HUDSON'S BAY COMPANY

2014 ANNUAL REPORT

CELEBRATING A RICH AND STORIED HERITAGE AS NORTH AMERICA'S OLDEST COMPANY.

DRIVING GROWTH THROUGH ICONIC RETAIL BRANDS

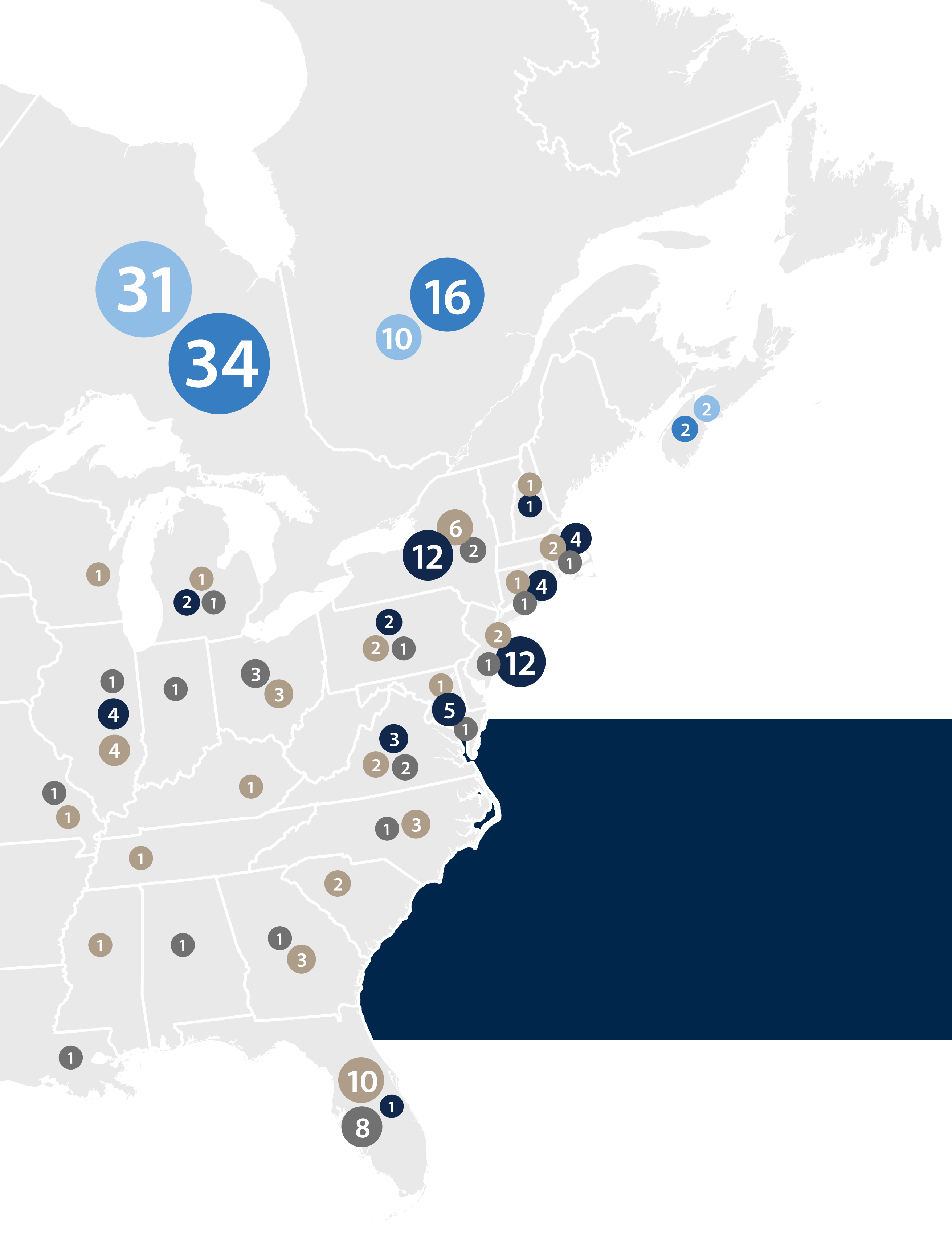
AND A DYNAMIC REAL ESTATE PORTFOLIO.

DIVERSE GEOGRAPHIC FOOTPRINT

STORE COUNT PER NORTH AMERICAN REGION

- HUDSON'S BAY
- SAKS FIFTH AVENUE
- LORD & TAYLOR
- SAKS FIFTH AVENUE OFF 5TH
- HOME OUTFITTERS

10
18
9
15
2
2
3
3
1
1
1
1
12
5
1
1
1
1
2
2
9
1



31
16
10
34
2
2
1
1
6
4
12
2
2
1
1
1
1
4
2
1
1
2
2
1
2
12
1
1
3
1
3
1
5
4
1
3
4
2
2
1
1
1
3
1
2
1
1
1
3
1
10
1
8

TOTAL STORE COUNT AND SQ. FT.[1]

90	38	50	77	67
HUDSON'S BAY	SAKS FIFTH AVENUE	LORD & TAYLOR	SAKS FIFTH AVENUE OFF 5TH	HOME OUTFITTERS
16,123 sq. ft.	*4,499 sq. ft.*	*6,898 sq. ft.*	*2,117 sq. ft.*	*2,444 sq. ft.*

322 HBC STORES IN NORTH AMERICA[2]

1. x1000 2. As of January 31st, 2015.

FY 2013
HBC RETAIL SALES
$5,223 M

FY 2014
HBC RETAIL SALES
$8,169 M

FY 2013
NORMALIZED EBITDA
$405 M

FY 2014
NORMALIZED EBITDA
$612 M

SAME STORE SALES GROWTH[3]

HBC	+ 2.7%
DSG LORD & TAYLOR HUDSON'S BAY HOME OUTFITTERS	+ 1.5%
SAKS FIFTH AVENUE	+ 2.1%
SAKS FIFTH AVENUE OFF 5TH	+ 15.1%

3. Local currency basis.

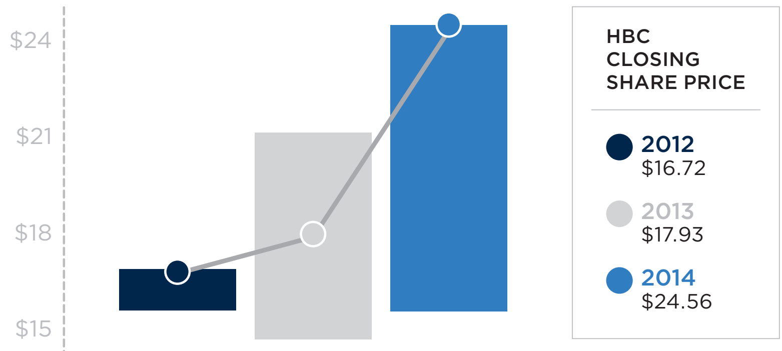
HUDSON'S BAY

A Canadian icon with over three centuries of brand heritage, Hudson's Bay helped build the nation; making it Canada's most prominent department store and one of the most recognized brands in the country.

Saks Fifth Avenue

Saks opened its doors to New York City in 1924, realizing the vision of a "unique luxury store for fashionable living." The Saks Fifth Avenue brand is now synonymous around the world with luxury and style.

HBC 2012-2014 CALENDAR YEAR SHARE PRICE RANGE



$12

Common Shares of the Hudson's Bay Company began trading on the Toronto Stock Exchange under the symbol "HBC" on November 20, 2012.

WE OFFER A CAREFULLY CURATED COLLECTION OF BRANDS.

WE DELIVER AN EXCEPTIONAL SERVICE EXPERIENCE.

WE DELIGHT AND ENTERTAIN OUR CUSTOMERS AT EVERY TOUCHPOINT.

FY 2014 HBC DIGITAL SALES *$900M*

FY 2014 HBC DIGITAL SALES AS A % OF RETAIL SALES *11%*

2013–2014 DSG DIGITAL SALES GROWTH *+66%*

Established in 1826, Lord & Taylor was not only the first department store in the U.S., it has made history with a number of other firsts including the first to offer personal shopping and the first female President of a department store in the U.S.

Established in 1995, Saks Fifth Avenue OFF 5TH leads the market as the premier luxury-value destination and is renowned for its world-class and carefully curated off-the-runway trends, exceptional service, and extraordinary value on the biggest names in fashion.

Founded in 1999, Home Outfitters is Canada's largest kitchen, bed, and bath specialty superstore, known for providing Canadians with stylish, quality home and lifestyle merchandise at great value.

“

CONTINUING THE TRADITION OF INNOVATION, **2014 WAS A TRANSFORMATIVE YEAR FOR HBC.**

Richard A. Baker,
Governor and Executive Chairman

Gerald L. Storch,
Chief Executive Officer

A MESSAGE FROM *Richard Baker & Gerald Storch*

Dear Shareholders,

For more than 340 years, Hudson's Bay Company has been making history. Founded in 1670 as *"a Company of Adventurers,"* HBC charted new territory, innovated trade and commerce and, ultimately, helped inspire and build a nation. Today, HBC is North America's oldest company and operates some of the most iconic retail banners in the world – Hudson's Bay, Lord & Taylor, Saks Fifth Avenue and Saks Fifth Avenue OFF 5TH. Our portfolio of brands offers a compelling assortment of apparel, accessories, shoes, beauty and home merchandise. We are committed to providing great products, an exceptional service experience and elevated shopping environments for our customers, both in store and online.

Continuing the tradition of innovation, 2014 was a transformative year for HBC. In addition to strong top line sales growth across the Company, the integration of Saks is already producing results and HBC is now firmly positioned as a leader in the luxury retail market, as well as at the forefront of the off-price segment with Saks Fifth Avenue OFF 5TH.

As we outlined last year, digital growth has been a key driver of our strategy and our investment has delivered very strong returns. Digital commerce sales grew to $900 million in 2014, led by a 66% increase at DSG, and now represents 11% of HBC's total sales.

On the real estate front, HBC recently announced three major transactions; the $1.25 billion, 20-year mortgage on the ground portion of its Saks Fifth Avenue flagship in New York City and two joint ventures focused on real estate growth opportunities in the United States and Canada. These transactions continue our history of surfacing value from our substantial real estate holdings, while strengthening HBC's balance sheet and financial position.

Finally, we have built a world-class leadership team with the appointment of Jerry Storch as Chief Executive Officer, Paul Beesly as Chief Financial Officer, and Ian Putnam as Chief Corporate Development Officer. The addition of these three experienced executives, as well as the appointment of Don Watros as President, HBC International, greatly enhance the management team and further positions HBC to fully execute on our strategic growth initiatives.

2014 HIGHLIGHTS

2014 moved us significantly closer toward our long-term goal of achieving $10 billion in sales by 2018, with all businesses reporting same store sales growth, led by the strong performance of Saks Fifth Avenue OFF 5TH. Key results for the year were:

Total retail sales of approximately $8.2 billion,
up 56.4% year-over-year, primarily due to the inclusion of Saks for the full fifty-two week period.

Digital sales were $900 million,
up $592 million from last year.

Gross profit increase of 120 basis points
on a comparable basis.

Same store sales increased by 7.5%*
On a local currency basis same store sales results were:
- DSG: +1.5%
- Saks Fifth Avenue: +2.1%
- Saks Fifth Avenue OFF 5TH: +15.1%

Normalized EBITDA for the year was $612 million,
or 7.5% of retail sales.

*2.7% on a local currency basis.

WE DELIVER BEST-IN-CLASS DIGITAL, MOBILE AND OMNI-CHANNEL EXPERIENCES FOR OUR CUSTOMERS.

WE BELIEVE THERE IS A WHITE SPACE BETWEEN THE TRADITIONAL MASS DISCOUNTER & THE DEPARTMENT STORE. SAKS FIFTH AVENUE OFF 5TH IS WELL-POSITIONED TO FILL THIS VOID.

WE ANTICIPATE OPENING UP TO SEVEN FULL-LINE SAKS FIFTH AVE. LOCATIONS AND UP TO 25 SAKS FIFTH AVENUE OFF 5TH LOCATIONS OVER THE COMING YEARS IN CANADA.

WE ARE FOCUSED ON DRIVING EFFICIENCIES THROUGHOUT OUR ENTIRE ORGANIZATION.

Building on these results and the investments that HBC has made, we have outlined a number of strategic initiatives that we believe will drive growth at the Company moving forward:

All-Channel Growth

With an estimated 70% of retail transactions influenced by digital, we are focused on creating a seamless connection between the online and in store experience. Historically, our digital capabilities have been less developed than many of our competitors, presenting a substantial opportunity for growth. Accordingly, in 2014 we increased our investment and created HBC Digital to provide common leadership to this initiative, ensuring that we leverage the talent and best practices from across the Company's different banners to deliver best-in-class digital, mobile and omni-channel experiences for our customers. While we have invested significantly in improving our digital channels and offerings, and will continue to do so, we are just as focused on enhancing the in store experience for our customers. The store environment delivers a multi-sensory experience that continues to bring customers into our brick and mortar locations. These environments allow us to dazzle and entertain our shoppers. As we enter 2015 and beyond, we believe that retail will be won by those that offer an outstanding shopping experience across all channels.

Expanding our Off-Price Business

Off-price presents an outstanding growth opportunity for our Company. This segment is growing much faster than the rest of the retail industry, and we believe there is a white space between the traditional mass discounter and the department store. Saks Fifth Avenue OFF 5TH is well-positioned to fill this void. Saks Fifth Avenue OFF 5TH delivers an enhanced value proposition to better align with customer expectations, delivering true fashion and real value. Our newly designed Saks Fifth Avenue OFF 5TH store concept utilizes a modern, modular format to create an easier-to shop 'treasure hunt' environment. We intend to significantly increase Saks Fifth Avenue OFF 5TH's presence across North America, by opening new store locations and expanding online.

Bringing Saks Fifth Avenue & Saks Fifth Avenue OFF 5TH to Canada

We believe there is a substantial opportunity for Saks Fifth Avenue and Saks Fifth Avenue OFF 5TH in Canada. Relative to other nations, Canada has an under-developed luxury market and, per capita, Canadians are outspending European and U.S. consumers on luxury goods, with many of these consumers travelling abroad to do so. Canada is also the top international ship-to destination for saks.com, signalling solid brand awareness that resonates across the country. Meanwhile, the off-price market in Canada also presents a tremendous opportunity for the Saks Fifth Avenue OFF 5TH brand. We anticipate opening up to seven full-line Saks Fifth Avenue locations and up to 25 Saks Fifth Avenue OFF 5TH locations over the coming years. Our first two Saks Fifth Avenue stores will be located in Toronto; a 150,000 square foot store in Toronto Eaton Centre, and a 130,000 square foot store in Sherway Gardens, both slated to open in the spring of 2016. Our first Canadian Saks Fifth Avenue OFF 5TH locations are also scheduled to open in that same time frame.

Driving Synergies and Efficiencies

Following the acquisition of Saks Incorporated, we have targeted the realization of approximately $100 million of annualized pre-tax synergies over three years. After the first full year with Saks in the fold, we are happy to report we remain on plan and have been able to realize approximately $50 million of this target through a number of initiatives including, among others;

- Expanding our shared services organization to Saks Fifth Avenue;
- Leveraging our procurement scale;
- Leveraging our technology infrastructure; and
- Using Saks Fifth Avenue OFF 5TH as an enterprise-wide liquidation channel.

In addition, we are focused on driving efficiencies throughout our entire organization, for example, by utilizing technology to help our merchants buy, allocate and manage their businesses more efficiently. We believe that these projects, combined with expanded all-channel fulfillment capabilities, will continue to enhance merchandise gross margins over time.

Real Estate

HBC's recently announced joint venture transactions continue our strategy of unlocking the long-term value from our real estate portfolio to position better the Company for growth in both the retail and real estate businesses. This follows the 2011 sale of the Zellers leases for $1.8 billion, last year's sale and leaseback of the Hudson's Bay Queen Street flagship property in Toronto for $650 million, and the recent mortgage financing of the Saks Fifth Avenue flagship in New York. These joint ventures will create two new growth vehicles for HBC – a real estate company in the U.S. with Simon Property Group, and a real estate company in Canada with RioCan REIT. We believe that these joint ventures will be well-positioned to drive growth and diversify our real estate portfolio by leveraging the expertise of our best-in-class partners and the strength of HBC's brands. Additionally, these transactions also provide clarity to our shareholders and support our valuation of our real estate portfolio at C$9.2 billion. We expect this additional transparency will enable analysts and investors to value HBC on a sum-of-the-parts basis.

