of ongoing margin enhancement strategies including aggressive management of our expenses.

Since the IPO, the Company has realized approximately \$24.5 million of the targeted \$60.0 million of annual operating cost savings through the reduction of information technology expenses, occupancy costs, distribution costs and other corporate overhead. The Company continues to expect that the remaining savings associated with these initiatives will be fully realized by the end of Fiscal 2014.

We believe that we are well positioned to continue increasing our sales productivity and earnings growth. We have implemented the following strategies in pursuit of these objectives:

- *Store Productivity.* We target increased store productivity through investments in high growth merchandise categories and the optimization of floor space allocation.
- *Strategic Partners.* We develop brand partnerships that leverage our existing square footage and desirable retail locations. Examples of this include our successful Topshop/Topman stores and our upcoming relationship with Kleinfeld Bridal Corp. (“Kleinfeld”).
- *Omni-Channel.* We are upgrading and expanding our omni-channel platform to provide our customers with a seamless shopping experience and the flexibility to shop whenever, wherever and however they want.
- *Private Brands.* We are transitioning from a portfolio of approximately 25 private labels at Hudson’s Bay and Lord & Taylor to focus on four key private brands – HBC Signature, Lord & Taylor, Black Brown 1826 and our Olympic branded merchandise.
- *Capital Investments.* We strategically invest in our stores to rejuvenate our sales floors and provide an enhanced shopping experience for our customers.
- *Improved Operating Margins.* We integrated our U.S. and Canadian operations to achieve cost synergies across our business and have identified opportunities to reduce redundant costs and streamline operations.

Highlights of the 13-week period ended August 3, 2013

- Consolidated same store sales increased 3.5%, or 3.0% excluding the impact of foreign exchange, compared to the second quarter of Fiscal 2012.
- Same store sales at Hudson's Bay increased 6.2% compared to the second quarter of Fiscal 2012. This increase was driven by the strong performance of ladies' and men's apparel, ladies' shoes, handbags and accessories, the continued growth of e-commerce and our five Topshop/Topman stores.
- Same store sales at Lord & Taylor decreased 1.2% on a U.S. dollar basis compared to the second quarter of Fiscal 2012. This decline was due to lower customer traffic as a result of unfavourable weather trends and the lack of a major fashion trend. Relative strength in men's apparel and shoes, handbags and watches was offset by underperformance of ladies' apparel and cosmetics.
- E-commerce sales grew \$13.4 million to \$37.3 million, an increase of 56.1% compared to the second quarter of Fiscal 2012, reflecting the Company's strategic focus on growing this channel.
- Gross profit rate was 38.8% of retail sales, a decrease of 120 basis points compared to the second quarter of Fiscal 2012 as we incurred more markdowns to liquidate seasonal inventory driven in part by cooler than usual spring weather.
- Normalized EBITDA was \$58.0 million compared to \$58.9 million for the second quarter of Fiscal 2012, a decrease of \$0.9 million. Normalized EBITDA was 6.1% of retail sales, a decline of 40 basis points compared to the second quarter of Fiscal 2012.
- Normalized Net Earnings (Loss) for the Period – Continuing Operations were \$3.8 million or \$0.03 per Common Share compared to a loss of \$2.0 million or \$(0.02) per Common Share for the second quarter of Fiscal 2012, an improvement of \$5.8 million.

Highlights of the 26-week period ended August 3, 2013

- Consolidated same store sales increased 3.8%, or 3.1% excluding the impact of foreign exchange, compared to the twenty-six week period ended July 28, 2012.
- Same store sales at Hudson's Bay increased 6.9% compared to the twenty-six week period ended July 28, 2012. This increase was driven by the strong performance of ladies' and men's apparel, ladies' shoes, handbags and accessories, the continued growth of e-commerce and our five Topshop/Topman stores.
- Same store sales at Lord & Taylor decreased 1.3% excluding on a U.S. dollar basis compared to the twenty-six week period ended July 28, 2012. This decline was due to lower customer traffic as a result from unfavourable weather trends and the lack of a major fashion trend. Relative strength in men's apparel, handbags and watches was offset by underperformance of ladies' apparel and shoes.
- E-commerce sales grew by \$21.1 million to \$68.4 million, an increase of 44.6% compared to the twenty-six week period ended July 28, 2012, reflecting the Company's strategic focus on growing this channel.
- Gross profit rate was 39.5% of retail sales, a decrease of 60 basis points compared to the twenty-six week period ended July 28, 2012 as we liquidated excess seasonal inventory driven in part by the cooler than usual spring weather.
- Normalized EBITDA was \$89.0 million compared to \$85.0 million for the twenty-six week period ended Fiscal 2012, an increase of \$4.0 million. Normalized EBITDA was 4.9% of retail sales, an increase of 10 basis points compared to the twenty-six week period ended July 28, 2012.

- Normalized Net Loss for the Period – Continuing Operations improved by \$14.8 million to \$10.4 million or \$(0.09) per Common Share compared to a Normalized Net Loss for the Period of \$25.2 million or \$(0.24) per Common Share for the twenty-six week period ended July 28, 2012.

Factors Affecting Our Performance

Retail Sales

The majority of our sales are from branded merchandise purchased directly from the brand owners or their licensees. To increase same store sales, we focus on offering a broad and well-edited selection of upscale branded and private-label merchandise appealing to the fashion taste of our customers. The quality and breadth of our selection allows us to change the mix of our merchandise based on fashion trends and individual store locations and enables us to address a broad customer base. As part of our efforts to create an omni-channel and seamless direct-to-consumer shopping experience, Hudson's Bay, Lord & Taylor and Home Outfitters are developing enhanced omni-channel platforms.

Same Store Sales — Consolidated (continuing operations)

The Company calculates same store sales on a year-over-year basis from stores operating for at least 13 months, e-commerce sales and clearance stores. Stores undergoing remodeling remain in the same store sales calculation. This calculation includes the impact of foreign exchange. 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 costs. 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 our gross profit rate 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 China, Bangladesh, India, Indonesia, Vietnam 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 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 may cause a decline in our unit volume but typically has a minimal impact on our gross profit rate.

Foreign Exchange

Our net investment in Lord & Taylor, whose functional currency is U.S. dollars, presents a foreign exchange risk to HBC, whose functional currency is Canadian dollars. HBC has not entered into any hedging transactions with respect to this exposure. Foreign currency translation of the net earnings (loss) of Lord & Taylor will impact consolidated net earnings (loss) and foreign currency translation of HBC's investment in Lord & Taylor will impact other comprehensive income.

Selling, General & Administrative Expenses

Our Selling, General & Administrative Expenses ("SG&A") consist of store labour and maintenance costs, store occupancy costs, advertising and marketing costs and salaries and related benefits of corporate and field

management team members, 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 depreciation and amortization, pension, restructuring and other non-recurring items. 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 is generally fixed over the existing lease term 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 which our stores generate in strip malls and shopping centres.

We earn royalty and new account bounty payments from credit card issuers based on sales charged both in-store and/or out-of-store to either Hudson's Bay Private Label Credit Cards or Hudson's Bay branded MasterCard. These royalty and/or bounty payments are recorded as a return on credit operations and are included as a reduction of SG&A in our consolidated financial statements. We have no risk of credit loss on the credit card receivables in the underlying portfolio.

