



**2015 Q1 INTERIM
CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

For the Thirteen Weeks Ended

May 2, 2015

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HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF (LOSS) EARNINGS

(unaudited)

(millions of Canadian dollars, except per share amounts)

	Notes	Thirteen weeks ended	
		May 2, 2015	May 3, 2014
Retail sales		2,072	1,855
Cost of sales	9	(1,226)	(1,139)
Selling, general and administrative expenses....		(780)	(681)
Depreciation and amortization	5	(100)	(82)
Gain on sale and leaseback transaction	19	—	308
Operating (loss) income		(34)	261
Total interest expense		(39)	(71)
Acquisition-related finance costs		(8)	(4)
Finance costs	6	(47)	(75)
(Loss) earnings before income tax		(81)	186
Income tax benefit (expense)	8	27	(10)
Net (loss) earnings for the period		(54)	176
Net (loss) earnings per common share - basic and diluted	12	(0.30)	0.97

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

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(unaudited)

(millions of Canadian dollars)	Thirteen weeks ended	
	May 2, 2015	May 3, 2014
Net (loss) earnings for the period	(54)	176
Other comprehensive loss, net of tax:		
Items that may be reclassified subsequently to earnings or loss:		
Currency translation adjustment	(80)	(29)
Net gain on net investment hedge, net of taxes of nil (2014: nil)	—	8
Net loss on derivatives designated as cash flow hedges, net of taxes of \$4 (2014: nil)	(8)	—
Reclassification to non-financial assets of net gains on derivatives designated as cash flow hedges, net of taxes of \$2 (2014: \$1)	(5)	(2)
Reclassification to earnings of net losses on derivatives designated as cash flow hedges, net of taxes of \$1 (2014: nil)	2	—
Other comprehensive loss	(91)	(23)
Total comprehensive (loss) income	(145)	153

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

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the thirteen weeks ended May 2, 2015 and May 3, 2014

(unaudited)

(millions of Canadian dollars)	Notes	Accumulated Other Comprehensive Income ("AOCI")								Total AOCI	Total Equity
		Share Capital	Retained Earnings	Contributed Surplus	Currency Translation Adjustment	Employee Benefits	Net Investment Hedge	Cash Flow Hedges			
As at January 31, 2015		1,420	693	60	382	(12)	(56)	5	319	2,492	
Total comprehensive loss		—	(54)	—	(80)	—	—	(11)	(91)	(145)	
Share based compensation	17	—	—	7	—	—	—	—	—	7	
Dividends	12	—	(9)	—	—	—	—	—	—	(9)	
As at May 2, 2015		<u>1,420</u>	<u>630</u>	<u>67</u>	<u>302</u>	<u>(12)</u>	<u>(56)</u>	<u>(6)</u>	<u>228</u>	<u>2,345</u>	

(millions of Canadian dollars)	Notes	Accumulated Other Comprehensive Income ("AOCI")								Total AOCI	Total Equity
		Share Capital	Retained Earnings	Contributed Surplus	Currency Translation Adjustment	Employee Benefits	Net Investment Hedge	Cash Flow Hedges			
As at February 1, 2014		1,420	491	43	146	(6)	(54)	3	89	2,043	
Total comprehensive income		—	176	—	(29)	—	8	(2)	(23)	153	
Share based compensation	17	—	—	3	—	—	—	—	—	3	
Dividends		—	(9)	—	—	—	—	—	—	(9)	
As at May 3, 2014		<u>1,420</u>	<u>658</u>	<u>46</u>	<u>117</u>	<u>(6)</u>	<u>(46)</u>	<u>1</u>	<u>66</u>	<u>2,190</u>	

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

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

As at May 2, 2015, May 3, 2014 and January 31, 2015

(unaudited)

