HUDSON'S BAY COMPANY

2018 Q2 INTERIM
CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

For the Thirteen and Twenty-six Weeks Ended

August 4, 2018

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HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF LOSS

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

		Thirteen weeks ended		Twenty-six weeks ended	
	Notes	**Aug 4, 2018**	Jul 29, 2017 (restated - note 5)	**Aug 4, 2018**	Jul 29, 2017 (restated - note 5)
Revenue	6	**2,160**	2,204	**4,304**	4,366
Cost of sales	10	**(1,299)**	(1,378)	**(2,574)**	(2,676)
Selling, general and administrative expenses ("SG&A")		**(870)**	(886)	**(1,732)**	(1,763)
Depreciation and amortization	7	**(123)**	(113)	**(242)**	(230)
Operating loss		**(132)**	(173)	**(244)**	(303)
Finance costs, net	8	**(53)**	(43)	**(101)**	(90)
Share of net (loss) earnings in joint ventures	11	**(12)**	45	**(31)**	57
Dilution gains from investments in joint ventures	11	**—**	—	**1**	3
Loss before income tax		**(197)**	(171)	**(375)**	(333)
Income tax benefit		**50**	71	**94**	130
Net loss for the period - continuing operations		**(147)**	(100)	**(281)**	(203)
Net loss for the period - discontinued operations, net of taxes	5	**(117)**	(101)	**(383)**	(219)
Net loss for the period		**(264)**	(201)	**(664)**	(422)
Loss per share - basic and diluted	16				
Continuing operations		**(0.62)**	(0.55)	**(1.19)**	(1.12)
Discontinued operations		**(0.50)**	(0.55)	**(1.63)**	(1.20)
Total operations		**(1.12)**	(1.10)	**(2.82)**	(2.32)

(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		Twenty-six weeks ended	
	Aug 4, 2018	Jul 29, 2017	**Aug 4, 2018**	Jul 29, 2017
Net loss	**(264)**	(201)	**(664)**	(422)
Other comprehensive income (loss), net of tax as applicable:				
Items that may be reclassified subsequently to earnings or loss:				
Currency translation adjustment	**9**	(175)	**65**	(94)
Reclassification of cumulative currency translation adjustments relating to foreign operations disposed of during the period	**5**	—	**5**	—
Net (loss) gain on net investment hedge	**(3)**	26	**(13)**	15
Net gain (loss) on derivatives designated as cash flow hedges	**1**	(20)	**6**	(6)
Reclassification to non-financial assets of net (gains) losses on derivatives designated as cash flow hedges	**(2)**	—	**1**	(3)
Reclassification to statement of loss of net losses (gains) on derivatives designated as cash flow hedges	**1**	(12)	**12**	(14)
Other comprehensive income (loss)	**11**	(181)	**76**	(102)
Total comprehensive loss	**(253)**	(382)	**(588)**	(524)

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

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the twenty-six weeks ended August 4, 2018 and July 29, 2017

(millions of Canadian dollars)
(unaudited)

					Accumulated Other Comprehensive Income ("AOCI")					
	Notes	**Share capital**	**Deficit**	**Contributed surplus**	Currency translation adjustment	Employee benefits	Net investment hedge	Cash flow hedges	**AOCI (note 5)**	**Total shareholders' equity**
As at February 3, 2018		**2,045**	**(120)**	**144**	342	11	(20)	5	**338**	**2,407**
IFRS 9 transitional adjustment	2	—	15	—	—	—	—	—	—	15
Total comprehensive loss		—	(664)	—	70	—	(13)	19	76	(588)
Share based compensation	15	4	—	22	—	—	—	—	—	26
Dividends	16	—	(4)	—	—	—	—	—	—	(4)
As at August 4, 2018		**2,049**	**(773)**	**166**	412	11	(33)	24	**414**	**1,856**

					Accumulated Other Comprehensive Income ("AOCI")					
	Notes	**Share capital**	**Retained earnings**	**Contributed surplus**	Currency translation adjustment	Employee benefits	Net investment hedge	Cash flow hedges	**AOCI**	**Total shareholders' equity**
As at January 28, 2017		**1,422**	**477**	**117**	430	(2)	(37)	3	**394**	**2,410**
Total comprehensive loss		—	(422)	—	(94)	—	15	(23)	(102)	(524)
Share based compensation	15	4	—	11	—	—	—	—	—	15
Dividends		—	(11)	—	—	—	—	—	—	(11)
As at July 29, 2017		**1,426**	**44**	**128**	336	(2)	(22)	(20)	**292**	**1,890**

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

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(millions of Canadian dollars)
(unaudited)

	Notes	Aug 4, 2018	Jul 29, 2017	Feb 3, 2018
Assets				
Cash	9	**26**	112	70
Trade and other receivables	21	**183**	328	388
Inventories	10	**2,634**	3,324	3,367
Asset held for sale	4	**277**	—	263
Assets of discontinued operations held for sale	5	**2,779**	—	—
Other current assets		**208**	199	214
Total current assets		**6,107**	3,963	4,302
Property, plant and equipment		**3,958**	5,273	5,155
Intangible assets and goodwill		**1,096**	1,705	1,629
Pensions and employee benefits		**165**	170	171
Deferred tax assets		**309**	358	339
Investments in joint ventures	11	**595**	588	602
Other assets		**41**	22	36
Total assets		**12,271**	12,079	12,234
Liabilities				
Loans and borrowings	12	**968**	1,206	363
Finance leases		**29**	28	35
Trade payables	21	**888**	1,449	1,422
Other payables and accrued liabilities		**674**	946	1,031
Deferred revenue		**98**	103	139
Provisions		**124**	193	220
Liabilities of discontinued operations held for sale	5	**2,130**	—	—
Other current liabilities	13	**236**	157	290
Total current liabilities		**5,147**	4,082	3,500
Loans and borrowings	12	**2,726**	2,604	2,616
Finance leases		**326**	500	526
Provisions		**68**	53	85
Pensions and employee benefits		**182**	690	714
Deferred tax liabilities		**235**	573	308
Investment in joint venture	11	**224**	4	227
Other liabilities	13	**1,507**	1,683	1,851
Total liabilities		**10,415**	10,189	9,827
Shareholders' equity				
Share capital	16	**2,049**	1,426	2,045
(Deficit) retained earnings		**(773)**	44	(120)
Contributed surplus		**166**	128	144
Accumulated other comprehensive income		**414**	292	338
Total shareholders' equity		**1,856**	1,890	2,407
Total liabilities and shareholders' equity		**12,271**	12,079	12,234

