



**HUDSON'S BAY COMPANY**  
**2016 Q3 INTERIM**  
**CONDENSED CONSOLIDATED**  
**FINANCIAL STATEMENTS**

For the Thirteen and Thirty-nine Weeks Ended

**October 29, 2016**

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HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF (LOSS) EARNINGS

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

	Notes	Thirteen weeks ended		Thirty-nine weeks ended	
		Oct 29, 2016	Oct 31, 2015 (restated – note 9)	Oct 29, 2016	Oct 31, 2015 (restated – note 9)
Retail sales .....		<b>3,300</b>	2,566	<b>9,855</b>	6,676
Cost of sales .....	9	<b>(1,908)</b>	(1,482)	<b>(5,729)</b>	(3,934)
Selling, general and administrative expenses (“SG&A”) .....		<b>(1,342)</b>	(1,012)	<b>(4,023)</b>	(2,567)
Depreciation and amortization .....	6	<b>(164)</b>	(110)	<b>(476)</b>	(311)
Gain on sale of investments in joint ventures .....	10	—	—	<b>45</b>	—
Gain on contribution of assets to joint ventures .....	10	—	—	—	133
<b>Operating loss</b> .....		<b>(114)</b>	(38)	<b>(328)</b>	(3)
Finance costs, net .....	7	<b>(48)</b>	(29)	<b>(149)</b>	(128)
Share of net loss in joint ventures .....	10	<b>(51)</b>	(64)	<b>(104)</b>	(71)
Dilution gains from investments in joint ventures .....	10	<b>6</b>	148	<b>18</b>	148
<b>(Loss) earnings before income tax</b> .....		<b>(207)</b>	17	<b>(563)</b>	(54)
Income tax benefit (expense) .....		<b>82</b>	(10)	<b>199</b>	71
<b>Net (loss) earnings for the period</b> .....		<b>(125)</b>	7	<b>(364)</b>	17
<b>(Loss) earnings per common share</b> .....	15				
Basic .....		<b>(0.69)</b>	0.04	<b>(2.00)</b>	0.09
Diluted .....		<b>(0.69)</b>	(0.04)	<b>(2.00)</b>	0.02

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

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(millions of Canadian dollars)  
(unaudited)

	Thirteen weeks ended		Thirty-nine weeks ended	
	Oct 29, 2016	Oct 31, 2015 (restated – note 9)	Oct 29, 2016	Oct 31, 2015 (restated – note 9)
Net (loss) earnings .....	(125)	7	(364)	17
<b>Other comprehensive income (loss), net of tax:</b>				
<b>Items that may be reclassified subsequently to earnings or loss:</b>				
Currency translation adjustment.....	54	(38)	(135)	11
Net (loss) gain on net investment hedge, net of taxes of (\$1) and \$2 (2015: nil).....	(7)	—	13	—
Net gain (loss) on derivatives designated as cash flow hedges, net of taxes of (\$4) and \$5 (2015: \$7 and \$2).....	10	20	(12)	8
Reclassification to non-financial assets of net losses (gains) on derivatives designated as cash flow hedges, net of taxes of \$1 and \$2 (2015: \$2 and \$5).....	3	(6)	5	(14)
Reclassification to earnings of net (gains) losses on derivatives designated as cash flow hedges, net of taxes of (\$1) and \$1 (2015: nil and \$1).....	(1)	1	3	(1)
Other comprehensive income (loss).....	59	(23)	(126)	4
<b>Total comprehensive (loss) income.....</b>	<b>(66)</b>	<b>(16)</b>	<b>(490)</b>	<b>21</b>

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the thirty-nine weeks ended October 29, 2016 and October 31, 2015

(millions of Canadian dollars)  
(unaudited)

Notes	Share Capital	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Income ("AOCI")				Total AOCI	Total Shareholders' Equity	
				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	2	—	—	—	—	—	—	—	2
Total comprehensive loss.....		—	(364)	—	(135)	—	13	(4)	(126)	(490)
Share based compensation .....	14	—	—	18	—	—	—	—	—	18
Dividends .....	15	—	(27)	—	—	—	—	—	—	(27)
As at October 29, 2016 .....		1,422	638	104	471	11	(43)	(1)	438	2,602

Notes	Share Capital	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Income ("AOCI")				Total AOCI	Total Shareholders' Equity	
				Currency Translation Adjustment	Employee Benefits	Net Investment Hedge	Cash Flow Hedges			
As at January 31, 2015 (restated) .....		1,420	678	60	379	(12)	(56)	5	316	2,474
Total comprehensive income (restated) .....	9	—	17	—	11	—	—	(7)	4	21
Share based compensation .....	14	—	—	20	—	—	—	—	—	20
Dividends .....		—	(27)	—	—	—	—	—	—	(27)
As at October 31, 2015 (restated) .....		1,420	668	80	390	(12)	(56)	(2)	320	2,488

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

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

As at October 29, 2016, October 31, 2015 and January 30, 2016

(millions of Canadian dollars)  
(unaudited)

	Notes	Oct 29, 2016	Oct 31, 2015 (restated – note 5 and 9)	Jan 30, 2016 (restated – note 5)
<b>Assets</b>				
Cash .....	8	86	292	507
Trade and other receivables .....		509	370	512
Inventories .....	9	4,134	3,917	3,404
Other current assets .....		191	173	194
<b>Total current assets</b> .....		<b>4,920</b>	4,752	4,617
Property, plant and equipment .....		5,434	4,782	5,156
Intangible assets and goodwill .....		2,010	1,777	1,779
Pensions and employee benefits .....		158	138	166
Deferred tax assets .....		318	263	253
Investments in joint ventures .....	10	619	600	658
Other assets .....		22	17	16
<b>Total assets</b> .....		<b>13,481</b>	12,329	12,645
<b>Liabilities</b>				
Loans and borrowings .....	11	1,240	582	451
Finance leases .....		23	33	25
Trade payables .....		1,763	1,679	1,494
Other payables and accrued liabilities .....		1,099	964	1,020
Deferred revenue .....		121	123	132
Provisions .....		155	157	153
Other liabilities .....	12	111	75	126
<b>Total current liabilities</b> .....		<b>4,512</b>	3,613	3,401
Loans and borrowings .....	11	2,796	3,314	2,729
Finance leases .....		493	455	502
Provisions .....		73	76	80
Pensions and employee benefits .....		675	655	681
Deferred tax liabilities .....		727	681	885
Investment in joint venture .....	10	11	47	27
Other liabilities .....	12	1,592	1,000	1,241
<b>Total liabilities</b> .....		<b>10,879</b>	9,841	9,546
<b>Shareholders' equity</b>				
Share capital .....		1,422	1,420	1,420
Retained earnings .....		638	668	1,029
Contributed surplus .....		104	80	86
Accumulated other comprehensive income .....		438	320	564
<b>Total shareholders' equity</b> .....		<b>2,602</b>	2,488	3,099
<b>Total liabilities and shareholders' equity</b> .....		<b>13,481</b>	12,329	12,645

