



HUDSON'S BAY COMPANY
2016 Q1 INTERIM
CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

For the Thirteen Weeks Ended

April 30, 2016

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

	Notes	Thirteen weeks ended	
		Apr 30, 2016	May 2, 2015 (restated – note 9)
Retail sales		3,303	2,072
Cost of sales	9	(1,920)	(1,218)
Selling, general and administrative expenses		(1,395)	(780)
Depreciation and amortization	6	(158)	(100)
Gain on sale of investments in joint ventures	10	45	—
Operating loss		(125)	(26)
Finance costs, net	7	(45)	(47)
Share of net loss in joint ventures	10	(2)	—
Dilution gains from investments in joint ventures ..	10	4	—
Loss before income tax		(168)	(73)
Income tax benefit		71	24
Net loss for the period		(97)	(49)
Loss per common share	15		
Basic		(0.53)	(0.27)
Diluted		(0.58)	(0.27)

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

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(millions of Canadian dollars)
(unaudited)

	Thirteen weeks ended	
	Apr 30, 2016	May 2, 2015 (restated – note 9)
Net loss	(97)	(49)
Other comprehensive loss, net of tax:		
Items that may be reclassified subsequently to earnings or loss:		
Currency translation adjustment	(289)	(80)
Net gain on net investment hedge, net of taxes of \$5 (2015: nil)	31	—
Net loss on derivatives designated as cash flow hedges, net of taxes of \$11 (2015: \$4)	(30)	(8)
Reclassification to non-financial assets of net gains on derivatives designated as cash flow hedges, net of taxes of nil (2015: \$2)	—	(5)
Reclassification to earnings of net losses on derivatives designated as cash flow hedges, net of taxes of \$2 (2015: \$1)	6	2
Other comprehensive loss	(282)	(91)
Total comprehensive loss	(379)	(140)

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the thirteen weeks ended April 30, 2016 and May 2, 2015

(millions of Canadian dollars)
(unaudited)

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

	Notes	Share Capital	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Income ("AOCI")				Total AOCI	Total Shareholders' Equity
					Currency Translation Adjustment	Employee Benefits	Net Investment Hedge	Cash Flow Hedges		
As at January 31, 2015		1,420	678	60	379	(12)	(56)	5	316	2,474
Total comprehensive loss (restated)	9	—	(49)	—	(80)	—	—	(11)	(91)	(140)
Share based compensation	14	—	—	7	—	—	—	—	—	7
Dividends		—	(9)	—	—	—	—	—	—	(9)
As at May 2, 2015 (restated)		1,420	620	67	299	(12)	(56)	(6)	225	2,332

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

HUDSON'S BAY COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
As at April 30, 2016, May 2, 2015 and January 30, 2016

(millions of Canadian dollars)
(unaudited)

	Notes	Apr 30, 2016	May 2, 2015 (restated – note 9)	Jan 30, 2016 (restated – note 5)
Assets				
Cash	8	101	35	507
Trade and other receivables		566	178	512
Inventories	9	3,397	2,416	3,415
Other current assets		175	106	194
Total current assets		4,239	2,735	4,628
Property, plant and equipment		4,879	4,431	5,149
Intangible assets and goodwill		1,933	1,250	1,771
Pensions and employee benefits		163	145	166
Deferred tax assets		305	250	253
Investments in joint ventures	10	597	—	658
Other assets		19	17	16
Total assets		12,135	8,828	12,641
Liabilities				
Loans and borrowings	11	743	385	451
Finance leases		25	21	25
Trade payables		1,363	885	1,494
Other payables and accrued liabilities		1,076	562	1,020
Deferred revenue		105	104	132
Provisions		153	106	148
Other liabilities	12	157	92	126
Total current liabilities		3,622	2,155	3,396
Loans and borrowings	11	2,443	2,605	2,729
Finance leases		482	133	500
Provisions		85	59	80
Pensions and employee benefits		650	188	681
Deferred tax liabilities		786	614	888
Investment in joint venture	10	20	—	27
Other liabilities	12	1,327	742	1,241
Total liabilities		9,415	6,496	9,542
Shareholders' equity				
Share capital		1,421	1,420	1,420
Retained earnings		923	620	1,029
Contributed surplus		94	67	86
Accumulated other comprehensive income		282	225	564
Total shareholders' equity		2,720	2,332	3,099
Total liabilities and shareholders' equity		12,135	8,828	12,641

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

HUDSON'S BAY COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the thirteen weeks ended April 30, 2016 and May 2, 2015

(millions of Canadian dollars)
(unaudited)