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

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of Canadian dollars)
(unaudited)

	Notes	Twenty-six weeks ended August 4, 2018	July 29, 2017 (restated - note 5)
Operating activities			
Net loss from continuing operations		**(281)**	(203)
Income tax benefit		**(94)**	(130)
Dilution gains from investments in joint ventures	11	**(1)**	(3)
Share of net loss (earnings) in joint ventures	11	**31**	(57)
Finance costs, net	8	**101**	90
Operating loss		**(244)**	(303)
Net cash income taxes paid		**(3)**	(3)
Interest paid in cash		**(91)**	(81)
Distributions of earnings from joint ventures	11	**100**	105
Depreciation and amortization	7	**242**	230
Net defined benefit pension and employee benefits expense		**11**	11
Other operating activities		**12**	(14)
Share of rent expense to joint ventures	11	**(95)**	(98)
Share based compensation	15	**27**	15
Settlement of share based compensation grants	15	**(3)**	(2)
Changes in operating working capital	20	**(186)**	(76)
Cash outflow for operating activities from continuing operations		**(230)**	(216)
Cash outflow for operating activities from discontinued operations		**(331)**	(242)
Net cash outflow for operating activities		**(561)**	(458)
Investing activities			
Capital investments		**(211)**	(284)
Proceeds from landlord incentives		**72**	103
Capital investments less proceeds from landlord incentives		**(139)**	(181)
Proceeds from lease terminations and other non-capital landlord incentives		**26**	2
Deposit for sale of Lord & Taylor Fifth Avenue building	4	**33**	—
Proceeds on disposal of assets		**1**	3
Proceeds on sale of Gilt operations	5	**41**	—
Other investing activities		**—**	(9)
Cash outflow for investing activities from continuing operations		**(38)**	(185)
Cash outflow for investing activities from discontinued operations		**(37)**	(164)
Net cash outflow for investing activities		**(75)**	(349)
Financing activities			
Repayments		**(4)**	(4)
Long-term loans and borrowings		**(4)**	(4)
Net borrowings from asset-based credit facilities		**576**	582
Borrowing costs		**(1)**	(2)
Short-term loans and borrowings		**575**	580
Payments on finance leases		**(19)**	(12)
Dividends paid	16	**(4)**	(11)
Cash inflow from financing activities from continuing operations		**548**	553
Cash inflow from financing activities from discontinued operations		**80**	243
Net cash inflow from financing activities		**628**	796
Foreign exchange gain on cash		**2**	1
Decrease in cash		**(6)**	(10)
Cash at beginning of year		**70**	122
Cash at end of period		**64**	112
Deduct: cash reclassified to assets of discontinued operations held for sale		**(38)**	—
Cash at end of period - continuing operations		**26**	112

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

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 GmbH for €2,317 million ($3,490 million). The transaction was structured such that effectively, the Company acquired the operating business and certain properties of GALERIA Holding GmbH ("Galeria Kaufhof") while the HBS Joint Venture acquired the property business. On September 11, 2018, the Company announced a strategic partnership with SIGNA Retail Holdings GmbH ("SIGNA") in Europe (note 22).

On February 1, 2016, the Company acquired Gilt Groupe Holdings Inc. and its subsidiaries ("Gilt"). During the thirteen weeks ended August 4, 2018, the Company completed the divestment of the Gilt business (note 5).

On December 6, 2017, the Company issued 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) (note 16).

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

The preparation of unaudited interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates, which requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the unaudited interim financial statements have been set out in note 3 of the annual audited consolidated financial statements for the year ended February 3, 2018.

The accounting policies used in the preparation of the Company's unaudited interim condensed consolidated financial statements are consistent with those used in the preparation of the Company's annual consolidated financial statements for the year ended February 3, 2018 , except for the adoption of new standards effective as of February 4, 2018. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Audit Committee of HBC on September 11, 2018.

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 deficit or to the presentation of the Company's condensed consolidated interim balance sheet.

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 deficit 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 (note 12), 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 deficit 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.

Asset/Liability	**Original classification under IAS 39**	**New classification under IFRS 9**
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 and other receivables, cash, restricted cash and short-term deposits.

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 (loss).

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.

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. ASSET HELD FOR SALE

On October 24, 2017, the Company announced the sale of the Lord & Taylor Fifth Avenue building to an affiliate of WeWork Property Advisors ("WPA"), which holds preferred shares of the Company jointly with Rhône (note 16). The property sale has a transaction value of U.S.$850 million (approximately $1.1 billion) and is currently expected to close on November 13, 2018, subject to the satisfaction of applicable conditions. As a result, as at August 4, 2018, the carrying value of the property of $277 million (July 29, 2017: nil; February 3, 2018: $263 million) was classified as an asset held for sale. The Lord & Taylor Mortgage (note 12) is secured by this property and will become due and payable upon its sale. The sales proceeds will be used, in part, to repay the mortgage.

The Company received deposits of U.S.$75 million and U.S.$25 million in connection with the sale of this property on December 6, 2017 and August 2, 2018, respectively. The deposits are non-refundable, subject to certain limited exceptions and have been recorded in other current liabilities (note 13). WPA has an option to extend the closing date to January 31, 2019. Upon exercise of this option, an additional U.S.$25 million deposit will become due and payable. HBC may also elect to extend the close to February 11, 2019 by providing a notice to WPA. Additionally, WPA has an option to convert a U.S.$125 million portion of the U.S.$850 million transaction value from a cash payment into the issuance to the Company of an equity interest in the building, to be held through a joint venture structure. This equity interest is subject to certain return and liquidity rights.

