MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THIRTEEN AND FIFTY-TWO WEEKS ENDED JANUARY 31, 2015

Dated April 6, 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis ("MD&A") is intended to assist readers in understanding the business environment, strategies and performance and risk factors of Hudson's Bay Company and its direct and indirect subsidiaries and predecessors or other entities controlled by them, referred to herein as "HBC", the "Company", "we", "us", or "our." It should be read in conjunction with the audited consolidated financial statements of the Company and notes thereto for the fiscal year ended January 31, 2015. Unless otherwise indicated, all amounts are expressed in Canadian dollars.

The Board of Directors, on the recommendation of its Audit Committee, approved the contents of this MD&A. This MD&A reflects information as of April 6, 2015.

Basis of Presentation

Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Certain previously reported figures have been restated due to the implementation of International Financial Reporting Interpretations Committee 21- Levies ("IFRIC 21"). See "New Accounting Policies – Levies."

General Information

Hudson's Bay Company is a Canadian corporation continued under the *Canada Business Corporations Act*. In January 2012, through an internal reorganization, Lord & Taylor LLC ("Lord & Taylor") became a wholly-owned subsidiary of HBC. On November 26, 2012, the Company completed an initial public offering (the "IPO") of its common shares, which trade on the Toronto Stock Exchange under the symbol "HBC."

On November 4, 2013, the Company completed its acquisition of all of the outstanding shares of Saks Incorporated ("Saks"), in an all-cash transaction valued at U.S.$2,973 million ($3,097 million), including debt assumed (the "Saks Acquisition"). The Company's financial results for Fiscal 2013 include the results of Saks for the fourth quarter only.

References in this MD&A to Department Store Group ("DSG") refer to the Company as structured prior to the acquisition of Saks (i.e., excluding Saks) and was previously referred to as Legacy HBC. As Home Outfitters merged into the home business at Hudson's Bay during the second quarter of Fiscal 2014, it is now reported within DSG effective the third quarter of Fiscal 2014.

References to the "Queen Street Sale" in this MD&A refer to the sale of the Company's downtown Toronto flagship store and adjacent Simpson's Tower office complex in the first quarter of Fiscal 2014 (see note 28 of the audited consolidated financial statements for Fiscal 2014).

Accounting Periods

This MD&A is based on the audited consolidated financial statements and accompanying notes thereto for Fiscal 2014, Fiscal 2013 and Fiscal 2012.

Forward-Looking Statements

Certain statements in this MD&A regarding our current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements or any other future events or developments, including without limitation statements under the headings "Overview – Our Business" and "Outlook", constitute forward-looking statements. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely" or "potential", or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements.

Forward-looking statements are based on estimates and assumptions made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate and reasonable in the circumstances. However, there can be no assurance that such estimates and assumptions will prove to be correct.

Many factors could cause our actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, which are discussed in greater detail in this MD&A and the Company's Annual Information Form for Fiscal 2013 filed on SEDAR on May 2, 2014: significant competition in the retail industry; changing consumer preferences; changing consumer spending; the prospect of unfavourable economic and political conditions; the seasonal nature of our business, unseasonable weather conditions or natural disasters; our substantial amount of indebtedness and our ability to comply with the covenants in our credit facilities; our ability to integrate Saks with the legacy business and to realize cost synergies and growth opportunities related thereto; our ability to achieve the full amount of cost synergies that are anticipated, or achieve the cost synergies on the schedule anticipated, from the Saks Acquisition; our dependence on key personnel who would be difficult to replace; our dependence on our advertising and marketing programs; a material disruption in our computer systems; our ability to upgrade, maintain and secure our information systems to support the needs of the organization and protect against increased and evolving cyber security threats; our ability to execute our retail and real estate growth strategies; fluctuations in the value of the Canadian dollar in relation to the U.S. dollar; risks associated with doing business abroad; risks associated with operating freehold and leasehold property and surfacing value from our real estate portfolio, including through our joint venture agreements; environmental risks associated with operating freehold and leasehold property; our ability to meet our obligations under the agreement entered into with Target Corporation ("Target"); inability to protect our trademarks and other proprietary rights; pension related risks; our constating documents could discourage takeover attempts; risks related to our ability to maintain financial and management processes and controls; our ability to pay dividends is dependent on our ability to generate sufficient income and cash flows; influence by our principal shareholders; our principal shareholders have a material percentage of the Common Shares that may have an impact on the trading price of the Common Shares; and our principal shareholders may sell their Common Shares at a time in the future and such timing will be beyond our control and may affect the trading price of the Common Shares; other risks inherent to our business and/or factors beyond our control that could have a material adverse effect on us. Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time. These factors are not intended to represent a complete list of the factors that could affect us; however, these factors should be considered carefully.

The purpose of the forward-looking statements is to provide the reader with a description of management's expectations regarding the Company's financial performance and may not be appropriate for other purposes; readers should not place undue reliance on forward-looking statements made herein. Furthermore, unless otherwise stated, the forward-looking statements contained in this MD&A are made as of the date of this MD&A, and we have no intention and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities law. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Non-IFRS Measures

This MD&A makes reference to certain non-IFRS measures. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, they should not be considered in isolation or as a substitute for analysis of our financial information reported under IFRS. We use non-IFRS measures including gross profit, EBITDA, Normalized EBITDA, Normalized Net Earnings (Loss) and Normalized Selling, General & Administrative Expenses to provide investors with supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We also believe that securities analysts, investors, rating agencies and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Our management also uses non-IFRS measures in order to facilitate operating

performance comparisons from period to period, prepare annual operating budgets and assess our ability to meet our future debt service, capital expenditure and working capital requirements.

For additional detail, refer to our tables outlining the relevant definitions and reconciliations of Net Earnings (Loss) – Continuing Operations to EBITDA and Normalized EBITDA, and Net Earnings (Loss) – Continuing Operations to Normalized Net Earnings.

Fourth Quarter Events

- On January 6, 2015, Gerald Storch joined the Company as Chief Executive Officer who together with Richard Baker, the Governor and Executive Chairman, compose the Office of the Chairman.
- On December 17, 2014, Ian Putnam joined the Company as Executive Vice President, Chief Corporate Development Officer.
- On December 3, 2014 the Company closed the previously announced U.S.$1.25 billion, 20-year mortgage on the ground portion of its Saks Fifth Avenue flagship in New York City, located at 611 Fifth Avenue (the "Saks Mortgage"). For further information on this transaction, please see "Cash Balances and Liquidity - Funding Capacity – Saks Mortgage."
- Jon Nordeen joined the Company as Chief Information Officer, effective November 19, 2014.
- On December 8, 2014, the Company declared a quarterly dividend, paid on January 15, 2015, to shareholders of record at the close of business December 31, 2014, in the amount of $0.05 per Common Share.

Subsequent Events

- On February 11, 2015, a secondary offering was completed pursuant to which 2380162 Ontario Limited, a subsidiary of Ontario Teachers' Pension Plan and successor in interest to H.S. Investment L.P. ("HSILP"), sold 4,899,000 of the Common Shares of HBC which it held. The Company did not receive any proceeds from the offering.
- On February 25, 2015, the Company announced that it entered into agreements with Simon Property Group Inc. ("Simon") (NYSE: SPG) and RioCan Real Estate Investment Trust ("RioCan") (TSX:REI.UN) to form two joint ventures focused on real estate growth opportunities in the United States, Canada and internationally. Both transactions are expected to close within approximately 90 – 120 days, subject to securing acceptable debt financing for each joint venture and other customary closing conditions and consents, as applicable. Approximately $1.1 billion in expected cash proceeds from the joint venture transactions, net of expenses, will be used to reduce debt on the Company's balance sheet. It is expected that the joint ventures will be accounted for using the equity method of accounting. The joint ventures are expected to enable the Company to leverage the expertise of market-leading real estate companies to build on the strength of its existing real estate assets and identify new real estate growth opportunities. The transactions are structured to facilitate an IPO or other monetization transaction of each joint venture at a future date.
- On March 9, 2015, the Company declared a quarterly dividend, to be paid on April 15, 2015, to shareholders of record at the close of business March 31, 2015 in the amount of $0.05 per Common Share.
- On April 2, 2015, the Company announced the appointment of Marc Metrick to President, Saks Fifth Avenue. Marc replaces Marigay McKee who has stepped down based on mutual agreement with the Company.

Overview

Our Business:

Hudson's Bay Company, founded in 1670, is North America's longest continually operated company. HBC operates four iconic retail banners – Hudson's Bay, Lord & Taylor, Saks Fifth Avenue and Saks OFF 5TH ("OFF 5TH"). Our portfolio of brands offers a compelling assortment of apparel, accessories, shoes, beauty and home merchandise. Hudson's Bay is Canada's leading department store with 90 full-line locations, two outlet stores and thebay.com. Lord & Taylor offers high-quality and fashionable merchandise in 50 full-line department store locations, primarily in the northeastern and mid-Atlantic U.S., four Lord & Taylor outlet locations and lordandtaylor.com. Saks Fifth Avenue, one of the world's pre-eminent luxury specialty retailers, comprises 38 U.S. stores, five international licensed stores and saks.com. OFF 5TH offers great brands at great values through 77 U.S. stores and saksoff5th.com. Home Outfitters is Canada's largest kitchen, bed and bath specialty superstore with 67 locations. The Company also operates two Zellers clearance centers in Canada.

We intend to continue to grow our retail sales primarily through the following strategies:

- *Driving Growth across all Channels.* We are focused on driving growth both within and across our store and digital channels. We are building our capabilities and enhancing our store experience to allow our customers to shop seamlessly across stores and digital and believe that serving our customers across all channels results in increased spend and loyalty. We are also strengthening our digital presence through HBC Digital, our team that manages digital commerce and marketing strategy and execution for our digital brands, and continuing to differentiate our store merchandise and experience to grow these channels.

- *Expanding Our Off-Price Business.* We have refined the OFF 5TH business model to offer more national brands at a clearer value proposition in an easier-to-shop environment. We intend to accelerate the pace of new store openings and have introduced a larger OFF 5TH format.

- *Bringing Saks Fifth Avenue and OFF 5TH to Canada.* We intend to leverage our existing Canadian infrastructure, institutional knowledge and experience to efficiently and effectively bring Saks Fifth Avenue and OFF 5TH to Canada. We believe there is an opportunity to open up to seven Saks Fifth Avenue stores and up to 25 OFF 5TH stores in Canada over the coming years, with the first full-line and OFF 5TH stores planned to open in 2016.

In addition, we believe there is an opportunity to realize significant operating margin improvements through the following initiatives:

- *Saks Acquisition Synergies.* The targeted annualized Saks Acquisition synergies of approximately $100 million by 2016 are currently expected to be realized in a variety of areas, including (i) administration and other shared services; (ii) store expenses; (iii) information technology infrastructure; and (iv) gross profit enhancements.

- *Operating Expense Management.* We will continue to aggressively manage our operating expenses and leverage our significantly increased scale to optimize costs.

- *Gross Profit Enhancements.* We will continue to work to increase our gross profit through (i) upgrading technology to better plan, buy and allocate merchandise; and (ii) using our evolving digital commerce fulfillment functionalities to optimize inventory productivity across each banner.

In addition to successfully operating and integrating our retail business and banners, the Company has demonstrated a history of surfacing and leveraging value from its substantial real estate holdings, which also serves to strengthen the Company's balance sheet and operating business. Previous transactions and initiatives include the 2011 sale of the Zellers leases for U.S.$1.8 billion, along with the sale and leaseback of the Queen Street property in Toronto for $650 million in the first quarter of Fiscal 2014 and the recent U.S.$1.25 billion mortgage financing of the ground portion of the Saks Fifth Avenue flagship property in New York City.

Continuing this pattern and following a thorough review of all strategic options, the Company announced, on February 25, 2015, that it had entered into agreements with each of Simon and RioCan to form two joint ventures focused on real estate growth opportunities in the United States, Canada and internationally. It is expected that these joint ventures will enable HBC to leverage the expertise of market-leading real estate companies to build on the strength of its existing real estate assets and identify new real estate growth opportunities. Both transactions are expected to close within approximately 90 – 120 days from the date of announcement.

The joint ventures create two new growth platforms for the Company; real estate in the United States and real estate in Canada. We believe these to be the optimal structures to fund the expansion of our real estate portfolio. The joint ventures have mandates to grow beyond the initial seed properties and contributions of the partners and it is expected that future property acquisitions will diversify the asset portfolios and tenant base of each joint venture and create additional value for our shareholders. Importantly, the transactions are structured to facilitate an IPO or other monetization transaction of each joint venture at a future date.

Highlights of the thirteen week period ended January 31, 2015

- Retail sales, which include digital commerce sales from all banners, were $2,632 million for the thirteen week period ended January 31, 2015, an increase of $225 million or 9.3% from $2,407 million for the thirteen week period ended February 1, 2014.

