HUDSON'S BAY COMPANY

2017 Q2 INTERIM
CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

For the Thirteen and Twenty-six Weeks Ended

July 29, 2017

Table of Contents

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF LOSS

(millions of Canadian dollars, except per share amounts)
(unaudited)

		Thirteen weeks ended		Twenty-six weeks ended	
	Notes	**Jul 29, 2017**	Jul 30, 2016	**Jul 29, 2017**	Jul 30, 2016
Retail sales		**3,291**	3,252	**6,494**	6,555
Cost of sales	9	**(1,967)**	(1,901)	**(3,835)**	(3,821)
Selling, general and administrative expenses ("SG&A")		**(1,392)**	(1,286)	**(2,765)**	(2,681)
Depreciation and amortization	6	**(173)**	(154)	**(346)**	(312)
Gain on sale of investments in joint ventures	10	**—**	—	**—**	45
Operating loss		**(241)**	(89)	**(452)**	(214)
Finance costs, net	7	**(53)**	(56)	**(110)**	(101)
Share of net earnings (loss) in joint ventures	10	**4**	(51)	**(23)**	(53)
Dilution gains from investments in joint ventures	10	**—**	8	**3**	12
Loss before income tax		**(290)**	(188)	**(582)**	(356)
Income tax benefit		**89**	46	**160**	117
Net loss for the period		**(201)**	(142)	**(422)**	(239)
Loss per common share					
Basic and diluted	15	**(1.10)**	(0.78)	**(2.32)**	(1.31)

(See accompanying notes to the unaudited interim condensed consolidated financial statements)

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(millions of Canadian dollars)
(unaudited)

	Thirteen weeks ended		Twenty-six weeks ended	
	Jul 29, 2017	Jul 30, 2016	**Jul 29, 2017**	Jul 30, 2016
Net loss	**(201)**	(142)	**(422)**	(239)
Other comprehensive (loss) income, net of tax:				
Items that may be reclassified subsequently to earnings or loss:				
Currency translation adjustment	**(175)**	100	**(94)**	(189)
Net gain (loss) on net investment hedge, net of taxes	**26**	(11)	**15**	20
Net (loss) gain on derivatives designated as cash flow hedges, net of taxes	**(20)**	8	**(6)**	(22)
Reclassification to non-financial assets of net losses (gains) on derivatives designated as cash flow hedges, net of taxes	**—**	2	**(3)**	2
Reclassification to loss of net (gains) losses on derivatives designated as cash flow hedges, net of taxes	**(12)**	(2)	**(14)**	4
Other comprehensive (loss) income	**(181)**	97	**(102)**	(185)
Total comprehensive loss	**(382)**	(45)	**(524)**	(424)

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the twenty-six weeks ended July 29, 2017 and July 30, 2016

(millions of Canadian dollars)
(unaudited)

					Accumulated Other Comprehensive Income ("AOCI")					
	Notes	Share Capital	Retained Earnings	Contributed Surplus	Currency Translation Adjustment	Employee Benefits	Net Investment Hedge	Cash Flow Hedges	Total AOCI	Total Shareholders' Equity
As at January 28, 2017		**1,422**	**477**	**117**	430	(2)	(37)	3	**394**	**2,410**
Total comprehensive loss		—	(422)	—	(94)	—	15	(23)	(102)	(524)
Share based compensation	14	4	—	11	—	—	—	—	—	15
Dividends	15	—	(11)	—	—	—	—	—	—	(11)
As at July 29, 2017		**1,426**	**44**	**128**	336	(2)	(22)	(20)	**292**	**1,890**

					Accumulated Other Comprehensive Income ("AOCI")					
	Notes	Share Capital	Retained Earnings	Contributed Surplus	Currency Translation Adjustment	Employee Benefits	Net Investment Hedge	Cash Flow Hedges	Total AOCI	Total Shareholders' Equity
As at January 30, 2016		**1,420**	**1,029**	**86**	606	11	(56)	3	**564**	**3,099**
Total comprehensive loss		—	(239)	—	(189)	—	20	(16)	(185)	(424)
Share based compensation	14	1	—	7	—	—	—	—	—	8
Dividends		—	(18)	—	—	—	—	—	—	(18)
As at July 30, 2016		**1,421**	**772**	**93**	417	11	(36)	(13)	**379**	**2,665**

(See accompanying notes to the unaudited interim condensed consolidated financial statements)

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

As at July 29, 2017, July 30, 2016 and January 28, 2017

(millions of Canadian dollars)
(unaudited)

	Notes	Jul 29, 2017	Jul 30, 2016 (restated - notes 4 and 5)	Jan 28, 2017
Assets				
Cash	8	**112**	114	122
Trade and other receivables		**343**	505	391
Inventories	9	**3,324**	3,322	3,376
Other current assets		**199**	199	176
Total current assets		**3,978**	4,140	4,065
Property, plant and equipment		**5,273**	5,204	5,284
Intangible assets and goodwill		**1,705**	1,984	1,786
Pensions and employee benefits		**170**	160	175
Deferred tax assets		**358**	297	301
Investments in joint ventures	10	**588**	610	581
Other assets		**22**	21	19
Total assets		**12,094**	12,416	12,211
Liabilities				
Loans and borrowings	11	**1,206**	830	418
Finance leases		**28**	24	24
Trade payables		**1,464**	1,261	1,606
Other payables and accrued liabilities		**946**	1,051	1,046
Deferred revenue		**103**	107	128
Provisions		**193**	170	167
Other liabilities	12	**157**	140	137
Total current liabilities		**4,097**	3,583	3,526
Loans and borrowings	11	**2,604**	2,729	2,744
Finance leases		**500**	493	499
Provisions		**53**	74	59
Pensions and employee benefits		**690**	664	662
Deferred tax liabilities		**573**	757	713
Investment in joint venture	10	**4**	14	9
Other liabilities	12	**1,683**	1,437	1,589
Total liabilities		**10,204**	9,751	9,801
Shareholders' equity				
Share capital		**1,426**	1,421	1,422
Retained earnings		**44**	772	477
Contributed surplus		**128**	93	117
Accumulated other comprehensive income		**292**	379	394
Total shareholders' equity		**1,890**	2,665	2,410
Total liabilities and shareholders' equity		**12,094**	12,416	12,211