	Notes	Apr 30, 2016	May 2, 2015 (restated – note 9)
Operating activities			
Net loss for the period		(97)	(49)
Deduct: Income tax benefit		(71)	(24)
Deduct: Dilution gains from investments in joint ventures	10	(4)	—
Add: Share of net loss in joint ventures	10	2	—
Add: Finance costs	7	45	47
Operating loss		(125)	(26)
Net cash income taxes received		—	3
Interest paid in cash		(49)	(37)
Distributions of earnings from joint ventures	10	51	—
Items not affecting cash flows:			
Depreciation and amortization	6	158	100
Net defined benefit pension and employee benefits expense		7	6
Other operating activities		2	5
Share of rent expense to joint ventures	10	(94)	—
Gain on sale of investments in joint ventures	10	(45)	—
Share based compensation	14	10	7
Settlement of share based compensation grants	14	(2)	—
Changes in operating working capital:			
(Increase) decrease in trade and other receivables		(79)	1
Increase in inventories		(167)	(174)
Increase in other assets		(7)	(23)
Decrease in trade and other payables, accrued liabilities and provisions		(96)	(43)
Increase (decrease) in other liabilities		101	(29)
Net cash outflow for operating activities		(335)	(210)
Investing activities			
Capital investments		(231)	(94)
Proceeds from landlord incentives		78	40
		(153)	(54)
Proceeds on disposal of assets		34	—
Proceeds from sale of investments in joint ventures	10	65	—
Acquisition of Gilt Groupe Holdings Inc., net of cash acquired	4	(325)	—
Other investing activities		(3)	—
Net cash outflow for investing activities		(382)	(54)
Financing activities			
Long-term loans and borrowings:			
Repayments		(1)	—
		(1)	—
Short-term loans and borrowings:			
Net borrowings from asset-based credit facilities		353	148
Borrowing costs		(13)	—
		340	148
Payments on finance leases		(8)	(7)
Dividends paid		(9)	(9)
Net cash inflow from financing activities		322	132
Foreign exchange loss on cash		(11)	(1)
Decrease in cash		(406)	(133)
Cash at beginning of year		507	168
Cash at end of period		101	35

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

HUDSON'S BAY COMPANY

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(For the Thirteen Weeks Ended April 30, 2016, unaudited)

NOTE 1. GENERAL INFORMATION

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

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

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

On July 9, 2015, the Company and RioCan Real Estate Investment Trust ("RioCan") closed the first tranche of their joint venture, RioCan-HBC Limited Partnership (the "RioCan-HBC JV"). The second tranche of the RioCan-HBC JV closed on November 25, 2015.

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

On September 30, 2015, prior to the acquisition discussed below, the HBC-Simon JV became a wholly-owned subsidiary of HBS Global Properties LLC ("the HBS Joint Venture").

On September 30, 2015, the Company and the HBS Joint Venture acquired GALERIA Holding ("Kaufhof") for €2,317 million (\$3,490 million) (the "Kaufhof Acquisition"). The transaction was structured such that effectively, the Company acquired the operating business and certain properties of Kaufhof (the "Kaufhof Operating Business") for €709 million (\$1,068 million) while the HBS Joint Venture acquired the property business (the "Kaufhof Property Business") for €1,608 million (\$2,422 million).

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

The Company owns and operates department stores in Canada and the United States under Hudson's Bay, Lord & Taylor, Saks Fifth Avenue, Saks Fifth Avenue OFF 5TH ("OFF 5TH"), Find @ Lord & Taylor, Gilt and Home Outfitters banners. In Europe, its banners include GALERIA Kaufhof, Galeria Inno, as well as Sportarena, together the "Kaufhof Banners". The address of the registered office of HBC is 401 Bay Street, Suite 500, Toronto, ON, M5H 2Y4.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

The preparation of unaudited interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates, which requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the unaudited interim financial statements have been set out in note 3 of the annual audited consolidated financial statements for the year ended January 30, 2016.

These unaudited interim condensed consolidated financial statements were prepared using the same accounting policies and methods as those used in the annual audited consolidated financial statements for the year ended January 30, 2016 and should be read in conjunction with them.

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Audit Committee of HBC on June 9, 2016.

Accounting Standards Implemented in Fiscal 2016

Joint Arrangements

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

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments to IFRS 11 are effective for annual periods beginning on or after January 1, 2016, and must be applied prospectively. The Company implemented IFRS 11 at the beginning of its 2016 fiscal year and the implementation did not have an impact on its results of operations, financial position or disclosure.