The future at HBC is very bright. These initiatives, combined with our dynamic leadership team and strong competencies in retailing, mergers and acquisitions, and real estate, ensure that HBC is well-positioned to deliver growth and enhance long-term shareholder value. By leveraging our scale to drive sales and increase efficiencies across our businesses, HBC is able to provide investors with unique exposure to the North American retail, consumer and real estate sectors. Of course, none of this would be possible without the collective efforts of our dedicated and committed Associates, who are fundamental to delivering a differentiated customer experience and accomplishing the goals we have set out to achieve. We thank them for their efforts and achievements. We are also grateful to our Board of Directors, who continue to provide strategic leadership and sound advice, and the entire management team for their tremendous accomplishments this past year.

Sincerely,

Richard A. Baker,
Governor and Executive Chairman

Gerald L. Storch,
Chief Executive Officer

"WE LEVERAGE THE TALENT AND BEST PRACTICES FROM ACROSS THE COMPANY'S DIFFERENT BANNERS.

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

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

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

Basis of Presentation

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

General Information

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

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

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

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

Accounting Periods

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

Forward-Looking Statements

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

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

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

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

Non-IFRS Measures

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

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

Fourth Quarter Events

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

Subsequent Events

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

Overview

Our Business:

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

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

- *Driving Growth across all Channels.* We are focused on driving growth both within and across our store and digital channels. We are building our capabilities and enhancing our store experience to allow our customers to shop seamlessly across stores and digital and believe that serving our customers across all channels results in increased spend and loyalty. We are also strengthening our digital presence through HBC Digital, our team that manages digital commerce and marketing strategy and execution for our digital brands, and continuing to differentiate our store merchandise and experience to grow these channels.
- *Expanding Our Off-Price Business.* We have refined the OFF 5TH business model to offer more national brands at a clearer value proposition in an easier-to-shop environment. We intend to accelerate the pace of new store openings and have introduced a larger OFF 5TH format.
- *Bringing Saks Fifth Avenue and OFF 5TH to Canada.* We intend to leverage our existing Canadian infrastructure, institutional knowledge and experience to efficiently and effectively bring Saks Fifth Avenue and OFF 5TH to Canada. We believe there is an opportunity to open up to seven Saks Fifth Avenue stores and up to 25 OFF 5TH stores in Canada over the coming years, with the first full-line and OFF 5TH stores planned to open in 2016.

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

- *Saks Acquisition Synergies.* The targeted annualized Saks Acquisition synergies of approximately $100 million by 2016 are currently expected to be realized in a variety of areas, including (i) administration and other shared services; (ii) store expenses; (iii) information technology infrastructure; and (iv) gross profit enhancements.
- *Operating Expense Management.* We will continue to aggressively manage our operating expenses and leverage our significantly increased scale to optimize costs.
- *Gross Profit Enhancements.* We will continue to work to increase our gross profit through (i) upgrading technology to better plan, buy and allocate merchandise; and (ii) using our evolving digital commerce fulfillment functionalities to optimize inventory productivity across each banner.

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

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

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

Highlights of the thirteen week period ended January 31, 2015

- Retail sales, which include digital commerce sales from all banners, were $2,632 million for the thirteen week period ended January 31, 2015, an increase of $225 million or 9.3% from $2,407 million for the thirteen week period ended February 1, 2014.
- Consolidated same store sales increased 8.7% over the comparable thirteen week period in Fiscal 2013, or 3.2% on a local currency basis. On a local currency basis, same store sales increased by 2.3% at DSG, 2.6% at Saks Fifth Avenue and 12.1% at OFF 5TH.
- Digital commerce sales grew to $304 million, an increase of $79 million compared to the thirteen week period ended February 1, 2014. DSG and Saks increased 44% and 32%, respectively, year-over-year for the thirteen week period ended January 31, 2015, reflecting the Company's continued strategic focus on growing this channel.
- Gross profit rate as reported was 40.8% of retail sales, or a 400 basis point improvement over the thirteen week period ended February 1, 2014. Included in the 2014 gross profit rate is a conforming change in the classification of advertising expense credits between SG&A and gross profit as they relate to the Saks business in Fiscal 2014. Adjusting for this positive impact reduces our gross profit rate in Fiscal 2014 to 40.3% on a comparable basis. Adjusting further for the negative impact associated with the amortization of inventory related purchase accounting adjustments in Fiscal 2013, the gross profit rate in Fiscal 2013 improves to a comparable 38.4%. On a net adjusted comparable basis, gross profit was realized at a 190 basis point improvement when compared to Fiscal 2013.
- Normalized EBITDA was $318 million compared to $253 million for the fourth quarter of Fiscal 2013 or an improvement of $65 million when compared to Fiscal 2013. As a percentage of retail sales, Normalized EBITDA increased to 12.1% from 10.5% for the fourth quarter of Fiscal 2013.

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

- Retail sales were $8,169 million for the fifty-two week period ended January 31, 2015, an increase of $2,946 million or 56.4% from $5,223 million for the fifty-two week period ended February 1, 2014. The increase is primarily attributable to the inclusion of Saks for the full fifty-two week period ended January 31, 2015.
- Consolidated same store sales, which include Saks, increased 7.5% over the comparable fifty-two week period in Fiscal 2013, or 2.7% on a local currency basis. On a local currency basis, same store sales increased by 1.5% at DSG, 2.1% at Saks Fifth Avenue and 15.1% at OFF 5TH.
- Digital commerce sales grew to $900 million, an increase of $592 million compared to the fifty-two week period ended February 1, 2014. The inclusion of Saks in Fiscal 2014 contributed $651 million, while DSG increased by 66%, reflecting the Company's continued strategic focus on growing this channel.
- Gross profit rate was 40.4% of retail sales in Fiscal 2014 and 39.2% in Fiscal 2013 on a comparable basis, when excluding the negative impacts of the amortization of inventory related purchase price accounting adjustments recorded on a full year basis for Fiscal 2014 and Fiscal 2013, and the positive impacts associated with the conforming change in the classification of advertising expense credits between SG&A

and gross profit in Fiscal 2014. On a net adjusted comparable basis, gross profit rate improved by 120 basis points when compared to Fiscal 2013.

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

Factors Affecting Our Performance

Retail Sales

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

Same Store Sales

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

Gross Profit

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

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

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

Foreign Exchange

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

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

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

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

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

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

Finance Costs

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

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

Weather

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

Competition

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

Consumer Trends

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

Seasonality

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

New Accounting Policies — Levies

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

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

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

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

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

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

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

Selected Consolidated Financial Information

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

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

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

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

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

Notes:

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

(2) Not restated for the implementation of IFRIC 21.

(3) As a percentage of retail sales.

(4) See tables below for a reconciliation of Net Earnings (Loss) — Continuing Operations to both EBITDA and Normalized EBITDA and a reconciliation of Net Earnings (Loss) — Continuing Operations to Normalized Net Earnings.

(5) The Company calculates same store sales on a year-over-year basis from stores operating for at least 13 months and includes digital commerce sales and clearance store sales. Consolidated same store sales include results for all banners.

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

(7) Excludes Home Outfitters for Fiscal 2013 and Fiscal 2012 (see "General Information") and is calculated in local currencies.

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

(9) Excludes current loans and borrowings of $265 million as at January 31, 2015, $532 million as at February 1, 2014 and $132 million as at February 2, 2013; and other liabilities of $76 million as at January 31, 2015 and nil as at February 1, 2014 and February 2, 2013.

(10) Includes deferred landlord incentives of $356 million as at January 31, 2015, $169 million as at February 1, 2014 and $71 million as at February 2, 2013.

(11) Restated for measurement period adjustments based on new information relating primarily to inventories. Please see note 4 of the Company's audited consolidated financial statements for the year ended January 31, 2015 for additional disclosure on the impacts of the adjustments to previously reported amounts.

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

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

Notes:

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

(2) Normalization item impacting Normalized SG&A. Total for Fiscal 2014 was $54 million (2013: $182 million) and ($20) million for fiscal quarter ended January 31, 2015 (February 1, 2014: $120 million).

(3) Represents provisions related to identified Home Outfitters stores.

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

(5) Represents the one time positive impact recognized in the fourth quarter related to the recognition of the change in redemption patterns of previous Zellers customers.

(6) Not restated for the implementation of IFRIC 21.

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

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

Notes:

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

(2) Net of tax as appropriate.

(3) Includes the recognition of non-cash finance costs (recoveries) related to warrants of $44 million (2013: nil) for the fiscal year and $35 million (2013: ($18 million)) for the fourth quarter.

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

(5) Represents provisions related to identified Home Outfitters stores.

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

(7) Represents the one time positive impact recognized in the fourth quarter related to the recognition of the change in redemption patterns of previous Zellers customers.

(8) Not restated for the implementation of IFRIC 21.

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

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

Results of Operations

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

Retail Sales

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

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

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

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

Gross Profit

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

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

Selling, General & Administrative Expenses

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

For the thirteen week period ended January 31, 2015, Normalized SG&A net of the adjustments above, was $743 million compared to $676 million for the thirteen week period ended February 1, 2014, or a $67 million increase. Normalized SG&A has been calculated as SG&A above, excluding Saks Acquisition and integration related expenses, restructuring and other, non-cash pension expense recovery and share-based compensation. In addition to these normalization adjustments, SG&A has also been negatively impacted in the quarter by the translation impact resulting from the conversion of U.S. dollar denominated expenses into Canadian dollars.

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

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

EBITDA and Normalized EBITDA

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

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

Finance Costs

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

Income Tax Expense

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

Net Earnings — Continuing Operations

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

Normalized Net Earnings — Continuing Operations

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

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

Retail Sales

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

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

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

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

Gross Profit

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

Selling, General & Administrative Expenses

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

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

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

EBITDA and Normalized EBITDA

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

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

Finance Costs

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

Income Tax Benefit

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

Net Earnings — Continuing Operations

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

Normalized Net Earnings — Continuing Operations

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

SUMMARY OF CONSOLIDATED QUARTERLY RESULTS

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

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

Notes:

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

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

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

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

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

Outlook

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

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

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

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

Liquidity and Capital Resources

Cash Flows

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

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

Net Cash Flow — Operating Activities

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

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

Net Cash Flow — Investing Activities

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

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

Capital Expenditures

The tables below summarize our capital investments by major areas:

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

Note:

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

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

Net Cash Flow — Financing Activities

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

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

Cash Balances and Liquidity

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

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

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

Funding Capacity

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

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

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

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

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

HBC Revolving Credit Facility

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

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

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

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

Yorkdale Mortgage

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

Senior Term Loan B

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

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

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

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

U.S. Revolving Credit Facility

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

The U.S. Revolving Credit Facility provides a U.S.$1.1 billion revolving line of credit through November 4, 2018 (increased from U.S.$950 million pursuant to an amendment dated December 11, 2014) and refinanced revolving credit facilities previously in place with Saks and Lord & Taylor. This revolving line of credit is subject to a borrowing base, based predominantly on eligible inventory and accounts receivable of Lord & Taylor, Saks and their respective subsidiaries. The U.S. Revolving Credit Facility is available to finance working capital needs, capital expenditures, operating activities and to support the issuance of standby letters of credit. The U.S. Revolving Credit Facility has multiple interest rate charge options that are based on the U.S. prime rate, Federal Funds rate and LIBOR. As the U.S. Revolving Credit Facility is available for and used to finance working capital requirements, capital expenditures and other operating activities, it has been classified in the consolidated balance sheets as part of current loans and borrowings. However, the Company is not required to repay the balance outstanding as at January 31, 2015 until the maturity date of November 4, 2018.

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

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

Saks Mortgage

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

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

Lord & Taylor Mortgage

On September 7, 2012, LT 424 LLC ("LT 424"), which is an indirect subsidiary of Lord & Taylor, entered into a U.S.$250 million syndicated floating rate senior mortgage loan with an affiliate of CIBC World Markets Inc., as Administrative Agent of the syndicate of lenders, which matures on September 10, 2017 (the "Lord & Taylor Mortgage"). Lord & Taylor utilized the net proceeds of this loan, approximately U.S.$243 million, to reduce the balance of the Lord & Taylor Term Loan.

Interest is charged on the Lord & Taylor Mortgage at a rate of LIBOR plus 3.0%. LT 424 has entered into interest rate swap arrangements, the effect of which is to fix the interest rate related to the Lord & Taylor Mortgage at 3.85%.

The Lord & Taylor Mortgage has no mandatory principal repayments during the first three years, with monthly amortization payments required during the final two years, based upon a 30 year straight-line amortization schedule with an interest rate of 7%. LT 424 has the ability to prepay the Lord & Taylor Mortgage after the first two years with a fee to the lenders of 2%, which fee drops to 1% after three years, and without fees after September 10, 2016. Any prepayments are applied to reduce the then remaining scheduled installments.

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

Contractual Obligations

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

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

Notes:

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

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

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

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

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

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

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

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

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

Leases

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

Lease Guarantees

As part of normal operations, the Company regularly reviews its real estate portfolio and store locations. Based on the reviews conducted in prior years, the Company has closed certain store premises that it deemed to be non-strategic. Where these premises were leased, when possible, the Company assigned its leases to other retail operators, but remained obligated to the landlord on those leases as the original tenant thereunder despite the assignment. If the assignee were to default on the lease agreement, the Company would remain obligated to the landlord for payment of amounts due under the lease. The terms of these assigned leases can extend up to the year 2024. As of January 31, 2015, these leases have future minimum lease payments of $154 million (February 1, 2014: $150 million), of which $113 million (February 1, 2014: $145 million) relates to leases assigned to Target (or its affiliates), in addition to other lease-related expenses, such as property taxes and common area maintenance. The Company has a full, unconditional and continuing guarantee and indemnity from Target regarding all ongoing obligations related to the store leases acquired by Target (or its affiliates) which include the assumption of all obligations and liabilities of Zellers arising under these leases after closing of such sale. The Company's obligation would be offset by payments from existing or future assignees and their obligations to the Company to comply with the assigned leases. Potential liabilities related to these guarantees may be subject to certain defences by the Company. The Company does not expect to make any significant payments with respect to these lease obligations and believes that the risk of significant loss is low.

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

Short-term and Long-term Borrowings

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

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

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

Procurement

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

Pensions

The defined benefit component of the Company's Canadian pension plan is currently over-funded, and as a result the Company does not expect to make significant contributions to it over the next five years, subject to the performance of the plan assets. The Company has non-pension Canadian employee benefit plans, which are not funded. For Canadian defined contribution plans, the Company pays contributions to pension plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. Contributions are recognized as an employee benefit expense as incurred, which is as the related employee service is rendered.

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

Other

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

- future payments of accrued benefit plan liability, principally post-retirement benefits, depend on when and if retirees submit claims;
- future payments of equity grants and incentive units depend on whether the grants or incentive units have vested, and whether any will be elected to be cash settled; and
- future payments of insurance claims can extend over several years and depend on the timing of anticipated settlements and results of litigation.

Guarantees and Off-Balance Sheet Arrangements

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

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

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

Financial Instruments and Other Instruments

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

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

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

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

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

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

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

Risks arising from Financial Instruments

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

(i) Credit risk

Credit risk refers to the possibility that the Company can suffer financial losses due to the failure of the Company's counterparties to meet their payment obligations. The Company is exposed to minimal credit risk from customers, vendors, and financial counterparties as a result of ongoing credit evaluations and review of accounts receivable collectability. Credit risk is mitigated by various techniques including selecting counterparties based on acceptable credit ratings and minimizing the concentration of positions with individual counterparties. There is no concentration of accounts receivable balances. The Company does not consider its exposure to credit risk to be material.

(ii) Liquidity risk

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

(iii) Market risk

Market risk includes foreign currency risk and interest rate risk:

(a) Foreign currency risk

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

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

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

(b) Interest rate risk

The Company's interest rate risk arises from short-term and long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. The Company's variable rate borrowings are denominated in both U.S. and Canadian dollars.

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

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

Classification of Financial Instruments

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

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

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

Fair Value of Financial Instruments

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

The fair values of foreign currency options, interest rate swaps and forward foreign currency contracts reflect the estimated amounts that the Company would receive or pay if it were to settle the contracts at the reporting date. The fair value of foreign currency options are determined based on the difference between the exercise rate and the spot rate, volatility of exchange rates and market interest rates at the period-end date. Interest rate swaps are valued using a discounted cash flow model based on market interest rate curves at the period-end date. The forward foreign currency contracts are valued based on the difference between contract rates and spot rates at the period-end date, discounted to reflect the time-value of money. The fair values of embedded foreign currency derivatives reflect the estimated amounts the Company would receive or pay to settle forward foreign exchange contracts with similar terms using valuation techniques and observable market input data.

