



**HUDSON'S BAY COMPANY**  
**2017 Q1 INTERIM**  
**CONDENSED CONSOLIDATED**  
**FINANCIAL STATEMENTS**

For the Thirteen Weeks Ended

**April 29, 2017**

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**HUDSON'S BAY COMPANY**  
**CONDENSED CONSOLIDATED STATEMENTS OF LOSS**  
(millions of Canadian dollars, except per share amounts)  
**(unaudited)**

	Notes	Thirteen weeks ended	
		Apr 29, 2017	Apr 30, 2016
Retail sales .....		<b>3,203</b>	3,303
Cost of sales .....	9	<b>(1,868)</b>	(1,920)
Selling, general and administrative expenses ("SG&A") .....		<b>(1,373)</b>	(1,395)
Depreciation and amortization .....	6	<b>(173)</b>	(158)
Gain on sale of investments in joint ventures .....	10	—	45
<b>Operating loss</b> .....		<b>(211)</b>	(125)
Finance costs, net .....	7	<b>(57)</b>	(45)
Share of net loss in joint ventures .....	10	<b>(27)</b>	(2)
Dilution gains from investments in joint ventures .....	10	<b>3</b>	4
<b>Loss before income tax</b> .....		<b>(292)</b>	(168)
Income tax benefit .....		<b>71</b>	71
<b>Net loss for the period</b> .....		<b>(221)</b>	(97)
<b>Loss per common share</b> .....	15		
Basic .....		<b>(1.21)</b>	(0.53)
Diluted .....		<b>(1.21)</b>	(0.58)

*(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	
	Apr 29, 2017	Apr 30, 2016
Net loss.....	(221)	(97)
<b>Other comprehensive income (loss), net of tax:</b>		
<b>Items that may be reclassified subsequently to earnings or loss:</b>		
Currency translation adjustment.....	81	(289)
Net (loss) gain on net investment hedge, net of taxes of \$2 (2016: \$5).....	(11)	31
Net gain (loss) on derivatives designated as cash flow hedges, net of taxes of \$5 (2016: \$11).....	14	(30)
Reclassification to non-financial assets of net gains on derivatives designated as cash flow hedges, net of taxes of \$1 (2016: nil).....	(3)	—
Reclassification to earnings of net (gains) losses on derivatives designated as cash flow hedges, net of taxes of \$1 (2016: \$2).....	(2)	6
Other comprehensive income (loss).....	79	(282)
<b>Total comprehensive loss.....</b>	<b>(142)</b>	<b>(379)</b>

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the thirteen weeks ended April 29, 2017 and April 30, 2016

(millions of Canadian dollars)  
(unaudited)

	Notes	Accumulated Other Comprehensive Income ("AOCI")							Total AOCI	Total Shareholders' Equity
		Share Capital	Retained Earnings	Contributed Surplus	Currency Translation Adjustment	Employee Benefits	Net Investment Hedge	Cash Flow Hedges		
As at January 28, 2017.....		1,422	477	117	430	(2)	(37)	3	394	2,410
Total comprehensive loss....		—	(221)	—	81	—	(11)	9	79	(142)
Share based compensation ..	14	—	—	11	—	—	—	—	—	11
Dividends .....	15	—	(9)	—	—	—	—	—	—	(9)
As at April 29, 2017.....		1,422	247	128	511	(2)	(48)	12	473	2,270

	Notes	Accumulated Other Comprehensive Income ("AOCI")							Total AOCI	Total Shareholders' Equity
		Share Capital	Retained Earnings	Contributed Surplus	Currency Translation Adjustment	Employee Benefits	Net Investment Hedge	Cash Flow Hedges		
As at January 30, 2016.....		1,420	1,029	86	606	11	(56)	3	564	3,099
Issuance of common shares..	15	1	—	—	—	—	—	—	—	1
Total comprehensive loss....		—	(97)	—	(289)	—	31	(24)	(282)	(379)
Share based compensation ..	14	—	—	8	—	—	—	—	—	8
Dividends .....		—	(9)	—	—	—	—	—	—	(9)
As at April 30, 2016.....		1,421	923	94	317	11	(25)	(21)	282	2,720