- Consolidated same store sales increased 8.7% over the comparable thirteen week period in Fiscal 2013, or 3.2% on a local currency basis. On a local currency basis, same store sales increased by 2.3% at DSG**,** 2.6% at Saks Fifth Avenue and 12.1% at OFF 5TH.

- Digital commerce sales grew to $304 million, an increase of $79 million compared to the thirteen week period ended February 1, 2014. DSG and Saks increased 44% and 32%, respectively, year-over-year for the thirteen week period ended January 31, 2015, reflecting the Company's continued strategic focus on growing this channel.

- Gross profit rate as reported was 40.8% of retail sales, or a 400 basis point improvement over the thirteen week period ended February 1, 2014. Included in the 2014 gross profit rate is a conforming change in the classification of advertising expense credits between SG&A and gross profit as they relate to the Saks business in Fiscal 2014. Adjusting for this positive impact reduces our gross profit rate in Fiscal 2014 to 40.3% on a comparable basis. Adjusting further for the negative impact associated with the amortization of inventory related purchase accounting adjustments in Fiscal 2013, the gross profit rate in Fiscal 2013 improves to a comparable 38.4%. On a net adjusted comparable basis, gross profit was realized at a 190 basis point improvement when compared to Fiscal 2013.

- Normalized EBITDA was $318 million compared to $253 million for the fourth quarter of Fiscal 2013 or an improvement of $65 million when compared to Fiscal 2013. As a percentage of retail sales, Normalized EBITDA increased to 12.1% from 10.5% for the fourth quarter of Fiscal 2013.

Highlights of the fifty-two week period ended January 31, 2015

- Retail sales were $8,169 million for the fifty-two week period ended January 31, 2015, an increase of $2,946 million or 56.4% from $5,223 million for the fifty-two week period ended February 1, 2014. The increase is primarily attributable to the inclusion of Saks for the full fifty-two week period ended January 31, 2015.

- Consolidated same store sales, which include Saks, increased 7.5% over the comparable fifty-two week period in Fiscal 2013, or 2.7% on a local currency basis. On a local currency basis, same store sales increased by 1.5% at DSG**,** 2.1% at Saks Fifth Avenue and 15.1% at OFF 5TH.

- Digital commerce sales grew to $900 million, an increase of $592 million compared to the fifty-two week period ended February 1, 2014. The inclusion of Saks in Fiscal 2014 contributed $651 million, while DSG increased by 66%, reflecting the Company's continued strategic focus on growing this channel.

- Gross profit rate was 40.4% of retail sales in Fiscal 2014 and 39.2% in Fiscal 2013 on a comparable basis, when excluding the negative impacts of the amortization of inventory related purchase price accounting adjustments recorded on a full year basis for Fiscal 2014 and Fiscal 2013, and the positive impacts associated with the conforming change in the classification of advertising expense credits between SG&A and gross profit in Fiscal 2014. On a net adjusted comparable basis, gross profit rate improved by 120 basis points when compared to Fiscal 2013.

- Normalized EBITDA was $612 million compared to $405 million for the comparable fifty-two week period ended in Fiscal 2013. The increase in Normalized EBITDA of $207 million primarily relates to the inclusion of Saks for the full fifty-two week period ended January 31, 2015. As a percentage of retail sales, Normalized EBITDA decreased to 7.5% from 7.8% for the fifty-two week period ended February 1, 2014.

Factors Affecting Our Performance

Retail Sales

The majority of our sales are from branded merchandise purchased directly from the brand owners or their licensees. We focus on offering a broad selection of branded and private-label merchandise appealing to the fashion taste of our customers. The quality and breadth of our selection allow us to change the mix of our merchandise based on fashion trends and individual store locations, and enable us to address a broad customer base.

Same Store Sales

The Company calculates same store sales on a year-over-year basis from stores operating for at least 13 months, and includes online sales and clearance store sales. Stores undergoing remodeling remain in the same store sales calculation base unless the store is closed for a significant period of time. Unless otherwise noted, this calculation includes the impact of foreign currency translation. Since the fourth quarter of Fiscal 2013, Saks' same store sales have been included in consolidated same store sales. Definitions and calculations of same store sales differ among companies in the retail industry.

Gross Profit

Our cost of sales consists mainly of merchandise purchases, including transportation and distribution costs. Purchases are variable and proportional to our sales volume. We record vendor rebates as a reduction of inventory cost. All costs directly associated with transportation and distribution, excluding central storage costs and any idle capacity, are capitalized as merchandise inventories.

We work to manage gross margin in a number of different ways. We manage the level of promotional activity relative to regular price activity and manage inventory levels to minimize the need for substantial clearance activity. We source private-label products and directly import certain branded products from overseas markets including, among others, China, India, Indonesia, Bangladesh, Vietnam, Cambodia and Europe. As a result, our cost of sales for our Canadian operations is impacted by the fluctuation of foreign currencies against the Canadian dollar. In particular, we purchase a significant amount of our imported merchandise from suppliers in Asia using U.S. dollars. Therefore, our cost of sales is impacted by the fluctuation of the U.S. dollar against the Canadian dollar.

We enter into forward contracts to hedge some of our exposure to fluctuations in the value of the U.S. dollar against the Canadian dollar. Increases in the price of merchandise, raw materials, fuel and labour, or their reduced availability, could increase our cost of goods and negatively impact our financial results. Generally, we offset these cost increases with pricing adjustments in order to maintain a consistent mark-up on the merchandise, which might cause changes in our unit volume but typically has a minimal impact on our gross profit rates.

Foreign Exchange

Our net investment in Lord & Taylor Acquisition Inc. ("L&T Acquisition"), the indirect parent of Lord & Taylor LLC and Saks, whose functional currency is U.S. dollars, presents a foreign exchange risk to HBC, whose

functional currency is Canadian dollars. HBC was using a net investment hedge to mitigate this risk. HBC had designated U.S.$800 million of the Senior Term Loan B as a hedge of the first U.S.$800 million of net assets of L&T Acquisition. The hedge was subsequently reduced to U.S.$350 million upon pay down of certain debt, and further to nil, upon pay down of Senior Term Loan B. Foreign currency translation of the net earnings of L&T Acquisition impacts consolidated net earnings. Foreign currency translation of HBC's investment in L&T Acquisition impacts other comprehensive income.

Selling, General & Administrative Expenses ("SG&A")

Our SG&A consists of store labour and maintenance costs, store occupancy costs, advertising and marketing costs, salaries and related benefits of corporate and field management associates, administrative office expenses, services purchased and other related expenses. SG&A includes buying and occupancy costs and excludes transportation and distribution centre costs included in inventory and cost of sales. It also includes pension, restructuring and other non-recurring items and excludes depreciation and amortization expenses. Although our average hourly wage rate is higher than the minimum wage, an increase in the mandated minimum wage could significantly increase our payroll costs unless we realize offsetting productivity gains and cost reductions.

Our occupancy costs are driven primarily by rent expense, which may include escalation clauses over existing lease terms, including option periods. We believe that our existing leases are generally favourable to current market rates. When entering new leases, we are generally able to negotiate leases at attractive market rates due to the increased consumer traffic that our stores generate in strip malls and shopping centres.

Under our legacy credit agreements, we earn royalty payments from credit card issuers based on the total of Company and other sales charged to either the Private Label Credit Cards ("PLCC") or MasterCard. Royalty rates change based on the year-to-date credit volume of out-of-store credit card sales. We also receive bounty payments from credit card issuers for each approved PLCC or MasterCard account. Bounty and royalty payments are recognized based on expected or actual performance over the life of the credit card agreements. In addition, pursuant to a servicing agreement with a credit card issuer, the Company receives compensation for providing key customer service functions including new account openings, transaction authorizations, billing adjustments and customer inquiries. All credit card revenues are included as a reduction of SG&A in our financial statements. We have no risk of credit loss on the credit card receivables in the underlying portfolio.

Effective January 1, 2015, we entered into a new credit card program that will eventually replace all legacy credit agreements. Under this program, we share in the income and losses of the credit card program related to private label and co-branded credit cards at Hudson's Bay and Saks. The effective date for Lord & Taylor is June 2015. Income (loss) is included in selling, general and administrative expenses.

Finance Costs

Our finance costs are expenses derived from the financing activities of the Company, including interest expense on long and short-term borrowings, gains or losses on the early extinguishment of debt and fair value gains or losses and amortization charges related to embedded derivatives. In addition to credit ratings and credit spreads, our finance costs are dependent on fluctuations in the underlying indexes used to calculate interest rates, including, but not limited to the Canadian prime rate, the Canadian Dealer Offered Rate ("CDOR") and the London Interbank Offered Rate ("LIBOR").

In connection with the Saks Acquisition, we issued Common Share purchase warrants to HSILP, an affiliate of Ontario Teachers' Pension Plan, and to West Face Long Term Opportunities Global Master L.P., a fund advised by West Face Capital Inc. The non-cash charges associated with the warrants fluctuate with changes in the Common Share price and other factors, as they require mark-to-market adjustments each reporting period. We record the mark-to-market valuation adjustment of these warrants as finance income (costs) based on their end-of-period valuations.

Weather

Extreme weather conditions in the areas in which the Company's stores are located could adversely affect the Company's business. For example, frequent or unusually heavy snowfall, ice storms, rainstorms, earthquakes, or other extreme weather conditions over a prolonged period could make it difficult for the Company's customers to travel to its stores and thereby reduce the Company's sales and profitability. The Company's business is also susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season could result in lower sales and more promotional activity to clear merchandise at the end of the season. Reduced sales from extreme or prolonged unseasonable weather conditions could adversely affect the Company's operating results.

Competition

The Company conducts its retail merchandising business under highly competitive conditions. Although the Company is one of North America's largest retailers, it has numerous and varied competitors at the national and local levels, including conventional and specialty department stores, other specialty stores, mass merchants, value retailers, discounters, and Internet and mail-order retailers. Competition may intensify as new competitors enter into the markets in which our banners operate including U.S. competitors entering into the Canadian market, and/or if our competitors enter into business combinations or alliances. Competition is characterized by many factors, including assortment, advertising, price, quality, service, location, reputation and credit availability. If the Company does not compete effectively with regard to these factors, its results of operations could be materially and adversely affected.

Consumer Trends

The fashion and retail industries are subject to sudden shifts in consumer trends and consumer spending. The Company's sales and operating results depend, in part, on its ability to predict or respond to changes in fashion trends and consumer preferences in a timely manner. The Company develops new retail concepts and continuously adjusts its market positioning in branded and private-label merchandise and product categories in an effort to satisfy customer demand. Any sustained failure to anticipate, identify and respond to emerging trends in lifestyle and consumer preferences could have a material adverse effect on the Company's business. Consumers' discretionary spending impacts the Company's sales and may be affected by many factors outside of the Company's control, including general economic conditions, consumer disposable income levels, consumer confidence levels, the availability, cost and level of consumer debt, the costs of basic necessities and other goods, and the effects of weather or natural disasters.

Seasonality

The quarterly sales and earnings of the Company are significantly impacted by customer sales patterns. As a result, sales in the fiscal fourth quarter, due to the holiday shopping season, represent a much greater portion of our annual sales volume and a substantial portion of our annual earnings. We generate approximately one-third of our sales during the fourth quarter of each fiscal year due to the Christmas and holiday shopping season.

New Accounting Policies – Levies

In May 2013, the IASB issued IFRIC 21, providing guidance on the accounting for levies imposed by governments. The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. It also clarifies that a levy liability is accrued rateably over a reporting period only if the activity that triggers payment occurs over such period, in accordance with the relevant legislation. See "Changes in Accounting Policies Including Initial Adoption" section of this MD&A.

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

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

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

The Company implemented IFRIC 21 retrospectively at the beginning of its 2014 fiscal year. The impact of the implementation is summarized as follows:

	Thirteen week period ended				**Fifty-two week period ended**
(millions of Canadian dollars except per share amounts)	**May 4, 2013**	**Aug. 3, 2013**	**Nov. 2, 2013**	**Feb. 1, 2014**	**Feb. 1, 2014**
(Increase) decrease in selling, general and administrative expenses	(2)	2	(1)	(1)	(2)
Increase (decrease) in income tax benefit	1	(1)	-	1	1
(Increase) decrease in Net (Loss) Earnings for the period – continuing operations	(1)	1	(1)	-	(1)
(Increase) decrease in Net (Loss) Earnings for the period	(1)	1	(1)	-	(1)
Net (Loss) Earnings per common share	(0.01)	0.01	(0.01)	-	(0.01)
(Decrease) increase in Normalized EBITDA	(2)	2	(1)	(1)	(2)

The net impact of the implementation of IFRIC 21 for Fiscal 2014 was nil.

