HUDSON'S BAY COMPANY

2019 Q1 INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Thirteen Weeks Ended

May 4, 2019

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HUDSON’S BAY COMPANY

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Notes	Thirteen weeks ended	
		May 4, 2019	May 5, 2018
Retail sales	4	**2,082**	2,154
Credit revenue and other		**34**	34
Total revenue		**2,116**	2,188
Cost of goods sold (exclusive of depreciation shown separately below)		**(1,291)**	(1,315)
Gross profit		**825**	873
Selling, general and administrative expenses (“SG&A”)		**(822)**	(876)
Depreciation and amortization		**(110)**	(119)
Transaction, restructuring and other (costs) income	5	**(36)**	14
Gain on sale of property, net	6	**817**	—
Impairment		**—**	(7)
Operating income (loss)		**674**	(115)
Loss from equity-method investments - real estate	6	**(5)**	(19)
Dilution gains from equity-method investments - real estate	6	**—**	1
Loss from investment in the EDS Group (as defined in note 1)	7	**(133)**	—
Interest expense, net	8	**(43)**	(42)
Income (loss) before income tax		**493**	(175)
Income tax (expense) benefit	9	**(218)**	43
Net income (loss) - continuing operations		**275**	(132)
Net loss - discontinued operations, net of taxes	3	**—**	(266)
Net income (loss)		**275**	(398)
Earnings (loss) per share - basic and diluted	15		
Continuing operations		**1.15**	(0.72)
Discontinued operations		**—**	(1.45)
Total operations		**1.15**	(2.17)

(See accompanying notes to the interim consolidated financial statements)

HUDSON'S BAY COMPANY

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(millions of Canadian dollars)
(unaudited)

	Thirteen weeks ended	
	May 4, 2019	May 5, 2018
Net income (loss)	**275**	(398)
Currency translation adjustment	**29**	58
Net losses on net investment hedge, net of tax	**(2)**	(10)
Net (losses) gains on derivatives designated as cash flow hedges, net of tax	**(1)**	5
Reclassification to statement of operations of net gain on derivatives designed as cash flow hedges related to the Lord & Taylor mortgage (note 8), net of tax	**(12)**	—
Reclassification to statement of operations of net losses on derivatives designated as cash flow hedges, net of tax	**5**	11
Other comprehensive income	**19**	64
Total comprehensive income (loss)	**294**	(334)

HUDSON'S BAY COMPANY

INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the thirteen weeks ended May 4, 2019 and May 5, 2018
(millions of Canadian dollars)
(unaudited)

				Accumulated Other Comprehensive Income ("AOCI")					
	Share capital	**Accumulated deficit**	**Additional paid-in capital**	Currency translation adjustment	Employee benefits	Net investment hedge	Cash flow hedges	**AOCI**	**Total shareholders' equity**
As at February 2, 2019	**2,052**	**(931)**	**170**	430	(6)	(39)	8	**393**	**1,684**
ASC 842 transitional adjustment	—	20	—	—	—	—	—	—	20
Total comprehensive income	—	275	—	29	—	(2)	(8)	19	294
Share based compensation	1	—	4	—	—	—	—	—	5
Dividends	—	(2)	—	—	—	—	—	—	(2)
As at May 4, 2019	**2,053**	**(638)**	**174**	**459**	**(6)**	**(41)**	**—**	**412**	**2,001**

				Accumulated Other Comprehensive Income ("AOCI")					
	Share capital	**Accumulated deficit**	**Additional paid-in capital**	Currency translation adjustment	Employee benefits	Net investment hedge	Cash flow hedges	**AOCI**	**Total shareholders' equity**
As at February 3, 2018	**2,045**	**(160)**	**129**	343	(13)	(20)	5	**315**	**2,329**
Total comprehensive loss	—	(398)	—	58	—	(10)	16	64	(334)
Share based compensation	3	—	12	—	—	—	—	—	15
Dividends	—	(2)	—	—	—	—	—	—	(2)
As at May 5, 2018	**2,048**	**(560)**	**141**	401	(13)	(30)	21	**379**	**2,008**

(See accompanying notes to the interim consolidated financial statements)

HUDSON'S BAY COMPANY

INTERIM CONSOLIDATED BALANCE SHEETS

(millions of Canadian dollars)
(unaudited)

	Notes	May 4, 2019	Feb 2, 2019
Assets			
Cash and cash equivalents		**22**	21
Trade and other receivables		**160**	157
Inventories		**2,704**	2,513
Asset held for sale	6	**—**	279
Other current assets		**126**	171
Total current assets		**3,012**	3,141
Property, plant and equipment		**3,776**	4,153
Operating lease assets		**3,447**	—
Finance lease assets		**410**	—
Goodwill		**213**	207
Other intangible assets		**546**	617
Pensions and employee benefits		**172**	170
Deferred tax assets		**353**	318
Equity-method investments - real estate	6	**753**	554
Investment in the EDS Group	7	**152**	284
Other assets		**88**	73
Total assets		**12,922**	9,517
Liabilities and Shareholders' Equity			
Current portion of loans and borrowings	11	**703**	471
Current portion of operating lease liabilities		**216**	—
Current portion of finance lease liabilities		**29**	29
Trade payables		**936**	988
Other payables and accrued liabilities		**792**	781
Deferred revenue		**97**	112
Other current liabilities		**82**	246
Total current liabilities		**2,855**	2,627
Loans and borrowings	11	**2,091**	2,538
Operating lease liabilities		**4,297**	—
Finance lease liabilities		**322**	318
Pensions and employee benefits		**178**	177
Deferred tax liabilities		**406**	143
Equity-method investment - real estate	6	**234**	239
Other liabilities		**538**	1,791
Total liabilities		**10,921**	7,833
Shareholders' equity			
Common shares, no par value: unlimited shares authorized; 184,056,463 (Feb 3, 2019:183,895,329) shares issued and outstanding		**1,435**	1,434
Convertible preferred shares - Series A, no par value: unlimited shares authorized; 50,919,608 (Feb 3, 2019: 50,919,608) shares issued and outstanding		**618**	618
Accumulated deficit		**(638)**	(931)
Additional paid-in capital		**174**	170
Accumulated other comprehensive income		**412**	393
Total shareholders' equity		**2,001**	1,684
Total liabilities and shareholders' equity		**12,922**	9,517

(See accompanying notes to the interim consolidated financial statements)

HUDSON'S BAY COMPANY

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of Canadian dollars)
(unaudited)

	Notes	Thirteen weeks ended	
		May 4, 2019	May 5, 2018
Operating activities			
Net income (loss)		**275**	(398)
Net loss - discontinued operations, net of taxes		**—**	266
Net income (loss) - continuing operations		**275**	(132)
Adjustments to reconcile net income (loss) to cash generated by operating activities:			
Loss from investment in the EDS Group	7	**133**	—
Depreciation and amortization		**110**	119
Impairment		**—**	7
Loss on disposal of assets		**8**	—
Net defined benefit pension and employee benefits expense		**5**	5
Distributions of earnings from equity-method investments - real estate	6	**32**	52
Dilution gains from equity method investment - real estate	6	**—**	(1)
Loss from equity-method investments - real estate	6	**5**	19
Gain on sale of property, net	6	**(817)**	—
Share of rent expense to equity-method investments - real estate	6	**(49)**	(47)
Share based compensation		**7**	16
Other operating activities		**(13)**	(9)
Changes in operating assets and liabilities:			
Increase in trade and other receivables		**(2)**	(34)
Increase in inventories		**(146)**	(124)
Increase in other assets		**(17)**	(7)
(Decrease) increase in trade and other payables and accrued liabilities		**(82)**	70
Increase (decrease) in other liabilities		**206**	(63)
Cash used in operating activities - continuing operations		**(345)**	(129)
Cash used in operating activities - discontinued operations		**—**	(279)
Net cash used in operating activities		**(345)**	(408)
Investing activities			
Capital investments		**(68)**	(119)
Proceeds on sale of property, net of transaction costs	6	**770**	—
Loans to the EDS group	16	**(19)**	—
Investment in equity-method investments - real estate	6	**(13)**	—
Other investing activities		**(13)**	1
Cash provided by (used in) investing activities - continuing operations		**657**	(118)
Cash used in investing activities - discontinued operations		**—**	(69)
Net cash provided by (used in) investing activities		**657**	(187)
Financing activities			
Repayments	6	**(515)**	(2)
Borrowing costs		**(10)**	—
Long-term loans and borrowings		**(525)**	(2)
Net borrowings from asset-based credit facilities		**228**	452
Borrowing costs		**—**	(1)
Short-term loans and borrowings		**228**	451
Settlement of share based compensation		**(2)**	(2)
Payments on finance leases		**(10)**	(8)
Dividends paid		**(2)**	(2)
Cash (used in) provided by financing activities - continuing operations		**(311)**	437
Cash provided by financing activities - discontinued operations		**—**	172
Net cash (used in) provided by financing activities		**(311)**	609
Foreign exchange gain on cash		**—**	2
Increase in cash and cash equivalents		**1**	16
Cash and cash equivalents at beginning of year		**21**	70
Cash and cash equivalents at end of period		**22**	86
Supplemental cash flow information:			
Interest paid		**(23)**	**(47)**
Income taxes paid (net of refunds received)		**—**	**(2)**

