



**2012 Q3 INTERIM
CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

For the Thirteen and Thirty-nine Weeks Ended

October 27, 2012

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

(unaudited)

(millions of Canadian dollars, except per share amounts)

	Notes	Thirteen weeks ended		Thirty-nine weeks ended	
		Oct 27, 2012	Oct 29, 2011	Oct 27, 2012	Oct 29, 2011
Retail sales		930.4	896.7	2,690.5	2,550.0
Cost of sales	9	(567.7)	(526.0)	(1,622.1)	(1,510.2)
Selling, general and administrative expenses		(351.7)	(343.4)	(1,081.7)	(984.4)
Operating income (loss)		11.0	27.3	(13.3)	55.4
Finance costs	6	(32.7)	(37.9)	(84.1)	(114.4)
Loss before income tax		(21.7)	(10.6)	(97.4)	(59.0)
Income tax benefit	8	13.2	3.1	35.3	17.1
Net loss for the period - continuing operations		(8.5)	(7.5)	(62.1)	(41.9)
Net earnings (loss) for the period - discontinued operations, net of taxes	4	6.5	1,247.4	(87.7)	1,295.1
Net (loss) earnings for the period		(2.0)	1,239.9	(149.8)	1,253.2
Net (loss) earnings per common share - basic and diluted	12				
Continuing operations		(0.08)	(0.07)	(0.59)	(0.40)
Discontinued operations		0.06	11.90	(0.84)	12.36
		(0.02)	11.83	(1.43)	11.96

(See accompanying notes to the Condensed Consolidated Financial Statements)

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited)

(millions of Canadian dollars)	Thirteen weeks ended		Thirty-nine weeks ended	
	Oct 27, 2012	Oct 29, 2011	Oct 27, 2012	Oct 29, 2011
Net (loss) earnings	(2.0)	1,239.9	(149.8)	1,253.2
Other comprehensive (loss) income, net of tax:				
Currency translation adjustment	(2.8)	1.3	(1.3)	(0.2)
Net (loss) gain on derivatives designated as cash flow hedges, net of taxes of \$0.4 and \$0.1 (2011 - \$3.4 and \$1.2), respectively	(1.0)	10.0	(0.1)	(3.5)
Reclassification to non-financial assets of net gains (losses) on derivatives designated as cash flow hedges, net of taxes of \$0.5 and \$0.1 (2011 - \$0.2 and \$2.8), respectively	1.3	(0.5)	(0.4)	8.2
Reclassification to earnings of net gains (losses) on derivatives designated as cash flow hedges, net of taxes of \$0.2 and \$0.2 (2011 - \$0.4 and \$0.5), respectively	0.5	(1.3)	0.6	1.5
Other comprehensive (loss) income	(2.0)	9.5	(1.2)	6.0
Total comprehensive (loss) income	(4.0)	1,249.4	(151.0)	1,259.2

(See accompanying notes to the Condensed Consolidated Financial Statements)

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the thirty-nine weeks ended October 27, 2012 and October 29, 2011
(unaudited)

(millions of Canadian dollars)	Notes	Accumulated Other Comprehensive (Loss) Income ("AOCI")							Total AOCI	Total Equity
		Share Capital	Parent's Interest in L&T	Retained Earnings	Contributed Surplus	Currency Translation Adjustment	Employee Future Benefits	Cash Flow Hedges		
As at January 28, 2012.....		2.2	-	938.1	60.6	(9.8)	(35.9)	0.7	(45.0)	955.9
Comprehensive loss		-	-	(149.8)	-	(1.3)	-	0.1	(1.2)	(151.0)
Share based compensation	17	-	-	-	(22.8)	-	-	-	-	(22.8)
Dividends.....	12	-	-	(89.8)	-	-	-	-	-	(89.8)
As at Oct 27, 2012.....		2.2	-	698.5	37.8	(11.1)	(35.9)	0.8	(46.2)	692.3