(See accompanying notes to the unaudited interim condensed consolidated financial statements)

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the twenty-six weeks ended July 29, 2017 and July 30, 2016

(millions of Canadian dollars)
(unaudited)

	Notes	Jul 29, 2017	Jul 30, 2016
Operating activities			
Net loss for the period		**(422)**	(239)
Income tax benefit		**(160)**	(117)
Dilution gains from investments in joint ventures	10	**(3)**	(12)
Share of net loss in joint ventures	10	**23**	53
Finance costs, net	7	**110**	101
Operating loss		**(452)**	(214)
Net cash income taxes received (paid)		**17**	(12)
Interest paid in cash		**(94)**	(86)
Distributions of earnings from joint ventures	10	**105**	100
Items not affecting cash flows:			
Depreciation and amortization	6	**346**	312
Net defined benefit pension and employee benefits expense		**15**	14
Other operating activities		**(17)**	(5)
Share of rent expense to joint ventures	10	**(178)**	(185)
Gain on sale of investments in joint ventures	10	**—**	(45)
Share based compensation	14	**17**	11
Settlement of share based compensation grants	14	**(2)**	(3)
Changes in operating working capital	19	**(215)**	(267)
Net cash outflow for operating activities		**(458)**	(380)
Investing activities			
Capital investments		**(474)**	(542)
Proceeds from landlord incentives		**132**	203
Capital investments less proceeds from landlord incentives		**(342)**	(339)
Proceeds from lease terminations and other non-capital landlord incentives		**2**	—
Proceeds on disposal of assets		**3**	37
Proceeds from sale of investments in joint ventures	10	**—**	65
Acquisition of Gilt Groupe Holdings Inc., net of cash acquired		**—**	(325)
Other investing activities		**(12)**	6
Net cash outflow for investing activities		**(349)**	(556)
Financing activities			
Long-term loans and borrowings:			
Issuance		**5**	522
Repayments		**(4)**	(326)
Borrowing costs		**—**	(13)
		1	183
Short-term loans and borrowings:			
Net borrowings from asset-based credit facilities		**825**	415
Borrowing costs		**(2)**	(12)
		823	403
Payments on finance leases		**(17)**	(16)
Dividends paid		**(11)**	(18)
Net cash inflow from financing activities		**796**	552
Foreign exchange gain (loss) on cash		**1**	(9)
Decrease in cash		**(10)**	(393)
Cash at beginning of year		**122**	507
Cash at end of period		**112**	114

(See accompanying notes to the unaudited interim condensed consolidated financial statements)

NOTE 1. GENERAL INFORMATION

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

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

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

On July 9, 2015, the Company and RioCan Real Estate Investment Trust ("RioCan") closed the first tranche of their joint venture, RioCan-HBC Limited Partnership (the "RioCan-HBC JV"). The second tranche of the RioCan-HBC JV closed on November 25, 2015.

On July 22, 2015, the Company and Simon Property Group Inc. ("Simon") closed their joint venture, Simon HBC Opportunities LLC (the "HBC-Simon JV").

On September 30, 2015, prior to the acquisition discussed below, the HBC-Simon JV became a wholly-owned subsidiary of HBS Global Properties LLC (the "HBS Joint Venture").

On September 30, 2015, the Company and the HBS Joint Venture acquired GALERIA Holding ("Galeria Kaufhof") for €2,317 million ($3,490 million) (the " Galeria Kaufhof Acquisition"). The transaction was structured such that effectively, the Company acquired the operating business and certain properties of Kaufhof ("Kaufhof") while the HBS Joint Venture acquired the property business (the "Kaufhof Property Business").

On February 1, 2016, the Company acquired Gilt Groupe Holdings Inc. ("Gilt") for U.S.$237 million ($332 million) in cash (the "Gilt Acquisition"), excluding debt.

The Company owns and operates department stores in Canada and the United States under Hudson's Bay, Lord & Taylor, Saks Fifth Avenue, Saks Fifth Avenue OFF 5TH, Find @ Lord & Taylor, Gilt and Home Outfitters banners. In Europe, its banners include Galeria Kaufhof, Galeria INNO, Sportarena and Saks Fifth Avenue OFF 5TH Europe, together "HBC Europe". The address of the registered office of HBC is 401 Bay Street, Suite 500, Toronto, ON, M5H 2Y4.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board (''IASB''), and therefore, do not contain all disclosures required by International Financial Reporting Standards (''IFRS'') for annual audited consolidated financial statements. Accordingly, certain information and note disclosures normally included in annual financial statements prepared in accordance with IFRS, have been omitted or condensed.

The preparation of unaudited interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates, which requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the unaudited interim financial statements have been set out in note 3 of the annual audited consolidated financial statements for the year ended January 28, 2017.

These unaudited interim condensed consolidated financial statements were prepared using the same accounting policies and methods as those used in the annual audited consolidated financial statements for the year ended January 28, 2017 and should be read in conjunction with them.

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Audit Committee of HBC on September 5, 2017.

