A copy of this preliminary prospectus has been filed with the securities regulatory authorities in each of the provinces and territories of Canada but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the prospectus is obtained from the securities regulatory authorities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This preliminary prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities.

This prospectus has been filed under procedures in each of the provinces and territories of Canada that permit certain information about these securities to be determined after the prospectus has become final and that permit the omission of that information from this prospectus. The procedures require the delivery to purchasers of a supplemented PREP prospectus containing the omitted information within a specified period of time after agreeing to purchase any of the securities. All of the information contained in the supplemented PREP prospectus that is not contained in this base PREP prospectus will be incorporated by reference into this base PREP prospectus as of the date of the supplemented PREP prospectus.

These securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") or any state securities legislation and may not be offered or sold in the United States except in compliance with the registration requirements of the U.S. Securities Act and applicable state securities legislation or pursuant to an exemption therefrom. This preliminary prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby within the United States. See "Plan of Distribution".

PRELIMINARY BASE PREP PROSPECTUS

Initial Public Offering and Secondary Offering October 16, 2012

HUDSON'S BAY COMPANY

$ ●
● Common Shares

This prospectus qualifies the distribution (the "Offering") of ● common shares (the "Common Shares") of Hudson's Bay Company ("we", "us", the "Company" or "HBC") at a price of $ ● per Common Share (the "Offering Price"). The Offering consists of an initial public offering of ● Common Shares by HBC (the "Treasury Offering") and a secondary offering (the "Secondary Offering") of ● Common Shares by Hudson's Bay Company (Luxembourg) S. à r. l. (the "Selling Shareholder" or the "Principal Shareholder"). See "Plan of Distribution". HBC will not receive any proceeds from the Secondary Offering. All of the Common Shares held after the Offering by the Selling Shareholder will be subject to contractual lock-up agreements with the Underwriters. See "Plan of Distribution — Lock-Up Arrangements". The Company will use the net proceeds from the Treasury Offering as described in this prospectus. See "Use of Proceeds". The Offering is being underwritten by RBC Dominion Securities Inc., BMO Nesbitt Burns Inc., CIBC World Markets Inc., Merrill Lynch Canada Inc. (collectively, the "Joint Bookrunners"), J.P. Morgan Securities Canada Inc., Scotia Capital Inc., TD Securities Inc., Canaccord Genuity Corp., UBS Securities Canada Inc., Credit Suisse Securities (Canada), Inc. and National Bank Financial Inc. (together with the Joint Bookrunners, the "Underwriters"). If the Over-Allotment Option (as defined below) is exercised in full, an aggregate of an additional ● Common Shares will be offered by the Selling Shareholder.

There is currently no market through which the Common Shares may be sold and purchasers may not be able to resell the Common Shares purchased under this prospectus. This may affect the pricing of the Common Shares in the secondary market, the transparency and availability of trading prices, the liquidity of the Common Shares, and the extent of issuer regulation. See "Risk Factors". The Company has applied to the Toronto Stock Exchange ("TSX") to have the Common Shares listed on the TSX. Listing of the Common Shares on the TSX is subject to approval by the TSX of the Company's listing application and fulfillment by the Company of all the initial requirements and conditions of the TSX, including distribution of the Common Shares to a minimum number of public holders. The TSX has not conditionally approved the listing of the Common Shares and there is no assurance that the TSX will approve the Company's listing application.

In connection with the Offering, the Underwriters may over-allot or effect transactions that stabilize or maintain the market price of the Common Shares at levels other than those which otherwise might prevail on the open market. See "Plan of Distribution".

An investment in the Common Shares is subject to a number of risks that should be considered by a prospective purchaser. Investors should carefully consider the risk factors described under "Risk Factors" before purchasing the Common Shares.

Price: $ ● per Common Share

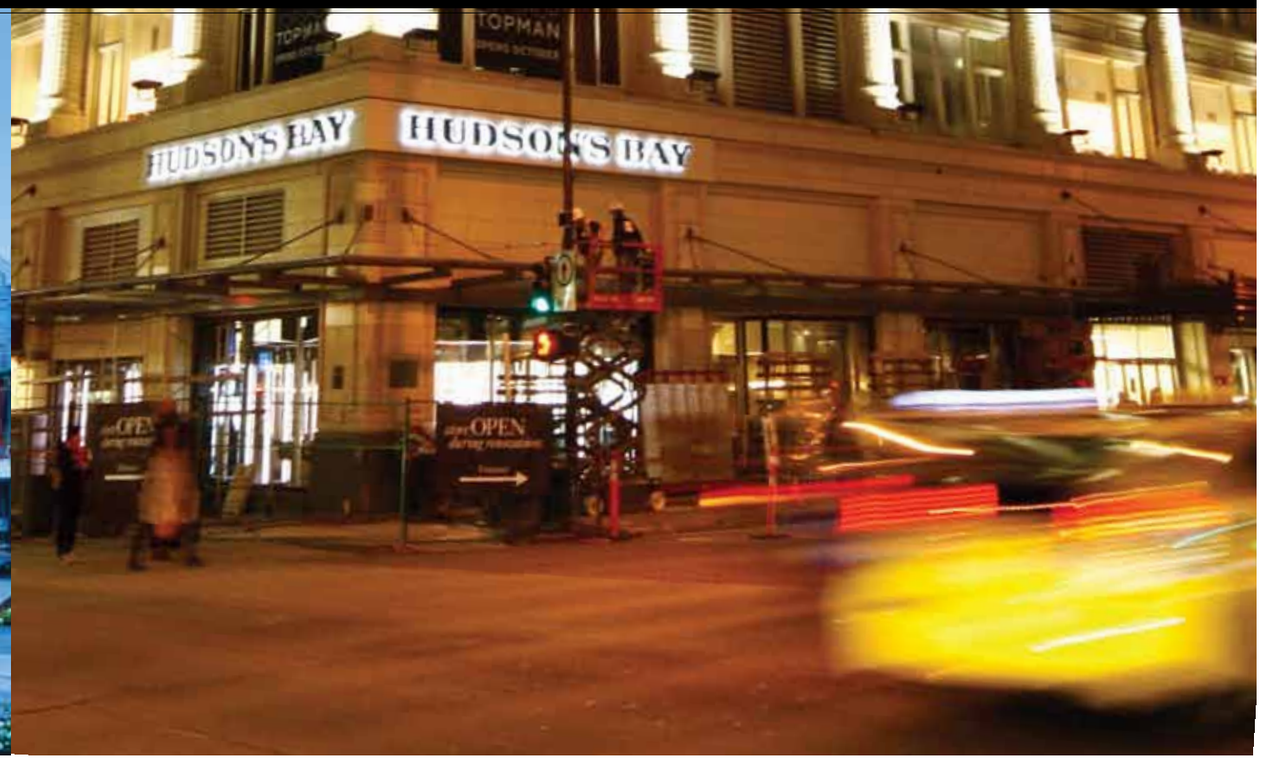
	Price to the Public[1]	Underwriters' Commission	Net Proceeds to the Company[2]	Net Proceeds to the Selling Shareholder[3]
Per Common Share	$●	$●	$●	$●
Total Offering[4]	$●	$●	$●	$●

Notes:

(1) The price of the Common Shares has been determined by negotiation between the Company, the Selling Shareholder and the Underwriters.

(continued on next page)

The REINVENTION of TWO RETAIL ICONS



WE ARE A LEADING INTEGRATED NORTH AMERICAN DEPARTMENT STORE RETAILER *SHARING BEST PRACTICES AND LEVERAGING OPERATIONAL SCALE ACROSS OUR BANNERS*

	HBC HUDSON'S BAY COMPANY	Lord & Taylor	HUDSON'S BAY	Home Outfitters kitchen | bed | bath | SUPERSTORE
STORES [1]	207	48	90	69
RETAIL SALES [2]	$3.9B	$1.4B	$2.2B	$0.3B

1. At September 30, 2012.
2. FY2011.

>500 YEARS OF COMBINED ICONIC DEPARTMENT STORE BANNER HERITAGE

Lord & Taylor

Established in 1826, Lord & Taylor was one of the first U.S. department store chains and is one of the most recognized department store banners in the northeastern United States.

HUDSON'S BAY

A Canadian icon with over three centuries of brand heritage, Hudson's Bay is Canada's largest national branded department store and is one of the most recognizable banners in Canada.

Statement Prints
WHAT'S CHIC RIGHT NOW
TOPSHOP
TOPMAN
DVF
COACH
BURBERRY

WE ARE EXECUTING A TRANSFORMATION OF OUR BUSINESS *THAT HAS RESULTED IN SIGNIFICANTLY ENHANCED SALES PRODUCTIVITY AND SIGNIFICANT EARNINGS GROWTH*

FY2009 - 2011

SALES / SQ. FT. LORD & TAYLOR	*SALES / SQ. FT. HUDSON'S BAY*[1]	*SG&A AS % OF RETAIL SALES*	*NORMALIZED EBITDA*	*NORMALIZED EBITDA MARGIN*
20% ▲	9% ▲	450bps ▼	100% ▲	380bps ▲

1. Excludes Vancouver Olympic sales of $44.4M in Q4 FY2009 and $50.5M in Q1 FY2010.

STRATEGIC AND VALUABLE REAL ESTATE PORTFOLIO:
A SUSTAINABLE COMPETITIVE ADVANTAGE AND A SIGNIFICANT BARRIER TO ENTRY

Our sizeable store footprint is located in key retailing centres across Canada and the northeastern United States.

Lord & Taylor

Concentrated in key eastern metropolitan markets and two major Midwestern cities.

HUDSON'S BAY

Situated in prime retail locations in major metropolitan and suburban centres in Canada.

OWNED AND/OR GROUND-LEASED

11M SQ.FT.

LONG-TERM LEASED

14M SQ.FT.

(continued from cover)

(2) After deducting the Underwriters' Commission payable by the Company but before deducting the expenses of the Offering which are estimated to be approximately $ ● , which expenses will be paid by the Company out of the proceeds of the Offering.

(3) After deducting the Underwriters' Commission payable by the Selling Shareholder.

(4) The Selling Shareholder has granted to the Underwriters an over-allotment option, exercisable, in whole or in part, at the sole discretion of the Underwriters, for a period of 30 days from the closing of the Offering (the "Closing"), to purchase from the Selling Shareholder up to $ ● additional Common Shares (representing approximately 15% of the Common Shares offered hereunder) on the same terms as set out above solely to cover over-allotments, if any, and for market stabilization purposes (the "Over-Allotment Option"). The Company will pay the Underwriters' Commission with respect to the Treasury Offering and the Selling Shareholder will pay the Underwriters' Commission with respect to the Secondary Offering and the Over-Allotment Option (if it is exercised). If the Over-Allotment Option is exercised in full, the total "Price to the Public", "Underwriters' Commission", "Net Proceeds to the Company" and "Net Proceeds to the Selling Shareholder" will be $ ● , $ ● , $ ● and $ ● , respectively. This prospectus qualifies the distribution of the Over-Allotment Option and up to ● Common Shares to be sold by the Selling Shareholder upon exercise of the Over-Allotment Option by the Underwriters. A purchaser who acquires Common Shares forming part of the Over-Allotment Option acquires those shares under this prospectus, regardless of whether the position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. See "Plan of Distribution" and "Principal Shareholders and Selling Shareholder".

The following table sets out the number of Common Shares that may be sold by the Selling Shareholder to the Underwriters pursuant to the Over-Allotment Option:

	Number of Common Shares Available	Exercise Period	Exercise Price
Over-Allotment Option	●	Up to 30 days following Closing	$● per Common Share

The Underwriters, as principals, conditionally offer the Common Shares, subject to prior sale, if, as and when issued by the Company and accepted by the Underwriters in accordance with the conditions contained in the underwriting agreement dated ● , 2012 (the "Underwriting Agreement") referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of the Company by Stikeman Elliott LLP and on behalf of the Underwriters by Norton Rose Canada LLP. **The Underwriters may offer the Common Shares at a lower price than stated above. See "Plan of Distribution".**

RBC Dominion Securities Inc., BMO Nesbitt Burns Inc., CIBC World Markets Inc., Merrill Lynch Canada Inc., J.P. Morgan Securities Canada Inc. and Credit Suisse Securities (Canada), Inc. are affiliates of banks that are members of a syndicate of lenders that have made credit facilities available to the Company. Accordingly, in connection with the Offering and pursuant to applicable securities legislation, the Company may be considered a "connected issuer" with each of the foregoing Underwriters for the purposes of securities regulations in certain provinces and territories of Canada. See "Plan of Distribution" and "Relationship between the Company and certain Underwriters".

Subscriptions will be received subject to rejection or allotment in whole or in part and the Underwriters reserve the right to close the subscription books at any time without notice. It is expected that Closing will occur on or about ● , 2012, or such later date as the Company and the Underwriters may agree, but in any event not later than ● , 2012. One or more certificates representing the Common Shares to be sold in the Offering will be issued in registered form to CDS Clearing and Depository Services Inc., or to its nominee ("CDS"), and deposited with CDS on the Closing date. A purchaser of Common Shares will receive only a customer confirmation from the registered dealer from or through which the Common Shares are purchased. See "Plan of Distribution".

An investor in Common Shares should rely only on the information contained in this prospectus and is not entitled to rely on parts of information contained in this prospectus to the exclusion of other parts of this prospectus. Neither the Company, the Selling Shareholder nor any of the Underwriters has authorized anyone to provide investors with additional or different information. Neither the Company, the Selling Shareholder, nor any of the Underwriters is offering to sell the Common Shares in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of the Common Shares.

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GENERAL MATTERS

Unless otherwise noted or the context otherwise indicates, "HBC", the "Company", "we", "us" and "our" refers to Hudson's Bay Company and its direct and indirect subsidiaries and predecessors or other entities controlled by them. Unless otherwise indicated, the disclosure contained in this prospectus assumes that (i) the transactions referred to under the heading "Description of Material Indebtedness and Refinancing" have been completed and (ii) the Over-Allotment Option has not been exercised.

Certain capitalized terms and phrases used in this prospectus are defined in the "Glossary of Terms" beginning on page 140.

References to "management" in this prospectus mean the persons who will be the senior officers of the Company and its operating subsidiaries, as the case may be, following the Closing of the Offering. Any statements in this prospectus made by or on behalf of management are made in such persons' capacities as officers of the Company and its operating subsidiaries, as applicable, and not in their personal capacities.

Prospective purchasers should rely only on the information contained in this prospectus. We have not, the Selling Shareholder has not, and the Underwriters have not, authorized any other person to provide prospective purchasers with additional or different information. If anyone provides prospective purchasers with additional or different or inconsistent information, including information or statements in media articles about the Company, prospective purchasers should not rely on it. The Company is not, the Selling Shareholder is not, and the Underwriters are not, making an offer to sell or seeking offers to buy Common Shares in any jurisdiction where the offer or sale is not permitted. Prospective purchasers should assume that the information appearing in this prospectus is accurate only as at its date, regardless of its time of delivery or of any sale of Common Shares. The Company's business, financial conditions, results of operations and prospects may have changed since that date.

PRESENTATION OF FINANCIAL INFORMATION AND OTHER INFORMATION

The Company presents its consolidated financial statements in Canadian dollars. In this prospectus, all references to "$", "C$" or "dollars" are to Canadian dollars and references to "U.S.$" are references to United States dollars. Amounts are stated in Canadian dollars unless otherwise indicated.

All references in this prospectus to "Fiscal 2011" are to the Company's fiscal year ended January 28, 2012, to "Fiscal 2010" are to the Company's fiscal year ended January 31, 2011, and to "Fiscal 2009" are to the Company's fiscal year ended January 31, 2010.

This prospectus contains consolidated financial statements for Fiscal 2011, Fiscal 2010, Fiscal 2009 and unaudited interim condensed consolidated financial statements for the thirteen and twenty-six weeks ended July 28, 2012 and July 30, 2011, prepared in accordance with International Financial Reporting Standards ("IFRS").

During 2012, the Company announced its intention to discontinue store operations at Fields and most of the store operations at Zellers. The Company has completed the wind-down of its 169 Fields stores and will have closed most of its 275 Zellers stores by March 2013. See "The Zellers and Fields Transactions". Accordingly, the financial statements and information included in this prospectus have been retroactively restated to present Zellers and Fields as discontinued operations.

Our sponsorship of the Vancouver 2010 Winter Olympics and our status as the exclusive supplier of the Canadian Olympic Collection resulted in significant non-recurring sales in the fourth quarter of Fiscal 2009 and the first quarter of Fiscal 2010. In order to provide meaningful comparisons on a period over period basis, we disclose certain same store sales information excluding the impact of sales of Olympic merchandise during those quarters. References in this prospectus to "Vancouver Olympic Sales" means sales of Olympic merchandise in the fourth quarter of Fiscal 2009 (approximately $44.4 million) and in the first quarter of Fiscal 2010 (approximately $50.5 million). While we exclude the Vancouver Olympic Sales from our same store sales calculations in Fiscal 2009 and Fiscal 2010 due to the one time nature of the increased sales associated with having the Winter Olympics in Canada, Hudson's Bay continues to be the exclusive supplier of Canadian Olympic apparel and the sales associated with this Olympic apparel (other than the Vancouver Olympic Sales) are included in the calculation of same stores sales.

All references in this prospectus relating to square feet of the Company's stores (such as sales per square foot) and sales and revenues from brands and categories are based upon management's internal calculation and determination.

NON-IFRS MEASURES

This prospectus makes reference to certain non-IFRS measures. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. We use non-IFRS measures including gross profit, EBITDA and Normalized EBITDA to provide investors with supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We also believe that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Our management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess our ability to meet our future debt service, capital expenditure and working capital requirements.

FORWARD-LOOKING STATEMENTS

Certain statements in this prospectus about our current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements or any other future events or developments 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.

Discussions containing forward-looking statements may be found, among other places, under "Business of the Company", "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations". Forward-looking statements, including projections of sales per square foot, projected SG&A savings and sales results from large marketing and promotional events such as "Bay Days" and "Friends and Family" 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, but there can be no assurance that such estimates and assumptions will prove to be correct. Certain assumptions in respect of the determination of the impairment of losses, claim liabilities, income taxes, employee future benefits, goodwill and intangibles are material factors made in preparing forward-looking information and management's expectations, including whether we achieve our projected sales per square foot and SG&A savings in future periods.

Many factors could cause our actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, which are discussed in greater detail in the "Risk Factors" section of this prospectus: (i) significant competition in the retail industry, (ii) changing consumer preferences, (iii) changing consumer spending, (iv) the prospect of unfavourable economic and political conditions, (v) the seasonal nature of our business, (vi) unseasonable weather conditions or natural disasters, (vii) our ability to continue to improve same store sales, (viii) our ability to retain our senior management team who possess specialized market knowledge, (ix) our dependence on our ability to attract and retain quality employees, (x) maintaining good relations with non-unionized and unionized employees, (xi) our dependence on successful inventory management, (xii) increased commodity prices, including for cotton, may affect our profitability, (xiii) our dependence on our advertising and marketing programs, (xiv) a material disruption in our computer systems, (xv) our ability to execute our growth strategy, (xvi) our ability to execute our plan to reduce operating expenses, (xvii) our ability to comply with the covenants in our credit facilities, (xviii) our ability to incur more debt, (xix) breaches of privacy, (xx) risks arising from regulation and litigation, (xxi) product liability claims and product recalls, (xxii) fluctuations in the value of the Canadian dollar in relation to the U.S. dollar, (xxiii) risks

associated with doing business abroad, (xxiv) disruption to our centralized distribution centres, (xxv) risks associated with operating freehold and leasehold property, (xxvi) environmental risks associated with operating freehold and leasehold property, (xxvii) our obligations under the Target Agreement, (xxviii) our ability to maintain the brand value of our various retail banners, (xxix) the value of the brands we offer could diminish due to factors beyond our control, (xxx) current store locations may become less desirable, (xxxi) inability to protect our trademarks and other proprietary rights, (xxxii) risks related to our size and scale, (xxxiii) insurance-related risks, (xxxiv) pension-related risks, (xxxv) our constating documents could discourage takeover attempts, (xxxvi) there is no prior public market for our securities, (xxxvii) there may be volatile market price for our Common Shares, (xxxviii) our ability to pay dividends is dependent on our ability to generate sufficient income, (xxxix) we will incur significant expenses relating to being a public company, (xxxx) influence by the Selling Shareholder, the L&T B Group and Hanover Investments (Luxembourg) S.A. ("Hanover"), (xxxxi) the Selling Shareholder, the L&T B Group and Hanover will hold a material percentage of the Common Shares following the Closing of the Offering which may have an impact on the trading price of the Common Shares, and (xxxxii) the Selling Shareholder, the L&T B Group and Hanover 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. 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 prospectus are made as of the date of this prospectus, and we have no intention and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. The forward-looking statements contained in this prospectus are expressly qualified by this cautionary statement.

MARKET AND INDUSTRY DATA

We have obtained the market and industry data presented in this prospectus from a combination of internal Company surveys and third party information, including data from Generation5, Statistics Canada, Nielsen Claritas and the U.S. Census Bureau, and the estimates of our management. While we believe our internal surveys, third party information, and estimates of our management are reliable, we have not verified them, nor have they been verified by any independent sources. While we are not aware of any misstatements regarding the market and industry data presented in this prospectus, such data involves risks and uncertainties and are subject to change based on various factors, including those factors discussed under "Forward-Looking Statements" and "Risk Factors".

TRADEMARKS, TRADENAMES AND SERVICE MARKS

This prospectus includes trademarks, such as Hudson's Bay Company®, HBC®, Hudson's Bay®, Lord & Taylor®, Home Outfitters®, The Room®, BlackBrown 1826®, Topshop® and Topman®, which are protected under applicable intellectual property laws and are the property of HBC, or in the case of Topshop, are licensed to HBC for exclusive use in Canada. Solely for convenience, our trademarks and tradenames referred to in this prospectus may appear without the ® symbol, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the right of the applicable licensor to these trademarks and tradenames. See "Business of the Company — Intellectual Property". All other trademarks used in this prospectus are the property of their respective owners.

ENFORCEMENT OF LEGAL RIGHTS

The Selling Shareholder is incorporated and organized under the laws of a foreign jurisdiction and resides outside of Canada. Although the Selling Shareholder has appointed Hudson's Bay Company, 401 Bay Street, Suite 500, Toronto, Ontario, M5H 2Y4 as its agent for service of process in Canada, it may not be possible for investors to enforce against the Selling Shareholder judgments obtained in Canadian courts predicated on the civil liability provisions of applicable securities laws in Canada.

Certain of the officers and directors signing the certificate to this prospectus reside outside of Canada. Furthermore, substantially all of the assets of these individuals may be located outside of Canada. Although these individuals have appointed Hudson's Bay Company, 401 Bay Street, Suite 500, Toronto, Ontario, M5H 2Y4 as their respective agent for service of process in Canada, it may not be possible for investors to effect service of process within Canada upon these individuals. In addition, it may not be possible to enforce against these individuals judgments obtained in Canadian courts predicated upon the civil liability provisions of applicable securities laws in Canada.

EXCHANGE RATE DATA

We disclose certain financial information contained in this prospectus in U.S. dollars. The following table sets forth, for the periods indicated, the high, low, average daily noon rates of exchange for one U.S. dollar, expressed in Canadian dollars, published by the Bank of Canada during the respective periods.

	Fiscal Year Ended			26 Week Period Ended		13 Week Period Ended	
	January 28, 2012	January 31, 2011	January 31, 2010	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
	($)	($)	($)	($)	($)	($)	($)
Highest rate during the period	1.0604	1.0778	1.3000	1.0418	0.9955	1.0418	0.9861
Lowest rate during the period	0.9449	0.9862	1.0251	0.9807	0.9449	0.9839	0.9449
Average noon spot rate for the period[(1)]	0.9907	1.0260	1.1270	1.0059	0.9706	1.0172	0.9670
Rate at the end of the period	1.0013	1.0022	1.0650	1.0060	0.9538	1.0060	0.9538

Note:

(1) Represents the average daily noon rate during the respective period.

On October 12, 2012, the noon rate of exchange posted by the Bank of Canada for conversion of U.S. dollars into Canadian dollars was U.S.$1.00 equals $0.9799.

PROSPECTUS SUMMARY

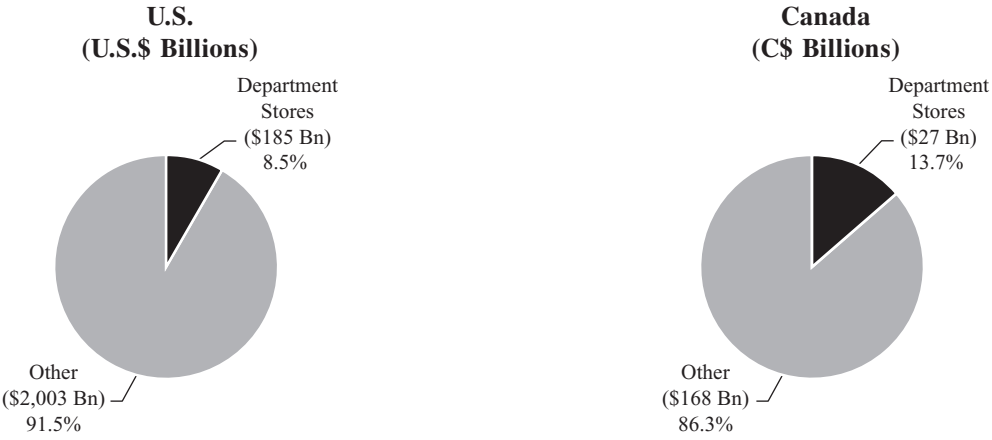
The following is a summary of the principal features of the Offering and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus. Please refer to the "Glossary of Terms" beginning on page 140 of this prospectus for a list of defined terms used herein.

INDUSTRY OVERVIEW

We participate in the North American retail industry through our department store banners in Canada and the United States. The North American retail industry is a large and growing segment of the North American economy, with annual sales exceeding $2 trillion, excluding the automotive, fuel and food and beverage segments ("Retail Sales"). Retail Sales in North America have demonstrated positive growth in nine of the last ten years, and grew at a 4.0% CAGR from 2001-2011. Retail Sales are generally driven by a combination of macroeconomic factors, including disposable income, unemployment rates, consumer confidence and savings rates.

The aggregate department store segment in North America generated sales of approximately U.S.$212 billion in 2011, representing 8.9% of overall North American Retail Sales in that period. Department store sales represented 8.5% of all Retail Sales in the United States and 13.7% of all Retail Sales in Canada during that same period.

2011 Department Store Percentage Share of Total Retail Sales



Note: *Source: U.S. Census Bureau and Statistics Canada.*

The U.S. department store segment is well-developed with a number of department store banners that compete with one another, as well as with other retailers, including specialty stores, general merchandise stores, off-price and discount stores, catalog retailers and online retailers.

There are significantly fewer retail banners in the Canadian department store segment compared to the U.S. department store segment, however, department store sales comprised a larger percentage of total Retail Sales in Canada than was the case in the United States in 2011. Canadian department stores compete with other retail formats in Canada, as well as with retailers that conduct business in Canada via e-commerce.

The primary product categories offered by department stores typically include apparel and accessories, cosmetics and fragrances, footwear and home goods. Department stores differentiate themselves versus other retail formats by offering consumers a broad assortment of product categories, a mix of national brands and private label products, a convenient and pleasant shopping experience and a high level of customer service.

Department stores can be segmented into the following categories based on price, offering assortment and shopping environment:

- **Moderate:** Value-focused consumers are targeted by offering "good" merchandise, consisting of lower-priced merchandise, a larger proportion of private label brands and a high level of promotions;
- **Better:** Appeal to a broad consumer demographic by offering "better" merchandise consisting of a mix of lower-priced items and higher-end brands and utilizing targeted promotions; and
- **Luxury:** A more affluent consumer demographic is targeted by offering "best" merchandise, consisting of higher-end, more fashionable brands and offerings, with less frequent promotions.

The North American department store segment has benefited from a revitalization in recent years, resulting in improved sales and margin trends for us and many of our competitors. The five largest apparel-focused department stores in the United States (based on total sales) increased sales by an average of 3.9% in 2011 (5.6% excluding J.C. Penney). The same group achieved an average EBITDA margin of 12.0% (13.6% excluding J.C. Penney) in 2011, an increase of approximately 237 basis points since 2008.

See "Industry Overview".

BUSINESS OF THE COMPANY

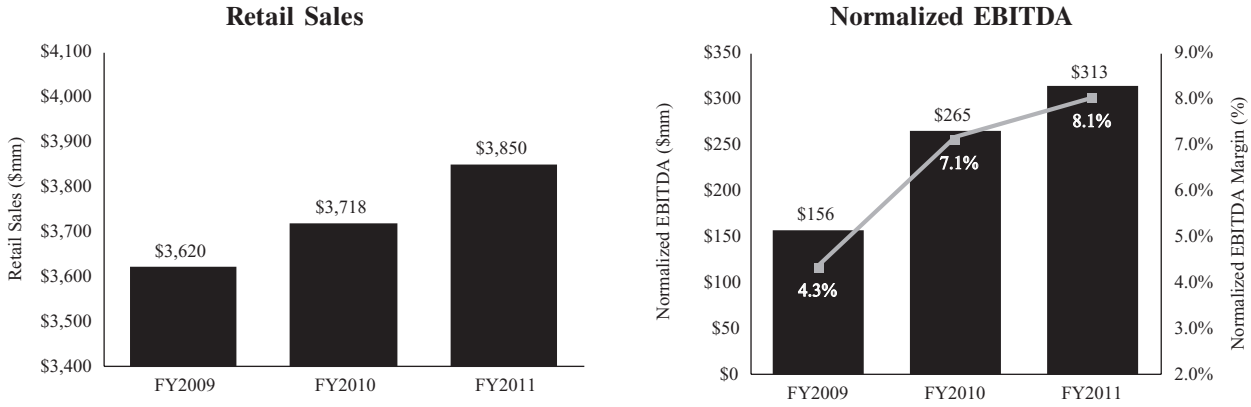
Our Company

We are a leading North American retailer offering a wide selection of branded merchandise in Canada and the United States through our three banners. In Canada, we operate Hudson's Bay, Canada's largest national branded department store. In the United States we operate Lord & Taylor, a fashion department store with locations throughout the northeastern United States and in two major cities in the Midwest. We also operate Home Outfitters, a kitchen, bed and bath superstore with locations across Canada.

Since the acquisition by our Principal Shareholder, we are in the process of executing a transformation of our business that has resulted in significantly enhanced sales productivity and significant earnings growth. Sales productivity has been enhanced through improved brand and merchandise strategies and the revitalization of our stores. We believe Hudson's Bay and Lord & Taylor offer our customers differentiated merchandise offerings, a superior shopping experience and compelling value proposition. We have achieved significant earnings growth through a combination of enhanced sales productivity, ongoing margin enhancement and expense reduction. Our retail banners are well-positioned in their respective markets and we believe that we can continue to achieve sales and earnings growth.

From Fiscal 2009 to Fiscal 2011 our retail sales, excluding Vancouver Olympic Sales, grew at a CAGR of 4.0% in Canada and 3.4% in the United States. Normalized EBITDA grew 100.1% and our Normalized EBITDA margin increased by approximately 380 basis points over the same period. See "Summary Consolidated Financial Information" for a reconciliation of Normalized EBITDA to Net Earnings — Continuing Operations.

Retail Sales Growth and Normalized EBITDA Growth



We have a valuable real estate portfolio which is strategically located in core retail locations across Canada and the eastern and mid-western United States. The Company owns or ground leases more than 11 million square feet of prime retail space, including flagship stores in Toronto, Vancouver, Calgary, Montreal, New York, Westchester and Long Island. The Company also has a portfolio of mostly long term, low cost leases with more than 14 million square feet of retail space. Hudson's Bay and Lord & Taylor have approximately 11.7 million square feet of leased retail space and have lease control terms (including renewal options) in excess of 45 years with respect to approximately 88% of this leased retail space. We believe our real estate portfolio significantly enhances our business flexibility and financing options. Given the relative scarcity of comparable prime retail properties in Canada and the eastern United States, we believe our real estate portfolio provides us with a sustainable competitive advantage and acts as a significant barrier to entry in these markets.

We believe the market value of our owned and ground leased real estate significantly exceeds current values reflected in our financial statements. In addition, we believe our real estate leases have rents that are significantly below current market rents for similar properties. Our focus on realizing value from our real estate portfolio is evidenced by our sale of 189 Zellers leases to Target for approximately $1,832.4 million. We

continually assess the potential of our real estate portfolio to realize value, whether through optimizing use (shop-in-shops, space rationalization), financing options or other avenues.

Transformation of Our Businesses

When our Principal Shareholder acquired the Hudson's Bay Company, Hudson's Bay stores were "tired" and in need of renovation, and Hudson's Bay had lost its fashion credibility and its appeal to customers who desired more contemporary fashions. Following the acquisition of Hudson's Bay by our Principal Shareholder, we implemented a number of initiatives to enhance the image of Hudson's Bay, increase its fashion credibility and enable us to attract many leading international brands. Our investments in Hudson's Bay since July 2008 have enabled us to add new, sought after brands and Hudson's Bay is becoming a fashion authority in Canada. The following initiatives were undertaken to transform our businesses:

Assembled a Market Leading Management Team with Extensive Retail Experience — Strengthening our management team was a top priority. We assembled a team of executives with significant department store, real estate, operational and financial experience to lead the transformation of our businesses. Our executive team is committed to retail excellence, continuous improvement, strong financial results and capitalizing on significant growth opportunities.

Enhanced Our Brand Offering and Merchandise Mix — Since 2008, we have focused on increasing sales of desirable, sought after brands while removing underperforming brands. We began, and continue, to focus on optimizing and right sizing the use of our selling space by reallocating space to more productive merchandise categories and de-emphasizing less productive categories, adding vendor shops and improving product presentation.

Invested Significant Capital to Improve the Shopping Environment and Experience for Our Customers — We have invested significant capital to upgrade our stores to improve the shopping environment and merchandise presentation. These investments have been focused on updating and modernizing both the interior and exterior of our stores through enhancements such as: adding vendor shops, exposing the selling floor to the street with new windows, repainting and updating store layouts, fixtures and lighting. In addition, we have invested significant capital specifically in the rejuvenation of certain of our key flagship stores.

Rejuvenated Marketing Strategy — We developed a new marketing and branding strategy at Hudson's Bay and Lord & Taylor that incorporates the characteristics of our heritage, such as integrity and authenticity, and updated to appeal to the modern shopper. We also rejuvenated our advertising campaigns to portray a more contemporary environment that is reflective of our fresh brand offerings and renovated stores. Hudson's Bay is becoming a fashion authority in the Canadian retail industry by offering our customers sought after brands and styles they desire.

Monetized and Rationalized Discount Segment — Recognizing the significant value of our Zellers leases and the changing Canadian retail landscape, we initiated a process to monetize our Zellers leases and close most of our remaining Zellers stores. The sale of our Zellers leases resulted in substantial cash proceeds of approximately $1,832.4 million. The monetization of our discount businesses has allowed us to accelerate the transformation of Hudson's Bay and Lord & Taylor and to repay indebtedness.

Realigned Department Store Businesses to Achieve Annual Operating Cost Reductions — We integrated our U.S. and Canadian operations to achieve cost synergies across our banners. Our integrated management team has created a set of common platforms and procedures to achieve synergies in several functional areas without compromising the merchandise or brand identity of each banner.

Focused On Optimizing Our Significant Real Estate Portfolio — Our real estate management team introduced a proactive and entrepreneurial approach to managing our real estate portfolio to optimize results at our retail operations and create value through strategic developments and dispositions of our leasehold and freehold interests. We continuously explore and review opportunities to maximize the productivity and value of our retail space. Since 2008, we negotiated favourable lease terms, enforced restrictive covenants, obtained compensation for ancillary retail developments within the shopping centres where our stores are located and negotiated

reimbursements from landlords for leasehold improvements. Our focus on realizing value from our significant real estate portfolio is evidenced by our sale of 189 Zellers leases to Target for approximately $1,832.4 million.

The following table sets forth store count, gross leasable area, total retail sales and sales per square foot by banner.

Banner	Number of Stores[1]	Gross Leasable Area ('000s sq. ft.)[3]	Fiscal 2011 Retail Sales ($ million)[2]	Sales Per Square Foot[2][3]
Hudson's Bay	91[5]	16,240	$2,165	$133
Lord & Taylor	46[4][5]	6,626	$1,376	U.S.$210
Home Outfitters	69	2,515	$ 309	$123
Total	206	25,381	$3,850	$152

Notes:

(1) Store count and gross leasable area as of January 28, 2012.

(2) Lord & Taylor retail sales converted at C$0.9906 / U.S.$1.00.

(3) Sales Per Square Foot is calculated as the retail sales for the stated period divided by the gross leasable area as at the balance sheet date. This metric is used by management to measure the productivity of the Company's retail operations.

(4) Lord & Taylor also leases two Lord & Taylor Home stores and operates three Lord & Taylor Outlet stores that are not included in the store count. However, Gross Leasable Area, Retail Sales and Sales Per Square Foot include Home and Outlet stores.

(5) With the closure of the Halifax Hudson's Bay store and the opening of two new Lord & Taylor stores in Yonkers, New York and Salem, New Hampshire during the first half of Fiscal 2012, as of September, 30, 2012 we operate 90 Hudson's Bay stores and 48 full-line Lord & Taylor stores.

Competitive Strengths

We believe that the following competitive strengths position us well to succeed and grow in the future:

Strong Banner Recognition in Canada and the United States

- Hudson's Bay is a Canadian icon with over three centuries of brand heritage. With a national footprint and a strong retailing presence across all major Canadian metropolitan markets, Hudson's Bay is one of the most recognizable banners in Canada.
- Lord & Taylor, established in 1826, was one of the first U.S. department stores and is part of the foundation of the United States department store industry. Lord & Taylor was the first department store to build a flagship location on New York's Fifth Avenue and is one of the most recognized department store banners in the northeastern United States.
- We believe this banner recognition provides us with a competitive advantage by placing Hudson's Bay and Lord & Taylor at the forefront of consumers' awareness when they are choosing shopping destinations.

Attractive Market Positioning in the North American Retail Marketplace

- Hudson's Bay is Canada's leading branded department store and has no competitors who offer such a broad range of high quality, fashionable branded merchandise at compelling values. The quality and breadth of our brand portfolio enables us to address a broad customer base. Hudson's Bay appeals to and targets a consumer demographic whose shopping needs are not readily met by mass merchants and value retailers like Wal-Mart and Target or luxury fashion retailers like Holt Renfrew.
- In affluent markets in the United States, Lord & Taylor is a value alternative to luxury retailers such as Nordstrom, Bloomingdale's and Saks Fifth Avenue because of its attractive prices for national brands available in a similarly upscale shopping environment. Compared to national competitors like Macy's and J.C. Penney, we believe Lord & Taylor offers a superior shopping experience with a locally tailored

merchandise offering and presentation, a "better" brand assortment at competitive pricing and a higher level of customer service.

Leading Brand Portfolio

- Supported by over 1,100 brands, which we believe is more than any other department store in Canada, we believe Hudson's Bay offers a stronger, more differentiated product offering than our competitors. Since 2009, we have added over 330 new brands and discontinued over 900 underperforming brands. We will continue to edit and update our brand portfolio on an ongoing basis to focus on the most sought after brands.
- As of July 28, 2012, Hudson's Bay has national exclusivity in Canada with respect to 33 highly recognized international brands, including Topshop, "JS" by Jessica Simpson, Material Girl by Madonna, Lacoste Home and London Fog, each of which has a broad array of merchandise.
- Lord & Taylor offers over 900 brands, including leading national "better" brands with merchandise selection specifically tailored on a store by store basis to the local demands of our customers, and our popular private label brands.

Exceptional Store Footprint in Prime Retail Locations

- Our footprint of sizeable and accessible downtown flagship buildings in urban centres in Canada and in northeastern United States allows us to allocate space to key vendor shops, restaurants and other complementary businesses which drive foot traffic and increase our sales productivity.
- Hudson's Bay's 90 stores are situated in prime retail locations in major metropolitan and suburban centres in Canada. Our downtown flagship stores are located in the core of Canada's major cities, while our remaining stores are in well-situated suburban or regional locations. According to Generation5 data, in 2010 approximately 55% of Canadians lived or worked within 10 kilometres of a Hudson's Bay store.
- Lord & Taylor's 48 full-line locations are concentrated in key eastern metropolitan markets, including New York, Boston, Philadelphia, Washington, and two major Midwestern cities, Chicago and Detroit. According to Nielsen Claritas, the 2010 U.S. Census reports that approximately 53.4 million individuals lived within 10 miles of a Lord & Taylor store.

Valuable Portfolio of Owned and Controlled Real Estate

- We have a strategic and valuable real estate portfolio in Canada and the United States under our ownership or long-term control. We believe the relative scarcity of comparable available prime retail properties in Canada and the eastern United States creates significant barriers to entry in these markets.
- We own and/or ground lease over 11 million square feet of retail space which, we believe, enhances our business flexibility and serves as a sustainable competitive advantage. In addition, we operate over 14 million square feet of leased retail space. Hudson's Bay and Lord & Taylor have approximately 11.7 million square feet of leased retail space and have lease control terms (including renewal options) in excess of 45 years with respect to approximately 88% of this leased retail space.
- Within our portfolio of leased properties, the long term, low cost and tenant rights granted under our leases provide us with a substantial level of operational control over a number of prominent malls.
- In addition to our real estate portfolio providing us with a sustainable competitive advantage in the operation of our retail business, it also provides the foundation for attractive, low cost financing options.

Extensive Proprietary Customer Database

- The Company successfully implemented credit card, rewards and direct mail programs and believes that these programs provide the Company with a significant opportunity to employ customer relationship management tools. Through these customer relationship management tools, we collect and analyse customer data on a regular basis to communicate with our customers to better understand how to meet

their needs, including through the Company's developing omni-channel platform, thereby providing an opportunity to increase sales. The constant flow of current information made available through our credit card, rewards and direct mail programs better informs our business decisions regarding merchandise trends and brand selection. We also use our proprietary customer data to support our ongoing marketing and promotional activities.

- An integral component of our credit card, rewards and direct mail programs is our ability to collect informative data concerning our customers' buying preferences, allowing us to use the database to enhance the shopping experience and solicit customized offers on select merchandise.

Proven and Committed Management Team with Significant Ownership Interest

- Our senior leadership team has extensive experience across a broad range of disciplines in the retail sector including sales, marketing, merchandising, operations, logistics, information technology, real estate and finance.
- Our senior leadership team has on average over 26 years of experience in the retail and real estate industries, with a strong emphasis on the North American market. This experience allows the sharing of industry best practices within our organization and extends beyond our senior leadership team into the rest of our organization.
- We rely on the strength of our corporate team, our store management and our associates to continue to execute on our business plan to deliver strong and growing operating results.
- Our executive officers will hold approximately a ● % economic interest in the Company following the Offering.

Effective Marketing and Promotion

- Hudson's Bay has significantly enhanced the effectiveness of our promotional strategy.
- Our marketing activities are targeted to concentrate on those initiatives which we believe will most effectively provide increased sales at each of our banners. At Hudson's Bay, we have a personalized direct mail program targeting select customers with special savings coupons and promotions. This program increases our direct contact with customers and allows us to customize and promote the new Hudson's Bay shopping experience. The Lord & Taylor promotional activities are focused on store wide promotional events, such as Friends and Family and The Signature Sale.

Growth Strategy

By leveraging our successful transformation and our competitive strengths, we believe we are well positioned to continue to increase sales productivity and earnings growth.

Increase Sales Productivity

Since the end of Fiscal 2009, we have increased sales per square foot at Hudson's Bay from $122 per square foot (excluding Vancouver Olympic Sales) to $133 per square foot at the end of Fiscal 2011, an increase of 9.0%. In the same period, we have increased sales per square foot at Lord & Taylor from U.S.$175 per square foot to U.S.$210 per square foot, an increase of 20.0%. We have significantly outperformed our North American department store peer group, who over the same period, grew sales per square foot on average by 5.2% from U.S.$228 to U.S.$240 per square foot. Through continued improvements in sales productivity over the next three to five years, we are targeting sales per square foot of $170 to $180 at Hudson's Bay and U.S.$240 to U.S.$250 at Lord & Taylor.

We are pursuing the following initiatives to achieve these productivity targets:

Invest in High Growth Merchandise Categories

- At Hudson's Bay, we are focused on optimizing sales and increasing our investment in high growth merchandise categories such as women's apparel, men's wear, handbags, jewellery and accessories, women's footwear and cosmetics.
- Similar to Hudson's Bay, at Lord & Taylor, we continue to increase our investment in merchandise categories that have demonstrated above average growth rates, including women's apparel, men's wear, handbags, jewellery and accessories, women's footwear and cosmetics.

- We believe there is an opportunity to increase sales in these categories by: optimizing floor space allocation and productivity; increasing inventory and adding new brands; and improving product presentation through, among other things, fixturing, lighting, flooring and signage.

Expand and Build on our Brand Leadership Position in Canada and the United States

- We believe we have generated strong foot traffic and high sales volumes by offering and pursuing the most current and desirable brands. We will continue to introduce these brands in as many locations as possible where we believe they can be supported by customer demand.
- We continue to identify and focus on partnering opportunities with the most current and exciting brands, concepts and vendors.

Significantly Increase the Sales Volume of our Private Label Offering

- Private brands generally offer us enhanced margins as well as differentiated assortments. In reviewing the marketplace and competition, we identified a significant opportunity for growth in our private brand business. We developed a plan to increase our penetration over the next five years from approximately 9.0% of our current merchandise mix, to 15% of our merchandise mix. We currently offer a portfolio of approximately 25 private brands and labels at Hudson's Bay and Lord & Taylor. Our strategy going forward is to focus entirely on five key cornerstone private brands in order to focus our investment to build "national brand" awareness and importance of such brands with our customers.
- The five private brands will include HBC Signature, which focuses on our iconic stripes, along with "1670", which was developed in partnership with Pencil on Paper Studio in Los Angeles to target a more contemporary customer and is expected to launch in Fall 2013. Another key private brand is Lord & Taylor, currently primarily a cashmere label, which will be built into a full lifestyle brand for women and home. Black Brown 1826 is our Lord & Taylor men's world brand, developed under the direction of Joseph Abboud. Both of the Lord & Taylor brands are sold at Hudson's Bay and Lord & Taylor, and Black Brown 1826 is also wholesaled to Belk, a department store with locations across the southern United States. We believe HBC Signature and "1670" also have significant wholesale opportunities.

Implement Omni-channel Platform

- We are in the process of launching a complete omni-channel platform, which reaches well beyond our e-commerce site into mobile devices and back into our traditional brick and mortar stores, that will provide our customers with shopping flexibility.
- We believe we have a significant competitive advantage, as a result of our strong brand recognition, credit cards and loyalty programs, extensive store network and infrastructure, and our branded and private label merchandise portfolio, to capture market share in both the growing United States e-commerce market and the underpenetrated Canadian e-commerce market.

Further Improve Operating Margins and Net Income

- Significant capital investments have been made to our support infrastructure which provide us with the capacity to grow sales without a proportional increase in our fixed costs and to continue the expansion of our operating margins and earnings growth. From the beginning of Fiscal 2009 to the end of Fiscal 2011, we have increased revenue by 6.4% and Normalized EBITDA by 100.1%. Over this period, our selling, general and administrative expenses ("SG&A") has been reduced as a percentage of sales from 39.5% to 35.0% and Normalized EBITDA margin increased from 4.3% to 8.1%, which allowed us to achieve substantially higher relative growth in earnings.
- Our management team has identified further opportunities to reduce redundant costs and streamline operations in many areas of our business.
- Within our stores, we will continue to introduce best practices in such areas as mark-down and size optimization, inventory allocation, merchandise strategy, store operations and labour productivity which we believe will provide us with the opportunity to increase profitability and assist us in offsetting inflationary pressure and investing in growth initiatives.

See "Business of the Company", "Risk Factors" and "Forward-Looking Statements".

THE OFFERING

Issuer:	Hudson's Bay Company
Offering:	• Common Shares pursuant to the Treasury Offering. • Common Shares pursuant to the Secondary Offering. If the Over-Allotment Option is exercised in full, the Selling Shareholder will sell up to an additional • Common Shares. See "Plan of Distribution".
Amount:	$ • or $ • if the Over-Allotment Option is exercised in full.
Offering Price:	$ • per Common Share.
Common Shares Outstanding:	Immediately after the completion of the Offering, • Common Shares will be issued and outstanding on a non-diluted basis.
Use of Proceeds:	The Company expects to receive $ • in net proceeds from the Offering, after deducting fees payable by the Company to the Underwriters in connection with the Treasury Offering and the estimated expenses of the Offering. The Company will not receive any of the proceeds from the sale of Common Shares by the Selling Shareholder, including pursuant to the Over-Allotment Option, if exercised, and the Selling Shareholder has agreed to pay the Underwriters' Commission in respect of the Common Shares sold in the Secondary Offering and in connection with the Over-Allotment Option. The Company intends to use the net proceeds from the Offering as follows: (i) approximately $ • million to repay indebtedness under the Existing HBC Term Loan; and (ii) approximately $ • million to repay revolving indebtedness under the HBC Revolving Credit Facility. See "Use of Proceeds" and "Description of Material Indebtedness and Refinancing". The Selling Shareholder is expected to receive net proceeds of $ • in connection with the Secondary Offering (and $ • if the Over-Allotment Option is exercised in full), after payment of the Underwriters' Commission payable in connection with such Secondary Offering and Over-Allotment Option.
Over-Allotment Option:	The Selling Shareholder has granted the Underwriters an Over-Allotment Option to cover over-allotments, if any, and for market stabilization purposes. The Over-Allotment Option may be exercised by the Underwriters, in whole or in part, at their sole discretion, for a 30 day period following the Closing and entitles the Underwriters to purchase from the Selling Shareholder up to • Common Shares at the Offering Price (being approximately 15% of the number of Common Shares offered hereunder). If the Over-Allotment Option is exercised in full, the total price to the public will be $ • , the Underwriters' Commission will be $ • and the net proceeds to the Company and the Selling Shareholder will be $ • and $ • , respectively. The Company will not receive any proceeds from the exercise of the Over-Allotment Option. See "Plan of Distribution".
Dividend Policy:	The Company anticipates paying quarterly cash dividends on its Common Shares with a target payout ratio of 20% to 25% of expected net earnings —

	continuing operations per share, equal to ● cents to ● cents per Common Share, representing an annualized dividend of ● cents to ● cents per Common Share. The amount and timing of the payment of any dividends is not guaranteed and is subject to the discretion of the Company's board of directors. See "Dividend Policy".
Principal Shareholders:	Immediately after the completion of the Offering, the Selling Shareholder will own ● Common Shares, representing ● % of the issued and outstanding shares assuming that the Over-Allotment Option has not been exercised and Common Shares, representing ● % if the Over-Allotment Option has been exercised in full (in each case on a fully diluted basis). On or before January 31, 2013, the Selling Shareholder intends to distribute ● Common Shares held by it to Hudson's Bay Trading Company, L.P. ("HBTC") which will then distribute such shares to its partners on a pro rata basis. Following this distribution (i) L&T B (Cayman) Inc. will own ● Common Shares, representing ● % of the issued and outstanding shares assuming that the Over-Allotment Option has not been exercised and ● % if the Over-Allotment Option has been exercised in full (in each case on a fully diluted basis), (ii) Hanover will own ● Common Shares, representing ● % of the issued and outstanding shares assuming that the Over-Allotment Option has not been exercised and ● % if the Over-Allotment Option has been exercised in full (in each case on a fully diluted basis), and (iii) the Selling Shareholder will own ● Common Shares, representing ● % of the issued and outstanding shares assuming that the Over-Allotment Option has not been exercised and ● % if the Over-Allotment Option has been exercised in full (in each case on a fully diluted basis).
Risk Factors:	An investment in the Common Shares is speculative and involves a high degree of risk. Prospective purchasers should carefully consider the information set out under "Risk Factors" beginning on page 122 and the other information in this prospectus before purchasing Common Shares. Risks related to our business and the Offering include: (i) significant competition in the retail industry, (ii) changing consumer preferences and consumer spending, (iii) the prospect of unfavourable economic and political conditions, (iv) the seasonal nature of our business, (v) unseasonable weather conditions or natural disasters, (vi) our ability to continue to improve same store sales, (vii) our ability to retain our senior management team who possess specialized market knowledge, (viii) our dependence on our ability to attract and retain quality employees, (ix) maintaining good relations with non-unionized and unionized employees, (x) our dependence on successful inventory management, (xi) increased commodity prices, including for cotton, may affect our profitability, (xii) with a majority of our vendors we do not have a long-term contract and therefore we cannot be assured of continued access to our brands that we offer, (xiii) our dependence on our advertising and marketing programs, (xiv) a material disruption in our computer systems, (xv) our ability to executive our growth strategy, (xvi) our ability to reduce operating expenses, (xvii) our ability to comply with the covenants in our credit facilities, (xviii) our ability to incur more debt, (xix) breaches of privacy, (xx) risk arising from regulation and litigation, (xxi) product liability claims and product recalls, (xxii) fluctuations in the value of the Canadian dollar in relation to the U.S. dollar, (xxiii) doing

business abroad, (xxiv) a disruption to our centralized distribution centres, (xxv) risks associated with the lease and ownership of real estate, (xxvi) our obligations under the Target Agreement, (xxvii) our ability to maintain the brand value of our various retail banners, (xxviii) our ability to profitably manage the portfolio of national and private label brands that we offer and that are preferred by consumers, (xxix) the value of the brands we offer could diminish due to factors beyond our control, (xxx) current store locations may become less desirable, (xxxi) inability to protect our trademarks and other proprietary rights, (xxxii) our size and scale may expose us to risks, (xxxiii) insurance-related risks, (xxxiv) pension plan-related risks, (xxxv) our constating documents could discourage takeover attempts, (xxxvi) there is no prior public market for our securities, (xxxvii) there may be a volatile market price for our Common Shares, (xxxviii) our ability to pay dividends is dependent on our ability to generate sufficient income, (xxxix) we will incur expenses as a result of being a public company, (xl) influence by the Selling Shareholder, L&T B Group and Hanover, (xli) the Selling Shareholder, L&T B Group and Hanover will hold a material percentage of the Common Shares following the Closing of the Offering which may have an impact on the trading price of the Common Shares, and (xlii) the Selling Shareholder, L&T B Group and Hanover 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. These factors are not intended to represent a complete list of the factors that could affect us; however, these factors should be considered carefully.

Unless otherwise indicated, the number of Common Shares outstanding after the Offering is based on ● Common Shares. It does not include ● Common Shares reserved for issuance under the Company's security based compensation plans. See "Description of Securities" and "Consolidated Capitalization".

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following tables set out summary consolidated financial information for the periods indicated. The summary financial information set out below for each of Fiscal 2011, Fiscal 2010 and Fiscal 2009 has been derived from audited consolidated financial statements and the summary financial information set out below for the twenty-six weeks ended July 28, 2012 and July 30, 2011 has been derived from interim unaudited condensed consolidated financial statements, in each case prepared in accordance with IFRS and included elsewhere in this prospectus. Our audited consolidated financial statements have been audited by our auditors, Deloitte & Touche LLP, and their audit report on these audited consolidated financial statements is included elsewhere in this prospectus. The unaudited financial information presented has been prepared on a basis consistent with our audited consolidated financial statements for Fiscal 2011. In the opinion of our management, such audited and 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. You should read the following information in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Use of Proceeds", "Consolidated Capitalization", and "Description of Material Indebtedness and Refinancing" as well as our consolidated financial statements and accompanying notes included elsewhere in this prospectus.

(millions of Canadian dollars except per square foot and per share amounts)	Fiscal Year						Twenty-Six Weeks Ended			
	2011		2010		2009		July 28, 2012		July 30, 2011	
	$	%	$	%	$	%	$	%	$	%
Earnings Results										
Retail sales	3,849.6	100.0%	3,718.2	100.0%	3,619.7	100.0%	1,760.1	100.0%	1,653.3	100.0%
Cost of sales	(2,306.0)	−59.9%	(2,209.1)	−59.4%	(2,178.3)	−60.2%	(1,054.4)	−59.9%	(984.2)	−59.5%
Gross profit	1,543.6	40.1%	1,509.1	40.6%	1,441.4	39.8%	705.7	40.1%	669.1	40.5%
Selling, general & administrative expenses	(1,347.2)	−35.0%	(1,360.8)	−36.6%	(1,430.3)	−39.5%	(730.0)	−41.5%	(641.0)	−38.8%
Operating income (loss)	196.4	5.1%	148.3	4.0%	11.1	0.3%	(24.3)	−1.4%	28.1	1.7%
Finance costs	(142.9)	−3.7%	(241.3)	−6.5%	(203.1)	−5.6%	(51.4)	−2.9%	(76.5)	−4.6%
Earnings before income taxes ("EBT")	53.5	1.4%	(93.0)	−2.5%	(192.0)	−5.3%	(75.7)	−4.3%	(48.4)	−2.9%
Income tax benefit	3.8	0.1%	181.1	4.9%	32.3	0.9%	22.1	1.3%	14.0	0.8%
Net earnings (loss) — continuing operations[1]	57.3	1.5%	88.1	2.4%	(159.7)	−4.4%	(53.6)	−3.0%	(34.4)	−2.1%
Net earnings (loss) — discontinued operations, net of taxes	1,391.7		(0.1)		141.7		(94.2)		47.7	
Net earnings (loss) for period	1,449.0		88.0		(18.0)		(147.8)		13.3	
EBITDA[1]	309.3	8.0%	245.2	6.6%	129.7	3.6%	34.8	2.0%	78.2	4.7%
Normalized EBITDA[1]	312.9	8.1%	265.0	7.1%	156.4	4.3%	85.0	4.8%	80.9	4.9%
Same Store Sales Percentage Change[2]										
Continuing Operations	3.7%		3.2%		0.1%		5.8%		0.6%	
Continuing Operations (excluding Vancouver Olympic Sales and impact of Foreign Exchange)	6.5%		6.4%		−2.7%		4.4%		6.2%	
Hudson's Bay (excluding Vancouver Olympic Sales)	6.8%		2.2%		−5.2%		5.3%		4.8%	
Lord & Taylor[3]	7.1%		12.4%		1.1%		4.3%		8.1%	
Store Information										
Sales per Square Foot[4]										
Continuing Operations	$ 152		$ 146		$ 142					
Hudson's Bay	$ 133		$ 124		$ 122					
Lord & Taylor	$ 210		$ 197		$ 175					
Store Count[5]										
Hudson's Bay	91		92		92		91		91	
Lord & Taylor	46		46		46		48		46	
Home Outfitters	69		69		69		69		69	
Total Square Footage ('000)	25,381		25,452		25,414		25,583		25,301	

(millions of Canadian dollars except per square foot and per share amounts)	Fiscal Year						Twenty-Six Weeks Ended			
	2011		2010		2009		July 28, 2012		July 30, 2011	
	$	%	$	%	$	%	$	%	$	%
Balance Sheet and Cash Flow Data										
Cash	42.4		57.2				46.8		63.8	
Trade and other receivables	124.0		131.9				64.9		104.1	
Inventories	1,814.2		1,679.8				964.2		1,834.2	
Current assets	2,007.2		1,892.8				1,932.9		2,057.3	
Property, plant and equipment	1,401.1		1,353.1				1,289.7		1,319.8	
Total assets	3,993.5		3,881.8				3,747.6		4,160.4	
Current liabilities	1,916.8		1,997.0				1,958.9		1,847.7	
Loans and borrowings (excluding current portion)	901.7		1,430.4				906.6		1,378.3	
Shareholders' Equity	955.9		227.1				720.6		(192.0)	
Total Capital expenditures[6] — continuing operations	166.1		111.8		93.1		73.3		55.2	
Net Earnings (Loss) per Common Share — Basic and Diluted										
Continuing Operations	57.30		86.70		(172.30)		(53.60)		(34.40)	
Discontinued Operations	1,391.70		(0.10)		150.22		(94.20)		47.70	
	1,449.00		86.60		(22.08)		(147.80)		13.30	
Weighted average shares outstanding — basic and diluted (millions)	1.0		1.0		0.9		1.0		1.0	

Notes:

(1) For a reconciliation of Net Earnings (Loss) — Continuing Operations to EBITDA and Normalized EBITDA, please see the table below.

(2) The Company calculates same store sales on a year-over-year basis from stores operating for at least 13 months, Internet sales and clearance store sales. See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

(3) Same store sales of Lord & Taylor are calculated in U.S.$. Lord & Taylor same store sales percentage change, including the impact of foreign exchange, were 3.4% in 2011, 2.3% in 2010 and 5.3% in 2009.

(4) Sales Per Square Foot is calculated as the total revenue for the stated period divided by the gross leasable area as at the balance sheet date. This metric is used by management to measure the productivity of the Company's retail operations. For Lord & Taylor, Sales Per Square Foot is calculated in U.S. Dollars. Hudson's Bay sales per square foot is calculated excluding Vancouver Olympic Sales.

(5) Lord & Taylor also leases two Lord & Taylor Home stores and operates three Lord & Taylor Outlet stores that are not included in the store count.

(6) Capital expenditures are inclusive of software development costs. Capital expenditures presented exclude those associated with discontinued operations of $4.1 million, $25.6 million and $21.2 million in Fiscal 2011, 2010 and 2009, respectively.

The following table shows the reconciliation of Net Earnings (loss) — Continuing Operations to EBITDA as well as Normalized EBITDA.

(millions of Canadian dollars)	Fiscal Year			Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	2011	2010	2009	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
	$	$	$	$	$	$	$
Net Earnings (loss) — Continuing Operations	57.3	88.1	(159.7)	(1.7)	3.8	(53.6)	(34.4)
Finance costs	142.9	241.3	203.1	25.7	37.6	51.4	76.5
Income tax benefit	(3.8)	(181.1)	(32.3)	(2.3)	(3.3)	(22.1)	(14.0)
Pension expense (non-cash)	12.1	8.6	23.2	4.6	2.8	9.1	5.6
Depreciation and amortization	90.6	84.4	90.1	23.8	20.2	46.9	42.2
Impairment and other non-cash expenses	10.2	3.9	5.3	0.1	1.8	3.1	2.3
EBITDA	**309.3**	**245.2**	**129.7**	**50.2**	**62.9**	**34.8**	**78.2**
Normalizing adjustments:							
Restructuring and corporate reorganization	22.3	22.9	40.9	8.7	6.5	50.2	8.3
Foreign exchange (gains) losses on capital transactions	(13.1)	(3.1)	—	—	—	—	—
Vancouver Olympics one-time credits	—	—	(14.2)	—	—	—	—
Sale of the Halifax Hudson's Bay Store	(5.6)	—	—	—	(9.5)	—	(5.6)
Total normalizing adjustments	3.6	19.8	26.7	8.7	(3.0)	50.2	2.7
Normalized EBITDA	**312.9**	**265.0**	**156.4**	**58.9**	**59.9**	**85.0**	**80.9**

EBITDA is a non-IFRS measure that we use to assess our operating performance. EBITDA is defined as net earnings before interest expense, income taxes, depreciation and amortization expense. The Company's defined benefit pension plan is currently over-funded, and as a result pension expense is adjusted as management does not expect to make any payments given the surplus position. For a reconciliation of net earnings to EBITDA, see the table above.

Normalized EBITDA is defined as EBITDA adjusted to exclude: (i) business and organization restructuring/realignment charges; (ii) merger/acquisition cost and expenses; and (iii) normalizing adjustments, if any, related to transactions that are not associated with day-to-day operations. We have included Normalized EBITDA to provide investors with a supplemental measure of our operating performance. We believe Normalized EBITDA is an important supplemental measure of operating performance because it eliminates items that have less bearing on our operating performance and thus highlights trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We also believe that securities analysts, investors and other interested parties frequently use EBITDA and Normalized EBITDA 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 capital stock. Because other companies may calculate EBITDA, or Normalized EBITDA, differently than we do, these metrics are not comparable to similarly titled measures reported by other companies.

During 2012, the Company announced its intention to discontinue store operations at Fields and most of the store operations at Zellers. The Company has completed the wind-down of its 169 Fields stores and will have closed most of its 275 Zellers stores by March 2013. See "The Zellers and Fields Transactions". The direct results of these two operations have been reflected in the Company's financial statements as "discontinued operations". However, certain shared services and corporate overhead costs previously allocated to Zellers and Fields have been included in continuing operations selling, general and administrative expenses ("SG&A") and therefore the Company's SG&A is reflective of the larger organization.

Management is focused on decreasing our SG&A following the wind-down of Fields and most of the store operations at Zellers. We believe meaningful reductions in annual operating costs can be achieved by the end of Fiscal 2013 as we wind-down most of the Zellers business. In particular, we believe it is possible to identify and implement initiatives to reduce the annual operating costs of our continuing operations by approximately $60.0 million by further reducing information technology expenses, occupancy costs, distribution costs and other corporate overhead. We expect the impact of these initiatives to be fully realized by the end of the first quarter of Fiscal 2014. We expect to incur restructuring costs of approximately $20.0 to $25.0 million to achieve these annual operating cost reductions.

CORPORATE STRUCTURE

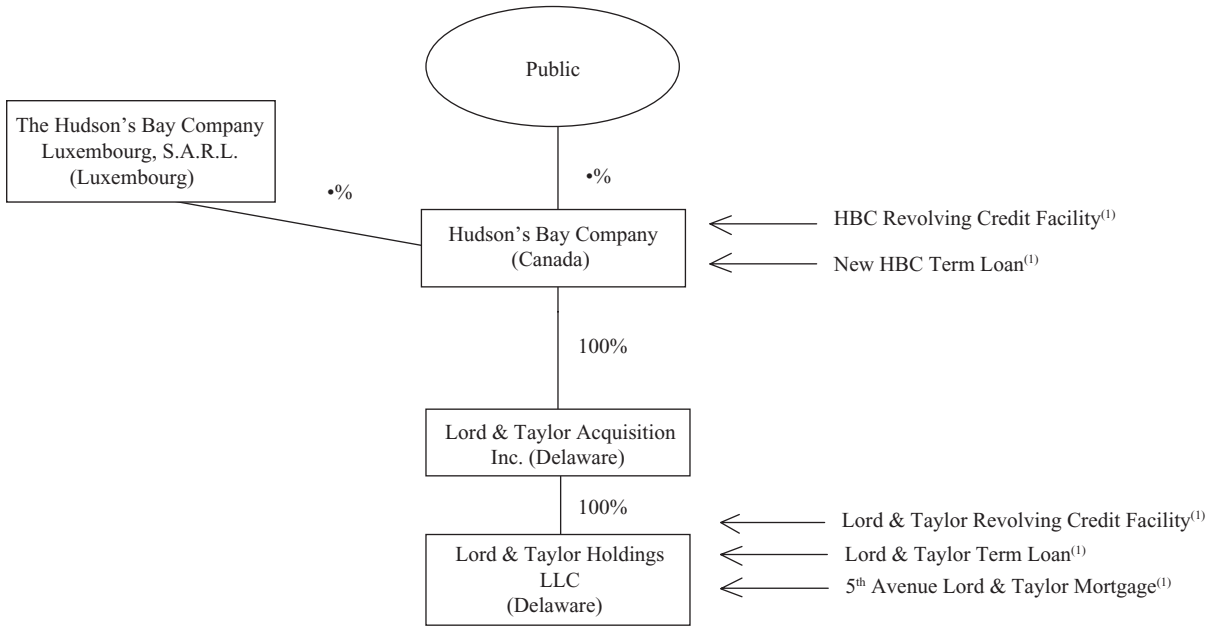
Incorporation and Office

Hudson's Bay Company was incorporated in England by Royal Charter on May 2, 1670. By Supplemental Charter dated May 29, 1970, its domicile was transferred to Canada. By certificate of continuance issued on December 13, 1978, the Company was continued under the Canada Business Corporations Act. In January 2012, Lord & Taylor became a wholly-owned subsidiary of Hudson's Bay Company.

Our head office and registered office is located at 401 Bay Street, Suite 500, Toronto, Ontario, M5H 2Y4.

Intercorporate Relationships

The following organization chart indicates the intercorporate relationships of our Company and our material subsidiary entities together with the jurisdiction of incorporation or constitution of each such entity, after giving effect to the completion of the Offering:



Notes:

(1) For a description of the HBC Revolving Credit Facility, the New HBC Term Loan, the Lord & Taylor Revolving Credit Facility, the Lord & Taylor Term Loan and the 5th Avenue Lord & Taylor Mortgage see "Description of Material Indebtedness and Refinancing".

