



HUDSON'S BAY COMPANY

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE THIRTEEN WEEKS ENDED
MAY 5, 2018**

Dated June 5, 2018

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

The following management's discussion and analysis ("MD&A") is intended to assist readers in understanding the business environment, strategies and performance and risk factors of Hudson's Bay Company and its direct and indirect subsidiaries and predecessors or other entities controlled or jointly controlled by them, referred to herein as "HBC", the "Company", or "our". It should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company and notes thereto for the thirteen week period ended May 5, 2018. Unless otherwise indicated, all amounts are expressed in Canadian dollars.

The Company's audit committee approved the contents of this MD&A. This MD&A reflects information as of June 4, 2018, unless otherwise indicated.

Basis of Presentation

Our unaudited interim condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

General Information

Hudson's Bay Company is a Canadian corporation amalgamated under the *Canada Business Corporations Act*. In January 2012, through an internal reorganization, Lord & Taylor LLC ("Lord & Taylor") became a wholly owned subsidiary of HBC.

On November 4, 2013, the Company completed its acquisition of all of the outstanding shares of Saks Incorporated ("Saks"), for U.S.\$16 per share, in an all-cash transaction valued at U.S.\$2,973 million, including assumed debt (the "Saks Acquisition").

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"), which focuses on real estate growth opportunities in Canada. The second tranche of the RioCan-HBC JV closed on November 25, 2015. As of May 5, 2018, HBC had an 87.9% ownership interest in the RioCan-HBC JV. Also see the "Real Estate Joint Ventures" section of this MD&A.

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 Kaufhof Acquisition (defined and discussed below), the HBC-Simon JV became a wholly-owned subsidiary of HBS Global Properties LLC (the "HBS Joint Venture"), which focuses on credit tenant, net-leased and multi-tenant retail buildings in the United States and internationally. As of May 5, 2018, HBC had a 62.4% ownership interest in the HBS Joint Venture. Also see the "Real Estate Joint Ventures" section of this MD&A.

On September 30, 2015 (the "Kaufhof Acquisition Date"), the Company completed the acquisition of GALERIA Holding GmbH ("Kaufhof"), the parent company of Germany's leading department store Galeria Kaufhof and Belgium's only department store Galeria INNO, for a purchase price of €2.3 billion (the "Kaufhof Acquisition"). In conjunction with the Kaufhof Acquisition, the HBS Joint Venture acquired 41 properties from Kaufhof.

In May 2016, the Company leveraged its existing infrastructure in Europe and announced its intention to expand its European presence with plans to open up to 20 new stores in the Netherlands over the following 24 months. The first phase of the Netherlands expansion was launched on September 5, 2017 with the opening of the first Hudson's Bay Netherlands store. As of May 5, 2018, a total of 13 Hudson's Bay Netherlands stores and two Saks OFF 5TH Europe (defined herein) stores in the Netherlands have been opened. This expansion is utilizing the Company's existing information technology, procurement and digital support platforms. The Company has signed long-term lease agreements for 16 locations in the Netherlands, representing approximately 2.4 million square feet of gross leasable area.

On February 1, 2016, the Company completed the acquisition of Gilt Groupe Holdings Inc. and its subsidiaries ("Gilt"). During the thirteen week period ended May 5, 2018, the Company decided to divest the Gilt business and to discontinue operations of the Gilt banner. The Company has entered into agreements for the sale of certain assets and

liabilities of Gilt, which are expected to close during the second quarter of Fiscal 2018. Accordingly, the operations of the Gilt banner have been presented as discontinued operations and the Company's operational results have been retroactively restated, as required. See the "Supplemental Information – Discontinued Operations" section of this MD&A.

On October 23, 2017, HBC announced the sale of the Lord & Taylor Fifth Avenue building to an affiliate of WeWork Property Advisors in a transaction valued at U.S.\$850 million (approximately \$1.1 billion), subject to customary adjustments.

On December 6, 2017, the Company issued series "A" 8-year mandatory convertible preferred shares ("Convertible Preferred Shares") to an affiliate of Rhône Capital LLC ("Rhône") for an aggregate purchase price of U.S.\$500 million (\$638 million). The Convertible Preferred Shares are convertible into the Company's common shares (the "Common Shares").

References in this MD&A to Department Store Group ("DSG") refer, collectively to, the Hudson's Bay, Lord & Taylor and Home Outfitters banners.

References in this MD&A to HBC Europe refer, collectively to, the Galeria Kaufhof, Galeria INNO, Saks Fifth Avenue OFF 5TH Europe ("Saks OFF 5TH Europe") and Hudson's Bay Netherlands banners.

Accounting Periods

This MD&A is based on information in the unaudited interim condensed consolidated financial statements and accompanying notes thereto for the thirteen week period ended May 5, 2018. This MD&A also references the fifty-two week period ending February 1, 2020 ("Fiscal 2019"), the fifty-two week period ending February 2, 2019 ("Fiscal 2018"), the fifty-three week period ending February 3, 2018 ("Fiscal 2017") and the fifty-two week period ending January 28, 2017 ("Fiscal 2016").

Forward-Looking Statements

Certain statements made in this MD&A, including, but not limited to, the Company's ability to grow sales, including digital sales, increase margins, and grow profitability, the proposed sale of the Gilt business and expected closing in during the second quarter of Fiscal 2018, the expected improvement to Adjusted EBITDA on an annualized basis as a result of divesting Gilt, the expected closures of Lord & Taylor stores and expected improvement in overall performance of Lord & Taylor, the expected closing of the sale of the Lord & Taylor Fifth Avenue building in the third quarter of Fiscal 2018 and the expected gross proceeds from the sale, potential transactions with respect to the Company's Hudson's Bay flagship in Vancouver, the Company's ability to increase productivity of HBC's real estate, pursue and achieve accretive asset sales, diversify the assets in HBC's real estate joint ventures, the ability to enhance margins, leverage selling, general & administrative expenses and improve cash flow through improved inventory management and an improved cost structure, significant improvement of cash flow in Fiscal 2018 compared to Fiscal 2017, the anticipated benefits and annualized savings from HBC's Transformation Plan (as defined herein), including the anticipated timing of realizing such savings, expected costs of severance and other items relating to the Company's negotiations with the workers' council and other employee representations for its European operations, the Company's plan to reduce total inventory, the Company's anticipated gross capital investments and capital investments, net of landlord incentives, for Fiscal 2018, and the intended use of such capital investments, the anticipated expansion into the Netherlands, plans to harmonize digital platforms, continued investment in digital capabilities, potential future obligations with respect to the Bon-Ton Lease Guarantees (as defined herein), the Company's prospects for future growth opportunities, including targeting acquisitions, ongoing store openings and other statements that are not historical facts, are forward-looking. Often, but not always, forward looking statements can be identified by the forward-looking terminology such as the words "may", "will", "expect", "believe", "estimate", "plan", "could", "should", "would", "anticipate", "foresee", "continue", "intends", "trends", "indications", "anticipates", "predicts", "likely" or "potential" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements.

Forward-looking statements are based on current estimates and assumptions made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors that it believes are appropriate and reasonable in the circumstances. However, there can be no assurance that such estimates and assumptions will prove to be correct.

Implicit in forward-looking statements in respect of capital investments, including, among others, the Company's anticipated Fiscal 2018 total capital investments, net of landlord incentives, to be between \$450 million and \$500 million, are certain assumptions regarding, among others, the overall retail environment and currency exchange rates for Fiscal 2018. Specifically, the Company has assumed the following exchange rates for the remainder of Fiscal 2018: USD:CAD = 1:1.27 and EUR:CAD = 1:1.48. These current assumptions, although considered reasonable by the Company at the time of preparation, may prove to be incorrect. Readers are cautioned that actual capital investments could differ materially from what is currently expected and are subject to a number of risks and uncertainties, including, among others described below, general economic, geo-political, market and business conditions, changes in foreign currency rates from those assumed, the risk of unseasonal weather patterns and the risk that the Company may not achieve overall anticipated financial performance.

Many factors could cause the Company's actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, which are discussed in greater detail in the "Risk Factors" section of the Company's Annual Information Form ("AIF"): ability to execute retailing growth strategies, ability to continue comparable store sales growth, changing consumer preferences, demands and fashion trends, marketing and advertising program success, damage to brands and dependence on vendors, ability to realize synergies and growth from strategic acquisitions, ability to make successful acquisitions, investments, expansions and divestitures, ability to realize savings from the implementation of the Transformation Plan and ability to further reduce overhead, effect of actions of activities shareholders, ability to successfully manage inventory levels, loss or disruption in centralized distribution centers, ability to upgrade and maintain the Company's information systems to support the needs of the Company and protect against cyber-security threats, risks related to privacy breaches, risks relating to the Company's size and scale, loss of key personnel, ability to attract and retain qualified employees, deterioration in labor relations, risks related to labor costs and other challenges from a large workforce, ability to maintain pension plan surplus, funding requirements of Saks' pension plan, funding requirements of HBC Europe's pension plan, limits on insurance policies, loss of intellectual property rights, insolvency risk of parties with which we do business or their unwillingness to perform their obligations, exposure to changes in the real estate market, loss of flexibility with respect to properties in the real estate joint ventures, successful operation of the real estate joint ventures to allow us to realize the anticipated benefits or the ability to effect a future monetization transaction with each of the real estate joint ventures, exposure to environmental liabilities, liabilities associated with third parties who have assumed leases from the Company, changes in demand for current real estate assets, failure to close the sale of the Lord & Taylor Fifth Avenue building, increased competition, change in spending of consumers, extreme weather conditions or natural disasters, international operational risks, fluctuations in the U.S. dollar, Canadian dollar, Euro and other foreign currencies, increase in raw material costs, seasonality of business, ability to manage indebtedness and cash flow, risks related with increasing indebtedness, restrictions of existing credit facilities reducing flexibility, loss of flexibility due to restrictive debt covenants, future availability of financing, limitations related to a decrease in credit rating, ability to maintain adequate financial processes and controls, ability to maintain dividends, ability of a small number of shareholders to influence the business, uncontrollable sale of the Company's Common Shares (as defined herein) by significant shareholders could affect share price, constating documents discouraging favorable takeover attempts, effect of existence and creation of Preferred Shares (as defined herein) on holders of Common Shares (as defined herein), increase in regulatory liability, increase in product liability or recalls, increase in litigation, inability to comply with laws and regulations that impact the Company's business could lead to litigation or regulatory actions against the Company, non-compliance with changing privacy regulatory environment, exposure to significant additional costs and expenses relating to losing foreign private issuer status in the future, changes in accounting standards, other risks inherent to the Company's business and/or factors beyond the Company's control which could have a material adverse effect on us. Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time. These factors are not intended to represent a complete list of the factors that could affect us; however, these factors should be considered carefully.

The purpose of the forward-looking statements is to provide the reader with a description of management's current expectations regarding the Company's financial performance and may not be appropriate for other purposes; readers should not place undue reliance on forward-looking statements made herein. To the extent any forward-looking information in this MD&A constitutes future-oriented financial information or financial outlook, within the meaning of applicable securities laws, such information is being provided to demonstrate the potential of the Company and readers are cautioned that this information may not be appropriate for any other purpose. Future-oriented financial information and financial outlook, as with forward-looking information generally, are based on current assumptions

and subject to risks, uncertainties and other factors. Furthermore, unless otherwise stated, the forward-looking statements contained in this MD&A are made as of the date of this MD&A, and the Company has no intention and undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities law. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Non-IFRS Measures

This MD&A makes reference to certain non-IFRS measures. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, they should not be considered in isolation or as a substitute for analysis of the Company's financial information reported under IFRS. The Company uses non-IFRS measures including gross profit, EBITDA, Adjusted EBITDA, Adjusted EBITDAR, Adjusted selling, general & administrative expenses ("Adjusted SG&A") and Normalized net earnings (loss) to provide investors with supplemental measures of its operating performance and thus highlight trends in the Company's core business that may not otherwise be apparent when relying solely on IFRS financial measures. The Company also believes that securities analysts, investors, rating agencies and other interested parties frequently use non-IFRS measures in the evaluation of issuers. The Company's management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess its ability to meet its future debt service, capital expenditure, working capital requirements and its ability to pay dividends on its Common Shares. As other companies may calculate these non-IFRS measures differently than the Company does, these metrics may not be comparable to similarly titled measures reported by other companies.