Accounting standards implemented in fiscal 2017

Income Taxes

In January 2016, the IASB amended IAS 12 – Income Taxes ("IAS 12") by issuing Recognition of Deferred Tax Assets for Unrealized Losses. These amendments address the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value and are effective for annual periods beginning on or after January 1, 2017. The Company implemented these amendments to IAS 12 at the beginning of its 2017 fiscal year and the implementation did not have an impact on its results of operations, financial position or disclosure.

New accounting standards not yet implemented

Revenue

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15"), which provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is assessing the potential impact of IFRS 15, but does not expect material changes to the amount and timing of revenue recognition due to the nature of the contracts it has in place. The Company expects to apply the standard by its mandatory effective date.

Financial Instruments

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

Classification and measurement

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

Impairment

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

Hedge accounting

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

IFRS 9 will be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company will not be early adopting this standard. The potential financial and disclosure impact of adopting IFRS 9 is still being assessed by the Company, but is not expected to be significant.

Leases

In January 2016, the IASB issued the final publication of IFRS 16 – Leases ("IFRS 16"), which is to replace the current IAS 17 lease accounting standard and related interpretations. IFRS 16 is required to be adopted either retrospectively or by recognizing the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with the approach under IFRS 16 substantially unchanged from the current IAS 17 lease accounting standard and related interpretations. IFRS 16 is effective for fiscal years beginning on or after January 1, 2019 with earlier adoption permitted if IFRS 15 has also been adopted. Although the Company is still in the process of assessing the potential impact of IFRS 16, it expects this standard will have a significant impact on its consolidated balance sheet, along with a change to the recognition, measurement and presentation of lease related expenses in the consolidated statement of earnings (loss).

NOTE 3. SEASONALITY

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

NOTE 4. ACQUISITION OF GILT GROUPE HOLDINGS INC

During fiscal 2016, the Company identified measurement period adjustments based on new information. The impacts of the adjustments to previously reported comparative amounts are as follows:

(millions of Canadian dollars)	Jul 30, 2016
Goodwill	(15)
Other payables and accrued liabilities	(10)
Deferred tax liabilities	(3)
Other long-term liabilities	(2)

NOTE 5. ACQUISITION OF GALERIA HOLDINGS

During fiscal 2016, the Company identified measurement period adjustments based on new information. The impacts of the adjustments to previously reported comparative amounts are as follows:

(millions of Canadian dollars)	Jul 30, 2016
Inventories	(10)
Property, plant and equipment	6
Intangible assets	8
Finance leases	2
Provisions	5
Deferred tax liabilities	(3)

NOTE 6. DEPRECIATION AND AMORTIZATION

	Thirteen weeks ended		**Twenty-six weeks ended**	
(millions of Canadian dollars)	**Jul 29, 2017**	Jul 30, 2016	**Jul 29, 2017**	Jul 30, 2016
Property, plant and equipment	**124**	109	**250**	229
Intangible assets	**49**	46	**97**	85
Deferred credits and other	**—**	(1)	**(1)**	(2)
	173	154	**346**	312

NOTE 7. FINANCE COSTS, NET

	Thirteen weeks ended		**Twenty-six weeks ended**	
(millions of Canadian dollars)	**Jul 29, 2017**	Jul 30, 2016	**Jul 29, 2017**	Jul 30, 2016
Interest expense on long-term borrowings	**34**	33	**67**	61
Interest expense on short-term borrowings	**8**	7	**18**	19
Interest expense on finance leases	**10**	10	**20**	20
Net interest on pensions and employee benefits	**3**	4	**6**	7
Write-off of deferred financing costs	**—**	3	**—**	3
Interest income	**—**	(1)	**—**	(1)
Total interest expense	**55**	56	**111**	109
Saks acquisition-related finance income (note 13)	**(2)**	—	**(1)**	(8)
	53	56	**110**	101

NOTE 8. CASH

As at July 29, 2017, cash included restricted cash of $22 million (July 30, 2016: $15 million; January 28, 2017: $22 million).

NOTE 9. INVENTORIES

Inventories on hand at July 29, 2017, July 30, 2016 and January 28, 2017 were available for sale. The cost of merchandise inventories recognized as expense for the thirteen and twenty-six weeks ended July 29, 2017 was $1,967 million and $3,835 million (2016: $1,901 million and $3,821 million). The write-down of merchandise inventories below cost to net realizable value as at July 29, 2017 was $89 million (July 30, 2016: $74 million; January 28, 2017: $81 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 described in note 11.

NOTE 10. INVESTMENTS IN JOINT VENTURES

The following table summarizes the details of our joint ventures whose principal activities are real estate investments:

		Jul 29, 2017		Jul 30, 2016		Jan 28, 2017	
(millions of Canadian dollars, except ownership interest)	**Principal Places of Business**	**Ownership Interest**	**Carrying Value**	Ownership Interest	Carrying Value	Ownership Interest	Carrying Value
RioCan-HBC JV	Canada	**88.1%**	**(4)**	88.4%	(14)	88.1%	(9)
HBS Joint Venture	United States, Germany	**63.1%**	**493**	64.7%	509	63.4%	481
Other joint venture	United States, Germany	**63.1%**	**95**	64.7%	101	63.4%	100
			584		596		572

RioCan-HBC JV

During the thirteen and twenty-six weeks ended July 30, 2016, RioCan contributed $15 million and $21 million towards its $52 million commitment for improvements to properties contributed by HBC. In connection with this, the Company realized dilution gains of $4 million and $6 million in the respective prior year periods. As at July 29, 2017, RioCan's remaining capital commitment was $26 million.

