2015 Q2 INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Thirteen and Twenty-Six Weeks Ended

August 1, 2015

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HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

(unaudited)

(millions of Canadian dollars, except per share amounts)

		Thirteen weeks ended		Twenty-six weeks ended	
	Notes	**Aug 1, 2015**	Aug 2, 2014	**Aug 1, 2015**	Aug 2, 2014
Retail sales		**2,038**	1,769	**4,110**	3,624
Cost of sales	10	**(1,220)**	(1,069)	**(2,446)**	(2,208)
Selling, general and administrative expenses		**(775)**	(652)	**(1,555)**	(1,333)
Depreciation and amortization	6	**(101)**	(81)	**(201)**	(163)
Gain on contribution of assets to joint ventures	11	**133**	—	**133**	—
Gain on sale and leaseback transaction	22	—	—	—	308
Operating income (loss)		**75**	(33)	**41**	228
Finance costs	7	**(52)**	(29)	**(99)**	(104)
Share of net earnings (loss) in joint ventures, net of income taxes	11	**(4)**	—	**(4)**	—
Earnings (loss) before income tax		**19**	(62)	**(62)**	124
Income tax benefit	9	**48**	26	**75**	16
Net earnings (loss) for the period		**67**	(36)	**13**	140
Net earnings (loss) per common share	15				
Basic		**0.37**	(0.20)	**0.07**	0.77
Diluted		**0.33**	(0.23)	**0.07**	0.75

(See accompanying notes to the unaudited interim Condensed Consolidated Financial Statements)

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited)

(millions of Canadian dollars)	Thirteen weeks ended		Twenty-six weeks ended	
	Aug 1, 2015	Aug 2, 2014	**Aug 1, 2015**	Aug 2, 2014
Net earnings (loss) for the period	**67**	(36)	**13**	140
Other comprehensive income (loss), net of tax:				
Items that may be reclassified subsequently to earnings or loss:				
Currency translation adjustment	**129**	(12)	**49**	(41)
Net gain on net investment hedge, net of taxes of nil (2014 — nil)	**—**	1	**—**	9
Net loss on derivatives designated as cash flow hedges, net of taxes of $1 and $5 (2014 — nil), respectively	**(4)**	—	**(12)**	—
Reclassification to non-financial assets of net (gains) losses on derivatives designated as cash flow hedges, net of taxes of $1 and $3 (2014 — nil and $1), respectively	**(3)**	1	**(8)**	(1)
Reclassification to earnings of net gains on derivatives designated as cash flow hedges, net of taxes of ($2) and $1 (2014 — nil), respectively	**(4)**	—	**(2)**	—
Other comprehensive income (loss)	**118**	(10)	**27**	(33)
Total comprehensive income (loss)	**185**	(46)	**40**	107

(See accompanying notes to the unaudited interim Condensed Consolidated Financial Statements)

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the twenty-six weeks ended August 1, 2015 and August 2, 2014

(unaudited)

					Accumulated Other Comprehensive Income ("AOCI")					
(millions of Canadian dollars)	**Notes**	**Share Capital**	**Retained Earnings**	**Contributed Surplus**	Currency Translation Adjustment	Employee Benefits	Net Investment Hedge	Cash Flow Hedges	**Total AOCI**	**Total Equity**
As at January 31, 2015		**1,420**	**693**	**60**	382	(12)	(56)	5	**319**	**2,492**
Total comprehensive income		—	13	—	49	—	—	(22)	27	40
Share based compensation	20	—	—	12	—	—	—	—	—	12
Dividends	15	—	(18)	—	—	—	—	—	—	(18)
As at August 1, 2015		**1,420**	**688**	**72**	431	(12)	(56)	(17)	**346**	**2,526**

					Accumulated Other Comprehensive Income ("AOCI")					
(millions of Canadian dollars)	**Notes**	**Share Capital**	**Retained Earnings**	**Contributed Surplus**	Currency Translation Adjustment	Employee Benefits	Net Investment Hedge	Cash Flow Hedges	**Total AOCI**	**Total Equity**
As at February 1, 2014		**1,420**	**491**	**43**	146	(6)	(54)	3	**89**	**2,043**
Total comprehensive income		—	140	—	(41)	—	9	(1)	(33)	107
Share based compensation	20	—	—	6	—	—	—	—	—	6
Dividends		—	(18)	—	—	—	—	—	—	(18)
As at August 2, 2014		**1,420**	**613**	**49**	105	(6)	(45)	2	**56**	**2,138**

(See accompanying notes to the unaudited interim Condensed Consolidated Financial Statements)

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

As at August 1, 2015, August 2, 2014 and January 31, 2015

(unaudited)