Selected Consolidated Financial Information

The following tables set out summary consolidated financial information and supplemental information for the periods indicated. The summary annual financial information for each of Fiscal 2014, Fiscal 2013 and Fiscal 2012 has been derived from consolidated financial statements, prepared in accordance with IFRS. The summary financial information for the quarters ended January 31, 2015 and February 1, 2014 is unaudited. The unaudited financial information presented has been prepared on a basis consistent with our audited consolidated financial statements for Fiscal 2014. In the opinion of our management, such unaudited financial data reflects all adjustments, consisting of normal and recurring adjustments, necessary for a fair presentation of the results for those periods. The results of operations for interim periods are not necessarily indicative of the results to be expected for a full year or any future period.

Based on the Company's reporting convention, our Fiscal 2014 and Fiscal 2013 were fifty-two weeks while Fiscal 2012 was fifty-three weeks. Notwithstanding the difference in time periods, the Company presents same store sales based on a fifty-two week period.

(millions of Canadian dollars except per share amounts)	Fiscal Year						Fiscal Quarter Ended			
	2014		*(restated [1])* 2013		2012[2]		January 31, 2015		*(restated [1])* February 1, 2014	
	$	% [3]	$	% [3]	$	% [3]	$	% [3]	$	% [3]
Earnings Results										
Retail sales	8,169	100.0%	5,223	100.0%	4,077	100.0%	2,632	100.0%	2,407	100.0%
Cost of sales	(4,893)	(59.9%)	(3,217)	(61.6%)	(2,487)	(61.0%)	(1,559)	(59.2%)	(1,521)	(63.2%)
Gross profit	3,276	40.1%	2,006	38.4%	1,590	39.0%	1,073	40.8%	886	36.8%
Selling, general & administrative expenses	(2,759)	(33.8%)	(1,826)	(35.0%)	(1,370)	(33.6%)	(736)	(28.0%)	(796)	(33.1%)
Depreciation and amortization	(344)	(4.2%)	(175)	(3.3%)	(104)	(2.5%)	(97)	(3.7%)	(84)	(3.5%)
Gain on Queen Street Sale	308	3.8%	—	—	—	—	—	—	—	—
Operating income	481	5.9%	5	0.1%	116	2.9%	240	9.1%	6	0.2%
Total interest expense, net	(218)	(2.7%)	(95)	(1.8%)	(97)	(2.4%)	(76)	(2.9%)	(55)	(2.3%)
Acquisition-related finance (costs) income	(44)	(0.5%)	(166)	(3.2%)	—	—	(35)	(1.3%)	17	0.7%
Finance costs	(262)	(3.2%)	(261)	(5.0%)	(97)	(2.4%)	(111)	(4.2%)	(38)	(1.6%)
Earnings (loss) before income tax	219	2.7%	(256)	(4.9%)	19	0.5%	129	4.9%	(32)	(1.4%)
Income tax benefit (expense)	19	0.2%	79	1.5%	9	0.2%	(18)	(0.7%)	69	2.9%
Net earnings (loss) for the period — continuing operations	238	2.9%	(177)	(3.4%)	28	0.7%	111	4.2%	37	1.5%
Net loss for the period — discontinued operations, net of taxes	—		(82)		(63)		—		(8)	
Net earnings (loss) for the period	238		(259)		(35)		111		29	
Net Earnings (Loss) per Common Share — Basic										
Continuing operations	1.31		(1.31)		0.26		0.61		0.21	
Discontinued operations	—		(0.61)		(0.59)		—		(0.05)	
	1.31		(1.92)		(0.33)		0.61		0.16	
Net Earnings (Loss) per Common Share — Diluted										
Continuing operations	1.30		(1.34)		0.26		0.60		0.11	
Discontinued operations	—		(0.61)		(0.59)		—		(0.05)	
	1.30		(1.95)		(0.33)		0.60		0.06	
Weighted average Common Shares outstanding — basic (millions)	182		135		108		182		181	
Weighted average Common Shares outstanding — diluted (millions)	183		135		108		185		182	
Supplemental Information – Continuing Operations										
EBITDA [4]	847	10.4%	214	4.1%	245	6.0%	328	12.5%	96	4.0%
Normalized EBITDA [4]	612	7.5%	405	7.8%	310	7.6%	318	12.1%	253	10.5%
Normalized Net Earnings for the period [4]	101	1.2%	79	1.5%	72	1.8%	153	5.8%	81	3.4%
Normalized Net Earnings per Common Share — basic [4]	0.55		0.59		0.67		0.84		0.45	
Normalized Net Earnings per Common Share — diluted [4]	0.55		0.59		0.67		0.83		0.45	
Declared dividend per Common Share	0.20		0.33		0.95		0.05		0.05	

	Fiscal Year			Fiscal Quarter Ended	
	2014	2013	2012[(2)]	January 31, 2015	February 1, 2014
Store Information					
Continuing operations	7.5%	5.4%	4.0%	8.7%	6.6%
Continuing operations (local currency basis)	2.7%	2.8%	3.7%	3.2%	2.1%
DSG [(7)]	1.5%	3.5%	4.1%	2.3%	2.8%
Saks Fifth Avenue [(6)]	2.1%	2.1%	N/A	2.6%	2.1%
OFF 5TH [(6)]	15.1%	7.9%	N/A	12.1%	7.9%
Store Information					
Store count [(8)]					
Hudson's Bay	90	90	90		
Lord & Taylor	50	49	48		
Saks Fifth Avenue	38	41	N/A		
OFF 5TH	77	71	N/A		
Home Outfitters	67	69	69		
Total	322	320	207		
Gross leasable area/Square footage (thousands) [(8)]					
Hudson's Bay	16,123	16,123	16,118		
Lord & Taylor	6,898	6,790	6,710		
Saks Fifth Avenue	4,499	4,787	N/A		
OFF 5TH	2,117	1,960	N/A		
Home Outfitters	2,444	2,515	2,515		
Total	32,081	32,175	25,343		

Balance Sheet Data	Fiscal Year		
		(restated [(1, 11)])	*(restated [(1)])*
(millions of Canadian dollars)	**2014**	**2013**	**2012**
	$	$	$
Cash	168	21	48
Trade and other receivables	212	137	74
Inventories	2,349	2,048	994
Current assets	2,829	2,310	1,420
Property, plant and equipment	4,606	4,110	1,335
Intangible assets	1,076	980	233
Goodwill	237	208	—
Total assets	9,072	7,942	3,252
Current liabilities [(9)]	1,803	1,475	1,215
Loans and borrowings (including current portion)	3,124	3,455	851
Other liabilities (including current portion) [(10)]	745	202	94
Shareholders' equity	2,492	2,043	1,008

Notes:

(1) Certain previously reported figures have been restated due to the implementation of IFRIC 21. For more information, please refer to "New Accounting Policies – Levies."
(2) Not restated for the implementation of IFRIC 21.
(3) As a percentage of retail sales.
(4) See tables below for a reconciliation of Net Earnings (Loss) – Continuing Operations to both EBITDA and Normalized EBITDA and a reconciliation of Net Earnings (Loss) – Continuing Operations to Normalized Net Earnings.
(5) The Company calculates same store sales on a year-over-year basis from stores operating for at least 13 months and includes digital commerce sales and clearance store sales. Consolidated same store sales include results for all banners.
(6) Same store sales of Saks Fifth Avenue and OFF 5TH are calculated in U.S. dollars.
(7) Excludes Home Outfitters for Fiscal 2013 and Fiscal 2012 (see "General Information") and is calculated in local currencies.
(8) Hudson's Bay Company operates two Hudson's Bay Outlets, two Zellers stores and four Lord & Taylor Outlets that are excluded from the store count and gross leasable area.
(9) Excludes current loans and borrowings of $265 million as at January 31, 2015, $532 million as at February 1, 2014 and $132 million as at February 2, 2013; and other liabilities of $76 million as at January 31, 2015 and nil as at February 1, 2014 and February 2, 2013.
(10) Includes deferred landlord incentives of $356 million as at January 31, 2015, $169 million as at February 1, 2014 and $71 million as at February 2, 2013.
(11) Restated for measurement period adjustments based on new information relating primarily to inventories. Please see note 4 of the Company's audited consolidated financial statements for the year ended January 31, 2015 for additional disclosure on the impacts of the adjustments to previously reported amounts.

The following table presents the reconciliation of Net Earnings (Loss) - Continuing Operations to EBITDA as well as Normalized EBITDA:

	Fiscal Year			**Fiscal Quarter Ended**	
		(restated [1])			*(restated [1])*
(millions of Canadian dollars)	**2014**	**2013**	**2012[6]**	**January 31, 2015**	**February 1, 2014**
	$	$	$	$	$
Net Earnings (Loss) for the Period – Continuing Operations	**238**	(177)	28	**111**	37
Finance costs	262	261	97	111	38
Income tax (benefit) expense	(19)	(79)	(9)	18	(69)
Non-cash pension expense (recovery)[2]	6	21	12	(14)	—
Depreciation and amortization	344	175	104	97	84
Impairment and other non-cash expenses	1	4	13	1	4
Share based compensation[2]	15	9	—	4	2
EBITDA	**847**	214	245	**328**	96
Normalization Adjustments					
Gain on Queen Street Sale	(308)	—	—	—	—
Saks Acquisition and integration related expenses[2]	62	124	—	13	110
Amortization of Saks inventory purchase price accounting adjustment	40	39	—	—	39
Lease provision[2,3]	14	—	—	14	—
Foreign exchange adjustment[2,4]	(14)	—	—	(14)	—
Loyalty Zellers adjustment[2,5]	(24)	—	—	(24)	—
Restructuring and other[2]	(5)	28	65	1	8
Total normalizing adjustments	(235)	191	65	(10)	157
Normalized EBITDA	**612**	405	310	**318**	253

Notes:

(1) Certain previously reported figures have been restated due to the implementation of IFRIC 21. For more information, please refer to "New Accounting Policies – Levies."
(2) Normalization item impacting Normalized SG&A. Total for Fiscal 2014 was $54 million (2013: $182 million) and ($20) million for fiscal quarter ended January 31, 2015 (February 1, 2014: $120 million).
(3) Represents provisions related to identified Home Outfitters stores.
(4) Represents the impact of unrealized gains related to the translation of U.S. dollar denominated asset and liability balances.
(5) Represents the one time positive impact recognized in the fourth quarter related to the recognition of the change in redemption patterns of previous Zellers customers.
(6) Not restated for the implementation of IFRIC 21.

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

	Fiscal Year			Fiscal Quarter Ended	
		(restated [1])			*(restated [1])*
(millions of Canadian dollars)	**2014**	**2013**	**2012[8]**	**January 31, 2015**	**February 1, 2014**
	$	$	$	$	$
Net Earnings (Loss) – Continuing Operations	**238**	(177)	28	**111**	37
Normalization Adjustments[2]					
Gain on Queen Street Sale	(261)	—	—	—	—
Saks Acquisition and integration related expenses and finance costs[3]	84	256	—	43	64
Restructuring and other	(4)	20	47	1	5
Financing related adjustments[4]	47	8	7	25	4
Amortization of Saks inventory purchase price accounting adjustment	24	24	—	—	24
Lease provision[5]	10	—	—	10	—
Foreign exchange adjustment[6]	(12)	—	—	(12)	—
Loyalty Zellers adjustment[7]	(18)	—	—	(18)	—
Tax related adjustments	(7)	(52)	(10)	(7)	(53)
Total normalizing adjustments	(137)	256	44	42	44
Normalized Net Earnings	**101**	79	72	**153**	81

Notes:

(1) Certain previously reported figures have been restated due to the implementation of IFRIC 21. For more information, please refer to "New Accounting Policies – Levies."
(2) Net of tax as appropriate.
(3) Includes the recognition of non-cash finance costs (recoveries) related to warrants of $44 million (2013: nil) for the fiscal year and $35 million (2013: ($18 million)) for the fourth quarter.
(4) Includes write-off of deferred financing costs and penalties on early extinguishment of debt.
(5) Represents provisions related to identified Home Outfitters stores.
(6) Represents the impact of unrealized gains related to the translation of U.S. dollar denominated asset and liability balances.
(7) Represents the one time positive impact recognized in the fourth quarter related to the recognition of the change in redemption patterns of previous Zellers customers.
(8) Not restated for the implementation of IFRIC 21.

EBITDA is a non-IFRS measure that we use to assess our operating performance. EBITDA is defined as net earnings before finance costs, income tax, non-cash share based compensation expense, depreciation and amortization expense, impairment and other non-cash expenses, and non-cash pension expense (recovery). The Company's Canadian defined benefit pension plan is currently over-funded and as a result, pension expense is adjusted as management does not expect to make any payments in the foreseeable future.