The following table details the changes in the Company's investment in the RioCan-HBC JV:

	Thirteen weeks ended		**Twenty-six weeks ended**	
(millions of Canadian dollars)	**Jul 29, 2017**	Jul 30, 2016	**Jul 29, 2017**	Jul 30, 2016
Equity investment as at the beginning of the period	**(7)**	(20)	**(9)**	(27)
Share of net earnings from joint venture	**19**	20	**39**	41
Dilution gains from changes in equity interest	**—**	4	**—**	6
Distributions of earnings from joint venture	**(16)**	(18)	**(34)**	(34)
Equity investment as at the end of the period	**(4)**	(14)	**(4)**	(14)

Summarized financial information of the RioCan-HBC JV and reconciliation to the carrying amount of the investment in the consolidated balance sheets are set out below:

(millions of Canadian dollars)	Jul 29, 2017	Jul 30, 2016	Jan 28, 2017
Cash	**1**	1	2
Current other financial assets	**7**	8	10
Current other assets	**1**	1	—
Non-current financial assets	**145**	143	142
Non-current other assets	**1,718**	1,737	1,730
Current financial liabilities	**(8)**	(10)	(9)
Non-current financial liabilities	**(538)**	(542)	(540)
Net assets at 100%	**1,326**	1,338	1,335
Company's share of net assets in the RioCan-HBC JV	**1,168**	1,183	1,176
Less gain on contributions of assets to the RioCan-HBC JV not recognized related to Company's ownership interest	**(1,172)**	(1,197)	(1,185)
Company's carrying value of investment in the RioCan-HBC JV	**(4)**	(14)	(9)

Summarized statements of earnings of the RioCan-HBC JV:

	Thirteen weeks ended		Twenty-six weeks ended	
(millions of Canadian dollars)	Jul 29, 2017	Jul 30, 2016	Jul 29, 2017	Jul 30, 2016
Rental revenue	**28**	28	**55**	56
Rental revenue - recoveries	**2**	2	**4**	4
Property operating costs	**(2)**	(2)	**(5)**	(5)
Depreciation and amortization	**(11)**	(11)	**(20)**	(21)
Finance income	**2**	2	**5**	5
Finance costs	**(4)**	(4)	**(8)**	(8)
Net earnings at 100%	**15**	15	**31**	31
Company's share of net earnings in the RioCan-HBC JV prior to adjustment	**13**	14	**27**	28
Adjustment for the Company's share of depreciation on the fair value increment of the contributed properties	**6**	6	**12**	13
Company's share of net earnings from the RioCan-HBC JV	**19**	20	**39**	41
Reclassification of rental income to SG&A related to the Company's ownership interest in the RioCan-HBC JV	**(21)**	(21)	**(42)**	(42)
Company's share of net loss in the RioCan-HBC JV	**(2)**	(1)	**(3)**	(1)

HBS Joint Venture

During the thirteen and twenty-six weeks ended July 29, 2017, Simon contributed nil and U.S.$7 million ($9 million) (2016: U.S.$8 million ($10 million) and U.S.$13 million ($16 million)) towards its U.S.$99 million commitment for improvements to properties contributed by HBC. As a result of these contributions, the Company's ownership interest in the HBS Joint Venture decreased from 63.4% as at January 28, 2017 to 63.1% as at July 29, 2017 and the Company realized dilution gains of nil and $3 million (2016: $4 million and $6 million) during the thirteen and twenty-six weeks ended July 29, 2017. As at July 29, 2017, Simon's remaining capital commitment was U.S.$48 million.

On March 30, 2016, HBC sold a portion of its equity investment in the HBS Joint Venture (and other joint venture) to Madison International Realty for proceeds of U.S.$50 million ($65 million), reducing the Company's ownership interest in the HBS Joint Venture from 67.2% to 65.0%. Total proceeds from the sale were used to pay down the Global ABL, as described in note 11. As a result of the transaction, the Company recognized a pre-tax gain on the sale of $45 million.

The following table details the changes in the Company's investment in the HBS Joint Venture:

(millions of Canadian dollars)	Thirteen weeks ended Jul 29, 2017	Thirteen weeks ended Jul 30, 2016	Twenty-six weeks ended Jul 29, 2017	Twenty-six weeks ended Jul 30, 2016
Equity investment as at the beginning of the period	**507**	500	**481**	545
Share of net earnings from joint venture	**75**	20	**116**	91
Dilution gains from changes in equity interest	**—**	4	**3**	6
Sale of a portion of investment in joint venture	**—**	—	**—**	(17)
Distributions of earnings from joint venture	**(35)**	(31)	**(71)**	(66)
Return of capital from joint venture	**—**	(6)	**—**	(6)
Net foreign currency exchange	**(54)**	22	**(36)**	(44)
Equity investment as at the end of the period	**493**	509	**493**	509

Summarized financial information of the HBS Joint Venture and reconciliation to the carrying amount of the investment in the unaudited interim condensed consolidated balance sheets are set out below:

(millions of Canadian dollars)	Jul 29, 2017	Jul 30, 2016	Jan 28, 2017
Cash	**20**	80	18
Current other financial assets	**9**	21	17
Non-current assets	**5,109**	5,419	5,276
Current other liabilities	**—**	(31)	—
Current financial liabilities	**(293)**	(168)	(306)
Non-current liabilities	**(391)**	(404)	(385)
Non-current financial liabilities	**(2,816)**	(3,157)	(2,908)
Net assets at 100%	**1,638**	1,760	1,712
Company's share of net assets in the HBS Joint Venture	**1,033**	1,138	1,084
Less gain on contribution of assets to the HBS Joint Venture not recognized related to Company's ownership interest	**(540)**	(629)	(603)
Company's carrying value of investment in the HBS Joint Venture	**493**	509	481