Finance Costs

The financial markets in Canada and the United States continue to be competitive with strong investor demand for credit. 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 net interest on pensions and employee benefits and expenses related to liability based warrants and equity commitment instruments. Our finance costs are dependent on fluctuations in the Company's share price and volatility and in the underlying indexes used to calculate interest rates, including, but not limited to, the Canadian prime rate, CDOR and LIBOR.

In connection with the Acquisition (see "Proposed Transactions" section of this document and notes 4 and 17 of the unaudited interim condensed consolidated financial statements for the thirteen and twenty-six weeks ended August 3, 2013), we have issued and plan to issue warrants related to the equity commitments we received from H.S. Investment L.P. ("HSILP"), an entity affiliated with Ontario Teachers' Pension Plan Board, and West Face Long Term Opportunities Global Master L.P. ("WF Fund"). Due to the variability of the Common Share issue price and certain other features, including potential price protection provisions, the equity commitments have been recognized as forward contracts ("Equity Commitment Forwards") that are accounted for as derivative financial instruments. The non-cash charges associated with the warrants and the Equity Commitment Forwards will 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 and Equity Commitment Forwards as finance costs based upon 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 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 clearance activity 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, category killers, mass merchants, value retailers, discounters, and Internet and mail-order retailers. Competition may intensify as the Company's competitors enter the Canadian market or 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. The Company's sales are impacted by discretionary spending by consumers. Consumer spending 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 the weather or natural disasters.

Seasonality

The quarterly sales and earnings of the Company and other retail companies 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 – Employee Benefits

In June 2011, the IASB amended IAS 19 — Employee Benefits. The amendments provided clarification on the recognition of termination benefits and eliminated the option to defer actuarial gains and losses (known as the corridor approach) related to defined benefit plans. Net interest on the net defined benefit plan assets and liabilities as calculated under IAS 19R is now included in finance costs. The Company adopted IAS 19R retrospectively in the first quarter of Fiscal 2013. The impact of adopting IAS 19R for each of the quarters on the consolidated statement of earnings (loss) in Fiscal 2012 is summarized as follows:

(millions of Canadian dollars except per share amounts)	Fiscal Quarter Ended		26-week period ended	Fiscal Quarter Ended		Fiscal Year Ended
	April 28, 2012	July 28, 2012	July 28, 2012	October 27, 2012	February 2, 2013	February 2, 2013
	\$	\$	\$	\$	\$	\$
Decrease (increase) in SG&A	5.8	(2.6)	3.2	(6.6)	(5.2)	(8.6)
Decrease in finance costs	0.9	0.8	1.7	1.0	0.8	3.5
(Decrease) increase in income tax benefit	(1.8)	0.4	(1.4)	1.6	1.2	1.4
Decrease (increase) in net loss for the period – continuing operations	4.9	(1.4)	3.5	(4.0)	(3.2)	(3.7)
(Increase) decrease in net loss for the period – discontinued operations	(0.6)	37.4	36.8	(8.4)	(15.0)	13.4
Decrease (increase) in net loss for the period	4.3	36.0	40.3	(12.4)	(18.2)	9.7
Increase (decrease) in net earnings (loss) per Common Share — basic and diluted⁽¹⁾						
Continuing operations	0.05	(0.01)	0.04	(0.04)	(0.03)	(0.03)
Discontinued operations	(0.01)	0.35	0.34	(0.08)	(0.13)	0.12
	0.04	0.34	0.38	(0.12)	(0.16)	0.09

Note:

- (1) Net earnings (loss) 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 does not equal the full-year EPS.

Summary 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 IFRS for the thirteen week and twenty-six week periods ended August 3, 2013. The financial information presented has been prepared on a basis consistent with our audited consolidated financial statements for Fiscal 2012 except for the new accounting standards described in note 2 of the unaudited interim condensed consolidated financial statements. 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)	13-week period ended				26-week period ended			
	August 3, 2013		<i>(restated⁽⁷⁾)</i> July 28, 2012		August 3, 2013		<i>(restated⁽⁷⁾)</i> July 28, 2012	
	\$	%	\$	%	\$	%	\$	%
Earnings Results								
Retail sales	947.7	100.0%	911.9	100.0%	1,831.7	100.0%	1,760.1	100.0%
Cost of sales	(579.6)	(61.2%)	(547.3)	(60.0%)	(1,107.4)	(60.5%)	(1,054.4)	(59.9%)
Gross profit	368.1	38.8%	364.6	40.0%	724.3	39.5%	705.7	40.1%
SG&A	(359.6)	(37.9%)	(345.5)	(37.9%)	(731.3)	(39.9%)	(726.8)	(41.3%)
Operating income (loss)	8.5	0.9%	19.1	2.1%	(7.0)	(0.4%)	(21.1)	(1.2%)
Total interest expense, net	(17.0)	(1.8%)	(24.9)	(2.7%)	(29.1)	(1.6%)	(49.7)	(2.8%)
Acquisition-related costs	(59.9)	(6.3%)	-	0.0%	(59.9)	(3.3%)	-	0.0%
Finance costs	(76.9)	(8.1%)	(24.9)	(2.7%)	(89.0)	(4.9%)	(49.7)	(2.8%)
Loss before income tax	(68.4)	(7.2%)	(5.8)	(0.6%)	(96.0)	(5.3%)	(70.8)	(4.0%)
Income tax benefit	1.4	0.2%	2.7	0.3%	7.8	0.4%	20.7	1.2%
Net loss for the period — continuing operations ⁽¹⁾	(67.0)	(7.0%)	(3.1)	(0.3%)	(88.2)	(4.9%)	(50.1)	(2.8%)
Net (loss) earnings for the period — discontinued operations, net of tax	(15.3)		25.3		(74.8)		(57.4)	
Net (loss) earnings for the period	(82.3)		22.2		(163.0)		(107.5)	
Net (Loss) Earnings per Common Share — Basic and Diluted⁽²⁾								
Continuing operations	(0.56)		(0.03)		(0.74)		(0.48)	
Discontinued operations	(0.13)		0.24		(0.62)		(0.55)	
	(0.69)		0.21		(1.36)		(1.03)	
Weighted average Common Shares outstanding — basic and diluted (millions)	120.0		104.7		120.0		104.7	
Supplemental Information – Continuing Operations								
EBITDA ⁽¹⁾	48.8	5.1%	49.9	5.5%	71.8	3.9%	42.6	2.4%
Normalized EBITDA ⁽¹⁾	58.0	6.1%	58.9	6.5%	89.0	4.9%	85.0	4.8%
Normalized net earnings (loss) for the period ⁽¹⁾	3.9	0.4%	(2.0)	(0.2%)	(10.4)	(0.6%)	(25.2)	(1.4%)
Normalized net earnings (loss) per Common Share — basic and diluted ⁽²⁾	0.03		(0.02)		(0.09)		(0.24)	
Declared dividend per Common Share ⁽³⁾	0.09375		-		0.18750		-	

(millions of Canadian dollars except per share amounts)	13-week period ended				26-week period ended			
	August 3, 2013		<i>(restated⁽⁷⁾)</i> July 28, 2012		August 3, 2013		<i>(restated⁽⁷⁾)</i> July 28, 2012	
	\$	%	\$	%	\$	%	\$	%
Same Store Sales Percentage Change⁽⁴⁾								
Continuing operations		3.5%		3.9%		3.8%		5.7%
Continuing operations (excluding impact of foreign exchange).....		3.0%		2.0%		3.1%		4.3%
Hudson's Bay		6.2%		3.2%		6.9%		5.2%
Lord & Taylor ⁽⁵⁾		(1.2%)		1.5%		(1.3%)		4.3%

