MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THIRTEEN AND THIRTY-NINE WEEKS ENDED NOVEMBER 2, 2013

Dated December 10, 2013

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

The following management's discussion and analysis ("MD&A") is intended to assist readers in understanding the business environment, strategies and performance and risk factors of Hudson's Bay Company and its direct and indirect subsidiaries and predecessors or other entities controlled by them, herein referred to as "HBC", the "Company", "we", "us", or "our". It should be read in conjunction with the unaudited interim condensed consolidated financial statements and notes thereto for the thirteen and thirty-nine week periods ended November 2, 2013. It should also be read in conjunction with the audited consolidated financial statements for the fiscal year ended February 2, 2013 and the related notes and MD&A, which are available on the Company's website at www.hbc.com and on SEDAR at www.sedar.com. Unless otherwise indicated, all amounts are expressed in millions of Canadian dollars.

The contents of this MD&A were approved by the Company's Audit Committee. Although the disclosure contained herein is current as of December 10, 2013, the document reflects information regarding the Company as it was structured and operated on November 2, 2013 (unless otherwise stated herein). Subsequent to the reporting period contained in this MD&A, the Company closed its previously announced acquisition of Saks Incorporated ("Saks"). For details relating to this transaction, see "The Acquisition" section of this MD&A as well as the Business Acquisition Report dated December 6, 2013, which is available on the Company's website at www.hbc.com and on SEDAR at www.sedar.com.

Basis of Presentation

Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain previously reported figures have been restated due to the implementation of revised International Accounting Standard 19 – Employee Benefits ("IAS 19R"). See "New Accounting Policies – Employee Benefits" and "Changes in Accounting Policies Including Initial Adoption".

General Information

HBC is a 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 ("Lord & Taylor") on October 2, 2006.

On January 11, 2012, HBTC completed a reorganization to combine its retail operations, HBC and Lord & Taylor. As part of the reorganization, HBC acquired Lord & Taylor from HBTC. The acquisition of Lord & Taylor by HBC was a merger of entities under common control and as such the two entities are presented for financial reporting purposes as if the two entities have been consolidated since the acquisition of HBC by HBTC.

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

In Canada, the Company operates Hudson's Bay, a department store with locations throughout Canada, as well as thebay.com. HBC also operates Home Outfitters, Canada's largest home specialty superstore with locations across Canada. In the United States, the Company operates Lord & Taylor, a department store with store locations throughout the northeastern United States, in two major cities in the Midwest and in Boca Raton, Florida, as well as on-line at lordandtaylor.com. On April 19, 2012, the Company's Board of Directors approved a plan to discontinue the Company's discount store operations. See "Supplemental Information – Discontinued Operations".

Subsequent to the reporting period contained in this MD&A, on November 4, 2013, the Company closed its previously announced acquisition of Saks, 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 Saks Fifth

Avenue department stores and e-commerce operations, as well as Saks Fifth Avenue OFF 5TH (‘‘OFF 5TH’’) stores and its e-commerce website.

Accounting Periods

This MD&A is based on the unaudited interim condensed consolidated financial statements and notes thereto for the thirteen and thirty-nine week periods ended November 2, 2013. Our Fiscal Year consists of either a 52 or 53-week period ending on the Saturday nearest to January 31. “Fiscal 2012” was 53 weeks and is a reference to the Company’s fiscal year ended on February 2, 2013. “Fiscal 2013” will be 52 weeks and will end on February 1, 2014.

Forward-Looking Statements

Certain statements in this MD&A regarding our current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements or any other future events or developments, including without limitation statements under the heading “Fourth Quarter 2013 Outlook”, constitute forward-looking statements. The words “may”, “will”, “would”, “should”, “could”, “expects”, “plans”, “intends”, “trends”, “indications”, “anticipates”, “believes”, “estimates”, “predicts”, “likely” or “potential” or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements.

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

Many factors could cause our actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, which are discussed in greater detail in the “Risk Factors” section of the Company’s Annual Information Form for Fiscal 2012 filed on SEDAR on April 30, 2013, which is available at www.sedar.com: significant competition in the retail industry, changing consumer preferences, changing consumer spending, the prospect of unfavourable economic and political conditions, the seasonal nature of our business, unseasonable weather conditions or natural disasters, our ability to continue to improve same store sales, our ability to retain our senior management team who possess specialized market knowledge, our ability to attract and retain quality employees, maintaining good relations with non-unionized and unionized employees, our dependence on successful inventory management, increased commodity prices, including for cotton, may affect our profitability, our dependence on our advertising and marketing programs, a material disruption in our computer systems, our ability to execute our growth strategy, our ability to execute our plan to reduce operating expenses, our ability to comply with the covenants in our credit facilities, our ability to incur more debt, breaches of privacy, risks arising from regulation and litigation, product liability claims and product recalls, fluctuations in the value of the Canadian dollar in relation to the U.S. dollar, risks associated with doing business abroad, disruption to our centralized distribution centres, risks associated with operating freehold and leasehold property, environmental risks associated with operating freehold and leasehold property, our obligations under the agreement entered into with Target Corporation, our ability to maintain the brand value of our various retail banners, the value of the brands we offer could diminish due to factors beyond our control, current store locations may become less desirable, inability to protect our trademarks and other proprietary rights, risks related to our size and scale, insurance related risks, pension related risks, our constating documents could discourage takeover attempts, risks related to our ability to maintain financial and management processes and controls, volatile market price for our Common Shares, our ability to pay dividends is dependent on our ability to generate sufficient income, expenses relating to being a public company, influence by our principal shareholders, our principal shareholders have a material percentage of the Common Shares which may have an impact on the trading price of the Common Shares, and our principal shareholders may sell their Common Shares at a time in the future and such timing will be beyond our control and may affect the trading price of the Common Shares. In addition to the risks outlined above, please refer to the risk factors in the Short Form Prospectus (as defined below) for specific risks related to the Acquisition (as defined below) and the post-Acquisition business and operations of the Company and Saks. These factors are not intended to represent a complete list of the factors that could affect us; however, these factors should be considered carefully.

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

Non-IFRS Measures

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

Third Quarter Events

- On September 10, 2013, the Company issued 16,050,000 subscription receipts (the "Subscription Receipts") at a price of $17.15 per Subscription Receipt, for aggregate gross proceeds of $275.3 million (the "Offering"). Upon the completion of the acquisition of Saks, each Subscription Receipt was automatically exchanged into one Common Share.

- On October 10, 2013, the Company opened a full line Lord & Taylor store in Boca Raton, Florida, bringing our total Lord & Taylor store count to 49.

- Over the course of the quarter, the Company opened five new Topshop/Topman stores comprising a total of approximately 65,000 gross square feet located in our Sherway Gardens (Etobicoke, Ontario), Les Galeries d'Anjou (Anjou, Quebec), Carrefour Laval (Laval, Quebec), Square One Shopping Centre (Mississauga, Ontario) and Chinook Centre (Calgary, Alberta), bringing our total Topshop/Topman store count to 10.

- The Company completed significant renovations, including the expansion of selling areas in key categories such as shoes, accessories, cosmetics and menswear, to multiple locations including our Hudson's Bay Flagship on Queen Street (Toronto, Ontario), Yorkdale Shopping Centre (Toronto, Ontario), Sherway Gardens (Etobicoke, Ontario) and Les Galeries d'Anjou (Anjou, Quebec) as well as our Lord & Taylor Flagship on Fifth Avenue (New York, New York) and South Shore (Bayshore, New York) stores.

- The Company launched omni-channel functionality creating an "endless aisle" for in-store and on-line customers through expanded merchandise fulfillment capabilities from inventories across our e-commerce warehouses and participating stores. HBC also continued to enhance its on-line platform through improvements to the customer shopping experience, expanded product assortments and a more robust infrastructure.

- HBC reorganized its executive leadership structure at the corporate and business unit levels. Marigay McKee will become President of Saks Fifth Avenue, effective January 6, 2014, and, as previously disclosed, Liz Rodbell will become President of the HBC Department Store Group (Hudson's Bay and Lord & Taylor), effective February 1, 2014. Both will report to HBC's Office of the Chairman, which consists of Richard Baker, Governor and CEO, and Donald Watros, Chief Operating Officer of HBC. Bonnie Brooks will become Vice Chairman of the Hudson's Bay Company effective February 1, 2014 and will continue to advise the Office of the Chairman and the Board of Directors. HBC's Corporate Shared Services leadership, which was created to provide an effective platform for the operation and growth of the Company and its retail brands, which reports to the Office of the Chairman, includes: Marc Metrick, Chief Administrative Officer; Michael Culhane, Chief Financial Officer; David Pickwoad, General Counsel; Brian Pall, President-Real Estate; and Kerry Mader, EVP-Store Planning, Design & Construction.

Subsequent Events

- On November 4, 2013 (the "Closing Date"), the Company completed its acquisition of all of the outstanding shares of Saks for U.S.$16.00 per share (the "Acquisition") in an all-cash transaction valued at approximately U.S.$2.9 billion, including debt. The Acquisition was completed in accordance with the previously announced definitive merger agreement dated as of July 28, 2013 (the "Merger Agreement").

