2012 ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended

February 2, 2013

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Hudson's Bay Company

We have audited the accompanying consolidated financial statements of Hudson's Bay Company, which comprise the consolidated balance sheets as at February 2, 2013 and January 28, 2012, and the consolidated statements of (loss) earnings, consolidated statements of comprehensive (loss) income, consolidated statements of shareholders' equity and consolidated statements of cash flows for the 53 and 52 weeks ended February 2, 2013 and January 28, 2012 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Hudson's Bay Company as at February 2, 2013 and January 28, 2012 and its financial performance and its cash flows for the 53 and 52 weeks ended February 2, 2013 and January 28, 2012 in accordance with International Financial Reporting Standards.

Chartered Accountants
Licensed Public Accountants

April 10, 2013
Toronto, Ontario

HUDSON'S BAY COMPANY

CONSOLIDATED STATEMENTS OF (LOSS) EARNINGS

For the 53 weeks ended February 2, 2013 and 52 weeks ended January 28, 2012
(millions of Canadian dollars, except per share amounts)

	Notes	February 2, 2013 (Fiscal 2012)	January 28, 2012 (Fiscal 2011)
Retail sales		**4,077.0**	3,849.6
Cost of sales	10	**(2,487.0)**	(2,306.0)
Selling, general and administrative expenses		**(1,469.2)**	(1,347.2)
Operating income		**120.8**	196.4
Finance costs	6	**(97.3)**	(142.9)
Earnings before income tax — continuing operations		**23.5**	53.5
Income tax benefit	7	**8.0**	3.8
Net earnings for the year — continuing operations		**31.5**	57.3
Net (loss) earnings for the year — discontinued operations, net of taxes	4	**(76.3)**	1,391.7
Net (loss) earnings for the year		**(44.8)**	1,449.0
Net (loss) earnings per common share — basic and diluted	21		
Continuing operations		**0.29**	0.55
Discontinued operations		**(0.71)**	13.29
		(0.42)	13.84

(See accompanying notes to the Consolidated Financial Statements)

HUDSON'S BAY COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

For the 53 weeks ended February 2, 2013 and 52 weeks ended January 28, 2012
(millions of Canadian dollars)

	February 2, 2013 (Fiscal 2012)	January 28, 2012 (Fiscal 2011)
Net (loss) earnings	**(44.8)**	1,449.0
Other comprehensive loss, net of tax:		
Currency translation adjustment	**(1.7)**	(4.5)
Net defined benefit plan actuarial loss, net of taxes of $9.4 (2011: $18.2)	**(25.7)**	(53.3)
Net loss on derivatives designated as cash flow hedges, net of taxes of $0.3 (2011: $0.2)	**(0.8)**	(0.6)
Reclassification to non-financial assets of net (losses) gains on derivatives designated as cash flow hedges, net of taxes of $0.1 (2011: $1.8)	**(0.3)**	5.4
Reclassification to earnings of net gains and losses on derivatives designated as cash flow hedges, net of tax of $0.3 (2011: $0.2)	**0.7**	0.5
Other comprehensive loss	**(27.8)**	(52.5)
Total comprehensive (loss) income	**(72.6)**	1,396.5

(See accompanying notes to the Consolidated Financial Statements)

HUDSON'S BAY COMPANY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the 53 weeks ended February 2, 2013 and 52 weeks ended January 28, 2012
(millions of Canadian dollars)

						Accumulated Other Comprehensive Income (Loss) ("AOCI")				
	Notes	**Share Capital**	**Parent's Interest in L&T**	**Retained Earnings (Deficit)**	**Contributed Surplus**	**Currency Translation Adjustment**	**Employee Benefits**	**Cash Flow Hedges**	**Total AOCI**	**Total Shareholders' Equity**
As at January 31, 2011		—	**151.9**	**(189.5)**	**257.2**	(5.3)	17.4	(4.6)	**7.5**	**227.1**
Comprehensive income		—	—	1,449.0	—	(4.5)	(53.3)	5.3	(52.5)	1,396.5
Share based compensation	19	—	—	—	0.6	—	—	—	—	0.6
Return of capital	22	—	(101.9)	—	—	—	—	—	—	(101.9)
Reclass of capital on reorganization	22	—	(50.0)	—	50.0	—	—	—	—	—
Reclass of capital on amalgamation	20	247.2	—	—	(247.2)	—	—	—	—	—
Return of capital	20	(245.0)	—	—	—	—	—	—	—	(245.0)
Dividends	20	—	—	(321.4)	—	—	—	—	—	(321.4)
As at January 28, 2012		**2.2**	**—**	**938.1**	**60.6**	(9.8)	(35.9)	0.7	**(45.0)**	**955.9**
Comprehensive loss		—	—	(44.8)	—	(1.7)	(25.7)	(0.4)	(27.8)	(72.6)
Share based compensation	19, 20	8.5	—	—	(28.1)	—	—	—	—	(19.6)
Issuance of common shares	20	235.4	—	—	—	—	—	—	—	235.4
Dividends	20	—	—	(101.1)	—	—	—	—	—	(101.1)
As at February 2, 2013		**246.1**	—	**792.2**	**32.5**	(11.5)	(61.6)	0.3	**(72.8)**	**998.0**

(See accompanying notes to the Consolidated Financial Statements)

HUDSON'S BAY COMPANY

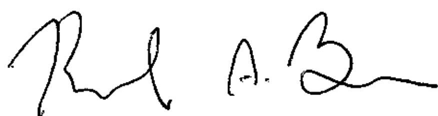
CONSOLIDATED BALANCE SHEETS

As at February 2, 2013 and January 28, 2012
(millions of Canadian dollars)

	Notes	February 2, 2013 (Fiscal 2012)	January 28, 2012 (Fiscal 2011)
ASSETS			
Cash	8	**48.3**	42.4
Trade and other receivables	9	**74.3**	124.0
Inventories	10	**994.3**	1,814.2
Financial assets	18	**3.1**	5.7
Other current assets		**31.1**	20.9
Assets of discontinued operations held for sale	4	**273.6**	—
Total current assets		**1,424.7**	2,007.2
Property, plant and equipment	11	**1,335.0**	1,401.1
Intangible assets	12	**233.0**	224.6
Pensions and employee benefits	17	**38.3**	91.0
Deferred tax assets	7	**209.5**	257.5
Other assets		**12.1**	12.1
Total assets		**3,252.6**	3,993.5
LIABILITIES			
Loans and borrowings	14	**132.1**	291.0
Trade payables		**400.4**	613.0
Other payables and accrued liabilities		**269.7**	700.5
Deferred revenue		**109.9**	132.5
Provisions	15	**86.5**	76.1
Income taxes payable		**2.5**	101.8
Financial liabilities	18	**0.9**	1.9
Liabilities of discontinued operations held for sale	4	**361.5**	—
Total current liabilities		**1,363.5**	1,916.8
Loans and borrowings	14	**718.5**	901.7
Provisions	15	**13.5**	24.5
Employee benefits	17	**70.3**	75.4
Other liabilities	13	**88.8**	119.2
Total liabilities		**2,254.6**	3,037.6
Shareholders' Equity			
Share capital	20	**246.1**	2.2
Retained earnings		**792.2**	938.1
Contributed surplus		**32.5**	60.6
Accumulated other comprehensive loss		**(72.8)**	(45.0)
Total shareholders' equity		**998.0**	955.9
Total liabilities and shareholders' equity		**3,252.6**	3,993.5

(See accompanying notes to the Consolidated Financial Statements)

On behalf of the Board:



Director

Director

HUDSON'S BAY COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the 53 weeks ended February 2, 2013 and 52 weeks ended January 28, 2012 (millions of Canadian dollars)

		February 2, 2013 (Fiscal 2012)			January 28, 2012 (Fiscal 2011)		
	Notes	**Continuing operations**	**Discontinued operations**	**Total**	Continuing operations	Discontinued operations	Total
Operating activities							
Net earnings (loss) for the year		**31.5**	**(76.3)**	**(44.8)**	57.3	1,391.7	1,449.0
Add: Income tax (benefit) expense		**(8.0)**	**(82.8)**	**(90.8)**	(3.8)	240.3	236.5
Add: Finance costs (income)		**97.3**	**(0.4)**	**96.9**	142.9	(0.7)	142.2
Earnings (loss) before income tax and finance costs		**120.8**	**(159.5)**	**(38.7)**	196.4	1,631.3	1,827.7
Net cash income taxes paid		**(10.2)**	**(2.7)**	**(12.9)**	(0.8)	(111.5)	(112.3)
Interest (paid) received in cash		**(86.9)**	**0.7**	**(86.2)**	(114.9)	(0.7)	(115.6)
Items not affecting cash flows:							
Recognition of proceeds on sale of leasehold interests	4	**—**	**(271.5)**	**(271.5)**	—	(1,514.2)	(1,514.2)
Depreciation and amortization	5	**104.1**	**5.0**	**109.1**	90.6	14.7	105.3
Impairment of property, plant and equipment and intangible assets	4,11	**11.9**	**31.5**	**43.4**	7.9	13.1	21.0
Net defined benefit pension and employee benefits expense		**5.0**	**10.0**	**15.0**	12.1	10.1	22.2
Other operating activities		**(21.1)**	**—**	**(21.1)**	(13.8)	(2.6)	(16.4)
Accelerated amortization of Zellers rent related net assets (liabilities)	4	**—**	**1.5**	**1.5**	—	(56.2)	(56.2)
Gain on sale of pharmacy records	4	**—**	**(41.0)**	**(41.0)**	—	—	—
(Gain) loss on sale of assets		**(9.1)**	**28.2**	**19.1**	(9.6)	0.7	(8.9)
Share based compensation	19	**5.2**	**—**	**5.2**	0.9	0.2	1.1
Redemption of share based compensation grants	19	**(18.3)**	**(9.5)**	**(27.8)**	—	—	—
Net change in operating working capital	27	**(20.6)**	**680.1**	**659.5**	(139.5)	54.6	(84.9)
Net cash inflow from operating activities		**80.8**	**272.8**	**353.6**	29.3	39.5	68.8
Investing activities							
Capital expenditures		**(159.3)**	**—**	**(159.3)**	(139.9)	(4.1)	(144.0)
Software development costs		**(43.6)**	**—**	**(43.6)**	(26.2)	—	(26.2)
Exercise of options on buildings and ground leases	11	**—**	**—**	**—**	(65.4)	—	(65.4)
Proceeds from disposition of property, plant and equipment		**—**	**0.5**	**0.5**	10.5	—	10.5
Proceeds from sale of assets	4	**4.7**	**81.2**	**85.9**	—	1,832.4	1,832.4
Other investing activities		**0.9**	**—**	**0.9**	(1.6)	(0.5)	(2.1)
Net cash (outflow for) inflow from investing activities		**(197.3)**	**81.7**	**(115.6)**	(222.6)	1,827.8	1,605.2
Financing activities							
Long-term loans and borrowings:	14						
Issuance		**499.5**	**—**	**499.5**	445.8	—	445.8
Repayments		**(704.1)**	**—**	**(704.1)**	(919.3)	—	(919.3)
Borrowing costs		**(8.9)**	**—**	**(8.9)**	(17.9)	—	(17.9)
		(213.5)	**—**	**(213.5)**	(491.4)	—	(491.4)
Short-term loans and borrowings:	14						
Repayments of asset-based credit facilities		**(142.2)**	**—**	**(142.2)**	(478.4)	—	(478.4)
Net decrease in other short-term borrowings		**—**	**—**	**—**	(41.1)	—	(41.1)
Borrowing costs		**(5.4)**	**—**	**(5.4)**	(0.3)	—	(0.3)
		(147.6)	**—**	**(147.6)**	(519.8)	—	(519.8)
Issuance of common shares	20	**230.1**	**—**	**230.1**	—	—	—
Common shares return of capital	20	**—**	**—**	**—**	(245.0)	—	(245.0)
Return of capital to parent	22	**—**	**—**	**—**	(101.9)	—	(101.9)
Dividends paid		**(101.1)**	**—**	**(101.1)**	(321.4)	—	(321.4)
Net cash outflow for financing activities		**(232.1)**	**—**	**(232.1)**	(1,679.5)	—	(1,679.5)
Foreign exchange losses on cash		**—**	**—**	**—**	(9.3)	—	(9.3)
(Decrease) increase in cash		**(348.6)**	**354.5**	**5.9**	(1,882.1)	1,867.3	(14.8)
Transfer to continuing operations		**354.5**	**(354.5)**	**—**	1,867.3	(1,867.3)	—
Increase (decrease) in cash		**5.9**	**—**	**5.9**	(14.8)	—	(14.8)
Cash at beginning of year		**42.4**	**—**	**42.4**	57.2	—	57.2
Cash at end of year		**48.3**	**—**	**48.3**	42.4	—	42.4

(See accompanying notes to the Consolidated Financial Statements)

HUDSON'S BAY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. GENERAL INFORMATION

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

On January 11, 2012 HBTC completed a reorganization to combine its retail operations, HBC and L&T. As part of the reorganization, HBC acquired L&T from HBTC. The acquisition of L&T by HBC is 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 in 2008.

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

The Company owns and operates department stores across Canada and regionally within the United States under Hudson's Bay, Home Outfitters and Lord & Taylor banners and operates discount stores under the Zellers banner. On April 19, 2012, the Company's Board of Directors approved a plan to discontinue the Company's discount store operations. Accordingly, HBC's financial information has been retroactively restated to present Zellers and Fields as discontinued operations (see note 4). The address of the registered office of HBC is 401 Bay Street, Suite 500, Toronto, ON, M5H 2Y4.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements for the year ended February 2, 2013 were authorized for issuance by the Board of Directors of HBC on April 10, 2013.

b) Basis of presentation

These consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through the statements of (loss) earnings. In accordance with IFRS, the Company has:

- provided comparative financial information; and
- applied the same accounting policies throughout all periods presented.

The preparation of financial statements in accordance with IFRS requires the use of critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. These areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in note 3.

c) Basis of consolidation

These consolidated financial statements of the Company include the accounts of HBC and its subsidiaries. Inter-company transactions, balances, revenues and expenses have been eliminated.

d) Fiscal year

The fiscal year of the Company consists of a 52 or 53 week period. Fiscal year 2012 represents 53 weeks and fiscal year 2011 represents 52 weeks ended on February 2, 2013 and January 28, 2012, respectively. References to years in the consolidated financial statements and notes to the consolidated financial statements relate to fiscal years rather than calendar years.

e) Foreign currency translation

i) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These consolidated financial statements are presented in Canadian dollars, which is HBC's functional currency and the presentation currency of the Company.

