



**2013 ANNUAL CONSOLIDATED  
FINANCIAL STATEMENTS**

For the Year Ended

**February 1, 2014**

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Hudson's Bay Company

We have audited the accompanying consolidated financial statements of Hudson's Bay Company, which comprise the consolidated balance sheets as at February 1, 2014, February 2, 2013 and January 29, 2012, and the consolidated statements of loss, consolidated statements of comprehensive loss, consolidated statements of shareholders' equity and consolidated statements of cash flows for the 52 weeks ended February 1, 2014 and 53 weeks ended February 2, 2013 and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Hudson's Bay Company as at February 1, 2014, February 2, 2013 and January 29, 2012 and its financial performance and its cash flows for the 52 weeks ended February 1, 2014 and 53 weeks ended February 2, 2013 in accordance with International Financial Reporting Standards.

The image shows a handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants, Chartered Accountants  
Licensed Public Accountants

April 2, 2014  
Toronto, Canada

**HUDSON'S BAY COMPANY**

**CONSOLIDATED STATEMENTS OF LOSS**

**For the 52 weeks ended February 1, 2014 and 53 weeks ended February 2, 2013**  
(millions of Canadian dollars, except per share amounts)

	February 1, 2014	February 2, 2013
	(Fiscal 2013)	(restated – see note 2(z)) (Fiscal 2012)
Notes		
Retail sales.....	5,223.4	4,077.0
Cost of sales.....	10 (3,216.8)	(2,487.0)
Selling, general and administrative expenses .....	(1,823.9)	(1,370.4)
Depreciation and amortization.....	5 (175.6)	(104.1)
<b>Operating income</b> .....	<b>7.1</b>	<b>115.5</b>
Total interest expense, net .....	(95.2)	(97.1)
Acquisition-related finance costs.....	(166.1)	—
<b>Finance costs</b> .....	6 (261.3)	(97.1)
<b>(Loss) earnings before income tax — continuing operations</b> .....	<b>(254.2)</b>	<b>18.4</b>
Income tax benefit .....	7 78.5	9.4
<b>Net (loss) earnings for the year — continuing operations</b> .....	<b>(175.7)</b>	<b>27.8</b>
Net loss for the year — discontinued operations, net of taxes.....	28 (82.4)	(62.9)
<b>Net loss for the year</b> .....	<b>(258.1)</b>	<b>(35.1)</b>
<b>Basic net (loss) earnings per common share</b> .....	21	
Continuing operations.....	(1.30)	0.26
Discontinued operations .....	(0.61)	(0.59)
	<b>(1.91)</b>	<b>(0.33)</b>
<b>Diluted net (loss) earnings per common share</b> .....	21	
Continuing operations.....	(1.33)	0.26
Discontinued operations .....	(0.61)	(0.59)
	<b>(1.94)</b>	<b>(0.33)</b>

*(See accompanying notes to the Consolidated Financial Statements)*

**HUDSON'S BAY COMPANY**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

**For the 52 weeks ended February 1, 2014 and 53 weeks ended February 2, 2013**  
(millions of Canadian dollars)

	<b>February 1, 2014</b>	<b>February 2, 2013</b>
	<b>(Fiscal 2013)</b>	<b>(restated – see note 2(z)) (Fiscal 2012)</b>
<b>Net loss</b> .....	<b>(258.1)</b>	<b>(35.1)</b>
<b>Other comprehensive income (loss), net of tax:</b>		
<b>Item that will not be reclassified to earnings or loss:</b>		
Net actuarial gain (loss) of employee benefit plans, net of taxes of \$15.6 (2012: \$7.6) .....	<b>44.8</b>	<b>(20.9)</b>
<b>Items that may be reclassified subsequently to earnings or loss:</b>		
Currency translation adjustment .....	<b>160.7</b>	<b>(1.7)</b>
Net loss on net investment hedge, net of taxes of \$4.3 (2012: nil) .....	<b>(53.6)</b>	<b>—</b>
Net gain (loss) on derivatives designated as cash flow hedges, net of taxes of \$3.8 (2012: \$0.3) .....	<b>9.6</b>	<b>(0.8)</b>
Reclassification to non-financial assets of net losses on derivatives designated as cash flow hedges, net of taxes of \$1.6 (2012: \$0.1) .....	<b>(4.3)</b>	<b>(0.3)</b>
Reclassification to earnings of net (losses) gains on derivatives designated as cash flow hedges, net of taxes of \$1.1 (2012: \$0.3) .....	<b>(3.0)</b>	<b>0.7</b>
<b>Other comprehensive income (loss)</b> .....	<b>154.2</b>	<b>(23.0)</b>
<b>Total comprehensive loss</b> .....	<b>(103.9)</b>	<b>(58.1)</b>

*(See accompanying notes to the Consolidated Financial Statements)*

HUDSON'S BAY COMPANY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the 52 weeks ended February 1, 2014 and 53 weeks ended February 2, 2013  
(millions of Canadian dollars)

	Notes	Accumulated Other Comprehensive Income (Loss) ("AOCI")							Total Shareholders' Equity	
		Share Capital	Retained Earnings	Contributed Surplus	Currency Translation Adjustment	Employee Benefits	Net Investment Hedge	Cash Flow Hedges		Total AOCI
<b>As at January 28, 2012</b> .....		<b>2.2</b>	<b>938.1</b>	<b>60.6</b>	(9.8)	(35.9)	—	0.7	<b>(45.0)</b>	<b>955.9</b>
Impact of change in accounting policy .....	2(z)	—	(5.0)	—	—	5.5	—	—	5.5	0.5
<b>As at January 29, 2012 (restated)</b> .....		<b>2.2</b>	<b>933.1</b>	<b>60.6</b>	(9.8)	(30.4)	—	0.7	<b>(39.5)</b>	<b>956.4</b>
Comprehensive loss (restated) .....		—	(35.1)	—	(1.7)	(20.9)	—	(0.4)	(23.0)	(58.1)
Share based compensation.....		8.5	—	(28.1)	—	—	—	—	—	(19.6)
Issuance of common shares ...	20	235.4	—	—	—	—	—	—	—	235.4
Dividends .....	20	—	(101.1)	—	—	—	—	—	—	(101.1)
<b>As at February 2, 2013 (restated)</b> .....		<b>246.1</b>	<b>796.9</b>	<b>32.5</b>	(11.5)	(51.3)	—	0.3	<b>(62.5)</b>	<b>1,013.0</b>
Comprehensive loss .....		—	(258.1)	—	160.7	44.8	(53.6)	2.3	154.2	(103.9)
Share based compensation.....	19	—	—	10.6	—	—	—	—	—	10.6
Issuance of common shares ..	20	1,173.9	—	—	—	—	—	—	—	1,173.9
Dividends .....	20	—	(42.9)	—	—	—	—	—	—	(42.9)
<b>As at February 1, 2014</b> .....		<b>1,420.0</b>	<b>495.9</b>	<b>43.1</b>	149.2	(6.5)	(53.6)	2.6	<b>91.7</b>	<b>2,050.7</b>

(See accompanying notes to the Consolidated Financial Statements)

**HUDSON'S BAY COMPANY**  
**CONSOLIDATED BALANCE SHEETS**

As at February 1, 2014, February 2, 2013 and January 29, 2012  
(millions of Canadian dollars)

	Notes	(restated – note 2(z))		
		February 1, 2014 (Fiscal 2013)	February 2, 2013 (Fiscal 2012)	January 29, 2012 (Fiscal 2011)
<b>ASSETS</b>				
Cash .....	8	20.8	48.3	42.4
Trade and other receivables .....	9	137.2	74.3	124.0
Inventories .....	10	2,025.5	994.3	1,814.2
Financial assets .....	18	8.3	3.1	5.7
Other current assets .....		71.4	31.1	20.9
Income taxes recoverable .....		22.9	—	—
Assets of discontinued operations .....	28	2.3	268.6	—
<b>Total current assets</b> .....		<b>2,288.4</b>	1,419.7	2,007.2
Property, plant and equipment .....	11	4,110.4	1,335.0	1,401.1
Intangible assets .....	12	981.4	233.0	224.6
Goodwill .....	12	213.6	—	—
Pensions and employee benefits .....	17	72.2	38.3	91.0
Deferred tax assets .....	7	248.7	209.5	257.5
Other assets .....		12.3	12.1	12.1
<b>Total assets</b> .....		<b>7,927.0</b>	3,247.6	3,993.5
<b>LIABILITIES</b>				
Loans and borrowings .....	14	531.6	132.1	291.0
Trade payables .....		585.1	400.4	613.0
Other payables and accrued liabilities .....		469.3	269.7	700.5
Deferred revenue .....		151.5	109.9	132.5
Provisions .....	15	149.4	84.6	75.4
Income taxes payable .....		9.6	3.0	102.0
Financial liabilities .....	18	0.8	0.9	1.9
Liabilities of discontinued operations .....	28	88.9	342.9	—
<b>Total current liabilities</b> .....		<b>1,986.2</b>	1,343.5	1,916.3
Loans and borrowings .....	14	2,923.3	718.5	901.7
Provisions .....	15	15.9	13.5	24.5
Financial liabilities .....	18	23.5	—	—
Pensions and employee benefits .....	17	95.9	70.3	75.4
Deferred tax liabilities .....	7	634.9	—	—
Other liabilities .....	13	196.6	88.8	119.2
<b>Total liabilities</b> .....		<b>5,876.3</b>	2,234.6	3,037.1
<b>Shareholders' Equity</b>				
Share capital .....	20	1,420.0	246.1	2.2
Retained earnings .....		495.9	796.9	933.1
Contributed surplus .....		43.1	32.5	60.6
Accumulated other comprehensive income (loss) .....		91.7	(62.5)	(39.5)
<b>Total shareholders' equity</b> .....		<b>2,050.7</b>	1,013.0	956.4
<b>Total liabilities and shareholders' equity</b> .....		<b>7,927.0</b>	3,247.6	3,993.5

*(See accompanying notes to the Consolidated Financial Statements)*

On behalf of the Board:

Director

Director

HUDSON'S BAY COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the 52 weeks ended February 1, 2014 and 53 weeks ended February 2, 2013  
(millions of Canadian dollars)

	February 1, 2014			February 2, 2013 (restated – see note 2(z))			
	Notes	(Fiscal 2013)		(Fiscal 2012)		Total	
		Continuing operations	Discontinued operations	Continuing operations	Discontinued operations		
<b>Operating activities</b>							
Net (loss) earnings for the year .....		(175.7)	(82.4)	(258.1)	27.8	(62.9)	(35.1)
Add: Income tax benefit.....		(78.5)	(27.9)	(106.4)	(9.4)	(77.9)	(87.3)
Add: Finance costs (income).....		261.3	—	261.3	97.1	(0.4)	96.7
Earnings (loss) before income tax and finance costs .....		7.1	(110.3)	(103.2)	115.5	(141.2)	(25.7)
Net cash income taxes received (paid) .....		1.3	93.2	94.5	(10.2)	(2.7)	(12.9)
Interest (paid) received in cash.....		(81.7)	—	(81.7)	(86.9)	0.7	(86.2)
Items not affecting cash flows:							
Recognition of proceeds on sale of leasehold interests... 28		—	(33.4)	(33.4)	—	(271.5)	(271.5)
Depreciation and amortization..... 5		175.6	—	175.6	104.1	5.0	109.1
Impairment of property, plant and equipment ..... 11, 28		4.1	—	4.1	11.9	31.5	43.4
Net defined benefit pension and employee benefits expense.....		20.8	6.0	26.8	11.8	10.0	21.8
Other operating activities .....		(14.5)	(0.2)	(14.7)	(21.1)	1.5	(19.6)
Gain on sale of pharmacy records ..... 28		—	—	—	—	(41.0)	(41.0)
Loss (gain) on sale of assets .....		—	16.4	16.4	(9.1)	28.2	19.1
Share based compensation..... 19		10.6	—	10.6	5.2	—	5.2
Redemption of share based compensation grants ..... 19		(3.2)	(5.2)	(8.4)	(18.3)	(9.5)	(27.8)
Changes in operating working capital: .....							
Decrease in trade and other receivables.....		36.8	7.8	44.6	0.5	42.2	42.7
Decrease (increase) in inventories.....		179.7	151.3	331.0	(24.1)	692.7	668.6
Decrease (increase) in other current assets .....		4.1	6.4	10.5	(9.8)	(3.9)	(13.7)
Decrease in trade and other payables, accrued liabilities and provisions.....		(161.7)	(210.7)	(372.4)	(13.7)	(67.3)	(81.0)
Increase (decrease) in other liabilities .....		25.2	(7.0)	18.2	25.0	(1.9)	23.1
<b>Net cash inflow from (outflow for) operating activities .....</b>		<b>204.2</b>	<b>(85.7)</b>	<b>118.5</b>	<b>80.8</b>	<b>272.8</b>	<b>353.6</b>
<b>Investing activities</b>							
Acquisition of Saks, net of cash acquired..... 4		(2,765.7)	—	(2,765.7)	—	—	—
Capital expenditures.....		(238.3)	—	(238.3)	(159.3)	—	(159.3)
Software development costs .....		(53.2)	—	(53.2)	(43.6)	—	(43.6)
Proceeds from lease termination .....		3.6	—	3.6	—	—	—
Proceeds from sale of assets .....		—	2.7	2.7	4.7	81.7	86.4
Other investing activities.....		(0.5)	—	(0.5)	0.9	—	0.9
<b>Net cash (outflow for) inflow from investing activities .....</b>		<b>(3,054.1)</b>	<b>2.7</b>	<b>(3,051.4)</b>	<b>(197.3)</b>	<b>81.7</b>	<b>(115.6)</b>
<b>Financing activities</b>							
Long-term loans and borrowings:..... 14							
Issuance.....		2,658.6	—	2,658.6	499.5	—	499.5
Repayments.....		(684.1)	—	(684.1)	(704.1)	—	(704.1)
Borrowing costs .....		(85.0)	—	(85.0)	(8.9)	—	(8.9)
Net decrease in other long-term borrowings.....		(1.6)	—	(1.6)	—	—	—
		1,887.9	—	1,887.9	(213.5)	—	(213.5)
Short-term loans and borrowings: .....							
Net borrowings (repayments) of asset-based credit facilities.....		36.3	—	36.3	(142.2)	—	(142.2)
Borrowing costs .....		(14.4)	—	(14.4)	(5.4)	—	(5.4)
		21.9	—	21.9	(147.6)	—	(147.6)
Issuance of common shares .....	20	1,039.3	—	1,039.3	230.1	—	230.1
Dividends paid .....		(42.9)	—	(42.9)	(101.1)	—	(101.1)
<b>Net cash inflow from (outflow for) financing activities .....</b>		<b>2,906.2</b>	<b>—</b>	<b>2,906.2</b>	<b>(232.1)</b>	<b>—</b>	<b>(232.1)</b>
Foreign exchange losses on cash.....		(0.8)	—	(0.8)	—	—	—
Increase (decrease) in cash .....		55.5	(83.0)	(27.5)	(348.6)	354.5	5.9
Transfer (from) to continuing operations .....		(83.0)	83.0	—	354.5	(354.5)	—
(Decrease) increase in cash .....		(27.5)	—	(27.5)	5.9	—	5.9
<b>Cash at beginning of year .....</b>		<b>48.3</b>	<b>—</b>	<b>48.3</b>	<b>42.4</b>	<b>—</b>	<b>42.4</b>
<b>Cash at end of year.....</b>		<b>20.8</b>	<b>—</b>	<b>20.8</b>	<b>48.3</b>	<b>—</b>	<b>48.3</b>

(See accompanying notes to the Consolidated Financial Statements)

## HUDSON'S BAY COMPANY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 1. GENERAL INFORMATION

Hudson's Bay Company ("HBC" or the "Company") is a Canadian corporation continued under the Canada Business Corporations Act and domiciled in Canada. On July 16, 2008, HBC was acquired by Hudson's Bay Trading Company, LP ("HBTC"), a limited partnership now domiciled in the Cayman Islands. NRDC L&T B LLC ("L&T B"), a 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.