NOTE 5. DISCONTINUED OPERATIONS

Discontinued operations for the thirteen and twenty-six weeks ended August 4, 2018 were comprised of the following:

a) Gilt

The sale of the Gilt business was completed through two separate transactions, both of which closed during the thirteen weeks ended August 4, 2018. Under the terms of the agreement with Rue La La ("RLL"), which closed on July 9, 2018, RLL acquired certain assets and liabilities of the Gilt business from certain U.S. and Irish subsidiaries of the Company. Under the terms of the second agreement, which closed on July 27, 2018, the Company sold the shares of Gilt Groupe K.K., a Japanese subsidiary of Gilt, to Gladd Inc. The disposals are consistent with the Company's long-term strategy to streamline operations and improve profitability. As Gilt represented a separate line of business of the Company the revenue, expenses and cash flows related to Gilt's operations have been presented in these unaudited interim condensed consolidated financial statements as discontinued operations on a retroactive basis.

Upon closing of the transactions, the Company received aggregate cash proceeds of $41 million and a promissory note of $2 million, subject to customary adjustments. As a result of the sale, the Company recognized a net loss on disposal of $56 million during the twenty-six weeks ended August 4, 2018.

The components of the net loss on disposal are comprised of:

(millions of Canadian dollars)	Thirteen weeks ended Aug 4, 2018	Twenty-six weeks ended Aug 4, 2018
Impairment loss	**(5)**	**(82)**
Gain on disposal	**26**	**26**
Net gain (loss) on disposal before tax	**21**	**(56)**
Tax expense	**(4)**	**—**
Net gain (loss) on disposal	**17**	**(56)**

b) HBC Europe

During the thirteen weeks ended August 4, 2018, the Company committed to a plan to sell its controlling interest in HBC Europe and merge the Company's retail operations of HBC Europe with Karstadt Warenhaus GmbH ("Karstadt"), a subsidiary of SIGNA, to form a new European retail operating company. The Company will acquire a non-controlling interest of the newly-formed retail operating company. This transaction is consistent with the Company's long-term strategy to streamline operations and improve profitability. HBC Europe represents a separate line of business of the Company which, as a result of the planned sale, the Company will no longer control. As a result, the revenue, expenses and cash flows related to HBC Europe's operations have been presented in these unaudited interim condensed consolidated financial statements as discontinued operations on a retroactive basis. As at August 4, 2018, HBC Europe'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. No impairment was recorded in the period as the expected recovery exceeds the carrying value of HBC Europe's net assets. Subsequent to August 4, 2018, the Company announced the entry into definitive agreements with SIGNA to form a strategic partnership which includes the sale of its controlling interest in HBC Europe. See note 22 for details.

c) Financial results of the discontinued operations

The combined net loss from discontinued operations was comprised of:

	Thirteen weeks ended		Twenty-six weeks ended	
(millions of Canadian dollars)	**Aug 4, 2018**	Jul 29, 2017	**Aug 4, 2018**	Jul 29, 2017
Revenue	**1,050**	1,087	**2,101**	2,128
Cost of sales	**(606)**	(589)	**(1,186)**	(1,159)
Selling, general and administrative expenses [1]	**(497)**	(547)	**(1,162)**	(1,082)
Depreciation and amortization	**(52)**	(60)	**(115)**	(116)
Operating loss	**(105)**	(109)	**(362)**	(229)
Finance costs	**(10)**	(10)	**(21)**	(20)
Loss before income tax	**(115)**	(119)	**(383)**	(249)
Income tax (expense) benefit	**(2)**	18	**—**	30
Net loss for the period	**(117)**	(101)	**(383)**	(219)

(1) Includes the net gain (loss) on disposal of Gilt before tax of $21 million and ($56) million during the thirteen and twenty-six weeks ended August 4, 2018.

The combined cash flows from discontinued operations were comprised of:

	Twenty-six weeks ended	
(millions of Canadian dollars)	**Aug 4, 2018**	Jul 29, 2017
Operating activities	**(331)**	(242)
Investing activities	**(37)**	(164)
Financing activities	**80**	255
Net cash outflows	**(288)**	(151)

As at August 4, 2018, HBC Europe's assets and liabilities of discontinued operations held for sale were as follows:

(millions of Canadian dollars)	**Aug 4, 2018**
Cash	**38**
Inventories	**714**
Trade and other receivables	**146**
Property, plant and equipment	**1,258**
Intangible assets	**469**
Deferred tax assets	**58**
Other assets	**96**
Assets of discontinued operations held for sale	**2,779**
Loans and borrowings	**80**
Finance leases	**194**
Trade payables	**397**
Other payables and accrued liabilities	**280**
Deferred revenue	**22**
Provisions	**87**
Pensions and employee benefits	**525**
Deferred tax liabilities	**27**
Other liabilities	**518**
Liabilities of discontinued operations held for sale	**2,130**

As at August 4, 2018, HBC Europe's accumulated other comprehensive income was comprised of the following items:

	Currency translation adjustment	Employee benefits	Cash flow hedges	**Total**
AOCI	1	(25)	4	**(20)**

NOTE 6. REVENUE

Revenue by major customer market was as follows:

	Thirteen weeks ended		Twenty-six weeks ended	
	Aug 4, 2018	Jul 29, 2017	**Aug 4, 2018**	Jul 29, 2017
(millions of Canadian dollars)		(restated - note 5)		(restated - note 5)
Department Store	**1,007**	1,064	**1,997**	2,070
Luxury	**856**	821	**1,718**	1,674
Off Price	**297**	319	**589**	622
	2,160	2,204	**4,304**	4,366

NOTE 7. DEPRECIATION AND AMORTIZATION

	Thirteen weeks ended		Twenty-six weeks ended	
	Aug 4, 2018	Jul 29, 2017	**Aug 4, 2018**	Jul 29, 2017
(millions of Canadian dollars)		(restated - note 5)		(restated - note 5)
Property, plant and equipment	**96**	89	**187**	182
Intangible assets	**28**	25	**57**	49
Deferred credits and other	**(1)**	(1)	**(2)**	(1)
	123	113	**242**	230

NOTE 8. FINANCE COSTS, NET

	Thirteen weeks ended		Twenty-six weeks ended	
	Aug 4, 2018	Jul 29, 2017	**Aug 4, 2018**	Jul 29, 2017
(millions of Canadian dollars)		(restated - note 5)		(restated - note 5)
Interest expense on long-term borrowings	**37**	34	**71**	67
Interest expense on short-term borrowings	**10**	5	**18**	11
Interest expense on finance leases	**6**	6	**13**	12
Net interest on pensions and employee benefits	**—**	—	**—**	1
Total interest expense, net	**53**	45	**102**	91
Saks acquisition-related finance income (note 14)	**—**	(2)	**(1)**	(1)
	53	43	**101**	90

NOTE 9. CASH

As at August 4, 2018, cash included restricted cash of nil (July 29, 2017: $22 million; February 3, 2018: $3 million).

