MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THIRTEEN WEEKS ENDED MAY 2, 2015

Dated June 9, 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 unaudited interim condensed consolidated financial statements of the Company and notes thereto for the thirteen week period ended May 2, 2015. Unless otherwise indicated, all amounts are expressed in Canadian dollars.

The contents of this MD&A were approved by the Company's Audit Committee. This MD&A reflects information as of June 9, 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").

General Information

Hudson's Bay Company is a Canadian corporation amalgamated 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 assumed debt (the "Saks Acquisition").

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 19 of the unaudited interim condensed consolidated financial statements for the thirteen week period ended May 2, 2015).

Accounting Periods

This MD&A is based on the unaudited interim condensed consolidated financial statements and accompanying notes thereto for the thirteen week period ended May 2, 2015.

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 the Company's Annual Information Form for Fiscal 2014 filed on SEDAR on April 30, 2015: 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; 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 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 (Loss) Earnings to EBITDA and Normalized EBITDA, and Net (Loss) Earnings to Normalized Net Loss.

First Quarter Events

- On February 11, 2015, a secondary offering was completed pursuant to which 2380162 Ontario Limited (“238 Ontario”), a subsidiary of Ontario Teachers’ Pension Plan and successor in interest to H.S. Investment L.P. (“HSILP”), sold 4,899,000 Common Shares (including the exercise in full of the over-allotment option). 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.
- On March 9, 2015, the Company declared a quarterly dividend, 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 stepped down based on mutual agreement with the Company.
- On April 28, 2015, a secondary offering was completed pursuant to which Hanover Investments (Luxembourg) S.A. and 238 Ontario sold an aggregate of 13,340,000 Common Shares, for aggregate gross proceeds of approximately $364 million (including the exercise in full of the over-allotment option). The Company did not receive any proceeds from the offering.
- During the first quarter, the Company opened one new Saks Fifth Avenue store in San Juan, Puerto Rico and four new Saks Fifth Avenue OFF 5TH (“OFF 5TH") stores, which are located in Glendale, Arizona; Roseville, California; Boca Raton, Florida and White Plains, New York.

Subsequent Events

- On May 27, 2015, the Company announced the appointment of Dan Caspersen as Executive Vice President, Human Resources.

Overview

Our Business

Hudson's Bay Company, founded in 1670, is North America's oldest company. HBC operates four iconic retail banners – Hudson's Bay, Lord & Taylor, Saks Fifth Avenue and 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 39 U.S. stores, five international licensed stores and saks.com. OFF 5TH offers great brands at great values through 81 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 centres 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 $1.8 billion, along with the sale and leaseback of the Queen Street property in Toronto for $650 million and the U.S.$1.25 billion mortgage financing of the ground portion of the Saks Fifth Avenue flagship property in New York City in Fiscal 2014.

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. Subject to the satisfaction of customary closing conditions, including completion of certain contemplated financing arrangements and receipt of certain required landlord consents, the U.S. joint venture transaction with Simon is currently expected to close in July 2015 and the Canadian joint venture transaction with Riocan is currently expected to close in two tranches as described below.

All applicable landlord consents have been negotiated or obtained except in respect of three Canadian ground leased properties, being Yorkdale Shopping Centre, Scarborough Town Centre and Square One (the "YSS Properties"). Although the Company believes that such consent is not required or cannot be unreasonably withheld under the relevant lease terms, the applicable joint venture agreement with Riocan nevertheless requires that such consent be obtained from the landlord of the YSS Properties, or alternatively, through a determination by a court. The Company has commenced a proceeding to obtain a court determination and as a result, currently expects to close the Canadian joint venture transaction in two tranches – a first closing in July 2015 which will include the contribution of the Company's other seven Canadian properties as well as two Riocan properties, and a second closing at a later date which is expected to include the YSS Properties.

The Company cautions investors that there can be no assurances that the Company will be able to obtain the applicable landlord consent or court order in respect of the YSS Properties or that the YSS Properties will be contributed to the Canadian joint venture within the anticipated timing or at all.