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of (loss) earnings, except when included in other comprehensive income as qualifying cash flow hedges.

iii) Foreign operations

The results and financial position of L&T and its subsidiaries, which have a functional currency different from the presentation currency, are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the date of each balance sheet;
- revenues and expenses are translated at average exchange rates; and
- all resulting foreign exchange translation differences are recognized in the consolidated statement of comprehensive (loss) income.

f) Cash

Cash consists of cash on hand, deposits in banks and short-term deposits with maturities of less than three months and includes restricted funds. Restricted cash represents amounts deposited in escrow accounts which are maintained and managed by an independent agent.

g) Trade and other receivables

Trade and other receivables consisting of credit card, pharmacy, vendor and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less allowance for impairment. An allowance for impairment of accounts receivable is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

h) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined, for the majority of inventory, using the weighted average cost method, based on individual items. Net realizable value is the estimated selling price determined at the item level using historical markdown rates for similar items in the ordinary course of business, less estimated costs required to sell.

Costs comprise all variable costs, and certain fixed costs, incurred in bringing inventories to their present location and condition. Storage and administrative overheads are expensed as incurred. Supplier rebates and discounts are recorded as a reduction in the cost of purchases unless they relate to a reimbursement of specific incremental expenses.

Merchandise that is subject to consignment or licensee (concession) agreements is not included as inventories.

i) Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Freehold land is stated at cost less any impairment loss. Cost includes expenditures that can be directly attributed to the acquisition of the asset and capitalized borrowing costs. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Company and the cost can be reliably measured. The carrying amount of the replaced asset is derecognized.

Freehold land and assets under construction are not depreciated. Depreciation commences when the assets are available for use and is recognized on a straight-line basis to depreciate the cost of the assets to their estimated residual value over their estimated useful lives. When significant parts of an asset have different useful lives, they are accounted for as separate components of the asset and depreciated over their respective estimated useful lives. Estimated useful lives are as follows:

Asset	Amortization Periods
Buildings	up to 70 years
Leasehold improvements	up to 20 years
Fixtures and fittings	up to 19 years
Assets held under finance leases	up to 8 years

The assets' useful lives and residual values are reviewed, and adjusted if appropriate, annually.

j) Intangible assets

Trade names with indefinite lives are measured at cost less any accumulated impairment losses and are not amortized.

Intangible assets with finite useful lives are carried at cost less accumulated amortization and impairment losses. These assets are amortized on a straight-line basis over their estimated useful lives, as follows:

Asset	Amortization Periods
Software including internally developed costs	up to 7 years
Favourable lease rights	up to 75 years

The assets' useful lives and residual values are reviewed, and adjusted if appropriate, annually.

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company, including employee costs are recognized as intangible assets.

k) Impairment of non-financial assets

The carrying amount of property, plant, and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Indefinite life intangible assets are tested for impairment annually. An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell ("FVLCTS") and value in use. The FVLCTS of an asset is assessed, where practicable, by external valuators. Value in use is estimated as the present value of the future cash flows that the Company expects to derive from the asset. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are largely independent cash inflows (cash-generating units). With the exception of certain corporate assets, which are tested at the entity level, all assets are tested for impairment at the store level asset grouping.

Any impairment loss identified for a particular cash-generating unit is allocated to the assets within that unit on a pro rata basis, except where the recoverable amount of an asset is based on FVLCTS, in which case no portion of the impairment loss is allocated to that asset. Any impairment charge is recognized in net earnings in the year in which it occurs. Where an impairment loss subsequently reverses due to a change in the original estimate, the impairment loss is reversed but is restricted to increasing the carrying value of the relevant assets to the carrying value that would have been recognized had the original impairment not occurred.

l) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made. Recoveries from third parties and other contingent gains are recognized when realized.

i) Self-insurance

The Company purchases third party insurance for automobile, product, workers' compensation and general liability claims that exceed a certain dollar level. The Company is responsible for the payment of claims below these insured limits. Provisions for self-insurance are determined actuarially on a discounted basis based on claims filed and an estimate of claims incurred but not yet reported.

ii) Severance and restructuring

Provisions for restructuring costs are recognized when the Company has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. Provisions for terminations are recognized when the Company is demonstratively committed to the termination and has a detailed plan in place.

iii) Onerous leases and contracts

Provisions for onerous leases are recognized when the Company believes that the unavoidable costs of meeting future lease obligations exceed the economic benefits expected to be received under the lease. Provisions for onerous contracts are recognized when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under that contract, and only after any impairment losses on assets dedicated to that contract have been recognized. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

iv) Asset retirement obligations

Asset retirement obligations are recognized for operating leases where the Company has a legal or constructive obligation to remove leasehold improvements and replace or remove other structures at the end of the lease term, and for owned locations and at locations subject to ground leases with similar requirements. Obligations are also booked for owned properties for constructive or legal obligations (such as environmental remediation). The obligation is measured at the present value of expected costs to settle the obligation using estimated cash flows and capitalized and amortized over the useful life of the asset to which it relates.

v) Legal

Legal provisions are recognized where there is a present obligation as a result of a past event, it is probable that there will be an outflow of economic resources, and the amount can be reliably estimated.

m) Leases

Leases in which a significant portion of the risks and rewards of ownership are transferred to the Company are classified as finance leases. All other leases are classified as operating leases.

Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the economic life of the asset or the lease term.

Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statements of (loss) earnings on a straight-line basis over the period of the lease. Income from operating leases is recognized on a straight-line basis over the period of the lease. The lease term includes renewals where management's assessment is that there is a reasonable probability that the renewal option will be exercised.

n) Income taxes

In connection with HBTC's reorganization on January 11, 2012, which resulted in the Company acquiring L&T, L&T became a taxable entity. Prior to January 11, 2012, L&T was considered a flow-through (limited liability corporations or "LLC", and limited partnerships) entity for tax purposes. The Company's accounting policies for the following types of entities are as follows:

<u>Taxable entities</u>

Deferred income tax is recognized on taxable temporary differences arising from differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is recognized for all taxable temporary differences, except to the extent where it arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and at the time of transaction, affects neither accounting profit nor taxable profit. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets have been recognized in respect of non-capital losses and temporary differences giving rise to deferred income tax assets because it is expected that these assets will be recovered by way of reversal of taxable temporary differences and management's expectation of future taxable profits within the loss expiry period.

Income tax expense or benefit comprises current and deferred income taxes. Tax is recognized in the consolidated statements of earnings (loss), except to the extent that it relates to items recognized either in other comprehensive income or directly in equity. The income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the date of the balance sheet.

Deferred tax assets and liabilities are only offset when the Company has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to realize or settle current tax assets or liabilities simultaneously in future periods.

<u>Flow-through entities</u>

L&T, as a limited liability company from the date of its acquisition by HBTC through January 10, 2012, was treated as a partnership for U.S. federal income tax purposes and in most states in which it operates. L&T's taxable income or loss was included in HBTC's income tax filings and is allocated to its members. The members generally were responsible for any related federal, state, and local tax obligations, and L&T was responsible to distribute cash adequate to cover any tax obligations of the L&T members. As a result, L&T did not record a federal tax provision nor deferred tax assets or liabilities related to federal tax prior to its acquisition.

L&T operates stores in ten states, plus the District of Columbia. Although most of these states follow the federal treatment of LLCs, four states require an LLC to file a state corporation or franchise tax return and pay any related taxes or submit income tax withholdings on the partners' behalf. Accordingly, a state income tax expense is recorded for estimated income attributable to those states.

o) Employee benefits

i) Short-term employee benefits

Liabilities for wages, salaries (including non-monetary benefits), vacation entitlement and bonuses are measured on an undiscounted basis and are recognized in operating income as the related service is provided. A liability is recognized for the amount expected to be paid under short-term bonus plans if the Company has a present legal or constructive obligation to this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

ii) Post-employment benefits

Post-employment benefits include pensions (both defined contribution and defined benefit) and non-pension post-retirement benefits (medical and dental benefits and life insurance commitments to retirees). The Company reports its obligations under these plans net of any plan assets.

The asset or liability recognized in the consolidated balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses are recognized in other comprehensive income in the period in which they arise. Past service costs are recognized in operating income in the year in which they arise to the extent that the associated benefits are fully vested. For funded plans, surpluses are recognized only to the extent that the surplus is considered recoverable. Recoverability is primarily based on the extent to which the Company can unilaterally reduce future contributions to the plan.

For defined contribution plans, the Company pays contributions to pension plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. Contributions are recognized as employee benefit expense as incurred, which is as the related employee service is rendered.

iii) Other long-term employee benefits

The Company provides long-term disability benefits to certain employees dependent on the legal employer. The entitlement to these benefits is usually conditional on the completion of a minimum service period. The expected costs of these benefits are recognized when an event occurs that causes the long term disability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income in the period in which they arise. These obligations are calculated annually.

iv) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date. The Company recognizes termination benefits when it is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal.

v) Share based payments

The Company operates share based incentive plans under which it receives services from certain employees as consideration. For equity settled awards, the fair value of the grant of equity interests is recognized as an expense over the period that the related service is rendered with a corresponding increase in equity. For cash-settled awards, the fair value of the liability is re-measured at the end of each reporting period, with the change in fair value recognized as an expense over the period that the related service is rendered. Certain awards provide the Company with a choice of settlement in cash or by issuing equity. In these cases, the award is accounted for as a cash-settled award when the Company has a present obligation to settle in cash.

The total amount to be expensed is determined by reference to the fair value of the equity interests granted. The total amount expensed is recognized over the vesting period on a tranche basis, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the estimate of the number of equity interests that are expected to vest is revised. The impact of the revision to original estimates, if any, is recognized in operating income.

p) Financial assets

Financial assets have been classified in one of the following categories: at fair value through profit or loss, loans and receivables, and held-to-maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed immediately to the consolidated statements of (loss) earnings. Subsequent changes in the fair value of financial assets at fair value through profit or loss are recorded in the consolidated statements of (loss) earnings.

ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are measured at amortized cost using the effective interest rate method.

iii) Held-to-maturity

Held-to-maturity investments are financial instruments with fixed or determinable payments and fixed maturity that the Company has the intention and ability to hold to maturity. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Held-to-maturity investments are measured at amortized cost using the effective interest rate method.

The Company's non-derivative financial assets are classified and measured as follows:

Asset	Category
Cash	Loans and receivables
Restricted cash	Loans and receivables
Short-term deposits	Held-to-maturity
Trade and other receivables	Loans and receivables

iv) Impairment

The Company assesses, at each reporting date, whether there is any evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is evidence of impairment as a result of one or more events that has occurred after the initial recognition of an asset and that event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

v) Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

q) Financial liabilities

Trade payables and financial liabilities included in other payables and accrued liabilities are recognized initially at fair value, net of transaction costs incurred and subsequently measured at amortized cost using the effective interest method.

Loans and borrowings are recognized initially at fair value, net of transaction costs incurred. Loans and borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statements of (loss) earnings as finance costs over the period of the borrowings using the effective interest method, unless related to a qualifying asset (note 2(s)).

Loans and borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

r) Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Company designates certain derivatives as either:

(a) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or

(b) hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge).

When a derivative financial instrument is not designated in a qualifying hedge relationship all changes in its fair value are recognized immediately in net earnings (loss).

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the maturity of the remaining hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

The Company does not use derivatives for trading or speculative purposes. The Company had cash-flow hedges outstanding for the years ended February 2, 2013 and January 28, 2012.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statements of (loss) earnings within selling, general and administrative expenses. Amounts accumulated in other comprehensive income are recycled in the consolidated statements of (loss) earnings in the periods when the hedged item affects profit or loss.

When a forecasted transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or property, plant and equipment), the gains and losses previously deferred in accumulated other comprehensive income are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in cost of sales in the case of inventory or in depreciation in the case of property, plant and equipment.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in accumulated other comprehensive income and is recognized when the forecast transaction is ultimately recognized in the consolidated statements of (loss) earnings. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the consolidated statements of (loss) earnings within selling, general and administrative expenses.

Derivatives at fair value through profit or loss

Changes in the fair value of derivatives embedded in a host contract and derivatives that are not distinguished in a hedging relationship are recognized immediately in the consolidated statements of (loss) earnings within selling, general and administrative expenses. Embedded derivatives (elements of contracts whose cash flows move independently from the host contract) are required to be separated and measured at their respective fair values unless certain criteria are met. The Company has recorded the fair value of embedded derivatives in HBC's U.S. dollar denominated purchase orders with certain non-U.S. based vendors. The fair value of these embedded derivatives is recorded in financial assets or financial liabilities, depending on the embedded derivative's fair value. The Company recorded in other liabilities the fair value of an embedded derivative related to the GE Capital Canada term loan agreement (note 14), which contains an interest rate floor.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if:

- There is currently a legally enforceable right to offset recognized amounts; and
- There is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition or construction of qualifying assets are capitalized to the cost of the asset. Qualifying assets are those that necessarily take a substantial period of time to prepare for their intended use. All other borrowing costs are recognized in the consolidated statements of (loss) earnings in the period in which they occur.

t) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of sales tax, estimated returns and rebates.

The Company recognizes revenue when the amount can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities as described below.

The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

i) Retail merchandise sales

Revenue consists of sales through retail stores of the banners operated by the Company. Merchandise sales are recognized at the time of delivery to the customer which is generally at point of sale.

It is the Company's policy to sell merchandise to the customer with a right to return within a specified period. Accumulated experience is used to estimate and provide for such returns. Where it is determined the Company acts as an agent rather than a principal in a transaction, revenue is recognized to the extent of the commission.

ii) Gift cards

The Company sells gift cards through its retail stores, websites and selected third parties with no administrative fee charges or expiration dates. No revenue is recognized at the time gift cards are sold. Revenue is recognized as a merchandise sale when the gift card is redeemed by the customer.

The Company also recognizes income when the likelihood of the gift card being redeemed by the customer is remote ("gift card breakage"). Gift card breakage is estimated based on historical redemption patterns and is recognized in proportion to the redemption of gift card balances.

u) Credit operations

The Company earns royalty payments from credit card issuers based on the total of Company and other sales charged to either Private Label Credit Cards ("PLCC") or MasterCards. Royalty rates change based on the year-to-date credit volume of out-of-store credit card sales. The Company also receives bounty payments from a credit card issuer for each approved PLCC or MasterCard account at HBC. Bounty and royalty payments are recognized based on expected performance over the expected life of the credit card agreement and are included as a reduction of selling, general and administrative expenses.

v) Vendor allowances

The Company receives cash or allowances from vendors, the most significant of which are in respect of markdown allowances, volume rebates, and advertising. Such amounts are recorded as a reduction of the cost of purchases.