- The Acquisition was financed by a combination of new debt financing (the "Debt Financing") and approximately U.S.$1.0 billion of new equity (the "Equity Financing") issued by way of a combination of the Offering and two non-brokered private placements of Common Shares and Common Share purchase warrants (the "Private Placements"). Specifically, on the Closing Date:

    - each Subscription Receipt was automatically exchanged into one Common Share and the Subscription Receipts were halted and de-listed from the TSX. Further details concerning the Subscription Receipts are set out in HBC's short form prospectus dated August 30, 2013 (the "Short Form Prospectus"), available on SEDAR at www.sedar.com.

    - the Company closed the Private Placements pursuant to which an aggregate of 46,050,001 Common Shares and an aggregate of 5,250,000 Common Share purchase warrants were issued to HS Investment L.P. ("HSILP"), an affiliate of Ontario Teachers' Pension Plan, and West Face Long Term Opportunities Global Master L.P. ("WF Fund"), a fund advised by West Face Capital Inc. As previously disclosed, an additional 1,500,000 warrants were issued to HSILP on July 28, 2013 in consideration of HSILP's equity commitment. All securities issued in connection with the Private Placements are subject to a four-month hold period from the date of issuance in accordance with applicable securities laws. Further details concerning the Private Placements are set out in the Short Form Prospectus, available on SEDAR at www.sedar.com.

    - the Company closed the Debt Financing which consisted of a U.S.$2,000.0 million senior secured term loan, a U.S.$300.0 million junior secured term loan and a U.S.$950.0 million asset-based loan, the proceeds of which were used to finance the Acquisition and related fees and expenses and to refinance certain of the existing debt of the Company and Saks.

- On the Closing Date, the Company entered into an amendment to HBC's revolving credit facility to reflect certain changes to the terms necessary in connection with the Acquisition.

- On December 4, 2013, the Company declared a quarterly dividend, payable on December 30, 2013 to shareholders of record at the close of business on December 13, 2013, in the amount of $0.05 per Common Share.

Overview

Our Business

We are a leading North American retailer that offers a wide selection of branded merchandise in Canada and the United States. In Canada, we operate Hudson's Bay, a national department store. In the United States, we operate Lord & Taylor, a specialty department store with locations throughout the northeastern United States, in two major Midwestern cities and in Boca Raton, Florida. We also operate Home Outfitters, a kitchen, bed and bath superstore with locations across Canada. The Company also continues to operate three Zellers stores. With the closing of the Acquisition on November 4, 2013, the Company now also operates Saks Fifth Avenue, an omni-channel luxury retailer with locations throughout the United States, and OFF 5TH, a luxury off-price retailer primarily located in upscale mixed-use and off-price centers.

Since 2008, we have transformed our business by significantly enhancing sales productivity and achieving substantial earnings growth. Sales productivity has been enhanced through improved brand and merchandise strategies, investment in high growth merchandise categories and the revitalization of our stores. We have achieved substantial earnings growth through a combination of ongoing margin enhancement strategies including aggressive management of our expenses.

Since its IPO and exclusive of the estimated synergies as a result of the Acquisition (which are discussed below), the Company has realized approximately $35.1 million of its targeted $60.0 million of annual operating cost savings. These savings have been achieved through the reduction of information technology expenses, occupancy costs, distribution costs and other corporate overhead. The Company continues to expect that the remaining savings associated with these initiatives will be fully realized by the end of Fiscal 2014.

We believe that we can continue increasing our sales productivity and earnings growth. We have implemented the following strategies in pursuit of these objectives:

- *Store Productivity.* We target increased store productivity through capital and working capital investments in high growth merchandise categories and the optimization of floor space allocation.

- *Strategic Partners.* We develop brand partnerships that leverage our existing square footage and desirable retail locations. Examples of this include our successful Topshop/Topman stores and our upcoming relationship with Kleinfeld Bridal Corp. (“Kleinfeld”).

- *Omni-Channel.* We are upgrading and expanding our omni-channel platform both on-line and in-store to provide our customers with a seamless shopping experience and the flexibility to shop whenever, wherever and however they want.

- *Private Brands.* We are focusing on four key private brands – HBC Signature, Lord & Taylor, Black Brown 1826 and our Olympic branded merchandise.

- *Capital Investments.* We strategically invest in our stores to both rejuvenate our sales floors and provide an enhanced shopping experience for our customers.

- *Improved Operating Margins*. We integrated our U.S. and Canadian operations to achieve cost synergies across our business and have identified opportunities to reduce redundant costs and streamline operations.

In addition, the Company’s management sees an opportunity to realize significant operating synergies as a result of the Acquisition and estimates annual synergies of approximately $100 million to be achieved over a 3-year period. These synergies are currently expected to be realized in a variety of areas, including:

- *Administration and Other Shared Services*: Reduce expenses by expanding the Company’s existing multi-banner shared service organization to include Saks.

- *Store Expenses*: Leverage increased purchasing scale for non-merchandise items.

- *IT Infrastructure and E-Commerce*: Capitalize on Saks’ recent IT system enhancements to maximize e-commerce business across all retail banners and to reorganize certain business processes to fully leverage a consolidated IT infrastructure and surrounding network architecture and tools.

- *Cost of Goods Sold*: Leverage OFF 5TH infrastructure to more efficiently clear residual merchandise from all banners. Achieve greater purchasing power of merchandise across three banners.

- *Other*: Combine management teams to strengthen expertise, deepen our bench and rationalize certain back-office functions as appropriate, in addition to leveraging top talent and best practices to drive additional benefits and synergies.

Highlights of the 13-week period ended November 2, 2013

- Consolidated same store sales increased 5.7%, or 3.8% excluding the impact of foreign exchange, compared to the third quarter of Fiscal 2012.

- Same store sales at Hudson's Bay increased 6.4% compared to the third quarter of Fiscal 2012. This increase was driven by the strong performance of ladies' and men's apparel, ladies' shoes, jewellery and luggage, as well as the continued growth of both e-commerce and our Topshop/Topman stores.

- Same store sales at Lord & Taylor increased 1.6% on a U.S. dollar basis compared to the third quarter of Fiscal 2012. This increase was due to relative strength in men's apparel and shoes and improved performance in ladies' apparel and handbags.

- E-commerce sales grew $18.0 million to $48.9 million, an increase of 58.3% compared to the third quarter of Fiscal 2012, reflecting the Company's strategic focus on growing this channel.

- Gross profit rate was 40.2% of retail sales, an increase of 120 basis points compared to the third quarter of Fiscal 2012. The increase in gross profit reflects unfavourable book-to-physical inventory adjustments that were initially reported in the third quarter of Fiscal 2012.

- Normalized EBITDA was $64.3 million compared to $47.9 million for the third quarter of Fiscal 2012, an increase of $16.4 million. Normalized EBITDA was 6.5% of retail sales, an increase of 140 basis points compared to the third quarter of Fiscal 2012.

- Normalized Net Earnings for the Period – Continuing Operations was $8.9 million, or $0.07 per Common Share, compared to a Normalized Net Loss for the Period of $0.3 million, or ($0.00) per Common Share for the third quarter of Fiscal 2012, an improvement of $9.2 million.

Highlights of the 39-week period ended November 2, 2013

- Consolidated same store sales increased 4.4%, or 3.3% excluding the impact of foreign exchange, compared to the prior year period.

- Same store sales at Hudson's Bay increased 6.7% compared to the prior year period. This increase was driven by the strong performance of ladies' and men's apparel, ladies' shoes, handbags and accessories, as well as the continued growth of both e-commerce and our Topshop/Topman stores.

- Same store sales at Lord & Taylor decreased 0.3% on a U.S. dollar basis compared to the prior year period. Stronger results in the third quarter of Fiscal 2013 helped offset the 1.3% decline that occurred in the twenty-six week period ended August 3, 2013.

- E-commerce sales grew by $39.1 million to $117.3 million, an increase of 50.0% compared to the prior year period, reflecting the Company's strategic focus on growing this channel.

- Gross profit rate was 39.8% of retail sales, an increase of 10 basis points compared to the thirty-nine week period ended October 27, 2012.

- Normalized EBITDA was $153.3 million compared to $132.9 million for the prior year period, an increase of $20.4 million. Normalized EBITDA was 5.4% of retail sales, an increase of 50 basis points compared to the prior year period.

- Normalized Net Loss for the Period – Continuing Operations improved by $24.0 million to $1.5 million, or ($0.01) per Common Share, compared to a Normalized Net Loss for the Period – Continuing Operations of $25.5 million, or ($0.24) per Common Share for the prior year period**.**

Discussion of Operations

Retail Sales

The majority of our sales are from branded merchandise purchased directly from the brand owners or their licensees. To increase same store sales, we focus on offering a broad and well-edited selection of upscale branded and private label merchandise appealing to the fashion taste of our customers. The quality and breadth of our selection allows us to change the mix of our merchandise based on fashion trends and individual store locations and enables us to address a broad customer base. As part of our efforts to create an omni-channel and seamless direct-to-consumer shopping experience, Hudson's Bay, Lord & Taylor and Home Outfitters are developing enhanced omni-channel platforms.