The non-IFRS measures identified below and in applicable tables exclude the effect of discontinued operations related to the planned divestment of Gilt. Also see the "Supplemental Information – Discontinued Operations" section of this MD&A.

Gross profit is defined as revenue less cost of sales.

Since the fourth quarter of Fiscal 2016, EBITDA as reported in prior quarters, has been redefined to exclude the add back for 'certain non-cash items'. These add backs are summarized below and in footnote 2 to the reconciliation of net earnings (loss) to EBITDA, Adjusted EBITDA and Adjusted EBITDAR in the "Selected Consolidated Financial Information – Reconciliation Tables" section of this MD&A. As a result of this change, previous references to EBITDA have been updated to conform to this basis.

EBITDA is defined as net earnings (loss) from continuing operations before net finance costs, income tax expense (benefit) and depreciation and amortization expense. EBITDAR is defined as EBITDA before rent expense to third parties and net rent expense to joint ventures.

Adjusted EBITDA is defined as EBITDA adjusted to exclude: (A) certain non-cash items which include: (i) share of net (earnings) loss in joint ventures, (ii) gain on sale of investments in joint ventures, (iii) dilution gains from investments in the joint ventures, (iv) non-cash pension expense, (v) impairment and other non-cash items and (vi) non-cash share based compensation expense; (B) normalization adjustments which include: (i) business and organization restructuring/realignment charges, (ii) merger/acquisition costs and expenses and (iii) adjustments, including those related to purchase accounting, if any, related to transactions that are not associated with day-to-day operations and joint venture adjustments.

Adjusted EBITDAR is defined as Adjusted EBITDA before third party rent expense, cash rent to joint ventures and cash distributions from joint ventures. Cash rent to joint ventures includes cash rent paid to the joint ventures for full calendar months that end in the respective reporting periods. Cash distributions from joint ventures includes cash distributions received from the joint ventures for full calendar months that end in the respective reporting periods.

Adjusted SG&A is defined as selling, general & administrative expenses from continuing operations ("SG&A") adjusted to exclude: (A) certain non-cash items which include: (i) non-cash pension expense, (ii) impairment and other non-cash items and (iii) non-cash share based compensation expense, and (B) normalization adjustments which include: (i) business and organization restructuring/realignment charges and (ii) merger/acquisition costs and expenses and (iii) adjustments, if any, related to transactions that are not associated with day-to-day operations.

Normalized net earnings (loss) is defined as net earnings (loss) from continuing operations adjusted to exclude: (A) certain non-cash items which include: (i) impairment of intangible assets and goodwill, (ii) gain on sale of investments in joint ventures and (iii) dilution gains from investments in joint ventures; (B) normalization adjustments which include: (i) business and organization restructuring/realignment charges; (ii) merger/acquisition costs and expenses and (iii) adjustments, including those related to purchase accounting, if any, related to transactions that are not associated with day-to-day operations and tax related adjustments; (C) financing related adjustments and (D) adjustments to share of net earnings (loss) in joint ventures.

For additional detail on specific normalization adjustments, refer to the Company's tables outlining reconciliations of net loss to EBITDA, Adjusted EBITDA and Adjusted EBITDAR, SG&A to Adjusted SG&A, and net earnings (loss) to Normalized net earnings (loss) in the "Selected Consolidated Financial Information – Reconciliation Tables" section of this MD&A.

This MD&A also makes reference to certain comparable financial results expressed on a constant currency basis, including comparable sales, comparable digital sales and comparable inventory levels. In calculating the sales change including digital sales on a constant currency basis, prior year foreign exchange rates are applied to both current year and prior year comparable sales. Additionally, where an acquisition closed in the previous twelve months, comparable sales change on a constant currency basis incorporate results from the pre-acquisition period. This enhances the ability to compare underlying sales trends by excluding the impact of foreign currency exchange rate fluctuations as well as by reflecting new acquisitions. The Company calculates comparable inventory levels on a year-over-year constant currency basis and does not include (i) acquisitions not closed prior to the end of the same comparable quarter of the prior fiscal year and (ii) new store openings after the end of the same comparable quarter of the prior fiscal year. Definitions and calculations of comparable financial results differ among companies in the retail industry. The Company notes that results from acquisitions are only incorporated in the Company's reported consolidated financial results from and after the respective acquisition date. See also "Factors Affecting Our Performance – Comparable Sales" section.

First Quarter Events

- Effective February 19, 2018, the Board of Directors appointed Helena Foulkes as Chief Executive Officer ("CEO"). Ms. Foulkes was also appointed to HBC's Board of Directors. Richard Baker, who had been acting interim CEO, continues as Governor and Executive Chairman of HBC.
- On April 1, 2018, the Company announced that it had become aware of a data security issue involving customer payment card data at certain Saks Fifth Avenue, Saks Fifth Avenue OFF 5TH ("Saks OFF 5TH"), and Lord & Taylor stores in North America.

The Company determined that, around July 1, 2017, malware began running on certain point of sale systems at potentially all Saks Fifth Avenue, Saks OFF 5TH, and Lord & Taylor locations in North America. The Company contained the issue on March 31, 2018.

At this time, we expect the costs related to the data security issue to be substantially covered within our insurance limits.

- On April 16, 2018, the Company announced the appointment of Bari Harlam as Chief Marketing Officer ("CMO") replacing Milton Pappas.
- Effective May 14, 2018, Wolfgang Link stepped down from his position as CEO of HBC Europe and, as a result, the leadership team of HBC Europe reports directly to Ms. Foulkes.
- The Company opened one Saks Fifth Avenue store and one Saks OFF 5TH store in Canada which are located in Calgary, Alberta and Markham, Ontario, respectively. In the United States, the Company opened two Saks OFF 5TH stores located in West Hartford, Connecticut and Bridgewater, New Jersey. In Europe the Company opened one Saks OFF 5TH Europe store in Bonn, Germany and three Hudson's Bay stores in the cities of Amersfoort, Enschede and Haarlem in the Netherlands.
- The Company closed two Lord & Taylor stores located in Annapolis, Maryland and Skokie, Illinois and two Home Outfitters stores in Toronto, Ontario and Richmond, British Columbia.

Subsequent Events

- On May 14, 2018, the Company announced the appointment of Vanessa LeFebvre as President of Lord & Taylor, replacing Liz Rodbell.
- On May 31, 2018, the Company announced the appointment of Stephen Gold as Chief Technology and Digital Business Operations Officer, replacing Janet Schalk.
- The launch of the Lord & Taylor flagship store on Walmart.com was completed in early June 2018.
- In connection with the press release to be issued on June 5, 2018, the Company will announce:
 - The sale of Gilt and the discontinuation of operations of the Gilt banner. As Gilt represents a separate line of business of the Company, revenue, expenses and cash flows related to Gilt's operations have been presented in the unaudited interim condensed consolidated financial statements for the thirteen weeks ended May 5, 2018 and in this MD&A as discontinued operations on a retroactive basis (see Supplemental Information – Discontinued Operations). As at May 5, 2018, certain of Gilt's assets and liabilities have been reclassified to assets and liabilities of discontinued operations held for sale and have been recorded at the lower of their carrying value and their fair value less estimated selling costs. As a result, in the thirteen weeks ended May 5, 2018, the Company recognized a pre-tax impairment loss of \$77 million.
 - Plans to improve the overall performance of Lord & Taylor which includes right-sizing the number of stores. As part of this initiative, the Company expects to close up to ten Lord & Taylor stores through Fiscal 2019. These closures are expected to include the Lord & Taylor Fifth Avenue store in New York.

Overview

Our Business

HBC is a diversified global retailer focused on driving the performance of high quality stores and their omnichannel offerings and unlocking the value of real estate holdings. Founded in 1670, HBC is the oldest company in North America. HBC's portfolio today includes formats ranging from luxury to premium department stores to off price fashion shopping destinations, with more than 480 stores and approximately 65,000 employees around the world. It is a leader in the omnichannel retail experience with a combination of physical store locations and e-commerce capabilities that enable customers to shop whenever, wherever and however they choose. HBC has a top tier management team comprised of seasoned leaders in the retail sector committed to driving growth and long-term profitability across all banners. The Company has a track record of completing accretive mergers and acquisitions of retail businesses and undervalued retail real estate assets. The Company is supported by a solid foundation of valuable real estate which enhances its financial flexibility.

Real Estate Strategy

HBC owns a valuable portfolio of real estate assets and management has a demonstrated track record of success in realizing the underlying value through sale, sale-leaseback, and other value enhancing transactions.

The Company's valuable real estate portfolio also serves to strengthen both the Company's balance sheet and operating businesses, in addition to providing the Company with increased financial flexibility. Most recently, during the third quarter of Fiscal 2017, HBC entered into an agreement to sell its Lord & Taylor Fifth Avenue building in New York in a transaction valued at U.S.\$850 million (approximately \$1.1 billion). On October 30, 2017, the RioCan-HBC JV announced it had engaged CBRE and Brookfield Financial Real Estate Group to explore a possible sale of its Vancouver property located at 674 Granville Street, which is currently occupied by Hudson's Bay under a long term lease.

While stores are a critical part of HBC's long-term omnichannel strategy, management continues to evaluate all opportunities to generate value from HBC's extensive real estate portfolio, including:

- *Increasing the productivity of HBC's real estate.* Management is actively re-purposing existing floor space for use by partners such as WeWork, Topshop, Sephora and Pusateri's to maximize productivity and drive additional traffic in key customer segments to HBC's stores. These efforts provide opportunities to better utilize existing space and improve the credit profile of a given building. Management will continue to explore opportunities with other partners for similar arrangements.

- *Pursuing accretive asset sales.* HBC's strategy includes exiting owned and leased stores when the economic incentives are accretive to its shareholders and it makes sense for the business. This could include the sale of existing leases or the sale or leasing of owned real estate. The announced sale of the Lord & Taylor Fifth Avenue building (expected to close no later than August 2018) is the most recent example of this strategy.
- *Diversifying the assets in HBC's Real Estate Joint Ventures.* Management continues to seek accretive real estate acquisition and sublease opportunities for its real estate joint ventures, HBS Joint Venture and the RioCan-HBC JV, to diversify the asset base and overall credit of each joint venture portfolio. HBC has deliberately structured its real estate joint ventures to facilitate the future public listing of these entities and management believes that further diversification would improve the opportunity to undertake an initial public offering, subject to favourable market conditions.

Retail Strategy

HBC is a global retailer operating banners which include Hudson's Bay, Lord & Taylor, Saks Fifth Avenue, Saks OFF 5TH, Galeria Kaufhof, Galeria INNO, Saks OFF 5TH Europe and Hudson's Bay Netherlands. Management remains focused on growing top line results and managing expenses to improve overall profitability and drive free cash flow. Sales initiatives include growing the Company's profitable digital business by better leveraging its recently upgraded digital platforms and online selling tools. HBC is committed to running the business as efficiently as possible, and is exploring additional opportunities to reduce expenses. A heightened focus on prudent inventory management as well as an improved cost structure are also expected to enhance margins, leverage SG&A and improve cash flow significantly in Fiscal 2018 compared to Fiscal 2017.