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

Tax Matters

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

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

Related Party Transactions

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

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

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

On February 25, 2014, the Company completed the sale of its downtown Toronto flagship store and adjacent Simpson's Tower office complex to an affiliate of The Cadillac Fairview Corporation Limited, an affiliate of HSILP, for a purchase price of $650 million. The Company has leased the entire retail and a portion of office complex back for a base term of twenty-five years, with renewal options up to approximately twenty-five years. The transaction is considered to be a related party transaction because an affiliate of The Cadillac Fairview Corporation Limited is a related party of the Company by virtue of it being an affiliate of Ontario Teachers' Pension Plan Board, which indirectly holds the power to exercise control and direction over, and beneficial ownership of, more than 10% of the Company's outstanding voting shares. As part of this transaction, Saks has also agreed to lease space in Toronto's Sherway Gardens from The Cadillac Fairview Corporation Limited, which is also considered to be a related party transaction. Previously, the Company had entered into store leases with The Cadillac Fairview Corporation Limited or its affiliates for stores located at: Fairview Park in Kitchener, Ontario; Richmond Centre in Richmond, British Columbia; Chinook Centre and Market Mall, both in Calgary, Alberta; Polo Park Shopping Centre in Winnipeg, Manitoba; Masonville Place in London, Ontario; Markville Shopping Centre in Markham, Ontario; Limeridge Mall in Hamilton, Ontario; Fairview Pointe-Claire, in Pte-Claire, Quebec; Fairview Mall in Toronto, Ontario; Carrefour Laval in Laval, Quebec; Les Promenades St. Bruno in St. Bruno, Quebec; and Les Galeries D'Anjou in Montreal, Quebec. The leases contain representations and warranties, positive and negative covenants and events of default which, in each case, are customary to leases of this nature. The Company is in compliance with the covenants contained in the leases.

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

Critical Accounting Policies

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

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

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

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

Inventories

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

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

Net realizable value is the estimated selling price determined at the item level using historical markdown rates for similar items in the ordinary course of business, less estimated costs required to sell. At each balance sheet date, the Company reviews its on-hand inventory to identify items selling below cost at that date and uses historical trends and current inventory mix to determine an additional reserve for the impact of future markdowns which will take the net realizable value of inventory on-hand below cost.

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

Loyalty Programs

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

Impairment and reversal of impairment of long-lived assets

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

Impairment of goodwill

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

Income Taxes

In connection with the reorganization on January 11, 2012 that resulted in Lord & Taylor becoming a wholly owned subsidiary of the Company, Lord & Taylor became a taxable entity. Prior to January 11, 2012, Lord & Taylor was considered a flow-through (limited liability corporations or “LLC”, and limited partnerships) entity for tax purposes. The Company’s accounting policies for the following types of entities are as follows:

(i) Taxable entities

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

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

(ii) Flow-through entities

Lord & Taylor, as a limited liability company from the date of its acquisition by HBTC through January 10, 2012, was treated as a partnership for U.S. federal income tax purposes and in most states in which it operates. Lord & Taylor did not record a federal tax provision for deferred tax assets or liabilities related to federal tax prior to its acquisition by HBC.

Lord & Taylor operates stores in eleven states, plus the District of Columbia. Although most of these states follow the federal treatment of LLCs, four states require an LLC to file a state corporation or franchise tax return and pay any related taxes or submit income tax withholdings on the partners' behalf. Accordingly, a state income tax expense is recorded for estimated income attributable to those states.

Post-employment benefits

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

The asset or liability recognized in the consolidated balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. Independent actuaries calculate the defined benefit obligation annually.

Actuarial gains and losses (typically related to investment performance or interest rate movement different from management's assumptions) are excluded from operating income and are recognized in other comprehensive income in the period in which they arise. Past service costs are recognized in operating income in the year in which they arise. For funded plans, surpluses are recognized only to the extent to which the Company can unilaterally reduce future contributions to the plan.

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

Valuation of Financial Instruments

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

Changes in Accounting Policies Including Initial Adoption

Accounting Standards Implemented in 2014

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

In June 2013, the IASB amended IAS 39 — Financial Instruments: Recognition and Measurement ("IAS 39"), providing guidance on novation of over-the-counter derivatives and continued designation for hedge accounting. The amendments to IAS 39 must be applied retrospectively for annual periods beginning on or after

January 1, 2014. The Company implemented IAS 39 at the beginning of its 2014 fiscal year and the implementation did not have an impact on its results of operations, financial position or disclosure.

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

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

Future Expected Changes

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

Classification and measurement

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

Impairment

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

Hedge accounting

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

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

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

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

Management's Report on Internal Controls Over Financial Reporting

Disclosure Controls and Procedures

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

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

Internal Controls over Financial Reporting

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

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

Changes in Internal Control Over Financial Reporting

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

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

Additional Information

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

Risk Factors

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

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

Closing of the joint venture transactions are each subject to customary conditions and consents, as applicable. We currently expect to close the joint venture transactions within approximately 90-120 days of announcement. There can be no assurance that the transaction with Simon or the transaction with RioCan will close in accordance with the proposed timeline, or at all. Further, there can be no assurance that our contemplated joint ventures will provide the expected benefits, including enabling us to identify new real estate growth opportunities such as future property acquisitions, or that we will be able to monetize our joint ventures at a future date.

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

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

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

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

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

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

Dividends

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

Outstanding Share Data

The Company's authorized share capital consists of an unlimited number of Common Shares and an unlimited number of preferred shares issuable in series. As of April 6, 2015, the Company had

182,100,001 Common Shares issued and outstanding and no preferred shares issued and outstanding. As of April 6, 2015, the Company had 10,475,059 share options, 396,748 restricted share units and 6,750,000 warrants outstanding, all of which are convertible or exchangeable into Common Shares.

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Hudson's Bay Company

We have audited the accompanying consolidated financial statements of Hudson's Bay Company, which comprise the consolidated balance sheets as at January 31, 2015, February 1, 2014 and February 2, 2013, and the consolidated statements of earnings (loss), consolidated statements of comprehensive income (loss), consolidated statements of shareholders' equity and consolidated statements of cash flows for the 52 weeks ended January 31, 2015 and February 1, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Hudson's Bay Company as at January 31, 2015, February 1, 2014 and February 2, 2013, and its financial performance and its cash flows for the 52 weeks ended January 31, 2015 and February 1, 2014 in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants

April 6, 2015
Toronto, Canada

HUDSON'S BAY COMPANY

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

For the 52 weeks ended January 31, 2015 and February 1, 2014
(millions of Canadian dollars, except per share amounts)

	Notes	January 31, 2015 (Fiscal 2014)	February 1, 2014 (restated — see note 2(z)) (Fiscal 2013)
Retail sales		**8,169**	5,223
Cost of sales	10	**(4,893)**	(3,217)
Selling, general and administrative expenses		**(2,759)**	(1,826)
Depreciation and amortization	5	**(344)**	(175)
Gain on sale and leaseback transaction	28	**308**	—
Operating income		**481**	5
Total interest expense, net		**(218)**	(95)
Acquisition-related finance costs		**(44)**	(166)
Finance costs	6	**(262)**	(261)
Earnings (loss) before income tax — continuing operations		**219**	(256)
Income tax benefit	7	**19**	79
Net earnings (loss) for the year — continuing operations		**238**	(177)
Net loss for the year — discontinued operations, net of income taxes	29	**—**	(82)
Net earnings (loss) for the year		**238**	(259)
Basic net earnings (loss) per common share	21		
Continuing operations		**1.31**	(1.31)
Discontinued operations		**—**	(0.61)
		1.31	(1.92)
Diluted net earnings (loss) per common share	21		
Continuing operations		**1.30**	(1.34)
Discontinued operations		**—**	(0.61)
		1.30	(1.95)

(See accompanying notes to the Consolidated Financial Statements)

HUDSON'S BAY COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

for the 52 weeks ended January 31, 2015 and February 1, 2014
(millions of Canadian dollars)

	January 31, 2015 (Fiscal 2014)	February 1, 2014 (restated — see note 2(z)) (Fiscal 2013)
Net earnings (loss)	**238**	(259)
Other comprehensive income, net of tax:		
Item that will not be reclassified to earnings or loss:		
Net actuarial (loss) gain of employee benefit plans, net of taxes of $4 (2013: $16)	**(6)**	45
Items that may be reclassified subsequently to earnings or loss:		
Currency translation adjustment	**236**	159
Net loss on net investment hedge, net of taxes of $4 (2013: $4)	**(2)**	(54)
Net gain on derivatives designated as cash flow hedges, net of taxes of $3 (2013: $4)	**13**	10
Reclassification to non-financial assets of net losses on derivatives designated as cash flow hedges, net of taxes of $2 (2013: $2)	**(5)**	(4)
Reclassification to earnings of net losses on derivatives designated as cash flow hedges, net of taxes of $2 (2013: $1)	**(6)**	(3)
Other comprehensive income	**230**	153
Total comprehensive income (loss)	**468**	(106)

(See accompanying notes to the Consolidated Financial Statements)

HUDSON'S BAY COMPANY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the 52 weeks ended January 31, 2015 and February 1, 2014
(millions of Canadian dollars)

					Accumulated Other Comprehensive Income (Loss) ("AOCI")					
	Notes	**Share Capital**	**Retained Earnings**	**Contributed Surplus**	**Currency Translation Adjustment**	**Employee Benefits**	**Net Investment Hedge**	**Cash Flow Hedges**	**Total AOCI**	**Total Shareholders' Equity**
As at February 2, 2013		**246**	**797**	**33**	(12)	(51)	—	—	**(63)**	**1,013**
Impact of change in accounting policy	2(z)	—	(4)	—	(1)	—	—	—	(1)	(5)
As at February 3, 2013 (restated)		**246**	**793**	**33**	(13)	(51)	—	—	**(64)**	**1,008**
Comprehensive loss (restated)		—	(259)	—	159	45	(54)	3	153	(106)
Share based compensation	19	—	—	10	—	—	—	—	—	10
Issuance of common shares	20	1,174	—	—	—	—	—	—	—	1,174
Dividends	20	—	(43)	—	—	—	—	—	—	(43)
As at February 1, 2014 (restated)		**1,420**	**491**	**43**	146	(6)	(54)	3	**89**	**2,043**
Comprehensive income		—	238	—	236	(6)	(2)	2	230	468
Share based compensation	19	—	—	17	—	—	—	—	—	17
Dividends	20	—	(36)	—	—	—	—	—	—	(36)
As at January 31, 2015		**1,420**	**693**	**60**	382	(12)	(56)	5	**319**	**2,492**

(See accompanying notes to the Consolidated Financial Statements)

HUDSON'S BAY COMPANY

CONSOLIDATED BALANCE SHEETS

As at January 31, 2015, February 1, 2014 and February 2, 2013 (millions of Canadian dollars)

	Notes	January 31, 2015 (Fiscal 2014)	(restated — note 2(z) and note 4) February 1, 2014 (Fiscal 2013)	(restated — note 2(z)) February 2, 2013 (Fiscal 2012)
ASSETS				
Cash	8	**168**	21	48
Trade and other receivables	9	**212**	137	74
Inventories	10	**2,349**	2,048	994
Financial assets	18	**24**	8	3
Income taxes recoverable		**7**	23	—
Other current assets		**69**	71	32
Assets of discontinued operations	29	**—**	2	269
Total current assets		**2,829**	2,310	1,420
Property, plant and equipment	11	**4,606**	4,110	1,335
Intangible assets	12	**1,076**	980	233
Goodwill	12	**237**	208	—
Pensions and employee benefits	17	**69**	72	38
Deferred tax assets	7	**240**	249	214
Other assets		**15**	13	12
Total assets		**9,072**	7,942	3,252
LIABILITIES				
Loans and borrowings	14	**265**	532	132
Trade payables		**945**	585	400
Other payables and accrued liabilities		**603**	489	273
Other liabilities	13	**76**	—	—
Deferred revenue		**130**	152	110
Provisions	15	**115**	149	85
Income taxes payable		**8**	10	3
Financial liabilities	18	**2**	1	1
Liabilities of discontinued operations	29	**—**	89	343
Total current liabilities		**2,144**	2,007	1,347
Loans and borrowings	14	**2,859**	2,923	719
Provisions	15	**63**	16	14
Financial liabilities	18	**68**	24	—
Pensions and employee benefits	17	**109**	96	70
Deferred tax liabilities	7	**668**	631	—
Other liabilities	13	**669**	202	94
Total liabilities		**6,580**	5,899	2,244
SHAREHOLDERS' EQUITY				
Share capital	20	**1,420**	1,420	246
Retained earnings		**693**	491	793
Contributed surplus		**60**	43	33
Accumulated other comprehensive income (loss)		**319**	89	(64)
Total shareholders' equity		**2,492**	2,043	1,008
Total liabilities and shareholders' equity		**9,072**	7,942	3,252

(See accompanying notes to the Consolidated Financial Statements)

On behalf of the Board:

Director

Director

HUDSON'S BAY COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the 52 weeks ended January 31, 2015 and February 1, 2014
(millions of Canadian dollars)

	Notes	January 31, 2015 (Fiscal 2014)	February 1, 2014 (restated — see note 2(z)) (Fiscal 2013)		
			Continuing operations	Discontinued operations	Total
Operating activities					
Net earnings (loss) for the year		**238**	(177)	(82)	(259)
Deduct: Income tax benefit	7, 29	**(19)**	(79)	(28)	(107)
Add: Finance costs	6	**262**	261	—	261
Operating income (loss)		**481**	5	(110)	(105)
Net cash income taxes received		**4**	1	93	94
Interest paid in cash		**(143)**	(82)	—	(82)
Items not affecting cash flows:					
Proceeds on sale of leasehold interests recognized	29	**—**	—	(33)	(33)
Depreciation and amortization	5	**344**	175	—	175
Impairment of property, plant and equipment		**1**	4	—	4
Net defined benefit pension and employee benefits expense		**6**	21	6	27
Other operating activities		**(57)**	(14)	—	(14)
(Gain) loss on sale and leaseback transaction and sale of assets		**(308)**	—	16	16
Share based compensation	19	**17**	10	—	10
Redemption of share based compensation grants	19	**—**	(3)	(5)	(8)
Changes in operating working capital:					
(Increase) decrease in trade and other receivables		**(165)**	22	8	30
(Increase) decrease in inventories		**(86)**	180	151	331
Decrease in other assets		**9**	5	6	11
Increase (decrease) in trade and other payables, accrued liabilities and provisions		**326**	(165)	(211)	(376)
Increase (decrease) in other liabilities		**118**	5	(7)	(2)
Net cash inflow from (outflow for) operating activities		**547**	164	(86)	78
Investing activities					
Acquisition of Saks, net of cash acquired	4	**—**	(2,766)	—	(2,766)
Capital investments		**(426)**	(292)	—	(292)
Proceeds from landlord incentives		**113**	42	—	42
		(313)	(250)	—	(250)
Proceeds from lease termination and other non-capital landlord incentives		**71**	4	—	4
Proceeds from sale of assets		**35**	—	3	3
Proceeds from sale and leaseback transaction	28	**650**	—	—	—
Other investing activities		**(2)**	(1)	—	(1)
Net cash inflow from (outflow for) investing activities		**441**	(3,013)	3	(3,010)
Financing activities					
Long-term loans and borrowings:					
Issuance		**1,420**	2,659	—	2,659
Repayments		**(1,882)**	(684)	—	(684)
Borrowing costs		**(48)**	(85)	—	(85)
Net decrease in other long-term borrowings		**—**	(2)	—	(2)
		(510)	1,888	—	1,888
Short-term loans and borrowings:					
Net (repayments to) borrowings from asset-based credit facilities		**(287)**	36	—	36
Borrowing costs		**(2)**	(14)	—	(14)
Net decrease in other short-term borrowings		**(13)**	—	—	—
		(302)	22	—	22
Issuance of common shares	20	**—**	1,039	—	1,039
Dividends paid	20	**(36)**	(43)	—	(43)
Net cash (outflow for) inflow from financing activities		**(848)**	2,906	—	2,906
Foreign exchange gain (loss) on cash		**7**	(1)	—	(1)
Increase (decrease) in cash		**147**	56	(83)	(27)
Transfer from continuing operations		**—**	(83)	83	—
Increase (decrease) in cash		**147**	(27)	—	(27)
Cash at beginning of year		**21**	48	—	48
Cash at end of year		**168**	21	—	21

(See accompanying notes to the Consolidated Financial Statements)

NOTE 1. GENERAL INFORMATION

Hudson's Bay Company ("HBC" or the "Company") is a Canadian corporation continued under the Canada Business Corporations Act and domiciled in Canada.

On November 26, 2012, the Company completed an initial public offering (the "IPO") of its common shares, which trade on the Toronto Stock Exchange.

On November 4, 2013, the Company acquired Saks Incorporated ("Saks") whereby all of the issued and outstanding shares (other than shares owned by Saks and its subsidiaries) of Saks were purchased through Lord & Taylor Acquisition Inc. ("L&T Acquisition"), a wholly-owned subsidiary of the Company for U.S.$16.00 per share in an all-cash transaction (the "Acquisition") valued at U.S.$2,973 million ($3,097 million), including debt assumed (see note 4).