(millions of Canadian dollars)			(restated – note 4)	
	Notes	May 2, 2015	May 3, 2014	Jan 31, 2015
Assets				
Cash.....	7	35	39	168
Trade and other receivables.....		178	130	212
Inventories.....	9	2,437	2,056	2,349
Financial assets.....	18	9	6	24
Income taxes recoverable.....		9	24	7
Other current assets.....		88	76	69
Total current assets		2,756	2,331	2,829
Property, plant and equipment.....		4,431	3,951	4,606
Intangible assets.....		1,023	963	1,076
Goodwill.....		227	205	237
Pensions and employee benefits.....		65	67	69
Deferred tax assets.....		250	225	240
Other assets.....		17	11	15
Total assets		8,769	7,753	9,072
Liabilities				
Loans and borrowings.....	10	405	428	265
Trade payables.....		885	616	945
Other payables and accrued liabilities.....		562	534	603
Other liabilities.....	11	76	—	76
Deferred revenue.....		104	127	130
Provisions.....		106	185	115
Income taxes payable.....		10	2	8
Financial liabilities.....	18	6	—	2
Total current liabilities		2,154	1,892	2,144
Loans and borrowings.....	10	2,739	2,426	2,859
Provisions.....		59	17	63
Financial liabilities.....	18	76	28	68
Pensions and employee benefits.....		108	97	109
Deferred tax liabilities.....		622	618	668
Other liabilities.....	11	666	485	669
Total liabilities		6,424	5,563	6,580
Shareholders' Equity				
Share capital.....		1,420	1,420	1,420
Retained earnings.....		630	658	693
Contributed surplus.....		67	46	60
Accumulated other comprehensive income.....		228	66	319
Total shareholders' equity		2,345	2,190	2,492
Total liabilities and shareholders' equity		8,769	7,753	9,072

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

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the thirteen weeks ended May 2, 2015 and May 3, 2014

(unaudited)

(millions of Canadian dollars)	Notes	May 2, 2015	May 3, 2014
Operating activities			
Net (loss) earnings for the period		(54)	176
Add: Income tax (benefit) expense.....		(27)	10
Add: Finance costs.....	6	47	75
Operating (loss) income		(34)	261
Net cash income taxes received (paid)		3	(1)
Interest paid in cash		(37)	(40)
Items not affecting cash flows:			
Depreciation and amortization	5	100	82
Net defined benefit pension and employee benefits expense..		6	7
Other operating activities		5	—
Gain on sale and leaseback transaction	19	—	(308)
Share based compensation	17	7	3
Changes in operating working capital:			
Increase in trade and other receivables.....		(3)	(7)
Increase in inventories		(166)	(29)
Increase in other assets.....		(23)	(6)
(Decrease) increase in trade and other payables, accrued liabilities and provisions		(43)	10
Decrease in other liabilities		(25)	(8)
Net cash outflow for operating activities		(210)	(36)
Investing activities			
Capital investments		(94)	(85)
Proceeds from landlord incentives		40	45
Proceeds from sale of assets.....		(54)	(40)
Proceeds from sale and leaseback transaction	19	—	35
Net cash (outflow for) inflow from investing activities		(54)	645
Financing activities			
Long-term loans and borrowings:			
Repayments.....		(2)	(511)
Short-term loans and borrowings:			
Net borrowings from (repayments to) asset-based credit facilities.....		148	(68)
Net decrease in other short-term borrowings.....		(5)	(3)
Dividends paid		(9)	(9)
Net cash inflow from (outflow for) financing activities		132	(591)
Foreign exchange loss on cash		(1)	—
(Decrease) increase in cash		(133)	18
Cash at beginning of period		168	21
Cash at end of period		35	39

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

HUDSON'S BAY COMPANY

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(For the Thirteen Weeks Ended May 2, 2015, unaudited)

NOTE 1. BASIS OF PREPARATION

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

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

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

The preparation of unaudited interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates which requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the unaudited interim financial statements have been set out in note 2 of the annual audited consolidated financial statements for the year ended January 31, 2015.

These unaudited interim condensed consolidated financial statements were prepared using the same accounting policies and methods as those used in the annual audited consolidated financial statements for the year ended January 31, 2015 and should be read in conjunction with them.