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 Lord & Taylor Acquisition Inc. ("L&T Acquisition"), a wholly-owned subsidiary of the Company, via Harry Acquisition Inc., an indirect wholly-owned subsidiary of L&T Acquisition ("Merger Sub") for U.S.\$16.00 per share in an all-cash transaction (the "Acquisition") valued at U.S.\$2,973.2 million (\$3,096.6 million), including debt assumed (see note 4).

The Company owns and operates department stores in Canada and the United States under Hudson's Bay, Home Outfitters, Lord & Taylor, Saks and Saks Fifth Avenue OFF 5TH ("OFF 5TH") 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, Suite 500, Toronto, ON, M5H 2Y4.

#### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

##### a) Statement of compliance

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

The consolidated financial statements for the year ended February 1, 2014 were authorized for issuance by the Board of Directors of HBC on April 2, 2014.

##### b) Basis of presentation

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

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

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

##### c) Basis of consolidation

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



**d) Fiscal year**

The fiscal year of the Company consists of a 52 or 53 week period. Fiscal year 2013 represents 52 weeks and fiscal year 2012 represents 53 weeks ended on February 1, 2014 and February 2, 2013, respectively. References to years in the consolidated financial statements and notes to the consolidated financial statements relate to fiscal years rather than calendar years.

**e) Foreign currency translation**

*i) Functional and presentation currency*

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

*ii) Transactions and balances*

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

*iii) Foreign operations*

The results and financial position of L&T Acquisition and its subsidiaries including L&T and Saks, which have a U.S. dollar functional currency, are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing exchange rate at the date of each balance sheet;
- revenues and expenses are translated at average exchange rates;
- equity transactions are translated at exchange rates on the date the transactions occur; and
- all resulting foreign exchange translation differences are recognized as currency translation adjustment in the consolidated statement of comprehensive loss.

**f) Business combinations and goodwill**

Business combinations are accounted for using the acquisition method.

Goodwill is measured as the difference between the fair value of the consideration transferred and the fair value of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. Goodwill is not amortized.

Consideration transferred includes the fair value of the assets acquired (including cash), liabilities assumed, the fair value of any contingent consideration and equity interests issued by the Company.

Transaction costs incurred in connection with a business combination are expensed in the period as incurred.

**g) Cash**

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

## **h) Trade and other receivables**

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

## **i) Inventories**

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

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

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

## **j) Property, plant and equipment**

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

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

<u>Asset</u>	<u>Amortization Periods</u>
Buildings.....	up to 70 years
Leasehold improvements .....	up to 20 years
Fixtures and fittings .....	up to 19 years
Assets held under finance leases.....	up to 50 years

Although the table reflects maximum amortization periods, most assets are amortized over shorter periods. The assets' useful lives and residual values are reviewed, and adjusted if appropriate, annually.

## **k) Intangible assets**

Private label brands and banner names with indefinite lives are measured at cost less any accumulated impairment losses and are not amortized.

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

<u>Asset</u>	<u>Amortization Periods</u>
Software including internally developed costs .....	up to 7 years
Banner names.....	indefinite
Private label brands.....	indefinite
Credit cards.....	up to 5 years
Favourable lease rights .....	up to 75 years

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

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

**l) Impairment of non-financial assets**

The carrying amount of property, plant, and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Indefinite life intangible assets and goodwill are tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset may be impaired.

An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell ("FVLCTS") and value in use. The FVLCTS of an asset is assessed, where practicable, by external valuers. Value in use is estimated as the present value of the future cash flows that the Company expects to derive from the asset. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are largely independent cash inflows (cash-generating units). With the exception of certain corporate assets, which are tested at the entity level, all assets are tested for impairment at the store level asset grouping.

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

**m) Provisions**

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

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

*i) Self-insurance*

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

*ii) Restructuring*

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

*iii) Onerous leases and contracts*

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

expected cost of terminating the contract and the expected net cost of continuing with the contract.

*iv) Asset retirement obligations*

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

*v) Legal*

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

**n) Leases**

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

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

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

The accounting treatment of a sale and leaseback transaction depends upon the substance of the transaction and whether the sale price reflects fair value.

For sale and finance leasebacks, any gain or loss from the sale is deferred and amortized over the term of the lease. For sale and operating leasebacks, if it is clear the transaction is established at fair value, any gain or loss is recognized immediately. If the sale price is below fair value, any gain or loss is recognized immediately except that if the loss is compensated for by future lease payments at below market price, the loss is deferred and amortized in proportion to the lease payments over the term of the lease. If the sale price is above fair value, the excess over fair value is deferred and amortized over the term of the lease.

**o) Income taxes**

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

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

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

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

**p) Employee benefits**

*i) Short-term employee benefits*

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

*ii) Post-employment benefits*

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

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

Actuarial gains and losses are recognized in other comprehensive income (loss) in the period in which they arise. Past service costs are recognized in selling, general and administrative expenses in the year in which they arise. For funded plans, surpluses are recognized only to the extent that the surplus is considered recoverable. Recoverability is primarily based on the extent to which the Company can unilaterally reduce future contributions to the plan.

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

*iii) Other long-term employee benefits*

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

*iv) Termination benefits*

Termination benefits are recognized as an expense and a liability at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

*v) Share based payments*

The Company operates share based incentive plans under which it receives services from certain employees as consideration. For equity settled awards, the fair value of the grant of equity interests is recognized as an expense over the period that the related service is rendered with a corresponding increase in equity. For cash-settled awards, the fair value of the liability is remeasured at the end of each reporting period, with the change in fair value recognized as an expense over the period that the related service is rendered. Certain awards provide the Company

with a choice of settlement in cash or by issuing equity. In these cases, the award is accounted for as a cash-settled award when the Company has a present obligation to settle in cash.

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

**q) Financial assets**

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

*i) Financial assets at fair value through profit or loss*

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

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

*ii) Loans and receivables*

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

*iii) Held-to-maturity*

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

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

<u>Asset</u>	<u>Category</u>
Cash .....	Loans and receivables
Restricted cash .....	Loans and receivables
Short-term deposits .....	Held-to-maturity
Trade and other receivables .....	Loans and receivables

*iv) Impairment*

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

v) *Financial assets carried at amortized cost*

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

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

**r) Financial liabilities**

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

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

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

**s) Derivative financial instruments**

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

- (a) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge);
- (b) hedges of foreign currency exposure (net investment hedge);
- (c) hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge).

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

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

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

The Company does not use derivatives for trading or speculative purposes. The Company had cash flow hedges outstanding for the years ended February 1, 2014 and February 2, 2013 and a net investment hedge outstanding for the year ended February 1, 2014.

#### *Cash flow hedges*

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

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

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

#### *Derivatives at fair value through profit or loss*

Changes in the fair value of derivatives embedded in a host contract and derivatives that are not distinguished in a hedging relationship are recognized immediately in net earnings (loss). Embedded derivatives (elements of contracts whose cash flows move independently from the host contract) are required to be separated and measured at their respective fair values unless certain criteria are met. The Company has recorded the fair value of embedded derivatives in HBC's U.S. dollar denominated purchase orders with certain non-U.S. based vendors. The fair value of these embedded derivatives is recorded in financial assets or financial liabilities, depending on the embedded derivative's fair value.

Due to the variability of the share issue price and certain features of the equity investment agreements related to the Acquisition, forward contracts ("Equity Commitment Forwards") were recognized and accounted for as derivative financial instruments which are classified as fair value through profit or loss and measured at fair value.

In connection with the Acquisition, the Company also issued warrants. Certain features of the warrants result in their presentation as derivative financial liabilities which are classified as fair value through profit or loss and recorded in financial liabilities at fair value.

#### *Offsetting of financial instruments*

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

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

#### **t) Borrowing costs**

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

#### **u) Revenue recognition**

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



The Company recognizes revenue when the amount can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities as described below. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

*i) Retail merchandise sales*

Revenue consists of sales through retail stores of the banners operated by the Company and includes sales through the Company's e-commerce ("Digital Commerce") operations. Merchandise sales through retail stores are recognized at the time of delivery to the customer which is generally at point of sale. Merchandise sales through Digital Commerce are recognized upon estimated receipt by the customer.

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

*ii) Gift cards*

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

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

**v) Credit operations**

The Company earns royalty payments from credit card issuers based on the total of Company and other sales charged to either Private Label Credit Cards ("PLCC") or MasterCards. Royalty rates change based on the year-to-date credit volume of out-of-store credit card sales. The Company also receives bounty payments from 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 revenues are included as a reduction of selling, general and administrative expenses.

**w) Vendor allowances**

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

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

**x) Loyalty programs**

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

**y) Assets held for sale and discontinued operations**

Non-current assets and groups of assets and liabilities which comprise disposal groups are presented as assets held for sale, where the asset or disposal group is available for sale in its present condition and the sale is highly probable. For this purpose,

the sale is considered highly probable if management is committed to a plan to achieve the sale; there is an active program to find a buyer; the non-current asset or disposal group is being actively marketed at a reasonable price; the sale is anticipated to be completed within one year from the date of classification, and; it is unlikely there will be changes to the plan.

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

**z) New accounting standards implemented in the current year**

**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 benefit plan assets and liabilities, as calculated under the amended IAS 19, is now included in finance costs in the statements of loss 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**

(millions of Canadian dollars, except per share amounts)

	2012
Increase in selling, general and administrative expenses.....	(5.3)
Decrease in finance costs.....	0.2
Increase in income tax benefit.....	1.4
Increase in net loss – continuing operations.....	(3.7)
Decrease in net loss – discontinuing operations.....	13.4
Decrease in net loss.....	<u>9.7</u>

**Net loss per common share – basic and diluted**

Continuing operations.....	(0.03)
Discontinuing operations.....	0.12
	<u>0.09</u>

**Consolidated Statements of Comprehensive Loss**

(millions of Canadian dollars)

	2012
Decrease in net loss.....	9.7
Decrease in net defined benefit plan actuarial loss net of taxes of \$1.7.....	4.8
Decrease in other comprehensive loss.....	4.8
Decrease in total comprehensive loss.....	<u>14.5</u>

**Consolidated Balance Sheets**

(millions of Canadian dollars)

	Feb 2, 2013	Jan 29, 2012
Decrease in assets of discontinued operations held for sale.....	(5.0)	—
Decrease in provisions.....	(1.9)	(0.7)
Increase in income taxes payable.....	0.5	0.2
Decrease in liabilities of discontinued operations held for sale.....	(18.6)	—
Increase (decrease) in retained earnings.....	4.7	(5.0)
Decrease in accumulated other comprehensive loss.....	10.3	5.5

**Consolidated Financial Statements**

In May 2011, the IASB issued IFRS 10 — Consolidated Financial Statements (“IFRS 10”) which replaces portions of IAS 27 — Consolidated and Separate Financial Statements (“IAS 27”) and all of SIC-12 — Consolidation — Special Purpose Entities. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities. The standard requires an entity to consolidate an investee when it is exposed to, or has

rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. As a consequence, IAS 27 has been amended but retains the existing guidance for separate financial statements. IFRS 10 was issued as part of the IASB's broader project on interests in all types of entities. On June 28, 2012, the IASB issued amendments to IFRS 10 which provides transition relief, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The Company has applied the standard at the beginning of its 2013 fiscal year and 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 (“IFRS 12”) which establishes disclosure requirements for an entity's interests in other entities, such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosure requirements and introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. On June 28, 2012, the IASB issued amendments to IFRS 12 which provides transition relief, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. IFRS 12 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The Company has applied the standard at the beginning of its 2013 fiscal year and implementation resulted in additional disclosures in note 27 of these consolidated financial statements.

### **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 consolidated financial statements. Implementation of IFRS 13 has resulted in additional disclosures in notes 17 and 18 to these consolidated financial statements.

### **Other Comprehensive Income Presentation**

In June 2011, the IASB amended IAS 1 — Presentation of Financial Statements to require companies to group together items within other comprehensive income that may be reclassified to the profit or loss section of the income statement. The amendments reaffirm the existing requirements that items in other comprehensive income and profit or loss should be presented as either a single statement or two consecutive statements. The amendments are effective for annual periods beginning on or after July 1, 2012. As a result of the adoption of the IAS 1 amendment the Company has modified its presentation of other comprehensive income (loss) in these consolidated financial statements.