The Company owns and operates department stores in Canada and the United States under Hudson's Bay, Lord & Taylor, Saks Fifth Avenue, Saks Fifth Avenue OFF 5TH ("OFF 5TH") and Home Outfitters banners. The address of the registered office of HBC is 401 Bay Street, Suite 500, Toronto, ON, M5H 2Y4.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

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

The consolidated financial statements for the year ended January 31, 2015 were authorized for issuance by the Board of Directors of HBC on April 6, 2015.

b) Basis of presentation

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

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

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

c) Basis of consolidation

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

d) Fiscal year

The fiscal year of the Company consists of a 52 or 53 week period. Fiscal years 2014 and 2013 represent 52 week periods ended on January 31, 2015 and February 1, 2014, respectively. References to years in the consolidated financial statements and notes to the consolidated financial statements relate to fiscal years rather than calendar years.

e) Foreign currency translation

i) Functional and presentation currency

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

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the foreign exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

assets and liabilities denominated in foreign currencies at balance sheet date foreign exchange rates are recognized in net earnings (loss), except when included in other comprehensive income as qualifying cash flow or net investment hedges.

iii) Foreign operations

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

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

f) Business combinations and goodwill

Business combinations are accounted for using the acquisition method.

Consideration transferred is measured at fair value, which is calculated as the sum of the fair value of the assets acquired (including cash), liabilities assumed, any contingent consideration and equity interests issued by the Company.

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

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to cash-generating units ("CGUs") or groups of CGUs based on the level at which it is monitored by management. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose.

Where goodwill forms part of a CGU and part of the operations within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operation disposed of and the portion of the CGU retained.

g) Cash

Cash consists of cash on hand, deposits in banks and short-term deposits with maturities of less than 3 months and includes restricted funds. Restricted cash represents amounts deposited in escrow accounts which are maintained and managed by an independent agent.

h) Trade and other receivables

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

i) Inventories

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

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Property, plant and equipment

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

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

Estimated useful lives are as follows:

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

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

k) Intangible assets

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

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

Estimated useful lives are as follows:

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

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

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

l) Impairment of non-financial assets

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

m) Provisions

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

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

i) Self-insurance

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

ii) Restructuring

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

iii) Onerous leases and contracts

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

iv) Asset retirement obligations

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

v) Legal

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

n) Leases

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The accounting treatment of a sale and leaseback transaction depends upon the substance of the transaction and whether the sale price reflects fair value. For sale and finance leasebacks, any gain or loss from the sale is deferred and amortized over the term of the lease. For sale and operating leasebacks, if the transaction is established at fair value, any gain or loss is recognized immediately. If the sale price is below fair value, any gain or loss is recognized immediately except that if the loss is compensated for by future lease payments at below market price, the loss is deferred and amortized in proportion to the lease payments over the term of the lease. If the sale price is above fair value, the excess over fair value is deferred and amortized over the term of the lease.

o) Income taxes

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

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

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

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

p) Employee benefits

i) Short-term employee benefits

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

ii) Post-employment benefits

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

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

iii) Other long-term employee benefits

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

iv) Termination benefits

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

v) Share based payments

The Company operates share based incentive plans under which it receives services from certain employees as consideration. For equity settled awards, the fair value of the grant of equity interests is recognized as an expense over the period that the related service is rendered with a corresponding increase in equity. For cash-settled awards, the fair value of the liability is remeasured at the end of each reporting period, with the change in fair value recognized as an expense over the period that the related service is rendered. Certain awards provide the Company with a choice of settlement in cash or by issuing equity. In these cases, the award is accounted for as a cash-settled award when the Company has a present obligation to settle in cash.

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

q) Financial assets

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

i) Financial assets at fair value through profit or loss

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

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

ii) Loans and receivables

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

iii) Held-to-maturity

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Asset	Category
Cash	Loans and receivables
Restricted cash	Loans and receivables
Short-term deposits	Held-to-maturity
Trade and other receivables	Loans and receivables

iv) Impairment

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

v) Financial assets carried at amortized cost

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

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

r) Financial liabilities

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

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

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

s) Derivative financial instruments

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

(a) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge);

(b) hedges of foreign currency exposure (net investment hedge);

(c) hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge).

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Company does not use derivatives for trading or speculative purposes. The Company had cash flow hedges outstanding as at January 31, 2015 and February 1, 2014 and a net investment hedge outstanding as at February 1, 2014.

Cash flow hedges

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

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

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

Derivatives at fair value through profit or loss

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

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

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

Offsetting of financial instruments

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

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

t) Borrowing costs

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

u) Revenue recognition

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

The Company recognizes revenue when the amount can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities as described below. The Company bases its

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

i) Retail merchandise sales

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

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

ii) Gift cards

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

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

v) Credit operations

Legacy agreements

Under the legacy credit program agreements, the Company earns royalty payments from credit card issuers based on the total of Company and other sales charged to either Private Label Credit Cards ("PLCC") or MasterCards. Royalty rates change based on the year-to-date credit volume of out-of-store credit card sales. The Company also receives bounty payments from credit card issuers for each approved PLCC or MasterCard account. Bounty and royalty payments are recognized based on expected or actual performance over the life of the credit card agreements. In addition, pursuant to a servicing agreement with a credit card issuer, the Company receives compensation for providing key customer service functions including new account openings, transaction authorizations, billing adjustments and customer inquiries. All credit revenues are included as a reduction of selling, general and administrative expenses.

New credit card program

Effective January 1, 2015, under a new credit card agreement with a credit card issuer, the Company shares in the income and losses of the credit card program related to private label and co-branded credit cards at Hudson's Bay and Saks. The effective date for Lord & Taylor is June 2015. Income (loss) from the credit card program is included in selling, general and administrative expenses.

w) Vendor allowances

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

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

x) Loyalty programs

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

y) Assets held for sale and discontinued operations

Non-current assets and groups of assets and liabilities which comprise disposal groups are presented as assets held for sale, where the asset or disposal group is available for sale in its present condition and the sale is highly probable. For this purpose, the sale is considered highly probable if management is committed to a plan to achieve the sale; there is an active program to find a buyer; the non-current asset or disposal group is being actively marketed at a reasonable price; the sale is anticipated to be completed within 1 year from the date of classification, and; it is unlikely there will be changes to the plan.

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

z) New accounting standards implemented in the current year

Financial Instruments

In December 2011, the IASB amended IAS 32 — Financial Instruments: Presentation ("IAS 32") to clarify the requirements that permit offsetting a financial asset and liability in the financial statements. IAS 32 is effective for annual periods beginning on or after January 1, 2014. The Company has applied the standard at the beginning of its 2014 fiscal year and the implementation did not have an impact on its results of operations, financial position or disclosure.

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

Impairment of Assets

In May 2013, the IASB amended IAS 36 — Impairment of Assets ("IAS 36"), providing guidance on recoverable amount disclosures for non-financial assets. The amendments to IAS 36 must be applied retrospectively for annual periods beginning on or after January 1, 2014. The Company implemented IAS 36 at the beginning of its 2014 fiscal year and the implementation did not have an impact on its results of operations, financial position or disclosure.

Levies

In May 2013, the IASB issued IFRIC 21 — Levies ("IFRIC 21") providing guidance on the accounting for levies imposed by governments. The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. It also clarifies that a levy liability is accrued rateably over a reporting period only if the activity that triggers payment occurs over such period, in accordance with the relevant legislation.

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

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

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

The Company implemented IFRIC 21 retrospectively at the beginning of its 2014 fiscal year.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The impact of the implementation is summarized as follows:

Consolidated Statement of Loss

(millions of Canadian dollars, except per share amounts)	2013
Increase in selling, general and administrative expenses	(2)
Increase in income tax benefit	1
Increase in net loss — continuing operations	(1)
Net loss per common share — basic and diluted	
Continuing operations	(0.01)

Consolidated Statement of Comprehensive Loss

(millions of Canadian dollars)	2013
Increase in net loss	(1)
Decrease in currency translation adjustment	(2)
Decrease in other comprehensive income	(2)
Increase in total comprehensive loss	(3)

Consolidated Balance Sheets

(millions of Canadian dollars)	Feb 1, 2014	Feb 2, 2013
Increase in goodwill	5	—
Increase in deferred tax assets	—	4
Increase in other payables and accrued liabilities	18	9
Decrease in deferred tax liabilities	(5)	—
Decrease in retained earnings	(5)	(4)
Decrease in accumulated other comprehensive income	(3)	(1)

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

aa) Future accounting standards not yet adopted

Financial Instruments

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

Classification and measurement

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

Impairment

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

Hedge accounting

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue

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

Joint Arrangements

In May 2014, the IASB amended IFRS 11 — Joint Arrangements ("IFRS 11") to require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 — Business Combinations principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amended IFRS 11 is effective for annual periods beginning on or after January 1, 2016, and must be applied prospectively. Early adoption is permitted. The Company is assessing the potential impact of the amendments to IFRS 11.

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

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

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

Business combinations

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

Inventory valuation

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

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

Loyalty programs

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

NOTE 3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Impairment and reversal of impairment of long-lived assets

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

Impairment of goodwill

The Company uses judgment in determining the grouping of assets to identify its CGUs for purposes of testing for impairment of goodwill. In testing for impairment, goodwill acquired in a business combination is allocated to CGUs that are expected to benefit from the synergies of the business combination. The calculations for impairment testing involve significant estimates and assumptions. Items estimated include cash flows, discount rates and assumptions on revenue growth rates. These estimates could affect the Company's future results if the current estimates of future performance and fair values change. Judgment is also exercised to determine whether an indication of impairment is present that would require the completion of an impairment test in addition to the annual testing. Details of the allocation of goodwill and impairment testing are set out in note 12.

Valuation of warrants

In connection with the Acquisition, the Company issued warrants. The classification of these instruments as financial liabilities is an area of significant judgment. The Company records a mark-to-market valuation adjustment on the warrants as finance costs based on a valuation at the end of each reporting period.

Provisions

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

In the context of provisions for onerous contracts including leases, the Company uses judgment in determining when the expected benefits to be derived by the Company from a contract are lower than the unavoidable costs of meeting its obligations under the contract.

Sales returns

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

Share based compensation

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

Income taxes

The Company recognizes expected liabilities for income taxes based on an estimation of the likely income taxes due, which requires judgment as to the ultimate income tax determination of certain items. In addition, the Company has made estimates of future profitability in relation to an assessment of the recoverability of income tax losses. Details of the income tax expense and deferred taxes are set out in note 7.

Pensions and employee benefits

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

NOTE 3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Lease accounting

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

Management judgment is also exercised in the assessment of sale and leaseback transactions, including the determination of leaseback classification between finance and operating leases, the fair value of the leased back property and appropriate discount rates.

NOTE 4. ACQUISITION OF SAKS

Acquisition

On November 4, 2013, the Company acquired all of the issued and outstanding shares of Saks (other than shares owned by Saks and its subsidiaries), an omni-channel luxury retailer, for U.S.$16.00 per share in an all-cash transaction valued at U.S.$2,973 million ($3,097 million), including debt assumed.

The Acquisition consideration of $2,797 million was financed through a subscription receipts offering (note 20), the issuance of common shares pursuant to equity commitments to H.S. Investment L.P. ("HSILP"), an entity affiliated with Ontario Teachers' Pension Plan Board, and to West Face Long Term Opportunities Global Master L.P. ("WF Fund"), a fund advised by West Face Capital Inc. (note 20), and the incurrence of U.S.$2,000 million and U.S.$300 million term loans (note 14). As consideration for the equity commitments of HSILP and WF Fund, the Company issued 6.75 million warrants (notes 18 and 20).

Purchase Price Allocation

The Company has finalized the purchase price allocation for the acquisition of Saks including goodwill. The following table summarizes the fair value of the consideration given and the final fair values assigned to the assets acquired and liabilities assumed:

(millions of Canadian dollars)	
Cash	31
Trade and other receivables	68
Inventories	1,117
Other current assets	50
Property, plant and equipment	2,414
Intangible assets	681
Goodwill	195
Other assets	4
Loans and borrowings — revolving credit facility	(299)
Loans and borrowings — finance leases	(123)
Loans and borrowings — other	(2)
Trade payables	(275)
Other payables and accrued liabilities	(236)
Deferred revenue	(41)
Provisions	(51)
Deferred tax liabilities	(639)
Pensions and employee benefits	(29)
Other liabilities	(68)
Total identifiable net assets acquired and consideration given	**2,797**

NOTE 4. ACQUISITION OF SAKS (Continued)

Measurement Period Adjustments

During fiscal 2014, the Company identified measurement period adjustments based on new information relating primarily to inventories. The impacts of the adjustments to previously reported amounts are as follows:

Consolidated Balance Sheets

(millions of Canadian dollars)	Nov 4, 2013	Feb 1, 2014
Increase in inventories	21	22
Decrease in intangible assets	(1)	(1)
Decrease in goodwill	(10)	(11)
Increase in other payables and accrued liabilities	9	9
Increase in deferred tax liabilities	1	1

NOTE 5. DEPRECIATION AND AMORTIZATION

(millions of Canadian dollars)	2014	2013
Property, plant and equipment	**271**	129
Intangible assets	**77**	46
Deferred credits	**(4)**	(3)
Other	**—**	3
	344	175

NOTE 6. FINANCE COSTS

(millions of Canadian dollars)	2014	2013
Interest expense on long-term borrowings	**132**	61
Interest expense on short-term borrowings	**22**	21
Write-off of deferred financing costs (note 14)	**52**	13
Net interest on pensions and employee benefits (note 17)	**1**	1
Penalties and fees (note 14)	**12**	—
Interest income	**(1)**	(1)
Total interest expense, net	**218**	95
Finance related costs on warrants (note 18)	**44**	—
Change in fair value of Equity Commitment Forwards (note 18)	**—**	153
Dividend equivalent on subscription receipts	**—**	1
Bridge financing transaction fees	**—**	12
Acquisition-related finance costs	**44**	166
	262	261

In connection with financing the Acquisition in fiscal 2013, the Company secured a bridge financing facility in the amount of U.S.$900 million to fund potential delays related to closing the uncommitted equity and debt financing transactions. Although the facility was not drawn upon, the Company incurred bridge financing transaction fees related to the facility which were included in finance costs in fiscal 2013.