(See accompanying notes to the interim consolidated financial statements)

HUDSON'S BAY COMPANY

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(For the thirteen weeks ended May 4, 2019)
(millions of Canadian dollars unless otherwise stated)
(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 real estate 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 real estate 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 a portfolio of 41 German properties.

On February 1, 2016, the Company acquired Gilt Groupe Holdings Inc. and its subsidiaries ("Gilt"). During the second quarter of fiscal 2018, the Company completed the divestment of the Gilt business (note 3).

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).

On October 7, 2018, HBS Joint Venture distributed to its partners the portfolio of 41 German properties to form a new real estate joint venture (the "European Real Estate JV") (note 6). On November 30, 2018, SIGNA Retail Holdings GmbH ("SIGNA") acquired a 12.4% equity interest from HBC and a 37.6% equity interest from other limited partners in the European Real Estate JV, resulting in a 50-50 joint venture between HBC and SIGNA.

During the fourth quarter of fiscal 2018, the Company closed several strategic transactions with SIGNA for its European retail operations and 18 additional German properties (collectively, "HBC Europe"). On November 30, 2018, the Company combined HBC Europe's retail operations with the retail operations of Karstadt Warenhaus GmbH ("Karstadt"), a subsidiary of SIGNA, to form a newly-formed European department store group joint venture (the "EDS Group"), in which HBC has a 49.99% interest (note 7). On January 31, 2019, the Company sold to SIGNA a 50% equity interest in 18 additional German properties of HBC Europe (note 6). On June 10, 2019, HBC entered into definitive agreements to sell the Company's remaining stake in the European Real Estate JV, and divest its interest in the EDS Group to SIGNA, along with assumption of certain obligations for a total consideration of $1.5 billion (€1 billion) (note 18).

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") and Home Outfitters banners.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These interim consolidated financial statements of the Company and its subsidiaries have been prepared in conformity with generally accepted accounting principles in the United States of America ("US GAAP").

The Company has consistently applied the same accounting policies in its US GAAP consolidated balance sheet for the comparative date of February 2, 2019 and throughout all periods presented in these interim consolidated financial statements except for the adoption of Accounting Standards Codification (ASC) 842, *Leases*, as described in the newly adopted accounting standards section below. Significant accounting policies adopted by the Company are summarized below.

Use of estimates and assumptions

The preparation of consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, disclosure of contingent assets and liabilities during the reporting period. Such estimates and assumptions are subject to inherent uncertainties, which may result in actual amounts differing from reported amounts.

Basis of consolidation

These interim consolidated financial statements of the Company include the accounts of HBC and its subsidiaries. Inter-company transactions, balances, revenues and expenses have been eliminated.

Foreign currency translation

i) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These consolidated financial statements are presented in Canadian dollars, which is HBC's functional and presentation currency.

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the foreign exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at balance sheet date foreign exchange rates are recognized in net income (loss), except when included in other comprehensive income (loss) as qualifying cash flow or net investment hedges.

iii) Foreign operations

The results and financial position of L&T Acquisition (and its subsidiaries Lord & Taylor Holdings LLC ("L&T"), and Saks), whose functional currencies are U.S. dollars, are translated into the Canadian dollar presentation currency as follows:

- assets and liabilities are translated at the closing foreign exchange rate at the date of each balance sheet;
- revenues and expenses are translated at average foreign exchange rates;
- equity transactions are translated at foreign exchange rates on the date the transactions occur; and
- all resulting foreign exchange translation differences are recognized as a currency translation adjustment in the consolidated statements of comprehensive income (loss).

Cash and cash equivalents

Cash and cash equivalents consists of cash on hand, deposits in banks, short-term deposits with original maturities of less than 3 months and restricted funds. Restricted cash represents amounts deposited in escrow accounts which are maintained and managed by an independent agent.

Trade and other receivables

Trade and other receivables consisting of credit card issuer, vendor and other receivables are stated at their carrying values, net of a reserve for doubtful accounts.

Reserve for doubtful accounts

The reserve for doubtful accounts is based on the Company's assessment of several factors such as historical, current economic environment, credit quality of the debtor, age of the account balances and other factors that may affect the debtor's ability to pay.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method based on individual items. Net realizable value is the estimated selling price determined at the item level using gross profit expectation and historical markdown rates for similar items in the ordinary course of business, less estimated costs required to sell.

Costs comprise all variable costs, and certain fixed costs, incurred in bringing inventories to their present location and condition. Storage and administrative overheads are expensed as incurred. Supplier rebates and discounts are recorded as a reduction in the cost of purchases unless they relate to a reimbursement of specific incremental expenses.

Merchandise that is subject to consignment or licensee (concession) agreements is not included in inventories.

Non-current assets held for sale and discontinued operations

The Company classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell and are no longer depreciated or amortized. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Assets and liabilities classified as held for sale are presented separately as current items on the consolidated balance sheet. A disposal group qualifies as a discontinued operation if it is a component of an entity that is either:

- a component of an entity that has been disposed of, meets the criteria to be classified as held for sale or has been abandoned or spun-off; and represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results; or
- a business activity that, on acquisition, meets the criteria to be classified as held for sale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as after tax income or loss from discontinued operations in the consolidated statement of operations. Comparative periods are restated.

Additional disclosures are provided in note 3. All other notes to the consolidated financial statements include amounts for continuing operations, unless indicated otherwise.

Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Freehold land is stated at cost less any impairment loss. Cost includes expenditures that can be directly attributed to the acquisition of the asset and capitalized borrowing costs. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Company and the cost can be reliably measured. The carrying amount of the replaced asset is derecognized.

Freehold land and assets under construction are not depreciated. Depreciation commences when the assets are available for use and is recognized on a straight-line basis to depreciate the cost of the assets to their estimated residual value over their estimated useful lives.

Costs incurred in the acquisition or development of major software for internal use are capitalized in the consolidated balance sheets and amortized over the expected useful life of the software. Such costs are directly attributable to the design and testing of identifiable and unique software products controlled by the Company, including employee costs. Software maintenance and training costs are expense as incurred.

Cloud computing arrangements are evaluated to determine whether the arrangement includes a software license or is a service contract. If determined to be a software license, then the arrangement is capitalized and amortized over the expected life of the software. If determined to be a service contract, then the cost of the arrangement is expensed as the services are provided.

Estimated useful lives are as follows:

Asset	Amortization Periods
Buildings	up to 50 years
Leasehold improvements	up to 20 years
Fixtures and fittings	up to 20 years
Software including internally developed costs	up to 7 years

Although the table reflects maximum amortization periods, most assets are amortized over shorter periods. The assets' useful lives and residual values are reviewed, and adjusted if appropriate, annually.

Intangible assets

Estimated useful lives of the Company's intangible assets are as follows:

Asset	Amortization Period/Rate
Banner names	indefinite
Private label brands	indefinite

The assets' useful lives and residual values are reviewed, and adjusted if appropriate, annually.

Private label brands are not amortized except in circumstances where the Company has a formal plan to dispose of certain private label brands. Where such a plan exists, the Company amortizes the remaining cost over the period the brands are expected to be available for use by the Company. Banner names with indefinite lives are measured at cost less any accumulated impairment losses and are not amortized.