Store Information

Store count⁽⁶⁾		
Hudson's Bay.....	90	91
Lord & Taylor.....	48	48
Home Outfitters.....	69	69
Total square footage ('000)		
Hudson's Bay.....	16,118	16,358
Lord & Taylor.....	6,710	6,710
Home Outfitters.....	2,515	2,515

Balance Sheet	<i>(restated⁽⁷⁾)</i>		
	August 3, 2013	July 28, 2012	February 2, 2013
	\$	\$	\$
Cash	26.3	46.8	48.3
Trade and other receivables.....	62.2	64.9	74.3
Inventories	1,015.8	964.2	994.3
Total current assets.....	1,226.4	1,932.9	1,419.7
Property, plant and equipment.....	1,406.5	1,289.7	1,335.0
Total assets.....	3,122.1	3,745.6	3,247.6
Total current liabilities	1,318.8	1,916.1	1,343.5
Loans and borrowings (including current portion)	1,101.7	1,339.8	850.6
Shareholders' equity	856.7	761.4	1,013.0

Notes:

- (1) See tables below for a reconciliation of Net Loss – Continuing Operations to EBITDA and Normalized EBITDA and a reconciliation of Net Loss – Continuing Operations to Normalized Net Earnings (Loss) – Continuing Operations.
- (2) All references to Common Shares and per Common Share amounts have been adjusted retroactively for a split on November 19, 2012.
- (3) Effective as of the IPO, the Company implemented a dividend policy. Distributions prior to the IPO are not included in this table.
- (4) The Company calculates same store sales on a year-over-year basis from stores operating for at least 13 months, e-commerce sales and clearance store sales.
- (5) Same store sales of Lord & Taylor are calculated in U.S. dollars. Lord & Taylor same store sales percentage changes, including the impact of foreign exchange, were 0.2% and 0.5% in the 13 and 26 week periods ended August 3, 2013, respectively, and 6.6% and 8.1% in the 13 and 26 week periods ended July 28, 2012, respectively.
- (6) Hudson's Bay operates one Hudson's Bay Outlet and three Zellers clearance outlets and Lord & Taylor operates four Lord & Taylor Outlet stores, which are not included in the store count.
- (7) Certain previously reported figures have been restated due to the implementation of IAS 19R. For more information, please refer to "New Accounting Policies – Employee Benefits" and "Changes in Accounting Policies Including Initial Adoption."

The following table shows the reconciliation of Net Loss – Continuing Operations to EBITDA as well as Normalized EBITDA.

(millions of Canadian dollars)	13-week period ended		26-week period ended	
	August 3, 2013	July 28, 2012 <i>(restated⁽¹⁾)</i>	August 3, 2013	July 28, 2012 <i>(restated⁽¹⁾)</i>
	\$	\$	\$	\$
Net Loss for the Period – Continuing Operations	(67.0)	(3.1)	(88.2)	(50.1)
Finance costs.....	76.9	24.9	89.0	49.7
Income tax benefit.....	(1.4)	(2.7)	(7.8)	(20.7)
Pension expense (non-cash).....	7.1	6.8	14.2	13.6
Depreciation and amortization.....	31.3	23.8	60.3	46.9
Impairment and other non-cash expenses.....	-	0.2	-	3.2
Share based compensation.....	1.9	-	4.3	-
EBITDA	48.8	49.9	71.8	42.6
Normalizing adjustments – acquisition related expenses.....	2.5	-	2.5	-
Normalizing adjustments – restructuring and other.....	6.7	9.0	14.7	42.4
Normalized EBITDA	58.0	58.9	89.0	85.0

Note:

- (1) Certain previously reported figures have been restated due to the implementation of IAS 19R. For more information, please refer to “New Accounting Policies – Employee Benefits” and “Changes in Accounting Policies Including Initial Adoption.”

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

(millions of Canadian dollars)	13-week period ended		26-week period ended	
	August 3, 2013	July 28, 2012 <i>(restated⁽¹⁾)</i>	August 3, 2013	July 28, 2012 <i>(restated⁽¹⁾)</i>
	\$	\$	\$	\$
Net Loss for the Period – Continuing Operations	(67.0)	(3.1)	(88.2)	(50.1)
Normalization adjustments				
Acquisition-related finance costs and expenses.....	62.4	-	62.4	-
Restructuring and other, net of tax.....	5.0	5.5	10.9	29.3
Write-off of deferred financing costs, net of tax.....	3.5	-	3.5	-
Tax related adjustments.....	-	(4.4)	1.0	(4.4)
Total normalizing adjustments.....	70.9	1.1	77.8	24.9
Normalized Net Earnings (Loss) for the Period – Continuing Operations	3.9	(2.0)	(10.4)	(25.2)

Note:

- (1) Certain previously reported figures have been restated due to the implementation of IAS 19R. For more information, please refer to “New Accounting Policies – Employee Benefits” and “Changes in Accounting Policies Including Initial Adoption.”

EBITDA is a non-IFRS measure that we use to assess our operating performance. EBITDA is defined as net earnings before interest expense, income tax, share based compensation expense, depreciation and amortization expense, impairment and other non-cash expenses and pension expense (non-cash). The Company’s 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. Management also adjusts for non-cash share-based compensation expense.

Normalized EBITDA is defined as EBITDA adjusted to exclude: (i) business and organization restructuring/realignment charges; (ii) merger/acquisition costs and expenses; and (iii) normalizing adjustments, if any, related to transactions that are not associated with day-to-day operations. Normalized Net Earnings (Loss) – Continuing Operations is defined as net earnings (loss) adjusted to exclude: (i) business and organization restructuring/realignment charges; (ii) merger/acquisition costs and expenses; and (iii) normalizing adjustments, if

any, related to transactions that are not associated with day-to-day operations. We have included Normalized EBITDA and Normalized Net Earnings (Loss) – Continuing Operations to provide investors with supplemental measures of our operating performance. We believe Normalized EBITDA and Normalized Net Earnings (Loss) – Continuing Operations 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 and other interested parties frequently use EBITDA, Normalized EBITDA, and Normalized Net Earnings (Loss) – Continuing Operations 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, or Normalized Net Earnings (Loss) – Continuing Operations differently than we do, these metrics are not comparable to similarly titled measures reported by other companies.

Supplemental Information — Discontinued Operations

During 2012, the Company announced its intention to discontinue store operations at Fields and most store operations at Zellers. The Company has completed the wind-down of all its Fields stores and substantively all of its Zellers stores. The direct results of these two operations have been reflected in the Company’s consolidated financial statements as “discontinued operations”. The first quarter of Fiscal 2013 was the last quarter of retail operations for discontinued operations.