NOTE 7. INCOME TAXES

The major components of the income tax benefit and the statutory income tax rate for fiscal 2014 and 2013 are as follows:

(millions of Canadian dollars)	2014	2013 (restated — see note 2(z))
Current tax expense (benefit)	**8**	(3)
Deferred tax benefit	**(27)**	(76)
Income tax benefit	**(19)**	(79)
Statutory income tax rate	**26.3%**	26.3%

Reconciliations of the income tax benefit at the above rates with the amounts presented in the consolidated statements of earnings (loss) are as follows:

(millions of Canadian dollars)	2014	2013 (restated — see note 2(z))
Earnings (loss) before income tax — continuing operations	**219**	(256)
Income tax expense (benefit) calculated at statutory income tax rate	**57**	(67)
Change in income taxes resulting from:		
Permanent differences	**(34)**	56
Increase (decrease) in valuation allowance	**1**	(53)
Adjustments related to prior years	**(8)**	9
Effect of international tax rate differentials	**(37)**	(19)
Recognition of losses	**—**	(4)
Other	**2**	(1)
Income tax benefit	**(19)**	(79)

The changes in the components of net deferred tax assets and liabilities for fiscal 2014 and 2013 are as follows:

	Year ended January 31, 2015				
(millions of Canadian dollars)	Feb 1, 2014	Recognized in net earnings	Recognized in other comprehensive income	Net foreign currency exchange	Jan 31, 2015
Property, plant and equipment	**(466)**	**(40)**	**—**	**(76)**	**(582)**
Employee benefits	**22**	**(6)**	**1**	**—**	**17**
Pensions	**(8)**	**4**	**3**	**2**	**1**
Other assets	**(217)**	**48**	**1**	**(28)**	**(196)**
Long-term liabilities and other	**55**	**31**	**4**	**4**	**94**
Tax losses and other carryforward amounts	**245**	**(9)**	**—**	**17**	**253**
	(369)	**28**	**9**	**(81)**	**(413)**
Valuation allowance	**(13)**	**(1)**	**—**	**(1)**	**(15)**
Net deferred tax (liabilities) assets	**(382)**	**27**	**9**	**(82)**	**(428)**
Comprising:					
Deferred tax assets	249				240
Deferred tax liabilities	(631)				(668)
	(382)				**(428)**

NOTE 7. INCOME TAXES (Continued)

	Year ended February 1, 2014 (restated — see note 2(z) and note 4)							
(millions of Canadian dollars)	**Feb 2, 2013**	**Assumed through business combination**	**Transferred from assets of discontinued operations**	**Recognized in net loss**	**Recognized in other comprehensive income**	**Recognized in equity**	**Net foreign currency exchange**	**Feb 1, 2014**
Property, plant and equipment	100	(502)	12	(40)	—	—	(36)	(466)
Employee benefits	18	—	6	(2)	—	—	—	22
Pensions	(10)	5	—	12	(16)	—	1	(8)
Other assets	8	(210)	(20)	21	—	—	(16)	(217)
Long-term liabilities and other	41	22	24	(42)	3	5	2	55
Tax losses and other carryforward amounts	65	61	37	74	—	—	8	245
	222	(624)	59	23	(13)	5	(41)	(369)
Valuation allowance	(8)	(15)	(44)	53	—	—	1	(13)
Net deferred tax assets (liabilities)	214	(639)	15	76	(13)	5	(40)	(382)
Comprising:								
Deferred tax assets	214							249
Deferred tax liabilities	—							(631)
	214							(382)

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

As at January 31, 2015, the Company's taxable entities including discontinued operations have non-capital tax losses carried forward of $770 million available in the United States and Canada as follows (millions of Canadian dollars):

Available until year ending	
January 2026	**72**
January 2027	**109**
January 2028	**216**
January 2029	**16**
January 2030	**1**
January 2031	**12**
January 2032	**6**
January 2033	**88**
January 2034	**192**
January 2035	**58**
	770

NOTE 8. CASH

For the purposes of the consolidated statements of cash flows, cash includes cash on hand and in banks. Cash as at January 31, 2015 and February 1, 2014 as presented in the consolidated balance sheets is comprised of the following:

(millions of Canadian dollars)	**2014**	**2013**
Cash	**153**	19
Restricted cash	**15**	2
	168	21

NOTE 9. TRADE AND OTHER RECEIVABLES

As at January 31, 2015 and February 1, 2014, trade and other receivables are comprised of:

(millions of Canadian dollars)	2014	2013
Trade receivables	**48**	41
Other receivables	**164**	96
	212	137

On January 4, 2013, the Company sold its leasehold interests in a property for U.S.$10 million of which U.S.$4 million was received upon transfer of the related property on January 31, 2013, the second installment of U.S.$3 million was received on January 31, 2014 and the final installment of U.S.$3 million was received on January 31, 2015. Accordingly, as at January 31, 2015, nil (February 1, 2014: U.S. $3 million) was included in other receivables.

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

NOTE 10. INVENTORIES

Inventories on hand at January 31, 2015 and February 1, 2014 were available for sale. The cost of merchandise inventories related to continuing operations recognized as expense for fiscal 2014 was $4,893 million (2013: $3,217 million). The write-down of merchandise inventories below cost to net realizable value relating to continuing operations as at January 31, 2015 was $48 million (February 1, 2014: $47 million). There was no reversal of write-downs previously taken on merchandise inventories that are no longer estimated to sell below cost. Inventory has been pledged as security for certain borrowing agreements as described in note 14.

NOTE 11. PROPERTY, PLANT AND EQUIPMENT

	Year ended January 31, 2015					
(millions of Canadian dollars)	Freehold Land	Buildings	Leasehold Improvements	Fixtures & Fittings	Assets held under Finance Leases	Total
Cost						
Balance at beginning of year	1,055	2,085	456	801	283	4,680
Additions	—	55	134	199	5	393
Disposals	(97)	(41)	(4)	(21)	—	(163)
Net foreign currency exchange	118	275	55	97	33	578
Balance at end of year	**1,076**	**2,374**	**641**	**1,076**	**321**	**5,488**
Accumulated depreciation and impairment						
Balance at beginning of year	5	185	103	239	38	570
Depreciation expense	—	86	45	115	25	271
Impairment losses	—	—	1	—	—	1
Eliminated on disposal	—	(15)	(6)	(18)	—	(39)
Net foreign currency exchange	—	32	12	32	3	79
Balance at end of year	**5**	**288**	**155**	**368**	**66**	**882**
Net book value at end of year	**1,071**	**2,086**	**486**	**708**	**255**	**4,606**

NOTE 11. PROPERTY, PLANT AND EQUIPMENT (Continued)

(millions of Canadian dollars)	Freehold Land	Buildings	Year ended February 1, 2014 Leasehold Improvements	Fixtures & Fittings	Assets held under Finance Leases	Total
Cost						
Balance at beginning of year	473	569	273	376	48	1,739
Additions	—	47	52	128	5	232
Acquired through business combination	517	1,326	103	253	215	2,414
Disposals	—	—	(1)	(2)	—	(3)
Net foreign currency exchange	65	143	29	46	15	298
Balance at end of year	1,055	2,085	456	801	283	4,680
Accumulated depreciation and impairment						
Balance at beginning of year	5	130	70	171	28	404
Depreciation expense	—	41	25	53	10	129
Impairment losses	—	—	2	2	—	4
Eliminated on disposal	—	—	—	(2)	—	(2)
Net foreign currency exchange	—	14	6	15	—	35
Balance at end of year	5	185	103	239	38	570
Net book value at end of year	1,050	1,900	353	562	245	4,110

Certain property, plant and equipment have been pledged as security for borrowings as further described in note 14. There were $44 million in material capital commitments, net of leasehold improvement allowances as at January 31, 2015.

Impairment of Property, Plant and Equipment

During fiscal 2014 and 2013, the Company carried out a review of its CGUs to determine if there was any indication of impairment, or that a previously recorded impairment had reversed. The review led to the recognition of an impairment loss of $1 million in fiscal 2014 (2013: $4 million) relating to various store based CGUs, on a value in use basis, which has been recognized in net earnings (loss).

The impairment losses incurred in fiscal 2014 and fiscal 2013 relate to a decline in operating performance of certain Home Outfitters stores. These impairment losses affected the leasehold improvements and fixtures and fittings asset classes.

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

NOTE 12. INTANGIBLE ASSETS AND GOODWILL

	Year ended January 31, 2015						
(millions of Canadian dollars)	Goodwill	Software	Favourable Lease Rights	Private Label Brands	Banner Names	Credit Cards	Total
Cost							
Balance at beginning of year	208	314	364	53	389	28	1,356
Additions	—	49	—	—	—	—	49
Net foreign currency exchange	29	19	51	8	55	4	166
Balance at end of year	**237**	**382**	**415**	**61**	**444**	**32**	**1,571**
Accumulated amortization and impairment							
Balance at beginning of year	—	139	28	—	—	1	168
Amortization expense	—	46	25	—	—	6	77
Net foreign currency exchange	—	5	7	—	—	1	13
Balance at end of year	**—**	**190**	**60**	**—**	**—**	**8**	**258**
Net book value at end of year	**237**	**192**	**355**	**61**	**444**	**24**	**1,313**

NOTE 12. INTANGIBLE ASSETS AND GOODWILL (Continued)

	Year ended February 1, 2014 (restated — see note 4)						
(millions of Canadian dollars)	Goodwill	Software	Favourable Lease Rights	Private Label Brands	Banner Names	Credit Cards	Total
Cost							
Balance at beginning of year	—	204	131	27	—	—	362
Additions	—	48	—	—	—	—	48
Acquired through business combination	195	66	204	21	364	26	876
Disposals	—	(12)	—	—	—	—	(12)
Net foreign currency exchange	13	8	29	5	25	2	82
Balance at end of year	208	314	364	53	389	28	1,356
Accumulated amortization and impairment							
Balance at beginning of year	—	111	18	—	—	—	129
Amortization expense	—	37	8	—	—	1	46
Disposals	—	(11)	—	—	—	—	(11)
Net foreign currency exchange	—	2	2	—	—	—	4
Balance at end of year	—	139	28	—	—	1	168
Net book value at end of year	208	175	336	53	389	27	1,188

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

Allocation and Impairment Testing of Goodwill

The Company completed the allocation of goodwill to groups of CGUs that will benefit from the synergies related to the Acquisition and performed its annual impairment test as at November 2, 2014, the first day of its fourth quarter. There was no goodwill recognized on the Company's balance sheet prior to the Acquisition.

The carrying amount of goodwill has been allocated to the Saks Fifth Avenue and OFF 5TH banners.

The recoverable amounts of banners are determined based on fair value less costs of disposal using an income approach that incorporates a discounted cash flow model. This approach requires the Company to estimate and take into account the amount, timing, and relative certainty of projected unlevered cash flows expected to be generated by the operating assets and requires that certain assumptions be made.

In determining fair value less costs of disposal, the forecasted cash flows are based on the Company's strategic business plans, as presented to and approved by the Board of Directors, and projected over a 5 year period. Non-recurring and unusual items have been adjusted for in the projected future cash flows. The Company selected discount rates representative of the current market assessment of the risks specific to each banner in the range of 7.0% to 12.0% for each calculation of fair value less costs of disposal. Applicable terminal growth rates were applied after the discrete projected period. These key assumptions are all considered Level 3 of the fair value hierarchy (note 18). As a result of this analysis, no impairment was identified for either banner to which goodwill has been allocated.

The Company believes that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of either of the banners.

NOTE 13. OTHER LIABILITIES

As at January 31, 2015 and February 1, 2014, other liabilities are comprised of:

(millions of Canadian dollars)	2014	2013
Deferred landlord incentives	**356**	169
Deferred gain on sale and leaseback transaction	**242**	—
Deferred proceeds from lease terminations	**49**	—
Other deferred credits	**11**	13
Other liabilities	**87**	20
	745	202
Non-current	**669**	202
Current	**76**	—
	745	202

Included in other liabilities is an interest-free advance of $65 million repayable in equal monthly installments of $2 million with a final payment on June 30, 2017.

NOTE 14. LOANS AND BORROWINGS

a) Current loans and borrowings

As at January 31, 2015 and February 1, 2014, current loans and borrowings are comprised of:

(millions of Canadian dollars)	2014	2013
HBC Revolving Credit Facility	**159**	88
U.S. Revolving Credit Facility	**108**	418
Current portion of long-term loans and borrowings	**23**	54
	290	560
Less: unamortized costs	**(25)**	(28)
	265	532

HBC Revolving Credit Facility

HBC is the borrower on an asset based credit facility (the "HBC Revolving Credit Facility") with Bank of America, N.A. as the administrative agent and collateral agent, made available through a credit agreement (the "Credit Agreement").

On December 17, 2014, the Company executed an amendment to the HBC Revolving Credit Facility to extend the maturity date from June 15, 2017 to December 17, 2019 and reduce the credit facility from $750 million to $600 million.

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

As the HBC Revolving Credit Facility is available for and used to finance working capital requirements, capital expenditures and other general corporate purposes, it has been classified in the consolidated balance sheets as part of current loans and borrowings. However, the Company is not required to repay the balance outstanding as at January 31, 2015, until the maturity date of December 17, 2019.

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

HBC was in compliance with all covenants contained in the Credit Agreement as at January 31, 2015 and February 1, 2014.

NOTE 14. LOANS AND BORROWINGS (Continued)

The effective interest rate based on the average balance drawn and finance costs of the HBC Revolving Credit Facility for fiscal 2014 and 2013 was as follows:

(millions of Canadian dollars)	2014	2013
Average balance drawn, calculated on a daily basis	**53**	162
Finance costs	**8**	11
Effective interest rate	**15.1%**	6.6%

As at January 31, 2015 and February 1, 2014, details of the borrowing base availability on the HBC Revolving Credit Facility were as follows:

(millions of Canadian dollars)	2014	2013
Gross borrowing base availability	**457**	479
Drawings	**(159)**	(88)
Outstanding letters of credit	**(9)**	(9)
Borrowing base availability net of drawings and letters of credit	**289**	382

U.S. Revolving Credit Facility

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

The U.S. Revolving Credit Facility originally provided a U.S.$950 million revolving line of credit through November 4, 2018. On December 11, 2014, the Company executed an amendment to the U.S. Revolving Credit Facility to increase the credit facility to U.S.$1,100 million. This revolving line of credit is subject to a borrowing base, based predominantly on eligible inventory and accounts receivable of L&T, Saks and their respective subsidiaries. The U.S. Revolving Credit Facility is available to finance working capital needs, capital expenditures, operating activities and to support the issuance of standby letters of credit. The U.S. Revolving Credit Facility has multiple interest rate charge options that are based on the U.S. prime rate, Federal Funds rate and LIBOR.

As the U.S. Revolving Credit Facility is available for and used to finance working capital requirements, capital expenditures and other operating activities, it has been classified in the consolidated balance sheets as part of current loans and borrowings. However, the Company is not required to repay the balance outstanding as at January 31, 2015 until the maturity date of November 4, 2018.

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

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

The effective interest rate based on the average balance drawn and finance costs of the U.S. Revolving Credit Facility for fiscal 2014 and 2013 was as follows:

(millions of Canadian dollars)	2014	2013
Average balance drawn, calculated on a daily basis	**389**	362
Finance costs	**14**	3
Effective interest rate	**3.6%**	3.6%

NOTE 14. LOANS AND BORROWINGS (Continued)

As at January 31, 2015 and February 1, 2014, details of the borrowing base availability on the U.S. Revolving Credit Facility were as follows:

(millions of Canadian dollars)	2014	2013
Gross borrowing base availability	**1,348**	1,058
Drawings	**(108)**	(418)
Outstanding letters of credit	**(19)**	(9)
Borrowing base availability net of drawings and letters of credit	**1,221**	631

The U.S. Revolving Credit Facility contains certain non-financial operating covenants. L&T Acquisition was in compliance with all covenants as at January 31, 2015 and February 1, 2014.

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

In connection with the refinancing of the L&T revolving credit facility on November 4, 2013, $2 million of deferred financing costs were written off.

b) Long-term loans and borrowings

As at January 31, 2015 and February 1, 2014, long-term loans and borrowings are comprised of:

(millions of Canadian dollars)	2014	2013
Senior Term Loan B	**826**	2,228
Junior Term Loan	**—**	334
Yorkdale Mortgage	**48**	49
Lord & Taylor Mortgage	**318**	279
Saks Mortgage	**1,599**	—
Other mortgage	**—**	10
Real estate finance leases	**130**	118
Equipment finance leases and other	**35**	42
	2,956	3,060
Less: unamortized costs	**(74)**	(83)
Less: amounts due within one year	**(23)**	(54)
	2,859	2,923

Maturities of long-term debt are as follows:

(millions of Canadian dollars)	
Fiscal year:	
2015	23
2016	19
2017	318
2018	3
2019	3
Thereafter	2,590
	2,956

Senior Term Loan B

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

NOTE 14. LOANS AND BORROWINGS (Continued)

Senior Term Loan B matures November 4, 2020 and carries an interest rate of LIBOR plus 3.75% per annum. The agreement is structured such that LIBOR will be deemed to be not less than 1% per annum ("LIBOR Floor"). Senior Term Loan B is subject to mandatory prepayments. The term loan is secured by a second lien over all inventory and accounts receivables, a first lien over substantially all other assets as well as a pledge of the shares of certain of the Company's subsidiaries.

A portion of the proceeds from Senior Term Loan B were used to repay in full the HBC Term Loan and the Lord & Taylor GE Capital Term Loan, while the remainder was used in financing the Acquisition. In connection with the repayment of the HBC Term Loan and Lord & Taylor GE Capital Term Loan, $1 million and $4 million of deferred financing costs were written off, respectively.

On February 25, 2014, HBC repaid U.S. $150 million of Senior Term Loan B (note 28). In connection with the repayment, $5 million of deferred financing costs were written off and $1 million of penalties and fees for early repayment were incurred (note 6).

On December 3, 2014, HBC repaid U.S. $1,200 million of Senior Term Loan B using proceeds from the Saks Mortgage. In connection with the repayment, $34 million of deferred financing costs were written off (note 6).

Junior Term Loan

Concurrently with the close of Senior Term Loan B, the Company obtained an incremental junior secured term facility of U.S.$300 million (the "Junior Term Loan"). The Junior Term Loan was scheduled to mature on November 4, 2021 and had an initial interest rate of LIBOR (with a LIBOR Floor) plus 7.25% per annum. The remaining credit terms of the Junior Term Loan were substantially consistent with Senior Term Loan B with the exception that the Junior Term Loan was not subject to Senior Term Loan B's previously required quarterly principal repayments.

The Junior Term Loan was secured by a third lien over all of the Company's inventory and accounts receivable, a second lien over substantially all other assets as well as a pledge of the shares of certain of the Company's subsidiaries. Proceeds from the Junior Term Loan were used to finance the Acquisition.

On February 25, 2014, HBC repaid the Junior Term Loan in full (note 28). In connection with the repayment of the Junior Term Loan, $13 million of deferred financing costs were written off and $11 million of penalties and fees for early repayment were incurred (note 6).