Rebates that are based on specified cumulative purchase volumes are recognized if the rebate is probable and reasonably estimable; otherwise these rebates are recognized when earned. These rebates are applied as a reduction of the cost of purchases.

w) Loyalty program

Award credits are accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits. This allocation is reported as deferred revenue until the award credits are redeemed by the customer. The amount deferred is based upon points outstanding that the Company estimates will be redeemed by members and the estimated fair value of those points. The estimated points expected to be redeemed are based on many factors, including an actuarial review of members' past experience and trends.

x) Assets held for sale and discontinued operations

Non-current assets and groups of assets and liabilities which comprise disposal groups are presented as assets held for sale where the asset or disposal group is available for sale in its present condition, and the sale is highly probable. For this purpose, the sale is highly probable if management is committed to a plan to achieve the sale; there is an active program to find a buyer; the non-current asset or disposal group is being actively marketed at a reasonable price; the sale is anticipated to be completed within one year from the date of classification, and; it is unlikely there will be changes to the plan.

When a component of an entity has been disposed of, or is classified as held for sale, and it represents a separate major line of business or geographical area of operations, the related results of operations and gain or loss on disposition are presented in discontinued operations.

y) New Accounting Standards

Financial Instruments — Disclosures

In October 2010, the IASB amended IFRS 7, Financial Instruments: Disclosures ("IFRS 7"), which increased the disclosure requirements for transactions involving transfers of financial assets. This amendment is effective for annual periods beginning on or after July 1, 2011. The Company has applied the standard beginning in fiscal 2012. The application of the standard does not have a material impact on the consolidated financial statements.

z) Future accounting standards

Financial Instruments

The IASB has issued a new standard, IFRS 9, Financial Instruments ("IFRS 9"), which will ultimately replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). The replacement of IAS 39 is a three phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 in November 2009 and October 2010 is the first phase of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities. This standard is effective for annual periods beginning on or after January 1, 2015. The Company is currently assessing the impact of the new standard on its 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. IFRS 10 was issued as part of the IASB's broader project on interests in all types of entities. On June 28, 2012, the IASB issued amendments to IFRS 10 which provides transition relief, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The Company will apply the standard at the beginning of its 2013 fiscal year and does not expect the implementation to have a significant 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. On June 28, 2012, the IASB issued amendments to IFRS 12 which provides transition relief, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. IFRS 12 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The Company will apply the standard at the beginning of its 2013 fiscal year and does not expect the implementation to have a significant impact on its results of operations, financial position and disclosures.

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. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. Early adoption is permitted. The Company will apply the standard at the beginning of its 2013 fiscal year and does not expect the implementation to have a significant 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 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. The amendments are effective for annual periods beginning on or after July 1, 2012. The Company will apply the amendment at the beginning of its 2013 fiscal year and does not expect the implementation to have a significant impact on its results of operations, financial position and disclosures.

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. The amendments are effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted. The Company will adopt this standard in the first quarter of fiscal 2013. The standard will be applied retrospectively, with restatement of prior periods. The Company estimates the changes related to defined benefit plans will increase fiscal 2012 continuing operations expense by approximately $6.5 million and the changes related to termination benefits will decrease fiscal 2012 discontinued operations expenses by approximately $16.5 million.

Financial Instruments — Asset and Liability Offsetting

The IASB has issued amendments to IFRS 7 and IAS 32, Financial Instruments: Presentation (“IAS 32”), which clarify the requirements for offsetting financial instruments and require new disclosures on the effect of offsetting arrangements on the Company’s financial position. The amendments to IFRS 7 are effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014 and must be applied retrospectively. The Company will apply the amendment to IFRS 7 at the beginning of its 2013 fiscal year and does not expect the implementation to have a significant impact on its results of operations, financial position and disclosures. The Company is assessing the impact of the amendments to IAS 32 on its results of operations, financial position and disclosures.

NOTE 3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company’s accounting policies, which are described in note 2, and the preparation of the consolidated financial statements, management is required 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 the 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 consolidated financial statements:

Inventory valuation

Inventory is valued at the lower of cost and net realizable value. Current selling price and historical trends for estimating future markdowns are utilized to estimate net realizable value. Inventory valuation also incorporates a write-down to reflect future losses on the disposition of obsolete merchandise.

Inventory is adjusted to reflect estimated losses (shortage) incurred since the last inventory count. Shortage is estimated based on historical experience as a percentage of sales for the period from the date of the last inventory count to the end of the fiscal year.

Loyalty program

Where loyalty award credits are issued in connection with a sales transaction which includes the loyalty program, a portion of the revenue has been deferred based upon expected redemptions of points outstanding (note 2(w)). The amount of revenue deferred relating to the loyalty program is sensitive to changes in customer behaviour and the impact of changes in the loyalty program. Deferred revenue reported in the consolidated balance sheets relates entirely to the loyalty program.

Impairment and reversal of impairment of long-lived assets

Financial and non-financial assets are subject to impairment and impairment reversal reviews based on whether current or future events and circumstances suggest that their recoverable amount may be more or less than their carrying value. In certain instances, the recoverable amount is based on a calculation of expected future cash flows which includes management assumptions and estimates of future performance. Details of asset impairments are set out in notes 11 and 12.

Provisions

Provisions have been made for various items including asset retirement obligations, general insurance liability and termination costs. Asset retirement obligations are based on uncertain estimates of remediation and the timing of the remediation. The Company purchases third party insurance for automobile, product, worker's compensation and general liability claims that exceed a certain dollar level. The Company is responsible for the payment of claims below these insured limits. The self-insurance provision is based on claims filed and an estimate of claims incurred but not yet reported. Details of the Company's provisions are set out in note 15.

Sales returns

Sales returns are estimated on the basis of historical returns and these are recorded so as to allocate them to the same period as the original revenue is recorded.

Share based compensation

The Company operates a share option plan, phantom share plan, restricted share unit plan, performance share unit plan, profits interests plan and a long-term incentive plan for employees. The grant date fair values are calculated by external appraisers using valuation models, which use a number of assumptions and estimates, including expected volatility, the risk-free interest rate, the dividend yield, the non-marketability discount and the expected life of the grants. Details of these assumptions and estimates are set out in note 19.

Income taxes

The Company recognizes expected liabilities for tax based on an estimation of the likely taxes due, which requires judgment as to the ultimate tax determination of certain items. In addition, the Company has made estimates of future profitability in relation to an assessment of the recoverability of tax losses. Details of the tax charge and deferred tax are set out in note 7.

Pensions and employee benefits

The Company operates various defined benefit plans for its employees. The present value of the plans' liabilities recognized at the balance sheet date is dependent on interest rates of high quality corporate bonds. The net financing charge recognized in the consolidated statements of (loss) earnings is dependent on the interest rate of high quality corporate bonds and an expectation of the weighted average returns on the assets within the schemes. Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates, as set out in note 17.

Lease accounting

The Company leases a significant number of store locations as part of its operations. The determination of classification between finance and operating leases requires the exercise of management judgment, including estimates of fair market value, the useful economic life of the leased assets, the existence of materially favourable renewal options and appropriate discount rates. Finance leases and operating leases are discussed in notes 14 and 16 respectively.

Embedded derivatives

The Old HBC Term Loan contained an interest rate floor, by which interest charged would be no less than 1.5% plus an interest rate spread. The interest rate floor was an embedded derivative which was fair valued at each reporting date. The determination of fair value included estimates of HBC's credit risk.

NOTE 4. DISCONTINUED OPERATIONS

On April 19, 2012, the Company's Board of Directors approved a plan to discontinue the Company's discount store operations which consists of the Zellers and Fields banners. The decision followed the sale of certain Zellers' leasehold interests to Target Corporation ("Target") which was announced on January 13, 2011 (see below). As a requirement of the Target agreement, the Company is obligated to operate the Zellers banner until March 2013. The Company ceased operating the Fields banner effective July 28, 2012 when the remaining stores not sold were closed. As a result of these changes, the Company has reflected the discount store operations as discontinued operations in the consolidated statements of (loss) earnings.

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

(millions of Canadian dollars)	2012	2011
Net (loss) earnings from discontinued operations, net of taxes	**(257.8)**	74.1
Sale of leasehold interests, net of taxes	**181.5**	1,317.6
Net (loss) earnings for the year — discontinued operations, net of taxes	**(76.3)**	1,391.7

Net earnings from the sale of leasehold interests in fiscal 2012 were $181.5 million (2011: $1,317.6 million), net of income taxes of $16.9 million (2011: $210.9 million). Net (loss) earnings from discontinued operations are as follows:

(millions of Canadian dollars)	2012	2011
Retail sales	**2,374.5**	3,288.6
Cost of sales	**(1,778.2)**	(2,159.7)
Selling, general and administrative expenses	**(954.2)**	(1,026.2)
Operating (loss) income	**(357.9)**	102.7
Finance income	**0.4**	0.7
(Loss) earnings before income tax	**(357.5)**	103.4
Income tax benefit (expense)	**99.7**	(29.3)
Net (loss) earnings for the year	**(257.8)**	74.1

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

Assets Held for Sale

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

(millions of Canadian dollars)	2012	2011
Trade and other receivables	**10.8**	56.0
Inventories	**151.5**	844.2
Other current assets	**4.7**	1.0
Income taxes recoverable	**67.2**	-
Property, plant and equipment	**19.4**	130.6
Deferred tax assets	**19.9**	61.1
Other assets - non-current	**0.1**	3.2
Assets of discontinued operations held for sale	**273.6**	
Trade payables	**41.6**	215.3
Other payables and accrued liabilities	**100.6**	382.7
Provisions - current	**203.5**	31.1
Income taxes payable	**—**	93.5
Provisions - non-current	**11.7**	12.1
Other liabilities	**4.1**	46.6
Liabilities of discontinued operations held for sale	**361.5**	

Sale of Leasehold Interests

On January 13, 2011, HBC announced an agreement with Target to sell leasehold interests in a number of its Zellers store locations. During fiscal 2011, the Company received $1,832.4 million for the assignment of 189 leasehold interests that were selected by Target under the agreement. The proceeds of sale were received in two installments of $907.4 million and $925.0 million on May 26, 2011 and October 3, 2011, respectively. HBC subleased the properties from Target and operated them as Zellers stores as a requirement of the transaction. The selected stores were or will be vacated and the subleases terminated.

The proceeds of the transaction were recognized in accordance with the guidance related to transactions with multiple components. Under the terms of the sales agreement the Company was required to transfer the leases and perform certain services. Each of the components was identified and a fair value estimated with the exception of the proceeds related to the assignment of the leases. The proceeds of the transaction were allocated based on the fair value of each component and the residual amount was allocated to the assignment of leases. Inherent in the determination of fair value are estimates and assumptions (note 3). Significant estimates and assumptions associated with this transaction included the expected salvage value of store assets, the period of time until closure of the selected stores, the costs to be incurred including severance and the operating income expected to be earned during the liquidation period.

Accordingly the Company is recognizing in discontinued operations proceeds for the assignment of the leases, operating the selected stores over the closure period, transferring the properties in broom swept condition and for the transfer of pharmacy records. On October 3, 2011, the Company allocated $54.0 million of the proceeds for the transfer of pharmacy records which was to be recognized upon the closing of the related stores. However, on January 20, 2012, the Company and Target amended the sales agreement and the requirement to transfer the pharmacy records was eliminated for consideration of $10.0 million which was paid to Target in September 2012. During fiscal 2012, the Company sold the re-acquired pharmacy records and recognized a gain of $41.0 million.

During fiscal 2012 and 2011, the Company recognized $271.5 million and $1,514.2 million of proceeds, respectively. As of February 2, 2013, $36.7 million of proceeds remains deferred of which $33.8 million is included in other payables and accrued liabilities to be recognized in fiscal 2013 and $2.9 million is included in other long-term liabilities.

In connection with the transaction, the Company recognized $51.1 million (2011: $35.8 million) related to employee severance costs and $1.5 million loss (2011: $56.2 million gain) related to the accelerated amortization of rent related assets and liabilities.

Impairment of property, plant and equipment associated with discontinued operations was $31.5 million (2011: $13.1 million).

NOTE 5. DEPRECIATION AND AMORTIZATION

(millions of Canadian dollars)	2012	2011
Included in selling, general and administrative expenses:		
Property, plant and equipment	**88.7**	87.6
Intangible assets	**34.6**	26.2
Deferred credits	**(9.8)**	(8.4)
Other	**(4.4)**	(0.1)
	109.1	105.3

NOTE 6. FINANCE COSTS

(millions of Canadian dollars)	2012	2011
Interest expense on long-term borrowings	**61.9**	89.3
Interest expense on short-term borrowings	**25.4**	36.0
Interest income	**(0.9)**	(1.3)
Write-off of deferred financing costs and costs of refinancing (note 14)	**14.4**	—
Gain on early extinguishment of debt	**—**	(7.1)
Fair value movement of HBC Term Loan embedded derivative (note 18)	**(3.5)**	3.5
Amortization of loan renewal option	**—**	22.5
	97.3	142.9

On January 11, 2012, the Commercial Mortgage Backed Loan (“CMBS Loan”) was repaid in full and a gain on the extinguishment in the amount of $7.1 million was recognized. The CMBS Loan had been used to finance the purchase of L&T by HBTC.

The initial expiration date of the CMBS Loan was October 2, 2008 with three one-year renewal options to extend under substantially the same terms. Each of the renewal options was exercised by L&T. The renewal options were embedded derivatives which were fair valued at each reporting date. The change in fair value was reported as a component of finance costs. Upon exercise of the renewal options, the embedded derivative was fair valued and recognized as a reduction in value of the related debt. During the fiscal year ended January 28, 2012, $22.5 million of amortization was recognized on the renewal option.

NOTE 7. INCOME TAXES

In connection with HBTC’s reorganization on January 11, 2012, L&T became a taxable entity. As a result, L&T completed a valuation of its assets and liabilities for income tax purposes and recognized an income tax benefit and a corresponding deferred income tax asset of $8.4 million.