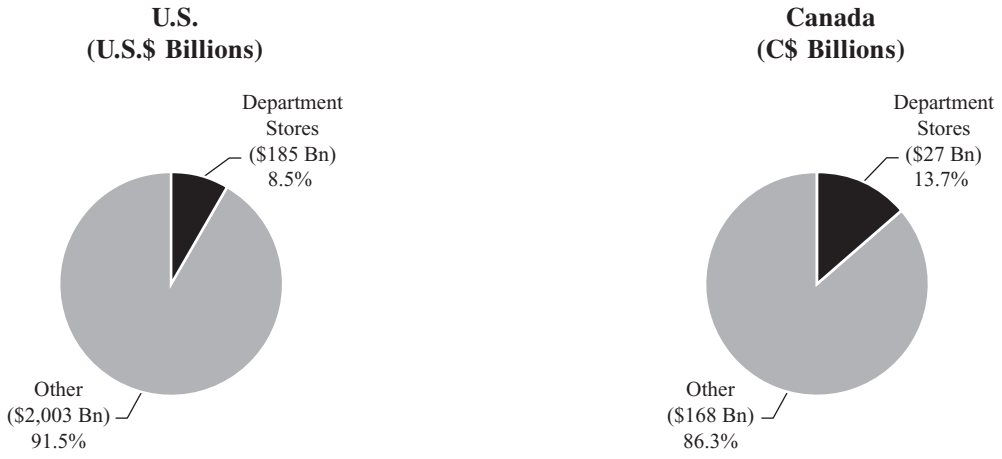
(2) On or before January 31, 2013, the Selling Shareholder intends to distribute • Common Shares held by it to its sole shareholder which will then distribute such shares to its partners on a pro rata basis. See "Principal Shareholders and Selling Shareholder".

INDUSTRY OVERVIEW

We participate in the North American retail industry through our department store banners in Canada and the United States. The North American retail industry is a large and growing segment of the North American economy, with annual sales exceeding $2 trillion, excluding the automotive, fuel and food and beverage segments ("Retail Sales"). Retail Sales in North America have demonstrated positive growth in nine of the last ten years, and grew at a 4.0% CAGR from 2001-2011. Retail Sales are generally driven by a combination of macroeconomic factors, including disposable income, unemployment rates, consumer confidence and savings rates.

The aggregate department store segment in North America generated sales of approximately U.S.$212 billion in 2011, representing 8.9% of overall North American Retail Sales in that period. Department store sales represented 8.5% of all Retail Sales in the United States and 13.7% of all Retail Sales in Canada during that same period.

2011 Department Store Percentage Share of Total Retail Sales



Source: U.S. Census Bureau and Statistics Canada.

The U.S. department store segment is well-developed with a number of department store banners that compete with one another, as well as with other retailers, including specialty stores, general merchandise stores, off-price and discount stores, catalog retailers and online retailers.

There are significantly fewer retail banners in the Canadian department store segment compared to the U.S. department store segment, however, department store sales comprised a larger percentage of total Retail Sales in Canada than was the case in the United States in 2011. Canadian department stores compete with other retail formats in Canada, as well as with retailers that conduct business in Canada via e-commerce.

The primary product categories offered by department stores typically include apparel and accessories, cosmetics and fragrances, footwear and home goods. Department stores differentiate themselves versus other retail formats by offering consumers a broad assortment of product categories, a mix of national brands and private label products, a convenient and pleasant shopping experience and a high level of customer service.

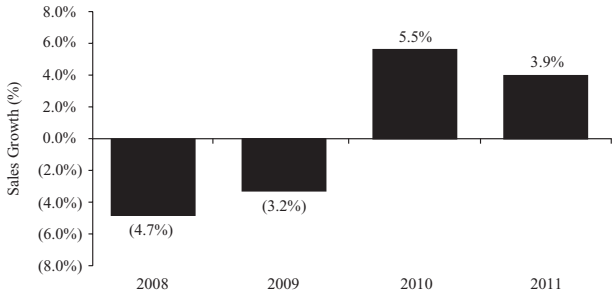
Department stores can be segmented into the following categories based on price, offering assortment and shopping environment:

- **Moderate:** Value-focused consumers are targeted by offering "good" merchandise, consisting of lower-priced merchandise, a larger proportion of private label brands and a high level of promotions;
- **Better:** Appeal to a broad consumer demographic by offering "better" merchandise consisting of a mix of lower-priced items and higher-end brands and utilizing targeted promotions; and

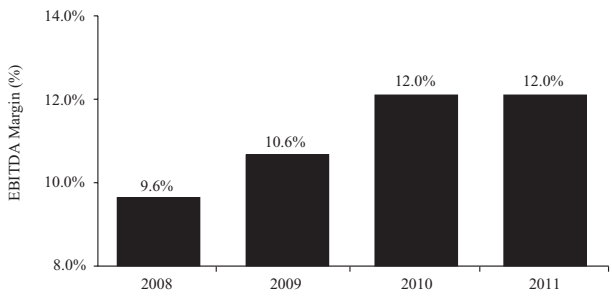
- **Luxury:** A more affluent consumer demographic is targeted by offering "best" merchandise, consisting of higher-end, more fashionable brands and offerings, with less frequent promotions.

The North American department store segment has benefited from a revitalization in recent years, resulting in improved sales and margin trends for us and many of our competitors. As illustrated below, the five largest apparel-focused department stores in the United States (based on total sales) increased sales by an average of 3.9% in 2011 (5.6% excluding J.C. Penney). The same group achieved an average EBITDA margin of 12.0% (13.6% excluding J.C. Penney) in 2011, an increase of approximately 237 basis points since 2008.

Sales Growth for Top 5 Department Stores[(1)]



EBITDA Margin for Top 5 Department Stores[(2)]



Source: Public filings, Capital IQ, Factset and Wall Street research as of September 24, 2012.

Notes:

(1) Represents average annual year-to-year sales change for Macy's, Dillard's, J.C. Penney, Kohl's and Nordstrom, which are the largest apparel focused department stores by total sales based on public filings.

(2) Represents average EBITDA margin for Macy's, Dillard's, J.C. Penney, Kohl's and Nordstrom. EBITDA is calculated as follows: (A) total sales plus (i) depreciation and amortization, and (ii) material non-recurring expenses (excluding "Other Income Expenses"), less (B) (iii) cost of goods sold, and (iv) SG&A.

The department store revitalization has been driven by favorable industry trends and focused initiatives, including:

Increased Differentiation: Department stores have effectively differentiated themselves versus other retail formats by enhancing the shopping experience through distinctly branded store sections and shop-in-shops, renewing focus on customer service and offering a more extensive collection of private and exclusive brands. For example, Macy's current private label penetration is 20%, up from 17% in 2004. Higher penetration of exclusive and private brands has allowed some department stores to increase merchandise margins while also attracting new customers and expanding share of wallet with current customers.

Industry Consolidation: The department store industry has experienced significant consolidation over the past several years. In the United States, the top five department store chains in terms of total sales generated approximately 62% of industry revenue as compared to 37% in 2004. The larger players are able to achieve greater economies of scale in purchasing, distribution and marketing.

Merchandise Customization: Department stores are making better use of data to tailor their merchandise assortments, size ranges, marketing programs and shopping experiences to the local tastes of their core customers. Likewise, department stores possess an enhanced ability to modify price points across markets relative to specialty retail. This allows department stores to increase traffic and transactions, as customers find more of what they want, in-stock and in their size.

Value-conscious Consumer: As compared to specialty retailers, department stores are uniquely positioned to benefit from today's increasingly value-oriented shopper through their enhanced ability to be promotional, including rebates and cross-promotional tactics, as well as shifting brands and offerings in favour of value-focused consumers, all in an effort to mitigate margin swings and sustain profitability.

Omni-channel Initiatives: Department stores have adopted omni-channel retail strategies, allowing customers to shop seamlessly in stores, online and via mobile devices. Department stores are continuously accelerating investments in omni-channel platforms by acquiring specialized products and services in marketing, systems infrastructure and customer service to enhance the shopping experience and deepen relationships with customers.

BUSINESS OF THE COMPANY

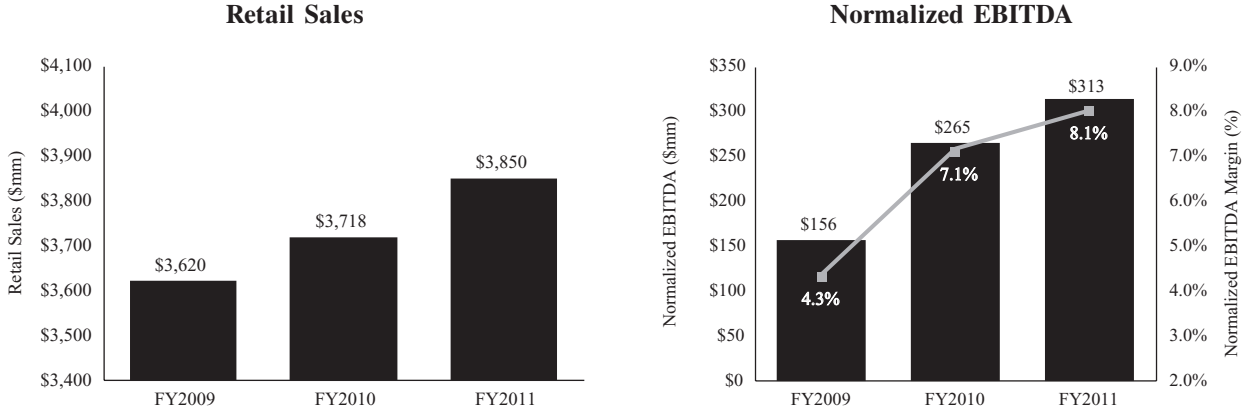
Our Company

We are a leading North American retailer offering a wide selection of branded merchandise in Canada and the United States through our three banners. In Canada, we operate Hudson's Bay, Canada's largest national branded department store. In the United States we operate Lord & Taylor, a fashion department store with locations throughout the northeastern United States and in two major cities in the Midwest. We also operate Home Outfitters, a kitchen, bed and bath superstore with locations across Canada.

Since the acquisition by our Principal Shareholder, we are in the process of executing a transformation of our business that has resulted in significantly enhanced sales productivity and significant earnings growth. Sales productivity has been enhanced through improved brand and merchandise strategies and the revitalization of our stores. We believe Hudson's Bay and Lord & Taylor offer our customers differentiated merchandise offerings, a superior shopping experience and compelling value proposition. We have achieved significant earnings growth through a combination of enhanced sales productivity, ongoing margin enhancement and expense reduction. Our retail banners are well-positioned in their respective markets and we believe that we can continue to achieve sales and earnings growth.

From Fiscal 2009 to Fiscal 2011, our retail sales, excluding Vancouver Olympic Sales, grew at a CAGR of 4.0% in Canada and 3.4% in the United States. Normalized EBITDA grew 100.1% and our Normalized EBITDA margin increased by approximately 380 basis points over the same period. See "Selected Consolidated Financial Information" for a reconciliation of Normalized EBITDA to Net Earnings — Continuing Operations.

Retail Sales Growth and Normalized EBITDA Growth



For the nine weeks ended September 28, 2012, same store sales were higher at Hudson's Bay by 2.5% and at Lord & Taylor by 3.8% (3.2% in U.S. dollars) compared to the same period in 2011. Sales increases at Hudson's Bay were driven by the introduction and continued roll-out of new brands such as Topshop (representing an increase of approximately $2.7 million) combined with category growth in men's sportswear, cosmetics, handbags and intimate apparel. Growth in these categories was driven by differentiated brand assortments and

promotions. Key events during this period were targeted promotions such as the President's Letter, Beauty Book and Fall Fashion direct mailing.

Sales increases at Lord & Taylor were primarily driven by increased volume at new stores (representing an increase of approximately $4.1 million) and by a mix of seasonal clearance and transitional fashion which drove improvements in contemporary women's sportswear and men's sportswear categories. Special promotional events during the period also impacted sales, including Lord & Taylor's exposure on the cable show "Project Runway" which contributed to increases in both dresses and handbags.

We have a valuable real estate portfolio which is strategically located in core retail locations across Canada and the eastern and mid-western United States. The Company owns or ground leases more than 11 million square feet of prime retail space, including flagship stores in Toronto, Vancouver, Calgary, Montreal, New York, Westchester and Long Island. The Company also has a portfolio of mostly long term, low cost leases with more than 14 million square feet of retail space. Hudson's Bay and Lord & Taylor have approximately 11.7 million square feet of leased retail space and have lease control terms (including renewal options) in excess of 45 years with respect to approximately 88% of this leased retail space. We believe our real estate portfolio significantly enhances our business flexibility and financing options. Given the relative scarcity of comparable prime retail properties in Canada and the eastern United States, we believe our real estate portfolio provides us with a sustainable competitive advantage and acts as a significant barrier to entry in these markets.

We believe the market value of our owned and ground leased real estate significantly exceeds current values reflected in our financial statements. In addition, we believe our real estate leases have rents that are significantly below current market rents for similar properties. Our focus on realizing value from our real estate portfolio is evidenced by our sale of 189 Zellers leases to Target for approximately $1,832.4 million. We continually assess the potential of our real estate portfolio to realize value, whether through optimizing use (shop-in-shops, space rationalization), financing options or other avenues.

Hudson's Bay Company Store Data for Fiscal 2011

Banner	Number of Stores[1]	Gross Leasable Area ('000s sq. ft.)	Fiscal 2011 Retail Sales ($ million)[2]	Sales Per Square Foot[2][3]
Hudson's Bay	91[5]	16,240	$2,165	$133
Lord & Taylor	46[4][5]	6,626	$1,376	U.S.$210
Home Outfitters	69	2,515	$ 309	$123
Total	206	25,381	$3,850	$152

Notes:

(1) Store count and Gross Leasable Area as of January 28, 2012.

(2) Lord & Taylor retail sales converted at C$0.9906 / U.S.$1.00.

(3) Sales Per Square Foot is calculated as the retail sales for the stated period divided by the gross leasable area as at the balance sheet date. This metric is used by management to measure the productivity of the Company's retail operations.

(4) Lord & Taylor also leases two Lord & Taylor Home stores and operates three Lord & Taylor Outlet stores that are not included in the store count. However, Gross Leasable Area, Retail Sales and Sales Per Square Foot include Home and Outlet stores.

(5) With the closure of the Halifax Hudson's Bay store and the opening of two new Lord & Taylor stores in Yonkers, New York and Salem, New Hampshire during the first half of Fiscal 2012, as of September, 30, 2012 we operate 90 Hudson's Bay stores and 48 full-line Lord & Taylor stores.

Our History

Founded in 1670, Hudson's Bay Company is the longest continuously operated company in North America and is one of the oldest commercial enterprises in the world. Originally incorporated by Royal Charter granted by King Charles II, the Company is strongly identified with Canadian history and played an instrumental role in the formative years of Canada.

Primarily a fur trading business in its early years, by the end of the 19th century the Company began to move into retail by transforming its trading posts into retail stores, with its first store opening in Winnipeg in 1881. In 1913, Hudson's Bay Company opened its first two purpose built department stores in Calgary and Edmonton. These stores, together with new stores constructed in Victoria, Vancouver, Saskatoon and Winnipeg, constituted the "original six" Hudson's Bay Company department stores. Over the ensuing decades, the Company continued to expand its department store network across Canada with new store construction, particularly in suburban areas, and a series of acquisitions, including its acquisition of Henry Morgan & Co. Ltd. in 1960 which provided it with flagship locations in Toronto, Ottawa and Montreal. The Company subsequently played a significant role in the consolidation of department store operators in Canada by acquiring Simpsons, Zellers and Fields in the 1970's and Towers/Bonimart, Woodward's and K-Mart Canada, all in the 1990's.

Founded in 1826 by Samuel Lord and George Washington Taylor, Lord & Taylor is one of the oldest department store chains in the United States and in 1914 was also one of the first department store to open a location on New York's renowned Fifth Avenue. Lord & Taylor was the earliest to recognize the growth of suburban markets when in 1941 it opened the first branch department store in Manhasset, New York. Following the success of its Manhasset location, Lord & Taylor opened stores in retail malls, shopping centres and free standing locations predominantly in prosperous suburban areas across the eastern seaboard of the United States.

Affiliates of our Principal Shareholder acquired an indirect 20% interest in Hudson's Bay Company in July 2006 and acquired Lord & Taylor from Federated Department Stores (now Macy's, Inc.) in October 2006. In July 2008, our Principal Shareholder acquired the remaining 80% of Hudson's Bay Company (the "Acquisition"). Following the Acquisition, our Principal Shareholder began the integration of Hudson's Bay Company and Lord & Taylor and viewed it as an opportunity to share best practices and leverage operational scale across each banner in merchandising, marketing, promotion, information technology, real estate, non-merchandise purchasing, finance, human resources and other support functions. In January 2012, through an internal reorganization, Lord & Taylor became a wholly-owned subsidiary of Hudson's Bay Company.

In addition to Hudson's Bay and Lord & Taylor, the Company also operates Home Outfitters. Established in 1999, it is a kitchen, bed and bath superstore with 69 locations across Canada.

In 2011 and 2012, we entered into strategic transactions to divest our discount store banners, Zellers, a national mass merchandiser, and Fields, a regional value oriented small format banner. During 2012, the Company announced its intention to discontinue store operations at Fields and most of the store operations at Zellers. The Company has completed the wind-down of its 169 Fields stores and will have closed most of its 275 Zellers stores by March 2013. See "The Zellers and Fields Transactions".

Transformation of Our Businesses — July 2008 to July 2012

When our Principal Shareholder acquired the Hudson's Bay Company, Hudson's Bay stores were "tired" and in need of renovation, and Hudson's Bay had lost its fashion credibility and its appeal to customers who desired more contemporary fashions. Following the Acquisition, we implemented a number of initiatives to enhance the image of Hudson's Bay, increase its fashion credibility and enable us to attract many leading international brands. Our investments in Hudson's Bay since July 2008 have enabled us to add new, sought after brands and Hudson's Bay is becoming a fashion authority in Canada. The following initiatives were undertaken to transform our businesses:

Assembled a Market Leading Management Team with Extensive Retail Experience

Strengthening our management team was a top priority. We assembled a team of executives with significant department store, real estate, operational and financial experience to lead a transformation of our businesses. Richard Baker assumed the role of Governor and Chief Executive Officer, we appointed industry veterans Bonnie Brooks as President responsible for strategic planning and positioning, merchandising, marketing and stores operations and design, Donald Watros as Chief Operating Officer responsible for operations, information technology, logistics, finance, merchandise planning, human resources, administration and the Home Outfitters banner, Brian Pall as President of Real Estate and Michael Culhane as Chief Financial Officer. Mr. Baker, Ms. Brooks, Mr. Watros, Mr. Pall and Mr. Culhane have assembled an executive team committed to retail

excellence, continuous improvement, strong financial results and capitalizing on significant growth opportunities. See "Management — Biographies".

Enhanced Our Brand Offering and Merchandise Mix

Since 2008, we have focused on increasing sales of desirable, sought after brands while removing underperforming brands. Hudson's Bay has added over 330 new brands since 2009, many of which are new to Canada and/or are exclusive to Hudson's Bay. As our management team has improved Hudson's Bay's image and product offering we have been able to attract brands that previously would not have partnered with Hudson's Bay, such as Topshop, Polo, UGG, Coach and Burberry. At Lord & Taylor we have actively managed our brand portfolio, including the introduction of more affordable brands such as BCBG Generation and Jessica Simpson in our women's apparel department and the reintroduction of Nautica and Perry Ellis in our men's apparel department. Additionally, we have focused on growing our modern brand portfolio with brands such as Elie Tahari and Vince Camuto. New brands added after Fiscal 2008 comprised approximately 20% and 25% of Hudson's Bay and Lord & Taylor's sales, respectively, for the twelve months ended July 28, 2012.

We began, and continue, to focus on optimizing and right sizing the use of our selling space by reallocating space to more productive merchandise categories and de-emphasizing less productive categories, adding vendor shops and improving product presentation. We have been, and continue to be, focused on optimizing sales and increasing our investment in high growth merchandise categories such as women's apparel, men's wear, handbags, jewellery and accessories, women's footwear and cosmetics. Sales in these key high growth categories, which account for the majority of our overall sales, have increased by 12.2% during the three year period ended Fiscal 2011.

Invested Significant Capital to Improve the Shopping Environment and Experience for Our Customers

We have invested significant capital to upgrade our stores to improve the shopping environment and merchandise presentation. These investments have been focused on updating and modernizing both the interior and exterior of our stores through enhancements such as: adding vendor shops, exposing the selling floor to the street with new windows, repainting and updating store layouts, fixtures and lighting. In addition, we have invested significant capital specifically in the rejuvenation of certain of our key flagship stores. We have also invested capital upgrading our information technology platform, software development, and e-commerce/omni-channel initiatives to better serve and increase interaction with our customers. For the three year period ending Fiscal 2011, we invested approximately $212.0 million, representing 57.0% of our gross total capital expenditures, to update and refresh our department stores.

$ in millions	**2011**	**2010**	**2009**
Merchandising	108.4	64.7	38.7
Information technology	21.9	26.0	17.4
Omni-channel	10.4	2.3	—
Maintenance	25.3	18.8	37.0
Total capital expenditures[(1)]	166.1	111.8	93.1
Capital expenditures — discontinued operations	4.1	25.6	21.2
	170.2	137.4	114.3

Note:

(1) Capital expenditures are inclusive of software development costs, which have been reflected as information technology related expenditures above.

Rejuvenated Marketing Strategy

We developed a new marketing and branding strategy at Hudson's Bay and Lord & Taylor that incorporates the characteristics of our heritage, such as integrity and authenticity, updated to appeal to the modern shopper. We also rejuvenated our advertising campaigns to portray a more contemporary environment that is reflective of

our fresh brand offerings and renovated stores. Hudson's Bay is becoming a fashion authority in the Canadian retail industry by offering our customers sought after brands and styles.

Monetized and Rationalized Discount Segment

Recognizing the significant value of our Zellers leases and the changing Canadian retail landscape, we initiated a process to monetize our Zellers leases and close most of our Zellers stores. The sale of our Zellers leases resulted in substantial cash proceeds of approximately $1,832.4 million. The monetization of our discount businesses has allowed us to accelerate the transformation of Hudson's Bay and Lord & Taylor and to repay indebtedness. See "The Zellers and Fields Transactions".

Realigned Department Store Businesses to Achieve Annual Operating Cost Reductions

We integrated our U.S. and Canadian operations to achieve cost synergies across our banners. Our integrated management team has created a set of common platforms and procedures to achieve synergies in several functional areas without compromising the merchandise or brand identity of each banner. These areas include information technology, logistics, non-merchandise procurement, merchandise planning and allocation, omni-channel, global sourcing, human resources and financial operations. This combination of operating synergies and best practices enabled us to significantly reduce SG&A as a percentage of retail sales from 39.5% in Fiscal 2009 to 35.0% in Fiscal 2011 and more efficiently grow retail sales.

Focused On Optimizing Our Significant Real Estate Portfolio

Our real estate management team introduced a proactive and entrepreneurial approach to managing our real estate portfolio to optimize results at our retail operations and create value through strategic developments and dispositions of our leasehold and freehold interests. We continuously explore and review opportunities to maximize the productivity and value of our retail space. Since 2008, we negotiated favourable lease terms, enforced restrictive covenants, obtained compensation for ancillary retail developments within the shopping centres where our stores are located and negotiated reimbursements from landlords for leasehold improvements. Our focus on realizing value from our significant real estate portfolio is evidenced by our sale of 189 Zellers leases to Target for approximately $1,832.4 million. We continually assess the potential of our real estate portfolio to realize additional value. For example, we recently sold our property in Halifax for $10.7 million and in Fort McMurray for $17.0 million.

Competitive Strengths

We believe that the following competitive strengths position us well to succeed and grow in the future:

Strong Banner Recognition in Canada and the United States

Hudson's Bay is a Canadian icon with over three centuries of brand heritage. With a national footprint and a strong retailing presence across all major Canadian metropolitan markets, Hudson's Bay is one of the most recognizable banners in Canada. We believe this provides us with a competitive advantage by placing Hudson's Bay at the forefront of consumers' awareness when they are choosing shopping destinations.

Established in 1826, Lord & Taylor is part of the foundation of the United States department store industry. Lord & Taylor was one of the first department stores to build a flagship location on New York's Fifth Avenue and is one of the most recognized department store banners in the northeastern United States.

Through a combination of Internet, direct mail, newspaper, radio, social and other media, we strive to achieve "top of mind" brand awareness and convey that our banners represent relevant, trustworthy and enjoyable places to shop. Hudson's Bay's radio advertising features its President, Bonnie Brooks, as spokesperson and appeals particularly to women ages 25 to 49, the largest target market influencing the purchasing decision. In the 10 largest Canadian radio markets, our campaigns reach over 88% of this valuable demographic over any two month period. In addition, our sponsorship of the Vancouver 2010 Winter Olympics, the London 2012 Summer Olympics and our continuing status as the exclusive supplier of the Canadian Olympic

Collection has garnered us significant national attention that provides us with an opportunity to reinforce the Hudson's Bay brand and its unique Canadian history and drive foot traffic to our stores.

Attractive Market Positioning in the North American Retail Marketplace

Hudson's Bay is Canada's leading branded department store and has no competitors who offer such a broad range of high quality, fashionable branded merchandise at compelling values. The quality and breadth of our brand portfolio enables us to address a broad customer base. Hudson's Bay appeals to and targets a consumer demographic whose shopping needs are not readily met by mass merchants and value retailers like Wal-Mart and Target or luxury fashion retailers like Holt Renfrew.

In affluent markets in the United States, Lord & Taylor is a value alternative to luxury retailers such as Nordstrom, Bloomingdale's and Saks Fifth Avenue because of its attractive prices for national brands available in a similarly upscale shopping environment. Compared to national competitors like Macy's and J.C. Penney, we believe Lord & Taylor offers a superior shopping experience with a locally tailored merchandise offering and presentation, a "better" brand assortment at competitive pricing and a higher level of customer service. In smaller, less affluent markets, Lord & Taylor typically offers a larger assortment of "better" brands than any of its competitors and, as a result, is often the fashion leader in these markets. We believe Lord & Taylor's competitive positioning has benefitted from the significant U.S. department store consolidation, including formerly differentiated regional competitors such as Filene's, Hecht's and Marshall Fields which now all operate under the Macy's banner. We continually invest in our store base to provide a fresh and modern shopping environment. At Lord & Taylor, over the three year period ended Fiscal 2011, we have spent approximately $91.4 million to upgrade our stores, including our Fifth Avenue flagship, to improve the customer shopping experience.

Both Hudson's Bay and Lord & Taylor offer a portfolio of "good", "better" and "best" brands across numerous merchandise categories in a range of styles, including "classic", "contemporary" and "updated". Our customers generally fall into three categories:

- **Fashion:** Our fashion customer, while still concerned with pricing, is more focused on style and trend and is looking for the best in-store shopping experience.
- **Pragmatic:** Our pragmatic customer is looking for quality, is brand aware and seeks an investment in merchandise that will last.
- **Price Conscious:** Our price conscious customer is looking primarily for value. They are most concerned with price and generally do not place significant value on style or in-store shopping experience.

Leading Brand Portfolio

We believe Hudson's Bay offers a stronger, more differentiated product offering than our competitors, supported by over 1,100 brands, which we believe is more than any other department store in Canada. Since 2009, we have added over 330 new brands and discontinued over 900 underperforming brands. We will continue to edit and update our brand portfolio on an ongoing basis to focus on the most sought after brands. As of July 28, 2012, Hudson's Bay has national exclusivity in Canada with respect to 33 highly recognized international brands, including Topshop, "JS" by Jessica Simpson, Material Girl by Madonna, Lacoste Home, and London Fog, each of which has a broad array of merchandise. Hudson's Bay has also been granted department store exclusivity in Canada with respect to numerous brands, including IZOD, MAC Cosmetics, Jones New York, Style & Co., Bench, Tommy Hilfiger, Guess and Nautica. Hudson's Bay's private label brands such as the Hudson's Bay Signature collection, which is widely identified by our historic four colour striped logo of the Hudson's Bay point blanket, further differentiates its merchandise offering. Hudson's Bay's selection of branded merchandise is locally tailored on a store by store basis to meet the local demands of our customers.

Lord & Taylor offers over 900 brands, including leading national "better" brands such as BCBG Max Azria, Bobbi Brown, Calvin Klein, Coach, Free People, Hugo Boss, kate spade New York, Lacoste, Laura Mercier, Michael Kors, Ralph Lauren, Tahari and Ted Baker. Unlike many of our department store competitors, Lord & Taylor's bespoke selection of branded merchandise is specifically tailored on a store by store basis to the local demands of our customers. Lord & Taylor also offers our popular private label brands Black Brown 1826, a men's lifestyle collection designed by Joseph Abboud, and the Lord & Taylor signature lifestyle collection.

Exceptional Store Footprint in Prime Retail Locations

Our footprint of sizeable and accessible downtown flagship buildings in urban centres in Canada and in northeastern United States allows us to allocate space to key vendor shops, restaurants and other complementary businesses which drive foot traffic and increase our sales productivity. These flagship stores also provide an important marketing tool to showcase our brand image given their exposure to high frequency pedestrian and automobile traffic. Our suburban stores are strategically located in high traffic, sought after mall locations with favourable demographics where we are typically an anchor tenant.

Hudson's Bay's 90 stores are situated in prime retail locations in major metropolitan and suburban centres in Canada. Our downtown flagship stores are located in the core of Canada's major cities, while our remaining stores are in well situated suburban or regional locations. According to Generation5 data, in 2010 approximately 55% of Canadians lived or worked within 10 kilometres of a Hudson's Bay store. Due to its national footprint, Hudson's Bay provides its customers in all of its chosen markets the convenient opportunity to purchase branded merchandise that may not otherwise be available in these markets.

Lord & Taylor's 48 full-line locations are concentrated in key eastern metropolitan markets, including New York, Boston, Philadelphia, Washington, and two major Midwestern cities, Chicago and Detroit. According to Nielsen Claritas, the 2010 U.S. Census reports that approximately 53.4 million individuals lived within 10 miles of a Lord & Taylor store. Based on data from the U.S. Census Bureau, in 2011 the average household income within 10 miles of a Lord & Taylor store was U.S.$95,000 compared to a northeast regional average household income of U.S.$60,500.

Valuable Portfolio of Owned and Controlled Real Estate

We have a strategic and valuable real estate portfolio in Canada and the United States under our ownership or long-term control. We own and/or ground lease over 11 million square feet of retail space. In addition, we operate over 14 million square feet of leased retail space. Hudson's Bay and Lord & Taylor have approximately 11.7 million square feet of leased retail space and have lease control terms (including renewal options) in excess of 45 years with respect to approximately 88% of this leased retail space. We believe our real estate portfolio significantly enhances our business flexibility and financing options. Our portfolio of stores is situated primarily in high-density regions. The malls in which we are located tend to be high traffic super regional destinations. We believe the relative scarcity of comparable available prime retail properties in Canada and the eastern United States creates significant barriers to entry in these markets.

Within our portfolio of leased properties, the long term, low cost and tenant rights granted under our leases provide us with a substantial level of operational control over a number of prominent malls. In many of these malls, we are an anchor tenant, a status that often grants us authority over many critical decisions including those related to renovations, adding an anchor tenant, parking lot allocation and out-parcel developments. Please refer to "Real Estate Portfolio" for a listing of our fee-owned, ground leases and leased properties.

In addition to our real estate portfolio providing us with a sustainable competitive advantage in the operation of our retail business, it also provides the foundation for attractive, low cost financing options. We have leveraged our real estate portfolio to obtain term loan financing in Canada and the United States at attractive rates. See "Description of Material Indebtedness and Refinancing". Our ability to realize value from our real estate is evidenced by the sale of 189 Zellers locations to Target for $1,832.4 million. See "The Zellers and Fields Transactions".

Extensive Proprietary Customer Database

The Company successfully implemented credit card, rewards and direct mail programs and believes that these programs provide the Company with a significant opportunity to employ customer relationship management tools. Through these customer relationship management tools, we collect and analyse customer data on a regular basis to communicate with our customers to better understand how to meet their needs, including through the Company's developing omni-channel platform, thereby providing an opportunity to increase sales. Our database includes customer data relating to more than 15.0% of the Canadian population. The constant flow of current information made available through our credit card, rewards and direct mail

programs better informs our business decisions regarding merchandise trends and brand selection. We also use our proprietary customer data to support our ongoing marketing and promotional activities.

The HBC credit card program is one of the largest in Canada with over 3.1 million card holders as of July 28, 2012 representing approximately 11.0% of the Canadian population over the age of 19. In Fiscal 2011, 33.9% of all purchases at Hudson's Bay and at Home Outfitters were made with an HBC credit card. Hudson's Bay and Home Outfitters also have a successful rewards program based on the HBC Rewards card, which has 4.6 million active card holders. Approximately 62.0% of the purchases at Hudson's Bay and 52.0% of the purchases at Home Outfitters are captured on an HBC Rewards card.

The Lord & Taylor direct mailing program uses savings passes extensively, which allows us to trace performance back to specific events and customers. Additionally, Lord & Taylor has approximately 1.6 million Lord & Taylor credit card holders as of July 28, 2012. Purchases representing approximately 42.0% of Lord & Taylor's Fiscal 2011 revenue were made with a Lord & Taylor credit card.

Proven and Committed Management Team with Significant Ownership Interest

Our senior leadership team has extensive experience across a broad range of disciplines in the retail sector including sales, marketing, merchandising, operations, logistics, information technology, real estate, and finance. Our senior leadership team has on average over 26 years of experience in the retail and real estate industries, with a strong emphasis on the North American market. This experience allows the sharing of industry best practices within our organization and extends beyond our senior leadership team into the rest of our organization. We rely on the strength of our corporate team, our store management and our associates to continue to execute on our business plan to deliver strong and growing operating results.

Our senior leadership team has executed a successful transformation of our business and has achieved leadership positions for Hudson's Bay and Lord & Taylor by offering our customers differentiated brands and products, a rewarding shopping experience and compelling value proposition. Our executive officers will hold approximately a ● % economic interest in the Company following the Offering.

Effective Marketing and Promotion

Hudson's Bay has significantly enhanced the effectiveness of our promotional strategy.

Our marketing activities are targeted to concentrate on those initiatives which we believe will most effectively provide increased sales at each of our banners. At Hudson's Bay, we have a personalized direct mail program targeting select customers with special savings coupons and promotions. This program increases our direct contact with customers and allows us to customize and promote the new Hudson's Bay shopping experience. Over the last 18 months, we have seen an average response rate of 19% for our corporate direct mail campaigns, including our President's Letter, Credit Events, and e-Books. At Lord & Taylor, in the two year period ended Fiscal 2011, we increased our active 12-month customer base by more than 11.2% and our email distribution by 96%.

In 2010, Hudson's Bay shifted its promotional strategy in an effort to expand gross margins and enhance the potential benefits to customers. We accomplished this through improved marketing, more value-enhanced product offerings and a more integrated marketing approach. These strategies continue to drive our highly successful one day sales and "Bay Days" events.

In June 2012, we completed the development of a new loyalty program for Hudson's Bay. The legacy "Rewards" program, while highly subscribed by our customers, was not yielding the return of a traditional program of its type. The new program, set to launch in 2013, is designed to increase the frequency of use of "Rewards" and customer spend across a number of customer segments, with a tiered approach, rewarding our more loyal customers. Management believes that, while certain discounts and point programs are competitively necessary, building a "spend more, earn more model" is the best approach towards increasing sales.

The Lord & Taylor promotional activities are focused on store wide promotional events, such as Friends and Family and The Signature Sale. Both of these events happen one to two times per season and are store wide with emphasis on specific pre-determined items. This holiday season, we are introducing the "One Day Sale"

concept that has been successful for us at Hudson's Bay. Complementing these promotions are the traditional seasonal promotions that happen at the conclusion of the fashion cycle, in order to clear seasonal merchandise. As we move forward, we will be looking to optimize our promotional strategy, similar to what we did at Hudson's Bay.

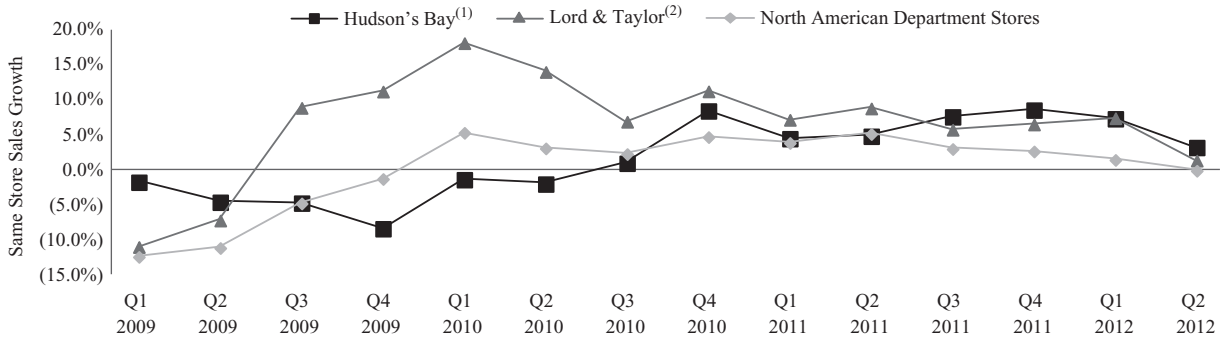
Growth Strategy

By leveraging our successful transformation and our competitive strengths, we believe we are well positioned to continue to increase sales productivity and earnings growth.

Increase Sales Productivity

Over the past two years we have outperformed our competitors in Canada and the United States.

SAME STORE SALES PERFORMANCE



Notes: Same store sales growth is aligned with the HBC Fiscal Year; North American Department Stores includes: Belk, Bon-Ton, Dillards, J.C. Penney, Kohl's, Neiman Marcus, Nordstrom, Macy's, Saks Fifth Avenue and Sears Holdings (including Sears Canada).

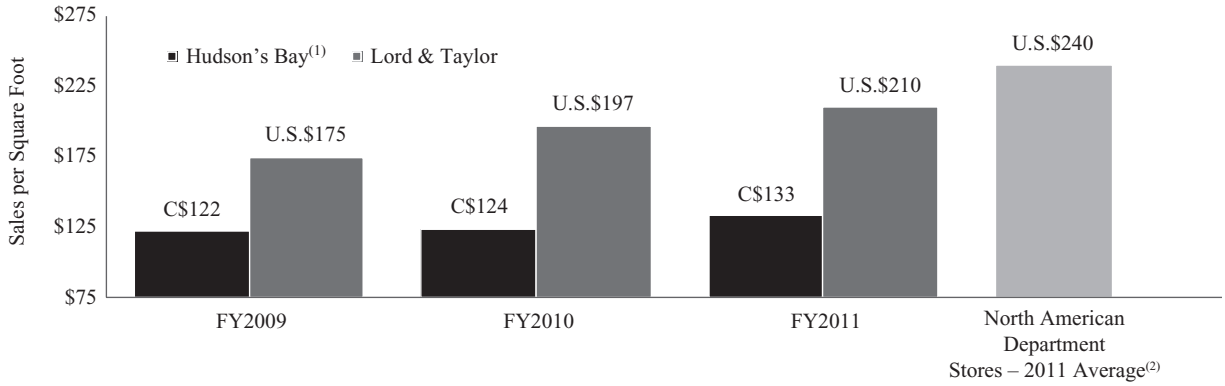
(1) Hudson's Bay same store sales growth excludes impact of Vancouver Olympic Sales.

(2) Lord & Taylor same store sales performance represented in U.S.$.

Given the seasonality of our business, a high proportion of our store sales are generated in the fourth quarter of each year, with store sales in the fourth quarter representing 33.6% of total sales in Fiscal 2011 and 32.5% of total store sales in Fiscal 2010. Historically, our same store sales performance has been strong in the fourth quarter. Same store sales grew at Hudson's Bay by 8.7% in the fourth quarter of Fiscal 2011 and 8.6% in the fourth quarter of Fiscal 2010 and at Lord & Taylor by 6.6% in the fourth quarter of Fiscal 2011 and 11.4% in the fourth quarter of Fiscal 2010. These fourth quarter sales results have been significantly higher than the performance of our competitors in the same periods.

Since the end of Fiscal 2009, we have increased sales per square foot at Hudson's Bay from $122 per square foot (excluding Vancouver Olympic Sales) to $133 per square foot at the end of Fiscal 2011, an increase of 9.0%. In the same period, we have increased sales per square foot at Lord & Taylor from U.S.$175 per square foot to U.S.$210 per square foot, an increase of 20.0%. We have significantly outperformed our North American department store peer group (consisting of Macy's, Nordstrom, Kohl's, Sears Holdings (including Sears Canada), J.C. Penney, Dillards, Saks Fifth Avenue, Bon-Ton, Neiman Marcus and Belk), who over the same period, grew sales per square foot on average by 5.2% from U.S.$228 to U.S.$240 per square foot. Through continued improvements in sales productivity over the next three to five years we are targeting sales per square foot of $170 to $180 at Hudson's Bay and U.S.$240 to U.S.$250 at Lord & Taylor.

SALES PER SQUARE FOOT



Note: North American Department Stores includes: Belk, Bon-Ton, Dillards, J.C. Penney, Kohl's, Neiman Marcus, Nordstrom, Macy's, Saks Fifth Avenue and Sears Holdings (including Sears Canada).

(1) Excludes Vancouver Olympic Sales for Fiscal 2009 and Fiscal 2010.

(2) All North American Department Stores based on fiscal year-end of January 28, 2012 except for Neiman Marcus which is based on a fiscal year-end of July 30, 2011.

We are pursuing the following initiatives to achieve these productivity targets:

Invest in High Growth Merchandise Categories

Hudson's Bay:

We are focused on optimizing sales and increasing our investment in high growth merchandise categories such as women's apparel, men's wear, handbags, jewellery and accessories, women's footwear, and cosmetics. Sales in these key high growth categories, which account for the majority of our overall sales, have increased by 13.5% during the three year period ended Fiscal 2011.

We believe there is an opportunity to further increase sales in these categories by:

- optimizing floor space allocation and productivity ("right sizing");
- increasing inventory and adding new brands; and
- improving product presentation through, among other things, fixturing, lighting, flooring and signage.

The success at our Toronto flagship location following significant investment in these categories and extensive improvements to the store highlights the strength of this strategy. Sales at our Toronto flagship store (excluding Vancouver Olympic Sales) have increased approximately 26.2% over the three year period ended Fiscal 2011. With 2012 and planned 2013 capital projects, we will continue to renovate and refresh our Toronto flagship with a view to driving additional sales growth. Additionally, we are expecting to complete significant renovations in Fiscal 2012 to our Yorkdale Mall store and our Vancouver flagship, where we also expect to achieve increased same store sales.

Since the Fall of 2010, approximately 1.3 million square feet of store space has been right sized. Our right sizing initiatives are focused on increasing the total sales per square foot of the store by transforming our high sales growth categories into destination drivers for our stores.

Lord & Taylor:

Similar to Hudson's Bay, we continue to increase our investment in merchandise categories that have demonstrated above average growth rates, including women's apparel, men's wear, handbags, jewellery and accessories, women's footwear and cosmetics. Since we have implemented this strategy, sales in these key high growth categories, which account for the majority of overall sales, have increased by 25.0% during the three year period ended Fiscal 2011. In Fiscal 2010, we made significant investments in updating and right sizing

approximately 25.0% of the square footage of our New York Fifth Avenue flagship, resulting in retail sales increases in Fiscal 2011 of 20.1% in the areas that were renovated and an overall increase in retail sales of 11.6% for the entire store.

We believe our increasing investment in these merchandise categories and further right sizing or optimizing of departments will continue to increase traffic and increase same store sales growth. We expect to be completing significant renovations in Fiscal 2012 of our Boston flagship store, Bala Cynwyd, PA and Oakbrook Mall, IL stores and expect strong same store sales growth at those locations over the next several years. We will continue to evaluate investing capital to ensure our stores are modern and appealing. We plan to invest additional capital in our stores, including investing in Fiscal 2013 in the remaining departments in our New York Fifth Avenue flagship that were not renovated in Fiscal 2011.

Expand and Build on our Brand Leadership Position in Canada

We believe we have generated strong foot traffic and high sales volumes by offering and pursuing the most current and desirable brands. We will continue to introduce these brands in as many locations as possible where we believe they can be supported by customer demand. At Hudson's Bay, for example, we added Ralph Lauren brands in 18 stores in Fiscal 2008 and in 12 stores in Fiscal 2009 and generated sales of approximately $14.5 million and $7.6 million, respectively, for the first full year we sold such Ralph Lauren brands. On a trailing 12 month basis ending July 28, 2012, Lauren by Ralph Lauren and Polo by Ralph Lauren generated sales of $37.9 million and $30.0 million, respectively. Similarly, we added Coach shop-in-shops in seven stores in each of Fiscal 2010 and Fiscal 2011 and generated sales of $11.5 million for the trailing 12 month basis ending July 28, 2012. We plan to roll out an additional five Coach shop-in-shops in Fiscal 2012. We plan to continue to add and refresh our brands with a goal of rolling out new brands across our stores. In 2013, we expect to be adding Lacoste in five stores and Tommy Bahama in 10 stores and adding 22 new shop-in-shops in locations that already sell Tommy Bahama.

We continue to identify and focus on partnering opportunities with the most current and exciting brands, concepts and vendors. As an example, we secured the exclusive right to the Topshop brand in Canada for a 10 year period, opening our first Topshop at Toronto's Yorkdale Mall in October 2011. Our Topshop expansion is an example of our continued commitment to making Hudson's Bay a world-class department store. Topshop is a fashion forward British label which allows customers to take advantage of current clothing trends at a lower price. Our Yorkdale Topshop location is approximately 14,250 square feet and has generated sales per square foot in excess of $750 in the first year of operation. In the Fall of 2012, we plan to open a 40,000 square foot Topshop in Vancouver, a 19,000 square foot Topshop in Toronto and a 5,600 square foot Topshop in Montreal. We also continue to sell Topshop product in our downtown Calgary flagship store. By the end of 2012, we expect to have five Topshop locations open across Canada. We intend to roll out up to six additional Topshop locations in 2013. We have also seen strong sales increases in our other "shop-in-shops" such as for Michael Kors, MAC Cosmetics and Chanel.

Our strategy is to continue to add new and better brands while also editing and focusing our brand portfolio on high volume and leading brands. Since 2008, we have grown the number of brands which contribute greater than $10 million in sales by 22.0% while decreasing those brands contributing less than $1 million by 15.0%.

Significantly Increase the Sales Volume of our Private Label Brand Offering

Private brands generally offer us enhanced margins as well as differentiated assortments. In reviewing the marketplace and competition, we identified a significant opportunity for growth in our private brand business. We developed a plan to increase our penetration over the next five years from approximately 9.0% of our current merchandise mix, to 15% of our merchandise mix. We currently offer a portfolio of approximately 25 private brands and labels at Hudson's Bay and Lord & Taylor. Our strategy going forward is to focus entirely on five key cornerstone private brands in order to focus our investment to build "national brand" awareness and importance of such brands with our customers. The five private brands will include HBC Signature, which focuses on our iconic stripes, along with "1670", which was developed in partnership with Pencil on Paper Studio in Los Angeles to target a more contemporary customer and is expected to launch in Fall 2013. Another key private brand is Lord & Taylor, currently primarily a cashmere label, which will be built into a full lifestyle brand

for women and home. Black Brown 1826 is our Lord & Taylor men's lifestyle brand, developed under the direction of Joseph Abboud. Both of the Lord & Taylor brands are sold at Hudson's Bay and Lord & Taylor, and Black Brown 1826 is also wholesaled to Belk, a department store with locations across the southern United States. We believe HBC Signature and "1670" also have significant wholesale opportunities.

Implement Omni-channel Platform

We are in the process of launching a complete omni-channel platform, which reaches well beyond our e-commerce site into mobile devices and back into our traditional brick and mortar stores, that will provide our customers with shopping flexibility. A key component of the omni-channel platform will be our ability to collect and analyse customer data regardless of how they choose to shop with us, which will serve to strengthen our direct and mass marketing efforts, both digitally and through traditional media.

We believe we have a significant competitive advantage, as a result of our strong brand recognition, credit cards and loyalty programs, extensive store network and infrastructure, and our branded and private label merchandise portfolio to capture share in both the growing United States e-commerce market and the underpenetrated Canadian e-commerce market. Our omni-channel strategy is focused on leveraging our strengths in the following ways:

- **Banner Recognition:** Our significant banner recognition and customer loyalty will allow us to effectively target an online shopper who closely resembles our in-store shopper while also reaching new customers outside our footprint through our ongoing marketing initiatives and growing social media presence.
- **Leverage extensive store network and infrastructure:** We will enable our customers to access our merchandise through our extensive store network as well as our e-commerce site. The technology will link omni-channel activities with our marketing and logistics systems to create a seamless customer experience whether they shop in store, online or via a mobile device. Our omni-channel platform enables our associates in any of our stores to sell merchandise that may be out of stock locally by selecting inventory from other stores or online for shipment directly to our customers. Our online centres can draw on store inventories across Canada and the northeastern United States to fill orders that originate on the Internet or via mobile devices. Items can also be returned with ease through both the online channels and in our stores providing a convenience to our customers that significantly enhances their shopping experience.
- **Branded and private label merchandise portfolio:** We believe that our branded and private label portfolio, as well as our position as a fashion authority provide us with the opportunity to increase sales both online and in our stores. We will also seek to form strategic partnerships with other online retailers to offer our merchandise portfolio which we believe will also provide us with an opportunity to increase sales and reach customers outside our store footprint.

From Fiscal 2010 to Fiscal 2011, the combined gross sales from the e-commerce business, excluding in-store returns, from both banners grew from $44.0 million to $82.5 million in retail sales, representing a 87.5% increase, and is expected to grow approximately 70% in Fiscal 2012. Home Outfitters is expected to launch its e-commerce site in the Spring of 2013.

Further Improve Operating Margins and Net Income

Significant capital investments have been made to our support infrastructure which provide us with the capacity to grow sales without a proportional increase in our fixed costs and to continue the expansion of our operating margins and earnings growth. From the beginning of Fiscal 2009 to the end of Fiscal 2011, we have increased revenue by 6.4% and Normalized EBITDA by 100.1%. Over this period, our SG&A has been reduced as a percentage of sales from 39.5% to 35.0%, and Normalized EBITDA margin increased from 4.3% to 8.1%, which allowed us to achieve substantially higher relative growth in earnings. We intend to continue to increase earnings at a growth rate that is higher than our revenue growth in the future through improved operating margins and ongoing expense control. As we rationalize our expenses, we expect Normalized EBITDA as a percentage of retail sales to be in line with our peer group.

EBITDA as a Percentage of Sales Comparison

	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Three Year Average
U.S. Department Stores[(1)]	9.3%	10.3%	10.1%	9.9%
Canadian Retail Stores	8.1%	6.5%	4.5%	6.4%
Average	9.1%	9.7%	9.2%	9.3%
HBC (Normalized)	4.3%	7.1%	8.1%	6.5%

Note: U.S. Department Stores includes: Belk, Bon-Ton, Dillards, J.C. Penney, Kohl's, Neiman Marcus, Nordstrom, Macy's, Saks Fifth Avenue and Sears Holdings. Canadian Retail Stores includes: Canadian Tire and Sears Canada.

(1) All U.S. department stores based on financial year end on the last Saturday of January except for Neiman Marcus which is based on a financial year end on the last Saturday in July.

Management is focused on decreasing our SG&A following the wind-down of Fields and most of Zellers. We believe meaningful reductions in annual operating costs can be achieved by the end of Fiscal 2013 as we wind-down most of the Zellers business. In particular, we believe it is possible to identify and implement initiatives to reduce the annual operating costs of our continuing operations by approximately $60.0 million by further reducing information technology expenses, occupancy costs, distribution costs and other corporate overhead. We expect the impact of these initiatives to be fully realized by the end of the first quarter of Fiscal 2014. We expect to incur restructuring costs of approximately $20.0 to $25.0 million to achieve these annual operating cost reductions.

Our management team has identified further opportunities to reduce redundant costs and streamline operations in many areas of our business. Within our stores, we will continue to introduce best practices in such areas as mark-down and size optimization, inventory allocation, merchandise strategy, store operations and labour productivity which we believe provide us with the opportunity to increase profitability and assist us in offsetting inflationary pressure and investing in growth initiatives.

Our ongoing expense reduction initiatives will allow us to continue to enhance our margins and generate increased cash flow. This cash flow will provide us with the ongoing flexibility to fund capital projects which generate an enhanced rate of return to our shareholders, deleverage, and continue to return capital to our shareholders in the form of dividends.

Real Estate Portfolio

Locations of our Operations

We carefully manage our real estate portfolio with the goal of maximizing chain-wide store profitability and maintain a disciplined, cost-sensitive approach to real estate investments, commitments and store site selection.

Hudson's Bay

As of September 30, 2012, we operated 90 Hudson's Bay stores in Alberta, British Columbia, Manitoba, Nova Scotia, Ontario, Quebec and Saskatchewan with an average of 179,091 square feet per store. We fee own seven Hudson's Bay stores with a total of approximately 3,748,000 square feet and have ground leases for a further seven stores with a total of approximately 1,302,000 square feet. We have entered into long term leases for our remaining stores and such leases total approximately 11,068,000 square feet.

HUDSON'S BAY

Shopping Centre	City	Province	GLA[2] (000's)
FEE-OWNED			
Downtown	Calgary	AB	449
Downtown	Vancouver	BC	637
Downtown	Winnipeg	MB	656
Rideau Centre	Ottawa	ON	335
Downtown	Toronto	ON	851
Devonshire Mall	Windsor	ON	166
Downtown	Montreal	QC	655
Subtotal GLA — Fee-Owned Properties			**3,748**
GROUND LEASED			
Square One	Mississauga	ON	201
Centrepoint Mall	North York	ON	123
Yorkdale Shopping Centre	North York	ON	303
Scarborough Town Centre	Scarborough	ON	232
Carrefour Laval	Laval	QC	177
Centre Laval	Laval	QC	134
Les Promenades St. Bruno	St-Bruno	QC	132
Subtotal GLA — Ground Leased Properties			**1,302**
LEASED			
Banff National Park	Banff	AB	17
Chinook Centre	Calgary	AB	203
Market Mall	Calgary	AB	200
Southcentre Mall	Calgary	AB	165
Sunridge Mall	Calgary	AB	161
Edmonton City Centre	Edmonton	AB	168
Kingsway Garden Mall	Edmonton	AB	153
Londonberry Mall	Edmonton	AB	119
Southgate Shopping Centre	Edmonton	AB	237
West Edmonton Mall	Edmonton	AB	164
Lethbridge Centre	Lethbridge	AB	133
Medicine Hat Mall	Medicine Hat	AB	93
Bower Place	Red Deer	AB	111
St. Albert Centre	St. Albert	AB	93
Sevenoaks Shopping Centre	Abbotsford	BC	129
Lougheed Mall	Burnaby	BC	125
Metropolis At Metrotown	Burnaby	BC	141
Coquitlam Centre	Coquitlam	BC	120
Aberdeen Mall	Kamloops	BC	123
Orchard Park Shopping Centre	Kelowna	BC	127
Willowbrook Shopping Centre	Langley	BC	131
Woodgrove Centre	Nanaimo	BC	146
Cherry Lane Shopping Centre	Penticton	BC	95
Parkwood Mall	Prince George	BC	109
Richmond Centre	Richmond	BC	162

Shopping Centre	City	Province	GLA[2] (000's)
Guildford Shopping Centre	Surrey	BC	174
Oakridge Centre	Vancouver	BC	182
Park Royal Shopping Centre	Vancouver	BC	172
Village Green Mall	Vernon	BC	83
Mayfair Shopping Centre	Victoria	BC	166
Hudson's Bay Centre	Victoria	BC	229
Polo Park Shopping Centre	Winnipeg	MB	212
St. Vital Shopping Centre	Winnipeg	MB	122
Mic Mac Mall	Dartmouth	NS	151
Mayflower Mall	Sydney	NS	83
Georgian Mall	Barrie	ON	91
Bramalea City Centre	Brampton	ON	131
Burlington Mall	Burlington	ON	171
Mapleview Centre	Burlington	ON	129
Cambridge Centre	Cambridge	ON	131
Sherway Gardens	Etobicoke	ON	223
Woodbine Centre	Etobicoke	ON	140
Limeridge Mall	Hamilton	ON	147
Cataraqui Town Centre	Kingston	ON	113
Fairview Park	Kitchener	ON	185
Masonville	London	ON	85
Whiteoaks Mall	London	ON	166
Markville Shopping Centre	Markham	ON	140
Erin Mills Town Centre	Mississauga	ON	134
Upper Canada Mall	Newmarket	ON	143
Oakville Place	Oakville	ON	119
Place d'Orleans Shopping Centre	Orleans	ON	160
Oshawa Centre	Oshawa	ON	123
Bayshore Shopping Centre	Ottawa	ON	181
St. Laurent Shopping Centre	Ottawa	ON	145
Pickering Town Centre	Pickering	ON	122
Hillcrest Mall	Richmond Hill	ON	171
Eglinton Square	Scarborough	ON	115
Pen Centre	St. Catharines	ON	150
Fairview Mall	Toronto	ON	152
Hudson's Bay Centre	Toronto	ON	342
Conestoga Mall	Waterloo	ON	131
Les Galeries d'Anjou	Anjou	QC	176
Champlain Mall	Brossard	QC	144
Dorval Gardens	Dorval	QC	103
Les Promenades de l'Outaouais	Gatineau	QC	140
Boulevard Centre	Montreal	QC	110
Centre Commercial Rockland	Montreal	QC	148
Fairview Pointe Claire	Pointe Claire	QC	180
Les Galeries de la Capitale	Quebec City	QC	163
Place Fleur de Lys	Quebec City	QC	107
Place Rosemere Shopping Centre	Rosemere	QC	132
Carrefour de l'Estrie	Sherbrooke	QC	116

Shopping Centre	City	Province	GLA[2] (000's)
Place Laurier	Ste-Foy	QC	150
Cornwall Centre	Regina	SK	182
Midtown Plaza	Saskatoon	SK	174
Subtotal GLA — Leased Properties			**11,068**
Total GLA — Hudson's Bay Banner			**16,118**
Average YOC[3] (Hudson's Bay Ground Leased & Leased Properties)			**67 Yrs**

Notes:

(1) Highfield Square Shopping Centre Moncton, NB closed September 30, 2012 (121,832 sq. ft).

(2) "GLA" means "Gross Leasable Area".

(3) "YOC" means "Years of Lease Control".

Lord & Taylor

As of September 30, 2012, we operated 48 Lord & Taylor full-line stores and three outlet stores in Connecticut, Florida, Illinois, Maryland, Massachusetts, Michigan, New Jersey, New York, Pennsylvania, Virginia and Washington D.C. with an average of 140,000 square feet per store, with strong concentrations in the New York Metropolitan area, Boston, Washington D.C. and Chicago. We fee own 22 Lord & Taylor stores with a total of approximately 3,569,000 square feet and have ground leases for a further 20 stores with a total of approximately 2,477,000 square feet. We have entered into long term leases for our remaining Lord & Taylor stores and such leases total approximately 665,000 square feet and another 117,000 square feet for our Lord & Taylor Outlet Stores. The total Lord & Taylor property portfolio is 6,828,000 square feet.

LORD & TAYLOR

Shopping Centre	City	State	GLA[1] (000's)
FEE-OWNED			
Stamford (Freestanding)	Stamford	CT	155
Woodfield Mall	Schaumburg	IL	131
The Mall in Columbia	Columbia	MD	120
Lakeforest Mall	Gaithersburg	MD	150
Twelve Oaks Mall	Novi	MI	122
Lakeside Mall	Sterling Heights	MI	163
Bridgewater Commons	Bridgewater	NJ	140
Freehold Raceway Mall	Freehold	NJ	123
Moorestown Mall	Moorestown	NJ	121
Fashion Centre (Ridgewood)	Paramus	NJ	155
Rockaway Town Square Mall	Rockaway	NJ	150
Willowbrook Mall (Wayne)	Wayne	NJ	121
Westfield (Freestanding)	Westfield	NJ	142
Woodbridge Centre	Woodbridge	NJ	123
Walden Galleria	Buffalo	NY	100
Garden City (Freestanding)	Garden City	NY	154
Manhasset (Freestanding)	Manhasset	NY	126
New York (Freestanding)	New York	NY	676
Scarsdale (Freestanding)	Scarsdale	NY	199
King of Prussia Plaza	King of Prussia	PA	119
Fair Oaks Mall	Fairfax	VA	160
Dulles Town Centre	Sterling	VA	120
Subtotal GLA — Fee-Owned Properties			**3,569**

Shopping Centre	City	State	GLA[1] (000's)
GROUND LEASED			
Danbury Fair Mall	Danbury	CT	79
Westfarms Mall	Farmington	CT	120
Trumbull	Trumbull	CT	117
Washington (Freestanding)	Washington	DC	148
Northbrook Court	Northbrook	IL	126
South Shore Plaza (Braintree)	Braintree	MA	126
Burlington Mall	Burlington	MA	118
Natick Mall	Natick	MA	115
Annapolis Mall	Annapolis	MD	110
White Flint Mall	Kensington	MD	118
Monmouth Mall	Eatontown	NJ	160
Quakerbridge Mall	Lawrenceville	NJ	153
Livingston Mall	Livingston	NJ	169
Garden State Plaza	Paramus	NJ	130
South Shore (Bayshore)	Bayshore	NY	120
Walt Whitman	Huntington Station	NY	120
Eastview Mall	Rochester (Victor)	NY	90
Carousel Centre	Syracuse	NY	118
Palisades Centre	West Nyack	NY	121
Tyson's Corner Centre	McLean	VA	120
Subtotal GLA — Ground Leased Properties			**2,477**
LEASED (Non Outlet)			
Oakbrook Centre Mall	Oakbrook	IL	102
Old Orchard	Skokie	IL	115
Prudential Centre	Boston	MA	125
Rockingham Mall	Salem	NH	122
Ridge Hill Shopping Centre	Yonkers	NY	80
Bala Cynwyd Shopping Centre	Bala Cynwyd	PA	121
Subtotal GLA — Leased Properties			**665**
OUTLET STORES & HOME STORES			
Dolphin Mall	Miami	FL	20
Great Lakes Crossing	Auburn Hills	MI	23
Jersey Gardens	Elizabeth	NJ	15
Fashion Centre	Paramus	NJ	28
Shrewsbury Plaza	Shrewsbury	NJ	31
Subtotal GLA — Outlet Properties			**117**
Total GLA — Lord & Taylor Banner			**6,828**
Average YOC[2][3] (Lord & Taylor Ground Leased & Leased Properties)			**54 Yrs**

Notes:

(1) "GLA" means "Gross Leasable Area".

(2) "YOC" means "Years of Lease Control".

(3) Outlet and Home stores not included in Average YOC calculation.

Home Outfitters

As of September 30, 2012, we operated 69 Home Outfitters stores in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec and Nova Scotia with an average of 36,500 square feet per store. We have entered into long term leases for all 69 Home Outfitters locations totaling 2,515,000 square feet. Home Outfitters stores are kitchen, bed and bath specialty superstores focusing on merchandise selection and customer service.

HOME OUTFITTERS

Shopping Centre	City	Province	GLA[1] (000's)
Shepard Regional Centre	Calgary	AB	34
Richmond Square	Calgary	AB	41
Sunridge Way	Calgary	AB	40
Northland Village	Calgary	AB	41
Heritage Towne Centre	Calgary	AB	34
Royal Oak	Calgary	AB	32
South Edmonton Common	Edmonton	AB	41
Skyview Power Centre	Edmonton	AB	41
West Point Centre North	Edmonton	AB	41
Bakerview Home Centre	Abbotsford	BC	32
Metropolis At Metrotown	Burnaby	BC	31
Poco Power Centre	Coquitlam	BC	40
Linens Building Coquitlam B.C.	Coquitlam	BC	38
Kelowna Central Park Power Centre	Kelowna	BC	34
Gateway Station Shopping Centre	Langford	BC	36
64th Avenue and 203rd Street	Langley	BC	40
Dover Pointe Centre	Nanaimo	BC	32
New Westminster Shopping Centre	New Westminster	BC	28
Lansdowne Centre	Richmond	BC	41
Tillicum Centre	Victoria	BC	31
St. James Station	Winnipeg	MB	34
Crossroads Station Shopping Centre	Winnipeg	MB	40
1665 Kenaston Blvd.	Winnipeg	MB	39
Dartmouth Crossing	Dartmouth	NS	34
Chain Lake Drive	Halifax	NS	35
Byrne Drive	Barrie	ON	41
Bramalea City Centre	Brampton	ON	40
Burlington Home Decor Centre	Burlington	ON	32
Sherway Gardens	Etobicoke	ON	29
Stone Road Mall	Guelph	ON	34
Limeridge Mall	Hamilton	ON	38
Kanata Power Centre	Kanata	ON	35
Taylor Road	Kingston	ON	32
Laurentian Power Centre	Kitchener	ON	34

Shopping Centre	City	Province	GLA[1] (000's)
Wellington Commons	London	ON	30
First Markham Place	Markham	ON	41
3050 Vega Blvd – Erin Mills Power Centre	Mississauga	ON	35
Highway 401 and Winston Churchill	Mississauga	ON	40
Heartland Town Centre	Mississauga	ON	35
Square One	Mississauga	ON	40
Merivale Place	Nepean	ON	40
Yorktown Square Shopping Centre	Newmarket	ON	81
Crossroads Centre	North York	ON	37
RioCan Centre Burloak	Oakville	ON	34
2020 Mer Bleu Road	Orleans	ON	32
Taunton Rd. East	Oshawa	ON	34
Innes Centre	Ottawa	ON	41
Peterborough	Peterborough	ON	33
Hub Retail Centre	Pickering	ON	37
Eglinton Town Centre	Scarborough	ON	34
First Pro Garden City	St. Catharines	ON	32
Thunder Centre	Thunder Bay	ON	32
Yorkdale Shopping Centre	Toronto	ON	34
Hwys 400 & 7	Vaughan	ON	33
Vaughan Mills Shopping Centre	Vaughan	ON	35
Thickson Ridge Power Centre	Whitby	ON	43
Walker Square	Windsor	ON	34
Stand Alone Store	Anjou	QC	40
Faubourg Boisbriand	Boisbriand	QC	32
Carrefour de la Rive Sud	Boucherville	QC	32
Quartier Dix30	Brossard	QC	34
Autoroute Chomedy & Boulevard Samson	Laval	QC	34
Mega Centre Mascouche	Mascouche	QC	40
Marche Central Metropolitan Shopping Centre	Montreal	QC	40
Fairview Pointe Claire	Pointe Claire	QC	41
Galeries de la Capitale Power Centre	Quebec City	QC	34
Promenades St. Bruno Power Centre	St. Bruno	QC	30
Prince of Wales Drive and Trans Canada Hwy	Regina	SK	33
University Common/Preston Crossing	Saskatoon	SK	34
Total Home Outfitters Banner			**2,515**
Average YOC[2]			**21 Yrs**

Notes:

(1) "GLA" means "Gross Leasable Area".

(2) "YOC" means "Years of Lease Control".

Head Office Space

Office Buildings

We own the Simpson Tower, a 393,000 square feet office tower in downtown Toronto. 99.5% of the Simpson Tower is occupied, 34% of which is occupied by us and the remaining space is leased to third party tenants. We also own and occupy a 210,000 square foot office building in Brampton, Ontario.

Distribution Centres and Warehouses

In Canada, our warehouse and distribution facilities consist of two owned warehouses and distribution facilities (including a 883,000 square foot distribution centre adjacent to our Brampton office building) and three leased warehouses. The three leased warehouses are subject to long-term lease agreements. In the United States, our warehouse and distribution facilities consist of one owned distribution and warehouse facility located in Wilkes Barre, PA.

Grow Our Store Base at Lord & Taylor

We anticipate that Lord & Taylor will have the opportunity to increase its footprint through new stores in markets where we currently compete as well as entering into new regions. Consistent with this strategy, we opened two new Lord & Taylor stores in Yonkers, NY, and Salem, NH during the first half of 2012 and intend to open in Boca Raton, FL in the Fall of 2013. We are actively looking for new store opportunities and continuously evaluate potential new locations, particularly in the northeast, mid-Atlantic and Florida markets. In addition to opening new stores, we continue to expand our existing store base by recouping unproductive back-of-house square footage and converting it into productive selling floor. We are making significant investments renovating our stores in key growth markets such as Chicago and Boston. We believe this strategy in these key markets will continue to keep our stores relevant and desirable shopping destinations for our customers.