Yorkdale Mortgage

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

Lord & Taylor Mortgage

On September 7, 2012, LT 424 LLC ("LT 424"), which is an indirect subsidiary of L&T, entered into a U.S.$250 million syndicated floating rate senior mortgage loan with an affiliate of CIBC World Markets Inc. as the administrative agent of the syndicate of lenders, which matures on September 10, 2017 (the "Lord & Taylor Mortgage").

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

The Lord & Taylor Mortgage contains representations and warranties, positive and negative covenants, reporting requirements and events of default. As at January 31, 2015 and February 1, 2014, the Company was in compliance with the covenants contained in the Lord & Taylor Mortgage.

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

NOTE 14. LOANS AND BORROWINGS (Continued)

Saks Mortgage

On December 3, 2014, Saks Flagship Real Property LLC ("Saks Flagship"), an indirect subsidiary of Saks, obtained a U.S.$1,250 million, twenty year mortgage on the ground portion of its Saks Fifth Avenue flagship store in New York City, located at 611 Fifth Avenue (the "Saks Mortgage") with Bank of America, N.A. as the administrative agent.

The Saks Mortgage matures December 3, 2034, carries a fixed interest rate of 4.39% and requires interest only payments. The mortgage is secured by a first mortgage lien on the fee interest in the property, together with all ground lease rents, profits and revenue.

Net of associated fees and expenses, all proceeds from the Saks Mortgage were utilized to permanently pay down U.S.$1,200 million of Senior Term Loan B.

The Saks Mortgage contains representations and warranties, positive and negative covenants, reporting requirements and events of default. As at January 31, 2015, the Company was in compliance with the covenants contained in the Saks Mortgage.

HBC Term Loan (Canadian properties)

Concurrently with the closing of the IPO on November 26, 2012, the Company entered into an agreement with BMO Capital Markets and Canadian Imperial Bank of Commerce, as co-lead arrangers and joint bookrunners, and certain other lenders for a $250 million senior non-revolving term loan facility (the "HBC Term Loan").

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

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

The HBC Term Loan contained representations and warranties, positive and negative covenants, reporting requirements and a number of events of default. The agreement contained covenants to maintain fixed charge coverage and leverage ratios.

Lord & Taylor GE Capital Term Loan

As part of the Lord & Taylor credit facility agreement with General Electric Capital Corporation executed on May 23, 2013, the Company obtained a U.S.$200 million term loan ("Lord & Taylor GE Capital Term Loan"). Together with cash on hand, the proceeds of the Lord & Taylor GE Capital Term Loan repaid the Lord & Taylor term loan (lender was Credit Suisse Securities LLC) in full. In connection with the repayment of the Lord & Taylor term loan, $6 million of deferred financing costs were written off and are included in finance costs (note 6).

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

Other mortgage

As at February 1, 2014, HBC had a mortgage outstanding with a principal balance of $10 million, which required annual payments of $3 million, including interest, and a final balloon payment of $10 million in February 2014. On February 3, 2014, the mortgage was repaid in full. The interest on the mortgage was 7.0% per annum, paid on a monthly basis.

Finance leases

As at January 31, 2015, the liability related to real estate finance leases was $130 million (February 1, 2014: $118 million). The liability includes $93 million (February 1, 2014: $79 million) primarily related to presumed lease renewals that the Company is not contractually committed to.

As at January 31, 2015, the liability related to equipment finance leases was $25 million (February 1, 2014: $32 million).

NOTE 14. LOANS AND BORROWINGS (Continued)

The future required minimum gross rental payments under finance leases for property and equipment, and their net present values as at January 31, 2015 are as follows:

(millions of Canadian dollars)	
Less than 1 year	30
Between 1 and 5 years	55
Thereafter	437
Total minimum lease payments	522
Less: imputed interest	(367)
Total finance lease obligations	**155**

NOTE 15. PROVISIONS

	Year ended January 31, 2015					
(millions of Canadian dollars)	Self Insurance	Severance, Restructuring & HR Legal	ARO's	Store Closing Costs	Other	Total
Balance at beginning of year	**62**	**64**	**16**	**18**	**5**	**165**
Additional provisions recognized	**39**	**48**	**1**	**1**	**3**	**92**
Utilized	**(39)**	**(80)**	**—**	**(17)**	**(3)**	**(139)**
Released	**—**	**(22)**	**—**	**(2)**	**(3)**	**(27)**
Transfer from liabilities of discontinued operations	**—**	**75**	**—**	**—**	**3**	**78**
Net foreign currency exchange	**6**	**1**	**2**	**—**	**—**	**9**
Balance at end of year	**68**	**86**	**19**	**—**	**5**	**178**
Non-current	**—**	**44**	**19**	**—**	**—**	**63**
Current	**68**	**42**	**—**	**—**	**5**	**115**
	68	**86**	**19**	**—**	**5**	**178**

	Year ended February 1, 2014					
(millions of Canadian dollars)	Self Insurance	Severance, Restructuring & HR Legal	ARO's	Store Closing Costs	Other	Total
Balance at beginning of year	34	51	14	—	—	99
Additional provisions recognized	30	53	1	1	—	85
Assumed through business combination	26	4	—	16	5	51
Utilized	(31)	(41)	—	—	—	(72)
Released	—	(5)	—	—	—	(5)
Net foreign currency exchange	3	2	1	1	—	7
Balance at end of year	62	64	16	18	5	165
Non-current	—	—	16	—	—	16
Current	62	64	—	18	5	149
	62	64	16	18	5	165

Self insurance

The Company purchases third party insurance for automobile, workers' compensation (U.S. only), medical (U.S. only) and general liability claims that exceed a certain dollar level. The Company is responsible for the payment of claims under these insured limits. The self-insurance provision is based on claims filed and an estimate of claims incurred but not yet reported. Insurance claims are settled on a case by case basis over a period which can exceed 7 years. The amounts that the Company will ultimately disburse could differ materially from the accrued amounts.

NOTE 15. PROVISIONS (Continued)

Severance, Restructuring & HR Legal

Severance and restructuring relates to Company initiatives to lower operating costs and improve profitability. The initiatives are associated with the closure of the discount store business and evaluation of stores with sub-optimal performance. Restructuring charges in prior years relating directly to the closure of Zellers stores were reported within discontinued operations. In fiscal 2014, the Company transferred the liability previously reported in discontinued operations to continuing operations.

During fiscal 2014, these initiatives included additional provisions related to Home Outfitters stores of $14 million (2013: nil). Severance charges of $26 million (2013: $13 million) were incurred for changes to senior leadership, management teams and other supporting employees as the Company continued to streamline its organizational and management structures as a result of the integration of its department store operations and the wind-down of Zellers. Severance charges of $2 million (2013: nil) were incurred related to store closures. During fiscal 2013, the Company incurred $29 million of severance and related expenses in connection with the Acquisition, $4 million related to the relocation of the information technology support function and $5 million related to realignment of the logistics network related to the consolidation of excess capacity at certain locations. As at January 31, 2015, $75 million (February 1, 2014: $58 million) remains accrued.

The Human Resources ("HR") legal component of the provision relates to compensation claims made by current and former employees. During fiscal 2014, the Company recorded a charge of $6 million (2013: $2 million). Compensation claims are settled on a case by case basis over an indeterminate period. The balance of the provision remaining as at January 31, 2015 was $11 million (February 1, 2014: $6 million).

Asset retirement obligations ("ARO's")

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

Store closing costs

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

NOTE 16. OPERATING LEASE ARRANGEMENTS

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

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

Rental expense related to operating leases charged to earnings in fiscal 2014 was $276 million (2013: $162 million).

Minimum payments under non-cancelable operating leases

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

(millions of Canadian dollars)	
Fiscal year:	
2015	143
2016	133
2017	123
2018	110
2019	99
Thereafter	1,064
Total minimum lease payments	**1,672**

NOTE 16. OPERATING LEASE ARRANGEMENTS (Continued)

Of the total minimum lease payments, $19 million relates to Zellers leases that were not assigned to Target Corporation ("Target") (note 29). For those leases which have been assigned to Target and for which the Company remains the lessee on the master lease agreement, HBC has guaranteed the commitment over the remaining term of the lease (note 25).

NOTE 17. PENSIONS AND EMPLOYEE BENEFITS

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

Amounts Recognized in Consolidated Balance Sheets

	2014			2013		
(millions of Canadian dollars)	**CDN Pension Plans**	**CDN Benefit Plans**	**U.S. Pension Plans**	**CDN Pension Plans**	**CDN Benefit Plans**	**U.S. Pension Plans**
Funded status	**69**	**(36)**	**(46)**	72	(35)	(31)
Less: current portion	**—**	**3**	**1**	—	3	2
	69	**(33)**	**(45)**	72	(32)	(29)
Other long-term employee benefits liability	**—**	**(31)**	**—**	—	(35)	—
Pension and employee benefits asset (liability)	**69**	**(64)**	**(45)**	72	(67)	(29)

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

Employer contributions to defined benefit pension plans in fiscal 2015 will approximate $1 million.

Changes in the Fair Value of Plan Assets

	2014			2013		
(millions of Canadian dollars)	**CDN Pension Plans(1)**	**CDN Benefit Plans**	**U.S. Pension Plans**	**CDN Pension Plans(1)**	**CDN Benefit Plans**	**U.S. Pension Plans**
Fair value at beginning of year	**1,213**	**—**	**135**	1,240	—	—
Acquired through business combination	**—**	**—**	**—**	—	—	129
Return on plan assets (excluding interest)	**65**	**—**	**8**	68	—	1
Interest income	**103**	**—**	**4**	85	—	1
Employer contributions	**1**	**3**	**—**	—	4	—
Employee contributions	**10**	**—**	**—**	11	—	—
Administration costs	**(3)**	**—**	**(2)**	(3)	—	(1)
Benefits paid	**(125)**	**(3)**	**(14)**	(188)	(4)	(4)
Net foreign currency exchange	**—**	**—**	**20**	—	—	9
Fair value at end of year	**1,264**	**—**	**151**	1,213	—	135

(1) Includes defined contribution plan assets of $527 million (February 1, 2014: $512 million).

NOTE 17. PENSIONS AND EMPLOYEE BENEFITS (Continued)

Changes in the Defined Benefit Obligation

(millions of Canadian dollars)	2014 CDN Pension Plans(2)	2014 CDN Benefit Plans	2014 U.S. Pension Plans	2013 CDN Pension Plans(2)	2013 CDN Benefit Plans	2013 U.S. Pension Plans
Balance, beginning of year	**1,141**	**35**	**166**	1,202	37	—
Assumed through business combination	**—**	**—**	**—**	—	—	158
Current service cost	**17**	**—**	**—**	22	—	—
Past service cost	**1**	**—**	**—**	2	—	—
Settlements	**(12)**	**—**	**—**	1	—	—
Employee contributions	**10**	**—**	**—**	11	—	—
Interest expense	**100**	**1**	**5**	84	1	1
Benefits paid	**(125)**	**(3)**	**(14)**	(188)	(4)	(4)
Change in demographic assumptions	**2**	**—**	**4**	25	2	1
Change in financial assumptions	**70**	**2**	**12**	(13)	(1)	(1)
Experience adjustments	**(9)**	**1**	**1**	(5)	—	—
Net foreign currency exchange	**—**	**—**	**23**	—	—	11
Balance, end of year	**1,195**	**36**	**197**	1,141	35	166

(2) Includes defined contribution plan liabilities of $527 million (February 1, 2014: $512 million).

Cumulative Actuarial (Losses) Gains

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

(millions of Canadian dollars)	2014 CDN Pension Plans	2014 CDN Benefit Plans	2014 U.S. Pension Plans	2013 CDN Pension Plans	2013 CDN Benefit Plans	2013 U.S. Pension Plans
Cumulative amount, beginning of year	**(2)**	**(7)**	**1**	(63)	(6)	—
Net actuarial gains (losses) recognized	**2**	**(3)**	**(9)**	61	(1)	1
Cumulative amount, end of year	**—**	**(10)**	**(8)**	(2)	(7)	1

Pension and Benefit Plan Expense

Fiscal 2014 and 2013 pension and benefit plan expense is comprised of the following:

(millions of Canadian dollars)	2014 CDN Pension Plans	2014 CDN Benefit Plans	2014 U.S. Pension Plans	2013 CDN Pension Plans	2013 CDN Benefit Plans	2013 U.S. Pension Plans
Current service cost	**17**	**—**	**—**	22	—	—
Past service cost	**1**	**—**	**—**	2	—	—
Settlements	**(12)**	**—**	**—**	1	—	—
Administration costs	**3**	**—**	**2**	3	—	1
Net expense recognized in selling, general and administrative expenses	**9**	**—**	**2**	28	—	1
Interest income on plan assets	**(103)**	**—**	**(4)**	(85)	—	(1)
Interest expense on plan obligations	**100**	**1**	**5**	84	1	1
Net (income) expense recognized in finance costs	**(3)**	**1**	**1**	(1)	1	—
Net expense recognized in net earnings (loss)	**6**	**1**	**3**	27	1	1
Changes in demographic assumptions	**2**	**—**	**4**	25	2	1
Changes in financial assumptions	**70**	**2**	**12**	(13)	(1)	(1)
Experience adjustments	**(9)**	**1**	**1**	(5)	—	—
Return on plan assets (excluding interest income)	**(65)**	**—**	**(8)**	(68)	—	(1)
Net (income) expense recognized in other comprehensive income	**(2)**	**3**	**9**	(61)	1	(1)
Net expense (income) recognized in comprehensive income (loss)	**4**	**4**	**12**	(34)	2	—

NOTE 17. PENSIONS AND EMPLOYEE BENEFITS (Continued)

Defined Contribution Pension Plans

Included in CDN Pensions Plans' current service cost above is a $12 million expense in fiscal 2014 (2013: $15 million, of which $9 million related to continuing operations) that represents contributions made in connection with the defined contribution plans.

In fiscal 2014, Saks and L&T contributed $10 million (2013: $4 million) to their U.S. defined contribution plans.

Other Long Term Employee Benefits

During fiscal 2014, the Company recognized a $6 million (2013: $6 million) expense in selling, general and administrative expenses related to its other long term employee benefits.

Actuarial Assumptions

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

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

	2014				2013			
	CDN Pension Plans	CDN Benefit Plans	CDN Other Long Term Benefits	U.S. Pension Plans	CDN Pension Plans	CDN Benefit Plans	CDN Other Long Term Benefits	U.S. Pension Plans
Defined benefit obligations, end of the fiscal year								
Discount rate	**3.40%**	**3.20%**	**2.75%**	**2.90%**	4.40%	4.20%	3.60%	3.80%
Rate of compensation increase	**3.00%**	**N/A**	**N/A**	**N/A**	3.00%	N/A	N/A	N/A
Net benefit expense for the fiscal year								
Discount rate	**4.40%**	**4.20%**	**3.60%**	**3.80%**	4.25%	4.00%	3.50%	3.80%
Rate of compensation increase	**3.00%**	**N/A**	**N/A**	**N/A**	3.25%	N/A	N/A	N/A
Health care trend rate:								
Defined benefit obligations, end of the fiscal year								
Immediate	**N/A**	**6.43%**	**6.43%**	**N/A**	N/A	6.04%	6.04%	N/A
Ultimate	**N/A**	**4.50%**	**4.50%**	**N/A**	N/A	4.50%	4.50%	N/A
Net benefit expense for the fiscal year								
Immediate	**N/A**	**6.04%**	**6.04%**	**N/A**	N/A	6.14%	6.14%	N/A
Ultimate	**N/A**	**4.50%**	**4.50%**	**N/A**	N/A	4.50%	4.50%	N/A
Life expectancy (years):								
Life expectancy from age 65								
Male	**86.5**	**86.5**	**N/A**	**85.9**	86.1	86.1	N/A	83.8
Female	**89.0**	**89.0**	**N/A**	**87.5**	88.3	88.3	N/A	85.6

Defined Benefit Obligation by Participant Status

	2014				2013			
	CDN Pension Plans(3)	CDN Benefit Plans	CDN Other Long Term Benefits	U.S. Pension Plans	CDN Pension Plans(3)	CDN Benefit Plans	CDN Other Long Term Benefits	U.S. Pension Plans
Active members	**185**	**1**	**44**	**57**	189	1	49	50
Vested deferred members	**59**	**—**	**—**	**60**	51	—	—	55
Retirees	**424**	**35**	**—**	**80**	389	34	—	61
Total	**668**	**36**	**44**	**197**	629	35	49	166

(3) Excludes plan liabilities of $527 million (February 1, 2014: $512 million) for defined contribution plan participants.