The Company has retrospectively restated its consolidated statements of (loss) earnings for all periods to reflect the discount store segment as discontinued operations. The following table sets forth the major components of the Company’s (loss) earnings from discontinued operations for the periods indicated:

(millions of Canadian dollars)	13-week period ended				26-week period ended			
	August 3, 2013		July 28, 2012		August 3, 2013		July 28, 2012	
	\$	%	\$	%	\$	%	\$	%
Retail sales.....	-	-	632.9	100.0%	145.8	100.0%	1,296.8	100.0%
Cost of sales.....	-	-	(465.4)	(73.5%)	(162.4)	(111.4%)	(906.2)	(69.9%)
SG&A.....	(10.0)	-	(188.3)	(29.8%)	(116.4)	(79.8%)	(573.9)	(44.3%)
Operating loss.....	(10.0)	-	(20.8)	(3.3%)	(133.0)	(91.2%)	(183.3)	(14.2%)
Finance costs	(0.6)	-	(0.5)	(0.1%)	(0.6)	(0.4%)	(0.2)	0.0%
Loss before income tax.....	(10.6)	-	(21.3)	(3.4%)	(133.6)	(91.6%)	(183.5)	(14.2%)
Income tax (expense) benefit	(4.7)	-	12.2	1.9%	30.1	20.6%	60.3	4.6%
Net loss from discontinued operations, net of tax.....	(15.3)	-	(9.1)	(1.4%)	(103.5)	(71.0%)	(123.2)	(9.5%)
Sales of leasehold interests, net of tax.....	-	-	34.4		28.7		65.8	
Net (loss) earnings for the period — discontinued operations, net of tax.....	(15.3)	-	25.3		(74.8)		(57.4)	

Note:

- (1) Certain previously reported figures have been restated due to the implementation of IAS 19R. For more information, please refer to “New Accounting Policies – Employee Benefits” and “Changes in Accounting Policies Including Initial Adoption.”

Results of Operations

Thirteen Week Period Ended August 3, 2013 Compared to the Thirteen Week Period Ended July 28, 2012

Retail Sales

Retail sales were \$947.7 million for the 13-week period ended August 3, 2013, an increase of \$35.8 million, or 3.9%, from \$911.9 million for the 13-week period ended July 28, 2012. For the same period, consolidated same store sales increased by 3.5% (3.0% excluding the impact of foreign exchange), with an increase of 6.2% at Hudson's Bay and a decrease of 1.2% excluding the impact of foreign exchange at Lord & Taylor (or an increase of 0.2% including the impact of foreign exchange). E-commerce sales grew to \$37.3 million, an increase of 56.1% compared to the second quarter of Fiscal 2012, reflecting the Company's strategic focus on growing this channel.

Sales at Hudson's Bay were driven by strong performance of ladies' and men's apparel, ladies' shoes, handbags and accessories, the continued growth of e-commerce sales and our five Topshop/Topman stores. Sales in stores and areas recently renovated have led sales growth. An example of this is our Vancouver Flagship store where sales were up over 40%. Sales at Lord & Taylor were impacted by lower customer traffic due to unfavourable weather trends and lack of major fashion trend compared to the second quarter of Fiscal 2012. Relative strength in men's apparel and shoes, handbags and watches and growth of e-commerce were offset by underperformance of ladies' apparel and other seasonal merchandise.

Gross Profit

Gross profit for the 13-week period ended August 3, 2013 was \$368.1 million or 38.8% of retail sales, compared to \$364.6 million or 40.0% of retail sales for the 13-week period ended July 28, 2012. This represents an increase of \$3.5 million. Hudson's Bay experienced strong sales, partially offset by a reduced margin rate. Margin rate deterioration was caused by higher markdowns liquidating seasonal inventories driven by cooler than usual spring weather.

Selling, General & Administrative Expenses

The following table shows SG&A for the 13-week periods ended August 3, 2013 and July 28, 2012, excluding certain non-recurring items.

(millions of Canadian dollars)	13-week period ended			
	August 3, 2013		July 28, 2012	
			<i>(restated⁽¹⁾)</i>	
	\$	% ⁽²⁾	\$	% ⁽²⁾
Selling, General & Administrative Expenses	359.6	37.9	345.5	37.9
<i>less the following non-recurring items:</i>				
Restructuring and other non-recurring.....	6.7	0.7	9.0	1.0
Acquisition related expenses	2.5	0.2	-	-
Impairment and other non-cash.....	-	-	0.2	-
Selling, General & Administrative Expenses excluding non-recurring items	350.4	37.0	336.3	36.9

Notes:

- (1) Certain previously reported figures have been restated due to the implementation of IAS 19R. For more information, please refer to "New Accounting Policies – Employee Benefits" and "Changes in Accounting Policies Including Initial Adoption."
- (2) As a percentage of retail sales.

SG&A was \$359.6 million, or 37.9% of retail sales, for the 13-week period ended August 3, 2013 compared to \$345.5 million, or also 37.9% of retail sales, for the 13-week period ended July 28, 2012. Adjusting for non-recurring expenses of \$9.2 million for both the 13-week periods ended August 3, 2013 and July 28, 2012, SG&A as a percentage of retail sales would have been 37.0% and 36.9%, respectively. The dollar increase in SG&A was primarily driven by four factors: increased depreciation and amortization costs related to capital investments

including investments in our online/omni-channel platform, an increase in non-cash share based compensation, an increase in costs associated with our strategic initiatives (including Topshop/Topman), and a decreased return from credit operations related to the wind down of Zellers. Non-recurring items included approximately \$2.5 million of expenses associated with the pending acquisition of Saks and \$7.5 million of expense reductions related to rightsizing our corporate infrastructure due to the wind down of discontinued operations.

EBITDA and Normalized EBITDA

EBITDA was \$48.8 million or 5.1% of retail sales in the 13-week period ended August 3, 2013 compared to \$49.9 million or 5.5% of retail sales in the 13-week period ended July 28, 2012, a decrease of \$1.1 million or 40 basis points as a percentage of retail sales. Normalized EBITDA was \$58.0 million or 6.1% of retail sales in the 13-week period ended August 3, 2013 compared to \$58.9 million or 6.5% of retail sales in the 13-week period ended July 28, 2012, a decrease of \$0.9 million or 40 basis points as a percentage of retail sales.

Finance Costs

Finance costs were \$76.9 million for the 13-week period ended August 3, 2013 compared to \$24.9 million for the 13-week period ended July 28, 2012, an increase of \$52.0 million. This increase is driven by non-cash expenses of \$59.9 million attributed to the pending Acquisition. These non-cash expenses include \$48.5 million related to the changes in fair value of Equity Commitment Forwards and \$11.4 million in finance related costs on warrants (see notes 4 and 17 of the unaudited interim condensed consolidated financial statements for the thirteen and twenty-six weeks ended August 3, 2013). In addition, other non-cash expenses included the write-off of \$5.8 million in deferred financing costs associated with the extinguishment of the Lord & Taylor Term Loan and partial repayment of the HBC Term Loan. Of the total finance costs of \$76.9 million (2012: \$24.9 million), approximately \$66.4 million (2012: \$3.9 million) relate to non-cash expenses. Offsetting these increases are lower average outstanding loans and borrowings as well as favourable loan terms from multiple re-financings in Fiscal 2012 and 2013. The overall reduction in outstanding loans and borrowings for the comparable periods was facilitated by a combination of the IPO proceeds, operating income and the wind-down of discontinued operations.

Income Tax Benefit

Income tax benefit was \$1.4 million for the 13-week period ended August 3, 2013 compared to \$2.7 million for the 13-week period ended July 28, 2012. The effective income tax rate of 2.0% for the 13-week period ended August 3, 2013 decreased from 46.6% for the 13-week period ended July 28, 2012 primarily due to a decrease in statutory rate, decrease in prior year recoveries, and non-deductible permanent differences, principally consisting of acquisition-related finance costs.