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

New Accounting Standards Not Yet Implemented

Financial Instruments

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

Classification and measurement

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

Impairment

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

Hedge accounting

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

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

Revenue

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”), which provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. In April 2015, the IASB tentatively decided to defer the effective date of IFRS 15 to annual periods beginning on or after January 1, 2018, and to require retrospective application. Early adoption is permitted. The tentative decisions will be exposed in an upcoming exposure draft with a comment period of no less than 30 days. The Company is assessing the potential impact of IFRS 15.

Joint Arrangements

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

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. IFRS 11 is effective for annual periods beginning on or after January 1, 2016, and must be applied prospectively. Early adoption is permitted. The Company is assessing the potential impact of IFRS 11.

NOTE 3. SEASONALITY

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

NOTE 4. ACQUISITION OF SAKS

During fiscal 2014, the Company identified measurement period adjustments based on new information relating primarily to inventories. The impacts of the adjustments to previously reported amounts are as follows:

Condensed Consolidated Balance Sheet

<u>(millions of Canadian dollars)</u>	<u>May 3, 2014</u>
Increase in inventories.....	22
Increase in property, plant and equipment	2
Decrease in goodwill.....	(14)
Increase in other payables and accrued liabilities	9
Increase in deferred tax liabilities	1

NOTE 5. DEPRECIATION AND AMORTIZATION

(millions of Canadian dollars)	Thirteen weeks ended	
	May 2, 2015	May 3, 2014
Property, plant and equipment	78	64
Intangible assets.....	23	19
Deferred credits	(1)	(1)
	100	82

NOTE 6. FINANCE COSTS

(millions of Canadian dollars)	Thirteen weeks ended	
	May 2, 2015	May 3, 2014
Interest expense on long-term borrowings	34	35
Interest expense on short-term borrowings	5	6
Write-off of deferred financing costs	—	18
Penalties and fees on term loans.....	—	12
Total interest expense	39	71
Acquisition-related finance costs (note 18)	8	4
	47	75

NOTE 7. CASH

For the purposes of the unaudited interim condensed consolidated statements of cash flows, cash includes cash on hand and in banks. Cash as at May 2, 2015, May 3, 2014 and January 31, 2015 as presented in the unaudited interim condensed consolidated balance sheets is comprised of the following:

(millions of Canadian dollars)	May 2, 2015	May 3, 2014	Jan 31, 2015
Cash.....	20	25	153
Restricted cash.....	15	14	15
	35	39	168

NOTE 8. INCOME TAXES

Income tax benefit for the thirteen weeks ended May 2, 2015 was \$27 million (2014: expense of \$10 million). The effective income tax rate of 33.3% (2014: 5.4%) for the first quarter of 2015 increased compared to the first quarter of 2014 primarily due to the effect of a change in state tax law in the current year and the favourable tax treatment related to the sale and leaseback transaction (note 19) in the prior year.

NOTE 9. INVENTORIES

Inventories on hand at May 2, 2015, May 3, 2014 and January 31, 2015 were available for sale. The cost of merchandise inventories recognized as expense for the thirteen weeks ended May 2, 2015 were \$1,226 million (2014: \$1,139 million).

The write-down of merchandise inventories below cost to net realizable value as at May 2, 2015 was \$36 million (May 3, 2014: \$34 million; January 31, 2015: \$48 million). There was no reversal of write-downs previously taken on merchandise inventories that are no longer estimated to sell below cost. Inventory has been pledged as security for certain borrowing agreements.

NOTE 10. LOANS AND BORROWINGS

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

a) Current loans and borrowings

<u>(millions of Canadian dollars)</u>	<u>May 2, 2015</u>	<u>May 3, 2014</u>	<u>Jan 31, 2015</u>
HBC Revolving Credit Facility	171	54	159
U.S. Revolving Credit Facility	232	378	108
Current portion of long-term loans and borrowings	25	21	23
	428	453	290
Less: unamortized costs	(23)	(25)	(25)
	405	428	265

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

HBC Revolving Credit Facility

<u>(millions of Canadian dollars)</u>	<u>May 2, 2015</u>	<u>May 3, 2014</u>	<u>Jan 31, 2015</u>
Gross borrowing base availability	600	551	457
Drawings	(171)	(54)	(159)
Outstanding letters of credit	(10)	(9)	(9)
Borrowing base availability net of drawings and letters of credit	419	488	289

As the HBC Revolving Credit Facility is available for and used to finance working capital requirements, capital expenditures and other general corporate purposes, it has been classified in the unaudited interim condensed consolidated balance sheets as part of current loans and borrowings. However, the Company is not required to repay the balance outstanding as at May 2, 2015 until the maturity date of December 17, 2019.