Merchandise Sourcing

We plan our merchandise purchases and receipts to coincide with expected sales trends. Due to the seasonality of our business we purchase large amounts of inventory in advance of the holiday shopping season. We pay for our merchandise under the terms agreed to with our vendors.

Transportation

We use various means of transportation, including shipments by ocean, train and truck. We outsource our transportation needs. For the most part, we rely on third party carriers and typically do not enter into long-term transportation contracts with our carriers, but rather contract as needed on a purchase-order basis. Our transportation costs are subject to fuel cost increases or surcharges and therefore fluctuate over time. See "Risk Factors — The loss of, or disruption in, our centralized distribution centres would have a material adverse effect on our business and operations".

Competition

The retailing industry is intensely competitive. The Company's stores compete with many retailing formats in the geographic areas in which they operate, including department stores, specialty stores, general merchandise stores, off-price and discount stores, new and established forms of home shopping (including the Internet, mail order catalogues and television) and manufacturers' outlets. We seek to attract customers by offering popular national brands in an appealing shopping environment at conveniently located stores where we offer high level of customer service. Other retailers may compete for customers on some or all of these bases, or on other bases, and may be perceived by some potential customers as being better aligned with their particular preferences.

Management expects that U.S. retailers will continue to seek opportunities to enter the Canadian retail market, such as Target, or expand an existing footprint, such as Wal-Mart. Our management team has a history of successfully competing with department store retailers as well as mass merchandisers in the United States.

Our ability to adapt to competitors and continue to grow same store sales as they enter markets in which we have our stores leads us to believe that we are well positioned to compete with U.S. retailers as they expand into Canada or grow their existing footprint.

Retailers with which each banner competes include:

Banner	Competitors
Hudson's Bay	Harry Rosen, H&M, Holt Renfrew, Reitmans, Sears Canada, and other specialty apparel, cosmetics, footwear and home chains
Lord & Taylor	Belk, Bloomingdale's, Bon Ton, Dillard's, J.C. Penney, Macy's, Nordstrom, Saks Fifth Avenue, and other specialty apparel, cosmetics, footwear and home chains
Home Outfitters	Bed Bath & Beyond, Crate & Barrel, Kitchen Stuff Plus and other specialty home chains

Employees

As of September 30, 2012, we employed approximately 29,000 people, approximately 1,300 of whom are unionized.

At each of our banners we hire seasonal employees during peak seasons such as the holiday shopping season, which provides us with greater flexibility in our workforce and allows us to better address busier peak periods. See "Risk Factors — We depend on our ability to attract and retain quality employees".

The Company has maintained a positive relationship with both its unionized and its non-unionized associates. Associate surveys are conducted annually and employee relations committees at our banners meet regularly to discuss issues arising from the workplace and to ensure that staff concerns are being addressed.

Seasonality

The retail business is seasonal in nature with a high proportion of sales and operating income generated in the fourth quarter. Working capital requirements fluctuate during the year, increasing in mid-summer in anticipation of the Fall merchandising season and increasing substantially prior to the holiday season when the Company carries significantly higher levels of inventory.

The quarterly sales and earnings of the Company and other retail companies are significantly impacted by customer sales patterns, whereby sales in the fiscal fourth quarter, due to the holiday shopping season, are a much greater portion of the annual sales volume and a substantial portion of earnings. See "Risk Factors — Our revenues and cash requirements are affected by the seasonal nature of our business".

The following table reflects the seasonality of sales for each of the quarters in the three most recent fiscal years.

(in % of annual store sales)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal 2011				
Store Sales	20.4%	22.9%	23.1%	33.6%
Fiscal 2010				
Store Sales	21.9%	22.7%	22.9%	32.5%
Fiscal 2009				
Store Sales	20.4%	23.2%	23.5%	32.9%

Intellectual Property

We rely on trademark laws to protect certain aspects of our business. Our registered trademarks in Canada include the following: HBC®, Hudson's Bay®, Black Brown 1826®, Lord & Taylor®, Home Outfitters®, Hudson's Bay Company® and The Room® and we have a number of applications pending to register other trademarks in Canada. Our registered trademarks in the United States include Black Brown 1826® and Lord & Taylor®.

Monitoring the unauthorized use of our intellectual property is difficult, and the steps we have taken, including sending demand letters and taking actions against third parties, may not prevent unauthorized use by others. The failure to adequately build, maintain and enforce our intellectual property portfolio could impair the strength of our brands. See "Risk Factors — We may not be able to protect our trademarks and other proprietary rights".

Technology

We use our information technology systems to manage our operations and in particular, for the efficient functioning of our business, including accounting, data storage, purchasing and inventory management, and store communications systems. Within the last three years, we have implemented an enterprise-wide software system solution encompassing finance, distribution, warehouse management, store replenishment, warehouse forecasting and supply chain functions, and a data warehouse system to enhance our reporting capabilities. The implementation of these systems has enabled management to more efficiently conduct our operations and gather, analyse, and assess information across all business segments and geographic locations. We believe that our existing information technology infrastructure coupled with planned software projects for Fiscal 2012, Fiscal 2013 and beyond is sufficient to support our operational growth and provide us with the technology we need to effectively run the business in the coming years.

Regulatory Matters

We are subject to federal, provincial and state laws in Canada and the United States and have adopted policies and procedures to comply with all applicable regulatory matters. These laws and regulations include securities laws, labour and employment laws, product safety laws, privacy laws and workplace safety regulations. We are continuously monitoring the changing regulatory environment to comply with all applicable laws. Litigation and regulatory developments could adversely affect our business and financial position. See "Risk Factors".

THE ZELLERS AND FIELDS TRANSACTIONS

The Zellers and Target Transaction

On January 12, 2011, the Company and its wholly-owned subsidiary Zellers entered into an agreement (the "Target Agreement") with Target Corporation and a newly incorporated affiliate of Target Corporation (collectively, "Target") to assign up to 220 of Zellers' 270 leases to Target or its designees, in exchange for aggregate consideration of approximately $1,832.4 million (the "Target Transaction"). Target and its designees selected 189 leases leaving Zellers with 81 leased and 5 owned properties. Target paid Zellers $907.4 million on May 26, 2011 and $925.0 million on October 3, 2011. Concurrent with the assignment of the purchased leases to Target or its designees, Zellers entered into a sublease to lease back the locations for the period of time between such assignment date and the date that Target takes possession of any particular location (such date a "Vacancy Date"). On each Vacancy Date, the stores must be delivered in "broom clean" condition which means that Zellers must remove all inventory, trade fixtures, equipment, personal property and debris from each location. Vacancy Dates for the 189 locations range from June 30, 2012 to March 31, 2013. It is expected that liquidation sales and the process to broom clean each location will occur over a 14 week period prior to the Vacancy Date of a location.

Since entering into the Target Agreement, Zellers has completed a strategic review of its remaining 86 locations. Following a thorough review of all options and after successfully disposing of many sites through sales or not renewing leases, we have decided to cease operating the Zellers banner beyond March 2013 at most of the remaining locations. Zellers is continuing to negotiate with landlords for the termination of most of the remaining leases.

We expect to continue to operate approximately 100 Zellers stores in the normal course through the 2012 holiday season, after which we will commence the liquidation of most of the remaining Zellers stores.

The Target Transaction enabled us to realize significant value from the Zellers lease portfolio. The unique nature of the Target Transaction required Zellers to operate its locations over a period of approximately 24 months from the date of the Target Agreement. Management developed a comprehensive transition plan to operate and systematically wind-down most of the Zellers network to preserve value and mitigate risk. The key components of the plan included:

- entering into retention agreements with key management and staff to ensure continuity and engagement;
- modifying merchandise assortment and advertising strategies in an effort to improve gross margins and simplify the business;
- retaining a nationally recognized liquidator to assist with assortment planning and category rationalization;
- changing inventory assortment to ensure maximum recovery in the eventual liquidation; and
- implemented expense management programs to further improve profitability.

We are also subject to risks relating to Zellers' indemnification in favour of Target. This indemnification is for up to $1,825.0 million with respect to the representations and warranties related to the assigned leases including a breach of a covenant by Zellers for one year from the relevant Vacancy Date and without limit on amount or time in certain limited circumstances. In addition, HBC has provided a guarantee for Zellers' indemnity obligations. Any breach by Zellers of its representations, warranties or covenants under the Target Agreement could result in a substantial indemnification payment to Target, which could have a material adverse impact on the Company's working capital and financial condition, including our ability to effect our growth strategy. As at the date of this prospectus, no indemnification claim has been made against Zellers or the Company.

Fields Disposition

In light of the Target Transaction, we completed a strategic review of our 169 store Fields banner. Given, among other things, the changing retail landscape in Canada, it was determined that it was best to exit this banner to allow management to focus on our department store businesses. We entered into a number of

transactions to dispose of or close all of the Fields stores. The Company ceased operating the Fields banner effective July 28, 2012 when the remaining stores were closed.

Discontinued Operations

As a result of the Company's decision to discontinue its operations at Fields and most of the store operations at Zellers in April 2012, the Company has retrospectively restated its consolidated statements of earnings (loss) for all periods to reflect the discount store segment as discontinued operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for supplemental information relating to the discontinued operations.

USE OF PROCEEDS

The Company expects to receive $ ● in net proceeds from the Offering, after deducting fees payable by the Company to the Underwriters in connection with the Treasury Offering and the estimated expenses of the Offering. The Company will not receive any of the proceeds from the sale of Common Shares by the Selling Shareholder, including pursuant to the Over-Allotment Option, if exercised, and the Selling Shareholder has agreed to pay the Underwriters' commission in respect of the Common Shares sold in the Secondary Offering and in connection with the Over-Allotment Option.

The Company intends to use the net proceeds from the Offering as follows:

(i) approximately $ ● million to repay indebtedness under the Existing HBC Term Loan; and

(ii) approximately $ ● million to repay revolving indebtedness under the HBC Revolving Credit Facility.

The indebtedness under the Existing HBC Term Loan and HBC Revolving Credit Facility was incurred for general corporate purposes.

The Selling Shareholder is expected to receive net proceeds of $ ● in connection with the Secondary Offering ($ ● if the Over-Allotment Option is exercised in full), after payment of the Underwriters' Commission payable in connection with such Secondary Offering and Over-Allotment Option (if applicable).

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables set out summary consolidated financial information for the periods indicated. The summary financial information set out below for each of Fiscal 2011, Fiscal 2010 and Fiscal 2009 has been derived from audited consolidated financial statements and the summary financial information set out below for the twenty-six weeks ended July 28, 2012 and July 30, 2011 has been derived from interim unaudited condensed consolidated financial statements, in each case prepared in accordance with IFRS and included elsewhere in this prospectus. Our audited consolidated financial statements have been audited by our auditors, Deloitte & Touche LLP, and their audit report on these audited consolidated financial statements is included elsewhere in this prospectus. The unaudited financial information presented has been prepared on a basis consistent with our audited consolidated financial statements for Fiscal 2011. In the opinion of our management, such audited and 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. You should read the following information in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Use of Proceeds", "Consolidated Capitalization", and "Description of Material Indebtedness and Refinancing" as well as our consolidated financial statements and accompanying notes included elsewhere in this prospectus.

(millions of Canadian dollars except per square foot and per share amounts)	Fiscal Year						Twenty-Six Weeks Ended			
	2011		2010		2009		July 28, 2012		July 30, 2011	
	$	%	$	%	$	%	$	%	$	%
Earnings Results										
Retail sales	3,849.6	100.0%	3,718.2	100.0%	3,619.7	100.0%	1,760.1	100.0%	1,653.3	100.0%
Cost of sales	(2,306.0)	−59.9%	(2,209.1)	−59.4%	(2,178.3)	−60.2%	(1,054.4)	−59.9%	(984.2)	−59.5%
Gross profit	1,543.6	40.1%	1,509.1	40.6%	1,441.4	39.8%	705.7	40.1%	669.1	40.5%
Selling, general & administrative expenses	(1,347.2)	−35.0%	(1,360.8)	−36.6%	(1,430.3)	−39.5%	(730.0)	−41.5%	(641.0)	−38.8%
Operating income (loss)	196.4	5.1%	148.3	4.0%	11.1	0.3%	(24.3)	−1.4%	28.1	1.7%
Finance costs	(142.9)	−3.7%	(241.3)	−6.5%	(203.1)	−5.6%	(51.4)	−2.9%	(76.5)	−4.6%
Earnings before income taxes ("EBT")	53.5	1.4%	(93.0)	−2.5%	(192.0)	−5.3%	(75.7)	−4.3%	(48.4)	−2.9%
Income tax benefit	3.8	0.1%	181.1	4.9%	32.3	0.9%	22.1	1.3%	14.0	0.8%
Net earnings (loss) — continuing operations[1]	57.3	1.5%	88.1	2.4%	(159.7)	−4.4%	(53.6)	−3.0%	(34.4)	−2.1%
Net earnings (loss) — discontinued operations, net of taxes	1,391.7		(0.1)		141.7		(94.2)		47.7	
Net earnings (loss) for period	1,449.0		88.0		(18.0)		(147.8)		13.3	
EBITDA[1]	309.3	8.0%	245.2	6.6%	129.7	3.6%	34.8	2.0%	78.2	4.7%
Normalized EBITDA[1]	312.9	8.1%	265.0	7.1%	156.4	4.3%	85.0	4.8%	80.9	4.9%
Same Store Sales Percentage Change[2]										
Continuing Operations	3.7%		3.2%		0.1%		5.8%		0.6%	
Continuing Operations (excluding Vancouver Olympic Sales and impact of Foreign Exchange)	6.5%		6.4%		−2.7%		4.4%		6.2%	
Hudson's Bay (excluding Vancouver Olympic Sales)	6.8%		2.2%		−5.2%		5.3%		4.8%	
Lord & Taylor[3]	7.1%		12.4%		1.1%		4.3%		8.1%	
Store Information										
Sales per Square Foot[4]										
Continuing Operations	$ 152		$ 146		$ 142					
Hudson's Bay	$ 133		$ 124		$ 122					
Lord & Taylor	$ 210		$ 197		$ 175					
Store Count[5]										
Hudson's Bay	91		92		92		91		91	
Lord & Taylor	46		46		46		48		46	
Home Outfitters	69		69		69		69		69	
Total Square Footage ('000)	25,381		25,452		25,414		25,583		25,301	

(millions of Canadian dollars except per square foot and per share amounts)	Fiscal Year						Twenty-Six Weeks Ended			
	2011		2010		2009		July 28, 2012		July 30, 2011	
	$	%	$	%	$	%	$	%	$	%
Balance Sheet and Cash Flow Data										
Cash	42.4		57.2				46.8		63.8	
Trade and other receivables	124.0		131.9				64.9		104.1	
Inventories	1,814.2		1,679.8				964.2		1,834.2	
Current assets	2,007.2		1,892.8				1,932.9		2,057.3	
Property, plant and equipment	1,401.1		1,353.1				1,289.7		1,319.8	
Total assets	3,993.5		3,881.8				3,747.6		4,160.4	
Current liabilities	1,916.8		1,997.0				1,958.9		1,847.7	
Loans and borrowings (excluding current portion)	901.7		1,430.4				906.6		1,378.3	
Shareholders' Equity	955.9		227.1				720.6		(192.0)	
Total Capital expenditures[6] — continuing operations	166.1		111.8		93.1		73.3		55.2	
Net Earnings (Loss) per Common Share — Basic and Diluted										
Continuing Operations	57.30		86.70		(172.30)		(53.60)		(34.40)	
Discontinued Operations	1,391.70		(0.10)		150.22		(94.20)		47.70	
	1,449.00		86.60		(22.08)		(147.80)		13.30	
Weighted average shares outstanding — basic and diluted (millions)	1.0		1.0		0.9		1.0		1.0	

Notes:

(1) For a reconciliation of Net Earnings (Loss) — Continuing Operations to EBITDA and Normalized EBITDA, please see the table below.

(2) The Company calculates same store sales on a year-over-year basis from stores operating for at least 13 months, Internet sales and clearance store sales. See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

(3) Same store sales of Lord & Taylor are calculated in U.S.$. Lord & Taylor same store sales percentage change, including the impact of foreign exchange, were 3.4% in 2011, 2.3% in 2010 and 5.3% in 2009.

(4) Sales per Square Foot is calculated as the total revenue for the stated period divided by the gross leasable area as at the balance sheet date. This metric is used by management to measure the productivity of the Company's retail operations. For Lord & Taylor, Sales per Square Foot is calculated in U.S. Dollars. Hudson's Bay Sales per Square Foot is calculated excluding Vancouver Olympic Sales.

(5) Lord & Taylor also leases two Lord & Taylor Home stores and operates three Lord & Taylor Outlet stores that are not included in the store count.

(6) Capital expenditures from continuing operations are inclusive of software development costs. Capital expenditures presented exclude those associated with discontinued operations of $4.1 million, $25.6 million and $21.2 million in Fiscal 2011, 2010 and 2009, respectively.

The following table shows the reconciliation of Net Earnings (loss) — Continuing Operations to EBITDA as well as Normalized EBITDA.

(millions of Canadian dollars)	Fiscal Year			Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	2011	2010	2009	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
	$	$	$	$	$	$	$
Net Earnings (loss) — Continuing Operations	57.3	88.1	(159.7)	(1.7)	3.8	(53.6)	(34.4)
Finance Costs	142.9	241.3	203.1	25.7	37.6	51.4	76.5
Income Tax Benefit	(3.8)	(181.1)	(32.3)	(2.3)	(3.3)	(22.1)	(14.0)
Pension Expense (Non-cash)	12.1	8.6	23.2	4.6	2.8	9.1	5.6
Depreciation and Amortization	90.6	84.4	90.1	23.8	20.2	46.9	42.2
Impairment and Other Non-cash Expenses	10.2	3.9	5.3	0.1	1.8	3.1	2.3
EBITDA	**309.3**	**245.2**	**129.7**	**50.2**	**62.9**	**34.8**	**78.2**
Normalizing Adjustments:							
Restructuring and Corporate Reorganization	22.3	22.9	40.9	8.7	6.5	50.2	8.3
Foreign Exchange (Gains) Losses on Capital Transactions	(13.1)	(3.1)	—	—	—	—	—
Vancouver Olympics One-time Credits	—	—	(14.2)	—	—	—	—
Sale of the Halifax Hudson's Bay Store	(5.6)	—	—	—	(9.5)	—	(5.6)
Total Normalizing Adjustments	3.6	19.8	26.7	8.7	(3.0)	50.2	2.7
Normalized EBITDA	**312.9**	**265.0**	**156.4**	**58.9**	**59.9**	**85.0**	**80.9**

EBITDA is a non-IFRS measure that we use to assess our operating performance. EBITDA is defined as net earnings before interest expense, income taxes, depreciation and amortization expense. The Company's defined benefit pension plan is currently over-funded, and as a result a pension expense is adjusted as management does not expect to make any payments given the surplus position. For a reconciliation of net earnings to EBITDA, see the table above.

Normalized EBITDA is defined as EBITDA adjusted to exclude: (i) business and organization restructuring/realignment charges; (ii) merger/acquisition cost and expenses; and (iii) normalizing adjustments, if any, related to transactions that are not associated with day-to-day operations. We have included Normalized EBITDA to provide investors with a supplemental measure of our operating performance. We believe Normalized EBITDA is an important supplemental measure of operating performance because it eliminates items that have less bearing on our operating performance and thus highlights trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We also believe that securities analysts, investors and other interested parties frequently use EBITDA and Normalized EBITDA 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 capital stock. Because other companies may calculate EBITDA, or Normalized EBITDA, differently than we do, these metrics are not comparable to similarly titled measures reported by other companies.

During 2012, the Company announced its intention to discontinue store operations at Fields and most of the store operations at Zellers. The Company has completed the wind-down of its 169 Fields stores and will have closed most of its 275 Zellers stores by March 2013. See "The Zellers and Fields Transactions". The direct results of these two operations have been reflected in the Company's financial statements as "discontinued operations". However, certain shared service and corporate overhead costs previously allocated to Zellers and Fields have been included in continuing operations selling, general and administrative expenses ("SG&A") and therefore the Company's SG&A is reflective of the larger organization.

Management is focused on decreasing our SG&A following the wind-down of Fields and most of the store operations at Zellers. We believe meaningful reductions in annual operating costs can be achieved by the end of Fiscal 2013 as we wind-down most of the Zellers business. In particular, we believe it is possible to identify and implement initiatives to reduce the annual operating costs of our continuing operations by approximately $60.0 million by further reducing information technology expenses, occupancy costs, distribution costs and other corporate overhead. We expect the impact of these initiatives to be fully realized by the end of the first quarter of Fiscal 2014. We expect to incur restructuring costs of approximately $20.0 to $25.0 million to achieve these annual operating cost reductions.

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

The following discussion and analysis of the financial condition and results of operations provided should be read in conjunction with the audited consolidated financial statements and notes thereto for Fiscal 2011, Fiscal 2010, and Fiscal 2009, and the unaudited interim condensed consolidated financial statements and notes thereto for the 13 and 26 weeks ended July 28, 2012 and July 30, 2011 appearing elsewhere in this prospectus. Some of the information contained in this discussion and analysis contains forward-looking statements that involve risk and uncertainties. See "Forward-Looking Statements" and "Risk Factors" for a discussion of the uncertainties, risks and assumptions associated with these statements. Our actual results may differ materially from those discussions in the forward-looking statements as a result of various factors, including those described in "Risk Factors" and elsewhere in this prospectus. Unless otherwise indicated all amounts are expressed in millions of Canadian dollars. The Board of Directors, on the recommendation of its Audit Committee, approved the contents of this MD&A on October 16, 2012.

Basis of Presentation

Our consolidated financial statements were prepared in accordance with IFRS.

Affiliates of our Principal Shareholder acquired an indirect 20.0% interest in Hudson's Bay Company in July 2006 and acquired Lord & Taylor from Federated Department Stores (now Macy's, Inc.) on October 2, 2006. On July 16, 2008, our Principal Shareholder acquired the remaining 80.0% of Hudson's Bay Company. On January 11, 2012, Lord & Taylor became a wholly-owned subsidiary of Hudson's Bay Company.

The acquisition of Lord & Taylor by HBC was a combination of entities under common control so the financial statements of the two entities are presented as if they had been consolidated since the date of the acquisition by our Principal Shareholder in July 2008. Accordingly, HBC's financial information has been retroactively restated to present Lord & Taylor as a wholly-owned subsidiary since July 16, 2008, the date the entities came under common ownership.

During 2012, the Company announced its intention to discontinue store operations at Fields and most of the store operations at Zellers. The Company has completed the wind-down of its 169 Fields stores and will have closed most of its 275 Zellers stores by March 2013. See "The Zellers and Fields Transactions". The direct results of these two operations have been reflected in the Company's financial statements as "discontinued operations". However, certain shared service and corporate overhead costs previously allocated to Zellers and Fields have been included in continuing operations selling, general and administrative expenses ("SG&A") and therefore the Company's SG&A is reflective of the larger organization. The financial statements and information included in this prospectus have been retroactively restated to present Zellers and Fields as discontinued operations.

Accounting Periods

This management's discussion and analysis is based on the audited consolidated financial statements and accompanying notes thereto for Fiscal 2011, Fiscal 2010 and Fiscal 2009, and the unaudited condensed consolidated financial statements and notes thereto for the 13 weeks and 26 weeks ended July 28, 2012 and July 30, 2011. During Fiscal 2011, we changed our convention and began reporting our year end on the Saturday nearest to January 31. Therefore, our Fiscal Year consists of a 52 or 53-week period. Fiscal 2011, Fiscal 2010 and Fiscal 2009 were 52 weeks. Fiscal 2012 will be 53 weeks and will end on February 2, 2013.

Overview

We are a leading North American retailer offering a wide selection of branded merchandise in Canada and the United States through our three banners. In Canada, we operate Hudson's Bay, Canada's largest national branded department store. In the United States we operate Lord & Taylor, a specialty department store with locations throughout the northeastern United States and in two major cities in the Midwest. We also operate Home Outfitters, a kitchen, bed and bath superstore with locations across Canada.

Following the Acquisition, we have transformed our business by significantly enhancing sales productivity and achieving significant earnings growth. Sales productivity has been enhanced through improved brand and

merchandise strategies, investment in high growth merchandise categories and the revitalization of our stores. We have achieved substantial earnings growth through a combination of ongoing margin enhancement and aggressive expense reduction and management.

Highlights of Fiscal 2011

- Hudson's Bay recorded a 6.8% increase in same store sales in Fiscal 2011 as compared to Fiscal 2010 (excluding Vancouver Olympic Sales activity); Lord & Taylor recorded a 7.1% increase in same store sales in Fiscal 2011 as compared to Fiscal 2010 on a U.S. dollar basis;
- Normalized EBITDA increased 18.1% from $265.0 million in Fiscal 2010 to $312.9 million in Fiscal 2011;
- Opened our first Topshop "shop-in-shop" in October 2011 at our Yorkdale Mall location;
- Received proceeds of approximately $1,832.4 million from the Target Transaction; and
- Streamlined our organizational and management structures by causing Lord & Taylor to become a wholly-owned subsidiary of Hudson's Bay Company.

Highlights of Fiscal 2010

- Hudson's Bay recorded a 2.2% increase in same store sales in Fiscal 2010 as compared to Fiscal 2009 (excluding Vancouver Olympic Sales); Lord & Taylor recorded a 12.4% increase in same store sales in Fiscal 2010 as compared to Fiscal 2009 on a U.S. dollar basis;
- Normalized EBITDA increased 69.4% from $156.4 million in Fiscal 2009 to $265.0 million in Fiscal 2010; and
- Enhanced the value of the Hudson's Bay Company banner through our extensive marketing during the Vancouver 2010 Olympics, and achieved Vancouver Olympic Sales of $50.5 million in the first quarter of Fiscal 2010.

Highlights of 26 Week Period Ended July 28, 2012

- Hudson's Bay recorded a 5.3% increase in same store sales in the 26 week period ended July 28, 2012 as compared to the 26 week period ended July 30, 2011; Lord & Taylor recorded a 4.3% increase in same store sales from the prior year period on a U.S. dollar basis;
- Normalized EBITDA increased 5.1% from $80.9 million in the 26 week period ended July 30, 2011 to $85.0 million for the 26 week period ended July 28, 2012;
- Integrated our senior management team to oversee the North American business;
- Opened two new Lord & Taylor stores; and
- Announced wind-down of most of the store operations at Zellers, exited Fields business and implemented strategies to achieve operating and cost reductions associated with exiting the discount segment.

Factors Affecting Our Performance

Retail Sales

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

Same Store Sales — Consolidated (continuing operations)

The Company calculates same store sales on a year-over-year basis from stores operating for at least 13 months, Internet sales and clearance store sales. Stores undergoing remodeling remain in the same store sales calculation unless the store is closed for a significant period of time. This calculation includes the impact of foreign currency translation and the impact of Vancouver Olympic 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 volume to minimize the need for substantial clearance activity. We source private label products and directly import certain branded products from China and other overseas markets, including Bangladesh, India, Indonesia, Vietnam and Europe. As a result, our cost of sales is impacted by the fluctuation of foreign currencies against the Canadian dollar. In particular, we purchase a significant amount of our imported merchandise from suppliers in Asia using U.S. dollars. Therefore, our cost of sales is impacted by the fluctuation of the U.S. dollar against the Canadian dollar. We enter into forward contracts to hedge our exposure to fluctuations in the value of the U.S. dollar against the Canadian dollar. Increases in the price of merchandise, raw materials, fuel and labour or their reduced availability could increase our cost of goods and negatively impact our financial results. In Fiscal 2010 and Fiscal 2011, we experienced inflation in our merchandise, raw materials, fuel and labour costs. The cost of cotton, which is a key raw material in many of our products, had the most dramatic increase. The price and availability of cotton may fluctuate substantially, depending on a variety of factors, including demand, acreage devoted to cotton crops and crop yields, weather, supply conditions, market speculation and other unpredictable factors. Generally, we offset these cost increases with pricing adjustments in order to maintain a consistent mark-up on the merchandise, which might cause a decline in our unit volume but typically has a minimal impact on our gross profit rates.

Foreign Exchange

Our net investment in Lord & Taylor, whose functional currency is U.S. dollars, presents a foreign exchange risk to HBC, whose functional currency is Canadian dollars. HBC has not entered into any hedging transactions with respect to this exposure. Foreign currency translation of the net earnings of Lord & Taylor will impact consolidated net earnings and foreign currency translation of HBC's investment in Lord & Taylor will impact Other Comprehensive Income.

Selling, General and Administrative Expenses

Our SG&A consist of store labour and maintenance costs, store occupancy costs, advertising and marketing costs and salaries and related benefits of corporate and field management team members, administrative office expenses, services purchased and other related expenses. Although our average hourly wage rate is higher than the minimum wage, an increase in the mandated minimum wage could significantly increase our payroll costs unless we realize offsetting productivity gains and cost reductions.

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

We earn royalty and new account bounty payments from credit card issuers based on sales charged both in-store and out-of-store to either Private Label Credit Cards ("PLCC") or MasterCards. Return on credit operations is 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.

In 2012, the terms of the HBC credit card program in relation to MasterCard bounties, royalty rates and loyalty requirements on out-of-store sales were renegotiated to account for the reduction in Zellers volumes. Had these new terms been in place in 2011 and 2010, return from credit operations would have been lower by an estimated $19.7 million and $19.6 million, respectively.

During the past three years, the Company has been successful in reducing expenses by improving store labour efficiency, streamlining head office functions, integrating Canadian and U.S. back-office functions, reducing information technology costs and re-negotiating expense agreements or changing to more cost effective service providers. As a result of these initiatives, SG&A includes expenses and gains associated with restructuring, reorganizing and store closings, which are not associated with day-to-day operations and have been adjusted in normalized EBITDA.

Management is focused on decreasing our SG&A following the wind-down of Fields and most of the store operations at Zellers. We believe meaningful reductions in annual operating costs can be achieved by the end of Fiscal 2013 as we wind-down most of the Zellers business. In particular, we believe it is possible to reduce the annual operating costs of our continuing operations by approximately $60.0 million by further reducing information technology expenses, occupancy costs, distribution costs and other corporate overhead. We expect the impact of these initiatives to be fully realized by the end of the first quarter of Fiscal 2014. We expect to incur restructuring costs of approximately $20.0 to $25.0 million to achieve these annual operating cost reductions.

Finance costs

The financial markets in Canada and the United States continue to be competitive with strong investor demand for credit. Since Fiscal 2010, we were able to refinance approximately 66.5% of our outstanding long-term debt (based on the balances outstanding as at January 31, 2011, excluding lease obligations) at more favourable terms. We expect to refinance the existing $450.0 million Existing HBC Term Loan concurrently with the Closing of the Offering through a new $250.0 million term loan and proceeds from the Offering, at which point we will have refinanced 98.9% of our debt since Fiscal 2010. Our current debt financing includes short term borrowings which consist of separate asset-based credit facilities in Canada and the United States and separate long term facilities in each country.

The Company's 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 extinguishment of debt, and fair value movements and amortization charges related to embedded derivatives.

Vancouver Olympic Sales

Our sponsorship of the Vancouver 2010 Winter Olympics and our status as the exclusive supplier of the Canadian Olympic Collection resulted in significant non-recurring sales in the fourth quarter of Fiscal 2009 and the first quarter of Fiscal 2010. In order to provide meaningful comparisons on a period over period basis, we disclose certain same store sales information excluding the impact of sales of Olympic merchandise during those quarters. Sales of Olympic merchandise in the fourth quarter of Fiscal 2009 were approximately $44.4 million and in the first quarter of Fiscal 2010 were approximately $50.5 million. While we exclude the Vancouver Olympic Sales from our same store sales calculations in Fiscal 2009 and Fiscal 2010 due to the one time nature of the increased sales associated with having the Winter Olympics in Canada, Hudson's Bay continues to be the exclusive supplier of Canadian Olympic apparel and the sales associated with this Olympic apparel (other than the Vancouver Olympic Sales) is included in the calculation of same stores sales.

Weather

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

more 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, category killers, mass merchants, value retailers, discounters, and Internet and mail-order retailers. Competition may intensify as the Company's competitors enter the Canadian market or enter into business combinations or alliances. Competition is characterized by many factors, including assortment, advertising, price, quality, service, location, reputation and credit availability. If the Company does not compete effectively with regard to these factors, its results of operations could be materially and adversely affected.

Consumer Trends

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

Seasonality

The quarterly sales and earnings of the Company and other retail companies are significantly impacted by customer sales patterns. As a result, sales in the fiscal fourth quarter, due to the holiday shopping season, represent a much greater portion of our annual sales volume and a substantial portion of our annual earnings. We generated 33.6% of our sales in Fiscal 2011 during the fourth quarter due to the Christmas and holiday shopping season.

Results of Operations — Annual Periods

The following table sets forth the major components of the Company's annual consolidated statements of earnings (loss) expressed in millions of Canadian dollars for the periods indicated:

(millions of Canadian dollars)	2011		2010		2009	
	$	% of Retail Sales	$	% of Retail Sales	$	% of Retail Sales
Statements of Earnings (loss) Data						
Retail sales	$ 3,849.6	100.0%	$ 3,718.2	100.0%	$ 3,619.7	100.0%
Cost of sales	(2,306.0)	−59.9%	(2,209.1)	−59.4%	(2,178.3)	−60.2%
Gross profit	1,543.6	40.1%	1,509.1	40.6%	1,441.4	39.8%
Selling, general & administrative expenses	(1,347.2)	−35.0%	(1,360.8)	−36.6%	(1,430.3)	−39.5%
Operating income	196.4	5.1%	148.3	4.0%	11.1	0.3%
Finance costs	(142.9)	−3.7%	(241.3)	−6.5%	(203.1)	−5.6%
Earnings (loss) before income taxes ("EBT")	53.5	1.4%	(93.0)	−2.5%	(192.0)	−5.3%
Income tax benefit	3.8	0.1%	181.1	4.9%	32.3	0.9%
Net earnings (loss) — Continuing operations	57.3	1.5%	88.1	2.4%	(159.7)	−4.4%
Net earnings (loss) — Discontinued operations, net of taxes	1,391.7		(0.1)		141.7	
Net earnings (loss) for period	$ 1,449.0		$ 88.0		$ (18.0)	
EBITDA	**$ 309.3**	**8.0%**	**$ 245.2**	**6.6%**	**$ 129.7**	**3.6%**
Normalized EBITDA	**$ 312.9**	**8.1%**	**$ 265.0**	**7.1%**	**$ 156.4**	**4.3%**

For a reconciliation of net earnings (loss) — continuing operations to EBITDA and Normalized EBITDA see "Selected Consolidated Financial Information."

EBITDA is a non-IFRS measure that we use to assess our operating performance. EBITDA is defined as net earnings before interest expense, income taxes, depreciation and amortization expense. The Company's defined benefit pension plan is currently over-funded, and as a result pension expense is adjusted as Management does not expect to make any payments given the surplus position. For a reconciliation of net earnings to EBITDA, see "Selected Consolidated Financial Information".

Normalized EBITDA is defined as EBITDA adjusted to exclude: (i) business and organization restructuring/realignment charges; (ii) merger/acquisition cost and expenses; and (iii) normalizing adjustments, if any, related to transactions that are not associated with day-to-day operations. We have included Normalized EBITDA to provide investors with a supplemental measure of our operating performance. We believe Normalized EBITDA is an important supplemental measure of operating performance because it eliminates items that have less bearing on our operating performance and thus highlights trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We also believe that securities analysts, investors and other interested parties frequently use EBITDA and Normalized EBITDA in the evaluation of issuers, many of which present similar metrics when reporting their results. Our management also uses Normalized EBITDA and 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 capital stock. Because other companies may calculate EBITDA, or Normalized EBITDA, differently than we do, these metrics are not comparable to similarly titled measures reported by other companies.

Supplemental Information — Discontinued Operations

As a result of the Company's decision to discontinue its discount store operations at Fields and most of the store operations at Zellers in April 2012, the Company has retrospectively restated its consolidated statements

of earnings (loss) for all periods to reflect the discount store segment as discontinued operations. As a requirement of the Target Agreement, the Company is obligated to operate the Zellers banner until March 2013.

The following table sets forth the major components of the Company's earnings (loss) from discontinued operations:

(millions of Canadian dollars)	Fiscal Year					
	2011		2010		2009	
	$	% of Retail Sales	$	% of Retail Sales	$	% of Retail Sales
Retail sales	3,288.6	100.0%	3,623.8	100.0%	3,722.1	100.0%
Cost of sales	(2,159.7)	−65.7%	(2,472.7)	−68.2%	(2,561.7)	−68.8%
Selling, general & administrative expenses	(1,026.2)	−31.2%	(1,034.6)	−28.6%	(1,024.1)	−27.5%
Operating income	102.7	3.1%	116.5	3.2%	136.3	3.7%
Finance income	0.7	0.0%	0.4	0.0%	4.3	0.1%
Earnings before income taxes ("EBT")	103.4	3.1%	116.9	3.2%	140.6	3.8%
Income tax (expense) benefit	(29.3)	−0.9%	(117.0)	−3.2%	1.1	0.0%
Net earnings (loss) from discontinued operations, net of taxes	74.1		(0.1)		141.7	
Sales of leasehold interests, net of taxes	1,317.6		—		—	
Net earnings (loss) for the period — discontinued operations, net of taxes	$ 1,391.7		$ (0.1)		$ 141.7	

Fiscal Year 2011 Compared to Fiscal Year 2010

Retail Sales

Retail sales increased by $131.4 million, or 3.5%, from $3,718.2 million in Fiscal 2010 to $3,849.6 million in Fiscal 2011. Over the same period, consolidated same store sales increased 3.7%. Excluding the impact of the Vancouver Olympic Sales, consolidated same store sales increased 5.1% in Fiscal 2011 as compared to Fiscal 2010 with an increase in same store sales of 6.8% at Hudson's Bay and an increase of 7.1% (U.S.$) at Lord & Taylor. Consolidated same store sales was negatively impacted by 1.3% due to the foreign currency translation of Lord & Taylor results.

Retail sales increased in all provinces across Canada and all regions in the United States in which the Company operates, with the exception of British Columbia and Nova Scotia. Excluding the impact of Vancouver Olympic Sales, British Columbia experienced an increase in sales. Sales in Nova Scotia declined due to the closure and sale of the Halifax store in the first quarter of 2011. Sales improvements at flagship stores exceeded average growth during the year. Retail sales growth was driven primarily by women's and men's apparel, women's shoes, handbags and jewellery, partially offset by a decline in major home fashion due to the reallocation of selling space from major home fashion to apparel and shoes. Additionally, sales from our omni-channel initiative grew 87.5%, from $44.0 million in Fiscal 2010 to $82.5 million in Fiscal 2011, excluding in-store returns.

Gross Profit

Gross profit was $1,543.6 million or 40.1% of retail sales for Fiscal 2011, compared to $1,509.1 or 40.6% of retail sales for Fiscal 2010, an increase of $34.5 million. Gross profit increased primarily due to sales growth, principally driven by sales of women's shoes, handbags and watches. The Company was generally able to increase retail prices to offset increases in merchandise costs. The modest decline in gross profit rate related primarily to increased promotional activity and an unfavourable impact relating to changes in foreign exchange rates of $19.3 million, partially offset by improved shortage results and lower distribution costs.

Selling, General and Administrative Expenses

SG&A was $1,347.2 million in Fiscal 2011 compared to $1,360.8 million in Fiscal 2010, a decrease of $13.6 million. During the year, the Company continued to leverage corporate overhead and infrastructure costs resulting in improvements in SG&A as a percentage of retail sales of 1.6% in Fiscal 2011, as compared to Fiscal 2010.

The decrease in SG&A in Fiscal 2011 was primarily due to the reduction in shared service costs and corporate overhead, foreign exchange movement, the impact of sales tax recoveries related to loyalty programs and an increase in return from credit operations primarily resulting from higher sales volume at Hudson's Bay. These improvements were partially offset by increased store payroll, benefits and marketing to support higher sales, incremental costs associated with the investment in our omni-channel platform, increased restructuring costs, the impairment of distribution centres to account for the reduced volume associated with Zellers, and increased amortization as a result of capital and software expenditures in 2011 and 2010. In 2006, as a result of applying purchase accounting, the Company's Canadian fixed assets were written down to zero resulting in year-over-year increases in depreciation and amortization as the reported asset values grow with post 2006 capital expenditures. SG&A was also impacted by gains that are not considered part of day-to-day operations. These gains are associated with foreign exchange on forward contracts related to capital distributions, and the closure of the Halifax Hudson's Bay store.

In Fiscal 2011, corporate overhead and shared service costs totaled approximately $185.0 million. A significant portion of these costs were allocated to the Zellers and Fields banners in accordance with the Company's cost sharing agreements, however, certain of these costs do not qualify as discontinued operations as they are not directly attributable. The Company has plans to reduce certain of these costs as it winds down most of the Zellers business.

EBITDA and Normalized EBITDA

EBITDA was $309.3 million in Fiscal 2011 compared to $245.2 million in Fiscal 2010, an increase of $64.1 million, or 26.1%. Normalized EBITDA was $312.9 million in Fiscal 2011 compared to $265.0 million in Fiscal 2010, an increase of $47.9 million, or 18.1%. The increase in EBITDA and Normalized EBITDA was primarily due to higher sales together with continued savings in SG&A and higher returns from credit operations, partially offset by a slight decline in gross profit rate.

Finance Costs

Finance costs were $142.9 million in Fiscal 2011 compared to $241.3 million in Fiscal 2010, a decrease of $98.4 million, or 40.8%. The decrease was primarily due to a decrease in the amortization of the Commercial Mortgage Backed Loan (the "CMBS Loan") debt renewal option of $36.7 million, a decrease in the expense associated with the movement of the fair value of embedded derivatives of $19.2 million, a reduction in interest expense on long-term borrowings of $18.1 million, a reduction in interest expense on short term borrowings of $17.4 million and a gain of $7.1 million on the repayment and extinguishment of debt when the CMBS Loan was repaid in Fiscal 2011. This gain offset interest expense.

Income Tax Benefit

Income tax benefit in Fiscal 2011 was $3.8 million compared to $181.1 million in Fiscal 2010, a decrease of $177.3 million. In Fiscal 2010, the Company recorded a $163.6 million reduction to the valuation allowance on its deferred tax assets as a result of improvements in the Company's operating results and management's expectation with respect to the ability to realize the benefit of timing differences and utilization of tax losses carried forward. Other factors driving the change in income tax benefit include the improvement in the Company's earnings before income tax offset by a one-time accounting benefit associated with Lord & Taylor ceasing to be a flow-through entity for U.S. federal income tax purposes.

Net Earnings (Loss) — Continuing Operations

Net Earnings (Loss) — Continuing Operations earnings were $57.3 million in Fiscal 2011 compared to $88.1 million in Fiscal 2010, a decrease of $30.8 million. The decrease is due to reduced income tax benefit as a result of a reduction in the deferred tax valuation allowance in 2010, partially offset by improvements in

operating income of $48.1 million, a reduction in borrowing costs related to the repayment of long-term and short-term debt of $35.5 million, a reduction in the fair value of embedded derivatives of $19.2 million, and a decrease in the amortization of the CMBS debt renewal option of $36.7 million.

Net Earnings (Loss) — Discontinued Operations

Net Earnings (Loss) — Discontinued Operations were $1,391.7 million in Fiscal 2011 compared to a loss of $0.1 million in Fiscal 2010, an increase of $1,391.8 million. The increase was primarily due to a gain from the sale of Zellers leasehold interests, net of income taxes, of $1,317.6 million, and increased income from discontinued operations of $74.1 million.

During Fiscal 2011, the Company developed a comprehensive transition plan to operate and systematically wind-down most of the Zellers network to preserve value and mitigate risk. A key component of the plan included retaining a nationally recognized liquidator to assist with assortment planning and category rationalization of inventory.

Historically the Zellers and Fields banners were allocated overhead and shared service costs in accordance with the Company's cost sharing agreements. Certain of these costs do not qualify as discontinued operations as they are not directly attributable to the discontinued operations and as such they have been excluded from the determination of net earnings (loss) from discontinued operations. The Company has plans to reduce certain of these costs as they wind down most of the Zellers business.

Fiscal Year 2010 Compared to Fiscal Year 2009

Retail Sales

Retail sales increased by $98.5 million, or 2.7%, from $3,619.7 million in Fiscal 2009 to $3,718.2 million in Fiscal 2010. Over the same period, consolidated same store sales increased 3.2%. Excluding the impact of Vancouver Olympic Sales, consolidated same store sales increased 3.0% in Fiscal 2010 as compared to Fiscal 2009 with an increase of 2.2% in same store sales at Hudson's Bay and an increase of 12.4% (U.S.$) at Lord & Taylor. Consolidated same stores sales was negatively impacted by 3.3% due to the foreign currency translation of Lord & Taylor results.

Retail sales decreased in the Atlantic and Prairie provinces, and increased in the remaining markets in which the Company operates in Canada and the United States. The decrease in sales in these regions was due to the temporary closure of the lower level of the downtown Winnipeg Hudson's Bay store, soft performance in Halifax and Moncton and a decline in Edmonton driven by softness in the energy and related services industries. The Company's strongest retail sales growth occurred in women's and men's apparel and women's shoes, which was partially offset by a decline in cosmetics and fragrances. The growth in these key merchandising categories, particularly at Lord & Taylor, was driven by inventory intensification. Additionally, sales from the Company's omni-channel initiative grew 81.8%, from $24.2 million in Fiscal 2009 to $44.0 million in Fiscal 2010, excluding in-store returns.

Gross Profit

Gross profit was $1,509.1 million or 40.6% of retail sales for Fiscal 2010, compared to $1,441.4 or 39.8% of retail sales for Fiscal 2009. Gross profit increased by $67.7 million due to sales growth principally driven by sales of women's contemporary apparel and shoes. Gross profit rate increased by 0.8% during the period as a result of improved inventory management and sell through, partially offset by an unfavourable impact relating to changes in foreign exchange rates of $51.5 million.

Selling, General and Administrative Expenses

SG&A was $1,360.8 million, or 36.6% of retail sales, in Fiscal 2010 compared to $1,430.3 million, or 39.5% of retail sales, in Fiscal 2009, a decrease of $69.5 million. The Company's SG&A as a percentage of retail sales was 2.9% lower in Fiscal 2010 as compared to Fiscal 2009, reflecting improved leverage as a result of increased store labour productivity and a reduction in store management and planned cost reduction exercises.

The decrease in SG&A in Fiscal 2010 was primarily due to reduced shared service costs, reduction in branded marketing costs, favourable foreign exchange movements (impact of approximately $42.5 million), and

reduced pension expense due to improved investment performance. These improvements were partially offset by a change in the Company's vacation policy in 2009, increased store payroll, benefits and performance based compensation to support increased sales, incremental costs associated with the investment in our omni-channel platform and increased head office costs related to performance based compensation.

SG&A was also impacted by costs associated with activities not considered to be part of day-to-day operations, including a reduction in restructuring costs associated with the shared service cost reduction initiative offset by one-time credits relating to the Vancouver Olympics in Fiscal 2009. One-time Olympic credits are associated with the net profit of the business-to-business Olympic wholesale operations and credits recognized in relation to HBC's fulfilment of its obligation to supply Canada's Olympic athletes and VANOC volunteers with uniforms and other products.

EBITDA and Normalized EBITDA

EBITDA was $245.2 million in Fiscal 2010 compared to $129.7 million in Fiscal 2009, an increase of $115.5 million, or 89.1%.

Normalized EBITDA was $265.0 million in Fiscal 2010 compared to $156.4 million in Fiscal 2009, an increase of $108.6 million, or 69.4%. The increase in EBITDA and Normalized EBITDA was the result of higher sales together with the improved gross profit rate and reduced SG&A, offset by the impact of unfavourable foreign exchange rate movements.

Finance Costs

Finance costs were $241.3 million in Fiscal 2010 compared to $203.1 million in Fiscal 2009, an increase of $38.2 million. The increase is primarily due to (i) increased expense associated with the movement of the fair value of embedded derivatives of $31.4 million, partially offset by a decrease in the amortization of the CMBS debt renewal option of $17.3 million, and (ii) higher interest expense on long-term borrowings of $23.7 million.

Income Tax Benefit

Income tax benefit in Fiscal 2010 was $181.1 million compared to a benefit of $32.3 million in Fiscal 2009, an increase of $148.8 million. This increase related primarily to a $163.6 million reduction to the valuation allowance on deferred tax assets as a result of improvements in the Company's operating results and management's expectation with respect to the ability to realize on timing differences and utilization of tax losses carried forward. In addition, the Company's improvement in loss before income tax resulted in a lower tax benefit.

Net Earnings (Loss) — Continuing Operations

Net Earnings (Loss) — Continuing Operations were $88.1 million in Fiscal 2010 compared to a loss of $159.7 million in Fiscal 2009, an increase of $247.8 million. The increase was due to improved operating income and income tax benefit due to the reduction in the deferred tax valuation allowance, offset by increased financing costs.

Net Earnings (Loss) — Discontinued Operations

Net Earnings (Loss) — Discontinued Operations were a loss of $0.1 million in Fiscal 2010 compared to net earnings of $141.7 million in Fiscal 2009, a decrease of $141.8 million. The decrease was due to reduced operating income driven by higher SG&A in combination with a reduction in income tax benefit.

Operating income decreased to $116.5 million in Fiscal 2010 from $136.3 million in Fiscal 2009, a decrease of $19.8 million. The decrease was due to a decline in sales of 2.6% resulting from competitive pressures and increased SG&A, offset by an improvement in gross profit rate by 0.6% resulting from improved margin management.

SG&A included in discontinued operations reflect directly attributable costs and are expected to be eliminated upon wind-down of discontinued operations. The 1.1% increase in SG&A as a percentage of retail sales in Fiscal 2010 was primarily the result of a declining retail sales base.

Results from Operations — Interim Periods

The following table sets forth the major components of the Company's condensed consolidated statements of earnings (loss) expressed in millions of Canadian dollars, except for percentages of sales, for the periods indicated:

(millions of Canadian dollars)	13-week period ended				26-week period ended			
	July 28, 2012		July 30, 2011		July 28, 2012		July 30, 2011	
	$	%	$	%	$	%	$	%
Statements of Earnings Data								
Retail sales	911.9	100.0%	869.0	100.0%	1,760.1	100.0%	1,653.3	100.0%
Cost of sales	(547.3)	−60.0%	(517.1)	−59.5%	(1,054.4)	−59.9%	(984.2)	−59.5%
Gross profit	364.6	40.0%	351.9	40.5%	705.7	40.1%	669.1	40.5%
Selling, general & administrative expenses	(342.9)	−37.6%	(313.8)	−36.1%	(730.0)	−41.5%	(641.0)	−38.8%
Operating income (loss)	21.7	2.4%	38.1	4.4%	(24.3)	−1.4%	28.1	1.7%
Finance costs	(25.7)	−2.8%	(37.6)	−4.3%	(51.4)	−2.9%	(76.5)	−4.6%
Earnings (loss) before income taxes ("EBT")	(4.0)	−0.4%	0.5	0.1%	(75.7)	−4.3%	(48.4)	−2.9%
Income tax benefit	2.3	0.2%	3.3	0.3%	22.1	1.3%	14.0	0.8%
Net earnings (loss) — Continuing operations	(1.7)	−0.2%	3.8	0.4%	(53.6)	−3.0%	(34.4)	−2.1%
Net earnings (loss) — Discontinued operations, net of taxes	(12.1)		53.5		(94.2)		47.7	
Net earnings (loss) for period	$ (13.8)		$ 57.3		$ (147.8)		$ 13.3	
EBITDA	$ 50.2	5.5%	$ 62.9	7.2%	$ 34.8	2.0%	$ 78.2	4.7%
Normalized EBITDA	$ 58.9	6.5%	$ 59.9	6.9%	$ 85.0	4.8%	$ 80.9	4.9%

For a reconciliation of net earnings (loss) — continuing operations to EBITDA and Normalized EBITDA see "Selected Consolidated Financial Information".

Supplemental Information — Discontinued Operations

As a result of the Company's decision to discontinue its discount store operations at Fields and most of the store operations at Zellers in April 2012, the Company has retrospectively restated its condensed consolidated statements of earnings (loss) for all periods to reflect the discount store segment as discontinued operations. As a requirement of the Target Agreement, the Company is obligated to operate the Zellers banner until March 2013.

The following table sets forth the major components of the Company's earnings (loss) from discontinued operations for the periods indicated:

(millions of Canadian dollars)	13-week period ended				26-week period ended			
	July 28, 2012		July 30, 2011		July 28, 2012		July 30, 2011	
	$	%	$	%	$	%	$	%
Retail sales	632.9	100.0%	786.0	100.0%	1,296.8	100.0%	1,506.6	100.0%
Cost of sales	(465.4)	−73.5%	(515.8)	−65.6%	(906.2)	−69.9%	(1,003.4)	−66.6%
Selling, general & administrative expenses	(239.6)	−37.9%	(244.9)	−31.2%	(624.4)	−48.1%	(485.7)	−32.2%
Operating income (loss)	(72.1)	−11.4%	25.3	3.2%	(233.8)	−18.0%	17.5	1.2%
Finance income (costs)	(0.5)	−0.1%	0.2	0.0%	(0.2)	0.0%	0.4	0.0%
Earnings (loss) before income taxes ("EBT")	(72.6)	−11.5%	25.5	3.2%	(234.0)	−18.0%	17.9	1.2%
Income tax benefit	26.0	4.1%	28.0	3.6%	74.0	5.7%	29.8	2.0%
Net earnings (loss) from discontinued operations, net of taxes	(46.5)		53.5		(160.0)		47.7	
Sales of leasehold interests, net of taxes	34.4		—		65.8		—	
Net earnings (loss) for the period — discontinued operations, net of taxes	$ (12.1)		$ 53.5		$ (94.2)		$ 47.7	

Thirteen Week Period Ended July 28, 2012 Compared to the Thirteen Week Period Ended July 30, 2011

Retail Sales

Retail sales increased by $42.9 million, or 4.9%, from $869.0 million for the 13 week period ended July 30, 2011 to $911.9 million for the 13 week period ended July 28, 2012. Over the same period, consolidated same store sales increased by 4.0%, with an increase of 3.3% at Hudson's Bay and 1.5% (U.S.$) at Lord & Taylor. Consolidated same store sales was positively impacted by favourable movements in foreign exchange rates, increasing consolidated same store sales by 1.9%. In addition, Lord & Taylor opened two new stores in Ridge Hill, New York and Rockingham, New Hampshire, which increased sales at Lord & Taylor by 2.0% year-over-year.

Retail sales increased in all provinces in which the Company operates in Canada and in all regions in the United States, with the exception of Nova Scotia. The decrease in retail sales in Nova Scotia was driven by softer performance at the Dartmouth Hudson's Bay store due to higher sales for 13 weeks ended July 30, 2011 in response to the closure of the Halifax Hudson's Bay store in the first quarter of 2011. Retail sales growth for the 13 weeks ended July 28, 2012 was driven by continued strength in men's apparel, women's shoes and handbags, and specialty Topshop branded apparel, partially offset by softer performance in ladies apparel and home fashion. Sales from the Company's omni-channel initiative grew 62.9%, from $14.3 million for the 13 weeks ended July 30, 2011 to $23.3 million for the 13 weeks ended July 28, 2012, excluding in-store returns.

Gross Profit

Gross profit was $364.6 million or 40.0% of retail sales for the 13 week period ended July 28, 2012, compared to $351.9 million or 40.5% of retail sales for the 13 week period ended July 30, 2011, due to sales growth primarily driven by sales of men's apparel and specialty Topshop branded apparel assisted by a $6.9 million favourable foreign exchange impact. This was partially offset by a 0.5% decrease in our gross profit rate in the 13 week period ended July 28, 2012 compared with the prior year period primarily due to increased promotional activities.

Selling, General and Administrative Expenses

SG&A was $342.9 million or 37.6% of retail sales in the 13 week period ended July 28, 2012 compared to $313.8 million or 36.1% of retail sales in the 13 week period ended July 30, 2011, an increase of $29.1 million. The SG&A rate as a percentage of retail sales increased by 1.5% in the 13 week period ended July 28, 2012 compared to the same period in the prior year, largely as a result of the impact of the gain on sale of the Halifax Hudson's Bay store recorded in 2011. Excluding the impact of the gain, SG&A as a percentage of sales were flat.

The increase in SG&A for the 13 week period ended July 28, 2012 was primarily due to increased store payroll and benefits to support increased sales, foreign exchange (negative impact to SG&A of approximately $5.4 million), decreased return from credit operations of $5.9 million due to new program terms and the incremental costs associated with the investment in our omni-channel platform, higher amortization resulting from the increased asset base due to capital expenditures over the last twelve months, and the gain on sale of the Halifax Hudson's Bay store recorded in 2011, which is not considered part of the day-to-day operations.

EBITDA and Normalized EBITDA

EBITDA was $50.2 million in the 13 week period ended July 28, 2012 compared to $62.9 million in the 13 week period ended July 30, 2011, a decrease of $12.7 million. Normalized EBITDA was $58.9 million in the 13 week period ended July 28, 2012 compared to $59.9 million in the 13 week period ended July 30, 2011, a decrease of $1.0 million. Higher sales and favourable foreign exchange rate movements were offset by reduced return from credit operations, higher SG&A to support store sales and investment in our omni-channel platform and a modest decline in our gross profit rate.

Finance Costs

Finance costs for the 13 weeks ended July 28, 2012 were $25.7 million compared with $37.6 million for the 13 weeks ended July 30, 2011, representing a decrease of $11.9 million or 31.6%. This reduction has been driven

by our ability to reduce outstanding loans and borrowings by 30.3% between July 30, 2011 and July 28, 2012 using proceeds resulting from the sale of discontinued operations.

Income Tax Benefit

Income tax benefit was $2.3 million for the 13 weeks ended July 28, 2012 compared to $3.3 million for the 13 weeks ended July 30, 2011. Factors impacting the change included a $4.5 million change in earnings (loss) before income taxes, the change in Lord & Taylor's tax status as a flow through entity for U.S. federal income tax purposes and a change in statutory tax rates for future periods which increased the value of deferred income tax assets. In the prior year, Lord & Taylor earnings were not subject to tax at the partnership level.

Net Earnings (Loss) — Continuing Operations

The Company's Continuing Operations had a loss of $1.7 million in the 13 week period ended July 28, 2012 compared to net earnings of $3.8 million in the 13 week period ended July 30, 2011, a decrease of $5.5 million. The decrease was due to lower operating income offset by decreased borrowing costs.

Net Earnings (Loss) — Discontinued Operations

The Company's Discontinued Operations had a loss of $12.1 million for the 13 week period ended July 28, 2012 from net earnings of $53.5 million for the 13 week period ended July 30, 2011. The decrease in net earnings was primarily due to the reduced sales and margin at those Zellers and Fields stores, which were being liquidated and closed. The results are in line with management's expectations.

Twenty-Six Week Period Ended July 28, 2012 Compared to the Twenty-Six Week Period Ended July 30, 2011

Retail Sales

Retail sales increased by $106.8 million, or 6.5%, from $1,653.3 million for the 26 week period ended July 30, 2011 to $1,760.1 million for the 26 week period ended July 28, 2012. Over the same period, consolidated same store sales increased 5.8%, with an increase of 5.3% at Hudson's Bay and 4.3% (U.S.$) at Lord & Taylor. Positive foreign exchange rate movements increased consolidated same store sales by 1.4%. In addition, Lord & Taylor opened two new stores in Ridge Hill, New York and Rockingham, New Hampshire, which increased Lord & Taylor sales by 1.6% year-over-year.

Retail sales increased in all markets in which the Company operates in Canada and the United States, with the exception of Nova Scotia. Excluding the impact of the Halifax Hudson's Bay store closure, retail sales in Nova Scotia increased. Retail sales growth was driven by women's and men's apparel, women's shoes and handbags, and specialty Topshop branded apparel. This sales growth was partially offset by a decline in major home fashion due to the reallocation of selling space from major home fashion to apparel and shoes. In addition, sales from our omni-channel initiative grew 76.3%, from $26.2 million for the 26 weeks ended July 30, 2011 to $46.2 million for the 26 weeks ended July 28, 2012, excluding in-store returns.

Gross Profit

Gross profit was $705.7 million or 40.1% of retail sales for the 26 week period ended July 28, 2012, compared to $669.1 million or 40.5% of retail sales for the 26 week period ended July 30, 2011. Gross profit increased by $36.6 million due to sales growth, which was primarily driven by sales of men's apparel and specialty Topshop branded apparel, assisted by a $9.2 million favourable foreign exchange impact. This was partially offset by a 0.4% decrease in our gross profit rate in the 26 week period ended July 28, 2012 as compared to the prior year period primarily due to increased promotional activities in key high growth areas and unfavourable inventory shortage results.

Selling, General and Administrative Expenses

SG&A was $730.0 million or 41.5% of retail sales in the 26 week period ended July 28, 2012 compared to $641.0 million or 38.8% of retail sales in the 26 week period ended July 30, 2011, an increase of $89.0 million, or 13.9%. SG&A as a percentage of retail sales increased by 2.7% in the 26 week period ended July 28, 2012

compared to the same period in the prior year, largely as a result of higher restructuring costs incurred in 2012 which are not considered part of day to day operations as discussed below.

The increase in SG&A for the 26 week period ended July 28, 2012 was primarily due to increased store payroll and benefits to support increased sales, foreign exchange (negative impact to SG&A of approximately $7.7 million), decreased return from credit operations of $10.6 million due to new program terms, incremental costs associated with the investment in our omni-channel platform, increased amortization as a result of a higher asset base due to capital expenditures over the last twelve months, corporate reorganization charges primarily due to costs associated with closing distribution centres and a gain recorded in 2011 associated with the sale of the Halifax Hudson's Bay store. The cost increases were partially offset by reductions in shared service costs.

EBITDA and Normalized EBITDA

EBITDA was $34.8 million in the 26 week period ended July 28, 2012 compared to $78.2 million in the 26 week period ended July 30, 2011, a decrease of $43.4 million. Normalized EBITDA was $85.0 million in the 26 week period ended July 28, 2012 compared to $80.9 million in the 26 week period ended July 30, 2011, an increase of $4.1 million, or 5.1%. The increase in Normalized EBITDA was primarily the result of lower credit revenues due to new terms, higher SG&A to support store sales and investment in our omni-channel platform and a modest decline in gross profit rate, offset by higher sales and favourable foreign exchange rate movements.

Finance Costs

Finance costs for the 26 weeks ended July 28, 2012 were $51.4 million compared with $76.5 million for the 26 weeks ended July 30, 2011, representing a decrease of $25.1 million or 32.8%. This reduction was driven by our ability to reduce outstanding loans and borrowings by 30.3% between July 30, 2011 and July 28, 2012 using proceeds resulting from the sale of discontinued operations.

Income Tax Benefit

The income tax benefit for the 26 weeks ended July 28, 2012 was $22.1 million compared to a benefit of $14.0 million for the 26 weeks ended July 30, 2011 primarily as a result of a higher loss before income taxes in the period. In addition, a change in statutory tax rates for future periods resulted in a benefit in the period as the value of timing differences and tax loss carryforwards increased. These benefits were partially offset as Lord & Taylor ceased to be a flow through entity for U.S. federal income tax purposes in the fourth quarter of 2011. The normalized effective tax rate for Fiscal 2012, prior to considering the impact of change in statutory rates and non-taxable transactions is expected to be 31.5%.

Net Earnings (Loss) — Continuing Operations

The Company's Continuing Operations had a loss of $53.6 million in the 26 week period ended July 28, 2012 compared to a loss of $34.4 million in the 26 week period ended July 30, 2011, an increase of $19.2 million. The increase was due to lower operating income offset by higher income tax benefit and decreased borrowing costs.

Net Earnings (Loss) — Discontinued Operations

The Company's Discontinued Operations had a loss of $94.2 million for the 26 week period ended July 28, 2012 from net earnings of $47.7 million for the 26 week period ended July 30, 2011. The decrease in net earnings was primarily due to the reduced sales and margin at those Zellers and Fields stores, which were liquidated or closed during the year, offset by higher income tax benefits and the impact of the sale of leasehold interests. The results are in line with management's expectations. The Company provided for certain one-time expenses associated with the closure and wind-down of the Fields operations and most of the Zellers operations in the first quarter of 2012. Management has provided for known one-time expenses associated with the closure and wind-down of Fields and most of the Zellers operations as at July 28, 2012.

2012 Outlook

For the nine weeks ended September 28, 2012, same store sales were higher at Hudson's Bay by 2.5% and at Lord & Taylor by 3.8% (3.2% in U.S. dollars) compared to the same period in 2011 and management expects growth to continue for the remainder of the third quarter. The two largest marketing events, Bay Days and Friends and Family (Lord & Taylor) take place in the month of October and we expect that these promotional events will drive higher sales performance and result in same store sales which are similar or better than the nine week period ended September 28, 2012.

Our fourth quarter same store sales performance has historically been strong. Same store sales grew at Hudson's Bay by 8.7% in the fourth quarter of Fiscal 2011 and by 8.6% (excluding Vancouver Olympic Sales) in the fourth quarter of Fiscal 2010 and at Lord & Taylor by 6.6% in the fourth quarter of Fiscal 2011 and by 11.4% in the fourth quarter of Fiscal 2010 all compared to the prior year and have been significantly higher than the competitive industry performance for the same time frames.

We expect the fourth quarter sales performance in Fiscal 2012 to be supported by the expected completion of major renovations of our Vancouver, Boston, Bala Cynwyd and Oakbrook stores, the opening of Topshop "shop-in-shops" in our Vancouver and Queen Street flagships, and the replatforming of L&T.com.

EBITDA margins are expected to perform similarly or better than the results from the 26 weeks ended July 28, 2012 as anticipated sales increases in the 27 week period ending February 2, 2013 should provide significant SG&A leverage and the impact of the renegotiated proprietary credit card program is lower in the fourth quarter of Fiscal 2012 than in previous quarters.

Liquidity and Capital Resources

Cash Flows

Our total cash and cash equivalents 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			26-week period ended	
$ in millions	2011	2010	2009	July 28, 2012	July 30, 2011
	$	$	$	$	$
Operating activities — continuing operations	29.3	55.4	24.9	(115.4)	(140.0)
Investing activities — continuing operations	(222.6)	(89.7)	(71.4)	(72.0)	(47.0)
Financing activities — continuing operations	(1,679.5)	(52.1)	(93.4)	77.1	(651.8)
(Decrease) Increase in cash from continuing operations	(1,872.8)	(86.4)	(139.9)	(110.3)	(838.8)
(Decrease) Increase in cash from discontinued operations	1,867.3	92.9	140.0	114.7	846.1
Foreign exchange gains (losses) on cash	(9.3)	(0.3)	(0.9)	—	(0.7)
Cash beginning of period	57.2	51.0	51.8	42.4	57.2
Cash end of period	$ 42.4	$ 57.2	$ 51.0	$ 46.8	$ 63.8

Net Cash Inflow (Outflow) Operating Activities

Cash flows from continuing operating activities were $29.3 million in Fiscal 2011 compared to $55.4 million in Fiscal 2010, a decrease of $26.1 million, due to investment in working capital, partially offset by an increase in operating income coupled with a decrease in cash financing costs. The increase in working capital was largely driven by the investment in inventory for the Fall of Fiscal 2011 at key locations and categories which drove higher sales at Hudson's Bay in the second half of Fiscal 2011 as compared to the prior year period, partially offset by reduced trade payables.

Cash flows from continuing operating activities were $55.4 million in Fiscal 2010 compared to $24.9 million in Fiscal 2009, an increase of $30.5 million. The increase was primarily driven by an increase in operating income

offset by investment in working capital and an increase in cash finance costs. The increase in working capital requirements primarily resulted from improved efficiencies and faster payment cycles on payables.

Cash flows used in continuing operating activities were $115.4 million for the 26 weeks ended July 28, 2012 compared to $140.0 million for the 26 weeks ended July 30, 2011, a decrease of $24.6 million. This decrease was primarily driven by improvements in working capital management as we were able to reduce our investment in inventory net of trade payables through continued operational streamlining.

Net Cash Inflow (Outflow) Investing Activities

Cash flows used in investing activities relating to continuing operations increased from $89.7 million in Fiscal 2010 to $222.6 million in Fiscal 2011, an increase of $132.9 million. The increased use of cash was primarily due to increased capital expenditures and the exercise of purchase options on buildings and related ground leases for five store locations sub-leased from Macy's. The Company paid $41.0 million to Macy's in settlement of the related finance lease obligation.