Normalized EBITDA is defined as EBITDA adjusted to exclude: (i) business and organization restructuring/realignment charges; (ii) merger/acquisition costs and expenses; (iii) normalizing adjustments, if any, related to transactions that are not associated with day-to-day operations; and (iv) EBITDA related to discontinued operations. Normalized Net Earnings is defined as net earnings (loss) adjusted to exclude: (i) business and organization restructuring/realignment charges; (ii) merger/acquisition costs and expenses; (iii) normalizing adjustments, including those related to purchase accounting, if any, related to transactions that are not associated with day-to-day operations; and (iv) net earnings (loss) related to discontinued operations. Normalized SG&A is defined as SG&A adjusted to exclude: (i) business and organization restructuring/realignment charges; (ii) merger/acquisition costs and expenses; (iii) normalizing adjustments, if any, related to transactions that are not associated with day-to-day operations; and (iv) expenses related to discontinued operations. We have included Normalized EBITDA, Normalized Net Earnings and Normalized SG&A to provide investors and others with supplemental measures of our operating performance. We believe Normalized EBITDA, Normalized Net Earnings and Normalized SG&A are important supplemental measures of operating performance because they eliminate items that have less bearing on our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We also believe that securities analysts, investors, rating agencies and other interested parties frequently use EBITDA, Normalized EBITDA, Normalized Net Earnings and Normalized SG&A in the evaluation of issuers, many of which present similar metrics when reporting their results. Our management also uses Normalized EBITDA in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess our ability to meet our future debt

service, capital expenditure and working capital requirements and our ability to pay dividends on our shares. As other companies may calculate EBITDA, Normalized EBITDA, Normalized Net Earnings or Normalized SG&A differently than we do, these metrics are not comparable to similarly titled measures reported by other companies.

Results of Operations

Thirteen Week Period Ended January 31, 2015 Compared to the Thirteen Week Period Ended February 1, 2014

Retail Sales

Retail sales, which include digital commerce sales from all banners, were $2,632 million for the thirteen week period ended January 31, 2015, an increase of $225 million or 9.3% from $2,407 million for the thirteen week period ended February 1, 2014. Comparative growth at DSG and Saks in the quarter was further enhanced by currency improvements on the translation of U.S. dollar denominated sales.

Consolidated same store sales increased by 8.7%, or 3.2% on a local currency basis. Same store sales on a local currency basis increased 2.3% at DSG, 2.6% at Saks Fifth Avenue and 12.1% at OFF 5TH.

Digital commerce sales totaled $304 million for the thirteen week period ended January 31, 2015. DSG increased 44% year-over-year to $97 million and Saks increased 32% year-over-year to $207 million**.**

In terms of merchandise category performance, sales growth at DSG was driven by men's apparel, ladies' shoes, outerwear and home products. Sales growth at Saks Fifth Avenue was driven by designer clothing, menswear and accessories. Sales growth at OFF 5TH was strong due to growth in menswear, women's shoes and accessories.

Gross Profit

Gross profit as reported was $1,073 million for the thirteen week period ended January 31, 2015, compared to $886 million for the thirteen week period ended February 1, 2014. Included in gross profit is a conforming change in the classification of advertising expense credits between SG&A and gross profit as they relate to the Saks business in 2014. Adjusting for this positive impact reduces our gross profit in Fiscal 2014 to $1,060 on a comparable basis. Adjusting for the negative impact associated with the amortization of inventory related purchase accounting adjustments in Fiscal 2013 of $39 million, the gross profit in Fiscal 2013 improves to $925 million on a comparable basis, for an improvement of $135 million compared to the thirteen week period ended February 1, 2014. Improved performance at DSG and Saks, combined with additional improvements in reported gross profit dollars as a result of favourable currency conversion on U.S. dollar denominated sales, resulted in overall improvements in the quarterly gross profit.

Gross profit rate as reported, was 40.8% of retail sales, or an initial 400 basis point improvement over the thirteen week period ended February 1, 2014. Adjusting the gross profit rate in Fiscal 2014 and Fiscal 2013 for the items identified above, exclusive of positive exchange impacts adjusts our gross profit rates in Fiscal 2014 to 40.3%, and 38.4 % in Fiscal 2013. Adjusting for favourable exchange rates on U.S. dollar denominated gross profits, results in a comparable gross profit rate of 40.0 % in Fiscal 2014, or a 160 basis point improvement when compared to Fiscal 2013. Improved gross profit rates at DSG and Saks resulted in overall rate improvements on a comparable basis.

Selling, General & Administrative Expenses

SG&A was $736 million for the thirteen week period ended January 31, 2015, compared to $796 million for the thirteen week period ended February 1, 2014. Included in SG&A for Fiscal 2014 is a conforming change in the classification of advertising expense credits between SG&A and gross profit as they relate to the Saks business in Fiscal 2014. Adjusting for this negative impact reduces SG&A in Fiscal 2014 to $723 million on a comparable basis.

For the thirteen week period ended January 31, 2015, Normalized SG&A net of the adjustments above, was $743 million compared to $676 million for the thirteen week period ended February 1, 2014, or a $67 million

increase. Normalized SG&A has been calculated as SG&A above, excluding Saks Acquisition and integration related expenses, restructuring and other, non-cash pension expense recovery and share-based compensation. In addition to these normalization adjustments, SG&A has also been negatively impacted in the quarter by the translation impact resulting from the conversion of U.S. dollar denominated expenses into Canadian dollars.

Excluding normalization items of ($20) million ($120 million in the prior year) and the impact of adjustments described above, exclusive of exchange impacts, Normalized SG&A as a percentage of retail sales was 28.2 % compared to 28.1% for the prior year, an increase of 10 basis points. Adjusting for negative impacts due to foreign exchange in the current year, Normalized SG&A as a percentage of retail sales was 28.0%, an improvement of 10 basis points over the prior year.

In addition, the current year SG&A includes impacts of incremental strategic investments in our HBC digital business, higher occupancy costs associated with the Queen Street Sale and performance-based incentive compensation, partially offset by operating synergies of $14 million in Q4. Absent these items, Normalized SG&A as a percentage of retail sales was 27.6% or a 50 basis point improvement over Fiscal 2013.

EBITDA and Normalized EBITDA

EBITDA was $328 million in the thirteen week period ended January 31, 2015, compared to $96 million in the thirteen week period ended February 1, 2014, an increase of $232 million.

Normalized EBITDA was $318 million, compared to $253 million in the thirteen week period ended February 1, 2014, an increase of $65 million. Expressed as a percentage of sales, Normalized EBITDA margin was 12.1% in the fourth quarter of Fiscal 2014 compared to 10.5% in the fourth quarter of the prior year. Improved performance at both DSG and Saks was driven by a strong sales season, improved gross profits and SG&A costs. Combined with added positive impacts related to foreign exchange, this has resulted in the improved dollar and percentage based Normalized EBITDA results.

Finance Costs

Finance costs were $111 million in the thirteen week period ended January 31, 2015 compared to $38 million for the thirteen week period ended February 1, 2014, an increase of $73 million. The increase is primarily related to the write-off of incremental non-cash deferred financing costs of approximately $27 million, and the net change in non-cash finance related costs associated with appreciating values related to outstanding share purchase warrants of approximately $53 million. These charges were offset by small improvements in pension and other interest expense.

Income Tax Expense

Income tax expense was $18 million in the thirteen week period ended January 31, 2015, compared to a benefit of $69 million for the thirteen week period ended February 1, 2014. The effective income tax rate of 14.0% for the thirteen week period ended January 31, 2015 decreased from 50.0% adjusted for the reversal of a valuation allowance recorded against deferred tax assets in the prior year for the thirteen week period ended February 1, 2014, primarily due to recognition of capital losses in the current year and favourable prior year adjustments in Fiscal 2014 compared to Fiscal 2013. In addition, non-deductible permanent differences decreased from the prior year, principally consisting of acquisition-related finance costs. These decreases were offset in part by a lower effect of international tax rate differentials.

Net Earnings – Continuing Operations

Net Earnings – Continuing Operations were $111 million in the thirteen week period ended January 31, 2015 compared to $37 million in the thirteen week period ended February 1, 2014, an increase of $74 million.

Normalized Net Earnings – Continuing Operations

Normalized Net Earnings – Continuing Operations were $153 million in the thirteen week period ended January 31, 2015 compared to $81 million in the thirteen week period ended February 1, 2014, an increase of $72 million.

Fifty-two Week Period Ended January 31, 2015 Compared to the Fifty-two Week Period Ended February 1, 2014

Retail Sales

Retail sales were $8,169 million for the fifty-two week period ended January 31, 2015, an increase of $2,946 million or 56.4% from $5,223 million for the fifty-two week period ended February 1, 2014. This increase primarily relates to the inclusion of Saks for the full fifty-two week period ended January 31, 2015.

Consolidated same store sales, increased 7.5% for the comparable fifty-two week period, or 2.7% on a local currency basis. Same store sales on a local currency basis increased 1.5% at DSG**,** 2.1% at Saks Fifth Avenue and 15.1% at OFF 5TH.

Digital commerce sales totaled $900 million in the fifty-two week period ended January 31, 2015. The inclusion of Saks contributed $651 million while DSG increased 66% year-over-year to $249 million.

In terms of merchandise category performance, sales growth at DSG was driven by men's apparel, ladies' shoes, dress clothes and outerwear. Sales growth at Saks Fifth Avenue was driven by menswear and accessories while at OFF 5TH, continues to be strong across the majority of categories.

Gross Profit

Gross profit for the fifty-two week period ended January 31, 2015 was $3,276 million compared to $2,006 million for the fifty-two week period ended February 1, 2014, an increase of $1,270 million, primarily due to the inclusion of Saks for the fifty-two week period ended February 1, 2014. Gross profit rate as reported, expressed as a percentage of retail sales, was 40.1% or an increase of 170 basis points compared to the fifty-two week period ended February 1, 2014. Adjusting the gross profit rate for the negative impact of the amortization of inventory-related purchase price accounting adjustments of $40 million in Fiscal 2014 ($39 million in Fiscal 2013), and the impact of the conforming change in the classification of advertising expense credits between SG&A and gross profit for the Saks business in Fiscal 2014, overall gross profit rates improved to 40.4% in Fiscal 2014, compared to 39.2% in Fiscal 2013, an increase of 120 basis points on a comparable basis. Improved gross profit rates at DSG and the inclusion of Saks for the full fifty-two week period ended January 31, 2015, at gross profit rates higher than DSG resulted in overall rate improvements on a comparable basis.

Selling, General & Administrative Expenses

SG&A was $2,759 million or 33.8% of retail sales for the fifty-two week period ended January 31, 2015, compared to $1,826 million or 35.0% of retail sales for the fifty-two week period ended February 1, 2014. The increase in SG&A is primarily attributed to the inclusion of Saks. Included in SG&A for Fiscal 2014 is a conforming change in the classification of expense credits between SG&A and gross profit as they relate to the Saks business in Fiscal 2014. Adjusting for this negative impact reduces our SG&A in Fiscal 2014 to $2,746 on a comparable basis.

For the fifty-two week period ended January 31, 2015, Normalized SG&A net of adjustments above was $2,692 million compared to $1,644 million for the fifty-two week period ended February 1, 2014, or a $1,048 million increase. Normalized SG&A has been calculated as SG&A identified above and excludes Saks Acquisition and integration related expenses, non-cash pension expense, restructuring and other, and share-based compensation for the fifty-two week periods ended January 31, 2015 and February 1, 2014. In addition to these normalization adjustments, SG&A for the fifty-two week period ended January 31, 2015 has also been negatively impacted in the year by the translation impact resulting from the conversion of U.S. dollar denominated expenses into Canadian dollars.

Excluding normalization items of $54 million ($182 million in the prior year) net of adjustments described above including the adjustment for the impact of foreign exchange, Normalized SG&A as a percentage of retail sales was 32.9% in Fiscal 2014 compared to 31.5% for the prior year, or an increase of 140 basis points. This increase was driven in large part by the full year impact of incremental strategic investments in our HBC digital business, higher occupancy costs associated with the Queen Street Sale and performance-based incentive compensation, partially offset by operating synergies of approximately $50 million realized in Fiscal 2014 as a result of the Saks Acquisition. Absent these items, Normalized SG&A as a percentage of retail sales was 32.3%.

EBITDA and Normalized EBITDA

EBITDA was $847 million or 10.4% of retail sales in the fifty-two week period ended January 31, 2015 compared to $214 million or 4.1% of retail sales in the fifty-two week period ended February 1, 2014, an increase of $633 million.

Normalized EBITDA was $612 million or 7.5% of retail sales in the fifty-two week period ended January 31, 2015. This compares to Normalized EBITDA of $405 million or 7.8% of retail sales in the fifty-two week period ended February 1, 2014. The year-over-year increase of $207 million primarily relates to the inclusion of Saks for the full fifty-two week period ended January 31, 2015, improved performance at DSG and positive translation impacts related to foreign exchange.