(millions of Canadian dollars)	Notes	Aug 1, 2015	(restated – note 4) Aug 2, 2014	Jan 31, 2015
Assets				
Cash	8	**58**	38	168
Trade and other receivables		**168**	114	212
Inventories	10	**2,539**	2,050	2,349
Financial assets	21	**20**	5	24
Income taxes recoverable		—	37	7
Other current assets		**115**	84	69
Total current assets		**2,900**	2,328	2,829
Property, plant and equipment		**3,672**	3,962	4,606
Intangible assets		**1,030**	951	1,076
Goodwill		**244**	204	237
Pensions and employee benefits		**61**	63	69
Deferred tax assets		**261**	238	240
Investment in joint venture	11	**313**	—	—
Other assets		**16**	12	15
Total assets		**8,497**	7,758	9,072
Liabilities				
Loans and borrowings	12	**318**	455	246
Finance leases	13	**20**	17	19
Trade payables		**821**	662	945
Other payables and accrued liabilities		**585**	502	603
Other liabilities	14	**76**	25	76
Deferred revenue		**108**	132	130
Provisions		**103**	155	115
Income taxes payable		**13**	7	8
Financial liabilities	21	**30**	1	2
Total current liabilities		**2,074**	1,956	2,144
Loans and borrowings	12	**1,969**	2,289	2,723
Finance leases	13	**261**	124	136
Provisions		**56**	17	63
Financial liabilities	21	**71**	21	68
Pensions and employee benefits		**114**	97	109
Deferred tax liabilities		**611**	615	668
Investment in joint venture	11	**49**	—	—
Other liabilities	14	**766**	501	669
Total liabilities		**5,971**	5,620	6,580
Shareholders' Equity				
Share capital		**1,420**	1,420	1,420
Retained earnings		**688**	613	693
Contributed surplus		**72**	49	60
Accumulated other comprehensive income		**346**	56	319
Total shareholders' equity		**2,526**	2,138	2,492
Total liabilities and shareholders' equity		**8,497**	7,758	9,072

(See accompanying notes to the unaudited interim Condensed Consolidated Financial Statements)

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the twenty-six weeks ended August 1, 2015 and August 2, 2014

(unaudited)

(millions of Canadian dollars)	Notes	Aug 1, 2015	Aug 2, 2014
Operating activities			
Net earnings for the period		**13**	140
Deduct: Income tax benefit		**(75)**	(16)
Add: Share of (earnings) loss in joint ventures	11	**4**	—
Add: Finance costs	7	**99**	104
Operating income		**41**	228
Net cash income taxes received		**2**	5
Interest paid in cash		**(71)**	(71)
Distributions of earnings from joint ventures	11	**7**	—
Items not affecting cash flows:			
Depreciation and amortization	6	**201**	163
Net defined benefit pension and employee benefits expense		**13**	14
Other operating activities		**(19)**	(3)
Share of rent expense to joint ventures		**(9)**	—
Gain on contribution of assets to joint ventures	11	**(133)**	—
Gain on sale and leaseback transaction	22	—	(308)
Share based compensation	20	**14**	6
Settlement of share based compensation grants	20	**(2)**	—
Changes in operating working capital:			
Increase in trade and other receivables		**(22)**	(3)
Increase in inventories		**(141)**	(34)
Increase in other assets		**(44)**	(15)
Decrease in trade and other payables, accrued liabilities and provisions		**(163)**	(2)
Decrease in other liabilities		**(2)**	(16)
Net cash outflow for operating activities		**(328)**	(36)
Investing activities			
Capital investments		**(210)**	(177)
Proceeds from landlord incentives		**91**	60
		(119)	(117)
Proceeds from lease terminations and other non-capital landlord incentives		**22**	47
Proceeds from sale of assets		—	35
Proceeds from sale and leaseback transaction	22	—	650
Proceeds from contribution of assets to joint ventures	11	**1,134**	—
Net cash inflow from investing activities		**1,037**	615
Financing activities			
Long-term loans and borrowings:			
Repayments		**(841)**	(510)
Short-term loans and borrowings:			
Net borrowings from (repayments to) asset-based credit facilities		**56**	(23)
Payments on finance leases		**(15)**	(10)
Dividends paid		**(18)**	(18)
Net cash outflow for financing activities		**(818)**	(561)
Foreign exchange loss on cash		**(1)**	(1)
(Decrease) increase in cash		**(110)**	17
Cash at beginning of period		**168**	21
Cash at end of period		**58**	38

(See accompanying notes to the unaudited interim Condensed Consolidated Financial Statements)

NOTE 1. BASIS OF PREPARATION

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 ("RioCan-HBC JV").

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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 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 2 of the annual audited consolidated financial statements for the year ended January 31, 2015, except as indicated below.

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 31, 2015, except as indicated below, and should be read in conjunction with them.

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Audit Committee of HBC on September 9, 2015.

New Accounting Standards Not Yet Implemented

Financial Instruments

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

> *Classification and measurement*
>
> Financial assets are classified and measured based on the business model under which they are managed and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified in a similar manner as

under IAS 39, except that financial liabilities measured at fair value will have fair value changes resulting from changes in the entity's own credit risk recognized in other comprehensive income (loss) instead of net earnings (loss).

Impairment

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

Hedge accounting

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

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

Revenue

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15"), which provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 is 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.

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. Early adoption is permitted. The Company is assessing the potential impact of the amendments to IFRS 11.

New Accounting Policies

Interest in Joint Ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Investments in joint ventures are accounted for using the equity method. Under the equity method, the investment in a joint venture is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the joint venture. When the Company's share of losses of a joint venture exceeds the Company's interest in that joint venture, the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the joint venture.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its joint venture arrangements. At each reporting date, the Company determines whether there is objective evidence that the investment in its joint ventures is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, and then recognizes the loss as 'Share of profit of a joint venture' in the consolidated statement of earnings (loss).