NOTE 10. INVENTORIES

Inventories on hand as at August 4, 2018, July 29, 2017 and February 3, 2018 were available for sale. The cost of merchandise inventories recognized as expense for the thirteen and twenty-six weeks ended August 4, 2018 was $1,299 million and $2,574 million (2017:$1,378 million and $2,676 million). The write-down of merchandise inventories below cost to net realizable value as at August 4, 2018 was $84 million (July 29, 2017: $89 million; February 3, 2018: $100 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 described in note 12.

NOTE 11. INVESTMENTS IN JOINT VENTURES

The following table summarizes the details of the Company's joint ventures whose principal activities are real estate investments:

(millions of Canadian dollars, except ownership interest)	Principal Place(s) of Business	Aug 4, 2018		Jul 29, 2017		Feb 3, 2018	
		Ownership Interest	**Carrying Value**	Ownership Interest	Carrying Value	Ownership Interest	Carrying Value
RioCan-HBC JV	Canada	**87.9%**	**(224)**	88.1%	(4)	88.0%	(227)
HBS Joint Venture	United States, Germany	**62.4%**	**497**	63.1%	493	62.4%	509
Other joint venture	United States, Germany	**62.4%**	**98**	63.1%	95	62.4%	93
			371		584		375

RioCan-HBC JV

During twenty-six weeks ended August 4, 2018, RioCan contributed $1 million (2017: nil). As a result of this contribution, the Company's ownership interest in the RioCan-HBC JV decreased from 88.0% as at February 3, 2018 to 87.9% as at August 4, 2018 and the Company realized a dilution gain of $1 million during twenty-six weeks ended August 4, 2018 (2017: nil).

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

(millions of Canadian dollars)	Thirteen weeks ended		Twenty-six weeks ended	
	Aug 4, 2018	Jul 29, 2017	**Aug 4, 2018**	Jul 29, 2017
Equity investment as at the beginning of the period	**(227)**	(7)	**(227)**	(9)
Share of net earnings from joint venture	**16**	19	**30**	39
Dilution gains from changes in equity interest	**—**	—	**1**	—
Distributions of earnings from joint venture	**(13)**	(16)	**(28)**	(34)
Equity investment as at the end of the period	**(224)**	(4)	**(224)**	(4)

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

(millions of Canadian dollars)	Aug 4, 2018	Jul 29, 2017	Feb 3, 2018
Cash	**2**	1	3
Current other financial assets	**—**	7	—
Current other assets	**1**	1	—
Non-current financial assets	**148**	145	147
Non-current other assets	**1,688**	1,718	1,703
Current financial liabilities	**(447)**	(8)	(450)
Current other liabilities	**(8)**	—	(8)
Non-current financial liabilities	**(335)**	(538)	(338)
Net assets at 100%	**1,049**	1,326	1,057
Company's share of net assets in the RioCan-HBC JV based on ownership interest	**922**	1,168	930
Less gain on contributions of assets to the RioCan-HBC JV not recognized related to Company's ownership interest	**(1,146)**	(1,172)	(1,157)
Company's carrying value of investment in the RioCan-HBC JV	**(224)**	(4)	(227)

Summarized statements of earnings of the RioCan-HBC JV:

(millions of Canadian dollars)	Thirteen weeks ended Aug 4, 2018	Thirteen weeks ended Jul 29, 2017	Twenty-six weeks ended Aug 4, 2018	Twenty-six weeks ended Jul 29, 2017
Rental revenue	**28**	28	**55**	55
Rental revenue - recoveries	**2**	2	**4**	4
Property operating costs	**(2)**	(2)	**(5)**	(5)
Depreciation and amortization	**(11)**	(11)	**(22)**	(20)
Finance income	**2**	2	**5**	5
Finance costs	**(8)**	(4)	**(15)**	(8)
Net earnings at 100%	**11**	15	**22**	31
Company's share of net earnings in the RioCan-HBC JV based on ownership interest	**10**	13	**19**	27
Adjustment for the Company's share of expenses not recognized by HBC	**6**	6	**11**	12
Company's share of net earnings from the RioCan-HBC JV	**16**	19	**30**	39
Reclassification of rental income to SG&A related to the Company's ownership interest in the RioCan-HBC JV	**(22)**	(21)	**(42)**	(42)
Company's share of net loss in the RioCan-HBC JV	**(6)**	(2)	**(12)**	(3)

HBS Joint Venture

During twenty-six weeks ended August 4, 2018, Simon made no capital contributions to the HBS Joint Venture (2017: U.S.$7 million ($9 million)). As a result of the contribution made during twenty-six weeks ended July 29, 2017, the Company's ownership interest in the HBS Joint Venture decreased from 63.4% as at January 28, 2017 to 63.1% as at July 29, 2017 and the Company realized a dilution gain of $3 million in that period.

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

(millions of Canadian dollars)	Thirteen weeks ended Aug 4, 2018	Thirteen weeks ended Jul 29, 2017	Twenty-six weeks ended Aug 4, 2018	Twenty-six weeks ended Jul 29, 2017
Equity investment as at the beginning of the period	**506**	507	**509**	481
Share of net earnings from joint venture	**19**	75	**34**	116
Dilution gains from changes in equity interest	**—**	—	**—**	3
Distributions of earnings from joint venture	**(35)**	(35)	**(72)**	(71)
Net foreign currency exchange	**7**	(54)	**26**	(36)
Equity investment as at the end of the period	**497**	493	**497**	493