### **Financial Instruments — Asset and Liability Offsetting**

The IASB has issued amendments to IFRS 7 and IAS 32, Financial Instruments: Presentation (“IAS 32”), which clarify the requirements for offsetting financial instruments and require new disclosures on the effect of offsetting arrangements on the Company's financial position. The amendments to IFRS 7 are effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014 and must be applied retrospectively. The Company 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.

#### **aa) Future accounting standards not yet adopted**

### **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. The effective date for implementation of this standard has been deferred. 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 and must be applied retrospectively. The Company is assessing the potential impact of IFRIC 21.

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

In the application of the Company’s accounting policies, which are described in note 2, and the preparation of the consolidated financial statements, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities, and reporting of income and expenses, that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ materially from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments and estimations that management has made in the process of applying the Company’s accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

### **Business combinations**

Fair value of assets acquired and liabilities assumed in a business combination is estimated based on information available at the date of acquisition and involves considerable judgment in determining the fair values assigned to property, plant and equipment and intangible assets acquired and liabilities assumed on acquisition. The determination of these fair values involves analysis including the use of discounted cash flow analysis, estimated future margins, future growth rates, market rents and capitalization rates. There is measurement uncertainty inherent in this analysis and actual results could differ from estimates.

### **Inventory valuation**

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

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

## **Loyalty programs**

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

## **Impairment and reversal of impairment of long-lived assets**

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

## **Impairment of goodwill**

The Company uses judgment in determining the grouping of assets to identify its cash generating units (“CGUs”) for purposes of testing for impairment of goodwill. In testing for impairment, goodwill acquired in a business combination is allocated to the CGUs that are expected to benefit from the synergies of the business combination. For the Acquisition, the Company has not yet completed its analysis for the allocation of goodwill to CGUs or groups of CGUs who will benefit from the synergies and as such; goodwill cannot be reliably allocated at this time. Judgment is also used to determine whether an indication of impairment is present which would require the completion of an impairment test. Details of the allocation of goodwill are set out in note 4.

## **Valuation of Warrants and Equity Commitment Forwards**

In connection with the Acquisition, the Company issued warrants. Additionally, due to the variability of the share issue price and certain features of the equity investment agreements related to the Acquisition, forward contracts (“Equity Commitment Forwards”) were recognized and accounted for as derivative financial instruments which are classified as fair value through profit or loss and measured at fair value. The classification of these instruments as financial liabilities is an area of significant judgment. The Company recorded the mark-to-market valuation adjustment of the warrants and Equity Commitment Forwards as finance costs based upon the valuation at the end of each reporting period.

## **Provisions**

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

## **Sales returns**

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

## **Share based compensation**

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

## **Income taxes**

The Company recognizes expected liabilities for tax based on an estimation of the likely taxes due, which requires judgment

as to the ultimate tax determination of certain items. In addition, the Company has made estimates of future profitability in relation to an assessment of the recoverability of tax losses. Details of the tax charge and deferred tax are set out in note 7.

### Pensions and employee benefits

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

### Lease accounting

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

## NOTE 4. ACQUISITION OF SAKS

On November 4, 2013, 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 U.S.\$2,973.2 million (\$3,096.6 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 Digital Commerce operations as well as 71 OFF 5TH stores.

The Acquisition consideration of \$2,797.0 million was financed through a subscription receipts offering (note 20), the issuance of common shares pursuant to equity commitments to H.S. Investment L.P. ("HSILP"), an entity affiliated with Ontario Teachers' Pension Plan Board, and to West Face Long Term Opportunities Global Master L.P. ("WF Fund"), a fund advised by West Face Capital Inc. (note 20), and the incurrence of U.S.\$2,000.0 million and U.S.\$300.0 million term loans (note 14). As consideration for the equity commitments of HSILP and WF Fund, the Company issued 6.75 million warrants (notes 18 and 20).

The following table summarizes the estimated 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 .....	31.3
Trade and other receivables.....	67.8
Inventories.....	1,096.5
Other current assets.....	50.3
Property, plant and equipment .....	2,413.7
Intangible assets .....	682.4
Goodwill .....	199.7
Other assets .....	4.1
Loans and borrowings – revolving credit facility.....	(298.9)
Loans and borrowings – finance leases .....	(123.3)
Loans and borrowings – other.....	(2.2)
Trade payables .....	(275.1)
Other payables and accrued liabilities.....	(222.4)
Deferred revenue.....	(41.4)
Provisions.....	(50.8)
Deferred tax liabilities.....	(637.9)
Pensions and employee benefits.....	(29.2)
Other liabilities.....	(67.6)
<b>Total identifiable net assets acquired and consideration given .....</b>	<b><u>2,797.0</u></b>

The Company has not yet finalized the purchase price allocation including goodwill and therefore, the information disclosed above for identifiable net assets acquired is subject to change.

The analysis for the allocation of goodwill to CGUs or groups of CGUs which will benefit from the synergies has not yet been completed and as such, goodwill cannot be reliably allocated at this time. This is the case as the Company is still in the process of identifying total synergies and where in terms of groups of CGUs these synergies will be realized. Given goodwill cannot be reliably allocated and no indications of impairment of goodwill have been identified as at February 1, 2014, the Company did not perform testing for impairment of goodwill as at February 1, 2014. The initial allocation of goodwill is required to be completed by the end of fiscal 2014.

The Company believes goodwill identified 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 Digital Commerce: Capitalize on Saks' recent IT system enhancements in order to maximize Digital 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.
- Gross profit: Leverage the OFF 5TH infrastructure to more efficiently clear residual merchandise from all banners. Achieve greater purchasing power of merchandise across all banners.

Retail sales and net loss of Saks included in the consolidated statement of net loss for fiscal 2013 are \$1,006.1 million and \$63.1 million respectively. If the Acquisition had occurred on February 3, 2013, consolidated retail sales and consolidated net loss of the Company would have been \$7,556.3 million and \$229.8 million respectively, for the year ended February 1, 2014.

The Company has incurred acquisition-related costs of \$104.0 million related to external legal fees, consulting fees, due diligence costs and investment banking fees. These costs have been included in selling, general and administrative expenses and finance costs in the consolidated statements of loss.

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

**NOTE 5. DEPRECIATION AND AMORTIZATION**

The following table includes depreciation and amortization of both continuing and discontinued operations.

<u>(millions of Canadian dollars)</u>	<u>2013</u>	<u>2012</u>
Property, plant and equipment .....	<b>128.5</b>	88.7
Intangible assets .....	<b>46.3</b>	34.6
Deferred credits .....	<b>(3.0)</b>	(9.8)
Other .....	<b>3.8</b>	(4.4)
	<b><u>175.6</u></b>	<u>109.1</u>

**NOTE 6. FINANCE COSTS**

<u>(millions of Canadian dollars)</u>	<b>2013</b>	<b>2012</b> (restated – see note 2(z))
Interest expense on long-term borrowings .....	<b>60.9</b>	61.9
Interest expense on short-term borrowings .....	<b>20.5</b>	25.4
Write-off of deferred financing costs (note 14) .....	<b>12.8</b>	14.4
Net interest on pensions and employee benefits (note 17).....	<b>1.6</b>	(0.2)
Interest income.....	<b>(0.6)</b>	(0.9)
Fair value movement of embedded derivative .....	—	(3.5)
Total interest expense, net .....	<b>95.2</b>	97.1
Finance related costs on warrants (note 18).....	<b>0.1</b>	—
Change in fair value of Equity Commitment Forwards (note 18).....	<b>153.2</b>	—
Dividend equivalent on subscription receipts .....	<b>1.1</b>	—
Bridge financing transaction fees.....	<b>11.7</b>	—
Acquisition-related finance costs.....	<b>166.1</b>	—
	<b>261.3</b>	97.1

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. INCOME TAXES**

The major components of the income tax benefit and the statutory income tax rate for fiscal 2013 and 2012 are as follows:

<u>(millions of Canadian dollars)</u>	<b>2013</b>	<b>2012</b> (restated – see note 2(z))
Current tax benefit .....	<b>(3.7)</b>	(22.4)
Deferred tax (benefit) expense.....	<b>(74.8)</b>	13.0
Income tax benefit .....	<b>(78.5)</b>	(9.4)
Statutory income tax rate .....	<b>26.3%</b>	26.9%

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

<u>(millions of Canadian dollars)</u>	<b>2013</b>	<b>2012</b> (restated – see note 2(z))
(Loss) earnings before income tax — continuing operations .....	<b>(254.2)</b>	18.4
Income tax (benefit) expense calculated at statutory income tax rate.....	<b>(66.9)</b>	4.9
Change in income taxes resulting from:		
Permanent differences.....	<b>55.5</b>	—
Decrease in valuation allowance.....	<b>(52.8)</b>	—
Effect of international tax rate differentials .....	<b>(18.9)</b>	(2.6)
L&T deferred tax assets on change in tax status .....	—	(5.5)
Other .....	<b>4.6</b>	(1.7)
	<b>(78.5)</b>	(4.9)
Effect of tax rate changes on deferred tax balances .....	—	(4.5)
Income tax benefit .....	<b>(78.5)</b>	(9.4)



The changes in the components of net deferred tax assets and liabilities for fiscal 2013 and 2012 are as follows:

Year ended February 1, 2014								
(millions of Canadian dollars)	Feb 2, 2013	Assumed through business combination	Transferred from assets of discontinued operations	Recognized in net loss	Recognized in other comprehensive income (loss)	Recognized in equity	Net foreign currency exchange	Feb 1, 2014
Property, plant and equipment.....	99.6	(504.3)	11.7	(39.5)	—	—	(33.5)	(466.0)
Employee benefits.....	18.2	—	6.4	(2.0)	0.3	—	—	22.9
Pensions.....	(10.0)	4.8	—	12.3	(15.9)	—	1.0	(7.8)
Other assets.....	8.1	(206.5)	(20.2)	20.8	—	—	(16.0)	(213.8)
Long-term liabilities and other.....	36.3	21.6	24.1	(43.7)	3.2	4.7	2.1	48.3
Tax losses and other carryforward amounts.....	65.1	59.5	36.5	74.1	—	—	7.2	242.4
	<u>217.3</u>	<u>(624.9)</u>	<u>58.5</u>	<u>22.0</u>	<u>(12.4)</u>	<u>4.7</u>	<u>(39.2)</u>	<u>(374.0)</u>
Valuation allowance.....	(7.8)	(13.0)	(43.5)	52.8	—	—	(0.7)	(12.2)
<b>Net deferred tax assets (liabilities).....</b>	<b><u>209.5</u></b>	<b><u>(637.9)</u></b>	<b><u>15.0</u></b>	<b><u>74.8</u></b>	<b><u>(12.4)</u></b>	<b><u>4.7</u></b>	<b><u>(39.9)</u></b>	<b><u>(386.2)</u></b>
Comprising:								
Deferred tax assets.....	209.5							248.7
Deferred tax liabilities..	—							(634.9)
	<u>209.5</u>							<u>(386.2)</u>

Year ended February 2, 2013 (restated – see note 2 (z))						
(millions of Canadian dollars)	Jan 28, 2012	Transferred to assets of discontinued operations	Recognized in net loss	Recognized in other comprehensive income (loss)	Recognized in equity or other	Feb 2, 2013
Property, plant and equipment.....	107.0	(3.3)	(4.1)	—	—	99.6
Employee benefits.....	19.3	(4.3)	2.5	0.7	—	18.2
Pensions.....	(23.1)	—	6.1	7.0	—	(10.0)
Financial instruments.....	(0.1)	—	—	0.1	—	—
Other assets.....	84.9	(45.5)	(47.7)	—	16.4	8.1
Long-term liabilities and other.....	(9.0)	(10.6)	54.0	—	1.9	36.3
Tax losses carried forward.....	123.0	(40.8)	(17.1)	—	—	65.1
	<u>302.0</u>	<u>(104.5)</u>	<u>(6.3)</u>	<u>7.8</u>	<u>18.3</u>	<u>217.3</u>
Valuation allowance.....	(44.5)	43.4	(6.7)	—	—	(7.8)
<b>Net deferred tax assets (liabilities).....</b>	<b><u>257.5</u></b>	<b><u>(61.1)</u></b>	<b><u>(13.0)</u></b>	<b><u>7.8</u></b>	<b><u>18.3</u></b>	<b><u>209.5</u></b>

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

Temporary differences for which no deferred tax has been recognized:

(millions of Canadian dollars)	2013	2012
Investments in subsidiaries and partnerships.....	—	19.7

As at February 1, 2014, the Company's taxable entities including discontinued operations have non-capital tax losses carried forward of \$796.5 million (February 2, 2013: \$431.6 million) available in the United States and Canada as follows (millions of Canadian dollars):

Available until year ending	2013
January 2026.....	44.6
January 2027.....	97.7
January 2028.....	215.9
January 2029.....	15.8
January 2030.....	88.3
January 2031.....	11.7
January 2032.....	5.6
January 2033.....	5.3
January 2034.....	311.6
	<b>796.5</b>

#### NOTE 8. CASH

For the purpose of the consolidated statements of cash flows, cash includes cash on hand and in banks and investments in money market instruments. Cash as at February 1, 2014 and February 2, 2013 as shown in the consolidated balance sheets is comprised of the following:

(millions of Canadian dollars)	2013	2012
Cash.....	19.2	43.0
Restricted cash.....	1.6	5.3
	<b>20.8</b>	<b>48.3</b>

#### NOTE 9. TRADE AND OTHER RECEIVABLES

As at February 1, 2014 and February 2, 2013, trade and other receivables are comprised of:

(millions of Canadian dollars)	2013	2012
Trade receivables.....	40.8	15.5
Other receivables.....	96.4	58.8
	<b>137.2</b>	<b>74.3</b>

On January 4, 2013, the Company sold its leasehold interests in a property for U.S.\$10.0 million of which U.S.\$3.4 million was received upon transfer of the related property on January 31, 2013 and the second instalment of \$3.3 million was received on January 31, 2014. The balance of U.S.\$3.3 million is due on January 31, 2015. Accordingly, at February 1, 2014, U.S.\$3.3 million (February 2, 2013: U.S.\$3.3 million) was included in other receivables and nil (February 2, 2013: U.S.\$3.3 million) in other long-term assets.

