



**2013 Q3 INTERIM
CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

For the Thirteen and Thirty-Nine Weeks Ended

November 2, 2013

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF LOSS

(unaudited)

(millions of Canadian dollars, except per share amounts)	Notes	Thirteen weeks ended		Thirty-nine weeks ended	
		Nov 2, 2013	Oct 27, 2012 (restated – see note 2)	Nov 2, 2013	Oct 27, 2012 (restated – see note 2)
Retail sales		984.1	930.4	2,815.8	2,690.5
Cost of sales	9	(588.2)	(567.7)	(1,695.6)	(1,622.1)
Selling, general and administrative expenses		(389.2)	(358.3)	(1,120.5)	(1,085.1)
Operating income (loss)		6.7	4.4	(0.3)	(16.7)
Total interest expense, net		(10.8)	(31.7)	(39.9)	(81.4)
Acquisition-related finance costs		(123.4)	—	(183.3)	—
Finance costs	6	(134.2)	(31.7)	(223.2)	(81.4)
Loss before income tax		(127.5)	(27.3)	(223.5)	(98.1)
Income tax benefit	8	2.6	14.8	10.4	35.5
Net loss for the period — continuing operations		(124.9)	(12.5)	(213.1)	(62.6)
Net earnings (loss) for the period — discontinued operations, net of taxes	18	0.7	(1.9)	(74.1)	(59.3)
Net loss for the period		(124.2)	(14.4)	(287.2)	(121.9)
Net loss per common share — basic and diluted	12				
Continuing operations		(1.04)	(0.12)	(1.78)	(0.60)
Discontinued operations		—	(0.02)	(0.61)	(0.56)
		(1.04)	(0.14)	(2.39)	(1.16)

(See accompanying notes to the unaudited interim Condensed Consolidated Financial Statements)

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(unaudited)

	Thirteen weeks ended		Thirty-nine weeks ended	
	Nov 2, 2013	Oct 27, 2012 (restated – see note 2)	Nov 2, 2013	Oct 27, 2012 (restated – see note 2)
<i>(millions of Canadian dollars)</i>				
Net loss for the period	(124.2)	(14.4)	(287.2)	(121.9)
Other comprehensive (loss) income, net of tax:				
Items that may be reclassified subsequently to earnings or loss:				
Currency translation adjustment	1.9	(2.8)	22.9	(1.3)
Net (losses) gains on derivatives designated as cash flow hedges, net of taxes of \$0.4 and \$2.0 (2012 — \$0.4 and \$0.1), respectively	(0.4)	(1.0)	5.1	(0.1)
Reclassification to non-financial assets of net (losses) gains on derivatives designated as cash flow hedges, net of taxes of \$1.7 and \$1.2 (2012 — \$0.5 and \$0.1), respectively	(1.8)	1.3	(3.2)	(0.4)
Reclassification to earnings of net (losses) gains on derivatives designated as cash flow hedges, net of taxes of \$0.1 and \$0.4 (2012 — \$0.2 and \$0.2), respectively	(0.3)	0.5	(1.1)	0.6
Other comprehensive (loss) income	(0.6)	(2.0)	23.7	(1.2)
Total comprehensive loss	(124.8)	(16.4)	(263.5)	(123.1)

(See accompanying notes to the unaudited interim Condensed Consolidated Financial Statements)

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the thirty-nine weeks ended November 2, 2013 and October 27, 2012
(unaudited)

(millions of Canadian dollars)	Notes	Share Capital	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive (Loss) Income ("AOCI")			Total AOCI	Total Equity
					Currency Translation Adjustment	Employee Future Benefits	Cash Flow Hedges		
As at February 2, 2013		246.1	792.2	32.5	(11.5)	(61.6)	0.3	(72.8)	998.0
Impact of change in accounting policy	2	—	4.7	—	—	10.3	—	10.3	15.0
As at February 2, 2013 (restated)		246.1	796.9	32.5	(11.5)	(51.3)	0.3	(62.5)	1,013.0
Total comprehensive loss		—	(287.2)	—	22.9	—	0.8	23.7	(263.5)
Share based compensation	16	—	—	7.8	—	—	—	—	7.8
Dividends	12	—	(33.8)	—	—	—	—	—	(33.8)
As at November 2, 2013		246.1	475.9	40.3	11.4	(51.3)	1.1	(38.8)	723.5

(millions of Canadian dollars)	Note	Share Capital	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive (Loss) Income ("AOCI")			Total AOCI	Total Equity
					Currency Translation Adjustment	Employee Future Benefits	Cash Flow Hedges		
As at January 28, 2012		2.2	938.1	60.6	(9.8)	(35.9)	0.7	(45.0)	955.9
Impact of change in accounting policy	2	—	(5.0)	—	—	5.5	—	5.5	0.5
As at January 29, 2012 (restated)		2.2	933.1	60.6	(9.8)	(30.4)	0.7	(39.5)	956.4
Total comprehensive loss (restated)	2	—	(121.9)	—	(1.3)	—	0.1	(1.2)	(123.1)
Share based compensation		—	—	(22.8)	—	—	—	—	(22.8)
Dividends		—	(89.8)	—	—	—	—	—	(89.8)
As at October 27, 2012 (restated)		2.2	721.4	37.8	(11.1)	(30.4)	0.8	(40.7)	720.7

(See accompanying notes to the unaudited interim Condensed Consolidated Financial Statements)

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

As at November 2, 2013, October 27, 2012, February 2, 2013 and January 29, 2012

(unaudited)

(millions of Canadian dollars)	Notes	November 2, 2013	(restated – see note 2)		
			October 27, 2012	February 2, 2013	January 29, 2012
Assets					
Cash	7	26.2	37.9	48.3	42.4
Restricted funds.....	12	1,051.8	—	—	—
Trade and other receivables		83.8	53.6	74.3	124.0
Inventories.....	9	1,316.7	1,255.1	994.3	1,814.2
Financial assets	17	4.0	3.9	3.1	5.7
Other current assets		47.8	32.7	31.1	20.9
Income taxes recoverable		6.4	9.2	—	—
Assets of discontinued operations	18	61.3	614.1	268.6	—
Total current assets		2,598.0	2,006.5	1,419.7	2,007.2
Property, plant and equipment	10	1,459.3	1,318.1	1,335.0	1,401.1
Intangible assets		241.1	233.7	233.0	224.6
Pensions and employee benefits.....		17.6	70.9	38.3	91.0
Deferred tax assets		217.2	206.7	209.5	257.5
Other assets		11.9	9.1	12.1	12.1
Total assets		4,545.1	3,845.0	3,247.6	3,993.5
Liabilities					
Loans and borrowings	11	558.1	498.3	132.1	291.0
Trade payables		528.9	560.6	400.4	613.0
Other payables and accrued liabilities.....		292.5	309.8	269.7	700.5
Deferred revenue.....		105.1	117.4	109.9	132.5
Provisions.....		80.6	81.8	84.6	75.4
Income taxes payable		1.6	—	3.0	102.0
Financial liabilities	17	1,187.5	1.2	0.9	1.9
Liabilities of discontinued operations	18	107.9	481.3	342.9	—
Total current liabilities		2,862.2	2,050.4	1,343.5	1,916.3
Loans and borrowings	11	718.7	914.3	718.5	901.7
Provisions.....		14.7	12.9	13.5	24.5
Financial liabilities.....	17	41.7	2.6	—	—
Pensions and employee benefits.....		71.6	78.4	70.3	75.4
Other liabilities.....		112.7	65.7	88.8	119.2
Total liabilities		3,821.6	3,124.3	2,234.6	3,037.1
Shareholders' Equity					
Share capital.....	12	246.1	2.2	246.1	2.2
Retained earnings		475.9	721.4	796.9	933.1
Contributed surplus		40.3	37.8	32.5	60.6
Accumulated other comprehensive loss		(38.8)	(40.7)	(62.5)	(39.5)
Total shareholders' equity		723.5	720.7	1,013.0	956.4
Total liabilities and shareholders' equity		4,545.1	3,845.0	3,247.6	3,993.5