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

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

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

(millions of Canadian dollars)  
(unaudited)

	Notes	Apr 29, 2017	Apr 30, 2016 (restated - notes 4 and 5)	Jan 28, 2017
<b>Assets</b>				
Cash .....	8	99	101	122
Trade and other receivables .....		339	566	391
Inventories .....	9	3,688	3,389	3,376
Other current assets .....		248	175	176
<b>Total current assets</b> .....		<b>4,374</b>	<b>4,231</b>	<b>4,065</b>
Property, plant and equipment .....		5,529	4,885	5,284
Intangible assets and goodwill .....		1,849	1,926	1,786
Pensions and employee benefits .....		173	163	175
Deferred tax assets .....		330	305	301
Investments in joint ventures .....	10	611	597	581
Other assets .....		19	19	19
<b>Total assets</b> .....		<b>12,885</b>	<b>12,126</b>	<b>12,211</b>
<b>Liabilities</b>				
Loans and borrowings .....	11	1,195	743	418
Finance leases .....		27	25	24
Trade payables .....		1,373	1,329	1,606
Other payables and accrued liabilities .....		1,092	1,103	1,046
Deferred revenue .....		106	105	128
Provisions .....		182	160	167
Other liabilities .....	12	126	189	137
<b>Total current liabilities</b> .....		<b>4,101</b>	<b>3,654</b>	<b>3,526</b>
Loans and borrowings .....	11	2,852	2,443	2,744
Finance leases .....		519	484	499
Provisions .....		58	85	59
Pensions and employee benefits .....		699	650	662
Deferred tax liabilities .....		697	780	713
Investment in joint venture .....	10	7	20	9
Other liabilities .....	12	1,682	1,290	1,589
<b>Total liabilities</b> .....		<b>10,615</b>	<b>9,406</b>	<b>9,801</b>
<b>Shareholders' equity</b>				
Share capital .....		1,422	1,421	1,422
Retained earnings .....		247	923	477
Contributed surplus .....		128	94	117
Accumulated other comprehensive income .....		473	282	394
<b>Total shareholders' equity</b> .....		<b>2,270</b>	<b>2,720</b>	<b>2,410</b>
<b>Total liabilities and shareholders' equity</b> .....		<b>12,885</b>	<b>12,126</b>	<b>12,211</b>

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

**HUDSON'S BAY COMPANY**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the thirteen weeks ended April 29, 2017 and April 30, 2016**  
**(millions of Canadian dollars)**  
**(unaudited)**

	Notes	Apr 29, 2017	Apr 30, 2016
<b>Operating activities</b>			
Net loss for the period .....		(221)	(97)
Income tax benefit .....		(71)	(71)
Dilution gains from investments in joint ventures .....	10	(3)	(4)
Share of net loss in joint ventures .....	10	27	2
Finance costs, net .....	7	57	45
Operating loss .....		(211)	(125)
Net cash income taxes paid .....		(4)	—
Interest paid in cash .....		(45)	(49)
Distributions of earnings from joint ventures .....	10	54	51
Items not affecting cash flows:			
Depreciation and amortization .....	6	173	158
Net defined benefit pension and employee benefits expense .....		7	7
Other operating activities .....		(10)	2
Share of rent expense to joint ventures .....	10	(88)	(94)
Gain on sale of investments in joint ventures .....	10	—	(45)
Share based compensation .....	14	11	10
Settlement of share based compensation grants .....	14	—	(2)
Changes in operating working capital .....	19	(486)	(248)
<b>Net cash outflow for operating activities .....</b>		<b>(599)</b>	<b>(335)</b>
<b>Investing activities</b>			
Capital investments .....		(224)	(231)
Proceeds from landlord incentives .....		71	78
Capital investments less proceeds from landlord incentives .....		(153)	(153)
Proceeds from lease terminations and other non-capital landlord incentives .....		2	—
Proceeds on disposal of assets .....		3	34
Proceeds from sale of investments in joint ventures .....	10	—	65
Acquisition of Gilt Groupe Holdings Inc., net of cash acquired .....		—	(325)
Other investing activities .....		(1)	(3)
<b>Net cash outflow for investing activities .....</b>		<b>(149)</b>	<b>(382)</b>
<b>Financing activities</b>			
Long-term loans and borrowings:			
Repayments .....		(1)	(1)
Short-term loans and borrowings:			
Net borrowings from asset-based credit facilities .....		745	353
Borrowing costs .....		(4)	(13)
Payments on finance leases .....		(9)	(8)
Dividends paid .....		(9)	(9)
<b>Net cash inflow from financing activities .....</b>		<b>722</b>	<b>322</b>
Foreign exchange gain (loss) on cash .....		3	(11)
Decrease in cash .....		(23)	(406)
<b>Cash at beginning of year .....</b>		<b>122</b>	<b>507</b>
<b>Cash at end of period .....</b>		<b>99</b>	<b>101</b>