The joint ventures create new growth platforms for the Company; real estate in the United States, Canada and internationally. 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 that, over time, 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 May 2, 2015

- Retail sales, which include digital commerce sales from all banners, were $2,072 million for the thirteen week period ended May 2, 2015, an increase of $217 million or 11.7% from $1,855 million for the thirteen week period ended May 3, 2014.

- Consolidated same store sales increased by 11.7% and on a constant currency basis by 2.7% over the comparable thirteen week period in Fiscal 2014. On a constant currency basis, same store sales increased by 4.9% at DSG and by 0.6% at Saks Fifth Avenue and 10.3% at OFF 5TH on a local currency basis. See 'Factors Affecting Our Performance – Same Store Sales'.

- Digital commerce sales increased 37.2% over the thirteen week period ended May 3, 2014, reflecting the Company's continued strategic focus on growing this channel.

- Gross profit rate as reported was 40.8% of retail sales, or a 220 basis point improvement over the thirteen week period ended May 3, 2014. Adjusting for the negative impact associated with the amortization of inventory related purchase accounting adjustments in the first quarter of Fiscal 2014, the comparable gross profit rate was 40.6%. On a comparable basis, gross profit was realized at a 20 basis point improvement when compared to the prior year.

- Normalized EBITDA was $96 million compared to $97 million for the first quarter of Fiscal 2014, a decrease of $1 million. As a percentage of retail sales, Normalized EBITDA was 4.6% compared to 5.2% for the first quarter of Fiscal 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. Effective Fiscal 2015, the calculation for same store sales for our operating segments (DSG, Saks Fifth Avenue and OFF 5TH) excludes sales related accounting adjustments. In calculating the same store sales change on a constant currency basis, prior year foreign exchange rates are applied to both current year and prior year same store sales. This is done to enhance the comparability of underlying sales trends by excluding the impact of foreign currency exchange rate fluctuations. Same Store Sales results disclosed under 'Summary of Consolidated Quarterly Results' have been updated. 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. Since the Saks Acquisition, the Company was using a net investment hedge to mitigate this risk. The Company had designated U.S.$800 million of the U.S.$2,000 million senior secured term loan facility with Bank of America, N.A., as an administrative agent, (the "Senior Term Loan B"), as a hedge of the first U.S.$800 million of net assets of L&T Acquisition. In Fiscal 2014, the hedge was subsequently reduced to U.S.$350 million upon pay down of certain debt, and further to nil, upon pay down of a portion of the Senior Term Loan B. Foreign currency translation of the net earnings of L&T Acquisition impacts consolidated net (loss) earnings. Foreign currency translation of the Company's investment in L&T Acquisition impacts other comprehensive (loss) 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's transition is June 2015. Income (loss) related to the new program 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 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.

Selected Consolidated Financial Information

The following tables set out summary unaudited consolidated financial information and supplemental information for the periods indicated. The summary financial information set out below has been derived from unaudited interim condensed consolidated financial statements, prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, for the thirteen week period ended May 2, 2015. 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.