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

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the thirty-nine weeks ended October 29, 2016 and October 31, 2015

(millions of Canadian dollars)  
(unaudited)

	Notes	Oct 29, 2016	Oct 31, 2015 (restated – note 9)
<b>Operating activities</b>			
Net (loss) earnings for the period.....		(364)	17
Deduct: Income tax benefit.....		(199)	(71)
Deduct: Dilution gains from investments in joint ventures.....	10	(18)	(148)
Add: Share of net loss in joint ventures.....	10	104	71
Add: Finance costs, net.....	7	149	128
Operating loss.....		(328)	(3)
Net cash income taxes (paid) received.....		(21)	1
Interest paid in cash.....		(127)	(107)
Distributions of earnings from joint ventures.....	10	152	59
Items not affecting cash flows:			
Depreciation and amortization.....	6	476	311
Net defined benefit pension and employee benefits expense.....		23	20
Other operating activities.....		(4)	(48)
Share of rent expense to joint ventures.....	10	(276)	(89)
Gain on contribution of assets to joint ventures.....	10	—	(133)
Gain on sale of investments in joint ventures.....	10	(45)	—
Share based compensation.....	14	23	23
Settlement of share based compensation grants.....	14	(3)	(3)
Changes in operating working capital.....	19	(541)	(669)
<b>Net cash outflow for operating activities.....</b>		<b>(671)</b>	<b>(638)</b>
<b>Investing activities</b>			
Capital investments.....		(834)	(378)
Proceeds from landlord incentives.....		342	118
Proceeds from lease terminations and other non-capital landlord incentives.....		(492)	(260)
Proceeds from contribution of assets to joint ventures.....		—	22
Proceeds from contribution of assets to joint ventures.....	10	—	1,134
Acquisition of Kaufhof Operating Business, net of cash acquired.....	5	—	(745)
Investment in joint ventures.....	10	—	(186)
Proceeds on disposal of assets.....		84	—
Proceeds from sale of investments in joint ventures.....	10	65	—
Acquisition of Gilt Groupe Holdings Inc., net of cash acquired.....	4	(325)	—
Other investing activities.....		7	—
<b>Net cash outflow for investing activities.....</b>		<b>(661)</b>	<b>(35)</b>
<b>Financing activities</b>			
Long-term loans and borrowings:			
Issuance.....		522	1,453
Repayments.....		(326)	(844)
Borrowing costs.....		(16)	(58)
		180	551
Short-term loans and borrowings:			
Net borrowings from asset-based credit facilities.....		807	306
Borrowing costs.....		(13)	—
Net decrease in other short-term borrowings.....		(2)	(1)
		792	305
Payments on finance leases.....		(27)	(19)
Dividends paid.....		(27)	(27)
<b>Net cash inflow from financing activities.....</b>		<b>918</b>	<b>810</b>
Foreign exchange loss on cash.....		(7)	(13)
(Decrease) increase in cash.....		(421)	124
<b>Cash at beginning of year.....</b>		<b>507</b>	<b>168</b>
<b>Cash at end of period.....</b>		<b>86</b>	<b>292</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 and Thirty-nine Weeks Ended October 29, 2016, unaudited)

#### 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 ("Kaufhof") for €2,317 million (\$3,490 million) (the "Kaufhof Acquisition"). The transaction was structured such that effectively, the Company acquired the operating business and certain properties of Kaufhof (the "Kaufhof Operating Business") for €709 million (\$1,068 million) while the HBS Joint Venture acquired the property business (the "Kaufhof Property Business") for €1,608 million (\$2,422 million).

On February 1, 2016, the Company acquired Gilt Groupe Holdings Inc. ("Gilt") for U.S.\$239 million (\$335 million) in cash (the "Gilt Acquisition"), excluding debt (note 4).

The Company owns and operates department stores in Canada and the United States under Hudson's Bay, Lord & Taylor, Saks Fifth Avenue, Saks Fifth Avenue OFF 5TH ("Saks OFF 5TH"), 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 30, 2016.

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 30, 2016 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 December 5, 2016.

## **Accounting Standards Implemented in Fiscal 2016**

### **Joint Arrangements**

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

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments to IFRS 11 are effective for annual periods beginning on or after January 1, 2016, and must be applied prospectively. The Company implemented the amendments to IFRS 11 at the beginning of its 2016 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.

#### **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) earnings.

##### *Impairment*

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

##### *Hedge accounting*

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

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

#### **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 12 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. The Company is assessing the potential impact of IFRS 16.

**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.**

On February 1, 2016, the Company acquired Gilt Groupe Holdings Inc. for U.S.\$239 million (\$335 million) in cash, excluding debt. With the Gilt Acquisition, the Company has added an online shopping destination, which offers its members special access to fashion merchandise and experiences. This transaction reflects the Company’s ongoing focus on advancing its all-channel model, while continuing to grow its off-price business through the integration of Gilt with Saks OFF 5TH locations.

The following table summarizes the estimated fair value of the consideration given and the fair value assigned to the assets acquired and the liabilities assumed of Gilt:

(millions)	\$ U.S.	\$ CDN
Cash.....	7	10
Inventories.....	62	87
Property, plant and equipment.....	26	36
Intangible assets.....	178	249
Goodwill.....	72	101
Other assets.....	20	28
Trade payables.....	(50)	(70)
Other payables and accrued liabilities.....	(61)	(85)
Deferred tax liabilities.....	(9)	(13)
Other liabilities.....	(6)	(8)
<b>Total identifiable net assets acquired and cash consideration given.....</b>	<b>239</b>	<b>335</b>

The Company has not yet finalized the purchase price allocation including goodwill and therefore, the identifiable net assets acquired are subject to change.