Summarized statements of earnings of the HBS Joint Venture:

(millions of Canadian dollars)	Thirteen weeks ended Jul 29, 2017	Thirteen weeks ended Jul 30, 2016	Twenty-six weeks ended Jul 29, 2017	Twenty-six weeks ended Jul 30, 2016
Rental revenue	**109**	109	**215**	219
Rental revenue - recoveries	**6**	7	**11**	12
Property operating costs	**(1)**	(6)	**(7)**	(8)
General and administrative expenses	**(2)**	(3)	**(4)**	(5)
Foreign exchange gain (loss)	**59**	(23)	**73**	28
Depreciation and amortization	**(28)**	(27)	**(55)**	(56)
Finance costs	**(29)**	(28)	**(57)**	(56)
Income tax expense	**(5)**	(5)	**(9)**	(9)
Net earnings at 100%	**109**	24	**167**	125
Company's share of net earnings in the HBS Joint Venture prior to adjustment	**71**	16	**108**	83
Adjustment for the Company's share of depreciation on the fair value increment of the contributed properties	**4**	4	**8**	8
Company's share of net earnings from the HBS Joint Venture	**75**	20	**116**	91
Reclassification of rental income to SG&A related to the Company's ownership interest in the HBS Joint Venture	**(69)**	(70)	**(136)**	(143)
Company's share of net earnings (loss) in the HBS Joint Venture	**6**	(50)	**(20)**	(52)

NOTE 11. LOANS AND BORROWINGS

The Company's debt consists of a global U.S. dollar denominated asset based revolving credit facility ("Global ABL"), a U.S. term loan ("U.S. Term Loan B") and mortgages.

a) Current loans and borrowings

(millions of Canadian dollars)	Jul 29, 2017	Jul 30, 2016	Jan 28, 2017
Global ABL	**1,222**	849	434
Current portion of long-term loans and borrowings	**8**	7	7
	1,230	856	441
Less: unamortized costs	**(24)**	(26)	(23)
	1,206	830	418

On February 6, 2017, the Global ABL was expanded by U.S.$350 million to include a Dutch subfacility and is now comprised of 4 tranches: (i) a U.S. subfacility, (ii) a Canadian subfacility, (iii) a German subfacility and (iv) a Dutch subfacility, that are drawn in local currencies. The Global ABL has a total borrowing line of U.S.$2.25 billion.

The amounts outstanding and the availability under the Global ABL were as follows:

(millions of Canadian dollars)	Jul 29, 2017	Jul 30, 2016	Jan 28, 2017
Gross borrowing base availability	**2,373**	2,315	2,262
Drawings	**(1,222)**	(849)	(434)
Outstanding letters of credit	**(90)**	(118)	(76)
Borrowing base availability net of drawings and letters of credit	**1,061**	1,348	1,752

As the Global ABL is available for and used to finance working capital requirements, capital expenditures and other general corporate purposes, it has been classified in the unaudited interim condensed consolidated balance sheets as part of current loans and borrowings. However, the Company is not required to repay any balance outstanding until the maturity date of February 5, 2021.

b) Long-term loans and borrowings

(millions of Canadian dollars)	Jul 29, 2017	Jul 30, 2016	Jan 28, 2017
U.S. Term Loan B	**622**	653	657
Lord & Taylor Mortgage	**493**	522	523
Saks Mortgage	**1,556**	1,632	1,642
Other loans	**11**	8	7
	2,682	2,815	2,829
Less: unamortized costs	**(70)**	(79)	(78)
Less: amounts due within one year	**(8)**	(7)	(7)
	2,604	2,729	2,744

NOTE 12. OTHER LIABILITIES

(millions of Canadian dollars)	**Jul 29, 2017**	Jul 30, 2016 (restated - note 4)	Jan 28, 2017
Deferred landlord incentives	**979**	823	909
Straight-line rent liabilities	**334**	186	267
Deferred gain on sale and leaseback transaction	**217**	227	222
Operating lease intangible liability	**104**	113	104
Deferred proceeds from lease terminations	**63**	65	65
Income taxes payable	**30**	37	28
Financial liabilities	**36**	38	11
Other	**77**	88	120
	1,840	1,577	1,726
Current	**157**	140	137
Non-current	**1,683**	1,437	1,589
	1,840	1,577	1,726

NOTE 13. FINANCIAL INSTRUMENTS

The fair values of the Global ABL, U.S. Term Loan B, Lord & Taylor Mortgage, Saks Mortgage and other loans are determined using either quoted prices for identical or similar securities or a discounted cash flow model that uses current market interest rates for items of similar risk. These instruments are classified within Level 2 of the fair value hierarchy.

As at July 29, 2017, July 30, 2016 and January 28, 2017, the carrying value and fair value of these debt instruments were as follows:

(millions of Canadian dollars)	**Jul 29, 2017**	Jul 30, 2016	Jan 28, 2017
Carrying value[(1)]	**3,904**	3,664	3,263
Fair value	**3,903**	3,666	3,254

(1) Carrying values exclude unamortized costs.

Cash, trade and other receivables, trade payables and other payables and accrued liabilities are financial assets or liabilities that are carried at other than fair value in the unaudited interim condensed consolidated balance sheets. The fair value of these financial assets and liabilities approximate their carrying values at the balance sheet dates due to their short-term nature.

The fair values of interest rate swaps, forward foreign currency contracts and warrants 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 which utilize observable market input data. These instruments are classified within Level 2 of the fair value hierarchy.