The Company expects to drive operating results through the following strategies:

- *Driving sales across all channels.* Management believes that HBC's success will be strengthened by offering compelling merchandise in innovative online and in-store shopping environments and, most importantly, by seamlessly combining the two to deliver enhanced seamless end to end customer experience. This omnichannel model leverages HBC's existing network of stores while fully integrating an online ecosystem of websites, mobile applications and other selling tools.
- *Gross profit enhancements.* The Company is focused on increasing its gross profit margins and reducing overall inventory through (i) upgrading technology to improve all stages of merchandise planning; (ii) using its evolving digital commerce fulfillment functionalities and improving its automation technology at its fulfillment centres to optimize inventory productivity across each banner; and (iii) improving inventory control and reducing overall inventory as part of an effort to reduce shrinkage, moderate promotional activity and increase full price selling.
- *Increasing private label penetration.* Initiatives to grow sales and margins include increasing the penetration of HBC's private label brands by expanding the categories of current brands, introducing new brands and leveraging HBC's total scale to reduce procurement costs and shorten lead times. Building on the initial success HBC has had introducing the Galeria Kaufhof brand Manguun, growth in private label is also expected to be driven by the introduction of new brands, the first of which are in the final stages of development and scheduled to be offered next fall.
- *Streamlining its store portfolio and businesses.* As part of an effort to improve the overall performance of the Company, HBC may close stores and/or divest businesses. Consequently, the company decided to divest Gilt which is expected to close during the second quarter of Fiscal 2018. Furthermore, the Company also has plans to close up to ten Lord & Taylor stores, including the New York flagship store, beginning in the first quarter of Fiscal 2019.
- *Increasing efficiency.* The Company intends to continue to diligently manage its operating expenses and leverage its scale to optimize efficiencies. HBC's transformation plan, announced on June 8, 2017 (the "Transformation Plan"), is expected to increase operational synergies, sharpen capabilities and reduce expenses. Including the \$75 million in annual savings announced in February 2017, annual savings from the Transformation Plan initiative are expected to generate annual savings of \$350 million by the end of Fiscal 2018. Separately, the Company has begun negotiations with the workers' council and other employee representation for its European operations. In light of the advanced nature of these discussions, HBC recognized

a \$38 million provision in the fourth quarter of Fiscal 2017 related to the expected costs of severance and other items. The Company is also exploring other opportunities to further reduce costs.

- *Leveraging technology to reduce fulfillment time and costs for digital sales.* The Company is working to drive innovation and expense reductions by implementing state-of-the-art automated fulfillment solutions at the Company's distribution centres. Robotic fulfillment technology at the Scarborough, Ontario location was unveiled in November 2016 and is fully operational. Installation of similar technology at the Company's Pottsville, Pennsylvania distribution centre became fully operational in the spring of Fiscal 2018. The automation of the Company's distribution centres is expected to result in a reduction in fulfillment costs per unit.

Mergers, Acquisitions and Strategic Partnerships

The Company has a successful track record of completing accretive mergers and acquisitions of retail businesses and undervalued retail real estate assets. Pursuing mergers, acquisitions and strategic partnerships continues to be a core component of HBC's overall strategy and future opportunities could include retail businesses, retail businesses that include a real estate component, or stand-alone retail real estate assets. Our activities have included the acquisitions of Saks Incorporated and Galeria Kaufhof. Most recently, the Company announced a series of strategic transactions with WeWork, Rhône and an affiliate of WeWork Property Advisors, a joint venture between WeWork and Rhône. These transactions include the sale of the Lord & Taylor Fifth Avenue building to WeWork Property Advisors in a transaction valued at U.S.\$850 million (approximately \$1.1 billion), subject to customary adjustments.

Highlights of the Results of Operations

(millions of Canadian dollars)	Thirteen week period ended				
	May 5, 2018		April 29, 2017		Change
	\$	% ⁽²⁾	\$	% ⁽²⁾	
Revenue.....	3,088	100%	3,058	100%	30
Gross profit ⁽³⁾	1,301	42.1%	1,282	41.9%	20 bps
Adjusted EBITDA ⁽³⁾	(35)	(1.1%)	(25)	(0.8%)	(10)
Adjusted EBITDAR ⁽³⁾	173	5.6%	162	5.3%	11
Net loss – continuing operations.....	(314)	(10.2%)	(214)	(7.0%)	(100)
Normalized net loss ⁽³⁾ – continuing operations.....	(286)	(9.3%)	(209)	(6.8%)	(77)

	Thirteen week period ended	
	restated ⁽¹⁾	
	May 5, 2018	April 29, 2017
Comparable sales percentage change⁽⁴⁾		
Consolidated ⁽⁵⁾	(0.7%)	(2.5%)
DSG.....	(0.6%)	(2.4%)
Saks Fifth Avenue ⁽⁶⁾	6.0%	(5.2%)
Saks OFF 5TH ⁽⁶⁾	(3.5%)	(3.1%)
HBC Europe.....	(6.6%)	0.0%
Comparable digital sales percentage change⁽⁴⁾		
Consolidated.....	7.7%	13.2%

Please refer to the “Selected Consolidated Financial Information” and “Results of Operations” sections of this MD&A for details and commentary on the highlights.

Notes:

- (1) Certain previously reported figures have been restated to exclude the results related to discontinued operations. For more information, please refer to the “Supplemental Information – Discontinued Operations” section of this MD&A.
- (2) As a percentage of revenue.
- (3) These performance metrics have been identified by the Company as non-IFRS measures. For the relevant definitions, please refer to the “Non-IFRS Measures” section of this MD&A and for the relevant reconciliations of the nearest IFRS measures, please refer to the “Selected Consolidated Financial Information – Reconciliation Tables” section of this MD&A.
- (4) The Company calculates comparable sales on a year-over-year basis from stores operating for at least 13 months, includes digital sales and clearance store sales and excludes sales related accounting adjustments. Consolidated comparable sales include results for all banners of continuing operations. See “Factors Affecting Our Performance – Comparable Sales”.
- (5) Previously reported comparable sales for Consolidated have been restated to exclude sales related accounting adjustments and the results for discontinued operations.
- (6) Previously reported comparable sales for Saks Fifth Avenue and Saks OFF 5TH have been restated to exclude promotional sales related accounting adjustments which were previously included in reported results.

Factors Affecting Our Performance

Revenue

The majority of the Company's sales are from branded merchandise purchased directly from the brand owners or their licensees. The Company focuses on offering a broad selection of branded and private-label merchandise appealing to the fashion taste of its customers. The quality and breadth of its selection allows the Company to change the mix of its merchandise based on fashion trends and individual store locations and enables it to address a broad customer base. See also "Overview – Retail Strategy" section of this MD&A.

Comparable Sales

The Company calculates comparable sales on a year-over-year basis from stores operating for at least thirteen months on a constant currency basis and includes digital sales and clearance store sales and excludes sales related accounting adjustments. Stores undergoing remodeling remain in the comparable sales calculation base unless the store is closed for a significant period of time. Consolidated comparable sales include results for all banners of continuing operations. In calculating the comparable sales change including digital sales on a constant currency basis, prior year foreign exchange rates are applied to both current year and prior year comparable sales. This enhances the ability to compare underlying sales trends by excluding the impact of foreign currency exchange rate fluctuations. Additionally, where an acquisition closed in the previous twelve months, comparable sales change on a constant currency basis incorporate results from the pre-acquisition period. Digital sales include sales and returns based on where the sale was originated. Definitions and calculations of comparable sales differ among companies in the retail industry.

Gross Profit

Our cost of sales consists mainly of merchandise purchases, including transportation and distribution costs. Purchases are variable and proportional to the Company's sales volume. The Company records vendor rebates as either a reduction of inventory cost or a reduction in cost of sales. All costs directly associated with transportation and distribution, excluding central storage costs and any idle capacity, are capitalized as merchandise inventories.

The Company manages its businesses to improve gross margin in a number of different ways. The Company manages the level of promotional activity relative to regular price activity and endeavors to manage inventory levels so as to minimize the need for substantial clearance activity. The Company sources private label products and directly imports certain branded products from overseas markets including, among others, China, India, Indonesia, Bangladesh, Vietnam, Cambodia and Europe. As a result, the Company's cost of sales for its operations is impacted by the fluctuation of foreign currencies. In particular, the Company purchases a significant amount of its imported merchandise from suppliers in Asia using U.S. dollars. Therefore, the Company's cost of sales is also impacted by the fluctuation of the U.S. dollar against the Canadian dollar and the Euro.

The Company enters into forward contracts to hedge some of its exposure to fluctuations in the value of the U.S. dollar against the Canadian dollar and the Euro against the U.S. dollar. Increases in the price of merchandise, raw materials, fuel and labour, or their reduced availability could increase the Company's cost of goods and negatively impact its financial results. Generally, the Company offsets these cost increases with pricing adjustments in order to maintain a consistent gross profit on the merchandise, which may cause changes in the Company's unit volume but typically has a minimal impact on its gross profit rates.

Foreign Exchange

The Company's net investments in Lord & Taylor Acquisition Inc. ("L&T Acquisition", the indirect parent of Lord & Taylor and Saks), Gilt and HBC Europe, 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 HBC Europe impacts consolidated net earnings (loss). Foreign currency translation of the net assets of L&T Acquisition, Gilt and HBC Europe impacts other comprehensive income (loss).

Foreign currency gains and losses on certain intra-group monetary assets and liabilities between group entities with different functional currencies impact the Company's consolidated net earnings (loss).

Selling, General & Administrative Expenses

Our SG&A consists of store labour and maintenance costs, store occupancy costs, advertising and marketing costs, salaries and related benefits of corporate and field management associates, administrative office expenses, services purchased and other related expenses. SG&A includes buying and occupancy costs and excludes transportation and distribution costs included in inventory and cost of sales. It also includes pension, restructuring and other non-recurring items and excludes depreciation and amortization expenses. Although the Company's average hourly wage rate is generally higher than the minimum wage, an increase in the mandated minimum wage could significantly increase the Company's payroll costs unless the Company realizes offsetting productivity gains and cost reductions.

Our occupancy costs are driven primarily by rent expense, which may include escalation clauses over existing lease terms, including option periods. The Company believes that its existing leases are generally consistent with current market rates. When entering into new leases, the Company is generally able to negotiate leases at attractive market rates due to the increased consumer traffic that its stores generate in strip malls and shopping centres.

Under the Company's credit card program, HBC shares in the income and losses of the credit card programs related to private label and co-branded credit cards at Hudson's Bay, Lord & Taylor and Saks. Income related to the new program is included in SG&A.

Finance Costs

Our finance costs are expenses resulting from the financing activities of the Company, including interest expense on long and short-term borrowings, gains or losses on the early extinguishment of debt and fair value gains or losses and amortization charges related to embedded derivatives. In addition to credit ratings and credit spreads, the Company's finance costs are dependent on fluctuations in the underlying indices used to calculate interest rates, including, but not limited to, the Canadian prime rate, the Canadian Dealer Offered Rate ("CDOR"), the London Interbank Offered Rate ("LIBOR") and the Euro Interbank Offered Rate ("Euribor").

In connection with the Saks Acquisition, the Company issued 6.75 million Common Share purchase warrants to private placement investors and permitted transferees. These warrants will expire during Fiscal 2018 with 1.5 million warrants expiring on July 26, 2018 and 5.25 million warrants expiring on November 4, 2018. The non-cash charges associated with the warrants fluctuate with changes in the Common Share trading price and other factors as they require mark-to-market adjustments each reporting period. The Company records the mark-to-market valuation adjustment of these warrants as finance costs/income based on their end-of-period valuations.

Weather

Extreme weather conditions in the areas in which the Company's stores are located could adversely affect the Company's business and results of operations. For example, frequent or unusually heavy snowfall, ice storms, rainstorms, earthquakes, or other extreme weather conditions could make it difficult for the Company's customers to travel to its stores and thereby reduce the Company's sales and profitability. The Company's business is also susceptible to unseasonable or extreme weather conditions such as hurricanes. For example, extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season could result in lower sales and more promotional activity to clear merchandise at the end of the season. Reduced sales from extreme or prolonged unseasonable weather conditions could materially and adversely affect the Company's business and results of operations.

Competition

The Company conducts its retail merchandising business under highly competitive conditions. Although the Company is one of the largest retailers in North America, Germany, the Netherlands and Belgium, it has numerous and varied competitors at the international, national and local levels, including conventional and specialty department stores, other specialty stores, mass merchants, value retailers, discounters, digital and mail-order retailers. Competition may intensify as new competitors enter into the markets in which the Company's banners operate including U.S. competitors entering into the Canadian market, competitors to HBC Europe entering the German, Belgian and the Netherlands markets and/or if the Company's competitors enter into business combinations or alliances. Competition is characterized by many factors, including assortment, advertising, price, quality, service, location, digital applications, reputation and credit availability. If the Company does not compete effectively with regard to these factors, its business and results of operations could be materially and adversely affected.