(millions of Canadian dollars except per share amounts)	Fiscal Quarter Ended May 2, 2015		May 3, 2014	
	$	% [1]	$	% [1]
Earnings Results				
Retail sales	2,072	100.0%	1,855	100.0%
Cost of sales	(1,226)	(59.2%)	(1,139)	(61.4%)
Gross profit	846	40.8%	716	38.6%
Selling, general & administrative expenses	(780)	(37.6%)	(681)	(36.7%)
Depreciation and amortization	(100)	(4.8%)	(82)	(4.4%)
Gain on Queen Street Sale	-	-	308	16.6%
Operating (loss) income	(34)	(1.6%)	261	14.1%
Total interest expense	(39)	(1.9%)	(71)	(3.9%)
Saks Acquisition-related finance costs	(8)	(0.4%)	(4)	(0.2%)
Finance costs	(47)	(2.3%)	(75)	(4.1%)
(Loss) Earnings before income tax	(81)	(3.9%)	186	10.0%
Income tax benefit (expense)	27	1.3%	(10)	(0.5%)
Net (Loss) Earnings	(54)	(2.6%)	176	9.5%
Net (Loss) Earnings per Common Share - basic and diluted	(0.30)		0.97	
Weighted average Common Shares outstanding - basic and diluted (millions)	182		182	
Supplemental Information				
EBITDA [2]	77	3.7%	353	19.0%
Normalized EBITDA [2]	96	4.6%	97	5.2%
Normalized Net Loss for the period [2]	(33)	(1.6%)	(27)	(1.5%)
Normalized Net Loss per Common Share - basic and diluted [2]	(0.18)		(0.15)	
Declared dividend per common share	0.05		0.05	
Reported Retail Sales Percentage Change				
Consolidated	11.7%		109.8%	
Same Store Sales Percentage Change [3]				
Consolidated	11.7%		8.6%	
Consolidated (constant currency basis)	2.7%		2.8%	
DSG[4]	4.9%		2.6%	
Saks Fifth Avenue[5]	0.6%		2.4%	
OFF 5TH[5]	10.3%		15.2%	
Store Information				
Store count[6]				
Hudson's Bay	90		90	
Lord & Taylor	50		49	
Saks Fifth Avenue	39		39	
OFF 5TH	81		73	
Home Outfitters	67		69	
Total	327		320	
Gross leasable area/Square footage (thousands) [6]				
Hudson's Bay	16,123		16,123	
Lord & Taylor	6,898		6,789	
Saks Fifth Avenue	4,789		4,768	
OFF 5TH	2,247		1,995	
Home Outfitters	2,444		2,515	
Total	32,501		32,190	

Balance Sheet Data	May 2, 2015	May 3, 2014 [7]	January 31, 2015
	$	$	$
Cash	35	39	168
Trade and other receivables	178	130	212
Inventories	2,437	2,056	2,349
Current assets	2,756	2,331	2,829
Property, plant and equipment	4,431	3,951	4,606
Intangible assets	1,023	963	1,076
Goodwill	227	205	237
Total assets	8,769	7,753	9,072
Current liabilities [8]	1,673	1,464	1,803
Loans and borrowings (including current portion)	3,144	2,854	3,124
Other liabilities (including current portion) [9]	742	485	745
Shareholders' equity	2,345	2,190	2,492

Notes:

(1) As a percentage of retail sales.

(2) See tables below for a reconciliation of Net (Loss) Earnings to EBITDA and Normalized EBITDA and a reconciliation of Net (Loss) Earnings to Normalized Net Loss.

(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. The calculation for same store sales excludes sales related accounting adjustments for DSG, Saks Fifth Avenue and OFF 5TH. Consolidated same store sales include results for all banners. See 'Factors Affecting Our Performance – Same Store Sales'.

(4) Excludes Home Outfitters for Fiscal 2014 (see "General Information") and is calculated on a constant currency basis.

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

(6) Hudson's Bay Company operates two Hudson's Bay Outlets, two Zellers clearance centers and four Lord & Taylor Outlets that are excluded from the store count and gross leasable area.

(7) Restated for measurement period adjustments based on new information relating primarily to inventories. Please see note 4 of unaudited interim condensed consolidated financial statements for thirteen week period ended May 2, 2015.

(8) Excludes current loans and borrowings of $405 million as at May 2, 2015, $428 million as at May 3, 2014 and $265 million as at January 31, 2015; and current other liabilities of $76 million as at May 2, 2015, nil as at May 3, 2014 and $76 million as at January 31, 2015.

(9) Includes deferred landlord incentives of $369 million as at May 2, 2015, $205 million as at May 3, 2014 and $356 million as at January 31, 2015.

The following table shows the reconciliation of Net (Loss) Earnings to EBITDA as well as Normalized EBITDA:

(millions of Canadian dollars)	Fiscal Quarter Ended	
	May 2, 2015	May 3, 2014
	$	$
Net (Loss) Earnings	(54)	176
Finance costs	47	75
Income tax (benefit) expense	(27)	10
Non-cash pension expense [1]	6	7
Depreciation and amortization	100	82
Share based compensation [1]	5	3
EBITDA	**77**	353
Normalization adjustments		
Gain on Queen Street Sale	-	(308)
Saks Acquisition and integration related expenses [1]	9	14
Amortization of Saks inventory purchase price accounting adjustment	-	38
Foreign exchange adjustment [1], [2]	5	-
Restructuring and other [1]	5	-
Total normalizing adjustments	19	(256)
Normalized EBITDA	**96**	97

Notes:

(1) Item included in the determination of Normalized SG&A. Total for the thirteen week period ended May 2, 2015 was $30 million (May 3, 2014: $24 million).

