HUDSON'S BAY COMPANY

2018 Q3 INTERIM
CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

For the Thirteen and Thirty-nine Weeks Ended

November 3, 2018

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HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF LOSS

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

		Thirteen weeks ended		Thirty-nine weeks ended	
	Notes	**Nov 3, 2018**	Oct 28, 2017 (restated- note 5)	**Nov 3, 2018**	Oct 28, 2017 (restated - note 5)
Revenue	6	**2,187**	2,072	**6,491**	6,438
Cost of sales	7	**(1,326)**	(1,258)	**(3,900)**	(3,934)
Selling, general and administrative expenses ("SG&A")		**(868)**	(837)	**(2,600)**	(2,600)
Depreciation and amortization	8	**(128)**	(111)	**(370)**	(341)
Operating loss		**(135)**	(134)	**(379)**	(437)
Finance costs, net	9	**(53)**	(53)	**(154)**	(143)
Share of net (loss) earnings in joint ventures	11	**(6)**	(2)	**(37)**	55
Dilution gains from investments in joint ventures	11	**2**	7	**3**	10
Loss before income tax		**(192)**	(182)	**(567)**	(515)
Income tax benefit		**68**	66	**162**	196
Net loss for the period - continuing operations		**(124)**	(116)	**(405)**	(319)
Net loss for the period - discontinued operations, net of taxes	5	**(40)**	(127)	**(423)**	(346)
Net loss for the period		**(164)**	(243)	**(828)**	(665)
Loss per share - basic and diluted	16				
Continuing operations		**(0.52)**	(0.64)	**(1.72)**	(1.75)
Discontinued operations		**(0.17)**	(0.69)	**(1.79)**	(1.90)
Total operations		**(0.69)**	(1.33)	**(3.51)**	(3.65)

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

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(millions of Canadian dollars)
(unaudited)

	Thirteen weeks ended		Thirty-nine weeks ended	
	Nov 3, 2018	Oct 28, 2017	**Nov 3, 2018**	Oct 28, 2017
Net loss	**(164)**	(243)	**(828)**	(665)
Other comprehensive income (loss), net of tax as applicable:				
Items that may be reclassified subsequently to earnings or loss:				
Currency translation adjustment	**12**	59	**77**	(35)
Reclassification of cumulative currency translation adjustments relating to foreign operations disposed of during the period	**—**	—	**5**	—
Net (loss) gain on net investment hedge	**(3)**	(9)	**(16)**	6
Net (loss) gain on derivatives designated as cash flow hedges	**(2)**	3	**4**	(3)
Reclassification to non-financial assets of net (gains) losses on derivatives designated as cash flow hedges	**(5)**	6	**(4)**	3
Reclassification to statement of loss of net losses (gains) on derivatives designated as cash flow hedges	**5**	9	**17**	(5)
Other comprehensive income (loss)	**7**	68	**83**	(34)
Total comprehensive loss	**(157)**	(175)	**(745)**	(699)

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

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the thirty-nine weeks ended November 3, 2018 and October 28, 2017

(millions of Canadian dollars)
(unaudited)

					Accumulated Other Comprehensive Income ("AOCI")					
	Notes	**Share capital**	**Deficit**	**Contributed surplus**	Currency translation adjustment	Employee benefits	Net investment hedge	Cash flow hedges	**AOCI (note 5)**	**Total shareholders' equity**
As at February 3, 2018		**2,045**	**(120)**	**144**	342	11	(20)	5	**338**	**2,407**
IFRS 9 transitional adjustment	2	—	15	—	—	—	—	—	—	15
Total comprehensive loss		—	(828)	—	82	—	(16)	17	83	(745)
Share based compensation	15	5	—	38	—	—	—	—	—	43
Dividends	16	—	(7)	—	—	—	—	—	—	(7)
As at November 3, 2018		**2,050**	**(940)**	**182**	424	11	(36)	22	**421**	**1,713**

					Accumulated Other Comprehensive Income ("AOCI")					
	Notes	**Share capital**	**Retained earnings (Deficit)**	**Contributed surplus**	Currency translation adjustment	Employee benefits	Net investment hedge	Cash flow hedges	**AOCI**	**Total shareholders' equity**
As at January 28, 2017		**1,422**	**477**	**117**	430	(2)	(37)	3	**394**	**2,410**
Total comprehensive loss		—	(665)	—	(35)	—	6	(5)	(34)	(699)
Share based compensation	15	4	—	22	—	—	—	—	—	26
Dividends		—	(13)	—	—	—	—	—	—	(13)
As at October 28, 2017		**1,426**	**(201)**	**139**	395	(2)	(31)	(2)	**360**	**1,724**