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

#### NOTE 10. INVENTORIES

Inventories on hand at February 1, 2014 and February 2, 2013 were available for sale. The cost of merchandise inventories related to continuing operations recognized as expense for fiscal 2013 was \$3,216.8 million (2012: \$2,487.0 million). The write-down of merchandise inventories below cost to net realizable value relating to continuing operations as at February 1, 2014 was \$47.4 million (February 2, 2013: \$33.9 million). There was no reversal of write-downs previously taken on merchandise inventories that are no longer estimated to sell below cost. Inventory has been pledged as security for certain borrowing agreements as described in note 14.

**NOTE 11. PROPERTY, PLANT AND EQUIPMENT**

	Year ended February 1, 2014					
(millions of Canadian dollars)	Freehold Land	Buildings	Leasehold Improvements	Fixtures & Fittings	Assets held under Finance Leases	Total
<b>Cost</b>						
Balance at beginning of year .....	473.4	568.7	273.1	375.8	48.1	1,739.1
Additions .....	—	46.8	52.0	128.7	4.8	232.3
Acquired through business combination .....	516.3	1,324.4	103.4	252.8	216.8	2,413.7
Disposals .....	—	(0.1)	(1.1)	(2.1)	—	(3.3)
Transfers .....	—	0.5	(0.5)	—	—	—
Net foreign currency exchange .....	65.2	142.8	29.0	45.7	15.1	297.8
<b>Balance at end of year .....</b>	<b>1,054.9</b>	<b>2,083.1</b>	<b>455.9</b>	<b>800.9</b>	<b>284.8</b>	<b>4,679.6</b>
<b>Accumulated depreciation and impairment</b>						
Balance at beginning of year .....	4.9	129.6	70.0	171.1	28.5	404.1
Depreciation expense .....	—	41.6	24.7	53.3	8.9	128.5
Impairment losses .....	—	—	1.6	2.5	—	4.1
Eliminated on disposal .....	—	—	(0.1)	(2.1)	—	(2.2)
Net foreign currency exchange .....	—	14.2	5.8	14.5	0.2	34.7
<b>Balance at end of year .....</b>	<b>4.9</b>	<b>185.4</b>	<b>102.0</b>	<b>239.3</b>	<b>37.6</b>	<b>569.2</b>
<b>Net book value at end of year .....</b>	<b>1,050.0</b>	<b>1,897.7</b>	<b>353.9</b>	<b>561.6</b>	<b>247.2</b>	<b>4,110.4</b>

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

Depreciation expense has been included in selling, general and administrative expenses in the consolidated statements of loss. Certain fixed assets have been pledged as security for borrowings, as further described in note 14. There were \$53.0 million in material capital commitments, net of leasehold improvement allowances at February 1, 2014.

## Impairment of Property, Plant & Equipment

During fiscal 2013 and 2012, the Company carried out a review of its cash generating units (“CGU’s”) to determine if there was any indication that impairment had occurred, or that a previously recorded impairment had reversed. The review led to the recognition of an impairment loss of \$4.1 million (2012: \$11.9 million) in fiscal 2013 relating to various store based CGU’s, on a value in use basis, which has been recognized in net loss.

The impairment losses incurred in fiscal 2013 relate to a decline in operating performance of certain Home Outfitters stores (2012: \$0.8 million) which affected the leasehold improvements and fixtures and fittings asset classes. In addition, in fiscal 2012 impairment losses of \$11.1 million were incurred related to logistics centre assets and the decision to exit the Lord & Taylor Home specialty business which resulted in the closure of two stores. The main asset classes affected by these impairment losses were freehold land, buildings, leasehold improvements and fixtures and fittings.

The recoverable amount of the relevant assets within each CGU was determined in each case as the higher of fair value less costs to sell, or value in use. In calculating the value in use, management estimates future cash flows using approved budgets/forecasts for the following fiscal year and considers future opportunities and risks in determining an appropriate growth rate for future periods.

## NOTE 12. INTANGIBLE ASSETS AND GOODWILL

### Year ended February 1, 2014

(millions of Canadian dollars)	Goodwill	Software	Favourable lease rights	Private label brands	Banner names	Credit cards	Total
<b>Cost</b>							
Balance at beginning of year .....	—	203.7	130.5	27.4	—	—	361.6
Additions .....	—	48.1	—	—	—	—	48.1
Acquired through business combination .....	199.7	65.8	205.3	20.8	364.5	26.0	882.1
Disposals.....	—	(11.6)	—	—	—	—	(11.6)
Net foreign currency exchange.....	13.9	8.2	29.5	4.6	25.3	1.8	83.3
<b>Balance at end of year .....</b>	<b>213.6</b>	<b>314.2</b>	<b>365.3</b>	<b>52.8</b>	<b>389.8</b>	<b>27.8</b>	<b>1,363.5</b>
<b>Accumulated amortization and impairment</b>							
Balance at beginning of the year .....	—	111.0	17.6	—	—	—	128.6
Amortization expense .....	—	37.5	7.6	—	—	1.2	46.3
Disposals.....	—	(10.8)	—	—	—	—	(10.8)
Net foreign currency exchange.....	—	1.7	2.6	—	—	0.1	4.4
<b>Balance at end of year .....</b>	<b>—</b>	<b>139.4</b>	<b>27.8</b>	<b>—</b>	<b>—</b>	<b>1.3</b>	<b>168.5</b>
<b>Net book value at end of year .....</b>	<b>213.6</b>	<b>174.8</b>	<b>337.5</b>	<b>52.8</b>	<b>389.8</b>	<b>26.5</b>	<b>1,195.0</b>

### Year ended February 2, 2013

(millions of Canadian dollars)	Software	Favourable lease rights	Private label brands	Total
<b>Cost</b>				
Balance at beginning of year .....	160.3	130.9	27.5	318.7
Additions .....	43.6	—	—	43.6
Disposals.....	(0.1)	—	—	(0.1)
Net foreign currency exchange .....	(0.1)	(0.4)	(0.1)	(0.6)
Balance at end of year.....	203.7	130.5	27.4	361.6
<b>Accumulated amortization and impairment.....</b>				
Balance at beginning of year .....	79.4	14.7	—	94.1
Amortization expense .....	31.6	3.0	—	34.6
Net foreign currency exchange .....	—	(0.1)	—	(0.1)
Balance at end of year.....	111.0	17.6	—	128.6
Net book value at end of year .....	92.7	112.9	27.4	233.0

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

Amortization expense has been included in selling, general and administrative expenses in the consolidated statements of loss.

#### NOTE 13. OTHER LIABILITIES

As at February 1, 2014 and February 2, 2013 other liabilities are comprised of:

<u>(millions of Canadian dollars)</u>	<u>2013</u>	<u>2012</u>
Deferred rent inducements.....	122.0	32.4
Other deferred revenue .....	13.3	15.3
Other liabilities .....	61.3	41.1
	<u>196.6</u>	<u>88.8</u>

#### NOTE 14. LOANS AND BORROWINGS

##### a) Current loans and borrowings

As at February 1, 2014 and February 2, 2013, current loans and borrowings are comprised of:

<u>(millions of Canadian dollars)</u>	<u>2013</u>	<u>2012</u>
HBC Revolving Credit Facility.....	87.6	—
U.S. Revolving Credit Facility.....	417.7	—
Lord & Taylor Revolving Credit Facility .....	—	137.8
Current portion of long-term loans and borrowings.....	53.9	9.9
	559.2	147.7
Less: unamortized costs .....	(27.6)	(15.6)
	<u>531.6</u>	<u>132.1</u>

##### HBC Revolving Credit Facility

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

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

The HBC Revolving Credit Facility is subject to a borrowing base, based predominantly on eligible inventory and eligible credit card receivables of HBC and certain of its subsidiaries (excluding L&T Acquisition and its subsidiaries). The HBC Revolving Credit Facility is available for general corporate purposes. The HBC Revolving Credit Facility has multiple interest rate charge options that are based on the Canadian prime rate, CDOR rate, U.S. index rate and LIBOR.

As the HBC Revolving Credit Facility is available for and used to finance working capital requirements, capital expenditures and other general corporate purposes, it has been classified in the consolidated balance sheets as part of current loans and borrowings. The Company is not required to repay the balance outstanding as at February 1, 2014, until the maturity date of June 15, 2017.

The HBC Revolving Credit Facility is secured by a first priority security interest over all inventory and accounts receivable in Canada. The Credit Agreement contains a number of representations and warranties and positive and negative covenants. These provisions include, among other things, placing certain conditions and restrictions on making dividend payments. The Credit Agreement also contains extensive reporting requirements and a number of events of default.

HBC was in compliance with all covenants contained in the Credit Agreement as at February 1, 2014 and February 2, 2013.

The effective interest rate based on the average balance drawn and finance costs of the HBC Revolving Credit Facility for fiscal 2013 and 2012 was as follows:

<u>(millions of Canadian dollars)</u>	<u>2013</u>	<u>2012</u>
Average balance drawn, calculated on a daily basis .....	<b>161.6</b>	275.4
Finance costs.....	<b>10.6</b>	19.2
Effective interest rate .....	<b>6.6%</b>	7.0%

As at February 1, 2014 and February 2, 2013, details of the borrowing base availability on the HBC Revolving Credit Facility were as follows:

<u>(millions of Canadian dollars)</u>	<u>2013</u>	<u>2012</u>
Gross borrowing base availability .....	<b>478.5</b>	560.7
Drawings.....	<b>(87.6)</b>	—
Outstanding letters of credit.....	<b>(9.3)</b>	(14.4)
Borrowing base availability net of drawings and letters of credit.....	<b>381.6</b>	546.3

### U.S. Revolving Credit Facility

In connection with the Acquisition, the L&T and Saks revolving credit facilities were refinanced through a new U.S. revolving credit facility. L&T Acquisition is the borrower pursuant to an asset based credit facility with Bank of America, N.A. as Administrative Agent and Collateral Agent (“U.S. Revolving Credit Facility”), dated November 4, 2013.

The U.S. Revolving Credit Facility provides a U.S.\$950.0 million revolving line of credit through November 4, 2018. This revolving line of credit is subject to a borrowing base, based predominantly on eligible inventory and furniture and fixtures of L&T, Saks and their respective subsidiaries. The U.S. Revolving Credit Facility is available to finance working capital needs, capital expenditures, operating activities and to support the issuance of standby letters of credit. The U.S. Revolving Credit Facility has multiple interest rate charge options that are based on the U.S. prime rate, Federal Funds rate and LIBOR.

As the U.S. Revolving Credit Facility is available for and used to finance working capital requirements, capital expenditures and other operating activities, it has been classified in the consolidated balance sheets as part of current loans and borrowings. However, the Company is not required to repay the balance outstanding as at February 1, 2014, until the maturity date of November 4, 2018.

The U.S. Revolving Credit Facility agreement contains restrictive covenants including restrictions on the incurrence of indebtedness, financial maintenance covenants, restrictions on capital expenditures and restrictions on payments to affiliates and shareholders and also includes events of default, representations and warranties.

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

The effective interest rate based on the average balance drawn and finance costs of the U.S. Revolving Credit Facility for fiscal 2013 was as follows:

<u>(millions of Canadian dollars)</u>	<u>2013</u>
Average balance drawn, calculated on a daily basis .....	<b>362.4</b>
Finance costs .....	<b>3.2</b>
Effective interest rate .....	<b>3.6%</b>

As at February 1, 2014, details of the borrowing base availability on the U.S. Revolving Credit Facility was as follows:

<u>(millions of Canadian dollars)</u>	<u>2013</u>
Gross borrowing base availability.....	<b>1,058.1</b>
Drawings.....	<b>(417.7)</b>
Outstanding standby letters of credit.....	<b>(9.2)</b>
Borrowing base availability net of drawings and letters of credit.....	<b>631.2</b>

The U.S. Revolving Credit Facility contains certain non-financial operating covenants. L&T Acquisition was in compliance with all covenants as of February 1, 2014.

In accordance with the U.S. Revolving Credit Facility, L&T Acquisition is limited in its ability to make distributions of earnings or return of capital to its parent.

### Lord & Taylor Revolving Credit Facility

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 provided a revolving line of credit (the “Lord & Taylor Revolving Credit Facility”) and a U.S.\$200.0 million Term Loan (the “Lord & Taylor GE Capital Term Loan”) and replaced the then existing credit facility with GE Capital. The Lord & Taylor Credit Facility was scheduled to mature on May 23, 2018.

On November 4, 2013, the Lord & Taylor Revolving Credit Facility was repaid in full in connection with the Acquisition.

On September 28, 2012, as permitted in the Lord & Taylor Revolving Credit Facility agreement, the Company increased the revolving line of credit from U.S.\$300.0 million to U.S.\$350.0 million. The Lord & Taylor Revolving Credit Facility allowed borrowings based on an advance rate of (i) up to 100% of eligible third party credit card receivables; (ii) 95% of the net orderly liquidation value of eligible inventory; and (iii) 95% of the appraised net orderly liquidation value of the eligible furniture and fixtures. Interest was charged on the Lord & Taylor Revolving Credit Facility at LIBOR, plus 2.25% based upon the availability schedule. The Lord & Taylor Revolving Credit Facility was utilized to finance working capital needs, capital expenditures, operating activities and to support the issuance of standby letters of credit. Eligible L&T accounts receivable, inventory and furniture and fixtures were pledged as security for the Lord & Taylor Revolving Credit Facility.

The effective interest rate based on the average balance drawn and finance costs of the Lord & Taylor Revolving Credit Facility for fiscal 2013 and 2012 was as follows:

<u>(millions of Canadian dollars)</u>	<u>2013</u>	<u>2012</u>
Average balance drawn, calculated on a daily basis .....	<b>182.1</b>	168.4
Finance costs.....	<b>5.6</b>	5.4
Effective interest rate .....	<b>4.1%</b>	3.2%

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

<u>(millions of Canadian dollars)</u>	<u>2012</u>
Gross borrowing base availability .....	312.5
Drawings.....	(137.8)
Outstanding standby letters of credit .....	(2.2)
Borrowing base availability net of drawings and letters of credit.....	<u>172.5</u>

The Lord & Taylor Revolving Credit Facility contained certain non-financial operating covenants. L&T was in compliance with all covenants as at February 2, 2013.

In accordance with the Lord & Taylor Revolving Credit Facility, L&T was limited in its ability to make distributions of earnings or return of capital to its parent.