Finance Costs

Finance costs of $262 million for the fifty-two week period ended January 31, 2015 were comparable to $261 million for the fifty-two week period ended February 1, 2014. The net increase relates to incremental interest expense on long-term borrowings of $71 million, the write-off of incremental non-cash deferred financing costs totaling approximately $39 million, penalties and fees on term loans of $12 million and non-cash finance related costs associated with appreciating values related to outstanding share purchase warrants of approximately $44 million. Finance costs in the prior year included $153 million of non-recurring non-cash mark-to-market adjustments on equity commitment forwards (see notes 6 and 18 to the audited annual consolidated financial statements for the year ended January 31, 2015) and bridge financing fees of $12 million related to the Saks Acquisition.

Income Tax Benefit

Income tax benefit was $19 million for the fifty-two week period ended January 31, 2015 compared to $79 million for the fifty-two week period ended February 1, 2014. The effective income tax rate of (8.7%) for the fifty-two week period ended January 31, 2015 decreased from 10.2% adjusted for the reversal of a valuation allowance recorded against deferred tax assets for the fifty-two week period ended February 1, 2014, primarily due to lower non-deductible permanent differences in the current year, principally consisting of acquisition-related finance costs and the favourable tax treatment related to the Queen Street Sale (see note 28 of the audited consolidated financial statements for Fiscal 2014). Further decreases in the effective tax rate relate to the effect of international tax rate differentials, recognition of capital losses in the current year and favourable prior year adjustments in Fiscal 2014 compared to Fiscal 2013.

Net Earnings – Continuing Operations

Net Earnings – Continuing Operations were $238 million in the fifty-two week period ended January 31, 2015 compared to a Net Loss – Continuing Operations of $177 million in the fifty-two week period ended February 1, 2014, an increase in earnings of $415 million. The year-over-year increase in earnings is primarily the result of the gain recognized on the Queen Street Sale, and the inclusion of Saks for the full fifty-two week period ended January 31, 2015.

Normalized Net Earnings – Continuing Operations

Normalized Net Earnings – Continuing Operations were $101 million in the fifty-two week period ended January 31, 2015 compared to $79 million in the fifty-two week period ended February 1, 2014. The increase of $22 million is primarily due to the inclusion of Saks for the full fifty-two week period ended January 31, 2015 offset in part by increased finance costs and depreciation and amortization expenses attributable to the Saks Acquisition.

Summary of Consolidated Quarterly Results

The following table summarizes quarterly financial information of the Company for the past eight quarters.

	Fiscal Quarter Ended							
					(restated [1])			
(millions of Canadian dollars except per share amounts)	**Jan. 31, 2015**	**Nov. 1, 2014**	**Aug. 2, 2014**	**May 3, 2014**	**Feb. 1, 2014**	**Nov. 2, 2013**	**Aug. 3, 2013**	**May 4, 2013**
		$	$	$	$	$	$	$
Retail sales	2,632	1,913	1,769	1,855	2,407	984	948	884
Normalized EBITDA	318	116	81	97	253	63	60	29
Net Earnings (Loss)								
Continuing operations	111	(13)	(36)	176	37	(126)	(66)	(22)
Discontinued operations	—	-	-	-	(8)	1	(15)	(60)
	111	(13)	(36)	176	29	(125)	(81)	(82)
Net Earnings (Loss) per Common Share — Basic [2]								
Continuing Operations	0.61	(0.07)	(0.20)	0.97	0.21	(1.05)	(0.55)	(0.19)
Discontinued Operations	—	-	-	-	(0.05)	-	(0.13)	(0.49)
Net Earnings (Loss) per Common Share— Diluted [2]								
Continuing Operations	0.60	(0.07)	(0.23)	0.97	0.11	(1.05)	(0.55)	(0.19)
Discontinued Operations	—	-	-	-	(0.05)	-	(0.13)	(0.49)
Same Store Sales Percentage Change [3]								
Continuing Operations	8.7%	7.1%	5.0%	8.6%	6.6%	5.7%	3.5%	4.0%
Continuing Operations (excluding impact of foreign exchange)	3.2%	2.7%	1.9%	2.8%	2.1%	3.8%	3.0%	3.2%
DSG [4]	2.3%	1.7%	1.1%	2.5%	2.8%	4.5%	3.2%	3.9%
Saks Fifth Avenue [5]	2.6%	1.0%	2.2%	2.6%	2.1%	N/A	N/A	N/A
OFF 5TH [5]	12.1%	19.2%	14.9%	15.1%	7.9%	N/A	N/A	N/A

Notes:

(1) Certain previously reported figures have been restated due to the implementation of IFRIC 21. For more information, please refer to "New Accounting Policies – Levies."

(2) Net Earnings (Loss) per Common Share ("EPS") in each quarter is computed using the weighted-average number of Common Shares outstanding during that quarter, while EPS for the full year is computed using the weighted-average number of Common Shares outstanding during the year. Thus, the sum of the four quarters' EPS may not equal the full-year EPS.

(3) The Company calculates same store sales on a year-over-year basis from stores operating for at least 13 months, and includes digital commerce sales and clearance store sales.

(4) Based on realignment of banners by management, DSG has replaced separate Hudson's Bay and Lord & Taylor reporting of same store sales percentage and also includes Home Outfitters beginning the third quarter of Fiscal 2014 (see General Information). Same store sales for DSG are calculated in local currencies.

(5) Same store sales of Saks Fifth Avenue and OFF 5TH are calculated in U.S. dollars.

Outlook

The Company's Fiscal 2015 outlook incorporates management's views and assumptions with respect to, among other considerations, economic conditions, the current and expected operating environment, competition, consumer preferences, currency and exchange rates, and its ability to successfully execute on its strategic priorities and initiatives. The following outlook is fully qualified by the "Forward-Looking Statements" section of this MD&A:

- Total sales of between $9.0 and $9.3 billion. This implies low single digit consolidated same store sales growth, calculated on a local currency basis.
- Capital investments, net of landlord incentives, of between $350 million and $400 million. This activity includes the addition of one Saks Fifth Avenue store and between 12 and 14 OFF 5TH stores.

In Fiscal 2015, the Company intends to invest an incremental $50 million in strategic growth initiatives, including an accelerated pace of new store openings at OFF 5TH, strengthening its digital and all-channel presence and capabilities, and incurring pre-opening costs associated with the 2016 expansion of Saks and OFF 5TH into Canada.

This guidance reflects a U.S. dollar foreign exchange rate assumption of USD:CAD = 1:1.24 for Fiscal 2015. Significant variation in this foreign exchange rate assumption would impact the guidance. The actual average foreign exchange rate incorporated in the Company's reported sales results for Fiscal 2014 was USD:CAD = 1:1.12.

Liquidity and Capital Resources

Cash Flows

Total cash, including restricted cash, is managed to remain at minimal levels by drawing on or repaying our revolving credit facilities. Our liquidity and capital resources are primarily impacted by: (i) current cash and cash equivalents; (ii) operating activities; (iii) investing activities; and (iv) financing activities. The following table summarizes cash flows by activity:

	Fiscal Year		**Fiscal Quarter Ended**	
(millions of Canadian dollars)	**2014**	**2013**	**January 31, 2015**	**February 1, 2014**
	$	$	$	$
Continuing operations				
Operating activities	547	164	667	299
Investing activities	441	(3,013)	(78)	(2,864)
Financing activities	(848)	2,906	(471)	2,552
Increase (decrease) in cash from continuing operations	140	57	118	(13)
Foreign exchange gain (loss) on cash	7	(1)	6	(2)
(Decrease) increase in cash from discontinued operations	—	(83)	—	10
Cash at beginning of period	21	48	44	26
Cash at end of period	168	21	168	21

Net Cash Flow - Operating Activities

Net cash inflow from operating activities was $547 million for the fifty-two week period ended January 31, 2015 compared to $164 million for the fifty-two week period ended February 1, 2014, an increase of $383 million. This increase is due primarily to improved cash from operations and improvements in working capital offset to some extent by cash interest costs.

For the thirteen week period ended January 31, 2015, net cash inflow from operating activities was $667 million compared to an inflow of $299 million for the thirteen week period ended February 1, 2014. The increase of $368 million is attributed primarily to improved cash from operations and improvements in working capital.

Net Cash Flow - Investing Activities

Net cash inflow from investing activities was $441 million for the fifty-two week period ended January 31, 2015 compared to an outflow of $3,013 million for the fifty-two week period ended February 1, 2014, a net increase of $3,454 million. The net increase was primarily due to the Saks Acquisition in the prior year and proceeds received from the Queen Street Sale in the first quarter of Fiscal 2014.

For the thirteen week period ended January 31, 2015 net cash outflow for investing activities was $78 million compared to an outflow of $2,864 million for the thirteen week period ended February 1, 2014. The decrease in net outflow of $2,786 million is primarily due to the Saks Acquisition on November 4, 2013.

Capital Expenditures

The tables below summarize our capital investments by major areas:

	Fiscal Year		
(millions of Canadian dollars)	**2014**	**2013**	**2012**
		$	$
Merchandising	249	177	118
Information technology	40	28	25
Digital commerce	26	49	32
Maintenance	111	38	28
Total capital expenditures [1]	426	292	203
Landlord incentives	(113)	(42)	(27)
Net capital expenditures	313	250	176

Note:

(1) Capital expenditures are inclusive of software development costs and in Fiscal 2013, only include capital expenditures related to Saks for the fourth quarter of $46 million.

In addition to capital investments, we received combined vendor allowances and landlord incentives related to capital expenditures of $113 million, $42 million, and $27 million in Fiscal 2014, Fiscal 2013 and Fiscal 2012, respectively. Accordingly, capital expenditures net of vendor allowances and landlord incentives were $313 million, $250 million and $176 million, respectively.

Net Cash Flow - Financing Activities

Net cash outflow for financing activities was $848 million for the fifty-two week period ended January 31, 2015 compared to an inflow of $2,906 million for the fifty-two week period ended February 1, 2014, an increase in net outflow of $3,754 million over the comparable period. The net outflow for the current year was primarily due to applying net proceeds from the Saks Mortgage to permanently pay down U.S.$1.2 billion of Senior Term Loan B and net proceeds from the Queen Street Sale to retire the Company's U.S.$300 million Second Lien Term Loan (the "Junior Term Loan") in its entirety, U.S.$150 million of Senior Term Loan B and additional repayments to the company's asset-backed credit facilities.

For the thirteen week period ended January 31, 2015 net cash outflow for financing activities was $471 million compared to an inflow of $2,552 million for the thirteen week period ended February 1, 2014. The increase in net outflow of $3,023 million over the comparable period can be attributed primarily to the financing obtained in the prior year for the Saks Acquisition including new term loans, repayment of existing debt and the issuance of common shares.

Cash Balances and Liquidity

The Company's primary needs for cash are to fund: (i) operations; (ii) capital expenditures in connection with our renovation programs and strategic initiatives; (iii) seasonal inventory purchases and other working capital requirements; and (iv) debt service. Working capital requirements are at their highest in the latter half of the fiscal year as inventory builds through the fall, peaking just before the holiday selling season.

The Company's primary sources of funds are cash flows provided by operations, landlord incentives, our HBC and U.S. revolving credit facilities, and mortgage-backed real estate financing. Other potential sources of funding may include new corporate loans and mortgages, the sale and leaseback of real estate properties, selling real estate, selling other company assets or the issuance of equity. The availability of funding sources is dependent on economic conditions, capital markets, and our financial condition.

The Company may consider additional acquisitions of, and investments in, retail businesses, and other complimentary assets or companies. Transactions, if any, are expected to be financed through a combination of the following sources: cash on hand, borrowing under existing or new credit facilities and the issuance of long-term debt or other securities, including common shares.

Funding Capacity

The Company anticipates that we will be able to satisfy our working capital requirements, planned capital expenditures and debt service requirements with proceeds from cash flows from operations, short-term trade credit, seasonal borrowings under our revolving credit facilities and other sources of financing. The Company expects to generate adequate cash flow from operating activities to sustain current levels of operations.

Management believes that there is not a significant risk of default and/or arrears on lease payments, interest or principal payment of debt, or of a breach of debt covenants.

There is no provision in debt, lease, or other arrangements that could trigger an additional funding requirement for the Company. There are no legal or practical restrictions on the ability of subsidiaries to transfer funds to the Company that would affect the ability to meet its obligations as and when they fall due.

On February 25, 2014, the Company completed the sale of its downtown Toronto flagship store and adjacent Simpson's Tower office complex. A portion of the proceeds from the Queen Street Sale was used to retire in entirety the Company's U.S.$300 million Junior Term Loan and permanently pay down U.S.$150 million of the Senior Term Loan B. The balance of the net proceeds was used to reduce the outstanding balance of the Company's Canadian revolving credit facility.

On December 3, 2014, the Company obtained the Saks Mortgage. Net of associated fees and expenses, all proceeds were utilized to permanently pay down U.S.$1.2 billion of the Company's Senior Term Loan B.