(2) Represents the impact of unrealized gains related to the translation of U.S. dollar denominated asset and liability balances.

The following table shows the reconciliation of Net (Loss) Earnings to Normalized Net Loss:

	Fiscal Quarter Ended	
(millions of Canadian dollars)	**May 2, 2015**	**May 3, 2014**
	$	$
Net (Loss) Earnings	(54)	176
Normalization Adjustments [1]		
Gain on Queen Street Sale	-	(261)
Saks Acquisition and integration related expenses and finance costs [2]	14	13
Restructuring and other	3	-
Financing related adjustments [3]	-	22
Amortization of Saks inventory purchase price accounting adjustment	-	23
Foreign exchange adjustment [4]	4	-
Total normalizing adjustments	21	(203)
Normalized Net Loss	**(33)**	(27)

Notes:

(1) Net of tax as appropriate.

(2) Includes the recognition of non-cash finance costs related to Common Share purchase warrants of $8 million for the thirteen week period ended May 2, 2015 (May 3, 2014: $4 million).

(3) Includes write-off of deferred financing costs and penalties on early extinguishment of debt.

(4) Represents the impact of unrealized gains related to the translation of U.S. dollar denominated asset and liability balances.

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. The Company's Canadian defined benefit pension plan is currently in a surplus position 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; and (iii) normalizing adjustments, if any, related to transactions that are not associated with day-to-day operations. Normalized Net Loss is defined as net (loss) earnings 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. 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. We have included Normalized EBITDA, Normalized Net Loss and Normalized SG&A to provide investors and others with supplemental measures of our operating performance. We believe Normalized EBITDA, Normalized Net Loss 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 Loss 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 Loss 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 May 2, 2015 Compared to the Thirteen Week Period Ended May 3, 2014

Retail Sales

Retail sales, which include digital commerce sales from all banners, were $2,072 million for the thirteen week period ended May 2, 2015, an increase of $217 million or 11.7% from $1,855 million for the thirteen week period ended May 3, 2014. Comparative growth at DSG and Saks in the quarter was further enhanced by currency improvement on the translation of U.S. dollar denominated sales.

Consolidated same store sales increased by 11.7% and on a constant currency basis by 2.7% over the comparable thirteen week period in Fiscal 2014. On a constant currency basis, same store sales increased 4.9% at DSG and by 0.6% at Saks Fifth Avenue and 10.3% at OFF 5TH on a local currency basis.

Digital commerce sales increased 37.2% over the thirteen week period ended May 3, 2014, reflecting the Company's continued strategic focus on growing this channel.

In terms of merchandise category performance, sales growth at DSG was driven by menswear and home products. Sales growth at Saks Fifth Avenue was driven by womenswear while at OFF 5TH, was strong across all categories.

Gross Profit

Gross profit as reported was $846 million for the thirteen week period ended May 2, 2015, compared to $716 million for the thirteen week period ended May 3, 2014. Adjusting for the negative impact associated with the amortization of inventory related purchase accounting adjustments in the first quarter of Fiscal 2014 of $38 million, the comparable gross profit in the first quarter of Fiscal 2014 was $754 million, which represents a year-over-year improvement of $92 million. 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, a 220 basis point improvement over the thirteen week period ended May 3, 2014. Adjusting the gross profit rate in Fiscal 2014 for the item identified above, the comparable gross profit rate in the first quarter of Fiscal 2014 was 40.6%. There is no impact to the gross profit rate of 40.8% when adjusted for favourable exchange rates on U.S. dollar denominated gross profits.