(See accompanying notes to the unaudited interim Condensed Consolidated Financial Statements)

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the thirty-nine weeks ended November 2, 2013 and October 27, 2012

(unaudited)

(millions of Canadian dollars)	Notes	Thirty-nine weeks ended					
		November 2, 2013			October 27, 2012		
		Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
(restated – see note 2)							
Operating activities							
Net loss for the period		(213.1)	(74.1)	(287.2)	(62.6)	(59.3)	(121.9)
Add: Income tax benefit		(10.4)	(25.6)	(36.0)	(35.5)	(75.1)	(110.6)
Add: Finance costs	6	223.2	0.2	223.4	81.4	(0.6)	80.8
Loss before income tax and finance costs		(0.3)	(99.5)	(99.8)	(16.7)	(135.0)	(151.7)
Net cash income taxes (paid) received		(4.2)	49.4	45.2	(9.9)	(2.7)	(12.6)
Interest paid		(41.1)	—	(41.1)	(66.2)	—	(66.2)
Items not affecting cash flows:							
Depreciation and amortization	5	91.3	—	91.3	73.1	4.9	78.0
Proceeds of sale of leasehold interests recognized	18	—	(33.4)	(33.4)	—	(216.8)	(216.8)
Impairment of property, plant and equipment	10	—	—	—	2.8	31.5	34.3
Net defined benefit pension and employee benefits expense		21.4	6.0	27.4	20.5	7.5	28.0
Other operating activities		(4.7)	(0.2)	(4.9)	(14.6)	1.4	(13.2)
Gain on sale of pharmacy records		—	—	—	—	(40.7)	(40.7)
Loss (gain) on sale of assets		—	16.4	16.4	(0.2)	15.5	15.3
Share based compensation	16	7.8	—	7.8	—	—	—
Redemption of share-based compensation	16	(1.5)	(4.5)	(6.0)	(6.0)	(9.4)	(15.4)
Changes in operating working capital:							
(Increase) decrease in trade and other receivables		(8.5)	7.8	(0.7)	8.0	33.4	41.4
(Increase) decrease in inventories		(305.6)	151.3	(154.3)	(284.3)	366.7	82.4
(Increase) decrease in other current assets		(14.2)	4.7	(9.5)	(13.1)	(4.0)	(17.1)
Increase (decrease) in trade and other payables, accrued liabilities and provisions		136.8	(191.9)	(55.1)	171.9	18.5	190.4
Increase (decrease) in other liabilities		19.1	(2.0)	17.1	(5.0)	4.8	(0.2)
Net cash (outflow for) inflow from operating activities		(103.7)	(95.9)	(199.6)	(139.7)	75.6	(64.1)
Investing activities							
Capital expenditures		(150.3)	—	(150.3)	(112.7)	—	(112.7)
Software development costs		(29.3)	—	(29.3)	(24.8)	—	(24.8)
Proceeds from sale of assets		—	2.7	2.7	1.0	82.1	83.1
Other investing activities		—	—	—	0.5	—	0.5
Net cash (outflow for) inflow from investing activities		(179.6)	2.7	(176.9)	(136.0)	82.1	(53.9)
Financing activities							
Long-term loans and borrowings:							
Issued		254.5	—	254.5	249.9	—	249.9
Repayments		(269.1)	—	(269.1)	(257.5)	—	(257.5)
Borrowing costs		(4.6)	—	(4.6)	(8.2)	—	(8.2)
		(19.2)	—	(19.2)	(15.8)	—	(15.8)
Short-term loans and borrowings:							
Net borrowings from asset-based credit facilities		406.6	—	406.6	224.3	—	224.3
Borrowing costs		(0.1)	—	(0.1)	(5.2)	—	(5.2)
Dividends paid		(33.8)	—	(33.8)	(89.8)	—	(89.8)
Net cash inflow from financing activities		353.5	—	353.5	113.5	—	113.5
Foreign exchange gains on cash		0.9	—	0.9	—	—	—
Increase (decrease) in cash		71.1	(93.2)	(22.1)	(162.2)	157.7	(4.5)
Transfer to continuing operations		(93.2)	93.2	—	157.7	(157.7)	—
Decrease in cash		(22.1)	—	(22.1)	(4.5)	—	(4.5)
Cash at beginning of period		48.3	—	48.3	42.4	—	42.4
Cash at end of period		26.2	—	26.2	37.9	—	37.9

(See accompanying notes to the unaudited interim Condensed Consolidated Financial Statements)

HUDSON'S BAY COMPANY

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(For the Thirteen and Thirty-nine Weeks Ended November 2, 2013, unaudited)

NOTE 1. GENERAL INFORMATION

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

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

The Company owns and operates department stores across Canada and regionally within the United States under Hudson's Bay, Home Outfitters and Lord & Taylor banners. The Company has substantively completed the discontinuation of its discount store business. The address of the registered office of HBC is 401 Bay Street, Toronto, ON, M5H 2Y4.

On November 4, 2013, the Company acquired Saks Incorporated ("Saks") whereby all of the issued and outstanding shares (other than shares owned by Saks and its subsidiaries) of Saks were purchased through Harry Acquisition Inc., an indirect wholly-owned subsidiary of the Company ("Merger Sub") for U.S.\$16.00 per share in an all-cash transaction (the "Acquisition") valued at approximately U.S.\$2,900.0 million, including debt assumed (see note 4).

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The unaudited interim condensed consolidated financial statements were prepared using the same accounting policies and methods as those used in the annual audited consolidated financial statements for the year ended February 2, 2013 except for the new accounting standards below which have been adopted on February 3, 2013. The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"), and therefore, do not contain all disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. Accordingly, certain information and note disclosures normally included in annual financial statements prepared in accordance with IFRS, have been omitted or condensed.

The preparation of unaudited interim condensed consolidated financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates which requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the unaudited interim financial statements have been set out in note 3 of the annual audited consolidated financial statements for the year ended February 2, 2013. In connection with the Acquisition, the Company has issued warrants. Additionally, due to the variability of the share issue price and certain features of the investment agreements, forward contracts ("Equity Commitment Forwards") have been recognized and accounted for as derivative financial instruments. 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 as finance costs based upon the end of period valuation. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended February 2, 2013.