(millions of Canadian dollars)	Notes	Accumulated Other Comprehensive (Loss) Income ("AOCI")							Total AOCI	Total Equity
		Share Capital	Parent's Interest in L&T	Retained Earnings (Deficit)	Contributed Surplus	Currency Translation Adjustment	Employee Future Benefits	Cash Flow Hedges		
As at January 31, 2011.....		-	151.9	(189.5)	257.2	(5.3)	17.4	(4.6)	7.5	227.1
Reclass of capital on amalgamation.....	12	247.2	-	-	(247.2)	-	-	-	-	-
Return of capital.....	12	(245.0)	-	-	-	-	-	-	-	(245.0)
Comprehensive income.....		-	-	1,253.2	-	(0.2)	-	6.2	6.0	1,259.2
Share based compensation	17	-	-	-	1.5	-	-	-	-	1.5
Dividends.....	12	-	-	(184.9)	-	-	-	-	-	(184.9)
As at Oct 29, 2011.....		2.2	151.9	878.8	11.5	(5.5)	17.4	1.6	13.5	1,057.9

(See accompanying notes to the Condensed Consolidated Financial Statements)

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

As at October 27, 2012, January 28, 2012 and October 29, 2011

(unaudited)

(millions of Canadian dollars)	Notes	Oct 27, 2012	Jan 28, 2012	Oct 29, 2011
Assets				
Cash	7	37.9	42.4	263.9
Trade and other receivables		53.6	124.0	139.0
Inventories	9	1,255.1	1,814.2	2,237.6
Financial assets		3.9	5.7	13.5
Other current assets		32.7	20.9	51.1
Income taxes recoverable		8.9	-	-
Assets of discontinued operations held for sale	4	626.0	-	-
Total current assets		2,018.1	2,007.2	2,705.1
Property, plant and equipment	10	1,318.1	1,401.1	1,384.7
Intangible assets		233.7	224.6	182.1
Pensions and employee benefits		75.1	91.0	166.5
Deferred tax assets		205.5	257.5	269.9
Other assets		9.1	12.1	13.4
Total assets		3,859.6	3,993.5	4,721.7
Liabilities				
Loans and borrowings	11	498.3	291.0	955.3
Trade payables		560.6	613.0	811.4
Other payables and accrued liabilities		309.8	700.5	663.8
Deferred revenue		117.4	132.5	136.5
Provisions		80.6	76.1	72.4
Income taxes payable		-	101.8	208.6
Financial liabilities		1.2	1.9	7.9
Liabilities of discontinued operations held for sale	4	525.5	-	-
Total current liabilities		2,093.4	1,916.8	2,855.9
Loans and borrowings	11	914.3	901.7	533.8
Provisions		12.9	24.5	14.5
Financial liabilities		2.6	-	3.2
Pensions and employee benefits		78.4	75.4	74.0
Other liabilities		65.7	119.2	182.4
Total liabilities		3,167.3	3,037.6	3,663.8
Shareholders' Equity				
Share capital	12	2.2	2.2	2.2
Parent's interest in L&T		-	-	151.9
Retained earnings		698.5	938.1	878.8
Contributed surplus		37.8	60.6	11.5
Accumulated other comprehensive (loss) income		(46.2)	(45.0)	13.5
Total shareholders' equity		692.3	955.9	1,057.9
Total liabilities and shareholders' equity		3,859.6	3,993.5	4,721.7

(See accompanying notes to the Condensed Consolidated Financial Statements)