As at July 29, 2017, July 30, 2016 and January 28, 2017, the fair value and carrying value of derivative financial assets and financial liabilities were as follows:

(millions of Canadian dollars)	**Jul 29, 2017**	Jul 30, 2016	Jan 28, 2017
Current financial assets (included in other current assets)	**12**	4	18
Current financial liabilities (included in other current liabilities)	**32**	15	6
Non-current financial liabilities (included in other liabilities)	**4**	23	5

Certain features of the warrants issued in connection with the acquisition of Saks result in the warrants being presented as derivative financial liabilities recorded at fair value in the unaudited interim condensed consolidated balance sheets.

In relation to the 1.5 million warrants issued concurrently with the execution of the merger agreement ("Merger Agreement Warrants") to H.S. Investments L.P. ("HSILP"), an entity affiliated with Ontario Teachers' Pension Plan Board, the Company recognized acquisition related finance income of nil during the thirteen and twenty-six weeks ended July 29, 2017 (2016: nil and finance income of $2 million), representing mark-to-market adjustments to the fair value as at July 29, 2017. As at July 29, 2017, the fair value of the Merger Agreement Warrants was $1 million (July 30, 2016: $5 million; January 28, 2017: $1 million).

In relation to the 5.25 million warrants issued to HSILP and West Face Long Term Opportunities Global Master L.P, a fund advised by West Face Capital Inc., on November 4, 2013 upon closing of the acquisition of Saks ("Acquisition Warrants"), the Company recognized acquisition related finance income of $2 million and $1 million during the thirteen and twenty-six weeks ended July 29, 2017 (2016: nil and finance income of $6 million), representing mark-to-market adjustments to the fair value as at July 29, 2017. As at July 29, 2017, the fair value of the Acquisition Warrants was $3 million (July 30, 2016: $18 million; January 28, 2017: $4 million).

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

The fair values of the warrants were determined using the Black-Scholes option pricing model using the following assumptions:

	Jul 29, 2017	Jul 30, 2016	Jan 28, 2017
Share price	**$10.60**	$16.41	$10.36
Expected volatility	**42%**	38%	42%
Dividend yield	**0.47%**	1.22%	1.93%
Risk free interest rate	**1.55%**	0.57%	1.05%
Expected life – Merger Agreement Warrants	**1.0 years**	2.0 years	1.5 years
Expected life – Acquisition Warrants	**1.3 years**	2.3 years	1.8 years

The Company's net investments in L&T Acquisition and Gilt (U.S. dollars), and HBC Europe (Euros) whose functional currencies are not Canadian dollars present foreign exchange risks to HBC. The Company is using a net investment hedge to mitigate a portion of the U.S. dollar foreign exchange risk by designating U.S.$245 million of U.S. Term Loan B as a hedge of the first U.S.$245 million of net assets of L&T Acquisition. Foreign currency translation of net earnings (loss) of L&T Acquisition, Gilt and HBC Europe impacts consolidated net earnings (loss). Foreign currency translation of the net assets of L&T Acquisition, Gilt and HBC Europe impacts other comprehensive income (loss).

On July 19, 2016, the Company entered into 2 interest rate swap arrangements related to the Lord & Taylor Mortgage (note 11) to reduce its future cash flow exposure to floating interest rates. The Company fixed the interest rate at approximately 4.3% over the term of the mortgage. Each interest rate swap is designated as a cash flow hedge and accounted for using hedge accounting. The interest rate swaps are valued based on the difference between the exercise rate and the spot rate, volatility of exchange rates and market interest rates at the period-end date.

NOTE 14. SHARE BASED COMPENSATION

Senior executive option transactions were as follows:

	Twenty-six weeks ended			
	Jul 29, 2017		Jul 30, 2016	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of year	16,289,564	$19.03	10,656,936	$20.37
Granted	3,212,920	$8.95	6,617,787	$16.94
Forfeited	(970,259)	$19.31	(524,447)	$19.02
Outstanding at end of period	18,532,225	$17.27	16,750,276	$19.05
Share options exercisable at end of period	4,174,757	$17.07	—	—

During the thirteen and twenty-six weeks ended July 29, 2017, the grant date fair value of senior executive options was $9 million (2016: $1 million and $28 million).

The following table summarizes information about the senior executive share options outstanding and exercisable as at July 29, 2017:

Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at Jul 29, 2017	Weighted average exercise price
$8.50 to $8.99	3,212,920	6.9	$8.95	—	—
$15.00 to $15.49	180,166	5.9	$15.01	59,092	$15.01
$16.00 to $16.49	283,063	5.5	$16.28	—	—
$16.50 to $16.99	133,109	6.2	$16.96	—	—
$17.00 to $17.49	10,378,084	5.5	$17.01	3,447,832	$17.01
$17.50 to $17.99	735,823	3.8	$17.61	667,833	$17.61
$23.50 to $23.99	2,101,445	4.8	$23.72	—	—
$24.00 to $24.49	100,000	5.2	$24.22	—	—
$28.00 to $28.49	1,407,615	4.9	$28.34	—	—
Total	18,532,225	5.6	$17.27	4,174,757	$17.07

Other management option transactions were as follows:

	Twenty-six weeks ended			
	Jul 29, 2017		Jul 30, 2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	1,861,600	$19.13	1,843,600	$19.72
Granted	—	—	332,800	$16.70
Forfeited	(213,209)	$19.43	(168,933)	$19.59
Outstanding at end of period	1,648,391	$19.03	2,007,467	$19.20
Share options exercisable at end of period	1,052,484	$17.23	597,200	$17.00

During the thirteen and twenty-six weeks ended July 29, 2017, no other management options were granted. During the thirteen and twenty-six weeks ended July 30, 2016, the grant date fair value of other management options granted was nil and $1 million.