Cash flows used in investing activities relating to continuing operations increased from $71.4 million in Fiscal 2009 to $89.7 million in Fiscal 2010, an increase of $18.3 million. The increased use of cash was primarily due to increased capital expenditures relating to pilot store remodels and improvements related to right-sizing at Hudson's Bay, as well as the renovation of the Lord & Taylor flagship store in New York.

Cash flows used in investing activities relating to continuing operations increased from $47.0 million for the 26 week period ended July 30, 2011 to $72.0 million for the 26 week period ended July 28, 2012, an increase of $25.0 million. The increased use of cash was primarily due to increased capital expenditures in combination with a disposition of property plant and equipment during the 26 week period ended July 30, 2011, which partially offset the cash flows used during that period.

Capital Expenditures

The tables below summarize our investments by major areas:

$ in millions	2011	2010	2009
Merchandising	108.4	64.7	38.7
Information technology	21.9	26.0	17.4
Omni-channel	10.4	2.3	—
Maintenance	25.3	18.8	37.0
Total capital expenditures[(1)]	166.1	111.8	93.1
Capital expenditures — discontinued operations	4.1	25.6	21.2
	170.2	137.4	114.3

Note:

(1) Capital expenditures are inclusive of software development costs, which have been reflected as information technology related expenditures above.

In Fiscal 2011, capital expenditures for continuing operations were $166.1 million, an increase of $54.3 million over Fiscal 2010. The increased capital expenditures were primarily related to store remodels and improvements related to right sizing efforts at Hudson's Bay as well as the construction of two new stores at Lord & Taylor and the continued expansion of our omni-channel capabilities.

In Fiscal 2010, capital expenditures for continuing operations were $111.8 million, an increase of $18.7 million over Fiscal 2009. The increased capital expenditures were primarily related to pilot store remodels and improvements related to right sizing at Hudson's Bay, as well as the renovation of Lord & Taylor's flagship store in New York.

In addition to capital investments, we received combined vendor allowances and landlord incentives of $21.7 million, $12.3 million, and $24.9 million, in Fiscal 2011, Fiscal 2010 and Fiscal 2009, respectively. Landlord

incentives were received in relation to leasehold improvements and are included in our cash provided by operations in our consolidated statements of cash flows. However, operationally we view these as an offset to our capital expenditures.

Capital expenditures for continuing operations were $73.3 million for the 26 weeks ended July 28, 2012, compared to capital expenditures for continuing operations of $55.2 million for the 26 weeks ended July 30, 2011.

We anticipate capital expenditures of approximately $185.0 to $190.0 million in Fiscal 2012, an increase of approximately 11.4% to 14.4% over Fiscal 2011, and $185 million to $195 million in Fiscal 2013. This increased investment is primarily related to the major renovation of our Vancouver flagship store, which includes a Topshop, expansion of our Toronto Queen Street Topshop, continued renovation of our Yorkdale store, continued expansion of our omni-channel capabilities, and renovations of various Lord & Taylor stores, including our locations at Bala Cynwyd, Oak Brook, and Boston.

Net Cash Flow Inflow (Outflow) Financing Activities

Cash flows used in financing activities relating to continuing operations increased from $52.1 million in Fiscal 2010 to $1,679.5 million in Fiscal 2011, an increase of $1,627.4 million. In Fiscal 2010 we paid a return of capital distribution to our Principal Shareholder in the amount of $44.1 million. In Fiscal 2011, with the proceeds of the Target Transaction of $1,832.4 million, we paid dividends and a return of capital distribution to our Principal Shareholder in the amount of $668.3 million and made an investment in Lord & Taylor, reducing Lord & Taylor's long-term debt by $378.4 million.

Cash flows used in financing activities relating to continuing operations decreased from $93.4 million in Fiscal 2009 to $52.1 million in Fiscal 2010, a decrease of $41.3 million. In Fiscal 2010 we paid a return of capital distribution to our Principal Shareholder in the amount $44.1 million. In Fiscal 2009, we paid a return of capital distribution to our Principal Shareholder in the amount of $41.5 million and a dividend payment of $2.5 million.

Cash flows from financing activities relating to continuing operations increased from a use of $651.8 million for the 26 week period ended July 30, 2011 to a source of $77.1 million for the 26 week period ended July 28, 2012, an increase of $728.9 million. For the 26 weeks ended July 30, 2011, with the proceeds of the Target Transaction of $907.4 million, we repaid a portion of the HBC Revolving Credit Facility, repaid the supplemental term loan, and paid dividends and a return of capital distribution to our shareholders in the amount of $429.9 million. For the 26 weeks ended July 28, 2012 we paid dividends in the amount of $63.8 million.

Cash Balances and Liquidity

Our primary needs for cash are to fund operations, to fund capital expenditures in connection with our renovation and remodelling programs, and to fund seasonal inventory purchases and other working capital requirements. Working capital requirements are at their highest in the latter half of the fiscal year as inventory builds through the Fall, peaking during the November and December holiday selling season. Working capital is at its lowest at fiscal year-end.

Our primary sources of funds are cash flows provided by operations, our HBC and Lord & Taylor revolving credit facilities, and mortgage-backed real estate financing. Other potential sources of funding include mortgaging unencumbered real estate or entering into the sale and leaseback of real estate properties, or selling real estate. 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 stock.

Funding Capacity

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

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

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

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 July 28, 2012, HBC owed $277.7 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 includes a revolving credit facility with total availability of $1,100.0 million. The HBC Revolving Credit Facility is subject to a borrowing base, based predominantly on eligible inventory of HBC (excluding Lord & Taylor and its subsidiaries) and certain eligible equipment and eligible credit card receivables of HBC and certain of its subsidiaries (excluding Lord & Taylor 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 and capital expenditures, or other general corporate purposes and to make certain restricted payments, investments and repayments of indebtedness.

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 in our property other than our real property (not including any property of Lord & Taylor and its subsidiaries) and a second priority security against the real property of HBC and its subsidiaries (other than Lord & Taylor and its subsidiaries).

On June 15, 2012, the Company executed an amendment to the HBC Revolving Credit Facility. The amendment extends the maturity date to June 15, 2017 and reduces the amount available to be borrowed to $750.0 million after May 1, 2013 as a result of the lower borrowing base associated with the continuing operations. There were no changes to HBC's credit availability or security interests.

New HBC Term Loan

On November 24, 2010, HBC entered into an agreement with GE Capital Canada Finance Inc. and certain other credit lenders for a $450.0 million term loan (the "Existing HBC Term Loan"), which is fully drawn.

Concurrently with the Closing of the Offering, HBC intends to refinance its outstanding indebtedness under the Existing HBC Term Loan by paying off that facility and entering into an agreement with BMO Capital Markets, as Lead Arranger, Bank of Montreal, as Administrative Agent and certain other credit lenders for a $250 million term loan (the "New HBC Term Loan"). The New HBC Term Loan will be available for general corporate purposes and matures two years following the Closing of the Offering. There will be no scheduled repayments prior to maturity, although there will be certain mandatory repayments in specified circumstances.

The New HBC Term Loan will be secured by a first priority security interest in certain of the real property of HBC and its subsidiaries (other than Lord & Taylor and its subsidiaries). The New HBC Term Loan will contain representations and warranties, positive and negative covenants, including one that restricts distributions, reporting requirements and a number of events of default, in each case customary for loans of this nature.

Lord & Taylor Revolving Credit Facility

Lord & Taylor is party to an amended and restated credit facility with General Electric Capital Corporation, General Electric Capital Markets, Inc., and Canadian Imperial Bank of Commerce (the "Lord & Taylor Revolving Credit Facility"). As of July 28, 2012, Lord & Taylor owed U.S.$161.1 million under the Lord & Taylor Revolving Credit Facility. Lord & Taylor is in compliance with all covenants contained in the Lord & Taylor Revolving Credit Facility.

The Lord & Taylor Revolving Credit Facility provides a U.S.$350 million revolving line of credit through September 30, 2016. This revolving line of credit is subject to a borrowing base, based predominantly on eligible inventory, furniture and fixtures of Lord & Taylor and its subsidiaries. The Lord & Taylor 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 weighted-average interest rate of the Lord & Taylor Revolving Credit Facility is LIBOR, plus 2.0% to 2.5% based upon the availability schedule.

The Lord & Taylor Revolving Credit Facility contains restrictive covenants customary for credit facilities of this nature, including restrictions on the incurrence of indebtedness, financial maintenance covenants, 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 Lord & Taylor Revolving Credit Facility is primarily secured by eligible inventory and furniture and fixtures of Lord & Taylor and its subsidiaries.

Lord & Taylor Term Loan

On January 11, 2012, Lord & Taylor entered into a U.S.$450.0 million syndicated term loan with Credit Suisse Securities LLC ("CS"), as Sole Lead Arranger of the syndicate, which matures on January 11, 2019 (the "Lord & Taylor Term Loan").

Interest is charged on the Lord & Taylor Term Loan depending on the type of borrowing and is based on a greater of test of various rates, including, but not limited to, the LIBOR rate plus an applicable margin of 4.5%. The LIBOR rate is subject to a floor of 1.25%. The weighted average interest rate of the Lord & Taylor Term Loan at January 28, 2012 was 5.75%. The average rate for Fiscal 2011 was 5.75%.

The Lord & Taylor Term Loan is repayable in installments of U.S.$1.1 million payable at the end of each April, July, October and January from April 30, 2012 to October 31, 2018. In addition to the quarterly amortization schedule outlined in the preceding sentence, Lord & Taylor is required to apply up to 50% of its excess free cash flow, as defined in the loan agreement and the percentage determined by the leverage ratio of Lord & Taylor at the fiscal year-end, to reduce the outstanding balance of the Lord & Taylor Term Loan. Lord & Taylor is also required to match any dividends paid with an equal pay down of the Lord & Taylor Term Loan. The remaining amount outstanding will be repaid on the maturity date. Except with respect to a repricing event, Lord & Taylor has the ability to prepay the Lord & Taylor Term Loan at any time without penalty after year one. Any prepayments are applied to reduce the then remaining scheduled installments. In September 2012, Lord & Taylor prepaid approximately U.S.$242.5 million of the Lord & Taylor Term Loan with the net proceeds from the 5th Avenue Lord & Taylor Mortgage.

The Lord & Taylor Term Loan is secured by a first lien security on the majority of the owned and ground leased facilities and a second priority security on the accounts receivable, inventory and furniture and fixtures of Lord & Taylor. The Lord & Taylor Term Loan 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 Term Loan.

5th Avenue Lord & Taylor Mortgage

On September 7, 2012, Lord & Taylor entered into a U.S.$250.0 million syndicated floating rate senior mortgage loan with Canadian Imperial Bank of Commerce, as Administrative Agent of the syndicate of lenders, which matures on September 10, 2017 (the "5th Avenue Lord & Taylor Mortgage"). Lord & Taylor utilized the net proceeds of this loan, approximately U.S.$242.5 million, to reduce the balance of the Lord & Taylor Term Loan.

Interest is charged on the 5th Avenue Lord & Taylor Mortgage at a rate of LIBOR plus 3.0%. The Company has entered into interest rate swap arrangements, the effect of which is to fix the interest rate related to the 5th Avenue Lord & Taylor Mortgage at 3.85%.

The 5th Avenue Lord & Taylor Mortgage is structured to be interest only 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%. Lord & Taylor has the ability to prepay the 5th Avenue 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 5th Avenue Lord & Taylor Mortgage contains representations and warranties, positive and negative covenants, reporting requirements and events of default. Lord & Taylor is in compliance with all covenants contained in the 5th Avenue Lord & Taylor Mortgage. As security for the 5th Avenue Lord & Taylor Mortgage the Company granted a first priority mortgage in the 5th Avenue Lord & Taylor property.

Contractual Obligations

Our significant contractual obligations and commitments as at January 28, 2012 are as follows:

Contractual obligations	Total	2012	2013	2014	2015	2016	Thereafter
Lease financing							
Operating lease arrangements[1][2]	$1,354.6	$ 257.4	$166.3	$139.4	$129.0	$116.3	$546.2
Short-term borrowings[3]							
HBC Revolving Credit Facility	155.0	155.0	—	—	—	—	—
Lord & Taylor Revolving Credit Facility	125.2	125.2	—	—	—	—	—
Long-term borrowings[4]							
Existing HBC Term Loan	448.9	—	—	448.9	—	—	—
Lord & Taylor Term Loan	450.3	4.6	4.5	4.5	4.5	4.5	427.7
Other Mortgages	13.7	1.9	2.0	9.8	—	—	—
Finance leases[4]	34.5	21.1	11.6	1.3	0.5	—	—
Purchase obligations[5]	60.4	22.8	6.7	6.0	5.1	4.4	15.4
Other obligations[6]	884.8	884.8	—	—	—	—	—
Total obligations	$3,527.4	$1,472.8	$191.1	$609.9	$139.1	$125.2	$989.3

Notes:

(1) 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.

(2) Included in these figures are future minimum payments relating to Zellers of $126.5 million, $46 million, $31.9 million, $27 million, $24 million and $97.5 million for Years 1-5 and thereafter, respectively.

(3) The HBC Revolving Credit Facility matures June 15, 2017 and the Lord & Taylor Revolving Credit Facility matures September 30, 2016. These amounts have been reflected as due in Year 1 as they are credit lines which can be repaid in full at any time, and are used to finance working capital needs.

(4) Amounts exclude interest.

(5) 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 short notice or with relatively insignificant cost or liability to the Company.

(6) Other obligations include trade and other payables, and derivative and other liabilities.

Leases

The Company has long-term operating lease obligations that are not capitalized on the balance sheet in accordance with IFRS. These leases are primarily related to store locations 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 $205.0 million in Fiscal 2011, $203.9 million in Fiscal 2010 and $236.7 million in Fiscal 2009. In addition to operating leases relating to store locations, the Company also holds finance leases related to equipment held which are capitalized on the balance sheet in accordance with IFRS.

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 2023. As of January 28, 2012, these leases have future minimum lease payments of $277.1 million, of which $218.6 million relates to leases assigned to Target, in addition to other lease-related expenses, such as property taxes and common area maintenance. The Company's obligation would be offset by payments from existing or future assignees and their obligations to the Company to comply with the assigned leases. Potential liabilities related to these guarantees may be subject to certain 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.

Short-term and Long-term Borrowings

As at July 28, 2012, the Company had increased its drawings on both the HBC Revolving Credit Facility and the Lord & Taylor Revolving Credit Facility to $277.7 million and $161.8 million, respectively. The Company also refinanced existing finance leases on equipment, converting these finance leases to term loan facilities and reducing the Company's overall cost of borrowing in respect of these assets.

On September 7, 2012, Lord & Taylor entered into the 5th Avenue Lord & Taylor Mortgage. The Company used the proceeds of the 5th Avenue Lord & Taylor Mortgage to repay U.S.$242.5 million of the Lord & Taylor Term Loan. Repayments in respect of the 5th Avenue Lord & Taylor Mortgage will commence in November 2015.

As our term loans are real estate based loans, any sale or devaluation of the underlying property could trigger a repayment. These terms are standard conditions, and we do not believe that devaluations of the property values below the agreed threshold is likely to occur during the term of the loan. Our revolving facilities are asset based borrowing facilities, and as a result declines in the underlying asset base could trigger early repayment of these facilities. We do not believe that this is likely to occur. Both our term loans and our revolving facilities contain standard clauses in respect of potential events of default that could also trigger repayment. These terms are standard lending terms and we do not believe an event of default is likely to occur.

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 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 employee benefit plans, which are not funded.

Other

As of January 28, 2012, the Company had other long-term liabilities which 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 which 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. The aggregate gross potential liability related to the Company's letters of credit is approximately $35.3 million at the end of Fiscal 2011.

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

Financial Instruments and Other Instruments

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

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

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.

(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 Lord & Taylor Revolving Credit Facility and the bank overdraft facilities are used to maintain liquidity.

(iii) Market risk

The Company is exposed to 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 policy, HBC may hedge up to 100% of all foreign currency transactions and economic exposures that are recognized on the consolidated balance sheet, or deemed as firm commitments (e.g. purchase orders that have been issued for goods and services in foreign currency). 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, whose functional currency is U.S. dollars, presents a foreign currency risk to HBC, whose functional currency is Canadian dollars. HBC has not entered into any hedging transactions with regards to this exposure.

(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 U.S. dollars and Canadian dollars.

Cash flow interest rate risk is mitigated by the use of interest rate derivative instruments, including interest rate swaps and interest rate caps.

Classification of Financial Instruments

Financial derivative 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 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 financing costs.

The following table provides a summary of the fair values of financial instruments by classification as at January 28, 2012 and January 31, 2011:

(millions of Canadian dollars)	2011 Fair Value	2010 Fair Value
Classified as fair value through profit or loss	(3.4)	0.6
Classified as loans and receivables	166.4	189.1
Classified as held to maturity	1.8	1.8
Financial derivatives designated as cash flow hedges	1.9	(8.0)
Classified as other liabilities	(2,072.7)	(2,989.6)

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 caps 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 caps 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. The embedded debt renewal options and fair value of the CMBS Loan were valued using a discounted cash flow model, taking into consideration the fixed interest rate spread included in the renewal options and notes, compared to fixed interest rate spreads on similar debt available in the market at the balance sheet date. The embedded interest rate floor in the Existing HBC Term Loan was valued using the Black model, a variant of the Black Scholes option pricing model, with the key inputs into the valuation being the Bankers Acceptance ("BA") rate forward rate curve, BA rate volatility and the contractual interest terms of the Existing HBC Term Loan agreement.

For Fiscal 2011, the Company recorded an $0.6 million loss on the change in fair value of embedded foreign currency derivatives (2010: gain of $1.0 million) and $3.5 million loss on the change in fair values of the CMBS Loan and the Existing HBC Term Loan embedded derivatives (2010: loss of $22.7 million). No gains or losses were recognized in Fiscal 2011 in relation to the change in fair value of CDOR based interest rate swaps (2010: gain of $2.9 million) or foreign currency options (2010: loss of $0.2 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 provision for any

tax matters. Should the ultimate tax liability materially differ from the provisions, the Company's effective tax rate and its earnings could be affected, positively or negatively, in the period in which the matters are resolved.

Related Party Transactions

The Company, HBTC, True North Retail Investments Limited Partnership ("TNRI") and the Principal Shareholder, all of which are entities under common control, and their respective general partners, as applicable, (as "Related HBC Entities") entered into an agreement for the reimbursement of expenses (the "Reimbursement Agreement") effective July 17, 2008 whereby the Company agreed to pay for maintenance and operating expenses of the Related HBC Entities, subject to compliance with existing or future credit agreements. Amounts charged to the Company by Related HBC Entities under the Reimbursement Agreement were $5.2 million for Fiscal 2011 (Fiscal 2010: $5.3 million; Fiscal 2009: $6.9 million), and $3.5 million for the 26 weeks ended July 28, 2012.

The Company and HBTC entered into a management services agreement (the "Management Agreement"), effective July 17, 2008 whereby the Company agreed to pay HBTC an annual fee of U.S.$2.0 million plus reimbursement of other expenses for management, financial, strategic and transaction support. Amounts charged to the Company by HBTC under the Management Agreement for Fiscal 2011 were $2.6 million (Fiscal 2010: $2.1 million; Fiscal 2009: $2.2 million), and $0.5 million for the 26 weeks ended July 28, 2012.

The Company and National Realty & Development Corporation ("National Realty", an entity under common control) entered into a Property Management Agreement (the "HBC Property Agreement"), effective July 17, 2008 whereby the Company agreed to retain National Realty as its property manager and pay National Realty an annual property management fee of U.S.$2.0 million.

Indirect subsidiaries of Lord & Taylor, and National Realty entered into two property management agreements (the "L&T Property Agreements", and together with the HBC Property Agreement, the "Property Agreements"), effective July 16, 2008 and September 7, 2012, respectively, whereby each subsidiary agreed to retain National Realty as its property manager and pay National Realty an aggregate annual property management fee of U.S.$2.0 million.

At the end of Fiscal 2011, $0.8 million was included in prepaids for Fiscal 2012 fees to be incurred under the Reimbursement Agreement and the Property Agreements. As at July 28, 2012, $0.6 million was included in prepaids for fees paid or incurred under the Reimbursement Agreement and the Property Agreements.

At the closing of the Offering, each of the above related party agreements will be amended such that National Realty and HBTC will no longer be entitled to management fees or to have their expenses reimbursed. For a period of 90 days following the Closing, National Realty shall continue to provide property management services to the Company but not be paid a management fee.

At the end of Fiscal 2011, $3.2 million has been included in receivables for advances made by the Company to TNRI. The advances were related to professional fees, capital taxes and other costs. As at July 28, 2012, $3.2 million was included in receivables for advances made by the Company to TNRI.

On May 6, 2011, Lord & Taylor's subsidiary, Lord & Taylor Home LLC, which operates home furnishings stores, entered into a two year lease at an annual rate of U.S. $1.0 million (with renewal options) with SP 35 L.P. (the "Landlord") for approximately 31,000 square feet in Shrewsbury, NJ to operate a home store. The Landlord is an affiliate of National Realty, controlled by Robert Baker and Richard Baker. The Company was charged $0.5 million under this lease agreement for the 26 weeks ended July 28, 2012.

In connection with the Target Transaction, Zellers and NRDC L&T B, LLC entered into a Fee Agreement on September 29, 2012 that provided for a one time fee of $8.0 million payable to NRDC L&T B, LLC for advisory services.

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 2011 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 recognised 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:

Inventories

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

Cost is determined, for the majority of inventory, using the weighted average cost method, based on individual items. 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 Program

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 of Property, Plant and Equipment and Intangible 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. The changes, for example, may be economic, competitive or a result of changing consumer attitudes which may arise across the Company or in individual markets in which the Company operates. Indefinite life intangible assets are

tested for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Company generally performs its impairment testing at the individual store level which is the lowest level at which independent cash flows are generated.

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. Value in use is estimated as the present value of the future cash flows that the Company expects to derive from the asset. In calculating the value in use, management estimates future cash flows using approved budgets / forecasts for the following fiscal year and considers future opportunities and risks in determining an appropriate growth rate for future periods.

Subsequent changes in estimates, including the expected future cash flows, growth rate and discount rate may result in subsequent changes to impairment charges or reversals recorded.

Income Taxes

In connection with HBTC's reorganization on January 11, 2012 which 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 carryforwards. 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 carryforwards. This was subsequently reduced based on additional information that confirmed the extent to which restricted losses would not 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 US federal income tax purposes and in most states in which it operates. Lord & Taylor did not record a federal tax provision nor deferred tax assets or liabilities related to federal tax prior to its acquisition by HBC.

Lord & Taylor operates stores in ten 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 dental benefits and life insurance commitments to 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, together with adjustments for unrecognized past-service costs. The defined benefit obligation is calculated annually by independent actuaries.

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 to the extent that the associated benefits are fully vested. 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.

Changes in Accounting Policies Including Initial Adoption

Changes Adopted During the Current Year

Effective February 1, 2010, the Company changed its policies with respect to the valuation of inventory from the retail method to the cost method and its method of calculating the adjustment required to value inventory at its net realizable value. Cost is determined using the weighted average cost method on an individual item basis. Prior to February 1, 2010, cost was determined using the retail inventory method which reduces the selling price of inventories to cost by the application of average department or category mark-up. The adjustment to net realizable value is now performed on an item by item basis, whereas historically the analysis was calculated by segregating inventory into departments of merchandise having similar characteristics. The impact of these changes to inventory as at January 31, 2011 and February 1, 2010 was a decrease in inventory by $17.3 million and $21.3 million, respectively and an increase in deferred tax assets by $3.4 million and $3.8 million, respectively. For Fiscal 2010, the impact of these changes was an increase in net earnings by $2.9 million. Prior to the implementation of a new accounting system, the Company was unable to determine the impact of the accounting changes as the financial data was not historically maintained. As a result, the Company is not able to quantify the impact of the changes for periods prior to February 1, 2010.

Future Expected Changes

Financial Instruments — Disclosures — In October 2010, the International Accounting Standards Board ("IASB") amended IFRS 7, "Financial Instruments: Disclosures" ("IFRS 7"), which increased the disclosure requirements for transactions involving transfers of financial assets. This amendment is effective for annual periods beginning on or after July 1, 2011. The Company is currently assessing the impact of the amendment on its financial statement disclosures.

Financial Instruments — The IASB has issued a new standard, IFRS 9, "Financial Instruments" ("IFRS 9"), which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 in November 2009 and October 2010 is the first phase of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities. This standard is effective for annual periods beginning on or after January 1, 2015. The Company is currently assessing the impact of the new standard on its financial statements.

Consolidated Financial Statements — In May 2011, the IASB issued IFRS 10 — Consolidated Financial Statements ("IFRS 10") which replaces portions of IAS 27 — Consolidated and Separate Financial Statements ("IAS 27") and all of SIC-12 — Consolidation — Special Purpose Entities. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities. The standard requires an entity to consolidate an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. As a consequence, IAS 27 has been amended but retains the existing guidance for separate financial statements. IFRS 10 was issued as part of the IASB's broader project on interests in all types of entities. On June 28, 2012, the IASB issued amendments to IFRS 10 which provides transition relief, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The Company is assessing the impact of IFRS 10 on its results of operations, financial position and disclosures.

Disclosure of Involvement with Other Entities — In May 2011, the IASB issued IFRS 12 — Disclosure of Interests in Other Entities ("IFRS 12") which establishes disclosure requirements for an entity's interests in other entities, such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosure requirements and introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. On June 28, 2012, the IASB issued amendments to IFRS 12 which provides transition relief, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. IFRS 12 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The Company is assessing the impact of IFRS 12 on its disclosures.

Fair Value Measurement — In May 2011, the IASB issued IFRS 13 — Fair Value Measurement ("IFRS 13"), which is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosure about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. Early adoption is permitted. The Company is assessing the potential impact of the new standard.

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

Employee Benefits — In June 2011, the IASB amended IAS 19 — Employee Benefits, related to Defined Benefit Plans. The amendments eliminate the existing option to defer actuarial gains and losses (known as the corridor approach); require changes from remeasurement of defined benefit plan assets and liabilities to be presented in the statement of other comprehensive income; and require additional disclosures. The amendments are effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted. The Company is assessing the potential impact of these amendments.

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

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 following the Closing of the Offering 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 and that the related payment date will be the fifteenth 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 Tax Act and any applicable corresponding provincial or territorial provisions. See also "Risk Factors".

Over the long term, the Company anticipates that the quarterly cash dividends on its Common Shares would have a target payout ratio of 20% to 25% of expected net earnings — continuing operations per share. The Company anticipates the quarterly cash dividend for the remaining period of Fiscal 2012 to equal ● cents to ● cents per Common Share, representing an annualized dividend of ● cents to ● cents per Common Share. The amount and timing of the payment of any dividends are not guaranteed and are subject to the discretion of the Board of Directors. See "Risk Factors".

The credit facilities with our lenders restrict our ability to declare dividends in certain circumstances.

DESCRIPTION OF SECURITIES

Immediately following the Closing, the Company's authorized share capital will consist of an unlimited number of Common Shares and an unlimited number of preferred shares issuable in series (the "Preferred Shares"). Immediately following the Closing, there will be ● Common Shares issued and outstanding and no Preferred Shares will be issued and outstanding.

Common Shares

The holders of the Common Shares are entitled to one vote in respect of each Common Share held at all meetings of holders of shares, other than meetings at which only the holders of another class or series of shares are entitled to vote separately as a class or series. The holders of the Common Shares are entitled to receive any dividend declared by the Company in respect of the Common Shares, subject to the rights of the holders of other classes of shares. The holders of the Common Shares will be entitled to receive, subject to the rights of the holders of other classes of shares, the remaining property and assets of the Company available for distribution, after payment of liabilities, upon the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary. For a description of the Company's dividend policy, see "Dividend Policy" above.

Preferred Shares

The Preferred Shares will be issuable at any time and from time to time in one or more series. The Board of Directors will be authorized to fix before issue the number of, the consideration per share of, the designation of, and the provisions attaching to, the Preferred Shares of each series, which may include voting rights and other provisions attaching to the Preferred Shares or shares of the series. The Preferred Shares of each series will rank on parity with the Preferred Shares of every other series and will be entitled to preference over the Common Shares and any other shares ranking junior to the Preferred Shares with respect to payment of dividends and distribution of any property or assets in the event of the Company's liquidation, dissolution or winding-up, whether voluntary or involuntary. If any cumulative dividends (whether or not declared), non-cumulative dividends declared or amounts payable on a return of capital are not paid in full, the Preferred Shares of all series will participate rateably in accordance with the amounts that would be payable on such Preferred Shares if all such dividends were declared and paid in full or the sums that would be payable on such shares on the return of capital were paid in full, as the case may be.

Shareholder Approval Required for Certain Matters

Pursuant to our governing documents, at least 75% of the voting power of all then outstanding Common Shares entitled to vote generally at the election of directors will be required for (i) the approval of extraordinary business, and (ii) the amendment, alteration or repeal of certain provisions of our articles and by-laws.

DESCRIPTION OF MATERIAL INDEBTEDNESS AND REFINANCING

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 July 28, 2012, HBC owed $277.7 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 is a revolving debt facility of $1,100.0 million. The HBC Revolving Credit Facility is subject to a borrowing base, based predominantly on eligible inventory of HBC (excluding Lord & Taylor and its subsidiaries) and certain eligible equipment and eligible credit card receivables of HBC and certain of its subsidiaries (excluding Lord & Taylor and its subsidiaries). The HBC Revolving Credit Facility bears interest based on various rates depending on which borrowing tranche 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 and capital expenditures, or other general corporate purposes and to make certain restricted payments, investments and repayments of indebtedness.

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 in our property other than our real property (not including any property of Lord & Taylor and its subsidiaries) and a second priority security against the real property of HBC and its subsidiaries (other than Lord & Taylor and its subsidiaries).

On June 15, 2012 the Company executed an amendment to the HBC Revolving Credit Facility. The amendment extends the maturity date to June 15, 2017 and reduces the amount of the facility to $750.0 million after May 1, 2013 as a result of the lower borrowing base associated with the continuing operations. There were no changes to HBC's credit availability or security interests.

New HBC Term Loan

On November 24, 2010, HBC entered into an agreement with GE Capital Canada Finance Inc. and certain other credit lenders for a $450.0 million term loan (the "Existing HBC Term Loan"), which is fully drawn.

Concurrently with the Closing of the Offering, HBC intends to refinance its outstanding indebtedness under the Existing HBC Term Loan by paying off that facility and entering into an agreement with BMO Capital Markets and Canadian Imperial Bank of Commerce, as Lead Arrangers, Bank of Montreal, as Administrative Agent and certain other credit lenders for a $250 million term loan (the "New HBC Term Loan"). The New HBC Term Loan will be available for general corporate purposes and matures two years following the Closing of the Offering. There will be no scheduled repayments prior to maturity, although there will be certain mandatory repayments in specified circumstances.

The New HBC Term Loan will be secured by first priority security interest in certain of the real property of HBC and its subsidiaries (other than Lord & Taylor and its subsidiaries). The New HBC Term Loan will contain representations and warranties, positive and negative covenants, including one that restricts distributions, reporting requirements and a number of events of default, in each case customary for loans of this nature.

Lord & Taylor Revolving Credit Facility

Lord & Taylor is party to an amended and restated credit facility with General Electric Capital Corporation, General Electric Capital Markets, Inc., and Canadian Imperial Bank of Commerce — New York Agency (the "Lord & Taylor Revolving Credit Facility"). As of July 28, 2012, Lord & Taylor owed U.S.$161.1 million under the Lord & Taylor Revolving Credit Facility. Lord & Taylor is in compliance with all covenants contained in the Lord & Taylor Revolving Credit Facility.

The Lord & Taylor Revolving Credit Facility provides a U.S.$350 million revolving line of credit through September 30, 2016. This revolving line of credit is subject to a borrowing base, based predominantly on eligible inventory, furniture and fixtures of Lord & Taylor and its subsidiaries. The Lord & Taylor 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 weighted-average interest rate of the Lord & Taylor Revolving Credit Facility is LIBOR, plus 2.0% to 2.5% based upon the availability schedule.

The Lord & Taylor Revolving Credit Facility contains restrictive covenants customary for facilities of this nature, including restrictions on the incurrence of indebtedness, financial maintenance covenants, 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 Lord & Taylor Revolving Credit Facility is primarily secured by eligible inventory and furniture and fixtures of Lord & Taylor and its subsidiaries.

Lord & Taylor Term Loan

On January 11, 2012, Lord & Taylor entered into a U.S.$450.0 million syndicated term loan with Credit Suisse Securities LLC ("CS"), as Sole Lead Arranger of the syndicate, which matures on January 11, 2019 (the "Lord & Taylor Term Loan").

Interest is charged on the Lord & Taylor Term Loan depending on the type of borrowing and is based on a greater of test of various rates, including, but not limited to, the LIBOR rate plus an applicable margin of 4.5%. The LIBOR rate is subject to a floor of 1.25%. The weighted average interest rate of the Lord & Taylor Term Loan at January 28, 2012 was 5.75%. The average rate for Fiscal 2011 was 5.75%.

The Lord & Taylor Term Loan is repayable in installments of U.S.$1.1 million payable at the end of each April, July, October and January from April 30, 2012 to October 31, 2018. In addition to the quarterly amortization schedule outlined in the preceding sentence, Lord & Taylor is required to apply up to 50% of its excess free cash flow, as defined in the loan agreement and the percentage determined by the leverage ratio of Lord & Taylor at the fiscal year-end, to reduce the outstanding balance of the Lord & Taylor Term Loan. Lord & Taylor is also required to match any dividends paid with an equal pay down of the Lord & Taylor Term Loan. The remaining amount outstanding will be repaid on the maturity date. Except with respect to a repricing event, Lord & Taylor has the ability to prepay the Lord & Taylor Term Loan at any time without penalty after year one. Any prepayments are applied to reduce the then remaining scheduled installments. In September 2012, Lord & Taylor prepaid approximately U.S.$242.5 million of the Lord & Taylor Term Loan with the net proceeds from the 5th Avenue Lord & Taylor Mortgage.

The Lord & Taylor Term Loan is secured by a first lien security on the majority of the owned and ground leased facilities and a second priority security on the accounts receivable, inventory and furniture and fixtures of Lord & Taylor. The Lord & Taylor Term Loan 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 Term Loan.

5th Avenue Lord & Taylor Mortgage

On September 7, 2012, Lord & Taylor entered into a U.S.$250.0 million syndicated floating rate senior mortgage loan with Canadian Imperial Bank of Commerce, as Administrative Agent of the syndicate of lenders, which matures on September 10, 2017 (the "5th Avenue Lord & Taylor Mortgage"). Lord & Taylor utilized the net proceeds of this loan, approximately U.S.$242.5 million, to reduce the balance of the Lord & Taylor Term Loan.

Interest is charged on the 5th Avenue Lord & Taylor Mortgage at a rate of LIBOR plus 3%. The Company has entered into interest rate swap arrangements, the effect of which is to fix the interest rate related to the 5th Avenue Lord & Taylor Mortgage at 3.85%.

The 5th Avenue Lord & Taylor Mortgage is structured to be interest only 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%. Lord & Taylor has the ability to prepay the 5th Avenue 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 5th Avenue Lord & Taylor Mortgage contains representations and warranties, positive and negative covenants, reporting requirements and events of default. Lord & Taylor is in compliance with all covenants contained in the 5th Avenue Lord & Taylor Mortgage. As security for the 5th Avenue Lord & Taylor Mortgage the Company granted a first priority mortgage in the 5th Avenue Lord & Taylor property.

CONSOLIDATED CAPITALIZATION

The following table sets forth the consolidated capitalization of the Company before and after giving effect to the refinancing of the 5th Avenue Lord & Taylor Mortgage and before and after giving effect to the refinancing of the 5th Avenue Lord & Taylor Mortgage, the Offering and entering into the New HBC Term Loan and the payment of a dividend to the Selling Shareholder prior to the Closing. See "Use of Proceeds", "Description of Material Indebtedness and Refinancing", "Management's Discussion and Analysis of Financial Condition and Results of Operations". This table is presented and should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this prospectus and with the information under "Selected Consolidated Financial Information".

(millions of Canadian dollars)	As at July 28, 2012	As Adjusted for Refinancing of 5th Avenue Lord & Taylor Mortgage[1]	As Adjusted for Refinancing of 5th Avenue Lord & Taylor Mortgage, the Offering, entering into the New HBC Term Loan and a dividend declared by HBC.[4]
Cash	$ 46.8	$ 46.8	$ ●
Short-term Debt:			
HBC Revolving Credit Facility	$ 277.7	$ 277.7	$ ●
Lord & Taylor Revolving Credit Facility	161.8	161.8	●
Total Short-term Debt	**439.5**	**439.5**	●
Long-term Debt[2]:			
Existing HBC Term Loan	443.8	443.8	0
New HBC Term Loan	—	—	●
Lord & Taylor Term Loan	450.9	201.9	●
5th Avenue Lord & Taylor Mortgage	—	244.6	●
Mortgages, finance leases and other	39.8	39.8	●
Total Long-term Debt	**934.5**	**930.1**	●
Shareholder Equity:			
Voting common shares (authorized — unlimited)	0	0	●
Non-voting common shares[3]	1.2	1.2	●
Class A preferred shares[3]	1.0	1.0	—
Retained earnings	726.5	726.5	—
Contributed surplus	36.1	36.1	●
Accumulated other comprehensive income (loss)	(44.2)	(44.2)	●
Total Shareholder Equity	**720.6**	**720.6**	●
Total Capitalization	**$2,141.4**	**$2,137.0**	$ ●

Notes:

(1) Figures are as of July 28, 2012 except for the 5th Avenue Lord & Taylor Mortgage and the Lord & Taylor Term Loan which are as of September 10, 2012, and the Lord & Taylor Term Loan, which has been adjusted to reflect the U.S. $242.5 million repayment. On September 7, 2012, Lord & Taylor entered into a U.S. $250.0 million syndicated floating rate senior mortgage loan with Canadian Imperial Bank of Commerce, as Administrative Agent of the syndicate, which matures on September 7, 2017, the net proceeds of which were used to repay U.S. $242.5 million of the Lord & Taylor Term Loan.

(2) Long-term debt balances exclude unamortized transaction cost of $34.2 million.

(3) 1,000,000 non-voting common shares and 10,000 Class A preferred shares were outstanding as at July 28, 2012.

(4) On October 16, 2012, the Company declared a dividend and made a distribution to the Principal Shareholder in an amount equal to $26.0 million. Approximately $7.4 million of such dividend will be returned to the Company by the Selling Shareholder as a reimbursement of certain fees and expenses. The Company has no intention of declaring any further dividends prior to Closing.

PRIOR SALES

We have not issued any Common Shares, or any securities convertible into or exchangeable for Common Shares, in the twelve months preceding the date of this prospectus.

PRINCIPAL SHAREHOLDERS AND SELLING SHAREHOLDER

The following table shows the names of the persons or companies who, as at the date of the Closing, will own of record, or who, to our knowledge, will own beneficially, directly or indirectly, more than 10% of any class or series of our voting securities.

Name	Type of Ownership	Number of Securities Owned before the Offering	Number of Securities Owned after the Offering	Percentage of Outstanding Securities after the Offering
Hudson's Bay Company (Luxembourg) S. à r. l.[1]	Common Shares	●	●	●%[2][3]

Notes:

(1) The sole shareholder of Hudson's Bay Company (Luxembourg) S. à r. l. is Hudson's Bay Trading Company, L.P., a Cayman Islands limited partnership. The general partner of Hudson's Bay Trading Company, L.P. is NRDC L&T B, LLC. As the general partner of Hudson's Bay Trading Company, L.P., NRDC L&T B, LLC may be deemed to have beneficial ownership of the shares of HBC held by Hudson's Bay Company (Luxembourg) S. à r. l. The sole member of NRDC L&T B, LLC is L&T B (Cayman) Inc. Investment and voting decisions at L&T B (Cayman) Inc. are made jointly by the beneficial owners of L&T B (Cayman) Inc., and therefore no individual member of L&T B (Cayman) Inc. is the beneficial owner of the securities, except with respect to the shares in which such member holds a pecuniary interest. Pursuant to a shareholder and voting agreement, the Class A shareholders of L&T B (Cayman) Inc. have the ability to direct the board of managers of Hudson's Bay Company (Luxembourg) S. à r. l to vote the Common Shares of the Company held by it for purposes of electing directors of HBC. As such, the Class A shareholders of L&T B (Cayman) Inc. may also be deemed to have beneficial ownership of the shares of HBC held by Hudson's Bay Company (Luxembourg) S. à r. l. However, such voting directions are made jointly by the Class A shareholders of L&T B (Cayman) Inc., and therefore no individual Class A shareholder of L&T B (Cayman) Inc. is the beneficial owner of the securities, except with respect to the shares in which such member holds a pecuniary interest. Each of Messrs. William Mack, Lee Neibart, Richard Baker and Robert Baker is a director and principal shareholder of L&T B (Cayman) Inc. entitled to participate in investment and voting decisions and therefore may be deemed to share voting and dispositive power with respect to the shares held by Hudson's Bay Company (Luxembourg) S. à r. l. Messrs. William Mack, Lee Neibart, Richard Baker and Robert Baker each disclaim any beneficial ownership of any such shares, except to the extent of his pecuniary interest therein. Our executive officers will hold approximately a ● % economic interest in the Company following the Offering.

(2) On a fully-diluted basis ● %.

(3) If the Over-Allotment Option is exercised in full, such holder will, as the Selling Shareholder, own ● Common Shares, representing ● % (● % on a fully-diluted basis), of the issued and outstanding Common Shares after the Offering.

On or before January 31, 2013, the Selling Shareholder intends to distribute ● Common Shares held by it to HBTC which will then distribute such shares to its partners (including those noted below) on a pro rata basis (the "Distribution"). The following table shows the names of the persons or companies who, following the Distribution, will own of record or who, to our knowledge, will own beneficially, directly or indirectly, more than 10% of any class or series of our voting securities.

Name	Type of Ownership	Number of Securities Owned before the Offering	Number of Securities Owned after the Distribution	Percentage of Outstanding Securities after the Distribution[2][3]
L&T B (Cayman) Inc.[1]	Common Shares	0	●	● %
Hanover Investments (Luxembourg) S.A.[4]	Common Shares	0	●	● %
Hudson's Bay Company (Luxembourg) S. à r. l.[5]	Common Shares	●	●	● %

Notes:

(1) Investment and voting decisions at L&T B (Cayman) Inc. are made jointly by the beneficial owners of L&T B (Cayman) Inc., and therefore no individual member of L&T B (Cayman) Inc. is the beneficial owner of the securities, except with respect to the shares in which such member holds a pecuniary interest. Messrs. William Mack, Lee Neibart, Richard Baker and Robert Baker each disclaim any beneficial ownership of any such shares, except to the extent of his pecuniary interest therein.

(2) On a fully-diluted basis ● %, ● % and ● %, respectively.

(3) If the Over-Allotment Option is exercised in full, such holder will own, ● , ● and ● Common Shares, respectively, representing ● %, ● % and ● % (● %, ● % and ● % on a fully-diluted basis), respectively, of the issued and outstanding Common Shares after the Offering.

(4) Hanover Investments (Luxembourg) S.A. is indirectly wholly-owned and controlled by the Abu Dhabi Investment Council, an institution of the Government of the Emirate of Abu Dhabi. As such, the Abu Dhabi Investment Council may be deemed to have beneficial ownership of the shares of HBC held by Hanover Investments (Luxembourg) S.A.

(5) The sole shareholder of Hudson's Bay Company (Luxembourg) S. à r. l. is Hudson's Bay Trading Company, L.P, a Cayman Islands limited partnership. The general partner of Hudson's Bay Trading Company, L.P. is NRDC L&T B, LLC. As the general partner of Hudson's Bay Trading Company, L.P., NRDC L&T B, LLC may be deemed to have beneficial ownership of the shares of HBC held by Hudson's Bay Company (Luxembourg) S. à r. l. The sole member of NRDC L&T B, LLC is L&T B (Cayman) Inc. Investment and voting decisions at L&T B (Cayman) Inc. are made jointly by the beneficial owners of L&T B (Cayman) Inc., and therefore no individual member of L&T B (Cayman) Inc. is the beneficial owner of the securities, except with respect to the shares in which such member holds a pecuniary interest. Messrs. William Mack, Lee Neibart, Richard Baker and Robert Baker each disclaim any beneficial ownership of any such shares, except to the extent of his pecuniary interest therein. Our executive officers will hold approximately a ● % economic interest in the Company following the Offering.

SHAREHOLDERS AGREEMENT

Concurrently with the Closing, the Company, the Selling Shareholder, Hanover and the L&T B Group (collectively, the "Principal Stockholders") will enter into a shareholders agreement (the "Shareholders Agreement"), pursuant to which the Company will provide demand registration rights to the Principal Stockholders (or their permitted assigns), which will enable the Principal Stockholders to require the Company to qualify by prospectus all or a portion of their Common Shares for a distribution to the public in Canada (the "Demand Registration"), provided such Demand Registration will result in a minimum offering size of $50.0 million. In accordance with the terms of the Shareholders Agreement, the Company will not be obliged to effect more than three Demand Registrations in any 12-month period, commencing 180 days after Closing. The Company is entitled to defer, for valid business reasons, any such demand for a period of up to 90 days in certain circumstances for a period of not more than 120 days in any 12 consecutive months.

The Shareholders Agreement will also provide the Principal Stockholders and associates of the Principal Stockholders with incidental, or piggy-back, registration rights. Where the Company proposes to file a preliminary prospectus with respect to a distribution of Common Shares in Canada, the Principal Shareholders will have the right to request that all or a portion of their Common Shares be included as a part of such distribution, subject to certain limitations, including customary underwriters' cutbacks. Where a Principal Stockholder exercises one of its Demand Registrations, the other Principal Stockholders and their associates will have piggy-back rights to participate in such distribution to the public on a pro rata basis.

The Company will pay all distribution expenses in connection with all Demand Registrations and piggy-back registrations, and all expenses incurred by the Principal Stockholders in connection therewith, other than underwriting discounts, commissions and transfer taxes.

Hanover and L&T B Group will have Demand Registration rights and piggy-back registration rights until Hanover and L&T B Group together hold, directly or indirectly, in the aggregate less than 10% of the issued and outstanding Common Shares for a continuous period of 180 days.

NOMINATING RIGHTS AGREEMENT

Concurrently with the Closing, the Company, the L&T B Group, the Selling Shareholder and Hanover will enter into a nominating rights agreement (the "Nominating Rights Agreement"), pursuant to which the Company will agree to take all permissible corporate action such that the Board of Directors will consist of a total of eleven directors (or in certain circumstances twelve), with four directors initially nominated by the L&T B Group. Pursuant to the Nominating Rights Agreement, the Board of Directors is originally set at nine directors, but the parties have agreed that two additional directors will be appointed to the Board of Directors following the Closing. Hanover shall have the right to nominate such two additional directors, one of whom must be independent. It is currently anticipated that Rupert Wingfield, a resident of Abu Dhabi, United Arab Emirates and Head of European Real Estate, Abu Dhabi Investment Council, will be one of the individuals nominated by Hanover. Pursuant to the Nominating Rights Agreement, for so long as the L&T B Group directly or indirectly beneficially owns a specified percentage of the Common Shares, the L&T B Group will be entitled to nominate for election to the Board of Directors a specified number of directors at each annual meeting of the shareholders, as set out in the table below.

Percentage of Common Shares	Number of Directors
Greater than or equal to 25%	4
Less than 25% but not less than 10%	2
Less than 10%	None

Pursuant to the Nominating Rights Agreement, (i) if Hanover directly or indirectly beneficially owns not less than 35% of the outstanding Common Shares, Hanover shall have the right to nominate four directors, provided that three of such nominees will be considered independent directors if elected to the Board of Directors (to the extent Hanover exercises its right to nominate four directors, the size of the Board of Directors shall be increased to twelve members); (ii) if Hanover directly or indirectly beneficially owns not less than 30% of the outstanding Common Shares, Hanover shall have the right to nominate three directors, provided that two of such nominees will be considered independent directors if elected to the Board of Directors; (iii) if Hanover directly or indirectly beneficially owns less than 30% but not less than 20%, Hanover shall have the right to nominate two nominees, provided that one of such nominees will be considered independent if elected to the Board of Directors; and (iv) if Hanover directly or indirectly beneficially owns less than 10%, the Company shall not be obligated to include any Hanover nominees among the Board of Director's nominees to be nominated at any further meetings.

MANAGEMENT

The following table sets out, for each of our directors and executive officers, the person's name, province or state, and country of residence, positions with us and, if a director, the date on which the person became a director. Our directors are expected to hold office until our next annual general meeting of shareholders. Our directors are elected annually and, unless re-elected, retire from office at the end of the next annual general meeting of shareholders. As a group, the directors and executive officers will beneficially own, or control or direct, directly or indirectly, a total of ● Common Shares, representing ● % of the Common Shares outstanding immediately following the Offering. Following the Offering, two additional directors are expected to be appointed to the board, at least one of whom will be independent, which would bring our number of directors to eleven.

Directors and Executive Officers

Name and Province or State and Country of Residence	Age	Position with the Company	Director Since[1]	Principal Occupation
RICHARD A. BAKER[2][5] .. Connecticut, United States	46	Director, Governor, CEO	April 2006	Governor, CEO of Hudson's Bay Company
ROBERT C. BAKER ..... Connecticut, United States	77	Director	January 2012	Chairman and CEO of National Realty & Development Corporation
DAVID G. LEITH[2][3][4][5] .. Ontario, Canada	52	Director	—	Chairman of Manitoba Telecom Services Inc. and Chair of MTS Allstream Inc., Director of the Children's Aid Foundation, Member of the Economic Advisory Panel of the Government of Ontario
WILLIAM L. MACK ..... New York, United States	72	Director	January 2012	Founder and Chairman, AREA Property Partners; President and Senior Managing Partner, The Mack Company; Chairman of the Board of Directors, Mack-Cali Realty Corporation
LEE NEIBART ..... New York, United States	62	Director	January 2012	Global CEO of AREA Property Partners
DENISE PICKETT[3][5] ..... New Jersey, United States	47	Director	—	Executive Vice-President and General Manager, American Express OPEN
WAYNE POMMEN[3] ..... Ontario, Canada	33	Director	March 2012	Vice President of TorQuest Partners
EARL ROTMAN[4] ..... Ontario, Canada	57	Director	March 2012	Vice-Chairman, Investment Banking of Canaccord Genuity Corp.
MATTHEW RUBEL[2][4] .... Kansas, United States	55	Director	—	Senior Advisor to TPG Capital

Notes:

(1) This column reflects the date of appointment of such individual as a director or officer of the Company, and as of the date of this prospectus, only Mr. David Leith, Ms. Denise Pickett and Mr. Matthew Rubel have not been appointed as directors of the Company. Mr. David Leith, Ms. Denise Pickett and Mr. Matthew Rubel have agreed to become members of the Board of Directors and it is expected that such individuals will be appointed to the Board of Directors on or prior to the Closing of the Offering. As such

individuals are not members of the Board of Directors at the time of this prospectus, the Company does not believe any of such individuals has any liability for the contents of this prospectus in such capacity under the applicable securities laws of the provinces or territories of Canada.

(2) Member of Corporate Governance and Nomination Committee upon Closing.

(3) Member of the Audit Committee upon Closing.

(4) Member of the Human Resources & Compensation Committee upon Closing.

(5) Member of the Pension Committee upon Closing.

Executive Officers Who Do Not Serve as Directors

Name and Province or State and Country of Residence	Age	Position with the Company
STUART AULD . . . . . Ontario, Canada	52	Senior Vice President and General Manager, Zellers
BONNIE BROOKS . . . . . Ontario, Canada	59	President of HBC
MICHAEL G. CULHANE . . . . . New Jersey, United States	50	Chief Financial Officer
DEBORAH EDWARDS . . . . . Ontario, Canada	56	Executive Vice President, Stores
LUCAS EVANS . . . . . New York, United States	32	Senior Vice President and Treasurer
IDALIA FARRAJOTA . . . . . Ontario, Canada	49	Senior Vice President, Home Outfitters
JARROD JOHANNS . . . . . New Jersey, United States	44	Executive Vice President, Planning and Allocation
MARC METRICK . . . . . New York, United States	39	Executive Vice President, Chief Marketing Officer
BRIAN PALL . . . . . New Jersey, United States	53	President of Real Estate
DAVID PICKWOAD . . . . . Ontario, Canada	44	Senior Vice President and General Counsel
SHEILA RIDER . . . . . Ontario, Canada	49	Senior Vice President, Human Resources
ELIZABETH RODBELL . . . . . New York, United States	55	Executive Vice President, Chief Merchant
CHRISTOPHER SIM . . . . . New York, United States	41	Senior Vice President, Finance
WILLIAM TRACY . . . . . New York, United States	58	Executive Vice President, Supply Chain, Logistics, and Information Services
MARY TURNER . . . . . Ontario, Canada	54	Executive Vice President, Specialty and Private Brand Design & Development
DONALD W. WATROS . . . . . New Jersey, United States	48	Chief Operating Officer

Biographies

The following are brief profiles of the executive officers and directors of the Company, including a description of each individual's principal occupation within the past five years.

Non-Executive Directors

Robert C. Baker, Director

Robert Baker is the Chief Executive Officer, Chairman of the Board of National Realty & Development Corporation ("National Realty"), a corporation which develops and manages real estate, primarily retail properties, throughout the United States. National Realty manages and controls approximately 22 million square feet of retail space in over 70 centres located in the northeastern United States. Mr. Baker also formerly acted as a Director of City & Suburban Savings Bank, a New York state based bank and formerly acted as a Director of Retail Opportunity Investments Corp.

Mr. Baker is a graduate of Yale University and Yale Law School.

David G. Leith, Director

David Leith is Chair of the Board of Directors of Manitoba Telecom Services Inc. /MTS Allstream Inc. and is a Director of Yellow Media Inc. Mr. Leith served as Deputy Chairman and Head of Investment, Corporate and Merchant Banking at CIBC World Markets from 2007 to 2009. Previously at CIBC World Markets, Mr. Leith served as Managing Director and Head of Canadian Investment and Corporate Banking from 2004 to 2007, and Managing Director and Head, Debt Origination from 1999 to 2004. Mr. Leith is a member of the Province of Ontario's Economic Advisory Panel and is a Director of Bridgepoint Heath Foundation.

Mr. Leith has a Bachelors degree from the University of Toronto and a Masters degree from Cambridge University.

William L. Mack, Director

William L. Mack has served as a member of the Board of Directors of Mack-Cali Realty Corporation since 1997 and as its Chairman since 2000. Mr. Mack also has served as Chairman of Mack-Cali's Executive Committee of the Board of Directors since 1997. Since 1963, Mr. Mack served as President and Senior Managing Partner of The Mack Company, where he pioneered the development of large, Class A office properties and helped to increase The Mack Company's portfolio to approximately 20 million square feet. In addition, Mr. Mack is a founder and chairman of AREA Property Partners (formerly known as Apollo Real Estate Advisors, L.P.). He currently serves as a board member of the Regional Advisory Board of JP Morgan Chase. Mr. Mack previously served as a member of the boards of directors of City and Suburban Financial Corporation from 1988 to 2007, The Bear Stearns Companies Inc. from 1997 to 2004, Vail Resorts, Inc. from 1993 to 2004 and Wyndham International, Inc. from 1999 to 2005. Mr. Mack is a Vice Chairman of the North Shore — Long Island Jewish Health System and Chairman of the Board for the Solomon R. Guggenheim Foundation. He also is former Vice Chair of the Board of Trustees of the University of Pennsylvania and serves as Vice Chair of the board of overseers of The Wharton School of Business and Finance at the University of Pennsylvania.

Mr. Mack attended The Wharton School and has a Bachelor of Science degree in business administration, finance and real estate from New York University.

Lee S. Neibart, Director

Lee Neibart is the Global CEO of AREA Property Partners ("AREA") (formerly known as Apollo Real Estate Advisors, L.P.) and has been involved in all phases of the firm's development since its founding in 1993. At AREA, Mr. Neibart has overseen the investment and management of 15 real estate funds and joint ventures, which invested U.S.$8 billion in more than 400 transactions with an aggregate value in excess of U.S.$30 billion.

Mr. Neibart is a Director on various boards relating to AREA's investment portfolio. Mr. Neibart also serves on the Advisory Boards of both The Enterprise Foundation and The Real Estate Institute of New York University. He is also a past President of the New York Chapter of the National Association of Industrial and Office Parks.

Mr. Neibart graduated with a Bachelor of Arts degree from the University of Wisconsin and a Master of Business Administration degree from New York University.

Denise Pickett, Director

Denise Pickett is the Executive Vice-President and General Manager, American Express OPEN, a position which she has held since 2010. Prior to holding this position, Ms. Pickett served as President and Chief Executive Officer, Amex Bank of Canada from 2007 to 2009, and as Vice President, Marketing and Strategy, Global Commercial Card from 2006 to 2007.

Ms. Pickett is currently a member of the Dean's Advisory Council for York University's Schulich School of Business in Toronto, Ontario.

Ms. Pickett has a Bachelor of Science degree from the University of Toronto and a Master of Business Administration degree from York University's Schulich School of Business.

Wayne Pommen, Director

Wayne Pommen is a Vice President at TorQuest Partners, one of Canada's leading private equity firms, where he has been since 2009. Previously, Mr. Pommen was a management consultant with Bain & Company in the United Kingdom, the United States, and Canada, where he advised corporate and private equity clients on strategy, performance improvement, and merger integration in a range of industries. Mr. Pommen also served as a strategy director at BPP Holdings plc, a publicly-listed provider of professional education in the United Kingdom and Europe. Mr. Pommen is involved with industry and civic organizations such as the CVCA, Canada's private equity and venture capital industry association, and Toronto Homecoming.

Mr. Pommen holds a Ph.D. from the University of Cambridge, an A.B. from Harvard University, and is a member of the Institute of Corporate Directors.

Earl Rotman, Director

Earl Rotman is the Vice Chairman, Investment Banking, at Canaccord Genuity Corp., where he has been since 2010 when Canaccord acquired Genuity Capital Markets, which Mr. Rotman co-founded in 2005. Prior to co-founding Genuity, Mr. Rotman was a Vice Chairman of CIBC World Markets where he was a member of both the Canadian and U.S. Investment Banking Operating Committees and the Merchant Banking Investment Committee. Mr. Rotman is also a Trustee of the Art Gallery of Ontario Foundation and President of Genuity Fund Management Inc., an alternative asset management company.

Mr. Rotman is an alumnus of the University of Toronto, a graduate of Osgoode Hall Law School and is a member of the Law Society of Upper Canada.

Matthew Rubel, Director

Matthew Rubel is currently a senior advisor to TPG Capital and TPG Growth. Mr. Rubel was the former Chairman, CEO and President of Collective Brands, Inc. where he served from 2005 to June 2011. Prior to joining Collective Brands, Inc., Mr. Rubel was the Chairman, President and CEO of Cole Haan.

Mr. Rubel serves on the board of Super Valu and as a Presidential Appointee to the White House Advisory Council on Trade Policy Negotiation. Mr. Rubel is active in several industry and civic organizations, including the Jay H. Baker Initiative at The Wharton School of the University of Pennsylvania, the Young Presidents' Organization and President's Council at the University of Miami.

Mr. Rubel graduated with a Bachelor of Science degree from Ohio University and a Master of Business Administration degree from the University of Miami.

Executive Officers Who Also Serve as Directors

Richard A. Baker, Director, Governor, Chief Executive Officer

Richard Baker has been the Company's Governor since July 2008. Mr. Baker has been the Chairman of Lord & Taylor since July 2006. Mr. Baker also acts as the Chief Executive Officer of Hudson's Bay Company as well as Chairman and Chief Executive Officer of HBTC. Mr. Baker owns National Realty along with his father, Mr. Robert C. Baker. Additionally, Mr. Baker is the non-executive chairman of Retail Opportunity Investments

Corporation, a real estate investment trust listed on the NASDAQ Stock Exchange that focuses on retail properties located on the east and west coasts of the United States.

Mr. Baker is a graduate of Cornell University and currently sits on the Advisory Board of Cornell University's Hotel School and Real Estate Program.

Executive Officers Who Do Not Serve as Directors

Stuart Auld, Senior Vice President and General Manager, Zellers

Stuart Auld joined Zellers in May 2010 as Vice-President, Finance and was promoted to Senior Vice-President and General Manager, Zellers in February 2012.

Prior to joining Zellers, Mr. Auld spent 20 years with Canadian Tire in progressively more senior roles. His previous roles included Vice-President Finance for Canadian Tire Retail, President of Canadian Tire Petroleum and President of Part Source.

Mr. Auld has a Bachelor of Commerce degree from the University of Toronto and is also a Chartered Accountant.

Bonnie Brooks, President

In September 2008, Bonnie Brooks was appointed as the President and Chief Executive Officer of Hudson's Bay. In January 2012, Ms. Brooks was appointed President of the Hudson's Bay Company. Ms. Brooks served as an executive officer, including as President, of the Lane Crawford Joyce Group based out of Hong Kong from 1997 to 2008 with over 500 stores in Asia, and prior to that served as Executive Vice President/General Merchandise Manager and Senior Vice President of Marketing at Holt Renfrew in Canada. Ms. Brooks is a member of the board of directors of Empire Company Limited (Sobey's), is a trustee of the Royal Ontario Museum and is a member of the Jobs and Prosperity Council appointed by the Premier of Ontario.

Ms. Brooks has a Master of Business Administration degree from the University of Western Ontario.

Michael G. Culhane, Chief Financial Officer

Michael Culhane was appointed Chief Financial Officer of the Company in February 2009. Mr. Culhane served as Executive Vice-President and Chief Financial Officer of Lord & Taylor from 2004 to 2009 and held other executive financial positions with the May Department Stores Company from 1997 to 2004. Additionally, Mr. Culhane was a partner with Arthur Andersen LLP.

Mr. Culhane is a Certified Public Accountant and is a member of the American Institute of Certified Public Accountants. Mr. Culhane has a Bachelor of Business Administration degree from the University of Wisconsin.

Deborah Edwards, Executive Vice President, Stores

Debbie Edwards was appointed as Executive Vice President, Stores, of Hudson's Bay Company in February 2012. Ms. Edwards has held a broad range of retail executive positions spanning over a 38 year career in retail with the Company. She has held senior roles in store operations, marketing, merchandising, store planning, and construction.

Lucas Evans, Senior Vice President and Treasurer

Lucas Evans was appointed as Vice President and Treasurer of Hudson's Bay Company in February 2012 and became Senior Vice President and Treasurer in October 2012. Previously Mr. Evans was Vice President at HBTC where he was responsible for acquisitions and capital structuring, including debt and equity financings.

Mr. Evans has a Master of Business Administration degree from INSEAD and a Bachelor of Science degree in Finance from Georgetown University.

Idalia Farrajota, Senior Vice President (Home Outfitters)

Idalia Farrajota was appointed as Senior Vice President of Home Outfitters in February 2012. Previously Ms. Farrajota was a Vice President of Merchandising at the Company. Prior to her career with the Company

Ms. Farrajota held various positions at Sears and was most recently a Vice President of Apparel, Victoria Secret Direct, Limited Brands.

Ms. Farrajota has a Bachelor of Arts degree from the University of Toronto.

Jarrod Johanns, Executive Vice President, Planning and Allocation

Jarrod Johanns was appointed as Executive Vice President, Planning and Allocation, of Hudson's Bay Company in January 2012. Just prior to his most recent appointment with Hudson's Bay Company, Mr. Johanns joined Lord & Taylor in November 2008 and held the role of Senior Vice President, Planning and Allocation. Just prior to this, Mr. Johanns spent 20 years in the retail industry, beginning his career with Macy's and Saks Fifth Avenue.

Mr. Johanns has a Bachelor of Arts degree in Economics from Columbia University, New York.

Marc Metrick, Executive Vice President, Chief Marketing Officer

Marc Metrick was appointed as Executive Vice President and Chief Marketing Officer of Hudson's Bay Company in April 2012. Mr. Metrick has over 15 years of experience in the retail industry, most recently at Saks Incorporated where he was the Executive Vice President and Chief Strategy Officer. His career in retail has covered buying, merchandise planning, finance and strategy.

Mr. Metrick has a Bachelor of Science degree in Business Administration from Boston University.

Brian Pall, President of Real Estate

Brian Pall was appointed the President of Real Estate, Hudson's Bay Company in February 2012. Mr. Pall was previously President of Real Estate at HBTC. For 17 years until 2004, Mr. Pall was with The Great Atlantic & Pacific Tea Co., Inc., where he served as Senior Vice President and Chief Development Officer, during which time he was on the Management Executive Committee.

Mr. Pall graduated from Brooklyn Law School and is admitted to the Bar of both New York and New Jersey. Mr. Pall received a Bachelor of Science degree in Business and Economics from the State University of New York at Oswego.

David Pickwoad, Senior Vice-President and General Counsel

David Pickwoad was appointed as Vice-President, Legal Services of the Company in February 2011 and became Senior Vice-President and General Counsel in April 2012. Prior to joining the Company, Mr. Pickwoad worked at Stikeman Elliott LLP and at Deloitte & Touche Corporate Finance.

Mr. Pickwoad is a member of the Law Society of Upper Canada and has a Bachelor of Arts degree and Bachelor of Civil Law degree from McGill University.

Sheila Rider, Senior Vice President, Human Resources

Sheila Rider was appointed as Senior Vice President, Human Resources, of Hudson's Bay Company in September 2012. Ms. Rider has extensive human resources experience at Hudson's Bay Company

Ms. Rider has a Bachelor of Science degree in Psychology from the University of Toronto and a post graduate certificate in Human Resources Management from Humber College.

Elizabeth Rodbell, Executive Vice President, Chief Merchant

Elizabeth Rodbell was appointed as Executive Vice President, Chief Merchant, of the Hudson's Bay Company in February 2012. Ms. Rodbell joined Lord & Taylor in 1985. Over the past 27 years Ms. Rodbell has held various management positions with Lord & Taylor, most recently as Executive Vice President Merchandising from 2008 to February 2012, and was a Senior Vice President General Merchandising Manager in various merchandising assignments at Lord & Taylor since 1992.

Ms. Rodbell has an Associate Arts degree from Wood Tobe-Coburn School.

Christopher Sim, Senior Vice President, Finance

Christopher Sim was appointed as Senior Vice President, Finance, of the Hudson's Bay Company in September 2011. Mr. Sim joined Lord & Taylor as Chief Financial Officer in 2009. Previously, Mr. Sim worked at Saks Incorporated holding the positions of Senior Vice President of Finance, Vice President Financial Planning & Analysis, and other operational finance functions. Over his 17 year career Mr. Sim has held various positions in the retail industry, including in the areas of general accounting, reporting and planning.

Mr. Sim has a BBA in Finance from Loyola University, Maryland.

William Tracy, Executive Vice President, Supply Chain, Logistics, and Information Services

William Tracy was appointed as Executive Vice President, Supply Chain, Logistics, and Information Services of Hudson's Bay Company in November, 2011. Previously he had served since June 2010 as Senior Vice-President, Logistics & Supply Chain of HBTC. Mr. Tracy has held various other positions with the Company in his career spanning over 16 years, including serving as Senior Vice-President MIS/Store Operations at Lord & Taylor.

Mr. Tracy has a Bachelors of Arts degree from Adelphi University.

Mary Turner, Executive Vice President, Specialty and Private Brand Design & Development

Mary Turner was appointed as Executive Vice President, Specialty and Private Brand Design & Development, of Hudson's Bay Company in February 2012. Ms. Turner has held various other positions with the Company primarily in womenswear, menswear and accessory merchandising. Prior to working with the Company Ms. Turner held senior roles in store operations and merchandising with Holt Renfrew for 12 years.

Ms. Turner has a Bachelor of Arts degree from the University of Toronto, Trinity College.

Donald W. Watros, Chief Operating Officer

Donald Watros was appointed as Chief Operating Officer of Hudson's Bay Company in April 2009. Prior to joining the Company, Mr. Watros held various financial positions at May Department Stores and served as Chief Administrative Officer for Saks Fifth Avenue for a period of three years.

Mr. Watros has a Master of Business Administration degree from Binghamton University and a Bachelors degree from Cornell University.