The major components of the income tax benefit and the statutory income tax rate for fiscal 2012 and 2011 are as follows:

(millions of Canadian dollars)	2012	2011
Current tax benefit	**(22.7)**	(3.1)
Deferred tax expense (benefit)	**14.7**	(0.7)
Income tax benefit	**(8.0)**	(3.8)
Statutory income tax rate	**26.9%**	27.6%

Reconciliations of the income tax benefit at the above rates with the amounts shown in the consolidated statements of (loss) earnings are as follows:

(millions of Canadian dollars)	2012	2011
Earnings before income tax — continuing operations	**23.5**	53.5
Less: Earnings of flow-through entities	**—**	71.1
Earnings (loss) before income tax of taxable entities	**23.5**	(17.6)
Income tax expense (benefit) calculated at statutory income tax rate	**6.3**	(4.9)
Change in income taxes resulting from:		
L&T deferred tax assets on change in tax status	**(5.5)**	(8.4)
Effect of international tax rate differentials	**(2.6)**	(1.5)
Other	**(1.7)**	11.0
	(3.5)	(3.8)
Effect of tax rate changes on deferred tax balances	**(4.5)**	—
Income tax benefit	**(8.0)**	(3.8)

The changes in the components of deferred income tax assets and liabilities for fiscal 2012 and 2011 are as follows:

	Year ended February 2, 2013					
(millions of Canadian dollars)	Jan. 28, 2012	Transferred to assets held for sale	Recognized in net earnings	Recognized in other comprehensive income	Recognized in equity or other	Feb. 2, 2013
Property, plant and equipment	**107.0**	**(3.3)**	**(4.1)**	**—**	**—**	**99.6**
Employee benefits	**19.3**	**(4.3)**	**2.5**	**0.7**	**—**	**18.2**
Pensions	**(23.1)**	**—**	**4.4**	**8.7**	**—**	**(10.0)**
Financial instruments	**(0.1)**	**—**	**—**	**0.1**	**—**	**—**
Other assets	**84.9**	**(45.5)**	**(47.7)**	**—**	**16.4**	**8.1**
Long-term liabilities and other	**(9.0)**	**(10.6)**	**54.0**	**—**	**1.9**	**36.3**
Tax losses carried forward	**123.0**	**(40.8)**	**(17.1)**	**—**	**—**	**65.1**
	302.0	**(104.5)**	**(8.0)**	**9.5**	**18.3**	**217.3**
Valuation allowance	**(44.5)**	**43.4**	**(6.7)**	**—**	**—**	**(7.8)**
Net deferred tax assets	**257.5**	**(61.1)**	**(14.7)**	**9.5**	**18.3**	**209.5**

	Year ended January 28, 2012			
(millions of Canadian dollars)	Jan. 31, 2011	Recognized in net earnings	Recognized in other comprehensive income	Jan. 28, 2012
Property, plant and equipment	99.3	7.7	—	107.0
Employee benefits	18.9	0.5	(0.1)	19.3
Pensions	(45.4)	4.0	18.3	(23.1)
Financial instruments	(0.1)	1.8	(1.8)	(0.1)
Other assets	59.5	25.4	—	84.9
Long-term liabilities and other	3.6	(12.6)	—	(9.0)
Tax losses carried forward	222.0	(99.0)	—	123.0
	357.8	(72.2)	16.4	302.0
Valuation allowance	(83.7)	39.2	—	(44.5)
Net deferred tax assets	274.1	(33.0)	16.4	257.5
Less: Recognized in discontinued operations		(33.7)		
Recognized in continuing operations		0.7		

The realization of the deferred income tax assets is dependent on the generation of future taxable income during the years in which those temporary differences become deductible. Based on management's projection of future taxable income and tax planning strategies, management expects to realize these deferred income tax assets in advance of expiry.

Temporary differences for which no deferred tax has been recognized:

(millions of Canadian dollars)	2012	2011
Investments in subsidiaries and partnerships	**19.7**	—

As at February 2, 2013, the Company's taxable entities including discontinued operations have non-capital tax losses carried forward in Canada of $431.6 million (January 28, 2012: $495.6 million) available as follows (millions of Canadian dollars):

Available until year ending	2012
January 2026	**70.6**
January 2027	**116.8**
January 2028	**149.4**
January 2029	**15.1**
January 2030	**79.7**
	431.6

NOTE 8. CASH

For the purpose of the consolidated statements of cash flows, cash includes cash on hand and in banks and investments in money market instruments. Cash as at February 2, 2013 and January 28, 2012 as shown in the consolidated balance sheets is comprised of the following:

(millions of Canadian dollars)	2012	2011
Cash	**43.0**	42.4
Restricted cash	**5.3**	—
	48.3	42.4

NOTE 9. TRADE AND OTHER RECEIVABLES

As at February 2, 2013 and January 28, 2012, trade and other receivables are comprised of:

(millions of Canadian dollars)	2012	2011
Trade receivables	**15.5**	14.4
Other receivables	**58.8**	109.6
	74.3	124.0

On January 4, 2013, the Company sold its leasehold interests in a property for U.S.$10.0 million of which U.S.$3.4 million was received upon transfer of the related property on January 31, 2013. The balance of U.S.$6.6 million is due in equal installments on January 31, 2014 and January 31, 2015. Accordingly U.S.$3.3 million is included in other receivables and the balance in other long-term assets.

The fair value of trade and other receivables approximates their carrying values because of the short term nature of these accounts. No valuation allowance was required at the end of either reporting period. Other receivables mainly comprise sundry receivables from vendors.

NOTE 10. INVENTORIES

Inventories on hand at February 2, 2013 and January 28, 2012 were available for sale. The cost of merchandise inventories related to continuing operations recognized as expense for fiscal 2012 was $2,487.0 million (2011: $2,306.0 million). The write-down of merchandise inventories below cost to net realizable value relating to continuing operations for fiscal 2012 was $33.9 million (2011: $31.5 million). There was no reversal of write-downs previously taken on merchandise inventories that are no longer estimated to sell below cost. Inventory has been pledged as security for certain borrowing agreements as described in note 14.

NOTE 11. PROPERTY, PLANT AND EQUIPMENT

	Year ended February 2, 2013					
(millions of Canadian dollars)	**Freehold Land**	**Buildings**	**Leasehold Improvements**	**Fixtures & Fittings**	**Assets held under Finance Leases**	**Total**
Cost						
Balance at beginning of year	484.6	518.3	354.7	407.7	50.8	1,816.1
Additions	—	51.8	39.5	67.9	—	159.2
Disposals	—	—	(5.1)	(8.7)	(1.0)	(14.8)
Transfers to assets held for sale	(10.3)	(0.2)	(115.3)	(90.5)	(1.7)	(218.0)
Net foreign currency exchange	(0.9)	(1.2)	(0.7)	(0.6)	—	(3.4)
Balance at end of year	**473.4**	**568.7**	**273.1**	**375.8**	**48.1**	**1,739.1**
Accumulated depreciation and impairment						
Balance at beginning of year	—	105.5	94.7	191.3	23.5	415.0
Depreciation expense	—	22.9	16.9	32.4	6.9	79.1
Impairment losses	4.9	1.6	1.3	4.1	—	11.9
Eliminated on disposal	—	—	(4.3)	(8.1)	(1.3)	(13.7)
Transfers to assets held for sale	—	—	(38.5)	(48.2)	(0.6)	(87.3)
Net foreign currency exchange	—	(0.4)	(0.1)	(0.4)	—	(0.9)
Balance at end of year	**4.9**	**129.6**	**70.0**	**171.1**	**28.5**	**404.1**
Net book value at end of year	**468.5**	**439.1**	**203.1**	**204.7**	**19.6**	**1,335.0**

(millions of Canadian dollars)	Year ended January 28, 2012					
	Freehold Land	Buildings	Leasehold Improvements	Fixtures & Fittings	Assets held under Finance Leases	Total
Cost						
Balance at beginning of year	484.9	427.3	310.4	348.6	90.5	1,661.7
Additions	—	70.3	45.5	60.7	2.2	178.7
Disposals	—	(0.8)	(1.0)	(1.8)	(0.4)	(4.0)
Transfers	—	21.0	(0.3)	—	(41.0)	(20.3)
Net foreign currency exchange	(0.3)	0.5	0.1	0.2	(0.5)	—
Balance at end of year	484.6	518.3	354.7	407.7	50.8	1,816.1
Accumulated depreciation and impairment						
Balance at beginning of year	—	79.3	65.1	143.5	20.7	308.6
Depreciation expense	—	21.1	20.7	37.4	8.4	87.6
Impairment losses[1]	—	—	9.5	11.5	—	21.0
Eliminated on disposal	—	(0.2)	(0.6)	(1.3)	(0.3)	(2.4)
Transfers	—	5.2	—	0.1	(5.3)	—
Net foreign currency exchange	—	0.1	—	0.1	—	0.2
Balance at end of year	—	105.5	94.7	191.3	23.5	415.0
Net book value at end of year	484.6	412.8	260.0	216.4	27.3	1,401.1

(1) Includes $13.1 million related to discontinued operations – see note 4.

The depreciation expense has been included in selling, general and administrative expenses in the consolidated statements of (loss) earnings. Certain fixed assets have been pledged as security for borrowings, as further described in note 14. There were no material capital commitments, net of leasehold improvement allowances at February 2, 2013 and January 28, 2012.

Impairment of Property, Plant & Equipment

During fiscal 2012 and 2011, the Company carried out a review of its cash generating units ("CGU's") to determine if there was any indication that impairment had occurred, or that a previously recorded impairment had reversed. The review led to the recognition of an impairment loss of $11.9 million (2011: $7.9 million) in fiscal 2012 relating to various store based CGU's, on a value in use basis, which has been recognized in operating income.

The impairment loss in fiscal 2012 arose as a result of the decision to exit the Lord & Taylor Home specialty business which resulted in the closure of the two stores for which a loss of $3.2 million was incurred (2011: nil). Impairment losses of $8.7 million (2011: $7.9 million) were incurred related to logistics centre assets and for a decline in operating performance of certain Home Outfitters stores. In fiscal 2012 and 2011, the main classes of assets affected by the impairment were fixtures and fittings and leasehold improvements.

The recoverable amount of the relevant assets within each CGU was determined in each case as the higher of fair value less costs to sell, or value in use. The value in use calculations rely on cash flow projections consistent with financial budgets approved by management for the following fiscal year. The key assumptions used in the value in use calculations for each store cash-generating unit are as follows:

- Cash flow projections over a period of 5 years or a shorter term consistent with financial budgets/forecasts approved by management;
- A growth rate of zero to extrapolate cash flow projections after 5 years; and
- A discount rate of 9% applied to cash flow projections.

Assets Held under Finance Lease

L&T subleased five store locations from Macy's with options to purchase the building and assignment of the underlying ground leases. Two of the subleases were previously classified as finance leases and the other three as operating leases. On January 11, 2012 and August 2, 2011, L&T exercised the five options and paid Macy's $24.8 million and $81.6 million, respectively. The $41.0 million transfer represents a repayment of the sublease finance lease obligation. Of the total payment of $106.4 million, $49.6 million represents the land lease rights relating to the ground leases, and the balance of $56.8 million has been allocated to the cost of the buildings. The Company continues to lease the properties under ground leases which are classified as operating leases.

NOTE 12. INTANGIBLE ASSETS

	Year ended February 2, 2013			
(millions of Canadian dollars)	**Software**	**Favourable lease rights**	**Trade names**	**Total**
Cost				
Balance at beginning of year	160.3	130.9	27.5	318.7
Additions	43.6	—	—	43.6
Disposals	(0.1)	—	—	(0.1)
Transfers	—	—	—	—
Net foreign currency exchange	(0.1)	(0.4)	(0.1)	(0.6)
Balance at end of year	**203.7**	**130.5**	**27.4**	**361.6**
Accumulated amortization and impairment				
Balance at beginning of the year	79.4	14.7	—	94.1
Amortization expense	31.6	3.0	—	34.6
Net foreign currency exchange	—	(0.1)	—	(0.1)
Balance at end of year	**111.0**	**17.6**	**—**	**128.6**
Net book value at end of year	**92.7**	**112.9**	**27.4**	**233.0**

	Year ended January 28, 2012			
(millions of Canadian dollars)	Software	Favourable lease rights	Trade names	Total
Cost				
Balance at beginning of year	128.7	80.9	27.5	237.1
Additions	31.6	29.3	—	60.9
Transfers	—	20.3	—	20.3
Net foreign currency exchange	—	0.4	—	0.4
Balance at end of year	160.3	130.9	27.5	318.7
Accumulated amortization and impairment				
Balance at beginning of the year	55.3	12.6	—	67.9
Amortization expense	24.1	2.1	—	26.2
Net foreign currency exchange	—	—	—	—
Balance at end of year	79.4	14.7	—	94.1
Net book value at end of year	80.9	116.2	27.5	224.6

The trade names have been assigned an indefinite useful life, as there is no foreseeable limit to the period over which the assets are expected to generate net cash inflows and management's intention is to continue to utilize these trade names for the foreseeable future.

The amortization expense has been included in selling, general and administrative expenses in the consolidated statements of (loss) earnings.

NOTE 13. OTHER LIABILITIES

As at February 2, 2013 and January 28, 2012 other liabilities are comprised of:

(millions of Canadian dollars)	2012	2011
Deferred proceeds from sale of leasehold interests (note 4)	—	42.0
Deferred rent inducements	**32.4**	33.6
Other deferred revenue	**15.3**	16.5
Fair value of Old HBC Term Loan embedded derivative	—	3.5
Other liabilities	**41.1**	23.6
	88.8	119.2

NOTE 14. LOANS AND BORROWINGS

a) Current loans and borrowings

As at February 2, 2013 and January 28, 2012 current loans and borrowings are comprised of:

(millions of Canadian dollars)	2012	2011
HBC Revolving Credit Facility	—	155.0
Lord & Taylor Revolving Credit Facility	**137.8**	125.2
Current portion of long-term loans and borrowings	**10.0**	27.6
	147.8	307.8
Less: unamortized costs	**(15.7)**	(16.8)
	132.1	291.0

HBC Revolving Credit Facility

HBC is the borrower on an asset based credit facility (the "HBC Revolving Credit Facility") with a syndicate of lenders made available through a credit agreement (the "Credit Agreement").

On March 13, 2012, the Company repaid and retired a tranche of the HBC Revolving Credit Facility in the amount of $98.2 million.