The following table summarizes information about the other management options outstanding and exercisable as at July 29, 2017:

Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at Jul 29, 2017	Weighted average exercise price
$15.00 to $15.49	40,000	5.9	$15.01	13,325	$15.01
$16.00 to $16.49	16,000	5.5	$16.28	—	—
$17.00 to $17.49	847,863	3.4	$17.03	631,159	$17.03
$17.50 to $17.99	440,000	3.8	$17.61	408,000	$17.61
$23.50 to $23.99	68,264	5.1	$23.85	—	—
$28.00 to $28.49	236,264	4.9	$28.34	—	—
Total	1,648,391	3.8	$19.03	1,052,484	$17.23

The assumptions used to measure the fair value of senior executive options granted during the thirteen and twenty-six weeks ended July 29, 2017 under the Black-Scholes option pricing model at the grant date were as follows:

Expected dividend yield	0.6%
Expected share price volatility	38.8%
Risk-free interest rate	1.1%
Expected life of options (years)	3.8 - 5

During the thirteen and twenty-six weeks ended July 29, 2017, the Company granted 492,663 (2016: 104,360) phantom share units with the grant date fair value of $4 million (2016: $2 million).

During the thirteen and twenty-six weeks ended July 29, 2017, the Company granted nil and 142,391 (2016: nil and 87,775) deferred share units ("DSUs") and 1,516,304 (2016: 149,497 and 1,650,942) restricted share units ("RSUs") with grant date fair values of nil and $1 million (2016: nil and $2 million) and $14 million (2016: $2 million and $28 million). During the thirteen and twenty-six weeks ended July 29, 2017, the Company granted 467 and 2,224 DSUs (2016: nil and 763) and 3,127 and 11,323 RSUs (2016: 5,866 and 6,753) as dividend equivalents. The fair values of the grants were determined based on the Company's share price at the date of the grant. RSUs granted vest over 1, 2 and 3 year terms.

During the thirteen and twenty-six weeks ended July 29, 2017, the Company granted 842,290 (2016: nil and 593,812) performance share units ("PSUs") with grant date fair values of $8 million (2016: nil and $10 million), of which $7 million (2016: nil and $8 million) is expected to vest. The fair value was determined based on the Company's share price at the date of the grant. During the thirteen and twenty-six weeks ended July 29, 2017, the Company granted 965 and 3,532 PSUs (2016: nil) as dividends equivalents.

During the thirteen and twenty-six weeks ended July 29, 2017, the Company granted nil (2016: nil) performance restricted share units ("PRSUs") to senior executives with a total grant date fair value of nil (2016: nil) and 1,905 and 9,044 (2016: nil and 4,794) as dividend equivalents.

Share based compensation expense

Total share based compensation expense for thirteen and twenty-six weeks ended July 29, 2017 is summarized as follows:

	Thirteen weeks ended		Twenty-six weeks ended	
(millions of Canadian dollars)	**Jul 29, 2017**	Jul 30, 2016	**Jul 29, 2017**	Jul 30, 2016
Share options	**3**	4	**10**	9
PSUs	**—**	(8)	**(2)**	(6)
RSUs	**2**	3	**6**	5
Other share based compensation [1]	**1**	2	**3**	3
	6	1	**17**	11

(1) Includes phantom share units, DSUs and PRSUs.

The Company's regular review of equity instruments expected to vest resulted in revisions to cumulative expenses for certain shared based awards. These revisions were recorded during the thirteen weeks ended July 30, 2016 and twenty-six weeks ended July 29, 2017 and July 30, 2016.

During the thirteen and twenty-six weeks ended July 29, 2017, $6 million (2016: $1 million and $4 million) of share based compensation was settled. Of the total settlement, $2 million (2016: $1 million and $3 million) of common shares were purchased on the open market while the Company issued common shares for the remainder.

NOTE 15. SHARE CAPITAL

On February 23, 2017 and June 8, 2017, the Company's board of directors declared a dividend of $0.05 and $0.0125 per common share which was paid on April 14, 2017 and July 14, 2017 to shareholders of record at the close of business on March 29, 2017 and June 28, 2017.

During the thirteen and twenty-six weeks ended July 29, 2017, the Company issued 397,904 (2016: 26,051 and 80,791) common shares in connection with the settlement of vested share based awards.

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

	Thirteen weeks ended		Twenty-six weeks ended	
(millions of Canadian dollars or shares except per share amounts)	**Jul 29, 2017**	Jul 30, 2016	**Jul 29, 2017**	Jul 30, 2016
Net loss for basic and diluted earnings per share	**(201)**	(142)	**(422)**	(239)
Basic and diluted weighted average common shares outstanding	**182**	182	**182**	182
Loss per common share				
Basic and diluted	**(1.10)**	(0.78)	**(2.32)**	(1.31)

NOTE 16. RELATED PARTY TRANSACTIONS

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

On May 6, 2011, a subsidiary of L&T Acquisition entered into a 2 year lease with SP 35 L.P. (the "Landlord") for approximately 31,000 square feet in Shrewsbury, NJ. The lease was amended on January 17, 2013 to include 3 renewal options. The first 2 renewal options are for terms of 2 and 3 years at an annual cost of U.S.$440 thousand. The third renewal option is for a term of 5 years at an annual cost of U.S.$484 thousand. The first and second renewal options were exercised. Amounts charged to the Company under the rental arrangement for thirteen and twenty-six weeks ended July 29, 2017 were U.S.$110,000 thousand and U.S.$220,000 thousand (2016: U.S.$110 thousand and U.S.$220 thousand). The Landlord is an affiliate of National Realty & Development Corp. ("NRDC"). Richard and Robert Baker, the principals of NRDC, are directors of the Company.