Corporate Cease Trade Orders

None of our directors or executive officers has, within the 10 years prior to the date of this prospectus, been a director, chief executive officer or chief financial officer of any company (including us) that, while such person was acting in that capacity (or after such person ceased to act in that capacity but resulting from an event that occurred while that person was acting in such capacity) was the subject of a cease trade order, an order similar to a cease trade order, or an order that denied the company access to any exemption under securities legislation for a period of more than 30 consecutive days.

Corporate Bankruptcies

Other than as disclosed below, none of our directors or executive officers has, within the 10 years prior to the date of this prospectus, become bankrupt, been a director or executive officer of any company, that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or comprise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

(a) On February 5, 2009 Fortunoff Holdings, LLC and Fortunoff Card Company, LLC (collectively "**Fortunoff**") filed for, and was granted, a voluntary petition for Chapter 11 creditor protection under the *United States Bankruptcy Code* in the Southern District of New York. On October 1, 2009, the United States Bankruptcy Court in the Southern District of New York entered an Order converting Fortunoff's case to Chapter 7 bankruptcy and soon thereafter, the United States Trustee appointed a Chapter 7 Trustee to liquidate the company. Messrs. Richard A. Baker and Watros were managers and Messrs. Pall, Sim, Tracy and Watros were officers of Fortunoff Holdings, LLC.

(b) From February 2006 to the date of the company's liquidation, Mr. Neibart was a director at Linens 'n Things, which filed a bankruptcy petition for reorganization on May 2, 2008 under Chapter 11 of the *United States Bankruptcy Code* in the District of Delaware. In February 2010, the United States Bankruptcy Court approved a motion to change the Linens 'n Things bankruptcy from Chapter 11 bankruptcy to Chapter 7 bankruptcy and the company entered into liquidation that same month.

(c) From October 20, 2006 to the date of the company's liquidation, Mr. Pall was a director at Linens 'n Things which filed a bankruptcy petition for reorganization on May 2, 2008 under Chapter 11 of the *United States Bankruptcy Code* in the District of Delaware. In February 2010, the United States Bankruptcy Court approved a motion to change the Linens 'n Things bankruptcy from Chapter 11 bankruptcy to Chapter 7 bankruptcy and the company entered into liquidation that same month.

(d) Mr. Leith is a director of Yellow Media Inc., which is currently undergoing a proposed recapitalization pursuant to a plan of arrangement under the *Canada Business Corporations Act*. The plan of arrangement has been approved by the requisite shareholders and debtholders of Yellow Media Inc. with the implementation expected to occur on or about October 31, 2012.

For the purposes of the paragraphs above, "order" means: (i) a cease trade order; (ii) an order similar to a cease trade order; or (iii) an order that denied the relevant company access to any exemption under securities legislation that was in effect for a period of more than 30 consecutive days.

Shareholder Cease Trade Orders and Bankruptcies

No shareholder holding a sufficient number of securities to affect materially the control of our Company is, as at the date of this prospectus, or has been within 10 years before the date of this prospectus, a director or executive officer of any company (including us) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

No shareholder holding a sufficient number of securities to affect materially the control of our Company has, within the 10 years before the date of this prospectus, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

Penalties or Sanctions

No director or executive officer of the Company or shareholder holding sufficient securities of the Company to affect materially the control of the Company has:

- been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor making an investment decision.

Conflicts of Interest

To the best of our knowledge, and other than Richard Baker, Robert Baker, William Mack, Lee Neibart and National Realty, there are no known existing or potential conflicts of interest among us and our directors, officers or other members of management as a result of their outside business interests except that certain of our directors and officers serve as directors and officers of other companies, and therefore it is possible that a conflict may arise between their duties to us and their duties as a director or officer of such other companies. See "Interest of Management and Others in Material Transactions" and "Management — Directors and Executive Officers".

Indemnification and Insurance

The Company will implement a director and officer insurance program to be effective on Closing. In addition, following the completion of the Offering, the Company will enter into indemnification agreements with each of its directors and officers. The indemnification agreements will generally require that the Company indemnify and hold the indemnitees harmless to the greatest extent permitted by law for liabilities arising out of the indemnitees' service to the Company as directors and officers, provided that the indemnitees acted honestly and in good faith and in a manner the indemnitees reasonably believed to be in or not opposed to the Company's best interests and, with respect to criminal and administrative actions or proceedings that are enforced by monetary penalty, the indemnitees had no reasonable grounds to believe that his or her conduct was unlawful. The indemnification agreements also provide for the advancement of defence expenses to the indemnitees by the Company.

CORPORATE GOVERNANCE

Board of Directors

Independence

As of the Closing of the Offering, the Board of Directors will be comprised of nine directors, five of whom are independent. Following the Offering, two additional directors are expected to be appointed to the board, at least one of whom will be independent, bringing our number of directors to eleven, at least six of whom will be independent. Pursuant to National Instrument 52-110 — *Audit Committees*, as amended from time to time ("NI 52-110"), an independent director is one who is free from any direct or indirect relationship which could, in the view of the Board of Directors, be reasonably expected to interfere with a director's exercise of independent judgment. Richard Baker, Robert Baker, William Mack and Lee Neibart will not be considered independent following the completion of the Offering as a result of their interest in L&T B (Cayman) Inc., which, directly or indirectly, controls ● % of the outstanding Common Shares. It is expected that Hanover will select Rupert Wingfield as one of its nominees to be appointed to the Board of Directors following the Closing. If Rupert Wingfield is appointed to the Board of Directors, he will not be considered independent.

The Company has taken steps to ensure that adequate structures and processes will be in place following Closing to permit the Board of Directors to function independently of management of the Company. It is contemplated that independent directors will hold in camera sessions without management present at meetings of the Board of Directors, if considered necessary. In addition, as it is contemplated that, following completion of the Offering, the Governor of Hudson's Bay Company (the chair of the Board of Directors) will not be an independent director, David Leith will be appointed as lead director in order to ensure appropriate leadership for the independent directors. It is contemplated that the primary responsibilities of the lead director will be to (i) seek to ensure that appropriate structures and procedures are in place so that the Board of Directors may function independently of management of the Company; and (ii) lead the process by which the independent directors seek to ensure that the Board of Directors represents and protects the interests of all shareholders.

Members of our Board of Directors are also members of the boards of other public companies. See "Management — Biographies".

Mandate of the Board of Directors

The Board of Directors is responsible for supervising the management of our business and affairs. The Board of Directors' key responsibilities relate to the stewardship of management, generally through the CEO to pursue the best interests of the Company, and will include the following: review and approval of the strategic plan and in relation thereto approval of annual business and capital plans and policies and processes generated by management, supervision of senior management and succession planning including the appointment of the CEO, the Governor and the lead director of the Board of Directors, seeking to ensure that we have a communications policy in accordance with the guidance set out in National Policy 51-201 — *Disclosure Standards* in place, seeking to ensure that we have risk management systems in place and also seeking to ensure that we have appropriate internal controls and corporate governance policies in place, and seeking to ensure that a business ethics, compliance and corporate governance mindset and creation of a culture of integrity throughout the organization. Under the mandate, the Board of Directors is entitled to engage outside advisers, at our expense, where, in the view of the Board of Directors, additional expertise or advice is required.

Position Descriptions

The Governor and Committee Chairs

Richard A. Baker, the Governor of Hudson's Bay Company, is the chair of the Board of Directors and an executive director. David Leith will act as lead director. The Board of Directors will adopt a written position description for the Governor which will set out the Governor's key responsibilities, including duties relating to setting Board of Directors meeting agendas, chairing Board of Directors and shareholder meetings, director development and communicating with shareholders and regulators. The Board of Directors will also adopt a written position description for each of the committee chairs which will set out each of the committee chairs' key responsibilities, including duties relating to setting committee meeting agendas, chairing committee meetings

and working with the respective committee and management to ensure, to the greatest extent possible, the effective functioning of the committee. These descriptions will be considered by the Board of Directors for approval annually.

The Chief Executive Officer

The primary functions of the CEO are to lead the day-to-day management of our business and affairs and to lead the implementation of the resolutions and the policies of the Board of Directors. The Board of Directors will develop a written position description and mandate for the CEO which will set out the CEO's key responsibilities, including duties relating to strategic planning, our operational direction, Board of Directors interaction, succession reporting and communication with shareholders. The CEO mandate will be considered by the Board of Directors for approval annually.

Orientation and Continuing Education

Following the Closing of the Offering, we will implement an orientation program for new directors under which a new director will meet separately with the Governor and the lead director, members of the senior executive team and the secretary. A new director will be presented with a director manual that reviews Board of Directors policies and procedures, our current strategic plan, financial plan and capital plan, the most recent annual and quarterly reports and materials relating to key business issues.

The chair of each committee will be responsible for coordinating orientation and continuing director development programs relating to the committee's mandate. Each of the committee chairs will also be responsible for instituting a learning program that focuses on topics relevant to each committee's mandate.

Code of Conduct

We have a written code of conduct (the "Code of Conduct") that applies to all directors, officers, management and associates, including those employed by subsidiaries and persons under contract with the Company.

The objective of the Code of Conduct is to provide guidelines for maintaining the integrity, reputation, honesty, objectivity and impartiality of HBC, its subsidiaries and business units.

The Code of Conduct addresses conflicts of interest, protecting our assets, confidentiality, fair dealing with our security holders, customers, suppliers, competitors and associates, insider trading, compliance with laws and reporting any illegal or unethical behaviour.

As part of our Code of Conduct, any person subject to the Code of Conduct is required to avoid or fully disclose interests or relationships that are harmful or detrimental to the Company's best interests or that may give rise to real, potential or the appearance of conflicts of interest.

The Board of Directors or the persons or committee appointed to administer the Code of Conduct will have the ultimate responsibility for the stewardship of the Code of Conduct.

The Code of Conduct will also be filed with the Canadian securities regulatory authorities on the SEDAR website at http://www.sedar.com.

Board of Directors Committees

Our Board of Directors ensures that the composition of its committees shall meet applicable statutory independence requirements as well as any other applicable legal and regulatory requirements.

Audit Committee

The audit committee of the Company (the "Audit Committee") is composed of a minimum of three directors, each of whom is and must at all times be financially literate and, by one year following the date of the receipt for the final prospectus, each of whom must be independent within the meaning of NI 52-110. As of Closing, the Audit Committee will be composed of Wayne Pommen, David Leith and Denise Pickett, all of

whom are independent. Mr. Pommen will be the chair of the Audit Committee. The relevant education and experience of each member of the Audit Committee is described as part of their respective biographies. See "Management — Biographies".

The Board of Directors will adopt a written charter for the Audit Committee (the "Charter of the Audit Committee"), which sets out the Audit Committee's responsibility in reviewing and approving the financial statements of the Company and public disclosure documents containing financial information and reporting on such review to the Board of Directors, ensuring that adequate procedures are in place for the reviewing of the Company's public disclosure documents that contain financial information, overseeing the work and reviewing the independence of the external auditors. The text of the proposed Charter of the Audit Committee that is expected to be adopted is attached to this prospectus as Appendix A.

External Auditor Service Fee

In Fiscal 2011 and Fiscal 2010, the Company was billed the following fees by its external auditor, Deloitte & Touche LLP:

	Fiscal year ended January 28, 2012	Fiscal year ended January 31, 2011
	(in thousands)	
Audit Fees[1]	$3,411	$2,242
Audit Related Fees[2]	$1,758	$ 727
Tax Fees[3]	$2,558	$ 669
All Other Fees[4]	$1,214	$5,807
Total Fees Paid	$8,941	$9,445

Notes:

(1) Fees for audit services.

(2) Fees for assurance and related services not included in audit services above.

(3) Fees for tax compliance, tax advice and tax planning.

(4) All other fees not included above.

Human Resources & Compensation Committee

Upon the Closing of the Offering there will be a human resources & compensation committee (the "Human Resources & Compensation Committee") composed of three directors. As of Closing, the Human Resources & Compensation Committee will be composed of Earl Rotman, Matthew Rubel and David Leith, all of whom are independent. Mr. Rotman will act as chair of the Human Resources & Compensation Committee. Following the Closing of the Offering, the Human Resources & Compensation Committee will adopt a written charter describing the mandate of such committee.

Corporate Governance and Nominating Committee

Upon the Closing of the Offering there will be a corporate governance and nominating committee (the "Corporate Governance and Nominating Committee") which will be responsible for developing corporate governance guidelines and principles for the Company, evaluating the effectiveness of the Board of Directors, identifying new candidates for board nomination and for recommending to the Board of Directors qualifications for directors including, among other things, the competencies, skills, business and financial experience, leadership roles and level of commitment required to fulfill Board of Director responsibilities.

After considering the qualifications that existing directors possess and that each new nominee will bring to the Board of Directors and the obligations of the Company under the Nominating Rights Agreement, the Corporate Governance and Nominating Committee will be responsible for identifying candidates qualified for board membership and recommending to the Board of Directors nominees to be placed before shareholders at each annual meeting. In order to encourage an objective nomination process for new directors, the Corporate

Governance and Nominating Committee will consider potential candidates from a variety of sources and evaluate the suitability of such candidates using objective criteria to be determined by the Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee will be responsible for annually reviewing the performance of the Board of Directors and its committees against the objectives of their respective charters and mandates. In addition, it shall annually evaluate the contribution of the individual directors.

The Corporate Governance and Nominating Committee will ensure the Company develops and implements an effective and efficient approach to corporate governance that enables the business and affairs of the Company to be carried out, directed and managed with the objective of enhancing shareholder value. Its mandate will include monitoring compliance with the Code of Conduct, and annually evaluating the principal corporate policies of the Company.

The Corporate Governance and Nominating Committee of the Company will be composed of three directors. As of Closing, the Corporate Governance and Nominating Committee will be composed of David Leith, Matthew Rubel and Richard Baker, all of whom are independent except for Mr. Baker. Mr. Rubel will act as chair of the Corporate Governance and Nominating Committee. Following the Closing, the Corporate Governance and Nominating Committee will adopt a written charter describing the mandate of such committee.

Pension Committee

Upon Closing, there will be a pension committee (the "Pension Committee") composed of at least three but no more than nine members. As of Closing, the Pension Committee will be composed of Denise Pickett, Richard Baker and David Leith, all of whom are independent except for Mr. Baker. Mr. Leith will act as chair of the Pension Committee.

The mandate of the Pension Committee relates to investment management, pension benefits administration, and the overall administration of the Company's pension plans and funds under the Company's pension plans. The Pension Committee's key role is to establish the strategic direction of the Company's pension plans, and to control risks through the development and approval of policies and through compliance monitoring.

EXECUTIVE COMPENSATION

Introduction

The following discussion describes the significant elements of our executive compensation program, with particular emphasis on the process for determining compensation payable to the CEO and the CFO and, other than the CEO and the CFO, each of the three most highly compensated executive officers, or the three most highly compensated individuals acting in a similar capacity (collectively, the "Named Executive Officers" or "NEOs"). The NEOs are:

- **Richard Baker**, Governor & Chief Executive Officer
- **Michael Culhane**, Chief Financial Officer
- **Bonnie Brooks**, President of HBC
- **Brian Pall**, President of Real Estate
- **Donald Watros**, Chief Operating Officer

Overview

Based on recommendations made by the Human Resources & Compensation Committee, our Board of Directors makes decisions regarding all forms of compensation, including salaries, annual bonuses and equity incentive compensation for our executive officers, as well as approves corporate goals and objectives relevant to the compensation of the CEO and our other executive officers. Our Board of Directors solicits input from our CEO and the Human Resources & Compensation Committee regarding the performance of the Company's

other executive officers. Finally, the Board of Directors also administers our incentive compensation and benefit plans with the assistance of the Human Resources & Compensation Committee.

Compensation Discussion and Analysis

Our Compensation Objectives

Our compensation program is designed to retain, motivate and reward our executive officers for their performance and contribution to our success, through the short and long term. The Company combines base salary, a cash-based annual incentive plan as well as mid-term and long-term cash and equity incentives to achieve these objectives. The NEOs are also entitled to receive pension benefits and executive perquisites, each in accordance with Company policies.

Our annual incentive plan is designed to motivate and reward our executive officers to achieve the Company's short-term corporate goals. The mid-term and long-term incentive plans are designed to focus our executives on achieving targets that are aligned with the Company's strategic goals and increasing shareholder value. The plans place emphasis on key performance measures such as earnings targets, thereby improving line of sight to these goals.

Our Company's compensation philosophy focuses on providing market competitive total target compensation and is benchmarked against the median of our defined peer groups. Additionally, our executive pay program has been designed with a focus on performance, where a portion of the total executive compensation is dependent on achieving corporate performance objectives in the short and long term. When Company targets are exceeded, the portion of total compensation based on performance is designed to payout at levels that exceed the market median and similarly, when targets are not met, this portion of total compensation will payout below the market median. The Company does not publicly disclose the specific corporate objectives set under the current plans because disclosure of such information, which reflects our confidential business plans, could result in competitive harm.

Elements of Compensation Program

The following sections describe the different compensation components, which together define the executive compensation program. Our compensation consists primarily of three main elements: base salary, an annual incentive plan and long-term incentive plans. We describe each element of compensation in more detail below.

Base Salary

A primary element of the Company's compensation program is base salary. The Company's view is that a competitive base salary is a necessary element for attracting and retaining qualified executive officers. The amount payable to a NEO is determined based on the scope of their responsibilities and prior experience, while taking into account competitive market compensation within our relevant peer groups for similar positions and overall market demand for such executives at the time of hire.

Base salaries are reviewed annually and increased for merit reasons, based on the executive's success in meeting or exceeding Company and individual objectives. Additionally, base salaries can be adjusted as warranted throughout the year to reflect promotions or other changes in the scope or breadth of an executive's role or responsibilities, as well as for market competitiveness. Annual budgets allocate for salary increases based on the average of our peer group's budgeted increases.

Annual Incentive Plan ("AIP")

The Company's annual incentive plan is designed to connect the Company's eligible associates directly to the achievement of the Company's profit objectives. Targets are set as a percentage of base salary, reflective of the competitive marketplace in which we operate. The opportunity to earn over target amounts depends on the level of achievement of the Company's performance goals. A threshold level of performance must be met before any amounts are paid out under the annual incentive plan. Except for Mr. Baker, all NEOs participate in the annual incentive plan.

In order to ensure alignment with overall Company objectives, the annual incentive plan for each eligible NEO is based on total Company EBITDA. Once the Company's financial objectives are set, the Human Resources & Compensation Committee will recommend performance targets that are both aggressive, but achievable to ensure appropriate motivation.

The payout grid, articulating performance thresholds and multipliers for levels of achievement, is reviewed annually to assess the aggressiveness of targets and past performance. Our approach is to set aggressive targets with low payout for below target performance. For superior performance, should the NEOs significantly exceed their targets, the maximum potential payout to a NEO could be up to 200% of such NEO's base salary.

The Human Resources & Compensation Committee may also exercise discretion in determining the total amount paid out, given the Company's overall performance and an assessment of each NEO's individual achievements throughout the year.

Long-Term Incentive Plans

As discussed in further detail below, the Company's compensation program is also comprised of long-term incentive plans. Our proposed and existing long-term incentive plans are:

- Option Plan
- Performance Share Unit Plan
- Restricted Share Unit Plan
- Phantom Share Unit Plan
- Performance Share Appreciation Right Plan — *legacy compensation*
- Mid-term Incentive Plan ("MIP") — *legacy compensation*
- Special Cash Recovery Incentive Plan — *legacy compensation*

(i) Option Plan

The Company will adopt a new stock option plan of the Company with effect as of the date of the Closing (the "Option Plan") pursuant to which options may be granted to the Company's eligible employees. The Option Plan will be administered by the Board of Directors, which may delegate this responsibility to a committee of the Board of Directors. The following discussion is qualified in its entirety by the text of the Option Plan.

The NEOs will be offered stock options as part of their compensation package. These stock options have been designed to align executives with shareholder objectives, including an increase in share price. The stock options will be used primarily as a retention tool, as well as an opportunity to reward NEOs. The number of Common Shares issued to insiders of the Company, at any time, under all security based compensation arrangements of the Company, cannot exceed 10% of the number of Common Shares in the capital of the Company that are outstanding from time to time.

Typically, stock options are granted on an annual basis. However, the number of stock options granted to NEOs and certain other senior executive officers in the initial grant will reflect three years' worth of grants (the "Closing Options"). There will be no further grants offered to NEOs in the first three years following the Offering. This establishes a minimum level of performance for these first three years, and ensures the NEOs do not benefit from a decline in share price during such period of time.

In accordance with the foregoing, a total of ● Common Shares will be set aside on Closing and reserved for allotment for the purpose of the Option Plan (the "Total Reserve"). To the extent options terminate for any reason prior to exercise in full or are cancelled or are exercised, the Common Shares subject to such options shall be added back to the Total Reserve and such Common Shares will again become available for grant under the Option Plan, the whole without increasing the Total Reserve.

The Closing Options will have the following features:

- grants may be made with or without a performance condition;
- 50% of the options will vest in each of the fourth and fifth years following the grant date; provided that if a performance condition is included, the Common Share price must meet a target for a twenty (20) trading day period prior to the applicable vesting date, or for any twenty (20) trading day period after the vesting date, but prior to the applicable expiry date;
- options will have a ten-year term, at the end of which the options expire (subject to certain limited black-out period related extensions); and
- options (vested and unvested) will forfeit immediately in the event the NEO is terminated for cause, and after 90 days in the event of a voluntary resignation or termination without cause, subject to a pro-rata vesting schedule if the NEO is terminated without cause prior to the completion of five (5) years of service following the date of the grant.

Following the third anniversary of the grant of the Closing Options, the NEOs will be eligible for annual grants of stock options. The terms of these grants will be established by the Board of Directors and/or the Human Resources & Compensation Committee at that time.

All options granted have an exercise price determined and approved by the Board of Directors at the time of grant, which shall not be less than the market value of the Common Shares at such time. For purposes of the Option Plan, the market value of the Common Shares shall be: (i) if the grant is made during a black-out period (a period self-imposed by the Company during which designated employees cannot trade the securities of the Company), the average closing price of the Common Shares on the TSX for the three (3) trading day period following the last day of such black-out period, and (ii) if the grant is made outside a black-out period, the average closing price of the Common Shares on the TSX for the five (5) trading day period ending on the last trading day before the day on which the option is granted.

All options (other than the Closing Options) vest on the third anniversary of the applicable grant date. Subject to any accelerated termination, options (other than the Closing Options) expire no later than seven (7) years after the date of granting, unless the expiry date falls within a black-out period or within nine (9) business days after the end of such blackout period, in which case such expiration date will be automatically extended without any further act or formality to that date which is the tenth (10^{th}) business day after the end of such black-out period.

Unless otherwise determined by the Board of Directors in its discretion at any time prior to or after the following events and in any option agreement, the right to exercise vested options granted pursuant to the Option Plan will expire on the earliest to occur of the following: (i) seven (7) years from the date of grant (or ten (10) years for the Closing Options), (ii) 365 days from the date of the optionee's death, (iii) 90 days from the date of the optionee's voluntary resignation or involuntary termination not for cause, (iv) 90 days from the termination of the optionee's employment without cause, and (v) immediately, in the case of termination of the optionee's employment or term in office for cause (together with any vested options). For greater certainty, any options that were not exercisable at the time of occurrence of events contemplated above immediately expire and are cancelled on such date. In the event of the optionee's approved retirement or permanent disability, the unvested options will continue to vest in accordance with the vesting schedule and the vested options are exercisable for three (3) years following retirement or declaration of permanent disability (or two (2) years for the Closing Options).

The Board of Directors may advance the date on which any option may be exercised notwithstanding the vesting schedule set forth in such option, regardless of any adverse or potentially adverse tax consequences resulting from such acceleration or, subject to applicable regulatory provisions and shareholder approval, extend the expiration date of any option, provided that the period during which an option is exercisable does not exceed 10 years from the date such option is granted.

In the event of a change of control, a reorganization of the Company, an amalgamation of the Company, an arrangement involving the Company, a take-over bid (as that term is defined in the *Securities Act* (Ontario)) for all of the Common Shares or the sale or disposition of all or substantially all of the property and assets of the

Company, the Board of Directors may make such provision for the protection of the rights of the optionees as the Board of Directors in its discretion considers appropriate in the circumstances, including, without limitation, changing the vesting schedule for the options and/or the date on which any option expires or providing for substitute or replacement options of similar value from the acquiring or surviving entity. In addition, if a NEO is terminated without cause or resigns with good reason within one (1) year following a change of control, unvested options or replacement equivalents become fully vested and are exercisable within a ninety (90) day period following termination or resignation, as applicable.

For purposes of the Option Plan, a change of control means the occurrence of (i) any transaction or series of related transactions, whether or not the Company is a party thereto, after giving effect to which in excess of fifty percent (50%) of the Company's voting power is owned directly, or indirectly through one or more entities, by any person and its affiliates or associates, other than the Principal Shareholder and each company, trust, limited liability company, general or limited partnership or other entity under common control with the Principal Shareholder; or (ii) a sale, lease or other disposition of all or substantially all of the assets of the Company.

The Option Plan also provides that appropriate adjustments, if any, will be made by the Board of Directors in connection with a reclassification, reorganization or other change of shares, consolidation, distribution, merger or amalgamation, in order to maintain the optionees' economic rights in respect of their options in connection with such change in capitalization, including adjustments to the exercise price or the number of Common Shares to which an optionee is entitled upon exercise of options, or permitting the immediate exercise of any outstanding options that are not otherwise exercisable.

The Board of Directors may amend the Option Plan or any option at any time without the consent of the optionees provided that such amendment shall (i) not adversely alter or impair any option previously granted except as permitted pursuant to certain adjustments to shares, (ii) be subject to any regulatory approvals including, where required, the approval of the TSX, and (iii) be subject to shareholder approval, where required, by law or the requirements of the TSX, provided however that shareholder approval shall not be required for the following amendments and the Board of Directors may make any changes which may include but are not limited to:

- amendments of a "housekeeping" nature;
- a change to the provisions of any option governing vesting, assignability and effect of termination of a participant's employment or cessation of a participant's directorship;
- the introduction or amendment of a cashless exercise feature payable in cash or securities, whether or not such feature provides for a full deduction of the number of underlying securities from the Total Reserve;
- the addition of a form of financial assistance and any amendment to a financial assistance provision which is adopted;
- a change to advance the date on which any option may be exercised under the Option Plan;
- a change to the eligible participants of the Option Plan, including a change which would have the potential of broadening or increasing participation by insiders; and
- the addition of a deferred or restricted share unit or any other provision which results in optionees receiving securities while no cash consideration is received by the Company.

In addition, the Board of Directors may, subject to regulatory approval, discontinue the Option Plan at any time without the consent of the optionees provided that such discontinuance shall not materially and adversely affect any options previously granted under the Option Plan.

For greater certainty, the Board of Directors shall be required to obtain shareholder approval to make the following amendments:

- any change to the maximum number of Common Shares issuable from treasury under the Option Plan, including an increase to the fixed maximum number of Common Shares or a change from a fixed maximum number of Common Shares to a fixed maximum percentage, other than an adjustment pursuant to a change in capitalization;

- any amendment which reduces the exercise price of any option after the options have been granted or any cancellation of an option and the substitution of that option by a new option with a reduced price, except in the case of an adjustment pursuant to a change in capitalization;
- any amendment which extends the expiry date of any option beyond the original expiry date, except in case of an extension due to a black-out period;
- any amendment which increases the maximum number of Common Shares that may be issued to (i) insiders and their associates; or (ii) any one insider and his/her associates under the Option Plan or any other proposed or established share compensation arrangement of the Company in a one-year period, except in the case of an adjustment pursuant to a change in capitalization; and
- any amendment to the amendment provisions of the Option Plan,

provided that Common Shares held directly or indirectly by insiders benefiting from the amendments shall be excluded when obtaining such shareholder approval.

Except as specifically provided in an option agreement approved by the Board of Directors, options granted under the Option Plan are not transferable and may only be exercised during the lifetime of the optionee by such optionee (except that an optionee may transfer options to a Company in respect of which the optionee is the sole shareholder).

(ii) Restricted Share Units ("RSUs")

The Company will establish a restricted share unit plan (the "RSU Plan") to be adopted with effect as of the date of the Closing, which plan will form part of its long-term incentive compensation arrangements for executives and other employees, at the discretion of the Board of Directors. The following discussion is qualified in its entirety by the text of the RSU Plan.

The RSU Plan will provide participants under the RSU Plan with the opportunity, through RSUs, to receive Common Shares.

RSUs will be granted on an annual basis and have a term of three (3) years, subject to the approval of the Board of Directors. Initially, Mr. Richard Baker will be the only NEO eligible under this plan.

The RSU Plan is intended to provide participants with an additional incentive to further the growth and development of the Company and will encourage them to remain with the Company. The selection of participants will be based on the participant's current and potential contribution to the Company and the terms of the grants may include performance targets or the achievement of certain collective performance related criteria, such as the financial performance of the Company. Performance targets shall be set out in the grant agreement between the Company and the participant under which RSUs are granted.

The RSU Plan will be administered by the Board of Directors, which will determine, from time to time, the eligibility of participants to participate in the RSU Plan, when RSUs will be awarded, the number of RSUs to be awarded, the vesting criteria for each award of RSUs and all other terms and conditions of each award, in each case in accordance with applicable securities laws and stock exchange requirements.

The terms of any particular grant need not be identical to any other grant, and the Board of Directors may amend, suspend or terminate the terms of any grant, or the terms of the RSU Plan itself (subject to certain restrictions), without shareholder approval. Each RSU granted under the RSU Plan will entitle the participant to a Common Share, provided: (i) the participant is continuously employed by or in service with the Company or any of its affiliates from the date or the effective date of such grant until vested, and (ii) all other terms and conditions of the grant have been satisfied.

Unless otherwise determined by the Board of Directors in its sole discretion, RSUs granted to a participant shall vest on the third anniversary of the grant of RSUs, provided that the applicable performance target(s) in respect of such RSUs have been achieved in respect of such period as determined by the Board of Directors in its sole discretion. The grant of RSUs will not entitle the participant to exercise any voting rights or any other right that attaches to ownership of Common Shares. RSUs which have been granted to a participant and which

do not vest in accordance with the RSU Plan shall be forfeited by the participant and cancelled without consideration, and the participant will have no further right in such RSUs.

If the participant is terminated with or without cause or if the participant voluntarily resigns, all unvested RSUs will be forfeited. In the event the participant's employment with the Company is terminated due to retirement or disability, the participant (or their legal representative as the case may be) will receive a pro-rated portion of the unvested amount of the RSUs based on the pro-rated portion of the time actually employed by the Company over the performance period of the award. All RSUs shall immediately vest upon a participant's death.

In the event of any change of control transaction in which there is an acquiring or surviving entity, the Board of Directors may provide for substitute or replacement units of similar value from the acquiring or surviving entity or one or more of its subsidiaries.

The Board of Directors reserves the right, in its sole discretion, to amend, suspend or terminate the RSU Plan, any RSUs granted pursuant to the RSU Plan, or any portion thereof at any time, in accordance with applicable legislation, without obtaining the approval of the Company's shareholders, including, without limitation: (i) to make amendments of a''housekeeping'' nature, including amendments to the RSU Plan necessary to comply with applicable law or the requirements of any regulatory authority or stock exchange and any amendment to the RSU Plan to correct any ambiguity, defective provision or error or omission therein; (ii) to amend the period for payment of vested RSUs, vesting or other payment provisions of the RSU Plan; or (iii) to make any other amendment that does not require shareholder approval under applicable laws or stock exchange rules.

The assignment or transfer of RSUs, or any other benefits under the RSU Plan, shall not be permitted other than by operation of law or the other terms of the RSU Plan.

(iii) Performance Share Units ("PSUs")

The Company will establish a performance share unit plan (the ''PSU Plan'') to be adopted with effect as of the date of the Closing, which plan will form part of our long-term incentive compensation arrangements available for executives and other employees. The PSU Plan will be administered by the Board of Directors, which may delegate this responsibility to a committee of the Board of Directors. The following discussion is qualified in its entirety by the text of the PSU Plan.

PSUs are an annual grant of notional shares to NEOs that aim to reward superior performance and will be settled in cash or Common Shares acquired on the market for such purpose. The first granting of PSUs is scheduled to occur at the end of the first quarter of Fiscal 2013. The ultimate number of PSUs that vest will be dependent on performance against pre-established objectives. For superior performance, the number of PSUs that vest can reach up to 200% of the PSUs originally granted. At the minimum performance threshold, 50% of the PSUs granted will vest; below the minimum performance threshold, none of the PSUs granted will vest. The value of the PSUs will be based on actual share price at the end of the three-year performance period. Consequently, this form of compensation ensures that the interests of the shareholders and of the executives are aligned.

PSUs will have the following features:

- cliff-vesting on the third anniversary of the grant date, contingent on achievement of three-year earnings targets. The number of units that vest above or below earnings targets is contingent on the degree of achievement of the three-year performance objectives;
- payout will occur no later than December 31st of the third year following the grant date and may be in the form of Common Shares purchased on the open market or the cash equivalent of the value of such shares at the date of payout; and
- the value of units fluctuates with share price.

The grant of PSUs will not entitle the participant to exercise any voting rights, receive any dividends or exercise any other right that attaches to ownership of Common Shares. PSUs which have been granted to the

participant and which do not vest in accordance with the PSU Plan shall be forfeited by the participant and cancelled without payment, and the participant will have no further right in such PSUs.

In the event of termination without cause, the amount of the award will be pro-rated based on the period of active employment during the performance period of the award and will be paid on the original vesting date. Payment will be subject to the achievement of performance targets in accordance with the plan. If the participant were to retire or become permanently disabled, any payments would be pro-rated based on period of active employment during the performance period of the award, with the performance multiplier based on target performance. If the participant is terminated with cause or voluntarily resigns, all unvested PSUs will be forfeited. All PSUs shall immediately vest upon a participant's death.

In the event of any change of control transaction in which there is an acquiring or surviving entity, the Board of Directors may provide for substitute or replacement units of similar value from the acquiring or surviving entity or one or more of its subsidiaries. In addition, if a participant is terminated without cause or resigns for good reason within two (2) years following a change of control, unvested PSUs or replacement equivalents become fully vested.

The Board of Directors reserves the right, in its sole discretion, to amend, suspend or terminate the PSU Plan, any PSUs granted pursuant to the PSU Plan, or any portion thereof at any time, in accordance with applicable legislation.

The assignment or transfer of PSUs, or any other benefits under the PSU Plan, shall not be permitted other than by operation of law or the other terms of the PSU Plan.

(iv) Phantom Share Units

The Company will establish a phantom share unit plan (the "Phantom Plan") to be adopted with effect as of the date of the Closing, which plan will form part of our long-term incentive compensation arrangements available for executives and other employees. The Phantom Plan will be administered by the Board of Directors, which may delegate this responsibility to a committee of the Board of Directors. The following discussion is qualified in its entirety by the text of the Phantom Plan.

The terms of any particular grant need not be identical to any other grant, and the Board of Directors may amend, suspend or terminate the terms of any grant, or the terms of the Phantom Plan itself (subject to certain restrictions), without approval of the holders of Phantom Units. Each unit granted under the Phantom Plan ("Phantom Share Unit") will entitle the participant to cash or a Common Share acquired on the market for such purpose, provided: (i) the participant is continuously employed by or in service with the Company or any of its affiliates from the date or the effective date of such grant until vested, and (ii) all other terms and conditions of the grant have been satisfied.

Unless otherwise determined by the Board of Directors in its sole discretion, Phantom Share Units granted to a participant shall vest on the third anniversary of the grant of such Phantom Share Units, provided that the applicable performance target(s) in respect of such Phantom Share Units have been achieved in respect of such period as determined by the Board of Directors in its sole discretion. The grant of Phantom Share Units will not entitle the participant to exercise any voting rights or any other right that attaches to ownership of Common Shares. Phantom Share Units which have been granted to a participant and which do not vest in accordance with the Phantom Plan shall be forfeited by the participant and cancelled without consideration, and the participant will have no further right in such Phantom Share Units. Phantom Share Units will be settled no later than December 31st of the third year following the year in which they were granted.

If the participant is terminated with cause or if the participant voluntarily resigns, all unvested Phantom Share Units will be forfeited. In the event the participant's employment with the Company is terminated due to retirement or disability or if the participant is terminated by the Company without cause, the participant (or their legal representative as the case may be) will receive a pro-rated portion of the unvested amount of the Phantom Share Units based on the pro-rated portion of the time actually employed by the Company over the performance period of the award. All Phantom Share Units shall immediately vest upon a participant's death.

In the event of any change of control transaction in which there is an acquiring or surviving entity, the Board of Directors may provide for substitute or replacement units of similar value from the acquiring or surviving entity or one or more of its subsidiaries. In addition, if a participant is terminated without cause or resigns with good reason within two (2) years following a change of control, unvested Phantom Share Units or replacement equivalents become fully vested.

The Board of Directors reserves the right, in its sole discretion, to amend, suspend or terminate the Phantom Plan, any Phantom Share Units granted pursuant to the Phantom Plan, or any portion thereof at any time, in accordance with applicable legislation.

(v) Performance Share Appreciation Rights ("PSARs")

PSARs are part of a legacy compensation program granted to certain executives prior to the Offering. There will be no additional grants under this plan. These executives were granted incentive units at a value determined at the date of the grant. Depending on their area of responsibility, they were granted units tied to performance at Lord & Taylor, Hudson's Bay Company, or Hudson's Bay. The amount paid out with respect to the incentive units awarded to the executives is the excess of the equity value of the PSARs on the valuation date over their grant date value (unit appreciation value). The valuation date is triggered by the consummation of a change in control or a qualified initial public offering, such as the Offering.

The equity value of a PSAR, on any given date, is based on a multiple of EBITDA of the corporation or division from which the units are issued, adjusted for debt, as prescribed by the applicable NEO's PSAR agreement. However, if a change in control or a qualified initial public offering has occurred, the equity value of an incentive unit is the implied equity value of the corporation or division from which the units are issued, at that date as determined by the Board of Directors. Unless otherwise determined by the Board of Directors, no amount will be payable with respect to the PSARs until there is a consummation of a change in control or a qualified initial public offering. Payment will only be made in regards to the units that are vested.

Unless otherwise stated in the applicable PSAR agreement, the PSARs vest in five equal installments on each of the first five anniversaries following the grant date. For any units not vested on the valuation date, the value will be determined based on the valuation date as noted above, but payment will only occur once the units vest according to the individual contracts with the executive. At the discretion of the Board of Directors, payment of the units can be made in shares or other marketable securities of the corporation or division from which the units were issued in lieu of cash, having a fair market value on the date of distribution equivalent to the unit appreciation value on the valuation date.

If there is a termination of employment prior to the consummation of a change in control or a qualified initial public offering, then the Company shall have the right but not the obligation, within a certain amount of time, to cancel the executive's outstanding awards in exchange for a cash payment, based on the excess of the value of the PSARs on the termination date over their grant date value.

In the event that the executive's employment is terminated by the Company for any reason other than for cause or is terminated by the executive for any reason, any outstanding but unvested PSARs will terminate and become void, and PSARs which are outstanding but vested as of the termination date shall remain outstanding and become payable when the other PSARs become payable, as described above.

(vi) Mid-Term Incentive Plan ("MIP")

With the exception of Mr. Richard Baker, all NEOs participate in the Company's MIP. A number of other senior executives also participate in the plan. This plan will be discontinued at the end of Fiscal 2012 and there will be no further award issuances. Previous awards will continue to vest in accordance with the schedule detailed below.

The MIP is a cash incentive plan with annual awards. Payments of the award are based on the Company achieving three-year financial targets for EBITDA. Each award vests at the end of the three-year term. The amount of the award that will vest is dependent on the actual three-year cumulative EBITDA achieved at the end of the term. A minimum threshold performance level must be met before any payout will be made. Actual

payments can range from 25% of the target award for performance at threshold to a maximum of 200% for superior performance.

At the discretion of the Board of Directors, in lieu of cash, the Company may distribute to the participants of the plan, shares or other marketable securities of the Company having a fair market value equivalent to the payout.

For termination for cause and voluntary terminations, any unvested awards will be forfeited. For terminations not for cause, any vested awards at the date of termination will be paid out. Any awards that vest prior to the end of the maximum severance period will be paid out on a prorated basis. If the participant is terminated not for cause subsequent to a change in control, any unvested awards will vest on a prorated basis until the end of the term. Awards will be prorated for other causes as well, such as death or retirement.

In addition to the MIP awards noted above, Ms. Brooks and Mr. Watros were also granted, special MIP awards in Fiscal 2012 with payout target amounts of $1,500,000. These special MIP awards are one-time awards, having the same terms and conditions noted above. These awards will only vest if the Company achieves a specified three-year EBITDA target. No amount will be paid out if actual EBITDA performance is below this specified target and the award will not pay out at higher amounts if actual performance is higher than the specified three-year EBITDA performance.

(vii) Special Cash Recovery Incentive Plan

Mr. Culhane and Mr. Watros participate in the Special Cash Recovery Incentive Plan. Granted on March 1, 2011, this one-time award was established to focus eligible executives on cash recovery and profit improvement relating to Zellers and the related sale of its leasehold interests to Target.

Payment of the award is based on achieving a cumulative two-year target for inventory recovery and EBITDA, and the amount of the award is dependent on actual cumulative results achieved at the end of the two-year term. A minimum threshold performance level must be met before any payout will be made. Actual payments can range from 50% of the target award for performance at threshold to a maximum of 150% for superior performance. The target awards for Mr. Culhane and Mr. Watros are $750,000 and $1,000,000, respectively and the awards are payable in two equal installments. The Company is expected to exceed the prescribed performance targets, and as such, the Company has determined that the executives will be entitled to a payment equal to 150% of the applicable target award. The first installment of such payment was accelerated and made to the executives in Fiscal 2012. In the event that the Company's cumulative target (as calculated in Fiscal 2013) is not met, or if the executive resigns or is terminated for cause before March 1, 2013, any amounts previously paid to such executive (including the first installment) must be returned to the Company within 15 days of resignation or termination, as applicable. In the event of termination without cause, the executives would receive a pro-rated award. The award will be forfeited upon voluntary resignation from the Company or for termination for cause.

Market Positioning and Benchmarking

As further detailed below, Mercer Canada ("Mercer") performed a market review of the Company's executive compensation program in Fiscal 2011 and Fiscal 2012. The review was conducted to ensure that our compensation practices and packages are competitive with the market, which will help to ensure stability in our executive leadership and achievement of Company goals and strategic objectives.

The comprehensive review included perspective on what competitive pay and design looks like in the North American retail market, from which HBC recruits executive talent and to which it may lose executive talent. Our target position regarding executive compensation within the market is the median (50^{th} percentile). Three peer

groups were considered. The rationale behind the selection of, together with a list of selected organizations included in, each peer group is outlined below:

Peer Group	Relevance
US department stores ("U.S. Department Stores")	Provides perspective on direct industry competitors pay practices, design and trends Peer group includes: Sears Holdings Corp., Macy's Inc., Kohl's Corp., J.C. Penney, Nordstrom, Dillards Inc., Bon-Ton Stores Inc., Saks Inc., Retail Ventures Inc.
US broader retail industry ("U.S. Broader Retail Industry")	Reflective of HBC's size and industry. Provides a view of compensation in the marketplace for companies of similar size and complexity Peer group includes: Gap Inc., Nordstrom, Limited Brands Inc., Ross Stores Inc., Bed Bath & Beyond, Dillards Inc., Foot Locker Inc., Williams Sonoma, Abercrombie & Fitch, Collective Brands Inc., Bon-Ton Stores Inc., American Eagle Outfitters, Saks Inc.
Canadian broader retail industry ("Canadian Broader Retail Industry")	Provides a view of compensation in the Canadian marketplace for companies of similar size and complexity, but not necessarily direct industry competitors Peer group includes: Loblaw Companies Ltd., Alimentation Couche-Tard, Empire Company, METRO Inc., Shoppers Drug Mart, Canadian Tire Corp., Sears Canada Inc., RONA Inc., Jean Coutu Group, North West Co Fund, Forzani Group Ltd., Dollarama Inc., Brick Group Inc. Fund, Reitmans Canada

Following the Closing, the Human Resources & Compensation Committee, in conjunction with the Board of Directors, will establish an appropriate comparator group, for purposes of setting the future compensation of the NEOs.

Compensation Risk

While there has been no formal consideration by the Board of Directors or the compensation committee of the implications of risks associated with the Company's compensation policies and practices, the current structure of the Company's executive compensation arrangements are inherently designed not to encourage executive officers to expose the Company to inappropriate or excessive risks. The following elements of the Company's executive compensation arrangements correlate to the long-term performance of the Company:

- compensation with a well-balanced mix of base salary, annual incentive plan and long term incentive plan;
- the use of a performance metric, adjusted EBITDA, that is aligned with the Company's business growth strategy and the creation of shareholder value;
- the use of a sliding scale to grant annual cash bonuses (as opposed to an all-or-nothing proposition);
- policies and practices that are generally applied on a consistent basis to all executive officers;
- the initial granting of the Closing Options to NEOs in an amount reflecting three years' worth of grants establishes a minimum level of performance for these first three years, and ensures the NEOs do not benefit from a decline in share price during such period of time;

- extended vesting periods applicable to various awards granted by the Company, which keeps recipients focused on long-term performance; and
- the fact that employment agreements of executive officers do not provide excessive severance in the case of termination.

Human Resources & Compensation Governance

The Human Resources & Compensation Committee is responsible for, among other things, reviewing and making recommendations to the Board of Directors concerning the compensation of the Company's directors and NEOs. The Human Resources & Compensation Committee is comprised of Earl Rotman, Matthew Rubel and David Leith, all of whom are independent. Following the closing of the Offering, the Human Resources & Compensation Committee will adopt a written charter describing the mandate of such committee.

Each member of the Human Resources & Compensation Committee has held senior leadership positions in various organizations, and each member in those capacities obtained direct experience relevant to executive compensation, and has the skills and experience that enable the Human Resources & Compensation Committee to make decisions on the suitability of the Company's compensation policies and practices.

The Human Resources & Compensation Committee will assist the Board of Directors in fulfilling its oversight responsibilities with respect to: (i) the establishment of key human resource and compensation policies, including all incentive and equity based compensation plans; (ii) the determination of the compensation for the CEO, or any person acting in such capacity, and the CFO, and other senior executives of the Company; and (iii) compensation of directors. The committee will also determine whether the executive compensation program is aligned with shareholder interests and the Company's business objectives.

The Human Resources & Compensation Committee will meet regularly and make decisions regarding executive compensation based on performance levels in the previous fiscal year and relevant market data for our determined comparator peer groups.

Adjustments to compensation will be made to ensure executive compensation is market competitive. If we determine that our executives are compensated appropriately relative to our peer groups and based on skill, experience and achievement, there will be no adjustments to executives' total compensation for retention purposes or inflation.

The Human Resources & Compensation Committee will also be responsible for assisting the Board of Directors in discharging its responsibilities regarding recruitment, evaluation and succession planning for the CEO, or any person acting in such capacity, and the CFO and other senior executives of the Company.

Compensation Consultant

The Company engaged the services of Mercer in Fiscal 2011 to assist with the evaluation of the Company's compensation practices and to make recommendations in connection with the Company becoming a public entity. The services continued in Fiscal 2012. Mercer's knowledge of the United States and Canadian retail industry, specifically within the realm of executive compensation, made them an appropriate choice to advise HBC. Mercer provided consultative services including a review of our existing executive compensation (base salary, short-term incentives and long-term incentive plans), best practice analysis and recommendations regarding director compensation (specifically share ownership guidelines, ratio of equity to cash in retainers and the form of equity) and a detailed analysis of long-term incentive plan design.

With the analysis and recommendations provided by Mercer, HBC was able to clarify our compensation philosophy and desired competitive position. It is our intention to model industry best practices and to provide competitive and appropriate compensation to our executives, with the overall objectives of maximizing shareholder value and achieving long-term growth and the strategic goals of HBC. Mercer also provides the Company with supplemental pension plan and health and benefits consulting services.

The aggregate fees billed to the Company or any of its affiliates for Fiscal 2011 and Fiscal 2012 financial years for services relating to determining compensation for any of the Company's directors and officers, and for all other services, are as set out below:

	Executive Compensation-Related Fees	All Other Fees
Fiscal 2011	$234,496	$849,870
Fiscal 2012 (YTD)	$119,979	$765,402

Hedging/Anti-Hedging Policy

The NEOs and the directors are, under the terms of the Company's Insider Trading Policy, prohibited from purchasing financial instruments designed to hedge or offset a decrease in the market value of shares, including shares granted as or underlying share-based compensation or otherwise held directly or indirectly by a NEO or a director.

Summary Compensation Table

Summary Compensation Table expected for Fiscal 2012

The following table sets out information concerning the expected Fiscal 2012 compensation to be paid by the Company to the NEOs effective as of Closing:

Name and Principal Position	Year	Salary[1][2] ($)	Share-based Awards[3] ($)	Option-based Awards[4] ($)	Non-equity Incentive Plan Compensation[5] ($)		Pension Value ($)	All Other[6] Compensation ($)	Total Compensation ($)
					Annual incentive plan	Long-term incentive plans			
Richard Baker Governor & Chief Executive Officer	2012	600,000	●	●	N/A	N/A	N/A	N/A	● [8]
Michael Culhane Chief Financial Officer	2012	600,000	●	●	450,000	300,000[7]	422,820	2,178,871	●
Bonnie Brooks President	2012	1,000,000	●	●	1,000,000	0	643,820	2,674,000	●
Brian Pall President of Real Estate	2012	700,000	●	●	700,000	0	0	N/A	●
Donald Watros Chief Operating Officer	2012	1,000,000	●	●	1,000,000	0[7]	669,062	2,644,266	●

Notes:

(1) Represents the annualized base salary to be in effect as of the Closing. Actual salary paid for Fiscal 2012 may be less than this amount and will vary based on the date of the Closing.

(2) Payments made to Mr. Baker, Mr. Pall and Mr. Watros in connection with base salary and non-equity incentive plan compensation are made in U.S. dollars. For the purposes of translating these amounts into Canadian currency for disclosure under the Summary Compensation Table, the conversion rate used was 1:1.

(3) Includes RSUs granted in Fiscal 2012. RSU values are based on the Offering Price. For greater detail regarding these awards, please refer to the section regarding the RSU Plan under the heading "Compensation Discussion & Analysis".

(4) Granted pursuant to the new Option Plan effective as of Closing. Each of Mr. Baker, Mr. Culhane, Ms. Brooks, Mr. Pall and Mr. Watros will be granted ● , ● , ● , ● and ● stock options, respectively. Option values are based on the Offering Price. Typically, stock options are granted on an annual basis; however, the number of stock options in the initial grant will reflect three years' worth of grants. There will be no further grants offered in the first three years following the Offering. For greater detail regarding these awards, please refer to the section regarding the Option Plan under the heading "Compensation Discussion & Analysis".

(5) Includes amounts earned pursuant to the AIP, MIP, Special MIP and the Special Cash Recovery Incentive Plan; based on target payment amounts in the applicable incentive plan. Actual amounts payable will depend upon the achievement of performance goals. For purposes of this table, awards are deemed to be earned in the fiscal year relating to the applicable performance target, even if payments are not made in such fiscal year. For example, MIP awards are based upon the Company achieving three-year strategic

targets and the corresponding award will be reported in the third year, once the Company reaches the targets. As such, only amounts related to the AIP for each NEO and Mr. Culhane's MIP have been reported for Fiscal 2012.

(6) Other than Mr. Culhane and Mr. Watros, none of the NEOs are entitled to perquisites or other personal benefits which, in the aggregate, are worth over $50,000 or over 10% of their base salary and accordingly are not recorded in this table. Amounts listed in this column includes payments made in accordance with the tax gross-up provisions in Mr. Culhane's and Mr. Watros' employment agreements in the amounts of $660,871 and $456,266, respectively. These NEOs, who are US citizens, are eligible for tax equalization payments in respect of their employment income to compensate for higher tax liabilities in Canada. All other amounts related to perquisites or other personal benefits cumulatively fall below $50,000 or under 10% of their base salary and accordingly are not contemplated in this table. In April 2012, the Board of Directors determined that it was appropriate, as a result of the recent sale of certain assets relating to Zellers and the acquisition by HBC of Lord & Taylor, to exercise its discretion to cancel a portion of the vested PSAR units. As a result, the Company and Zellers entered into unit cancellation agreements with certain NEOs, resulting in consideration paid and payable as follows: (i) Mr. Watros $1,367,000 paid in Fiscal 2012, (ii) Ms. Brooks $2,674,000 paid and payable in each of Fiscal 2012 and Fiscal 2013 respectively, and (iii) Mr. Culhane $1,518,000 paid in Fiscal 2012 and $1,518,000 payable in each of Fiscal 2013 and Fiscal 2014. In October 2012, the Board of Directors determined that it was appropriate, as a result of the performance of Lord & Taylor over the previous periods, to exercise its discretion to cancel all of Mr. Watros' PSARs tied to the performance of Lord & Taylor and make a cash payment to Mr. Watros of $821,000.

(7) Does not include expected amounts payable in connection with the Special Cash Recovery Incentive Plan — see Note 4. Mr. Culhane and Mr. Watros are expected to earn $1,125,000 and $1,500,000 respectively in Fiscal 2013 in connection with the Special Cash Recovery Incentive Plan. Partial payment, representing 50% of the expected award, was advanced to such NEOs in Fiscal 2012. These amounts will be reported in Fiscal 2013.

(8) The CEO is also a director of the Company.

Incentive Plan Awards

Outstanding Share-Based Awards and Option-Based Awards Table

	Option-Based Awards				Share-Based Awards		
Name	**Number of Securities Underlying Unexercised Options (#)**	**Option Exercise Price ($)**	**Option Expiration Date**	**Value of Unexercised In-The-Money Options ($)**	**Number of Shares or Units that have not Vested (#)[1]**	**Market or Payout Value of Share-Based Awards that have not Vested ($)**	**Market or Payout value of vested share-based awards not paid out or distributed**
Richard Baker . Governor & Chief Executive Officer	●	●	●	●	●	●	●
Michael Culhane . . . Chief Financial Officer	●	●	●	●	●	●	●
Bonnie Brooks . President	●	●	●	●	●	●	●
Brian Pall . . . . President of Real Estate	●	●	●	●	●	●	●
Donald Watros Chief Operating Officer	●	●	●	●	●	●	●

Note:

(1) Includes RSUs and PSARs. PSARs are part of a legacy compensation program granted to certain executives prior to the Offering and, depending on the NEO's primary area of responsibility, were granted units in either Lord & Taylor, Hudson's Bay Company or Hudson's Bay.

Incentive Plan Awards — value vested or earned during the year

Name	Option-based awards — Value vested during the year ($)	Share-based awards — Value vested during the year ($)[1]	Non-equity incentive plan compensation — Value earned during the year ($)[2]
Richard Baker Governor & Chief Executive Officer	N/A	●	N/A
Michael Culhane Chief Financial Officer	N/A	●	750,000
Bonnie Brooks President	N/A	●	1,000,000
Brian Pall President of Real Estate	N/A	●	700,000
Donald Watros Chief Operating Officer	N/A	●	1,000,000

Notes:

(1) As a result of the Closing, the valuation date will be triggered and the vested PSAR units will become payable at Closing. Pursuant to the terms of the PSAR plan, the Company expects to settle such payments in Common Shares during Fiscal 2012, the value of which for certain NEOs will be as follows: Mr. Watros $ ● , Ms. Brooks $ ● and Mr. Culhane $ ● .

(2) Total amounts earned are equal to the sum of the cumulative amounts shown in the "Non-equity incentive plan compensation" column in the Summary Compensation Table above.

Pension Plan Benefits

Defined Benefit Plan Table

The Company has a Supplementary Executive Retirement Plan for certain of its HBC designated senior executives, including certain NEOs. Benefits under this defined benefit plan are based on the employee's years of service and the plan's benefit formula. This supplementary plan to the Executive Pension Plan (discussed below) provides a minimum guaranteed pension to the NEOs enrolled in the Executive Pension Plan once they meet certain age and service requirements. Specifically, the plan provides a guaranteed pension equal to 1.8% of the average earnings (based on base salary and AIP) of the highest consecutive 36 months, minus a proportion of the amount of the benefit payable by the Canada/Quebec Pension Plans. The pensions are payable for life, with a guarantee of 10 years' payments and are reduced for retirement prior to age 63 (reduction rate of 3.6% for each year prior to the age of 63). Members are vested after 5 years of service or once the total of age and service equals 60 or more. The Company's guaranteed obligation for service up to November 10, 2005 is secured by a trust fund for certain members (none of whom are NEOs). The ultimate pension for the NEOs is the greater of the life annuity which can be purchased from the pension account of the Executive Pension Plan or the amount determined under the above minimum guarantee.

In respect of the NEOs, below is a table related to the Company's defined benefit plan:

Name and principal position	Number of years of credited service (#)	Annual benefits payable ($)		Opening present value of defined benefit obligation ($)	Compensatory change[1] ($)	Non-compensatory change[2] ($)	Closing present value of defined benefit obligation ($)
		At year end	At age 65				
Richard Baker, Governor & Chief Executive Officer	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Michael Culhane, Chief Financial Officer	7.3	99,300	283,200	673,000	399,000	262,000	1,334,000
Bonnie Brooks, President	4.4	109,600	244,500	841,000	620,000	237,000	1,698,000
Brian Pall, President of Real Estate	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Donald Watros, Chief Operating Officer	4.1	117,700	602,800	511,000	666,000	291,000	1,468,000

Notes:

(1) The compensatory change includes the annual service cost as well as the change in the accrued obligation attributable to the impact of the differences between actual earnings (salary and AIP) for the year, and those assumed in the previous years' calculations. Key assumptions include a discount rate of 4.9% per year to calculate the accrued obligation at start of year and the annual service cost, a discount rate of 4.2% to calculate the accrued obligation at year end and a rate of increase in future compensation of 3.25% per year.

(2) The non-compensatory change amount represents the change in the accrued obligation during the year attributable to items that are not related to salary and AIP, such as assumption changes and interest on the accrued obligation. The change is based on the same assumptions outlined in Note 1.

Defined Contribution Plans Table

The Company has a registered non-contributory Executive Pension Plan for HBC designated senior executives, including certain NEOs. It is a defined contribution plan to which the Company contributes 8% of the executive's earnings (based on base salary and AIP), subject to current limits set by the Tax Act. The accumulation of the contributions plus any investment income is used to purchase a life annuity at the time of retirement. Members are vested immediately.

Additionally, some NEOs participate in the Lord & Taylor 401(k) Retirement Savings Plan, which is available to all qualifying employees of Lord & Taylor. This is a defined contribution plan in which the Company may, on a discretionary basis, match contributions made by the participants. Contributions are subject to requirements and limitations of the U.S. Internal Revenue Service. The contributions made by Lord & Taylor will vest over time, and will fully vest 100% after six years of service.

In respect of the NEOs, below is a table related to the Company's defined contribution plans:

Name of NEO	Accumulated Value at Start of Year ($)	Compensatory ($)	Non-Compensatory ($)	Accumulated Value at End of Year ($)
Richard Baker Governor & Chief Executive Officer	N/A	N/A	N/A	N/A
Michael Culhane Chief Financial Officer	71,448	23,820	(1,085)	94,183
Bonnie Brooks President	95,002	23,820	611	119,433
Brian Pall President of Real Estate	N/A	N/A	N/A	N/A
Donald Watros Chief Operating Officer	40,595	3,062	15,553	59,210

Employee Agreements, Termination and Change of Control Benefits

The Company has written employment agreements with each of the NEOs and each executive is entitled to receive compensation established by the Company as well as other benefits in accordance with plans available to other executives (including a car allowance, annual membership fees, vacation time, insurance and participation in the pension plans, as applicable).

Each executive employment agreement provides that the Company may terminate a NEO's employment at any time, without cause, by providing the NEO with notice of termination. If the NEO's employment is terminated by the Company without cause, or the NEO terminates employment for good reason, the NEO shall be entitled to the severance payments as outlined in the table below. The employment agreements for Mr. Richard Baker, Mr. Pall and Mr. Watros do not contain change of control provisions. The provisions relating to resignation for good reason in Ms. Brooks' and Mr. Culhane's employment agreements can be triggered upon such NEO's request to terminate employment upon a material change to such NEO's duties or employment terms within two years of a consummation of a change of control transaction. In addition, the Company will continue to provide employee benefits for a 12-month period following termination.

The following table sets out the estimated amounts that would be payable to each NEO if (i) his/her employment was terminated without cause, or in the case of Mr. Watros or Mr. Pall, if he resigned with good reason (see "Termination" column), or (ii) if the NEO's employment is terminated by the Company without cause or the NEO terminates his/her employment for good reason, in each case, within two years following the consummation of a change of control transaction:

Name of NEO	Termination ($)[1]	Change of Control ($)[1]
Richard Baker Governor & Chief Executive Officer	600,000	N/A
Michael Culhane Chief Financial Officer	1,050,000	1,050,000
Bonnie Brooks President	1,000,000[2]	1,000,000
Brian Pall President of Real Estate	900,000	N/A
Donald Watros Chief Operating Officer	2,000,000	N/A

Notes:

(1) Amount represents payment based on such NEO's base salary (based on annualized base salary to be in effect as of the Closing) and entitlement to Annual Incentive Plan award, if any (based on target amount). Table assumes a Fiscal 2012 year-end termination.

(2) If Ms. Brooks is re-employed in reasonably comparable employment, she will only be entitled to half of remaining payment from date of such re-employment.

For termination and change of control related provisions relating to the long-term incentive plans, please refer to the relevant section under the heading "Compensation Discussion & Analysis."

Each executive employment agreement will provide for customary contractual provisions, including non-solicitation, non-competition and confidentiality covenants in favour of the Company. The agreements will also contain share ownership requirements for certain of the NEOs which are benchmarked against the NEO's base salary. All of the NEOs have significantly exceeded such prescribed share ownership guidelines.

Director Compensation

The director compensation program will be designed to attract and retain North American talent with retail experience to serve on the Company's Board of Directors and committees. Our objective regarding director compensation will be to follow best practices when it comes to retainers, the format and weighting of the cash

and equity components of such retainers and share ownership guidelines. We believe the selected approaches will help to attract and retain strong members for the Board of Directors who will be able to fulfill their fiduciary responsibilities without competing interests.

As we will be recruiting our members for the Board of Directors from the U.S. and Canadian landscape, we are assessing the same three peer groups (U.S. Department Stores, U.S. Broader Retail and Canadian Broader Retail) for competitive market data. U.S. retail board (both U.S. Department Stores and U.S. Broader Retail) (the "U.S. Retail Board") retainers and fees tend to be significantly higher than Canadian retail board, and in order to recruit talent from across North America, we are also adding the Canadian Large 60, as a relevant peer group for director compensation. The Canadian Large 60 represents, excluding the largest 25 companies, the largest 60 Canadian public companies by revenue. The Canadian Large 60 director compensation is in line with that of the U.S. Retail Board peer groups we are also referencing.

The total annual retainer for all Board of Directors positions will be comprised of 50% cash and 50% deferred share units ("DSUs"). Directors may elect to receive 100% of their retainer in DSUs.

The initial DSU grant is expected to reflect fair market value at the Offering. The fair market value of subsequent issues will represent the weighted average closing share price on the TSX for the five trading days prior to such issuance. Dividend 'equivalents' are reinvested notionally into additional DSUs. While the DSUs vest immediately, they will only be paid out in the calendar year following the Director's resignation, retirement from the Board of Directors, or death. The value of the amount paid out will be determined as the fair market value of the accrued amount.

Following best practice, the Company will not offer a meeting fee for Board of Directors members. The total retainer is deemed to be full payment for the role of Director. The exception to this approach would be in the event of a merger or other special circumstance that required more meetings than are typically required, in which case a 'special' fee would be granted. Also, a fee premium is provided to the audit committee, as well as to the chairs of the audit committee and the Human Resources & Compensation Committee, to reflect the additional risk, responsibility and skills required in those roles.

Share ownership guidelines have also been established following best practice and our Board of Directors requirement will be share ownership of 3 times the Director's annual retainer, with 5 years to achieve that guideline.

The fee schedule for HBC's non-executive directors is as follows:

			Compensation
Board Retainer	Cash Retainer		$ 70,000
	Annual DSU Grant		$ 70,000
Additional Compensation for Board of Directors Service			
Lead Director	Cash Retainer		$ 20,000
	Annual DSU Grant		$ 20,000
Committee Compensation	Chair Retainers	Audit Committee	$ 20,000
		Human Resources & Compensation Committee	$ 15,000
	Member Retainers	Audit Committee	$ 10,000

Total Board of Directors Compensation

Annual Board Retainer	$140,000
Lead Director	$180,000
Audit Committee Chair	$160,000
Human Resources & Compensation Committee Chair	$155,000
Audit Committee Member	$150,000

PLAN OF DISTRIBUTION

General

Pursuant to the Underwriting Agreement dated ● , 2012 between the Company, the Selling Shareholder and the Underwriters, the Company and the Selling Shareholder have agreed to sell and the Underwriters have agreed to severally purchase on ● , 2012 (or such later date as the Company, the Selling Shareholder and the Underwriters agree, but not later than ● , 2012) ● Common Shares and ● Common Shares, respectively, at a price of $ ● per Common Share, for aggregate gross consideration of $ ● payable in cash to the Company and $ ● payable in cash to the Selling Shareholder against delivery of the Common Shares. The Offering Price of the Common Shares has been determined by negotiation between the Company, the Selling Shareholder and the Underwriters. RBC Dominion Securities Inc., BMO Nesbitt Burns Inc., CIBC World Markets Inc. and Merrill Lynch Canada Inc. are joint lead managers and joint book-runners for the Offering.

Pursuant to the Underwriting Agreement, the Selling Shareholder has granted the Underwriters an Over-Allotment Option to cover over-allotments, if any, and for market stabilization purposes. The Over-Allotment Option may be exercised by the Underwriters, in whole or in part, for a 30 day period following the Closing and entitles the Underwriters to purchase from the Selling Shareholder up to ● Common Shares at the Offering Price (being approximately 15% of the aggregate number of Common Shares offered hereunder). If the Over-Allotment Option is exercised in full, the total price to the public will be $ ● , the Underwriters' Commission will be $ ● and the net proceeds to the Company and the Selling Shareholder will be $ ● and $ ● , respectively.

The Offering is being made in each of the provinces and territories of Canada. The Common Shares will be offered in each of the provinces and territories of Canada through those Underwriters or their affiliates who are registered to offer the Common Shares for sale in such provinces and territories and such other registered dealers as may be designated by the Underwriters. Subject to applicable law and the provisions of the Underwriting Agreement, the Underwriters may offer the Common Shares outside of Canada.

The Common Shares offered hereby have not been, and will not be, registered under the U.S. Securities Act or any state securities laws, and may not be offered or sold within the United States absent registration or pursuant to an applicable exemption from the registration requirements of the U.S. Securities Act, and applicable state securities laws. Accordingly, except to the extent permitted by the Underwriting Agreement, the Common Shares may not be offered or sold within the United States. Each Underwriter has agreed that it will not offer or sell Common Shares within the United States, except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws. The Underwriting Agreement provides that the Underwriters may re-offer and re-sell the Common Shares that they have acquired pursuant to the Underwriting Agreement to qualified institutional buyers in the United States in accordance with Rule 144A under the U.S. Securities Act. The Underwriting Agreement also provides that the Underwriters will offer and sell the Common Shares outside the United States in accordance with Regulation S under the U.S. Securities Act. In addition, until 40 days after the commencement of the Offering, an offer or sale of the Common Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act, unless such offer is made pursuant to an exemption from registration under the U.S. Securities Act.

The Company has applied to the TSX to have the Common Shares listed on the TSX. Listing of the Common Shares on the TSX is subject to approval by the TSX of the Company's listing application and fulfillment by the Company of all the initial listing requirements and conditions of the TSX, including distribution of the Common Shares to a minimum number of public holders. The TSX has not conditionally approved the listing of the Common Shares and there is no assurance that the TSX will approve the Company's listing application.

In connection with the Offering, certain of the Underwriters or securities dealers may distribute the prospectus electronically.

Upon completion of the Offering, assuming no exercise of the Over-Allotment Option, the Company expects to have a total of ● outstanding Common Shares, which includes the ● Common Shares sold in the Offering.