On June 15, 2012, the Company executed an amendment to the HBC Revolving Credit Facility. The amendment extends the maturity date to June 15, 2017 and reduces the credit limit to $1,100.0 million until May 1, 2013. After May 1, 2013, the credit limit will be further reduced to $750.0 million as a result of the lower borrowing base associated with the continuing operations. In connection with this reduction in the credit limit, $2.3 million of deferred financing costs were written off (note 6).

The HBC Revolving Credit Facility is subject to a borrowing base, based predominantly on eligible inventory and eligible credit card receivables of HBC and certain of its subsidiaries. The HBC Revolving Credit Facility is available for general corporate purposes. The HBC Revolving Credit Facility has multiple availment options and therefore can bear interest based on various rates, including the Canadian prime rate, CDOR rate, U.S. index rate and LIBOR.

The HBC Revolving Credit Facility is secured by a first priority security interest in the property and assets of HBC and its subsidiaries other than real property, and excluding property of L&T. The Credit Agreement contains a number of representations and warranties and positive and negative covenants. These provisions include, among other things, placing certain conditions and restrictions on making dividend payments. The Credit Agreement also contains extensive reporting requirements and a number of events of default.

Effective January 12, 2011, in connection with the Zellers Transaction (note 4), HBC obtained a waiver from the covenant in the Credit Agreement restricting its ability to provide certain guarantees. On obtaining such waiver, HBC is in compliance with all covenants contained in the Credit Agreement as at February 2, 2013 and January 28, 2012.

The effective interest rate based on the average balance drawn and finance costs of the HBC Revolving Credit Facility for fiscal 2012 and 2011 was as follows:

(millions of Canadian dollars)	2012	2011
Average balance drawn, calculated on a daily basis	**275.4**	477.3
Finance costs	**19.2**	31.5
Effective interest rate	**7.0%**	6.6%

As at February 2, 2013 and January 28, 2012 details of the borrowing base availability on the HBC Revolving Credit Facility were as follows:

(millions of Canadian dollars)	2012	2011
Gross borrowing base availability	**560.7**	1,063.1
Drawings	**—**	155.0
Outstanding letters of credit	**14.4**	29.0
Borrowing base availability net of drawings and letters of credit	**546.3**	879.1

Lord & Taylor Revolving Credit Facility

L&T is the borrower on an asset based credit facility with General Electric Capital Corporation and General Electric Capital Markets, Inc. ("GE Capital") that provides for a revolving line of credit (the "Lord & Taylor Revolving Credit Facility") through September 30, 2016.

On September 28, 2012, as permitted in the Lord & Taylor Revolving Credit Facility agreement, the Company increased the revolving line of credit from U.S.$300.0 million to U.S.$350.0 million. The Lord & Taylor Revolving Credit Facility allows borrowings based on an advance rate of (i) up to 100% of eligible third party credit card receivables; (ii) 95% of the net orderly liquidation value of eligible inventory; and (iii) 95% of the appraised net orderly liquidation value of the eligible furniture and fixtures. The eligibility criteria to adjust the borrowing base established in the original agreement were retained in the amended agreement. Interest is charged on the Lord & Taylor Revolving Credit Facility at LIBOR, plus 2.0% to 2.5% based upon the availability schedule. Prior to September 30, 2011, the facility bore interest at LIBOR, plus 1.75% to 2.25%. The Lord & Taylor Revolving Credit Facility is utilized to finance working capital needs, capital expenditures, operating activities and to support the issuance of standby letters of credit. Eligible L&T inventory and furniture and fixtures are pledged as security for the Lord & Taylor Revolving Credit Facility.

The effective interest rate based on the average balance drawn and finance costs of the Lord & Taylor Revolving Credit Facility for fiscal 2012 and 2011 was as follows:

(millions of Canadian dollars)	2012	2011
Average balance drawn, calculated on a daily basis	**168.4**	116.3
Finance costs	**5.4**	2.5
Effective interest rate	**3.2%**	2.2%

As at February 2, 2013 and January 28, 2012 details of the borrowing base availability on the Lord & Taylor Revolving Credit Facility were as follows:

(millions of Canadian dollars)	2012	2011
Gross borrowing base availability	**312.5**	263.4
Drawings	**137.8**	125.2
Outstanding standby letters of credit	**2.2**	6.3
Borrowing base availability net of drawings and letters of credit	**172.5**	131.9

The Lord & Taylor Revolving Credit Facility contains certain non-financial operating covenants. L&T was in compliance with all covenants as of February 2, 2013 and January 28, 2012.

In accordance with the Lord & Taylor Revolving Credit Facility, L&T is limited in its ability to make distributions of earnings or return of capital to its parent. In fiscal 2011, prior to the acquisition of L&T by HBC, distributions to the partners for reimbursement of income taxes related to the pass-through of earnings of L&T and the reimbursement of expenses were permitted and totaled $32.0 million in 2011.

b) Long-term loans and borrowings

As at February 2, 2013 and January 28, 2012, long-term loans and borrowings are comprised of:

(millions of Canadian dollars)	2012	2011
HBC Term Loan (Canadian properties)	**250.0**	—
Old HBC Term Loan (Canadian properties)	**—**	448.9
Lord & Taylor Mortgage	**249.3**	—
Lord & Taylor Term Loan (U.S. properties)	**204.7**	450.3
Other mortgages	**11.7**	13.7
Equipment finance leases and other	**25.9**	34.5
	741.6	947.4
Less: unamortized costs	**(13.1)**	(18.1)
Less: amounts due within one year	**(10.0)**	(27.6)
	718.5	901.7

Maturities of long-term debt are as follows:

(millions of Canadian dollars)	
Fiscal year:	
2013	**10.0**
2014	**267.9**
2015	**8.5**
2016	**4.2**
2017	**246.3**
Thereafter	**204.7**
	741.6

HBC Term Loan (Canadian properties)

Concurrently with the closing of the Offering on November 26, 2012, the Company entered into an agreement with BMO Capital Markets and Canadian Imperial Bank of Commerce, as co-Lead Arrangers and Joint Bookrunners, and certain other lenders for a $250.0 million senior non-revolving term loan facility (the "HBC Term Loan").

The HBC Term Loan matures on November 26, 2014, bears interest at the bankers' acceptance rate plus 2.25% stamping fee and is secured by a first priority security interest in certain of the real property of the Company and its subsidiaries (other than L&T and its subsidiaries). There are no scheduled principal repayments prior to maturity although there would be certain mandatory repayments in specified circumstances.

The HBC Term Loan contains representations and warranties, positive and negative covenants, reporting requirements and a number of events of default. The agreement contains covenants to maintain fixed charge coverage and leverage ratios. As of February 2, 2013, HBC is in compliance with all covenants contained in the HBC Term Loan.

Old HBC Term Loan (Canadian properties)

On November 24, 2010 HBC entered into an agreement with GE Capital Canada Finance Inc. ("GECC") and certain other credit lenders. The agreement provided for a $450.0 million term loan (the "Old HBC Term Loan"), of which nil was outstanding at February 2, 2013 (January 28, 2012: $448.9 million).

The Old HBC Term Loan bore interest at an amount based on a Three Month Bankers' Acceptance rate ("BA Rate"), which was to be no less than 1.5%, plus an interest spread. The Old HBC Term Loan was available for general corporate purposes and was to mature on November 23, 2014.

The Old HBC Term Loan was secured by first priority security against the real estate of HBC and its subsidiaries, excluding L&T, and second priority security against all of the other property and assets of HBC and its subsidiaries, excluding L&T. The Old HBC Term Loan contained representations and warranties, positive and negative covenants, reporting requirements and a number of events of default. As at January 28, 2012, HBC was in compliance with all covenants contained in the Old HBC Term Loan. Concurrently, with the closing of the Offering on November 26, 2012, the Old HBC Term Loan was repaid.

Lord & Taylor Mortgage

On September 7, 2012, LT 424 LLC ("LT 424"), which is an indirect subsidiary of L&T, entered into a U.S.$250.0 million syndicated floating rate senior mortgage loan with an affiliate of CIBC World Markets Inc., as Administrative Agent of the syndicate of lenders, which matures on September 10, 2017 (the "Lord & Taylor Mortgage"). L&T is a guarantor of the Lord & Taylor Mortgage. The proceeds of the Lord & Taylor Mortgage were used to pay down the Lord & Taylor Term Loan (discussed below).

The Lord & Taylor Mortgage is guaranteed by L&T. Interest is charged at a rate of LIBOR plus 3% and is structured to be interest only during the first three years, with monthly amortization payments required during the final two years, based on a 30 year amortization schedule at an interest rate of 7%. LT 424 has the ability to prepay the Lord & Taylor Mortgage after the first two years with a fee to the lenders of 2%, which decreases to 1% after three years, and without fees after September 10, 2016. Any prepayments are applied to reduce the then remaining scheduled installments. As security for the Lord & Taylor Mortgage, LT 424 granted a first priority mortgage on the 5th Avenue Lord & Taylor property.

The Lord & Taylor Mortgage contains customary representations and warranties, positive and negative covenants, reporting requirements and events of default. As of February 2, 2013 the Company is in compliance with the covenants contained in the Lord & Taylor Mortgage.

Concurrently, LT 424 entered into interest rate swap arrangements, the effect of which is to fix the floating portion of the interest rate related to the Lord & Taylor Mortgage at 0.85%. The swap arrangements are being accounted for as a hedge.

Lord & Taylor Term Loan (U.S. Properties)

L&T is the borrower on a U.S.$450.0 million syndicated term loan with Credit Suisse Securities LLC ("CS"), as sole lead arranger of the syndicate, which matures on January 11, 2019 (the "Lord & Taylor Term Loan"). On September 7, 2012, L&T prepaid U.S.$242.5 million of the Lord & Taylor Term Loan with the net proceeds of the Lord & Taylor Mortgage. On repayment, the carrying amount of the Lord & Taylor Term Loan has been adjusted to reflect the revised estimated cash flows, resulting in a charge of $9.4 million included in finance costs (note 6).

Interest is charged on the Lord & Taylor Term Loan depending on the type of borrowing and is based on a greater of test of various rates, including, but not limited to, the LIBOR rate plus an applicable margin of 4.5%. The LIBOR rate is subject to a floor of 1.25%. The weighted average interest rate of the Lord & Taylor Term Loan at February 2, 2013 was 5.97%. The average rate for the year ended February 2, 2013 was 5.75%.

The amount outstanding will be repaid on the maturity date. L&T has the ability to prepay the Lord & Taylor Term Loan at any time without penalty. In addition, L&T is required to apply a certain percentage of its excess free cash flow, the percentage determined by the leverage ratio of L&T at the fiscal year-end, to reduce the outstanding balance of the Lord & Taylor Term Loan.

The Lord & Taylor Term Loan is secured by first lien security on the majority of the owned and ground leased facilities, excluding the Fifth Avenue L&T flagship store, and second priority security on the accounts receivable, inventory and furniture and fixtures of L&T. The Lord & Taylor Term Loan contains representations and warranties, positive and negative covenants, reporting requirements and events of default. As at February 2, 2013 and January 28, 2012, L&T is in compliance with all covenants contained in the Lord & Taylor Term Loan.

In accordance with the terms of the Lord & Taylor Term Loan and similar to the Lord & Taylor Revolving Credit Facility, L&T was limited in its ability to make distributions of earnings or return of capital to its partners. These distributions which have been discontinued as a result of L&T's acquisition by HBC primarily related to the reimbursement of income taxes and expenses.

L&T Acquisition Inc., a subsidiary of HBC, along with L&T Propco, through a guarantee and collateral agreement, has guaranteed the Lord & Taylor Term Loan.

Other mortgages

As at February 2, 2013, HBC has a mortgage outstanding with a principal balance of $11.7 million (January 28, 2012: $13.7 million). The mortgage requires payments of $2.8 million annually inclusive of interest, with a final balloon payment of $9.6 million due in February 2014. The interest on this loan is 7.0% per annum, paid on a monthly basis.

On January 11, 2012, the mortgage on a L&T store location was paid in full, prior to its maturity on September 30, 2012. The loan bore interest at 8.0% per annum, paid on a monthly basis.

Equipment finance leases

As at February 2, 2013 the liability related to equipment finance leases was $24.7 million (January 28, 2012: $32.8 million).

The future required minimum gross rental payments under finance leases for property and equipment, and their net present values at February 2, 2013 are as follows:

(millions of Canadian dollars)	
Less than one year	8.5
Between 1 and 5 years	18.5
Total minimum lease payments	27.0
Less: imputed interest	(2.3)
Total finance lease obligations	**24.7**

NOTE 15. PROVISIONS

	Year ended February 2, 2013				
(millions of Canadian dollars)	Self Insurance	Severance, Restructuring & HR Legal	ARO's	Other	Total
Balance at beginning of year	**34.1**	**52.4**	**12.3**	**1.8**	**100.6**
Additional provisions recognized	**28.0**	**60.6**	**0.8**	**—**	**89.4**
Utilized	**(28.3)**	**(15.0)**	**—**	**—**	**(43.3)**
Released	**—**	**(4.3)**	**—**	**—**	**(4.3)**
Unwinding/change in discount rate	**—**	**—**	**0.4**	**—**	**0.4**
Transfer to liabilities held for sale	**—**	**(41.0)**	**—**	**(1.8)**	**(42.8)**
Balance at end of year	**33.8**	**52.7**	**13.5**	**—**	**100.0**
Non-current	**—**	**—**	**13.5**	**—**	**13.5**
Current	**33.8**	**52.7**	**—**	**—**	**86.5**
	33.8	**52.7**	**13.5**	**—**	**100.0**

(millions of Canadian dollars)	Year ended January 28, 2012				
	Self Insurance	Severance, Restructuring & HR Legal	ARO's	Other	Total
Balance at beginning of year	34.4	21.7	11.8	2.2	70.1
Additional provisions recognized	27.3	56.5	0.6	1.4	85.8
Utilized	(25.4)	(24.0)	(0.1)	(1.8)	(51.3)
Released	(2.2)	(1.8)	—	—	(4.0)
Balance at end of year	34.1	52.4	12.3	1.8	100.6
Non-current	—	12.2	12.3	—	24.5
Current	34.1	40.2	—	1.8	76.1
	34.1	52.4	12.3	1.8	100.6

Self insurance

The Company purchases third party insurance for automobile, product, worker's compensation (U.S. only) and general liability claims that exceed a certain dollar level. The Company is responsible for the payment of claims under these insured limits. The self-insurance provision is based on claims filed and an estimate of claims incurred but not yet reported. Insurance claims will be settled on a case by case basis over a period of up to seven years. The amounts that the Company will ultimately disburse could differ materially from the accrued amounts.