Consumer Trends

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

Seasonality

The quarterly sales and earnings of the Company are significantly impacted by customer sales patterns. As a result, sales in the fiscal fourth quarter, due to the holiday shopping season, represent a much greater portion of the Company's annual sales volume and a substantial portion of its annual earnings. The Company generates approximately one-third of its sales during the fourth quarter of each fiscal year due to the Christmas and holiday shopping season. See also "Summary of Consolidated Quarterly Results" section of this MD&A.

Selected Consolidated Financial Information

The following tables set out summary consolidated financial information and supplemental information for the periods indicated. The summary financial information set out below has been derived from unaudited interim condensed consolidated financial statements, prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, for the thirteen week period ended May 5, 2018. The unaudited financial information presented has been prepared on a basis consistent with our audited consolidated financial statements for Fiscal 2017 except for the presentation of Gilt's operations as discontinued operations on a retroactive basis to prior reporting periods. In the opinion of the Company's management, such unaudited financial data reflects all adjustments, consisting of normal and recurring adjustments, necessary for a fair presentation of the results for those periods. The results of operations for interim periods are not necessarily indicative of the results to be expected for a full year or any future period.

(millions of Canadian dollars except per share amounts)	Thirteen week period ended			
	<i>restated⁽¹⁾</i>			
	May 5, 2018		April 29, 2017	
	\$	% ⁽²⁾	\$	% ⁽²⁾
Earnings results				
Revenue	3,088	100.0%	3,058	100.0%
Cost of sales	(1,787)	(57.9%)	(1,776)	(58.1%)
Gross profit	1,301	42.1%	1,282	41.9%
Selling, general and administrative expenses	(1,367)	(44.3%)	(1,323)	(43.3%)
Depreciation and amortization.....	(172)	(5.6%)	(160)	(5.2%)
Operating loss	(238)	(7.7%)	(201)	(6.6%)
Finance costs, net.....	(59)	(1.9%)	(57)	(1.9%)
Share of net loss in joint ventures.....	(62)	(2.0%)	(27)	(0.9%)
Dilution gains from investments in joint ventures.....	1	0.0%	3	0.1%
Loss before income tax.....	(358)	(11.6%)	(282)	(9.2%)
Income tax benefit	44	1.4%	68	2.2%
Net loss for the period – continuing operations.....	(314)	(10.2%)	(214)	(7.0%)
Net loss for the period – discontinued operations, net of taxes.....	(86)	(2.8%)	(7)	(0.2%)
Net loss for the period.....	(400)	(13.0%)	(221)	(7.2%)
Net loss per share⁽³⁾ — basic and diluted				
Continuing operations.....	(1.33)		(1.17)	
Discontinued operations	(0.37)		(0.04)	
Weighted average shares outstanding ⁽³⁾ — basic and diluted (millions).....	235		182	
Supplemental information – continuing operations				
Adjusted SG&A ⁽⁴⁾	1,333	43.2%	1,292	42.2%
EBITDA ⁽⁴⁾	(127)	(4.1%)	(65)	(2.1%)
Adjusted EBITDA ⁽⁴⁾	(35)	(1.1%)	(25)	(0.8%)
Adjusted EBITDAR ⁽⁴⁾	173	5.6%	162	5.3%
Normalized net loss for the period ⁽⁴⁾	(286)	(9.3%)	(209)	(6.8%)
Normalized net loss per share – basic and diluted ⁽³⁾⁽⁴⁾	(1.22)		(1.15)	
Declared dividend per Common Share.....	0.01		0.05	

Notes:

- (1) Certain previously reported figures have been restated to exclude the results related to discontinued operations. For more information, please refer to the "Supplemental Information – Discontinued Operations" section of this MD&A.
- (2) As a percentage of revenue.
- (3) Beginning the fourth quarter of Fiscal 2017, the calculation of net earnings (loss) per share includes the impact of the Convertible Preferred Shares issued to Rhône. This added approximately 52 million shares and 31 million shares to the weighted average shares outstanding for the thirteen week period ended May 5, 2018 and fourteen week period ended February 3, 2018, respectively.
- (4) See below for relevant definitions and tables for reconciliations of net loss – continuing operations to EBITDA, Adjusted EBITDA and Adjusted EBITDAR, SG&A to Adjusted SG&A and net loss to Normalized net loss. These performance metrics have been identified by the Company as non-IFRS measures. For the relevant definitions, please refer to the "Non-IFRS Measures" section of this MD&A and for the relevant reconciliations of the nearest IFRS measures, please refer to the "Selected Consolidated Financial Information – Reconciliation Tables" section of this MD&A.

	Thirteen week period ended	
	May 5, 2018	April 29, 2017
Reported consolidated revenue percentage change	1.0%	(2.7%)
Comparable sales percentage change ⁽¹⁾		
Consolidated ⁽²⁾	(0.7%)	(2.5%)
DSG	(0.6%)	(2.4%)
Saks Fifth Avenue ⁽³⁾	6.0%	(5.2%)
Saks OFF 5TH ⁽³⁾	(3.5%)	(3.1%)
HBC Europe ⁽⁴⁾	(6.6%)	0.0%
Store information		
Store count ⁽⁵⁾		
Hudson's Bay	89	90
Lord & Taylor	48	50
Saks Fifth Avenue	42	41
Saks OFF 5TH	132	122
Home Outfitters	41	52
HBC Europe ⁽⁶⁾	136	124
Total	488	479
Gross leasable area/Square footage (thousands) ⁽⁵⁾		
Hudson's Bay	15,720	15,834
Lord & Taylor	6,705	6,901
Saks Fifth Avenue	5,303	5,188
Saks OFF 5TH	3,939	3,653
Home Outfitters	1,427	1,830
HBC Europe ⁽⁶⁾	30,160	28,054
Total	63,254	61,460

Notes:

- (1) The Company calculates comparable sales on a year-over-year basis from stores operating for at least 13 months, includes digital sales and clearance store sales and excludes sales related accounting adjustments. Consolidated comparable sales include results for all banners of continuing operations. See "Factors Affecting Our Performance – Comparable Sales".
- (2) Previously reported comparable sales for Consolidated have been restated to exclude sales related accounting adjustments and the results for discontinued operations.
- (3) Previously reported comparable sales for Saks Fifth Avenue and Saks OFF 5TH have been restated to exclude promotional sales related accounting adjustments which were previously included in reported results.
- (4) Comparable sales at HBC Europe are calculated in Euros.
- (5) The Company operates one Hudson's Bay outlet, two Zellers clearance centres and three Lord & Taylor outlets that are excluded from the store count and gross leasable area.
- (6) Includes eight Saks OFF 5TH Europe stores and thirteen Hudson's Bay Netherlands stores.

Balance Sheet Data

(millions of Canadian dollars)

	May 5, 2018	April 29, 2017	February 3, 2018
	\$	\$	\$
Cash.....	86	99	70
Trade and other receivables.....	402	326	388
Inventories ⁽¹⁾	3,571	3,688	3,367
Asset held for sale.....	273	—	263
Assets of discontinued operations held for sale.....	74	—	—
Current assets.....	4,636	4,361	4,302
Property, plant and equipment.....	5,261	5,529	5,155
Intangible assets and goodwill.....	1,583	1,849	1,629
Investments in joint ventures ⁽²⁾	603	611	602
Total assets.....	12,652	12,872	12,234
Liabilities of discontinued operations held for sale.....	94	—	—
Current liabilities ⁽³⁾	2,711	2,740	2,812
Loans and borrowings (including current portion).....	3,703	4,047	2,979
Finance leases (including current portion).....	562	546	561
Investment in the RioCan-HBC JV ⁽²⁾	227	7	227
Other liabilities (including current portion) ⁽⁴⁾	2,160	1,808	2,141
Shareholders' equity.....	2,100	2,270	2,407

Notes:

- (1) Inventories decreased by \$117 million compared to the prior year. This lower balance at the end of the quarter was driven primarily by foreign exchange rate impacts, the reclassification of inventory related to Gilt to assets of discontinued operations held for sale, and comparable inventory reductions at Hudson's Bay and HBC Europe. These impacts were partially offset by higher inventory in North America and the opening of new stores.
- (2) See "Real Estate Joint Ventures" section. See also note 11 of the Company's unaudited interim condensed consolidated financial statements for the thirteen week period ended May 5, 2018.
- (3) Excludes current loans and borrowings of \$1,002 million as at May 5, 2018, \$1,195 million as at April 29, 2017 and \$363 million as at February 3, 2018; current other liabilities of \$240 million as at May 5, 2018, \$126 million as at April 29, 2017 and \$290 million as at February 3, 2018; current finance leases of \$41 million as at May 5, 2018, \$27 million as at April 29, 2017 and \$35 million as at February 3, 2018 and liabilities of discontinued operations held for sale of \$94 million as at May 5, 2018, nil as at April 29, 2017 and nil as at February 3, 2018.
- (4) Includes deferred landlord incentives of \$1,163 million as at May 5, 2018, \$977 million as at April 29, 2017 and \$1,113 million as at February 3, 2018 and straight-line rent liabilities of \$422 million as at May 5, 2018, \$314 million as at April 29, 2017 and \$393 million as at February 3, 2018.

Reconciliation tables

The following table presents the reconciliation of net loss – continuing operations to EBITDA, Adjusted EBITDA and to Adjusted EBITDAR:

(millions of Canadian dollars)	Thirteen week period ended	
	May 5, 2018	April 29, 2017
	\$	\$
Net loss – continuing operations	(314)	(214)
Finance costs, net.....	59	57
Income tax benefit	(44)	(68)
Depreciation and amortization	172	160
EBITDA ⁽²⁾	(127)	(65)
Certain non-cash items ⁽³⁾	87	43
Normalization adjustments ⁽⁴⁾	28	12
Net rent expense to joint ventures ⁽⁵⁾	44	43
Cash rent to joint ventures	(119)	(112)
Cash distributions from joint ventures	52	54
Total adjustments	92	40
Adjusted EBITDA ⁽²⁾	(35)	(25)
Rent adjustments		
Third party rent expense	141	129
Cash rent to joint ventures	119	112
Cash distributions from joint ventures	(52)	(54)
Adjusted EBITDAR ⁽²⁾	173	162
Adjusted EBITDAR as a percentage of revenue	5.6%	5.3%

Notes:

(1) Certain previously reported figures have been restated to exclude the results related to discontinued operations. For more information, please refer to the “Supplemental Information – Discontinued Operations” section of this MD&A.

(2) These performance metrics have been identified by the Company as non-IFRS measures. For the relevant definitions, please refer to the “Non-IFRS Measures” section of this MD&A.

(3) Certain non-cash items consist of:

Share of net loss in joint ventures	62	27
Dilution gains from investments in joint ventures ⁽ⁱ⁾	(1)	(3)
Non-cash pension expense	5	7
Impairment and other non-cash items	7	(1)
Non-cash share based compensation	14	13
	87	43

(i) Represents gains realized as a result of the changes in ownership related to the Company’s investments in the joint ventures.