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

(millions of Canadian dollars)	Aug 4, 2018	Jul 29, 2017	Feb 3, 2018
Cash	**57**	20	51
Current other financial assets	**19**	9	20
Non-current other assets	**5,262**	5,109	5,267
Current financial liabilities	**(322)**	(293)	(313)
Current other liabilities	**(33)**	—	(32)
Non-current financial liabilities	**(2,911)**	(2,816)	(2,920)
Non-current other liabilities	**(398)**	(391)	(411)
Net assets at 100%	**1,674**	1,638	1,662
Company's share of net assets in the HBS Joint Venture based on ownership interest	**1,044**	1,033	1,037
Less gain on contribution of assets to the HBS Joint Venture not recognized related to Company's ownership interest	**(547)**	(540)	(528)
Company's carrying value of investment in the HBS Joint Venture	**497**	493	509

Summarized statements of earnings of the HBS Joint Venture:

	Thirteen weeks ended		Twenty-six weeks ended	
(millions of Canadian dollars)	Aug 4, 2018	Jul 29, 2017 (restated [1])	Aug 4, 2018	Jul 29, 2017 (restated [1])
Rental revenue	**111**	109	**222**	215
Rental revenue - recoveries	**6**	6	**12**	11
Property operating costs	**(2)**	(1)	**(7)**	(7)
General and administrative expenses	**(2)**	(2)	**(4)**	(4)
Foreign exchange (loss) gain	**(23)**	59	**(52)**	73
Depreciation and amortization	**(27)**	(28)	**(54)**	(55)
Finance costs	**(30)**	(29)	**(60)**	(57)
Income tax expense	**(7)**	(5)	**(13)**	(9)
Net earnings at 100%	**26**	109	**44**	167
Company's share of net earnings in the HBS Joint Venture based on ownership interest	**16**	71	**27**	108
Adjustment for the Company's share of expenses not recognized by HBC	**3**	4	**7**	8
Company's share of net earnings from the HBS Joint Venture	**19**	75	**34**	116
Reclassification of rental income to SG&A related to the Company's ownership interest in the HBS Joint Venture	**(25)**	(28)	**(53)**	(56)
Company's share of net loss in the HBS Joint Venture	**(6)**	47	**(19)**	60

(1) As a result of the presentation of HBC Europe as a discontinued operation (note 5), the reclassification of rental income to SG&A related to the Company's ownership in the HBS Joint Venture has been restated to exclude amounts related to rental income from HBC Europe.

On September 11, 2018, the Company announced the entry into definitive agreements with SIGNA to form a strategic partnership which includes SIGNA acquiring a 50% interest in 41 German properties currently held within the HBS Joint Venture. See note 22 for details.

NOTE 12. LOANS AND BORROWINGS

The Company's debt consists of a global U.S. dollar denominated asset based revolving credit facility ("Global ABL"), a U.S. term loan ("U.S. Term Loan B"), mortgages and other loans.

a) Current loans and borrowings

(millions of Canadian dollars)	Aug 4, 2018	Jul 29, 2017	Feb 3, 2018
Global ABL	**972**	1,222	375
Current portion of long-term loans and borrowings	**8**	8	8
	980	1,230	383
Less: unamortized costs	**(12)**	(24)	(20)
	968	1,206	363

The amounts outstanding and the availability under the Global ABL were as follows:

(millions of Canadian dollars)	Aug 4, 2018	Jul 29, 2017	Feb 3, 2018
Gross borrowing base availability	**2,519**	2,373	2,435
Drawings (1)	**(1,050)**	(1,222)	(375)
Outstanding letters of credit (1)	**(314)**	(90)	(332)
Borrowing base availability net of drawings and letters of credit	**1,155**	1,061	1,728

(1) As at August 4, 2018, drawings included $78 million which are included in liabilities of discontinued operations held for sale. Outstanding letters of credit included $232 million in letters of credit issued by the Company with respect to HBC Europe.

As the Global ABL is available for and used to finance working capital needs, capital expenditures, operating activities of the Company's Canadian, U.S., and European operations 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 any balance outstanding until the maturity date of February 5, 2021.

Long-term loans and borrowings

(millions of Canadian dollars)	Aug 4, 2018	Jul 29, 2017	Feb 3, 2018
U.S. Term Loan B	**650**	622	619
Lord & Taylor Mortgage	**509**	493	488
Saks Mortgage	**1,624**	1,556	1,548
Other loans	**28**	11	36
	2,811	2,682	2,691
Less: unamortized costs	**(77)**	(70)	(67)
Less: amounts due within one year	**(8)**	(8)	(8)
	2,726	2,604	2,616

NOTE 13. OTHER LIABILITIES

(millions of Canadian dollars)	Aug 4, 2018	Jul 29, 2017	Feb 3, 2018
Deferred landlord incentives	**968**	979	1,113
Straight-line rent liabilities	**279**	334	393
Deferred gain on sale and leaseback transaction	**207**	217	212
Deposit for sale of Lord & Taylor Fifth Avenue building (note 4)	**130**	—	93
Deferred proceeds from lease terminations	**63**	63	65
Income taxes payable	**32**	30	60
Financial liabilities	**1**	36	18
Operating lease intangible liability	**—**	104	87
Other	**63**	77	100
	1,743	1,840	2,141
Current	**236**	157	290
Non-current	**1,507**	1,683	1,851
	1,743	1,840	2,141

NOTE 14. FINANCIAL INSTRUMENTS

The fair values of the Global ABL, U.S. Term Loan B, Lord & Taylor Mortgage, Saks Mortgage and other loans are determined 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. These instruments are classified within Level 2 of the fair value hierarchy.

As at August 4, 2018, July 29, 2017 and February 3, 2018, the carrying value and fair value of these debt instruments were:

(millions of Canadian dollars)	Aug 4, 2018	Jul 29, 2017	Feb 3, 2018
Carrying value (1)	**3,861**	3,904	3,066
Fair value	**3,738**	3,903	2,980

(1) Carrying values exclude unamortized costs.

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

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

As at August 4, 2018, July 29, 2017 and February 3, 2018, the fair value and carrying value of derivative financial assets and financial liabilities were as follows:

(millions of Canadian dollars)	Aug 4, 2018	Jul 29, 2017	Feb 3, 2018
Current financial assets (included in other current assets)	**29**	12	23
Current financial liabilities (included in other current liabilities)	**1**	32	18
Non-current financial liabilities (included in other liabilities)	**—**	4	—

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. These warrants are exercisable into common shares of the Company at an exercise price of $17.00 per warrant which in certain circumstances is subject to adjustment.