Severance, Restructuring & HR Legal

Severance and restructuring relates to the Company's initiatives to lower operating costs and improve profitability. The initiatives are associated with the closure of the discount store business; however, the related charges incurred cannot be directly attributed to discontinued operations. Restructuring charges relating directly to the closure of Zellers stores are reported within discontinued operations.

During fiscal 2012 these initiatives included a realignment of the logistics network for which a charge of $38.4 million was incurred primarily related to the consolidation of excess capacity at certain locations. Severance charges of $10.9 million were incurred for changes to senior leadership, management teams and other supporting employees as the Company continued to integrate and streamline its organizational and management structures as a result of the integration of its department store operations and the wind-down of Zellers. In addition a charge of $7.8 million was incurred related to the relocation of the information technology support function. As at February 2, 2013, $47.8 million remains accrued.

In fiscal 2010 the Company approved plans, primarily related to severance, for restructuring and recorded a pre-tax restructuring charge of $31.3 million. The balance of the provision remaining as at February 2, 2013 was nil (January 28, 2012: $4.5 million).

The Human Resources ("HR") legal component of the provision relates to compensation claims made by current and former employees. During fiscal 2012 the Company recorded a charge of $3.5 million (2011: $4.5 million). Compensation claims will be settled on a case by case basis over an indeterminate period. The balance of the provision remaining as at February 2, 2013 was $4.9 million (January 28, 2012: $5.7 million).

Asset retirement obligations ("ARO's")

The Company has certain operating leases that require it to remove leasehold improvements and replace or remove other structures at the end of the lease term. The Company also has obligations to dispose of potentially hazardous materials (principally, asbestos) in accordance with relevant legislation. The estimate is based on the date of expiry of the lease or, where relevant, the mandatory timelines of relevant legislation.

NOTE 16. OPERATING LEASE ARRANGEMENTS

The Company conducts a substantial part of its operations from leased stores in shopping and power centres, and also leases warehouse facilities and equipment.

Generally, the Company's store leases require equal monthly rent payments over the lease term. However, certain of the Company's store lease agreements require rent increases during the original lease term and renewable periods and certain of the Company's store lease agreements provide free rent periods. Generally, upon renewal the rent is preset to be the same as the previous period or, in some Hudson's Bay store leases, is 50% of the initial rent.

Rental expense related to operating leases charged to earnings in fiscal 2012 was $314.5 million (2011: $304.3 million).

Minimum payments under non-cancelable operating leases

The future minimum payments under non-cancelable operating leases are as follows:

(millions of Canadian dollars)	HBC excluding Zellers, Inc.	L&T	Zellers, Inc.
Fiscal year:			
2013	105.9	17.1	33.7
2014	101.4	17.9	16.8
2015	97.5	18.4	12.9
2016	88.0	17.7	12.1
2017	71.0	17.9	9.8
Thereafter	312.1	169.1	43.2
Total minimum lease payments	**775.9**	**258.1**	**128.5**

In connection with the sale of leasehold interests, the Company has entered into sub-leases with Target through March 2013 (note 4). The Company's outstanding commitment related to Zellers relates to leases not assigned to Target and the remaining commitment over the sub-lease term. For those leases which have been assigned to Target and for which the Company remains the lessee on the master lease agreement, HBC or Zellers, Inc. will guarantee the commitment over the remaining term of the lease (note 26).

NOTE 17. PENSIONS AND EMPLOYEE BENEFITS

Aggregate information about the Company's pension and benefit plans is presented below.

Plan Surplus (Deficit)

	2012		2011	
(millions of Canadian dollars)	Pension Plans	Benefit Plans	Pension Plans	Benefit Plans
Funded status	**38.3**	**(36.5)**	91.0	(36.5)
Long-term benefits liability	**—**	**(46.7)**	—	(52.5)
Less: current portion	**—**	**12.9**	—	13.6
Pension and employee benefits asset (liability)	**38.3**	**(70.3)**	91.0	(75.4)

The current portion of the pension and employee benefits liability of $12.9 million (2011: $13.6 million) is included in other payables and accrued liabilities in the consolidated balance sheets.

Employer contributions to defined benefit pension plans in fiscal 2013 will approximate $0.4 million.

Changes in the Fair Value of Plan Assets

(millions of Canadian dollars)	2012 Pension Plans	2012 Benefit Plans	2011 Pension Plans	2011 Benefit Plans
Fair value at beginning of year	**1,267.7**	**—**	1,340.1	—
Expected return on plan assets	**78.5**	**—**	40.2	—
Actuarial gain (loss)	**9.9**	**—**	(37.9)	—
Employer contributions	**0.4**	**3.6**	1.3	3.6
Associate contributions	**16.2**	**—**	17.6	—
Benefits paid	**(132.7)**	**(3.6)**	(93.6)	(3.6)
Fair value at end of year	**1,240.0**	**—**	1,267.7	—

The actual return on plan assets in fiscal 2012 was $88.4 million (2011: $2.3 million).

Changes in the Present Value of the Defined Benefit Obligation

(millions of Canadian dollars)	2012 Pension Plans	2012 Benefit Plans	2011 Pension Plans	2011 Benefit Plans
Balance, beginning of year	**1,176.7**	**36.5**	1,161.4	38.5
Current service cost	**28.1**	**0.1**	29.7	0.1
Associate contributions	**16.2**	**—**	17.6	—
Interest cost	**71.2**	**1.6**	27.6	1.9
Benefits paid	**(132.7)**	**(3.6)**	(93.6)	(3.6)
Curtailment	**(0.5)**	**(0.7)**	—	—
Settlements	**0.3**	**—**	—	—
Actuarial loss (gain)	**42.4**	**2.6**	34.0	(0.4)
Balance, end of year	**1,201.7**	**36.5**	1,176.7	36.5

Cumulative Actuarial Losses

The cumulative actuarial losses recognized in other comprehensive loss for the Company's plans are as follows:

(millions of Canadian dollars)	2012 Pension Plans	2012 Benefit Plans	2011 Pension Plans	2011 Benefit Plans
Cumulative amount, beginning of year	**(44.7)**	**(3.4)**	27.2	(3.8)
Net actuarial (losses) gains recognized	**(32.5)**	**(2.6)**	(71.9)	0.4
Cumulative amount, end of year	**(77.2)**	**(6.0)**	(44.7)	(3.4)

Pension and Benefit Plan Expense

Fiscal 2012 and 2011 pension and benefit plan expense is comprised of the following:

(millions of Canadian dollars)	2012 Pension Plans	2012 Benefit Plans	2012 Total	2011 Pension Plans	2011 Benefit Plans	2011 Total
Company current service cost	**28.1**	**0.1**	**28.2**	29.7	0.1	29.8
Interest cost	**71.2**	**1.6**	**72.8**	27.6	1.9	29.5
Expected return on plan assets (net of expenses)	**(78.5)**	**—**	**(78.5)**	(40.2)	—	(40.2)
Curtailment	**(0.5)**	**(0.7)**	**(1.2)**	—	—	—
Settlement	**0.3**	**—**	**0.3**	—	—	—
Net expense recognized	**20.6**	**1.0**	**21.6**	17.1	2.0	19.1

The total charge for employee benefits expense relating to continuing operations is included in selling, general and administrative expenses in the consolidated statements of (loss) earnings.

Defined Contribution Pension Plans

Included in company current service cost above, HBC recognized a $22.4 million (2011: $23.4 million) expense in fiscal 2012 of which $12.4 million (2011: $13.2 million) relates to continuing operations. The expense represents the contributions made in connection with the defined contribution plans. In addition, in fiscal 2012 L&T contributed $1.6 million (2011: $1.2 million) to the Lord & Taylor 401(k) Retirement Savings Plan.

Other Long-term Employee Benefits

During fiscal 2012, the Company recognized a $3.2 million (2011: $13.3 million) expense in selling, general and administrative expenses related to its other long-term employee benefits.

Actuarial Assumptions

HBC and its non-executive associates contribute in equal amounts to HBC's defined contribution plans. The defined benefit plans are funded by employee contributions, as a percentage of salary, and by HBC to support the actuarial based pension benefits. The defined benefit plans provide benefits based on members' earnings and service.

The Company's pension and benefits obligation and expense are dependent on the assumptions used in calculating these amounts. These assumptions include discount rate, expected long-term rate of return on plan assets, rate of compensation increase, and overall Canadian health care cost trend rate.

	2012		2011	
	Pension Plans	Benefit Plans	Pension Plans	Benefit Plans
Defined benefit obligations, end of the financial year				
Discount rate	**4.25%**	**4.00%**	4.90%	4.70%
Rate of compensation increase	**3.25%**	**3.50%**	3.25%	4.00%
Net benefit expense for the financial year				
Discount rate	**4.90%**	**4.70%**	5.40%	5.40%
Expected rate of return on plan assets	**5.75%**	**N/A**	6.25%	N/A
Rate of compensation increase	**3.25%**	**3.50%**	3.50%	4.00%
Health care trend rate:				
Initial benefit expense	**N/A**	**6.50%**	N/A	6.60%
Ultimate benefit expense		**4.50%**		4.50%
Initial benefit obligation	**N/A**	**6.10%**	N/A	6.50%
Ultimate benefit obligation		**4.50%**		4.50%

Asset allocation

Supplemental information regarding the asset allocation of the assets of the largest pension plans is presented below:

	2012	2011
Class	Asset Mix of Pension Plans	
Fixed income securities	**37%**	42%
Canadian equities	**32%**	28%
Foreign equities	**26%**	27%
Real estate and other	**3%**	2%
Cash/short-term investments	**2%**	1%
	100%	100%

The overall expected rate of return is a weighted average of the long-term expected returns (net of expenses) of the various categories of plan assets held using the target asset mix at the measurement date. The assessment of the expected returns is based on current market conditions along with expected future economic growth. The expected return for fixed income securities is based on the current fixed income yields on a fixed income portfolio. For equity investments, expected returns are based on current yields taking into consideration expected future economic growth.

Sensitivity of health care trend

The table below provides a sensitivity analysis of changes in the health care trend rate. The sensitivity analysis is hypothetical and should be used with caution. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

	2012		**2011**	
(millions of Canadian dollars)	**Benefit Plans**	**Other Long-term Plans**	**Benefit Plans**	**Other Long-term Plans**
Effect of 1% increase in health care trend rate				
Service costs and interest cost	**0.2**	**0.1**	0.2	0.1
Defined benefit obligation	**3.3**	**0.6**	3.2	0.4
Effect of 1% decrease in health care trend rate				
Service costs and interest cost	**(0.1)**	**(0.1)**	(0.2)	(0.1)
Defined benefit obligation	**(2.8)**	**(0.5)**	(2.7)	(0.4)

Historical information

The history of the Company's pension plans is presented below:

(millions of Canadian dollars)	**2012**	**2011**	**2010**	**2009**	**Feb. 1, 2009**
Fair value of plan assets	**1,240.0**	1,267.7	1,340.1	1,307.3	1,191.5
Present value of defined benefit obligations	**1,201.7**	1,176.7	1,161.4	1,139.7	989.8
Surplus in the plans	**38.3**	91.0	178.7	167.6	201.7
Experience adjustment in the plan assets	**9.9**	(37.7)	21.4	71.9	—
Experience adjustment in the plan liabilities	**3.1**	(7.3)	24.3	—	—

Supplementary executive retirement plan

The Company guarantees an annual pension to certain Canadian executives in the supplementary executive retirement plan ("SERP"). The Company's guaranteed obligation pursuant to the supplementary executive retirement plan for service up to November 10, 2005 is secured by a trust fund for certain members. Total assets of the trust funds at February 2, 2013 were $65.7 million (January 28, 2012: $66.1 million). The obligation in respect of service after November 10, 2005 is not secured.

NOTE 18. FINANCIAL INSTRUMENTS

The following table provides a comparison of carrying and fair values of financial instruments as at February 2, 2013 and January 28, 2012:

(millions of Canadian dollars)	2012 Carrying Value	2012 Fair Value	2011 Carrying Value	2011 Fair Value
Classified as fair value through profit or loss				
Embedded foreign currency derivatives[1]	**(0.1)**	**(0.1)**	0.1	0.1
Old HBC Term Loan embedded derivative[2]	**—**	**—**	(3.5)	(3.5)
Classified as loans and receivables				
Cash	**43.0**	**43.0**	42.4	42.4
Restricted cash	**5.3**	**5.3**	—	—
Trade and other receivables[5]	**85.1**	**85.1**	124.0	124.0
Classified as held to maturity				
Short-term deposits[3]	**1.7**	**1.7**	1.8	1.8
Financial derivatives designated as cash flow hedges				
Forward foreign currency contracts[4]	**0.9**	**0.9**	1.9	1.9
Interest rate swaps[1]	**(0.3)**	**(0.3)**	—	—
Classified as other liability				
Trade payables[5]	**(442.0)**	**(442.0)**	(613.0)	(613.0)
Other payables and accrued liabilities[5]	**(248.6)**	**(248.6)**	(269.2)	(269.2)
HBC Revolving Credit Facility	**—**	**—**	(155.0)	(154.6)
Lord & Taylor Revolving Credit Facility	**(137.8)**	**(137.8)**	(125.2)	(122.8)
HBC Term Loan	**(250.0)**	**(250.0)**	—	—
Lord & Taylor Mortgage	**(249.3)**	**(249.3)**	—	—
Lord & Taylor Term Loan	**(204.7)**	**(208.3)**	(450.3)	(451.4)
Old HBC Term Loan	**—**	**—**	(448.9)	(448.0)
Other mortgages	**(11.7)**	**(11.7)**	(13.7)	(13.7)

(1) Included in financial liabilities — current (2011: included in financial assets – current)
(2) Included in other liabilities
(3) Included in financial assets - current
(4) $1.4 million included in financial assets — current (2011: $3.8 million) and $0.5 million included in financial liabilities — current (2011: $1.9 million)
(5) Includes assets/liabilities of discontinued operations held for sale

The fair value of the HBC Revolving Credit Facility, Lord & Taylor Revolving Credit Facility, HBC Term Loan, Lord & Taylor Mortgage, the Lord & Taylor Term Loan and the Old HBC Term Loan are valued using a discounted cash flow model, taking into consideration the fixed interest rate spread included in the related debt compared to fixed interest rate spreads on similar debt available in the market at the balance sheet dates.