The obligations of the Underwriters under the Underwriting Agreement are several (and not joint or joint and several), are subject to certain closing conditions and may be terminated at their discretion on the basis of their assessment of the state of the financial markets and upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Common Shares if any Common Shares are purchased under the Underwriting Agreement. In consideration for their services in connection with the Offering, the Company has agreed to pay the Underwriters a fee equal to $ ● per Common Share with respect to the Treasury Offering. The Selling Shareholder will pay the Underwriters' Commission in respect of Common Shares sold by the Selling Shareholder under the Secondary Offering and if exercised, the Over-Allotment Option. The Underwriters are entitled under the Underwriting Agreement to indemnification by, among others, the Company and the Selling Shareholder against certain liabilities and expenses.

Pricing of the Offering

Prior to the Offering, there was no public market for the Common Shares. The Offering Price has been negotiated between the Company, the Selling Shareholder and the Underwriters. Among the factors considered in determining the Offering Price of the Common Shares were the following:

- prevailing market conditions;
- historical performance and capital structure of the Company;
- estimates of the business potential and earnings prospects of the Company;
- availability of comparable investments;
- an overall assessment of the Company's management; and
- the consideration of these factors in relation to market valuation of companies in related businesses.

Price Stabilization, Short Positions and Passive Market Making

In connection with the Offering, the Underwriters may over-allocate or effect transactions which stabilize or maintain the market price of the Common Shares at levels other than those which otherwise might prevail on the open market, including:

- stabilizing transactions;
- short sales;
- purchases to cover positions created by short sales;
- imposition of penalty bids; and
- syndicate covering transaction.

Stabilizing transactions consist of bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Common Shares while the Offering is in progress. These transactions may also include making short sales of the Common Shares, which involve the sale by the Underwriters of a greater number of Common Shares than they are required to purchase in the Offering. Short sales may be "covered short sales", which are short positions in an amount not greater than the Over-Allotment Option, or may be "naked short sales", which are short positions in excess of that amount.

The Underwriters may close out any covered short position either by exercising the Over-Allotment Option, in whole or in part, or by purchasing Common Shares in the open market. In making this determination, the Underwriters will consider, among other things, the price of Common Shares available for purchase in the open market compared with the price at which they may purchase Common Shares through the Over-Allotment Option.

The Underwriters must close out any naked short position by purchasing Common Shares in the open market. A naked short position is more likely to be created if the Underwriters are concerned that there may be downward pressure on the price of the Common Shares in the open market that could adversely affect investors who purchase in the Offering.

In addition, in accordance with rules and policy statements of certain Canadian securities regulators, the Underwriters may not, at any time during the period of distribution, bid for or purchase Common Shares. The foregoing restriction is, however, subject to exceptions where the bid or purchase is not made for the purpose of creating actual or apparent active trading in, or raising the price of, the Common Shares. These exceptions include a bid or purchase permitted under the by-laws and rules of applicable regulatory authorities and the applicable stock exchange, including the Universal Market Integrity Rules for Canadian Marketplaces, relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution.

As a result of these activities, the price of the Common Shares may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the Underwriters at any time. The Underwriters may carry out these transactions on any stock exchange on which the Common Shares are listed, in the over-the-counter market, or otherwise.

Over-Allotment Option

The Selling Shareholder has granted to the Underwriters an Over-Allotment Option, exercisable, in whole or in part, at the sole discretion of the Underwriters (subject to the condition that the Common Shares subject to the Over-Allotment Option are listed on the TSX at the time of closing the Over-Allotment Option), for a period of 30 days from the date of the Closing, to purchase from the Selling Shareholder up to an aggregate of ● additional Common Shares (representing approximately 15% of the Common Shares offered hereunder), at the Offering Price, payable in cash against delivery of such additional shares. The Over-Allotment Option is exercisable in whole or in part only for the purpose of covering over-allotments, if any, made by the Underwriters in connection with the Offering and for market stabilization purposes. The Selling Shareholder will pay the Underwriters' Commission in respect of Common Shares sold under the Over-Allotment Option if the Over-Allotment Option is exercised. If the Over-Allotment Option is exercised in full, the total price to the public, Underwriters' Commission, net proceeds to the Selling Shareholder and net proceeds to the Company before deducting other expenses of the Offering, will be $ ● , $ ● , $ ● and $ ● , respectively. The Company will not receive any proceeds from the Secondary Offering or the Over-Allotment Option. This prospectus qualifies the grant of the Over-Allotment Option and up to ● Common Shares to be sold by the Selling Shareholder upon exercise of the Over-Allotment Option. A purchaser who acquires Common Shares forming part of the Over-Allotment Option acquires those shares under this prospectus, regardless of whether the position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

Lock-Up Arrangements

In connection with completion of the Offering, the Selling Shareholder, the Company, each security holder of the Company holding, directly or indirectly (together with such security holder's associates and affiliates), securities of the Company outstanding prior to the Closing of the Offering and each of the Company's directors, officers and senior management have agreed not to, directly or indirectly, without the prior written consent of the Joint Bookrunners, issue, sell, grant any option, right or warrant for the sale of, lend, secure, pledge or otherwise dispose or monetize, or make any short sale, engage in any hedging transaction, or enter into any form of arrangement the consequence of which is to directly or indirectly transfer to someone else, in whole or in part, any of the economic consequences of ownership of, or offer or announce any intention to do so, in a public offering or by way of private placement or otherwise, any Common Shares (except for Common Shares purchased on or following Closing) or any securities convertible or exchangeable into Common Shares or any other securities of the Company, cause to be filed any prospectus in connection therewith, for a period of 180 days after the date of Closing, other than the issuance of securities by the Company pursuant to or in connection with the Option Plan and the other equity incentive plans described under "Executive Compensation" or the issuance of securities of the Company upon the conversion, exercise or exchange of

convertible, exercisable or exchangeable securities existing on the Closing Date. Notwithstanding the foregoing, the Selling Shareholder may transfer its Common Shares or any securities convertible or exchangeable into Common Shares to HBTC, and HBTC may in turn transfer any Common Shares or any securities convertible or exchangeable into Common Shares that it receives to its limited partners, in each case, provided that each such permitted transferee agrees, with respect to the transferred Common Shares, to be bound by and to comply with the terms of the lock-up agreement of the Selling Shareholder or HBTC, as applicable, for the remainder of the 180 day term of the agreement. The holders of ● Common Shares, representing a ● % equity and voting interest in the Company (● % on a fully diluted basis), have entered into such agreements.

Commissions and Expenses

The following table shows the per Common Share and total Underwriters' Commission the Company and the Selling Shareholder will pay to the Underwriters, assuming both no exercise and full exercise of the Underwriters' Over-Allotment Option:

	Over-Allotment Not Exercised	Over-Allotment Fully Exercised
Per Common Share	●	●
Total	●	●

The Underwriters propose to offer the Common Shares initially at the Offering Price stated on the cover page of this prospectus. After the Underwriters have made a reasonable effort to sell all of the Common Shares offered by this prospectus at that price, the initially stated Offering Price may be decreased, and further changed from time to time, by the Underwriters to an amount not greater than the initially stated Offering Price and, in such case, the compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by the purchasers for the Common Shares is less than the gross proceeds paid by the Underwriters to the Company and the Selling Shareholder.

It is estimated that the total expenses of the Offering, not including the Underwriters' Commission, will be approximately $ ● .

Book Entry System

Subscriptions for the Common Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. Certificates representing the Common Shares sold under the Offering in Canada will be issued in registered form to CDS or its nominee on the Closing of the Offering. Transfers of ownership of Common Shares in Canada will be effected through records maintained by participants in the CDS depository service ("CDS Participants"), which include securities brokers and dealers, banks and trust companies. Indirect access to the CDS book entry system is also available to other institutions that maintain custodial relationships with a CDS Participant, either directly or indirectly. Each purchaser of Common Shares in Canada will receive a customer confirmation of purchase from the CDS Participant from or through which such Common Shares are purchased in accordance with the practices and procedures of such CDS Participant.

RELATIONSHIP BETWEEN THE COMPANY AND CERTAIN UNDERWRITERS

RBC Dominion Securities Inc., BMO Nesbitt Burns Inc., CIBC World Markets Inc., Merrill Lynch Canada Inc., J.P. Morgan Securities Canada Inc. and Credit Suisse Securities (Canada), Inc. are affiliates of banks that are members of a syndicate of lenders that have made credit facilities available to the Company. Accordingly, in connection with the Offering and pursuant to applicable securities legislation, the Company may be considered a "connected issuer" of RBC Dominion Securities Inc., BMO Nesbitt Burns Inc., CIBC World Markets Inc., Merrill Lynch Canada Inc., J.P. Morgan Securities Canada Inc. and Credit Suisse Securities (Canada), Inc. for the purposes of securities regulations in certain provinces and territories of Canada.

As of July 28, 2012, the Company was indebted to affiliates of CIBC World Markets Inc., Merrill Lynch Canada Inc., RBC Dominion Securities Inc. and J.P. Morgan Securities Canada Inc. under the HBC Revolving

Credit Facility for approximately $277.7 million. As of the date of this prospectus, we are in compliance in all material respects with the terms of our indebtedness to the lenders under the HBC Revolving Credit Facility. Immediately following the Closing, it is expected that the Company will be indebted to affiliates of BMO Nesbitt Burns Inc., and CIBC World Markets Inc. under the New HBC Term Loan for approximately $250 million.

As of July 28, 2012, Lord & Taylor was indebted to an affiliate of CIBC World Markets Inc. under the Lord & Taylor Revolving Credit Facility for approximately US$161.0 million. On September 7, 2012, Lord & Taylor also entered into the 5th Avenue Lord & Taylor Mortgage with an affiliate of CIBC World Markets Inc. as Administrative Agent of a syndicate of lenders. As of the date of this prospectus, Lord & Taylor is in compliance in all material respects with the terms of the Lord & Taylor Revolving Credit Facility and the 5th Avenue Lord & Taylor Mortgage.

On January 11, 2012, Lord & Taylor entered into the Lord & Taylor Term Loan with an affiliate of Credit Suisse Securities (Canada), Inc. as Sole Lead Arranger of the syndicate of lenders. As of the date of this prospectus, Lord & Taylor is in full compliance with covenants contained in the Lord & Taylor Term Loan.

See "Description of Material Indebtedness and Refinancing".

Since the indebtedness to the lenders was incurred, the financial position of the Company has not adversely changed. None of the lenders have waived any breach of the existing credit facilities related to the existing indebtedness since the execution of the existing credit facilities. See "Description of Material Indebtedness and Refinancing".

None of the lenders were involved in the decision of the Offering or were involved in the determination of the terms of the Offering, including structure and pricing. As a consequence of the Offering, the Underwriters will receive a commission in respect of the Common Shares sold through the Underwriters and the lenders will receive a portion of the proceeds from us as a repayment of outstanding indebtedness. See "Use of Proceeds".

Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Company, for which they received or will receive customary fees.

RISK FACTORS

You should carefully consider the risks described below, which are qualified in their entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this prospectus, and all other information contained in this prospectus before purchasing Common Shares, including the consolidated financial statements and accompanying notes. The risks and uncertainties described below are those we currently believe to be material, but they are not the only ones we face. If any of the following risks, or any other risks and uncertainties that we have not yet identified or that we currently consider not to be material, actually occur or become material risks, our business, prospects, financial condition, results of operations and cash flows and consequently the price of the Common Shares could be materially and adversely affected. In all these cases, the trading price of the Common Shares could decline, and you could lose all or part of your investment.

Risks Related to Our Business

We face significant competition in the retail industry.

We conduct our retail merchandising business under highly competitive conditions. Hudson's Bay, Lord & Taylor and Home Outfitters have numerous and varied competitors at the national and local levels, including conventional and specialty department stores, other specialty stores, category killers, mass merchants, value retailers, discounters, and Internet and mail-order retailers. Some of our competitors have greater financial resources available to them, and as a result, may be able to devote greater resources to sourcing, selling or promoting their merchandise. Competition may intensify as new competitors enter into the markets in which we operate, including U.S. competitors entering the Canadian market, and/or as our competitors enter into business combinations or alliances. Competition is characterized by many factors, including assortment of brands and merchandise, advertising, marketing, promotional activities, price, quality, service, the shopping experience and environment, location, reputation and credit availability. If we do not compete effectively with regard to these factors, our results of operations could be materially and adversely affected, resulting in lower sales, lower gross margin and/or higher operating expenses.

Our sales and operating results depend on consumer preferences and managing our portfolio of brands and our merchandising mix.

The fashion and retail industries are subject to sudden shifts in consumer trends. Our sales and operating results depend in part on our ability to predict and respond to changes in fashion trends and consumer preferences in a timely manner and we continuously manage our portfolio of national brands to respond to these consumer trends. We develop new retail concepts and continuously adjust our position in certain national and private-label brands and merchandise categories in an effort to satisfy customers. To the extent our predictions differ from our customers' preferences, we may be faced with excess inventories for some products and/or missed opportunities for others. Excess inventories can result in lower gross margins due to greater than anticipated discounts and markdowns that might be necessary to reduce inventory levels. Low inventory levels can adversely affect our ability to meet customer demand, which may lead to lost sales and diminished brand loyalty. Any sustained failure to anticipate, identify and respond to emerging trends in lifestyle and consumer preferences could have a material adverse effect on our business and any significant misjudgements regarding inventory levels could adversely impact our results of operations.

Furthermore, our ability to attract and retain popular national brands that are favoured by consumers is critical to our ability to respond to consumer preferences. If vendors of popular national brands cease doing business with us or the terms and conditions with our vendors (including vendor allowances and merchandise cost) change materially, including our ability to be an exclusive seller of certain brands, our results could be adversely effected. We do not have long term contracts with our vendors and therefore our ability to continue to sell national brands that are popular with consumers and, if applicable, to have exclusivity of certain brands, are dependent on ongoing positive relationships with our vendors. There can be no assurance that our vendors will continue to provide us with a sufficient assortment and quantity of inventory to satisfy our demands nor can there be any assurance that they will provide this inventory at prices that will allow us to maintain our historic level of gross margin.

Our sales and operating results depend on discretionary spending of consumers.

Current economic conditions or a further deterioration in the Canadian and United States economies may adversely affect the spending of our customers, which would likely result in lower sales than expected on a quarterly or annual basis, as well as the potential for higher markdowns and increased promotional spending in response to lower demand. Future economic conditions affecting disposable consumer income, such as employment levels, consumer debt levels, lack of available credit, business conditions, fuel and energy costs, interest rates, and tax rates, could also adversely affect our business and financial results by reducing consumer spending or causing customers to shift their spending to other products.

Our business may be impacted by unfavourable economic and political conditions and other developments and risks.

Unfavourable global, domestic or regional economic or political conditions and other developments and risks could negatively affect the Company's business. For example, unfavorable changes related to interest rates, rates of economic growth, fiscal and monetary policies of governments, inflation, deflation, consumer credit availability, consumer debt levels, tax rates and policy, unemployment trends, oil prices, and other matters that influence the availability and cost of merchandise, consumer confidence, spending and tourism could adversely impact our business and results of operations. In addition, unstable political conditions or civil unrest, including terrorist activities and worldwide military and domestic disturbances and conflicts, may disrupt commerce and could have a material adverse effect on our business and results of operations.

We sell branded apparel, cosmetics, shoes and accessories catering to a wide range of consumer demands between mass merchandisers and luxury retailers and which consumers may consider to be discretionary items. During times of unfavourable economic or political conditions, consumers may shop less frequently, limit the amount of their purchases and/or shift their spending to other products or retailers, which would likely result in lower sales, as well as the potential for higher markdowns and increased promotional spending in response to lower demand.

Our revenues and cash requirements are affected by the seasonal nature of our business.

Our business is seasonal, with a high proportion of revenues and operating cash flows generated during the second half of the fiscal year, which includes the Fall and holiday selling seasons. A disproportionate amount of revenues fall in the fourth fiscal quarter, which coincides with the holiday season. In addition, we incur significant additional expenses in the period leading up to the months of November and December in anticipation of higher sales volume in those periods, including for additional inventory, advertising and employees. This seasonality in revenues, cash flows and expenses could adversely affect our business and financial condition.

Our business could be affected by extreme or unseasonable weather conditions or natural disasters.

Extreme weather conditions in the areas in which our stores are located could adversely affect our business. For example, frequent or unusually heavy snowfall, ice storms, rainstorms or other extreme weather conditions over a prolonged period could make it difficult for our customers to travel to our stores and thereby reduce our sales and profitability as our business depends on high customer traffic in our stores. Our 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 render a portion of our inventory incompatible with those unseasonable conditions, which could adversely affect our ability to execute our strategy to invest in our stores and right size departments to effectively present seasonal inventory. Reduced sales from extreme or prolonged unseasonable weather conditions could adversely affect our business, including lower gross margins due to greater than anticipated discounts and markdowns that might be necessary to reduce inventory levels.

In addition, natural disasters such as hurricanes, tornadoes and earthquakes, or a combination of these or other factors, could severely damage or destroy one or more of our stores or warehouses located in the affected areas, thereby disrupting our business operations.

We may not be able to continue to grow same store sales.

The Company's success depends, in part, upon its ability to improve same store sales. Various factors affect same store sales, including competition, consumer trends and preferences, the general retail environment, the Company's ability to efficiently source and distribute products, changes in the Company's merchandising mix, competition, current economic conditions, the timing of release of new merchandise and promotional events, the success of marketing programs, weather conditions and changes in the other tenants in the shopping centres in which the Company's stores are located. These factors may cause the Company's same store sales results to differ materially from prior periods and from expectations. Past same store sales are no indication of future results, and there can be no assurance that the Company's same store sales will not decrease in the future. We have made and intend to continue to make significant capital investments to increase same store sales growth by optimizing store layout, vendor shops, merchandise and product offerings and presentation. Failure to continue to grow same store sales would likely adversely affect our revenue and return on investment, and the price of our Common Shares could decline.

If we lose the services of members of our management team who possess specialized market knowledge and technical skills, it could reduce our ability to compete, to manage our operations effectively.

Our management team of seasoned and committed industry veterans has been hand-picked from leading international retailers and has achieved success in transforming our business and improving our sales and operating margins. We believe our continued success and the execution of our growth strategy will depend, in part, on the continued service of our management team.

Since we are managed by a relatively small group of senior executive officers, the loss of the technical knowledge, management expertise and knowledge of our operations of one or more members of our team could result in a diversion of management resources, as the remaining members of management would need to cover the duties of any senior executive who leaves us and would need to spend time usually reserved for managing our business to search for, hire and train new members of management. The loss of some or all of our team could negatively affect our ability to develop and pursue our growth strategy, which could adversely affect our business and financial condition. In addition, the market for key personnel in the industry in which we compete is highly competitive, and we may not be able to attract and retain key personnel with the skills and expertise necessary to manage our business.

We depend on our ability to attract and retain quality employees.

Our business is dependent upon attracting and retaining a large number of quality employees who reflect our brand image and culture. Many of these employees are in entry level or part-time positions with historically high rates of turnover. If we are unable to hire, train and retain employees capable of consistently providing educated service and advice to our customers, we may not be able to maintain our competitive strength in offering our customers a favourable shopping experience or to fully realize the benefits expected to result from our formal customer service initiatives, which could lead to decreased foot traffic and sales, as well as to increased costs associated with hiring and training new employees.

Our ability to meet our labour needs while controlling the costs associated with hiring and training new employees is subject to external factors such as unemployment levels, prevailing wage rates, minimum wage legislation and changing demographics. Changes that adversely impact our ability to attract and retain quality employees could adversely affect our business.

We depend on maintaining good relationships with our non-unionized and unionized employees.

Approximately 1,300 of the Company's 29,000 employees are unionized. The maintenance of a productive and efficient labour environment and, in the event of unionization of these employees, the successful negotiation of a collective bargaining agreement, cannot be assured. Protracted and extensive work stoppages or labour disruptions such as strikes or lockouts could have a material adverse effect on the Company's business, financial condition, liquidity and results of operations.

In addition, labour disputes at our vendors or manufacturers, particularly if such disputes result in work stoppages or labour disruptions such as strikes or lockouts could have a material adverse effect on the Company's business, including our ability to plan, source and manage our merchandise mix and inventory levels and to respond to customer demands.

We depend upon the successful management of our inventory levels.

We must maintain sufficient inventory levels to operate our business successfully. However, we must also guard against accumulating excess inventory as we seek to minimize out-of-stock levels across all product categories and to maintain in-stock levels. We obtain a significant portion of our inventory from vendors located outside of Canada and the United States. Some of these vendors often require lengthy advance notice of our requirements in order to be able to supply products in the quantities we request. This usually requires us to order merchandise, and enter into purchase order contracts for the purchase and manufacture of such merchandise, well in advance of the time these products will be offered for sale. As a result, we may experience difficulty in responding to a changing retail environment, which makes us vulnerable to changes in the price of merchandise, raw materials, fuel, labour and the fluctuation of foreign currencies against the Canadian dollar. If we do not accurately anticipate the future demand for a particular product or the time it will take to obtain new inventory, our inventory levels will not be appropriate and our results of operations may be negatively impacted, including lower gross margins due to greater than anticipated discounts and markdowns that might be necessary to reduce inventory levels. Failure to successfully manage our inventory levels may also adversely affect our relationships with our vendors, including our ability to source certain national brands and our ability to be an exclusive seller of such brands.

In addition, political or financial instability, trade restrictions, tariffs, currency exchange rates, transport capacity and costs and other factors relating to foreign trade, each of which affects our ability to access suitable merchandise on acceptable terms, are beyond our control and could adversely impact our performance.

The cost of raw materials could increase our cost of goods sold and cause our results of operations and financial condition to suffer.

The fabrics used by our suppliers and manufacturers include synthetic fabrics, the raw materials that include petroleum-based products. Our suppliers are also affected by the prices of natural fibres, including cotton, which is a raw material in many of our products. Inflationary pressures on commodity prices and other input costs, significant fluctuations or shortages of cotton or other raw materials may increase our cost of goods sold and could impair our ability to meet production or purchasing requirements in a timely manner. An inability to mitigate these cost increases could involve our having to pass on such cost increases, including as price increases to our customers or result in a change in our merchandise mix or inventory levels, and could result in a decrease in our profitability, while any related pricing actions could adversely affect our sales volume.

We depend upon the success of our advertising and marketing programs.

Our business depends on high customer traffic in our stores and effective marketing. We have developed a new marketing strategy at Hudson's Bay and Lord & Taylor that incorporates the characteristics of our heritage using media that appeal to our shoppers. We have undertaken many initiatives in this area including rejuvenating our advertising campaigns to reflect our fresh brand offerings and renovated stores. However, there can be no assurance as to our continued ability to effectively execute our advertising and marketing programs, and to maintain top-of-mind awareness of our Hudson's Bay and Lord & Taylor banners, and any failure to do so could have a material adverse effect on our brand or reputation, which could adversely impact customers' opinion of and confidence in the Company and adversely affect the financial performance of the Company.

A material disruption in our computer systems could adversely affect our business or results of operations.

We rely extensively on our computer systems to process transactions, collect and summarize data and manage our business. Our computer systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches, catastrophic events such as fires, floods, earthquakes, tornadoes, hurricanes, acts of war or terrorism, and usage errors by our employees. If

our computer systems are damaged or cease to function properly, we may have to make a significant investment to fix or replace them, and we may suffer loss of critical data and interruptions or delays in our operations in the interim. Any material interruption in our computer systems could adversely affect our business or results of operations and our reputation.

Failure to execute our growth strategy could adversely affect our business or results of operations.

Subsequent to the combination of Hudson's Bay Company and Lord & Taylor, we have undertaken many initiatives to transform our business, many of which continue to be vital to our growth strategy including:

- driving same store sales growth through expanding and building our brand leadership position in Canada, significantly increasing volume of our private label offering, investing in high growth merchandise categories and implementing our omni-channel platform;
- further improving operating margins across our banners by investing in our support infrastructure including our information technology systems, distribution facilities and procurement capabilities;
- growing our omni-channel platform for Hudson's Bay, Lord & Taylor and Home Outfitters; and
- identifying further opportunities to reduce redundant costs and streamline operations in many areas of our business.

The successful implementation of our growth strategy depends on many factors including our ability to effectively plan, source and manage our merchandise mix and inventory levels, leverage our competitive strengths, as well as certain factors which are beyond our control including general economic conditions and consumer confidence in future economic conditions. If we fail to execute any one or more of these initiatives or fail to fully realize the benefits expected to result from these initiatives, our business and results of operations, our ability to continue to grow and our ability to remain competitive, could be materially adversely impacted. Our results to date are not an indication of future results, and there can be no assurance that these initiatives will generate increased sales, increased sales per square foot or improve operating margins even if we were to successfully implement our growth strategy.

Failure to execute on our plan to reduce operating expenses

The direct results of the Zellers and Fields operations have been reflected in our financial statements as discontinued operations. However, certain of these shared corporate service costs allocated to Zellers and Fields continues to be reflected in the Company's SG&A for Fiscal 2012. Management is focused on decreasing our SG&A following the wind-down of Fields and most of the store operations at Zellers. We believe meaningful reductions in annual operating costs can be achieved by the end of Fiscal 2013 as we wind-down most of the Zellers business and almost all of its remaining leaseholds. In particular, we believe it is possible to identify and implement initiatives to reduce the annual operating costs of our continuing operations by approximately $60.0 million by further reducing information technology expenses, occupancy costs, distribution costs and other corporate overhead. We expect the impact of these initiatives to be fully realized by the end of the first quarter of Fiscal 2014. We expect to incur restructuring costs of approximately $20.0 to $25.0 million to achieve these annual operating cost reductions.

The successful implementation of our expense reduction plan depends on many factors, including our ability to effectively implement mark-down and size optimization, inventory allocation, merchandise strategy, store operations and labour productivity, as well as certain factors which are beyond our control, including economic conditions, labour market conditions, ability to maintain our management team to implement our plan, and any one of these factors or the other factors could have a material adverse effect on our ability to implement our targeted annual operating cost savings. Further, it could be that one time costs are higher than expected due to factors that have not been accounted for by management and this may have a negative impact on our ability to achieve our plans.

The ability to operate our business will be limited by restrictive covenants contained in our credit facilities.

Our credit facilities contain restrictive financial and other covenants which affect, among other things, the manner in which we may structure or operate our business. A failure by us to comply with our contractual obligations (including restrictive, financial and other covenants), or to pay our indebtedness and fixed costs could result in a variety of material adverse consequences, including the acceleration of our indebtedness and the exercise of remedies by our creditors, and such defaults could trigger additional defaults under other indebtedness or agreements. In such a situation, it is unlikely that we would be able to repay the accelerated indebtedness or fulfill our obligations under certain contracts, or otherwise cover our fixed costs. Also, the lenders under the financing arrangements could foreclose upon all or substantially all of our assets which secure our obligations.

Despite current indebtedness levels, we may still be able to incur substantially more debt, which could further exacerbate the risks described above.

We may be able to incur substantial additional indebtedness in the future. Although our credit facilities contain restrictions on the incurrence of additional indebtedness, such restrictions are subject to a number of qualifications and exceptions, and under certain circumstances, incurrence of indebtedness in accordance with such restrictions could be substantial. Under our current credit facilities and debt instruments we have the flexibility to incur indebtedness in the future. If our current debt levels are increased, the related risks that we now face could intensify.

A privacy breach could result in negative publicity and adversely affect our business.

The protection of customer, employee, and company data is critical to the Company. The regulatory environment surrounding information security and privacy is increasingly demanding, with the frequent imposition of new and constantly changing requirements across business units. In addition, customers have a high expectation that we will adequately protect their personal information. A significant breach of customer, employee, or company data could attract a substantial amount of media attention, damage our customer relationships and reputation and result in lost sales, fines, or lawsuits.

We are subject to numerous regulations that could adversely affect our business.

We are subject to customs, child labour, environmental, advertising and other laws, including consumer protection regulations and zoning and occupancy ordinances that regulate retailers generally and/or govern the importation, promotion and sale of merchandise and the operation of retail stores and warehouse facilities. Although we undertake to monitor changes in these laws, if these laws change without our knowledge, or are violated by importers, designers, manufacturers or distributors, we could experience delays in shipments and receipt of goods or be subject to fines or other penalties under the controlling regulations, any of which could adversely affect our business.

In May 2011, a small PCB spill occurred in the rooftop transformers at the Montreal Downtown Hudson's Bay store. As a result, a small amount of PCBs was released into HBC drains and ultimately into the sewer. Remediation efforts were undertaken immediately. HBC worked with environmental consultants and remediation specialists, in conjunction with applicable regulatory authorities, to remediate as quickly and efficiently as possible. The transformers at the location were subsequently replaced in late 2011 as part of a previously scheduled replacement project. As a result, we are not aware, and do not believe, that there is any further PCB risk at this location. Following the remediation, Environment Canada began an investigation into the spill.

Litigation or regulatory developments could adversely affect our business or financial condition.

We are subject to various federal, provincial, state and local laws, rules, regulations and initiatives, including laws and regulations with respect to the credit card industry, which may change from time to time. In addition, we are regularly involved in various litigation matters that arise in the ordinary course of our business. We may also be susceptible to various claims, including class action claims, relating to our merchandise that is subject to a

product recall or liability claim. Litigation or regulatory developments could adversely affect our business and financial condition.

We are subject to the risk of product liability claims and product recalls.

We sell products produced by third party manufacturers. Some of these products may expose us to product liability claims relating to personal injury, death or property damage caused by such products, and may require us to take action. One or more of our suppliers might not adhere to product safety requirements or our quality control standards, and we might not identify the deficiency before merchandise ships to our stores. If our suppliers are unable or unwilling to recall products failing to meet our quality standards, we may be required to remove merchandise from our shelves or recall those products at a substantial cost. Product recalls, withdrawals or replacements may harm our reputation and acceptance of our products by customers, which may adversely affect our business and financial results. Product recalls, withdrawals, or replacements may also increase the amount of competition that we face. Some competitors may attempt to differentiate themselves from us by claiming that their products are produced in a manner or geographic area that is insulated from the issues that preceded the recalls, withdrawals, or replacements of our products.

Although we maintain liability insurance to mitigate potential claims, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available on economically reasonable terms or at all. Product liability claims and product recalls, withdrawals or replacements could adversely affect our business and financial results.

We are vulnerable to fluctuations in the value of the Canadian dollar in relation to the U.S. dollar as it may impact our operating and financial results and the comparability of our results between financial periods.

The Company has risk associated with the implications of foreign currency movement on its Canadian operations. We source private label products and direct import certain branded products from China and other overseas markets, including Bangladesh, India, Indonesia, Vietnam and Europe from vendors and manufacturers whose functional currency is not Canadian or U.S. dollars. Accordingly, fluctuations in the Canadian or U.S. dollar relative to the currencies of our vendors and manufacturers may adversely affect our inventory costs, which could result in higher costs and lower operating margins. We are also exposed to general market fluctuations of interest rates.

The Company enters into forward foreign exchange contracts to fix the cost of certain purchases of merchandise for its Canadian operations from foreign suppliers in Canadian dollars and utilizes certain derivatives as cash flow hedges of its exposures to foreign currency risk. There is no guarantee that such hedging strategies will be effective. In addition, currency hedging entails a risk of illiquidity and, to the extent the applicable foreign currency depreciates against the Canadian or U.S. dollar, as applicable, the risk of using hedges could result in losses greater than if the hedging had not been used. Also, hedging arrangements may have the effect of limiting or reducing the total returns to the Company if management's expectations concerning future events or market conditions prove to be incorrect, in which case the costs associated with the hedging strategies may outweigh their benefits.

In addition, the Company has foreign currency risk related to the consolidation of the results of Lord & Taylor which operates in US dollars.

Doing business abroad exposes us to additional risks.

As we source private label products and direct import certain branded products from China and other overseas markets, including Bangladesh, India, Indonesia, Vietnam and Europe, in addition to exchange rate fluctuations, we are subject to risks generally associated with doing business abroad. We cannot predict the effect of various factors in the countries in which our vendors or manufacturers are located, including, among others:

- economic trends in international markets;
- legal and regulatory changes, and our cost of compliance with such laws, including trade restrictions and tariffs;

- increase in transportation costs or delays;
- increase and volatility in labour costs;
- political unrest, terrorism and economic instability; and
- limitations on repatriation of earnings.

Any of the foregoing or other factors associated with doing business abroad could have a material adverse effect on our business and financial conditions, including our ability to plan, source and manage our merchandise mix and inventory levels. While we do not control our vendors or manufacturers, any violation of applicable local laws or unethical conduct by our vendors or manufacturers, or any negative publicity about their business practices including production methods and labour practices, may also adversely affect our brand image and reputation.

The loss of, or disruption in, our centralized distribution centres would have a material adverse effect on our business and operations.

We depend on the orderly operation of the receiving and distribution process, which relies on adherence to shipping schedules and effective management of distribution centres. Although we believe that our receiving and distribution process is efficient, and we have appropriate contingency plans, unforeseen disruptions in operations due to fire, severe weather conditions, natural disasters, or other catastrophic events, labour disagreements, or other shipping problems may result in delays in the delivery of merchandise to our stores. Additionally, freight cost is impacted by changes in fuel prices. Fuel prices affect freight cost both on inbound freight from vendors to the distribution centres and outbound freight from the distribution centres to our stores.

Although we maintain business interruption and property insurance, management cannot be assured that our insurance coverage will be sufficient, or that insurance proceeds will be timely paid to us, if any of the distribution centres are shut down for any reason.

Ownership and leasing of significant amounts of real estate exposes us to possible liabilities and losses.

Some of our stores are owned with the remainder of our stores being leased. Accordingly, we are subject to all of the risks associated with owning and leasing real estate. In particular, the value of the assets could decrease, and their costs to operate could increase, because of changes in the investment climate for real estate, demographic trends, and supply or demand for the use of the store, which may result from competition from similar stores in the area, as well as liability for environmental conditions.

As an owner and operator of freehold and leasehold real property we are subject to potential environmental liability.

As an owner and operator of both freehold and leasehold real property, we are subject to various federal, state and provincial laws relating to environmental matters. Such laws provide that we could be liable for the costs of removal and remediation of certain hazardous toxic substances released on or in our properties or disposed of at other locations. The failure to remove or remediate such substances, if any, could adversely affect an owner's ability to sell such real property or to borrow using such real property as collateral and could potentially also result in claims against the owner or operator.

We have certain obligations under the Target Agreement.

We are subject to risks relating to our continuing obligations with respect to the 189 Subject Leases assigned to Target or its designees pursuant to the Target Agreement, and leased back by Zellers pursuant to subleases for the period of time between the assignment date and the Vacancy Date for each Subject Lease, including our obligation to cooperate with Target and its designees with respect to the future development by Target and its designees of their stores and to pay certain out of pocket costs, and our obligation to conduct an orderly liquidation of all of the Subject Leases by the relevant Vacancy Date. Though we do not expect the cooperation costs to be material and we have an established process for an orderly liquidation, we cannot predict all of the cooperation costs and cannot guarantee that our liquidation process will be successful.

We are also subject to risks relating to Zellers' indemnification in favour of Target. This indemnification is for up to $1,825,000,000 with respect to the representations and warranties related to the Subject Leases including a breach of a covenant by Zellers for one year from the relevant Vacancy Date and without limit on amount or time in certain circumstances. In addition, HBC has provided a guarantee for Zellers' indemnity obligations. Any breach by Zellers of its representations, warranties or covenants under the Target Agreement could result in a substantial indemnification payment to Target, which could have a material adverse impact on the Company's working capital and financial condition, including our ability to effect our growth strategy. As at the date of this prospectus, no indemnification claim has been made against Zellers or the Company.

Our business depends in part on our brand image and reputation.

We have a well-recognized brand that consumers may associate with a high level of customer service and quality merchandise. Failure to maintain merchandise quality and integrity, or ethical and socially responsible operations could adversely affect our brand image and reputation. Any negative publicity about, or significant damage to, our brand or reputation could negatively impact sales, reduce employee morale and productivity and diminish customer trust, any of which could harm our business, financial condition and results of operations.

We rely on the reputation of third party suppliers and the brands we carry.

As a retail company we rely on the brands we carry to attract customers. We promote nationally branded, non-proprietary products, as well as private label, proprietary products. Damage to the reputation of any of these brands, or to the reputation of any supplier or manufacturer of these brands, could negatively impact consumer opinion of the Company or the related products, which could have an adverse impact on the financial performance of the Company.

Current store locations may become less desirable, and desirable new locations may not be available for a reasonable price, if at all.

The success of any store depends substantially upon its location. There can be no assurance that current locations will continue to be desirable as demographic patterns change. Social or economic conditions where stores are located could decline in the future, thus resulting in potentially reduced sales in those locations. If we cannot obtain desirable locations at reasonable prices, our cost structure will increase and our revenues will be adversely affected.

We may not be able to protect our trademarks and other proprietary rights.

We own some of the most recognized banners, brands and trademarks in the retail industry. We believe that our trademarks and other proprietary rights are important to our success and our competitive position. Accordingly, we protect our trademarks and proprietary rights. However, the actions taken by us may be inadequate to prevent imitation of our products and concepts by others or to prevent others from claiming violations of their trademarks and proprietary rights by us. In addition, our intellectual property rights may not have the value that we believe they have. If we are unsuccessful in protecting our intellectual property rights, or if another party prevails in litigation against us relating to our intellectual property rights, the value and adequacy of our brand recognition could be diminished causing customer confusion and adversely affecting our sales and profitability and we may incur significant costs and may be required to change certain aspects of our operations.

We may be exposed to risks related to our size and scale.

We operate under multiple banners in Canada and the U.S. The large size of our operations and our multiple banners expose us to the risk that systems and practices will not be implemented uniformly through the Company and that information will not be shared across the banners and countries in a timely and appropriate manner.

Insurance related risks.

We maintain directors and officers insurance, liability insurance, business interruption and property insurance and our insurance coverage reflects deductibles, self-insured retentions, limits of liability and similar provisions. However, there is no guarantee that our insurance coverage will be sufficient, or that insurance proceeds will be timely paid to us. In addition, there are types of losses we may incur but against which we cannot be insured or which we believe are not economically reasonable to insure, such as losses due to acts of war and certain natural disasters. If we incur these losses and they are material, our business, operating results and financial condition may be adversely affected. Also, certain material events may result in sizable losses for the insurance industry and materially adversely impact the availability of adequate insurance coverage or result in significant premium increases. Accordingly, we may elect to self-insure, accept higher deductibles or reduce the amount of coverage in response to such market changes.

The Company may be required to make cash contributions to the defined benefit component of its pension plan in the future if the funded status of the pension plan decreases.

The Company has a defined benefit pension plan (the "Plan"). The Plan's funded status, which fluctuates with market conditions, affects the amount of Company required contributions. Currently, the Plan is in a surplus position. As such, no payments in respect of past service funding deficits are required. However, it is possible that long-term interest rates and/or lower than expected asset returns could cause the Plan to move into a deficit position. If this occurs, the Company may be required to start remitting amounts necessary to amortize such deficit. Given the relative size of the Plan, a downward swing in the funded status of the Plan could have a significant impact on the Company's future cash funding requirements in respect of the Plan.

The pension committee monitors the Plan assets closely and follows strict guidelines to ensure that pension fund investment portfolios are diversified in-line with industry best practices. Nonetheless, pension fund assets are not immune to market fluctuations and the Company may be required to make cash contributions in the future. The Company believes that it has sufficiently strong cash flows to fund its operations, investing activities and commitments for the foreseeable future. The Company's cash flows from operations are subject to fluctuation due to various factors, including commodity, foreign exchange and interest rate risks. Please refer to the rest of the "Risk Factors" section for further information.

Pension related accounting policies include various assumptions that incorporate a high degree of judgment and complexity. These assumptions may change in the future and may have a material impact on the accrued benefit obligations of the Company and the cost of the Plan, which is reflected in the Company's consolidated statement of earnings.

Terms of our articles and bylaws could delay and discourage takeover attempts that shareholders may consider to be favorable.

Certain provisions of our articles and bylaws may make it more difficult or impossible for a third party to acquire control of us or effect a change in our Board of Directors and management. These provisions include that at least 75% of the voting power of all then outstanding shares of our Common Shares entitled to vote generally at the election of directors will be required for (i) the approval of extraordinary business, and (ii) the amendment, alteration or repeal of certain provisions of our articles and by-laws.

These provisions could delay, defer or prevent us from experiencing a change of control and management and may adversely affect our Shareholders' voting and other rights. Any delay or prevention of a change of control transaction and management could deter potential acquirors or prevent the completion of a transaction in which our Shareholders could receive a substantial premium over the then current market price for their Common Shares.

Risks Related to this Offering

Our securities have no prior public market and our share price may decline after the Offering.

Before this Offering, there has been no public market for our Common Shares, and an active public market for our Common Shares may not develop or be sustained after this Offering. If an active public market does not

develop, the liquidity of your investment may be limited, and our share price may decline below its initial public Offering Price. The Offering Price has been determined by negotiation between us, the Selling Shareholder and the representatives of the Underwriters and may bear no relationship to the price that will prevail in the public market.

Volatile market price for Common Shares.

The market price for Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control, including the following:

- actual or anticipated fluctuations in the Company's quarterly results of operations;
- changes in estimates of our future results of operations by us or securities research analysts;
- changes in the economic performance or market valuations of other companies that investors deem comparable to the Company;
- change of the Company's executive officers and other key personnel;
- release or other transfer restrictions on outstanding Common Shares;
- sales or perceived sales of additional Common Shares;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors; and
- news reports relating to trends, concerns or competitive developments, regulatory changes and other related issues in the Company's industry or target markets.

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Common Shares may decline even if the Company's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of the Company's environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited or no investment in the Common Shares by those institutions, which could adversely affect the trading price of the Common Shares. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the trading price of the Common Shares may be adversely affected.

Payment of dividends is dependent on cash flows of the business and subject to change. The declaration of dividends is at the discretion of the Company's board of directors.

The declaration and payment of future dividends will be at the discretion of the Board of Directors, are subject to restrictions under the Company's credit facilities and may be affected by various other factors, including the Company's earnings, financial condition and legal or contractual restrictions. There can be no assurance that the Company will be in a position to pay dividends at the same rate (or at all) in the future.

Moreover, as the Company is a holding company for its operating subsidiaries and does not have any significant operations of its own, dividends or other distributions from its subsidiaries, including its subsidiaries carrying on the operations of Hudson's Bay and Lord & Taylor, are the Company's principal sources of cash to fund its obligations, including the payment of dividends if declared. There are or may be statutory, contractual, tax or other limitations on the ability of the Company's subsidiaries to make distributions to the Company. If the cash the Company receives from its subsidiaries pursuant to such distributions is insufficient, or if the subsidiaries are unable to make such distributions, the Company may be required to raise cash through the incurrence of debt, the issuance of additional equity or the sale of assets to to fund its obligations. However,

there can be no assurance that the Company would be able to raise cash by any of these means in a timely manner or on terms that are favourable to the Company.

We will incur significant expenses as a result of being a public company, which may negatively impact our financial performance and could cause our results of operations and financial condition to suffer.

We will incur significant legal, accounting, insurance and other expenses as a result of being a public company, which may negatively impact our performance and could cause our results of operations and financial condition to suffer. We expect that compliance with applicable securities laws and the rules of the TSX will substantially increase our expenses, including our legal and accounting costs, and make some activities more time-consuming and costly. We also expect these laws, rules and regulations to make it more expensive for us to obtain director and officer insurance.

The Selling Shareholder, L&T B Group and Hanover will have significant influence with respect to matters put before our shareholders, which may have a negative impact on the trading price of our Common Shares.

After this Offering, it is anticipated that on or before January 31, 2013 (i) the L&T B Group will own ● Common Shares, which in the aggregate will represent approximately ● % of our issued and outstanding Common Shares following the Distribution (or ● % if the Over-Allotment Option is exercised in full), (ii) Hanover will own ● Common Shares, which in the aggregate will represent approximately ● % of our issued and outstanding Common Shares following the Distribution (or ● % if the Over-Allotment Option is exercised in full) and (iii) the Selling Shareholder (which is controlled by the L&T B Group) will own ● Common Shares, which in the aggregate will represent approximately ● % of our issued and outstanding Common Shares following the Distribution (or ● % if the Over-Allotment is exercised in full). See "Principal Shareholders and Selling Shareholder". As a result, the Selling Shareholder, L&T B Group and Hanover will have significant influence with respect to all matters submitted to our shareholders for approval, including without limitation the election and removal of directors, amendments to our articles of incorporation and by-laws and the approval of any business combination. This may delay or prevent an acquisition of the Company or cause the market price of our shares to decline. The interests of the Selling Shareholder, L&T B Group and Hanover may not in all cases be aligned with interests of our other shareholders. In addition, Selling Shareholder, the L&T B Group and Hanover may have an interest in pursuing acquisitions, divestitures and other transactions that, in the judgment of its management, could enhance its equity investment, even though such transactions might involve risks to our shareholders and may ultimately affect the market price of the Common Shares.

Future sales of Common Shares by the Selling Shareholder, L&T B Group and Hanover.

After this Offering, it is anticipated that, on or before January 31, 2013, (i) the L&T B Group will beneficially own or control, directly or indirectly, ● Common Shares, which in the aggregate will represent approximately ● % of our issued and outstanding Common Shares on completion of this Offering (or ● % if the Over-Allotment Option is exercised in full), (ii) Hanover will own ● Common Shares, which in the aggregate will represent approximately ● % of our issued and outstanding Common Shares on completion of this Offering (or ● % if the Over-Allotment Option is exercised in full) and (iii) the Selling Shareholder (which is controlled by the L&T B Group) will own ● Common Shares, which in the aggregate will represent approximately ● % of our issued and outstanding Common Shares following the Distribution (or ● % if the Over-Allotment is exercised in full). See "Principal Shareholders and Selling Shareholder". Subject to compliance with applicable securities laws, our officers, directors, principal shareholders and their affiliates may sell some or all of their Common Shares in the future. No prediction can be made as to the effect, if any, such future sales of Common Shares will have on the market price of the Common Shares prevailing from time to time. However, the future sale of a substantial number of Common Shares by our officers, directors, principal shareholders and their affiliates, or the perception that such sales could occur, could adversely affect prevailing market prices for the Common Shares.

Pursuant to the Shareholders Agreement, each party is granted certain registration rights which can be exercised any time after 180 days following completion of this Offering. See "Shareholders Agreement".

MATERIAL CONTRACTS

The following are the only material contracts, other than those contracts entered into in the ordinary course of business, which the Company has entered into since the beginning of the last financial year before the date of this prospectus, entered into prior to such date but which contract is still in effect, or to which the Company is or will become a party on or prior to the Closing:

- the Underwriting Agreement;
- the New HBC Term Loan;
- the HBC Revolving Credit Facility;
- the Lord & Taylor Revolving Credit Facility;
- the Lord & Taylor Term Loan;
- 5th Avenue Lord & Taylor Mortgage;
- Nominating Rights Agreement; and
- Shareholders Agreement.

Copies of the above material agreements, if not already entered into then once executed, may be inspected during ordinary office business hours at the Company's principal executive offices located at 401 Bay Street, Toronto, Ontario, M5H 2Y4 during the period of distribution of the Common Shares or may be viewed at the website maintained by the Canadian Securities Administrators at http://www.sedar.com.

EXPERTS

No person or company whose profession or business who is named as having prepared or certified a report, valuation, statement or opinion described or included in the prospectus, or whose profession or business gives authority to a report, valuation, statement or opinion described or included in the prospectus, holds any registered or beneficial interest, direct or indirect, in any of our securities or other property of our company or one of our associates or affiliates and no such person or company, or a director, officer or employee of such person or company, is expected to be elected, appointed or employed as one of our directors, officers or employees or as a director, officer or employee of any of our associates or affiliates and no such person is one of our promoters or the promoter of one of our associates or affiliates. Our current auditors are Deloitte & Touche LLP. Deloitte & Touche LLP has informed us that it is independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

PROMOTER

Hudson's Bay Company (Luxembourg) S. à r. l., the Selling Shareholder, is considered a promoter of the Company within the meaning of applicable securities legislation.

As of the date of this prospectus, the Selling Shareholder, as the sole shareholder of the Company, holds 100% of the Common Shares. The Selling Shareholder will be receiving consideration pursuant to the Secondary Offering and the Over-Allotment Option. See "Plan of Distribution".

If the Over-Allotment Option is exercised in full, the Selling Shareholder will own ● Common Shares, representing ● % (● % on a fully-diluted basis) of the issued and outstanding Common Shares after the Offering. See "Principal Shareholders and Selling Shareholder".

LEGAL MATTERS

We are from time to time involved in legal proceedings of a nature considered normal to our business. We believe that none of the litigation in which we are currently involved, or have been involved since the beginning of the most recently completed financial year, individually or in the aggregate, is material to our consolidated financial condition or results of operations.

Certain Canadian legal matters relating to the Offering will be passed upon on our behalf by Stikeman Elliott LLP, and on behalf of the Underwriters by Norton Rose Canada LLP. The partners and associates of Stikeman Elliott LLP, collectively, beneficially own, directly and indirectly, (i) less than 1% of the issued and outstanding Common Shares; and (ii) less than 1% of the issued and outstanding common shares of any of our affiliates or associates. The partners and associates of Norton Rose Canada LLP, collectively, beneficially own, directly and indirectly, (i) less than 1% of the issued and outstanding Common Shares; and (ii) less than 1% of the issued and outstanding common shares of any of our affiliates or associates.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Stikeman Elliott LLP, counsel to the Company, and Norton Rose Canada LLP, counsel to the Underwriters, the following is a general summary, as of the date hereof, of the principal Canadian federal income tax considerations under the Tax Act generally applicable to a holder who acquires Common Shares pursuant to this Offering. This summary only applies to a holder who, for the purposes of the Tax Act and at all relevant times: (i) deals at arm's length and is not affiliated with the Company, and (ii) holds the Common Shares as capital property (a "Holder"). The Common Shares will generally be considered to be capital property to a Holder unless they are held in the course of carrying on a business of trading or dealing in securities or were acquired in one or more transactions considered to be an adventure or concern in the nature of trade. A holder who is resident in Canada and whose Common Shares might not otherwise qualify as capital property may be entitled to make the irrevocable election provided by subsection 39(4) of the Tax Act to have its Common Shares and every other "Canadian security" (as defined in the Tax Act) owned by such holder in the taxation year of the election and in all subsequent taxation years deemed to be capital property. Such Canadian resident holders should consult their own tax advisors as to whether an election under subsection 39(4) of the Tax Act is available and/or advisable in their particular circumstances.

This summary is based upon: (i) the current provisions of the Tax Act and the regulations thereunder (the "Regulations") in force as of the date hereof; (ii) all specific proposals (the "Tax Proposals") to amend the Tax Act or the Regulations that have been publicly announced by, or on behalf of, the Minister of Finance (Canada) prior to the date hereof; (iii) an officer's certificate as to certain factual matters pertaining to the Company, and (iv) counsel's understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency (the "CRA"). This summary assumes that all such Tax Proposals will be enacted in the form currently proposed but no assurance can be given that they will be enacted in the form proposed or at all. This summary does not otherwise take into account or anticipate any changes in law, administrative policy or assessing practice, whether by legislative, regulatory, administrative, governmental or judicial decision or action, nor does it take into account the tax laws of any province or territory of Canada or of any jurisdiction outside of Canada.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder. Accordingly, Holders are urged to consult their own tax advisors about the specific tax consequences to them of acquiring, holding and disposing of Common Shares in their particular circumstances.

Residents of Canada

This section of the summary applies to a Holder who, for the purposes of the Tax Act and at all relevant times, is, or is deemed to be, resident in Canada (a "Resident Holder"). This section of the summary is not applicable to a Resident Holder: (i) that is a "financial institution" within the meaning of section 142.2 of the Tax Act; (ii) that is a "specified financial institution" within the meaning of the Tax Act; (iii) that reports its "Canadian tax results" within the meaning of the Tax Act in a currency other than Canadian currency, or (iv) an

interest in which is a "tax shelter investment" within the meaning of the Tax Act. Such Resident Holders should consult their own tax advisors.

Additional considerations, not discussed in this summary, may be applicable to a Resident Holder that: (a) is a corporation resident in Canada, and (b) is, or becomes as part of a transaction or event or series of transactions or events that includes the acquisition of Common Shares, controlled by a non-resident corporation for the purposes of the foreign affiliate dumping rules in proposed section 212.3 of the Tax Act. Such Resident Holders should consult with their tax advisors with respect to the consequences of acquiring Common Shares.

Dividends on Common Shares

A Resident Holder will be required to include in computing its income for a taxation year any taxable dividends received or deemed to be received on the Common Shares. In the case of a Resident Holder that is an individual (other than certain trusts), such dividend will be subject to the gross-up and dividend tax credit rules normally applicable under the Tax Act to taxable dividends received from taxable Canadian corporations. Taxable dividends received from a taxable Canadian corporation that are designated by the corporation as "eligible dividends" will be subject to an enhanced gross-up and tax credit regime in accordance with the rules in the Tax Act. In the case of a Resident Holder that is a corporation, the amount of any such taxable dividend that is included in its income for a taxation year will generally be deductible in computing its income for that taxation year.

Dispositions of Common Shares

A Resident Holder who disposes of or is deemed for the purposes of the Tax Act to have disposed of a Common Share will generally realize a capital gain (or capital loss) in the taxation year of the disposition equal to the amount by which the proceeds of disposition are greater (or are less) than the total of: (i) the adjusted cost base to the Resident Holder of the Common Share immediately before the disposition or deemed disposition, and (ii) any reasonable costs of disposition. The adjusted cost base to a Resident Holder of Common Shares acquired pursuant to this Offering will be determined by averaging the cost of such Common Shares with the adjusted cost base of all other Common Shares (if any) held by the Resident Holder as capital property at that time.

A Resident Holder will generally be required to include in computing its income for the taxation year of disposition, one-half of the amount of any capital gain (a "taxable capital gain") realized in such year. Subject to and in accordance with the provisions of the Tax Act, a Resident Holder will generally be required to deduct one-half of the amount of any capital loss (an "allowable capital loss") realized in the taxation year of disposition against taxable capital gains realized in the same taxation year. Allowable capital losses in excess of taxable capital gains for the taxation year of disposition generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such taxation years, to the extent and under the circumstances specified in the Tax Act.

If a Resident Holder is a corporation, any capital loss realized on a disposition or deemed disposition of Common Shares may, in certain circumstances, be reduced by the amount of any dividends which have been received or which are deemed to have been received on such Common Shares. Similar rules may apply where a Resident Holder that is a corporation is a member of a partnership or a beneficiary of a trust that owns Common Shares directly or indirectly through a partnership or a trust. Resident Holders to whom these rules may be relevant should consult their own tax advisors.

Other Taxes

A Resident Holder that is a "private corporation" or a "subject corporation", as defined in the Tax Act, will generally be liable to pay a refundable tax of 33⅓% under Part IV of the Tax Act on dividends received on the Common Shares to the extent such dividends are deductible in computing the Resident Holder's taxable income for the year. This tax will generally be refunded to the corporation at a rate of $1.00 for every $3.00 of taxable dividends paid while it is a private corporation or a subject corporation.

A Resident Holder that is throughout the relevant taxation year a "Canadian controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional refundable tax on its "aggregate investment income" (as defined in the Tax Act) for the year, including taxable capital gains realized on the disposition of Common Shares.

Capital Gains and taxable dividends received by a Resident Holder who is an individual (including certain trusts) may result in such Resident Holder being liable for alternative minimum tax under the Tax Act. Resident Holders that are individuals should consult their own tax advisors in this regard.

Non-Resident Holders

This section of the summary applies to a Holder who, for the purposes of the Tax Act and at all relevant times: (i) is not, and is not deemed to be, resident in Canada; and (ii) does not use or hold, and will not be deemed to use or hold, the Common Shares in the course of carrying on a business in Canada (a "Non-Resident Holder"). This summary does not apply to a Non-Resident Holder that carries on, or is deemed to carry on, an insurance business in Canada and elsewhere and such Holders should consult their own tax advisors.

Dividends on Common Shares

Dividends paid or credited or deemed under the Tax Act to be paid or credited by the Company to a Non-Resident Holder on the Common Shares will generally be subject to Canadian non-resident withholding tax at the rate of 25% of the gross amount of the dividend, subject to any reduction in the rate of withholding to which the Non-Resident Holder is entitled under any applicable income tax convention between Canada and the country in which the Non-Resident Holder is resident. For example, where the Non-Resident Holder is a resident of the United States, is fully entitled to the benefits under the *Canada-United States Income Tax Convention (1980)* (the "Convention") and is the beneficial owner of the dividends, the applicable rate of Canadian withholding tax is generally reduced to 15%. Not all persons who are residents of the United States will qualify for the benefits of the Convention. A Non-Resident Holder who is a resident of the United States is advised to consult its tax advisor in this regard.

Dispositions of Common Shares

A Non-Resident Holder who disposes of or is deemed to have disposed of a Common Share will not be subject to income tax under the Tax Act unless, at the time of disposition: (i) the Common Share is, or is deemed to be, "taxable Canadian property" of the Non-Resident Holder, and (ii) the Non-Resident Holder is not entitled to an exemption under an applicable income tax convention between Canada and the country in which the Non-Resident Holder is resident.

Generally, a Common Share acquired pursuant to this Offering will not be taxable Canadian property of a Non-Resident Holder at a particular time provided that: (i) the Common Share is listed at that time on a designated stock exchange (which currently includes the TSX), and (ii) at no time during the 60 month period that ends at that particular time were both of the following conditions satisfied: (a) at least 25% of the issued shares of any class or series of the capital stock of the Company were owned by or belonged to any combination of the Non-Resident Holder and persons with whom the Non-Resident Holder did not deal at arm's length (for the purposes of the Tax Act), and (b) more than 50% of the fair market value of the Common Share was derived directly or indirectly from one, or any combination of: (I) real or immovable property situated in Canada; (II) Canadian resource property (as defined in the Tax Act); (III) timber resource property (as defined in the Tax Act), or (IV) options in respect of, interests in or civil law rights in any of the foregoing property, whether or not such property exists. Non-Resident Holders for whom the Common Shares are, or may be, taxable Canadian property should consult their own tax advisors.

In the case of a Non-Resident Holder that is: (i) a resident of the United States, and (ii) fully entitled to the benefits of the Convention, any capital gain realized by the Non-Resident Holder on a disposition of a Common Share that would otherwise be subject to tax under the Tax Act will be exempt from Canadian income tax pursuant to the Convention provided that the value of such Common Share is not derived principally from real property situated in Canada (within the meaning of the Convention).

In the event that a Common Share constitutes taxable Canadian property of a Non-Resident Holder and any capital gain that would be realized on the disposition thereof is not exempt from tax under the Tax Act pursuant to an applicable income tax convention or treaty, then the income tax consequences discussed above for Resident Holders, under "Dispositions of Common Shares" will generally apply to the Non-Resident Holder but any such Non-Resident Holder should consult its own tax advisor in this regard.

ELIGIBILITY FOR INVESTMENT

In the opinion of Stikeman Elliott LLP, counsel to the Company, and Norton Rose Canada LLP, counsel to the Underwriters, on the date of the Offering, provided that the Common Shares acquired by investors pursuant to this Offering (the "Offered Shares") are then listed on a "designated stock exchange" for the purposes of the Tax Act, which currently includes the TSX, the Offered Shares will, on that date, be qualified investments under the Tax Act for trusts governed by registered retirement savings plans ("RRSPs"), registered retirement income funds ("RRIFs"), registered disability savings plans, deferred profit sharing plans, registered education savings plans and tax-free savings accounts ("TFSAs").

Notwithstanding the foregoing, if an Offered Share is a "prohibited investment" for a RRSP, RRIF or TFSA, the annuitant under the RRSP or RRIF or the holder of the TFSA (as applicable) may be subject to a penalty tax under the Tax Act. An Offered Share will not be a "prohibited investment" for these purposes unless: (i) the annuitant under the RRSP or RRIF or the holder of the TFSA (as applicable) does not deal at arm's length with the Company for purposes of the Tax Act, or (ii) the holder or annuitant (as applicable) has a "significant interest" (within the meaning of subsection 207.01(4) of the Tax Act) in the Company or a corporation, partnership or trust with which the Company does not deal at arm's length for purposes of the Tax Act. The Department of Finance has recently indicated that it is prepared to recommend further amendments to the prohibited investment rules contained in the Tax Act, however, no draft legislation has been released as at the date hereof. Holders of a TFSA and annuitants of an RRSP or RRIF should consult their own tax advisors as to whether Offered Shares will be prohibited investments in their particular circumstances.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The Board of Directors reviews and approves transactions between us on the one hand and a related party, such as our directors, officers, holders of more than ten percent of our voting securities and their affiliates and associates, the immediate family members of any of the foregoing persons and any other persons whom the Board of Directors determined may be considered a related party, on the other hand. Prior to the Board of Directors' consideration of a transaction with a related party, the material facts as to the related party's relationship or interest in the transaction are disclosed to the Board of Directors, and the transaction is not considered approved by the Board of Directors unless a majority of the directors who are not interested in the transaction approve the transaction. We believe each of the transactions set forth below were made on terms no less favourable to us than could have been otherwise obtained from unaffiliated third parties.

Management Agreements and Reimbursement Agreement

The Company, HBTC, TNRI and the Principal Shareholder, all of which are entities under common control, and their respective general partners, as applicable, (as "Related HBC Entities") entered into an agreement for the reimbursement of expenses (the "Reimbursement Agreement") effective July 17, 2008 whereby the Company agreed to pay for maintenance and operating expenses of the Related HBC Entities, subject to compliance with existing or future credit agreements. Amounts charged to the Company by Related HBC Entities under the Reimbursement Agreement were $5.2 million for Fiscal 2011 (2010: $5.3 million; 2009: $6.9 million), and $3.5 million for the 26 weeks ended July 28, 2012.

The Company and HBTC entered into a management services agreement (the "Management Agreement"), effective July 17, 2008 whereby the Company agreed to pay HBTC an annual fee of U.S.$2.0 million plus reimbursement of other expenses for management, financial, strategic and transaction support. Amounts charged to the Company by HBTC under the Management Agreement for fiscal 2011 were $2.6 million (2010: $2.1 million; 2009: $2.2 million), and $0.5 million for the 26 weeks ended July 28, 2012.

The Company and National Realty (an entity under common control) entered into a Property Management Agreement, effective July 17, 2008 whereby the Company agreed to retain National Realty as its property manager and pay National Realty an annual property management fee of U.S.$2.0 million.

Indirect subsidiaries of Lord & Taylor and National Realty entered into two property management agreements (the "L&T Property Agreements", and together with the HBC Property Agreement, the "Property Agreements"), effective July 16, 2008 and September 7, 2012, respectively, whereby such subsidiaries agreed to retain National Realty as its property manager and pay National Realty an aggregate annual property management fee of U.S.$2.0 million.

At the closing of the Offering each of the above related party agreements will be amended such that National Realty will no longer be entitled management fee and HBTC will no longer be entitled to have its expenses reimbursed. For a period of 90 days following the Closing, National Realty shall continue to provide property management services to the Company but not be paid a management fee.

On May 6, 2011, Lord & Taylor's subsidiary, Lord & Taylor Home LLC, which operates home furnishings stores, entered into a two year lease at an annual rate of U.S. $1.0 million (with renewal options) with SP 35 L.P. (the "Landlord") for approximately 31,000 square feet in Shrewsbury, NJ to operate a home store. The Landlord is an affiliate of National Realty, controlled by Robert Baker and Richard Baker. The Company was charged $0.5 million under this lease agreement for the 26 weeks ended July 28, 2012.

In connection with the Target Transaction, Zellers and NRDC L&T B, LLC entered into a Fee Agreement on September 29, 2012 that provided for a one time fee of $8.0 million payable to NRDC L&T B, LLC for advisory services.

Shareholders Agreement

In connection with the Offering, the Company, the L&T Group, the Selling Shareholder and Hanover will enter into the Shareholders Agreement. See "Shareholders Agreement".

Nominating Rights Agreement

In connection with the Offering, the Company, the L&T B Group, the Selling Shareholder and Hanover will enter into a Nominating Rights Agreement. See "Nominating Rights Agreement".

AUDITORS, TRANSFER AGENT AND REGISTRAR

Our auditors are Deloitte & Touche LLP, 181 Bay Street Bay-Wellington Tower — Brookfield Place, Suite 1400, Toronto, Ontario, M5J 2V1.

The transfer agent and registrar for the Common Shares is Equity Financial Trust Company at its principal office in Toronto.

PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces and territories of Canada, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limits prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a legal advisor.

GLOSSARY OF TERMS

"**Audit Committee**" has the meaning set out under the heading "Corporate Governance — Board of Directors Committees — Audit Committee".

"**Board of Directors**" means the board of directors of the Company.

"**CAGR**" means compound annual growth rate.

"**CDS**" means CDS Clearing and Depository Services Inc.

"**CDS Participants**" has the meaning set out under the heading "Plan of Distribution".

"**CEO**" means chief executive officer.

"**CFO**" means chief financial officer.

"**Change in Capitalization**" means a reclassification, reorganization or other change of shares, consolidation, distribution, merger or amalgamation.

"**Closing**" means the closing of the Offering.

"**Code of Conduct**" has the meaning set out under the heading "Corporate Governance — Code of Conduct".

"**Common Shares**" means the common shares of the Company.

"**Connected Issuer**" means the term defined in securities legislation.

"**Control Person**" means the term defined in the *Securities Act* (Ontario).

"**COO**" means chief operating officer.

"**Covered Short Sales**" means short positions in an amount not greater than the Over-Allotment Option.

"**CRA**" means Canada Revenue Agency.

"**Eligible Dividend**" means the term defined in the Tax Act.

"**Executive Officer**" means (i) chair, vice chair or president, (ii) a vice president in charge of principal business unit, division or function including sales, finance or production, or (iii) performing policy-making functions in respect of HBC.

"**Hanover**" means Hanover Investments (Luxembourg) S.A.

"**HBC**" means Hudson's Bay Company.

"**HBTC**" means Hudson's Bay Trading Company, L.P.

"**IFRS**" means International Financial Reporting Standards.

"**L&T B Group**" means (i) L&T B (Cayman) Inc., and (ii) the partners and associates of L&T B (Cayman) Inc. that have an economic interest in the Common Shares of HBC.

"**Lord & Taylor**" means Lord & Taylor Holdings LLC.

"**LIBOR**" the London Interbank Offer Rate.

"**Naked short sales**" means short positions in an amount in excess of the Over-Allotment Option.

"**Named Executive Officers**" or "**NEOs**" means the Company's CEO and CFO and the next three next most highly compensated executive officers of the Company who are currently serving as executive officers.

"**NI 52-110**" has the meaning set out under the heading "Corporate Governance — Board of Directors".

"**Offering**" means this initial public offering of Common Shares.

"**Offering Price**" means the price of each common share that will be issued pursuant to the Offering.

"**Over-Allotment Option**" means the option granted by the Selling Shareholder to the Underwriters to purchase up to ● additional Common Shares at the Offering Price, exercisable for a period of 30 days from the Closing.

"**Principal Shareholder**" means Hudson's Bay Company (Luxembourg) S. à r. l.

"**Refinancing**" means the refinancing of the Existing HBC Term Loan as set out under the heading "Description of Material Indebtedness and Refinancing".

"**Retail Sales**" means sales from the North American retail industry segment of the economy, excluding the automotive, fuel and food and beverage segments.

"**Selling Shareholder**" means Hudson's Bay Company (Luxembourg) S. à r. l.

"**Shareholders Agreement**" has the meaning set out under the heading "Shareholders Agreement".

"**Subject Leases**" means the leases assigned to Target in the Target Agreement.

"**Target Agreement**" is an agreement entered into on January 12, 2011 by the Company and its wholly-owned subsidiary Zellers Inc. with Target Corporation and a newly incorporated Canadian affiliate of Target, as amended and restated on September 12, 2011 and as further amended on January 20, 2012.

"**Target Transaction**" is the transaction completed with Target to assign up to 220 leases of a possible 270 leases of Zellers to Target or its designees, in exchange for aggregate consideration of approximately $1,832.4 million pursuant to the Target Agreement.

"**Tax Act**" means the *Income Tax Act* (Canada).

"**Total Reserve**" means the total number of Common Shares that will be set aside on Closing and reserved for allotment for the purpose of the Option Plan.

"**TSX**" means the Toronto Stock Exchange.

"**U.S.**" means United States of America.

"**U.S. Securities Act**" means the United States Securities Act of 1933, as amended.

"**Underwriting Agreement**" means the underwriting agreement dated ● , 2012 between the Company, the Selling Shareholder and the Underwriters.

"**Vacancy Dates**" means the date a store is to be delivered to Target, or its designee, as set out in a notice which Target, or its designee, may provide to Zellers.