These unaudited interim condensed consolidated financial statements were approved by the Company's Audit Committee on December [10], 2013.

Accounting Standards Implemented in Fiscal 2013

Employee Benefits

In June 2011, the IASB amended IAS 19 — Employee Benefits. The amendments provide clarification on the recognition of termination benefits; eliminate the existing option to defer actuarial gains and losses (known as the corridor approach) related to defined benefit plans; require changes from remeasurement of defined benefit plan assets and liabilities to be presented in the statement of other comprehensive income; and require additional disclosures. Net interest on the net defined benefit plan

assets and liabilities, as calculated under the amended IAS 19, is now included in finance costs in the statements of (loss) earnings in accordance with IAS 1 – Presentation of Financial Statements. The Company adopted the amended IAS 19 standard retrospectively in the first quarter of fiscal 2013. The impact of the amendments to IAS 19 is summarized as follows:

Consolidated Statements of Loss

<u>(millions of Canadian dollars, except per share amounts)</u>	Year ended Feb 2, 2013	Thirteen weeks ended Oct 27, 2012	Thirty-nine weeks ended Oct 27, 2012
Increase in selling, general and administrative expenses	(8.6)	(6.6)	(3.4)
Decrease in finance costs	3.5	1.0	2.7
Increase in income tax benefit	1.4	1.6	0.2
Increase in net loss – continuing operations	(3.7)	(4.0)	(0.5)
Decrease (increase) in net loss – discontinued operations.....	13.4	(8.4)	28.4
Decrease (increase) in net loss	<u>9.7</u>	<u>(12.4)</u>	<u>27.9</u>

Net (loss) earnings per common share - basic and diluted

Continuing operations	(0.03)	(0.04)	(0.01)
Discontinued operations	0.12	(0.08)	0.28
	<u>0.09</u>	<u>(0.12)</u>	<u>0.27</u>

Consolidated Statements of Comprehensive Loss

<u>(millions of Canadian dollars)</u>	Year ended Feb 2, 2013	Thirteen weeks ended Oct 27, 2012	Thirty-nine weeks ended Oct 27, 2012
Decrease (increase) in net loss.....	9.7	(12.4)	27.9
Decrease in net defined benefit plan actuarial loss net of taxes of \$1.8	4.8	—	—
Decrease in other comprehensive loss	4.8	—	—
Decrease (increase) in total comprehensive loss	<u>14.5</u>	<u>(12.4)</u>	<u>27.9</u>

Consolidated Balance Sheets

<u>(millions of Canadian dollars)</u>	Feb 2, 2013	Oct 27, 2012	Jan 29, 2012
Increase in income taxes recoverable	—	0.3	—
Decrease in assets of discontinued operations held for sale	(5.0)	(11.9)	—
Decrease in pensions and employee benefits - asset.....	—	(4.2)	—
Increase in deferred tax assets	—	1.2	—
(Decrease) increase in provisions	(1.9)	1.2	(0.7)
Increase in income taxes payable	0.5	—	0.2
Decrease in liabilities of discontinued operations held for sale.....	(18.6)	(44.2)	—
Increase (decrease) in retained earnings	4.7	22.9	(5.0)
Decrease in accumulated other comprehensive loss	10.3	5.5	5.5

Fair Value Measurement

In May 2011, the IASB issued IFRS 13 — Fair Value Measurement (“IFRS 13”), which is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosure about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. The Company implemented this standard prospectively in the first quarter of fiscal 2013 and there were no measurement impacts on the Company’s unaudited interim condensed consolidated financial statements. Implementation of IFRS 13 has resulted in additional disclosures in note 17 to these unaudited interim condensed consolidated financial statements.

Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10 — Consolidated Financial Statements (“IFRS 10”) which replaces portions of IAS 27 — Consolidated and Separate Financial Statements (“IAS 27”) and all of SIC-12 — Consolidation — Special Purpose Entities. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities. The standard requires an entity to consolidate an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. As a consequence, IAS 27 has been amended but retains the existing guidance for separate financial statements. The Company implemented the standard at the beginning of its 2013 fiscal year and the implementation did not have an impact on its results of operations, financial position and disclosures.

Disclosure of Involvement with Other Entities

In May 2011, the IASB issued IFRS 12 — Disclosure of Interests in Other Entities which establishes disclosure requirements for an entity’s interests in other entities, such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosure requirements and introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity’s interests in other entities. The Company implemented the standard at the beginning of its 2013 fiscal year and the implementation did not have an impact on its results of operations, financial position and disclosures.

Other Comprehensive Income Presentation

In June 2011, the IASB amended IAS 1 — Presentation of Financial Statements (the “IAS 1 amendment”) to require companies to group together items within other comprehensive income that may be reclassified to the profit or loss section of the income statement. The amendments reaffirm the existing requirements that items in other comprehensive income and profit or loss should be presented as either a single statement or two consecutive statements. As a result of the adoption of the IAS 1 amendment the Company has modified its presentation of other comprehensive income (loss) in these unaudited interim condensed consolidated financial statements.

Financial Instruments: Asset and Liability Offsetting - Disclosures

In December 2011, the IASB amended IFRS 7 — Financial Instruments: Disclosures (“IFRS 7”), to require new disclosures on the effect of offsetting arrangements on the Company’s financial position. The Company implemented IFRS 7 at the beginning of its 2013 fiscal year and the implementation did not have an impact on its results of operations, financial position and disclosures.

New Accounting Standards

Financial Instruments

In November 2009, the IASB issued IFRS 9 – Financial Instruments: Classification and Measurement (“IFRS 9”), which contained requirements for financial assets. The IASB added requirements for financial liabilities in October 2010. IFRS 9 will replace IAS 39 – Financial Instruments: Recognition and Measurement (“IAS 39”) in its entirety. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, the approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015 and early adoption is permitted. The Company is assessing the potential impact of this standard.

In December 2011, the IASB amended IAS 32 – Financial Instruments: Presentation (“IAS 32”) to clarify the requirements which permit offsetting a financial asset and liability in the financial statements. The IAS 32 amendments will be applied retrospectively for annual periods beginning on or after January 1, 2014. The Company is assessing the potential impact of the IAS 32 amendments.

In June 2013, IASB amended 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 is assessing the potential impact of the IAS 39 amendments.

Impairment of Assets

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

Levies

In May 2013, the IASB issued IFRIC 21: Levies, 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. IFRIC 21 is effective for periods beginning on or after January 1, 2014. The Company is assessing the potential impact of IFRIC 21.

NOTE 3. SEASONALITY

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

NOTE 4. ACQUISITION OF SAKS INCORPORATED

On November 4, 2013, subsequent to the end of the quarter, the Company completed its previously announced agreement to acquire Saks whereby the Company acquired all of the issued and outstanding shares of Saks (other than shares owned by Saks and its subsidiaries, the Company or Merger Sub) for U.S.\$16.00 per share in an all-cash transaction valued at approximately U.S.\$2,900.0 million, including debt assumed.

Saks is an omni-channel luxury retailer offering a wide assortment of distinctive fashion apparel, shoes, accessories, jewellery, cosmetics and gifts. The operations of Saks consist of 41 Saks stores and e-commerce operations as well as 71 Saks Fifth Avenue OFF 5TH stores.