Same Store Sales — Consolidated (continuing operations)

The Company calculates same store sales on a year-over-year basis from stores operating for at least 13 months, e-commerce sales and clearance stores. Stores undergoing remodeling remain in the same store sales calculation. This calculation includes the impact of foreign exchange. Definitions and calculations of same store sales differ among companies in the retail industry.

Gross Profit

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

We work to manage our gross profit rate in a number of different ways. We manage the level of promotional activity relative to regular price activity and manage inventory levels to minimize the need for substantial clearance activity. We source private label products and directly import certain branded products from overseas markets, including China, Bangladesh, India, Indonesia, Vietnam and Europe. As a result, our cost of sales is impacted by the fluctuation of foreign currencies against the Canadian dollar. In particular, we purchase a significant amount of our imported merchandise from suppliers in Asia using U.S. dollars. Therefore, our cost of sales is impacted by the fluctuation of the U.S. dollar against the Canadian dollar. We enter into forward contracts to hedge our exposure to fluctuations in the value of the U.S. dollar against the Canadian dollar. Increases in the price of merchandise, raw materials, fuel and labour or their reduced availability could increase our cost of goods and negatively impact our financial results. Generally, we offset these cost increases with pricing adjustments in order to maintain a consistent mark-up on the merchandise, which may cause a decline in our unit volume but typically has a minimal impact on our gross profit rate.

Factors Affecting Our Performance

Foreign Exchange

Our net investment in Lord & Taylor, whose functional currency is U.S. dollars, presents a foreign exchange risk to HBC, whose functional currency is Canadian dollars. As of November 2, 2013, HBC has not entered into any hedging transactions with respect to this exposure. Foreign currency translation of the net earnings (loss) of Lord & Taylor impacts consolidated net earnings (loss), and foreign currency translation of HBC's investment in Lord & Taylor impacts other comprehensive income.

Selling, General & Administrative Expenses

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

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

We earn royalty and new account bounty payments from credit card issuers based on sales charged both in-store and/or out-of-store to either Hudson's Bay Private Label Credit Cards or Hudson's Bay branded MasterCards. These royalty and/or bounty payments are recorded as a return on credit operations and are included as a reduction of SG&A in our consolidated financial statements. We have no risk of credit loss on the credit card receivables in the underlying portfolio.

Finance Costs

The financial markets in Canada and the United States remain competitive, and feature strong investor demand for credit. Our finance costs are expenses derived from the financing activities of the Company including interest expense on long-term and short-term borrowings, gains or losses on the early extinguishment of debt and net interest on pensions and employee benefits. Our debt finance costs are dependent on fluctuations in the underlying indexes used to calculate interest rates, including, but not limited to, the Canadian prime rate, CDOR, U.S. prime rate, Federal Funds rate and LIBOR.

In connection with the Acquisition (see "The Acquisition" section of this document and notes 6 and 17 of the unaudited interim condensed consolidated financial statements for the thirteen and thirty-nine weeks ended November 2, 2013), we issued Common Share purchase warrants related to the equity commitments we received from HSILP and WF Fund. Due to the variability of the Common Share issue price and certain other features, including potential price protection provisions, the equity commitments had been recognized as forward contracts ("Equity Commitment Forwards") that were accounted for as derivative financial instruments. The non-cash charges associated with the warrants and the Equity Commitment Forwards fluctuate with changes in the Common Share price and other factors, as they require mark-to-market adjustments each reporting period. We record the mark-to-market valuation adjustment of these warrants and Equity Commitment Forwards as finance costs based on their end of period valuations. The Company recorded mark-to-market gains and losses on the Equity Commitment Forwards until the commitment period ended subsequent to the end of the quarter on November 4, 2013 at which time the Company derecognized the Equity Commitment Forwards and reclassified the related financial liability of $129.9 million to shareholders' equity.

Weather

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

Competition

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

Consumer Trends

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

Seasonality

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

The Acquisition

On November 4, 2013, the Company completed the acquisition of all the outstanding shares of Saks for U.S.$16.00 per share in an all-cash transaction valued at approximately U.S.$2.9 billion, including debt, through the merger of Harry Acquisition Inc., an indirect wholly-owned subsidiary of the Company, and Saks. With the Acquisition, HBC creates a premier North American fashion retail business centered on three iconic retail brands — Hudson's Bay, Lord & Taylor and Saks Fifth Avenue. As of the Closing Date, the combined Company operated a total of 320 stores, including 179 full-line specialty department stores, 72 outlet stores and 69 home stores in prime locations throughout the U.S. and Canada, along with three e-commerce sites.

The all-cash transaction was financed by a combination of the Debt Financing and the Equity Financing, which was comprised of the Offering and the Private Placements.

The Subscription Receipts were issued to the public at a price of $17.15 per Subscription Receipt for aggregate gross proceeds to the Company of $275.3 million. The offering closed on September 10, 2013. The net proceeds from the Offering, along with $5.5 million of underwriters' fees payable were held in escrow pending confirmation by the Company that the conditions precedent to completing the Acquisition contained in the Merger Agreement had been satisfied. As such, the gross proceeds from the Offering are presented as a current financial liability in the unaudited interim condensed consolidated balance sheet as at November 2, 2013. As the Subscription Receipts were contingently issuable as at November 2, 2013 and all contingent terms had not been satisfied as of the balance sheet date, the Subscription Receipts have not been included in basic or diluted earnings per Common Share. Upon the completion of the Acquisition, the escrow release condition was satisfied and each Subscription Receipt was automatically exchanged into one Common Share through the non-certificated inventory system of CDS Clearing and Depositary Services Inc. As outlined in the Short Form Prospectus, the net proceeds of the Offering were used to finance the Acquisition.

Concurrently with the Acquisition, the Company closed the Private Placements, pursuant to which an aggregate of 46,050,001 common shares and an aggregate of 5,250,000 Common Share purchase warrants were issued to HSILP and WF Fund. As previously disclosed, an additional 1,500,000 warrants were issued to HSILP on July 28, 2013. The warrants were issued in consideration for their respective equity commitments. The exercise price of the warrants is $17.00 per Common Share, which represents a premium to the trading price of the Company's shares immediately prior to the announcement of the Acquisition. The warrants have a five year term from the date of issue and are subject to anti-dilution provisions in certain circumstances. All securities issued in connection with the Private Placements are subject to a four month hold period from the date of issuance in accordance with applicable securities laws. As the net proceeds were received prior to the end of the quarter to be held in escrow by the Company pending the closing of the Acquisition, the Company recognized the funds as a financial liability and restricted funds in the unaudited interim condensed consolidated balance sheet as at November 2, 2013.

The Debt Financing included a U.S.$2,000.0 million senior secured term loan facility ("Senior Term Loan B") and a U.S.$300.0 million junior secured term facility ("Junior Term Loan") each made available by syndicates of lenders, with Bank of America, N.A., as the administrative agent. The Senior Term Loan B matures November 4, 2020 and will initially carry interest at a rate of LIBOR plus 3.75% per annum. The agreement is structured such that LIBOR will be deemed to be not less than 1% per annual ("LIBOR Floor"). The Senior Term Loan B is subject to quarterly principal repayments equal to 0.25% and mandatory prepayments. A portion of the proceeds from Senior Term Loan B was used to repay in full the existing HBC senior term loan facility ("HBC Term Loan") and the Lord & Taylor amended and restated credit facility ("Lord & Taylor Term Loan"). The remainder was used to finance the Acquisition. In connection with the repayments of the HBC Term Loan and Lord & Taylor Term Loan, approximately $0.9 million and $4.3 million of deferred financing costs will be written off, respectively. The Senior Term Loan B is secured by a second lien over all of our inventory and accounts receivables, a first lien over substantially all other assets as well as a pledge of the shares of certain of our subsidiaries.

The Junior Term Loan matures on November 4, 2021 and has an initial rate of LIBOR (inclusive of a LIBOR Floor) plus 7.25% per annum. The remaining credit terms of the Junior Term Loan are substantially consistent with the Senior Term Loan B with the exception that the Junior Term Loan is not subject to quarterly principal repayments. Proceeds from the Junior Term Loan were used to finance the Acquisition. The Junior Term Loan is secured by a third lien over all of our inventory and accounts receivables, a second lien over substantially all other assets as well as a pledge of the shares of certain of our subsidiaries.

Also on the Closing Date, the Lord & Taylor and Saks revolving credit facilities were refinanced through a new U.S. revolving credit facility with a maximum availability of U.S.$950.0 million ("U.S. Revolving Credit Facility"). The U.S. Revolving Credit Facility is available for general corporate purposes and matures November 4, 2018. The U.S. Revolving Credit Facility has multiple interest charge options that are based on U.S. prime rate, Federal Funds rate and LIBOR. The U.S. Revolving Credit Facility is secured by a first lien security interest over all inventory and accounts receivables in the United States (Lord & Taylor and Saks). In connection with the refinancing of the U.S. Revolving Credit Facility, approximately $1.7 million of deferred financing costs will be written off.

Further details concerning the Private Placements, the Subscription Receipts and arrangements related to the Debt Financing and other debt instruments in connection with the Acquisition are set out in the Short Form Prospectus, available on SEDAR at www.sedar.com.