Net Loss for the Period — Continuing Operations

Net Loss for the Period – Continuing Operations was \$67.0 million in the 13-week period ended August 3, 2013 compared to a loss of \$3.1 million in the 13-week period ended July 28, 2012, an increase of \$63.9 million. The increase in loss is due primarily to the impact of significant non-cash charges related to changes in fair value of Equity Commitment Forwards, finance-related costs on warrants and acquisition-related costs, all of which are attributed to the pending acquisition of Saks. This, combined with the costs associated with the extinguishment of debt, all of which are normalized, resulted in a significant increase in Net Loss for the period.

Normalized Net Earnings (Loss) for the Period — Continuing Operations

Normalized Net Earnings for the Period – Continuing Operations was \$3.9 million in the 13-week period ended August 3, 2013 compared to a loss of \$2.0 million in the 13-week period ended July 28, 2012, an improvement of \$5.9 million.

Net Earnings (Loss) for the Period — Discontinued Operations

Net Loss for the Period – Discontinued Operations was \$15.3 million for the 13-week period ended August 3, 2013 compared to net earnings of \$25.3 million for the 13-week period ended July 28, 2012, a decrease of \$40.6

million. During the first quarter of Fiscal 2013, we completed the closure of most Zellers stores and expect our net loss for discontinued operations to be less significant in future quarters.

Twenty-Six Week Period Ended August 3, 2013 Compared to the Twenty-Six Week Period Ended July 28, 2012

Retail Sales

Retail sales were \$1,831.7 million for the 26-week period ended August 3, 2013, an increase of \$71.6 million, or 4.1%, from \$1,760.1 million for the 26-week period ended July 28, 2012. For the same period, consolidated same store sales increased by 3.8% (3.1% excluding the impact of foreign exchange), with an increase of 6.9% at Hudson's Bay and a decrease of 1.3% at Lord & Taylor (or an increase of 0.5% including the impact of foreign exchange). E-commerce sales grew to \$68.4 million, an increase of 44.6% compared to the twenty-six weeks ended July 28, 2012, reflecting the Company's strategic focus on growing this channel.

Sales at Hudson's Bay were driven by strong performance of ladies' and men's apparel, ladies' shoes, handbags and accessories, the continued growth of e-commerce sales and our five Topshop/Topman stores. Sales at Lord & Taylor were impacted by lower customer traffic due to unfavourable weather trends and lack of major fashion trend. Relative strength in men's apparel, handbags and watches and the growth of e-commerce were offset by underperformance of ladies' apparel and shoes.

Gross Profit

Gross profit for the 26-week period ended August 3, 2013 was \$724.3 million, or 39.5% of retail sales, compared to \$705.7 million or 40.1% of retail sales for the 26-week period ended July 28, 2012. This represents an increase of \$18.6 million. Hudson's Bay experienced strong sales, partially offset by a reduced margin rate. Margin rate deterioration at both Hudson's Bay and Lord & Taylor was caused by liquidating seasonal inventories driven by cooler than usual spring weather.

Selling, General & Administrative Expenses

The following table shows SG&A for the 26-week period ended August 3, 2013 and the 26-week period ended July 28, 2012, excluding certain non-recurring items.

(millions of Canadian dollars)	26-week period ended			
	August 3, 2013		(restated ⁽¹⁾) July 28, 2012	
	\$	%(²)	\$	%(²)
Selling, General & Administrative Expenses	731.3	39.9	726.8	41.3
<i>less the following non-recurring items:</i>				
Restructuring and other non-recurring.....	14.7	0.8	42.4	2.4
Acquisition related expenses	2.5	0.1	-	-
Impairment and non-cash	-	-	3.2	0.2
Selling, General & Administrative Expenses excluding non-recurring items	714.1	39.0	681.2	38.7

Notes:

- (1) Certain previously reported figures have been restated due to the implementation of IAS 19R. For more information, please refer to "New Accounting Policies – Employee Benefits" and "Changes in Accounting Policies Including Initial Adoption."
- (2) As a percentage of retail sales.

SG&A was \$731.3 million, or 39.9% of retail sales, for the 26-week period ended August 3, 2013 compared to \$726.8 million, or 41.3% of retail sales, for the 26-week period ended July 28, 2012. Adjusting for non-recurring expenses of \$17.2 million for the 26-week period ended August 3, 2013 and \$45.6 million for the 26-week period ended July 28, 2012, SG&A as a percentage of retail sales would have been 39.0% and 38.7%, respectively. The dollar increase in SG&A was primarily driven by four factors: increased depreciation and amortization costs related to capital investments including investments in our online/omni-channel platform, an increase in non-cash share-based compensation, an increase in costs associated with our strategic initiatives including Topshop/Topman, and a decreased return from credit operations related to the wind down of Zellers. Non-recurring items included

approximately \$2.5 million of acquisition related expenses associated with the pending Acquisition offset by \$16.5 million of expense reductions related to rightsizing our corporate infrastructure due to the wind-down of discontinued operations.

EBITDA and Normalized EBITDA

EBITDA was \$71.8 million or 3.9% of retail sales in the 26-week period ended August 3, 2013 compared to \$42.6 million or 2.4% of retail sales in the 26-week period ended July 28, 2012, an increase of \$29.2 million or 150 basis points as a percentage of retail sales. Normalized EBITDA was \$89.0 million or 4.9% of retail sales in the 26-week period ended August 3, 2013 compared to \$85.0 million or 4.8% of retail sales in the 26-week period ended July 28, 2012, an increase of \$4.0 million or 10 basis points as a percentage of retail sales.

Finance Costs

Finance costs were \$89.0 million for the 26-week period ended August 3, 2013 compared to \$49.7 million for the 26-week period ended July 28, 2012, an increase of \$39.3 million. This increase is driven primarily by non-cash expenses of \$59.9 million attributed to the pending Acquisition. These non-cash expenses include \$48.5 million related to the changes in fair value of Equity Commitment Forwards and \$11.4 million in finance related costs on warrants (see notes 4 and 17 to the unaudited interim condensed consolidated financial statements for the thirteen and twenty-six weeks ended August 3, 2013). In addition, other non-cash expenses included the write-off of \$5.8 million in deferred financing costs associated with the extinguishment of the Lord & Taylor Term Loan and partial repayment of the HBC Term Loan. Of the total finance costs of \$89.0 million (2012: \$49.7 million), approximately \$67.6 million (2012: \$5.6 million) relate to non-cash expenses. This increase was partially offset by lower average outstanding loans and borrowings as well as favourable loan terms from re-financings in Fiscal 2012 and 2013. The overall reduction in outstanding loans and borrowings for the comparable periods was facilitated by a combination of the IPO proceeds, operating income and the wind-down of discontinued operations.

Income Tax Benefit

Income tax benefit was \$7.8 million for the 26-week period ended August 3, 2013 compared to \$20.7 million for the 26-week period ended July 28, 2012. The effective income tax rate of 8.1% for the 26-week period ended August 3, 2013 decreased from 29.2% for the 26-week period ended July 28, 2012 primarily due to a decrease in statutory rates, decrease in prior year recoveries and non-deductible permanent differences, principally consisting of acquisition-related costs.