New Accounting Standards Not Yet Implemented

Revenue

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”), which provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is assessing the potential impact of IFRS 15.

Financial Instruments

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

Classification and measurement

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

Impairment

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

Hedge accounting

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

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

Leases

In January 2016, the IASB issued the final publication of the IFRS 16 – Leases (“IFRS 16”) standard, 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. IFRS 16 is effective for fiscal years beginning on or after January 1, 2019 with earlier adoption permitted if IFRS 15 has also been adopted. The Company is assessing the potential impact of IFRS 16.

NOTE 3. SEASONALITY

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

NOTE 4. ACQUISITION OF GILT GROUPE HOLDINGS INC.

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

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

(millions)	\$ U.S.	\$ CAD
Cash	7	10
Inventories	60	84
Property, plant and equipment	26	36
Intangible assets	177	248
Goodwill	74	104
Other assets	20	28
Trade payables	(50)	(70)
Other payables and accrued liabilities	(60)	(84)
Deferred tax liabilities	(9)	(13)
Other liabilities	(6)	(8)
Total identifiable net assets acquired and cash consideration given	239	335

The total Gilt purchase price of U.S.\$239 million (\$335 million) is subject to certain adjustments to the fair values assigned to the assets acquired and liabilities assumed ("the purchase price adjustment period"), which could result in a final amount paid that is higher or lower than the purchase price disclosed above. The purchase price adjustment period was 60 business days from February 1, 2016, within which the Company's proposed adjustment was submitted and is currently in negotiation. We expect the purchase price to be finalized in the second quarter of fiscal 2016.

The Company has not yet finalized the purchase price allocation including goodwill and therefore, the information disclosed above for identifiable net assets acquired is subject to change.

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

The Company incurred acquisition-related costs of \$24 million related to external legal fees, consulting fees, due diligence costs and investment banking fees, of which \$8 million have been included in selling, general and administrative expenses ("SG&A") in the unaudited interim condensed consolidated statement of loss for the thirteen weeks ended April 30, 2016. The remaining costs of \$16 million were included in SG&A in the consolidated statement of earnings for the year ended January 30, 2016.

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

NOTE 5. ACQUISITION OF GALERIA HOLDINGS

The total Kaufhof purchase price of €2,317 million (\$3,490 million) is subject to certain adjustments to the fair values assigned to the assets acquired and liabilities assumed (“the purchase price adjustment period”) as agreed upon between the Company and METRO AG (“METRO”), which could result in a final amount paid that is higher or lower than the purchase price disclosed above. The purchase price adjustment period was 90 business days from September 30, 2015, within which the Company’s proposed adjustment was submitted and is currently in negotiation. We expect the purchase price to be finalized in the second quarter of fiscal 2016.

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

During the thirteen weeks ended April 30, 2016, the Company identified measurement period adjustments based on new information relating primarily to property, plant and equipment, intangible assets and provisions. The impacts of the adjustments to previously reported amounts are as follows:

(millions of Canadian dollars)	Sep 30, 2015	Jan 30, 2016
Property, plant and equipment	(5)	(5)
Intangible assets	(3)	(3)
Provisions	(9)	(9)
Deferred tax liabilities	1	1

NOTE 6. DEPRECIATION AND AMORTIZATION

(millions of Canadian dollars)	Thirteen weeks ended	
	Apr 30, 2016	May 2, 2015
Property, plant and equipment	120	78
Intangible assets	39	23
Other	(1)	(1)
	158	100

NOTE 7. FINANCE COSTS

(millions of Canadian dollars)	Thirteen weeks ended	
	Apr 30, 2016	May 2, 2015
Interest expense on long-term borrowings	28	31
Interest expense on short-term borrowings	12	5
Interest expense on finance leases	10	3
Net interest on pensions and employee benefits	3	—
Total interest expense	53	39
Saks acquisition-related finance (income) costs (note 13)	(8)	8
	45	47

NOTE 8. CASH

As at April 30, 2016, cash includes restricted cash of \$16 million (May 2, 2015: \$15 million; January 30, 2016: \$94 million).

NOTE 9. INVENTORIES

Inventories on hand at April 30, 2016, May 2, 2015 and January 30, 2016 were available for sale. The cost of merchandise inventories recognized as expense for the thirteen weeks ended April 30, 2016 was \$1,920 million (2015: \$1,218 million). The write-down of merchandise inventories below cost to net realizable value as at April 30, 2016 was \$78 million (May 2, 2015: \$36 million; January 30, 2016: \$86 million). There was no reversal of write-downs previously taken on merchandise inventories that are no longer estimated to sell below cost. Inventory has been pledged as security for certain borrowing agreements.