The Acquisition has been financed, in part, through the issuance of 16,050,000 subscription receipts (the "Subscription Receipts") on September 10, 2013 for net proceeds of \$264.3 million (the "Offering") (note 12).

On November 4, 2013, subsequent to the end of the quarter, the remaining portion of the Acquisition was financed through the issuance of common shares to H.S. Investment L.P. ("HSILP"), an entity affiliated with Ontario Teachers' Pension Plan Board for net proceeds of U.S.\$500.0 million (note 12), the issuance of common shares to West Face Long Term Opportunities Global Master L.P. ("WF Fund"), a fund advised by West Face Capital Inc., for net proceeds of U.S.\$250.0 million (note 12), U.S.\$2,000.0 million of senior secured term loans, a portion of which was used to repay existing debt of the Company, and U.S.\$300.0 million of junior secured term loans (note 11).

The following table summarizes the preliminary fair value of the consideration given and the fair value assigned to the assets acquired and liabilities assumed:

<u>(millions of Canadian dollars)</u>	
Cash and cash equivalents.....	31.3
Trade and other receivables.....	67.9
Inventories.....	1,126.7
Other current assets.....	52.1
Property, plant and equipment	1,885.8
Intangible assets	494.9
Goodwill	517.7
Other assets	4.2
Loans and borrowings.....	(351.0)
Trade payables	(208.9)
Other payables and accrued liabilities.....	(277.3)
Deferred revenue.....	(41.4)
Provisions.....	(46.1)
Deferred tax liabilities.....	(403.7)
Other liabilities.....	(52.2)
Total identifiable net assets acquired	<u>2,800.0</u>

The Company has not completed its assessment and valuation of the assets acquired and liabilities assumed for the

Acquisition and therefore, the information disclosed above for identifiable net assets acquired is subject to change.

The Company believes goodwill identified above relates primarily to synergies which are expected to be achievable over a 36-month period. These synergies are currently expected to be realized in the following areas:

- Administration and Other Shared Services: Reduce expenses by expanding the existing multi-banner shared service organization to include Saks.
- Store Expenses: Leverage increased purchasing scale for non-merchandise items.
- IT Infrastructure and E-Commerce: Capitalize on Saks' recent IT system enhancements in order to maximize e-commerce business across all retail banners and to reorganize certain business processes to fully leverage a consolidated IT infrastructure and surrounding network architecture and tools.
- Cost of Goods Sold: Leverage the OFF 5TH infrastructure to more efficiently clear residual merchandise from all banners. Achieve greater purchasing power of merchandise across all banners.

If the Acquisition had occurred on February 3, 2013, consolidated retail sales and consolidated net loss of the Company would have been \$5,148.7 million and \$244.2 million respectively, for the thirty-nine weeks ended November 2, 2013. The consolidated net loss includes one-time non-recurring adjustments relating to the Acquisition, including \$86.2 million to cost of sales to reverse the fair value increment to inventory, and total estimated transaction costs of \$101.0 million.

The Company expects no amount of goodwill to be deductible for tax purposes.

On November 4, 2013, upon closing of the Acquisition and subsequent to the end of the quarter, the Company issued 3.5 million warrants to HSILP and 1.75 million warrants to WF Fund. HSILP was also issued 1.5 million warrants on July 28, 2013 upon execution of the definitive merger agreement with Saks ("Merger Agreement"). The warrants were issued in consideration for their respective equity commitments (note 17). The exercise price of the warrants is \$17.00 per share which represents a premium to the trading price of the Company's shares immediately prior to the announcement of the Acquisition. The warrants have a five year term from the date of issue and are subject to anti-dilution provisions in certain circumstances.

NOTE 5. DEPRECIATION AND AMORTIZATION

(millions of Canadian dollars)	Thirteen weeks ended		Thirty-nine weeks ended	
	Nov 2, 2013	Oct 27, 2012	Nov 2, 2013	Oct 27, 2012
Included in selling, general and administrative expenses:				
Property, plant and equipment	21.8	20.7	64.7	65.3
Intangible assets	9.2	6.1	27.9	18.2
Other	—	(1.8)	(1.3)	(5.5)
	31.0	25.0	91.3	78.0

NOTE 6. FINANCE COSTS

	Thirteen weeks ended		Thirty-nine weeks ended	
	Nov 2, 2013	Oct 27, 2012 (restated – see note 2)	Nov 2, 2013	Oct 27, 2012 (restated – see note 2)
(millions of Canadian dollars)				
Interest expense on long-term borrowings.....	6.8	18.5	21.4	53.2
Interest expense on short-term borrowings.....	4.3	5.9	13.7	21.0
Write-off of deferred financing costs (note 11)	—	9.4	5.8	11.7
Net interest on pensions and employee benefits	(0.2)	(1.0)	(0.6)	(2.7)
Interest income.....	(0.1)	(0.2)	(0.4)	(0.9)
Fair value movement of HBC Term Loan embedded derivative.....	—	(0.9)	—	(0.9)
Total interest expense, net	10.8	31.7	39.9	81.4
Finance related costs on warrants (note 17)	7.0	—	18.4	—
Change in fair value of Equity Commitment Forwards (note 17)	104.7	—	153.2	—
Bridge financing transaction fees	11.7	—	11.7	—
Acquisition-related finance costs.....	123.4	—	183.3	—
	134.2	31.7	223.2	81.4

In connection with financing the Acquisition, the Company secured a bridge financing facility in the amount of U.S.\$900.0 million to fund potential delays related to closing the uncommitted equity and debt financing transactions. Although the facility was not drawn upon, the Company incurred transaction fees related to the facility which have been included in finance costs.

NOTE 7. CASH

For the purpose of the unaudited interim condensed consolidated statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments. Cash as at November 2, 2013, October 27, 2012, February 2, 2013 and January 29, 2012 as shown in the unaudited interim condensed consolidated balance sheets is comprised of the following:

(millions of Canadian dollars)	Nov 2, 2013	Oct 27, 2012	Feb 2, 2013	Jan 29, 2012
Cash	25.2	33.3	43.0	42.4
Restricted cash.....	1.0	4.6	5.3	—
	26.2	37.9	48.3	42.4

NOTE 8. INCOME TAXES

Income tax benefit for the thirteen and thirty-nine weeks ended November 2, 2013 was \$2.6 million and \$10.4 million (2012: \$14.8 million and \$35.5 million). The effective income tax rate of 2.0% and 4.7% (2012: 54.2% and 36.2%) decreased compared to the thirteen and thirty-nine weeks ended October 27, 2012 primarily due to a decrease in statutory rate, decrease in prior year recoveries and non-deductible permanent differences, principally consisting of acquisition-related costs (note 6).

NOTE 9. INVENTORIES

Inventories on hand at November 2, 2013, October 27, 2012, February 2, 2013, and January 29, 2012 were available for sale. The cost of merchandise inventories related to continuing operations recognized as expense for the thirteen and thirty-nine weeks ended November 2, 2013 was \$588.2 million and \$1,695.6 million (2012: \$567.7 million and \$1,622.1 million).