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(millions of Canadian dollars)	Notes	Thirty-nine weeks ended	
		Oct 27, 2012	Oct 29, 2011
Operating activities			
Net (loss) earnings for the period.....		(149.8)	1,253.2
Add: Income tax (benefit) expense		(120.8)	202.8
Add: Finance costs.....		83.5	113.8
(Loss) earnings before income tax and finance costs.....		(187.1)	1,569.8
Net cash income taxes paid.....		(12.6)	(0.3)
Interest paid in cash		(66.2)	(91.9)
Items not affecting cash flows:			
Recognition of proceeds on sale of leasehold interests.....	4	(216.8)	(1,450.2)
Depreciation and amortization.....	5	78.0	76.2
Impairment of property, plant and equipment and intangible assets.....	10	34.3	16.1
Net defined benefit pension expense		21.2	16.0
Other operating activities.....		(15.0)	(10.3)
Accelerated amortization of Zellers' rent related net assets (liabilities)	4	1.5	(56.2)
Gain on sale of pharmacy records.....		(40.7)	-
Loss (gain) on sale of property, plant and equipment.....		15.3	(9.1)
Share based compensation		0.3	1.8
Redemption of share based compensation grants	17	(15.4)	-
Net change in operating working capital	15	339.1	(410.1)
Net cash outflow for operating activities.....		(64.1)	(348.2)
Investing activities			
Capital expenditures		(112.7)	(132.4)
Software development costs		(24.8)	(19.4)
Proceeds from disposition of property, plant and equipment.....		-	10.5
Proceeds from sale of discontinued operations	4	83.1	1,832.4
Other investing activities		0.5	(1.2)
Net cash (outflow for) inflow from investing activities		(53.9)	1,689.9
Financing activities			
Long-term loans and borrowings:			
Issued.....		249.9	-
Repayments		(257.5)	(92.0)
Borrowing costs.....		(8.2)	(3.2)
		(15.8)	(95.2)
Short-term loans and borrowings:			
Borrowings from (repayments of) asset-based credit facilities.....		224.3	(609.0)
Net decrease in other short-term borrowings.....		-	(0.7)
Borrowing costs.....		(5.2)	(0.3)
		219.1	(610.0)
Common shares return of capital	12	-	(245.0)
Dividends paid	12	(89.8)	(184.9)
Net cash inflow from (outflow for) financing activities		113.5	(1,135.1)
Foreign exchange gains on cash		-	0.1
(Decrease) increase in cash.....		(4.5)	206.7
Cash at beginning of period		42.4	57.2
Cash at end of period.....		37.9	263.9

(See accompanying notes to the Condensed Consolidated Financial Statements)

HUDSON'S BAY COMPANY

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(For the Thirteen and Thirty-Nine Weeks Ended October 27, 2012, unaudited)

NOTE 1. BASIS OF PREPARATION

Hudson's Bay Company ("HBC" or the "Company") is a Canadian corporation continued under the Canada Business Corporations Act and domiciled in Canada. On July 16, 2008, HBC was acquired by Hudson's Bay Trading Company, LP ("HBTC"), a limited partnership now domiciled in the Cayman Islands. NRDC L&T B LLC ("L&T B"), a 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. Accordingly, HBC's financial information has been retroactively restated to present L&T as a wholly-owned subsidiary since July 16, 2008, the date the entities came under common ownership.

On November 26, 2012 the Company completed an initial public 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 (note 4). The address of the registered office of HBC is 401 Bay Street, Toronto, ON, M5H 2Y4.

NOTE 2. STATEMENT OF COMPLIANCE

The interim condensed consolidated financial statements were prepared using the same accounting policies and methods as those used in the annual consolidated financial statements for the year ended January 28, 2012. The interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"), and therefore, do not contain all disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. Accordingly, certain information and note disclosures normally included in annual financial statements prepared in accordance with IFRS, have been omitted or condensed.

The preparation of interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates which requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the interim financial statements have been set out in note 2 of the annual consolidated financial statements for the year ended January 28, 2012. These interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended January 28, 2012.

These financial statements were authorized for issuance by the Board of Directors of HBC on December 10, 2012.

NOTE 3. SEASONALITY

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

NOTE 4. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

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 retrospectively restated the condensed consolidated statements of earnings (loss) for all periods presented to reflect the discount store operations as discontinued operations.