New Accounting Policies – Employee Benefits

In June 2011, the IASB amended IAS 19 — Employee Benefits. The amendments provided clarification on the recognition of termination benefits and eliminated the option to defer actuarial gains and losses (known as the corridor approach) related to defined benefit plans. Net interest on the net defined benefit plan assets and liabilities as calculated under IAS 19R is now included in finance costs. The Company adopted IAS 19R retrospectively in the first quarter of Fiscal 2013. The impact of adopting IAS 19R for each of the quarters on the consolidated statement of earnings (loss) in Fiscal 2012 is summarized as follows:

(millions of Canadian dollars except per share amounts)	Fiscal Quarter Ended April 28, 2012	Fiscal Quarter Ended July 28, 2012	Fiscal Quarter Ended October 27, 2012	39-week period ended October 27, 2012	Fiscal Quarter Ended February 2, 2013	Fiscal Year Ended February 2, 2013
	$	$	$	$	$	$
Decrease (increase) in SG&A	5.8	(2.6)	(6.6)	(3.4)	(5.2)	(8.6)
Decrease in finance costs	0.9	0.8	1.0	2.7	0.8	3.5
(Decrease) increase in income tax benefit	(1.8)	0.4	1.6	0.2	1.2	1.4
Decrease (increase) in net loss for the period – continuing operations	4.9	(1.4)	(4.0)	(0.5)	(3.2)	(3.7)
(Increase) decrease in net loss for the period – discontinued operations	(0.6)	37.4	(8.4)	28.4	(15.0)	13.4
Decrease (increase) in net loss for the period	4.3	36.0	(12.4)	27.9	(18.2)	9.7
Increase (decrease) in net earnings (loss) per Common Share — basic and diluted[1]						
Continuing operations	0.05	(0.01)	(0.04)	(0.01)	(0.03)	(0.03)
Discontinued operations	(0.01)	0.35	(0.08)	0.28	(0.13)	0.12
	0.04	0.34	(0.12)	0.27	(0.16)	0.09

Note:

(1) Net earnings (loss) per Common Share ("EPS") in each quarter is computed using the weighted-average number of Common Shares outstanding during that quarter while EPS for the full year and 39-week period ended October 27, 2012 is computed using the weighted-average number of Common Shares outstanding during the year and 39-week period, as applicable. Thus, the sum of the four quarters' EPS may not equal the full-year or 39-week period EPS.

Summary Consolidated Financial Information

The following tables set out summary unaudited consolidated financial information and supplemental information for the periods indicated. The summary financial information set out below has been derived from unaudited interim condensed consolidated financial statements prepared in accordance with IFRS for the thirteen week and thirty-nine week periods ended November 2, 2013. The financial information presented has been prepared on a basis consistent with our audited consolidated financial statements for Fiscal 2012 except for the new accounting standards described in note 2 of the unaudited interim condensed consolidated financial statements. In the opinion of our management, such unaudited financial data reflects all adjustments, consisting of normal and recurring adjustments, necessary for a fair presentation of the results for those periods. The results of operations for interim periods are not necessarily indicative of the results to be expected for a full year or any future period.

(millions of Canadian dollars except per share amounts)	13-week period ended November 2, 2013		13-week period ended October 27, 2012 *(restated[7])*		39-week period ended November 2, 2013		39-week period ended October 27, 2012 *(restated[7])*	
	$	%	$	%	$	%	$	%
Earnings Results								
Retail sales	984.1	100.0%	930.4	100.0%	2,815.8	100.0%	2,690.5	100.0%
Cost of sales	(588.2)	(59.8%)	(567.7)	(61.0%)	(1,695.6)	(60.2%)	(1,622.1)	(60.3%)
Gross profit	395.9	40.2%	362.7	39.0%	1,120.2	39.8%	1,068.4	39.7%
SG&A	(389.2)	(39.5%)	(358.3)	(38.5%)	(1,120.5)	(39.8%)	(1,085.1)	(40.3%)
Operating income (loss)	6.7	0.7%	4.4	0.5%	(0.3)	0.0%	(16.7)	(0.6%)
Total interest expense, net	(10.8)	(1.1%)	(31.7)	(3.4%)	(39.9)	(1.4%)	(81.4)	(3.0%)
Acquisition-related finance costs	(123.4)	(12.5%)	-	0.0%	(183.3)	(6.5%)	-	0.0%
Finance costs	(134.2)	(13.6%)	(31.7)	(3.4%)	(223.2)	(7.9%)	(81.4)	(3.0%)

(millions of Canadian dollars except per share amounts)	13-week period ended				39-week period ended			
			(restated[7])				*(restated[7])*	
	November 2, 2013		October 27, 2012		November 2, 2013		October 27, 2012	
	$	%	$	%	$	%	$	%
Loss before income tax	(127.5)	(12.9%)	(27.3)	(2.9%)	(223.5)	(7.9%)	(98.1)	(3.6%)
Income tax benefit	2.6	0.2%	14.8	1.6%	10.4	0.3%	35.5	1.3%
Net loss for the period — continuing operations[1]	(124.9)	(12.7%)	(12.5)	(1.3%)	(213.1)	(7.6%)	(62.6)	(2.3%)
Net earnings (loss) for the period — discontinued operations, net of tax	0.7		(1.9)		(74.1)		(59.3)	
Net loss for the period	(124.2)		(14.4)		(287.2)		(121.9)	
Net Loss per Common Share — Basic and Diluted[2]								
Continuing operations	(1.04)		(0.12)		(1.78)		(0.60)	
Discontinued operations	-		(0.02)		(0.61)		(0.56)	
	(1.04)		(0.14)		(2.39)		(1.16)	
Weighted average Common Shares outstanding — basic and diluted (millions)	120.0		104.7		120.0		104.7	
Supplemental Information – Continuing Operations								
EBITDA[1]	47.1	4.8%	38.2	4.1%	118.9	4.2%	80.8	3.0%
Normalized EBITDA[1]	64.3	6.5%	47.9	5.1%	153.3	5.4%	132.9	4.9%
Normalized net earnings (loss) for the period[1]	8.9	0.9%	(0.3)	0.0%	(1.5)	(0.1%)	(25.5)	(0.9%)
Normalized net earnings (loss) per Common Share — basic and diluted[2]	0.07		-		(0.01)		(0.24)	
Declared dividends per Common Share[3]	0.09375		-		0.28125		-	
Same Store Sales Percentage Change[4]								
Continuing operations		5.7%		3.5%		4.4%		4.9%
Continuing operations (excluding impact of foreign exchange)		3.8%		3.9%		3.3%		4.2%
Hudson's Bay		6.4%		4.5%		6.7%		5.0%
Lord & Taylor[5]		1.6%		5.2%		(0.3%)		4.6%
Store Information[6]								
Store count								
Hudson's Bay	90		90					
Lord & Taylor	49		48					
Home Outfitters	69		69					
Total square footage ('000)								
Hudson's Bay	16,118		16,118					
Lord & Taylor	6,790		6,710					
Home Outfitters	2,515		2,515					

Balance Sheet	November 2, 2013	(restated[7]) October 27, 2012	(restated[7]) February 2, 2013
	$	$	$
Cash	26.2	37.9	48.3
Restricted funds	1,051.8	-	-
Trade and other receivables	83.8	53.6	74.3
Inventories	1,316.7	1,255.1	994.3
Total current assets	2,598.0	2,006.5	1,419.7
Property, plant and equipment	1,459.3	1,318.1	1,335.0
Total assets	4,545.1	3,845.0	3,247.6
Total current liabilities	2,862.2	2,050.4	1,343.5
Loans and borrowings (including current portion)	1,276.8	1,412.6	850.6
Shareholders' equity	723.5	720.7	1,013.0

Notes:

(1) See tables below for a reconciliation of Net Loss – Continuing Operations to EBITDA and Normalized EBITDA and a reconciliation of Net Loss – Continuing Operations to Normalized Net Earnings (Loss) – Continuing Operations.

(2) All references to Common Shares and per Common Share amounts have been adjusted retroactively for a split on November 19, 2012.

(3) Effective as of the IPO, the Company implemented a dividend policy. Distributions prior to the IPO are not included in this table.

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

(5) Same store sales of Lord & Taylor are calculated in U.S. dollars. Lord & Taylor same store sales percentage changes, including the impact of foreign exchange, were 6.8% and 2.6 % in the 13 and 39 week periods ended November 2, 2013, respectively, and 4.0% and 6.7% in the 13 and 39 week periods ended October 27, 2012, respectively.

(6) Hudson's Bay operates one Hudson's Bay Outlet and three Zellers stores and Lord & Taylor operates four Lord & Taylor Outlet stores, which are not included in the store count and total square footage.

(7) Certain previously reported figures have been restated due to the implementation of IAS 19R. For more information, please refer to "New Accounting Policies – Employee Benefits" and "Changes in Accounting Policies Including Initial Adoption."

The following table shows the reconciliation of Net Loss – Continuing Operations to EBITDA as well as Normalized EBITDA.