Selling, General & Administrative Expenses

SG&A was $780 million for the thirteen week period ended May 2, 2015, compared to $681 million for the thirteen week period ended May 3, 2014. For the thirteen week period ended May 2, 2015, Normalized SG&A was $750 million compared to $657 million for the thirteen week period ended May 3, 2014, or a $93 million increase. Normalized SG&A has been calculated as SG&A above, excluding non-cash pension expense, share-based compensation, Saks Acquisition and integration related expenses, foreign exchange adjustment and restructuring and other. 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 $30 million ($24 million in the prior year), exclusive of the impact of foreign exchange, Normalized SG&A as a percentage of retail sales was 36.3% in the first quarter compared to 35.4% for the prior year, an increase of 90 basis points.

The current year SG&A expenses included the impact of incremental strategic investments in our HBC digital business, higher occupancy costs associated with a full quarter of the Queen Street Sale and pre-opening costs associated with the introduction of Saks to Canada and accelerated OFF 5TH openings in the U.S. SG&A in Q1 2015 also includes the negative impact associated with the conforming change in the classification of advertising

credits between SG&A and gross profit as they relate to the Saks business adopted in Q4 2014. These increases are partially offset by operating synergies of $15 million realized in the first quarter. Absent these items, Normalized SG&A expenses as a percentage of retail sales were 35.9% compared to 35.4% for the prior year.

EBITDA and Normalized EBITDA

EBITDA was $77 million in the thirteen week period ended May 2, 2015, compared to $353 million in the thirteen week period ended May 3, 2014, a decrease of $276 million.

Normalized EBITDA was $96 million, compared to $97 million in the thirteen week period ended May 3, 2014, a decrease of $1 million. Expressed as a percentage of sales, Normalized EBITDA margin was 4.6% in the first quarter of Fiscal 2015 compared to 5.2% in the first quarter of the prior year.

Finance Costs

Finance costs were $47 million in the thirteen week period ended May 2, 2015 compared to $75 million for the thirteen week period ended May 3, 2014, a decrease of $28 million. The decrease is primarily related to $18 million write-off of deferred financing costs and penalties of $12 million in connection with early repayment of debt as a result of the application of proceeds on the Queen Street Sale which took place in the first quarter of Fiscal 2014.

Income Tax Benefit (Expense)

Income tax benefit was $27 million in the thirteen-week period ended May 2, 2015, compared to an income tax expense of $10 million for the thirteen-week period ended May 3, 2014. The effective income tax rate of 33.3% for the thirteen-week period ended May 2, 2015 increased from 5.4% for the thirteen-week period ended May 3, 2014 primarily due to the effect of a change in the state tax law in the current year and the favourable tax treatment related to the Queen Street Sale in the prior year.

Net (Loss) Earnings

Net Loss was $54 million in the thirteen week period ended May 2, 2015 compared to Net Earnings of $176 million in the thirteen week period ended May 3, 2014, a decrease of $230 million. The decrease is primarily the result of the inclusion of the gain recognized on the Queen Street Sale of $308 million in the first quarter of Fiscal 2014.

Normalized Net Loss

Normalized Net Loss was $33 million in the thirteen week period ended May 2, 2015 compared to a Normalized Net Loss of $27 million in the thirteen week period ended May 3, 2014, an increase in loss of $6 million.