The 1.5 million warrants issued concurrently with the execution of the merger agreement (“Merger Agreement Warrants”) expired on July 26, 2018. In relation to these warrants the Company recognized acquisition related finance income of less than $1 million during the thirteen and twenty-six weeks ended August 4, 2018 (2017: finance income of less than $1 million) representing mark-to-market adjustments to the expiry date. The fair value of the Merger Agreement Warrants for the comparative periods were $1 million and less than $1 million as at July 29, 2017 and February 3, 2018 respectively.

In relation to the 5.25 million warrants issued on November 4, 2013 upon closing of the acquisition of Saks ("Acquisition Warrants"), the Company recognized acquisition related finance income of less than $1 million and $1 million during the thirteen and twenty-six weeks ended August 4, 2018 (2017: finance income of $2 million and $1 million), representing mark-to-market adjustments to the fair value as at August 4, 2018. As at August 4, 2018, the fair value of the Acquisition Warrants was less than $1 million (July 29, 2017: $3 million; February 3, 2018: $1 million). The Acquisition Warrants expire on November 4, 2018.

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

The Company's net investments in L&T Acquisition (U.S. dollars) and HBC Europe (Euros) whose functional currencies are not Canadian dollars present foreign exchange risks to HBC. The Company is using a net investment hedge to mitigate a portion of the U.S. dollar foreign exchange risk by designating U.S.$245 million of U.S. Term Loan B as a hedge of the first U.S.$245 million of net assets of L&T Acquisition. Foreign currency translation of net earnings (loss) of L&T Acquisition and HBC Europe impacts consolidated net earnings (loss). Foreign currency translation of the net assets of L&T Acquisition and HBC Europe impacts other comprehensive income (loss).

NOTE 15. SHARE BASED COMPENSATION

Senior executive option transactions were as follows:

	Twenty-six weeks ended			
	Aug 4, 2018		Jul 29, 2017	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of year	16,303,997	$15.55	16,289,564	$19.03
Granted	450,000	$10.12	3,212,920	$8.95
Exercised	(48,005)	$8.95	—	—
Forfeited	(764,362)	$15.18	(970,259)	$19.31
Expired	(129,048)	$19.11	—	—
Outstanding at end of period	15,812,582	$15.40	18,532,225	$17.27
Share options exercisable at end of period	6,964,889	$17.73	4,174,757	$17.07

During the thirteen and twenty-six weeks ended August 4, 2018, the grant date fair value of senior executive options was nil and $2 million (2017: $9 million). The weighted average share price at the date of exercise for options exercised during the thirteen and twenty-six weeks ended August 4, 2018 was $10.92.

The following table summarizes information about the senior executive share options outstanding and exercisable as at August 4, 2018:

Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at August 4, 2018	Weighted average exercise price
$8.50 to $8.99	2,017,806	5.9	$8.95	672,596	$8.95
$10.00 to $10.49	3,805,704	6.4	$10.39	—	—
$11.00 to $11.49	308,641	6.2	$11.45	51,440	$11.45
$15.00 to $15.49	111,725	4.9	$15.01	78,679	$15.01
$16.00 to $16.49	87,096	4.5	$16.28	—	—
$16.50 to $16.99	117,763	5.2	$16.96	40,067	$16.96
$17.00 to $17.49	6,797,389	4.5	$17.01	4,582,653	$17.01
$17.50 to $17.99	488,338	2.8	$17.61	488,338	$17.61
$23.50 to $23.99	1,201,349	4.0	$23.83	274,345	$23.58
$24.00 to $24.49	100,000	4.2	$24.22	—	—
$28.00 to $28.49	776,771	3.9	$28.34	776,771	$28.34
Total	15,812,582	5.0	$15.40	6,964,889	$17.73

Other management option transactions were as follows:

	Twenty-six weeks ended			
	Aug 4, 2018		Jul 29, 2017	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	1,371,466	$19.05	1,861,600	$19.13
Forfeited	(88,274)	$19.14	(213,209)	$19.43
Expired	(13,866)	$18.35	—	—
Outstanding at end of period	1,269,326	$19.06	1,648,391	$19.03
Share options exercisable at end of period	1,165,794	$19.04	1,052,484	$17.23

During the thirteen and twenty-six weeks ended August 4, 2018 and July 29, 2017, no other management options were granted.

The following table summarizes information about the other management options outstanding and exercisable as at August 4, 2018:

Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at August 4, 2018	Weighted average exercise price
$15.00 to $15.49	34,666	4.9	$15.01	23,452	$15.01
$16.00 to $16.49	12,800	4.5	$16.28	—	—
$17.00 to $17.49	655,460	2.2	$17.03	614,342	$17.03
$17.50 to $17.99	329,600	2.8	$17.61	329,600	$17.61
$23.50 to $23.99	48,000	4.0	$23.84	9,600	$23.58
$28.00 to $28.49	188,800	3.9	$28.34	188,800	28.34
Total	1,269,326	2.8	$19.06	1,165,794	$19.04

The assumptions used to measure the fair value of senior executive options granted during the twenty-six weeks ended August 4, 2018 under the Black-Scholes option pricing model at the grant date were as follows:

Expected dividend yield	0.5%
Expected share price volatility	42.6%
Risk-free interest rate	1.9%
Expected life of options (years)	3.9 to 5.4

During the thirteen and twenty-six weeks ended August 4, 2018 the following share-based units were granted:

	Thirteen weeks ended				Twenty-six weeks ended			
	Aug 4, 2018		Jul 29, 2017		**Aug 4, 2018**		Jul 29, 2017	
	New grants	**Dividend equivalents**	New grants	Dividend equivalents	**New grants**	**Dividend equivalents**	New grants	Dividend equivalents
Deferred share units (“DSUs”)	—	632	—	467	189,111	1,447	142,391	2,224
Restricted share units (“RSUs”)	379,316	6,801	1,516,304	3,127	1,521,547	16,223	1,516,304	11,323
Performance share units (“PSUs”)	—	5,961	842,290	965	917,604	13,859	842,290	3,532
Performance restricted units (“PRSUs”)	—	1,497	—	1,905	—	3,422	—	9,044
Phantom share units	—	—	492,663	—	—	—	492,663	—

The grant date fair value of DSUs and RSUs granted during the thirteen and twenty-six weeks ended August 4, 2018, were nil and $2 million (2017: nil and $1 million) and $5 million and $16 million (2017: $14 million) respectively. The fair values of the grants were determined based on the Company’s share price at the date of the grant. RSUs granted vest over terms ranging from 12 to 36 months.