(millions of Canadian dollars)	13-week period ended November 2, 2013	13-week period ended (restated[1]) October 27, 2012	39-week period ended November 2, 2013	39-week period ended (restated[1]) October 27, 2012
	$	$	$	$
Net Loss for the Period – Continuing Operations	(124.9)	(12.5)	(213.1)	(62.6)
Finance costs	134.2	31.7	223.2	81.4
Income tax benefit	(2.6)	(14.8)	(10.4)	(35.5)
Pension expense (non-cash)	7.2	6.9	21.4	20.5
Depreciation and amortization	31.0	26.2	91.3	73.1
Impairment and other non-cash expenses	-	0.7	-	3.9
Share based compensation	2.2	-	6.5	-
EBITDA	47.1	38.2	118.9	80.8
Normalization adjustments				
Acquisition related expenses	2.7	-	5.2	-
Saks integration expenses	9.1	-	9.1	-
Restructuring and other	5.4	9.7	20.1	52.1
Total normalizing adjustments	17.2	9.7	34.4	52.1
Normalized EBITDA	64.3	47.9	153.3	132.9

Note:

(1) Certain previously reported figures have been restated due to the implementation of IAS 19R. For more information, please refer to "New Accounting Policies – Employee Benefits" and "Changes in Accounting Policies Including Initial Adoption."

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

	13-week period ended		39-week period ended	
(millions of Canadian dollars)	**November 2, 2013**	*(restated(1))* **October 27, 2012**	**November 2, 2013**	*(restated(1))* **October 27, 2012**
	$	$	$	$
Net Loss for the Period – Continuing Operations	(124.9)	(12.5)	(213.1)	(62.6)
Normalization adjustments				
Acquisition-related finance costs and expenses, net of tax	123.1	-	185.5	-
Restructuring and other, net of tax	4.0	7.0	14.9	36.3
Write-off of deferred financing costs, net of tax	-	5.2	3.5	5.2
Saks integration expenses, net of tax	6.7	-	6.7	-
Tax related adjustments	-	-	1.0	(4.4)
Total normalizing adjustments	133.8	12.2	211.6	37.1
Normalized Net Earnings (Loss) for the Period – Continuing Operations	8.9	(0.3)	(1.5)	(25.5)

Note:

(1) Certain previously reported figures have been restated due to the implementation of IAS 19R. For more information, please refer to "New Accounting Policies – Employee Benefits" and "Changes in Accounting Policies Including Initial Adoption."

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

Normalized EBITDA is defined as EBITDA adjusted to exclude: (i) business and organization restructuring/realignment charges; (ii) merger/acquisition costs and expenses; and (iii) normalizing adjustments, if any, related to transactions that are not associated with day-to-day operations. Normalized Net Earnings (Loss) – Continuing Operations is defined as net earnings (losses) adjusted to exclude: (i) business and organization restructuring/realignment charges; (ii) merger/acquisition costs and expenses; and (iii) normalizing adjustments, if any, related to transactions that are not associated with day-to-day operations. We have included Normalized EBITDA and Normalized Net Earnings (Loss) – Continuing Operations to provide investors with supplemental measures of our operating performance. We believe Normalized EBITDA and Normalized Net Earnings (Loss) – Continuing Operations are important supplemental measures of operating performance because they eliminate items that have less bearing on our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We also believe that securities analysts, investors and other interested parties frequently use EBITDA, Normalized EBITDA, and Normalized Net Earnings (Loss) – Continuing Operations in the evaluation of issuers, many of which present similar metrics when reporting their results. Our management also uses Normalized EBITDA in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess our ability to meet our future debt service, capital expenditure and working capital requirements and our ability to pay dividends on our shares. As other companies may calculate EBITDA, Normalized EBITDA, or Normalized Net Earnings (Loss) – Continuing Operations differently than we do, these metrics are not comparable to similarly titled measures reported by other companies.

Supplemental Information — Discontinued Operations

During 2012, the Company announced its intention to discontinue store operations at Fields and most store operations at Zellers. The Company has completed the wind-down of all its Fields stores and substantively all of its Zellers stores. The Company currently continues to operate three Zellers stores. The direct results of these two operations have been reflected in the Company's consolidated financial statements as "discontinued operations". The first quarter of Fiscal 2013 was the last quarter of retail operations for discontinued operations.

The Company has retrospectively restated its consolidated statements of earnings (loss) for all periods to reflect the discount store segment as discontinued operations. The following table sets forth the major components of the Company's earnings (loss) from discontinued operations for the periods indicated:

	13-week period ended				**39-week period ended**			
			(restated[(1)])				*(restated[(1)])*	
(millions of Canadian dollars)	**November 2, 2013**		**October 27, 2012**		**November 2, 2013**		**October 27, 2012**	
	$	%	$	%	$	%	$	%
Retail sales	-	-	540.3	100.0%	145.8	100.0%	1,837.1	100.0%
Cost of sales	-	-	(442.8)	(81.9%)	(162.4)	(111.4%)	(1,349.0)	(73.4%)
SG&A	0.2	-	(194.3)	(36.0%)	(116.2)	(79.7%)	(768.2)	(41.8%)
Operating income (loss)	0.2	-	(96.8)	(17.9%)	(132.8)	(91.1%)	(280.1)	(15.2%)
Finance income (costs)	0.4	-	0.8	0.1%	(0.2)	(0.1%)	0.6	0.0%
Earnings (loss) before income tax	0.6	-	(96.0)	(17.8%)	(133.0)	(91.2%)	(279.5)	(15.2%)
Income tax benefit	0.1	-	34.8	6.5%	30.2	20.7%	95.1	5.2%
Net earnings (loss) from discontinued operations, net of tax	0.7	-	(61.2)	(11.3%)	(102.8)	(70.5%)	(184.4)	(10.0%)
Sales of leasehold interests, net of tax	-		59.3	10.9%	28.7		125.1	6.8%
Net earnings (loss) for the period — discontinued operations, net of tax	0.7		(1.9)	(0.4%)	(74.1)		(59.3)	(3.2%)

Note:
(1) Certain previously reported figures have been restated due to the implementation of IAS 19R. For more information, please refer to "New Accounting Policies – Employee Benefits" and "Changes in Accounting Policies Including Initial Adoption."

Supplemental Information — Saks Incorporated

Consistent with previous reporting of HBC's financial results, management does not intend to report gross profit, SG&A or EBITDA separately for each banner. However, due to the timing of the close of the Acquisition, the Company is providing the following financial information for Saks in order to assist investors in their understanding of Saks' financial results:

- 13-week period ended November 2, 2013 - Total sales of $795.0 million on same store sales growth (excluding the impact of foreign exchange) of 9.6%. Normalized EBITDA of $68.2 million.
- 39-week period ended November 2, 2013 - Total sales of $2,332.9 million on same store sales growth (excluding the impact of foreign exchange) of 5.7%. Normalized EBITDA of $176.2 million.

Normalized EBITDA is defined for the above as being EBITDA (defined as net earnings before interest expense, income tax, share based compensation expense, depreciation and amortization expense, impairment and other non-cash expenses and pension expense (non-cash)) adjusted to exclude: (i) business and organization restructuring/realignment charges; (ii) merger/acquisition costs and expenses; and (iii) normalizing adjustments, if any, related to transactions that are not associated with day-to-day operations.

Overall Performance

Thirteen Week Period Ended November 2, 2013 Compared to the Thirteen Week Period Ended October 27, 2012

Retail Sales

Retail sales were $984.1 million for the 13-week period ended November 2, 2013, an increase of $53.7 million, or 5.8%, from $930.4 million for the 13-week period ended October 27, 2012. For the same period, consolidated same store sales increased by 5.7% (3.8% excluding the impact of foreign exchange), with an increase of 6.4% at Hudson's Bay and an increase of 1.6% on a U.S. dollar basis at Lord & Taylor (or an increase of 6.8% including the impact of foreign exchange). E-commerce sales grew to $48.9 million, an increase of 58.3% compared to the third quarter of Fiscal 2012, reflecting the Company's strategic focus on growing this channel.

Sales at Hudson's Bay were driven by strong performance of ladies' and men's apparel, ladies' shoes, handbags and accessories, as well as the continued growth of both e-commerce sales and our Topshop/Topman stores. Sales growth was particularly evident at those stores and store areas that have benefited from recent renovations. The sales increase at Lord & Taylor was due to relative strength in men's apparel and shoes and improved performance in ladies' apparel and handbags.

Gross Profit

Gross profit for the 13-week period ended November 2, 2013 was $395.9 million, or 40.2% of retail sales, compared to $362.7 million, or 39.0% of retail sales, for the 13-week period ended October 27, 2012. This represents an increase of $33.2 million. Gross profit in the quarter ended October 27, 2012 was negatively impacted by a $9.3 million charge as a result of higher than expected book-to-physical inventory adjustments. Inventory control processes and corrective actions were taken as a result to ensure that this would not be an ongoing issue. Excluding the impact of the inventory adjustments in the fiscal quarter ended October 27, 2012, the gross profit rate improved by 20 basis points.

Selling, General & Administrative Expenses

The following table shows SG&A for the 13-week periods ended November 2, 2013 and October 27, 2012, excluding certain non-recurring items.