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

## HUDSON'S BAY COMPANY

### NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(For the thirteen weeks ended April 29, 2017, unaudited)  
(millions of Canadian dollars unless otherwise stated)

#### 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 ("Saks OFF 5TH"), Find @ Lord & Taylor, Gilt and Home Outfitters banners. In Europe, its banners include Galeria Kaufhof, Galeria INNO, as well as Sportarena, together the "Kaufhof Banners". 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 June 8, 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 standards within 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 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.

#### **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 expenses in the consolidated statement of 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:

<b>(millions of Canadian dollars)</b>	Apr 30, 2016
Inventories .....	2
Goodwill .....	(15)
Other payables and accrued liabilities .....	(9)
Deferred tax liabilities .....	(3)
Other long-term liabilities .....	(1)

**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:

<b>(millions of Canadian dollars)</b>	Apr 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**

<b>(millions of Canadian dollars)</b>	<b>Thirteen weeks ended</b>	
	<b>Apr 29, 2017</b>	<b>Apr 30, 2016</b>
Property, plant and equipment .....	<b>126</b>	120
Intangible assets .....	<b>48</b>	39
Deferred credits and other .....	<b>(1)</b>	(1)
	<b>173</b>	158

**NOTE 7. FINANCE COSTS**

<b>(millions of Canadian dollars)</b>	<b>Thirteen weeks ended</b>	
	<b>Apr 29, 2017</b>	<b>Apr 30, 2016</b>
Interest expense on long-term borrowings .....	<b>33</b>	28
Interest expense on short-term borrowings .....	<b>10</b>	12
Interest expense on finance leases .....	<b>10</b>	10
Net interest on pensions and employee benefits .....	<b>3</b>	3
Total interest expense .....	<b>56</b>	53
Saks acquisition-related finance costs (income) (note 13) .....	<b>1</b>	(8)
	<b>57</b>	45

**NOTE 8. CASH**

As at April 29, 2017, cash includes restricted cash of \$23 million (April 30, 2016: \$16 million; January 28, 2017: \$22 million).

**NOTE 9. INVENTORIES**

Inventories on hand at April 29, 2017, April 30, 2016 and January 28, 2017 were available for sale. The cost of merchandise inventories recognized as expense for the thirteen weeks ended April 29, 2017 was \$1,868 million (2016: \$1,920 million). The write-down of merchandise inventories below cost to net realizable value as at April 29, 2017 was \$69 million (April 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 as 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:

(millions of Canadian dollars, except ownership interest)	Principal Places of Business	Apr 29, 2017		Apr 30, 2016		Jan 28, 2017	
		Ownership Interest	Carrying Value	Ownership Interest	Carrying Value	Ownership Interest	Carrying Value
RioCan-HBC JV .....	Canada	<b>88.1%</b>	<b>(7)</b>	89.3%	(20)	88.1%	(9)
HBS Joint Venture .....	United States, Germany	<b>63.1%</b>	<b>507</b>	65.0%	500	63.4%	481
Other joint venture .....	United States, Germany	<b>63.1%</b>	<b>104</b>	65.0%	97	63.4%	100
			<b>604</b>		<b>577</b>		<b>572</b>