The Company has investments in 2 joint ventures. Both are structured using separate vehicles that give each party to the arrangement rights to the net assets of the joint venture.

The Company reclassifies its share of inter-company rental income from its share of earnings in the joint ventures to rent expense recorded in selling, general and administrative expenses (“SG&A”).

New Significant Accounting Judgements, Estimates and Assumptions

Judgment is used by management when determining what subsidiaries or entities to consolidate in the financial statements. Subsidiaries or entities are typically consolidated when the Company has control over the entities. In determining if control exists, management considers various factors including whether the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity either through an agreement or by voting rights, exposure or rights to variable returns from the Company’s involvement with the entity, and the ability to use its power over the entity to affect the amount of the Company’s returns.

The Company holds an 86.6% and 99.9% ownership interest in its joint arrangements with RioCan and Simon, respectively. Based on the contractual terms of each arrangement, the Company identified the relevant activities of each joint venture and determined that all significant decisions require the joint consent of both parties to each of the joint arrangements formed. The Company has assessed its rights and obligations arising from the joint arrangements by considering the structure and legal form of the arrangements, the terms agreed by the parties and other facts and circumstances. Based on this assessment, the arrangements have been classified as joint ventures. The Company will reassess the existence of joint control and the joint venture classification should facts and circumstances change. Gains recognized upon the initial contributions into each joint venture were determined based on determinations of fair value that incorporated assumptions from a market participant’s perspective under market conditions that existed at the measurement date. Changes in assumptions about these factors could affect the reported fair value of the initial contributions made by HBC into each of the joint venture arrangements formed.

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 SAKS

During the year ended January 31, 2015, the Company identified measurement period adjustments based on new information relating to deferred taxes. The impacts of the adjustments to previously reported amounts are as follows:

Condensed Consolidated Balance Sheet

(millions of Canadian dollars)	Aug 2, 2014
Decrease in goodwill	(4)
Decrease in deferred tax liabilities	(4)

NOTE 5. AGREEMENT TO ACQUIRE GALERIA HOLDING

On June 15, 2015, the Company and Metro AG (“Metro”) announced that they have entered into a definitive agreement under which the Company agreed to acquire Galeria Holding (“Kaufhof”) from Metro for approximately €2,825 million (the “Kaufhof Acquisition”).

The transaction has been approved by the Board of Directors of HBC as well as the Supervisory Board of Metro and is expected to close before the end of the Company’s third quarter of 2015, subject to regulatory approvals and other customary closing conditions.

The Company also announced that it concurrently entered into an agreement in principle with Simon pursuant to which the HBC-Simon JV (note 11) intends to purchase at least forty of Kaufhof’s owned or partially owned properties for approximately €2,420 million, subject to definitive documentation, securing acceptable debt financing and certain other conditions. The proceeds from this transaction are expected to largely finance the Kaufhof Acquisition.

NOTE 6. DEPRECIATION AND AMORTIZATION

	Thirteen weeks ended		Twenty-six weeks ended	
(millions of Canadian dollars)	**Aug 1, 2015**	Aug 2, 2014	**Aug 1, 2015**	Aug 2, 2014
Property, plant and equipment	**81**	65	**159**	129
Intangible assets	**21**	16	**44**	35
Deferred credits	**(1)**	—	**(2)**	(1)
	101	81	**201**	163

NOTE 7. FINANCE COSTS

	Thirteen weeks ended		Twenty-six weeks ended	
(millions of Canadian dollars)	**Aug 1, 2015**	Aug 2, 2014	**Aug 1, 2015**	Aug 2, 2014
Interest expense on long-term borrowings	**29**	27	**60**	58
Interest expense on short-term borrowings	**5**	5	**10**	11
Interest expense on finance leases	**4**	3	**7**	7
Write-off of deferred financing costs (note 12)	**18**	—	**18**	18
Net interest on pensions and employee benefits	**1**	1	**1**	1
Penalties and fees on term loans	**—**	—	**—**	12
Total interest expense	**57**	36	**96**	107
Acquisition-related finance (income) costs (note 21)	**(5)**	(7)	**3**	(3)
	52	29	**99**	104

NOTE 8. CASH

For the purposes of the unaudited interim condensed consolidated statements of cash flows, cash includes cash on hand and in banks. Cash as at August 1, 2015, August 2, 2014 and January 31, 2015 as presented in the unaudited interim condensed consolidated balance sheets is comprised of the following:

(millions of Canadian dollars)	**Aug 1, 2015**	Aug 2, 2014	Jan 31, 2015
Cash	**43**	25	153
Restricted cash	**15**	13	15
	58	38	168

NOTE 9. INCOME TAXES

Income tax benefit for the thirteen and twenty-six weeks ended August 1, 2015 was $48 million and $75 million, respectively (2014: $26 million and $16 million, respectively).

The effective income tax rate for the thirteen weeks ended August 1, 2015 decreased compared to the prior year primarily due to the recognition of capital losses related to net foreign exchange losses arising on the repayment of U.S. dollar denominated debt in the current year and international tax rate differentials in the prior year.

The effective income tax rate for the twenty-six weeks ended August 1, 2015 increased compared to the prior year primarily due to benefits of net foreign exchange losses related to the repayment of U.S. dollar denominated debt in the current year and the favourable tax treatment related to the sale and leaseback transaction (note 22) in the prior year.