	13-week period ended			
			(restated[1])	
(millions of Canadian dollars)	**November 2, 2013**		**October 27, 2012**	
	$	%[2]	$	%[2]
Selling, General & Administrative Expenses	389.2	39.5%	358.3	38.5%
less the following non-recurring items:				
Restructuring and other non-recurring	5.4	0.5%	9.7	1.0%
Acquisition related expenses	2.7	0.3%	-	-
Saks integration expenses	9.1	0.9%	-	-
Impairment and other non-cash	-	-	0.7	0.1%
Selling, General & Administrative Expenses excluding certain non-recurring items	372.0	37.8%	347.9	37.4%

Notes:

(1) Certain previously reported figures have been restated due to the implementation of IAS 19R. For more information, please refer to "New Accounting Policies – Employee Benefits" and "Changes in Accounting Policies Including Initial Adoption."

(2) As a percentage of retail sales.

SG&A was $389.2 million, or 39.5% of retail sales for the 13-week period ended November 2, 2013 compared to $358.3 million, or 38.5% of retail sales for the 13-week period ended October 27, 2012. Adjusting for non-recurring expenses of $17.2 and $10.4 million for the 13-week periods ended November 2, 2013 and October 27, 2012, SG&A as a percentage of retail sales would have been 37.8% and 37.4%, respectively. The dollar increase in SG&A was primarily driven by four factors: increased depreciation and amortization costs related to capital investments including investments in our on-line/omni-channel platform, an increase in non-cash share based compensation, an increase in costs associated with our strategic initiatives (including Topshop/Topman) and a decreased return from credit operations offset by approximately $10.6 million of expense reductions related to rightsizing our corporate infrastructure to reflect the wind-down of discontinued operations.

EBITDA and Normalized EBITDA

EBITDA was $47.1 million, or 4.8% of retail sales, in the 13-week period ended November 2, 2013 compared to $38.2 million, or 4.1% of retail sales in the 13-week period ended October 27, 2012, an increase of $8.9 million, or 70 basis points as a percentage of retail sales. Normalized EBITDA was $64.3 million, or 6.5% of retail sales in the 13-week period ended November 2, 2013 compared to $47.9 million, or 5.1% of retail sales in the 13-week period ended October 27, 2012, an increase of $16.4 million, or 140 basis points as a percentage of retail sales. Adjusting for the impact of inventory adjustments in the quarter ended October 27, 2012, Normalized EBITDA increased by $7.1 million, or 40 basis points.

Finance Costs

Finance costs were $134.2 million for the 13-week period ended November 2, 2013 compared to $31.7 million for the 13-week period ended October 27, 2012, an increase of $102.5 million. This increase was primarily driven by $123.4 million of Acquisition-related financing costs, of which $111.7 million were non-cash. The non-cash expenses include $104.7 million related to the changes in fair value of Equity Commitment Forwards and $7.0 million in finance related costs on warrants (see notes 6 and 17 of the unaudited interim condensed consolidated financial statements for the thirteen and thirty-nine weeks ended November 2, 2013). In addition, the Company incurred a fee of $11.7 million related to a bridge lending facility that was made available to the Company during the period from announcement of the Acquisition to its close on November 4, 2013. These increases were offset by lower average outstanding loans and borrowings as well as favourable loan terms from multiple re-financings in Fiscal 2012 and 2013. The overall reduction in outstanding loans and borrowings was facilitated by a combination of the IPO proceeds, operating income and the wind-down of discontinued operations.

Income Tax Benefit

Income tax benefit was $2.6 million for the 13-week period ended November 2, 2013 compared to $14.8 million for the 13-week period ended October 27, 2012. The effective income tax rate of 2.0% for the 13-week period ended November 2, 2013 decreased from 54.2% for the 13-week period ended October 27, 2012 primarily due to a decrease in statutory rate, decrease in prior year recoveries, and non-deductible permanent differences, principally consisting of acquisition-related finance costs.

Net Loss for the Period — Continuing Operations

Net Loss for the Period – Continuing Operations was $124.9 million in the 13-week period ended November 2, 2013 compared to a loss of $12.5 million in the 13-week period ended October 27, 2012, an increase of $112.4 million. The increase in loss is due primarily to the impact of significant non-cash charges related to changes in fair value of Equity Commitment Forwards, finance-related costs on warrants and acquisition-related costs, all of which are attributed to the Acquisition.

Normalized Net Earnings (Loss) for the Period — Continuing Operations

Normalized Net Earnings for the Period – Continuing Operations was $8.9 million in the 13-week period ended November 2, 2013 compared to a loss of $0.3 million in the 13-week period ended October 27, 2012, an improvement of $9.2 million.

Net Earnings (Loss) for the Period — Discontinued Operations

Net Earnings for the Period – Discontinued Operations was $0.7 million for the 13-week period ended November 2, 2013 compared to net loss of $1.9 million for the 13-week period ended October 27, 2012, an increase of $2.6 million. During the first quarter of Fiscal 2013, the Company completed the closure of most Zellers stores.

Thirty-Nine Week Period Ended November 2, 2013 Compared to the Thirty-Nine Week Period Ended October 27, 2012

Retail Sales

Retail sales were $2,815.8 million for the 39-week period ended November 2, 2013, an increase of $125.3 million, or 4.7%, from $2,690.5 million for the 39-week period ended October 27, 2012. For the same period, consolidated same store sales increased by 4.4% (3.3% excluding the impact of foreign exchange), with an increase of 6.7% at Hudson's Bay and a decrease of 0.3% on a U.S. dollar basis at Lord & Taylor (or an increase of 2.6% including the impact of foreign exchange). E-commerce sales grew to $117.3 million, an increase of 50.0% compared to the thirty-nine weeks ended October 27, 2012 reflecting the Company's strategic focus on growing this channel.

Sales at Hudson's Bay were driven by strong performance of ladies' and men's apparel, ladies' shoes, handbags and accessories, as well as the continued growth of both e-commerce sales and our Topshop/Topman stores. Sales at Lord & Taylor were impacted by lower customer traffic due to unfavourable weather trends and lack of major fashion trend in the first two quarters of fiscal 2013. The third quarter of fiscal 2013 saw improvements in men's and ladies' apparel and handbags.

Gross Profit

Gross profit for the 39-week period ended November 2, 2013 was $1,120.2 million, or 39.8% of retail sales, compared to $1,068.4 million, or 39.7% of retail sales, for the 39-week period ended October 27, 2012. This represents an increase of $51.8 million. Excluding the impact of inventory adjustments in the 39 weeks ended October 27, 2012, the gross profit rate in the 39 weeks ended November 2, 2013 represents a 40 basis point reduction. Although the gross profit rate in the three month ended November 2, 2013 has improved relative to the comparable period in the prior year, the cumulative deterioration in the gross profit rate is still negatively impacted by higher markdowns liquidating seasonal inventories driven by cooler than usual spring weather.

Selling, General & Administrative Expenses

The following table shows SG&A for the 39-week periods ended November 2, 2013 and October 27, 2012, excluding certain non-recurring items.

	39-week period ended			
			(restated[1])	
(millions of Canadian dollars)	**November 2, 2013**		**October 27, 2012**	
	$	%[2]	$	%[2]
Selling, General & Administrative Expenses	1,120.5	39.8%	1,085.1	40.3%
less the following non-recurring items:				
Restructuring and other non-recurring	20.1	0.7%	52.1	1.9%
Acquisition related expenses	5.2	0.2%	-	-
Saks integration expenses	9.1	0.3%	-	-
Impairment and non-cash	-	-	3.9	0.1%
Selling, General & Administrative Expenses excluding certain non-recurring items	1,086.1	38.6%	1,029.1	38.3%

Notes:

(1) Certain previously reported figures have been restated due to the implementation of IAS 19R. For more information, please refer to "New Accounting Policies – Employee Benefits" and "Changes in Accounting Policies Including Initial Adoption."

(2) As a percentage of retail sales.

SG&A was $1,120.5 million, or 39.8% of retail sales, for the 39-week period ended November 2, 2013 compared to $1,085.1 million, or 40.3% of retail sales, for the 39-week period ended October 27, 2012. Adjusting for non-recurring expenses of $34.4 million for the 39-week period ended November 2, 2013 and $56.0 million for the 39-week period ended October 27, 2012, SG&A as a percentage of retail sales would have been 38.6% and 38.3%, respectively. The dollar increase in SG&A was primarily driven by four factors: increased depreciation and amortization costs related to capital investments including investments in our on-line/omni-channel platform, an increase in non-cash share based compensation, an increase in costs associated with our strategic initiatives including Topshop/Topman and a decreased return from credit operations offset by approximately $27.1 million of expense reductions related to rightsizing our corporate infrastructure to reflect the wind-down of discontinued operations.

EBITDA and Normalized EBITDA

EBITDA was $118.9 million, or 4.2% of retail sales, in the 39-week period ended November 2, 2013 compared to $80.8 million, or 3.0% of retail sales in the 39-week period ended October 27, 2012, an increase of $38.1 million, or 120 basis points as a percentage of retail sales. Normalized EBITDA was $153.3 million, or 5.4% of retail sales, in the 39-week period ended November 2, 2013 compared to $132.9 million, or 4.9% of retail sales, in the 39-week period ended October 27, 2012, an increase of $20.4 million, or 50 basis points as a percentage of retail sales.