U.S. Revolving Credit Facility

<u>(millions of Canadian dollars)</u>	<u>May 2, 2015</u>	<u>May 3, 2014</u>	<u>Jan 31, 2015</u>
Gross borrowing base availability (U.S. \$1,100)	1,337	1,043	1,348
Drawings	(232)	(378)	(108)
Outstanding letters of credit	(24)	(9)	(19)
Borrowing base availability net of drawings and letters of credit	1,081	656	1,221

As the U.S. Revolving Credit Facility is available for and used to finance working capital requirements, capital expenditures and other operating activities, it has been classified in the unaudited interim condensed consolidated balance sheets as part of current loans and borrowings. However, the Company is not required to repay the balance outstanding as at May 2, 2015 until the maturity date of November 4, 2018.

b) Long-term loans and borrowings

<u>(millions of Canadian dollars)</u>	<u>May 2, 2015</u>	<u>May 3, 2014</u>	<u>Jan 31, 2015</u>
Senior Term Loan B	790	2,031	826
Yorkdale Mortgage	48	49	48
Lord & Taylor Mortgage	304	275	318
Saks Mortgage	1,529	—	1,599
Real estate finance leases	132	116	130
Equipment finance leases and other	31	39	35
	2,834	2,510	2,956
Less: unamortized costs	(70)	(63)	(74)
Less: amounts due within one year	(25)	(21)	(23)
	2,739	2,426	2,859

NOTE 11. OTHER LIABILITIES

(millions of Canadian dollars)	May 2, 2015	May 3, 2014	Jan 31, 2015
Deferred landlord incentives.....	369	205	356
Deferred gain on sale and leaseback transaction	240	250	242
Deferred proceeds from lease terminations	49	—	49
Other deferred credits	11	12	11
Other liabilities	73	18	87
	742	485	745
Non-current.....	666	485	669
Current.....	76	—	76
	742	485	745

NOTE 12. SHARE CAPITAL

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

The weighted average number of common shares outstanding for the thirteen weeks ended May 2, 2015 is 182 million (2014: 182 million) for both basic and diluted earnings per share.

NOTE 13. RELATED PARTY TRANSACTIONS

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

On May 6, 2011, a subsidiary of L&T Acquisition entered into a 2 year lease with SP 35 L.P. (the "Landlord") for approximately 31,000 square feet in Shrewsbury, NJ. The lease was amended on January 17, 2013 to include 3 renewal options. The first 2 renewal options are for terms of 2 and 3 years, respectively at an annual cost of U.S.\$440 thousand. The third renewal option is for a term of 5 years at an annual cost of U.S.\$484 thousand. The first and second renewal options were exercised. Amounts charged to the Company under the rental arrangement for the thirteen weeks ended May 2, 2015 were U.S.\$110 thousand (2014: U.S.\$100 thousand). The Landlord is an affiliate of National Realty & Development Corp. ("NRDC"). Richard and Robert Baker, the principals of NRDC, are Directors of the Company.

On February 25, 2014, the Company closed its agreement to sell its downtown Toronto flagship retail complex and the Simpson's Tower to an affiliate of The Cadillac Fairview Corporation Limited, an affiliate of H.S. Investments L.P. ("HSILP"), for a purchase price of \$650 million (note 19). 2380162 Ontario Limited, a subsidiary of Ontario Teachers' Pension Plan and successor in interest to HSILP, is a shareholder of the Company.

As at May 2, 2015, the Company has an outstanding receivable in the amount of \$268 thousand due from Hudson's Bay Trading Company, LP, a shareholder of the Company, with respect to the reimbursement of expenses for services provided by HBC on their behalf.