*RioCan-HBC JV*

During the thirteen weeks ended April 30, 2016, RioCan contributed \$6 million towards its \$52 million commitment for improvements to properties contributed by HBC. In connection with this, the Company realized dilution gains of \$2 million during the thirteen weeks ended April 30, 2016. As at April 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:

(millions of Canadian dollars)	Thirteen weeks ended	
	Apr 29, 2017	Apr 30, 2016
Equity investment as at the beginning of the period.....	<b>(9)</b>	(27)
Share of net earnings from joint venture.....	<b>20</b>	21
Dilution gains from change in equity interest.....	—	2
Distributions of earnings from joint venture.....	<b>(18)</b>	(16)
<b>Equity investment as at the end of the period .....</b>	<b>(7)</b>	(20)

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

(millions of Canadian dollars)	Apr 29, 2017	Apr 30, 2016	Jan 28, 2017
Cash .....	1	1	2
Current other financial assets .....	9	7	10
Current other assets .....	1	1	—
Non-current financial assets .....	142	142	142
Non-current other assets .....	1,725	1,728	1,730
Current financial liabilities .....	(7)	(8)	(9)
Non-current financial liabilities .....	(539)	(543)	(540)
<b>Net assets at 100%</b> .....	<b>1,332</b>	<b>1,328</b>	<b>1,335</b>
Company's share of net assets in the RioCan-HBC JV .....	1,173	1,186	1,176
Less gain on contributions of assets to the RioCan-HBC JV not recognized related to Company's ownership interest .....	(1,180)	(1,206)	(1,185)
<b>Company's carrying value of investment in the RioCan-HBC JV</b> .....	<b>(7)</b>	<b>(20)</b>	<b>(9)</b>

Summarized statements of earnings of the RioCan-HBC JV:

(millions of Canadian dollars)	Thirteen weeks ended	
	Apr 29, 2017	Apr 30, 2016
Rental revenue .....	27	28
Rental revenue - recoveries .....	2	2
Property operating costs .....	(3)	(3)
Depreciation and amortization .....	(9)	(10)
Finance income .....	3	3
Finance costs .....	(4)	(4)
<b>Net earnings at 100%</b> .....	<b>16</b>	<b>16</b>
Company's share of net earnings in the RioCan-HBC JV prior to adjustment .....	14	14
Adjustment for the Company's share of depreciation on the fair value increment of the contributed properties .....	6	7
Company's share of net earnings from the RioCan-HBC JV .....	20	21
Reclassification of rental income to SG&A related to the Company's ownership interest in the RioCan-HBC JV .....	(21)	(21)
<b>Company's share of net loss in the RioCan-HBC JV</b> .....	<b>(1)</b>	<b>—</b>

#### *HBS Joint Venture*

During the thirteen weeks ended April 29, 2017, Simon contributed U.S.\$7 million (\$9 million) (2016: U.S.\$5 million (\$6 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 April 29, 2017. In connection with this, the Company realized dilution gains of \$3 million (2016: \$2 million) during the thirteen weeks ended April 29, 2017. As at April 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 defined herein. As a result of the transaction, the Company recognized a pre-tax gain on the sale of \$45 million during the thirteen weeks ended April 30, 2016.

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

(millions of Canadian dollars)	Thirteen weeks ended	
	Apr 29, 2017	Apr 30, 2016
Equity investment as at the beginning of the period.....	481	545
Share of net earnings from joint venture.....	41	71
Dilution gains from change in equity interest.....	3	2
Sale of a portion of investment in joint venture.....	—	(17)
Distributions of earnings from joint venture.....	(36)	(35)
Net foreign currency exchange and other .....	18	(66)
<b>Equity investment as at the end of the period .....</b>	<b>507</b>	<b>500</b>