NOTE 10. INVENTORIES

Inventories on hand at August 1, 2015, August 2, 2014 and January 31, 2015 were available for sale. The cost of merchandise inventories recognized as expense for the thirteen and twenty-six weeks ended August 1, 2015 was $1,220 million and $2,446 million, respectively (2014: $1,069 million and $2,208 million, respectively).

The write-down of merchandise inventories below cost to net realizable value as at August 1, 2015 was $44 million (August 2, 2014: $41 million; January 31, 2015: $48 million). There was no reversal of write-downs previously taken on merchandise inventories that are no longer estimated to sell below cost. Inventory has been pledged as security for certain borrowing agreements.

NOTE 11. INVESTMENTS IN JOINT VENTURES

During the thirteen weeks ended August 1, 2015, the Company closed previously announced agreements with RioCan and Simon to form 2 joint ventures.

The following table summarizes the details of RioCan-HBC JV and HBC-Simon JV:

			August 1, 2015	
(millions of Canadian dollars)	**Principal Activity**	**Principal Place of Business**	**Proportion of Ownership Interests**	**Carrying Value**
RioCan-HBC JV	Real estate investment	Canada	86.6%	**(49)**
HBC-Simon JV	Real estate investment	United States	99.9%	**313**
				264

RioCan-HBC JV

Upon closing of the joint venture with RioCan, HBC contributed 7 properties with a combined value of approximately $1,300 million. Based on the share of RioCan's interest in the joint venture, the total gain on contribution of the owned and ground-leased properties to RioCan-HBC JV was $147 million of which $15 million was deferred and is recorded in non-current other liabilities (note 14). The deferred gain pertains to leases on 2 properties assessed as finance leases on leaseback which will be amortized into income in the consolidated statement of earnings (loss) over the respective lease terms. The finance lease assets were recorded at the present value of minimum lease payments in property, plant and equipment and had a net carrying value of $118 million as at August 1, 2015. The related obligation is included in non-current finance leases and is $118 million of the $249 million real estate finance leases reported in note 13. The Company also received cash proceeds of $352 million from RioCan-HBC JV and used them primarily to repay Senior Term Loan B and the HBC Revolving Credit Facility.

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

(millions of Canadian dollars)	**Aug 1, 2015**
Initial investment in joint venture	**(49)**
Share of net earnings from joint venture	**4**
Distributions from joint venture	**(4)**
Equity investment as at the end of the period	**(49)**

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

(millions of Canadian dollars)	**Aug 1, 2015**
Non-current assets	**1,553**
Current financial liabilities	**(12)**
Non-current financial liabilities	**(480)**
Net assets at 100%	**1,061**
Company's share of net assets in RioCan-HBC JV	**902**
Less gain on contribution of assets to RioCan-HBC JV not recognized related to Company's ownership interest	**(951)**
Company's carrying value investment in RioCan-HBC JV	**(49)**

Summarized statement of earnings of RioCan-HBC JV:

(millions of Canadian dollars)	Aug 1, 2015
Revenue	**6**
Depreciation and amortization	**(2)**
Other expenses[(1)]	**(1)**
Net earnings and total comprehensive income at 100%	**3**
Company's share of net earnings in RioCan-HBC JV prior to adjustment	**3**
Adjustment for the Company's share of depreciation on the value increment of the contributed properties	**1**
Company's share of net earnings from RioCan-HBC JV	**4**
Reclassification of rental income to SG&A related to the Company's ownership interest in RioCan-HBC JV	**(4)**
Company's share of net earnings in RioCan-HBC JV	**-**

(1) Includes finance costs of $1 million and finance income of $1 million.

HBC-Simon JV

Upon closing of the joint venture with Simon, HBC contributed forty-two properties with a combined value of approximately $2,100 million. Based on the share of Simon's interest in the joint venture, the total gain on contribution of the owned and ground-leased properties to the HBC-Simon JV was $1 million. The Company also received cash proceeds of $782 million from HBC-Simon JV and used them primarily to repay Senior Term Loan B and partially repay the U.S. Revolving Credit Facility.

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

(millions of Canadian dollars)	Aug 1, 2015
Initial investment in joint venture	**317**
Share of net loss from joint venture	**(2)**
Distributions from joint venture	**(3)**
Other	**1**
Equity investment as at the end of the period	**313**

Summarized financial information of HBC-Simon JV and reconciliation with the carrying amount of the investment in the unaudited interim condensed consolidated balance sheet are set out below:

(millions of Canadian dollars)	Aug 1, 2015
Cash	**338**
Non-current assets	**2,155**
Current liabilities	**(19)**
Non-current financial liabilities	**(1,106)**
Net assets at 100%	**1,368**
Company's share of net assets in HBC-Simon JV	**1,367**
Less gain on contribution of assets to HBC-Simon JV not recognized related to Company's ownership interest	**(1,054)**
Company's carrying value investment in HBC-Simon JV	**313**

Summarized statement of loss of HBC-Simon JV:

(millions of Canadian dollars)	Aug 1, 2015
Revenue	**5**
Depreciation and amortization	**(3)**
Other expenses	**(4)**
Interest expense	**(1)**
Net loss and total comprehensive loss at 100%	**(3)**
Company's share of net loss in HBC-Simon JV prior to adjustment	**(3)**
Adjustment for the Company's share of depreciation on the value increment of the contributed properties	**1**
Company's share of net loss from HBC-Simon JV	**(2)**
Reclassification of rental income to SG&A related to the Company's ownership interest in HBC-Simon JV	**(5)**
Company's share of net loss in HBC-Simon JV	**(7)**
Income tax benefit	**3**
Company's share of net loss in HBC-Simon JV, net of income taxes	**(4)**

As at August 1, 2015, future minimum payments under non-cancelable operating leases with the joint ventures are $4,931 million.