The write-down of merchandise inventories below cost to net realizable value related to continuing operations as at November 2, 2013 was \$21.8 million (October 27, 2012: \$17.2 million; February 2, 2013: \$33.9 million; January 29, 2012: \$31.5 million). There was no reversal of write-downs previously taken on merchandise inventories that are no longer estimated to sell below cost. Inventory has been pledged as security for certain borrowing agreements.

NOTE 10. PROPERTY, PLANT AND EQUIPMENT

Each reporting period, the Company conducts a review of its cash generating units (“CGU’s”) in order to determine any indication of impairment losses or reversals of previously recorded impairment losses. In the thirteen and thirty-nine weeks ended November 2, 2013, no impairment losses (2012: nil and \$34.3 million) were recognized. During the thirty-nine weeks ended October 27, 2012, \$2.8 million of the impairment losses recognized related to changes to the Company’s logistics infrastructure as a result of volume declines associated with the closure of the Zellers banner and \$31.5 million related to a write-down of store fixtures and leasehold improvements of Zellers banner CGU’s.

NOTE 11. LOANS AND BORROWINGS

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

a) Current loans and borrowings

<u>(millions of Canadian dollars)</u>	<u>Nov 2, 2013</u>	<u>Oct 27, 2012</u>	<u>Feb 2, 2013</u>	<u>Jan 29, 2012</u>
HBC Revolving Credit Facility	301.3	325.0	—	155.0
Lord & Taylor Revolving Credit Facility.....	250.2	179.3	137.8	125.2
Current portion of long-term loans and borrowings	19.6	10.5	10.0	27.6
	571.1	514.8	147.8	307.8
Less: unamortized costs.....	(13.0)	(16.5)	(15.7)	(16.8)
	558.1	498.3	132.1	291.0

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

HBC Revolving Credit Facility

<u>(millions of Canadian dollars)</u>	<u>Nov 2, 2013</u>	<u>Oct 27, 2012</u>	<u>Feb 2, 2013</u>	<u>Jan 29, 2012</u>
Gross borrowing base availability	672.5	942.1	560.7	1,063.1
Drawings	(301.3)	(325.0)	—	(155.0)
Outstanding letters of credit	(9.0)	(14.1)	(14.4)	(29.0)
Borrowing base availability net of drawings and letters of credit.....	362.2	603.0	546.3	879.1

Lord & Taylor Revolving Credit Facility

<u>(millions of Canadian dollars)</u>	<u>Nov 2, 2013</u>	<u>Oct 27, 2012</u>	<u>Feb 2, 2013</u>	<u>Jan 29, 2012</u>
Gross borrowing base availability	365.0	349.3	312.5	263.4
Drawings	(250.2)	(179.3)	(137.8)	(125.2)
Outstanding standby letters of credit.....	(8.0)	(2.2)	(2.2)	(6.3)
Borrowing base availability net of drawings and standby letters of credit.....	106.8	167.8	172.5	131.9

b) Long-term loans and borrowings

(millions of Canadian dollars)	Nov 2, 2013	Oct 27, 2012	Feb 2, 2013	Jan 29, 2012
HBC Term Loan (Canadian properties)	200.0	—	250.0	—
Old HBC Term Loan (Canadian properties)	—	443.8	—	448.9
Yorkdale Mortgage.....	49.7	—	—	—
Lord & Taylor Mortgage (U.S.\$250.0)	260.7	249.5	249.3	—
Lord & Taylor GE Capital Term Loan (U.S. properties ¹).....	208.5	—	—	—
Lord & Taylor Term Loan (U.S. properties ²).....	—	204.9	204.7	450.3
Other mortgages	10.2	12.3	11.7	13.7
Equipment finance leases and other	19.8	28.4	25.9	34.5
	748.9	938.9	741.6	947.4
Less: unamortized costs.....	(10.6)	(14.1)	(13.1)	(18.1)
Less: amounts due within one year.....	(19.6)	(10.5)	(10.0)	(27.6)
	718.7	914.3	718.5	901.7

¹ Balance as at November 2, 2013 was U.S.\$200.0 million

² Balance as at November 2, 2013 was nil (October 27, 2012: U.S.\$ 205.3 million; February 2, 2013: U.S.\$205.3 million; January 29, 2012: U.S.\$445.5 million).

On May 22, 2013 the Company entered into an agreement with Murray & Company Holdings Limited for a \$50.0 million mortgage (the “Yorkdale Mortgage”). The Yorkdale Mortgage matures in 10 years, 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. In connection with the prepayment, \$0.3 million of deferred financing costs were written off.

On May 23, 2013 the Company and General Electric Capital Corporation (“GE Capital”) executed the Second Amended and Restated Credit Agreement (the “Lord & Taylor Credit Facility”) that continues to provide a revolving line of credit (the “Lord & Taylor Revolving Credit Facility”) and a new U.S.\$200.0 million Term Loan (the “Lord & Taylor GE Capital Term Loan”). Together with cash on hand, the proceeds of the Lord & Taylor GE Capital Term Loan repaid the Lord & Taylor Term Loan (Lender was Credit Suisse Securities LLC) in full. The Lord & Taylor Credit Facility matures on May 23, 2018, currently bears interest at LIBOR plus 2.25% per annum and is secured by first lien security on the majority of the owned and ground leased facilities (excluding the Fifth Avenue L&T flagship store) and the accounts receivable, inventory and furniture and fixtures of L&T. In connection with the repayment of the Lord & Taylor Term Loan, \$5.5 million of deferred financing costs were written-off.

Subsequent to the end of the quarter on November 4, 2013, in connection with the closing of the Acquisition, the Company entered into an agreement for a U.S.\$2,000.0 million senior secured term loan facility (“Senior Term Loan B”) with Bank of America, as the administrative agent. Senior Term Loan B matures November 4, 2020 and will initially carry 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”). Senior Term Loan B is subject to quarterly principal repayments equal to 0.25% and mandatory prepayments. Senior Term Loan B is secured by a second lien over all of the Company’s inventory and accounts receivables, a first lien over substantially all other assets as well as a pledge of the shares of certain of the Company’s subsidiaries. A portion of the proceeds from Senior Term Loan B was used to repay in full the HBC Term Loan and Lord & Taylor GE Capital Term Loan, while the remainder was used in financing the Acquisition. In connection with the repayments of the HBC Term Loan and Lord & Taylor GE Capital Term Loan, approximately \$0.9 million and \$4.3 million of deferred financing costs will be written-off, respectively.

Concurrently with the close of Senior Term Loan B, the Company obtained an incremental junior secured term facility of U.S.\$300.0 million (the “Junior Term Loan”). The Junior Term Loan matures on November 4, 2021 and has an initial interest rate of LIBOR (with a LIBOR Floor) plus 7.25% per annum. The remaining credit terms of the Junior Term Loan are substantially consistent with the Senior Term Loan B with the exception that the Junior Term Loan is not subject to quarterly principal repayments. The Junior Term Loan is secured by a third lien over all of the Company’s inventory and accounts receivables, a second lien over substantially all other assets as well as a pledge of the shares of certain of the Company’s subsidiaries. Proceeds from the Junior Term Loan were used to finance the Acquisition.