Impairment of long-lived and indefinite lived assets

The carrying amounts of property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

When indicators of impairment exist, impairment of an asset or asset group is tested using a two-step process. First the Company compares the carrying amount of the asset or asset group to its estimated undiscounted future cash flows. If the sum of estimated undiscounted future cash flows is greater than the asset's or asset group's carrying value, there is no impairment. The second step is completed only if the carrying amount of an asset or asset group is not recoverable based on its estimated future undiscounted cash flows. If the second step is required, the Company determines the fair value of the asset or asset group based on an estimate of discounted future cash flows using a discount rate that is considered commensurate with the risk inherent in our current business model, or where practicable, by external valuators. In estimating the fair value of stores, we apply estimates for future cash flows and use judgments for qualitative factors such as store performance, market conditions, operating environment, mall performance and other trends. An impairment loss is based on the excess of the carrying value of an asset or asset group over its fair value.

For the purposes of assessing impairment, assets are tested for impairment either at the individual asset level, as part of an asset group or at the reporting unit (RU) level.

- An asset group is the lowest level for which there are identifiable net cash flows that are largely independent of the net cash flows of other groups of assets
- An RU is an operating segment or one level below an operating segment

The evaluation of recoverability of the carrying amount of assets is performed at the lowest level of identifiable net cash flows, which is generally at the individual store level. Any impairment charge is recognized in consolidated statement of operations in the period in which it occurs.

Indefinite life intangible assets and goodwill are tested for impairment annually during the fourth quarter of our fiscal year, or more frequently, if events or changes in circumstances indicate that the asset may be impaired. Impairment test of indefinite-lived intangible assets is performed using the relief from royalty method to determine the estimated fair value for each indefinite-lived intangible asset. The relief from royalty method estimates the theoretical royalty savings from ownership of the intangible asset. Key assumptions used in the model include discount rates, royalty rates, growth rates, sales projections and terminal value rates.

Acquisitions

When the Company acquires a set of assets and activities, it performs a two-step test to determine whether or not the set should be considered to be a business. This assessment impacts whether the Company consolidates an acquisition under business combination guidance or asset acquisition guidance. When the Company's acquisition is recognized as an equity method investment, the definition of a business impacts whether the investment contains goodwill.

In the first step, the Company evaluates whether substantially all of the fair value of the assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If this test is met, the set is not a business. If the first step is not met, under the second step the Company evaluates whether the set is a business based on whether there are inputs and a substantive process in place.

Business combinations and goodwill

The Company accounts for its business combinations by recognizing the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date. The purchase is accounted for using the acquisition method, and the fair value of purchase consideration is allocated to the tangible and intangible assets acquired and the liabilities assumed, based on their estimated fair values. Contingent consideration is also recognized and measured at fair value as of the acquisition date. The excess, if any, of the fair value of the purchase consideration over the fair values of the identifiable net assets is recorded as goodwill. Conversely, the excess, if any, of the fair values of the identifiable net assets over the fair value of the purchase consideration is recorded as a gain.

Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. These estimates and assumptions are inherently uncertain, and as a result, actual results may differ from estimates. Significant estimates include, but are not limited to, future expected cash flows, useful lives and discount rates.

During the measurement period, which is up to one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed, with a corresponding offset to either goodwill or gain, depending on whether the fair value of purchase consideration is in excess of or less than net assets acquired. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

Transaction costs incurred in connection with a business combination are expensed in the period as incurred.

Goodwill is measured as the excess of the consideration paid over the fair value of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. Goodwill is not amortized, but is subject to an assessment for impairment at least annually in the fourth quarter or more frequently if events occur or circumstances change that will more likely than not reduce the fair value of the RU below its carrying amount.

The Company may first assess goodwill for qualitative factors to determine whether it is necessary to perform a quantitative impairment test. The qualitative analysis considers entity-specific and macroeconomic factors and their potential impact on the key assumptions used in the determination of the fair value of the RU to which goodwill is allocated. A quantitative impairment test is performed if the results of the qualitative assessment indicate that it is more likely than not that the fair value of the RU is less than its carrying value, or if a qualitative assessment is not performed. Quantitative tests compare the fair value of the asset to its carrying value.

Equity method investments

Investments in joint ventures and variable interest entities (“VIE”s), where the Company is not the primary beneficiary or does not have a controlling financial interest, are accounted for as equity method investments.

An equity method investment is initially recognized at cost. Transaction costs associated with equity method investments are capitalized and included in the cost basis of the investment. The investment is subsequently adjusted each period to recognize the Company’s share of the profit or loss and other comprehensive income or loss of the investee. When the Company’s share of losses of the investee exceeds the Company’s interest in that entity, the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent:

- that the Company has committed to provide further financial support to the entity;
- that the Company has made payments on behalf of the entity;
- that the imminent return to profitable operation by the entity appears to be assured;
- of an equity investment that (i) does not result in ownership interest increasing from one of significant influence to one of control; and (ii) is in substance the funding of prior losses; or
- of loans or investments in other securities of the entity.

When the Company receives distributions in excess of the carrying value of its investment, and the Company is not liable for the obligations of the investee nor otherwise committed to provide financial support, the Company recognizes such excess distributions as equity method earnings in the period the distributions occur.

When the investee subsequently reports income, the Company will not record its share of such income until the additional income exceeds (i) the amount of distributions in excess of the carrying value that were previously recognized in income and (ii) previously unrecognized losses. The Company reclassifies its share of intra-entity rental income from its share of profit or loss in the real estate investees to the rental expense recorded in SG&A expenses.

As a result, equity income or loss reported on the Company's income statement for certain equity method investments may differ from a mathematical calculation of net income or loss attributable to the Company based on its equity interest applied to the net income or loss attributable to equity owners as shown on investees' income statements.

When the financial statements of an investee are prepared as at a different date from the reporting date of Company's financial statements, adjustments are made for the effects of significant transactions or events that occurred between the reporting date of the joint venture and the reporting date of the Company.

Commitments and contingencies

Contingencies are recognized if it is probable that a liability has been incurred by the Company and the amount is reasonably estimable.

Contingencies are measured at management's reasonable estimate of the expenditure required to settle the obligation at the balance sheet date given the available information. If management's best estimate results in a range of loss and no amount within the range is a better estimate than any other amount, the minimum amount in the range is accrued.

As loss contingency accruals are estimates, the actual amount and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made. Recoveries from third parties and other contingent gains are recognized when realized.

Leases

The Company determines if an arrangement contains a lease at the inception of the lease contract. Leases in which a significant portion of the risks and rewards of ownership are transferred to the Company are classified as finance leases. All other leases are classified as operating leases.

(i) ASC Topic 840 - Leases (for annual periods beginning on or prior to December 15, 2018)

Capital leases are recorded as an asset and an obligation at an amount equal to the present value of the minimum lease payments during the lease term. Assets recorded under capital lease obligations are depreciated on a straight-line basis over a period consistent with the normal depreciation policy for tangible assets if there is a bargain purchase option, or a period limited to the lease term if there is no bargain purchase option. Interest charges on capital lease obligations are expensed using the effective interest method over the lease term in relation to the carrying value of the capital lease obligation.

Rent expense related to an operating lease is recognized on a straight-line basis over the lease term resulting in periodic deferred rent balances to adjust the cash rent paid.

Some of the Company's lease agreements contain developer/tenant allowances. Upon receipt of such allowances, the Company records a deferred rent liability in other liabilities on the consolidated balance sheet. The allowances are then amortized on a straight-line basis over the remaining terms of the corresponding leases as a reduction of rent expense.

(ii) ASC Topic 842 - Leases (for annual periods beginning after December 15, 2018)

The Company determines if an arrangement contains a lease at the inception of the lease contract. Leases in which a significant portion of the risks and rewards of ownership are transferred to the Company are classified as finance leases. All other leases are classified as operating leases.

Upon inception of a lease, the Company records a right-of-use ("ROU") asset and a lease liability. The ROU asset represents the Company's right to control and use the underlying asset over the lease term and a lease liability represents the Company's obligation to make future lease payments. The Company uses the interest rate implicit in the lease or, if that rate cannot be readily determinable, its incremental borrowing rate based on the information available at the lease commencement date in determining the present value of lease payments. The Company's lease terms may include options to extend or terminate the lease where management is reasonably certain that such option will be exercised.

Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheet. Lease expense for these leases are charged to net income (loss) on a straight-line basis over the lease term. For certain lease arrangements with lease and non-lease components, the Company accounts for the lease and non-lease components as a single lease component.

Income taxes

Deferred income tax is recognized on taxable temporary differences arising from differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is recognized for all taxable temporary differences, except to the extent where it arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit. Deferred income tax is determined using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

Deferred income tax assets in respect of unused tax losses, unused tax credits and deductible temporary differences are evaluated for future realization and reduced by a valuation allowance to the extent that a portion is not more-likely-than-not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning and results of recent operations.

Income tax expense or benefit comprises current and deferred income taxes. Income tax is recognized in the consolidated statements of operations except to the extent that it relates to items recognized either in other comprehensive income (loss) or directly in equity. The income tax expense or benefit is calculated based on the tax laws enacted at the date of the consolidated balance sheet.

The Company records uncertain tax positions in accordance with ASC 740, *Income Taxes*, on the basis of a two-step process whereby (i) the Company determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (ii) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50% likely to be realized upon ultimate settlement with the related tax authority.

Deferred tax assets and liabilities are only netted when the Company has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to realize or settle current tax assets or liabilities simultaneously in future periods.

Employee benefits

i) Post-employment Benefits

The Company has post-employment benefits plans which include pensions (both defined contribution and defined benefit) and non-pension post-retirement benefits (medical and life insurance benefits for retirees). The Company accounts for these plans in accordance with ASC Topic 715, *Compensation - Retirement Benefits* and ASC Topic 712, *Compensation - Nonretirement Post-employment Benefits* ("ASC 712").

The Company reports its obligations under these plans net of any plan assets. The asset or liability recognized in the consolidated balance sheets in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets.

Assets and benefit obligations are measured as of the last day of the fiscal year-end unless it is more practical to use January 31st or another date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The factors and assumptions affecting the measurement include expected pensionable salaries, contributions, benefit payments that will be made during the period, current year healthcare costs and healthcare inflation with the most important being the expected return on plan assets and the discount rate for the pension obligation.

The Company uses a full yield curve approach to setting discount rates for its pension plans in Canada and the United States. For these plans, different discount rates are used to determine the defined benefit obligation, current service cost and the net interest cost.

Unrecognized gains and losses in excess of 10% of the greater of the plan's projected pension benefit obligation or the fair value of plan assets are amortized over the average expected future service of the current active membership and are recognized as a component of net periodic pension/post-retirement cost. Unrecognized prior service cost is amortized on a straight line basis over the average remaining service period of active participants who are expected to receive a benefit.

For defined contribution plans, the Company pays contributions to pension plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. Contributions are recognized as employee benefit expenses are incurred, which are as the related employee services are rendered.

The Company reports the following other post-employment benefit plans under ASC 712 on a pay-as-you-go basis: long service leaves, jubilee plans, severance benefits to be paid in case of involuntary termination and other continuation benefits. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the consolidated statement of operations in the period in which they arise.

ii) *Other long-term employee benefits*

The Company provides long-term disability benefits to certain employees dependent on the legal employer. The entitlement to these benefits is usually conditional on the completion of a minimum service period. The expected costs of these benefits are recognized when an event occurs that causes the long-term disability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the statement of operations in the period in which they arise. These obligations are calculated annually.

iii) Share based compensation

The Company operates share based incentive plans under which it receives services from certain employees as consideration. For equity settled awards, the fair value of the grant of equity interests is recognized as an expense over the period that the related service is rendered with a corresponding increase in equity. For cash-settled awards, the fair value of the liability is remeasured at the end of each reporting period, with the change in fair value recognized as an expense over the period that the related service is rendered. Certain awards provide the Company with a choice of settlement in cash or by issuing equity. In these cases, the award is accounted for as a cash-settled award when the Company has a present obligation to settle in cash.

The total amount to be expensed is determined by reference to the fair value of the equity interests granted. Awards with graded vesting that only have a time vesting requirement and awards that vest entirely at the end of the vesting requirement are expensed on a straight-line basis for the entire award. Expense for awards with graded vesting that incorporate a market or performance requirement is attributed separately based on the vesting for each tranche. At each balance sheet date, the estimate of the number of equity interests that are expected to vest is revised. The impact of the revision to original estimates, if any, is recognized in SG&A.

Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Company designates certain derivatives as:

(a) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge);

(b) hedges of foreign currency exposure (net investment hedge); and/or

(c) hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge).

When a derivative financial instrument is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in net income (loss) on the consolidated statement of operations.

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the maturity of the remaining hedged item is more than twelve months and as a current asset or liability when the remaining maturity of the hedged item is less than twelve months.

The Company does not use derivatives for trading or speculative purposes. The Company had cash flow hedges and a net investment hedge outstanding as at May 4, 2019 and February 2, 2019.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized

in other comprehensive income (loss). The gain or loss relating to the ineffective portion is recognized immediately in net income (loss) on the consolidated statement of operations. Amounts accumulated in other comprehensive income (loss) are recycled in net income (loss) in the periods when the hedged item affects earnings.

When a forecasted transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or property, plant and equipment), the effective portion of the gain or loss associated with the forecasted transaction is deferred in accumulated other comprehensive income (loss) and reclassified into earnings as the non-financial asset or liability affects earnings. The deferred amounts are ultimately recognized in cost of sales in the case of inventory or in depreciation in the case of property, plant and equipment.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in accumulated other comprehensive income (loss) and is recognized when the forecasted transaction is ultimately recognized in net income (loss). When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income (loss) is immediately transferred to net income (loss).

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gains or losses on the hedging instrument related to the effective portion of the hedge are recognized in other comprehensive income (loss) while any gains or losses related to the ineffective portion are recognized immediately in net income (loss) within SG&A. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the consolidated statements of net income (loss).

Derivatives at fair value through profit or loss

Changes in the fair value of derivatives embedded in a host contract and derivatives that are not designated in a hedging relationship are recognized immediately in net income (loss). Embedded derivatives (elements of contracts whose cash flows move independently from the host contract) are required to be separated and measured at their respective fair values unless certain criteria are met. The Company has recorded the fair value of embedded derivatives in HBC's U.S. dollar denominated purchase orders with certain non-U.S. based vendors. The fair value of these embedded derivatives is recorded in other assets or other liabilities, depending on the embedded derivative's fair value.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if a right of setoff exists. A right of setoff exists when all of the following conditions are met:

- Each of two parties owes the other determinable amounts;
- The reporting party has the right to setoff the amount owed with the amount owed by the other party;
- The reporting party intends to setoff; and
- The right of setoff is enforceable at law.

Fair-value measurements

ASC 820, *Fair Value Measurement,* defines fair value as the price at which an asset could be exchanged or a liability transferred in an orderly transaction between knowledgeable, willing parties in the principal or most advantageous market for the asset or liability. Where available, fair value is based on observable market prices or derived from such prices. Where observable prices or inputs are not available, valuation models are applied which may involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity.

Non-financial assets, such as goodwill, intangible assets and long-lived assets, are adjusted to fair value only when an impairment charge is recognized. Such fair value measurements are based predominantly based unobservable inputs and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. See note 13 for additional disclosures.

Deferred financing costs

Financing costs incurred with securing long-term loans and borrowings are recorded in the Company's consolidated balance sheets as an offset to the loan or borrowing and amortized to interest expense in the Company's consolidated statements of operations over the contractual life of the loan using the effective interest method. If the loan or borrowing has not been drawn on, financing costs incurred with securing the term loan are recorded in the Company's consolidated balance sheets as an asset.

Financing costs related to a revolving credit facility or a letter of credit facility are recorded in the Company's consolidated balance sheets as an asset and amortized to interest expense in the Company's consolidated statements of operations on a straight-line basis over the contractual term of the arrangement.

Borrowing costs

Borrowing costs are capitalized for all "qualifying assets" that require a period of time to get them ready for their intended use. Qualifying assets are those that are constructed or otherwise produced for the Company's own use and/or those intended for sale or lease that are constructed or otherwise produced as discrete projects. All other borrowing costs are recognized in the consolidated statement of operations in the period in which they occur.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of sales tax and estimated returns.

The Company recognizes revenue when the customer obtains control of the related goods or services. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

i) 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 point of sale. 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.

ii) Gift cards

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 the likelihood of the gift card being redeemed by the customer is remote ("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.