Net Loss for the Period — Continuing Operations

Net Loss for the Period – Continuing Operations was \$88.2 million in the 26-week period ended August 3, 2013 compared to a loss of \$50.1 million in the 26-week period ended July 28, 2012, an increase of \$38.1 million. The increase in loss is due primarily to the impact of significant one-time charges occurring in the 13-week period ended August 3, 2013 related to changes in fair value of Equity Commitment Forwards, finance related costs on warrants and acquisition related costs, all of which are attributed to the pending Acquisition. These, combined with the costs associated with the early extinguishment of debt, all of which are normalized, resulted in a significant increase in Net Loss for the period.

Normalized Net Loss for the Period — Continuing Operations

Normalized Net Loss for the Period – Continuing Operations was \$10.4 million in the 26-week period ended August 3, 2013 compared to a loss of \$25.2 million in the 26-week period ended July 28, 2012, an improvement of \$14.8 million.

Net Loss for the Period — Discontinued Operations

Net Loss for the Period – Discontinued Operations was \$74.8 million for the 26-week period ended August 3, 2013 compared to a loss of \$57.4 million for the 26-week period ended July 28, 2012, an increase of \$17.4 million. The increase in net loss was primarily due to fewer Zellers stores in operation during the 26-week period

ended August 3, 2013. During the first quarter of Fiscal 2013, we completed the closure of most Zellers stores and expect our net loss for discontinued operations to be less significant in future quarters.

Summary of Consolidated Quarterly Results

The following table summarizes quarterly financials for the Company for the past eight quarters.

(millions of Canadian dollars except per share amounts)	Fiscal Quarter Ended							
	<i>(restated⁽⁴⁾)</i>							
	Aug. 3, 2013	May 4, 2013	Feb. 2, 2013	Oct. 27, 2012	July 28, 2012	April 28, 2012	Jan. 28, 2012	Oct. 29, 2011
	\$	\$	\$	\$	\$	\$	\$	\$
Retail sales.....	947.7	884.0	1,386.5	930.4	911.9	848.2	1,299.6	896.7
Normalized EBITDA.....	58.0	31.0	177.1	47.9	58.9	26.1	166.8	65.2
Net (loss) earnings								
Continuing operations.....	(67.0)	(21.2)	90.4	(12.5)	(3.1)	(47.0)	99.2	(7.5)
Discontinued operations	(15.3)	(59.5)	(3.6)	(1.9)	25.3	(82.7)	96.6	1,247.4
	(82.3)	(80.7)	86.8	(14.4)	22.2	(129.7)	195.8	1,239.9
Net (Loss) Earnings per Common Share — Basic and Diluted⁽¹⁾								
Continuing operations.....	(0.56)	(0.18)	0.78	(0.12)	(0.03)	(0.45)	0.95	(0.07)
Discontinued operations	(0.13)	(0.49)	(0.03)	(0.02)	0.24	(0.79)	0.92	11.90
Same Store Sales Percentage Change⁽²⁾								
Continuing operations.....	3.5%	4.0%	2.1%	3.5%	3.9%	7.8%	6.8%	5.2%
Continuing operations (excluding impact of foreign exchange)	3.0%	3.2%	2.7%	3.9%	2.0%	6.9%	6.8%	6.3%
Hudson's Bay	6.2%	7.6%	6.1%	4.5%	3.2%	7.4%	8.7%	7.7%
Lord & Taylor ⁽³⁾	(1.2%)	(1.4%)	(2.9%)	5.2%	1.5%	7.5%	6.6%	5.9%

Notes:

- (1) 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.
- (2) The Company calculates same store sales on a year-over-year basis from stores operating for at least 13 months, e-commerce sales and clearance store sales.
- (3) Same store sales of Lord & Taylor are calculated in U.S. dollars.
- (4) Certain previously reported figures for Fiscal 2012 have been restated due to the implementation of IAS 19R. For more information, please refer to "New Accounting Policies – Employee Benefits" and "Changes in Accounting Policies Including Initial Adoption."

Outlook

In 2013, management expects to continue to build upon the Company's momentum toward revitalizing its banners and product offerings and strengthening our customer experience. The Company remains committed to executing upon its strategic growth initiatives. Please note that this Outlook section, including the guidance outlined below, has not been updated to contemplate the closing of the Acquisition. The following key 2013 initiatives will impact our results this year and beyond:

1. Continue the evolution of our online platform, including the re-launched *lordandtaylor.com* (February 2013) and *thebay.com* (July 2013) with significantly expanded product assortments and a more robust infrastructure.
2. Launch our increased omni-channel functionality during the Fall season. This increase will include mobile shopping applications, expanded fulfillment capabilities geared towards creating an "endless aisle" for our customers as well as enhanced digital and social media marketing programs.

3. Open five new Topshop/Topman stores comprising a total of approximately 65,000 gross square feet during the Fall season. These stores will be located in our Sherway Gardens (Etobicoke, Ontario), Les Galeries d'Anjou (Anjou, Quebec), Carrefour Laval (Laval, Quebec), Square One Shopping Centre (Mississauga, Ontario) and Chinook Centre (Calgary, Alberta) stores.
4. Undertake significant renovations, including the expansion of selling areas in key categories such as shoes, accessories, cosmetics and menswear to multiple locations including our Flagship Hudson's Bay on Queen Street (Toronto, Ontario), Yorkdale Shopping Centre (Toronto, Ontario), Sherway Gardens (Etobicoke, Ontario), Les Galeries d'Anjou (Anjou, Quebec), our Flagship Lord & Taylor on Fifth Avenue (New York, New York) and South Shore (Bayshore, New York) stores. These renovations are scheduled to be complete during the Fall season. Renovations at the Bala Cynwyd Shopping Centre (Philadelphia, Pennsylvania) and Oakbrook Centre Mall (Oakbrook, Illinois) have been completed.
5. Open a new full line Lord & Taylor store in Boca Raton, Florida in October 2014.
6. Expand Hudson's Bay's bridal program to include improved registry services with a dedicated Mobile Gift Registry App, a more robust online experience and a new strategic partnership with leading bridal retailer Kleinfeld to open a 20,000 square foot bridal boutique at our Flagship Queen Street store in Toronto, Ontario in Fiscal 2014.

Subject to the assumptions outlined therein, management reaffirms the guidance related to total sales growth, Normalized EBITDA and capital expenditures disclosed in the Company's management's discussion and analysis for the thirteen weeks ended May 4, 2013. The guidance for Fiscal 2013, which is fully qualified by the Forward-Looking Statements section at the beginning of this MD&A, is as follows:

- Total sales growth of 1.5% to 3.5% on same store sales growth of 3.0% to 5.0%, both excluding any impact of foreign exchange
- Normalized EBITDA of \$360 million to \$390 million
- Expected consolidated effective tax rate of 27.0% to 29.0%
- Capital expenditures of \$175 million to \$185 million

Liquidity and Capital Resources

Cash Flows

Our total cash and cash equivalents, 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:

(millions of Canadian dollars)	26-week period ended	
	August 3, 2013	July 28, 2012
	\$	\$
Operating activities — continuing operations.....	(58.9)	(115.4)
Investing activities — continuing operations.....	(99.2)	(72.0)
Financing activities — continuing operations.....	193.9	77.1
Increase (decrease) in cash from continuing operations.....	35.8	(110.3)
(Decrease) increase in cash from discontinued operations.....	(58.2)	114.7
Foreign exchange gains on cash.....	0.4	-
Cash beginning of period.....	48.3	42.4
Cash end of period.....	26.3	46.8

Net Cash Flow Operating Activities

Cash outflows from operating activities decreased to \$58.9 million for the 26-week period ended August 3, 2013 from \$115.4 million for the 26-week period ended July 28, 2012, a decrease in outflow of \$56.5 million, primarily due to lower investment in working capital, improved operating results and lower cash interest expense.