NOTE 12. Loans and Borrowings

The Company's debt consists of Canadian and U.S. asset based revolving credit facilities, term loans, mortgages and finance lease obligations.

a) Current loans and borrowings

(millions of Canadian dollars)	Aug 1, 2015	Aug 2, 2014	Jan 31, 2015
HBC Revolving Credit Facility	**—**	7	159
U.S. Revolving Credit Facility	**335**	470	108
Current portion of long-term loans and borrowings	**5**	2	4
	340	479	271
Less: unamortized costs	**(22)**	(24)	(25)
	318	455	246

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

HBC Revolving Credit Facility

(millions of Canadian dollars)	Aug 1, 2015	Aug 2, 2014	Jan 31, 2015
Gross borrowing base availability	**527**	500	457
Drawings	**—**	(7)	(159)
Outstanding letters of credit	**(13)**	(9)	(9)
Borrowing base availability net of drawings and letters of credit	**514**	484	289

As the HBC Revolving Credit Facility is available for and used to finance working capital requirements, capital expenditures and other general corporate purposes, it has been classified in the unaudited interim condensed consolidated balance sheets as part of current loans and borrowings. However, the Company is not required to repay the balance outstanding as at August 1, 2015 until the maturity date of December 17, 2019.

U.S. Revolving Credit Facility

(millions of Canadian dollars)	Aug 1, 2015	Aug 2, 2014	Jan 31, 2015
Gross borrowing base availability (U.S.$1,100)	**1,439**	1,038	1,348
Drawings	**(335)**	(470)	(108)
Outstanding letters of credit	**(26)**	(11)	(19)
Borrowing base availability net of drawings and letters of credit	**1,078**	557	1,221

As the U.S. Revolving Credit Facility is available for and used to finance working capital requirements, capital expenditures and other operating activities, it has been classified in the unaudited interim condensed consolidated balance sheets as part of current loans and borrowings. However, the Company is not required to repay the balance outstanding as at August 1, 2015 until the maturity date of November 4, 2018.

b) Long-term loans and borrowings

(millions of Canadian dollars)	Aug 1, 2015	Aug 2, 2014	Jan 31, 2015
Senior Term Loan B	**—**	2,021	826
Yorkdale Mortgage	**48**	49	48
Lord & Taylor Mortgage	**327**	273	318
Saks Mortgage	**1,645**	—	1,599
Other loans	**9**	8	10
	2,029	2,351	2,801
Less: unamortized costs	**(55)**	(60)	(74)
Less: amounts due within one year	**(5)**	(2)	(4)
	1,969	2,289	2,723

During the thirteen weeks ended August 1, 2015, the Senior Term Loan B was repaid in full using proceeds from the contribution of assets to joint ventures (note 11). In connection with the repayment, $18 million of deferred financing fees were written off.

NOTE 13. FINANCE LEASES

(millions of Canadian dollars)	Aug 1, 2015	Aug 2, 2014	Jan 31, 2015
Real estate finance leases	**249**	115	130
Equipment finance leases and other	**32**	26	25
	281	141	155
Less: amounts due within one year	**(20)**	(17)	(19)
	261	124	136

NOTE 14. OTHER LIABILTIES

(millions of Canadian dollars)	Aug 1, 2015	Aug 2, 2014	Jan 31, 2015
Deferred landlord incentives	**443**	224	356
Deferred gain on sale and leaseback transaction	**237**	247	242
Deferred gain on contribution of assets to RioCan-HBC JV (note 11)	**15**	—	—
Deferred proceeds from lease terminations	**71**	25	49
Other deferred credits	**11**	12	11
Other liabilities	**65**	18	87
	842	526	745
Non-current	**766**	501	669
Current	**76**	25	76
	842	526	745

NOTE 15. SHARE CAPITAL

On June 10, 2015 and March 9, 2015 the Company's Board of Directors declared a dividend of $0.05 per common share, which was paid on July 15, 2015 and April 15, 2015 to shareholders of record at the close of business on June 30, 2015 and March 31, 2015, respectively.