Credit operations

The Company shares in the income and losses of the credit card program related to private label and co-branded credit cards at Hudson's Bay, Lord & Taylor and Saks. Income related to this program is included in credit revenue and other on the statement of operations.

Cost of goods sold (exclusive of depreciation and amortization)

Cost of goods sold include costs directly related to bringing merchandise to its final selling destination. These costs include the cost of the merchandise (net of discounts or allowances earned), sourcing and procurement costs, freight costs, warehouse operating expenses, store merchandise distribution center expenses, and shipping and handling costs incurred on sales via the Internet.

Vendor allowances

The Company receives cash or allowances from vendors, the most significant of which are in respect of markdown allowances and volume rebates. Such amounts are recorded as either a reduction of the cost of purchases or a reduction in cost of goods sold.

Rebates that are based on specified cumulative purchase volumes are recognized if the rebate is probable and reasonably estimable; otherwise these rebates are recognized when earned. These rebates are applied as a reduction of the cost of goods sold.

Loyalty programs

Award credits are accounted for as a separate component of the sales transaction in which they are granted and therefore, part

of the fair value of the consideration received is allocated to the award credits. This allocation is reported as deferred revenue until the award credits are redeemed by the customer. The amount deferred is based on points outstanding that the Company estimates will be redeemed by customers and the estimated fair value of those points. The points expected to be redeemed are based on many factors, including an actuarial review, where required, of customers' past experience and trends.

Newly adopted accounting standards

Leases (Topic 842)

In February 2016, the FASB issued a new standard related to leases ("ASC 842") to increase transparency and comparability among organizations by requiring the recognition of ROU assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for leases classified as operating leases. Under the standard, additional disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. ASC 842 is effective for annual periods beginning after December 15, 2018 and was applied for the first time by the Company effective February 3, 2019 ("the transition date").

The Company adopted the new standard, using a modified retrospective method and therefore did not restate comparative periods. Adjustments to the carrying amount of the assets at the transition date of $20 million, net of tax, were recognized in the opening deficit of the current period. As permitted under the transition guidance, the Company elected to use the following practical expedients upon adoption:

- the Company will carry forward the assessment of whether its contracts contain or are leases, its lease classification, initial direct costs;
- for lease agreements with lease and non-lease components, the Company will combine the components and treat them as a single lease component;
- the Company made an accounting policy election whereby short-term leases with an initial term of 12 months or less will not be recorded on the consolidated balance sheets; and;
- the Company will use a single discount rate to a portfolio of leases based on lease term.

The Company purchased and implemented a separate system to facilitate the identification, tracking and reporting of leases based on the requirements of the new lease standard. The Company also implemented internal processes, controls and key system functionality to enable the preparation of financial information on adoption.

Adoption of the standard had a material impact on the Company's consolidated balance sheet resulting in the recognition of operating lease assets and operating lease liabilities of $4,563 million. Deferred landlord incentives of $848 million and straight-line rent liabilities of $294 million (both previously recorded in other liabilities) were netted against the operating lease assets on the transition date. Favourable lease intangible assets of $87 million (previously recorded in other intangible assets) were also included in the operating lease assets. The accounting for finance leases remained substantially unchanged. Adoption of the standard did not materially impact the consolidated interim statement of operations and had no impact on cash flows.

Recent accounting standards not yet adopted

Financial instruments (Topic 326)

In June 2016, the FASB issued a new standard which provides financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the new standard replaces the incurred loss impairment methodology in current US GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates.

The amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently assessing the impact the adoption of this standard will have on the Company's financial position and its related disclosures.

Fair value measurement (Topic 320)

In August 2018, the FASB issued an update which modifies the disclosure requirements on fair value measurements. The amendments in this update are the result of a broader disclosure project called FASB Concepts Statement, *Conceptual Framework for Financial Reporting - Chapter 8: Notes to Financial Statements*, which the FASB finalized on August 28, 2018. The FASB used the guidance in the Concepts Statement to improve the effectiveness of ASC 820's disclosure requirements.

The amendments included changes to "open ended" disclosure requirements to ensure appropriate detailed disclosures. Further amendments were made to include certain new disclosures for financial instruments categorized as level 3, and the FASB also removed disclosure requirements for transfers between Level 1 and Level 2 of the Fair Value Hierarchy.

The amendments in this update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments to Level 3 fair value measurements, and measurement uncertainty dislcosures should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this update and delay adoption of the additional disclosures until their effective date.

The Company is currently assessing the impact the adoption of this standard will have on the Company's financial position and its related disclosures.

Defined benefit plans (Subtopic 715-20)

In August 2018, the FASB issued an update which modifies the disclosure requirements for defined benefit plans. The amendments in this ASU are the result of a broader disclosure project called FASB Concepts Statement, *Conceptual Framework for Financial Reporting - Chapter 8: Notes to Financial Statements*, which the FASB finalized on August 28, 2018. The amendments remove disclosures that no longer are considered cost beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant.

The amendments are effective for fiscal years ending after December 15, 2020, for public business entities. Early adoption is permitted for all entities, but adoption is applied on a retrospective basis to all periods presented in the period of adoption. The Company is currently assessing the impact the adoption of this standard will have on the Company's financial position and its related disclosures.

Internal-use software (Subtopic 350-40)

In August 2018, the FASB issued a new standard which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license), regardless of whether they convey a license to the hosted software. The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this update.

The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption of the amendments in this update is permitted, including adoption in any interim period, for all entities.The Company is currently assessing the impact the adoption of this standard will have on the Company's financial position and its related disclosures.

NOTE 3. DISCONTINUED OPERATIONS

Discontinued operations for the thirteen weeks ended May 5, 2018 comprise the financial results of the Gilt and HBC Europe businesses, which were disposed of in the second and fourth quarters of fiscal 2018, respectively. The divestiture of these businesses was the result of strategic shifts by the Company and will have a major effect on the Company's operations and financial results in future periods. As a result, the revenue, expenses and cash flows related to Gilt's and HBC Europe's operations have been presented in these interim consolidated financial statements as discontinued operations on a retroactive basis.

During the thirteen weeks ended May 5, 2018, certain of Gilt's assets and liabilities were reclassified to assets and liabilities of discontinued operations held for sale and recorded at the lower of their carrying value and their fair value less estimated selling costs. As a result, the Company recognized a pre-tax impairment loss of $77 million and a related tax benefit of $4 million for the period, which were included in net loss from discontinued operations.

The combined net loss from discontinued operations for the thirteen weeks ended May 5, 2018 was comprised of:

(millions of Canadian dollars)	
Retail sales	1,051
Credit revenue and other	4
Total revenue	1,055
Cost of sales	(586)
Gross profit	469
Selling, general and administrative expenses	(586)
Depreciation and amortization	(63)
Impairment	(77)
Operating loss	(257)
Interest expense, net	(11)
Loss before income tax	(268)
Income tax benefit	2
Net loss	(266)

NOTE 4. RETAIL SALES

The Company's operations are seasonal in nature. Accordingly, retail sales will vary by quarter based on consumer spending behaviour. Historically, the Company's retail sales 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 sales 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.

Total retail sales by banner were as follows:

	Thirteen weeks ended	
(millions of Canadian dollars)	May 4, 2019	May 5, 2018
Hudson's Bay	**599**	631
Home Outfitters	**42**	35
Lord & Taylor	**251**	334
Saks Fifth Avenue	**879**	862
Saks OFF 5TH	**311**	292
	2,082	2,154

NOTE 5. TRANSACTION, RESTRUCTURING AND OTHER (COSTS) INCOME

Transaction, restructuring and other (costs) income relate primarily to gains and losses associated with acquisitions, divestitures, store closures and ongoing restructuring programs. Transaction, restructuring and other (costs) income for the thirteen weeks ended May 5, 2018 included $32 million of lease termination fee income recorded with respect to two Lord & Taylor stores that closed in the first quarter of 2018.