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

(millions of Canadian dollars)	Apr 29, 2017	Apr 30, 2016	Jan 28, 2017
Cash .....	51	75	18
Current other financial assets .....	15	16	17
Non-current assets .....	5,371	5,283	5,276
Current other liabilities.....	(31)	(30)	—
Current financial liabilities.....	(322)	(158)	(306)
Non-current liabilities .....	(270)	(399)	(385)
Non-current financial liabilities .....	(3,061)	(3,081)	(2,908)
<b>Net assets at 100%</b> .....	<b>1,753</b>	<b>1,706</b>	<b>1,712</b>
Company's share of net assets in the HBS Joint Venture.....	1,106	1,109	1,084
Less gain on contribution of assets to the HBS Joint Venture not recognized related to Company's ownership interest .....	(599)	(609)	(603)
<b>Company's carrying value of investment in the HBS Joint Venture.....</b>	<b>507</b>	<b>500</b>	<b>481</b>

Summarized statements of earnings of the HBS Joint Venture:

(millions of Canadian dollars)	Thirteen weeks ended	
	Apr 29, 2017	Apr 30, 2016
Rental revenue .....	106	110
Rental revenue - recoveries.....	5	5
Property operating costs.....	(6)	(2)
General and administrative expenses.....	12	49
Depreciation and amortization .....	(27)	(29)
Finance costs.....	(28)	(28)
Income tax expense.....	(4)	(4)
<b>Net earnings at 100%</b> .....	<b>58</b>	<b>101</b>
Company's share of net earnings in the HBS Joint Venture prior to adjustment.....	37	67
Adjustment for the Company's share of depreciation on the fair value increment of the contributed properties .....	4	4
Company's share of net earnings from the HBS Joint Venture.....	41	71
Reclassification of rental income to SG&A related to the Company's ownership interest in the HBS Joint Venture.....	(67)	(73)
<b>Company's share of net loss in the HBS Joint Venture.....</b>	<b>(26)</b>	<b>(2)</b>

**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 and mortgages.

**a) Current loans and borrowings**

<u>(millions of Canadian dollars)</u>	<u>Apr 29, 2017</u>	<u>Apr 30, 2016</u>	<u>Jan 28, 2017</u>
Global ABL .....	<b>1,213</b>	766	434
Current portion of long-term loans and borrowings.....	<b>8</b>	5	7
	<b>1,221</b>	771	441
Less: unamortized costs .....	<b>(26)</b>	(28)	(23)
	<b>1,195</b>	743	418

On February 6, 2017, the Global ABL was amended to include a Dutch sub-facility and to expand the amount of the facility by U.S.\$350 million, increasing the size of the total borrowing line to U.S. \$2.25 billion.

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

<u>(millions of Canadian dollars)</u>	<u>Apr 29, 2017</u>	<u>Apr 30, 2016</u>	<u>Jan 28, 2017</u>
Gross borrowing base availability .....	<b>2,732</b>	2,229	2,262
Drawings.....	<b>(1,213)</b>	(766)	(434)
Outstanding letters of credit.....	<b>(96)</b>	(130)	(76)
Borrowing base availability net of drawings and letters of credit.....	<b>1,423</b>	1,333	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**

<u>(millions of Canadian dollars)</u>	<u>Apr 29, 2017</u>	<u>Apr 30, 2016</u>	<u>Jan 28, 2017</u>
U.S. Term Loan B.....	<b>683</b>	627	657
Lord & Taylor Mortgage.....	<b>542</b>	312	523
Saks Mortgage.....	<b>1,706</b>	1,569	1,642
Other loans .....	<b>7</b>	8	7
	<b>2,938</b>	2,516	2,829
Less: unamortized costs .....	<b>(78)</b>	(68)	(78)
Less: amounts due within one year .....	<b>(8)</b>	(5)	(7)
	<b>2,852</b>	2,443	2,744

**NOTE 12. OTHER LIABILITIES**

<b>(millions of Canadian dollars)</b>	<b>Apr 29, 2017</b>	Apr 30, 2016 (restated - note 4)	Jan 28, 2017
Deferred landlord incentives .....	<b>977</b>	709	909
Straight-line rent liabilities .....	<b>314</b>	144	267
Deferred gain on sale and leaseback transaction .....	<b>220</b>	230	222
Operating lease intangible liability .....	<b>108</b>	114	104
Deferred proceeds from lease terminations .....	<b>64</b>	65	65
Income taxes payable .....	<b>31</b>	47	28
Financial liabilities .....	<b>7</b>	50	11
Other .....	<b>87</b>	120	120
	<b>1,808</b>	1,479	1,726
Current .....	<b>126</b>	189	137
Non-current .....	<b>1,682</b>	1,290	1,589
	<b>1,808</b>	1,479	1,726

**NOTE 13. FINANCIAL INSTRUMENTS**

The fair value of the Global ABL, U.S. Term Loan B, Lord & Taylor Mortgage, Saks Mortgage and other loans 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. These instruments are classified within Level 2 of the fair value hierarchy.