"**Vancouver Olympic Sales**" means sales of Olympic merchandise in the fourth quarter of Fiscal 2009 (approximately $44.4 million) and in the first quarter of Fiscal 2010 (approximately $50.5 million).

"**Zellers**" means Zellers Inc.

APPENDIX A

CHARTER OF THE AUDIT COMMITTEE OF HUDSON'S BAY COMPANY (the "Charter")

This charter (the "Charter") sets forth the purpose, composition, responsibilities and authority of the Audit Committee (the "Committee") of the Board of Directors (the "Board") of Hudson's Bay Company ("Company").

1. Purpose

   The purpose of the Committee is to assist the Board in fulfilling its oversight responsibilities with respect to:

   - Financial reporting and disclosure requirements;
   - An effective risk management and financial control framework has been implemented and tested by management of the Company; and
   - External and internal audit processes.

2. Composition and Membership

   - The Board will appoint the members ("Members") of the Committee. The Members will be appointed to hold office until the next annual general meeting of shareholders of the Company or until their successors are appointed. The Board may remove a Member at any time and may fill any vacancy occurring on the Committee. A Member may resign at any time and a Member will automatically cease to be a Member upon ceasing to be a director.
   - The Committee will consist of at least three directors. Each Member will meet the criteria for independence and financial literacy established by applicable laws and the rules of any stock exchanges upon which the Company's securities are listed, including National Instrument 52-110 — Audit Committees.
   - The Board will appoint one of the Members to act as the chairman of the Committee (the "Chairman"). The secretary of the Company (the "Secretary") will be the secretary of all meetings and will maintain minutes of all meetings and deliberations of the Committee. If the Secretary is not in attendance at any meeting, the Committee will appoint another person who may, but need not, be a Member to act as the secretary of that meeting.

3. Meetings

   - Meetings of the Committee will be held at such times and places as the Chairman may determine, but in any event not less than four (4) times per year. Members may attend all meetings either in person, by videoconference or by telephone.
   - At the request of the external auditors of the Company, the Chief Executive Officer, any person acting in such capacity, Head of Internal Audit or the Senior Vice President and Chief Financial Officer of the Company or any Member, the Chairman will convene a meeting of the Committee. Any such request will set out in reasonable detail the business proposed to be conducted at the meeting so requested.
   - The Chairman, if present, will act as the chairman of meetings of the Committee. If the Chairman is not present at a meeting of the Committee the Members in attendance may select one of their members to act as chairman of the meeting.
   - A majority of Members will constitute a quorum for a meeting of the Committee. Each Member will have one vote and decisions of the Committee will be made by an affirmative vote of the majority. The Chairman will not have a deciding or casting vote in the case of an equality of votes. Powers of the Committee may also be exercised by written resolutions signed by all Members.
   - The Committee may invite from time to time such persons as it sees fit to attend its meetings and to take part in the discussion and consideration of the affairs of the Committee.

- The Committee should meet in camera without members of management in attendance for a portion of each meeting of the Committee.
- In advance of every regular meeting of the Committee, the Chairman, with the assistance of the Secretary, should prepare and distribute to the Members and others as deemed appropriate by the Chairman, an agenda of matters to be addressed at the meeting together with appropriate briefing materials. The Committee may require officers and employees of the Company to produce such information and reports as the Committee may deem appropriate in order for it to fulfill its duties.

4. Duties and Responsibilities

The Committee will carry out, among other things, the following responsibilities:

Financial Statements

- Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Review with management and the external auditors the results of the audit, including any difficulties encountered.
- Review the annual financial statements, and consider whether they are complete, consistent with information known to the Members, and reflect appropriate accounting principles.
- Review the Company's Management's Discussion and Analysis ("MD&A") and other financial information provided by the Company to any governmental body or the public.
- Review other sections of the Company's annual information form and related regulatory filings before release and consider the accuracy and completeness of the financial information contained therein.
- Review with management and the external auditors all matters required to be communicated to the Committee under generally accepted auditing standards.
- Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement.
- Review interim financial reports with management and the external auditors before filing with regulators, and consider whether they are complete and consistent with the information known to the Members.
- Periodically assess the adequacy of the procedures in place for the review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements.

Internal Controls

- Review annual reports from management discussing the principal risks in the business along with management actions regarding the mitigation of such risks.
- Consider the effectiveness of the company's internal control system, including information technology security and control.
- Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.
- Review annually management's processes for CEO/CFO certification of internal controls over financial reporting and disclosure controls and procedures.
- Review annually the Company's business continuity plans and procedures.

Internal Audit

- Oversee the work of the internal audit function.

- Review with management and the Head of Internal Audit the Internal Audit Charter, activities, staffing, and organizational structure of the internal audit function.
- Have final authority to review and approve the Company's annual audit plan and all major changes to such plan, including discussions with the Head of Internal Audit in respect of key enterprise risk.
- Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the Head of Internal Audit.
- At least once per year, review the performance of the Head of Internal Audit and concur with the annual compensation and salary adjustment.
- Review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.
- On a regular basis, meet separately with the Head of Internal Audit to discuss any matters that the Committee or internal audit believes should be discussed privately.

External Audit

- Recommend to the Board the appointment and compensation of the Company's external auditor.
- Oversee the work of the external auditor, including the resolution of disagreements between the external auditor and management.
- Pre-approve all non-audit services (or delegating such pre-approval if and to the extent permitted by law) to be provided to the Company or its subsidiary entities by the Company's external auditor.
- Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
- Review the performance of the external auditors, and exercise final approval on the appointment or discharge of the auditors.
- Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the Company, including non-audit services, and discussing the relationships with the auditors.
- On a regular basis, meet separately with the external auditors to discuss any matters that the Committee or auditors believe should be discussed privately.
- Review and approve the company's hiring policies regarding partners, employees and former employees of the present and former external auditor of the issuer.

Compliance

- Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal controls or auditing matters, and for the confidential, anonymous submission by employees of the Company or its subsidiaries of concerns regarding questionable accounting or auditing matters (the "Whistleblower Policy").
- Review the effectiveness of the Whistleblower Policy and follow-up (including disciplinary action) of any instances of non-compliance.
- Review the findings of any examinations by regulatory agencies, and any auditor observations.
- Other Responsibilities
- Perform other activities related to this Charter as requested by the Board.
- Institute and oversee special investigations as needed.
- Confirm annually that all responsibilities, as applicable, outlined in this Charter have been carried out.
- Evaluate the Committee's and individual members' performance on a regular basis.

5. Oversight Function

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate or comply with applicable accounting standards, as applicable, and other applicable requirements. These are the responsibilities of Management and the external auditors. The Committee, however, will consider whether these annual financial statements are complete, consistent with information known to Committee members, and reflect appropriate accounting principles.

The Committee, the Chairman and any Members identified as having accounting or related financial expertise are members of the Board, appointed to the Committee to provide broad oversight of the financial, risk and control related activities of the Company, and are specifically not accountable or responsible for the day to day operation or performance of such activities. Although the designation of a Member as having accounting or related financial expertise for disclosure purposes is based on that individual's education and experience, which that individual will bring to bear in carrying out his or her duties on the Committee, such designation does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the Committee and Board in the absence of such designation. Rather, the role of a Member who is identified as having accounting or related financial expertise, like the role of all Members, is to oversee the process, not to certify or guarantee the internal or external audit of the Company's financial information or public disclosure.

6. Reporting

The Chairman should report to the Board at each Board meeting on the Committee's activities since the last Board meeting. As required by applicable rules and regulations, the Committee should report annually to shareholders, describing the Committee's composition, responsibilities and how they were discharged, and any other information required by law. The Committee should also review any other report the Company issues that relates to the Committee's responsibilities. The Secretary should circulate the minutes of each meeting of the Committee to the members of the Board.

7. Access to Information and Authority

The Committee will be granted unrestricted access to all information regarding the Company that is necessary or desirable to fulfill its duties and all directors, officers and employees will be directed to cooperate as requested by Members. The Committee has the authority to retain, at the Company's expense, independent legal, financial and other advisors, consultants and experts, to assist the Committee in fulfilling its duties and responsibilities, including sole authority to retain and to approve any such firm's fees and other retention terms without prior approval of the Board. The Committee also has the authority to communicate directly with internal and external auditors.

8. Review of Charter

The Committee will, from time to time, review and assess the adequacy of this Charter and recommend any proposed changes to the Board for consideration. The Board may amend this Charter (as required).

The Board may, from time to time, permit departures from the terms of this Charter, either prospectively or retrospectively. The terms of this Charter are not intended to give rise to civil liability on the part of the Company or its directors or officers to shareholders, security holders, customers, suppliers, competitors, employees or other persons, or to any other liability whatsoever on their part.

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HUDSON'S BAY COMPANY

2011 ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended

January 28, 2012

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors 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 28, 2012 and January 31, 2011, 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 years ended January 28, 2012, January 31, 2011, and January 31, 2010 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 28, 2012 and January 31, 2011 and its financial performance and its cash flows for the years ended January 28, 2012, January 31, 2011 and January 31, 2010 in accordance with International Financial Reporting Standards.

Other Matters

On April 19, 2012, we reported separately to the shareholders of Hudson's Bay Company on consolidated financial statements for the years ended January 28, 2012 and January 31, 2011 prior to the restatement for discontinued operations as explained in Note 4 to the consolidated financial statements.

Chartered Accountants
Licensed Public Accountants

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Toronto, Ontario

HUDSON'S BAY COMPANY

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

For the years ended January 28, 2012, January 31, 2011 and January 31, 2010
(millions of Canadian dollars, except per share amounts)

	Notes	2011	2010	2009
Retail sales		**3,849.6**	3,718.2	3,619.7
Cost of sales	10	**(2,306.0)**	(2,209.1)	(2,178.3)
Selling, general and administrative expenses		**(1,347.2)**	(1,360.8)	(1,430.3)
Operating income		**196.4**	148.3	11.1
Finance costs	6	**(142.9)**	(241.3)	(203.1)
Earnings (loss) before income tax — continuing operations		**53.5**	(93.0)	(192.0)
Income tax benefit	7	**3.8**	181.1	32.3
Net earnings (loss) for the year — continuing operations		**57.3**	88.1	(159.7)
Net earnings (loss) for the year — discontinued operations, net of taxes	4	**1,391.7**	(0.1)	141.7
Net earnings (loss) for the year		**1,449.0**	88.0	(18.0)
Net earnings (loss) per common share — basic and diluted	21			
Continuing operations		**57.30**	86.70	(172.30)
Discontinued operations		**1,391.70**	(0.10)	150.22
		1,449.00	86.60	(22.08)

(See accompanying notes to the Consolidated Financial Statements)

HUDSON'S BAY COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the years ended January 28, 2012, January 31, 2011 and January 31, 2010
(millions of Canadian dollars)

	2011	2010	2009
Net earnings (loss)	**1,449.0**	88.0	(18.0)
Other comprehensive (loss) income, net of tax:			
Currency translation adjustment	**(4.5)**	(3.3)	(17.6)
Net defined benefit plan actuarial (loss) gain, net of taxes of $18.2 (2010: $7.5; 2009: $1.6)	**(53.3)**	22.1	(4.7)
Net loss on derivatives designated as cash flow hedges, net of taxes of $0.2 (2010: $4.8; 2009: $4.8)	**(0.6)**	(14.1)	(14.0)
Reclassification to non-financial assets of net gains on derivatives designated as cash flow hedges, net of taxes of $1.8 (2010: $1.7; 2009: $3.1)	**5.4**	5.2	8.9
Reclassification to earnings of net gains and losses on derivatives designated as cash flow hedges, net of tax of $0.2 (2010: $1.4; 2009: $1.8)	**0.5**	4.1	7.0
Other comprehensive (loss) income	**(52.5)**	14.0	(20.4)
Total comprehensive income (loss)	**1,396.5**	102.0	(38.4)

(See accompanying notes to the Consolidated Financial Statements)

HUDSON'S BAY COMPANY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended January 28, 2012, January 31, 2011 and January 31, 2010
(millions of Canadian dollars)

	Notes	Share Capital	Parent's Interest in L&T	Retained Earnings (Deficit)	Contributed Surplus	Accumulated Other Comprehensive Income (Loss) ("AOCI")				Total Shareholders' Equity
						Currency Translation Adjustment	Employee Future Benefits	Cash Flow Hedges	Total AOCI	
As at February 1, 2009		**136.8**	**151.9**	**(239.5)**	**(1.4)**	15.6	—	(1.7)	**13.9**	**61.7**
Comprehensive loss		—	—	(18.0)	—	(17.6)	(4.7)	1.9	(20.4)	(38.4)
Share based compensation	19	—	—	—	7.3	—	—	—	—	7.3
Return of capital	20	(41.5)	—	—	—	—	—	—	—	(41.5)
Debt/interest conversion	20	197.9	—	—	—	—	—	—	—	197.9
Dividends	20	—	—	(2.5)	—	—	—	—	—	(2.5)
As at January 31, 2010		**293.2**	**151.9**	**(260.0)**	**5.9**	(2.0)	(4.7)	0.2	**(6.5)**	**184.5**
Impact of change in accounting policy	10	—	—	(17.5)	—	—	—	—	—	(17.5)
As at February 1, 2010		**293.2**	**151.9**	**(277.5)**	**5.9**	(2.0)	(4.7)	0.2	**(6.5)**	**167.0**
Comprehensive income		—	—	88.0	—	(3.3)	22.1	(4.8)	14.0	102.0
Share based compensation	19	—	—	—	2.2	—	—	—	—	2.2
Return of capital	20	(44.1)	—	—	—	—	—	—	—	(44.1)
Reduction of stated capital	20	(249.1)	—	—	249.1	—	—	—	—	—
As at January 31, 2011		**—**	**151.9**	**(189.5)**	**257.2**	(5.3)	17.4	(4.6)	**7.5**	**227.1**
Comprehensive income		—	—	1,449.0	—	(4.5)	(53.3)	5.3	(52.5)	1,396.5
Share based compensation	19	—	—	—	0.6	—	—	—	—	0.6
Return of capital	22	—	(101.9)	—	—	—	—	—	—	(101.9)
Reclass of capital on reorganization	22	—	(50.0)	—	50.0	—	—	—	—	—
Reclass of capital on amalgamation	20	247.2	—	—	(247.2)	—	—	—	—	—
Return of capital	20	(245.0)	—	—	—	—	—	—	—	(245.0)
Dividends	20	—	—	(321.4)	—	—	—	—	—	(321.4)
As at January 28, 2012		**2.2**	**—**	**938.1**	**60.6**	(9.8)	(35.9)	0.7	**(45.0)**	**955.9**

(See accompanying notes to the Consolidated Financial Statements)

HUDSON'S BAY COMPANY

CONSOLIDATED BALANCE SHEETS

As at January 28, 2012 and January 31, 2011
(millions of Canadian dollars)

	Notes	2011	2010
ASSETS			
Cash	8	**42.4**	57.2
Trade and other receivables	9	**124.0**	131.9
Inventories	10	**1,814.2**	1,679.8
Financial assets	18	**5.7**	2.8
Other current assets		**20.9**	21.1
Total current assets		**2,007.2**	1,892.8
Property, plant and equipment	11	**1,401.1**	1,353.1
Intangible assets	12	**224.6**	169.2
Pensions and employee benefits	17	**91.0**	178.7
Deferred tax assets	7	**257.5**	274.1
Other assets		**12.1**	13.9
Total assets		**3,993.5**	3,881.8
LIABILITIES			
Loans and borrowings	14	**291.0**	749.1
Trade payables		**613.0**	629.3
Other payables and accrued liabilities		**700.5**	398.9
Deferred revenue		**132.5**	147.2
Provisions	15	**76.1**	56.0
Income taxes payable		**101.8**	8.1
Financial liabilities	18	**1.9**	8.4
Total current liabilities		**1,916.8**	1,997.0
Loans and borrowings	14	**901.7**	1,430.4
Provisions	15	**24.5**	14.1
Pensions and employee benefits	17	**75.4**	74.1
Other liabilities	13	**119.2**	139.1
Total liabilities		**3,037.6**	3,654.7
Shareholders' Equity			
Share capital	20	**2.2**	—
Parent's interest in L&T	22	**—**	151.9
Retained earnings (deficit)		**938.1**	(189.5)
Contributed surplus		**60.6**	257.2
Accumulated other comprehensive (loss) income		**(45.0)**	7.5
Total shareholders' equity		**955.9**	227.1
Total liabilities and shareholders' equity		**3,993.5**	3,881.8

(See accompanying notes to the Consolidated Financial Statements)

HUDSON'S BAY COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended January 28, 2012, January 31, 2011 and January 31, 2010
(millions of Canadian dollars)

	Notes	2011	2010	2009
Operating activities				
Net earnings (loss) for the year		**1,449.0**	88.0	(18.0)
Add: Income tax expense (benefit)		**236.5**	(64.1)	(33.4)
Add: Finance costs		**142.2**	240.9	198.8
Earnings (loss) before income tax and finance costs		**1,827.7**	264.8	147.4
Net cash income taxes paid		**(112.3)**	(0.7)	(1.2)
Interest paid in cash		**(115.6)**	(155.5)	(156.2)
Items not affecting cash flows:				
Recognition of proceeds on sale of leasehold interests	4	**(1,514.2)**	—	—
Depreciation and amortization	5	**105.3**	96.0	99.6
Impairment of property, plant and equipment and intangible assets	11, 12	**21.0**	1.9	5.0
Net defined benefit pension expense		**22.2**	19.1	33.4
Other operating activities		**(16.4)**	(4.9)	(11.6)
Write-off of tenant inducements	4	**(56.2)**	—	—
Gain on sale of property, plant and equipment		**(8.9)**	1.4	0.9
Share based compensation	19	**1.1**	2.3	5.1
Net change in operating working capital	27	**(84.9)**	(50.3)	64.3
Net cash inflow from operating activities		**68.8**	174.1	186.7
Investing activities				
Capital expenditures		**(144.0)**	(110.3)	(96.9)
Software development costs		**(26.2)**	(27.1)	(17.4)
Exercise of options on buildings and ground leases	11	**(65.4)**	—	—
Proceeds from disposition of property, plant and equipment		**10.5**	—	—
Proceeds from sale of leasehold interests	4	**1,832.4**	—	—
Decrease in restricted cash		**—**	20.5	21.7
Other investing activities		**(2.1)**	1.4	—
Net cash inflow from (outflow for) investing activities		**1,605.2**	(115.5)	(92.6)
Financing activities				
Long-term loans and borrowings:	14			
Issuance		**445.8**	531.5	86.0
Repayments		**(919.3)**	(548.0)	(7.1)
Borrowing costs		**(17.9)**	(5.0)	(9.0)
		(491.4)	(21.5)	69.9
Short-term loans and borrowings:	14			
(Repayments of) borrowings from asset-based credit facilities		**(478.4)**	31.3	(108.1)
Net (decrease) increase in other short-term borrowings		**(41.1)**	(1.5)	(0.2)
Borrowing costs		**(0.3)**	(16.3)	(11.6)
		(519.8)	13.5	(119.9)
Common shares return of capital	20	**(245.0)**	(44.1)	—
Return of capital to parent	20, 22	**(101.9)**	—	(41.5)
Dividends paid		**(321.4)**	—	(2.5)
Net cash outflow for financing activities		**(1,679.5)**	(52.1)	(94.0)
Foreign exchange losses on cash		**(9.3)**	(0.3)	(0.9)
(Decrease) increase in cash		**(14.8)**	6.2	(0.8)
Cash at beginning of year		**57.2**	51.0	51.8
Cash at end of year		**42.4**	57.2	51.0

(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 July 16, 2008, HBC was acquired by Hudson's Bay Trading Company, LP ("HBTC"), a limited partnership now domiciled in the Cayman Islands. NRDC L&T B LLC ("L&T B"), a limited liability company established and domiciled in the United States, is the managing partner of HBTC. HBTC had previously acquired Lord & Taylor Holdings LLC ("L&T") on October 2, 2006.

On January 11, 2012 HBTC completed a reorganization to combine its retail operations, HBC and L&T. As part of the reorganization, HBTC's wholly-owned investee, HBC acquired L&T from HBTC for U.S.$100.0 million. Concurrently, wholly-owned subsidiaries of HBC subscribed for U.S.$280.0 million of preferred shares issued by L&T Propco LLC ("L&T Propco"), a subsidiary of L&T, and U.S.$147.3 million of additional equity interests in L&T. The acquisition of L&T by HBC is a merger of entities under common control and as such the two entities are presented for financial reporting purposes as if the two entities have been consolidated since HBC's acquisition by HBTC. Accordingly, HBC's financial information has been retroactively restated to present L&T as a wholly-owned subsidiary since July 16, 2008, the date the entities came under common ownership (see note 22).

The Company owns and operates department stores across Canada and regionally within the United States under Hudson's Bay, Home Outfitters and Lord & Taylor banners and operates discount stores under the Zellers and Fields banners. On April 19, 2012, the Company's Board of Directors approved a plan to discontinue the Company's discount store operations. Accordingly, HBC's financial information has been retroactively restated to present Zellers and Fields as discontinued operations (see note 4). The address of the registered office of HBC is 401 Bay Street, 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 28, 2012 were authorized for issuance by the Board of Directors of HBC on October 16, 2012.

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 statement 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. Significant inter-company transactions, balances, revenues and expenses have been eliminated.

d) Fiscal year

During fiscal 2011, the Company changed its convention and began reporting its year end on the Saturday nearest to January 31. The fiscal year of the Company consists of a 52 or 53-week period. Fiscal year 2011, 2010, and 2009 represent 52 weeks and ended on January 28, 2012, January 31, 2011 and January 31, 2010, 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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

ii) Transactions and balances

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

iii) Foreign operations

The results and financial position of L&T and its subsidiaries, which have a functional currency different from the presentation currency, are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the date of each balance sheet;
- revenues and expenses are translated at average exchange rates; and
- all resulting foreign exchange translation differences are recognized in the consolidated statement of comprehensive income (loss).

f) Cash

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

g) Trade and other receivables

Trade and other receivables consisting of credit card, pharmacy, 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.

h) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined, for the majority of inventory, using the weighted average cost method, based on individual items. In fiscal 2009, cost was determined for the majority of inventory, using the retail inventory method which reduces the current selling prices of inventories to cost by the application of average department or category mark-up. 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.

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

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

i) 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 8 years

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

j) Intangible assets

Tradenames with indefinite lives are measured at cost less any accumulated impairment losses and are not amortized.

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

Asset	Amortization Periods
Software including internally developed costs	up to 7 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.

k) 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 are tested for impairment annually. 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 (cash-generating units). With the exception of certain Corporate assets, which are tested at the entity level, all assets are tested for impairment at the store level asset grouping.

Any impairment loss identified for a particular cash-generating unit is allocated to the assets within that unit on a pro rata basis, except where the recoverable amount of an asset is based on FVLCTS, in which case no portion of the impairment loss is allocated to that asset. Any impairment charge is recognized in net earnings 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.

l) Provisions

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

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

i) Self-insurance

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

ii) Severance and 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. Provisions for terminations are recognized when the Company is demonstratively committed to the termination and has a detailed plan in place.

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

m) Leases

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

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

Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of earnings (loss) on a straight-line basis over the period of the lease. Income from operating leases is recognized on a straight-line basis over the period of the lease. The lease term includes renewals where management's assessment is that there is a reasonable probability that the renewal option will be exercised.

n) Income taxes

In connection with HBTC's reorganization on January 11, 2012 which resulted in the Company acquiring L&T, L&T became a taxable entity. Prior to January 11, 2012, L&T 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:

Taxable entities

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

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

Income tax expense or benefit comprises current and deferred income taxes. Tax is recognized in the consolidated statements of 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.

Deferred tax assets and liabilities are only offset when the Company has a legally enforceable right to set off 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.

Flow-through entities

L&T, as a limited liability company from the date of its acquisition by HBTC through January 10, 2012, was treated as a partnership for US federal income tax purposes and in most states in which it operates. L&T's taxable income or loss was included in HBTC's income tax filings and is allocated to its members. The members generally were responsible for any related federal, state, and local tax obligations, and L&T

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

was responsible to distribute cash adequate to cover any tax obligations of the L&T members. As a result, L&T did not record a federal tax provision nor deferred tax assets or liabilities related to federal tax prior to its acquisition.

L&T operates stores in ten 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.

o) 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 operating income 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 dental benefits and life insurance commitments to retirees). The Company reports its obligations under these plans net of any plan assets.

The asset or liability recognized in the consolidated balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past-service costs. 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 operating income in the year in which they arise to the extent that the associated benefits are fully vested. For funded plans, surpluses are recognized only to the extent that the surplus is considered recoverable. Recoverability is primarily based on the extent to which the Company can unilaterally reduce future contributions to the plan.

For defined contribution plans, the Company pays contributions to pension plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. Contributions are recognized as employee benefit expense as incurred, which is as the related employee service is 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 charged or credited to income in the period in which they arise. These obligations are calculated annually.

iv) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date. The Company recognizes termination benefits when it is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal.

v) Share-based payments

The Company operates equity-settled incentive plans under which it receives services from certain employees as consideration for equity interests of L&T B or HBTC. The fair value of the grant of equity interests is recognized as an expense over the period that the related service is rendered.

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 operating income.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) Financial assets

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

i) Financial assets at fair value through profit or loss

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

Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed immediately to the consolidated statement of earnings (loss). Subsequent changes in the fair value of financial assets at fair value through profit or loss are recorded in the consolidated statement of 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 12 months after the balance sheet date. These 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 maturity that the Company has the intention and ability to hold to maturity. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Held-to-maturity investments are measured at amortized cost using the effective interest rate method.

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

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

v) Financial assets carried at amortized cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the 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.

q) 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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

r) 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 either:

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

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

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

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

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

The Company does not use derivatives for trading or speculative purposes. The Company had cash-flow hedges outstanding for the years ended January 28, 2012, January 31, 2011 and January 31, 2010.

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 the consolidated statement of earnings (loss) within 'Selling, general and administrative expenses'. Amounts accumulated in other comprehensive income are recycled in the consolidated statement of earnings (loss) in the periods when the hedged item affects profit or 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 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 and is recognized when the forecast transaction is ultimately recognized in the consolidated statement of earnings (loss). When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the consolidated statement of earnings (loss) within 'Selling, general and administrative expenses'.

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 the consolidated statement of earnings (loss) within 'Selling, general and administrative expenses'. 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 US dollar denominated purchase orders with certain non-US 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. The Company has recorded in financial assets the fair value of an embedded derivative related to the CMBS Loan (note 14) which has an option to renew at a fixed rate. The Company has recorded in other liabilities the fair value of an embedded derivative related to the GE Capital Canada term loan agreement (note 14), which contains an interest rate floor.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Offsetting of financial instruments

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

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

s) Borrowing costs

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

t) 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, estimated returns and rebates.

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

i) Retail merchandise sales

Revenue consists of sales through retail stores of the banners operated by the Company. Merchandise sales are recognized at the time of delivery to the customer which is generally at point of sale.

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

ii) Gift cards

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

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

u) Credit operations

The Company earns royalty payments from credit card issuers based on the total of Company and other sales charged to either Private Label Credit Cards ("PLCC") or MasterCards. Royalty rates change based on the year-to-date credit volume of out-of-store credit card sales. The Company also receives bounty payments from a credit card issuer for each approved PLCC or MasterCard account at HBC. Bounty and royalty payments are recognized based on expected performance over the expected life of the credit card agreement and are included as a reduction of selling, general and administrative expenses.

v) 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.

w) Loyalty program

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 upon points outstanding that the Company estimates will be redeemed by members and the estimated fair value of those points. The estimated points expected to be redeemed are based on many factors, including an actuarial review of members' past experience and trends.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

y) Future accounting standards

Financial Instruments — Disclosures

In October 2010, the IASB amended IFRS 7, "Financial Instruments: Disclosures" ("IFRS 7"), which increased the disclosure requirements for transactions involving transfers of financial assets. This amendment is effective for annual periods beginning on or after July 1, 2011. The Company is currently assessing the impact of the amendment on its financial statement disclosures.

Financial Instruments

The IASB has issued a new standard, IFRS 9, "Financial Instruments" ("IFRS 9"), which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 in November 2009 and October 2010 is the first phase of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities. This standard is effective for annual periods beginning on or after January 1, 2015. The Company is currently assessing the impact of the new standard on its financial statements.

Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10 — Consolidated Financial Statements ("IFRS 10") which replaces portions of IAS 27 — Consolidated and Separate Financial Statements ("IAS 27") and all of SIC-12 — Consolidation — Special Purpose Entities. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities. The standard requires an entity to consolidate an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. As a consequence, IAS 27 has been amended but retains the existing guidance for separate financial statements. IFRS 10 was issued as part of the IASB's broader project on interests in all types of entities. On June 28, 2012, the IASB issued amendments to IFRS 10 which provides transition relief, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The Company is assessing the impact of IFRS 10 on its results of operations, financial position and disclosures.

Disclosure of Involvement with Other Entities

In May 2011, the IASB issued IFRS 12 — Disclosure of Interests in Other Entities ("IFRS 12") which establishes disclosure requirements for an entity's interests in other entities, such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosure requirements and introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. On June 28, 2012, the IASB issued amendments to IFRS 12 which provides transition relief, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. IFRS 12 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The Company is assessing the impact of IFRS 12 on its disclosures.

Fair Value Measurement

In May 2011, the IASB issued IFRS 13 — Fair Value Measurement ("IFRS 13"), which is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosure about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. Early adoption is permitted. The Company is assessing the potential impact of the new standard.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Comprehensive Income Presentation

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

Employee Benefits

In June 2011, the IASB amended IAS 19 — Employee Benefits, related to Defined Benefit Plans. The amendments eliminate the existing option to defer actuarial gains and losses (known as the corridor approach); require changes from remeasurement of defined benefit plan assets and liabilities to be presented in the statement of other comprehensive income; and require additional disclosures. The amendments are effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted. The Company is assessing the potential impact of these amendments.

Financial Instruments — Asset and Liability Offsetting

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

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:

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 program

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 upon expected redemptions of points outstanding (note 2(w)). The amount of revenue deferred relating to the loyalty program is sensitive to changes in customer behaviour and the impact of changes in the loyalty program. Deferred revenue reported in the consolidated balance sheet relates entirely to the loyalty program.

Impairment and reversal of impairment of long-lived assets

Financial and non-financial 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 notes 11 and 12.

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

Provisions

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

Sales returns

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

Share based compensation

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

Income taxes

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

Pensions and employee benefits

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

Lease accounting

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

Embedded derivatives

The Commercial Mortgage Backed Loan (the "CMBS Loan") included three one-year renewal options which enabled L&T to extend the maturity of the loan under substantially the same terms as described in note 14(b). The renewal options are embedded derivatives which are fair valued at each reporting date. The determination of fair value includes estimates of L&T's credit risk.

The HBC Term Loan (as defined below) contains an interest rate floor, by which interest charged will be no less than 1.5% plus an interest rate spread. The interest rate floor is an embedded derivative which is fair valued at each reporting date. The determination of fair value includes estimates of HBC's credit risk.

NOTE 4. DISCONTINUED OPERATIONS

On April 19, 2012, the Company's Board of Directors approved a plan to discontinue the Company's discount store operations which consists of the Zellers and Fields banners. The decision followed the sale of certain Zellers leasehold interests to Target Corporation ("Target") which was announced on January 13, 2011 (see below). As a requirement of the Target agreement, the Company is obligated to operate the Zellers banner until March 2013. The Company ceased operating the Fields banner effective July 28, 2012 when the remaining stores not sold (note 29) were closed. As a result of these changes, the Company has retrospectively restated the consolidated statements of earnings (loss) for all periods presented to reflect the discount store operations as discontinued operations.

NOTE 4. DISCONTINUED OPERATIONS (Continued)

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

(millions of Canadian dollars)	2011	2010	2009
Net earnings (loss) from discontinued operations, net of taxes	**74.1**	(0.1)	141.7
Sale of leasehold interests, net of taxes	**1,317.6**	—	—
Net earnings (loss) for the year — discontinued operations, net of taxes	**1,391.7**	(0.1)	141.7

Net earnings from the sale of leasehold interests in fiscal 2011 were $1,317.6 million, net of income taxes of $210.9 million. Net earnings (loss) from discontinued operations are as follows:

(millions of Canadian dollars)	2011	2010	2009
Retail sales	**3,288.6**	3,623.8	3,722.1
Cost of sales	**(2,159.7)**	(2,472.7)	(2,561.7)
Selling, general and administrative expenses	**(1,026.2)**	(1,034.6)	(1,024.1)
Operating income	**102.7**	116.5	136.3
Finance income	**0.7**	0.4	4.3
Earnings before income tax	**103.4**	116.9	140.6
Income tax (expense) benefit	**(29.3)**	(117.0)	1.1
Net earnings (loss) for the year	**74.1**	(0.1)	141.7

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

Cash flows from discontinued operations are as follows:

(millions of Canadian dollars)	2011	2010	2009
Operating activities	**39.5**	**118.7**	**161.8**
Investing activities	**1,827.8**	**(25.8)**	**(21.2)**
Financing activities	**—**	**—**	**(0.6)**
Increase in cash — discontinued operations	**1,867.3**	**92.9**	**140.0**

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. During fiscal 2011, the Company received $1,832.4 million for the assignment of 189 leasehold interests that were selected by Target under the agreement. The proceeds of sale were received in two installments of $907.4 million and $925.0 million on May 26, 2011 and October 3, 2011, respectively. HBC currently subleases the properties from Target and continues to operate them as Zellers stores as a requirement of the transaction. The selected stores will be vacated and the subleases terminated over the period to March 2013.

The proceeds of the transaction will be recognized in accordance with the guidance related to transactions with multiple components. Under the terms of the sales agreement the Company is required to transfer the leases and perform certain services. Each of the components was identified and a fair value estimated with the exception of the proceeds related to the assignment of the leases. The proceeds of the transaction are allocated based on the fair value of each component and the residual amount has been allocated to the assignment of leases. Inherent in the determination of fair value are estimates and assumptions (Note 3). Significant estimates and assumptions associated with this transaction include the expected salvage value of store assets, the period of time until closure of the selected stores, the costs to be incurred including severance and the operating income which will be earned during the liquidation period.

Accordingly the Company will recognize 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 pharmacy records. On October 3, 2011, the Company allocated $54.0 million of the proceeds for the transfer of pharmacy records which was to be recognized upon the closing of the related stores. However, on January 20, 2012, the Company and Target amended the sales agreement and the requirement to transfer the pharmacy records was eliminated for consideration of $10.0 million payable to Target in September 2012.

NOTE 4. DISCONTINUED OPERATIONS (Continued)

During fiscal 2011, the Company recognized $1,514.2 million of proceeds. As of January 28, 2012, $308.2 million of proceeds remains deferred of which $266.1 million is included in other payables and accrued liabilities to be recognized in fiscal 2012 and $42.1 million is included in other long-term liabilities.

In connection with the transaction the Company recognized a gain of $56.2 million related to the accelerated amortization of rent related liabilities associated with the selected stores, $35.8 million related to employee severance costs (see note 15) and $6.1 million (note 11) related to the impairment of the property plant & equipment associated with the selected stores.

NOTE 5. DEPRECIATION AND AMORTIZATION

(millions of Canadian dollars)	2011	2010	2009
Included in selling, general and administrative expenses:			
Property, plant and equipment	**87.6**	83.5	86.6
Intangible assets	**26.2**	18.7	18.1
Deferred credits	**(8.4)**	(8.4)	(7.7)
Other	**(0.1)**	2.2	2.6
	105.3	96.0	99.6

NOTE 6. FINANCE COSTS

(millions of Canadian dollars)	2011	2010	2009
Interest expense on long term borrowings	**89.3**	107.4	83.7
Interest expense on short term borrowings	**36.0**	53.4	53.6
Interest income	**(1.3)**	(1.4)	(2.0)
Gain on early extinguishment of debt	**(7.1)**	—	—
Fair value movement of HBC Term Loan embedded derivative (note 18)	**3.5**	—	
Fair value movement of CMBS Loan embedded derivative (note 18)	**—**	22.7	(8.7)
Amortization of CMBS loan renewal option (note 18)	**22.5**	59.2	76.5
	142.9	241.3	203.1

On February 26, 2009 in connection with the amendment of the $164.3 million subordinated note payable owed to Maple Leaf Heritage Investments ULC ("MLHI ULC"), a Nova Scotia unlimited liability corporation under common control, $17.7 million of interest expense was forgiven (note 23). Effective April 14, 2009, the subordinated notes payable, together with accrued interest, were converted into common shares of HBC with a value of $197.9 million (note 20).

NOTE 7. INCOME TAXES

In connection with HBTC's reorganization on January 11, 2012, L&T became a taxable entity. As a result, L&T completed a valuation of its assets and liabilities for income tax purposes and recognized income tax benefit and a corresponding deferred income tax asset of $8.4 million.

The major components of the income tax benefit and the statutory income tax rate for fiscal 2011, 2010 and 2009 are as follows:

(millions of Canadian dollars)	2011	2010	2009
Current tax (benefit) expense	**(3.1)**	4.8	(0.6)
Deferred tax benefit	**(0.7)**	(185.9)	(31.7)
Income tax benefit	**(3.8)**	(181.1)	(32.3)
Statutory income tax rate	**27.6%**	29.8%	31.4%

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

(millions of Canadian dollars)	2011	2010	2009
Earnings (loss) before income tax — continuing operations	**53.5**	(93.0)	(192.0)
Less: Earnings (loss) of flow-through entities	**71.1**	(30.6)	(82.3)
Loss before income tax of taxable entities	**(17.6)**	(62.4)	(109.7)
Income tax benefit calculated at statutory income tax rate	**(4.9)**	(18.6)	(34.4)
Change in income taxes resulting from:			
L&T deferred tax assets on change in tax status	**(8.4)**	—	—
Reversal of valuation allowance	**—**	(163.6)	—
Permanent differences	**—**	0.4	1.5
Effect of international tax rate differentials	**(1.5)**	—	—
Other	**11.0**	0.7	(4.8)
	(3.8)	(181.1)	(37.7)
Effect of tax rate changes on deferred tax balances	**—**	—	5.4
Income tax benefit	**(3.8)**	(181.1)	(32.3)

The changes in the components of deferred income tax assets and liabilities for fiscal 2011 and 2010 are as follows:

	Year Ended January 28, 2012			
(millions of Canadian dollars)	Jan. 31, 2011	Recognized in net earnings	Recognized in other comprehensive income	Jan. 28, 2012
Property, plant and equipment	**99.3**	**7.7**	**—**	**107.0**
Employee benefits	**18.9**	**0.5**	**(0.1)**	**19.3**
Pensions	**(45.4)**	**4.0**	**18.3**	**(23.1)**
Financial instruments	**(0.1)**	**1.8**	**(1.8)**	**(0.1)**
Other assets	**59.5**	**25.4**	**—**	**84.9**
Long-term liabilities and other	**3.6**	**(12.6)**	**—**	**(9.0)**
Tax losses carried forward	**222.0**	**(99.0)**	**—**	**123.0**
	357.8	**(72.2)**	**16.4**	**302.0**
Valuation allowance	**(83.7)**	**39.2**	**—**	**(44.5)**
Net deferred tax assets	**274.1**	**(33.0)**	**16.4**	**257.5**
Less: Recognized in discontinued operations		**(33.7)**		
Recognized in continuing operations		**0.7**		

	Year ended January 31, 2011						
(millions of Canadian dollars)	**Jan. 31, 2010**	**Impact of change in accounting policy (Note 10)**	**Feb. 1, 2010**	**Recognized in net earnings**	**Amount capitalized**	**Recognized in other comprehensive income**	**Jan. 31, 2011**
Property, plant and equipment	118.4	—	118.4	(19.1)	—	—	99.3
Employee benefits	19.7	—	19.7	(0.9)	—	0.1	18.9
Pensions	(42.6)	—	(42.6)	4.9	—	(7.7)	(45.4)
Financial instruments	(0.1)	—	(0.1)	(1.8)	—	1.8	(0.1)
Other assets	62.6	3.6	66.2	(7.3)	0.6	—	59.5
Long-term liabilities and other	4.9	—	4.9	(1.3)	—	—	3.6
Tax losses carried forward	210.2	—	210.2	11.8	—	—	222.0
	373.1	3.6	376.7	(13.7)	0.6	(5.8)	357.8
Valuation allowance	(163.2)	—	(163.2)	79.5	—	—	(83.7)
Net deferred tax assets	209.9	3.6	213.5	65.8	0.6	(5.8)	274.1
Less: Recognized in discontinued operations				(120.1)			
Recognized in continuing operations				185.9			

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 deferred income tax assets in advance of expiry.

As at January 28, 2012, the Company's taxable entities have non-capital tax losses carried forward in Canada of $495.6 million (January 31, 2011: $880.3 million) available as follows (millions of Canadian dollars):

Available until year ending	**2011**
January 2023	**35.3**
January 2024	**0.2**
January 2025	**37.1**
January 2026	**63.6**
January 2027	**114.6**
January 2028	**149.4**
January 2029	**7.7**
January 2030	**79.7**
January 2031	**—**
January 2032	**8.0**
	495.6

NOTE 8. CASH

For the purpose of the consolidated statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments. Cash as at January 28, 2012 and January 31, 2011 as shown in the consolidated balance sheets is comprised of the following:

(millions of Canadian dollars)	**2011**	**2010**
Cash	**42.4**	49.0
Restricted cash	**—**	8.2
	42.4	57.2

NOTE 8. CASH (Continued)

Restricted cash was funded from proceeds of the CMBS Loan (note 14(b)) and cash deposits from L&T. Restricted cash (all of which is invested in US dollars) as at January 28, 2012 and January 31, 2011 is as follows:

(millions of Canadian dollars)	2011	2010
Account Purpose:		
Escrow related	—	8.2

Escrow-related reserves were held to provide adequate funds to cover property taxes, insurance, ground lease rents, certain capital expenditures, and known repairs related to L&T properties. The CMBS Agent was responsible for paying all amounts related to these escrows. If L&T paid an amount held in escrow, L&T would have requested reimbursement from the CMBS Agent.

NOTE 9. TRADE AND OTHER RECEIVABLES

As at January 28, 2012 and January 31, 2011, trade and other receivables are comprised of:

(millions of Canadian dollars)	2011	2010
Trade receivables	**14.4**	14.7
Other receivables	**109.6**	117.2
	124.0	131.9

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 28, 2012 and January 31, 2011 were available for sale. The cost of merchandise inventories related to continuing operations recognized as expense for fiscal 2011 was $2,306.0 million (2010: $2,209.1 million; 2009: $2,178.3 million). The write-down of merchandise inventories below cost to net realizable value relating to continuing operations for fiscal 2011 was $31.5 million (2010: $28.9 million; 2009: $17.9 million). There was no reversal of write-downs previously taken on merchandise inventories that are no longer estimated to sell below cost. Inventory has been pledged as security for certain borrowing agreements as described in note 14.

Change in accounting policy

Effective February 1, 2010, the Company changed its policy with respect to the valuation of inventory from the retail method to cost and its method of calculating the adjustment required to value inventory at its net realizable value. Cost is determined using the weighted average cost method on an individual item basis. Prior to February 1, 2010, cost was determined using the retail inventory method which reduces the selling price of inventories to cost by the application of average department or category mark-up. The adjustment to net realizable value is now performed on an item by item basis, whereas historically the analysis was calculated by segregating inventory into departments of merchandise having similar characteristics. Prior to the implementation of a new accounting system, the Company was unable to determine the impact of the accounting change as the financial data was not historically maintained. As a result, the Company is not able to quantify the impact of the change for periods prior to February 1, 2010. As of January 31, 2011, February 1, 2010 and for fiscal 2010 the impact of this change in policy is as follows:

Consolidated Balance Sheets:

(millions of Canadian dollars)	2010	Feb. 1, 2010
Decrease in inventory	(17.3)	(21.3)
Increase in deferred tax assets	3.4	3.8
Decrease in equity	(13.9)	(17.5)

NOTE 10. INVENTORIES (Continued)

Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss):

(millions of Canadian dollars)	2010
Increase in cost of sales	(29.4)
Decrease in selling, general and administrative expenses	32.7
Decrease in income tax benefit	(0.4)
Increase in net earnings for the year	2.9
Increase in currency translation adjustment	0.7
Increase in total comprehensive income	3.6

NOTE 11. PROPERTY, PLANT AND EQUIPMENT

	Year ended January 28, 2012					
(millions of Canadian dollars)	Freehold Land	Buildings	Leasehold Improvements	Fixtures & Fittings	Assets held under Finance Leases	Total
Cost						
Balance at beginning of year	484.9	427.3	310.4	348.6	90.5	1,661.7
Additions	—	70.3	45.5	60.7	2.2	178.7
Disposals	—	(0.8)	(1.0)	(1.8)	(0.4)	(4.0)
Transfers	—	21.0	(0.3)	—	(41.0)	(20.3)
Net foreign currency exchange	(0.3)	0.5	0.1	0.2	(0.5)	—
Balance at end of year	**484.6**	**518.3**	**354.7**	**407.7**	**50.8**	**1,816.1**
Accumulated depreciation and impairment						
Balance at beginning of year	—	79.3	65.1	143.5	20.7	308.6
Depreciation expense	—	21.1	20.7	37.4	8.4	87.6
Impairment losses	—	—	9.5	11.5	—	21.0
Eliminated on disposal	—	(0.2)	(0.6)	(1.3)	(0.3)	(2.4)
Transfers	—	5.2	—	0.1	(5.3)	—
Net foreign currency exchange	—	0.1	—	0.1	—	0.2
Balance at end of year	**—**	**105.5**	**94.7**	**191.3**	**23.5**	**415.0**
Net book value at end of year	**484.6**	**412.8**	**260.0**	**216.4**	**27.3**	**1,401.1**

NOTE 11. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Year ended January 31, 2011					
(millions of Canadian dollars)	**Freehold Land**	**Buildings**	**Leasehold Improvements**	**Fixtures & Fittings**	**Assets held under Finance Leases**	**Total**
Cost						
Balance at beginning of year	502.1	427.7	285.0	307.8	91.5	1,614.1
Additions	—	22.4	34.1	50.9	1.9	109.3
Disposals	—	—	(0.1)	(1.6)	—	(1.7)
Net foreign currency exchange	(17.2)	(22.8)	(8.6)	(8.5)	(2.9)	(60.0)
Balance at end of year	484.9	427.3	310.4	348.6	90.5	1,661.7
Accumulated depreciation and impairment						
Balance at beginning of year	—	63.3	47.5	109.1	13.7	233.6
Depreciation expense	—	19.8	17.9	38.5	7.3	83.5
Impairment losses	—	—	1.2	0.3	—	1.5
Eliminated on disposal	—	—	—	(0.3)	—	(0.3)
Net foreign currency exchange	—	(3.8)	(1.5)	(4.1)	(0.3)	(9.7)
Balance at end of year	—	79.3	65.1	143.5	20.7	308.6
Net book value at end of year	484.9	348.0	245.3	205.1	69.8	1,353.1

The depreciation expense has been included in the line item 'Selling, general and administrative expenses' in the consolidated statement of earnings (loss). Certain fixed assets have been pledged as security for borrowings, as further described in note 14. There were no material capital commitments, net of leasehold improvement allowances, at January 28, 2012 and January 31, 2011.

Impairment of Property, Plant & Equipment

During fiscal 2011, 2010 and 2009, the Company carried out a review of its cash generating units ("CGU's") to determine if there was any indication that impairment had occurred, or that a previously recorded impairment had reversed. The review led to the recognition of an impairment loss of $21.0 million (2010: $1.5 million; 2009: $4.8 million) in fiscal 2011 relating to various store based CGU's, on a value in use basis, which has been recognized in operating income, of which $13.1 million (2010: $0.3 million; 2009: $4.8 million) relates to discontinued operations. The impairment loss in fiscal 2011 arose as a result of the decision to wind down the Fields banner and the decline in operating results of certain stores (note 29), for which a loss of $4.9 million was recorded (2010: $1.5 million; 2009: $4.8 million). In addition, $8.0 million relates to the Zellers banner. Impairment losses of $6.7 million and $1.2 million were incurred related to logistic centre assets and for a decline in operating performance of certain Home Outfitters stores. In fiscal 2011, 2010 and 2009, the main classes of assets affected by the impairment were fixtures and fittings and leasehold improvements.

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. The value in use calculations rely on cash flow projections consistent with financial budgets approved by management for the following fiscal year. The key assumptions used in the value in use calculations for each store cash-generating unit are as follows:

- Cash flow projections over a period of 5 years or a shorter term consistent with financial budgets/forecasts approved by management;
- A growth rate of zero to extrapolate cash flow projections after 5 years; and
- A discount rate of 9% applied to cash flow projections.

Assets Held under Finance Lease

L&T subleased five store locations from Macy's with options to purchase the building and assignment of the underlying ground leases. Two of the subleases were previously classified as finance leases and the other three as operating leases. On January 11, 2012 and August 2, 2011, L&T exercised the five options and paid Macy's $24.8 million and $81.6 million, respectively. $41.0 million is a repayment of the sublease finance lease obligation. Of the total payment of $106.4 million, $49.6 million represents the land lease rights relating to the ground leases, and the balance of $56.8 million has been allocated to the cost of the buildings. The Company continues to lease the properties under ground leases which are classified as operating leases.

NOTE 12. INTANGIBLE ASSETS

(millions of Canadian dollars)	Year ended January 28, 2012			
	Software	Favourable lease rights	Trade names	Total
Cost				
Balance at beginning of year	128.7	80.9	27.5	237.1
Additions	31.6	29.3	—	60.9
Transfers	—	20.3	—	20.3
Net foreign currency exchange	—	0.4	—	0.4
Balance at end of year	**160.3**	**130.9**	**27.5**	**318.7**
Accumulated amortization and impairment				
Balance at beginning of the year	55.3	12.6	—	67.9
Amortization expense	24.1	2.1	—	26.2
Net foreign currency exchange	—	—	—	—
Balance at end of year	**79.4**	**14.7**	**—**	**94.1**
Net book value at end of year	**80.9**	**116.2**	**27.5**	**224.6**

(millions of Canadian dollars)	Year ended January 31, 2011			
	Software	Favourable lease rights	Trade names	Total
Cost				
Balance at beginning of year	97.3	86.4	29.4	213.1
Additions	32.3	—	—	32.3
Disposals	0.2	—	—	0.2
Net foreign currency exchange	(1.1)	(5.5)	(1.9)	(8.5)
Balance at end of year	128.7	80.9	27.5	237.1
Accumulated amortization and impairment				
Balance at beginning of the year	39.4	10.9	—	50.3
Impairment losses	—	0.4	—	0.4
Amortization expense	16.6	2.1	—	18.7
Net foreign currency exchange	(0.7)	(0.8)	—	(1.5)
Balance at end of year	55.3	12.6	—	67.9
Net book value at end of year	73.4	68.3	27.5	169.2

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

The amortization expense has been included in the line item 'Selling, general and administrative expenses' in the consolidated statement of earnings (loss).

NOTE 13. OTHER LIABILITIES

As at January 28, 2012 and January 31, 2011 other liabilities are comprised of:

(millions of Canadian dollars)	2011	2010
Deferred proceeds from sale of leasehold interests (Note 4)	**42.0**	—
Deferred rent inducements	**33.6**	95.7
Other deferred revenue	**16.5**	40.9
Fair value of HBC Term Loan embedded derivative	**3.5**	—
Other liabilities	**23.6**	2.5
	119.2	139.1

NOTE 14. LOANS AND BORROWINGS

a) Current loans and borrowings

As at January 28, 2012 and January 31, 2011 current loans and borrowings are comprised of:

(millions of Canadian dollars)	2011	2010
HBC Revolving Credit Facility	**155.0**	690.0
Lord & Taylor Revolving Credit Facility	**125.2**	68.1
Current portion of long-term loans and borrowings	**27.6**	11.5
	307.8	769.6
Less: unamortized costs	**(16.8)**	(20.5)
	291.0	749.1

HBC Revolving Credit Facility

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

On September 22, 2010, the HBC Revolving Credit Facility was renegotiated prior to its scheduled maturity of April 12, 2011. The HBC Revolving Credit Facility matures on September 22, 2014. On October 15, 2010, the Credit Agreement was further amended to add another bank to the syndicate of lenders and to increase the HBC Revolving Credit Facility by $50.0 million, for a total of $1,350.0 million.

The HBC Revolving Credit Facility is subject to a borrowing base, based predominantly on eligible inventory and certain eligible equipment and eligible credit card receivables of HBC and certain of its subsidiaries. The HBC Revolving Credit Facility is available for general corporate purposes. The HBC Revolving Credit Facility has multiple availment options and therefore can bear interest based on various rates, including the Canadian prime rate, CDOR rate, US index rate and LIBOR.

The HBC Revolving Credit Facility is secured by a first priority security interest against all of the property and assets of HBC and its subsidiaries, excluding L&T except for real estate over which it has a second priority security interest. 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 limits on making dividend payments. The Credit Agreement also contains extensive reporting requirements and a number of events of default.

The HBC Revolving Credit Facility also provided for Supplemental Term Loans, which are reported in long-term debt in the consolidated financial statements. The Supplemental Term Loans were repaid in full on September 23, 2011 and further described in note 14(b).

Effective January 12, 2011, in connection with the Zellers Transaction (note 4), HBC obtained a waiver from the covenant in the Credit Agreement restricting its ability to provide certain guarantees. On obtaining such waiver, HBC is in compliance with all covenants contained in the Credit Agreement as at January 28, 2012 and January 31, 2011.

Subsequent to the fiscal 2011 year-end, on March 13, 2012, the Company repaid and retired a tranche of the HBC Revolving Credit Facility in the amount of $98.2 million. The HBC Revolving Credit Facility, subject to the borrowing base, has been reduced to $1,250.0 million.

The effective interest rate based on the average balance drawn of the HBC Revolving Credit Facility for fiscal 2011, 2010 and 2009 was as follows:

(millions of Canadian dollars)	2011	2010	2009
Average balance drawn, calculated on a daily basis	**477.3**	818.7	841.4
Finance cost	**31.5**	48.4	46.3
Effective interest rate	**6.6%**	5.9%	5.5%

NOTE 14. LOANS AND BORROWINGS (Continued)

As at January 28, 2012 and January 31, 2011 details of the borrowing base availability on the HBC Revolving Credit Facility were as follows:

(millions of Canadian dollars)	2011	2010
Gross borrowing base availability	**1,063.1**	1,149.3
Drawings	**155.0**	690.0
Outstanding letters of credit	**29.0**	51.5
Borrowing base availability net of drawings and letters of credit	**879.1**	407.8

Lord & Taylor Revolving Credit Facility

On September 30, 2011, L&T entered into a third amendment with General Electric Capital Corporation and General Electric Capital Markets, Inc. ("GE Capital") that provides for a U.S.$300.0 million revolving line of credit (the "Lord & Taylor Revolving Credit Facility") through September 30, 2016. The Lord & Taylor Revolving Credit Facility allows borrowings based on an advance rate of (i) up to 100% of eligible third-party credit card receivables; (ii) 95% of the net orderly liquidation value of eligible inventory; and (iii) 95% of the appraised net orderly liquidation value of the eligible furniture and fixtures. The eligibility criteria to adjust the borrowing base established in the original agreement were retained in the amended agreement. Interest is charged on the Lord & Taylor Revolving Credit Facility at LIBOR, plus 2.0% to 2.5% based upon the availability schedule. Prior to September 30, 2011, the facility bore interest at LIBOR, plus 1.75% to 2.25%. The Lord & Taylor Revolving Credit Facility is utilized to finance working capital needs, capital expenditures, operating activities and to support the issuance of standby letters of credit. Eligible L&T inventory and furniture and fixtures are pledged as security for the Lord & Taylor Revolving Credit Facility.

The effective interest rate based on the average balance drawn of the Lord & Taylor Revolving Credit Facility for fiscal 2011, 2010 and 2009 was as follows:

(millions of Canadian dollars)	2011	2010	2009
Average balance drawn, calculated on a daily basis	**116.3**	129.5	149.2
Finance cost	**2.5**	3.0	3.6
Effective interest rate	**2.2%**	2.3%	2.4%

As at January 28, 2012 and January 31, 2011 details of the borrowing base availability on the Lord & Taylor Revolving Credit Facility were as follows:

(millions of Canadian dollars)	2011	2010
Gross borrowing base availability	**263.4**	229.8
Drawings	**125.2**	68.1
Outstanding standby letters of credit	**6.3**	6.8
Borrowing base availability net of drawings and letters of credit	**131.9**	154.9

The Lord & Taylor Revolving Credit Facility contains certain non-financial operating covenants. L&T was in compliance with all covenants as of January 28, 2012 and January 31, 2011.

In accordance with the Lord & Taylor Revolving Credit Facility, L&T is limited in its ability to make distributions of earnings or return of capital to its parent. In fiscal 2011, prior to the acquisition of L&T by HBC, distributions to the partners for reimbursement of income taxes related to the pass-through of earnings of L&T and the reimbursement of expenses were permitted and totaled $32.0 million in 2011 and nil in 2010 and 2009.

NOTE 14. LOANS AND BORROWINGS (Continued)

b) Long-term loans and borrowings

As at January 28, 2012 and January 31, 2011 long-term loans and borrowings are comprised of:

(millions of Canadian dollars)	2011	2010
HBC Term Loan (Canadian properties)	**448.9**	450.0
Lord & Taylor Term Loan (US properties)	**450.3**	—
Commercial Mortgage Backed loan (US properties)	**—**	828.7
Supplemental Term Loans under HBC Revolving Credit Facility	**—**	80.1
Other mortgages	**13.7**	32.0
Real estate held under finance leases	**—**	41.5
Equipment held under finance leases and other	**34.5**	37.8
	947.4	1,470.1
Less: unamortized debt renewal option	**—**	(22.7)
Less: unamortized costs	**(18.1)**	(5.5)
Less: amounts due within one year	**(27.6)**	(11.5)
	901.7	1,430.4

Maturities of long-term debt are as follows:

Years ending January (millions of Canadian dollars)	
2013	**27.6**
2014	**18.1**
2015	**464.5**
2016	**5.0**
Thereafter	**432.2**
	947.4

HBC Term Loan (Canadian properties)

On November 24, 2010 HBC entered into an agreement with GE Capital Canada Finance Inc. ("GECC") and certain other credit lenders. The agreement provides for a $450.0 million term loan (the "HBC Term Loan"), of which $448.9 million was outstanding at January 28, 2012 (January 31, 2011: $450.0 million).

The HBC Term Loan bears interest at an amount based on a Three-Month Bankers' Acceptance rate ("BA Rate"), which is to be no less than 1.5%, plus an interest spread. The HBC Term Loan is available for general corporate purposes and matures on November 23, 2014. There are no scheduled repayments prior to maturity, although there are certain mandatory prepayments in specified conditions.

The HBC Term Loan is secured by first priority security against the real estate of HBC and its subsidiaries, excluding L&T, and second priority security against all of the other property and assets of HBC and its subsidiaries, excluding L&T. The HBC Term Loan contains representations and warranties, positive and negative covenants, reporting requirements and a number of events of default. The agreement contains a covenant to maintain an interest coverage ratio. The interest coverage ratio is calculated as normalized EBITDA divided by cash payable interest and is calculated for twelve consecutive fiscal months. This ratio is monitored on a monthly basis by management to ensure HBC's compliance and reported on a quarterly basis. As at January 28, 2012 and January 31, 2011, HBC is in compliance with all covenants contained in the HBC Term Loan.

Lord & Taylor Term Loan (US Properties)

On January 11, 2012, L&T entered into a U.S.$450.0 million syndicated term loan with Credit Suisse Securities LLC ("CS"), as sole lead arranger of the syndicate, which matures on January 11, 2019 (the "Lord & Taylor Term Loan"). The proceeds from the L&T Term Loan in combination with the capital contribution from HBTC were used to repay a mortgage note and the CMBS Loan.

Interest is charged on the Lord & Taylor Term Loan depending on the type of borrowing and is based on a greater of test of various rates, including, but not limited to, the LIBOR rate plus an applicable margin of 4.5%. The LIBOR rate is subject to a floor of 1.25%. The weighted average interest rate of the Lord & Taylor Term Loan at January 28, 2012 was 5.75%. The average rate for the year ended January 28, 2012 was 5.75%.

NOTE 14. LOANS AND BORROWINGS (Continued)

The Lord & Taylor Term Loan is repayable in installments of U.S.$1.1 million payable at the end of each April, July, October and January from April 30, 2012 to October 31, 2018. The remaining amount outstanding will be repaid on the maturity date. L&T has the ability to prepay the Lord & Taylor Term Loan at any time without penalty. Any prepayments are applied to reduce the then remaining scheduled installments.

In addition to the quarterly amortization schedule outlined in the paragraph above, L&T is required to apply a certain percentage of its excess free cash flow, the percentage determined by the leverage ratio of L&T at the fiscal year-end, to reduce the outstanding balance of the Lord & Taylor Term Loan.

The Lord & Taylor Term Loan is secured by first lien security on the majority of the owned and ground leased facilities and second priority security on the accounts receivable, inventory and furniture and fixtures of L&T. The Lord & Taylor Term Loan contains representations and warranties, positive and negative covenants, reporting requirements and events of default. As at January 28, 2012, L&T is in compliance with all covenants contained in the Lord & Taylor Term Loan.

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

L&T Acquisition Inc., a subsidiary of HBC, along with L&T Propco, through a guarantee and collateral agreement, has guaranteed the Lord & Taylor Term Loan.

Commercial Mortgage Backed Loan ("CMBS Loan") (US properties)

On January 11, 2012, the CMBS Loan was repaid in full and a gain on the extinguishment in the amount of $7.1 million was recognized. The CMBS Loan had been used to finance the purchase of L&T by HBTC. The interest rates under the CMBS Loan were based on 30 day LIBOR, plus certain spreads, ranging from 3.20% to 6.68%. The weighted-average rate at January 31, 2011 was 4.12%.

The initial expiration date of the CMBS Loan was October 2, 2008 with three one-year renewal options to extend under substantially the same terms. Each of the renewal options were exercised by L&T. The renewal options were embedded derivatives which were fair valued at each reporting date. The change in fair value is reported as a component of finance costs (note 6). Upon exercise of the renewal options, the embedded derivative was fair valued and recognized as a reduction in value of the related debt, which is amortized over the renewal period using the effective interest method. On October 1, 2010 the fair value of the third and final renewal option upon exercise was $28.1 million and was accreted over the 20 month renewal period until the repayment on January 11, 2012. At January 28, 2012 the fair value of the embedded derivatives was $nil (January 31, 2011: $nil).

Supplemental Term Loans under HBC Revolving Credit Facility

On September 23, 2011, the outstanding $50.0 million term loan, denominated in US dollars, and a $30.0 million term loan denominated in Canadian dollars (together, the "Supplemental Term Loans") were repaid in full prior to their September 22, 2014 maturity date. The Supplemental Term Loans bore interest at an annual cash interest rate of 12.5%, paid monthly. Prior to the renegotiation of the Credit Agreement, the Supplemental Term Loans bore cash interest at a rate of 14% and a payment in kind of 3% compounded quarterly.

Other Mortgages

On January 11, 2012, the mortgage on a L&T store location was paid in full, prior to its maturity on September 30, 2012. The principal balance outstanding at January 31, 2011 was $16.5 million. The loan bore interest at 8.0% per annum, paid on a monthly basis.

As at January 28, 2012, HBC has a mortgage outstanding with a principal balance of $13.7 million (January 31, 2011: $15.5 million). The mortgage requires payments of $2.8 million annually inclusive of interest, with a final balloon payment of $9.6 million due in February 2014. The interest on this loan is 7.0% per annum, paid on a monthly basis.

Real estate held under finance leases

L&T sub-leased five store locations from Macy's (see note 11) of which two were accounted for as finance leases. In connection with the exercise of the option to purchase the buildings and assignment of underlying ground leases, $41.0 million was paid to Macy's as repayment of the finance lease obligation.

Equipment held under finance leases

As at January 28, 2012 the liability related to equipment held under finance leases was $32.8 million (January 31, 2011: $36.8 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 at January 28, 2012 are as follows:

(millions of Canadian dollars)	2011
Less than one year	**22.7**
Between 1 and 5 years	**12.5**
Total minimum lease payments	**35.2**
Less: imputed interest	**(2.4)**
Total finance lease obligations	**32.8**

NOTE 15. PROVISIONS

	Year ended January 28, 2012				
(millions of Canadian dollars)	Self Insurance	Terminations & HR Legal	ARO's	Other	Total
Balance at beginning of year	34.4	21.7	11.8	2.2	70.1
Additional provisions recognized	27.3	56.5	0.6	1.4	85.8
Utilized	(25.4)	(24.0)	(0.1)	(1.8)	(51.3)
Released	(2.2)	(1.8)	—	—	(4.0)
Balance at end of year	34.1	52.4	12.3	1.8	100.6
Non-current	—	12.2	12.3	—	24.5
Current	34.1	40.2	—	1.8	76.1
	34.1	52.4	12.3	1.8	100.6

	Year ended January 31, 2011				
(millions of Canadian dollars)	Self Insurance	Terminations & HR Legal	ARO's	Other	Total
Balance at beginning of year	41.3	29.0	10.6	2.6	83.5
Additional provisions recognized	12.7	33.0	1.9	1.0	48.6
Utilized	(12.2)	(31.7)	—	(1.4)	(45.3)
Released	(6.6)	(8.4)	—	—	(15.0)
Net foreign currency exchange	(0.8)	(0.2)	(0.7)	—	(1.7)
Balance at end of year	34.4	21.7	11.8	2.2	70.1
Non-current	—	2.3	11.8	—	14.1
Current	34.4	19.4	—	2.2	56.0
	34.4	21.7	11.8	2.2	70.1

Self insurance

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

Terminations & HR legal

The terminations component of the provision relates to severances associated with the Company's initiatives to lower operating costs and improve profitability including charges related to the closure of Zellers stores.

NOTE 15. PROVISIONS (Continued)

During fiscal 2011, the Company incurred severance charges of $36.8 million related to the closure of Zellers stores in fiscal 2012. The Company accrues for severance at the date the closure of the related store is communicated to associates. As at January 28, 2012, the accrual was revised to $35.8 million primarily as a result of the early attrition of associates and changes in the Company's initial assumptions.

Also, during fiscal 2011 the Company announced the closure of two Zellers stores which were not selected by Target. In addition, the Company's senior leadership, their management teams and other supporting employees were realigned as a result of the impending closure of the Zeller's stores. Consequently, the Company incurred a severance charge of $4.4 million in fiscal 2011, of which $2.8 million remains accrued as at January 28, 2012.

In fiscal 2010 the Company approved plans, primarily related to severance, for restructuring and recorded a pre-tax restructuring charge of $31.3 million. The balance of the provision remaining as at January 28, 2012 was $4.5 million (January 31, 2011: $9.3 million).

During fiscal 2009, HBC announced the closure of the Montreal Logistics Centre based on business strategies including network consolidation. The balance of the provision relating to the closure of this facility as at January 28, 2012 was $3.6 million (January 31, 2011: $5.7 million) primarily related to the lease obligation associated with the facility.

The Human Resources ("HR") legal component of the provision includes compensation claims made by current and former employees. During fiscal 2011 the Company recorded a charge of $4.5 million (2010: $1.7 million; 2009: $2.9 million). Compensation claims will be settled on a case by case basis over an indeterminate period. The balance of the provision remaining as at January 28, 2012 was $5.7 million (January 31, 2011: $6.2 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.

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 and equipment.

Generally, the Company's store leases require equal monthly rent payments over the lease term. However, certain of the Company's store lease agreements require rent increases during the original lease term and renewable periods and certain of the Company's store lease agreements provide free rent periods. Generally, upon renewal the rent is preset to be the same as the previous period or, in some Hudson's Bay store leases, is 50% of the initial rent.

Rental expense related to operating leases charged to earnings in fiscal 2011 was $304.3 million (2010: $308.5 million; 2009: $312.5 million).

Minimum payments under non-cancelable operating leases

The future minimum payments under non-cancelable operating leases for fiscal years ending are as follows:

(millions of Canadian dollars)	HBC excluding Zellers, Inc.	L&T	Zellers, Inc.
2012	115.4	15.5	126.5
2013	103.8	16.5	46.0
2014	92.9	14.6	31.9
2015	87.4	14.6	27.0
2016	77.8	14.5	24.0
Thereafter	311.7	137.0	97.5
Total minimum lease payments	789.0	212.7	352.9

In connection with the sale of leasehold interests, the Company has entered into sub-leases with Target (Note 4). The Company's outstanding commitment related to Zellers relates to leases not assigned to Target and the remaining commitment over the sub-lease term. For those leases which the Company remains the lessee on the master lease agreement the Company will guarantee the commitment over the remaining term of the lease (Note 26).