NOTE 6. EQUITY-METHOD INVESTMENTS - REAL ESTATE

The following table summarizes the details of the Company's equity-method investments whose principal activities are real estate investments:

(millions of Canadian dollars, except ownership interest)	Principal Place of Business	May 4, 2019 Ownership Interest	May 4, 2019 Carrying Value	Feb 2, 2019 Ownership Interest	Feb 2, 2019 Carrying Value
RioCan-HBC JV	Canada	**87.4%**	**(234)**	87.4%	(239)
HBS Joint Venture	United States	**62.4%**	**42**	62.4%	52
424 Fifth Avenue Holdings LLC ("424 LLC")	United States	**43.5%**	**169**	—	—
European Real Estate JV	Germany	**50.0%**	**482**	50.0%	443
Other joint venture	Germany	**50.0%**	**60**	50.0%	59
			519		315

a) RioCan-HBC JV

During thirteen weeks ended May 5, 2018, RioCan made a capital contribution of $1 million to the RioCan-HBC JV. 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 May 5, 2018 and the Company realized a dilution gain of $1 million during the thirteen weeks ended May 5, 2018.

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

(millions of Canadian dollars)	Thirteen weeks ended May 4, 2019
Equity method investment as at the beginning of the year	**(239)**
Share of net earnings from joint venture	**18**
Distributions of earnings from joint venture	**(13)**
Equity method investment as at the end of the period	**(234)**

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)	May 4, 2019	Feb 2, 2019
Cash	**1**	1
Non-current financial assets	**150**	148
Non-current other assets	**411**	361
Current financial liabilities	**(7)**	(359)
Current other liabilities	**(8)**	(8)
Non-current financial liabilities	**(679)**	(282)
Net assets at 100%	**(132)**	(139)
Company's share of net assets in the RioCan-HBC JV based on ownership interest	**(116)**	(121)
Less gain on contributions of assets to the RioCan-HBC JV not recognized related to Company's ownership interest	**(118)**	(118)
Company's carrying value of investment in the RioCan-HBC JV	**(234)**	(239)

Summarized statements of earnings of the RioCan-HBC JV:

(millions of Canadian dollars)	Thirteen weeks ended	
	May 4, 2019	**May 5, 2018**
Rental revenue	**25**	24
Rental revenue - recoveries	**1**	—
Property operating costs	**(1)**	—
Depreciation and amortization	**(2)**	(3)
Interest income	**3**	3
Interest expense	**(6)**	(8)
Net earnings at 100%	**20**	16
Company's share of net earnings in the RioCan-HBC JV based on ownership interest	**18**	14
Reclassification of rental income to SG&A related to the Company's ownership interest in the RioCan-HBC JV	**(21)**	(20)
Company's share of net loss in the RioCan-HBC JV	**(3)**	(6)

b) HBS Joint Venture

The HBS Joint Venture is a VIE as the voting rights of some of its partners are disproportionate to their equity interests. Since the Company and Simon have joint control of the entity, the Company is not the primary beneficiary of the VIE. Therefore, the HBS Joint Venture is accounted for as an unconsolidated VIE and the equity method of accounting is applied.

On October 7, 2018, the HBS Joint Venture distributed to its partners the portfolio of 41 German properties. As a result, the assets, liabilities, revenue, expenses and cash flows related to the 41 German properties are not included in the financial results of the HBS Joint Venture subsequent to the distribution date. As the disposal of the 41 German properties resulted from a strategic shift by the HBS Joint Venture, which will have a major effect on its operations and financial results in future periods, their financial results prior to the distribution date have been presented as discontinued operations on a retroactive basis.

During the thirteen weeks ended May 4, 2019 and the thirteen weeks ended May 5, 2018, Simon made no capital contributions to the HBS Joint Venture.

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

(millions of Canadian dollars)	Thirteen weeks ended May 4, 2019
Equity investment as at the beginning of the year	**52**
Share of net earnings from joint venture	**10**
Distributions of earnings from joint venture	**(19)**
Net foreign currency exchange and other	**(1)**
Equity investment as at the end of the period	**42**

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

(millions of Canadian dollars)	**May 4, 2019**	Feb 2, 2019
Cash	**58**	13
Non-current other assets	**1,302**	1,194
Current financial liabilities	**(216)**	(210)
Current other liabilities	**(67)**	(13)
Non-current financial liabilities	**(1,009)**	(900)
Net assets at 100%	**68**	84
Company's carrying value of investment in the HBS Joint Venture	**42**	52

Summarized statements of earnings of the HBS Joint Venture:

(millions of Canadian dollars)	Thirteen weeks ended May 4, 2019	Thirteen weeks ended May 5, 2018
Rental revenue	**43**	42
Rental revenue - recoveries	**4**	2
Property operating costs	**(6)**	(4)
General and administrative expenses	**(1)**	(1)
Depreciation and amortization	**(9)**	(9)
Interest expense	**(15)**	(15)
Net earnings - continuing operations	**16**	15
Net earnings - discontinued operations, net of taxes	**—**	8
Net earnings at 100%	**16**	23
Company's share of net earnings in the HBS Joint Venture based on ownership interest	**10**	14
Reclassification of rental income to SG&A related to the Company's ownership interest in the HBS Joint Venture	**(28)**	(27)
Company's share of net loss in the HBS Joint Venture	**(18)**	(13)

c) *European Real Estate JV*

The European Real Estate JV was formed on October 7, 2018 upon distribution of the portfolio of 41 German properties by the HBS Joint Venture to its partners. On January 31, 2019, the Company sold a 50% equity interest in 18 additional German properties. The resulting 50-50 joint venture between HBC and SIGNA has been combined with the European Real Estate JV as it is governed by the European Real Estate JV's management agreement.

The following table details the changes in the Company's investment in the European Real Estate JV:

(millions of Canadian dollars)	Thirteen weeks ended May 4, 2019
Equity investment as at the beginning of the year	**443**
Investment in joint venture	**13**
Share of net earnings from joint venture	**16**
Net foreign currency exchange and other	**10**
Equity investment as at the end of the period	**482**

Summarized financial information of the European Real Estate JV and reconciliation to the carrying amount of the investment in the consolidated balance sheet are set out below:

(millions of Canadian dollars)	May 4, 2019	Feb 2, 2019
Cash	**87**	63
Current other financial assets	**489**	451
Non-current financial assets	**214**	—
Non-current other assets	**3,550**	3,145
Current financial liabilities	**(155)**	(148)
Current other liabilities	**(24)**	(25)
Non-current financial liabilities	**(2,753)**	(2,155)
Non-current other liabilities	**(454)**	(455)
Net assets at 100%	**954**	876
Company's share of net assets in the European Real Estate JV based on ownership interest	**477**	438
Plus capitalized transaction costs	**5**	5
Company's carrying value of investment in the European Real Estate JV	**482**	443

Summarized statement of earnings of the European Real Estate JV:

(millions of Canadian dollars)	Thirteen weeks ended May 4, 2019
Rental revenue	**79**
Rental revenue - recoveries	**3**
Property operating costs	**(9)**
General and administrative expenses	**(2)**
Depreciation and amortization	**(11)**
Interest expense	**(20)**
Income tax expense	**(8)**
Net earnings at 100%	**32**
Company's share of net earnings in the European Real Estate JV	**16**

d) 424 LLC

On February 8, 2019, the Company closed the sale of the Lord & Taylor Fifth Avenue building with a transaction value of $1.1 billion (U.S.$850 million) to an affiliate of WeWork Property Investors ("WPI"), which holds preferred shares of the Company jointly with Rhône. The carrying value of the property was classified as an asset held for sale as at February 2, 2019. The Company received aggregate cash proceeds of $955 million (U.S.$725 million), of which $793 million (U.S.$600 million) less transaction costs were received upon close and $162 million (U.S.$125 million) had been received as non-refundable deposits in prior years. Of the proceeds received on close, $23 million was paid in transaction costs, $515 million was used to retire the Lord & Taylor Mortgage, and the remainder was used to pay down the Global ABL (as defined in note 11).

Prior to close, WPI exercised its option to convert the remaining U.S.$125 million portion of the transaction value into a 43.5% non-controlling equity interest in 424 LLC, the current owner of the building. This equity interest is accounted for using the equity method. There was no allocation of profit or loss or distributions from 424 LLC in the thirteen weeks ended May 4, 2019.

The Company recorded a gain on sale of the property of $817 million during the thirteen weeks ended May 4, 2019, net of transaction costs of $23 million.