On May 18, 2015, a subsidiary of L&T Acquisition entered into a 10 year lease with Mack Properties Co. No. 6 LLC ("Mack Properties") for approximately 35,000 square feet in Paramus, NJ. The lease has 2 renewal options for terms of 10 and 5 years, respectively. The rent commencement date was November 19, 2015 and amounts charged to the Company under the rental arrangement for thirteen and twenty-six weeks ended July 29, 2017 were U.S.$219,000 thousand and U.S.$438,000 thousand (2016: U.S.$219 thousand and U.S.$438 thousand). Mack Properties is owned by William Mack, a director of the Company.

HBC has entered into vendor agreements with 2 related companies in which Earl Rotman, a director of the Company, has a non-controlling ownership interest. The agreements relate to menswear and womenswear sold in Saks and the Department Store Group ("DSG"). During the thirteen and twenty-six weeks ended July 29, 2017, HBC purchased goods of approximately $398 thousand and $865 thousand (2016: $566 thousand and $1 million) from these companies, and has committed to ordering approximately $511 thousand for the remainder of fiscal 2017.

The Company entered into management agreements with the joint ventures upon their closing. Pursuant to the management agreements, HBC is reimbursed for expenses relating to advisory and administrative services it provides to the RioCan-HBC JV and the HBS Joint Venture. Reimbursement related to expenses for thirteen and twenty-six weeks ended July 29, 2017 were $154 thousand and $313 thousand (2016: $144 thousand and $299 thousand).

During the thirteen and twenty-six weeks ended July 29, 2017, the Company incurred rent expense of $133 million and $264 million (2016: $131 million and $265 million) related to both the RioCan-HBC JV and the HBS Joint Venture. As at July 29, 2017, other current assets included prepaid rents to the HBS Joint Venture of nil (July 30, 2016: $31 million; January 28, 2017: nil) and to the RioCan-HBC JV of $2 million (July 30, 2016: nil; January 28, 2017: $2 million). The Company also paid additional rent in the amount of $4 million and $8 million (2016: $6 million and $10 million) during the thirteen and twenty-six weeks ended July 29, 2017 to reimburse the HBS Joint Venture for the Company's share of costs incurred to operate the properties.

The Company has outstanding receivables in the amount of $14 million as at July 29, 2017 (July 30, 2016: $49 million; January 28, 2017: $17 million), due from the HBS Joint Venture with respect to transactions carried out on behalf of the joint venture.

The Company also has an outstanding payable to the HBS Joint Venture in the amount of $8 million as at July 29, 2017 (July 30, 2016: $11 million; January 28, 2017: $8 million), which has been included in other liabilities.

In addition, the Company has an outstanding loan payable to the HBS Joint Venture in the amount of $4 million as at July 29, 2017 (July 30, 2016: nil; January 28, 2017: $4 million). The loan matures on January 31, 2018 and carries an interest rate of 1.9% per annum.

Included in other current liabilities as at July 29, 2017, July 30, 2016 and January 28, 2017 are promissory notes in the aggregate amount of $12 million to both the RioCan-HBC JV and RioCan ($6 million each) which pertain to a tenant improvement advance from the joint venture to the Company. The promissory notes are interest-free and will be settled over time as HBC satisfies its tenant improvement commitment.

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

NOTE 17. CONTINGENT LIABILITIES

As at July 29, 2017, the Company is involved in and potentially subject to various claims by third parties arising out of the normal course and conduct of its business. Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims and litigation, tax assessments and reassessments, to the extent not covered by the Company's insurance policies or otherwise provided for, not to be material to the unaudited interim condensed consolidated financial statements, but may have a material impact in future periods.

NOTE 18. SEGMENTED REPORTING

The Company has 6 operating segments: Hudson's Bay, Lord & Taylor, and Home Outfitters (collectively referred to as DSG); Saks Fifth Avenue; HBC Europe; and HBC Off Price, which are aggregated into 1 reportable segment, Department Stores, as they have similar economic characteristics, products and services and customers. The Department Stores segment earns revenue from the sale of fashion apparel, accessories, cosmetics and home products to customers in a similar target market, is managed by the Chief Operating Decision Maker and supported by an integrated shared services function.

The following summarizes retail sales and non-current assets by geographic area:

	Thirteen weeks ended		Twenty-six weeks ended	
(millions of Canadian dollars)	**Jul 29, 2017**	Jul 30, 2016	**Jul 29, 2017**	Jul 30, 2016
Retail sales by country of origin				
Canada	**748**	733	**1,443**	1,413
United States	**1,591**	1,550	**3,203**	3,216
Germany	**952**	969	**1,848**	1,926
	3,291	3,252	**6,494**	6,555

(millions of Canadian dollars)	**Jul 29, 2017**	Jul 30, 2016	Jan 28, 2017
Non-current assets[1]		(restated - notes 4 and 5)	
Canada	**996**	931	959
United States	**4,411**	4,519	4,684
Germany	**1,593**	1,759	1,446
	7,000	7,209	7,089

(1) Excludes deferred tax assets, pensions and employee benefits and investments in joint ventures

NOTE 19. CHANGES IN OPERATING WORKING CAPITAL

	Twenty-six weeks ended	
(millions of Canadian dollars)	**Jul 29, 2017**	Jul 30, 2016
Decrease (increase) in trade and other receivables	**51**	(1)
Increase in inventories	**(24)**	(11)
Increase in other assets	**(56)**	(22)
Decrease in trade and other payables, accrued liabilities and provisions	**(140)**	(321)
(Decrease) increase in other liabilities	**(46)**	88
	(215)	(267)