Net Cash Flow Investing Activities

Cash outflows from investing activities increased to \$99.2 million for the 26-week period ended August 3, 2013 from \$72.0 million for the 26-week period ended July 28, 2012, an increase in outflow of \$27.2 million. The increase was primarily due to higher capital expenditures related to the Company's continued investment in our store base to enhance the shopping experience and optimize floor space allocation and sales productivity as well as to the capitalized portion of the ongoing expansion of our omni-channel capabilities.

Net Cash Flow Financing Activities

Cash flows from financing activities increased to \$193.9 million for the 26-week period ended August 3, 2013 from \$77.1 million for the 26-week period ended July 28, 2012, an increase in net borrowings of \$116.8 million over the comparable period.

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; (iv) debt service; (v) our quarterly dividend; and (vi) the wind down of discontinued operations. Working capital requirements are at their highest in the latter half of the fiscal year as inventory builds through the Fall, peaking during the October through December holiday selling season. Working capital is at its lowest at fiscal year-end.

Our primary sources of funds are cash flows provided by operations, our HBC and Lord & Taylor 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 equity.

Wind-Down of Discontinued Operations

The Company will continue to fund the settlement of certain net liabilities associated with the wind-down of our discontinued operations. The most significant factors impacting the Company's cash flows will be (i) severance to be paid to former employees, (ii) payment of lease obligations for certain closed store locations and (iii) income tax recoveries anticipated to be received in early Fiscal 2014 and early Fiscal 2015. We expect future net cash outflow from discontinued operations to be approximately \$75 million to \$100 million, most of which we expect will settle during the remaining quarters of Fiscal 2013.

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 does not believe that there is a significant risk of default and/or arrears on dividend payments, 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 which would affect the ability to meet its obligations as and when they fall due.

Please refer to management's discussion and analysis for the fourteen and fifty-three weeks ended February 2, 2013 and to the management's discussion and analysis for the thirteen weeks ended May 4, 2013 for further details on the Company's credit facilities and loan documents. Refer to the Short Form Prospectus, dated August 30, 2013, for arrangements related to the credit facility, and other debt instruments in connection with the Acquisition.

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 September 11, 2013, other than the Yorkdale Mortgage, and the related partial prepayment of the HBC Term Loan and the Lord & Taylor Credit Facility and the related repayment of the Lord and Taylor Term Loan 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 fourteen and fifty-three weeks ended February 2, 2013.

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 \$10.8 million as at August 3, 2013.

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 tax, is recognized in other comprehensive income (loss).

The Company enters into forward foreign exchange contracts to fix the cost of certain U.S. dollar based purchases of merchandise from foreign suppliers in Canadian dollars. 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 recognized, 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 through 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.

In the 13-week period ended August 3, 2013, as a result of the Acquisition the Company recognized Equity Commitment Forwards and warrants, which are classified as fair value through profit or loss and measured at fair value with any changes in the fair value recognized in net earnings (loss) in the period in which the change occurs. The fair values of the warrants and Equity Commitment Forwards are determined using the Black-Scholes option pricing model and a forward pricing model, respectively. For a complete description of the derivative financial instruments of the Company and related risks, please refer to note 18 of the Company's Fiscal 2012 audited consolidated financial statements, the Company's management's discussion and analysis for the fourteen and fifty-three weeks ended February 2, 2013 and the Company's interim condensed consolidated financial statements for the thirteen and twenty-six weeks ended August 3, 2013.

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 provision for any tax matters. Should the ultimate tax liability materially differ from the provisions, the Company's effective tax rate and its earnings could be affected, positively or negatively, in the period in which the matters are resolved.

Related Party Transactions

The ultimate controlling party of the Company is L&T B. Transactions between HBC, Lord & Taylor and their respective subsidiaries, which are related parties have been eliminated on consolidation and are not disclosed herein.

On May 6, 2011, a subsidiary of Lord & Taylor 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 and twenty-six weeks ended August 3, 2013 were \$0.1 million and \$0.2 million (2012: \$0.3 and \$0.5 million), respectively. 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 \$0.2 million and \$0.7 million for the thirteen and twenty-six weeks ended July 28, 2012, respectively.

Amounts charged to the Company by HBTC under a management agreement were \$0.5 million and \$1.0 million for the thirteen and twenty-six weeks ended July 28, 2012, respectively. Amounts charged to the Company by NRDC under a property agreement were \$1.0 million and \$2.0 million for the thirteen and twenty-six weeks ended July 28, 2012, respectively.

As at July 28, 2012 and January 29, 2012 \$0.6 million and \$0.8 million were 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 July 28, 2012 and January 29, 2012.

All amounts were recorded at the exchange value of the transaction.

Proposed Transactions

On July 29, 2013, the Company and Saks announced that they had entered into the Merger Agreement whereby the Company agreed to acquire all of the issued and outstanding shares of Saks for U.S.\$16.00 per share in an all-cash transaction valued at approximately U.S.\$2.9 billion, including debt.

The transaction has been approved by each company's board of directors and the closing of the Acquisition (the "Acquisition Closing") is expected to close before the end of the calendar year, subject to approval by Saks shareholders, regulatory approvals and other customary closing conditions.

The Acquisition will bring together three of the retail industry's most iconic brands—Hudson's Bay, Lord & Taylor and Saks Fifth Avenue—to create a leading North American retailer addressing a broad consumer spectrum across the luxury, mid-tier and outlet retail sectors. The combined company will operate 321 stores, including 179 full-line department stores, 73 outlet stores and 69 home stores in prime retail locations throughout the U.S. and Canada, along with three e-commerce sites. The combined company would have generated pro forma sales and normalized EBITDA in fiscal 2012 of approximately \$7.2 billion and \$599 million, respectively, before any synergies. The Company expects to achieve \$100 million of annual synergies within three years.

Completion of the Acquisition is subject to the approval of the Merger Agreement, the consummation of the merger and the other transactions contemplated thereby by the affirmative vote of holders of at least a majority of the outstanding shares of common stock of Saks. The Acquisition Closing is also subject to various customary conditions, including the absence of any governmental order, law or similar legal restriction prohibiting the consummation of the transactions contemplated by the Merger Agreement, the accuracy of the representations and warranties contained in the Merger Agreement (generally subject to a "material adverse effect" qualification, except as to certain fundamental representations and warranties), and compliance with the covenants and agreements in the Merger Agreement in all material respects. In addition, the Acquisition Closing is subject to the expiration or termination of any applicable waiting period (and any extension thereof) under the HSR Act. On August 30, 2013 the Company announced that it has been notified by the Premerger Notification Office of the U.S. Federal Trade Commission of the early termination of the waiting period under the HSR Act, thereby satisfying such closing condition. The Acquisition Closing is not subject to a financing condition.

The Merger Agreement contains a 40-day "go-shop" period during which Saks was permitted to solicit alternative proposals from third parties. The Merger Agreement provides that within three business days of the end of the "go-shop" period, Saks will provide the Company with a list of "Excluded Parties," which means any party that submitted a written proposal during the "go-shop" period that the Saks Board of Directors determined either constitutes or could reasonably be expected to constitute a superior proposal. The "go-shop" period expired on September 6, 2013. On September 10, 2013, Saks announced that no party has been designated as an "Excluded Party." Saks is now subject to customary "no-shop" provisions which are outlined in the merger agreement. The Merger Agreement provides the Company certain information and matching rights in connection with other third party proposals.