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

<b>(millions of Canadian dollars)</b>	<b>Apr 29, 2017</b>	Apr 30, 2016	Jan 28, 2017
Carrying value <sup>(1)</sup> .....	<b>4,151</b>	3,282	3,263
Fair value .....	<b>4,163</b>	3,284	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 April 29, 2017, April 30, 2016 and January 28, 2017, the fair value and carrying value of derivative financial assets and financial liabilities were:

<b>(millions of Canadian dollars)</b>	<b>Apr 29, 2017</b>	Apr 30, 2016	Jan 28, 2017
Current financial assets (included in other current assets) .....	<b>31</b>	4	18
Current financial liabilities (included in other current liabilities) .....	<b>1</b>	27	6
Non-current financial liabilities (included in other liabilities) .....	<b>6</b>	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 costs of nil during the thirteen weeks ended April 29, 2017 (2016: income of \$2 million), representing mark-to-market adjustments to the fair value as at April 29, 2017. As at April 29, 2017, the fair value of the Merger Agreement Warrants was \$1 million (April 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 costs of \$1 million during the thirteen weeks ended April 29, 2017 (2016: income of \$6 million), representing mark-to-market adjustments to the fair value as at April 29, 2017. As at April 29, 2017, the fair value of the Acquisition Warrants was \$5 million (April 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:

	<u>Apr 29, 2017</u>	<u>Apr 30, 2016</u>	<u>Jan 28, 2017</u>
Share price.....	<b>\$12.48</b>	\$16.68	\$10.36
Expected volatility .....	<b>36%</b>	36%	42%
Dividend yield.....	<b>1.60%</b>	1.20%	1.93%
Risk free interest rate .....	<b>0.93%</b>	0.78%	1.05%
Expected life – Merger Agreement Warrants.....	<b>1.3 years</b>	2.3 years	1.5 years
Expected life – Acquisition Warrants.....	<b>1.5 years</b>	2.5 years	1.8 years

The Company’s net investments in L&T Acquisition and Gilt (U.S. dollars) and Kaufhof (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 the net earnings (loss) of L&T Acquisition, Gilt and Kaufhof impacts consolidated net loss. Foreign currency translation of HBC’s investments in L&T Acquisition, Gilt and Kaufhof impacts other comprehensive income (loss).

#### NOTE 14. SHARE BASED COMPENSATION

Senior executive option transactions were as follows:

	<b>Thirteen weeks ended</b>			
	<u>Apr 29, 2017</u>		<u>Apr 30, 2016</u>	
	<b>Number of options</b>	<b>Weighted average exercise price</b>	Number of options	Weighted average exercise price
Outstanding at beginning of year.....	16,289,564	\$19.03	10,656,936	\$20.37
Granted .....	—	—	6,395,812	\$17.01
Forfeited.....	(323,271)	\$19.74	(260,224)	\$19.72
Outstanding at end of period.....	15,966,293	\$19.01	16,792,524	\$19.13
Share options exercisable at end of period .....	3,254,314	\$17.01	—	—

During the thirteen weeks ended April 29, 2017, no senior executive options were granted. During the thirteen weeks ended April 30, 2016, the grant date fair value of senior executive options granted was \$27 million.