Change in accounting policy

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

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

As at May 2, 2015, the impact of this change in policy is as follows:

Condensed Consolidated Balance Sheet

<u>(millions of Canadian dollars)</u>	<u>May 2, 2015</u>
Decrease in inventories	(21)
Decrease in deferred tax liabilities	(8)
Decrease in retained earnings	(10)
Decrease in accumulated other comprehensive income	(3)

Condensed Consolidated Statements of Loss and Comprehensive Loss

<u>(millions of Canadian dollars)</u>	<u>Thirteen weeks ended</u> <u>May 2, 2015</u>
Decrease in cost of sales	8
Decrease in income tax benefit	(3)
Decrease in net loss and comprehensive loss for the period	5
Decrease in loss per common share - basic and diluted	<u>0.03</u>

NOTE 10. INVESTMENTS IN JOINT VENTURES

The following table summarizes the details of the RioCan-HBC JV, HBS Joint Venture and other joint venture:

<u>(millions of Canadian dollars, except ownership interest)</u>	<u>Principal Activity</u>	<u>Principal Places of Business</u>	<u>Apr 30, 2016</u>		<u>Jan 30, 2016</u>	
			<u>Ownership Interest</u>	<u>Carrying Value</u>	<u>Ownership Interest</u>	<u>Carrying Value</u>
RioCan-HBC JV	Real estate investment	Canada	89.3%	(20)	89.7%	(27)
HBS Joint Venture	Real estate investment	United States, Germany	65.0%	500	67.4%	545
Other joint venture	Real estate investment	United States, Germany	65.0%	97	67.4%	113
				<u>577</u>		<u>631</u>

RioCan-HBC JV

On April 19, 2016, RioCan contributed \$6 million to the RioCan-HBC JV for tenant improvements to real estate properties. As a result of the contribution, HBC's ownership interest in the RioCan-HBC JV decreased from 89.7% to 89.3% and the Company realized a dilution gain of \$2 million.

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

(millions of Canadian dollars)	Thirteen weeks ended Apr 30, 2016	Year ended Jan 30, 2016
Equity investment as at the beginning of the period	(27)	—
Dilution gain from change in equity interest	2	—
Share of net earnings from joint venture	21	37
Distributions from joint venture	(16)	(34)
Investments in joint venture	—	(30)
Equity investment as at the end of the period	(20)	(27)

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

(millions of Canadian dollars)	Apr 30, 2016	Jan 30, 2016
Cash	1	1
Other current financial assets	8	—
Non-current financial assets	142	142
Other non-current assets	1,750	1,755
Current financial liabilities	(8)	(5)
Non-current financial liabilities	(543)	(547)
Net assets at 100%	1,350	1,346
Company's share of net assets in the RioCan-HBC JV	1,206	1,207
Less gain on contributions of assets to the RioCan-HBC JV not recognized related to Company's ownership interest	(1,226)	(1,234)
Company's carrying value of investment in the RioCan-HBC JV	(20)	(27)

Summarized statement of earnings of the RioCan-HBC JV:

(millions of Canadian dollars)	Thirteen weeks ended Apr 30, 2016
Revenue	30
Property operating costs	(3)
Depreciation and amortization	(10)
Finance income	3
Finance costs	(4)
Net earnings at 100%	16
Company's share of net earnings in the RioCan-HBC JV prior to adjustment	14
Adjustment for the Company's share of depreciation on the fair value increment of the contributed properties	7
Company's share of net earnings from the RioCan-HBC JV	21
Reclassification of rental income to SG&A related to the Company's ownership interest in the RioCan-HBC JV	(21)
Company's share of net loss in the RioCan-HBC JV	—

HBS Joint Venture

On March 16, 2016, Simon contributed U.S.\$5 million (\$6 million) to the HBS Joint Venture towards its U.S.\$99 million commitment for improvements to properties contributed by HBC. As a result, the Company's ownership interest in the HBS Joint venture decreased from 67.4% to 67.2% and the Company realized a dilution gain of \$2 million.

On March 30, 2016, HBC sold a further portion of its equity investment in the HBS Joint Venture (and other joint venture) to Madison International Realty for proceeds of U.S.\$50 million (\$65 million), reducing the Company's ownership interest in the HBS Joint Venture to 65.0%. Total proceeds from the sale were used to pay down the Global Revolving Credit Facility. As a result of the transaction, the Company recognized a pre-tax gain on the sale of \$45 million during the thirteen weeks ended April 30, 2016.