The analysis for the allocation of goodwill to cash generating units or groups of cash generating units that will benefit from the synergies has not yet been completed. The Company has selected a date in the fourth quarter as its effective annual date for goodwill impairment testing.

The Company incurred acquisition-related costs of \$28 million related to external legal fees, consulting fees, due diligence costs and investment banking fees, of which \$12 million have been included in SG&A in the unaudited interim condensed consolidated statement of loss for the thirty-nine weeks ended October 29, 2016. The remaining costs of \$16 million were included in SG&A in the consolidated statement of earnings for the year ended January 30, 2016.

The Company expects no amount of goodwill to be deductible for tax purposes.

**NOTE 5. ACQUISITION OF GALERIA HOLDINGS**

On September 30, 2015, the Company and the HBS Joint Venture acquired Kaufhof for a purchase price of €2,317 million (\$3,490 million) from Metro AG (“METRO”) and Asset Immobilienbeteiligungen GmbH (“AIB”). The Company and the HBS Joint Venture paid cash for all of METRO and AIB’s shares in the department store business and non-store multi-channel retailing business that operate under the brands of the Kaufhof Banners. A nominal amount of shares in certain property companies of the acquired Kaufhof Operating Business and the Kaufhof Property Business were held as at the acquisition date by METRO, AIB, or third parties.

The transaction was structured in a manner such that HBC effectively acquired the Kaufhof Operating Business while the HBS Joint Venture acquired the Kaufhof Property Business. Both transactions are intended to drive growth going forward consistent with the Company's previously announced fiscal 2014 strategic initiatives; namely through global and all-channel growth in both its retail and real estate businesses.

### Purchase Price Allocation

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

(millions)	€ EUR	\$ CDN
Cash.....	214	323
Inventories.....	511	769
Property, plant and equipment.....	701	1,057
Intangible assets.....	347	524
Other acquired assets.....	136	203
Finance leases.....	(146)	(220)
Provisions.....	(40)	(60)
Deferred tax liabilities.....	(31)	(47)
Pensions and employee benefits.....	(318)	(479)
Other assumed liabilities.....	(665)	(1,002)
<b>Total identifiable net assets acquired and cash consideration given.....</b>	<b>709</b>	<b>1,068</b>

### Measurement Period Adjustments

During the thirty-nine weeks ended October 29, 2016, the Company identified measurement period adjustments based on new information relating primarily to inventories, intangible assets and provisions. The impacts of the adjustments to previously reported comparative amounts are as follows:

(millions of Canadian dollars)	Sept 30, 2015	Oct 31, 2015	Jan 30, 2016
Inventories.....	(11)	(11)	(11)
Property, plant and equipment.....	2	2	2
Intangible assets.....	5	5	5
Finance leases.....	2	2	2
Provisions.....	(4)	(4)	(4)
Deferred tax liabilities.....	(2)	(2)	(2)

### NOTE 6. DEPRECIATION AND AMORTIZATION

(millions of Canadian dollars)	Thirteen weeks ended		Thirty-nine weeks ended	
	Oct 29, 2016	Oct 31, 2015	Oct 29, 2016	Oct 31, 2015
Property, plant and equipment.....	<b>117</b>	84	<b>346</b>	243
Intangible assets.....	<b>47</b>	27	<b>132</b>	71
Deferred credits.....	—	(1)	<b>(2)</b>	(3)
	<b>164</b>	110	<b>476</b>	311

**NOTE 7. FINANCE COSTS**

(millions of Canadian dollars)	Thirteen weeks ended		Thirty-nine weeks ended	
	Oct 29, 2016	Oct 31, 2015	Oct 29, 2016	Oct 31, 2015
Interest expense on long-term borrowings.....	32	31	91	91
Interest expense on short-term borrowings.....	10	7	31	17
Interest expense on finance leases .....	10	6	30	13
Write-off of deferred financing costs.....	—	—	3	18
Net interest on pensions and employee benefits.....	3	1	10	2
Interest income.....	—	(1)	(1)	(1)
Total interest expense.....	55	44	164	140
Saks acquisition-related finance income (note 13).....	(7)	(15)	(15)	(12)
	<b>48</b>	<b>29</b>	<b>149</b>	<b>128</b>

**NOTE 8. CASH**

As at October 29, 2016, cash includes restricted cash of \$5 million (October 31, 2015: \$88 million; January 30, 2016: \$94 million).

**NOTE 9. INVENTORIES**

Inventories on hand at October 29, 2016, October 31, 2015 and January 30, 2016 were available for sale. The cost of merchandise inventories recognized as expense for the thirteen and thirty-nine weeks ended October 29, 2016 was \$1,908 million and \$5,729 million, respectively (2015: \$1,482 million and \$3,934 million, respectively). The write-down of merchandise inventories below cost to net realizable value as at October 29, 2016 was \$71 million (October 31, 2015: \$89 million; January 30, 2016: \$86 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.

*Change in accounting policy*

During the fourth quarter of fiscal 2015, the Company changed its policy with respect to the valuation of Saks' inventory from the retail method to cost, as well as, the method of calculating the adjustment required to value inventory to its net realizable value. The change in policy was implemented retrospectively to February 2, 2014. The Company was unable to quantify the impact of the accounting change prior to February 2, 2014 as data required for this was not historically maintained at the necessary level of detail.

Prior to February 2, 2014, item cost was determined using the retail method, which reduced the selling price of inventories to cost using the application of average department mark-up. The adjustment to net realizable value was then calculated by assessing department aging and mark down status of items in the department. Subsequent to February 2, 2014, cost is determined using the weighted average cost on an individual style basis. The net realizable value calculation is now performed integrating item level analysis as well as aging and markdown status.