NOTE 7. INVESTMENT IN THE EDS GROUP

On November 30, 2018, HBC Europe's retail operations were contributed to the EDS Group, in which HBC has a 49.99% interest. The EDS Group's fiscal year end is September 30. The Company records its share of net loss in the EDS Group on a one-month lag. To the extent that the EDS Group has material transactions during the one-month lag period, the Company records its share of income or loss related to these transactions in the current period.

The following table details the changes in the Company's investment in the EDS Group:

(millions of Canadian dollars)	Thirteen weeks ended May 4, 2019
Investment as at the beginning of the year	**284**
Share of net loss from the EDS Group	**(133)**
Net foreign currency exchange and other	**1**
Equity investment as at the end of the period	**152**

Summarized financial information of the investment as at March 31, 2019 and December 31, 2018, and reconciliation to the carrying amounts of the investment in the EDS Group in the consolidated balance sheets are set out below:

(millions of Canadian dollars)	May 4, 2019	Feb 2, 2019
Cash	**598**	729
Current financial assets	**1,380**	1,481
Current other assets	**67**	97
Non-current other assets	**3,069**	2,653
Current financial liabilities	**(651)**	(755)
Current other liabilities	**(1,118)**	(814)
Non-current financial liabilities	**(986)**	(979)
Non-current other liabilities	**(2,095)**	(1,496)
Net assets at 100%	**264**	916
Company's share of net assets in the EDS Group based on ownership interest	**132**	458
Adjustments for the Company's share of material transactions during the one-month lag	**—**	(194)
Plus capitalized transaction costs	**20**	20
Company's carrying value of investment in the EDS Group	**152**	284

Summarized statement of net loss of the investment in the EDS Group for the period January 1 to March 31, 2019 is comprised of:

(millions of Canadian dollars)	Thirteen weeks ended May 4, 2019
Retail sales	**1,481**
Cost of sales	**(901)**
SG&A	**(830)**
Depreciation and amortization	**(65)**
Interest expense, net	**(12)**
Income tax benefit	**61**
Net loss at 100%	**(266)**
Company's share of net loss in the EDS Group	**(133)**

NOTE 8. INTEREST EXPENSE, NET

(millions of Canadian dollars)	Thirteen weeks ended	
	May 4, 2019	May 5, 2018
Interest expense on long-term loans and borrowings	**27**	33
Interest expense on short-term loans and borrowings	**8**	7
Interest expense on finance leases	**7**	7
Other components of net periodic pension cost (income) (note 10)	**(4)**	(4)
Interest on finance liability	**4**	—
Gain on settlement of interest rate swaps	**(16)**	—
Lord & Taylor Mortgage prepayment fee (note 11)	**10**	—
Write-off of deferred financing costs (note 11)	**7**	—
Other finance income	**—**	(1)
	43	42

a) Interest on finance liability

As a result of the adoption of ASC 842, *Leases* effective February 3, 2019, the deferred gain on a sale and leaseback transaction from prior periods, of which $202 million was unamortized as at February 2, 2019, was reclassified to a finance liability. In accordance with the requirements of ASC 842, a portion of monthly rent payments of the related lease are allocated between

the repayment of the finance lease and accrued interest. Interest is accrued based on the Company's incremental borrowing rate. The finance liability is included in other liabilities on the consolidated balance sheets.

b) Gain on settlement of interest rate swaps

On February 8, 2019, in connection with the retirement of the Lord & Taylor Mortgage (note 11), the Company terminated two interest rate swap contracts resulting in the receipt of $16 million, which represented the fair value of the contract assets on the settlement date. The pre-tax gain of $16 million and the associated tax expense of $4 million were reclassified from accumulated other comprehensive income to the statement of operations.

NOTE 9. INCOME TAXES

	Thirteen weeks ended	
(millions of Canadian dollars)	**May 4, 2019**	May 5, 2018
Income tax expense (benefit)	**218**	(43)
Effective tax rate	**44.2%**	24.6%
Statutory tax rate	**26.7%**	26.7%

The effective tax rate of 44.2% for the thirteen weeks ended May 4, 2019 increased from 24.6% for the thirteen weeks ended May 5, 2018 primarily due to the sale of the Lord & Taylor Fifth Avenue building (note 6).

NOTE 10. PENSION AND BENEFIT PLAN EXPENSE

	Thirteen weeks ended					
	May 4, 2019			May 5, 2018		
(millions of Canadian dollars)	**CDN Pension and Benefit Plans**	**U.S. Pension Plans**	**Total**	**CDN Pension and Benefit Plans**	**U.S. Pension Plans**	**Total**
Service cost	**4**	**—**	**4**	4	—	4
Other components of net periodic pension cost (income)						
Interest cost	**4**	**1**	**5**	8	1	9
Expected return on plan assets	**(8)**	**(1)**	**(9)**	(12)	(1)	(13)
	(4)	**—**	**(4)**	(4)	—	(4)
Net periodic benefit cost	**—**	**—**	**—**	—	—	—

NOTE 11. 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.

Current loans and borrowings

(millions of Canadian dollars)	**May 4, 2019**	Feb 2, 2019
Global ABL	**709**	472
Current portion of long-term loans and borrowings	**2**	8
	711	480
Less: unamortized costs	**(8)**	(9)
	703	471

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

(millions of Canadian dollars)	May 4, 2019	Feb 2, 2019
Gross borrowing base availability	**2,302**	1,948
Drawings	**(709)**	(472)
Outstanding letters of credit	**(140)**	(240)
Borrowing base availability net of drawings and letters of credit	**1,453**	1,236

As the Global ABL is available for and used to finance working capital needs, capital expenditures, operating activities of the Company's Canadian and U.S operations, and other general corporate purposes, it has been classified in the interim 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)	May 4, 2019	Feb 2, 2019
U.S. Term Loan B	**436**	426
Lord & Taylor Mortgage	**—**	510
Saks Mortgage	**1,678**	1,638
Other loans	**27**	28
	2,141	2,602
Less: unamortized costs	**(48)**	(56)
Less: amounts due within one year	**(2)**	(8)
	2,091	2,538

On February 8, 2019, the Company retired the Lord & Taylor Mortgage using a portion of the proceeds from the sale of the Lord & Taylor Fifth Avenue building (note 6). In connection with the repayment of the Lord & Taylor Mortgage, the Company wrote off the remaining deferred financing costs of $7 million and incurred a prepayment fee of $10 million.

NOTE 12. LEASES

Operating lease arrangements

The Company conducts a substantial part of its operations from leased stores in shopping and power centres, and also leases warehouse facilities, administrative facilities and equipment.

Many of the Company's store leases require equal monthly rent payments over the lease term. Lease agreements may also include rent holidays, rent escalation clauses and/or contingent rent provisions based on a percentage of sales in excess of specified levels.

The components of lease expense in the thirteen weeks ended May 4, 2019 were as follows:

		Thirteen weeks ended
(millions of Canadian dollars)	Classification	May 4, 2019
Gross operating lease cost	SG&A expense	**128**
Share of rent expense to equity-method investments - real estate	SG&A expense	**(49)**
Finance lease cost:		
Amortization of right-of-use assets	Depreciation and amortization	**9**
Interest on lease liabilities	Net interest expense	**7**
Variable lease cost	SG&A expense	**1**
Sublease income	SG&A expense	**(6)**
Total lease cost		**90**

Supplemental cash flow information related to leases was as follows:

(millions of Canadian dollars)	Thirteen weeks ended May 4, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	**140**
Operating cash flows from finance leases	**4**
Financing cash flows from finance leases	**10**

Maturities of lease liabilities are as follows:

(millions of Canadian dollars)	Operating leases	Finance leases
Fiscal year:		
2019 (excluding the thirteen weeks ended May 4, 2019)	**418**	**51**
2020	**501**	**52**
2021	**550**	**30**
2022	**525**	**28**
2023	**559**	**21**
Thereafter	**5,659**	**1,181**
Total lease payments	**8,212**	**1,363**
Less imputed interest	**(3,699)**	**(1,012)**
Total	**4,513**	**351**

Lease term and discount rate:

(millions of Canadian dollars)	May 4, 2019
Weighted average remaining lease term (years)	
Operating leases	15
Finance leases	35
Weighted average discount rate (%)	
Operating leases	7.9%
Finance leases	7.7%

NOTE 13. FINANCIAL INSTRUMENTS

The following table provides a comparison of carrying and fair values of certain financial instruments as at May 4, 2019 and February 2, 2019:

(millions of Canadian dollars)	May 4, 2019		Feb 2, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Forward foreign currency contracts[1]	**6**	**6**	1	1
Interest rate swaps[2]	**—**	**—**	17	17
Global ABL	**(709)**	**(709)**	(472)	(472)
U.S. Term Loan B	**(436)**	**(431)**	(426)	(418)
Lord & Taylor Mortgage (note 11)	**—**	**—**	(510)	(494)
Saks Mortgage	**(1,678)**	**(1,695)**	(1,638)	(1,620)
Other loans	**(27)**	**(27)**	(28)	(28)

(1) Included in other current assets.