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

(millions of Canadian dollars)	Thirteen weeks ended Apr 30, 2016	Year ended Jan 30, 2016
Equity investment as at the beginning of the period	545	—
Share of net earnings from joint venture	71	12
Dilution gain from changes in equity interest	2	164
Sale of a portion of investment in joint venture	(17)	(191)
Distributions from joint venture	(35)	(80)
Net foreign currency exchange and other	(66)	43
Investments in joint venture	—	597
Equity investment as at the end of the period	500	545

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

(millions of Canadian dollars)	Apr 30, 2016	Jan 30, 2016
Cash	75	144
Other current financial assets	16	18
Non-current assets	5,283	5,710
Current liabilities	(30)	(32)
Current financial liabilities	(158)	(235)
Non-current liabilities	(399)	(423)
Non-current financial liabilities	(3,081)	(3,319)
Net assets at 100%	1,706	1,863
Company's share of net assets in the HBS Joint Venture	1,109	1,256
Less gain on contribution of assets to the HBS Joint Venture not recognized related to Company's ownership interest	(609)	(711)
Company's carrying value of investment in the HBS Joint Venture	500	545

Summarized statement of earnings of the HBS Joint Venture:

(millions of Canadian dollars)	Thirteen weeks ended Apr 30, 2016
Revenue	115
Property operating costs	(2)
General and administrative expenses	49
Depreciation and amortization	(29)
Finance costs	(28)
Income tax benefit	(4)
Net earnings at 100%	101
Company's share of net earnings in the HBS Joint Venture prior to adjustment	67
Adjustment for the Company's share of depreciation on the fair value increment of the contributed properties	4
Company's share of net earnings from the HBS Joint Venture	71
Reclassification of rental income to SG&A related to the Company's ownership interest in the HBS Joint Venture	(73)
Company's share of net loss in the HBS Joint Venture	(2)

NOTE 11. LOANS AND BORROWINGS

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

a) Current loans and borrowings

(millions of Canadian dollars)	Apr 30, 2016	May 2, 2015	Jan 30, 2016
Global Revolving Credit Facility	766	—	—
HBC Revolving Credit Facility	—	171	—
U.S. Revolving Credit Facility	—	232	464
Current portion of long-term loans and borrowings	5	4	5
	771	407	469
Less: unamortized costs	(28)	(22)	(18)
	743	385	451

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

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

Global Revolving Credit Facility

(millions of Canadian dollars)	Apr 30, 2016
Gross borrowing base availability	2,229
Drawings	(766)
Outstanding letters of credit	(130)
Borrowing base availability net of drawings and letters of credit	1,333

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

part of current loans and borrowings. However, the Company is not required to repay any balance outstanding until the maturity date of February 5, 2021.

HBC Revolving Credit Facility

(millions of Canadian dollars)	May 2, 2015	Jan 30, 2016
Gross borrowing base availability	600	495
Drawings	(171)	—
Outstanding letters of credit	(10)	(13)
Borrowing base availability net of drawings and letters of credit	<u>419</u>	<u>482</u>

U.S. Revolving Credit Facility

(millions of Canadian dollars)	May 2, 2015	Jan 30, 2016
Gross borrowing base availability	1,337	1,541
Drawings	(232)	(464)
Outstanding letters of credit	(24)	(28)
Borrowing base availability net of drawings and letters of credit	<u>1,081</u>	<u>1,049</u>

b) Long-term loans and borrowings

(millions of Canadian dollars)	Apr 30, 2016	May 2, 2015	Jan 30, 2016
Senior Term Loan B	—	790	—
U.S. Term Loan B	627	—	700
Yorkdale Mortgage	—	48	—
Lord & Taylor Mortgage	312	304	349
Saks Mortgage	1,569	1,520	1,750
Other loans	8	9	10
	<u>2,516</u>	<u>2,671</u>	<u>2,809</u>
Less: unamortized costs	(68)	(62)	(75)
Less: amounts due within one year	(5)	(4)	(5)
	<u>2,443</u>	<u>2,605</u>	<u>2,729</u>

NOTE 12. OTHER LIABILITIES

(millions of Canadian dollars)	Apr 30, 2016	May 2, 2015	Jan 30, 2016
Deferred landlord incentives	709	332	648
Deferred gain on sale and leaseback transaction	230	240	232
Operating lease intangible liability	114	—	88
Deferred proceeds from lease terminations	77	49	65
Income taxes payable	47	10	50
Financial liabilities	50	82	37
Other liabilities	257	121	247
	<u>1,484</u>	<u>834</u>	<u>1,367</u>
Current	157	92	126
Non-current	1,327	742	1,241
	<u>1,484</u>	<u>834</u>	<u>1,367</u>