(4) Normalization adjustments consist of:

Acquisition and integration related expenses ⁽ⁱ⁾	6	5
Lord & Taylor optimization ⁽ⁱⁱ⁾	16	—
Foreign exchange adjustment ⁽ⁱⁱⁱ⁾	—	(11)
Restructuring ^(iv)	20	36
European expansion ^(v)	4	21
Net gain on store closures ^(vi)	(28)	—
Data security issue ^(vii)	3	—
White Flint settlement ^(viii)	—	(42)
Other	7	3
	28	12

- (i) Includes acquisition and integration expenses related to the acquisitions and ongoing business development activities.
 - (ii) Lord & Taylor optimization includes expected costs associated with the planned closures of certain Lord & Taylor stores beginning in the first quarter of Fiscal 2019.
 - (iii) Represents the net impact of unrealized (gains) losses resulting from the translation of certain intra-group monetary assets and liabilities related to the overall tax and legal structure of the Company.
 - (iv) Restructuring includes expected costs associated with the Transformation Plan, the \$75 million initiative announced in February of 2017 and programs initiated by HBC Europe to optimize operating efficiencies.
 - (v) Includes one-time start-up and expansion costs related to HBC Europe's opening of Hudson's Bay and Saks OFF 5TH stores in the Netherlands and Germany.
 - (vi) Net gain on store closures represents lease termination fee income received with respect to two Lord & Taylor stores that closed during the thirteen week period ended May 5, 2018, net of associated costs.
 - (vii) This represents costs related to the data security issue which occurred during the thirteen week period ended May 5, 2018, (see "First Quarter Events" section of this MD&A) that will not be recoverable under the Company's insurance policies.
 - (viii) This represents a \$42 million payment received for a favourable verdict with respect to a 2013 lawsuit brought forth by the Company relating to White Flint mall.
- (5) Rent expense to the joint ventures net of reclassification of rental income related to the Company's ownership interest in the joint ventures (see note 11 to the Company's unaudited interim condensed consolidated financial statements for the thirteen week period ended May 5, 2018).

The following table presents the reconciliation of SG&A – continuing operations to Adjusted SG&A:

(millions of Canadian dollars)	Thirteen week period ended	
	May 5, 2018	<i>restated</i> ⁽¹⁾ April 29, 2017
	\$	\$
SG&A – continuing operations	1,367	1,323
Certain non-cash items ⁽²⁾	(26)	(19)
Normalization adjustments ⁽³⁾	(8)	(12)
Total adjustments	(34)	(31)
Adjusted SG&A ⁽⁴⁾	1,333	1,292
Adjusted SG&A ⁽⁴⁾ as a percentage of revenue	43.2%	42.2%

Notes:

(1) Certain previously reported figures have been restated to exclude the results related to discontinued operations. For more information, please refer to the "Supplemental Information – Discontinued Operations" section of this MD&A.

(2) Certain non-cash items consist of:

Non-cash pension expense	(5)	(7)
Impairment and other non-cash items	(7)	1
Non-cash share based compensation	(14)	(13)
	(26)	(19)

(3) Normalization adjustments consist of:

Acquisition and integration related expenses ⁽ⁱ⁾	(6)	(5)
Foreign exchange adjustment ⁽ⁱ⁾	—	11
Restructuring ⁽ⁱ⁾	(20)	(36)
European expansion ⁽ⁱ⁾	(4)	(21)
Gain on store closures ⁽ⁱⁱ⁾	32	—
Data security issue ⁽ⁱ⁾	(3)	—
White Flint settlement ⁽ⁱ⁾	—	42
Other	(7)	(3)
	(8)	(12)

(i) For details, refer to footnote 4 to the reconciliation of net loss – continuing operations to EBITDA, Adjusted EBITDA and to Adjusted EBITDAR table above.

(ii) Gain on store closures represents lease termination fee income received with respect to two Lord & Taylor stores that closed during the thirteen week period ended May 5, 2018.

(4) This performance metric has been identified by the Company as a non-IFRS measure. For the relevant definition, please refer to the "Non-IFRS Measures" section of this MD&A.

The following table presents the reconciliation of net loss – continuing operations to Normalized net loss:

(millions of Canadian dollars)	Thirteen week period ended	
	May 5, 2018	restated ⁽¹⁾ April 29, 2017
	\$	\$
Net loss – continuing operations	(314)	(214)
Certain non-cash items ⁽²⁾	—	(2)
Normalization adjustments ⁽³⁾	15	13
Adjustments to share of net loss in joint ventures ⁽⁴⁾	13	(6)
Total adjustments⁽⁵⁾	28	5
Normalized net loss⁽⁶⁾	(286)	(209)

Notes:

(1) Certain previously reported figures have been restated to exclude the results related to discontinued operations. For more information, please refer to the “Supplemental Information – Discontinued Operations” section of this MD&A.

(2) Certain non-cash items consist of:

Dilution gains from investments in joint ventures	—	(2)
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(3) Normalization adjustments consist of:

Acquisition and integration related expenses and finance costs ⁽ⁱ⁾	3	5
Lord & Taylor optimization ⁽ⁱⁱ⁾	12	—
Restructuring ⁽ⁱⁱⁱ⁾	14	24
Foreign exchange adjustment ^(iv)	(5)	(8)
European expansion ^(v)	3	14
Net gain on store closures ^(vi)	(20)	—
Data security issue ^(vii)	2	—
White Flint settlement ^(viii)	—	(25)
Other	6	3
	15	13

(i) Includes acquisition and integration expenses related to the acquisitions and ongoing business development activities. In addition, includes the recognition of non-cash finance income related to Common Share purchase warrants of \$1 million for the thirteen week period ended May 5, 2018 and non cash finance expense of \$1 million for the thirteen week period ended April 29, 2017.

(ii) Lord & Taylor optimization includes expected costs associated with the planned closures of certain Lord & Taylor stores beginning in the first quarter of Fiscal 2019.

(iii) Restructuring includes expected costs associated with the Transformation Plan, the \$75 million initiative announced in February and programs initiated by HBC Europe to optimize operating efficiencies.

(iv) Represents the net impact of unrealized (gains) losses resulting from the translation of certain intra-group monetary assets and liabilities related to the overall tax and legal structure of the Company.

(v) Includes one-time start-up and expansion costs related to HBC Europe’s opening of Hudson’s Bay and Saks OFF 5TH stores in the Netherlands and Germany.

(vi) Net gain on store closures represents lease termination fee income received with respect to two Lord & Taylor stores that closed during the thirteen week period ended May 5, 2018, net of associated costs.

(vii) This represents costs related to the data security issue which occurred during the thirteen week period ended May 5, 2018, (see “First Quarter Events” section of this MD&A) that will not be recoverable under the Company’s insurance policies.

(viii) This represents a \$42 million payment (\$25 million net of tax) received for a favourable verdict with respect to a 2013 lawsuit brought forth by the Company relating to White Flint mall.

(4) Relates to the Company’s share of net non-recurring items incurred which primarily includes the impact of unrealized losses (gains) of the HBS Joint Venture which result from the translation of certain intra-group monetary assets and liabilities related to the overall tax and legal structure of the joint venture.

(5) All adjustments are tax-effected as appropriate.

(6) This performance metric has been identified by the Company as a non-IFRS measure. For the relevant definition, please refer to the “Non-IFRS Measures” section of this MD&A.

Supplemental Information – Discontinued Operations

During the thirteen weeks ended May 5, 2018, the Company decided to divest the Gilt business and to discontinue operations of the Gilt banner. The Company has entered into agreements for the sale of certain assets and liabilities of Gilt, which are expected to close during the second quarter of Fiscal 2018. As Gilt represents a separate line of business of the Company the revenue, expenses and cash flows related to Gilt's operations have been presented in the unaudited interim condensed consolidated financial statements and this MD&A for the 13 week period ended May 5, 2018 as discontinued operations on a retroactive basis. As at May 5, 2018 certain of Gilt's assets and liabilities have been reclassified to assets and liabilities of discontinued operations held for sale and have been recorded at the lower of their carrying value and their fair value less estimated selling costs. As a result, in the thirteen weeks ended May 5, 2018, the Company recognized a pre-tax impairment loss of \$77 million and a related tax benefit of \$4 million, which are included in net loss for the period from discontinued operations.

The results related to discontinued operations were as follows:

(millions of Canadian dollars)	Thirteen week period ended			
	May 5, 2018		April 29, 2017	
	\$	% ⁽¹⁾	\$	% ⁽¹⁾
Revenue	107	100.0%	145	100.0%
Cost of sales	(68)	(63.6%)	(92)	(63.4%)
Gross profit	39	36.4%	53	36.6%
Selling, general and administrative expenses	(117)	(109.3%)	(50)	(34.5%)
Depreciation and amortization	(10)	(9.3%)	(13)	(9.0%)
Loss before income tax	(88)	(82.2%)	(10)	(6.9%)
Income tax benefit	2	1.9%	3	2.1%
Net loss for the period	(86)	(80.4%)	(7)	(4.8%)
Supplemental information – discontinued operations				
Adjusted SG&A ⁽²⁾	39	36.4%	50	34.5%
EBITDA ⁽²⁾	(78)	(72.9%)	4	2.8%
Adjusted EBITDA ⁽²⁾	—	—	4	2.8%
Adjusted EBITDAR ⁽²⁾	1	0.9%	6	4.1%
Normalized net loss for the period ⁽²⁾	(8)	(7.5%)	(8)	(5.5%)

Note:

(1) As a percentage of revenue.

(2) These performance metrics have been identified by the Company as non-IFRS measures. For the relevant definitions, please refer to the “Non-IFRS Measures” section of this MD&A.

Results of Operations - Continuing Operations

Thirteen week period ended May 5, 2018 compared to the thirteen week period ended April 29, 2017

Revenue

Revenue was \$3,088 million in the first quarter, an increase of \$30 million or 1.0%. The increase was primarily driven by new stores opened over the last year which contributed approximately \$54 million in increased sales, as well as a positive net foreign exchange impact of \$27 million. These increases were partially offset by the negative impact of closed stores of approximately \$29 million and lower comparable sales of approximately \$20 million.

Consolidated comparable sales decreased by 0.7%. Comparable sales increased by 6.0% at Saks Fifth Avenue and decreased by 0.6% at DSG, 3.5% at Saks OFF 5TH and 6.6% at HBC Europe. Comparable digital sales increased by 7.7% over the comparable thirteen week period ended April 29, 2017.

Gross profit¹

Gross profit¹ as reported was \$1,301 million compared to \$1,282 million in the prior year. Slight improvements in top-line revenue and margin rates combined with a positive net foreign exchange impact of \$13 million drove quarter over quarter improvement. During the quarter, the Company recorded a \$16 million inventory reserve related to the planned store closures at Lord & Taylor, and a \$4 million charge for markdowns related to the closure of two Lord & Taylor stores. Adjusting for this impact, gross profit increased by \$39 million.

Gross profit¹ as a percentage of revenue, was 42.1% during the first quarter, an improvement of 20 basis points over the prior year. Gross profit as a percentage of revenue improved by 90 basis points when adjusted for the negative impact adjustments discussed above. For additional discussion see “Factors Affecting Our Performance – Gross Profit”.

Selling, general & administrative expenses

SG&A as reported was \$1,367 million compared to \$1,323 million in the prior year, an increase of \$44 million. The increase was primarily related to additional costs of approximately \$68 million due to new stores opened during the prior 12 months, primarily related to the European expansion, a \$21 million negative net foreign exchange impact, a \$7 million increase in impairment charges and other smaller items. In addition the prior year period included the positive impact of a \$42 million payment received for a favourable verdict with respect to a lawsuit relating to a property at White Flint mall. These increases were partially offset by \$46 million of savings from the Company’s restructuring programs, \$32 million in lease termination income related to the closure of two Lord & Taylor stores, a \$17 million reduction in one-time costs related to the European expansion and a \$16 million reduction in one-time restructuring charges.

Adjusted SG&A¹ was \$1,333 million compared to \$1,292 million in the prior year, an increase of \$41 million. The increase was primarily related to new stores opened during the year, a negative impact net foreign exchange of \$21 million and other smaller items. These increases were partially offset by \$46 million of savings from the Company’s restructuring programs.

As a percentage of revenue, Adjusted SG&A¹ was 43.2% compared to 42.2% in the prior year, an increase of 100 basis points. The factors described above, combined with the impacts associated with lower comparable sales, all resulted in deleveraging of the Company’s Adjusted SG&A¹.

Adjusted EBITDAR¹

Adjusted EBITDAR¹ was \$173 million compared to \$162 million in the prior year, an increase of \$11 million. The increase in Adjusted EBITDAR¹ was driven by higher gross profit dollars partially offset by higher non-rent Adjusted SG&A¹ expenses.

As a percentage of revenue, Adjusted EBITDAR¹ was 5.6% compared to 5.3% for the thirteen week period ended April 29, 2017.