The grant date fair value of PSUs granted during the thirteen and twenty-six weeks ended August 4, 2018, were nil and $8 million (2017: $8 million). Of the PSUs granted, $8 million (2017: $7 million) is expected to vest. The fair value was determined based on the Company’s share price at the date of the grant and an award life of 4 years. Based on the achievement of specified performance targets,which are linked to the maximum 90-day average share price observed over the vesting period, the number of PSUs that vest will range from 50% and 150% of the number of units awarded. If at the expiry date the performance targets are not met, no PSUs will vest.

The grant date fair value of phantom shares granted during the thirteen and twenty-six weeks ended July 29, 2017 was $4 million.

Share based compensation expense

Total share based compensation expense for thirteen and twenty-six weeks ended August 4, 2018 is summarized as follows:

	Thirteen weeks ended		Twenty-six weeks ended	
(millions of Canadian dollars)	**Aug 4, 2018**	Jul 29, 2017	**Aug 4, 2018**	Jul 29, 2017
Share options	**—**	3	**4**	10
PSUs	**4**	—	**7**	(2)
RSUs	**7**	2	**14**	5
Other share based compensation [(1)]	**—**	—	**2**	2
	11	5	**27**	15

(1) Includes phantom share units, DSUs and PRSUs.

During the thirteen and twenty-six weeks ended August 4, 2018, $2 million and $7 million (2017: $6 million) of share based compensation was settled. Of the total settlement, $1 million and $3 million (2017: $2 million) of common shares were purchased on the open market while the Company issued common shares for the remainder.

NOTE 16. SHARE CAPITAL

The Company's share capital consists of common shares and preferred shares as follows:

(millions of Canadian dollars)	August 4, 2018	July 29, 2017	February 3, 2018
Authorized:			
Unlimited number of common shares			
Unlimited number of preferred shares, issued in series			
Issued:			
183,250,778 common shares (July 29, 2017: 182,649,049, February 3, 2018: 182,853,504)	**1,431**	1,426	1,427
50,919,608 preferred shares (July 29, 2017: nil, February 3, 2018: 50,919,608)	**618**	—	618
	2,049	1,426	2,045

During the thirteen and twenty-six weeks ended August 4, 2018, the Company issued 177,416 and 397,274 (2017: 397,904) common shares in connection with the settlement of vested share based awards.

On December 6, 2017, the Company issued 50,919,608 series "A" 8-year mandatory Convertible Preferred Shares. As at August 4, 2018, the Convertible Preferred Shares were held by WPA and Rhône (note 4). The holders have the option to convert any or all outstanding Convertible Preferred Shares into common shares. The conversion amount is equal to U.S.$500 million plus cumulative interest accrued at 5% per annum, divided by a conversion price that was set at U.S$9.82 on the issuance date. The conversion price is subject to adjustment from time to time in accordance with the terms of the Convertible Preferred Shares. As at August 4, 2018, the outstanding Convertible Preferred Shares could have been converted into 52,830,667 common shares (July 29, 2017: nil, February 3, 2018: 51,398,944).

During the thirteen and twenty-six weeks ended August 4, 2018, the Company's Board of Directors declared the following dividends on common shares:

Date of declaration	Record date	Date paid	Dividend per share	Number of shares (millions)	Dividends paid
March 1, 2018	March 30, 2018	April 13, 2018	$0.0125	183	2
June 6, 2018	June 29, 2018	July 13, 2018	$0.0125	183	2
					4

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

	Thirteen weeks ended		Twenty-six weeks ended	
(millions of Canadian dollars or shares except per share amounts)	Aug 4, 2018	Jul 29, 2017 (restated - note 5)	Aug 4, 2018	Jul 29, 2017 (restated - note 5)
Net loss from continuing operations	**(147)**	(100)	**(281)**	(203)
Net loss from discontinued operations	**(117)**	(101)	**(383)**	(219)
Total net loss for basic and diluted earnings per share	**(264)**	(201)	**(664)**	(422)
Weighted average common shares outstanding	**183**	182	**183**	182
Weighted average common shares that could be issued upon conversion of Convertible Preferred Shares	**52**	—	**52**	—
Basic and diluted weighted average common shares outstanding	**235**	182	**235**	182
Loss per share - basic and diluted				
Continuing operations	**(0.62)**	(0.55)	**(1.19)**	(1.12)
Discontinued operations	**(0.50)**	(0.55)	**(1.63)**	(1.20)
Total operations	**(1.12)**	(1.10)	**(2.82)**	(2.32)

NOTE 17. 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.

The Company has entered into an agreement to sell the Lord & Taylor Fifth Avenue building to a holder of its preferred shares (note 4).

A subsidiary of L&T Acquisition has a lease with SP 35 L.P. (the "Landlord") for approximately 31,000 square feet in Shrewsbury, NJ. Amounts charged to the Company under the rental arrangement for thirteen and twenty-six weeks ended August 4, 2018 were U.S.$110 thousand and U.S. $220 thousand (2017: U.S.$110 thousand and U.S.$220 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.

HBC has entered into vendor agreements with 2 related companies in which Earl Rotman, a director of the Company, has a non-controlling ownership interest. The agreements relate to menswear and womenswear sold in Saks Fifth Avenue and the Department Store Group ("DSG"). During the thirteen and twenty-six weeks ended August 4, 2018, HBC purchased goods of approximately $131 thousand and $307 thousand (2017: $398 thousand and $865 thousand) from these companies and has committed to ordering approximately $220 thousand for the remainder of fiscal 2018.