Finance Costs

Finance costs were $223.2 million for the 39-week period ended November 2, 2013 compared to $81.4 million for the 39-week period ended October 27, 2012, an increase of $141.8 million. This increase was driven by $183.3 million of Acquisition related financing costs, of which $171.6 million were non-cash and $11.7 million related to the bridge facility financing fee. The non-cash expenses included $153.2 million related to the changes in fair value of Equity Commitment Forwards and $18.4 million in finance related costs on warrants (see notes 6 and 17 to the unaudited interim condensed consolidated financial statements for the thirteen and thirty-nine weeks ended November 2, 2013). In addition, other non-cash expenses included the write-off of $5.8 million in deferred financing costs associated with the extinguishment of the Lord & Taylor Term Loan and partial repayment of the HBC Term Loan. Of the total finance costs of $223.2 million (2012: $81.4 million), approximately $191.8 million (2012: $15.0 million) relate to non-cash expenses. The increase in total finance costs was partially offset by lower average outstanding loans and borrowings as well as favourable loan terms from re-financings in Fiscal 2012 and 2013. The overall reduction in outstanding loans and borrowings was facilitated by a combination of the IPO proceeds, operating income and the wind-down of discontinued operations.

Income Tax Benefit

Income tax benefit was $10.4 million for the 39-week period ended November 2, 2013 compared to $35.5 million for the 39-week period ended October 27, 2012. The effective income tax rate of 4.7% for the 39-week period ended November 2, 2013 decreased from 36.2% for the 39-week period ended October 27, 2012, primarily due to a decrease in statutory rates as well as a decrease in prior year recoveries and non-deductible permanent differences, principally consisting of acquisition-related costs.

Net Loss for the Period — Continuing Operations

Net Loss for the Period – Continuing Operations was $213.1 million in the 39-week period ended November 2, 2013 compared to a loss of $62.6 million in the 39-week period ended October 27, 2012, an increase of $150.5 million. The increase in loss is due primarily to the impact of significant one-time charges occurring in the 39-week period ended November 2, 2013 related to changes in the fair value of Equity Commitment Forwards, finance related costs on warrants and acquisition related costs, all of which are attributed to the Acquisition. These, combined with the costs associated with the early extinguishment of debt, all of which are normalizing adjustments, resulted in a significant increase in Net Loss for the period.

Normalized Net Loss for the Period — Continuing Operations

Normalized Net Loss for the Period – Continuing Operations was $1.5 million in the 39-week period ended November 2, 2013 compared to a loss of $25.5 million in the 39-week period ended October 27, 2012, an improvement of $24.0 million.

Net Loss for the Period — Discontinued Operations

Net Loss for the Period – Discontinued Operations was $74.1 million for the 39-week period ended November 2, 2013 compared to a loss of $59.3 million for the 39-week period ended October 27, 2012, an increase of $14.8 million. The increase in net loss was primarily due to fewer Zellers stores in operation during the 39-week period ended November 2, 2013. During the first quarter of Fiscal 2013, the Company completed the closure of most Zellers stores. As a result, net loss for discontinued operations since that time has been less significant.

Summary of Consolidated Quarterly Results

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

(millions of Canadian dollars except per share amounts)	Fiscal Quarter Ended							
				(restated[4])				
	Nov. 2, 2013	Aug. 3, 2013	May 4, 2013	Feb. 2, 2013	Oct. 27, 2012	July 28, 2012	April 28, 2012	Jan. 28, 2012
	$	$	$	$	$	$	$	$
Retail sales	984.1	947.7	884.0	1,386.5	930.4	911.9	848.2	1,299.6
Normalized EBITDA	64.3	58.0	31.0	177.1	47.9	58.9	26.1	166.8
Net (loss) earnings								
Continuing operations	(124.9)	(67.0)	(21.2)	90.4	(12.5)	(3.1)	(47.0)	99.2
Discontinued operations	0.7	(15.3)	(59.5)	(3.6)	(1.9)	25.3	(82.7)	96.6
	(124.2)	(82.3)	(80.7)	86.8	(14.4)	22.2	(129.7)	195.8
Net (Loss) Earnings per Common Share — Basic and Diluted[1]								
Continuing operations	(1.04)	(0.56)	(0.18)	0.78	(0.12)	(0.03)	(0.45)	0.95
Discontinued operations	-	(0.13)	(0.49)	(0.03)	(0.02)	0.24	(0.79)	0.92
Same Store Sales Percentage Change[2]								
Continuing operations	5.7%	3.5%	4.0%	2.1%	3.5%	3.9%	7.8%	6.8%
Continuing operations (excluding impact of foreign exchange)	3.8%	3.0%	3.2%	2.7%	3.9%	2.0%	6.9%	6.8%
Hudson's Bay	6.4%	6.2%	7.6%	6.1%	4.5%	3.2%	7.4%	8.7%
Lord & Taylor[3]	1.6%	(1.2%)	(1.4%)	(2.9%)	5.2%	1.5%	7.5%	6.6%

Notes:

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

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

(3) Same store sales of Lord & Taylor are calculated in U.S. dollars.

(4) Certain previously reported figures for Fiscal 2012 have been restated due to the implementation of IAS 19R. For more information, please refer to "New Accounting Policies – Employee Benefits" and "Changes in Accounting Policies Including Initial Adoption."

Fourth Quarter 2013 Outlook

During the fourth quarter of Fiscal 2013, management is focused on maximizing revenue and EBITDA during a condensed holiday shopping period. The following financial guidance for the fourth quarter of Fiscal 2013, which is fully qualified by the Forward-Looking Statements section at the beginning of this MD&A, excludes any impact from the Acquisition and incorporates sales and margin trends to date:

- Total sales of $1,370 million to $1,410 million. This implies same store sales growth for all of Fiscal 2013 of approximately 3.5% to 4.0% on a constant currency basis.
- Normalized EBITDA of $160 million to $180 million. This implies Normalized EBITDA for all of Fiscal 2013 of approximately $315 million to $335 million.

This updated guidance for all of Fiscal 2013 is below our previously issued guidance. The lowering of guidance is primarily a result of (i) sales weakness relative to prior guidance at Lord & Taylor and Home Outfitters, (ii) lower gross profit rate than incorporated in prior guidance, and (iii) less SG&A operating leverage than anticipated in prior guidance, primarily as a result of incremental investments in key growth initiatives.

We are not providing guidance for Saks. However, we believe that Saks is well positioned to achieve sales and normalized EBITDA in line with the levels we anticipated when the Acquisition closed.

Liquidity and Capital Resources

Cash Flows

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

	39-week period ended	
(millions of Canadian dollars)	**November 2 , 2013**	**October 27, 2012**
	$	$
Operating activities — continuing operations	(103.7)	(139.7)
Investing activities — continuing operations	(179.6)	(136.0)
Financing activities — continuing operations	353.5	113.5
Increase (decrease) in cash from continuing operations	70.2	(162.2)
(Decrease) increase in cash from discontinued operations	(93.2)	157.7
Foreign exchange gains on cash	0.9	-
Cash at beginning of period	48.3	42.4
Cash at end of period	26.2	37.9

Net Cash Flow Operating Activities

Cash outflows from operating activities decreased to $103.7 million for the 39-week period ended November 2, 2013 from $139.7 million for the 39-week period ended October 27, 2012, a decrease in outflow of $36.0 million, primarily due to improved operating results and lower cash interest expense offset by a higher investment in working capital.

Net Cash Flow Investing Activities

Cash outflows from investing activities increased to $179.6 million for the 39-week period ended November 2, 2013 from $136.0 million for the 39-week period ended October 27, 2012, an increase of $43.6 million. The increase was primarily due to higher capital expenditures related to the continued investment in our store base to enhance the shopping experience and optimize floor space allocation and sales productivity as well as the ongoing expansion of our omni-channel capabilities.

Net Cash Flow Financing Activities

Cash flows from financing activities increased to $353.5 million for the 39-week period ended November 2, 2013 from $113.5 million for the 39-week period ended October 27, 2012, an increase of $240.0 million. The increase is primarily a result of an increase in net borrowings of $182.3 million in the 39 weeks ended November 2, 2013 compared to the same period in the prior year.

Cash Balances and Liquidity

In the ordinary course, our primary needs for cash are to fund: (i) operations; (ii) capital expenditures in connection with our renovation programs and strategic initiatives; (iii) seasonal inventory purchases and other working capital requirements; (iv) debt service; (v) our quarterly dividend; and (vi) the wind-down of discontinued operations. Working capital requirements are at their highest in the latter half of the fiscal year as inventory builds through the Fall, peaking during the October through December holiday selling season. Working capital is at its lowest at fiscal year-end.

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

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

Wind-Down of Discontinued Operations

The Company will continue to fund the settlement of certain net liabilities associated with the wind-down of our discontinued operations. The most significant factors impacting the Company's cash flows will be (i) severance to be paid to former employees, (ii) payment of lease obligations for certain closed store locations and (iii) income tax recoveries anticipated to be received in early Fiscal 2014 and early Fiscal 2015. We expect future net cash outflow from discontinued operations to be approximately $25 million to $50 million.