Summary of Consolidated Quarterly Results

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

	Fiscal Quarter Ended							
							(restated [1])	
(millions of Canadian dollars except per share amounts)	**May 2, 2015**	**Jan. 31, 2015**	**Nov. 1, 2014**	**Aug. 2, 2014**	**May 3, 2014**	**Feb. 1, 2014**	**Nov. 2, 2013**	**Aug. 3, 2013**
	$	$	$	$	$	$	$	$
Retail sales	2,072	2,632	1,913	1,769	1,855	2,407	984	948
Normalized EBITDA	96	318	116	81	97	253	63	60
Net (Loss) Earnings								
Continuing operations	(54)	111	(13)	(36)	176	37	(126)	(66)
Discontinued operations	-	-	-	-	-	(8)	1	(15)
	(54)	111	(13)	(36)	176	29	(125)	(81)
Net (Loss) Earnings per Common Share - Basic [2]								
Continuing Operations	(0.30)	0.61	(0.07)	(0.20)	0.97	0.21	(1.05)	(0.55)
Discontinued Operations	-	-	-	-	-	(0.05)	-	(0.13)
Net (Loss) Earnings per Common Share- Diluted [2]								
Continuing Operations	(0.30)	0.60	(0.07)	(0.23)	0.97	0.11	(1.05)	(0.55)
Discontinued Operations	-	-	-	-	-	(0.05)	-	(0.13)
Reported Retail Sales Percentage Change								
Continuing Operations	11.7%	9.3%	94.4%	86.6%	109.8%	73.5%	5.8%	3.9%
Same Store Sales Percentage Change [3]								
Continuing Operations	11.7%	8.7%	7.1%	5.0%	8.6%	6.6%	5.7%	3.5%
Continuing Operations (constant currency basis)	2.7%	3.2%	2.7%	1.9%	2.8%	2.2%	3.8%	3.0%
DSG [4]	4.9%	2.5%	1.4%	1.1%	2.6%	2.2%	4.9%	2.8%
Saks Fifth Avenue [5]	0.6%	2.3%	1.3%	0.3%	2.4%	2.5%	N/A	N/A
OFF 5TH [5]	10.3%	11.4%	19.2%	15.2%	15.2%	8.0%	N/A	N/A

Notes:

(1) Certain previously reported figures have been restated due to the implementation of IFRIC 21 – Levies.

(2) Net (Loss) Earnings 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. The calculation for same store sales excludes sales related accounting adjustments for DSG, Saks Fifth Avenue and OFF 5TH. Consolidated same store sales include results for all banners. See 'Factors Affecting Our Performance – Same 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 on a constant currency basis.

(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. We are reaffirming our outlook for Fiscal 2015 as provided in April. 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 constant 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 Q1 2015 was USD:CAD = 1:1.25.

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 Quarter Ended	
(millions of Canadian dollars)	**May 2, 2015**	**May 3, 2014**
	$	$
Operating activities	(210)	(36)
Investing activities	(54)	645
Financing activities	132	(591)
(Decrease) increase in cash	(132)	18
Foreign exchange loss on cash	(1)	-
Cash at beginning of period	168	21
Cash at end of period	35	39

Net Cash Flow - Operating Activities

Net cash outflow for operating activities was $210 million for the thirteen week period ended May 2, 2015 compared to an outflow of $36 million for the thirteen week period ended May 3, 2014, an increase in outflow of $174 million. This net increase is due primarily to higher investments in working capital offset in part by improved cash from operations.

Net Cash Flow - Investing Activities

Net cash outflow for investing activities was $54 million for the thirteen week period ended May 2, 2015 compared to an inflow of $645 million for the thirteen week period ended May 3, 2014, a net decrease of $699 million. The net decrease was primarily due to the proceeds received from the Queen Street Sale in the first quarter of Fiscal 2014.

Net Cash Flow - Financing Activities

Net cash inflow from financing activities was $132 million for the thirteen week period ended May 2, 2015 compared to an outflow of $591 million for the thirteen week period ended May 3, 2014, a net increase of $723 million over the comparable period. The net increase is primarily due to applying proceeds from the Queen Street Sale to permanently retire the Second Lien Term Loan (the "Junior Term Loan") and U.S.$150 million related to the Senior Term Loan B, along with the reduction of the outstanding balance of the Company's Canadian revolving credit facility in the first quarter of Fiscal 2014.

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, among other things, economic conditions, capital markets, and our financial condition.

The Company may consider additional acquisitions of, and investments in, retail businesses, and other complimentary assets, properties 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.

Please refer to the Company's management's discussion and analysis for the thirteen and fifty-two weeks ended January 31, 2015 for details regarding the Company's credit facilities and loans.

Contractual Obligations

The Company has a number of obligations related to leases, lease guarantees, loans and borrowings, procurement obligations, pensions and other obligations. In the period up to June 9, 2015, there were no material changes to the Company's contractual obligations compared to those identified at year-end. For a complete description of the contractual obligations of the Company, please refer to management's discussion and analysis for the thirteen and fifty-two weeks ended January 31, 2015.