As at October 31, 2015, the impact of this change in policy is as follows:

**Condensed Consolidated Balance Sheet**

(millions of Canadian dollars)	Oct 31, 2015
Decrease in inventories.....	(27)
Decrease in deferred tax liabilities .....	(11)
Decrease in retained earnings.....	(12)
Decrease in accumulated other comprehensive income.....	(4)

## Condensed Consolidated Statements of Earnings and Comprehensive (Loss) Income

(millions of Canadian dollars)	Oct 31, 2015	
	Thirteen weeks ended	Thirty-nine weeks ended
Decrease in cost of sales .....	10	4
Increase in income tax expense / decrease in income tax benefit.....	(4)	(1)
Increase in net earnings for the period.....	6	3
Increase in total comprehensive income for the period .....	5	2
Increase in earnings per common share - basic .....	0.03	0.02
Increase in earnings per common share - diluted.....	0.03	0.01

### 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	Oct 29, 2016		Oct 31, 2015		Jan 30, 2016	
		Ownership Interest	Carrying Value	Ownership Interest	Carrying Value	Ownership Interest	Carrying Value
RioCan-HBC JV	Canada	88.4%	(11)	86.6%	(47)	89.7%	(27)
HBS Joint Venture	United States, Germany	64.1%	516	91.8%	586	67.4%	545
Other joint venture	United States, Germany	64.1%	103	91.8%	14	67.4%	113
			<b>608</b>		<b>553</b>		<b>631</b>

#### *RioCan-HBC JV*

Upon closing of the first tranche of the joint venture with RioCan on July 9, 2015, HBC contributed 7 properties with a combined value of approximately \$1.3 billion to the RioCan-HBC JV. Based on RioCan's ownership interest in the joint venture, the total gain on contribution of the owned and ground-leased properties was \$147 million of which \$15 million was deferred and recorded in non-current other liabilities. The Company also received cash proceeds of \$352 million from the RioCan-HBC JV which it primarily used to repay a senior secured term loan and the HBC Revolving Credit Facility.

During the thirteen and thirty-nine weeks ended October 29, 2016, RioCan contributed nil and \$21 million, respectively, to the RioCan-HBC JV for tenant improvements to real estate properties. As a result, the Company's ownership interest in the RioCan-HBC JV decreased from 89.7% as at January 30, 2016 to 88.4% as at October 29, 2016. The Company realized dilution gains of nil and \$6 million during the thirteen and thirty-nine weeks ended October 29, 2016, respectively.

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

(millions of Canadian dollars)	Thirteen weeks ended		Thirty-nine weeks ended		Year ended
	Oct 29, 2016	Oct 31, 2015	Oct 29, 2016	Oct 31, 2015	Jan 30, 2016
Equity investment as at the beginning of the period.....	(14)	(49)	(27)	—	—
Dilution gains from change in equity interest.....	—	—	6	—	—
Share of net earnings from joint venture.....	20	15	61	19	37
Distributions from joint venture.....	(17)	(13)	(51)	(17)	(34)
Investments in joint venture .....	—	—	—	(49)	(30)
<b>Equity investment as at the end of the period .....</b>	<b>(11)</b>	<b>(47)</b>	<b>(11)</b>	<b>(47)</b>	<b>(27)</b>

Summarized financial information of the RioCan-HBC JV 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)	Oct 29, 2016	Oct 31, 2015	Jan 30, 2016
Cash.....	2	1	1
Current financial assets .....	6	—	—
Current assets .....	1	1	—
Non-current financial assets.....	144	119	142
Non-current assets.....	1,753	1,420	1,755
Current financial liabilities.....	(8)	(4)	(5)
Current liabilities.....	(1)	—	—
Non-current financial liabilities .....	(541)	(500)	(547)
<b>Net assets at 100%</b> .....	<b>1,356</b>	<b>1,037</b>	<b>1,346</b>
Company's share of net assets in the RioCan-HBC JV .....	1,199	898	1,207
Less gain on contributions of assets to the RioCan-HBC JV not recognized related to Company's ownership interest.....	(1,210)	(945)	(1,234)
<b>Company's carrying value of investment in the RioCan-HBC JV</b> .....	<b>(11)</b>	<b>(47)</b>	<b>(27)</b>

Summarized statement of earnings of the RioCan-HBC JV:

(millions of Canadian dollars)	Thirteen weeks ended		Thirty-nine weeks ended	
	Oct 29, 2016	Oct 31, 2015	Oct 29, 2016	Oct 31, 2015
Rental revenue .....	27	22	83	27
Rental revenue - recoveries .....	2	2	6	3
Property operating costs .....	(2)	(2)	(7)	(3)
Depreciation and amortization.....	(11)	(8)	(32)	(10)
Finance income.....	3	2	8	3
Finance costs.....	(4)	(4)	(12)	(5)
<b>Net earnings at 100%</b> .....	<b>15</b>	<b>12</b>	<b>46</b>	<b>15</b>
Company's share of net earnings in the RioCan-HBC JV prior to adjustment.....	13	10	41	13
Adjustment for the Company's share of depreciation on the fair value increment of the contributed properties.....	7	5	20	6
Company's share of net earnings from the RioCan-HBC JV.....	20	15	61	19
Reclassification of rental income to SG&A related to the Company's ownership interest in the RioCan-HBC JV.....	(22)	(17)	(64)	(21)
<b>Company's share of net loss in the RioCan-HBC JV</b> .....	<b>(2)</b>	<b>(2)</b>	<b>(3)</b>	<b>(2)</b>

#### HBS Joint Venture

Upon closing of the HBC-Simon JV on July 22, 2015, HBC contributed forty-two properties with a combined value of approximately \$2.1 billion to the HBC-Simon JV. Based on Simon's ownership interest in the joint venture, the total gain on contribution of the owned and ground-leased properties was \$1 million. The Company also received cash proceeds of \$782 million from the HBC-Simon JV which was used to repay a senior secured term loan in full and to partially repay the outstanding balance on its U.S. Revolving Credit Facility. On September 30, 2015, the HBC-Simon JV became a wholly-owned subsidiary of the HBS Joint Venture.

On March 30, 2016, HBC sold a further 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 to 65.0%. Total proceeds from the sale were used to pay down the Global Revolving Credit Facility. As a result of the transaction, the Company recognized a pre-tax gain on the sale of \$45 million.