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

NOTE 14. CONTINGENT LIABILITIES

As of May 2, 2015, the Company is involved in and potentially subject to various claims by third parties arising out of the normal course and conduct of its business. Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims and litigation, tax assessments and reassessments, to the extent not covered by the Company's insurance policies or otherwise provided for, not to be material to the unaudited interim condensed consolidated financial statements, but may have a material impact in future periods.

NOTE 15. OPERATING LEASE ARRANGEMENTS

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

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

NOTE 16. SEGMENTED REPORTING

The Company has three operating segments (the Department Stores Group (“DSG”) which includes Hudson’s Bay, Lord & Taylor and Home Outfitters; Saks Fifth Avenue; and OFF 5TH) which are aggregated into one reportable operating segment, Department Stores, as they have similar economic characteristics, products and services and customers. The Department Stores segment earns revenue from the sale of fashion apparel, accessories, cosmetics and home products to customers in a similar target market, is managed by the Chief Operating Decision Maker and supported by an integrated shared services function.

The following summarizes retail sales, operating (loss) income, non-current assets and total assets by geographic area:

<u>(millions of Canadian dollars)</u>	<u>Thirteen weeks ended</u>	
	<u>May 2, 2015</u>	<u>May 3, 2014</u>
Retail sales		
Canada	<u>599</u>	581
United States.....	<u>1,473</u>	1,274
	<u><u>2,072</u></u>	<u>1,855</u>

<u>(millions of Canadian dollars)</u>	<u>Thirteen weeks ended</u>	
	<u>May 2, 2015</u>	<u>May 3, 2014</u>
Operating (loss) income		
Canada	<u>(33)</u>	275
United States.....	<u>(1)</u>	(14)
	<u><u>(34)</u></u>	<u>261</u>

<u>(millions of Canadian dollars)</u>	<u>May 2, 2015</u>	<u>(restated – note 4)</u>	
		<u>May 3, 2014</u>	<u>Jan 31, 2015</u>
Non-current assets⁽¹⁾			
Canada	<u>684</u>	574	666
United States.....	<u>5,014</u>	4,556	5,268
	<u><u>5,698</u></u>	<u>5,130</u>	<u>5,934</u>
Total assets			
Canada.....	<u>1,842</u>	1,634	1,903
United States.....	<u>6,927</u>	6,119	7,169
	<u><u>8,769</u></u>	<u>7,753</u>	<u>9,072</u>

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

NOTE 17. SHARE BASED COMPENSATION

Senior executive option transactions were as follows:

	May 2, 2015		May 3, 2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year.....	8,945,597	\$18.07	6,562,603	\$17.13
Forfeited.....	(423,091)	\$17.75	(413,334)	\$17.00
Outstanding at end of period.....	8,522,506	\$18.08	6,149,269	\$17.13
Share options exercisable at end of period.....	—	—	—	—

The following table summarizes information about the senior executive share options outstanding and exercisable as at May 2, 2015:

Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at May 2, 2015	Weighted average exercise price
\$17.00 to \$17.49	5,773,319	7.5	\$17.01	—	—
\$17.50 to \$17.99	1,236,082	6.0	\$17.61	—	—
\$18.00 to \$18.85	328,947	8.6	\$18.85	—	—
\$23.50 to \$23.99	1,184,158	6.6	\$23.58	—	—
Total.....	8,522,506	7.2	\$18.08	—	—

Other management option transactions were as follows:

	May 2, 2015		May 3, 2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year.....	1,729,400	\$17.35	969,600	\$17.03
Forfeited.....	(86,000)	\$17.47	(41,600)	\$17.04
Outstanding at end of period.....	1,643,400	\$17.35	928,000	\$17.03
Share options exercisable at end of period.....	—	—	—	—

The following table summarizes information about the other management share options outstanding and exercisable as at May 2, 2015:

Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at May 2, 2015	Weighted average exercise price
\$17.00 to \$17.49	917,800	4.9	\$17.04	—	—
\$17.50 to \$17.99	709,600	6.0	\$17.61	—	—
\$23.50 to \$23.99	16,000	6.6	\$23.58	—	—
Total.....	1,643,400	5.4	\$17.35	—	—