In connection with the refinancing of the Lord & Taylor Revolving Credit Facility, \$1.7 million of deferred financing costs were written off.

## b) Long-term loans and borrowings

As at February 1, 2014 and February 2, 2013, long-term loans and borrowings are comprised of:

(millions of Canadian dollars)	2013	2012
Senior Term Loan B .....	2,227.6	—
Junior Term Loan .....	334.1	—
Yorkdale Mortgage .....	49.4	—
Lord & Taylor Mortgage .....	278.5	249.3
HBC Term Loan (Canadian properties) .....	—	250.0
Lord & Taylor Term Loan (U.S. properties) .....	—	204.7
Other mortgages .....	9.8	11.7
Real estate finance leases .....	118.1	—
Equipment finance leases and other .....	42.7	25.9
	<u>3,060.2</u>	<u>741.6</u>
Less: unamortized costs .....	(83.0)	(13.2)
Less: amounts due within one year .....	(53.9)	(9.9)
	<u>2,923.3</u>	<u>718.5</u>

Maturities of long-term debt are as follows:

(millions of Canadian dollars)	
Fiscal year:	
2014 .....	53.9
2015 .....	41.5
2016 .....	34.1
2017 .....	303.3
2018 .....	24.5
Thereafter .....	2,602.9
	<u>3,060.2</u>

### Senior Term Loan B

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.

The Senior Term Loan B matures November 4, 2020 and carries an initial interest at a rate of LIBOR plus 3.75% per annum. The agreement is structured such that LIBOR will be deemed to be not less than 1% per annum (“LIBOR Floor”). The Senior Term Loan B is subject to quarterly principal repayments equal to 0.25% and mandatory prepayments. The Senior Term Loan B is secured by a second lien over all 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 the Senior Term Loan B was used to repay in full the HBC Term Loan and the Lord & Taylor GE Capital Term Loan, while the remainder was used in financing the Acquisition. In connection with the repayment of the HBC Term Loan and Lord & Taylor GE Capital Term Loan, \$0.9 million and \$4.3 million of deferred financing costs were written off, respectively.

On February 25, 2014, HBC paid down U.S. \$150.0 million of the Senior Term Loan B (note 29).

### Junior Term Loan

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 was scheduled to mature on November 4, 2021 and had an initial interest rate of LIBOR (with a LIBOR Floor) plus 7.25% per annum. The remaining credit terms of the Junior Term Loan were substantially consistent with the Senior Term Loan B with the exception that the Junior Term Loan was not subject to quarterly principal repayments.



The Junior Term Loan was secured by a third lien over all of the Company's inventory and accounts receivable, 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. On February 25, 2014, HBC paid down and retired the Junior Term Loan in full (note 29).

### **Yorkdale Mortgage**

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.

### **Lord & Taylor Mortgage**

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

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

The Lord & Taylor Mortgage contains representations and warranties, positive and negative covenants, reporting requirements and events of default. As at February 1, 2014 and February 2, 2013, the Company was in compliance with the covenants contained in the Lord & Taylor Mortgage.

On November 26, 2012, LT 424 entered into interest rate swap arrangements, the effect of which is to fix the floating portion of the interest rate related to the Lord & Taylor Mortgage at 0.85%. The swap arrangements are being accounted for as a hedge (note 18).

### **HBC Term Loan (Canadian properties)**

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

The HBC Term Loan was paid in full on November 4, 2013, using a portion of the proceeds from the Senior Term Loan B.

The HBC Term Loan had a maturity date of November 26, 2014, bore interest at the bankers' acceptance rate plus 2.25% stamping fee and was secured by a first priority security interest in certain of the real property of the Company and its subsidiaries (other than L&T and its subsidiaries). There were certain mandatory repayments in specified circumstances.

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

### **Lord & Taylor GE Capital Term Loan**

As part of the Lord & Taylor Credit Facility agreement with GE Capital executed on May 23, 2013, the Company was provided the U.S.\$200.0 million 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. In connection with the repayment of the Lord & Taylor Term Loan, \$5.5 million of deferred financing costs were written off and are included in finance costs (note 6).

The Lord & Taylor GE Capital Term Loan was repaid in full on November 4, 2013, using a portion of the proceeds of the Senior Term Loan B.

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

L&T was a borrower pursuant to a U.S.\$450.0 million syndicated term loan with Credit Suisse Securities LLC (“CS”), as sole lead arranger of the syndicate, which was to mature on January 11, 2019 (the “Lord & Taylor Term Loan”). On September 7, 2012, L&T prepaid U.S.\$242.5 million of the Lord & Taylor Term Loan with the net proceeds of the Lord & Taylor Mortgage. On repayment, \$9.4 million of deferred financing costs (note 6) were written off.

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

On May 23, 2013 the Lord & Taylor Term Loan was paid in full, using cash on hand along with the proceeds of the Lord & Taylor GE Capital Term Loan.

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

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

L&T Acquisition had guaranteed the Lord & Taylor Term Loan.

### **Other mortgages**

As at February 1, 2014, HBC had a mortgage outstanding with a principal balance of \$9.8 million (February 2, 2013: \$11.7 million) which required payments of \$2.8 million annually inclusive of interest and a final balloon payment of \$9.6 million due in February 2014. The final balloon payment was made subsequent to year end (see note 29). The interest on the mortgage was 7.0% per annum, paid on a monthly basis.

### **Finance leases**

As at February 1, 2014 the liability related to real estate finance leases was \$118.1 million (February 2, 2013: nil), all of which was assumed through the acquisition of Saks. The liability includes \$79.1 million primarily related to presumed lease renewals that the Company is not contractually committed to.

As at February 1, 2014 the liability related to equipment finance leases was \$32.4 million (February 2, 2013: \$24.7 million), \$11.8 million of which was assumed through the acquisition of Saks.

The future required minimum gross rental payments under finance leases for property and equipment, and their net present values at February 1, 2014 are as follows:

<b>(millions of Canadian dollars)</b>	
Less than one year .....	30.1
Between 1 and 5 years .....	452.3
Total minimum lease payments .....	482.4
Less: imputed interest .....	(331.9)
Total finance lease obligations .....	<b>150.5</b>

## Old HBC Term Loan (Canadian properties)

On November 24, 2010 HBC entered into an agreement with GE Capital Canada Finance Inc. and certain other credit lenders. The agreement provided for a \$450.0 million term loan (the “Old HBC Term Loan”), of which nil was outstanding at February 2, 2013. The Old HBC Term Loan bore interest at an amount based on a Three Month Bankers’ Acceptance rate, which was to be no less than 1.5%, plus an interest spread. The Old HBC Term Loan was available for general corporate purposes and was to mature on November 23, 2014. Concurrently, with the closing of the Offering on November 26, 2012, the Old HBC Term Loan was repaid. In connection with the repayment, \$2.7 million of deferred financing cost were written off (note 6).

### NOTE 15. PROVISIONS

(millions of Canadian dollars)	Year ended February 1, 2014					
	Self Insurance	Severance, Restructuring & HR Legal	ARO's	Store Closing Costs	Other	Total
Balance at beginning of year .....	33.8	50.8	13.5	—	—	98.1
Additional provisions recognized .....	30.1	53.2	0.8	1.4	—	85.5
Assumed through business combination .....	25.5	3.7	—	16.4	5.2	50.8
Utilized .....	(31.3)	(40.5)	—	(0.3)	—	(72.1)
Released.....	—	(5.3)	—	(0.1)	—	(5.4)
Unwinding/change in discount rate .....	—	—	0.1	—	—	0.1
Net foreign currency exchange .....	3.4	1.8	1.5	1.2	0.4	8.3
<b>Balance at end of year .....</b>	<b>61.5</b>	<b>63.7</b>	<b>15.9</b>	<b>18.6</b>	<b>5.6</b>	<b>165.3</b>
Non-current.....	—	—	15.9	—	—	15.9
Current .....	61.5	63.7	—	18.6	5.6	149.4
	<b>61.5</b>	<b>63.7</b>	<b>15.9</b>	<b>18.6</b>	<b>5.6</b>	<b>165.3</b>

(millions of Canadian dollars)	Year ended February 2, 2013				
	Self Insurance	Severance, Restructuring & HR Legal (restated – see note 2(z))	ARO's	Other	Total
Balance at beginning of year .....	34.1	52.4	12.3	1.8	100.6
Additional provisions recognized .....	28.0	58.7	0.8	—	87.5
Utilized .....	(28.3)	(15.0)	—	—	(43.3)
Released.....	—	(4.3)	—	—	(4.3)
Unwinding/change in discount rate .....	—	—	0.4	—	0.4
Transfer to discontinued operations.....	—	(41.0)	—	(1.8)	(42.8)
<b>Balance at end of year .....</b>	<b>33.8</b>	<b>50.8</b>	<b>13.5</b>	<b>—</b>	<b>98.1</b>
Non-current.....	—	—	13.5	—	13.5
Current .....	33.8	50.8	—	—	84.6
	<b>33.8</b>	<b>50.8</b>	<b>13.5</b>	<b>—</b>	<b>98.1</b>

## **Self insurance**

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

## **Severance, Restructuring & HR Legal**

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

During fiscal 2013 these initiatives included a realignment of the logistics network for which a charge of \$5.0 million (2012: \$38.4 million) was incurred primarily related to the consolidation of excess capacity at certain locations. Severance charges of \$13.3 million (2012: \$10.6 million) were incurred for changes to senior leadership, management teams and other supporting employees as the Company continued to streamline its organizational and management structures as a result of the integration of its department store operations and the wind-down of Zellers. In connection with the Acquisition, the Company incurred \$28.8 million (2012: nil) of severance and related expenses. In addition a charge of \$3.7 million (2012: \$6.2 million) was incurred related to the relocation of the information technology support function. As at February 1, 2014, \$57.6 million (February 2, 2013: \$45.9 million) remains accrued.

The Human Resources ("HR") legal component of the provision relates to compensation claims made by current and former employees. During fiscal 2013 the Company recorded a charge of \$2.4 million (2012: \$3.5 million). Compensation claims will be settled on a case by case basis over an indeterminate period. The balance of the provision remaining as at February 1, 2014 was \$6.1 million (February 2, 2013: \$4.9 million).

## **Asset retirement obligations ("ARO's")**

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

## **Store closing costs**

The Company continuously evaluates its real estate portfolio and closes underproductive stores in the normal course of business as leases expire or as other circumstances dictate. Store closing costs include lease termination fees, asset disposals and other closure activities.

## **NOTE 16. OPERATING LEASE ARRANGEMENTS**

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

Many of the Company's store leases require equal monthly rent payments over the lease term. However, numerous store lease agreements include rent holidays, rent escalation clauses and/or contingent rent provisions that require additional payments based on a percentage of sales in excess of specified levels. Rent for renewal periods of the Company's leases varies.

Rental expense related to operating leases charged to earnings in fiscal 2013 was \$169.2 million (2012: \$314.5 million).

## Minimum payments under non-cancelable operating leases

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

(millions of Canadian dollars)

Fiscal year:	
2014 .....	256.8
2015 .....	243.8
2016 .....	223.6
2017 .....	194.0
2018 .....	167.2
Thereafter .....	1,428.8
Total minimum lease payments .....	<b>2,514.2</b>

Of the total minimum lease payments, \$56.3 million relate to Zellers leases that were not assigned to Target (note 28). For those leases which have been assigned to Target and for which the Company remains the lessee on the master lease agreement, HBC has guaranteed the commitment over the remaining term of the lease (note 25).

## NOTE 17. PENSIONS AND EMPLOYEE BENEFITS

Aggregate information about the Company's Canadian ("CDN") and U.S. pension and benefit plans is presented below. The U.S. pension plans are sponsored by Saks for which there are no future benefit accruals for all remaining participants. Both L&T and Saks sponsor defined contribution plans (401(k) retirement savings plans) which are discussed in the Defined Contribution Pension Plans section below.

### Amounts Recognized in Consolidated Balance Sheets

(millions of Canadian dollars)	2013			2012	
	CDN Pension Plans	CDN Benefit Plans	U.S. Pension Plans	CDN Pension Plans	CDN Benefit Plans
Funded status .....	72.2	(35.4)	(30.6)	38.3	(36.5)
Less: current portion .....	—	3.5	1.4	—	3.4
	72.2	(31.9)	(29.2)	—	(33.1)
Other long-term employee benefits liability .....	—	(34.8)	—	—	(37.2)
<b>Pension and employee benefits asset (liability).....</b>	<b>72.2</b>	<b>(66.7)</b>	<b>(29.2)</b>	<b>38.3</b>	<b>(70.3)</b>

The current portion of the pension and employee benefits liability is included in other payables and accrued liabilities in the consolidated balance sheets.

Employer contributions to defined benefit pension plans in fiscal 2014 will approximate \$2.0 million.

## Changes in the Fair Value of Plan Assets

(millions of Canadian dollars)	2013			2012 (restated – see note 2(z))	
	CDN	CDN	U.S.	CDN	CDN
	Pension Plans <sup>1</sup>	Benefit Plans	Pension Plans	Pension Plans <sup>1</sup>	Benefit Plans
Fair value at beginning of year .....	1,240.0	—	—	1,267.7	—
Acquired through business combination.....	—	—	128.6	—	—
Return on plan assets (excluding interest) .....	67.3	—	0.6	16.5	—
Interest income.....	84.7	—	1.2	74.7	—
Employer contributions.....	0.6	3.5	0.3	0.4	3.6
Employee contributions .....	10.7	—	—	16.2	—
Administration costs .....	(2.7)	—	(0.5)	(2.8)	—
Benefits paid .....	(187.3)	(3.5)	(4.0)	(132.7)	(3.6)
Net foreign currency exchange .....	—	—	8.9	—	—
<b>Fair value at end of year.....</b>	<b>1,213.3</b>	<b>—</b>	<b>135.1</b>	<b>1,240.0</b>	<b>—</b>

<sup>1</sup> Includes defined contribution plan assets of \$512.1 million (February 2, 2013: \$568.3 million).