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

Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at Apr 29, 2017	Weighted average exercise price
\$15.00 to \$15.49.....	215,962	6.2	\$15.01	—	—
\$16.00 to \$16.49.....	283,869	5.8	\$16.28	—	—
\$16.50 to \$16.99.....	133,109	6.4	\$16.96	—	—
\$17.00 to \$17.49.....	10,801,582	5.8	\$17.01	3,254,314	\$17.01
\$17.50 to \$17.99.....	795,407	4.0	\$17.61	—	—
\$23.50 to \$23.99.....	2,115,578	5.0	\$23.72	—	—
\$24.00 to \$24.49.....	100,000	5.5	\$24.22	—	—
\$28.00 to \$28.49.....	1,520,786	5.2	\$28.34	—	—
Total.....	15,966,293	5.5	\$19.01	3,254,314	\$17.01

Other management option transactions were as follows:

	Thirteen weeks ended			
	Apr 29, 2017		Apr 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 .....	—	—	281,600	\$17.01
Forfeited.....	(82,149)	\$20.78	(87,068)	\$19.60
Outstanding at end of period.....	1,779,451	\$19.06	2,038,132	\$19.35
Share options exercisable at end of period .....	649,154	\$17.03	547,732	\$16.63

During the thirteen weeks ended April 29, 2017, no other management options were granted. During the thirteen weeks ended April 30, 2016, the grant date fair value of other management options was \$1 million.

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

Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at Apr 29, 2017	Weighted average exercise price
\$15.00 to \$15.49.....	41,600	6.2	\$15.01	—	—
\$16.00 to \$16.49.....	16,000	5.8	\$16.28	—	—
\$17.00 to \$17.49.....	913,333	3.6	\$17.03	649,154	\$17.03
\$17.50 to \$17.99.....	471,989	4.0	\$17.61	—	—
\$23.50 to \$23.99.....	83,733	5.3	\$23.86	—	—
\$28.00 to \$28.49.....	252,796	5.2	\$28.34	—	—
Total.....	1,779,451	4.1	\$19.06	649,154	\$17.03

During the thirteen weeks ended April 29, 2017, the Company granted 142,391 (2016: 87,775) deferred share units (“DSUs”) with grant date fair values of \$1 million (2016: \$2 million). No restricted share units (“RSUs”) were granted during the thirteen weeks ended April 29, 2017. During the thirteen weeks ended April 30, 2016, the Company granted 1,501,445 RSUs with grant date fair values of \$26 million. During the thirteen weeks ended April 29, 2017, the Company granted 1,757 DSUs (2016: 763) and 8,196 RSUs (2016: 887) 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 weeks ended April 29, 2017, no performance share units (“PSUs”) were granted. During the thirteen weeks ended April 30, 2016, the Company granted 593,812 PSUs with grant date fair values of \$10 million, of which \$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 weeks ended April 29, 2017, the Company granted 2,567 PSUs (2016: nil) as dividends equivalents.



During the thirteen weeks ended April 29, 2017, the Company granted 7,139 (2016: 4,794) performance restricted share units (“PRSUs”) as dividend equivalents.

### Share based compensation expense

Total share based compensation expense for thirteen weeks ended April 29, 2017 is summarized as follows:

(millions of Canadian dollars)	Thirteen weeks ended	
	Apr 29, 2017	Apr 30, 2016
Share options .....	7	5
PSUs .....	(2)	2
RSUs .....	4	2
Other share based compensation <sup>(1)</sup> .....	2	1
	<b>11</b>	<b>10</b>

(1) Includes phantom shares, DSUs and PRSUs.

During the thirteen weeks ended April 30, 2016, \$3 million of share based compensation was settled. Of the total settlement, \$2 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, the Company’s board of directors declared a dividend of \$0.05 per common share which was paid on April 14, 2017 to shareholders of record at the close of business on March 31, 2017.

During the thirteen weeks ended April 30, 2016, the Company issued 54,740 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:

(millions of Canadian dollars or shares except per share amounts)	Thirteen weeks ended	
	Apr 29, 2017	Apr 30, 2016
Net loss for basic earnings per share.....	(221)	(97)
Impact of options and warrants.....	—	(8)
Net loss for diluted earnings per share.....	(221)	(105)
Weighted average common shares outstanding.....	182	182
Dilutive effect of options and warrants.....	—	—
Diluted weighted average common shares outstanding.....	<b>182</b>	<b>182</b>
Loss per common share .....		
Basic .....	(1.21)	(0.53)
Diluted .....	(1.21)	(0.58)

### 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 weeks ended April 29, 2017 were U.S.\$110 thousand (2016: U.S.\$110 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 weeks ended April 29, 2017 were U.S.\$219 thousand (2016: U.S.\$219 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 weeks ended April 29, 2017, HBC purchased goods of approximately \$467 thousand (2016: \$852 thousand) from these companies, and has committed to ordering approximately \$805 thousand for the remainder of fiscal 2017.