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

	Thirteen weeks ended		Twenty-six weeks ended	
(millions of Canadian dollars or shares except per share amounts)	**Aug 1, 2015**	Aug 2, 2014	**Aug 1, 2015**	Aug 2, 2014
Net earnings (loss) for basic earnings per share	**67**	(36)	**13**	140
Impact of options and warrants	**(5)**	(7)	**—**	(3)
Net earnings (loss) for diluted earnings per share	**62**	(43)	**13**	137
Weighted average common shares outstanding	**182**	182	**182**	182
Dilutive effect of options and warrants	**6**	—	**3**	—
Diluted weighted average common shares outstanding	**188**	182	**185**	182
Net earnings (loss) per common share				
Basic	**0.37**	(0.20)	**0.07**	0.77
Diluted	**0.33**	(0.23)	**0.07**	0.75

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, respectively, at an annual cost of U.S.$440 thousand. The third renewal option is for a term of 5 years at an annual cost of U.S.$484 thousand. The first and second renewal options were exercised. Amounts charged to the Company under the rental arrangement for the thirteen and twenty-six weeks ended August 1, 2015 were U.S.$110 thousand and U.S.$220 thousand, respectively (2014: U.S.$100 thousand and U.S.$200 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 February 25, 2014, the Company closed its agreement to sell its downtown Toronto flagship retail complex and the Simpson's Tower to an affiliate of The Cadillac Fairview Corporation Limited, an affiliate of H.S. Investments L.P. ("HSILP"), for a purchase price of $650 million (note 22). 2380162 Ontario Limited, a subsidiary of Ontario Teachers' Pension Plan and successor in interest to HSILP, is a shareholder 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. There has been no amount charged to the Company under the rental arrangement for the thirteen and twenty-six weeks ended August 1, 2015 since the rent commencement date has not yet occurred. Mack Properties is owned by William Mack, a Director of the Company.

As at August 1, 2015, the Company has an outstanding receivable in the amount of $268 thousand due from Hudson's Bay Trading Company, LP, a shareholder of the Company, with respect to the reimbursement of expenses for services provided by HBC on their behalf.

During the thirteen weeks ended August 1, 2015, the Company closed its agreements to sell and leaseback various Canadian and U.S. properties to RioCan-HBC JV and HBC-Simon JV, respectively. In connection with the transaction, HBC paid for certain cash reserves and financing and operating expenses on behalf of HBC-Simon JV for which the Company received a promissory note in the amount of $8 million. The promissory note matures on July 22, 2016 and carries an interest rate of 5% per annum. As at August 1, 2015, the promissory note had an outstanding balance of $7 million and was included in trade and other receivables. In addition, a subsidiary of the Company guaranteed third-party debt which was obtained by HBC-Simon JV in conjunction with the closing of the transaction. The maximum aggregate liability of the Company under this guarantee will not exceed U.S.$250 million.

The Company entered into management agreements with the joint ventures upon their closing. Pursuant to the management agreements, HBC will provide RioCan-HBC JV and HBC-Simon JV with advisory and administrative services in exchange for annual management fees of $3 million and U.S.$3 million, respectively. Fees related to the thirteen weeks ended August 1, 2015 were waived by the Company.

During the thirteen weeks ended August 1, 2015, the Company incurred rent expense of $5 million related to both RioCan-HBC JV and HBC-Simon JV. As at August 1, 2015, other current assets included prepaid rent to HBC-Simon JV of $12 million.

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

NOTE 17. CONTINGENT LIABILITIES

As of August 1, 2015, the Company is involved in and potentially subject to various claims by third parties arising out of the normal course and conduct of its business. Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims and litigation, tax assessments and reassessments, to the extent not covered by the Company's insurance policies or otherwise provided for, not to be material to the unaudited interim condensed consolidated financial statements, but may have a material impact in future periods.

NOTE 18. OPERATING LEASE ARRANGEMENTS

During the first quarter of fiscal 2015, the Company identified an error in disclosure of future minimum payments under non-cancelable operating leases table disclosed in note 16 of the January 31, 2015 annual consolidated financial statements. The revised amounts as at January 31, 2015 are as follows:

(millions of Canadian dollars)	
Fiscal year:	
2015	263
2016	264
2017	271
2018	245
2019	218
Thereafter	2,285
Total minimum lease payments	**3,546**

NOTE 19. SEGMENTED REPORTING

The Company has three operating segments (the Department Stores Group ("DSG") which includes Hudson's Bay, Lord & Taylor and Home Outfitters; Saks Fifth Avenue; and OFF 5TH) which are aggregated into one reportable operating 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:

	Thirteen weeks ended		Twenty-six weeks ended	
(millions of Canadian dollars)	Aug 1, 2015	Aug 2, 2014	Aug 1, 2015	Aug 2, 2014
Retail sales				
Canada	**657**	619	**1,256**	1,200
United States	**1,381**	1,150	**2,854**	2,424
	2,038	1,769	**4,110**	3,624

	Thirteen weeks ended		Twenty-six weeks ended	
(millions of Canadian dollars)	Aug 1, 2015	Aug 2, 2014	Aug 1, 2015	Aug 2, 2014
Operating income (loss)				
Canada	**142**	(18)	**109**	257
United States	**(67)**	(15)	**(68)**	(29)
	75	(33)	**41**	228

(millions of Canadian dollars)	Aug 1, 2015	(restated – note 4) Aug 2, 2014	Jan 31, 2015
Non-current assets[1]			
Canada	**673**	594	666
United States	**4,602**	4,535	5,268
	5,275	5,129	5,934
Total assets			
Canada	**1,857**	1,641	1,903
United States	**6,640**	6,117	7,169
	8,497	7,758	9,072

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

NOTE 20. SHARE BASED COMPENSATION

Senior executive option transactions were as follows:

	Twenty-six weeks ended			
	Aug 1, 2015		Aug 2, 2014	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of year	8,945,597	$18.07	6,562,603	$17.13
Granted	2,008,152	$28.34	1,705,166	$17.54
Forfeited	(1,128,585)	$18.34	(449,588)	$17.00
Outstanding at end of period	9,825,164	$20.14	7,818,181	$17.23
Share options exercisable at end of period	—	—	—	—

During the thirteen and twenty-six weeks ended August 1, 2015, the grant date fair value of senior executive options granted was $14 million (2014: $9 million).