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

(millions of Canadian dollars)	Thirteen weeks ended		Thirty-nine weeks ended	
	Oct 27, 2012	Oct 29, 2011	Oct 27, 2012	Oct 29, 2011
Net (loss) earnings from discontinued operations, net of taxes.....	(52.8)	(36.8)	(212.8)	10.9
Sale of leasehold interests, net of taxes.....	59.3	1,284.2	125.1	1,284.2
Net earnings (loss) for the period - discontinued operations, net of taxes	6.5	1,247.4	(87.7)	1,295.1

Net earnings from the sale of leasehold interests in the thirteen and thirty-nine weeks ended October 27, 2012 were \$59.3 million and \$125.1 million (2011: \$1,284.2 million and \$1,284.2 million), net of income taxes of \$9.5 million and \$20.0 million (2011: \$205.6 million and \$205.6 million), respectively.

(millions of Canadian dollars)	Thirteen weeks ended		Thirty-nine weeks ended	
	Oct 27, 2012	Oct 29, 2011	Oct 27, 2012	Oct 29, 2011
Retail sales.....	540.3	758.5	1,837.1	2,265.1
Cost of sales.....	(442.8)	(490.1)	(1,349.0)	(1,493.5)
Selling, general and administrative expenses	(182.6)	(261.3)	(807.0)	(747.0)
Operating (loss) income.....	(85.1)	7.1	(318.9)	24.6
Finance income.....	0.8	0.2	0.6	0.6
(Loss) earnings before income tax.....	(84.3)	7.3	(318.3)	25.2
Income tax benefit (expense)	31.5	(44.1)	105.5	(14.3)
Net (loss) earnings for the period	(52.8)	(36.8)	(212.8)	10.9

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, the operating income related to continuing operations may not be indicative of future operating results.

Cash flows from discontinued operations are as follows:

(millions of Canadian dollars)	Thirty-nine weeks ended	
	Oct 27, 2012	Oct 29, 2011
Operating activities.....	75.6	(63.8)
Investing activities.....	82.1	1,827.9
Increase in cash - discontinued operations.....	157.7	1,764.1

Assets Held for Sale

The condensed consolidated balance sheet for October 27, 2012 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 October 27, 2012, January 28, 2012 and October 29, 2011.

(millions of Canadian dollars)	Oct 27, 2012	Jan 28, 2012	Oct 29, 2011
Trade and other receivables	24.1	56.0	59.4
Inventories	477.5	844.2	1,004.6
Other current assets.....	5.0	1.0	17.6
Income taxes recoverable	50.3	-	-
Property, plant and equipment	38.1	130.6	139.7
Deferred tax assets	30.8	61.1	72.5
Other assets - non-current	0.2	3.2	3.0
Assets of discontinued operations held for sale	626.0		
Trade payables	98.6	215.3	302.5
Other payables and accrued liabilities	169.9	382.7	369.5
Provisions - current.....	237.3	31.1	21.5
Income taxes payable.....	-	93.5	200.4
Provisions - non-current.....	12.4	12.1	2.3
Other liabilities	7.3	46.6	97.9
Liabilities of discontinued operations held for sale.....	525.5		

Sale of Leasehold Interests

During fiscal 2011, HBC sold 189 leasehold interests to Target. In connection with the transaction, HBC deferred \$308.2 million of proceeds at January 28, 2012. During the thirteen and thirty-nine weeks ended October 27, 2012 the Company recognized proceeds of \$70.0 million and \$216.8 million (2011: \$1,450.2 million and \$1,450.2 million). As of October 27, 2012, \$91.4 million (January 28, 2012: \$308.2 million; October 29, 2011: \$382.2 million) of proceeds remains deferred of which \$88.4 million (January 28, 2012: \$266.1 million; October 29, 2011: \$290.8 million) is included in other payables and accrued liabilities to be recognized within twelve months and \$3.0 million (January 28, 2012: \$42.1 million; October 29, 2011: \$91.4 million) is included in other long-term liabilities.

In connection with the transaction the Company recognized \$1.3 million and \$51.1 million (2011: \$16.6 million and \$16.6 million) related to employee severance costs, nil and \$1.5 million loss (2011: gain of \$56.2 million and \$56.2 million) related to the accelerated amortization of rent related assets and liabilities and nil and \$20.5 million (2011: nil and nil) of impairment of property, plant and equipment associated with the selected stores in the thirteen and thirty-nine weeks ended October 27, 2012, respectively.