In addition, the L&T and Saks revolving credit facilities were refinanced through a new U.S. revolving credit facility with a maximum availability of U.S.\$950.0 million (“U.S. Revolving Credit Facility”). 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). The U.S. Revolving Credit Facility is available for general corporate purposes and matures November 4, 2018. 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. In connection with the refinancing of the L&T revolving credit facility, approximately \$1.7 million of deferred financing costs will be written-off.

During the thirteen and thirty-nine weeks ended October 27, 2012, L&T prepaid U.S.\$242.5 million of the Lord & Taylor Term Loan with the net proceeds of the Lord & Taylor Mortgage. The repayment resulted in a charge of \$9.4 million, which has been included in finance costs (note 6).

NOTE 12. SHARE CAPITAL

On September 10, 2013 the Company issued 16,050,000 Subscription Receipts at a price of \$17.15 per Subscription Receipt, for aggregate gross proceeds of \$275.3 million. The gross proceeds included \$11.0 million of underwriters' fees, fifty percent of which were paid on September 10, 2013. The balance of the proceeds were held in escrow pending confirmation by the Company that the conditions precedent to completing the Acquisition contained in the Merger Agreement had been satisfied (the "Escrow Release Condition"). The gross proceeds from the Offering are presented as a current financial liability in the unaudited interim condensed consolidated balance sheet as at November 2, 2013. The balance of the proceeds, representing fifty percent of the underwriters' fees and net proceeds of \$264.3 million are presented as restricted funds in the unaudited interim condensed consolidated balance sheet as at November 2, 2013.

On November 4, 2013, subsequent to the end of the quarter, the Escrow Release Condition was satisfied upon completion of the Acquisition. Accordingly, the Company issued 16,050,000 common shares in exchange for the Subscription Receipts. As the Subscription Receipts were contingently issuable as at November 2, 2013, and all contingent terms had not been satisfied at that time, the Subscription Receipts have not been included in basic or diluted earnings per common share for the thirteen and thirty-nine weeks ended November 2, 2013.

On November 4, 2013, upon completion of the Acquisition and subsequent to the end of the quarter, the Company issued 30,673,530 common shares for net proceeds of \$521.3 million (U.S.\$500.0 million) to HSILP and 15,376,471 common shares for net proceeds of \$260.7 million (U.S.\$250.0 million) to WF Fund (note 4). As the net proceeds were received prior to the end of the quarter, the receipts were recognized as restricted funds and current financial liabilities in the unaudited interim condensed consolidated balance sheet as at November 2, 2013.

On June 11, 2013, March 15, 2013 and September 11, 2013 the Company's Board of Directors declared a dividend of \$0.09375 per common share which was paid on July 15, 2013, April 15, 2013 and October 15, 2013 to shareholders of record at the close of business on June 28, 2013, March 28, 2013 and September 30, 2013, respectively.

The number of common shares issued and outstanding as at November 2, 2013 was 120.0 million (October 27, 2012: 104.7 million; February 2, 2013: 120.0 million; January 29, 2012: 104.7 million).

The weighted average number of common shares outstanding for the thirteen and thirty-nine weeks ended November 2, 2013 was 120.0 million (2012: 104.7 million).

NOTE 13. RELATED PARTY TRANSACTIONS

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

On May 6, 2011, a subsidiary of L&T entered into a two year lease with SP 35 L.P. (the "Landlord") for approximately 31,000 square feet in Shrewsbury, NJ. The lease was amended on January 17, 2013 to include three renewal options. The first two renewal options are for terms of two and three years respectively at an annual cost of U.S.\$0.4 million. The third renewal option is for a term of five years at an annual cost of U.S.\$0.5 million. The first renewal option was exercised. Amounts charged to the Company under the rental arrangement for the thirteen and thirty-nine weeks ended November 2, 2013 were \$0.1 million and \$0.3 million (2012: \$0.1 and \$0.3 million), respectively. The Landlord is an affiliate of National Realty & Development Corp. ("NRDC"), an entity under common control. Richard Baker and Robert Baker, the principals of NRDC, are also members of L&T B.

Prior to November 26, 2012, agreements existed between HBC and other related parties including HBTC, True North Retail Investments Limited Partnership ("TNRI"), Hudson's Bay Company (Luxembourg) S. à r.l. ("HBCL"), and NRDC, all of which are entities under common control for the reimbursement of expenses and management fees. On November 26, 2012 these agreements were amended such that these entities will no longer be entitled to management fees, or to have their

expenses reimbursed.

Amounts charged to the Company by HBTC, TNRI, and HBCL relating to the reimbursement of expenses were \$0.7 million and \$1.4 million for the thirteen and thirty-nine weeks ended October 27, 2012, respectively. Amounts charged to the Company by HBTC under a management agreement were \$0.5 million and \$1.5 million for the thirteen and thirty-nine weeks ended October 27, 2012, respectively. Amounts charged to the Company by NRDC under a property agreement were \$1.3 million and \$3.3 million for the thirteen and thirty-nine weeks ended October 27, 2012, respectively.

In connection with the Target Transaction (note 18), on September 29, 2012, Zellers and L&T B entered into a Fee Agreement that provided for a fee of \$8.0 million payable to L&T B for advisory services. The fee was paid to L&T B on October 27, 2012.

As at October 27, 2012 and January 29, 2012 nil and \$0.8 million were included in other current assets for fees paid or incurred under the agreements. In October 2012, the Company received a \$3.2 million payment from TNRI to settle a receivable related to advances which had been outstanding at January 29, 2012.

During the thirteen and thirty-nine weeks ended November 2, 2013, the Company recorded a receivable from HBTC of \$0.3 million relating to the reimbursement of expenses for services provided by HBC on their behalf.

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

NOTE 14. CONTINGENT LIABILITIES

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

NOTE 15. SEGMENTED REPORTING

As a result of the divestiture of the Zellers and Fields banners, the Company has one reportable operating segment, Department Stores, which earns revenue from the sale of fashion apparel, accessories, cosmetics and home products to customers in a similar target market. The Department Stores segment which includes Hudson's Bay, Lord & Taylor and Home Outfitters is managed by the Chief Operating Decision Maker and supported by an integrated shared services function.

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

<u>(millions of Canadian dollars)</u>	<u>Thirteen weeks ended</u>		<u>Thirty-nine weeks ended</u>	
	<u>Nov 2, 2013</u>	<u>Oct 27, 2012</u>	<u>Nov 2, 2013</u>	<u>Oct 27, 2012</u>
Total retail sales				
Canada	632.8	599.6	1,792.8	1,694.4
United States.....	351.3	330.8	1,023.0	996.1
	984.1	930.4	2,815.8	2,690.5
<u>(millions of Canadian dollars)</u>				
Total operating income (loss)				
Canada	(1.2)	(2.5)	(36.1)	(68.0)
United States.....	7.9	6.9	35.8	51.3
	6.7	4.4	(0.3)	(16.7)

(millions of Canadian dollars)	Nov 2, 2013	(restated – see note 2)		
		Oct 27, 2012	Feb 2, 2013	Jan 29, 2012
Total assets				
Canada ^{1,2}	2,974.6	2,375.6	1,887.3	2,708.5
United States.....	1,570.5	1,469.4	1,360.3	1,285.0
	4,545.1	3,845.0	3,247.6	3,993.5

¹ Includes assets of discontinued operations of \$61.3 million as at November 2, 2013 (October 27, 2012: \$614.1 million; February 2, 2013: \$268.6 million).