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

The following table summarizes the change in fair value of financial instruments designated as fair value through profit or loss that has been recognized in net (loss) earnings for the year:

(millions of Canadian dollars)	2012	2011
Embedded foreign currency derivatives	**(0.1)**	(0.6)
Change in fair value of Old HBC Term Loan embedded derivatives	**3.5**	(3.5)
	3.4	(4.1)

The fair value of financial instruments are classified and measured according to the following fair value hierarchy:

- Level 1: fair value measurement using quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value measurement using inputs other than quoted prices included within Level 1 that are either directly or indirectly observable; and
- Level 3: fair value measurement using unobservable inputs in which little or no market activity exists, therefore, requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

All financial instruments measured at fair value are valued using inputs other than quoted prices that are observable for the asset or liability and are therefore categorized as Level 2 according to the fair value hierarchy.

Fair values of Level 2 financial instruments are determined using valuation models which require the use of inputs. Those inputs are based on external, readily observable market inputs, including factors such as interest rate yield curves, currency rates and price and rate volatilities as applicable. Interest rate caps are valued using a discounted cash flow model based on market interest rate curves at the period-end date. The forward foreign currency contracts and embedded derivatives are valued based on the difference between contract rates and spot rates at the period-end date, discounted to reflect the time-value of money. The foreign currency options and interest rate swaps are valued based on the difference between the exercise rate and the spot rate, volatility of exchange rates and market interest rates at the period-end date.

Capital management

The Company includes the following items in its definition of capital:

(millions of Canadian dollars)	2012	2011
Short-term loans and borrowings	**132.1**	291.0
Long-term loans and borrowings	**718.5**	901.7
Share capital	**246.1**	2.2
Contributed surplus	**32.5**	60.6
Retained earnings	**792.2**	938.1
	1,921.4	2,193.6

The Company's objectives when managing capital are to maintain ample liquidity to support the operations of the Company, prudently utilize long-term debt to finance the Company's long-term assets and investments and provide adequate returns to its shareholders.

The Company manages its capital structure, and makes adjustments to it, in light of changes to economic conditions and its strategic objectives. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new equity interests or sell assets to reduce debt.

Financial risk management

The Company has exposure to credit, liquidity and market risk from its use of financial instruments. The following is a description of those risks and how the exposures are managed:

(i) **Credit risk**

The Company's exposure to credit risk arises if a debtor or counterparty to a financial instrument fails to meet its obligations, and arises principally from short-term deposits, receivables, and derivative instruments that are in a gain position. Credit risk is mitigated by various techniques including selecting counterparties based on acceptable credit ratings and minimizing the concentration of positions with individual counterparties. There is no concentration of accounts receivable balances. The Company does not consider its exposure to credit risk to be material.

(ii) **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by continuously monitoring actual and projected cash flows, taking into account the seasonality of the Company's working capital needs, sales and earnings. The HBC Revolving Credit Facility, the Lord & Taylor Revolving Credit Facility and the bank overdraft facilities are used to maintain liquidity.

Undiscounted contractual maturities (including interest) of the Company's financial liabilities are as follows:

(millions of Canadian dollars)	Trade and other payables	Derivatives	Loans and borrowings	Total
Fiscal year:				
2013	690.6	0.3	147.7	838.6
2014	—	—	267.9	267.9
2015	—	—	8.5	8.5
2016	—	—	4.2	4.2
2017	—	—	246.4	246.4
Thereafter	—	—	204.7	204.7
	690.6	0.3	879.4	1,570.3

(iii) **Market risk**

The Company is exposed to foreign currency risk and interest rate risk:

(a) Foreign currency risk

HBC is a Canadian dollar functional currency entity that purchases a significant amount of inventory for its Canadian operations in U.S. dollars. HBC enters into forward foreign exchange contracts and foreign currency options to reduce the foreign exchange risk with respect to these U.S. dollar denominated purchases. The forward foreign exchange contracts are designated and accounted for as a cash flow hedge of U.S. dollar purchases.

In accordance with the policy, HBC may hedge up to 100% of all foreign currency transactions and economic exposures that are recognized on the consolidated balance sheet, or deemed as firm commitments (e.g. purchase orders that have been issued for goods and services in foreign currency). It may further hedge up to 70% of forecasted transactions (anticipated transactions for which there are no firm commitments). HBC's net U.S. dollar exposure is determined based on entities with the Canadian dollar as their functional currency. HBC's net U.S. dollar exposure as at February 2, 2013 and January 28, 2012 excluding its investment in L&T is as follows:

U.S.$ Exposure (millions of U.S. dollars)	2012	2011
Trade payables	**(68.6)**	(115.1)
Outstanding purchase orders	**(35.4)**	(96.5)
Forward foreign exchange contracts	**188.0**	279.0
Total exposure	**84.0**	67.4

The settlement dates of the forward foreign currency contracts range from February 2013 to December 2013 and the weighted average foreign exchange rate is $0.995.

For fiscal 2012 HBC recorded a gain of $2.1 million (2011: loss of $1.2 million) relating to the translation or settlement of foreign currency denominated monetary items.

In fiscal 2011 a gain of $13.1 million was realized primarily related to the settlement of the foreign exchange forwards which were entered into in connection with the repayment of the CMBS Loan and the acquisition of L&T which is included in selling, general and administrative expenses.

The estimated gains and losses on derivatives designated as cash flow hedges expected to be reclassified to earnings within the next 12 months is a net gain of $0.4 million.

On an annualized basis, a strengthening of the U.S. dollar against the Canadian dollar by 1% at February 2, 2013 would have increased net loss by $2.0 million for fiscal 2012 (2011: decreased net earnings by $0.7 million).

The net investment in L&T, whose functional currency is U.S. dollars, presents foreign currency risk to HBC, whose functional currency is Canadian dollars. HBC has not entered into any hedging transactions with regards to this exposure.

(b) Interest rate risk

The Company's interest rate risk arises from short-term and long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. During fiscal 2012 and 2011, the Company's variable rate borrowings were denominated in the U.S. dollar and the Canadian dollar.

Cash flow interest rate risk is mitigated by the use of interest rate swaps.

U.S. dollar borrowings

L&T has the Lord & Taylor Term Loan, Lord & Taylor Mortgage and the Lord & Taylor Revolving Credit Facility. L&T is exposed to interest rate cash flow risk as the variable rate rises.

On November 26, 2012, LT 424 entered into interest rate swap arrangements, the effect of which is to fix the interest rate related to the Lord & Taylor Mortgage at 3.85%. The interest rate swap is designated as a cash flow hedge. The net interest rate received under this arrangement is included in finance costs. The arrangements have an effective date of September 7, 2012 and a maturity date of September 10, 2017.

During fiscal 2012 three interest rate caps which were designated as cash flow hedges of interest rate risk matured. L&T had entered into interest rate caps for the period January 15, 2009, through the original maturity date of January 31, 2011, with a financial institution at a LIBOR rate of 2%. L&T received payment from the financial institution when the rate of LIBOR exceeded 2% on the aggregate notional amount of $0.8 million. The net interest received under these arrangements was included in finance costs. These renegotiated arrangements had an effective date of October 15, 2008, and a maturity date of January 31, 2011.

In September 2010, L&T extended the maturity of these interest rate caps to June 2012. The interest rate caps were effective from September 2010 to June 2012. L&T received payment from the financial institution when the rate of LIBOR exceeded 2% for the period from September 2010 to January 2011 or 1.5% for the period from January 2011 to June 2012 on the aggregate notional amount of $0.8 million. As the LIBOR rate had been below the caps, no net interest received under these arrangements is included as an offset to finance costs.

An increase of 100 basis points in LIBOR over the past year would have increased net loss for fiscal 2012 by $1.0 million (2011: decreased net earnings by $9.1 million). This sensitivity analysis does not include the impact that an increase of 1% in LIBOR rates would have on the fair value of the interest rate swaps.

Canadian dollar borrowings

HBC has the HBC Revolving Credit Facility and HBC Term Loan described in note 14 which bear interest at a variable rate plus a fixed spread. HBC is exposed to interest rate cash flow risk as the variable rate rises.

On an annualized basis, an increase of 100 basis points in CDOR rates over the past year would have increased net loss for fiscal year 2012 by $5.1 million (2011: decreased net earnings by $8.3 million).

NOTE 19. SHARE BASED COMPENSATION

Concurrent with the Offering, the Company established share option plans for certain employees and its Board of Directors, as described below, and has reserved up to 10% of the outstanding shares or 12,000,000 common shares for issuance under the plans. The Company uses the fair value method to account for share options issued under employee programs. The fair value of each option is established on the date of the grant using the Black-Scholes options-pricing model.

Option Plan

The Company adopted a share option plan on November 26, 2012 and made the following grants under the plan. The assumptions are outlined below for each grant.

- 6,126,000 options to senior executives of which 2,042,000 are performance based options, 50% of the options will vest in each of the fourth and fifth years following issuance. The performance based options vest only if the share price is at least 50% higher than the Offering price ($25.50 based on a $17.00 Offering price) for a twenty day period prior to the applicable vesting date or for any twenty day trading period after the vesting date but before the expiry date. Options have a 10 year term. Options (vested and unvested) will forfeit immediately in the event a grantee is terminated for cause, and after 45 days in the event of a voluntary resignation or termination without cause, subject to a pro-rata vesting schedule if the grantee is terminated. The grant date fair value of these options is $34.2 million, of which $24.5 million are expected to vest.

Fair value per unit at grant date	$5.59
Share price	$17.00
Exercise price	$17.00
Expected volatility	40.6%
Risk-free interest rate	1.44%
Dividend yield	2.21%
Expected life	6.5 years

- 967,400 options to other management. Options vest after three years and have a 7 year term with no performance condition. Options (vested and unvested) will forfeit immediately in the event a grantee is terminated for cause, and after 45 days in the event of a voluntary resignation or termination without cause, subject to a pro-rata vesting schedule if the grantee is terminated. The grant date fair value of these options is $5.1 million, of which $3.8 million are expected to vest.

Fair value per unit at grant date	$5.32
Share price	$17.00
Exercise price	$17.00
Expected volatility	42.3%
Risk-free interest rate	1.28%
Dividend yield	2.21%
Expected life	5 years

During fiscal 2012 the Company recorded compensation expense of $0.9 million (2011: nil) related to share options.

Phantom Share Plan

On November 26, 2012, the Company established a Phantom Share Plan and granted 231,950 phantom share units with a grant date fair value of $3.9 million. The units vest after 3 years and will be settled in cash or in shares of the Company, at the Company's option. During fiscal 2012, the Company recognized compensation expense of $0.1 million (2011: nil).

Restricted Share Units

On November 26, 2012, the Company awarded 35,293 restricted share units ("RSUs") with a term of three years at a grant-date fair value of $17.00 per unit and will be settled in shares of the Company. During fiscal 2012, the Company recognized $0.1 million in compensation expense (2011: nil). The grant date fair value of the RSUs is $0.6 million, which are all expected to vest.

Other Plans

Also on November 26, 2012 the Company established a performance share unit plan. There were no units awarded under this plan in fiscal 2012.

Profits Interests

L&T B and HBTC maintain equity settled Profits Interests plans for certain senior executives of L&T and HBC. These Profits Interests represent the right to residual equity in L&T B or HBTC, in excess of levels specified in each grant agreement, after satisfying the commitments to third parties, preferred investors and the return of the original investment to the common investors. L&T B and HBTC have the right to call certain vested grants upon termination of employment.

Profit interests have not been granted since fiscal 2009. The value of these profits interests grants will be charged to compensation expense over the individual vesting period of each grant on a tranche basis. Compensation expense for fiscal 2012 was $0.5 million (2011: $0.5 million). As of February 2, 2013 there was nil (January 28, 2012: $0.2 million) of total unrecognized compensation cost related to non-vested profits interests.

Long Term Incentive Plans (LTIP)

The Company and its subsidiaries maintain a long-term incentive plan (LTIP) for certain senior executives. Under this plan a maximum of 100,000,000 incentive units may be granted, which entitle participants to receive cash payments or, at the sole discretion of the Board, shares of the granting entity in lieu of cash. As at January 28, 2012, the Company ceased making grants under this program.

Incentive units had up to a 10-year term, vested in equal installments over a five year service period, and were paid out upon a change of control event or an initial public offering, as defined in the LTIP. Each incentive unit was paid out based on the unit appreciation value, according to the terms of each grant.

The unit appreciation value reflects the performance of the equity value of the entity against a target equity value established at the grant date, according to the terms of the grant. These grants were made at the HBC level and at individual subsidiaries and ultimate amounts payable are determined based upon performance at either the HBC level or the individual subsidiary to which the grant relates.

Grants last awarded under this plan were issued in fiscal 2010. Grants generally vested over a period of five years. LTIP grant activity, expressed as a percentage of the total units available under the plan, for fiscal 2012 and 2011 is as follows:

	2012	2011
Balance — beginning of year	**5.15%**	5.32%
Grants awarded	**—**	—
Grants forfeited	**(0.99%)**	(0.17%)
Grants redeemed	**(4.16%)**	—
Balance — end of year	**—**	5.15%
Comprised of:		
HBC grants	**—**	1.90%
Subsidiary grants	**—**	3.25%
Vested grants — end of year	**—**	2.70%

The value of these LTIP grants was charged to compensation expense over the individual vesting period of each grant on a tranche basis. Compensation expense for fiscal 2012 was $3.6 million (2011: $0.5 million). As of February 2, 2013, total unrecognized compensation cost was nil (January 28, 2012: $0.4 million) related to non-vested LTIP awards. During fiscal 2012, the Company redeemed 4,160,000 units or 4.16% (2011: nil) and made payments of $27.8 million (2011: nil). In addition, the Company issued 0.5 million common shares with a fair value of $8.5 million. The liability for future payments related to these redemptions at February 2, 2013 is $8.4 million (January 28, 2012: nil).

NOTE 20. SHARE CAPITAL

As at February 2, 2013 the authorized shares of HBC consist of an unlimited number of common shares and an unlimited number of preferred shares issuable in series. Prior to the Offering, the authorized shares consisted of an unlimited number of class A supervoting preferred shares and an unlimited number of non-voting common shares. In addition, prior to an amalgamation that occurred on February 1, 2011, the authorized shares of HBC also included an unlimited number of class B preferred shares.