NOTE 5. DEPRECIATION AND AMORTIZATION

(millions of Canadian dollars)	Thirteen weeks ended		Thirty-nine weeks ended	
	Oct 27, 2012	Oct 29, 2011	Oct 27, 2012	Oct 29, 2011
Included in selling, general and administrative expenses:				
Property, plant and equipment	20.7	22.7	65.3	65.6
Intangible assets	6.1	5.6	18.2	17.3
Deferred credits	(2.0)	(2.1)	(6.1)	(6.3)
Other	0.2	0.5	0.6	(0.4)
	25.0	26.7	78.0	76.2

NOTE 6. FINANCE COSTS

(millions of Canadian dollars)	Thirteen weeks ended		Thirty-nine weeks ended	
	Oct 27, 2012	Oct 29, 2011	Oct 27, 2012	Oct 29, 2011
Interest expense on long-term borrowings.....	18.5	22.8	53.2	68.4
Interest expense on short-term borrowings.....	5.9	8.0	21.0	31.6
Write-off of deferred financing costs and costs of refinancing.....	9.4	-	11.7	-
Interest income.....	(0.2)	(0.3)	(0.9)	(1.0)
Fair value movement of HBC Term Loan embedded derivative.....	(0.9)	3.2	(0.9)	3.2
Amortization of CMBS loan renewal option.....	-	4.2	-	12.2
	32.7	37.9	84.1	114.4

NOTE 7. CASH

For the purpose of the condensed consolidated statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments. Cash as at October 27, 2012, January 28, 2012 and October 29, 2011 as shown in the condensed consolidated balance sheets is comprised of the following:

(millions of Canadian dollars)	Oct 27, 2012	Jan 28, 2012	Oct 29, 2011
Cash.....	33.3	42.4	237.0
Restricted cash.....	4.6	-	26.9
	37.9	42.4	263.9

NOTE 8. INCOME TAXES

During the thirteen and thirty-nine weeks ended October 27, 2012 the Company's statutory income tax rate was 26.9% (2011: 27.6%). Reconciliations of the income tax benefit at the statutory rate with the amounts shown in the condensed consolidated statements of earnings (loss) are as follows:

(millions of Canadian dollars)	Thirteen weeks ended		Thirty-nine weeks ended	
	Oct 27, 2012	Oct 29, 2011	Oct 27, 2012	Oct 29, 2011
Loss before income tax – continuing operations.....	(21.7)	(10.6)	(97.4)	(59.0)
Less: Earnings of flow-through entities.....	-	0.7	-	8.6
Loss before income tax of taxable entities.....	(21.7)	(11.3)	(97.4)	(67.6)
Income tax benefit calculated at statutory income tax rate.....	(5.8)	(3.1)	(26.2)	(18.7)
Change in income taxes resulting from:				
Permanent differences.....	(1.5)	-	(4.5)	-
Effect of international tax rate differentials.....	(2.6)	-	-	-
Other.....	(3.3)	-	(0.2)	1.6
	(13.2)	(3.1)	(30.9)	(17.1)
Effect of tax rate changes on deferred tax balances	-	-	(4.4)	-
Income tax benefit.....	(13.2)	(3.1)	(35.3)	(17.1)

NOTE 9. INVENTORIES

Inventories on hand at October 27, 2012, January 28, 2012 and October 29, 2011 were available for sale. The cost of merchandise inventories related to continuing operations recognized as expense for the thirteen and thirty-nine weeks ended October 27, 2012 were \$567.7 million and \$1,622.1 million (2011: \$526.0 million and \$1,510.2 million), respectively. Merchandise inventories for continuing operations as at October 27, 2012 were \$1,255.1 million (January 28, 2012: \$970.0 million; October 29, 2011: \$1,233.0 million). The write-down of merchandise inventories below cost to net realizable value related to continuing operations as at October 27, 2012 was \$17.2 million (January 28, 2012: \$31.5 million; October 29, 2011: \$15.9 million). There was no reversal of write-downs previously taken on merchandise inventories that are no longer estimated to sell below cost. Inventory has been pledged as security for certain borrowing agreements.