During the thirteen and thirty-nine weeks ended October 29, 2016, Simon contributed U.S.\$14 million (\$18 million) and U.S.\$27 million (\$34 million), respectively, towards its U.S.\$99 million commitment for improvements to properties contributed by HBC. As a result of these contributions and the sale noted above, the Company's ownership interest in the HBS Joint Venture decreased from 67.4% as at January 30, 2016 to 64.1% as at October 29, 2016. The Company realized dilution gains of \$6

million and \$12 million during the thirteen and thirty-nine weeks ended October 29, 2016, respectively. During the thirteen and thirty-nine weeks ended October 31, 2015, the Company realized a dilution gain of \$148 million. The gain is primarily attributable to Simon's capital contribution of \$231 million and the impact of HBC's increased net investment in the HBS Joint Venture which resulted in a reduction to HBC's ownership interest from 99.9% to 91.8%.

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

(millions of Canadian dollars)	Thirteen weeks ended		Thirty-nine weeks ended		Year ended
	Oct 29, 2016	Oct 31, 2015	Oct 29, 2016	Oct 31, 2015	Jan 30, 2016
Equity investment as at the beginning of the period.....	<b>509</b>	313	<b>545</b>	—	—
Share of net earnings (loss) from joint venture.....	<b>20</b>	(1)	<b>111</b>	(3)	12
Dilution gains from changes in equity interest.....	<b>6</b>	148	<b>12</b>	148	164
Sale of a portion of investment in joint venture.....	—	—	<b>(17)</b>	—	(191)
Distributions of earnings from joint venture.....	<b>(35)</b>	(39)	<b>(101)</b>	(42)	(80)
Return of capital from joint venture.....	—	—	<b>(6)</b>	—	—
Net foreign currency exchange and other.....	<b>16</b>	(7)	<b>(28)</b>	(6)	43
Investments in joint venture.....	—	172	—	489	597
<b>Equity investment as at the end of the period.....</b>	<b>516</b>	586	<b>516</b>	586	545

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)	Oct 29, 2016	Oct 31, 2015	Jan 30, 2016
Cash.....	<b>83</b>	271	144
Current financial assets.....	<b>19</b>	69	18
Non-current assets.....	<b>5,472</b>	5,304	5,710
Current liabilities.....	<b>(29)</b>	(19)	(32)
Current financial liabilities.....	<b>(171)</b>	(140)	(235)
Non-current liabilities.....	<b>(398)</b>	(477)	(423)
Non-current financial liabilities.....	<b>(3,192)</b>	(3,246)	(3,319)
<b>Net assets at 100%.....</b>	<b>1,784</b>	1,762	1,863
Company's share of net assets in the HBS Joint Venture.....	<b>1,143</b>	1,617	1,256
Less gain on contribution of assets to the HBS Joint Venture not recognized related to Company's ownership interest.....	<b>(627)</b>	(1,031)	(711)
<b>Company's carrying value of investment in the HBS Joint Venture.....</b>	<b>516</b>	586	545

Summarized statement of earnings (loss) of the HBS Joint Venture:

(millions of Canadian dollars)	Thirteen weeks ended		Thirty-nine weeks ended	
	Oct 29, 2016	Oct 31, 2015	Oct 29, 2016	Oct 31, 2015
Rental revenue .....	<b>109</b>	66	<b>328</b>	71
Rental revenue - recoveries .....	<b>5</b>	1	<b>17</b>	1
Property operating costs .....	<b>(5)</b>	(1)	<b>(13)</b>	(1)
General and administrative expenses.....	<b>(22)</b>	(31)	<b>1</b>	(35)
Depreciation and amortization.....	<b>(28)</b>	(21)	<b>(84)</b>	(24)
Finance costs.....	<b>(29)</b>	(21)	<b>(85)</b>	(22)
Income tax expense.....	<b>(4)</b>	(2)	<b>(13)</b>	(2)
<b>Net earnings (loss) at 100%</b> .....	<b>26</b>	(9)	<b>151</b>	(12)
Company's share of net earnings (loss) in the HBS Joint Venture prior to adjustment.....	<b>16</b>	(7)	<b>99</b>	(10)
Adjustment for the Company's share of depreciation on the fair value increment of the contributed properties.....	<b>4</b>	6	<b>12</b>	7
Company's share of net earnings (loss) from the HBS Joint Venture....	<b>20</b>	(1)	<b>111</b>	(3)
Reclassification of rental income to SG&A related to the Company's ownership interest in the HBS Joint Venture.....	<b>(69)</b>	(63)	<b>(212)</b>	(68)
Reclassification of interest expense to finance costs, net related to the Company's ownership interest in the HBS Joint Venture.....	—	2	—	2
<b>Company's share of net loss in the HBS Joint Venture.....</b>	<b>(49)</b>	(62)	<b>(101)</b>	(69)

#### NOTE 11. LOANS AND BORROWINGS

The Company's debt consists of a Global U.S. dollar denominated asset based revolving credit facility and U.S. term loans and mortgages.

##### a) Current loans and borrowings

(millions of Canadian dollars)	Oct 29, 2016	Oct 31, 2015	Jan 30, 2016
Global Revolving Credit Facility.....	<b>1,257</b>	—	—
HBC Revolving Credit Facility .....	—	5	—
U.S. Revolving Credit Facility.....	—	578	464
Current portion of long-term loans and borrowings .....	<b>7</b>	20	5
	<b>1,264</b>	603	469
Less: unamortized costs .....	<b>(24)</b>	(21)	(18)
	<b>1,240</b>	582	451

On February 5, 2016, the Company entered into a senior secured asset-based revolving credit facility for the benefit of the Company's Canadian, U.S. and European operations ("Global Revolving Credit Facility") with Bank of America, N.A. as the administrative agent and collateral agent. The Global Revolving Credit Facility replaced the HBC Revolving Credit Facility and the U.S. Revolving Credit Facility which existed up until February 4, 2016. The Global Revolving Credit Facility, with availability of up to U.S.\$1.9 billion, has a maturity date of February 5, 2021 and is secured by a first priority security interest over all inventory and accounts receivable in Canada, the United States and Germany.

The amounts outstanding and availability under the Company's revolving credit facilities were as follows:

### Global Revolving Credit Facility

(millions of Canadian dollars)	Oct 29, 2016
Gross borrowing base availability .....	2,398
Drawings.....	(1,257)
Outstanding letters of credit .....	(113)
Borrowing base availability net of drawings and letters of credit.....	<u>1,028</u>

As the Global Revolving Credit Facility is available for and used to finance working capital requirements, capital expenditures and other general corporate purposes, it has been classified in the unaudited interim condensed consolidated balance sheet 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.