During the thirteen weeks ended May 2, 2015, the Company granted 38,180 (2014: 49,727) deferred share units (“DSUs”) and 18,674 (2014: 30,120) restricted share units (“RSUs”) with grant date fair values of \$905 thousand (2014: \$833 thousand) and \$440 thousand (2014: \$500 thousand), respectively. The fair values of the grants were determined based on the Company’s share price at the date of grant. RSUs were granted under similar terms and conditions as those granted concurrently with the IPO.

Share Based Compensation Expense

Total share based compensation expense is summarized as follows:

	Thirteen weeks ended	
	May 2, 2015	May 3, 2014
Share options	3	2
Other share based compensation ⁽¹⁾	4	1
	7	3

(1) Includes phantom shares, RSUs, PSUs and DSUs.

NOTE 18. FINANCIAL INSTRUMENTS

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

As at May 2, 2015, May 3, 2014 and January 31, 2015, the carrying value and fair value of these debt instruments were:

(millions of Canadian dollars)	May 2, 2015	May 3, 2014	Jan 31, 2015
Carrying value	3,074	2,787	3,058
Fair value	3,078	2,812	3,062

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

The fair values of foreign currency options, interest rate swaps, forward foreign currency contracts and warrants reflect the estimated amounts that the Company would receive or pay if it were to settle the contracts at the reporting date, and are determined using valuation techniques based on observable market input data. The fair values of embedded foreign currency derivatives reflect the estimated amounts the Company would receive or pay to settle forward foreign exchange contracts with similar terms using valuation techniques which utilize observable market input data. These instruments are classified within Level 2 of the fair value hierarchy.

As at May 2, 2015, May 3, 2014 and January 31, 2015, the fair value and carrying value of derivative financial assets and financial liabilities were:

(millions of Canadian dollars)	May 2, 2015	May 3, 2014	Jan 31, 2015
Financial assets	9	6	24
Financial liabilities	82	28	70

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

During the thirteen weeks ended May 2, 2015, in relation to the 1.5 million warrants issued to HSILP concurrently with the definitive merger agreement with Saks (“Merger Agreement Warrants”), the Company recognized acquisition related finance costs of \$2 million (2014: \$1 million) representing mark to market adjustments to the fair value as at May 2, 2015. As at May 2, 2015, the fair value of the Merger Agreement Warrants was \$17 million (May 3, 2014: \$6 million, January 31, 2015: \$15 million).

In relation to the 5.25 million warrants issued to HSILP and West Face Long Term Opportunities Global Master L.P. on November 4, 2013 upon closing of the transaction (“Acquisition Warrants”), the Company recognized acquisition related finance costs during the thirteen weeks ended May 2, 2015 of \$6 million (2014: \$3 million) representing the mark to market adjustments to the fair value as at May 2, 2015. As at May 2, 2015, the fair value of the Acquisition Warrants was \$59 million (May 3, 2014: \$22 million; January 31, 2015: \$53 million).

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

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

	<u>May 2, 2015</u>	<u>May 3, 2014</u>	<u>Jan 31, 2015</u>
Share price	\$26.91	\$17.61	\$23.42
Expected volatility	32%	27%	45%
Dividend yield.....	0.74%	1.14%	0.85%
Risk free interest rate	0.86%	1.31%	0.50%
Expected life – Merger Agreement Warrants	3.3 years	4.3 years	3.5 years
Expected life – Acquisition Warrants	3.5 years	4.5 years	3.8 years

NOTE 19. SALE AND LEASEBACK TRANSACTION

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

The total gain on the sale and leaseback transaction was \$560 million, \$308 million of which was recognized immediately in the unaudited interim condensed consolidated statements of (loss) earnings. The remaining \$252 million of the gain was deferred and is being amortized over the term of the lease as a reduction in rent expense. The deferred gain is included in non-current other liabilities (note 11) in the unaudited interim condensed consolidated balance sheets.