NOTE 10. PROPERTY, PLANT AND EQUIPMENT

Impairment of Property, Plant & Equipment

Each reporting period, the Company conducts 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 in operating income (loss) from continuing operations of nil and \$2.8 million (2011: \$7.9 million and \$7.9 million) for the thirteen and thirty-nine weeks ended October 27, 2012, respectively related to changes to the Company’s logistics infrastructure in anticipation of the expected volume declines as a result of the closure of the Zellers banner.

For the thirteen and thirty-nine weeks ended October 27, 2012, an impairment charge of nil and \$31.5 million (2011: \$8.2 million and \$8.2 million) related to the write-down of store fixtures and leasehold improvements of CGU’s in the Zellers banner is included in discontinued operations.

Assets Held under Finance Lease

On August 2, 2011, L&T exercised an option to purchase the building and assignment of the underlying ground lease on a store location for \$24.8 million. Of the total payment, \$10.0 million represents the land lease rights relating to the ground lease, and the balance of \$14.8 million has been allocated to the cost of the building.

NOTE 11. LOANS AND BORROWINGS

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

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

HBC Revolving Credit Facility

<u>(millions of Canadian dollars)</u>	<u>Oct 27, 2012</u>	<u>Jan 28, 2012</u>	<u>Oct 29, 2011</u>
Gross borrowing base availability	942.1	1,063.1	1,218.2
Drawings.....	325.0	155.0	-
Outstanding letters of credit.....	14.1	29.0	49.3
Borrowing base availability net of drawings and letters of credit.....	603.0	879.1	1,168.9

L&T Revolving Credit Facility

<u>(millions of Canadian dollars)</u>	<u>Oct 27, 2012</u>	<u>Jan 28, 2012</u>	<u>Oct 29, 2011</u>
Gross borrowing base availability	349.3	263.4	297.6
Drawings.....	179.3	125.2	149.4
Outstanding standby letters of credit	2.2	6.3	6.4
Borrowing base availability net of drawings and letters of credit.....	167.8	131.9	141.8

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. There were no changes to HBC’s availment options or security interests.

On September 7, 2012, LT 424 LLC (“LT 424”), which is an indirect subsidiary of L&T, entered into a US \$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 “5th Avenue Lord & Taylor Mortgage”). The 5th Avenue 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 5th Avenue 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 5th Avenue Lord & Taylor Mortgage, LT 424 granted a first priority mortgage in the 5th Avenue Lord & Taylor

property. The 5th Avenue Lord & Taylor Mortgage contains customary representations and warranties, positive and negative covenants, reporting requirements and events of default. LT 424 is in compliance with all covenants contained in the 5th Avenue Lord & Taylor Mortgage agreement.

Concurrently, LT 424 has entered into interest rate swap arrangements, the effect of which is to fix the interest rate related to the 5th Avenue Lord & Taylor Mortgage at 3.85%. The swap arrangements are being accounted for as a hedge.

On September 7, 2012, L&T prepaid US \$242.5 million of the L&T Term Loan with the net proceeds of the 5th Avenue Lord & Taylor Mortgage. On repayment, the carrying amount of the L&T 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).

On September 28, 2012, as permitted in the L&T Revolving Credit Facility agreement, the Company increased the revolving line of credit from US \$300.0 million to US \$350.0 million.

NOTE 12. SHARE CAPITAL

On March 30, 2012, June 26, 2012 and October 24, 2012 dividends of \$12.5 million, \$51.3 million and \$26.0 million, respectively were distributed to the holder of the common shares.

In conjunction with the initial public offering of common shares (note 18), the Board of Directors approved a 10.469:1 share split of the Company's 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 share split. As at October 27, 2012, 104.8 million (2011: 104.8 million) common shares were outstanding. The weighted average number of common shares outstanding for the thirteen and thirty-nine weeks ended October 27, 2012 is 104.8 million (2011: 104.8 million) shares.