In connection with the closing of its agreements to sell and leaseback various U.S. properties to the HBS Joint Venture, HBC paid for certain cash reserves and financing and operating expenses on behalf of the HBS Joint Venture for which the Company received a promissory note in the amount of \$8 million. The promissory note was interest-free and matured on July 22, 2016. As at April 29, 2017, the promissory note was repaid in full (April 30, 2016: \$2 million; January 28, 2017: nil).

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 weeks ended April 29, 2017 were \$159 thousand (2016: \$155 thousand).

During the thirteen weeks ended April 29, 2017, the Company incurred rent expense of \$131 million (2016: \$134 million) related to both the RioCan-HBC JV and the HBS Joint Venture. As at April 29, 2017, other current assets included prepaid rents to the HBS Joint Venture of \$12 million (April 30, 2016: \$12 million; January 28, 2017: nil) and to the RioCan-HBC JV of \$2 million (April 30, 2016: nil; January 28, 2017: \$2 million). The Company also paid additional rent in the amount of \$4 million (2016: \$4 million) 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 April 29, 2017 (April 30, 2016: \$79 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 \$4 million as at April 29, 2017 (April 30, 2016: \$24 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 \$5 million as at April 29, 2017 (April 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 April 29, 2017, April 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 April 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 4 operating segments (DSG which includes Hudson’s Bay, Lord & Taylor, and Home Outfitters; Saks Fifth Avenue; the Kaufhof Banners; 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:

(millions of Canadian dollars)	Thirteen weeks ended		
	Apr 29, 2017	Apr 30, 2016	
<b>Retail sales by country of origin</b>			
Canada.....	<b>695</b>	680	
United States.....	<b>1,612</b>	1,666	
Germany.....	<b>896</b>	957	
	<b>3,203</b>	<b>3,303</b>	
	<b>Apr 29, 2017</b>	Apr 30, 2016	Jan 28, 2017
		(restated - note 4 and 5)	
<b>(millions of Canadian dollars)</b>			
<b>Non-current assets<sup>(1)</sup></b>			
Canada.....	<b>982</b>	863	959
United States.....	<b>4,881</b>	4,520	4,684
Germany.....	<b>1,534</b>	1,447	1,446
	<b>7,397</b>	<b>6,830</b>	<b>7,089</b>

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

#### NOTE 19. CHANGES IN OPERATING WORKING CAPITAL

(millions of Canadian dollars)	Thirteen weeks ended	
	Apr 29, 2017	Apr 30, 2016
Decrease (increase) in trade and other receivables.....	<b>46</b>	(81)
Increase in inventories.....	<b>(192)</b>	(167)
Increase in other assets.....	<b>(50)</b>	(5)
Decrease in trade and other payables, accrued liabilities and provisions.....	<b>(244)</b>	(101)
(Decrease) increase in other liabilities.....	<b>(46)</b>	106
	<b>(486)</b>	<b>(248)</b>

#### NOTE 20. SUBSEQUENT EVENTS

On June 8, 2017, the Company announced the comprehensive review of its North American business operations which began in late 2016 was largely completed. As a result of this review, the Company has launched a transformation plan designed to better align the Company's business with its focus on driving all-channel sales. The Company has currently estimated one-time charges related to this initiative of approximately \$95 million over the next 12 months. This estimate is in addition to the severance charges of approximately \$30 million estimated as part of the comprehensive review initiative announced in February 2017, of which \$20 million was incurred in the first quarter.

On June 8, 2017, the Company announced the Board of Directors reduced the Company's quarterly dividend from \$0.05 to \$0.0125 per share.