HBC Revolving Credit Facility

HBC is party to a credit facility with Bank of America, N.A. (through its Canadian branch), Wells Fargo Financial Corporation Canada, GE Canada Finance Holding Company, JPMorgan Chase Bank, N.A., Toronto Branch, CIBC Asset-Based Lending, Merrill Lynch, Pierce, Fenner & Smith Incorporated, GE Capital Markets (Canada) Limited, GE Capital Markets, Inc. and certain other financial institutions (the "HBC Revolving Credit Facility"). As of January 31, 2015, HBC owed $159 million under the HBC Revolving Credit Facility. HBC is in compliance with all covenants contained in the HBC Revolving Credit Facility.

The HBC Revolving Credit Facility has total availability of $600 million (reduced from $750 million pursuant to an amendment dated December 17, 2014, which also extended the maturity date to December 17, 2019). The HBC Revolving Credit Facility is subject to a borrowing base, based predominantly on eligible inventory of HBC (excluding L&T Acquisition and its subsidiaries) and eligible credit card receivables of HBC and certain of its subsidiaries (excluding L&T Acquisition and its subsidiaries). The HBC Revolving Credit Facility bears interest based on various rates depending on which facility is utilized, including the Canadian prime rate, CDOR rate, United States index rate and LIBOR. The HBC Revolving Credit Facility is available to finance working capital requirements, capital expenditures or other general corporate purposes and to make certain restricted payments, investments and repayments of indebtedness, and can be drawn in both U.S. and Canadian dollars. As the HBC Revolving Credit Facility is available for and used to finance working capital requirements, capital expenditures and other general corporate purposes, it has been classified in the consolidated balance sheets as part of current loans and borrowings. However, the Company is not required to repay the balance outstanding as at January 31, 2015 until the maturity date of December 17, 2019.

The HBC Revolving Credit Facility contains restrictive covenants customary for facilities of this nature, including restrictions on the incurrence of indebtedness, restrictions on capital expenditures and restrictions on payments to affiliates and shareholders. It also includes events of default and representations and warranties that are customary for credit facilities of this nature.

The HBC Revolving Credit Facility is secured by a first priority security interest over all inventory and accounts receivable in Canada.

Yorkdale Mortgage

On May 22, 2013 the Company entered into an agreement with Murray & Company Holdings Limited for a $50 million mortgage (the "Yorkdale Mortgage"). The Yorkdale Mortgage matures on May 22, 2023, bears interest at 4.89% per annum over a 25 year amortization schedule and is secured by a first mortgage of a leasehold interest of the Hudson's Bay store at the Yorkdale Shopping Centre in Toronto, Ontario. The proceeds of the Yorkdale Mortgage were used to partially prepay the HBC Term Loan. On December 1, 2014, Murray & Company Holdings Limited assigned the mortgage to GMI Servicing Inc.

Senior Term Loan B

On November 4, 2013, the Company entered into a U.S.$2,000 million senior secured term loan facility with Bank of America, N.A., as the administrative agent (the "Senior Term Loan B").

The Senior Term Loan B matures November 4, 2020 and carries interest at a rate of LIBOR plus 3.75% per annum. The agreement is structured such that LIBOR will be deemed to be not less than 1% per annum ("LIBOR Floor"). The Senior Term Loan B is subject to mandatory prepayments. A portion of the proceeds from Senior Term Loan B was used to repay in full the existing HBC senior term loan facility ("HBC Term Loan") and the Lord & Taylor amended and restated credit facility ("Lord & Taylor Term Loan"). The remainder was used to finance the Saks Acquisition.

The Senior Term Loan B is secured by a second lien over all of the Company's inventory and accounts receivable, a first lien over substantially all other assets as well as a pledge of the shares of certain of the Company's subsidiaries. The Senior Term Loan B contains customary representations and warranties, positive and negative covenants, reporting requirements and events of default. The Company is in compliance with all covenants contained in the Senior Term Loan B credit agreement.

On February 25, 2014, the Company, using part of the proceeds of the Queen Street Sale, permanently paid down U.S.$150 million of the Senior Term Loan B, and on December 3, 2014, the Company permanently paid down U.S.$1.2 billion using proceeds of the Saks Mortgage, net of associated fees and expenses.

U.S. Revolving Credit Facility

L&T Acquisition is party to a credit agreement with Bank of America, N.A. as Administrative Agent and Collateral Agent dated November 4, 2013. As of January 31, 2015, L&T Acquisition owed U.S.$85 million under the U.S. Revolving Credit Facility. L&T Acquisition is in compliance with all covenants contained in the U.S. Revolving Credit Facility.

The U.S. Revolving Credit Facility provides a U.S.$1.1 billion revolving line of credit through November 4, 2018 (increased from U.S.$950 million pursuant to an amendment dated December 11, 2014) and refinanced revolving credit facilities previously in place with Saks and Lord & Taylor. This revolving line of credit is subject to a borrowing base, based predominantly on eligible inventory and accounts receivable of Lord & Taylor, Saks and their respective subsidiaries. The U.S. Revolving Credit Facility is available to finance working capital needs, capital expenditures, operating activities and to support the issuance of standby letters of credit. The U.S. Revolving Credit Facility has multiple interest rate charge options that are based on the U.S. prime rate, Federal Funds rate and LIBOR. As the U.S. Revolving Credit Facility is available for and used to finance working capital requirements, capital expenditures and other operating activities, it has been classified in the consolidated balance sheets as part of

current loans and borrowings. However, the Company is not required to repay the balance outstanding as at January 31, 2015 until the maturity date of November 4, 2018.

The U.S. Revolving Credit Facility contains restrictive covenants customary for credit facilities of this nature, including restrictions on the incurrence of indebtedness, financial maintenance covenants, and restrictions on payments to affiliates and shareholders. It also includes events of default and representations and warranties that are customary for credit facilities of this nature.

The U.S. Revolving Credit Facility is secured by a first lien security interest over all inventory and accounts receivables in the United States (Lord & Taylor and Saks).

Saks Mortgage

On December 3, 2014, the Company announced the closing of a U.S.$1.25 billion, 20-year mortgage loan, on the ground portion of the Company's Saks Fifth Avenue flagship property in New York City, located at 611 Fifth Avenue with a syndicate of lenders including an affiliate of Morgan Stanley Canada Limited (the "Saks Mortgage"). The mortgage is secured by a first mortgage lien on the fee interest in the property, together with all ground lease rents, profits and revenue. The Saks Mortgage contains restrictive covenants, events of default and representations and warranties that are customary for credit facilities of this nature.

All proceeds from the Saks Mortgage, net of associated fees and expenses, were utilized to permanently pay down U.S.$1.2 billion of the Senior Term Loan B. The Saks Mortgage is interest-only, with a fixed interest rate of 4.39%, and does not require any principal amortization over its 20 year term. The Company is in compliance in all material respects with the terms of its indebtedness to the lenders under the Saks Mortgage.

Lord & Taylor Mortgage

On September 7, 2012, LT 424 LLC ("LT 424"), which is an indirect subsidiary of Lord & Taylor, entered into a U.S.$250 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"). Lord & Taylor utilized the net proceeds of this loan, approximately U.S.$243 million, to reduce the balance of the Lord & Taylor Term Loan.

Interest is charged on the Lord & Taylor Mortgage at a rate of LIBOR plus 3.0%. LT 424 has 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 Lord & Taylor Mortgage has no mandatory principal repayments during the first three years, with monthly amortization payments required during the final two years, based upon a 30 year straight-line amortization schedule with 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 fee drops to 1% after three years, and without fees after September 10, 2016. Any prepayments are applied to reduce the then remaining scheduled installments.

The Lord & Taylor Mortgage contains customary representations and warranties, positive and negative covenants, reporting requirements and events of default. Lord & Taylor is in compliance with all covenants contained in the Lord & Taylor Mortgage. As security for the Lord & Taylor Mortgage the Company granted a first priority mortgage in the Fifth Avenue Lord & Taylor property.

Contractual Obligations

Our significant contractual obligations and commitments as of January 31, 2015 are as follows:

(millions of Canadian dollars[1])	Total	Fiscal Year 2015	2016	2017	2018	2019	Thereafter
	$	$	$	$	$		$
Lease financing							
Operating lease arrangements[2,3]	1,672	143	133	123	110	99	1,064
Short-term borrowings[4]							
HBC Revolving Credit Facility	159	159	—	—	—	—	—
U.S. Revolving Credit Facility	108	108	—	—	—	—	—
Long-term borrowings							
Senior Term Loan B[6,7]	826	—	—	—	—	—	826
Yorkdale Mortgage	48	2	1	1	1	1	42
Lord & Taylor Mortgage	318	1	3	314	—	—	—
Saks Mortgage[7]	1,599	—	—	—	—	—	1,599
Finance leases and other[5]	165	20	15	3	2	2	123
Purchase obligations[8]	151	66	20	15	12	11	27
Other obligations[9]	1,424	1,318	27	11	68	—	—
Total obligations	6,470	1,817	199	467	193	113	3,681

Notes:

(1) U.S. dollar denominated debt translated to Canadian dollars at a rate of U.S.$1.00:C$1.2711.

(2) Represents future minimum lease payments under non-cancellable operating leases. Minimum lease payments are defined as the payments over the lease term that the Company is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with any guaranteed amounts.

(3) Included in these figures are future minimum payments relating to Zellers of $4 million, $3 million, $3 million, $3 million, $2 million and $4 million for Fiscal Years 2015 - 2019 and thereafter, respectively.

(4) The HBC Revolving Credit Facility and U.S. Revolving Credit Facility mature on December 17, 2019 and November 4, 2018, respectively.

(5) Includes liability related to real estate finance leases of $130 million, all of which was assumed through the acquisition of Saks. The liability includes $93 million primarily related to presumed lease renewals that the Company is not contractually committed to.

(6) On February 25, 2014, the Company closed its agreement to sell its downtown Toronto flagship retail complex and the Simpson's Tower located at 401 Bay Street to an affiliate of The Cadillac Fairview Corporation Limited for a purchase price of $650 million. Proceeds of the transaction were used to retire in entirety the Junior Term Loan and permanently pay down U.S.$150 million of the Senior Term Loan B.

(7) On December 3, 2014, the Company closed the Saks Mortgage using the net proceeds from the transaction to permanently pay down U.S.$1.2 billion of the Senior Term Loan B.

(8) Includes contractual obligations to purchase goods or services of a material amount where the contract prescribes fixed or minimum volumes to be purchased or payments to be made within a fixed period of time for a set or variable price. These are only estimates of anticipated financial commitments under these arrangements and the amount of actual payments will vary. These purchase obligations do not include purchase orders issued or agreements made in the ordinary course of business which are solely for goods which are meant for resale, nor do they include any contracts which may be terminated on relatively short notice or with relatively insignificant cost or liability to the Company.

(9) Other obligations include trade and other payables, derivatives and other liabilities.

Leases

The Company has long-term operating lease obligations that are not capitalized on the consolidated balance sheet in accordance with IFRS. These leases are related to store locations, warehouse facilities and equipment and are reflected within "Operating lease arrangements" included in the table above. Leases typically have an original term ranging from 15 to 25 years and provide for renewal periods exercisable at the Company's option. Operating leases relating to property typically require that the Company pays associated real estate taxes and common area maintenance costs in addition to the minimum lease payments noted above. Such costs vary from period to period and totaled $157 million and $151 million in Fiscal 2014 and Fiscal 2013, respectively. In addition to operating leases relating to store locations, the Company also holds finance leases related to equipment, which are capitalized on the consolidated balance sheet in accordance with IFRS. Upon the closing of the proposed joint venture transactions with Simon and RioCan (the "JV Transactions"), the Company's retail operations are expected to enter into long-term lease arrangements with the joint ventures with average lease terms of 20 years, plus renewal options.

Lease 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, when possible, 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 2024. As of January 31, 2015, these leases have future minimum lease payments of $154 million (February 1, 2014: $150 million), of which $113 million (February 1, 2014: $145 million) relates to leases assigned to Target (or its affiliates), in addition to other lease-related expenses, such as property taxes and common area maintenance. The Company has a full, unconditional and continuing guarantee and indemnity from Target regarding all ongoing obligations related to the store leases acquired by Target (or its affiliates) which include the assumption of all obligations and liabilities of Zellers arising under these leases after closing of such sale. 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 defences 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.

On March 6, 2015, Target Canada's affiliates surrendered eleven leases (which Zellers previously assigned to Target, or its affiliates) to the applicable landlords in connection with Target Canada affiliates' proceedings under the Companies' Creditors Arrangement Act. In connection with such surrender of leases, the applicable landlords released certain parties, including HBC, Zellers and their respective predecessors, from all claims arising out of or relating to, among other things, such leases.

Short-term and Long-term Borrowings

As of January 31, 2015, Company's drawings on the HBC Revolving Credit Facility and the U.S. Revolving Credit Facility were $159 million and $108 million, respectively.