Share Reorganization

On November 19, 2012, the Board of Directors approved the following changes to the Company's share capital:

- Increase the authorized capital of the Company by creating an unlimited number of preferred shares, issuable in series, and an unlimited number of common shares;
- Re-designated the issued and outstanding 10.0 million common shares of the Company as 10.0 million Class B common shares;
- Exchanged the issued and outstanding 0.01 million Class A preferred shares into 0.01 million common shares;
- After giving effect to the foregoing, splitting the Company's common shares on a 10.469 to 1 basis; and
- Cancellation of the authorized and unissued Class A preferred shares and the newly re-designated Class B common shares.

All references in the condensed consolidated financial statements to number of shares, share prices, per share amounts and share based compensation plans have been adjusted retroactively for the split of common shares. The holders of common shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the shareholders.

Initial Public Offering

On November 26, 2012 the Company completed the Offering of its common shares which consisted of a treasury offering of 14.7 million common shares at $17.00 per share, for gross proceeds to the Company of $250.1 million net of costs of $20.0 million and an income tax benefit of $5.3 million and a secondary offering by Hudson's Bay Company Luxembourg, S.A.R.L. ("HBCL" or the "Selling Shareholder") of 6.8 million common shares for gross proceeds of $115.0 million with no proceeds going to the Company. In addition, HBCL granted to the underwriters of the Offering an over-allotment option, pursuant to which the option was exercised by the underwriters on December 28, 2012, and 900,000 common shares were sold at a price of $17.00 per share. The Company did not receive any proceeds from the sale of these additional shares.

On November 26, 2012, 0.5 million common shares were issued as a redemption of 625,000 LTIP units (see note 19).

The change in common shares and class A and B preferred shares issued and outstanding during the year is as follows:

	Number of Shares	Millions of Canadian Dollars
Common Shares		
Issued and outstanding at February 1, 2011	13,732,044	—
Reclass of capital and cancellation of shares on amalgamation	(13,732,044)	246.2
Shares on amalgamation	104,685,315	—
Return of capital on May 27, 2011	—	(245.0)
Issued and outstanding at January 28, 2012	104,685,315	1.2
Conversion of Class A Preferred Shares	104,685	1.0
Treasury offering (net of offering costs and income taxes of $14.7 million)	14,710,000	235.4
Redemption of 625,000 vested LTIP units	500,000	8.5
Issued and outstanding at February 2, 2013	120,000,000	246.1
Class A Preferred Shares		
Issued and outstanding at February 1, 2011	104,685	—
Reclass of capital on amalgamation	—	1.0
Issued and outstanding at January 28, 2012	104,685	1.0
Conversion to common shares	(104,685)	(1.0)
Issued and outstanding at February 2, 2013	—	—
Class B Preferred Shares		
Issued and outstanding at February 1, 2011	9,998,945	—
Cancellation of shares on amalgamation	(9,998,945)	—
Issued and outstanding at January 28, 2012 and February 2, 2013	—	—

As part of a multiple stage re-organization, 7612923 Canada Inc. (“Holdco”), acquired 100% ownership of HBC on July 29, 2010. On January 30, 2011, the stated capital account for the common shares, Class A supervoting preferred shares and Class B preferred shares were reduced to $1 each and these reductions were not distributed to their respective holders. Following the reduction of stated capital, there was an amalgamation of Holdco and HBC on February 1, 2011. As of the same date, resolutions were passed to reclassify capital from contributed surplus to common shares and the class A preferred shares and cancel all issued and outstanding common and Class B preferred shares without repayment of capital, except for the common shares of Holdco. The net assets and liabilities and board of directors of HBC following the amalgamation remained the same as that prior to the amalgamation.

On May 27, 2011, a resolution was passed to reduce the share capital of HBC by $245.0 million and distribute the amount to the holder of the common shares.

During the year ended February 2, 2013, the Company declared and paid dividends to the holders of the common shares totaling $101.1 million (2011: $286.7 million).

Prior to its acquisition by HBC during the year ended January 28, 2012, L&T declared and paid a dividend of $34.7 million to L&T B, principally to cover income taxes related to L&T that flow through to its members.

The preferred shares are issuable at any time and from time to time in one or more series. The Board of Directors are authorized to fix before issue the number of, the consideration per share of, the designation of, and the provisions attaching to, the preferred shares of each series, which may include voting rights and other provisions attaching to the preferred shares or shares of the series. The preferred shares of each series will rank on parity with the preferred shares of every other series and will be entitled to preference over the common shares and any other shares ranking junior to the preferred shares with respect to payment of dividends and distribution of any property or assets in the event of the Company’s liquidation, dissolution or winding-up, whether voluntary or involuntary.

In connection with the Offering, the 104,685 class A supervoting preferred shares were converted to common shares. The class A supervoting preferred shares each with a face value of $100 were entitled to a preference over the common shares with respect to priority in payment of dividends and in distribution of assets in the event of liquidation, dissolution or wind-up of HBC whether voluntary or involuntary. The class A supervoting preferred shares entitled the holder to a fixed, non-cumulative dividend at the rate of 4% per annum, based on their face value, as and when declared. The holders of class A supervoting preferred shares were entitled to one vote for each class A supervoting preferred share held. As part of the amalgamation discussed above, $1.0 million of capital was reclassified to the class A supervoting preferred shares on February 1, 2011.

NOTE 21. (LOSS) EARNINGS PER COMMON SHARE

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

(millions of Canadian dollars or shares)	2012	2011
Net earnings from continuing operations available to common shareholders	**31.5**	57.3
Net (loss) earnings from discontinued operations available to common shareholders	**(76.3)**	1,391.7
Net (loss) earnings available to common shareholders	**(44.8)**	1,449.0
Weighted average common shares outstanding – basic and diluted	**107.5**	104.7
Basic and diluted earnings per share		
Continuing operations	**$ 0.29**	$ 0.55
Discontinued operations	**(0.71)**	13.29
	$ (0.42)	$ 13.84

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options is based on quoted market prices for the period that the share options were outstanding. All share options have been excluded as they are anti-dilutive.

NOTE 22. PARENT'S INTEREST IN L&T

This classification of shareholders' equity relates entirely to the acquisition of L&T by HBC and the requisite accounting for a merger of entities under common control (see note 1).

The January 31, 2011 balance of $151.9 million represents the July 16, 2008 (see note 1) value of the net assets of L&T on a historical cost basis of $56.6 million (U.S.$56.5 million) and a subsequent capital contribution by HBTC to L&T of $95.3 million (U.S.$80 million) on January 9, 2009.

On January 11, 2012, HBC acquired L&T from HBTC for $101.9 million (U.S.$100 million) cash (see note 1). This amount has been treated as a return of capital to the parent.

The remaining post-acquisition balance of $50.0 million has been reclassified to contributed surplus as no further obligation to the parent exists relating to the acquisition.

NOTE 23. RELATED PARTY TRANSACTIONS

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

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

The Company, HBTC, True North Retail Investments Limited Partnership ("TNRI") and HBCL, all of which are entities under common control, and their respective general partners, as applicable, (as "Related HBC Entities") entered into an agreement for the reimbursement of expenses (the "Reimbursement Agreement") effective July 17, 2008 whereby the Company agreed to pay for maintenance and operating expenses of the Related HBC Entities, subject to compliance with the Credit Agreements. Amounts charged to the Company by Related HBC Entities under the Reimbursement Agreement were $1.4 million for fiscal 2012 (2011: $5.2 million).

The Company and HBTC entered into an agreement (the "Management Agreement"), effective July 17, 2008 whereby the Company agreed to pay HBTC an annual fee of U.S.$2.0 million plus reimbursement of other expenses for management, financial, strategic and transaction support. Amounts charged to the Company by HBTC under the Management Agreement for fiscal 2012 were $1.5 million (2011: $2.6 million).

The Company and National Realty & Development Corp. ("NRDC"), an entity under common control entered into Property Management Agreements (the "Property Agreements"), whereby the Company agreed to retain NRDC as its property manager and pay NRDC an annual property management fee of U.S.$4.0 million. Amounts charged to the Company by NRDC under the Property Agreements for fiscal 2012 were $3.3 million (2011: $4.0 million).

In connection with the Target transaction, on September 29, 2012, Zellers and L&T B entered into a Fee Agreement that provided for a fee of $8.0 million payable to L&T B for advisory services. The fee was paid to L&T B on October 27, 2012.

On November 26, 2012, the Reimbursement Agreement, Management Agreement, and Property Agreements were amended such that the Related HBC Entities will no longer be entitled to management fees, or to have their expenses reimbursed.

As at February 2, 2013, there were no amounts (January 28, 2012: $0.8 million) included in other current assets for fiscal 2012 fees paid or incurred under the Reimbursement Agreement, Management Agreement and Property Agreement.

As at February 2, 2013, there were no amounts (January 28, 2012: $3.2 million) included in receivables for advances made by the Company to TNRI. The advances related to professional fees, capital taxes and other costs.

On May 6, 2011, L&T's subsidiary, Lord & Taylor Home LLC, which operates home furnishings stores, entered into a two year lease at U.S.$1.0 million annually (with renewal options) with SP 35 L.P. (the "Landlord") for approximately 31,000 sq. ft. in Shrewsbury, NJ to operate a home store. 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 fiscal 2012 and 2011 were $0.4 million each year. The Landlord is an affiliate of NRDC. Richard Baker and Robert Baker, the principals of NRDC, are also members of L&T B.

A director of the Company works for an investment banking firm that was part of the syndicate of investment banks involved in the Company's Offering. Commissions of $0.4 million were paid in connection with this transaction.

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

NOTE 24. COMPENSATION

The remuneration of key management personnel for fiscal 2012 and 2011 is as follows:

(millions of Canadian dollars)	2012	2011
Short-term benefits	**15.6**	10.4
Post-employment benefits	**0.2**	0.1
Other long-term benefits	**8.4**	0.1
Termination benefits	**0.1**	—
Share based compensation	**3.6**	1.0
	27.9	11.6

The compensation noted in the above table forms part of the total employee benefits expense, including discontinued operations, recorded by the Company in fiscal 2012 totaling $1,210.0 million (2011: $1,417.8 million).

NOTE 25. CONTINGENT LIABILITIES

As of February 2, 2013, there are a number of claims against the Company where the likely outcome is both quantifiable and estimable in varying amounts and for which provisions have been made in these financial statements, as appropriate. It is not possible to determine the amounts that may ultimately be assessed against the Company with respect to these claims but management believes that any such amounts would not have a material impact on the business or financial position of the Company.

NOTE 26. GUARANTEES

As part of normal operations, the Company regularly reviews its real estate portfolio and store locations. Based on the reviews conducted in prior years, the Company has closed certain store premises that it deemed to be non-strategic. Where these premises were leased, the Company assigned its leases to other retail operators, but remained obligated to the landlord on those leases as the original tenant thereunder despite the assignment. If the assignee were to default on the lease agreement, the Company would remain obligated to the landlord for payment of amounts due under the lease. The terms of these assigned leases can extend up to the year 2023. As of February 2, 2013, these leases have future minimum lease payments of $239.6 million (January 28, 2012: $277.1 million), of which $180.4 million (January 28, 2012: $218.6 million), relates to leases assigned to Target, in addition to other lease related expenses, such as property taxes and common area maintenance. The Company's obligation would be offset by payments from existing or future assignees and their obligations to the Company to comply with the assigned leases. Potential liabilities related to these guarantees may be subject to certain defenses by the Company. The Company does not expect to make any significant payments with respect to these lease obligations and believes that the risk of significant loss is low.

In connection with the sale of leasehold interests to Target, the Company has indemnified Target up to a maximum of $1,825.0 million in respect of any damages arising from any failure to comply with any representation or warranty under the transaction agreement to be true, any failure of the Company to fulfill any of its obligations under the agreement, the use of any of the leased properties prior to transfer to Target, environmental liabilities associated with any of the leased properties, and any liabilities associated with the leased properties not assumed by Target.

In the normal course of business, the Company has entered into agreements pursuant to which the Company provides indemnification commitments to counterparties. These indemnification commitments require the Company to compensate counterparties for costs incurred as a result of breaches of representations or warranties, changes in laws or regulations or as a result of litigation claims that may be suffered by the counterparty as a result of the transaction. The Company also has director and officer indemnification agreements. The terms of the indemnification commitments will vary based on the contract. Given the nature of these indemnification commitments, the Company is unable to estimate the maximum potential liability but does not expect to make any significant payments with respect to these commitments.

NOTE 27. NET CHANGE IN OPERATING WORKING CAPITAL

(millions of Canadian dollars)	**2012**			**2011**		
	Continuing operations	**Discontinued operations**	**Total**	Continuing operations	Discontinued operations	Total
Decrease (increase) in:						
Trade and other receivables	**0.5**	**42.2**	**42.7**	(6.6)	11.0	4.4
Inventories	**(24.1)**	**692.7**	**668.6**	(92.2)	(34.8)	(127.0)
Other current assets	**(9.8)**	**(3.9)**	**(13.7)**	(3.6)	3.4	(0.2)
(Decrease) increase in:						
Trade and other payables, accrued liabilities and provisions	**(12.2)**	**(49.0)**	**(61.2)**	(44.3)	71.5	27.2
Other	**25.0**	**(1.9)**	**23.1**	7.2	3.5	10.7
	(20.6)	**680.1**	**659.5**	(139.5)	54.6	(84.9)

NOTE 28. SEGMENTED REPORTING

As a result of the divestiture of the Zellers and Fields banners, the Company now has one reportable operating segment, Department Stores, which earns revenue from the sale of fashion apparel, accessories, cosmetics and home products to customers in a similar target market. The Department Stores segment which includes Hudson's Bay, L&T and Home Outfitters, is managed by the Chief Operating Decision Maker and supported by an integrated shared service function.

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

(millions of Canadian dollars)	2012	2011
Total retail sales		
Canada	**2,614.5**	2,473.9
United States	**1,462.5**	1,375.7
	4,077.0	3,849.6

(millions of Canadian dollars)	2012	2011
Total operating income		
Canada	**32.7**	83.1
United States	**88.1**	113.3
	120.8	196.4

(millions of Canadian dollars)	2012	2011
Total assets		
Canada	**1,892.3**	2,708.5
United States	**1,360.3**	1,285.0
	3,252.6	3,993.5

NOTE 29. SUBSEQUENT EVENTS

On March 15, 2013, HBC's Board of Directors declared a dividend of $0.09375 per common share, payable on April 15, 2013 to shareholders of record as of March 28, 2013.