Excluding returns of capital and distributions received (note 11), transactions with the RioCan-HBC JV and the HBS Joint Venture comprised the following:

	Thirteen weeks ended		**Twenty-six weeks ended**	
(millions of Canadian dollars)	**Aug 4, 2018**	Jul 29, 2017 (restated - note 5)	**Aug 4, 2018**	Jul 29, 2017 (restated - note 5)
Management agreements reimbursement	**—**	—	**1**	—
Rent expense	**66**	68	**132**	136

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

	RioCan-HBC JV			**HBS Joint Venture**		
(millions of Canadian dollars)	**Aug 4, 2018**	Jul 29, 2017	Feb 3, 2018	**Aug 4, 2018**	Jul 29, 2017	Feb 3, 2018
Prepaid rents (included in other current assets)	**9**	2	7	**13**	—	32
Receivables (included in trade and other receivables)	**—**	—	—	**9**	14	16
Payables (included in other current liabilities)	**—**	—	—	**—**	(8)	(4)
Loans payable (included in other current liabilities)	**—**	—	—	**—**	(4)	(12)

In addition, included in other current liabilities as at July 29, 2017 were promissory notes in the aggregate amount of $12 million to both RioCan-HBC JV and RioCan ($6 million each) which pertained to a tenant improvement advance from the joint venture to the Company. The promissory notes were interest-free and were fully settled during the year ended February 3, 2018 as HBC had satisfied its tenant improvement commitment.

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

NOTE 18. CONTINGENT LIABILITIES

As at August 4, 2018, 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 19. SEGMENTED REPORTING

The Company has 5 operating segments: Hudson's Bay, Lord & Taylor, and Home Outfitters (collectively referred to as DSG); Saks Fifth Avenue; and Saks OFF 5TH, which are aggregated into 1 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.

HBC Europe ceased being an operating segment of the Company following reclassification into discontinued operations during the thirteen weeks ended August 4, 2018 (note 5).

The following summarizes retail sales and non-current assets by country/region of origin:

	Thirteen weeks ended		Twenty-six weeks ended	
(millions of Canadian dollars)	**Aug 4, 2018**	Jul 29, 2017 (restated - note 5)	**Aug 4, 2018**	Jul 29, 2017 (restated - note 5)
Retail sales				
Canada	**715**	731	**1,412**	1,407
United States	**1,445**	1,473	**2,892**	2,959
	2,160	2,204	**4,304**	4,366

(millions of Canadian dollars)	**Aug 4, 2018**	Jul 29, 2017	Feb 3, 2018
Non-current assets(1)			
Canada	**1,018**	996	1,004
United States	**4,077**	4,411	4,006
Europe	**—**	1,593	1,810
	5,095	7,000	6,820

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

NOTE 20. CHANGES IN OPERATING WORKING CAPITAL

	Twenty-six weeks ended	
(millions of Canadian dollars)	**Aug 4, 2018**	Jul 29, 2017 (restated - note 5)
Decrease (increase) in trade and other receivables	**(5)**	35
Decrease in inventories	**45**	42
Increase in other assets	**(66)**	(27)
Decrease in trade and other payables, accrued liabilities and provisions	**(111)**	(87)
Decrease in other liabilities	**(49)**	(39)
	(186)	(76)

NOTE 21. CHANGES IN PRESENTATION

In the annual audited consolidated financial statements for the year ended February 3, 2018, the Company made changes to its financial statement presentation. These changes only impact the Company's balance sheet for the comparative period and have no impact on the Company's results from operations or earnings (loss) per share. The impacts of the financial statement presentation changes to previously reported comparative amounts are as follows:

	July 29, 2017	
(millions of Canadian dollars)	**Decrease in trade and other receivables**	**Decrease in trade payables**
Reclassification of vendor debit balances	15	15

NOTE 22. SUBSEQUENT EVENT

On September 11, 2018, the Company announced the entry into definitive agreements with SIGNA to form a strategic partnership encompassing certain of HBC's European retail assets, HBC's German real estate assets and SIGNA's retail assets. Under the terms of the agreements, HBC Europe's retail operations will combine with SIGNA's Karstadt retail operations, and be held under a newly-formed retail holding company, in which SIGNA will have a 50.01% interest and HBC will have a 49.99% interest. HBC and SIGNA will also form a 50-50 joint venture to own and manage HBC's European real estate assets, with SIGNA acquiring a 50% interest in 41 German properties currently held within the HBS Joint Venture, HBC's existing joint venture, as well as acquiring a 50% interest in 18 additional HBC wholly-owned properties in Germany.

a) Under the terms of the agreements HBC will receive net cash proceeds (excluding transaction fees and related expenses) of €411 million (approximately $616 million), consisting of:

   i) €161 million (net of tax) (approximately $242 million) for a 12% equity interest in 41 German properties currently held by HBC through the HBS Joint Venture. Concurrently, SIGNA will acquire 38% in the 41 German properties currently held by the other HBS Joint Venture limited partners, resulting in a 50% interest in the 41 German properties for each of HBC and SIGNA;

   ii) €250 million (approximately $375 million) for a 50% equity interest in 18 additional German properties owned by HBC;

b) HBC will receive an additional €100 million (approximately $150 million) from SIGNA. Both HBC and SIGNA will contribute €100 million each (approximately $150 million each) to the retail operating company for an aggregate investment of €200 million (approximately $300 million) to provide additional liquidity;

c) SIGNA has also agreed that it will, following closing, acquire 100% interest in two German properties from a newly-formed real estate joint venture for gross proceeds of approximately €430 million (approximately $645 million), of which €200 million (approximately $300 million) will be invested in the new retail operating company to provide additional capital and €230 million (approximately $345 million) will be applied to repay debt of the newly-formed real estate joint venture.

The newly-formed retail operating company will combine: Galeria Kaufhof, Saks OFF 5TH in Germany and the Netherlands, Galeria INNO in Belgium, Hudson's Bay in the Netherlands with Karstadt Warenhaus, Karstadt Sports, the food departments of Kaufhof and Karstadt and all related e-commerce businesses.

It is currently anticipated that the combination of the retail companies and the formation of the real estate joint venture are expected to occur within the next 90 days and are subject to approval by competition authorities in Germany, Austria, Czech Republic and Slovakia and satisfaction or waiver of customary closing conditions. The sale of the 18 additional German properties is expected to close at the end of HBC's fiscal year, and the sale of the two German properties is expected to close in the first quarter of Fiscal 2019, in each case, subject to satisfaction or waiver of customary closing conditions.