NOTE 17. PENSIONS AND EMPLOYEE BENEFITS (Continued)

Assets by Class and Level

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

	2014				2013			
(millions of Canadian dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
CDN Pension Plans								
Short-term and cash	**51**	**11**	**—**	**62**	56	13	—	69
Canadian equities	**62**	**—**	**—**	**62**	56	—	—	56
Foreign equities	**80**	**—**	**—**	**80**	67	—	—	67
Real estate equities	**—**	**—**	**15**	**15**	—	—	22	22
Private equity funds and other	**—**	**—**	**185**	**185**	—	—	133	133
Pooled funds	**—**	**860**	**—**	**860**	—	866	—	866
	193	**871**	**200**	**1,264**	179	879	155	1,213
U.S. Pension Plans								
Pooled funds	**—**	**151**	**—**	**151**	—	135	—	135

Sensitivity analysis

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

	2014				2013			
(millions of Canadian dollars)	**CDN Pension Plans**	**CDN Benefit Plans**	**CDN Other Long Term Plans**	**U.S. Pension Plans**	**CDN Pension Plans**	**CDN Benefit Plans**	**CDN Other Long Term Plans**	**U.S. Pension Plans**
Health care trend rate								
Effect of 1% increase	**N/A**	**3**	**1**	**N/A**	N/A	3	1	N/A
Effect of 1% decrease	**N/A**	**(2)**	**—**	**N/A**	N/A	(3)	—	N/A
Discount rate								
Effect of 1% increase	**(70)**	**(3)**	**(2)**	**(13)**	(65)	(3)	(3)	(9)
Effect of 1% decrease	**88**	**3**	**3**	**15**	80	4	3	10
Rate of compensation/inflation								
Effect of 1% increase	**5**	**N/A**	**N/A**	**N/A**	8	N/A	N/A	N/A
Effect of 1% decrease	**(4)**	**N/A**	**N/A**	**N/A**	(8)	N/A	N/A	N/A
Life expectancy								
Effect of 1 year increase	**21**	**2**	**N/A**	**(4)**	16	2	N/A	(3)
Effect of 1 year decrease	**(21)**	**(2)**	**N/A**	**4**	(16)	(2)	N/A	3

Supplementary executive retirement plan

The Company guarantees an annual pension to certain executives in the supplementary executive retirement plan (the "SERP") which is included in the CDN Pension Plans defined benefit obligation presented earlier. The Company's guaranteed obligation pursuant to the SERP for service up to November 10, 2005 is secured by a trust fund for certain members. Total assets of the trust fund as at January 31, 2015 were $71 million (February 1, 2014: $70 million). The obligation in respect of service after November 10, 2005 is not secured.

NOTE 18. FINANCIAL INSTRUMENTS

The following table provides a comparison of carrying and fair values of financial instruments as at January 31, 2015 and February 1, 2014:

(millions of Canadian dollars)	2014 Carrying Value	2014 Fair Value	2013 Carrying Value	2013 Fair Value
Classified as fair value through profit or loss				
Embedded foreign currency derivatives[1]	**(1)**	**(1)**	(1)	(1)
Warrants[2]	**(68)**	**(68)**	(24)	(24)
Classified as loans and receivables				
Cash	**153**	**153**	19	19
Restricted cash	**15**	**15**	2	2
Trade and other receivables[5]	**212**	**212**	139	139
Classified as held to maturity				
Short-term deposits[3]	**2**	**2**	2	2
Financial derivatives designated as cash flow hedges				
Forward foreign currency contracts[3]	**22**	**22**	5	5
Interest rate swaps[4]	**(1)**	**(1)**	1	1
Classified as other liability				
Trade payables[5]	**(945)**	**(945)**	(589)	(589)
Other payables and accrued liabilities[5]	**(345)**	**(345)**	(228)	(228)
HBC Revolving Credit Facility	**(159)**	**(159)**	(88)	(88)
U.S. Revolving Credit Facility	**(108)**	**(108)**	(418)	(418)
Senior Term Loan B	**(826)**	**(830)**	(2,228)	(2,258)
Junior Term Loan	**—**	**—**	(334)	(345)
Yorkdale Mortgage	**(48)**	**(48)**	(49)	(49)
Lord & Taylor Mortgage	**(318)**	**(318)**	(279)	(279)
Saks Mortgage	**(1,599)**	**(1,599)**	—	—
Other mortgage	**—**	**—**	(10)	(10)
Other liability[6]	**(65)**	**(63)**	—	—

(1) Included in financial liabilities — current

(2) Included in financial liabilities — non-current

(3) Included in financial assets — current

(4) Included in financial liabilities — current (2013: included in financial assets — current)

(5) Includes assets/liabilities of discontinued operations (note 29)

(6) See note 13

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

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

NOTE 18. FINANCIAL INSTRUMENTS (Continued)

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

(millions of Canadian dollars)	2014	2013
Warrants	**44**	—
Equity Commitment Forwards	**—**	153
	44	153

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

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

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

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

Capital management

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

(millions of Canadian dollars)	2014	2013 (restated — see note 2(z))
Short-term loans and borrowings	**265**	532
Long-term loans and borrowings	**2,859**	2,923
Share capital	**1,420**	1,420
Contributed surplus	**60**	43
Retained earnings	**693**	491
	5,297	5,409

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

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

NOTE 18. FINANCIAL INSTRUMENTS (Continued)

Financial risk management

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

a) Credit risk

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

b) Liquidity risk

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

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

(millions of Canadian dollars)	Trade and other payables	Derivatives	Loans and borrowings	Other liabilities	Total
Fiscal year:					
2015	1,290	1	418	27	1,736
2016	—	—	147	27	174
2017	—	—	441	11	452
2018	—	68	118	—	186
2019	—	—	118	—	118
Thereafter	—	—	3,992	—	3,992
	1,290	69	5,234	65	6,658

The HBC Revolving Credit Facility matures December 17, 2019 and the U.S. Revolving Credit Facility matures November 4, 2018. These amounts have been reflected as due in fiscal 2015 in the table above to be consistent with presentation in the consolidated balance sheets.

c) Market risk

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

i. Foreign currency risk

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

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

NOTE 18. FINANCIAL INSTRUMENTS (Continued)

Canadian dollar as their functional currency. HBC's net U.S. dollar exposure as at January 31, 2015 and February 1, 2014, excluding its investment in L&T Acquisition, is as follows:

U.S. Dollar Exposure (millions of U.S. dollars)	2014	2013
Trade payables	**(60)**	(56)
HBC Revolving Credit Facility	**(125)**	(5)
Senior Term Loan B	**(650)**	(2,000)
Junior Term Loan	**—**	(300)
Outstanding purchase orders	**(17)**	(20)
Forward foreign exchange contracts	**176**	161
U.S. dollar denominated inter-company receivables	**886**	1,503
Total exposure	**210**	(717)

The settlement dates of the forward foreign currency contracts range from February 2015 to December 2015 and the weighted average foreign exchange rate is 1.15.

For fiscal 2014, HBC recorded a gain of $11 million (2013: loss of $2 million) relating to the translation or settlement of foreign currency denominated monetary items.

The estimated gains and losses on derivatives designated as cash flow hedges expected to be reclassified to earnings within the next twelve months is a net gain of $11 million.

The Company's net investment in L&T Acquisition presents a foreign exchange risk to HBC. HBC used a net investment hedge to mitigate this risk. HBC had originally designated U.S.$800 million of Senior Term Loan B as a hedge of the first U.S.$800 million of net assets of L&T Acquisition. The hedge was subsequently reduced to U.S.$350 million upon pay down of certain debt (note 28) and further to nil, upon pay down of Senior Term Loan B (note 14). Foreign currency translation of the net earnings of L&T Acquisition impacts consolidated net earnings (loss). Foreign currency translation of HBC's investment in L&T Acquisition impacts other comprehensive income.

On an annualized basis, after considering the Company's hedge of its exposure to foreign currency risk, a strengthening of the U.S. dollar against the Canadian dollar by 1% at January 31, 2015 would have impacted net earnings for fiscal 2014 by nil (2013: increased net loss by $2 million).

ii. Interest rate risk

The Company's interest rate risk arises from short-term and long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. During fiscal 2014 and 2013, the Company's variable rate borrowings were denominated in both U.S. and Canadian dollars.

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

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

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

An increase of 100 basis points in LIBOR over the past year would have decreased net earnings for fiscal 2014 by $5 million (2013: increased net loss by $3 million). This sensitivity analysis does not include the impact that an increase of 1% in LIBOR rates would have on the fair value of the interest rate swaps.

In connection with the Saks Mortgage transaction (note 14), the Company entered into 2 separate interest rate swap lock forward contracts (the "Rate Locks") during fiscal 2014 that resulted in the Company fixing the interest rate to be paid over the entire term of the mortgage. The Company designated the Rate Locks as hedges of the cash flows from the forecasted proceeds of the Saks Mortgage transaction. Each hedging relationship was assessed to be highly effective and as at January 31, 2015, a net realized loss of $9 million, with related deferred taxes of $4 million, was included in other comprehensive income representing the mark-to-market adjustments to fair value from the date of execution of each Rate Lock, October 10, 2014 and November 5, 2014, respectively, to December 3, 2014, the date of close of the Saks Mortgage.

NOTE 18. FINANCIAL INSTRUMENTS (Continued)

The fair value of the Rate Locks was determined using a valuation technique that employs the use of market observable inputs and is based on the differences between the contract rate and the market rates as at the period-end date, taking into consideration discounting to reflect the time value of money.

The HBC Revolving Credit Facility described in note 14 bears interest at a variable rate based on the selected interest rate charge option plus a fixed spread. HBC is exposed to interest rate cash flow risk as the variable rate rises.

On an annualized basis, an increase of 100 basis points in the selected interest rate over the past year would have decreased net earnings for fiscal year 2014 by nil (2013: increased net loss by $3 million).

iii. Other risks

On July 29, 2013, to finance a portion of the consideration to acquire Saks, the Company received equity commitments from HSILP and WF Fund. The equity commitments from HSILP and WF Fund required the Company to issue its common shares (see note 20) at a future date at $17.00 per share (subject to adjustment in certain limited circumstances). Due to the variability of the share issue price and certain other features of the investment agreements with HSILP and WF Fund, Equity Commitment Forwards were recognized and accounted for as derivative financial instruments. On the date of the execution of the definitive merger agreement with Saks ("Merger Agreement"), the Equity Commitment Forwards were determined to be in an asset position. During fiscal 2013, the Company recognized an expense of $153 million representing the mark to market adjustments from the date of the execution of the Merger Agreement to November 4, 2013, the closing date of the Acquisition. The fair values were determined using a forward pricing model utilizing the assumptions outlined below. Upon closing of the Acquisition and at the end of the commitment period, the Company derecognized the Equity Commitment Forwards and reclassified the related financial liability of $130 million to share capital (note 20).

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

During fiscal 2014 in relation to the 1.5 million warrants issued to HSILP concurrently with the execution of the Merger Agreement ("Merger Agreement Warrants"), the Company recognized finance related costs of $10 million (2013: $5 million) representing mark to market adjustments to fair value as at January 31, 2015. As at January 31, 2015, the fair value of the Merger Agreement Warrants was $15 million (February 1, 2014: $5 million).

In relation to the 5.25 million warrants issued to HSILP and WF Fund on November 4, 2013 upon closing of the Acquisition ("Acquisition Warrants"), the Company recognized finance related costs during fiscal 2014 of $34 million (2013: income of $5 million) representing mark to market adjustments to fair value as at January 31, 2015. As at January 31, 2015, the fair value of the Acquisition Warrants was $53 million (February 1, 2014: $19 million). The Company will continue to record mark to market gains and losses on the warrants until the earlier of the date of exercise or expiry.

The fair values of the warrants were determined using the Black-Scholes option pricing model using the assumptions outlined in the table below:

Share price — January 31, 2015	$23.42
Share price — February 1, 2014	$16.47
Share price — July 26, 2013	$16.49

	Jan 31, 2015	Feb 1, 2014
Expected volatility	**45%**	27%
Dividend yield	**0.85%**	1.31%
Risk free interest rate	**0.50%**	1.21%
Expected life — Merger Agreement Warrants	**3.5 years**	4.5 years
Expected life — Acquisition Warrants	**3.8 years**	4.8 years

NOTE 19. SHARE BASED COMPENSATION

Option Plan

The Company grants options to certain employees which allow each participant to exercise their share options to either subscribe for common shares or receive a cash payment at the option of the Company. The cash payment is calculated as the difference between the market price of the common shares as at the exercise date and the exercise price of the share option. The exercise price of each option equals the weighted average of the share price for the 5 day period preceding the date of grant. The Company uses the fair value method to account for share options issued which is established on the date of grant using the Black-Scholes option pricing model.

NOTE 19. SHARE BASED COMPENSATION (Continued)

Senior executive options vest 50% in each of the fourth and fifth year following the grant date. The options have 7 to 10 year terms and will be forfeited immediately in the event a grantee's employment is terminated for cause, and after forty-five days in the event of a voluntary resignation or termination without cause. Share options are subject to a pro-rata vesting schedule if the grantee's employment is terminated. Of the senior executive options outstanding, 1,864,437 (2013: 2,003,109) shares have a performance condition and vest only if the weighted average closing share price for the twenty trading day period ending on the vesting date is at least 50% higher than the offering price of the company's IPO or if such performance condition is met after the vesting date but prior to the expiry date.

Senior executive option transactions were as follows:

	2014		2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	6,562,603	$17.13	6,090,500	$17.00
Granted	3,264,118	$19.70	975,603	$17.89
Forfeited	(881,124)	$17.14	(503,500)	$17.00
Outstanding at end of year	8,945,597	$18.07	6,562,603	$17.13
Share options exercisable at end of year	—	—	—	—

During fiscal 2014, the grant date fair value of senior executive options granted was $16 million (2013: $5 million).

The following table summarizes information about the senior executive share options outstanding and exercisable as at January 31, 2015:

Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at Jan 31, 2015	Weighted average exercise price
$17.00 to $17.49	5,851,509	7.7	$17.01	—	—
$17.50 to $17.99	1,320,567	6.3	$17.61	—	—
$18.00 to $18.85	589,363	8.9	$18.47	—	—
$23.50 to $23.99	1,184,158	6.9	$23.58	—	—
Total	8,945,597	7.5	$18.07	—	—

Options issued to other management have a vesting period of 3 years and have a 7 year term with no performance condition. The options are forfeited immediately in the event a grantee's employment is terminated for cause, and after forty-five days in the event of a voluntary resignation or termination without cause. Share options are subject to a pro-rata vesting schedule if the grantee's employment is terminated.

Other management option transactions were as follows:

	2014		2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	969,600	$17.03	929,800	$17.00
Granted	1,042,400	$17.65	197,000	$17.17
Forfeited	(282,600)	$17.33	(157,200)	$17.01
Outstanding at end of year	1,729,400	$17.35	969,600	$17.03
Share options exercisable at end of year	—	—	—	—

During fiscal 2014, the grant date fair value of other management options granted was $5 million (2013: $1 million).

NOTE 19. SHARE BASED COMPENSATION (Continued)

The following table summarizes information about the other management share options outstanding and exercisable as at January 31, 2015:

Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at Jan 31, 2015	Weighted average exercise price
$17.00 to $17.49	955,800	5.1	$17.04	—	—
$17.50 to $17.99	756,000	6.3	$17.61	—	—
$23.50 to $23.99	17,600	6.9	$23.58	—	—
Total	1,729,400	5.7	$17.35	—	—

The assumptions used to measure the fair value at the grant date of senior executive and other management options granted during fiscal 2014 and 2013 under the Black-Scholes option pricing model were as follows:

	2014	2013
Expected dividend yield	0.9% to 1.2%	1.1% to 2.4%
Expected share price volatility	24.1% to 35.8%	30.3% to 38.7%
Risk-free interest rate	1.0% to 1.6%	1.4% to 1.6%
Expected life of options (years)	5.0 to 6.5	6.5

Phantom Share Plan

The Company grants phantom shares to certain employees. During fiscal 2014, the Company granted 183,150 (2013: nil) phantom share units with a grant date fair value of $3 million (2013: nil). Phantom share units have a vesting period of 3 years that will be settled in common shares of the Company or in cash at the Company's option. As at January 31, 2015, 271,125 (February 1, 2014: 166,500) phantom share units were outstanding.

Restricted Share Units

The Company grants restricted share units ("RSUs") to certain employees. During fiscal 2014, the Company granted 272,252 (2013: 115,980) RSUs with a term of 3 years, all of which are expected to vest. The grant date fair value of the RSUs was $5 million (2013: $2 million) and was determined based on the Company's share price at the date of the grant. RSUs were granted under similar terms and conditions as those granted concurrently with the IPO. As at January 31, 2015, 414,240 (February 1, 2014: 153,752) RSUs were outstanding.