## Changes in the Defined Benefit Obligation

(millions of Canadian dollars)	2013			2012 (restated – see note 2(z))	
	CDN	CDN	U.S.	CDN	CDN
	Pension Plans <sup>2</sup>	Benefit Plans	Pension Plans	Pension Plans <sup>2</sup>	Benefit Plans
Balance, beginning of year .....	1,201.7	36.5	—	1,176.7	36.5
Assumed through business combination.....	—	—	157.8	—	—
Current service cost .....	22.1	—	—	28.1	0.1
Past service cost.....	2.5	—	—	(0.5)	(0.7)
Settlements.....	0.9	—	—	0.3	—
Employee contributions .....	10.7	—	—	16.2	—
Interest expense .....	83.5	1.4	1.5	71.2	1.6
Benefits paid .....	(187.3)	(3.5)	(4.0)	(132.7)	(3.6)
Change in demographic assumptions.....	25.0	2.1	0.1	—	—
Change in financial assumptions .....	(13.1)	(0.7)	(0.6)	42.1	2.1
Experience adjustments .....	(4.9)	(0.4)	—	0.3	0.5
Net foreign currency exchange .....	—	—	10.9	—	—
<b>Balance, end of year.....</b>	<b>1,141.1</b>	<b>35.4</b>	<b>165.7</b>	<b>1,201.7</b>	<b>36.5</b>

<sup>2</sup> Includes defined contribution plan liabilities of \$512.1 million (February 2, 2013: \$568.3 million).

## Cumulative Actuarial (Losses) Gains

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

(millions of Canadian dollars)	2013			2012 (restated – see note 2(z))	
	CDN	CDN	U.S.	CDN	CDN
	Pension Plans	Benefit Plans	Pension Plans	Pension Plans	Benefit Plans
Cumulative amount, beginning of year.....	(62.5)	(6.0)	—	(36.6)	(3.4)
Net actuarial gains (losses) recognized.....	60.3	(1.0)	1.1	(25.9)	(2.6)
<b>Cumulative amount, end of year .....</b>	<b>(2.2)</b>	<b>(7.0)</b>	<b>1.1</b>	<b>(62.5)</b>	<b>(6.0)</b>

## Pension and Benefit Plan Expense

Fiscal 2013 and 2012 pension and benefit plan expense is comprised of the following:

(millions of Canadian dollars)	2013			2012 (restated – see note 2(z))	
	CDN Pension Plans	CDN Benefit Plans	U.S. Pension Plans	CDN Pension Plans	CDN Benefit Plans
Current service cost .....	22.1	—	—	28.1	0.1
Past service cost .....	2.5	—	—	(0.5)	(0.7)
Settlements .....	0.9	—	—	0.3	—
Administration costs .....	2.7	—	0.5	2.8	—
<b>Net expense (income) recognized in selling, general and administrative expenses .....</b>	<b>28.2</b>	<b>—</b>	<b>0.5</b>	30.7	(0.6)
Interest income on plan assets .....	(84.7)	—	(1.2)	(74.7)	—
Interest expense on plan obligations .....	83.5	1.4	1.5	71.2	1.6
<b>Net (income) expense recognized in finance costs .....</b>	<b>(1.2)</b>	<b>1.4</b>	<b>0.3</b>	(3.5)	1.6
<b>Net expense recognized in net loss .....</b>	<b>27.0</b>	<b>1.4</b>	<b>0.8</b>	27.2	1.0
Changes in demographic assumptions .....	25.0	2.1	0.1	—	—
Changes in financial assumptions .....	(13.1)	(0.7)	(0.6)	42.1	2.1
Experience adjustments .....	(4.9)	(0.4)	—	0.3	0.5
Return on plan assets (excluding interest income) .....	(67.3)	—	(0.6)	(16.5)	—
<b>Net (income) expense recognized in other comprehensive income .....</b>	<b>(60.3)</b>	<b>1.0</b>	<b>(1.1)</b>	25.9	2.6
<b>Net (income) expense recognized in comprehensive income ....</b>	<b>(33.3)</b>	<b>2.4</b>	<b>(0.3)</b>	53.1	3.6

## Defined Contribution Pension Plans

Included in CAD pensions plan current service cost above, HBC recognized a \$14.5 million (2012: \$22.4 million) expense in fiscal 2013 of which, \$8.5 million (2012: \$12.4 million) relates to continuing operations. The expense represents the contributions made in connection with the defined contribution plans.

In fiscal 2013, Saks and L&T contributed \$3.9 million (2012: \$1.6 million) to their U.S. defined contribution plans.

## Other Long-term Employee Benefits

During fiscal 2013, the Company recognized a \$5.5 million (2012: \$3.2 million) expense in selling, general and administrative expenses related to its other long-term employee benefits.

## Actuarial Assumptions

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

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

	2013				2012		
	CDN Pension Plans	CDN Benefit Plans	CDN Other long term benefits	U.S. Pension Plans	CDN Pension Plans	CDN Benefit Plans	CDN Other long term benefits
<b>Defined benefit obligations, end of the fiscal year</b>							
Discount rate .....	4.40%	4.20%	3.60%	3.80%	4.25%	4.00%	3.50%
Rate of compensation increase .....	3.00%	3.50%	N/A	N/A	3.25%	3.50%	N/A
<b>Net benefit expense for the fiscal year</b>							
Discount rate .....	4.25%	4.00%	3.50%	3.80%	4.90%	4.70%	4.00%
Rate of compensation increase .....	3.25%	3.50%	N/A	N/A	3.25%	3.50%	N/A
<b>Health care trend rate:</b>							
Defined benefit obligations, end of the fiscal year .							
Immediate .....	N/A	6.04%	6.04%	N/A	N/A	6.14%	6.14%
Ultimate .....	N/A	4.50%	4.50%	N/A	N/A	4.50%	4.50%
Net benefit expense for the fiscal year.....							
Immediate .....	N/A	6.14%	6.14%	N/A	N/A	6.48%	6.48%
Ultimate .....	N/A	4.50%	4.50%	N/A	N/A	4.50%	4.50%
<b>Life expectancy:</b>							
Life expectancy from age 65.....							
Male .....	86.1	86.1	N/A	83.8	84.8	84.8	N/A
Female .....	88.3	88.3	N/A	85.6	87.2	87.2	N/A

#### Defined Benefit Obligation by Participant Status

	2013				2012		
	CDN Pension Plans <sup>3</sup>	CDN Benefit Plans	CDN Other long term benefits	U.S. Pension Plans	CDN Pension Plans <sup>3</sup>	CDN Benefit Plans	CDN Other long term benefits
Active members .....	188.7	1.3	49.3	50.5	208.5	3.5	52.9
Vested deferred members .....	50.8	—	—	54.6	42.9	—	—
Retirees .....	389.5	34.1	—	60.6	382.0	33.0	—
Total.....	629.0	35.4	49.3	165.7	633.4	36.5	52.9

<sup>3</sup> Excludes plan liabilities of \$512.1 million (February 2, 2013: \$568.3 million) for defined contribution plan participants.

#### Assets by Class and Level

Supplemental information regarding the assets of the Company's pension plans by class and level according to the fair value hierarchy (see note 18) is presented below:

(millions of Canadian dollars)	2013			
	Level 1	Level 2	Level 3	Total
<b>CDN Pension Plans</b>				
Short-term and cash .....	55.6	13.0	—	68.6
Canadian equities .....	56.2	—	—	56.2
Foreign equities .....	67.0	—	—	67.0
Real estate equities .....	—	—	22.3	22.3
Private equity funds and other .....	—	—	133.4	133.4
Pooled funds .....	—	865.8	—	865.8
	178.8	878.8	155.7	1,213.3
<b>U.S. Pension Plans</b>				
Pooled funds .....	—	135.1	—	135.1



## Sensitivity analysis

The following tables provide a sensitivity analysis of changes in the health care trend rate, discount rate, rate of compensation and life expectancy assumptions. Specifically, the impacts of the sensitivity analysis are shown as increases (decreases) to defined benefit obligations. The sensitivity analysis is hypothetical and should be used with caution. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

(millions of Canadian dollars)	2013				2012		
	CDN Pension Plans	CDN Benefit Plans	CDN Other Long-term Plans	U.S. Pension Plans	CDN Pension Plans	CDN Benefit Plans	CDN Other Long-term Plans
Health care trend rate							
Effect of 1% increase....	N/A	2.9	0.5	N/A	N/A	3.3	0.6
Effect of 1% decrease ...	N/A	(2.6)	(0.4)	N/A	N/A	(2.8)	(0.5)

(millions of Canadian dollars)	2013			
	CDN Pension Plans	CDN Benefit Plans	CDN Other Long-term Plans	U.S. Pension Plans
Discount rate				
Effect of 1% increase.....	(65.4)	(3.0)	(2.7)	(8.8)
Effect of 1% decrease .....	79.8	3.6	3.0	10.2
Rate of compensation/inflation				
Effect of 1% increase.....	8.1	N/A	N/A	N/A
Effect of 1% decrease .....	(7.5)	N/A	N/A	N/A
Life expectancy				
Effect of 1 year increase .....	16.4	2.2	N/A	3.2
Effect of 1 year decrease.....	(16.4)	(2.1)	N/A	(3.1)

## Historical Information

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

(millions of Canadian dollars)	2013		2012	2011	2010	2009
	CDN	U.S.				
Fair value of plan assets.....	1,213.3	135.1	1,240.0	1,267.7	1,340.1	1,307.3
Present value of defined benefit obligations.....	1,141.1	165.7	1,201.7	1,176.7	1,161.4	1,139.7
Surplus in the plans.....	72.2	(30.6)	38.3	91.0	178.7	167.6

## Supplementary executive retirement plan

The Company guarantees an annual pension to certain executives in the supplementary executive retirement plan ("SERP") which is included in the CDN Pension Plans defined benefit obligation presented earlier. The Company's guaranteed obligation pursuant to the SERP for service up to November 10, 2005 is secured by a trust fund for certain members. Total assets of the trust fund at February 1, 2014 were \$69.7 million (February 2, 2013: \$65.7 million). The obligation in respect of service after November 10, 2005 is not secured.

## NOTE 18. FINANCIAL INSTRUMENTS

The following table provides a comparison of carrying and fair values of financial instruments as at February 1, 2014 and February 2, 2013:

(millions of Canadian dollars)	2013		2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Classified as fair value through profit or loss</b>				
Embedded foreign currency derivatives <sup>(1)</sup>	(0.6)	(0.6)	(0.1)	(0.1)
Warrants <sup>(2)</sup>	(23.5)	(23.5)	—	—
<b>Classified as loans and receivables</b>				
Cash	19.2	19.2	43.0	43.0
Restricted cash	1.6	1.6	5.3	5.3
Trade and other receivables <sup>(6)</sup>	139.5	139.5	85.1	85.1
<b>Classified as held to maturity</b>				
Short-term deposits <sup>(3)</sup>	1.8	1.8	1.7	1.7
<b>Financial derivatives designated as cash flow hedges</b>				
Forward foreign currency contracts <sup>(4)</sup>	5.0	5.0	0.9	0.9
Interest rate swaps <sup>(5)</sup>	1.3	1.3	(0.3)	(0.3)
<b>Classified as other liability</b>				
Trade payables <sup>(6)</sup>	(589.3)	(589.3)	(442.0)	(442.0)
Other payables and accrued liabilities <sup>(6)</sup>	(465.2)	(465.2)	(248.6)	(248.6)
HBC Revolving Credit Facility	(87.6)	(87.6)	—	—
U.S. Revolving Credit Facility	(417.7)	(417.7)	—	—
Lord & Taylor Revolving Credit Facility	—	—	(137.8)	(137.8)
Senior Term Loan B	(2,227.6)	(2,258.3)	—	—
Junior Term Loan	(334.1)	(345.0)	—	—
Yorkdale Mortgage	(49.4)	(49.4)	—	—
Lord & Taylor Mortgage	(278.5)	(278.5)	(249.3)	(249.3)
HBC Term Loan	—	—	(250.0)	(250.0)
Lord & Taylor Term Loan	—	—	(204.7)	(208.3)
Other mortgages	(9.8)	(9.8)	(11.7)	(11.7)

(1) Included in financial liabilities — current

(2) Included in financial liabilities — non-current

(3) Included in financial assets — current

(4) \$5.2 million included in financial assets — current (2012: \$1.4 million) and \$0.2 million included in financial liabilities — current (2012: \$0.5 million)

(5) Included in financial assets — current (2012: included in financial liabilities — current)

(6) Includes assets/liabilities of discontinued operations (note 28)

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

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

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

<u>(millions of Canadian dollars)</u>	<u>2013</u>	<u>2012</u>
Embedded foreign currency derivatives .....	—	0.1
Warrants.....	<b>0.1</b>	—
Equity Commitment Forwards.....	<b>153.2</b>	—
Fair value movement of embedded derivative .....	—	(3.5)
	<u><b>153.3</b></u>	<u>(3.4)</u>

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

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

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

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

### Capital management

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

<u>(millions of Canadian dollars)</u>	<u>2013</u>	<u>2012</u>
Short-term loans and borrowings.....	<b>531.6</b>	132.1
Long-term loans and borrowings.....	<b>2,923.3</b>	718.5
Share capital .....	<b>1,420.0</b>	246.1
Contributed surplus.....	<b>43.1</b>	32.5
Retained earnings.....	<b>495.9</b>	796.9
	<u><b>5,413.9</b></u>	<u>1,926.1</u>

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

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

### Financial risk management

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

(i) **Credit risk**

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

(ii) **Liquidity risk**

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

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

<u>(millions of Canadian dollars)</u>	<u>Trade and other payables</u>	<u>Derivatives</u>	<u>Loans and borrowings</u>	<u>Total</u>
Fiscal year:				
2014 .....	1,054.5	1.3	704.7	1,760.5
2015 .....	-	-	185.0	185.0
2016 .....	-	-	175.6	175.6
2017 .....	-	-	439.9	439.9
2018 .....	-	23.5	153.0	176.5
Thereafter.....	-	-	3,152.4	3,152.4
	<u>1,054.5</u>	<u>24.8</u>	<u>4,810.6</u>	<u>5,889.9</u>

The HBC Revolving Credit Facility matures June 15, 2017 and the U.S. Revolving Credit Facility matures November 4, 2018. These amounts have been reflected as due in Fiscal 2014 in the table above to be consistent with presentation on the consolidated balance sheets.