NOTE 13. FINANCIAL INSTRUMENTS

The fair value of the Global Revolving Credit Facility, HBC Revolving Credit Facility, U.S. Revolving Credit Facility, Senior Term Loan B, U.S. 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 April 30, 2016, May 2, 2015 and January 30, 2016, the carrying value and fair value of these debt instruments were:

<u>(millions of Canadian dollars)</u>	<u>Apr 30, 2016</u>	<u>May 2, 2015</u>	<u>Jan 30, 2016</u>
Carrying value	3,274	3,065	3,263
Fair value	3,276	3,069	3,262

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

As at April 30, 2016, May 2, 2015 and January 30, 2016, the fair value and carrying value of derivative financial assets and financial liabilities were:

<u>(millions of Canadian dollars)</u>	<u>Apr 30, 2016</u>	<u>May 2, 2015</u>	<u>Jan 30, 2016</u>
Financial assets	4	9	23
Financial liabilities	50	82	37

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

In relation to the 1.5 million warrants issued concurrently with the execution of the merger agreement (“Merger Agreement Warrants”) to H.S. Investments L.P. (“HSILP”), an entity affiliated with Ontario Teachers’ Pension Plan Board, the Company recognized acquisition related finance income of \$2 million during the thirteen weeks ended April 30, 2016 (2015: costs of \$2 million), representing mark-to-market adjustments to the fair value as at April 30, 2016. As at April 30, 2016, the fair value of the Merger Agreement Warrants was \$5 million (May 2, 2015: \$17 million; January 30, 2016: \$7 million).

In relation to the 5.25 million warrants issued to HSILP and West Face Long Term Opportunities Global Master L.P, a fund advised by West Face Capital Inc., on November 4, 2013 upon closing of the acquisition of Saks (“Acquisition Warrants”), the Company recognized acquisition related finance income of \$6 million during the thirteen weeks ended April 30, 2016 (2015: costs of \$6 million), representing mark-to-market adjustments to the fair value as at April 30, 2016. As at April 30, 2016, the fair value of the Acquisition Warrants was \$18 million (May 2, 2015: \$59 million; January 30, 2016: \$24 million).

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

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

	<u>Apr 30, 2016</u>	<u>May 2, 2015</u>	<u>Jan 30, 2016</u>
Share price	\$16.68	\$26.91	\$17.30
Expected volatility	35.61%	32.47%	42.00%
Dividend yield	1.20%	0.74%	1.16%
Risk free interest rate	0.78%	0.86%	0.49%
Expected life – Merger Agreement Warrants	2.3 years	3.3 years	2.5 years
Expected life – Acquisition Warrants	2.5 years	3.5 years	2.8 years

The Company's net investments in L&T Acquisition and the Kaufhof Operating Business, whose functional currencies are U.S. dollars and Euros, respectively, 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 and the Kaufhof Operating Business impacts consolidated net earnings. Foreign currency translation of HBC's investments in L&T Acquisition and the Kaufhof Operating Business impacts other comprehensive income.

NOTE 14. SHARE BASED COMPENSATION

Senior executive option transactions were as follows:

	Thirteen weeks ended			
	Apr 30, 2016		May 2, 2015	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	10,656,936	\$20.37	8,945,597	\$18.07
Granted	6,395,812	\$17.01	—	—
Forfeited	(260,224)	\$19.72	(423,091)	\$17.75
Outstanding at end of period	16,792,524	\$19.13	8,522,506	\$18.08
Share options exercisable at end of period	—	—	—	—

During the thirteen weeks ended April 30, 2016, the grant date fair value of senior executive options granted was \$27 million (2015: nil).

The following table summarizes information about the senior executive share options outstanding and exercisable as at April 30, 2016:

Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at Apr 30, 2016	Weighted average exercise price
\$16.00 to \$16.49	285,482	6.8	\$16.28	—	—
\$17.00 to \$17.49	11,619,348	6.8	\$17.01	—	—
\$17.50 to \$17.99	899,066	5.0	\$17.61	—	—
\$23.50 to \$23.99	2,165,183	6.0	\$23.73	—	—
\$24.00 to \$24.49	100,000	6.5	\$24.22	—	—
\$28.00 to \$28.49	1,723,445	6.2	\$28.34	—	—
Total	16,792,524	6.5	\$19.13	—	—

Other management option transactions were as follows:

	Thirteen weeks ended			
	Apr 30, 2016		May 2, 2015	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	1,843,600	\$19.72	1,729,400	\$17.35
Granted	281,600	\$17.01	—	—
Forfeited	(87,068)	\$19.60	(86,000)	\$17.47
Outstanding at end of period	2,038,132	\$19.35	1,643,400	\$17.35
Share options exercisable at end of period	547,732	\$16.63	—	—

During the thirteen weeks ended April 30, 2016, the grant date fair value of other management options granted was \$1 million (2015: nil).