On February 25, 2014, the Company closed the Queen Street Sale. Proceeds of the transaction were used to retire in entirety the Junior Term Loan and to permanently pay down U.S.$150 million of the Senior Term Loan B. The balance of the net proceeds was used to reduce the outstanding balance of the HBC Revolving Credit Facility.

On December 3, 2014 the Company closed the U.S.$1.25 billion, 20-year mortgage on the ground portion of its Saks Fifth Avenue flagship in New York City. All proceeds from the Saks Mortgage, net of associated fees and expenses, were utilized to permanently pay down U.S.$1.2 billion of the Senior Term Loan B.

Procurement

The above contractual obligations table includes purchase orders for goods not for resale that are enforceable and legally binding on the Company and which specify all significant terms including: fixed or minimum quantities to be purchased; fixed minimum or variable price provisions; and the approximate timing of the transaction. The purchase obligations figures disclosed above also include obligations in respect of minimum royalty payments due to certain key suppliers.

Pensions

The defined benefit component of the Company's Canadian pension plan is currently over-funded, and as a result the Company does not expect to make significant contributions to it over the next five years, subject to the performance of the plan assets. The Company has non-pension Canadian employee benefit plans, which are not funded. For Canadian 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 an employee benefit expense as incurred, which is as the related employee service is rendered.

In the U.S., Saks sponsors a funded defined-benefit cash balance pension plan and an unfunded supplemental executive retirement plan for certain employees. The pension plan no longer admits new participants and in 2009 future benefit accruals were suspended. The funding policy requires contributions to the pension plan to be at least equal to the minimum funding requirement, as determined under the Employee Retirement Income Security Act of 1974. There are no funding requirements for the Fiscal 2015 plan year.

Other

As of January 31, 2015, the Company had other long-term liabilities that included an accrued benefit plan liability and an accrued self-insurance provision. The Company also had obligations in respect of equity grants and incentive units that may be settled with cash or shares of the Company. These have not been classified as contractual obligations for the following reasons:

- future payments of accrued benefit plan liability, principally post-retirement benefits, depend on when and if retirees submit claims;

- future payments of equity grants and incentive units depend on whether the grants or incentive units have vested, and whether any will be elected to be cash settled; and

- future payments of insurance claims can extend over several years and depend on the timing of anticipated settlements and results of litigation.

Guarantees and Off-Balance Sheet Arrangements

The Company has guarantees and general indemnification commitments to counterparties. Historically, the Company has not made any significant payments with respect to these guarantees and indemnification provisions, and management believes that the risk of significant loss is low.

Standby and documentary letters of credit are used in connection with certain obligations mainly related to purchase orders and Workers Compensation Collateral requirements. The aggregate gross potential liability related to the Company's letters of credit is approximately $28 million as at January 31, 2015.

Other than in connection with the proposed JV Transactions, the Company has not created, and is not party to, any special purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating its business. The Company does not have any relationships or arrangements with entities that are not consolidated into its financial statements that are reasonably likely to materially affect liquidity or the availability of capital resources. It is expected that the joint ventures will be accounted for using the equity method of accounting. As a result, indebtedness at the joint ventures would not be consolidated on the Company's balance sheet and there would be limited impact on cash flow.

Financial Instruments and Other Instruments

The Company utilizes certain derivatives as cash flow hedges of its exposure to foreign currency risk and interest rate risk. The effective portion of the changes in the fair value of the hedging derivatives, net of taxes, is recognized in other comprehensive income.

The Company enters into forward foreign exchange contracts to fix the cost in Canadian dollars of certain U.S. dollar based purchases of merchandise from foreign suppliers. These forward exchange contracts have been designated as cash flow hedges and reported at fair value in financial assets or financial liabilities, depending on their fair value. Once the inventory is recorded, the Company has elected to reclassify the related accumulated other comprehensive income (loss) amount to merchandise inventories. Subsequent changes in the fair value of the forward foreign exchange contracts are recorded in net earnings (loss).

Derivative financial instruments not designated within an effective hedging relationship and embedded derivatives are classified as fair value through profit or loss and measured at fair value with any changes in their fair values recognized in income in the period in which the change occurs. Short-term deposits are classified as held to

maturity, which are measured at amortized cost using the effective interest method. All other financial assets are classified as loans and receivables and measured at amortized cost using the effective interest method.

All other financial liabilities are classified as other liabilities and measured at amortized cost using the effective interest method. Interest income and expense are included in finance costs.

The Company determines the fair value of its long-term loans and borrowings using a discounted cash flow model, taking into consideration the fixed interest rate spread included in the related debt compared to fixed interest rate spreads on similar debt available in the market at the balance sheet dates.

The fair values of foreign currency options, interest rate swaps and forward foreign currency contracts reflect the estimated amounts that the Company would receive or pay if it were to settle the contracts at the reporting date.

As a result of the Saks Acquisition, the Company recognized Equity Commitment Forwards in the year ended February 1, 2014 which were classified as fair value through profit or loss and measured at fair value. Any changes in the fair value were recognized in net earnings (loss) in the period in which the change occurred. Upon closing of the Saks Acquisition, the Company derecognized the Equity Commitment Forwards and reclassified the related financial liability to share capital. The fair values were determined using a forward pricing model. In addition, the Company issued warrants in connection with the Saks Acquisition. Certain features of the warrants resulted in the warrants being presented as derivative financial liabilities which are classified as fair value through profit or loss and measured at fair value. Subsequent changes in the fair value are recognized in net earnings (loss) in the period in which the change occurs. The fair values of the warrants are determined using the Black-Scholes option pricing model. For a complete description of the derivative financial instruments of the Company and related risks, please refer to note 18 of the Company's audited consolidated financial statements for the fiscal year ended January 31, 2015.

Risks arising from Financial Instruments

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

(i) Credit risk

Credit risk refers to the possibility that the Company can suffer financial losses due to the failure of the Company's counterparties to meet their payment obligations. The Company is exposed to minimal credit risk from customers, vendors, and financial counterparties as a result of ongoing credit evaluations and review of accounts receivable collectability. 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 U.S. Revolving Credit Facility and the bank overdraft facilities are used to maintain liquidity.

(iii) Market risk

Market risk includes foreign currency risk and interest rate risk:

(a) Foreign currency risk

The Company 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.

In accordance with the Company's risk management policy, HBC may hedge up to 100% of all foreign currency transactions and economic exposures that are recognized on the consolidated balance sheets, or deemed as firm commitments (e.g. purchase orders that have been issued for goods and services in foreign currency). HBC may further hedge up to 70% of forecasted transactions (anticipated transactions for which there are no firm commitments).

Our net investment in Lord & Taylor and Saks, whose functional currency is U.S. dollars, presents a foreign exchange risk to HBC, whose functional currency is Canadian dollars. HBC used a net investment hedge to mitigate this risk. HBC had originally designated U.S.$800 million of Senior Term Loan B as a hedge of the first U.S.$800 million of net assets of L&T Acquisition. The hedge was subsequently reduced to U.S.$350 million upon pay down of certain debt and further to nil, upon pay down of Senior Term Loan B. Foreign currency translation of the net earnings of L&T Acquisition impacts consolidated net earnings (loss). Foreign currency translation of HBC's investment in L&T Acquisition impacts other comprehensive income.

(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. The Company's variable rate borrowings are denominated in both U.S. and Canadian dollars.

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

In connection with the Saks Mortgage the Company entered into two separate interest rate swap lock forward contracts (the "Rate Locks") during fiscal 2014 that resulted in the Company fixing the interest rate to be paid over the entire term of the mortgage. The Company designated the Rate Locks as hedges of the cash flows from the forecasted proceeds of the Saks Mortgage. Each hedging relationship was assessed to be highly effective and as at January 31, 2015, a net realized loss of $9 million, with related deferred taxes of $4 million was included in other comprehensive income representing the mark-to-market adjustments to fair value from the date of execution of each Rate Lock, October 10, 2014 and November 5, 2014 respectively to December 3, 2014, the date of close of the Saks Mortgage.

Classification of Financial Instruments

Derivative financial instruments not designated within an effective hedging relationship and embedded derivatives are classified as fair value though profit or loss and measured at fair value with any changes in their fair values recognized in net earnings (loss) in the period in which the change occurs. Short-term deposits are classified as held to maturity, which are measured at amortized cost using the effective interest method. All other financial assets are classified as loans and receivables and measured at amortized cost using the effective interest method. All other financial liabilities are classified as other liabilities and measured at amortized cost using the effective interest method. Interest income and expense are included in finance costs.

The following table provides a summary of the fair values of financial instruments by classification as of January 31, 2015 and February 1, 2014:

(millions of Canadian dollars)	2014	2013
	$	$
Classified as fair value through profit or loss	(69)	(25)
Classified as loans and receivables	380	160
Classified as held to maturity	2	2
Financial derivatives designated as cash flow hedges	21	6
Classified as other liabilities	(4,415)	(4,264)

Fair Value of Financial Instruments

The Company determines the fair value of its long-term loans and borrowings using a discounted cash flow model, taking into consideration the fixed interest rate spread included in the related debt compared to fixed interest rate spreads on similar debt available in the market at the balance sheet dates.

The fair values of foreign currency options, interest rate swaps and forward foreign currency contracts reflect the estimated amounts that the Company would receive or pay if it were to settle the contracts at the reporting date. The fair value of foreign currency options are determined 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. Interest rate swaps are valued using a discounted cash flow model based on market interest rate curves at the period-end date. The forward foreign currency contracts 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 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 and observable market input data.

For Fiscal 2014, the Company recorded a net loss of $44 million (2013: $153 million) on financial instruments related to the Saks Acquisition. Specifically, the net loss comprised losses on changes in fair value of Warrants of $44 million (2013: nil) and Equity Commitment Forwards of nil (2013: $153 million). In addition, the Company recorded a loss of $1 million on the change in fair value of embedded foreign currency derivatives in Fiscal 2014 (2013: $1 million).

Tax Matters

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, from time to time certain matters are reviewed and challenged by the tax authorities.

The Company regularly reviews the potential for adverse outcomes in respect of tax matters. The Company believes that there are no tax matters that will have a material adverse effect on its liquidity, consolidated financial position or results of operations because the Company believes that it has adequate provisions for any tax matters. Should the ultimate tax liability materially differ from the provisions, the Company's effective tax rate and its earnings (loss) could be affected, positively or negatively, in the period in which the matters are resolved.

Related Party Transactions

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

On May 6, 2011, a subsidiary of L&T Acquisition entered into a two year lease with SP 35 L.P. (the "Landlord") for approximately 31,000 square feet in Shrewsbury, NJ. The lease was amended on January 17, 2013 to include three renewal options. The first two renewal options are for terms of two and three years, respectively, at an annual cost of U.S.$440 thousand. The third renewal option is for a term of five years at an annual cost of U.S.$484 thousand. The first and second renewal options were exercised. Amounts charged to the Company under the rental arrangement for the thirteen and fifty-two weeks ended January 31, 2015 were U.S.$110 thousand and U.S.$440 thousand, respectively (2013: U.S.$94 thousand and U.S.$376 thousand, respectively). The Landlord is an affiliate of National Realty & Development Corp. ("NRDC"). Richard Baker and Robert Baker, the principals of NRDC, are directors of the Company.

During the thirteen and fifty-two weeks ended January 31, 2015, the Company accrued nil and $314 thousand, respectively (2013: $300 thousand and $300 thousand, respectively) from Hudson's Bay Trading Company, LP ("HBTC"), a shareholder of the Company, with respect to the reimbursement of expenses for services provided by HBC on their behalf.

On February 25, 2014, the Company completed the sale of its downtown Toronto flagship store and adjacent Simpson's Tower office complex to an affiliate of The Cadillac Fairview Corporation Limited, an affiliate of HSILP, for a purchase price of $650 million. The Company has leased the entire retail and a portion of office complex back for a base term of twenty-five years, with renewal options up to approximately twenty-five years. The

transaction is considered to be a related party transaction because an affiliate of The Cadillac Fairview Corporation Limited is a related party of the Company by virtue of it being an affiliate of Ontario Teachers' Pension Plan Board, which indirectly holds the power to exercise control and direction over, and beneficial ownership of, more than 10% of the Company's outstanding voting shares. As part of this transaction, Saks has also agreed to lease space in Toronto's Sherway Gardens from The Cadillac Fairview Corporation Limited, which is also considered to be a related party transaction. Previously, the Company had entered into store leases with The Cadillac Fairview Corporation Limited or its affiliates for stores located at: Fairview Park in Kitchener, Ontario; Richmond Centre in Richmond, British Columbia; Chinook Centre and Market Mall, both in Calgary, Alberta; Polo Park Shopping Centre in Winnipeg, Manitoba; Masonville Place in London, Ontario; Markville Shopping Centre in Markham, Ontario; Limeridge Mall in Hamilton, Ontario; Fairview Pointe-Claire, in Pte-Claire, Quebec; Fairview Mall in Toronto, Ontario; Carrefour Laval in Laval, Quebec; Les Promenades St. Bruno in St. Bruno, Quebec; and Les Galeries D'Anjou in Montreal, Quebec. The leases contain representations and warranties, positive and negative covenants and events of default which, in each case, are customary to leases of this nature. The Company is in compliance with the covenants contained in the leases.