(2) The interest rate swaps related to the Lord & Taylor Mortgage were settled upon repayment of the mortgage (notes 8, 11). Prior to settlement, they were included in other current assets.

As at May 4, 2019 and February 2, 2019, the fair value of all other current financial assets and liabilities approximate their carrying value due to their short-term nature.

The fair values of the Global ABL, U.S. Term Loan B, Lord & Taylor Mortgage (as at February 2, 2019), 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.

The fair values of forward foreign currency contracts and interest rate swaps (as at February 2, 2019) 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.

The fair value of financial instruments are classified and measured according to the following fair value hierarchy:

- Level 1: fair value measurement using quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value measurement using inputs other than quoted prices included within Level 1 that are either directly or indirectly observable; and
- Level 3: fair value measurement using unobservable inputs in which little or no market activity exists, therefore, requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

All financial instruments measured at fair value are valued using inputs other than quoted prices that are observable for the asset or liability and are therefore categorized as Level 2 according to the fair value hierarchy.

Fair values of Level 2 financial instruments are determined using valuation models which require the use of inputs. Those inputs are based on external, readily observable market inputs, including factors such as interest rate yield curves, currency rates and price and rate volatilities, as applicable. Interest rate derivatives are valued using a discounted cash flow model based on market interest rate curves at the period-end date. The forward foreign currency contracts and embedded derivatives are valued based on the difference between contract rates and spot rates at the period-end date, discounted to reflect the time-value of money. The interest rate swaps are valued based on the difference between the exercise rate and the spot rate, volatility of exchange rates and market interest rates at the period-end date.

Concentration of credit risk

The Company's exposure to credit risk arises if a debtor or counterparty to a financial instrument fails to meet its obligations, and arises principally from short-term deposits, receivables, and derivative instruments that are in a gain position. Credit risk is mitigated by various techniques including selecting counterparties based on acceptable credit ratings and minimizing the concentration of positions with individual counterparties. There is no concentration of trade receivables balances. The Company does not consider its exposure to credit risk to be material.

NOTE 15. SHARE BASED COMPENSATION

During the thirteen weeks ended May 4, 2019 the following share-based units were granted:

	Thirteen weeks ended			
	May 4, 2019		May 5, 2018	
(millions of Canadian dollars, except number of equity awards)	**New grants**	**Fair Value**	New grants	Fair Value
Stock options	**—**	**—**	450,000	2
Deferred share units ("DSUs")	**252,325**	**2**	189,111	2
Restricted share units ("RSUs")	**2,700,296**	**21**	1,142,231	11
Performance share units ("PSUs")	**937,866**	**7**	917,604	8

The assumptions used to measure the fair value of stock options granted during the thirteen weeks ended May 5, 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 - 5.4

The fair values of the DSU, RSU and PSU 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 month. PSUs vest over a term of 3 to 4 years. Based on the achievement of specified performance targets, 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.

NOTE 15. EARNINGS (LOSS) PER SHARE

	Thirteen weeks ended	
(millions of Canadian dollars or shares except per share amounts)	**May 4, 2019**	May 5, 2018
Earnings (loss) for the period	**275**	(398)
Less: Earnings attributable to Convertible Preferred Shares	**(63)**	—
Earnings (loss) attributable to common shareholders	**212**	(398)
Loss from discontinued operations, net of tax	**—**	(266)
Earnings (loss) used in earnings per share from continuing operations	**212**	(132)
Weighted average common shares outstanding	**184**	183
Earnings (loss) per share to common shareholders - basic and diluted		
Continuing operations	**1.15**	(0.72)
Discontinued operations	**—**	(1.45)
Total operations	**1.15**	(2.17)

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 February 8, 2019, the Company sold the Lord & Taylor Fifth Avenue building to a holder of its preferred shares (note 6).

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 the thirteen weeks ended May 4, 2019 were U.S.$121 thousand (2018: 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.

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 Lord & Taylor. During the thirteen weeks ended May 4, 2019, HBC purchased goods of approximately $46 thousand (2018: $162 thousand) from these companies.

On November 30, 2018, the Company entered into an agreement with a counterparty of the European Real Estate JV pursuant to which the Company, together with SIGNA, provides a guarantee of certain related party lease obligations of the EDS Group. Under the terms of the agreement, the Company guarantees 49.99% of these lease obligations to the European Real Estate JV, in the event that the EDS Group defaults on its lease commitments. In addition, the Company has provided guarantees of 100% of the EDS Group's lease obligations related to Hudson's Bay Netherlands (the "Netherlands Leases"). SIGNA in turn has provided the Company with a guarantee of 50.01% of the Netherlands Leases. On June 10 2019, the Company entered into an agreement to release SIGNA from its guarantee (note 18).

Excluding investments, returns of capital and distributions received (note 6), transactions with the RioCan-HBC JV, the HBS Joint Venture, the European Real Estate JV and the EDS Group comprised the following:

	Thirteen weeks ended	
(millions of Canadian dollars)	**May 4, 2019**	May 5, 2018
Rent expense - continuing operations	**67**	66
Rent expense - discontinued operations	**—**	73

Balances due from (to) the equity-method investments are comprised of:

	RioCan-HBC JV		HBS Joint Venture		European Real Estate JV		EDS Group	
(millions of Canadian dollars)	**May 4, 2019**	Feb 2, 2019	**May 4, 2019**	Feb 2, 2019	**May 4, 2019**	Feb 2, 2019	**May 4, 2019**	Feb 2, 2019
Prepaid rents (included in other current assets)	**—**	9	**—**	13	**—**	—	**—**	—
Receivables (included in trade and other receivables)................	**—**	—	**1**	1	**3**	5	**—**	—
Loans [(1)] (included in other assets)...............	**—**	—	**—**	—	**—**	—	**19**	—
Current portion of operating lease liabilities....................	**(14)**	—	**(36)**	—	**—**	—	**—**	—
Operating lease liabilities....................	**(916)**	—	**(1,650)**	—	**—**	—	**—**	—

(1) The loans to the EDS Group mature in fiscal 2029 and accrue interest at a rate of 4% per annum.

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

NOTE 17. SEGMENTED REPORTING

The Company has five operating segments: Hudson's Bay, Lord & Taylor, Home Outfitters, 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 fiscal 2018 (note 3).

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

	Thirteen weeks ended	
(millions of Canadian dollars)	**May 4, 2019**	May 5, 2018
Retail sales		
Canada.....................	**683**	707
United States.....................	**1,399**	1,447
	2,082	2,154

(millions of Canadian dollars)	**May 4, 2019**	Feb 2, 2019
Non-current assets[(1)]		
Canada.....................	**2,112**	1,013
United States.....................	**6,368**	4,037
	8,480	5,050

(1) Excludes deferred tax assets, pensions and employee benefits, investments in equity-method investments - real estate and investment in the EDS Group.

NOTE 18. SUBSEQUENT EVENT

On June 10, 2019, HBC entered into definitive agreements to sell the Company's remaining stake in the European Real Estate JV, and divest its interest in the EDS Group to SIGNA, along with assumption of certain obligations for a total consideration of $1.5 billion (€1 billion). A portion of the transaction's net proceeds will be used to fully repay its outstanding $436 million U.S. Term Loan B. Upon close, HBC will completely exit its German operations. As part of the overall transaction, HBC will assume ownership of the Netherlands retail business, and release SIGNA from its 50.01% guarantee of certain obligations of Hudson's Bay Netherlands. The transaction is expected to close in fall 2019, subject to applicable regulatory approvals and other customary closing conditions. At signing, SIGNA delivered a deposit of $150 million (€100 million).