### HBC Revolving Credit Facility

(millions of Canadian dollars)	Oct 31, 2015	Jan 30, 2016
Gross borrowing base availability .....	600	495
Drawings.....	(5)	—
Outstanding letters of credit .....	(13)	(13)
Borrowing base availability net of letters of credit .....	<u>582</u>	<u>482</u>

### U.S. Revolving Credit Facility

(millions of Canadian dollars)	Oct 31, 2015	Jan 30, 2016
Gross borrowing base availability .....	1,438	1,541
Drawings.....	(578)	(464)
Outstanding letters of credit .....	(26)	(28)
Borrowing base availability net of drawings and letters of credit.....	<u>834</u>	<u>1,049</u>

### b) Long-term loans and borrowings

(millions of Canadian dollars)	Oct 29, 2016	Oct 31, 2015	Jan 30, 2016
U.S. Term Loan B .....	669	1,419	700
Yorkdale Mortgage .....	—	47	—
Lord & Taylor Mortgage.....	534	327	349
Saks Mortgage .....	1,673	1,634	1,750
Other loans .....	8	9	10
	<u>2,884</u>	<u>3,436</u>	<u>2,809</u>
Less: unamortized costs .....	(81)	(102)	(75)
Less: amounts due within one year.....	(7)	(20)	(5)
	<u>2,796</u>	<u>3,314</u>	<u>2,729</u>

On July 19, 2016, LT 424 LLC, an indirect subsidiary of L&T Acquisition, refinanced its previous U.S.\$250 million mortgage loan by entering into a U.S.\$400 million syndicated floating rate senior mortgage loan (“the Lord & Taylor Mortgage”) with an affiliate of CIBC World Markets Inc., as the administrative agent.

The Lord & Taylor Mortgage matures August 10, 2021 and carries an interest rate of LIBOR plus 3.25% (note 13). The Lord & Taylor Mortgage is subject to mandatory prepayments over the term of the loan and allows for the ability to prepay the entire amount outstanding after the first 2 years with a fee payable to the lenders at 2% of the outstanding loan principal. This prepayment fee is reduced to 1% after 3 years, and further reduced to nil after August 10, 2020. Any prepayments made are applied to reduce the remaining scheduled installments.



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

On October 20, 2016, the Company refinanced U.S. Term Loan B with Bank of America, N.A. as the administrative agent. U.S. Term Loan B matures on September 20, 2022 and subsequent to its refinancing, it now carries an interest rate of LIBOR plus 3.25% per annum. Prior to its refinancing, the term loan carried an interest rate of LIBOR plus 3.75% per annum. The term loan is subject to mandatory prepayments and is secured by a second priority security interest over inventory and accounts receivable, a first priority security interest over substantially all other assets of the Company and certain of its subsidiaries (excluding real estate subsidiaries), as well as a pledge of the shares of certain subsidiaries of the Company and certain of their subsidiaries.

#### NOTE 12. OTHER LIABILITIES

(millions of Canadian dollars)	Oct 29, 2016	Oct 31, 2015	Jan 30, 2016
Deferred landlord incentives.....	897	421	648
Deferred gain on sale and leaseback transaction .....	225	235	232
Operating lease intangible liability .....	111	118	88
Deferred proceeds from lease terminations .....	77	65	65
Income taxes payable.....	28	4	50
Financial liabilities.....	21	58	37
Other liabilities.....	344	174	247
	<b>1,703</b>	<b>1,075</b>	<b>1,367</b>
Current .....	111	75	126
Non-current.....	1,592	1,000	1,241
	<b>1,703</b>	<b>1,075</b>	<b>1,367</b>

#### NOTE 13. FINANCIAL INSTRUMENTS

The fair value of the Global Revolving Credit Facility, HBC Revolving Credit Facility, U.S. Revolving Credit Facility, U.S. Term Loan B, Yorkdale Mortgage, 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 October 29, 2016, October 31, 2015 and January 30, 2016, the carrying value and fair value of these debt instruments were:

(millions of Canadian dollars)	Oct 29, 2016	Oct 31, 2015	Jan 30, 2016
Carrying value <sup>(1)</sup> .....	4,141	4,019	3,273
Fair value .....	4,145	4,024	3,272

(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 October 29, 2016, October 31, 2015 and January 30, 2016, the fair value and carrying value of derivative financial assets and financial liabilities were:

(millions of Canadian dollars)	Oct 29, 2016	Oct 31, 2015	Jan 30, 2016
Current financial assets (included in other current assets).....	<b>9</b>	12	23
Current financial liabilities (included in other current liabilities) .....	<b>5</b>	2	6
Non-current financial liabilities (included in other liabilities) .....	<b>16</b>	56	31

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 \$2 million and \$4 million during the thirteen and thirty-nine weeks ended October 29, 2016, respectively (2015: \$4 million and \$3 million, respectively), representing mark-to-market adjustments to the fair value as at October 29, 2016. As at October 29, 2016, the fair value of the Merger Agreement Warrants was \$3 million (October 31, 2015: \$12 million; January 30, 2016: \$7 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 \$5 million and \$11 million during the thirteen and thirty-nine weeks ended October 29, 2016, respectively (2015: \$11 million and \$9 million, respectively), representing mark-to-market adjustments to the fair value as at October 29, 2016. As at October 29, 2016, the fair value of the Acquisition Warrants was \$13 million (October 31, 2015: \$44 million; January 30, 2016: \$24 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:

	Oct 29, 2016	Oct 31, 2015	Jan 30, 2016
Share price .....	<b>\$16.70</b>	\$22.73	\$17.30
Expected volatility .....	<b>29%</b>	40%	42%
Dividend yield .....	<b>1.20%</b>	0.88%	1.16%
Risk free interest rate .....	<b>0.65%</b>	0.75%	0.49%
Expected life – Merger Agreement Warrants.....	<b>1.8 years</b>	2.8 years	2.5 years
Expected life – Acquisition Warrants.....	<b>2.0 years</b>	3.0 years	2.8 years

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

	Thirty-nine weeks ended			
	Oct 29, 2016		Oct 31, 2015	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year.....	10,656,936	\$20.37	8,945,597	\$18.07
Granted .....	6,750,896	\$16.94	3,105,806	\$26.79
Forfeited.....	(787,481)	\$19.38	(1,438,605)	\$18.78
Outstanding at end of period.....	16,620,351	\$19.03	10,612,798	\$20.52
Share options exercisable at end of period .....	—	—	—	—

During the thirteen and thirty-nine weeks ended October 29, 2016, the grant date fair value of senior executive options granted was \$1 million and \$29 million, respectively (2015: \$6 million and \$20 million, respectively).