The following table summarizes information about the other management share options outstanding and exercisable as at April 30, 2016:

<u>Range of exercise prices</u>	<u>Number of outstanding options</u>	<u>Weighted average remaining contractual life (years)</u>	<u>Weighted average exercise price</u>	<u>Number exercisable at Apr 30, 2016</u>	<u>Weighted average exercise price</u>
\$16.00 to \$16.49.....	16,000	6.8	\$16.28	—	—
\$17.00 to \$17.49.....	1,034,133	4.7	\$16.81	547,732	\$16.63
\$17.50 to \$17.99.....	555,999	5.0	\$17.61	—	—
\$23.50 to \$23.99.....	104,000	6.3	\$23.86	—	—
\$28.00 to \$28.49.....	328,000	6.2	\$28.34	—	—
Total.....	2,038,132	5.1	\$19.35	547,732	\$16.63

The assumptions used to measure the fair value of senior executive and other management options granted during the thirteen weeks ended April 30, 2016 under the Black-Scholes option pricing model at the grant date were as follows:

Expected dividend yield.....	1.18%
Expected share price volatility.....	32.98%
Risk-free interest rate.....	0.66%
Expected life of options (years).....	5

During the thirteen weeks ended April 30, 2016, the Company granted 88,538 (2015: 38,180) deferred share units (“DSUs”) and 1,502,332 (2015: 18,674) restricted share units (“RSUs”) with grant date fair values of \$2 million (2015: \$905 thousand) and \$26 million (2015: \$440 thousand), respectively. The fair values of the grants were determined based on the Company’s share price at the date of the grant. RSUs were granted under similar terms and conditions as those granted concurrently with the IPO.

During the thirteen weeks ended April 30, 2016, the Company granted 593,812 (2015: nil) performance share units (“PSUs”) with grant date fair values of \$10 million (2015: nil), of which \$8 million (2015: nil) is expected to vest. The fair value was determined based on the Company’s share price at the date of the grant and adjusted to reflect non-entitlement of dividends to PSUs.

During the thirteen weeks ended April 30, 2016, the Company granted 4,794 performance restricted share units (“PRSUs”) as dividend equivalents.

Share based compensation expense

Total share based compensation expense for thirteen weeks ended April 30, 2016 is summarized as follows:

<u>(millions of Canadian dollars)</u>	<u>Thirteen weeks ended</u>	
	<u>Apr 30, 2016</u>	<u>May 2, 2015</u>
Share options.....	5	3
PSUs.....	2	2
RSUs.....	2	1
Other share based compensation ⁽¹⁾	1	1
	10	7

(1) Includes phantom shares, DSUs and PRSUs.

During the thirteen weeks ended April 30, 2016, \$2 million (2015: nil) of forfeited share based compensation was settled.

NOTE 15. SHARE CAPITAL

On March 21, 2016, the Company’s Board of Directors declared a dividend of \$0.05 per common share which was paid on April 15, 2016 to shareholders of record at the close of business on March 31, 2016.

During the thirteen weeks ended April 30, 2016, the Company issued 54,740 common shares in connection with the settlement of vested share based awards.

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

	Thirteen weeks ended	
	Apr 30, 2016	May 2, 2015 (restated - note 9)
(millions of Canadian dollars or shares except per share amounts)		
Net loss for basic earnings per share.....	(97)	(49)
Impact of options and warrants.....	(8)	—
Net loss for diluted earnings per share.....	(105)	(49)
Weighted average common shares outstanding.....	182	182
Dilutive effect of options and warrants.....	—	—
Diluted weighted average common shares outstanding.....	182	182
Loss per common share.....		
Basic.....	(0.53)	(0.27)
Diluted.....	(0.58)	(0.27)

NOTE 16. RELATED PARTY TRANSACTIONS

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

On May 6, 2011, a subsidiary of L&T Acquisition entered into a 2 year lease with SP 35 L.P. (the “Landlord”) for approximately 31,000 square feet in Shrewsbury, NJ. The lease was amended on January 17, 2013 to include 3 renewal options. The first 2 renewal options are for terms of 2 and 3 years at an annual cost of U.S.\$440 thousand. The third renewal option is for a term of 5 years at an annual cost of U.S.\$484 thousand. The first and second renewal options were exercised. Amounts charged to the Company under the rental arrangement for the thirteen weeks ended April 30, 2016 were U.S.\$110 thousand (2015: U.S. \$110 thousand). The Landlord is an affiliate of National Realty & Development Corp. (“NRDC”). Richard and Robert Baker, the principals of NRDC, are directors of the Company.