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

Critical Accounting Policies

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with IFRS. The Company's significant accounting policies are described in note 2 to the Fiscal 2014 audited consolidated financial statements.

The preparation of these financial statements requires management to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities, and reporting of income and expenses, that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ materially from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are certain critical judgments and estimations that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements (see note 3 to the Fiscal 2014 audited consolidated financial statements for further critical judgments and estimations):

Inventories

Inventories are valued at the lower of cost and net realizable value.

Cost is determined using the weighted average cost method based on individual items and, with respect to Saks, a retail inventory method that approximates cost. Costs comprise all variable costs such as the merchandise cost, freight and handling, incurred in bringing inventories to their present location and condition. Storage and administrative overheads are expensed as incurred. Supplier rebates and discounts received or receivable based on vendor agreements are recorded as a reduction in the cost of purchases unless they relate to a reimbursement of specific incremental expenses. The Company receives significant support from vendors for promotional markdown activity and reflects this support as an offset to the cost of markdowns taken in cost of goods sold.

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. At each balance sheet date, the Company reviews its on-hand inventory to identify items selling below cost at that date and uses historical trends and current inventory mix to determine an additional reserve for the impact of future markdowns which will take the net realizable value of inventory on-hand below cost.

Physical inventories are generally taken within each merchandise department annually, and inventory records are adjusted accordingly resulting in an expense within cost of goods sold. The Company records a shrink reserve utilizing historical shrink rates to reflect the incremental expense between the time of the physical inventory count and the reporting date.

Loyalty Programs

Loyalty program accounting allocates a portion of consideration paid by the customer at the time merchandise or services are acquired to the value of the loyalty entitlement earned as part of the transaction. This portion of the consideration is treated as deferred revenue and recognized when the customer redeems points and ultimately acquires additional merchandise or services. The Company retains an external actuary to estimate the percentage of rewards points earned by customers that ultimately will be redeemed.

Impairment and reversal of impairment of long-lived assets

Long-lived 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.

Impairment of goodwill

The Company uses judgment in determining the grouping of assets to identify its cash generating units ("CGUs") for purposes of testing for impairment of goodwill. In testing for impairment, goodwill acquired in a business combination is allocated to the CGUs that are expected to benefit from the synergies of the business combination. The calculations for impairment testing involve significant estimates and assumptions. Items estimated include cash flows, discount rates and assumptions on revenue growth rates. These estimates could affect the Company's future results if the current estimates of future performance and fair values change. Judgment is also used to determine whether an indication of impairment is present which would require the completion of an impairment test in addition to the annual testing.

Income Taxes

In connection with the reorganization on January 11, 2012 that resulted in Lord & Taylor becoming a wholly owned subsidiary of the Company, Lord & Taylor became a taxable entity. Prior to January 11, 2012, Lord & Taylor 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:

(i) Taxable entities

The Company has recognized deferred income tax assets arising from differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements as well as those in respect of non-capital losses carried forward. The extent to which assets have been recognized reflects management's expectation that these assets will be recovered through the reversal of the differences between the tax and accounting basis as well as through future taxable profits being earned before expiry of the losses. A valuation allowance is recorded to the extent that management does not believe that the assets are recoverable. The Company has had significant movement in the valuation allowance in recent years as operating performance has improved, demonstrating the Company's ability to realize the timing differences and tax loss carry-forwards. The sale of leasehold interests caused management to record a valuation allowance on the deferred tax assets related to Zellers due to the expected inability to fully utilize the tax loss carry-forwards. This was subsequently reduced based on additional information that confirmed the extent to which restricted losses should be recovered.

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.

(ii) Flow-through entities

Lord & Taylor, 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. Lord & Taylor did not record a federal tax provision for deferred tax assets or liabilities related to federal tax prior to its acquisition by HBC.

Lord & Taylor operates stores in eleven 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.

Post-employment benefits

Post-employment benefits include pensions (both defined contribution and defined benefit) and non-pension post-retirement benefits (medical and life insurance benefits for 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 the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. Independent actuaries calculate the defined benefit obligation annually.

Actuarial gains and losses (typically related to investment performance or interest rate movement different from management's assumptions) are excluded from operating income and 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. For funded plans, surpluses are recognized only to 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 an employee benefit expense as incurred, which is as the related employee service is rendered.

Valuation of Financial Instruments

In connection with the Acquisition, the Company issued warrants. Additionally, due to the variability of the share issue price and certain features of the investment agreements, forward contracts ("Equity Commitment Forwards") were recognized and accounted for as derivative financial instruments in the prior year. The classification of these instruments as financial liabilities is an area of significant judgment. The Company recorded the mark-to-market valuation adjustment of these warrants (and Equity Commitment Forwards in the prior year) as finance costs based upon the end of period valuation.

Changes in Accounting Policies Including Initial Adoption

Accounting Standards Implemented in 2014

Financial Instruments - In December 2011, the IASB amended IAS 32 – Financial Instruments: Presentation ("IAS 32"), to clarify the requirements that permit offsetting a financial asset and liability in the financial statements. The Company implemented IAS 32 at the beginning of its 2014 fiscal year and the implementation did not have an impact on its results of operations, financial position or disclosure.

In June 2013, the IASB amended IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39"), providing guidance on novation of over-the-counter derivatives and continued designation for hedge accounting. The amendments to IAS 39 must be applied retrospectively for annual periods beginning on or after January 1, 2014. The Company implemented IAS 39 at the beginning of its 2014 fiscal year and the implementation did not have an impact on its results of operations, financial position or disclosure.

Impairment of Assets - In May 2013, the IASB amended IAS 36 – Impairment of Assets ("IAS 36"), providing guidance on recoverable amount disclosures for non-financial assets. The Company implemented IAS 36 at the beginning of its 2014 fiscal year and the implementation did not have an impact on its results of operations, financial position or disclosure.

Levies - In May 2013, the IASB issued IFRIC 21, providing guidance on the accounting for levies imposed by governments. The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Company adopted the standard retrospectively in the first quarter of Fiscal 2014**.** The impact of the amendments to IFRIC 21 is summarized in note 2(z) of the Fiscal 2014 audited consolidated financial statements.

Future Expected Changes

Financial Instruments - In July 2014, the IASB issued IFRS 9 – Financial Instruments ("IFRS 9"), which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39.

Classification and measurement

Financial assets are classified and measured based on the business model under which they are managed and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified in a similar manner as under IAS 39, except that financial liabilities measured at fair value will have fair value changes resulting from changes in the entity's own credit risk recognized in other comprehensive income instead of net earnings (loss).

Impairment

The measurement of impairment of financial assets is based on an expected credit loss model. It is no longer necessary for a triggering event to have occurred before credit losses are recognized. IFRS 9 also includes new disclosure requirements about expected credit losses and credit risk.

Hedge accounting

The new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. The new model will provide more opportunities to apply hedge accounting to reflect actual risk management activities.

IFRS 9 will be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is assessing the potential impact of this standard.

Revenue - In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15"), which provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2017, and must be applied retrospectively. Early adoption is permitted. The Company is assessing the potential impact of IFRS 15.

Joint Arrangements - In May 2014, the IASB amended IFRS 11 – Joint Arrangements ("IFRS 11") to require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 – Business Combinations principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments to IFRS 11 are effective for annual reporting periods beginning on or after January 1, 2016, and must be applied prospectively. Early adoption is permitted. The Company is assessing the potential impact of the amendments to IFRS 11.

Management's Report on Internal Controls over Financial Reporting

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure.

The Company's management, under the supervision of the CEO and the CFO, has designed and maintained a set of disclosure controls and procedures to ensure that information required to be disclosed in filings made pursuant to National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filing ("NI 52-109") is recorded, processed, summarized and reported within the time periods specified in the Canadian Securities Administrators' ("CSA") rules and forms.

Internal Controls over Financial Reporting

The CEO and the CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management conducted its evaluation based on the framework set forth in the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under this framework, management concluded that the company's internal control over financial reporting was effective as of January 31, 2015.

Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be designed effectively can provide only reasonable assurance with respect to financial reporting and financial statement preparation.

Changes in Internal Control Over Financial Reporting

As part of HBC's on-going system integration strategy, the Company completed system conversions for one of its Banners during the fourth quarter of Fiscal 2014. These conversions resulted in changes to the Company's internal controls over financial reporting impacting the following areas: (1) Merchandise Payables and Inventory as well as (2) Payroll.

Except for the preceding changes, there have been no other changes in the Company's internal controls over financial reporting during Fiscal 2014 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Additional Information

Additional information relating to Hudson's Bay Company, including the most recently filed Annual Information Form, is available on SEDAR at www.sedar.com.

Risk Factors

For a detailed description of risk factors associated with the Company, refer to the "Risk Factors" section of the Company's Annual Information Form for Fiscal 2013 filed on SEDAR on May 2, 2014. Additional risk factors related to the contemplated joint ventures with RioCan and Simon are outlined below. The Company is not otherwise aware of any significant changes to the Company's risk factors from those disclosed at that time.

We may not be able to successfully close our contemplated joint venture transactions. There can be no assurance that we will receive the expected benefits from such joint ventures or that we will be able to effect a future monetization transaction with respect to each of the joint ventures.

Closing of the joint venture transactions are each subject to customary conditions and consents, as applicable. We currently expect to close the joint venture transactions within approximately 90-120 days of

announcement. There can be no assurance that the transaction with Simon or the transaction with RioCan will close in accordance with the proposed timeline, or at all. Further, there can be no assurance that our contemplated joint ventures will provide the expected benefits, including enabling us to identify new real estate growth opportunities such as future property acquisitions, or that we will be able to monetize our joint ventures at a future date.

We will not have sole control over the properties that we have agreed to hold with our joint venture partners or over the revenues and certain decisions associated with those properties, which may limit our flexibility with respect to these properties.

We have agreed to form joint ventures with each of RioCan and Simon, whereby we have initially contributed 10 owned or ground–leased properties to the joint venture with RioCan and 42 owned or ground-leased properties to the joint venture with Simon. The properties that we will own or lease through our real estate joint ventures total approximately 8.7 million square feet.

Despite having an eventual pro forma 79.8% equity stake in the joint venture with RioCan and an eventual pro forma 80% equity stake in the joint venture with Simon, a joint venture involves risks, including, among others, a risk that our partner:

- may have economic or business interests or goals that are inconsistent with our economic or business interests or goals;
- may take actions contrary to our policies or objectives with respect to our real estate investments;
- may have to give its consent with respect to certain major decisions, including the decision to distribute cash, refinance a property or sell a property;
- may become bankrupt, limiting its ability to meet calls for capital contributions and potentially making it more difficult to refinance or sell the property;
- may become engaged in a dispute with us that might affect our ability to develop or operate a property; or
- may have competing interests in our markets that could create conflict of interest issues.

Further, we will not have sole control of certain major decisions relating to the properties that we own through real estate joint ventures, including, among others, decisions relating to:

- making any loans or providing financial assistance to any person;
- issuing new units or other interests in our joint ventures; or
- dissolving or terminating our joint ventures.

Dividends

The Company’s Board of Directors approved the payment of a quarterly dividend on March 9, 2015, which will be paid on April 15, 2015, to shareholders of record at the close of business March 31, 2015. The dividend will be in the amount of $0.05 per Common Share and will be designated as an “eligible dividend” for Canadian tax purposes.

Outstanding Share Data

The Company’s authorized share capital consists of an unlimited number of Common Shares and an unlimited number of preferred shares issuable in series. As of April 6, 2015, the Company had 182,100,001 Common Shares issued and outstanding and no preferred shares issued and outstanding. As of April 6, 2015, the Company had 10,475,059 share options, 396,748 restricted share units and 6,750,000 warrants outstanding, all of which are convertible or exchangeable into Common Shares.

The Company’s Common Shares trade on the Toronto Stock Exchange under the symbol “HBC” and began trading on November 20, 2012. In addition, there were approximately 25 million Common Shares reserved for issuance for the exercise of share options, warrants and the settlement of restricted share units. Assuming exercise of all outstanding share options and the settlement of all outstanding restricted share units, there would be approximately 193.0 million Common Shares issued and outstanding on a fully diluted basis. Assuming exercise of all outstanding share options, the settlement of all outstanding restricted share units and the exercise of all outstanding warrants, there would be approximately 199.8 million Common Shares issued and outstanding on a fully diluted basis.