The following table summarizes information about the senior executive share options outstanding and exercisable as at August 1, 2015:

Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at Aug 1, 2015	Weighted average exercise price
$17.00 to $17.49	5,552,063	7.2	$17.01	—	—
$17.50 to $17.99	1,123,461	5.8	$17.61	—	—
$23.50 to $23.99	1,184,158	6.4	$23.58	—	—
$28.00 to $28.49	1,965,482	6.9	$28.34	—	—
Total	9,825,164	6.9	$20.14	—	—

Other management option transactions were as follows:

	Twenty-six weeks ended			
	Aug 1, 2015		Aug 2, 2014	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of year	1,729,400	$17.35	969,600	$17.03
Granted	403,200	$28.34	988,000	$17.55
Forfeited	(167,600)	$17.75	(67,600)	$17.00
Outstanding at end of period	1,965,000	$19.57	1,890,000	$17.31
Share options exercisable at end of period	—	—	—	—

During the thirteen and twenty-six weeks ended August 1, 2015, the grant date fair value of other management options granted was $3 million (2014: $5 million).

The following table summarizes information about the other management share options outstanding and exercisable as at August 1, 2015:

Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at Aug 1, 2015	Weighted average exercise price
$17.00 to $17.49	873,000	4.6	$17.04	—	—
$17.50 to $17.99	679,200	5.8	$17.61	—	—
$23.50 to $23.99	14,400	6.4	$23.58	—	—
$28.00 to $28.49	398,400	6.9	$28.34	—	—
Total	1,965,000	5.5	$19.57	—	—

The assumptions used to measure the fair value of senior executive and other management options granted during the thirteen weeks ended August 1, 2015 under the Black-Scholes option pricing model at the grant date were as follows:

Expected dividend yield	0.71%
Expected share price volatility	28%
Risk-free interest rate	0.84%
Expected life of options (years)	5

During the thirteen and twenty-six weeks ended August 1, 2015, the Company granted 109,250 (2014: 183,150) phantom share units with a grant date fair value of $3 million (2014: $3 million).

During the thirteen and twenty-six weeks ended August 1, 2015, the Company granted 48,893 and 67,567 (2014: 223,912 and 254,032, respectively) restricted share units ("RSUs") with grant date fair values of $1 million and $2 million, respectively (2014: $3 million and $4 million, respectively). The fair values of the grants were determined based on the Company's share price at the date of grant. RSUs were granted under similar terms and conditions as those granted concurrently with the Company's initial public offering.

During the thirteen and twenty-six weeks ended August 1, 2015, the Company granted 608,491 (2014: 1,184,792) performance share units ("PSUs") with grant date fair values of $17 million (2014: $21 million), of which $13 million (2014: $15 million) is expected to vest. The fair value was determined based on the Company's share price at the date of the grant and adjusted to reflect non-entitlement of dividends to PSUs.

During the thirteen and twenty-six weeks ended August 1, 2015, the Company granted 21,905 and 60,085 (2014: 330 and 50,057, respectively) deferred share units ("DSUs") with grant date fair values of $606 thousand and $2 million, respectively (2014: $5 thousand and $838 thousand, respectively). The fair values of the grants were determined based on the Company's share price at the date of grant.

During the thirteen weeks ended August 1, 2015, the Company initially granted 1,470,724 performance restricted share units ("PRSUs") to senior executives with a total grant date fair value of $24 million. In addition, during the thirteen weeks ended August 1, 2015, the Company granted 2,677 PRSUs as dividend equivalents. The PRSUs vest if the Company's shares achieve at least a 10% Total Shareholder Return ("TSR") over the 5 year performance period from the date of grant and the senior executive is still employed at the end of a service period of 7 years. The TSR is calculated using the sixty-day trading day volume-weighted average stock price immediately prior to the beginning and ending of the 5 year performance period. If this increase in TSR is not met, the PRSUs lapse without vesting. If this increase in TSR is met, but the Company is considered to have materially over-performed or under-performed, which is defined as ranking within the top 25% or bottom 50% of the TSR of peer companies ("Peer Group") in both Canada and the United States, respectively, then at the discretion of the Company, the number of PRSUs which vest can be adjusted upward by up to 25% (in the cases of over performance relative to the Company's Peer Group) or adjusted downward by up to 75% (in the cases of under-performance relative to the Company's Peer Group). The fair value at grant date is estimated based on a risk-neutral Monte Carlo simulation model taking into account the terms and conditions upon which the PRSUs were granted and using the following assumptions:

	Aug 1, 2015
Sixty-day volume-weighted average price at the date of grant (June 1, 2015)	**$26.58**
Share price return volatility	**26%**
Volatility range of Peer Group (Canada)	**18% - 25%**
Volatility range of Peer Group (United States)	**23% - 53%**
Exchange rate volatility (U.S. to Canadian)	**5.64%**
Risk-free interest rate (Canada)	**1.39%**
Risk-free interest rate (United States)	**1.71%**

Share Based Compensation Expense

Total share based compensation expense is summarized as follows:

	Thirteen weeks ended		Twenty-six weeks ended	
(millions of Canadian dollars)	**Aug 1, 2015**	Aug 2, 2014	**Aug 1, 2015**	Aug 2, 2014
Share options	**4**	2	**7**	4
PSUs	**1**	(1)	**3**	—
RSUs	—	1	**2**	1
Other share based compensation [(1)]	**2**	1	**2**	1
	7	3	**14**	6

(1) Includes phantom shares, DSUs and PRSUs.