Adjusted EBITDA¹

Adjusted EBITDA¹ was a loss of \$35 million compared to a loss of \$25 million in the prior year. This decline can be attributed primarily to higher SG&A expenses, including rent, compared to the prior year, partially offset by higher gross margin dollars. In total, foreign exchange had a negative impact of \$10 million on Adjusted EBITDA. As a percentage of revenue, Adjusted EBITDA¹ was negative 1.1% compared to negative 0.8% in the prior year.

HBC remains on track to generate additional cost reductions during Fiscal 2018. HBC’s Transformation Plan is expected to generate annual savings of \$350 million by the end of Fiscal 2018, which will mostly offset increased expenses associated with growing digital sales and new stores that opened during the back half of Fiscal 2017. The Company is committed to operating as efficiently as possible, and is exploring additional opportunities to further reduce expenses.

Finance costs

Finance costs were \$59 million compared to \$57 million in the prior year, an increase of \$2 million. Interest paid in cash was \$54 million compared to \$45 million in the prior year. The increase is primarily the result of increased interest costs on short-term borrowings partially offset by non-cash finance income generated from mark-to-market adjustments associated with the valuation of Common Share purchase warrants outstanding.

Income tax benefit

Income tax benefit was \$44 million compared to \$68 million in the prior year. The income tax benefit decreased primarily due to the impact of not recognizing the benefit of certain tax losses in the current period.

Net loss - continuing operations

Net loss from continuing operations was \$314 million compared to \$214 million in the prior year, an increase in loss of \$100 million. The increase in net loss is primarily related to higher SG&A and depreciation and amortization expenses. A higher reported loss from the Company's joint ventures, largely driven by the impact of foreign exchange, and a decrease in the income tax benefit also contributed to the larger loss. This increase in loss was partially offset by increases in gross profit dollars.

Normalized net loss¹

Normalized net loss¹ was \$286 million compared to \$209 million in the prior year, an increase of \$77 million. This increase in loss was primarily driven by higher Adjusted SG&A expenses, increased depreciation and amortization expense, and lower income tax benefits.

Note:

1. These performance metrics have been identified by the Company as non-IFRS measures. For the relevant definitions, please refer to the "Non-IFRS Measures" section of this MD&A and for the relevant reconciliations of the nearest IFRS measures, please refer to the "Selected Consolidated Financial Information - Reconciliation Tables" section of this MD&A.

Summary of Consolidated Quarterly Results

The following table summarizes quarterly financial information of the Company for the past eight quarters.

(millions of Canadian dollars except per share amounts)	Fiscal Quarter Ended							
	May 5, 2018	Feb 3, 2018	Oct 28, 2017	Jul 29, 2017	Apr 29, 2017	Jan 28, 2017	Oct 29, 2016	Jul 30, 2016
					<i>restated⁽¹⁾</i>			
Revenue.....	\$ 3,088	\$ 4,550	\$ 3,042	\$ 3,156	\$ 3,058	\$ 4,422	\$ 3,153	\$ 3,104
Net (loss) earnings – continuing operations.....	(314)	170	(223)	(181)	(214)	(22)	(111)	(125)
Net loss – discontinued operations, net of taxes.....	(86)	(86)	(20)	(20)	(7)	(130)	(14)	(17)
Net (loss) earnings per share - basic and diluted⁽²⁾								
Continuing operations.....	(1.33)	0.79	(1.22)	(0.99)	(1.17)	(0.12)	(0.61)	(0.69)
Discontinued operations.....	(0.37)	(0.40)	(0.11)	(0.11)	(0.04)	(0.71)	(0.08)	(0.09)
Reported consolidated revenue percentage change – continuing operations.....	1.0%	2.9%	(3.5%)	1.7%	(2.7%)	(1.4%)	22.9%	52.3%
Adjusted EBITDA⁽³⁾								
Continuing operations.....	(35)	322	34	14	(25)	407	91	84
Discontinued operations.....	—	(5)	—	2	4	(3)	(2)	(3)
Adjusted EBITDAR⁽³⁾								
Continuing operations.....	173	531	226	203	162	565	276	263
Discontinued operations.....	1	(3)	2	4	6	(1)	—	—
Normalized net earnings (loss)⁽³⁾								
Continuing operations.....	(286)	43	(184)	(148)	(209)	53	(89)	(106)
Discontinued operations.....	(8)	(23)	(19)	(16)	(8)	(51)	(13)	(16)
Comparable sales percentage change – Continuing Operations⁽³⁾⁽⁴⁾								
Consolidated ⁽⁵⁾	(0.7%)	(1.3%)	(2.3%)	(0.9%)	(2.5%)	(0.9%)	(3.2%)	(0.8%)
DSG.....	(0.6%)	(2.6%)	(3.7%)	(1.5%)	(2.4%)	0.6%	(2.4%)	1.1%
Saks Fifth Avenue ⁽⁶⁾	6.0%	3.1%	1.0%	1.9%	(5.2%)	(0.1%)	(4.7%)	(1.4%)
Saks OFF 5TH ⁽⁶⁾	(3.5%)	(2.0%)	(4.1%)	0.2%	(3.1%)	(5.3%)	(6.3%)	(8.3%)
HBC Europe ⁽⁷⁾	(6.6%)	(3.4%)	(3.0%)	(2.8%)	0.0%	(2.0%)	(2.0%)	(0.7%)

Notes:

- (1) Certain previously reported figures have been restated to exclude the results related to discontinued operations. For more information, please refer to the “Supplemental Information – Discontinued Operations” section of this MD&A.
- (2) Net earnings (loss) per Common Share (“EPS”) in each quarter is computed using the weighted-average number of Common Shares outstanding during that quarter, while EPS for the full year is computed using the weighted-average number of Common Shares outstanding during the year. Thus, the sum of the four quarters’ EPS may not equal the full-year EPS. Beginning the fourth quarter of Fiscal 2017, the calculation of net earnings (loss) per share includes the impact of the Convertible Preferred Shares issued to Rhône. This added approximately 52 million shares and 31 million shares to the weighted average shares outstanding for the thirteen week period ended May 5, 2018 and fourteen week period ended February 3, 2018, respectively.
- (3) These performance metrics have been identified by the Company as non-IFRS measures. For the relevant definitions, please refer to the “Non-IFRS Measures” section of this MD&A and for the relevant reconciliations of the nearest IFRS measures, please refer to the “Selected Consolidated Financial Information – Reconciliation Tables” section of this MD&A.
- (4) The Company calculates comparable sales on a year-over-year basis from stores operating for at least 13 months, includes digital sales and clearance store sales and excludes sales related accounting adjustments. Consolidated comparable sales include results for all banners of continuing operations. See “Factors Affecting Our Performance – Comparable Sales”.
- (5) Previously reported comparable sales for Consolidated have been restated to exclude sales related accounting adjustments and the results for discontinued operations.
- (6) Previously reported comparable sales for Saks Fifth Avenue and Saks OFF 5TH have been restated to exclude promotional sales related accounting adjustments which were previously included in reported results.
- (7) Comparable sales at HBC Europe are calculated in Euros.

Real Estate Joint Ventures

The Company's real estate joint ventures were created in 2015 to highlight the value of HBC's real estate and act as additional growth platforms for the Company. HBC's two joint ventures consist of premier retail real estate assets in Canada, the United States, and Germany. In Canada, HBC has partnered with RioCan REIT in the RioCan-HBC JV. The RioCan-HBC JV holds ten properties contributed by HBC, and a 50% interest in two mall assets contributed by RioCan REIT. HBC owns 87.9% of this joint venture. The Company's other joint venture, HBS Joint Venture, is a partnership with Simon Properties and third party investors including Ivanhoé Cambridge, Madison International, and a large U.S. pension fund. The HBS Joint Venture holds 42 properties in North America and 41 properties in high street locations throughout Germany. HBC owns 62.4% of this joint venture.

The RioCan-HBC JV's board of directors is comprised of four directors, two of whom have been appointed by each of HBC and RioCan. The HBS Joint Venture's board of directors is comprised of five directors, two of whom have been appointed by each of HBC and Simon and one of whom has been appointed by Ivanhoé Cambridge. Unanimous Board consent of HBC and RioCan (in the case of the RioCan-HBC JV) and HBC, Simon and Ivanhoé Cambridge (in the case of the HBS Joint Venture) is required for all major operating decisions.

The mandates of the joint ventures are to diversify the portfolios and tenant base of each joint venture creating additional value for the Company's shareholders. Management continues to seek accretive real estate acquisition and sublease opportunities for its real estate joint ventures, HBS Joint Venture and the RioCan-HBC JV, to diversify the asset base and overall credit of each joint venture portfolio. HBC has deliberately structured its real estate joint ventures to facilitate the future public listing of these entities and management believes that further diversification would improve the opportunity to undertake an initial public offering, subject to favorable market conditions.

The Company currently accounts for its ownership in the joint ventures using the equity method of accounting. To provide additional details on the results of these entities, unaudited financial statements have been provided in this MD&A as well as summarized in note 11 "Investments in joint ventures" of the Company's unaudited interim condensed consolidated financial statements for the thirteen week period ended May 5, 2018.

RioCan-HBC JV

The following provides additional information relating to the RioCan-HBC JV:

Statements of Earnings

(millions of Canadian dollars)	Thirteen week period ended	
	May 5, 2018	April 29, 2017
Rental revenue	27	27
Rental revenue – recoveries.....	2	2
Property operating costs	(3)	(3)
Operating income	26	26
Depreciation and amortization	(11)	(9)
Finance income.....	3	3
Finance costs	(7)	(4)
Net earnings for the period	11	16

Balance Sheets

(millions of Canadian dollars)	May 5, 2018	April 29, 2017	February 3, 2018
Assets			
Cash.....	2	1	3
Accounts receivable and other assets.....	1	10	—
Total current assets	3	11	3
Investment properties.....	1,696	1,725	1,703
Finance lease receivables.....	148	142	147
Total assets	1,847	1,878	1,853
Liabilities			
Loans and borrowings.....	446	5	446
Accounts payable and accrued liabilities.....	3	2	4
Deferred revenue.....	8	—	8
Total current liabilities	457	7	458
Loans and borrowings.....	337	539	338
Total liabilities	794	546	796
Total partners' equity	1,053	1,332	1,057
Total liabilities and partners' equity	1,847	1,878	1,853

Statements of Cash Flows

(millions of Canadian dollars)	Thirteen week period ended	
	May 5, 2018	April 29, 2017
Operating activities		
Net earnings for the period	11	16
Finance costs	7	4
Finance income	(3)	(3)
Earnings before finance costs	15	17
Cash interest paid	(8)	(4)
Proceeds from finance lease receivables	2	2
Items not affecting cash flows:		
Depreciation and amortization	11	9
Non-cash rental income	(4)	(4)
Changes in working capital	(1)	(1)
Net cash inflow from operating activities	15	19
Financing activities		
Repayments of loans and borrowings	(1)	(1)
Proceeds from issuance of capital	1	—
Distributions paid	(16)	(19)
Net cash outflow for financing activities	(16)	(20)
Decrease in cash	(1)	(1)
Cash at beginning of year	3	2
Cash at end of period	2	1

HBS Joint Venture

The following provides additional information relating to the HBS Joint Venture:

Statements of Net Earnings and Comprehensive Income

(millions of U.S. dollars)	Thirteen week period ended	
	May 5, 2018	April 29, 2017
Rental revenue	87	80
Rental revenue – recoveries.....	5	4
Property operating costs	(4)	(4)
Operating income	88	80
General and administrative expenses	(2)	(2)
Foreign exchange (losses) gains ⁽¹⁾	(23)	11
Depreciation and amortization	(21)	(21)
Finance costs	(23)	(21)
Earnings before income taxes	19	47
Income tax expense	(5)	(3)
Net earnings for the period	14	44
Other comprehensive income (loss)		
Currency translation adjustment.....	1	(2)
Total comprehensive income	15	42

Note:

- (1) Represents the foreign exchange (losses) gains on the translation of Euro denominated monetary asset and liability balances related to the overall tax and legal structure of the joint venture.