Performance Share Units

Performance share unit ("PSUs") transactions were as follows:

	2014	2013
Outstanding at beginning of year	660,162	—
Granted	1,158,187	674,939
Forfeited	(155,594)	(14,777)
Outstanding at end of year	1,662,755	660,162
Weighted average contract life (years) remaining at end of year	2.0	2.9

During fiscal 2014, the grant date fair value of the PSUs granted was $20 million (2013: $10 million), of which $15 million (2013: $8 million) is expected to vest. The fair value was determined based on the Company's share price at the date of the grant and adjusted to reflect non-entitlement of dividends to PSUs. The PSUs vest 3 years from the date of grant at the end of that calendar year and are forfeited immediately in the event a grantee's employment is terminated for cause, and after forty-five days in the event of a voluntary resignation or termination without cause, subject to a pro-rata vesting schedule if the grantee's employment is terminated.

NOTE 19. SHARE BASED COMPENSATION (Continued)

Deferred Share Units

The Company grants deferred share units ("DSUs") to members of the Board of Directors. During fiscal 2014, the Company granted 52,240 units (2013: 49,823) with a grant date fair value of $1 million (2013: $1 million). The fair value was determined based on the Company's share price at the date of grant. No Director will have the right to receive any benefit under the DSU plan until the participant ceases to be a Director. As at January 31, 2015, 110,221 (February 1, 2014: 57,981) DSUs were outstanding.

Share Based Compensation Expense

Total share based compensation expense for fiscal 2014 and 2013 is summarized as follows:

	2014	2013
Share options	**11**	7
Other share based compensation[(1)]	**6**	3
	17	10

(1) Includes Phantom shares, RSUs, PSUs and DSUs.

Long Term Incentive Plans

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

Incentive units had up to a 10 year term, vested in equal installments over a 5 year service period, and were paid out upon a change of control event or an initial public offering, as defined in the LTIP. Each incentive unit was paid out based on the unit appreciation value, according to the terms of each grant.

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

During fiscal 2014, nil (2013: $8 million) was paid related to the redemption of long-term incentive plan units. The liability for future payments related to these redemptions as at January 31, 2015 was nil (February 1, 2014: nil).

NOTE 20. SHARE CAPITAL

As at January 31, 2015 the authorized shares of HBC consist of an unlimited number of common shares and an unlimited number of preferred shares issuable in series.

The holders of common shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the shareholders.

Common Shares

On July 29, 2013, to finance a portion of the consideration to acquire Saks, the Company received equity commitments from HSILP and WF Fund for the Canadian dollar equivalent of up to U.S.$500 million and U.S.$250 million of equity funding, respectively. As consideration for HSILP's equity commitment, concurrently with the execution of the Merger Agreement, the Company issued 1.5 million share purchase warrants to HSILP, and subsequently issued an additional 3.5 million warrants to HSILP upon the closing of the Acquisition. In consideration for WF Fund's commitment, upon closing of the Acquisition, the Company issued 1.75 million warrants to WF Fund (note 18).

On September 10, 2013 the Company issued 16,050,000 subscription receipts at a price of $17.15 per subscription receipt, for aggregate gross proceeds of $275 million, net of costs of $11 million. The subscription receipts were issued to finance a portion of the consideration required to acquire Saks. The net proceeds of the subscription receipts offering were held in escrow until closing of the Acquisition. Accordingly on November 4, 2013, the Company issued 16,050,000 common shares in exchange for the subscription receipts.

NOTE 20. SHARE CAPITAL (Continued)

On November 4, 2013, upon closing of the Acquisition, the Company issued 30,673,530 common shares for proceeds of $521 million (U.S.$500 million) to HSILP and 15,376,471 common shares for proceeds of $261 million (U.S.$250 million) to WF Fund.

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

(millions of Canadian dollars, except shares)	Number of Shares	Share Capital ($)
Issued and outstanding at February 2, 2013	120,000,000	246
Conversion of subscription receipts to common shares (net of offering costs, transaction costs and income taxes of $9 million)	16,050,000	266
Issuance of common shares to HSILP and WF Fund (net of transaction costs and income taxes of $4 million)	46,050,001	778
Fair value of Equity Commitment Forwards transferred to equity (note 18)	—	130
Issued and outstanding as at February 1, 2014 and January 31, 2015	182,100,001	1,420

During the year ended January 31, 2015, the Company declared and paid dividends to the holders of the common shares totaling $36 million (2013: $43 million).

Preferred Shares

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

As at January 31, 2015 and February 1, 2014, there were no preferred shares issued and outstanding.

Warrants

As at January 31, 2015 and February 1, 2014, the 6.75 million warrants issued to HSILP and WF Fund as consideration for the equity commitments are outstanding. The warrants are exercisable into common shares of the Company at an exercise price of $17.00 per warrant which in certain circumstances is subject to adjustment. The warrants expire on November 4, 2018.

NOTE 21. EARNINGS (LOSS) PER COMMON SHARE

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

(millions of Canadian dollars or shares except per share amounts)	2014	2013
Net earnings (loss) from continuing operations for basic earnings per share	**238**	(177)
Net loss from discontinued operations for basic earnings per share	**—**	(82)
Net earnings (loss) for basic earnings per share	**238**	(259)
Net earnings (loss) from continuing operations for basic earnings per share	**238**	(177)
Impact of warrants	**—**	(5)
Net earnings (loss) from continuing operations for diluted earnings per share	**238**	(182)
Net loss from discontinued operations for diluted earnings per share	**—**	(82)
Net earnings (loss) for diluted earnings per share	**238**	(264)
Weighted average common shares outstanding	**182**	135
Dilutive effect of options and RSUs	**1**	—
Diluted weighted average common shares outstanding	**183**	135
Basic net earnings (loss) per common share		
Continuing operations	**1.31**	(1.31)
Discontinued operations	**—**	(0.61)
	1.31	(1.92)
Diluted net earnings (loss) per common share		
Continuing operations	**1.30**	(1.34)
Discontinued operations	**—**	(0.61)
	1.30	(1.95)

Excluded from the computation of diluted net earnings (loss) per common share were 7,321,079 (2013: 9,183,476) potentially dilutive instruments, as they were anti-dilutive.

NOTE 22. RELATED PARTY TRANSACTIONS

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

On May 6, 2011, a subsidiary of L&T Acquisition entered into a 2 year lease with SP 35 L.P. (the "Landlord") for approximately 31,000 sq. ft. in Shrewsbury, NJ. The lease was amended on January 17, 2013 to include 3 renewal options. The first 2 renewal options are for terms of 2 and 3 years, respectively at an annual cost of U.S.$440 thousand. The third renewal option is for a term of 5 years at an annual cost of U.S.$484 thousand. The first and second renewal options were exercised. Amounts charged to the Company under the rental arrangement for fiscal 2014 were U.S.$440 thousand (2013: U.S.$376 thousand). The Landlord is an affiliate of National Realty & Development Corp. ("NRDC"). Richard and Robert Baker, the principals of NRDC, are Directors of the Company.

During fiscal 2014, the Company accrued $314 thousand (2013: $300 thousand) from Hudson's Bay Trading Company, LP, a shareholder of the Company, with respect to the reimbursement of expenses for services provided by HBC on their behalf.

On February 25, 2014, the Company closed its agreement to sell its downtown Toronto flagship retail complex and the Simpson's Tower to an affiliate of The Cadillac Fairview Corporation Limited, an affiliate of HSILP, for a purchase price of $650 million (note 28).

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

NOTE 23. COMPENSATION

The remuneration of key management personnel for fiscal 2014 and 2013 is as follows:

(millions of Canadian dollars)	2014	2013
Short-term benefits	**10**	9
Post-employment benefits	**1**	2
Other long-term benefits	**10**	9
Share based compensation	**8**	4
	29	24

The compensation noted in the above table forms part of the total employee benefits expense recorded by the Company in fiscal 2014 totaling $1,703 million (2013: $1,157 million, including discontinued operations).

NOTE 24. CONTINGENT LIABILITIES

As of January 31, 2015, the Company is involved in and potentially subject to various claims by third parties arising out of the normal course and conduct of its business. Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims and litigation, tax assessments and reassessments, to the extent not covered by the Company's insurance policies or otherwise provided for, not to be material to the consolidated financial statements, but may have a material impact in future periods.

NOTE 25. GUARANTEES

As part of normal operations, the Company regularly reviews its real estate portfolio and store locations. Based on the reviews conducted in prior years, the Company has closed certain store premises that it deemed to be non-strategic. Where these premises were leased, when possible, the Company assigned its leases to other retail operators, but remained obligated to the landlord on those leases as the original tenant thereunder despite the assignment. If the assignee were to default on the lease agreement, the Company would remain obligated to the landlord for payment of amounts due under the lease. The terms of these assigned leases can extend up to the year 2024. As of January 31, 2015, these leases have future minimum lease payments of $154 million (February 1, 2014: $150 million), of which $113 million (February 1, 2014: $145 million), relates to leases assigned to Target, in addition to other lease related expenses, such as property taxes and common area maintenance. The Company has a full, unconditional and continuing guarantee and indemnity from the ultimate parent of Target, regarding all ongoing obligations related to the store leases acquired by Target (or its affiliates) which include the assumption of all obligations and liabilities of Zellers arising under these leases after closing of such sale. The Company's obligation would be offset by payments from existing or future assignees and their obligations to the Company to comply with the assigned leases. Potential liabilities related to these guarantees may be subject to certain defenses by the Company. The Company does not expect to make any significant payments with respect to these lease obligations and believes that the risk of significant loss is low.

In connection with the sale of leasehold interests to Target, the Company has indemnified Target up to a maximum of $1,825 million in respect of any damages arising from any failure to comply with any representation or warranty under the transaction agreement to be true, any failure of the Company to fulfill any of its obligations under the agreement, the use of any of the leased properties prior to transfer to Target, environmental liabilities associated with any of the leased properties, and any liabilities associated with the leased properties not assumed by Target.

From time to time, Saks has issued guarantees to landlords under leases of stores operated by its subsidiaries. Certain of these stores were sold in connection with the sale of the Saks Department Store Group to Belk, Inc. in 2005 and the sale of the Northern Department Store Group to The Bon-Ton Stores, Inc. in 2006. If the purchasers fail to perform certain obligations under the leases guaranteed, the Company could have obligations to landlords under such guarantees. The terms of these guaranteed leases can extend up to the year 2024. As of January 31, 2015, these leases have future minimum lease payments of $103 million (February 1, 2014: $105 million). Based on the information currently available, the Company does not believe that its potential obligations under these lease guarantees would be material.

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

NOTE 26. SEGMENTED REPORTING

The Company has one reportable segment, Department Stores, which earns revenue from the sale of fashion apparel, accessories, cosmetics and home products to customers in a similar target market. The Department Stores segment, which includes Hudson's Bay, Lord & Taylor, Saks Fifth Avenue, OFF 5TH and Home Outfitters, is managed by the Chief Operating Decision Maker and supported by an integrated shared services function.

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

(millions of Canadian dollars)	2014	2013
Total retail sales		
Canada	**2,810**	2,719
United States	**5,359**	2,504
	8,169	5,223

(millions of Canadian dollars)	2014	2013 (restated — see note 2(z))
Total operating income (loss)		
Canada	**413**	38
United States	**68**	(33)
	481	5

(millions of Canadian dollars)	2014	2013 (restated — see note 2(z) and note 4)
Non-current assets[(1)]		
Canada	**666**	695
United States	**5,268**	4,616
	5,934	5,311
Total assets		
Canada	**1,903**	1,749
United States	**7,169**	6,193
	9,072	7,942

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

NOTE 27. SUBSIDIARIES

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

Name of subsidiary	Country of incorporation and operation	Ownership interest 2014	Ownership interest 2013
Zellers Inc.	Canada	N/A	100%
Lord & Taylor LLC	United States	100%	100%
LT Propco LLC	United States	100%	100%
LT 424 LLC	United States	100%	100%
Saks Incorporated	United States	100%	100%
Saks Flagship Real Property LLC	United States	100%	N/A

NOTE 28. SALE AND LEASEBACK TRANSACTION

On February 25, 2014, the Company sold its downtown Toronto flagship retail complex and the Simpson's Tower located at 401 Bay Street to an affiliate of The Cadillac Fairview Corporation Limited for a purchase price of $650 million. The Company has leased the entire retail and office complex back for a base term of twenty-five years with renewal options of up to approximately twenty-five years. Proceeds of the transaction were used to retire in entirety the Junior Term Loan, which bore interest at a rate of 8.25%, permanently pay down U.S.$150 million of the Senior Term Loan B, currently bearing interest at a rate of 4.75% and reduce the outstanding balance of the HBC Revolving Credit Facility.

The total gain on the sale and leaseback transaction was $560 million, $308 million of which was recognized immediately in the consolidated statement of earnings (loss). The remaining $252 million of the gain was deferred and is being amortized over the term of the lease as a reduction in rent expense. The deferred gain is included in non-current other liabilities in the consolidated balance sheet.

NOTE 29. DISCONTINUED OPERATIONS

The Company has completed the discontinuation of its discount store business which consisted of the Zellers and Fields banners. The decision followed the sale of certain Zellers' leasehold interests to Target. As a result of these changes, the Company has reflected the discount store operations as discontinued operations in the consolidated statements of earnings (loss).

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

(millions of Canadian dollars)	2014	2013
Net loss from discontinued operations before sale of leasehold interests, net of income taxes	—	(111)
Sale of leasehold interests, net of income taxes of nil (2013: $4 million)	—	29
Net loss for the year — discontinued operations, net of income taxes	—	(82)

Net loss from discontinued operations is as follows:

(millions of Canadian dollars)	2014	2013
Retail sales	—	146
Cost of sales	—	(162)
Selling, general and administrative expenses	—	(127)
Operating loss and loss before income taxes	—	(143)
Income tax benefit	—	32
Net loss from discontinued operations before sale of leasehold interests	—	(111)

Assets and Liabilities of Discontinued Operations

The consolidated balance sheet for February 1, 2014 reflects assets and liabilities relating to the discontinuance of the Zellers and Fields businesses. The following table sets out the assets and liabilities relating to Zellers and Fields businesses included in discontinued operations as at January 31, 2015 and February 1, 2014.

(millions of Canadian dollars)	2014	2013
Trade and other receivables	—	2
Assets of discontinued operations	—	2
Trade payables	—	4
Other payables and accrued liabilities	—	7
Provisions — current	—	77
Provisions — non-current	—	1
Liabilities of discontinued operations	—	89

Sale of Leasehold Interests

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

NOTE 29. DISCONTINUED OPERATIONS (Continued)

Accordingly the Company recognized in discontinued operations proceeds for the assignment of the leases, operating the selected stores over the closure period, transferring the properties in broom swept condition and for the transfer of pharmacy records. During fiscal 2013, the Company recognized $33 million of proceeds on the sale of leasehold interests.

NOTE 30. SUBSEQUENT EVENTS

On February 11, 2015, a secondary offering was completed pursuant to which 2380162 Ontario Limited, a subsidiary of Ontario Teachers' Pension Plan and successor in interest to HSILP, sold 4,899,000 of the common shares of HBC which it held. The Company did not receive any proceeds from the offering.

On February 25, 2015, HBC announced that it has entered into agreements with each of Simon Property Group Inc. and RioCan Real Estate Investment Trust to form partnerships focused on real estate growth opportunities in the United States and Canada, respectively.

On March 9, 2015, HBC's Board of Directors declared a dividend of $0.05 per common share, payable on April 15, 2015 to shareholders of record as of March 31, 2015.

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STOCK EXCHANGE LISTING
Toronto Stock Exchange:
"HBC"

ANNUAL GENERAL MEETING
Tuesday, June 9, 2015
at 2:00 pm ET
TMX Broadcast Centre
The Exchange Tower
130 King Street West
Toronto, Ontario M5X 1J2

HBC CSR REPORT
www.hbc.com/hbc/
socialresponsibility/csr-reporting

DIVIDEND POLICY

Subject to financial results, capital requirements, available cash flow and any other factors that the Board of Directors may consider relevant, it is the intention of the Board of Directors to declare a quarterly dividend on an ongoing basis. It is expected that future dividend payments will be made to shareholders of record as of the close of business on the last business day of each calendar quarter of each year and that the related payment date will be the 15th day of the month following the record date, or if such day is not a business day, the immediately preceding business day. All dividends to be paid by the Company, unless otherwise indicated, are designated as eligible dividends in accordance with subsection 89(14) of the *Income Tax Act* (Canada) and any applicable corresponding provincial or territorial provisions.

Following the acquisition of Saks Inc., the Company reduced its quarterly dividend from $0.09375 per common share to $0.05 per common share to accelerate deleveraging in the short term. The Company's credit facilities restrict our ability to declare dividends in certain circumstances. The amount and timing of the payment of any dividends are not guaranteed and are subject to the discretion of the Board of Directors.

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