² Includes restricted funds relating to the Acquisition of \$1,051.8 million as at November 2, 2013

NOTE 16. SHARE BASED COMPENSATION

During the thirteen and thirty-nine weeks ended November 2, 2013, the Company granted options under its share option plans which were established concurrently with the IPO. The share option plans for certain employees and its Board of Directors are described in note 19 to the Company's 2012 audited consolidated financial statements.

On May 6, 2013, the Company granted 0.7 million performance share units ("PSUs") with a fair value of \$14.64 per unit. The fair value was determined based on the Company's share price at the date of the grant and adjusted to reflect that PSUs are not entitled to dividends. The PSUs vest three years from the date of grant at the end of that calendar year and are forfeited immediately in the event a grantee is terminated for cause, and after 45 days in the event of a voluntary resignation or termination without cause, subject to a pro-rata vesting schedule if the grantee is terminated. The grant date fair value of the PSUs is \$9.9 million of which \$7.7 million is expected to vest.

On June 19, 2013, the Company granted 0.4 million performance based options and 0.1 million options with a grant date fair value of \$4.20 and \$4.25 per option, respectively, to employees under similar terms and conditions as those granted concurrently with the IPO. The grant date fair value of these options is \$2.0 million of which \$1.0 million is expected to vest. The assumptions related to the valuation of the grants are as follows:

Share price	\$ 15.99
Exercise price.....	\$ 17.00
Expected volatility	38.7%
Risk-free interest rate.....	1.40%
Dividend yield	2.35%
Weighted average expected life	6.1 years

On June 19, 2013 the Company granted 32,647 restricted share units ("RSUs") under similar terms and conditions as those granted concurrently with the IPO. The grant-date fair value of these RSUs is \$0.6 million. As at November 2, 2013, there were 0.1 million RSUs outstanding.

On September 19, 2013, the Company granted 0.1 million performance based options and 0.1 million options with a grant date fair value of \$4.54 and \$4.51 per option, respectively, to employees under similar terms and conditions as those granted concurrently with the IPO. The grant date fair value of these options is \$0.6 million of which \$0.3 million is expected to vest. The assumptions related to the valuation of the grants are as follows:

Share price	\$ 17.47
Exercise price.....	\$ 17.47
Expected volatility	30.3%
Risk-free interest rate.....	1.58%
Dividend yield	1.01%
Weighted average expected life	5.7 years

During the thirteen and thirty-nine weeks ended November 2, 2013, \$2.8 million and \$7.8 million (2012: nil and nil) of share based compensation expense was recognized. The following is a summary of the Company's activity related to these plans for the thirty-nine weeks ended November 2, 2013:

(millions)	PSUs	Options
Outstanding at beginning of year.....	—	7.1
Issued.....	0.7	0.7
Forfeited.....	—	(0.7)
Outstanding at November 2, 2013.....	0.7	7.1
Exercisable at November 2, 2013.....	—	—
Weighted average contract life remaining at November 2, 2013.....	3.2 years	9.1 years

The weighted average exercise price of all options outstanding, issued and forfeited is \$17.01.

During the thirteen and thirty-nine weeks ended November 2, 2013, nil and \$6.0 million (2012: \$2.5 million and \$15.4 million) was paid related to the redemption of long-term incentive plan units. The liability for future payments related to these redemptions at November 2, 2013 was \$2.4 million (October 27, 2012: \$15.1 million; February 2, 2013: \$8.4 million; January 29, 2012: nil).

NOTE 17. FINANCIAL INSTRUMENTS

The fair value of the HBC Revolving Credit Facility, Lord & Taylor Revolving Credit Facility, HBC Term Loan, Yorkdale Mortgage, Lord & Taylor Mortgage and the Lord & Taylor GE Capital Term Loan are valued using a discounted cash flow model, taking into consideration the fixed interest rate spread included in the related debt compared to fixed interest rate spreads on similar debt available in the market at the balance sheet dates. These instruments are classified within Level 2 of the fair value hierarchy. As at November 2, 2013, the carrying value and fair value of these debt instruments was \$1,280.6 million and \$1,279.9 million, respectively. On November 4, 2013, subsequent to the end of the quarter, the Lord & Taylor Revolving Credit Facility and the Lord & Taylor GE Capital Term Loan were refinanced (note 11). The carrying value and fair value of these debt instruments was \$458.7 million.

Cash, restricted funds, restricted cash, trade and other receivables, trade payables and other payables and accrued liabilities are financial assets or liabilities that are recorded at their carrying value in the unaudited interim condensed consolidated balance sheets. The fair value of these financial assets and liabilities approximate their carrying values as at November 2, 2013 due to their short-term nature.

The fair values of foreign currency options, interest rate swaps, forward foreign currency contracts, warrants and the Equity Commitment Forwards reflect the estimated amounts that the Company would receive or pay if it were to settle the contracts at the reporting date and are determined using valuation techniques based on observable market input data. These instruments are classified within Level 2 of the fair value hierarchy. As at November 2, 2013, the fair value of derivative financial assets, current derivative financial liabilities and non-current derivative financial liabilities are \$4.0 million, \$130.2 million and \$41.7 million, respectively.

Current and non-current financial liabilities are summarized in the following tables and discussed below:

Financial liabilities – current

(millions of Canadian dollars)	Nov 2, 2013
Gross proceeds from Subscription Receipts (note 12).....	275.3
Proceeds from HSILP and WF Fund in advance of common shares issuance (note 12).....	782.0
Fair value of Equity Commitment Forwards.....	129.9
Fair value of embedded foreign currency derivatives.....	0.3
	<u>1,187.5</u>

Financial liabilities – non-current

(millions of Canadian dollars)	Nov 2, 2013
Fair value of 1.5 million warrants issued to HSILP.....	9.0
Fair value of 5.25 million warrants issued to HSILP and WF Fund.....	32.7
	<u>41.7</u>

The gross proceeds from the sale of Subscription Receipts (note 12) resulted in the presentation of a financial liability as at November 2, 2013 in the unaudited interim condensed consolidated balance sheet. Due to its short-term nature, the fair value

of this financial liability approximates its carrying value as at November 2, 2013.

As net proceeds of \$521.3 million (U.S.\$500.0 million) from HSILP and \$260.7 million (U.S.\$250.0 million) from WF Fund were received in advance of the issuance of common shares (note 12), the Company recognized the receipt of the cash as a financial liability in the unaudited interim condensed consolidated balance sheet as at November 2, 2013. Due to its short-term nature, the fair value of this financial liability approximates its carrying value as at November 2, 2013.