Balance Sheets

(millions of U.S. dollars)	May 5, 2018	April 29, 2017	February 3, 2018
Assets			
Cash.....	41	38	41
Trade and other receivables	15	11	16
Total current assets	56	49	57
Investment properties.....	4,071	3,872	4,181
Intangible assets.....	53	48	56
Other assets	18	15	17
Total assets	4,198	3,984	4,311
Liabilities			
Loans and borrowings.....	150	150	150
Deferred revenue.....	25	23	26
Finance leases	1	1	1
Other payables and accrued liabilities	102	86	102
Total current liabilities	278	260	279
Loans and borrowings.....	2,273	2,129	2,338
Deferred tax liabilities.....	219	198	228
Finance leases	17	16	18
Other liabilities.....	101	98	106
Total liabilities	2,888	2,701	2,969
Total members' equity	1,310	1,283	1,342
Total liabilities and members' equity	4,198	3,984	4,311

Statements of Cash Flows

(millions of U.S. dollars)	Thirteen week period ended	
	May 5, 2018	April 29, 2017
Operating activities		
Net earnings for the period	14	44
Income tax expense	5	3
Finance costs	23	21
Earnings before finance costs and income taxes	42	68
Interest paid in cash	(23)	(21)
Items not affecting cash flows:		
Depreciation and amortization	21	21
Unrealized foreign exchange losses (gains)	23	(11)
Non-cash rental income	(12)	(11)
Changes in operating working capital	(3)	23
Net cash inflow from operating activities	48	69
Investing activities		
Tenant incentives paid	—	(7)
Net cash outflow for investing activities	—	(7)
Financing activities		
Contributions received	—	7
Distributions paid	(47)	(44)
Net cash outflow for financing activities	(47)	(37)
Foreign exchange loss on cash	(1)	—
Increase in cash	—	25
Cash at beginning of year	41	13
Cash at end of period	41	38

Outlook

Management continues to expect total capital investments in Fiscal 2018, net of landlord incentives, to be between \$450 million and \$500 million, compared to \$599 million in Fiscal 2017. These capital investment expectations reflect exchange rate assumptions of USD:CAD = 1:1.27 and EUR:CAD = 1:1.48 for the remainder of the year. Any variation in these foreign exchange rate assumptions and/or other material assumptions and factors described in the “Forward-Looking Statements” section of this MD&A could impact the above outlook.

Liquidity and Capital Resources

Cash Flows

Total cash, including restricted cash, is managed to remain at minimal levels by drawing on or repaying the Company’s revolving credit facilities. The Company’s liquidity and capital resources are primarily impacted by: (i) current cash and cash equivalents; (ii) operating activities; (iii) investing activities; and (iv) financing activities. The following table summarizes cash flows by activity:

(millions of Canadian dollars)	Thirteen week period ended					
	May 5, 2018			April 29, 2017		
	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
	\$	\$	\$	\$	\$	\$
Operating activities	(454)	(13)	(467)	(559)	(40)	(599)
Investing activities	(129)	(1)	(130)	(146)	(3)	(149)
Financing activities	611	—	611	722	—	722
Foreign exchange gains on cash	2	—	2	3	—	3
Increase (decrease) in cash.....	30	(14)	16	20	(43)	(23)
Transfer from continuing operations	(14)	14	—	(43)	43	—
Cash at beginning of year	70	—	70	122	—	122
Cash at end of period	86	—	86	99	—	99

Net Cash Flow - Operating Activities from Continuing Operations

Net cash outflow for operating activities from continuing operations was \$454 million for the thirteen week period ended May 5, 2018 compared to \$559 million for the thirteen week period ended April 29, 2017, a decrease in outflow of \$105 million, primarily due to lower investments in working capital.

Net Cash Flow - Investing Activities from Continuing Operations

Net cash outflow for investing activities from continuing operations was \$129 million for the thirteen week period ended May 5, 2018 compared to \$146 million for the thirteen week period ended April 29, 2017, a decrease in outflow of \$17 million, primarily due to lower capital investments.

Net Cash Flow - Financing Activities from Continuing Operations

Net cash inflow from financing activities from continuing operations was \$611 million for the thirteen week period ended May 5, 2018 compared to \$722 million for the thirteen week period ended April 29, 2017, an decrease in inflow of \$111 million primarily due a net decrease in short-term borrowings.

Net Cash Flow - Discontinued Operations

Net cash outflow from discontinued operations was \$14 million for the thirteen week period ended May 5, 2018 compared to \$43 million for the thirteen week period ended April 29, 2017, a decrease in outflow of \$29 million, primarily due to lower investments in working capital.

Cash Balances and Liquidity

The Company’s primary needs for cash are to fund: (i) operations; (ii) capital expenditures in connection with our new store opening and renovation programs, technology investments and strategic initiatives; (iii) seasonal inventory

purchases and other working capital requirements; (iv) debt service and (v) acquisitions. Working capital requirements are at their highest in the latter half of the fiscal year as inventory builds through the fall, peaking just before the holiday selling season.

The Company's primary sources of funds are cash flows provided by operations, landlord incentives, the Company's asset-based revolving credit facility ("Global ABL"), and mortgage backed real estate financing. Other potential sources of funding may include, among others, new corporate loans and mortgages, the sale and leaseback of real estate properties, selling real estate, selling other company assets and investments or the issuance of equity. The availability of funding sources is dependent, among other factors, on economic conditions, capital markets and the Company's financial condition.

The Company may consider additional acquisitions of, and investments in, retail businesses, real estate and other complimentary assets or companies. Transactions, if any, are expected to be financed through a combination of the following sources: cash on hand, borrowing under existing or new credit facilities and the issuance of long term debt or other securities, including equity securities such as Common Shares or preferred shares.

During the third quarter of Fiscal 2017, the Board of Directors determined that the Company did not meet the requirements to qualify as a "foreign private issuer" under applicable U.S. securities laws and the rules of the United States securities and Exchange Commission (the "SEC"). Although the Company is not, as a result, required to file reports with the SEC pursuant to such laws and rules, the Company's ability to issue unrestricted equity on a public offering basis may be limited. In light of the Company's Common Share trading price and other potential available sources of capital and liquidity (including, for example, asset and/or property sales, debt and/or mortgage financing, or equity issuances on a private placement basis), the Company does not currently anticipate its loss of foreign private issuer status could adversely affect its business or financial condition. As a result of the equity investment by Rhône and the Company's obligation under the Rhône Investor Rights Agreement, the Company currently expects to register its securities with the SEC in connection with the expiry of the lock-up period under such agreement.

Funding Capacity

The Company anticipates that it will be able to satisfy its working capital requirements, planned capital expenditures and debt service requirements with proceeds from cash flows from operations, short-term trade credit, seasonal borrowings under its Global ABL revolving credit facilities and other sources of financing. The Company expects to generate sufficient cash flow from operating activities to sustain current levels of operations.

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

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

On May 8, 2017, Standard & Poor's Global Ratings downgraded the Company's credit rating from B+ to B which is in line with an overall industry downgrade resulting from challenges facing the retail industry.

On June 8, 2017, the Company announced a reduction in its quarterly dividend. As the Company continues to invest in its all-channel business model and evaluates other strategic initiatives, the Board of Directors reset the quarterly dividend to \$0.0125 per share. The change in dividend policy is part of the Company's ongoing initiatives to improve operations and cash flow to capitalize on opportunities.

On June 14, 2017, Moody's Investors Services downgraded the Company's credit ratings from B1 to B2.

On January 11, 2018, Moody's Investors Services downgraded the Company's credit rating from B2 to B3 while affirming the Company's Speculative Grade Liquidity rating at SGL-2.

As at May 5, 2018, the Company had approximately \$1.5 billion in availability under the Global ABL compared to \$1.4 billion in the prior year.

Please refer to the Company's management's discussion and analysis for the fourteen and fifty-three weeks ended February 3, 2018 for details regarding the Company's current and legacy credit facilities and loans.

Contractual Obligations

The Company has a number of obligations related to leases, lease guarantees, loans and borrowings, procurement obligations, pensions and other obligations. As of May 5, 2018, except as disclosed elsewhere in this MD&A, there were no material changes to the Company's contractual obligations compared to those identified at year-end. For a complete description of the contractual obligations of the Company, please refer to the management's discussion and analysis for the fourteen and fifty-three weeks ended February 3, 2018.

In 2008, the Company assigned nine leases to Les Ailes de la Mode, Inc. ("Les Ailes") and obtained a full, unconditional and continuing guarantee and indemnity for the obligations thereunder from its related company, International Clothiers Inc. ("ICI"). As of February 3, 2018, these leases had future minimum lease payments of \$4 million. In December 2015, Les Ailes filed a notice of intention to make a proposal under section 50.4 of the Bankruptcy and Insolvency Act. The Quebec Superior Court has approved a Debtors Proposal with respect to the Les Ailes bankruptcy proceeding. On March 28, 2016, ICI filed a notice of intention to make a proposal under section 50.4 of the Bankruptcy and Insolvency Act. On June 6, 2016, the proposal trustee for ICI filed a Proposal in the ICI bankruptcy proceeding, which was approved by a majority of its creditors. In August 2016, the Quebec Superior Court approved a Debtors Proposal with respect to the ICI bankruptcy proceedings. HBC has filed a Proof of Claim under the ICI proposal, but anticipates minimal, if any, recovery. The Company currently believes that the maximum claim against it with respect to these leases is approximately \$10 million.

Included in the Company's lease agreements guarantees as at May 5, 2018 are \$52 million with respect to remaining obligations on six leases that the Company guaranteed as part of the sale of the Northern Department Store Group to The Bon-Ton Stores, Inc. ("Bon-Ton") in 2006 (the "Bon-Ton Lease Guarantees"). The terms of the Bon-Ton Lease Guarantees can extend up to the year 2024. On February 4, 2018, Bon-Ton filed voluntary petitions for a court-supervised financial restructuring under Chapter 11 of the United States Bankruptcy Code, retaining the option to liquidate some or all of its assets. The treatment of the underlying leases to which the Bon-Ton Lease Guarantees may apply has not yet been determined in Bon-Ton's bankruptcy proceedings, and Bon-Ton, as debtor, is obligated to pay rent to the landlords as long as it occupies the premises. In addition, whether any Bon-Ton Lease Guarantee has been triggered may require construction in separate legal proceedings. The Company is pursuing available paths to mitigate its exposure under the Bon-Ton Lease Guarantees. An amount of \$32 million was accrued in the audited consolidated financial statements for Fiscal 2017, which represents the Company's best estimate of the potential future obligation with respect to these guarantees as at May 5, 2018.

Guarantees and Off-Balance Sheet Arrangements

The Company has guarantees and general indemnification commitments to counterparties. Historically, the Company has not made any significant payments with respect to these guarantees and indemnification provisions and management believes that the risk of significant loss is low.

Standby and documentary letters of credit are used in connection with certain obligations mainly related to purchase orders and Workers Compensation Collateral requirements. The aggregate gross potential liability related to the Company's letters of credit was \$300 million as at May 5, 2018.

Other than in connection with the joint ventures (including a related entity), the Company has not created, and is not party to, any special purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating its business. The Company does not have any relationships or arrangements with entities that are not consolidated into its financial statements that are reasonably likely to materially affect liquidity or the availability of capital resources. The joint ventures are accounted for using the equity method of accounting. As a result, indebtedness at the joint ventures is not consolidated in the Company's balance sheet. See the "Real Estate Joint Ventures" section of this MD&A.

Financial Instruments

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

The Company enters into forward foreign exchange contracts to fix the cost in Canadian dollars or, for HBC Europe, in Euros of certain U.S. dollar based purchases of merchandise from foreign suppliers. These forward exchange contracts are designated as cash flow hedges and are reported at fair value in financial assets or financial liabilities. Once the inventory is recorded, the Company has elected to reclassify the related accumulated other comprehensive income or loss amount to merchandise inventories. Subsequent changes in the fair value of the forward foreign exchange contracts are recorded in net earnings (loss).