NOTE 17. PENSIONS AND EMPLOYEE BENEFITS

Aggregate information about the Company's pension and retirement plans is presented below.

Plan Surplus (Deficit)

	2011		2010	
(millions of Canadian dollars)	**Pension Plans**	**Retirement Plans**	**Pension Plans**	**Retirement Plans**
Funded status	**91.0**	**(36.5)**	178.7	(38.5)
Less: current portion	**—**	**3.6**	—	3.7
	91.0	**(32.9)**	178.7	(34.8)
Long-term benefits liability	**—**	**(42.5)**	—	(39.3)
Pension and employee future benefits asset (liability)	**91.0**	**(75.4)**	178.7	(74.1)

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 pension plans in fiscal 2012 will approximate $0.4 million.

Changes in the Fair Value of Plan Assets

	2011		2010	
(millions of Canadian dollars)	**Pension Plans**	**Retirement Plans**	**Pension Plans**	**Retirement Plans**
Fair value at beginning of year	**1,340.1**	**—**	1,307.3	—
Expected return on plan assets	**40.2**	**—**	95.4	—
Actuarial (loss) gain	**(37.9)**	**—**	21.4	—
Employer contributions	**1.3**	**3.6**	0.2	3.9
Associate contributions	**17.6**	**—**	18.5	—
Benefits paid	**(93.6)**	**(3.6)**	(102.7)	(3.9)
Fair value at end of year	**1,267.7**	**—**	1,340.1	—

The actual return on plan assets in fiscal 2011 was $2.3 million (2010: $116.8 million).

Changes in the Present Value of the Defined Benefit Obligation

	2011		2010	
(millions of Canadian dollars)	**Pension Plans**	**Retirement Plans**	**Pension Plans**	**Retirement Plans**
Balance, beginning of year	**1,161.4**	**38.5**	1,139.7	39.9
Current service cost	**29.7**	**0.1**	29.3	0.1
Associate contributions	**17.6**	**—**	18.5	—
Interest cost	**27.6**	**1.9**	85.3	2.0
Benefits paid	**(93.6)**	**(3.6)**	(102.7)	(3.9)
Actuarial loss (gain)	**34.0**	**(0.4)**	(8.7)	0.4
Balance, end of year	**1,176.7**	**36.5**	1,161.4	38.5

NOTE 17. PENSIONS AND EMPLOYEE BENEFITS (Continued)

Cumulative Actuarial Gains (Losses)

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

	2011		2010		2009	
(millions of Canadian dollars)	**Pension Plans**	**Retirement Plans**	**Pension Plans**	**Retirement Plans**	**Pension Plans**	**Retirement Plans**
Cumulative amount, beginning of year	**27.2**	**(3.8)**	(2.9)	(3.4)	—	—
Net actuarial gains (losses) recognized	**(71.9)**	**0.4**	30.1	(0.4)	(2.9)	(3.4)
Cumulative amount, end of year	**(44.7)**	**(3.4)**	27.2	(3.8)	(2.9)	(3.4)

Benefit Plan Expense

Fiscal 2011, 2010 and 2009 benefit plan expense is comprised of the following:

	2011			2010			2009		
(millions of Canadian dollars)	**Pension Plans**	**Retirement Plans**	**Total**	**Pension Plans**	**Retirement Plans**	**Total**	**Pension Plans**	**Retirement Plans**	**Total**
Company current service cost	**29.7**	**0.1**	**29.8**	29.3	0.1	29.4	26.7	0.1	26.8
Interest cost	**27.6**	**1.9**	**29.5**	85.3	2.0	87.3	118.7	2.6	121.3
Expected return on plan assets (net of expenses)	**(40.2)**	**—**	**(40.2)**	(95.4)	—	(95.4)	(124.4)	—	(124.4)
Settlement	**—**	**—**	**—**	—	—	—	11.1	—	11.1
Net expense recognized	**17.1**	**2.0**	**19.1**	19.2	2.1	21.3	32.1	2.7	34.8

The total charge for employee benefits expense relating to continuing operations is included in selling, general and administrative expenses in the consolidated statement of earnings (loss).

Defined Contribution Pension Plans

During fiscal 2011, HBC recognized a $23.4 million (2010: $22.7 million; 2009: $22.9 million) expense in selling, general and administrative expenses of which $13.2 million (2010: $12.2 million; 2009: $12.8 million) relates to continuing operations. The expense represents the contributions made in connection with the defined contribution plans. In addition, in fiscal 2011 L&T contributed $1.2 million (2010: $1.1 million; 2009: nil) to the Lord & Taylor 401(k) Retirement Savings Plan.

Other Long-term Employee Benefits

During fiscal 2011, the Company recognized a $13.3 million (2010: $6.8 million; 2009: $14.6 million) expense in selling, general and administrative expenses related to its other long-term employee benefits.

Actuarial Assumptions

HBC and its non-executive associates 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.

NOTE 17. PENSIONS AND EMPLOYEE BENEFITS (Continued)

The Company's pension and future benefits obligation and expense are dependent on the assumptions used in calculating these amounts. These assumptions include discount rate, expected long-term rate of return on plan assets, rate of compensation increase, and overall health care cost trend rate.

	2011		2010		2009	
	Pension Plans	**Retirement Plans**	**Pension Plans**	**Retirement Plans**	**Pension Plans**	**Retirement Plans**
Discount rate — pension and post retirement	**4.90%**	**5.40%**	5.40%	5.40%	5.75%	5.50%
Expected long-term rate of return on plan assets (net of expenses)	**6.25%**	**N/A**	6.25%	N/A	6.50%	N/A
Rate of compensation increase	**3.25%**	**4.00%**	3.50%	4.00%	4.00%	4.00%
Health care trend rate:						
Initial benefit expense	**N/A**	**6.60%**	N/A	6.70%	N/A	5.70%
Ultimate benefit expense		**4.50%**		4.50%		4.50%
Initial benefit obligation	**N/A**	**6.50%**	N/A	6.60%	N/A	6.69%
Ultimate benefit obligation		**4.50%**		4.50%		4.50%

Asset allocation

Supplemental information regarding the asset allocation of the assets of the largest pension plans and other benefit plans is presented below:

	2011		2010	
Class	**Asset Mix of Pension Plans**	**Asset Mix of Benefit Plans**	**Asset Mix of Pension Plans**	**Asset Mix of Benefit Plans**
Bonds	**42%**	**73%**	42%	53%
Canadian equities	**28%**	**26%**	21%	29%
Foreign equities	**27%**	**—**	35%	—
Real estate and other	**2%**	**—**	1%	—
Cash/short-term investments	**1%**	**1%**	1%	18%
	100%	**100%**	100%	100%

The overall expected rate of return is a weighted average of the long-term expected returns (net of expenses) of the various categories of plan assets held using the target asset mix at the measurement date. The assessment of the expected returns is based on current market conditions along with expected future economic growth. The expected return for bonds is based on the current bond yields on a bond portfolio. For equity investments, expected returns are based on current yields taking into consideration expected future economic growth.

Sensitivity of health care trend

The table below provides a sensitivity analysis of changes in the health care trend rate. 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.

	2011		2010		2009	
(millions of Canadian dollars)	**Retirement Plans**	**Other Long-term Plans**	**Retirement Plans**	**Other Long-term Plans**	**Retirement Plans**	**Other Long-term Plans**
Effect of 1% increase in health care trend rate						
Service costs and interest cost	**0.2**	0.1	0.2	0.1	0.2	0.1
Defined benefit obligation	**3.2**	0.4	3.6	0.4	3.0	0.6
Effect of 1% decrease in health care trend rate						
Service costs and interest cost	**(0.2)**	(0.1)	(0.2)	(0.1)	(0.2)	(0.1)
Defined benefit obligation	**(2.7)**	(0.4)	(3.0)	(0.4)	(2.5)	(0.6)

NOTE 17. PENSIONS AND EMPLOYEE BENEFITS (Continued)

Historical information

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

(millions of Canadian dollars)	2011	2010	2009	Feb. 1, 2009
Fair value of plan assets	**1,267.7**	1,340.1	1,307.3	1,191.5
Present value of defined benefit obligations	**1,176.7**	1,161.4	1,139.7	989.8
Surplus in the plans	**91.0**	178.7	167.6	201.7
Experience adjustment in the plan assets	**(37.7)**	21.4	71.9	—
Experience adjustment in the plan liabilities	**(7.3)**	24.3	—	—

Supplementary executive retirement plan

The Company guarantees an annual pension to its Canadian executives in the supplementary executive retirement plan. The Company's guaranteed obligation pursuant to the supplementary executive retirement plan for service up to November 10, 2005 is secured by a trust fund for certain members. Total assets of the trust funds at January 28, 2012 were $66.1 million (January 31, 2011: $70.9 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 28, 2012 and January 31, 2011:

	2011		2010	
(millions of Canadian dollars)	Carrying Value	Fair Value	Carrying Value	Fair Value
Classified as fair value through profit or loss				
Embedded foreign currency derivatives[1]	**0.1**	**0.1**	0.6	0.6
HBC Term Loan embedded derivative[3]	**(3.5)**	**(3.5)**	—	—
Classified as loans and receivables				
Cash	**42.4**	**42.4**	49.0	49.0
Restricted cash	**—**	**—**	8.2	8.2
Trade and other receivables	**124.0**	**124.0**	131.9	131.9
Classified as held to maturity				
Short-term deposits[1]	**1.8**	**1.8**	1.8	1.8
Financial derivatives designated as cash flow hedges				
Forward foreign currency contracts[2]	**1.9**	**1.9**	(8.3)	(8.3)
LIBOR based interest rate caps[1]	**—**	**—**	0.3	0.3
Classified as other liability				
Trade payables	**(613.0)**	**(613.0)**	(629.3)	(629.3)
Other payables and accrued liabilities	**(269.2)**	**(269.2)**	(228.3)	(228.3)
HBC Revolving Credit Facility	**(155.0)**	**(154.6)**	(690.0)	(697.2)
Lord & Taylor Revolving Credit Facility	**(125.2)**	**(122.8)**	(68.1)	(68.0)
CMBS Loan	**—**	**—**	(828.7)	(801.0)
Lord & Taylor Term Loan	**(450.3)**	**(451.4)**	—	—
HBC Term Loan	**(448.9)**	**(448.0)**	(450.0)	(450.0)
Other mortgages	**(13.7)**	**(13.7)**	(32.0)	(32.0)
Supplemental Term Loans under HBC Revolving Credit Facility	**—**	**—**	(80.1)	(83.8)

(1) Included in financial assets — current

(2) $3.8 million included in financial assets — current (2010: $0.1 million) and $1.9 million included in financial liabilities — current (2010: $8.4 million)

(3) Included in other liabilities

NOTE 18. FINANCIAL INSTRUMENTS (Continued)

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

The fair values of foreign currency options, interest rate caps 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, and are determined using valuation techniques based on observable market input data. The fair values of embedded foreign currency derivatives reflect the estimated amounts the Company would receive or pay to settle forward foreign exchange contracts with similar terms using valuation techniques using observable market input data. The embedded debt renewal options and fair value of the CMBS Loan were valued using a discounted cash flow model, taking into consideration the fixed interest rate spread included in the renewal options and notes, compared to fixed interest rate spreads on similar debt available in the market at the balance sheet date. The embedded interest rate floor in the HBC Term Loan was valued using the Black model, a variant of the Black Scholes option pricing model, with the key inputs into the valuation being the Bankers Acceptance ("BA") rate forward rate curve, BA rate volatility and the contractual interest terms of the HBC Term Loan agreement.

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 earnings (loss) before income taxes:

(millions of Canadian dollars)	2011	2010	2009
Embedded foreign currency derivatives	**(0.6)**	1.0	1.8
Change in fair value of CMBS Loan and HBC Term Loan embedded derivatives	**(3.5)**	(22.7)	8.7
CDOR based interest rate swaps	**—**	2.9	5.2
Foreign currency options	**—**	(0.2)	(0.2)
	(4.1)	(19.0)	15.5

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 caps 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 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.

Capital management

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

(millions of Canadian dollars)	2011	2010
Short-term loans and borrowings	**291.0**	749.1
Long-term loans and borrowings	**901.7**	1,430.4
Share capital	**2.2**	—
Parent's interest in L&T	**—**	151.9
Contributed surplus	**60.6**	257.2
Retained earnings (deficit)	**938.1**	(189.5)
	2,193.6	2,399.1

NOTE 18. FINANCIAL INSTRUMENTS (Continued)

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

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

Financial risk management

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

(i) **Credit risk**

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

(ii) **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by continuously monitoring actual and projected cash flows, taking into account the seasonality of the Company's working capital needs, sales and earnings. The HBC Revolving Credit Facility, the Lord & Taylor 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
Year ending January:					
2013	882.2	0.1	349.4	2.5	**1,234.2**
2014	—	—	63.1	—	**63.1**
2015	—	—	499.0	—	**499.0**
2016	—	—	5.9	—	**5.9**
Thereafter	—	—	472.3	—	**472.3**
	882.2	0.1	1,389.7	2.5	**2,274.5**

(iii) **Market risk**

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

(a) Foreign currency risk

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

In accordance with the policy, HBC may hedge up to 100% of all foreign currency transactions and economic exposures that are recognized on the consolidated balance sheet, or deemed as firm commitments (e.g. purchase orders that have been issued for goods and services in foreign currency). It may further hedge up to 70% of forecasted transactions (anticipated transactions for which there are no firm commitments). HBC's net US dollar exposure as at January 28, 2012 and January 31, 2011 excluding its investment in L&T is as follows:

U.S.$ Exposure (millions of US dollars)	2011	2010
Trade payables	**(115.1)**	(113.3)
Outstanding purchase orders	**(96.5)**	(109.0)
Forward foreign exchange contracts	**279.0**	364.0
Current exposure	**67.4**	141.7
Supplemental term loan under HBC Revolving Credit Facility	**—**	(50.0)
Long term exposure	**—**	(50.0)
Total exposure	**67.4**	91.7

NOTE 18. FINANCIAL INSTRUMENTS (Continued)

The settlement dates of the forward foreign currency contracts range from February 2012 to January 2013 and the weighted average foreign exchange rate is $0.998.

For fiscal 2011 HBC recorded a loss of $1.2 million (2010: gain of $8.3 million; 2009: gain of $9.0 million) relating to the translation or settlement of foreign currency denominated monetary items.

In fiscal 2011, a gain of $13.1 million was realized primarily related to the settlement of the foreign exchange forwards which were entered into in connection with the repayment of the CMBS Loan and the acquisition of L&T which is included in Selling, general and administrative expenses.

The estimated gains and losses on derivatives designated as cash flow hedges expected to be reclassified to earnings within the next 12 months is a net gain of $0.7 million.

On an annualized basis, a strengthening of the US dollar against the Canadian dollar by 1% at January 28, 2012 would have decreased net earnings by $0.7 million for fiscal 2011 (2010: decreased net earnings by $3.4 million; 2009: increased net loss by $3.2 million).

The net investment in L&T, whose functional currency is US dollars, presents foreign currency risk to HBC, whose functional currency is Canadian dollars. HBC has not entered into any hedging transactions with regards to this exposure.

(b) Interest rate risk

The Company's interest rate risk arises from short-term and long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. During fiscal 2011, 2010 and 2009, the Company's variable rate borrowings were denominated in the US dollar and the Canadian dollar.

Cash flow interest rate risk is mitigated by the use of interest rate derivative instruments, including interest rate swaps and interest rate caps.

US dollar borrowings

L&T has the Lord & Taylor Term Loan, the Lord & Taylor Revolving Credit Facility and had the CMBS Loan (note 14) which bear interest at a variable rate plus a fixed spread. L&T is exposed to interest rate cash flow risk as the variable rate rises.

As at January 28, 2012 three interest rate caps with a notional amount of $860.0 million designated as cash flow hedges of interest rate risk were outstanding. L&T entered into interest rate caps (which replaced prior interest rate caps) for the period January 15, 2009, through the original maturity date of January 31, 2011, with a financial institution at a LIBOR rate of 2%. L&T will receive payment from the financial institution when the rate of LIBOR exceeds 2% on the aggregate notional amount of $0.8 million. The net interest received under these arrangements is included in finance costs. These renegotiated arrangements had an effective date of October 15, 2008, and a maturity date of January 31, 2011.

In September 2010, L&T extended the maturity of these interest rate caps to June 2012. The interest rate caps are now effective from September 2010 to June 2012. L&T receives payment from the financial institution when the rate of LIBOR exceeds 2% for the period from September 2010 to January 2011 or 1.5% for the period from January 2011 to June 2012 on the aggregate notional amount of $0.8 million. As the LIBOR rate has been below the caps, no net interest received under these arrangements is included as an offset to finance costs.

An increase of 100 basis points in LIBOR over the past year would have decreased net earnings for fiscal 2011 by $9.1 million (2010: decreased net earnings by $9.9 million; 2009: increased net loss by $11.1 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 caps.

Canadian dollar borrowings

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

On an annualized basis, an increase of 100 basis points in CDOR rates over the past year would have decreased net earnings for fiscal year 2011 by $8.3 million (2010: decreased net earnings by $5.5 million; 2009: increased net loss by $4.5 million).

NOTE 19. SHARE BASED COMPENSATION

Profits Interests

L&T B and HBTC maintain equity settled Profits Interests plans for certain senior executives of L&T and HBC. These Profits Interests represent the right to residual equity in L&T B or HBTC, in excess of levels specified in each grant agreement, after satisfying the

NOTE 19. SHARE BASED COMPENSATION (Continued)

commitments to third parties, preferred investors and the return of the original investment to the common investors. L&T B and HBTC have the right to call certain vested grants upon termination of employment.

The grant date value of the equity-classified grants issued in fiscal 2009 was $5.2 million. The value of these profits interests grants will be charged to compensation expense over the individual vesting period of each grant on a tranche basis. Compensation expense for fiscal 2011 was $0.5 million (2010: $1.0 million; 2009: $2.8 million). As of January 28, 2012 there was $0.2 million (January 31, 2011: $0.8 million) of total unrecognized compensation cost related to non-vested profits interests.

Long Term Incentive Plans (LTIP)

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

Incentive units have up to a 10-year term, vest in equal installments over a five year service period, and are paid out upon a change of control event or an initial public offering, as defined. Each incentive unit is paid out based on the unit appreciation value, according to the terms of each grant.

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

During fiscal 2009 and 2010, certain senior executives of the Company were granted incentive units in one or more of these plans. Grants generally vest over a period of five years. LTIP grant activity, expressed as a percentage of the total units available under the plan, for fiscal 2011, 2010 and 2009 is as follows:

	2011	2010	2009
Balance — beginning of year	**5.32%**	5.18%	—
Grants awarded	**—**	0.72%	5.18%
Grants forfeited	**(0.17%)**	(0.58%)	—
Grants redeemed	**—**	—	—
Balance — end of year	**5.15%**	5.32%	5.18%
Comprised of:			
HBC grants	**1.90%**	1.95%	1.58%
Subsidiary grants	**3.25%**	3.37%	3.60%
Vested grants — end of year	**2.70%**	1.63%	0.87%

The grant date fair values are calculated using a Black Scholes options pricing model valuing the underlying share. The following assumptions were used to value grants issued:

Expected volatility	115%
Risk-free interest rate	0.91%
Dividend yield	0.00%
Non-marketability discount	25%
Expected life	2.2 years

Expected volatility is based on the average volatility of comparable public companies. The grant date fair value of equity-classified grants issued in fiscal 2009 was $3.7 million. The value of these LTIP grants will be charged to compensation expense over the individual vesting period of each grant on a tranche basis. Compensation expense for fiscal 2011 was $0.5 million (2010: $0.8 million; 2009: $1.8 million). As of January 31, 2012, there was $0.4 million (January 31, 2011: $0.8 million) of total unrecognized compensation cost related to non-vested LTIP awards.

NOTE 20. SHARE CAPITAL

As at January 28, 2012 the authorized shares of HBC consisted of an unlimited number of class A supervoting preferred shares, an unlimited number of class B preferred shares and an unlimited number of non-voting common shares. The change in common shares and class A and B preferred shares issued and outstanding during the year is as follows:

	Number of Shares	Millions of Canadian Dollars
Common Shares		
Issued and outstanding at February 1, 2009	934,682	93.5
Issued on April 14, 2009	377,063	197.9
Issued and outstanding at January 31, 2010	1,311,745	291.4
Return of capital on August 3, 2010	—	(35.8)
Return of capital on December 6, 2010	—	(8.3)
Reduction of capital on January 31, 2011	—	(247.3)
Issued and outstanding at January 31, 2011	1,311,745	—
Reclass of capital and cancellation of shares on amalgamation	(311,745)	246.2
Return of capital on May 27, 2011	—	(245.0)
Issued and outstanding at January 28, 2012	1,000,000	1.2
Class A Preferred Shares		
Issued and outstanding at February 1, 2009 and January 31, 2010	10,000	1.0
Reduction of capital on January 31, 2011	—	(1.0)
Issued and outstanding at January 31, 2011	10,000	—
Reclass of capital on amalgamation	—	1.0
Issued and outstanding at January 28, 2012	10,000	1.0
Class B Preferred Shares		
Issued and outstanding at February 1, 2009	955,143	42.3
Return of capital on October 9, 2009	—	(41.5)
Issued and outstanding at January 31, 2010	955,143	0.8
Reduction of capital on January 31, 2011	—	(0.8)
Issued and outstanding at January 31, 2011	955,143	—
Cancellation of shares on amalgamation	(955,143)	—
Issued and outstanding at January 28, 2012	—	—

As part of a multiple stage re-organization, 7612923 Canada Inc. ("Holdco"), acquired 100% ownership of HBC on July 29, 2010. On January 31, 2011, the stated capital account for the common shares, Class A supervoting preferred shares and Class B preferred shares were reduced to $1 each and these reductions were not distributed to their respective holders. Following the reduction of stated capital, there was an amalgamation of Holdco and HBC on February 1, 2011. As of the same date, resolutions were passed to reclassify capital from contributed surplus to common shares and the class A preferred shares and cancel all issued and outstanding common and Class B preferred shares without repayment of capital, except for the common shares of Holdco. The net assets and liabilities and board of directors of HBC following the amalgamation remained the same as that prior to the amalgamation.

On May 27, 2011, a resolution was passed to reduce the share capital of HBC by $245.0 million and distribute the amount to the holder of the common shares.

During the year ended January 28, 2012, the Company declared and paid dividends to the holder of the common shares totaling $286.7 million (2010: nil).

Prior to its acquisition by HBC during the year ended January 28, 2012, L&T declared and paid a dividend of $34.7 million to L&T B.

On August 3, 2010 and December 6, 2010 resolutions were passed to reduce the share capital of HBC by $35.8 million and $8.3 million respectively, and make distributions to the holder of the common shares.

NOTE 20. SHARE CAPITAL (Continued)

The common shares issued on April 14, 2009 resulted from the conversion of subordinated notes payable to MLHI ULC together with accrued interest into common shares of HBC.

The 10,000 class A supervoting preferred shares, each with a face value of $100 are entitled to a preference over the common shares with respect to priority in payment of dividends and in distribution of assets in the event of liquidation, dissolution or wind-up of HBC whether voluntary or involuntary. The class A supervoting preferred shares entitle the holder to a fixed, non-cumulative dividend at the rate of 4% per annum, based on their face value, as and when declared. The holders of class A supervoting preferred shares are entitled to one vote for each class A supervoting preferred share held. As part of the amalgamation discussed above, $1.0 million of capital was reclassified to the class A supervoting preferred shares on February 1, 2011.

HBC had issued 955,143 non-voting class B preferred shares each with a face value of $100, which ranked ahead of the class A supervoting preferred shares and common shares with respect to priority payment of dividends and distribution of assets in the event of a liquidation, dissolution or wind-up of HBC whether voluntary or involuntary. The class B preferred shares entitled the holder to cumulative dividends at the rate of 3% per annum, as and when declared. The Class B preferred shares were cancelled upon the amalgamation of HBC and Holdco.

On October 9, 2009, the shareholders of HBC reduced its stated capital by $41.5 million and distributed the amount to the holders of the class B preferred shares.

NOTE 21. EARNINGS PER SHARE

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

(millions of Canadian dollars or shares)	2011	2010	2009
Net earnings (loss) from continuing operations	**57.3**	88.1	(159.7)
Class B Preferred share dividends	**—**	(1.4)	(2.9)
Net earnings (loss) from continuing operations available to common shareholders — basic and diluted	**57.3**	86.7	(162.5)
Weighted average shares outstanding — basic and diluted	**1.0**	1.0	0.9

NOTE 22. PARENT'S INTEREST IN L&T

This classification of shareholders' equity relates entirely to the acquisition of L&T by HBC and the requisite accounting for a merger of entities under common control (see note 1).

The February 1, 2009 balance of $151.9 million represents the July 16, 2008 (see note 1) value of the net assets of L&T on a historical cost basis of $56.6 million (U.S.$56.5 million) and a subsequent capital contribution by HBTC to L&T of $95.3 million (U.S.$80 million) on January 9, 2009.

On January 11, 2012, HBC acquired L&T from HBTC for $101.9 million (U.S.$100 million) cash (see note 1). This amount has been treated as a return of capital to the parent.

The remaining post-acquisition balance of $50.0 million has been reclassified to contributed surplus as no further obligation to the parent exists relating to the acquisition.

NOTE 23. RELATED PARTY TRANSACTIONS

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

Transactions between HBC, L&T and their respective subsidiaries, which are related parties have been eliminated on consolidation and are not disclosed in this note. Details of transactions between HBC, L&T and other related parties are disclosed below.

The Company, HBTC, True North Retail Investments Limited Partnership ("TNRI") and Hudson's Bay Company Luxembourg, S.A.R.L. ("HBCL"), all of which are entities under common control, and their respective general partners, as applicable, (as "Related HBC Entities") entered into an agreement for the reimbursement of expenses (the "Reimbursement Agreement") effective July 17, 2008 whereby the Company agreed to pay for maintenance and operating expenses of the Related HBC Entities, subject to compliance with the Credit Agreements. Amounts charged to the Company by Related HBC Entities under the Reimbursement Agreement were $5.2 million for fiscal 2011 (2010: $5.3 million; 2009: $6.9 million).

The Company and HBTC entered into an agreement (the "Management Agreement"), effective July 17, 2008 whereby the Company agreed to pay HBTC an annual fee of U.S.$2.0 million plus reimbursement of other expenses for management, financial, strategic and transaction

NOTE 23. RELATED PARTY TRANSACTIONS (Continued)

support. Amounts charged to the Company by HBTC under the Management Agreement for fiscal 2011 were $2.6 million (2010: $2.1 million; 2009: $2.2 million).

The Company and National Realty & Development Corp. ("NRDC"), an entity under common control entered into Property Management Agreements (the "Property Agreements"), whereby the Company agreed to retain NRDC as its property manager and pay NRDC an annual property management fee of U.S.$4.0 million. Amounts charged to the Company by NRDC under the Property Agreements for fiscal 2011 were $4.0 million (2010: $4.1 million; 2009: $4.5 million).

As at January 28, 2012, $0.8 million (January 31, 2011: $0.8 million) has been included in other current assets for fiscal 2012 fees paid or incurred under the Reimbursement Agreement, Management Agreement and Property Agreement.

As at January 28, 2012, $3.2 million (January 31, 2011: $3.0 million) has been included in receivables for advances made by the Company to TNRI, of which an immaterial amount was incurred during fiscal 2010 (2009: nil). The advances are related to professional fees, capital taxes and other costs.

As at January 28, 2012, receivables also include $1.3 million (January 31, 2011: $1.3 million) primarily for income tax payments made on behalf of Maple Leaf Heritage Investment ULC, an unlimited liability corporation under common control. This related party executed a dissolution agreement with Holdco on August 3, 2010 to which this receivable now relates.

During fiscal 2009, in connection with the amendment of the subordinated notes payable (see Note 6), $17.7 million of interest expense was forgiven.

On May 6, 2011, L&T's subsidiary, Lord & Taylor Home LLC, which operates home furnishings stores, entered into a two year lease at U.S.$1.0 million annually (with renewal options) with SP 35 L.P. (the "Landlord") for approximately 31,000 sq ft in Shrewsbury, NJ to operate a home store. Amounts charged to the Company under the rental arrangement for fiscal 2011 were $0.4 million. The Landlord is an affiliate of NRDC. Richard Baker and Robert Baker, the principals of NRDC, are also members of L&T B.

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

NOTE 24. COMPENSATION

The remuneration of key management personnel for fiscal 2011, 2010 and 2009 is as follows:

(millions of Canadian dollars)	2011	2010	2009
Short-term benefits	**10.4**	9.3	7.0
Post-employment benefits	**0.1**	0.1	0.1
Other long-term benefits	**0.1**	0.1	0.1
Termination benefits	**—**	1.8	—
Share based compensation	**1.0**	1.8	5.2
	11.6	13.1	12.4

The compensation noted in the above table forms part of the total employee benefits expense recorded by the Company in fiscal 2011 totaling $1,417.8 million (2010: $1,432.2 million; 2009: $1,501.1 million).

NOTE 25. CONTINGENT LIABILITIES

As of January 28, 2012, there are a number of claims against the Company where the likely outcome is both quantifiable and estimable in varying amounts and for which provisions have been made in these financial statements, as appropriate. It is not possible to determine the amounts that may ultimately be assessed against the Company with respect to these claims but management believes that any such amounts would not have a material impact on the business or financial position of the Company.

In addition to these claims is the following:

Private label credit card program

In conjunction with L&T's sale of its private label credit card portfolio in September 2007, an exclusive seven-year program agreement was entered into with the purchaser. Under the agreement, the purchaser issues L&T credit cards to customers that meet the agreed-upon credit standards. The program agreement includes sales volume thresholds. If the volume thresholds are not achieved in an individual year, the purchaser has the right to recover a portion of the original premium paid under the purchase agreement. In the first four years of the program agreement, the sales volume thresholds have been achieved. L&T anticipates achieving this sales threshold in future years.

NOTE 26. GUARANTEES

As part of normal operations, the Company regularly reviews its real estate portfolio and store locations. Based on the reviews conducted in prior years, the Company has closed certain store premises that it deemed to be non-strategic. Where these premises were leased, the Company assigned its leases to other retail operators, but remained obligated to the landlord on those leases as the original tenant thereunder despite the assignment. If the assignee were to default on the lease agreement, the Company would remain obligated to the landlord for payment of amounts due under the lease. The terms of these assigned leases can extend up to the year 2023. As of January 28, 2012, these leases have future minimum lease payments of $277.1 million (January 31, 2011: $64.4 million), of which $218.6 million relates to leases assigned to Target, in addition to other lease-related expenses, such as property taxes and common area maintenance. The Company's obligation would be offset by payments from existing or future assignees and their obligations to the Company to comply with the assigned leases. Potential liabilities related to these guarantees may be subject to certain 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.

In connection with the sale of leasehold interests to Target, the Company has indemnified Target up to a maximum of $1,825.0 million in respect of any damages arising from any failure to comply with any representation or warranty under the transaction agreement to be true, any failure of the Company to fulfill any of its obligations under the agreement, the use of any of the leased properties prior to transfer to Target, environmental liabilities associated with any of the leased properties, and any liabilities associated with the leased properties not assumed by Target.

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 27. NET CHANGE IN OPERATING WORKING CAPITAL

(millions of Canadian dollars)	2011	2010	2009
Decrease (increase) in:			
Trade and other receivables	**4.4**	(17.8)	(9.5)
Inventories	**(127.0)**	(1.7)	(3.3)
Other current assets	**(0.2)**	(0.2)	7.7
Increase (decrease) in:			
Trade and other payables, accrued liabilities and provisions	**27.2**	(39.7)	59.8
Other	**10.7**	9.1	9.6
	(84.9)	(50.3)	64.3

NOTE 28. SEGMENTED REPORTING

As a result of the divestiture of the Zellers and Fields banners, the Company now has one reportable operating segment, Department Stores, which earn revenue from the sale of fashion apparel, accessories, cosmetics and home products to customers in a similar target market. The Department Stores segment which includes Hudson's Bay, L&T and Home Outfitters, is managed by the Chief Operating Decision Maker and supported by an integrated shared service function.

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

(millions of Canadian dollars)	2011	2010	2009
Total retail sales			
Canada	**2,473.9**	2,396.6	2,333.1
United States	**1,375.7**	1,321.6	1,286.6
	3,849.6	3,718.2	3,619.7

NOTE 28. SEGMENTED REPORTING (Continued)

(millions of Canadian dollars)	2011	2010	2009
Total operating income			
Canada	**83.1**	56.7	(22.3)
United States	**113.3**	91.6	33.4
	196.4	148.3	11.1

(millions of Canadian dollars)	2011	2010
Total assets		
Canada	**2,708.5**	2,719.9
United States	**1,285.0**	1,161.9
	3,993.5	3,881.8

NOTE 29. SUBSEQUENT EVENTS

On February 1, 2012, the Company announced the wind down of the Fields banner. This was a strategic decision to focus on growing the Company's other banners. On April 5, 2012 Fields completed an agreement with a newly formed company, FHC Enterprises Ltd. ("FHC"), for it to acquire 59 Fields stores and merchandise inventories for consideration of $9.6 million. FHC will also acquire the fixtures and name of the store. In addition, an agreement was also finalized with 'The Bargain! Shop' for the sale of 10 leases.

On March 23, 2012, March 29, 2012 and April 7, 2012, respectively the Company announced agreements to transfer the pharmacy records and related pharmacy inventory of 143 Zellers stores to Loblaw Companies Limited, Metro Ontario Pharmacies Limited and Overwaitea Food Group Limited Partnership for $54.3 million.

On March 30, 2012 and June 26, 2012, respectively the Company declared and paid dividends in the amount of $12.5 million and $51.3 million to the holder of the common shares.

On June 15, 2012, the Company executed an amendment to the HBC Revolving Credit Facility. The amendment to the HBC Revolving Credit Facility extends the maturity date to June 15, 2017 and reduces the amount available to be borrowed to $1,100.0 million until May 1, 2013. After May 1, 2013, the availability will be further reduced to $750.0 million.

On September 7, 2012, LT 424 LLC ("LT 424"), which is indirectly owned by L&T entered into a U.S.$250.0 million syndicated floating rate senior mortgage loan with Canadian Imperial Bank of Commerce and Natixis Real Estate Capital LLC, as co-arrangers of the syndicate, which matures on September 10, 2017 (the "5th Avenue Lord & Taylor Mortgage"). The 5th Avenue Lord & Taylor Mortgage is guaranteed by L&T. Interest is charged on the 5th Avenue Lord & Taylor Mortgage at a rate of LIBOR plus 3% and is structured to be interest only during the first three years, with monthly amortization payments required during the final two years, based upon a 30 year straight-line amortization schedule with an interest rate of 7%. LT 424 has the ability to prepay the 5th Avenue 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. As security for the 5th Avenue Lord & Taylor Mortgage, LT 424 granted a first priority mortgage in the 5th Avenue Lord & Taylor property. The 5th Avenue Lord & Taylor Mortgage contains customary representations and warranties, positive and negative covenants, reporting requirements and events of default. LT 424 is in compliance with all covenants contained in the 5th Avenue Lord & Taylor Mortgage.

On September 7, 2012, L&T prepaid U.S.$242.5 million of the Lord & Taylor Term Loan with the net proceeds of the 5th Avenue Lord & Taylor Mortgage.

Concurrently, LT 424 has entered into interest rate swap arrangements, the effect of which is to fix the interest rate related to the 5th Avenue Lord & Taylor Mortgage at 3.85%.

On September 28, 2012, as permitted in the Lord & Taylor Revolving Credit Facility agreement, the Company increased the revolving line of credit from U.S.$300.0 million to U.S.$350.0 million.

HUDSON'S BAY COMPANY

2012 Q2 INTERIM
CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

For the Thirteen and Twenty-six Weeks Ended

July 28, 2012

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

(millions of Canadian dollars, except per share amounts)
(unaudited)

	Notes	Thirteen weeks ended		Twenty-six weeks ended	
		Jul 28, 2012	Jul 30, 2011	Jul 28, 2012	Jul 30, 2011
Retail sales		**911.9**	869.0	**1,760.1**	1,653.3
Cost of sales	8	**(547.3)**	(517.1)	**(1,054.4)**	(984.2)
Selling, general and administrative expenses		**(342.9)**	(313.8)	**(730.0)**	(641.0)
Operating income (loss)		**21.7**	38.1	**(24.3)**	28.1
Finance costs	6	**(25.7)**	(37.6)	**(51.4)**	(76.5)
(Loss) earnings before income tax		**(4.0)**	0.5	**(75.7)**	(48.4)
Income tax benefit		**2.3**	3.3	**22.1**	14.0
Net (loss) earnings for the period — continuing operations		**(1.7)**	3.8	**(53.6)**	(34.4)
Net (loss) earnings for the period — discontinued operations, net of taxes	4	**(12.1)**	53.5	**(94.2)**	47.7
Net (loss) earnings for the period		**(13.8)**	57.3	**(147.8)**	13.3
Net (loss) earnings per common share — basic and diluted	11				
Continuing operations		**(1.70)**	3.80	**(53.60)**	(34.40)
Discontinued operations		**(12.10)**	53.50	**(94.20)**	47.70
		(13.80)	57.30	**(147.80)**	13.30

(See accompanying notes to the Condensed Consolidated Financial Statements)

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(millions of Canadian dollars)
(unaudited)

	Thirteen weeks ended		Twenty-six weeks ended	
	Jul 28, 2012	**Jul 30, 2011**	**Jul 28, 2012**	**Jul 30, 2011**
Net (loss) earnings	**(13.8)**	57.3	**(147.8)**	13.3
Other comprehensive income (loss), net of tax:				
Currency translation adjustment	**11.1**	—	**1.5**	(1.5)
Net gain (loss) on derivatives designated as cash flow hedges, net of taxes of $1.7 and $0.3 (2011 — $0.8 and $4.6), respectively	**5.1**	2.3	**0.9**	(13.5)
Reclassification to non-financial assets of net (losses) gains on derivatives designated as cash flow hedges, net of taxes of $0.2 and $0.6 (2011 — $1.4 and $3.0), respectively	**(0.6)**	3.9	**(1.7)**	8.7
Reclassification to earnings of net (losses) gains on derivatives designated as cash flow hedges, net of taxes of $0.5 and nil (2011 — $0.2 and $0.9), respectively	**(1.3)**	(0.5)	**0.1**	2.8
Other comprehensive income (loss)	**14.3**	5.7	**0.8**	(3.5)
Total comprehensive income (loss)	**0.5**	63.0	**(147.0)**	9.8

(See accompanying notes to the Condensed Consolidated Financial Statements)

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the twenty-six weeks ended July 28, 2012 and July 30, 2011
(millions of Canadian dollars)
(unaudited)

	Notes	Share Capital	Parent's Interest in L&T	Retained Earnings (Deficit)	Contributed Surplus	Accumulated Other Comprehensive (Loss) Income ("AOCI")				Total Equity (Deficit)
						Currency Translation Adjustment	Employee Future Benefits	Cash Flow Hedges	Total AOCI	
As at January 28, 2012		2.2	—	938.1	60.6	(9.8)	(35.9)	0.7	(45.0)	955.9
Comprehensive loss		—	—	(147.8)	—	1.5	—	(0.7)	0.8	(147.0)
Share based compensation	17	—	—	—	(24.5)	—	—	—	—	(24.5)
Dividends	11	—	—	(63.8)	—	—	—	—	—	(63.8)
As at July 28, 2012		2.2	—	726.5	36.1	(8.3)	(35.9)	—	(44.2)	720.6

	Notes	Share Capital	Parent's Interest in L&T	Retained Earnings (Deficit)	Contributed Surplus	Accumulated Other Comprehensive (Loss) Income ("AOCI")				Total Equity (Deficit)
						Currency Translation Adjustment	Employee Future Benefits	Cash Flow Hedges	Total AOCI	
As at January 31, 2011		—	151.9	(189.5)	257.2	(5.3)	17.4	(4.6)	7.5	227.1
Reclass of capital on amalgamation	11	247.2	—	—	(247.2)	—	—	—	—	—
Return of capital	11	(245.0)	—	—	—	—	—	—	—	(245.0)
Comprehensive income		—	—	13.3	—	(1.5)	—	(2.0)	(3.5)	9.8
Share based compensation	17	—	—	—	1.0	—	—	—	—	1.0
Dividends	11	—	—	(184.9)	—	—	—	—	—	(184.9)
As at July 30, 2011		2.2	151.9	(361.1)	11.0	(6.8)	17.4	(6.6)	4.0	(192.0)

(See accompanying notes to the Condensed Consolidated Financial Statements)

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

As at July 28, 2012, January 28, 2012 and July 30, 2011
(millions of Canadian dollars)
(unaudited)

	Notes	Jul 28, 2012	Jan 28, 2012	Jul 30, 2011
ASSETS				
Cash	7	**46.8**	42.4	63.8
Trade and other receivables		**64.9**	124.0	104.1
Inventories	8	**964.2**	1,814.2	1,834.2
Financial assets		**3.0**	5.7	3.1
Other current assets		**33.9**	20.9	52.1
Assets of discontinued operations held for sale	4	**820.1**	—	—
Total current assets		**1,932.9**	2,007.2	2,057.3
Property, plant and equipment	9	**1,289.7**	1,401.1	1,319.8
Intangible assets		**229.9**	224.6	167.3
Pensions and employee benefits		**80.4**	91.0	170.8
Deferred tax assets		**206.2**	257.5	429.1
Other assets		**8.5**	12.1	16.1
Total assets		**3,747.6**	3,993.5	4,160.4
LIABILITIES				
Loans and borrowings	10	**433.2**	290.9	544.9
Trade payables		**337.7**	613.1	626.2
Other payables and accrued liabilities		**268.0**	700.5	349.7
Deferred revenue		**124.6**	132.5	138.8
Provisions		**78.4**	76.1	55.1
Income taxes payable		**14.8**	101.8	118.3
Financial liabilities		**1.6**	1.9	14.7
Liabilities of discontinued operations held for sale	4	**700.6**	—	—
Total current liabilities		**1,958.9**	1,916.8	1,847.7
Loans and borrowings	10	**906.6**	901.7	1,378.3
Provisions		**12.8**	24.5	13.9
Financial liabilities		**3.6**	—	—
Pensions and employee benefits		**77.7**	75.4	74.0
Other liabilities		**67.4**	119.2	1,038.5
Total liabilities		**3,027.0**	3,037.6	4,352.4
Shareholders' Equity				
Share capital	11	**2.2**	2.2	2.2
Parent's interest in L&T		**—**	—	151.9
Retained earnings (deficit)		**726.5**	938.1	(361.1)
Contributed surplus		**36.1**	60.6	11.0
Accumulated other comprehensive (loss) income		**(44.2)**	(45.0)	4.0
Total shareholders' equity (deficit)		**720.6**	955.9	(192.0)
Total liabilities and shareholders' equity (deficit)		**3,747.6**	3,993.5	4,160.4

(See accompanying notes to the Condensed Consolidated Financial Statements)

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of Canadian dollars)
(Unaudited)

	Notes	Twenty-six weeks ended Jul 28, 2012	Jul 30, 2011
Operating activities			
Net (loss) earnings for the period		**(147.8)**	13.3
Add: Income tax benefit		**(85.6)**	(43.8)
Add: Finance costs		**51.6**	76.1
(Loss) earnings before income tax and finance costs		**(181.8)**	45.6
Net cash income taxes paid		**(3.5)**	—
Interest paid in cash		**(44.8)**	(64.4)
Items not affecting cash flows:			
Recognition of proceeds on sale of leasehold interests	4	**(146.7)**	—
Depreciation and amortization	5	**53.0**	49.5
Impairment of property, plant and equipment and intangible assets	9	**34.3**	—
Net defined benefit pension expense		**14.1**	10.6
Other operating activities		**(4.2)**	(8.5)
Gain on sale of pharmacy records		**(40.3)**	—
Gain on sale of property, plant and equipment		**(9.9)**	(9.3)
Share based compensation		**0.3**	1.0
Redemption of share based compensation grants	17	**(7.8)**	—
Net change in operating working capital	15	**265.2**	(223.0)
Net cash outflow for operating activities		**(72.1)**	(198.5)
Investing activities			
Capital expenditures		**(57.9)**	(46.0)
Software development costs		**(15.4)**	(12.0)
Proceeds from disposition of property, plant and equipment		**—**	10.7
Proceeds from sale of discontinued operations	4	**72.1**	907.4
Other investing activities		**0.6**	(2.5)
Net cash (outflow for) inflow from investing activities		**(0.6)**	857.6
Financing activities			
Long-term loans and borrowings:			
Repayments		**(11.2)**	(24.2)
Borrowing costs		**(0.5)**	(0.2)
		(11.7)	(24.4)
Short-term loans and borrowings:			
Borrowings from (repayments of) asset-based credit facilities		**159.9**	(196.7)
Net decrease in other short-term borrowings		**(2.1)**	(0.7)
Borrowing costs		**(5.2)**	(0.1)
		152.6	(197.5)
Common shares return of capital	11	**—**	(245.0)
Dividends paid	11	**(63.8)**	(184.9)
Net cash inflow from (outflow for) financing activities		**77.1**	(651.8)
Foreign exchange losses on cash		**—**	(0.7)
Increase in cash		**4.4**	6.6
Cash at beginning of period		**42.4**	57.2
Cash at end of period		**46.8**	63.8

(See accompanying notes to the Condensed Consolidated Financial Statements)

NOTE 1. BASIS OF PREPARATION

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

On January 11, 2012 HBTC completed a reorganization to combine its retail operations, HBC and L&T. As part of the reorganization, HBC acquired L&T from HBTC. The acquisition of L&T by HBC is a merger of entities under common control and as such the two entities are presented for financial reporting purposes as if the two entities have been consolidated since HBC's acquisition by HBTC. Accordingly, HBC's financial information has been retroactively restated to present L&T as a wholly-owned subsidiary since July 16, 2008, the date the entities came under common ownership.

The Company owns and operates department stores across Canada and regionally within the United States under Hudson's Bay, Home Outfitters and Lord & Taylor banners and operates discount stores under the Zellers and Fields banners. On April 19, 2012, the Company's Board of Directors approved a plan to discontinue the Company's discount store operations. Accordingly, HBC's financial information has been retroactively restated to present Zellers and Fields as discontinued operations (see note 4). The address of the registered office of HBC is 401 Bay Street, Toronto, ON, M5H 2Y4.

NOTE 2. STATEMENT OF COMPLIANCE

The interim financial statements were prepared using the same accounting policies and methods as those used in the annual consolidated financial statements for the year ended January 28, 2012. The interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"), and therefore, do not contain all disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with IFRS, have been omitted or condensed.

The preparation of interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates which requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the interim financial statements have been set out in note 2 of the annual consolidated financial statements for the year ended January 28, 2012. These interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended January 28, 2012.

These financial statements were authorized for issuance by the Board of Directors of HBC on October 16, 2012.

NOTE 3. SEASONALITY

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

NOTE 4. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

Discontinued Operations

On April 19, 2012, the Company's Board of Directors approved a plan to discontinue the Company's discount store operations which consists of the Zellers and Fields banners. The decision followed the sale of certain Zellers leasehold interests to Target Corporation ("Target") which was announced on January 13, 2011 (see below). As a requirement of the Target agreement, the Company is obligated to operate the Zellers banner until March 2013. The Company ceased operating the Fields banner effective July 28, 2012 when the remaining stores not sold were closed. As a result of these changes, the Company has retrospectively restated the condensed consolidated statements of earnings (loss) for all periods presented to reflect the discount store operations as discontinued operations.

NOTE 4. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE (Continued)

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

	Thirteen weeks ended		Twenty-six weeks ended	
(millions of Canadian dollars)	**Jul 28, 2012**	**Jul 30, 2011**	**Jul 28, 2012**	**Jul 30, 2011**
Net (loss) earnings from discontinued operations, net of taxes	**(46.5)**	53.5	**(160.0)**	47.7
Sale of leasehold interests, net of taxes	**34.4**	—	**65.8**	—
Net (loss) earnings for the period — discontinued operations, net of taxes	**(12.1)**	53.5	**(94.2)**	47.7

Net earnings from the sale of leasehold interests in the thirteen and twenty-six weeks ended July 28, 2012 were $34.4 million and $65.8 million, net of income taxes of $5.0 million and $10.5 million, respectively.

	Thirteen weeks ended		Twenty-six weeks ended	
(millions of Canadian dollars)	**Jul 28, 2012**	**Jul 30, 2011**	**Jul 28, 2012**	**Jul 30, 2011**
Retail sales	**632.9**	786.0	**1,296.8**	1,506.6
Cost of sales	**(465.4)**	(515.8)	**(906.2)**	(1,003.4)
Selling, general and administrative expenses	**(239.6)**	(244.9)	**(624.4)**	(485.7)
Operating (loss) income	**(72.1)**	25.3	**(233.8)**	17.5
Finance (costs) income	**(0.5)**	0.2	**(0.2)**	0.4
(Loss) earnings before income tax	**(72.6)**	25.5	**(234.0)**	17.9
Income tax benefit	**26.0**	28.0	**74.0**	29.8
Net (loss) earnings for the period	**(46.5)**	53.5	**(160.0)**	47.7

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

Cash flows from discontinued operations are as follows:

	Twenty-six weeks ended	
(millions of Canadian dollars)	**Jul 28, 2012**	**Jul 30, 2011**
Operating activities	**43.3**	(58.5)
Investing activities	**71.4**	904.6
Increase in cash — discontinued operations	**114.7**	846.1

Assets Held for Sale

The condensed consolidated balance sheet for July 28, 2012 reflects assets and liabilities held for sale relating to the discontinuance of the Zellers and Fields businesses. IFRS does not permit the restatement of balance sheets of periods prior to the businesses being designated as

NOTE 4. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE (Continued)

held for sale. The following table sets out the assets and liabilities relating to Zellers and Fields businesses as of July 28, 2012, January 28, 2012 and July 30, 2011.

(millions of Canadian dollars)	Jul 28, 2012	Jan 28, 2012	Jul 30, 2011
Trade and other receivables	**26.3**	56.0	44.6
Inventories	**657.4**	844.2	884.1
Other current assets	**4.7**	1.0	14.9
Property, plant and equipment	**73.0**	130.6	151.2
Deferred tax assets	**57.8**	61.1	227.2
Other assets — non-current	**0.9**	3.2	5.5
Assets of discontinued operations held for sale	**820.1**		
Trade payables	**138.8**	215.3	200.2
Other payables and accrued liabilities	**260.5**	382.7	75.5
Provisions — current	**278.6**	31.1	3.4
Income taxes payable	**1.9**	93.5	110.2
Provisions — non-current	**12.1**	12.1	2.3
Other liabilities	**8.7**	46.6	970.4
Liabilities of discontinued operations held for sale	**700.6**		

Sale of Leasehold Interests

During fiscal 2011, HBC sold 189 leasehold interests to Target. In connection with the transaction, HBC deferred $308.2 million of proceeds at January 28, 2012. During the thirteen and twenty-six weeks ended July 28, 2012 the Company recognized proceeds of $85.4 million and $146.7 million. As of July 28, 2012, $161.4 million of proceeds remains deferred of which $158.3 million is included in other payables and accrued liabilities to be recognized within twelve months and $3.1 million is included in other long-term liabilities.

In connection with the transaction the Company recognized $25.0 million and $49.8 million (2011: nil and nil) related to employee severance costs in the thirteen and twenty-six weeks ended July 28, 2012, respectively. In addition, $20.5 million (2011: nil) of impairment of property, plant and equipment associated with the selected stores was recognized in the thirteen and twenty-six weeks ended July 28, 2012.

NOTE 5. DEPRECIATION AND AMORTIZATION

	Thirteen weeks ended		Twenty-six weeks ended	
(millions of Canadian dollars)	Jul 28, 2012	Jul 30, 2011	Jul 28, 2012	Jul 30, 2011
Included in selling, general and administrative expenses:				
Property, plant and equipment	**22.6**	21.5	**44.6**	42.9
Intangible assets	**6.1**	5.8	**12.1**	11.7
Deferred credits	**(2.0)**	(2.1)	**(4.1)**	(4.2)
Other	**0.2**	(1.4)	**0.4**	(0.9)
	26.9	23.8	**53.0**	49.5

NOTE 6. FINANCE COSTS

	Thirteen weeks ended		Twenty-six weeks ended	
(millions of Canadian dollars)	Jul 28, 2012	Jul 30, 2011	Jul 28, 2012	Jul 30, 2011
Interest expense on long term borrowings	**16.7**	22.9	**34.7**	45.6
Interest expense on short term borrowings	**9.2**	10.9	**17.4**	23.6
Interest income	**(0.2)**	(0.3)	**(0.7)**	(0.7)
Amortization of loan renewal option	**—**	4.1	**—**	8.0
	25.7	37.6	**51.4**	76.5

NOTE 7. CASH

For the purpose of the condensed consolidated statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments. Cash as at July 28, 2012, January 28, 2012 and July 30, 2011 as shown in the condensed consolidated balance sheets is comprised of the following:

(millions of Canadian dollars)	Jul 28, 2012	Jan 28, 2012	Jul 30, 2011
Cash	**43.3**	42.4	42.8
Restricted cash	**3.5**	—	21.0
	46.8	42.4	63.8

NOTE 8. INVENTORIES

Inventories on hand at July 28, 2012, January 28, 2012 and July 30, 2011 were available for sale. The cost of merchandise inventories related to continuing operations recognized as expense for the thirteen and twenty-six weeks ended July 28, 2012 were $547.3 million and $1,054.4 million (2011: $517.1 million and $984.2 million), respectively. The write-down of merchandise inventories below cost to net realizable value related to continuing operations as at July 28, 2012 was $21.0 (July 30, 2011: $25.7 million). There was no reversal of write-downs previously taken on merchandise inventories that are no longer estimated to sell below cost. Inventory has been pledged as security for certain borrowing agreements.

NOTE 9. PROPERTY, PLANT AND EQUIPMENT

Each reporting period, the Company conducts a review of its cash generating units ("CGU's") to determine if there was any indication that impairment had occurred, or that a previously recorded impairment had reversed. The review led to the recognition of an impairment loss in operating income from continuing operations of $nil and $2.8 million (2011: nil and nil) for the thirteen and twenty-six weeks ended July 28, 2012, respectively. The impairment loss in the thirteen weeks ended April 28, 2012 of $2.8 million relates to changes to the Company's logistics infrastructure in anticipation of the expected volume declines as a result of the closure of the Zellers banner.

Included in discontinued operations, is an impairment charge of $31.5 million (2011: nil) in the thirteen and twenty-six weeks ended July 28, 2012 related to the write-down of store fixtures and leasehold improvements of CGU's in the Zellers banner.

NOTE 10. LOANS AND BORROWINGS

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

The amount outstanding and availability under the Company's revolving credit facilities was as follows:

HBC Revolving Credit Facility

(millions of Canadian dollars)	Jul 28, 2012	Jan 28, 2012	Jul 30, 2011
Gross borrowing base availability	**918.2**	1,063.1	1,195.4
Drawings	**277.7**	155.0	476.6
Outstanding letters of credit	**23.6**	29.0	47.2
Borrowing base availability net of drawings and letters of credit	**616.9**	879.1	671.6

Lord & Taylor Revolving Credit Facility

(millions of Canadian dollars)	Jul 28, 2012	Jan 28, 2012	Jul 30, 2011
Gross borrowing base availability	**281.4**	263.4	230.7
Drawings	**161.8**	125.2	81.4
Outstanding standby letters of credit	**2.2**	6.3	6.5
Borrowing base availability net of drawings and letters of credit	**117.4**	131.9	142.8

NOTE 10. LOANS AND BORROWINGS (Continued)

On June 15, 2012 the Company executed an amendment to the HBC Revolving Credit Facility. The amendment extends the maturity date to June 15, 2017 and reduces the amount available to be borrowed to $1,100.0 million until May 1, 2013. After May 1, 2013, the availability will be further reduced to $750.0 million as a result of the lower borrowing base associated with the continuing operations. There were no changes to HBC's availment options or security interests.

NOTE 11. SHARE CAPITAL

On March 30, 2012 and June 26, 2012 dividends of $12.5 million and $51.3 million, respectively were distributed to the holder of the common shares.

The weighted average number of common shares outstanding for the thirteen and twenty-six weeks ended July 28, 2012 is 1.0 million (2011: 1.0 million) shares.

As part of a multiple stage re-organization, 7612923 Canada Inc. ("Holdco"), acquired 100% ownership of HBC on July 29, 2010. On January 31, 2011, the stated capital account for the common shares, Class A supervoting preferred shares and Class B preferred shares were reduced to $1 each and these reductions were not distributed to their respective holders. Following the reduction of stated capital, there was an amalgamation of Holdco and HBC on February 1, 2011. As of the same date, resolutions were passed to reclassify capital from contributed surplus to common shares and the class A preferred shares and cancel all issued and outstanding shares without repayment of capital, except for the shares of Holdco. The net assets and liabilities and board of directors of HBC following the amalgamation remained the same as that prior to the amalgamation.

On May 27, 2011, a resolution was passed to reduce the share capital of HBC by $245.0 million through a distribution to the holder of the common shares. Also, on May 27, 2011 a dividend of $184.9 million was distributed to the holder of common shares.

NOTE 12. RELATED PARTY TRANSACTIONS

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

Transactions between HBC, L&T and their respective subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between HBC, L&T and other related parties are disclosed below.

The Company, HBTC, True North Retail Investments Limited Partnership ("TNRI") and Hudson's Bay Company Luxembourg, S.A.R.L. ("HBCL"), all of which are entities under common control, and their respective general partners, as applicable, (as "Related HBC Entities") entered into an agreement for the reimbursement of expenses (the "Reimbursement Agreement") effective July 17, 2008 whereby the Company agreed to pay for maintenance and operating expenses of the Related HBC Entities, subject to compliance with the HBC Revolving Credit Facility. Amounts charged to the Company by Related HBC Entities under the Reimbursement Agreement were $1.8 million and $3.5 million (2011: $1.1 million and $2.3 million), respectively for the thirteen and twenty-six weeks ended July 28, 2012.

The Company and HBTC entered into an agreement (the "Management Agreement"), effective July 17, 2008 whereby the Company agreed to pay HBTC an annual fee of U.S.$2.0 million plus reimbursement of other expenses for management, financial, strategic and transaction support. Amounts charged to the Company by HBTC under the Management Agreement were $0.2 million and $0.5 million (2011: $0.7 million and $1.3 million), respectively for the thirteen and twenty-six weeks ended July 28, 2012.

The Company and National Realty & Development Corp. ("NRDC"), an entity under common control entered into Property Management Agreements (the "Property Agreements"), whereby the Company agreed to retain NRDC as its property manager and pay NRDC an annual property management fee of U.S.$4.0 million. Amounts charged to the Company by NRDC under the Property Agreements were $0.9 million and $1.8 million (2011: $1.0 million and $1.9 million), respectively for the thirteen and twenty-six weeks ended July 28, 2012.

As at July 28, 2012 $0.6 million (January 28, 2012: $0.8 million; July 30, 2011: $0.8 million) has been included in other current assets for fees paid or incurred under the Reimbursement Agreement, Management Agreement and Property Agreements.

As at July 28, 2012 $3.2 million (January 28, 2012: $3.2 million; July 30, 2011: $3.2 million) has been included in receivables for advances made by the Company to TNRI.

As at July 28, 2012, receivables also include $1.1 million (January 28, 2012: $1.3 million; July 30, 2011: $1.1 million) primarily for income tax payments made on behalf of Maple Leaf Heritage Investments ULC, an unlimited liability corporation under common control. This related party executed a dissolution agreement with Holdco on August 3, 2010 to which this receivable then related.

On May 6, 2011, L&T's subsidiary, Lord & Taylor Home LLC, which operates home furnishings stores, entered into a two year lease at U.S.$1.0 million annually (with renewal options) with SP 35 L.P. (the "Landlord") for approximately 31,000 sq ft in Shrewsbury, NJ to operate a home store. Amounts charged to the Company under the rental arrangement for the thirteen and twenty-six weeks ended July 28,

NOTE 12. RELATED PARTY TRANSACTIONS (Continued)

2012 were $0.3 million and $0.5 million (2011: nil), respectively. The Landlord is an affiliate of NRDC. Richard Baker and Robert Baker, the principals of NRDC, are also members of L&T B.

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

NOTE 13. COMPENSATION

Total employee benefits expense recorded by the Company for the thirteen and twenty-six weeks ended July 28, 2012 were $302.1 million and $631.8 million (2011: $332.3 million and $668.9 million), respectively.

NOTE 14. CONTINGENT LIABILITIES

As of July 28, 2012, there are a number of claims against the Company where the likely outcome is both quantifiable and estimable in varying amounts and for which provisions have been made in these financial statements, as appropriate. It is not possible to determine the amounts that may ultimately be assessed against the Company with respect to these claims, including the Target indemnification but management believes that any such amounts would not have a material impact on the business or financial position of the Company.

NOTE 15. NET CHANGE IN OPERATING WORKING CAPITAL

(millions of Canadian dollars)	For the twenty-six weeks ended Jul 28, 2012	For the twenty-six weeks ended Jul 30, 2011
Decrease (increase) in:		
Trade and other receivables	**20.6**	22.4
Inventories	**195.1**	(166.8)
Other assets	**(18.0)**	(32.3)
(Decrease) increase in:		
Trade and other payables, accrued liabilities and provisions	**(37.1)**	(41.1)
Other	**104.6**	(5.2)
	265.2	(223.0)

NOTE 16. SEGMENTED REPORTING

As a result of the divestiture of the Zellers and Fields banners, the Company now has one reportable operating segment, Department Stores, which earn revenue from the sale of fashion apparel, accessories, cosmetics and home products to customers in a similar target market. The Department Stores segment which includes Hudson's Bay, L&T and Home Outfitters, is managed by the Chief Operating Decision Maker and supported by an integrated shared service function.

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

	Thirteen weeks ended		Twenty-six weeks ended	
(millions of Canadian dollars)	Jul 28, 2012	Jul 30, 2011	Jul 28, 2012	Jul 30, 2011
Total retail sales				
Canada	**567.9**	557.1	**1,094.8**	1,054.3
United States	**344.0**	311.9	**665.3**	599.0
	911.9	869.0	**1,760.1**	1,653.3

NOTE 16. SEGMENTED REPORTING (Continued)

	Thirteen weeks ended		Twenty-six weeks ended	
(millions of Canadian dollars)	**Jul 28, 2012**	**Jul 30, 2011**	**Jul 28, 2012**	**Jul 30, 2011**
Total operating income (loss)				
Canada	**(9.4)**	12.4	**(68.7)**	(6.4)
United States	**31.1**	25.7	**44.4**	34.5
	21.7	38.1	**(24.3)**	28.1

(millions of Canadian dollars)	**Jul 28, 2012**	**Jan 28, 2012**	**Jul 30, 2011**
Total assets			
Canada	**2,425.1**	2,708.5	3,037.7
United States	**1,322.5**	1,285.0	1,122.7
	3,747.6	3,993.5	4,160.4

NOTE 17. SHARE BASED COMPENSATION

Long Term Incentive Plans (LTIP)

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

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

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

In the twenty-six week period ended July 28, 2012 the company redeemed 2,610,000 units (2.61%) and made payments of $7.8 million and recorded a liability for $11.6 million for future payments related to these redemptions.

A total of 740,000 units (0.74%) were forfeited during the second quarter.

LTIP activity, expressed as a percentage of the total available units under the plan, for the year to date period is as follows:

	Twenty-six weeks ended Jul 28, 2012	**Twenty-six weeks ended Jul 30, 2011**
Balance — beginning of year	**5.15%**	5.32%
Grants awarded	**—**	—
Grants forfeited	**(0.74%)**	—
Grants redeemed	**(1.86%)**	—
Balance — end of period	**2.55%**	5.32%
Comprised of:		
HBC Grants	**1.50%**	1.95%
Subsidiary Grants	**1.05%**	3.37%
Vested Grants — end of period	**1.05%**	2.17%

NOTE 18. SUBSEQUENT EVENTS

On September 7, 2012, LT 424 LLC ("LT 424"), which is an indirect subsidiary of L&T, entered into a U.S.$250.0 million syndicated floating rate senior mortgage loan with Canadian Imperial Bank of Commerce and Natixis Real Estate Capital LLC, as co-arrangers of the syndicate, which matures on September 10, 2017 (the "5th Avenue Lord & Taylor Mortgage"). The 5th Avenue Lord & Taylor Mortgage is guaranteed by L&T. Interest is charged on the 5th Avenue Lord & Taylor Mortgage at a rate of LIBOR plus 3% and is structured to be interest only during the first three years, with monthly amortization payments required during the final two years, based upon a 30 year straight-line amortization schedule with an interest rate of 7%. LT 424 has the ability to prepay the 5th Avenue 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. As security for the 5th Avenue Lord & Taylor Mortgage, LT 424 granted a first priority mortgage in the 5th Avenue Lord & Taylor property. The 5th Avenue Lord & Taylor Mortgage contains customary representations and warranties, positive and negative covenants, reporting requirements and events of default. LT 424 is in compliance with all covenants contained in the 5th Avenue Lord & Taylor Mortgage.

Concurrently, LT 424 has entered into interest rate swap arrangements, the effect of which is to fix the interest rate related to the 5th Avenue Lord & Taylor Mortgage at 3.85%.

On September 7, 2012, L&T prepaid U.S.$242.5 million of the Lord & Taylor Term Loan with the net proceeds of the 5th Avenue Lord & Taylor mortgage.

On September 28, 2012, as permitted in the Lord & Taylor Revolving Credit Facility agreement, the Company increased the revolving line of credit from U.S.$300.0 million to US $350.0 million.

INDEPENDENT AUDITOR'S CONSENT

We have read the base PREP prospectus of Hudson's Bay Company (the "Company") dated October ● , 2012 relating to the initial public offering of common shares of the Company and the secondary offering of common shares of the Company by the Selling Shareholder. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned prospectus of our report to the Board of Directors of the Company on the consolidated balance sheets of the Company as at January 28, 2012 and January 31, 2011, 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 years ended January 28, 2012, January 31, 2011 and January 31, 2010. Our report is dated ● .

●

Chartered Accountants
Licensed Public Accountants
● , 2012

CERTIFICATE OF HUDSON'S BAY COMPANY

Dated October 16, 2012

The prospectus, together with the documents and information incorporated by reference, will, as of the date of the supplemented prospectus providing the information permitted to be omitted from this prospectus, constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required under the securities legislation of each of the provinces and territories of Canada.

(Signed) RICHARD A. BAKER
Governor and Chief Executive Officer

(Signed) MICHAEL G. CULHANE
Chief Financial Officer

On behalf of the Board of Directors

(Signed) ROBERT C. BAKER
Director

(Signed) LEE S. NEIBART
Director

CERTIFICATE OF SELLING SHAREHOLDER AND PROMOTER

Dated October 16, 2012

The prospectus, together with the documents and information incorporated by reference, will, as of the date of the supplemented prospectus providing the information permitted to be omitted from this prospectus, constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required under the securities legislation of each of the provinces and territories of Canada.

On behalf of the Promoter and Selling Shareholder
Hudson's Bay Company (Luxembourg) S. à r. l.

(Signed) RICHARD BAKER
Class A Manager

CERTIFICATE OF THE UNDERWRITERS

Dated October 16, 2012

To the best of our knowledge, information and belief, this prospectus, together with the documents and information incorporated by reference, will, as of the date of the supplemented prospectus providing the information permitted to be omitted from this prospectus, constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required under the securities legislation of each of the provinces and territories of Canada.

RBC Dominion Securities Inc.	BMO Nesbitt Burns Inc.	CIBC World Markets Inc.	Merrill Lynch Canada Inc.
(Signed) Stephen A. Michell	(Signed) Brad P. Fraser	(Signed) Ryan Voegeli	(Signed) Timothy Johnston

J.P. Morgan Securities Canada Inc.	Scotia Capital Inc.	TD Securities Inc.
(Signed) Mike Bauer	(Signed) Dany Beauchemin	(Signed) Sanjay Nakra

Canaccord Genuity Corp.	UBS Securities Canada Inc.
(Signed) Michael Levin	(Signed) E.T.N. Larkin

Credit Suisse Securities (Canada), Inc.	National Bank Financial Inc.
(Signed) Erik Charbonneau	(Signed) Andrew Wallace

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