On May 18, 2015, a subsidiary of L&T Acquisition entered into a 10 year lease with Mack Properties Co. No. 6 LLC (“Mack Properties”) for approximately 35,000 square feet in Paramus, NJ. The lease has 2 renewal options for terms of 10 and 5 years, respectively. The rent commencement date was November 19, 2015 and amounts charged to the Company under the rental arrangement for the thirteen weeks ended April 30, 2016 were U.S.\$219 thousand. Mack Properties is owned by William Mack, a director of the Company.

HBC has entered into vendor agreements with two related companies in which Earl Rotman, a director of the Company, has an ownership interest. The agreements relate to menswear and womenswear sold in Saks and DSG. During the thirteen weeks ended April 30, 2016, HBC purchased approximately \$852 thousand of goods from these companies, and has committed to ordering approximately \$1 million for the remainder of fiscal 2016.

In connection with the closing of its agreements to sell and leaseback various U.S. properties to the HBS Joint Venture, HBC paid for certain cash reserves and financing and operating expenses on behalf of the HBS Joint Venture for which the Company received a promissory note in the amount of \$8 million. The promissory note is interest-free and matures on July 22, 2016. As at April 30, 2016, the promissory note had an outstanding balance of \$2 million (January 30, 2016: \$4 million) and was included in trade and other receivables.

The Company entered into management agreements with the joint ventures upon their closing. Pursuant to the management agreements, HBC is reimbursed for expenses relating to advisory and administrative services it provides to the RioCan-HBC JV and the HBS Joint Venture. Reimbursement related to expenses for the thirteen weeks ended April 30, 2016 were \$155 thousand.

As part of the acquisition of the Kaufhof Operating Business, the Company assumed a \$21 million liability due to a wholly-owned subsidiary of the HBS Joint Venture. The liability relates to 2 properties the Company controls as a result of the acquisition. In addition, the Company acquired options to purchase these properties that when exercised, would relieve this liability. This liability has been included in other liabilities.

During the thirteen weeks ended April 30, 2016, the Company incurred rent expense of \$134 million related to both the RioCan-HBC JV and the HBS Joint Venture. As at April 30, 2016, other current assets included prepaid rent to the HBS Joint Venture of \$12 million (January 30, 2016: \$13 million).

The Company has an outstanding receivable in the amount of \$29 million, as at April 30, 2016 (January 30, 2016: \$46 million), due from the HBS Joint Venture with respect to transactions carried out on behalf of the Company.

Included in other current liabilities as at April 30, 2016 is a promissory note in the amount of \$12 million to both the RioCan-HBC JV and RioCan (\$6 million each) which pertains to a tenant improvement advance from the joint venture to the Company. The promissory note is interest-free and will be settled over time as HBC satisfies its tenant improvement commitment.

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

NOTE 17. CONTINGENT LIABILITIES

As of April 30, 2016, the Company is involved in and potentially subject to various claims by third parties arising out of the normal course and conduct of its business. Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims and litigation, tax assessments and reassessments, to the extent not covered by the Company's insurance policies or otherwise provided for, not to be material to the unaudited interim condensed consolidated financial statements, but may have a material impact in future periods.

NOTE 18. SEGMENTED REPORTING

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

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

(millions of Canadian dollars)	Thirteen weeks ended	
	Apr 30, 2016	May 2, 2015
Retail sales		
Canada	680	599
United States	1,524	1,473
Europe	1,099	—
	3,303	2,072
(millions of Canadian dollars)	Thirteen weeks ended	
	Apr 30, 2016	May 2, 2015 (restated – note 9)
Operating (loss) income		
Canada	(89)	(33)
United States	83	7
Europe	(119)	—
	(125)	(26)

(millions of Canadian dollars)	Apr 30, 2016	May 2, 2015 (restated – note 9)	Jan 30, 2016 (restated – note 5)
Non-current assets⁽¹⁾			
Canada	863	684	806
United States	4,258	5,014	4,580
Europe	1,710	—	1,550
	6,831	5,698	6,936
Total assets			
Canada	2,160	1,922	2,189
United States	7,271	6,906	7,764
Europe	2,704	—	2,688
	12,135	8,828	12,641

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