(iii) **Market risk**

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

(a) **Foreign currency risk**

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

In accordance with the Company's risk management policy, HBC may hedge up to 100% of all foreign currency transactions and economic exposures that are recognized on the consolidated balance sheet, or deemed as firm commitments (e.g. purchase orders that have been issued for goods and services in foreign currency). It may further hedge up to 70% of forecasted transactions (anticipated transactions for which there are no firm commitments). HBC's net U.S. dollar exposure is determined based on entities with the Canadian dollar as their functional currency. HBC's net U.S. dollar exposure as at February 1, 2014 and February 2, 2013 excluding its investment in L&T Acquisition is as follows:

<b>U.S. Dollar Exposure (millions of U.S. dollars)</b>	<b>2013</b>	<b>2012</b>
Trade payables .....	(56.4)	(68.6)
HBC Revolving Credit Facility .....	(5.0)	—
Senior Term Loan B .....	(2,000.0)	—
Junior Term Loan .....	(300.0)	—
Outstanding purchase orders.....	(20.1)	(35.4)
Forward foreign exchange contracts.....	161.0	188.0
U.S. dollar denominated inter-company receivables .....	1,502.7	—
<b>Total exposure.....</b>	<b>(717.8)</b>	<b>84.0</b>

The settlement dates of the forward foreign currency contracts range from February 2014 to August 2014 and the weighted average foreign exchange rate is \$1.080.

For fiscal 2013 HBC recorded a loss of \$2.0 million (2012: gain of \$2.1 million) relating to the translation or settlement of foreign currency denominated monetary items.

The estimated gains and losses on derivatives designated as cash flow hedges expected to be reclassified to earnings within the next 12 months is a net gain of \$1.8 million.

The Company's net investment in L&T Acquisition, whose functional currency is U.S. dollars, presents a foreign exchange risk to HBC, whose functional currency is Canadian dollars. HBC is using a net investment hedge to mitigate this risk. HBC has designated US \$800.0 million of the Term Loan B as a hedge of the first US \$800.0 million of net assets of L&T Acquisition. Foreign currency translation of the net earnings of L&T Acquisition will impact consolidated net earnings. Foreign currency translation of HBC's investment in L&T Acquisition will impact other comprehensive income (loss).

On an annualized basis, after considering the Company's hedge of its exposure to foreign currency risk, a strengthening of the U.S. dollar against the Canadian dollar by 1% at February 1, 2014 would have increased net loss by \$1.6 million for fiscal 2013 (2012: \$2.0 million).

#### **(b) Interest rate risk**

The Company's interest rate risk arises from short-term and long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. During fiscal 2013 and 2012, the Company's variable rate borrowings were denominated in the U.S. dollar and the Canadian dollar.

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

##### *U.S. dollar borrowings*

The Senior Term Loan B, Junior Term Loan, U.S. Revolving Credit Facility and the Lord & Taylor Mortgage all have a variable component to interest based on LIBOR. There is exposure to interest rate cash flow risk if variable rates rise.

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

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

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

arrangements is included as an offset to finance costs.

An increase of 100 basis points in LIBOR over the past year would have increased net loss for fiscal 2013 by \$2.8 million (2012: \$1.0 million). This sensitivity analysis does not include the impact that an increase of 1% in LIBOR rates would have on the fair value of the interest rate swaps.

#### *Canadian dollar borrowings*

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

On an annualized basis, an increase of 100 basis points in CDOR rates over the past year would have increased net loss for fiscal year 2013 by \$2.5 million (2012: \$5.1 million).

#### **(c) Other risks**

On July 29, 2013, to finance a portion of the consideration to acquire Saks, the Company received Equity Commitments from HSILP and WF Fund. The Equity Commitments from HSILP and WF Fund required the Company to issue its common shares (see note 20) 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 were recognized and accounted for as derivative financial instruments. On the date of the execution of the definitive merger agreement with Saks ("Merger Agreement"), the Equity Commitment Forwards were determined to be in an asset position. During fiscal 2013, the Company recognized an expense of \$153.2 million representing the mark to market adjustments from the date of the execution of the Merger Agreement to November 4, 2013, the date of the closing of the Acquisition. The fair values were determined using a forward pricing model utilizing the assumptions outlined below. Upon closing 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 share capital (note 20).

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 consolidated balance sheet.

During fiscal 2013 in relation to the 1.5 million warrants issued to HSILP concurrently with the execution of the Merger Agreement ("Merger Agreement Warrants"), the Company recognized finance related costs of \$4.9 million representing the mark to market adjustments from the date of execution of the Merger Agreement to February 1, 2014. As at February 1, 2014, the fair value of the Merger Agreement Warrants was \$4.9 million. 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 Acquisition ("Acquisition Warrants"), the Company recognized finance related income of \$4.8 million representing the mark to market adjustments from the date of execution of the Merger Agreement to February 1, 2014. As at February 1, 2014, the fair value of the Acquisition Warrants was \$18.6 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 – February 1, 2014 .....	\$19.82
Expected warrant volatility – Merger Agreement Warrants.....	29.4%
Expected warrant volatility – Acquisition Warrants .....	29.8%
Expected Equity Commitment Forwards volatility .....	63.6%
Dividend yield.....	1.01%
Risk free interest rate .....	1.58%
Expected life – Merger Agreement Warrants.....	4.8 years
Expected life – Acquisition Warrants .....	5.0 years
Expected life – Equity Commitment Forwards .....	up to Nov. 4, 2013

**NOTE 19. SHARE BASED COMPENSATION**

On November 26, 2012, concurrent with the IPO, the Company established share option plans for certain employees and its Board of Directors and has reserved up to 10% of the outstanding shares or 18,210,000 common shares for issuance under the plan. There were no cancellations or significant modification to the plans during fiscal 2013.

**Option Plan**

The Company grants options to certain employees which allow each participant to exercise their share options to either subscribe for Common Shares or receive a cash payment at the option of the Company. The cash payment is calculated as the difference between the market price of the Common Shares as at the exercise date and the exercise price of the share option. The exercise price of each option equals the weighted average of the share price for the five day period preceding the date of grant. The Company uses the fair value method to account for share options issued which is established on the date of grant using the Black-Scholes options-pricing model.

Senior executive options vest 50% in each of the fourth and fifth year following the grant date. The options have a ten year term and will be forfeited immediately in the event a grantee is terminated for cause, and after forty-five days in the event of a voluntary resignation or termination without cause. Share options are subject to a pro-rata vesting schedule if the grantee is terminated. Of the senior executive options granted, 33% have a performance condition and vest only if the share price is at least 50% higher than the offering price of the company’s IPO for any twenty day period prior to the expiry date.

Senior executive option transactions during fiscal 2013 and fiscal 2012 were as follows:

	2013		2012	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year.....	6,090,500	\$17.00	—	—
Granted .....	975,603	\$17.89	6,126,000	\$17.00
Exercised .....	—	—	—	—
Forfeited.....	(503,500)	\$17.00	(35,500)	\$17.00
Expired.....	—	—	—	—
Outstanding at end of year .....	6,562,603	\$17.13	6,090,500	\$17.00
Share options exercisable at end of year.....	—	—	—	—

During fiscal 2013, the grant date fair value of senior executive options granted was \$4.8 million (2012: \$34.2 million).

The following table summarizes information about the share options outstanding and exercisable as at February 1, 2014:

Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at Feb 1, 2014	Weighted average exercise price
\$17.00 to \$17.47	5,989,652	8.83	\$17.00	—	—
\$18.00 to \$18.85	572,951	9.90	\$18.48	—	—
Total	6,562,603	8.92	\$17.13	—	—

The assumptions used to measure the fair value of senior executive options granted during fiscal 2013 and fiscal 2012 under the Black-Scholes model at the grant date were as follows:

	2013	2012
Expected dividend yield.....	1.1% to 2.4%	2.2%
Expected share price volatility .....	30.3% to 38.7%	40.6%
Risk-free interest rate.....	1.4% to 1.6%	1.4%
Expected life of options .....	6.5	6.5

Options issued to other management have a vesting period of three years and have a seven year term with no performance condition. The options will be forfeited immediately in the event a grantee is terminated for caused, and after forty-five days in the event of a voluntary resignation or termination without cause. Share options are subject to a pro-rata vesting schedule if

the grantee is terminated.

Other management options transactions during 2013 and 2012 were as follows:

	2013		2012	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year.....	929,800	\$17.00	—	—
Granted .....	197,000	\$17.17	967,400	\$17.00
Forfeited.....	(157,200)	\$17.01	(37,600)	\$17.00
Outstanding at end of year .....	969,600	\$17.03	929,800	\$17.00
Share options exercisable at end of year.....	—	—	—	—

During fiscal 2013, the grant date fair value of management options granted was \$0.9 million (2012: \$5.1 million).

The following table summarizes information about the share options outstanding and exercisable as at February 1, 2014:

Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at Feb 1, 2014	Weighted average exercise price
\$17.00 to \$17.47	969,600	5.94	\$17.03	—	—

The assumptions used to measure the fair value of other management options granted during fiscal 2013 and fiscal 2012 under the Black-Scholes model at the grant date were as follows:

	2013	2012
Expected dividend yield.....	1.1% to 2.4%	2.2%
Expected share price volatility.....	30.3% to 38.7%	42.3%
Risk-free interest rate.....	1.4% to 1.6%	1.3%

During fiscal 2013, related to all share options, the Company recognized \$7.0 million in compensation expense (2012: \$0.9 million).

### Phantom Share Plan

The Company grants phantom shares to certain employees. During fiscal 2012, 231,950 phantom share units were granted with a grant date fair value of \$3.9 million. Phantom share units have a vesting period of three years that will be settled in common shares of the Company or in cash at the Company's option. During fiscal 2013, the Company recognized compensation expense of \$0.7 million (2012: \$0.1 million). No new phantom share units were granted in fiscal 2013.

### Restricted Share Units

The Company grants restricted share units ("RSUs") to certain employees. During fiscal 2012, the Company awarded 35,293 RSUs with a term of three years at a grant-date fair value of \$17.00 per unit, which will be settled in common shares of the Company. The grant date fair value of the RSUs was \$0.6 million, which are all expected to vest. During fiscal 2013 the Company granted 115,980 RSUs under similar terms and conditions as those granted concurrently with the IPO. The grant-date fair value of these RSUs was \$2.0 million.

During fiscal 2013, the Company recognized \$0.2 million in compensation expense (2012: \$0.1 million).

### Performance Share Units

During fiscal 2012, the Company established a performance share unit plan. During fiscal 2013, the Company granted 674,939 (2012: nil) 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 forty-five 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. During fiscal 2013, related to the PSUs, the Company recognized \$1.9 million in



compensation expense (2012: nil).

PSU transactions during fiscal 2013 were as follows:

	<u>2013</u>
Outstanding at beginning of year.....	—
Issued.....	674,939
Forfeited.....	<u>(14,777)</u>
Outstanding at February 1, 2014.....	660,162
Weighted average contract life remaining at February 1, 2014.....	2.9 years

### Deferred Share Units

The Company grants deferred share units (“DSUs”) to members of the Board of Directors. During fiscal 2013, the Company granted 48,103 units (2012: 8,107) with a grant date fair value of \$0.8 million (2012: \$0.1 million). The fair value was determined based on the Company’s share price at the date of grant. No Director will have the right to receive any benefit under the DSU plan until the participant ceases to be a Director. Compensation expense recorded for the year ended February 1, 2014 was \$0.8 million (2012: \$0.1 million).

### Profits Interests

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

Profit interests have not been granted since fiscal 2009. The value of these profits interests grants will be charged to compensation expense over the individual vesting period of each grant on a tranche basis. Compensation expense for fiscal 2013 was nil (2012: \$0.5 million). As at February 1, 2014 and February 2, 2013 there was nil of total unrecognized compensation cost related to non-vested profits interests.

### Long Term Incentive Plans (LTIP)

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

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

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

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

	<u>2012</u>
Balance – beginning of year.....	5.15%
Grants awarded.....	—
Grants forfeited.....	(0.99%)
Grants redeemed.....	<u>(4.16%)</u>
Balance – end of year.....	—

The value of these LTIP grants was charged to compensation expense over the individual vesting period of each grant on a tranche basis. Compensation expense for fiscal 2013 was nil (2012: \$3.5 million). As of February 2, 2013, total unrecognized compensation cost was nil related to non-vested LTIP awards. During fiscal 2012, the Company redeemed 4,160,000 units or

4.16% and issued 0.5 million common shares with a fair value of \$8.5 million. During fiscal 2013, the Company made payments of \$8.4 million (2012: \$27.8 million).

The liability for future payments related to these redemptions at February 1, 2014 is nil (February 2, 2013: \$8.4 million).

## **NOTE 20. SHARE CAPITAL**

As at February 1, 2014 the authorized shares of HBC consist of an unlimited number of common shares and an unlimited number of preferred shares issuable in series. Prior to the IPO, the authorized shares consisted of an unlimited number of class A supervoting preferred shares and an unlimited number of non-voting common shares.

### **Share Reorganization**

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

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

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

### **Common Shares**

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

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

On July 29, 2013, to finance a portion of the consideration to acquire Saks, the Company received equity commitments from HSILP and WF Fund for the Canadian dollar equivalent of up to U.S.\$500.0 million and U.S.\$250.0 million of equity funding, respectively. As consideration for HSILP's equity commitment, concurrently with the execution of the Merger Agreement, the Company issued 1.5 million share purchase warrants to HSILP, and subsequently issued an additional 3.5 million warrants to HSILP upon the closing of the Acquisition. In consideration for WF Fund's commitment upon closing of the Acquisition the Company issued 1.75 million warrants to WF Fund (note 18).

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, net of costs of \$11.1 million. The subscription receipts were issued to finance a portion of the consideration required to acquire Saks. The net proceeds of the subscription receipts offering were held in escrow until closing of the Acquisition. Accordingly on November 4, 2013, the Company issued 16,050,000 common shares in exchange for the Subscription Receipts.

On November 4, 2013, upon closing of the Acquisition, 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.