The Equity Commitments from HSILP and WF Fund required the Company to issue its common shares at a future date at \$17.00 per share (subject to adjustment in certain limited circumstances). Due to the variability of the share issue price and certain other features of the investment agreements with HSILP and WF Fund, Equity Commitment Forwards have been recognized and accounted for as derivative financial instruments. On the date of the execution of the Merger Agreement, the Equity Commitment Forwards were determined to be in an asset position. During the thirteen and thirty-nine weeks ended November 2, 2013, the Company recognized expense of \$104.7 million and \$153.2 million representing the mark to market adjustments. The expense for the thirty-nine weeks ended November 2, 2013 represents the mark to market adjustment from the date of the execution of the Merger Agreement to the period end date. As at November 2, 2013, the fair value of the liability for the Equity Commitment Forwards was \$129.9 million. The fair values were determined using a forward pricing model utilizing the assumptions outlined below. At the date of the execution of the Merger Agreement, the 5.25 million warrants and Equity Commitment Forwards were valued together. The Company continued to record mark to market gains and losses on the Equity Commitment Forwards until the commitment period ended subsequent to the end of the quarter on November 4, 2013. Upon completion of the Acquisition and at the end of the commitment period, the Company derecognized the Equity Commitment Forwards and reclassified the related financial liability of \$129.9 million to equity.

Certain features of the warrants issued in connection with the Acquisition (note 4) result in the warrants being presented as derivative financial liabilities recorded at fair value in the unaudited interim condensed consolidated balance sheet.

In relation to the 1.5 million warrants issued to HSILP concurrently with the execution of the Merger Agreement, during the thirteen and thirty-nine weeks ended November 2, 2013, the Company recognized finance related costs of \$1.4 million and \$9.0 million representing the mark to market adjustments to the fair value of \$9.0 million as at November 2, 2013. The fair values were determined using the Black-Scholes options pricing model using the assumptions outlined below.

In relation to the 5.25 million warrants issued to HSILP and WF Fund on November 4, 2013 upon closing of the transaction and subsequent to the end of the quarter, the Company recognized finance related costs of \$5.6 million and \$9.4 million during the thirteen and thirty-nine weeks ended November 2, 2013. The expense for the thirty-nine weeks ended November 2, 2013 represents the mark to market adjustment from the date of the execution of the Merger Agreement. Accounting recognition was required due to the high likelihood that the Acquisition would close. As at November 2, 2013, the fair value of the 5.25 million warrants was \$32.7 million. The fair values were determined using the Black-Scholes options pricing model using the assumptions outlined below.

The Company will continue to record mark to market gains and losses on the warrants until the earlier of the date of exercise or expiry.

The assumptions related to the valuation of the warrants issued and the Equity Commitment Forwards are as follows:

Share price - July 26, 2013.....	\$16.49
Share price – November 2, 2013.....	\$19.82
Expected warrant volatility – 1.5 million warrants	29.4%
Expected warrant volatility – 5.25 million warrants	29.8%
Expected Equity Commitment Forwards volatility	63.6%
Dividend yield.....	1.01%
Risk free interest rate	1.58%
Expected life – 1.5 million warrants	4.8 years
Expected life – 5.25 million warrants	5.0 years
Expected life – Equity Commitment Forwards	up to Nov. 4, 2013

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 which utilize observable market input data.

NOTE 18. DISCONTINUED OPERATIONS

Discontinued Operations

The Company has substantively completed the discontinuation of its discount store business which consists of the Zellers and Fields banners. The plan was approved by the Company's Board of Directors on April 19, 2012. The decision followed the sale of certain Zellers' leasehold interests to Target Corporation (the "Target Transaction"). As a result of these changes, the Company has reflected the discount store operations as discontinued operations in the unaudited interim condensed consolidated statements of loss.

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

	Thirteen weeks ended		Thirty-nine weeks ended	
	Nov 2, 2013	Oct 27, 2012 (restated – see note 2)	Nov 2, 2013	Oct 27, 2012 (restated – see note 2)
(millions of Canadian dollars)				
Net earnings (loss) from discontinued operations, net of taxes	0.7	(61.2)	(102.8)	(184.4)
Sale of leasehold interests, net of taxes.....	—	59.3	28.7	125.1
Net earnings (loss) for the period — discontinued operations, net of taxes.....	0.7	(1.9)	(74.1)	(59.3)

Net earnings (loss) from discontinued operations were as follows:

	Thirteen weeks ended		Thirty-nine weeks ended	
	Nov 2, 2013	Oct 27, 2012 (restated – see note 2)	Nov 2, 2013	Oct 27, 2012 (restated – see note 2)
(millions of Canadian dollars)				
Retail sales	—	540.3	145.8	1,837.1
Cost of sales.....	—	(442.8)	(162.4)	(1,349.0)
Selling, general and administrative expenses	0.2	(194.3)	(116.2)	(768.2)
Operating income (loss).....	0.2	(96.8)	(132.8)	(280.1)
Finance income (costs)	0.4	0.8	(0.2)	0.6
Earnings (loss) before income tax.....	0.6	(96.0)	(133.0)	(279.5)
Income tax benefit	0.1	34.8	30.2	95.1
Net earnings (loss) for the period	0.7	(61.2)	(102.8)	(184.4)

Net earnings from the sale of leasehold interests in the thirteen and thirty-nine weeks ended November 2, 2013 were nil and \$28.7 million (2012: \$59.3 million and \$125.1 million), net of income taxes of nil and \$4.7 million (2012: \$9.5 million and \$20.0 million).

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

Assets and Liabilities of Discontinued Operations

The unaudited interim condensed consolidated balance sheet for November 2, 2013 reflects assets and liabilities relating to the discontinuance of the Zellers and Fields businesses. IFRS does not permit the restatement of balance sheets of periods prior to the businesses being designated as held for sale. The following table sets out the assets and liabilities relating to Zellers and Fields businesses as at November 2, 2013, October 27, 2012, February 2, 2013 and January 29, 2012.

<u>(millions of Canadian dollars)</u>	Nov 2, 2013	(restated – see note 2)		
		Oct 27, 2012	Feb 2, 2013	Jan 29, 2012
Trade and other receivables	2.9	24.1	10.8	56.0
Inventories	—	477.5	151.5	844.2
Other current assets	0.2	5.0	4.7	1.0
Income taxes recoverable	43.2	38.4	62.2	—
Property, plant and equipment	—	38.1	19.4	130.6
Deferred tax assets	15.0	30.8	19.9	61.1
Other assets - non-current	—	0.2	0.1	3.2
Assets of discontinued operations	61.3	614.1	268.6	
Trade payables	8.1	98.6	41.6	215.3
Other payables and accrued liabilities	8.1	169.9	100.6	382.7
Provisions - current	89.1	193.1	184.9	30.4
Income taxes payable	—	—	—	93.7
Provisions - non-current	2.6	12.4	11.7	12.1
Other liabilities	—	7.3	4.1	46.6
Liabilities of discontinued operations	107.9	481.3	342.9	

NOTE 19. SUBSEQUENT EVENTS

On November 4, 2013, the Company completed the Acquisition of Saks. References to transactions related to the closing of the Acquisition are made in notes 4, 11 and 12.

On December 4, 2013, the Company's Board of Directors declared a dividend of \$0.05 per common share, payable on December 30, 2013, to shareholders of record at the close of business on December 13, 2013.