Derivative financial instruments not designated within an effective hedging relationship and embedded derivatives are classified as fair value through profit or loss and measured at fair value with any changes in their fair values recognized in net earnings (loss) during the period in which the change occurs. Short-term deposits, which are measured at amortized cost using the effective interest method, are classified as amortized cost. All other financial assets are also classified as amortized costs and are measured at amortized cost using the effective interest method. Interest income and expense are included in finance costs.

All other financial liabilities are classified as amortized costs and measured at amortized cost using the effective interest method. Interest income and expense are included in finance costs.

The Company determines the fair value of its long term loans and borrowings using either quoted prices for identical or similar securities or a discounted cash flow model that uses current market interest rates for items of similar risk.

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 and observable market input data.

In connection with the Saks Acquisition, the Company issued Common Share purchase warrants which, due to certain features, are being presented as financial liabilities. The warrants are classified as fair value through profit or loss and measured at fair value. Subsequent changes in the fair value are recognized in net earnings or loss in the period in which the change occurs. The fair values of the warrants are determined using the Black-Scholes option pricing model. For a complete description of the derivative financial instruments of the Company and related risks, please refer to note 17 to the Company's audited consolidated financial statements for Fiscal 2017.

Tax Matters

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, from time to time certain matters are reviewed and challenged by the tax authorities.

The Company regularly reviews the potential for adverse outcomes in respect of tax matters. The Company believes that there are no tax matters that will have a material adverse effect on its liquidity, consolidated financial position or results of operations because the Company believes that it has adequate provisions for any tax matters. Should the ultimate tax liability materially differ from the provisions, the Company's effective tax rate and its earnings or loss could be affected, positively or negatively, during the period in which the matters are resolved.

Related Party Transactions

Transactions between HBC and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed herein. Details of certain transactions with other related parties are disclosed below. For further disclosure, see note 17 of the Company's unaudited interim condensed consolidated financial statements for the Fiscal 2018.

Excluding returns of capital and distributions received (see note 11 of the Company's unaudited interim condensed consolidated financial statements for the Fiscal 2018), transactions with the RioCan-HBC JV and the HBS Joint Venture comprised the following:

(millions of Canadian dollars)	Thirteen week period ended	
	May 5, 2018	Apr 29, 2017
Rent expense	139	135

Balances due from (to) the the RioCan-HBC JV and the HBS Joint Venture are comprised of:

(millions of Canadian dollars)	RioCan-HBC JV		HBS Joint Venture	
	May 5, 2018	Apr 29, 2017	May 5, 2018	Apr 29, 2017
Prepaid rents (included in other current assets).....	7	2	32	12
Receivables (included in trade and other receivables)	—	—	14	14
Payable (included in other current liabilities)	—	—	(4)	(4)
Loans payable (included in other current liabilities).....	—	—	(12)	(5)

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

Critical Accounting Policies

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's audited consolidated financial statements, which have been prepared in accordance with IFRS. The Company's significant accounting policies are described in note 2 of the Fiscal 2017 audited consolidated financial statements.

The preparation of these financial statements requires management to make judgments, estimates and assumptions that are not readily apparent from other sources about the carrying amounts of assets and liabilities and reporting of income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ materially from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognized during the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are certain critical judgments and estimations that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the audited consolidated financial statements (see note 3 to the Company's audited consolidated financial statements for Fiscal 2017):

- Inventory valuation;
- Loyalty programs;
- Impairment and reversal of impairment of long-lived assets;
- Impairment of goodwill and indefinite lived intangible assets;
- Income taxes;
- Pensions and employee benefits;
- Valuation of warrants;
- Business combinations and
- Joint ventures

Changes in Accounting Policies Including Initial Adoption

Accounting Standards Implemented in Fiscal 2018

Revenue

In May 2014, the IASB issued IFRS 15 - Revenue from Contracts with Customers (“IFRS 15”), which provides a comprehensive framework for the 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 effective for annual periods beginning on or after January 1, 2018 and was applied for the first time by the Company in the first quarter of 2018.

The Company adopted IFRS 15 using the modified retrospective method with the cumulative effect of any adjustments recognized in the opening balance of retained earnings as of February 4, 2018. Comparative information has not been restated and continues to be reported under previous accounting standards. IFRS 15 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Company made use of a practical expedient and elected to apply IFRS 15 retrospectively only to contracts that are not completed contracts as at February 4, 2018.

After completing the analysis of its significant customer contracts, the Company has determined that the implementation of IFRS 15 did not result in any adjustments to the opening balance of retained earnings or to the presentation of the Company’s condensed consolidated interim statements of financial position.

As a result of adopting IFRS 15, the Company updated its accounting policies for the recognition of revenue as set out below.

Retail merchandise sales

Revenue consists of sales through retail stores of the banners operated by the Company and includes sales through the Company’s e-commerce (“Digital Commerce”) operations. Merchandise sales through retail stores are recognized at the time of delivery to the customer which is generally at the point of sale when control of the goods has transferred from the Company to the customer. Merchandise sales through Digital Commerce are recognized upon estimated receipt by the customer.

It is the Company’s policy to sell merchandise to the customer with a right to return within a specified period. Accumulated experience is used to estimate and provide for such returns. Where it is determined that the Company acts as an agent rather than a principal in a transaction, revenue is recognized to the extent of the commission.

Gift card breakage

Through its retail stores, websites and selected third parties, the Company sells gift cards that have no administrative fee charges or expiration dates. No revenue is recognized at the time gift cards are sold. Revenue is recognized as a merchandise sale when the gift card is redeemed by the customer.

The Company also recognizes income when it is considered highly probable that a gift card will not be redeemed by the customer (“gift card breakage”). Gift card breakage is estimated based on historical redemption patterns and is recognized in proportion to the redemption of gift card balances.

Loyalty programs

Award credits are accounted for as a separate component of the sales transaction in which they are granted. As a result, the consideration received is allocated between the loyalty awards and the goods and services on which the awards were earned, based on their relative stand-alone selling prices. The amount allocated to the loyalty points is recorded as deferred revenue until the award credits are redeemed by the customer. The points expected to be redeemed are based on many factors, including an actuarial review, where required, of customers’ past experience and trends.

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”). IFRS 9 and the related consequential amendments to IFRS 7 - Financial Instruments: disclosures are effective for annual periods beginning on or after January 1, 2018 and were applied for the first time by the Company in the first quarter of 2018.

As permitted by the transitional provision of IFRS 9, the Company elected not to restate comparative figures. Adjustments to the carrying amount of financial assets and financial liabilities at the date of transition were recognized in the opening retained earnings of the current period. Accordingly, the information presented in these interim financial statements for the prior year does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented in the current period under IFRS 9.

The impact of implementing IFRS 9 on the carrying amounts of the Company’s financial assets and financial liabilities is related to a prior period modification of the Company’s U.S. Term Loan B, which at the time of modification did not result in the derecognition of that loan. Under IFRS 9, this modification reduces the carrying value of U.S. Term Loan B resulting in the recognition of a \$15 million modification gain, which has been recognized in the opening retained earnings of the current period.

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their contractual cash flow characteristics. Financial assets are classified and measured based on these categories: amortized cost, fair value through other comprehensive income, and fair value through profit or loss. Financial liabilities are classified and measured based on two categories: amortized cost or fair value through profit and loss. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated, but the hybrid financial instrument as a whole is assessed for classification.

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company’s financial assets and financial liabilities as at February 4, 2018.

<u>Asset/Liability</u>	<u>Original classification under IAS 39</u>	<u>New classification under IFRS 9</u>
Cash.....	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Short-term deposits	Held-to-maturity	Amortized cost
Trade and other receivables.....	Loans and receivables	Amortized cost
Trade payables and other liabilities.....	Other liabilities	Amortized cost
Loans and borrowings	Other liabilities	Amortized cost
Derivatives, not in a hedging relationship.....	Fair value through profit or loss	Fair value through profit or loss

Financial assets are not reclassified subsequent to their initial recognition, unless the Company identifies changes in its business model in managing financial assets and would reassess the classification of financial assets.

Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (“ECL”) model. The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model is applied, at each balance sheet date, to financial assets measured at amortized cost or those measured at fair value through other comprehensive income, except for investments in equity instruments. The new ECL model will result in an allowance for credit losses being recorded on financial assets irrespective of whether there has been an actual loss event.

The Company’s financial assets at amortized cost consist of trade receivables, cash, and restricted cash.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12 month ECLs: These are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: These are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company applied the practical expedient to determine ECLs for its trade receivables based on historical credit loss experiences to estimate lifetime ECLs.

The Company determined that the initial application of IFRS 9's impairment requirements at February 4, 2018 resulted in no additional recorded impairment allowance.

Hedge accounting

As permitted by IFRS 9, the Company has elected to continue applying the hedge accounting requirements of IAS 39 instead of the requirements set out in IFRS 9. This election applies to all of the Company's hedging relationships.

New accounting standard not yet implemented

Leases

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

Uncertain Tax Positions

In June 2017, the IASB issued IFRS Interpretations Committee Interpretation 23 – Uncertainty over Income Tax Treatments (“IFRIC 23”), which is effective for annual periods commencing on or after January 1, 2019. The interpretation provides guidance on how to value uncertain income tax positions based on the probability of whether the relevant tax authorities will accept a company's tax treatments. A company is to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. IFRIC 23 is to be applied by recognizing the cumulative effect of initially applying these guidelines in opening retained earnings without adjusting comparative information. The Company is assessing the potential impact of IFRIC 23.

Management's Report on Internal Controls over Financial Reporting

National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filing requires public companies in Canada to submit interim and annual certificates relating to the design (quarterly) and effectiveness (annual) of the internal control over financial reporting and disclosure controls and procedures that are in use at the Company.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Governor and Executive Chairman, the CEO and the Chief Financial Officer (“CFO”), on a timely basis so that appropriate decisions can be made regarding public disclosure.

The Company's management, under the supervision of the CEO and the CFO, has designed and maintained a set of disclosure controls and procedures to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Internal Controls over Financial Reporting

The CEO and the CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be designed effectively can provide only reasonable assurance with respect to financial reporting and financial statement preparation.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting during the thirteen week period ended May 5, 2018, that have affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Additional Information

Additional information relating to the Company, including the most recently filed AIF dated May 4, 2018, is available on SEDAR at www.sedar.com.

Dividends

The Company's board of directors expects to approve the payment of a quarterly dividend on June 5, 2018, which will be paid on July 13, 2018, to shareholders of record at the close of business on June 29, 2018. The dividend will be in the amount of \$0.0125 per Common Share and was designated as an "eligible dividend" for Canadian tax purposes. The declaration of dividends is at the discretion of the Company's board of directors.

Outstanding Share Data

The Company's authorized share capital consists of an unlimited number of Common Shares and an unlimited number of preferred shares issuable in series. As of June 4, 2018, the Company had 183,073,362 Common Shares issued and outstanding and 50,919,608 Convertible Preferred Shares issued and outstanding, which are convertible into 52,338,622 Common Shares as of such date. As of June 4, 2018, the Company had 17,605,866 share options, 7,939,629 restricted share units and 6,750,000 warrants outstanding, all of which are convertible or exchangeable into Common Shares.

Voting Rights of Convertible Preferred Shares

The holders of the Convertible Preferred Shares are entitled to receive notice of, attend and vote (in person or by proxy) at all meetings of the shareholders of the Company. Each Convertible Preferred Shares will be entitled to a single vote. Each holder of Convertible Preferred Shares shall be deemed to hold, for the sole purpose of voting at any meeting of shareholders of the Company at which such holder is entitled to vote, the number of Convertible Preferred Shares equal to the number of whole Common Shares into which such holder's registered Convertible Preferred Shares are convertible as of the record date for the determination of shareholders entitled to vote at such shareholders meeting.

The Company's Common Shares trade on the Toronto Stock Exchange under the symbol "HBC" and began trading on November 20, 2012.

Risk Factors

For a detailed description of risk factors associated with the Company, refer to the "Risk Factors" section of the Company's AIF dated May 4, 2018, which is available on SEDAR at www.sedar.com. Additional risk factors are outlined below. The Company is not otherwise aware of any significant changes to the Company's risk factors from those disclosed at that time.