As part of a multiple stage re-organization, 7612923 Canada Inc. ("Holdco"), acquired 100% ownership of HBC on July 29, 2010. On January 31, 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 shares without repayment of capital, except for the 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 through a distribution to the holder of the common shares. Also, on May 27, 2011 a dividend of \$184.9 million was distributed to the holder of common shares.

NOTE 13. RELATED PARTY TRANSACTIONS

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

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

The Company, HBTC, True North Retail Investments Limited Partnership ("TNRI") and Hudson's Bay Company (Luxembourg) S. à r.l. ("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 HBC Revolving Credit Facility. Amounts charged to the Company by Related HBC Entities under the Reimbursement Agreement were \$0.7 million and \$1.4 million (2011: \$1.5 million and \$3.8 million), respectively for the thirteen and thirty-nine weeks ended October 27, 2012.

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 US \$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 were \$0.5 million and \$1.5 million (2011: \$0.7 million and \$2.5 million), respectively for the thirteen and thirty-nine weeks ended October 27, 2012.

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 US \$4.0 million. Amounts charged to the Company by NRDC under the Property Agreements were \$1.3 million and \$3.3 million (2011: \$1.0 million and \$2.9 million), respectively for the thirteen and thirty-nine weeks ended October 27, 2012.

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 October 27, 2012 nil (January 28, 2012: \$0.8 million; October 29, 2011: \$0.8 million) has been included in other current assets for fees paid or incurred under the Reimbursement Agreement, Management Agreement and Property Agreements.

In October of 2012, the Company received payment from TNRI to settle receivables for advances resulting in a receivables balance at October 27, 2012 of nil (January 28, 2012: \$3.2 million; October 29, 2011: \$3.2 million).

As at October 27, 2012, receivables include nil (January 28, 2012: \$1.3 million; October 29, 2011: \$1.1 million) primarily for income tax payments made on behalf of Maple Leaf Heritage Investments ULC, an unlimited liability corporation under common control. This related party executed a dissolution agreement with Holdco on August 3, 2010 to which this receivable then related.

On May 6, 2011, L&T's subsidiary, Lord & Taylor Home LLC, which operates home furnishings stores, entered into a two year lease at US \$1.0 million annually (with renewal options) with SP 35 L.P. (the "Landlord") for approximately 31,000 square feet in Shrewsbury, NJ to operate a home store. Amounts charged to the Company under the rental arrangement for the thirteen and thirty-nine weeks ended October 27, 2012 were \$0.1 million and \$0.3 million (2011: \$0.1 million and \$0.1 million), respectively. The Landlord is an affiliate of NRDC. Richard Baker and Robert Baker, the principals of NRDC, are also members of L&T B and directors of the Company.

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

NOTE 14. CONTINGENT LIABILITIES

As of October 27, 2012, 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, including the Target indemnification but management believes that any such amounts would not have a material impact on the business or financial position of the Company.

NOTE 15. NET CHANGE IN OPERATING WORKING CAPITAL

(millions of Canadian dollars)	Thirty-nine weeks ended	
	October 27, 2012	October 29, 2011
Decrease (increase) in:		
Trade and other receivables.....	41.4	(7.2)
Inventories.....	82.4	(561.6)
Other assets	(17.1)	(30.3)
Increase (decrease) in:		
Trade and other payables, accrued liabilities and provisions	232.6	178.0
Other	(0.2)	11.0
	<u>339.1</u>	<u>(410.1)</u>

NOTE 16. 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, operating income (loss) from continuing operations and total assets by geographic area:

(millions of Canadian dollars)	Thirteen weeks ended		Thirty-nine weeks ended	
	Oct 27, 2012	Oct 29, 2011	Oct 27, 2012	Oct 29, 2011
Total retail sales				
Canada	599.6	580.6	1,694.4	1,634.9
United States.....	330.8	316.1	996.1	915.1