During the thirteen and twenty-six weeks ended August 1, 2015, $2 million (2014: nil) of forfeited share options were settled.

NOTE 21. FINANCIAL INSTRUMENTS

The fair value of the HBC Revolving Credit Facility, U.S. Revolving Credit Facility, Senior Term Loan B, Yorkdale Mortgage, Lord & Taylor Mortgage and Saks Mortgage are valued using a discounted cash flow model, taking into consideration the fixed interest rate spread included in the related debt compared to fixed interest rate spreads on similar debt available in the market at the balance sheet dates. These instruments are classified within Level 2 of the fair value hierarchy.

As at August 1, 2015, August 2, 2014 and January 31, 2015, the carrying value and fair value of these debt instruments were:

(millions of Canadian dollars)	**Aug 1, 2015**	Aug 2, 2014	Jan 31, 2015
Carrying value	**2,355**	2,820	3,058
Fair value	**2,355**	2,836	3,062

Cash, restricted 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 foreign currency options, 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 August 1, 2015, August 2, 2014 and January 31, 2015, the fair value and carrying value of derivative financial assets and financial liabilities were:

(millions of Canadian dollars)	**Aug 1, 2015**	Aug 2, 2014	Jan 31, 2015
Financial assets	**20**	5	24
Financial liabilities	**101**	22	70

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.

During the thirteen and twenty-six weeks ended August 1, 2015, in relation to the 1.5 million warrants issued to HSILP concurrently with the definitive merger agreement with Saks ("Merger Agreement Warrants"), the Company recognized acquisition related finance income of $1 million and costs of $1 million, respectively (2014: income of $2 million and $1 million, respectively), representing mark-to-market adjustments to the fair value as at August 1, 2015. As at August 1, 2015, the fair value of the Merger Agreement Warrants was $16 million (August 2, 2014: $5 million; January 31, 2015: $15 million).

In relation to the 5.25 million warrants issued to HSILP and West Face Long Term Opportunities Global Master L.P. on November 4, 2013 upon closing of the transaction ("Acquisition Warrants"), the Company recognized acquisition related finance income of $4 million and costs of $2 million during the thirteen and twenty-six weeks ended August 1, 2015, respectively (2014: income of $5 million and $2 million, respectively), representing the mark-to-market adjustments to the fair value as at August 1, 2015. As at August 1, 2015, the fair value of the Acquisition Warrants was $55 million (August 2, 2014: $16 million; January 31, 2015: $53 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:

	Aug 1, 2015	Aug 2, 2014	Jan 31, 2015
Share price	**$26.50**	$16.26	$23.42
Expected volatility	**30%**	26%	45%
Dividend yield	**0.75%**	1.23%	0.85%
Risk-free interest rate	**0.52%**	1.36%	0.50%
Expected life – Merger Agreement Warrants	**3.0 years**	4.0 years	3.5 years
Expected life – Acquisition Warrants	**3.3 years**	4.3 years	3.8 years

In connection with the announced definitive agreement to acquire Kaufhof from Metro (the "Announced Transaction"), the Company entered into 2 separate forward foreign exchange contracts (the "FX forward contracts") during the thirteen weeks ended August 1, 2015 that resulted in the Company eliminating its foreign currency exposure on a portion of the Announced Transaction.

The Company designated each FX forward contract as a hedge of the exposure to changes in USD/EUR related to the forecasted acquisition of Kaufhof from Metro denominated in EUR. Each hedging relationship was assessed to be highly effective and as at August 1, 2015, a net unrealized loss of $28 million, along with $7 million of deferred taxes was included in other comprehensive income representing the mark-to-market adjustment to fair value from the date of execution of each FX forward contract, June 18, 2015 and June 29, 2015, respectively to August 1, 2015. The Announced Transaction is expected to close in the Company's third quarter. As the FX forward contracts are hedging the Announced Transaction, the amount recorded in accumulated other comprehensive income will transfer to goodwill and will only affect the statement of earnings (loss) in future periods when and if the goodwill recognized as part of the purchase price allocation for the Kaufhof acquisition affects earnings or loss.

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

NOTE 22. SALE AND LEASEBACK TRANSACTION

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

The total gain on the sale and leaseback transaction was $560 million, $308 million of which was recognized immediately in the unaudited interim condensed consolidated statements of earnings (loss). The remaining $252 million of the gain was deferred and is being amortized over the term of the lease as a reduction in rent expense. The deferred gain is included in non-current other liabilities (note 14) in the unaudited interim condensed consolidated balance sheets.