The change in common shares and class A preferred shares issued and outstanding is as follows:

	<b>Number of Shares</b>	<b>Millions of Canadian Dollars</b>
<b>Common Shares</b>		
Issued and outstanding at January 28, 2012.....	104,685,315	1.2
Conversion of Class A Preferred Shares.....	104,685	1.0
Treasury offering (net of offering costs and income taxes of \$14.7 million).....	14,710,000	235.4
Redemption of 625,000 vested LTIP units .....	500,000	8.5
<b>Issued and outstanding at February 2, 2013</b> .....	<b>120,000,000</b>	<b>246.1</b>
Conversion of Subscription Receipts to common shares (net of offering costs, transaction costs and income taxes of \$9.5 million).....	16,050,000	265.8
Issuance of common shares to HSILP and WF Fund (net of transaction costs and income taxes of \$3.8 million).....	46,050,001	778.2
Fair value of Equity Commitment Forwards transferred to equity (note 18).....	—	129.9
<b>Issued and outstanding at February 1, 2014</b> .....	<b>182,100,001</b>	<b>1,420.0</b>

During the year ended February 1, 2014, the Company declared and paid dividends to the holders of the common shares totaling \$42.9 million (2012: \$101.1 million).

### Preferred Shares

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

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

	<b>Number of Shares</b>	<b>Millions of Canadian Dollars</b>
<b>Class A Preferred Shares</b>		
Issued and outstanding at January 28, 2012.....	104,685	1.0
Conversion to common shares .....	(104,685)	(1.0)
<b>Issued and outstanding at February 2, 2013 and February 1, 2014</b> .....	<b>—</b>	<b>—</b>

### Warrants

As at February 1, 2014, the 6.75 million warrants issued to HSILP and WF Fund as consideration for the Equity Commitments are outstanding. The warrants are exercisable into common shares of the Company at an exercise price of \$17.00 per warrant which in certain circumstances is subject to adjustment. The warrants expire on November 4, 2018.

## NOTE 21. LOSS PER COMMON SHARE

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

<b>(millions of Canadian dollars or shares except per share amounts)</b>	<b>2013</b>	<b>2012</b>
Net (loss) earnings from continuing operations for basic earnings per share .....	<b>(175.7)</b>	27.8
Net loss from discontinued operations for basic earnings per share .....	<b>(82.4)</b>	(62.9)
Net loss for basic earnings per share .....	<b>(258.1)</b>	(35.1)
Net (loss) earnings from continuing operations for basic earnings per share .....	<b>(175.7)</b>	27.8
Impact of warrants .....	<b>(4.8)</b>	—
Net (loss) earnings from continuing operations for diluted earnings per share .....	<b>(180.5)</b>	27.8
Net loss from discontinued operations for diluted earnings per share .....	<b>(82.4)</b>	(62.9)
Net loss for diluted earnings per share.....	<b>(262.9)</b>	(35.1)
Weighted average common shares outstanding .....	<b>135.2</b>	107.5
Dilutive effect of warrants .....	<b>0.2</b>	—
Diluted weighted average common shares outstanding .....	<b>135.4</b>	107.5
Basic net (loss) earnings per common share		
Continuing operations.....	<b>\$ (1.30)</b>	\$ 0.26
Discontinued operations .....	<b>(0.61)</b>	(0.59)
	<b>\$ (1.91)</b>	\$ (0.33)
Diluted net (loss) earnings per common share		
Continuing operations.....	<b>\$ (1.33)</b>	\$ 0.26
Discontinued operations .....	<b>(0.61)</b>	(0.59)
	<b>\$ (1.94)</b>	\$ (0.33)

Excluded from the computation of diluted net (loss) earnings per common share were 1,170,550 (2012 – nil) potentially dilutive instruments, as they were anti-dilutive.

## NOTE 22. RELATED PARTY TRANSACTIONS

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

Transactions between HBC and its subsidiaries (note 27), which are related parties, have been eliminated on consolidation and are not disclosed in this note. Details of transactions with other related parties are disclosed below.

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 sq. ft. 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 fiscal 2013 were \$0.3 million (2012: \$0.4 million). 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.

Prior to November 26, 2012, agreements existed between HBC and other related parties including HBTC, True North Retail Investments Limited Partnership (“TNRI”), 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 are no longer 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 \$1.4 million for Fiscal 2012. Amounts charged to the Company by HBTC under a management agreement were \$1.5 million for fiscal 2012. Amounts charged to the Company by NRDC under a property agreement were \$3.3 million for fiscal 2012.

In connection with the Target transaction (note 28), 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.

During fiscal 2012, a director of the Company worked for an investment banking firm that was part of the syndicate of investment banks involved in the Company's IPO. Commissions of \$0.4 million were paid in connection with this transaction.

During the year ended February 1, 2014, the Company received \$0.3 million from HBTC relating 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.

On February 25, 2014, the Company closed its agreement to sell its downtown Toronto flagship retail complex and the Simpson's Tower to an affiliate of The Cadillac Fairview Corporation Limited, an affiliate of HSILP, for a purchase price of \$650.0 million (note 29).

### **NOTE 23. COMPENSATION**

The remuneration of key management personnel for fiscal 2013 and 2012 is as follows:

<u>(millions of Canadian dollars)</u>	<u>2013</u>	<u>2012</u>
Short-term benefits .....	<b>8.9</b>	15.6
Post-employment benefits.....	<b>1.5</b>	0.2
Other long-term benefits.....	<b>9.0</b>	8.4
Termination benefits.....	<b>0.2</b>	0.1
Share based compensation .....	<b>4.4</b>	3.6
	<b><u>24.0</u></b>	<b><u>27.9</u></b>

The compensation noted in the above table forms part of the total employee benefits expense, including discontinued operations, recorded by the Company in fiscal 2013 totaling \$1,111.7 million (2012: \$1,210.0 million).

### **NOTE 24. CONTINGENT LIABILITIES**

As of February 1, 2014, 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 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 25. GUARANTEES**

As part of normal operations, the Company regularly reviews its real estate portfolio and store locations. Based on the reviews conducted in prior years, the Company has closed certain store premises that it deemed to be non-strategic. Where these premises were leased, the Company assigned its leases to other retail operators, but remained obligated to the landlord on those leases as the original tenant thereunder despite the assignment. If the assignee were to default on the lease agreement, the Company would remain obligated to the landlord for payment of amounts due under the lease. The terms of these assigned leases can extend up to the year 2024. As of February 1, 2014, these leases have future minimum lease payments of \$150.1 million (February 2, 2013: \$239.6 million), of which \$145.4 million (February 2, 2013: \$180.4 million), relates to leases assigned to Target, in addition to other lease related expenses, such as property taxes and common area maintenance. The Company's obligation would be offset by payments from existing or future assignees and their obligations to the Company to comply with the assigned leases. Potential liabilities related to these guarantees may be subject to certain defenses by the Company. The Company does not expect to make any significant payments with respect to these lease obligations and believes that the risk of significant loss is low.

In connection with the sale of leasehold interests to Target, the Company has indemnified Target up to a maximum of

\$1,825.0 million in respect of any damages arising from any failure to comply with any representation or warranty under the transaction agreement to be true, any failure of the Company to fulfill any of its obligations under the agreement, the use of any of the leased properties prior to transfer to Target, environmental liabilities associated with any of the leased properties, and any liabilities associated with the leased properties not assumed by Target.

From time to time, Saks has issued guarantees to landlords under leases of stores operated by its subsidiaries. Certain of these stores were sold in connection with the sale of the Saks Department Store Group to Belk, Inc. in 2005 and the sale of the Northern Department Store Group to The Bon-Ton Stores, Inc. in 2006. If the purchasers fail to perform certain obligations under the leases guaranteed, the Company could have obligations to landlords under such guarantees. The terms of these guaranteed leases can extend up to the year 2024. As of February 1, 2014, these leases have future minimum lease payments of \$104.8 million. Based on the information currently available, the Company does not believe that its potential obligations under these lease guarantees would be material.

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

#### NOTE 26. SEGMENTED REPORTING

The Company has one reportable segment, Department Stores, which earns revenue from the sale of fashion apparel, accessories, cosmetics and home products to customers in a similar target market. The Department Stores segment which includes Hudson's Bay, L&T, Home Outfitters, Saks and OFF 5TH, is managed by the Chief Operating Decision Maker and supported by an integrated shared services function.

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

<u>(millions of Canadian dollars)</u>	<u>2013</u>	<u>2012</u>
<b>Total retail sales</b>		
Canada .....	2,718.7	2,614.5
United States .....	2,504.7	1,462.5
	<u>5,223.4</u>	<u>4,077.0</u>
		2012
		(restated – see note 2(z))
<u>(millions of Canadian dollars)</u>	<u>2013</u>	<u>2012</u>
<b>Total operating income (loss)</b>		
Canada .....	38.3	27.4
United States .....	(31.2)	88.1
	<u>7.1</u>	<u>115.5</u>
		2012
		(restated – see note 2(z))
<u>(millions of Canadian dollars)</u>	<u>2013</u>	<u>2012</u>
<b>Non-current assets<sup>(1)</sup></b>		
Canada .....	694.8	623.1
United States .....	4,622.9	957.0
	<u>5,317.7</u>	<u>1,580.1</u>
<b>Total assets</b>		
Canada .....	1,749.3	1,887.3
United States .....	6,177.7	1,360.3
	<u>7,927.0</u>	<u>3,247.6</u>

(1) Excludes deferred tax assets and pensions and employee benefits

## NOTE 27. SUBSIDIARIES

Entities controlled by HBC are included in these consolidated financial statements. Control exists when the Company has the ability to direct the relevant activities and the return of an entity. The financial statements of such entities are included in the consolidated financial statements from the date control commences until the date that control ceases. Significant subsidiaries of the Company are:

Name of subsidiary	Country of incorporation and operation	Ownership interest	
		2013	2012
Zellers Inc. ....	Canada	100%	100%
Lord & Taylor LLC .....	United States	100%	100%
LT Propco LLC.....	United States	100%	100%
LT 424 LLC.....	United States	100%	100%
Saks Incorporated .....	United States	100%	—

## NOTE 28. DISCONTINUED OPERATIONS

The Company has substantively completed the discontinuation of its discount store business which consisted 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 (the "Target Transaction"). As a result of these changes, the Company has reflected the discount store operations as discontinued operations in the consolidated statements of loss.

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

(millions of Canadian dollars)	2013	2012 (restated – see note 2(z))
Net loss from discontinued operations, net of taxes .....	(111.1)	(244.4)
Sale of leasehold interests, net of taxes.....	28.7	181.5
<b>Net loss for the year — discontinued operations, net of taxes.....</b>	<b>(82.4)</b>	<b>(62.9)</b>

Net earnings from the sale of leasehold interests in fiscal 2013 were \$28.7 million (2012: \$181.5 million), net of income taxes of \$4.6 million (2012: \$16.9 million). Net loss from discontinued operations is as follows:

(millions of Canadian dollars)	2013	2012
Retail sales.....	145.8	2,374.5
Cost of sales.....	(162.4)	(1,778.2)
Selling, general and administrative expenses .....	(127.0)	(935.9)
<b>Operating loss.....</b>	<b>(143.6)</b>	<b>(339.6)</b>
Finance income.....	—	0.4
<b>Loss before income tax .....</b>	<b>(143.6)</b>	<b>(339.2)</b>
Income tax benefit .....	32.5	94.8
<b>Net loss for the year .....</b>	<b>(111.1)</b>	<b>(244.4)</b>

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 consolidated balance sheet for February 1, 2014 reflects assets and liabilities relating to the discontinuance of the Zellers and Fields businesses. The following table sets out the assets and liabilities relating to Zellers and Fields businesses as at February 1, 2014 and February 2, 2013.

<u>(millions of Canadian dollars)</u>	<u>2013</u>	<u>2012</u>
Trade and other receivables .....	<b>2.3</b>	10.8
Inventories.....	—	151.5
Other current assets.....	—	4.7
Income taxes recoverable.....	—	62.2
Property, plant and equipment .....	—	19.4
Deferred tax assets .....	—	19.9
Other assets - non-current .....	—	0.1
<b>Assets of discontinued operations .....</b>	<b>2.3</b>	268.6
Trade payables .....	<b>4.2</b>	41.6
Other payables and accrued liabilities.....	<b>7.0</b>	100.6
Provisions - current.....	<b>76.9</b>	184.9
Provisions - non-current.....	<b>0.8</b>	11.7
Other liabilities.....	—	4.1
<b>Liabilities of discontinued operations.....</b>	<b>88.9</b>	342.9

### Sale of Leasehold Interests

On January 13, 2011, HBC announced an agreement with Target to sell leasehold interests in a number of its Zellers store locations.

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

During fiscal 2013 and 2012, the Company recognized \$33.4 million and \$271.5 million of proceeds, respectively.

In connection with the transaction, the Company recognized nil (2012: \$51.1 million) related to employee severance costs and \$0.2 million gain (2012: \$1.5 million loss) related to the accelerated amortization of rent related assets and liabilities.

Impairment of property, plant and equipment associated with discontinued operations was nil (2012: \$31.5 million).

### NOTE 29. SUBSEQUENT EVENTS

On March 20, 2014, HBC's Board of Directors declared a dividend of \$0.05 per common share, payable on April 15, 2014 to shareholders of record as of March 31, 2014.

On February 3, 2014, the Company repaid a mortgage outstanding (see note 14) with a final balloon payment of \$9.6 million.

On February 25, 2014, the Company sold its downtown Toronto flagship retail complex and the Simpson's Tower located at 401 Bay Street to an affiliate of The Cadillac Fairview Corporation Limited for a purchase price of \$650.0 million. The Company has leased the entire retail and office complex back for a base term of twenty-five years with renewal options of up to approximately twenty-five years. Proceeds of the transaction were used to retire in entirety the Junior Term Loan, currently bearing interest at a rate of 8.25%, and permanently pay down U.S.\$150.0 million of the Senior Term Loan B, currently bearing interest at a rate of 4.75%. The balance of the net proceeds were used to reduce the outstanding balance of the HBC Revolving Credit Facility. Over time, a portion of the proceeds will be used to fund the Company's strategic capital investments including the expansion of Saks Fifth Avenue into Canada and growth initiatives such as HBC Digital and the OFF 5TH businesses. As part of this transaction, HBC will open a full-line Saks store in the Toronto Hudson's Bay flagship store. The approximately 150,000 square-foot, multi-level Saks is planned to open in the spring of 2016 and will be co-located with the current Hudson's Bay store. In addition, the Company has also agreed to lease space in Toronto's Sherway Gardens for a second Saks Fifth Avenue store in Canada.