The Company intends to finance the Acquisition, and pay fees and expenses incurred in connection with the Acquisition, with a combination of approximately U.S.\$1.0 billion of new equity (including equity issued in connection with the Offering), U.S.\$1.9 billion of senior secured loans, U.S.\$400 million of senior unsecured notes

(the “Unsecured Notes”) and available cash on hand. HSILP, an entity affiliated with Ontario Teachers’ Pension Plan Board, and WF Fund, a fund advised by West Face Capital Inc. have separately committed to provide the Company with the Canadian dollar equivalent of up to U.S.\$500 million and U.S.\$250 million of equity funding, respectively, to support the transaction (the “Equity Commitments”).

On September 10, 2013 the Company announced the closing of the Offering. The gross proceeds from the sale of Subscription Receipts will be held by in escrow pending confirmation by the Company that the conditions precedent to completing the Acquisition contained in the Merger Agreement have been satisfied (the “Escrow Release Condition”). If the Escrow Release Condition is satisfied prior to 12:01 a.m. (Toronto time) on the Termination Date (as defined herein), holders of Subscription Receipts will be entitled to receive, without payment of additional consideration or further action, one Common Share for each Subscription Receipt plus if applicable, payment equal to the aggregate amount per Common Share of dividends declared by the Company, if any, for which record dates have occurred during the period from the date of the closing of the Offering to the date immediately preceding the satisfaction of the Escrow Release Condition. If (i) the Escrow Release Condition is not satisfied by 12:01 a.m. (Toronto time) on April 25, 2014, (ii) the Merger Agreement is terminated at any earlier time, or (iii) the Company determines that it does not intend to proceed with the Acquisition (the date upon which any such event occurs, being the “Termination Date”), holders of the Subscription Receipts will be entitled to receive an amount equal to the full subscription price thereof plus their pro rata share of earned interest.

In consideration for HSILP’s commitment, concurrently with the execution of the Merger Agreement, the Company issued 1.5 million share purchase warrants to HSILP, and will issue an additional 3.5 million share purchase warrants to HSILP upon the closing of the transaction. In consideration for the West Face commitment, the Company will issue 1.75 million share purchase warrants to WF Fund upon the closing of the transaction. The subscription price of the common shares and the exercise price of the warrants (the “Warrants”) will be \$17 per share (subject to adjustment in certain limited circumstances) which represents a premium to the trading price of the Company’s shares immediately prior to the announcement of the Acquisition. The Warrants will have a five year term from the date of the issue and are subject to the anti-dilution provisions in certain circumstances.

The Company has also been provided with fully committed credit facilities, which together with the proceeds from the Offering and the Equity Commitments, are sufficient to pay the aggregate consideration in connection with the Acquisition. The Equity Commitments are subject to a number of conditions including a condition in favour of West Face that there be no material adverse effect on the HBC business prior to the Acquisition Closing. In addition, each of HSILP and WF Fund has the benefit of certain price protection provisions in respect of the Equity Commitments. The Company will also refinance certain of its existing indebtedness simultaneously with the Acquisition Closing. For further discussion, see Note 4 of the Company’s unaudited interim condensed consolidated financial statements for the thirteen and twenty-six weeks ended August 3, 2013 for additional information.

For more details on the terms and conditions of the Merger Agreement, please refer to the Company’s material change report dated July 30, 2013 (the “Material Change Report”) and the Short Form Prospectus dated August 30, 2013, each of which are available from the Company’s profile on www.sedar.com.

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 2012 audited consolidated financial statements and the Company’s management’s discussion and analysis for the fourteen and fifty-three weeks ended February 2, 2013 as updated for changes in accounting standards that were implemented in Fiscal 2013, as described below.

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 3 to the Fiscal 2012 audited consolidated financial statements for further critical judgments and estimations):

- Inventories
- Loyalty program
- Impairment of property, plant and equipment and intangible assets
- Income taxes
- Share based compensation
- Post-employment benefits
- Equity commitments and warrants

Changes in Accounting Policies Including Initial Adoption

Accounting Standards Implemented in 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 in note 2 of the unaudited interim condensed consolidated financial statements for the thirteen and twenty-six weeks ended August 3, 2013.

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 the 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 Fiscal 2013 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 Fiscal 2013 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 (loss) in its 2013 Q1 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 Fiscal 2013 and the implementation did not have an impact on its results of operations, financial position and disclosures.

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 – 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.

Financial Instruments — Recognition and Measurement — In June 2013, IASB amended IAS 39 – Financial Instruments: Recognition and Measurement, 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 is assessing the potential impact of the IAS 39 amendments.

Impairment of Assets - In May 2013, the IASB amended IAS 36 – Impairment of Assets ("IAS 36"), providing guidance on recoverable amount disclosures for non-financial assets. The amendments to IAS 36 must be applied retrospectively for annual periods beginning on or after January 1, 2014. The Company is assessing the potential impact of the IAS 36 amendments.

Management's Report on Internal Controls over Financial Reporting

The Governor and Chief Executive Officer and the Chief Financial Officer 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.

There were no changes in our internal controls over financial reporting that occurred during the quarter ended August 3, 2013 that have materially affected, or are reasonably likely to materially affect our internal controls 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 filed on SEDAR on April 30, 2012. In addition to those risks, please refer to the Risk Factors in the Short Form Prospectus dated August 30, 2013 for specific risks related to the Acquisition, the Offering and the post-Acquisition business and operations of the Company and Saks.

Dividends

The Company's Board of Directors approved the payment of a quarterly dividend on June 11, 2013, to shareholders of record at the close of business July 15, 2013. The dividend was in the amount of \$0.09375 per Common Share and was designated as an "eligible dividend" for Canadian tax purposes. On September 11, 2013, the Company declared a quarterly dividend of the same amount, payable on October 15, 2013. Subject to completion of the Acquisition, holders of Subscription Receipts will be entitled to receive, among other things and without payment of additional consideration or further action, payment in the amount of \$0.09375 per Subscription Receipt. Subsequent to the closing of the Acquisition, the Company expects to reduce its quarterly dividend to \$0.05 per share to accelerate the deleveraging of debt in the short-term.

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 September 11, 2013, the Company had 120.0 million Common Shares issued and outstanding and no preferred shares issued and outstanding. In addition, the Company had 16,050,000 Subscription Receipts issued and outstanding. The Company has also received conditional listing approval from the TSX for the Common Shares that would be issued to HSILP and WF Fund as part of the Equity Commitments (including the Common Shares underlying the Warrants) as well as for the Common Shares issuable pursuant to the terms of the Subscription Receipts. Listing will be subject to the Company fulfilling all of the listing requirements of the TSX.

The Common Shares trade on the Toronto Stock Exchange under the symbol "HBC" and began trading on November 20, 2012. The Subscription Receipts are listed under the symbol "HBC.R" and began trading on September 10, 2012. In addition there were 12.0 million Common Shares reserved for issuance for the exercise of share options 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 127.1 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, the issuance of Common Shares in connection with the Equity Commitments, the exercise of the Warrants and the issuance of Common Shares pursuant to the terms of the Subscription Receipts (exclusive of any over-allotment), there would be approximately 194.1 million Common Shares issued and outstanding on a fully diluted basis.