In light of the error in disclosure to note 16 of our annual financial statements for the year ended January 31, 2015 disclosed in note 15 of the unaudited interim condensed consolidated financial statements for the thirteen weeks ended May 2, 2015, the revised contractual obligations table from management's discussion and analysis for the thirteen and fifty-two weeks ended January 31, 2015 is as follows:

		Fiscal Year					
(millions of Canadian dollars)	**Total**	**2015**	**2016**	**2017**	**2018**	**2019**	**Thereafter**
	$	$	$	$	$		$
Lease financing							
Operating lease arrangements	3,546	263	264	271	245	218	2,285
Short-term borrowings							
HBC Revolving Credit Facility	159	159	—	—	—	—	—
U.S. Revolving Credit Facility	108	108	—	—	—	—	—
Long-term borrowings							
Senior Term Loan B	826	—	—	—	—	—	826
Yorkdale Mortgage	48	2	1	1	1	1	42
Lord & Taylor Mortgage	318	1	3	314	—	—	—
Saks Mortgage	1,599	—	—	—	—	—	1,599
Finance leases and other	165	20	15	3	2	2	123
Purchase obligations	151	66	20	15	12	11	27
Other obligations	1,424	1,318	27	11	68	—	—
Total obligations	8,344	1,937	330	615	328	232	4,902

The table should be read in conjunction with the footnotes outlined in the contractual obligations section of management's discussion and analysis for the thirteen and fifty-two weeks ended January 31, 2015.

The revised table does not reflect the impacts of the anticipated transactions with RioCan and Simon previously announced on February 25, 2015 as these transactions had not yet closed.

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 $34 million as at May 2, 2015.

Other than in connection with the proposed joint venture transactions with Simon and RioCan, 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 (loss) 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 (loss) income amount to merchandise inventories. Subsequent changes in the fair value of the forward foreign exchange contracts are recorded in net (loss) earnings.

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

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

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

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

In connection with the Saks Acquisition, the Company issued Common Share purchase warrants which, due to certain features, are being presented as financial liabilities. The warrants are classified as fair value through profit or loss and measured at fair value. Subsequent changes in the fair value are recognized in net (loss) earnings 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 to the Company's audited consolidated financial statements for Fiscal 2014.

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 (loss) earnings 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 week period ended May 2, 2015 were U.S.$110 thousand (May 3, 2014: U.S.$100 thousand). The Landlord is an affiliate of National Realty & Development Corp. ("NRDC"). Richard Baker and Robert Baker, the principals of NRDC, are directors of the Company.

On February 25, 2014, the Company 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.

As at May 2, 2015, the Company has an outstanding receivable in the amount of $268 thousand due from Hudson's Bay Trading Company, LP, a shareholder of the Company, with respect to the reimbursement of expenses for services provided by HBC on their behalf.

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 and the Company's management's discussion and analysis for the thirteen and fifty-two weeks ended January 31, 2015.

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
- Loyalty programs
- Impairment and reversal of impairment of long-lived assets
- Impairment of goodwill
- Income taxes
- Post-employment benefits
- Valuation of financial instruments

Changes in Accounting Policies Including Initial Adoption

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. In April 2015, the IASB tentatively decided to defer the effective date of IFRS 15 to annual periods beginning on or after January 1, 2018, and to require retrospective application. Early adoption is permitted. The tentative decisions will be exposed in an upcoming exposure draft with a comment period of no less than 30 days. 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-c109”) 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.

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

There have been no changes in the Company’s internal controls over financial reporting during the thirteen week period ended May 2, 2015 that have 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 2014 filed on SEDAR on April 30, 2015.

Dividends

The Company’s Board of Directors approved the payment of a quarterly dividend on March 9, 2015, paid on April 15, 2015, to shareholders of record at the close of business March 31, 2015. The dividend was in the amount of $0.05 per Common Share and was 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 June 9, 2015, the Company had 182,100,001 Common Shares issued and outstanding and no preferred shares issued and outstanding. As of June 9, 2015, the Company had 9,695,523 share options, 314,990 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 are approximately 34 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 192.1 million Common Shares issued and outstanding on a fully diluted basis. Assuming exercise of all outstanding share options, the settlement of all outstanding restricted share units and the exercise of all outstanding warrants, there would be approximately 198.9 million Common Shares issued and outstanding on a fully diluted basis.