	930.4	896.7	2,690.5	2,550.0
	Thirteen weeks ended		Thirty-nine weeks ended	
(millions of Canadian dollars)	Oct 27, 2012	Oct 29, 2011	Oct 27, 2012	Oct 29, 2011
Total operating income (loss)				
Canada	4.1	12.8	(64.6)	6.4
United States	6.9	14.5	51.3	49.0
	11.0	27.3	(13.3)	55.4

(millions of Canadian dollars)	Oct 27, 2012	Jan 28, 2012	Oct 29, 2011
Total assets			
Canada	2,390.2	2,708.5	3,379.8
United States	1,469.4	1,285.0	1,341.9
	3,859.6	3,993.5	4,721.7

NOTE 17. SHARE BASED COMPENSATION

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 in lieu of cash. At January 28, 2012, the Company ceased making grants under this program.

Incentive units have up to a ten year term, generally vest in equal installments over a five year service period, and are paid out upon a change of control event or an initial public offering, as defined in the LTIP. Each incentive unit is 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.

In the thirteen and thirty-nine week periods ended October 27, 2012 the company redeemed 300,000 (0.3%) and 2,910,000 units (2.91%), respectively and made payments of \$2.5 million and \$15.4 million (2011: nil and nil) related to these redemptions. As at October 27, 2012, the liability for future payments related to these redemptions is \$15.1 million (2011: nil).

A total of 250,000 (0.25%) and 990,000 units (0.99%) were forfeited during the thirteen and thirty-nine weeks ended October 27, 2012.

LTIP activity, expressed as a percentage of the total available units under the plan, for the year to date period is as follows:

	Thirty-nine weeks ended Oct 27, 2012	Thirty-nine weeks ended Oct 29, 2011
Balance - beginning of year	5.15%	5.32%
Grants awarded	-	-
Grants forfeited	(0.99%)	-
Grants redeemed	(2.91%)	-
Balance - end of period	1.25%	5.32%
Comprised of:		
HBC Grants	1.25%	1.95%
Subsidiary Grants	-	3.37%
Vested Grants - end of period	0.83%	2.70%

On November 26, 2012, 0.5 million common shares were issued as a redemption of the 1.25% LTIP units, which represents the fair value of the units less applicable tax withholdings (note 18).

NOTE 18. SUBSEQUENT EVENTS

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 share split. 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.

On November 19, 2012 the Company filed a supplemented prep prospectus for the sale to the public of 21.5 million common shares at a price of \$17.00 per share (the "Offering"), payable on closing for net proceeds to the Company of \$232.8 million, subject to the terms of an underwriting agreement. The Offering consisted of a treasury offering by the Company of 14.7 million common shares and a secondary offering by HBCL (the "Selling Shareholder") of 6.8 million common shares, for gross proceeds to the Company of \$250.1 million and to the Selling Shareholder of \$115.0 million. HBCL, the selling shareholder has also granted to the underwriters of the Offering an over-allotment option, to purchase an additional 15% of the number of common shares issued under the Offering through a secondary offering. The Company will 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 (1.25%) LTIP units.

Concurrently, with the closing of the Offering on November 26, 2012, the Company repaid its existing \$450.0 million HBC Term Loan and 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 "New HBC Term Loan"). The New HBC Term Loan matures two years following the closing of the Offering, bears interest at the bankers' acceptance rate plus 2.25% 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 will be certain mandatory repayments in specified circumstances. The New 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.

The Company has also established a share option plan, pursuant to which options to purchase common shares will be granted to the Company's eligible employees. At the closing of the Offering, 12.0 million common shares were reserved for issuance in accordance with the terms of the option plan and 7.1 million options were granted to certain employees. Of these issued options, 6.1 million represented option grants for senior executives which will vest 50% in year 4 and 50% in year 5, of a 10 year term. One third of these options include a performance condition that the 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). This initial grant is equivalent to three annual grants and no additional option grants are anticipated to be made to these individuals before 2016. The remaining options have a 3 year cliff vesting provision and a 7 year term.

On December 10, 2012 HBC's Board of Directors declared a dividend of \$0.09375 per share, payable on December 27, 2012 to shareholders of record as of December 19, 2012.