The following table summarizes information about the senior executive share options outstanding and exercisable as at October 29, 2016:

Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at Oct 29, 2016	Weighted average exercise price
\$15.00 to \$15.49.....	221,975	6.6	\$15.01	—	—
\$16.00 to \$16.49.....	285,482	6.3	\$16.28	—	—
\$16.50 to \$16.99.....	133,109	6.9	\$16.96	—	—
\$17.00 to \$17.49.....	11,251,056	6.3	\$17.01	—	—
\$17.50 to \$17.99.....	848,642	4.5	\$17.61	—	—
\$23.50 to \$23.99.....	2,143,217	5.5	\$23.72	—	—
\$24.00 to \$24.49.....	100,000	6.0	\$24.22	—	—
\$28.00 to \$28.49.....	1,636,870	5.7	\$28.34	—	—
Total.....	16,620,351	6.0	\$19.03	—	—

Other management option transactions were as follows:

	Thirty-nine weeks ended			
	Oct 29, 2016		Oct 31, 2015	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year.....	1,843,600	\$19.72	1,729,400	\$17.35
Granted .....	332,800	\$16.70	500,800	\$27.47
Forfeited.....	(253,732)	\$19.92	(312,000)	\$18.78
Outstanding at end of period.....	1,922,668	\$19.14	1,918,200	\$19.77
Share options exercisable at end of period .....	628,000	\$17.03	—	—

During the thirteen and thirty-nine weeks ended October 29, 2016, the grant date fair value of other management options granted was nil and \$1 million, respectively (2015: \$600 thousand and \$3 million, respectively).

The following table summarizes information about the other management share options outstanding and exercisable as at October 29, 2016:

Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at Oct 29, 2016	Weighted average exercise price
\$15.00 to \$15.49.....	44,800	6.6	\$15.01	—	—
\$16.00 to \$16.49.....	16,000	6.3	\$16.28	—	—
\$17.00 to \$17.49.....	971,200	4.2	\$17.03	628,000	\$17.03
\$17.50 to \$17.99.....	514,668	4.5	\$17.61	—	—
\$23.50 to \$23.99.....	88,000	5.8	\$23.86	—	—
\$28.00 to \$28.49.....	288,000	5.7	\$28.34	—	—
Total.....	1,922,668	4.6	\$19.14	628,000	\$17.03

The assumptions used to measure the fair value of senior executive and other management options granted during the thirteen and thirty-nine weeks ended October 29, 2016 under the Black-Scholes option pricing model at the grant date were as follows:

Expected dividend yield .....	1.18% - 1.33%
Expected share price volatility .....	32.93% - 33.42%
Risk-free interest rate .....	0.64% - 0.66%
Expected life of options (years).....	4 - 5

During the thirteen and thirty-nine weeks ended October 29, 2016, the Company granted 216,545 and 320,905 (2015: nil and 109,250, respectively) phantom share units with a grant date fair value of \$3 million and \$5 million, respectively (2015: nil and \$3 million, respectively).

During the thirteen and thirty-nine weeks ended October 29, 2016, the Company granted nil and 87,775 (2015: nil and 59,506, respectively) deferred share units (“DSUs”) and 116,806 and 1,767,748 (2015: 30,958 and 97,330, respectively) restricted share units (“RSUs”) with grant date fair values of nil and \$2 million (2015: \$9 thousand and \$1 million, respectively) and \$2 million and \$30 million, respectively (2015: \$1 million and \$3 million, respectively). During the thirteen and thirty-nine weeks ended October 29, 2016, the Company granted 1,585 and 2,348 DSUs (2015: 346 and 925, respectively) and 5,445 and 12,198 RSUs (2015: 704 and 1,899, respectively) 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 in fiscal 2016 vest over 1, 2 and 3 year terms.

During the thirteen and thirty-nine weeks ended October 29, 2016, the Company granted nil and 593,812 (2015: 15,356 and 623,847, respectively) performance share units (“PSUs”) with grant date fair values of nil and \$10 million, respectively (2015: \$400 thousand and \$18 million, respectively), of which nil and \$8 million, respectively (2015: \$300 thousand and \$13 million, respectively) is expected to vest. The fair value was determined based on the Company’s share price at the date of the grant. Prior to fiscal 2016, the fair value was adjusted to reflect PSU’s non-entitlement of dividends. During the thirteen and thirty-nine weeks ended October 29, 2016, the Company granted 3,612 PSUs as dividends equivalents.

During the thirteen and thirty-nine weeks ended October 29, 2016, the Company granted nil (2015: nil and 1,470,724, respectively) performance restricted share units (“PRSUs”) to senior executives with a total grant date fair value of nil (2015: nil and \$15 million, respectively) and 9,923 and 14,717 (2015: 2,994 and 5,671, respectively) PRSUs as dividend equivalents.

## Share based compensation expense

Total share based compensation expense for thirteen and thirty-nine weeks ended October 29, 2016 is summarized as follows:

(millions of Canadian dollars)	Thirteen weeks ended		Thirty-nine weeks ended	
	Oct 29, 2016	Oct 31, 2015	Oct 29, 2016	Oct 31, 2015
Share options .....	6	4	15	11
PSUs .....	2	3	(4)	6
RSUs .....	4	1	9	3
Other share based compensation <sup>(1)</sup> .....	—	1	3	3
	<b>12</b>	<b>9</b>	<b>23</b>	<b>23</b>

(1) Includes phantom shares, DSUs and PRSUs.

During the thirty-nine weeks ended October 29, 2016, the Company's regular review of equity instruments expected to vest resulted in revisions to cumulative expenses for certain share based awards.