Funding Capacity

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

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

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

Please refer to the "The Acquisition" section of this document for details regarding arrangements related to the credit facilities and other debt instruments finalized in connection with the Acquisition or on the Closing Date. Please also refer to (i) management's discussion and analysis for the fourteen and fifty-three weeks ended February 2, 2013 for details regarding the Lord & Taylor's mortgage of its 5th Avenue property in New York, New York, (ii) management's discussion and analysis for the fourteen and fifty-three weeks ended February 2, 2013 for details regarding the HBC revolving credit facility, which was subsequently amended on the Closing Date to reflect certain changes to the terms necessary in connection with the Acquisition, and (iii) the management's discussion and analysis for the thirteen-week period ended May 4, 2013 for details regarding HBC's mortgage of its leasehold interest of the Yorkdale Shopping Centre in Toronto, Ontario.

Contractual Obligations

The Company has a number of obligations related to leases, lease guarantees, loans and borrowings, procurement obligations, pensions and other obligations. In the period up to December 10, 2013, other than as described elsewhere in this document or in the management's discussion and analysis for the thirteen and twenty-six weeks ended August 3, 2013, and the reduction of certain lease obligations as a result of agreements with landlords, there were no material changes to the Company's contractual obligations compared to those identified at year-end. For a complete description of the Company's contractual obligations, please refer to management's discussion and analysis for the fourteen and fifty-three weeks ended February 2, 2013. As previously noted, the document reflects information regarding the Company as it was structured and operated on November 2, 2013 (unless otherwise stated herein). Subsequent to the reporting period contained in this MD&A, the Company closed its previously announced acquisition of Saks. As such, information regarding contractual obligations related solely to Saks are not included in this section.

Guarantees and Off-Balance Sheet Arrangements

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

Standby and documentary letters of credit are used in connection with certain obligations mainly related to purchase orders. The aggregate gross potential liability related to the Company's letters of credit is approximately $17.0 million as at November 2, 2013.

The Company has not created, and is not party to, any special purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating its business. The Company does not have any relationships or arrangements with entities that are not consolidated into its financial statements that are reasonably likely to materially affect liquidity or the availability of capital resources.

Financial Instruments and Other Instruments

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

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

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

The Company determines the fair value of its long-term loans and borrowings using a discounted cash flow model, taking into consideration the fixed interest rate spread included in the related debt compared to fixed interest rate spreads on similar debt available in the market at the balance sheet dates. The fair values of foreign currency options, interest rate swaps and forward foreign currency contracts reflect the estimated amounts that the Company would receive or pay if it were to settle the contracts at the reporting date.

As a result of the Acquisition, the Company recognized Equity Commitment Forwards and warrants in the 39-week period ended November 2, 2013 which are classified as fair value through profit or loss and measured at fair value. Any changes in the fair value are recognized in net earnings (loss) in the period in which the change occurs. The fair values of the warrants and Equity Commitment Forwards are determined using the Black-Scholes option pricing model and a forward pricing model, respectively. For a complete description of the derivative financial instruments of the Company and related risks, please refer to note 18 of the Company's Fiscal 2012 audited consolidated financial statements, the Company's management's discussion and analysis for the fourteen and fifty-three weeks ended February 2, 2013 and the Company's interim condensed consolidated financial statements for the thirteen and thirty-nine weeks ended November 2, 2013.

Tax Matters

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

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

Related Party Transactions

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

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

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

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

In connection with the Target Transaction (see note 18 to the unaudited interim condensed consolidated financial statements for the thirteen and thirty-nine weeks ended November 2, 2013), on September 29, 2012, Zellers and L&T B entered into a Fee Agreement that provided for a fee of $8.0 million payable to L&T B for advisory services. The fee was paid to L&T B on October 27, 2012.

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

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

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

Critical Accounting Policies

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with IFRS. The Company's significant accounting policies are described in note 2 to the Fiscal 2012 audited consolidated financial statements and the Company's management's discussion and analysis for the fourteen and fifty-three weeks ended February 2, 2013 as updated for changes in accounting standards that were implemented in Fiscal 2013, as described below.

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

The following are certain critical judgments and estimations that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the unaudited interim condensed consolidated financial statements (see note 3 to the Fiscal 2012 audited consolidated financial statements for further critical judgments and estimations):

- Inventories
- Loyalty program
- Impairment of property, plant and equipment and intangible assets
- Income taxes
- Share based compensation
- Post-employment benefits
- Equity commitments and warrants

Changes in Accounting Policies Including Initial Adoption

Accounting Standards Implemented in 2013

Employee Benefits — In June 2011, the IASB amended IAS 19 — Employee Benefits. The amendments provide clarification on the recognition of termination benefits; eliminate the existing option to defer actuarial gains and losses (known as the corridor approach) related to defined benefit plans; require changes from remeasurement of defined benefit plan assets and liabilities to be presented in the statement of other comprehensive income; and require additional disclosures. Net interest on the net defined benefit plan assets and liabilities as calculated under the amended IAS 19 is now included in finance costs in the statements of loss 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 in note 2 of the unaudited interim condensed consolidated financial statements for the thirteen and thirty-nine weeks ended November 2, 2013.

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

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

Disclosure of Involvement with Other Entities — In May 2011, the IASB issued IFRS 12 — Disclosure of Interests in Other Entities (“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. The Company implemented the standard at the beginning of Fiscal 2013 and the implementation did not have an impact on its results of operations, financial position and disclosures.

Other Comprehensive Income Presentation — In June 2011, the IASB amended IAS 1 — Presentation of Financial Statements (the “IAS 1 amendment”) to require companies to group together items within other comprehensive income that may be reclassified to the profit or loss section of the income statement. The amendments reaffirm the existing requirements that items in other comprehensive income and profit or loss should be presented as either a single statement or two consecutive statements. As a result of the adoption of the IAS 1 amendment the Company has modified its presentation of other comprehensive income (loss) in its 2013 Q1 unaudited interim condensed consolidated financial statements.

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

Future Expected Changes

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

Financial Instruments — Asset and Liability Offsetting – Presentation — 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.

Financial Instruments — Recognition and Measurement — In June 2013, IASB amended IAS 39 – Financial Instruments: Recognition and Measurement, providing guidance on novation of over-the-counter derivatives and continued designation for hedge accounting. The amendments to IAS 39 must be applied retrospectively for annual periods beginning on or after January 1, 2014. The Company is assessing the potential impact of the IAS 39 amendments.

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

Levies - In May 2013, the IASB issued IFRIC 21 - Levies, providing guidance on the accounting for levies imposed by governments. The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for periods beginning on or after January 1, 2014. The Company is assessing the potential impact of IFRIC 21.

Management's Report on Internal Controls over Financial Reporting

The Governor and Chief Executive Officer and the Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be designed effectively can provide only reasonable assurance with respect to financial reporting and financial statement preparation.

There were no changes in our internal controls over financial reporting that occurred during the thirteen weeks ended November 2, 2013 that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

Additional Information

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

Risk Factors

For a detailed description of risk factors associated with the Company, refer to the "Risk Factors" section of the Company's Annual Information Form filed on SEDAR on April 30, 2012. In addition to those risks, please refer to the Risk Factors in the Short Form Prospectus for specific risks related to the Acquisition and the post-Acquisition business and operations of the Company and Saks.

Dividends

The Company's Board of Directors approved the payment of a quarterly dividend on October 15, 2013, to shareholders of record at the close of business September 30, 2013. The dividend was in the amount of $0.09375 per Common Share and was designated as an "eligible dividend" for Canadian tax purposes. Subsequent to the closing of the Acquisition, the Company reduced its quarterly dividend to $0.05 per Common Share in order to accelerate the deleveraging of debt in the short-term. Upon completion of the Acquisition, holders of Subscription Receipts received, among other things and without payment of additional consideration or further action, payment in the amount of $0.09375 per Subscription Receipt. On December 4, 2013, the Company declared a quarterly dividend in the amount of $0.05 per Common Share, payable on December 30, 2013.

Outstanding Share Data

The Company's authorized share capital consists of an unlimited number of Common Shares and an unlimited number of preferred shares issuable in series. As of December 10, 2013, the Company had 182,100,001 Common Shares issued and outstanding and no preferred shares issued and outstanding. As of December 10, 2013, the Company had 6,994,952 share options, 67,940 restricted share units and 6,750,000 warrants outstanding, all of which are convertible or exchangeable into Common Shares.

The Common Shares trade on the Toronto Stock Exchange under the symbol "HBC" and began trading on

November 20, 2012. In addition there were 25.0 million Common Shares reserved for issuance for the exercise of share options, warrants and the settlement of restricted share units. Assuming exercise of all outstanding share options and the settlement of all outstanding restricted share units, there would be approximately 189.2 million Common Shares issued and outstanding on a fully diluted basis. Assuming exercise of all outstanding share options, the settlement of all outstanding restricted share units and the exercise of all outstanding warrants, there would be approximately 195.9 million Common Shares issued and outstanding on a fully diluted basis.