During the thirty-nine weeks ended October 29, 2016, \$5 million (2015: \$3 million) of share based compensation was settled. Of the total settlement, \$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 September 6, 2016, June 9, 2016 and March 21, 2016, the Company's Board of Directors declared a dividend of \$0.05 per common share which was paid on October 17, 2016, July 15, 2016 and April 15, 2016 to shareholders of record at the close of business on September 30, 2016, June 30, 2016 and March 31, 2016, respectively.

During thirteen and thirty-nine weeks ended October 29, 2016, the Company issued 45,912 and 126,703 common shares in connection with the settlement of vested share based awards.

Net (loss) earnings 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		Thirty-nine weeks ended	
	Oct 29, 2016	Oct 31, 2015 (restated - note 9)	Oct 29, 2016	Oct 31, 2015 (restated - note 9)
Net (loss) earnings for basic earnings per share .....	(125)	7	(364)	17
Impact of options and warrants.....	—	(15)	—	(12)
Net (loss) earnings for diluted earnings per share .....	(125)	(8)	(364)	5
Weighted average common shares outstanding.....	182	182	182	182
Dilutive effect of options and warrants.....	—	4	—	5
Diluted weighted average common shares outstanding.....	182	186	182	187
(Loss) earnings per common share .....				
Basic .....	(0.69)	0.04	(2.00)	0.09
Diluted .....	(0.69)	(0.04)	(2.00)	0.02

## 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 the thirteen and thirty-nine weeks ended October 29, 2016 were U.S.\$110 thousand

and U.S.\$330 thousand, respectively (2015: U.S.\$110 thousand and U.S.\$330 thousand, respectively). 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 the thirteen and thirty-nine weeks ended October 29, 2016 were U.S.\$219 thousand and U.S.\$657 thousand, respectively. Mack Properties is owned by William Mack, a director of the Company. There were no amounts charged to the Company for the thirteen and thirty-nine weeks ended October 31, 2015 since the rent commencement date had not yet occurred.

HBC has entered into vendor agreements with 2 related companies in which Earl Rotman, a director of the Company, has an ownership interest. The agreements relate to menswear and womenswear sold in Saks and the Department Store Group (“DSG”). During the thirteen and thirty-nine weeks ended October 29, 2016, HBC purchased goods of approximately \$580 thousand and \$2 million (2015: \$524 thousand), respectively from these companies, and has committed to ordering approximately \$300 thousand for the remainder of fiscal 2016.

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 October 29, 2016, the promissory note was repaid in full (October 31, 2015: \$6 million; January 30, 2016: \$4 million).

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 the thirteen and thirty-nine weeks ended October 29, 2016 were \$170 thousand and \$469 thousand, respectively (2015: \$500 thousand).

As part of the acquisition of the Kaufhof Operating Business, the Company assumed a liability due to a wholly-owned subsidiary of the HBS Joint Venture. The liability of \$21 million as at October 29, 2016 (October 31, 2015 \$22 million; January 30, 2016: \$22 million) relates to 2 properties the Company controls as a result of the acquisition. In addition, the Company acquired options to purchase these properties that when exercised, would relieve this liability. The Company also has an outstanding payable to the HBS Joint Venture in the amount of \$6 million as at October 29, 2016 (October 31, 2015: nil; January 30, 2016: nil). These liabilities have been included in other liabilities.

During the thirteen and thirty-nine weeks ended October 29, 2016, the Company incurred rent expense of \$132 million and \$397 million, respectively (2015: \$83 million and \$93 million, respectively) related to both the RioCan-HBC JV and the HBS Joint Venture. As at October 29, 2016, other current assets included prepaid rent to the HBS Joint Venture of \$31 million (October 31, 2015: \$12 million; January 30, 2016: \$13 million).

The Company has outstanding receivables in the amount of \$79 million as at October 29, 2016 (October 31, 2015: \$1 million; January 30, 2016: \$46 million), due from the HBS Joint Venture with respect to transactions carried out on behalf of the joint venture.

Included in other current liabilities as at October 29, 2016 is a promissory note in the amount of \$12 million to both the RioCan-HBC JV and RioCan (\$6 million each) which pertains to a tenant improvement advance from the joint venture to the Company. The promissory note is 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 of October 29, 2016, 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 includes Saks OFF 5TH and Gilt) which are aggregated into one 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, operating income (loss), non-current assets and total assets by geographic area:

(millions of Canadian dollars)	Thirteen weeks ended		Thirty-nine weeks ended	
	Oct 29, 2016	Oct 31, 2015	Oct 29, 2016	Oct 31, 2015
<b>Retail sales</b>				
Canada.....	774	690	2,175	1,946
United States.....	1,333	1,489	4,382	4,343
Europe.....	1,193	387	3,298	387
	<b>3,300</b>	<b>2,566</b>	<b>9,855</b>	<b>6,676</b>

(millions of Canadian dollars)	Thirteen weeks ended		Thirty-nine weeks ended	
	Oct 29, 2016	Oct 31, 2015 (restated – note 9)	Oct 29, 2016	Oct 31, 2015 (restated – note 9)
<b>Operating income (loss)</b>				
Canada.....	5	(34)	(80)	75
United States.....	(80)	(2)	(27)	(76)
Europe.....	(39)	(2)	(221)	(2)
	<b>(114)</b>	<b>(38)</b>	<b>(328)</b>	<b>(3)</b>

(millions of Canadian dollars)	Oct 29, 2016	Oct 31, 2015 (restated – note 5 and 9)	Jan 30, 2016 (restated – note 5)
	<b>Non-current assets<sup>(1)</sup></b>		
Canada.....	970	741	806
United States.....	4,712	4,328	4,580
Europe.....	1,784	1,507	1,565
	<b>7,466</b>	<b>6,576</b>	<b>6,951</b>
<b>Total assets</b>			
Canada.....	2,456	2,797	2,189
United States.....	8,030	6,758	7,764
Europe.....	2,995	2,774	2,692
	<b>13,481</b>	<b>12,329</b>	<b>12,645</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)	Thirty-nine weeks ended	
	Oct 29, 2016	Oct 31, 2015 (restated – note 9)
Increase in trade and other receivables.....	(22)	(48)
Increase in inventories.....	(763)	(817)
Increase in other assets.....	(8)	(54)
Increase in trade and other payables, accrued liabilities and provisions.....	155	263
Increase (decrease) in other liabilities.....	97	(13)
	<b>(541)</b>	<b>(669)</b>