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

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(millions of Canadian dollars)
(unaudited)

	Notes	Nov 3, 2018	Oct 28, 2017	Feb 3, 2018
Assets				
Cash	10	**27**	97	70
Trade and other receivables	21	**163**	345	388
Inventories	7	**3,163**	4,070	3,367
Assets held for sale	4	**359**	275	263
Assets of discontinued operations held for sale	5	**2,963**	—	—
Other current assets		**221**	175	214
Total current assets		**6,896**	4,962	4,302
Property, plant and equipment		**3,941**	5,228	5,155
Intangible assets and goodwill		**1,111**	1,749	1,629
Pensions and employee benefits		**163**	167	171
Deferred tax assets		**314**	354	339
Investments in joint ventures	11	**500**	606	602
Other assets		**54**	22	36
Total assets		**12,979**	13,088	12,234
Liabilities				
Loans and borrowings	12	**1,147**	1,727	363
Finance leases		**29**	30	35
Trade payables	21	**1,186**	1,744	1,422
Other payables and accrued liabilities		**725**	1,083	1,031
Deferred revenue		**108**	114	139
Provisions		**122**	192	220
Liabilities of discontinued operations held for sale	5	**2,324**	—	—
Other current liabilities	13	**236**	145	290
Total current liabilities		**5,877**	5,035	3,500
Loans and borrowings	12	**2,751**	2,696	2,616
Finance leases		**322**	505	526
Provisions		**68**	52	85
Pensions and employee benefits		**180**	705	714
Deferred tax liabilities		**169**	535	308
Investment in joint venture	11	**221**	44	227
Other liabilities	13	**1,678**	1,792	1,851
Total liabilities		**11,266**	11,364	9,827
Shareholders' equity				
Share capital	16	**2,050**	1,426	2,045
Deficit		**(940)**	(201)	(120)
Contributed surplus		**182**	139	144
Accumulated other comprehensive income		**421**	360	338
Total shareholders' equity		**1,713**	1,724	2,407
Total liabilities and shareholders' equity		**12,979**	13,088	12,234

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

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of Canadian dollars)
(unaudited)

	Notes	Thirty-nine weeks ended Nov 3, 2018	Thirty-nine weeks ended Oct 28, 2017 (restated - note 5)
Operating activities			
Net loss from continuing operations		**(405)**	(319)
Income tax benefit		**(162)**	(196)
Dilution gains from investments in joint ventures	11	**(3)**	(10)
Share of net loss (earnings) in joint ventures	11	**37**	(55)
Finance costs, net	9	**154**	143
Operating loss		**(379)**	(437)
Net cash income taxes paid		**(4)**	(1)
Interest paid in cash		**(142)**	(126)
Distributions of earnings from joint ventures	11	**155**	159
Depreciation and amortization	8	**370**	341
Net defined benefit pension and employee benefits expense		**17**	16
Other operating activities		**2**	(11)
Share of rent expense to joint ventures	11	**(145)**	(145)
Share based compensation	15	**44**	26
Settlement of share based compensation grants	15	**(4)**	(3)
Changes in operating working capital	20	**(317)**	(141)
Cash outflow for operating activities from continuing operations		**(403)**	(322)
Cash outflow for operating activities from discontinued operations		**(566)**	(516)
Net cash outflow for operating activities		**(969)**	(838)
Investing activities			
Capital investments		**(327)**	(409)
Proceeds from capital and non-capital landlord incentives		**259**	141
Capital investments less proceeds from landlord incentives		**(68)**	(268)
Proceeds from lease terminations		**26**	1
Deposit for sale of Lord & Taylor Fifth Avenue building	4	**33**	—
Proceeds on disposal of assets		**9**	3
Proceeds on sale of Gilt operations	5	**41**	—
Return of capital from joint venture	11	**—**	39
Other investing activities		**(12)**	(13)
Cash inflow (outflow) for investing activities from continuing operations		**29**	(238)
Cash outflow for investing activities from discontinued operations		**(68)**	(219)
Net cash outflow for investing activities		**(39)**	(457)
Financing activities			
Repayments		**(6)**	(5)
Long-term loans and borrowings		**(6)**	(5)
Net borrowings from asset-based credit facilities		**745**	1,102
Borrowing costs		**(1)**	(2)
Short-term loans and borrowings		**744**	1,100
Payments on finance leases		**(26)**	(18)
Dividends paid	16	**(7)**	(13)
Cash inflow from financing activities from continuing operations		**705**	1,064
Cash inflow from financing activities from discontinued operations		**321**	202
Net cash inflow from financing activities		**1,026**	1,266
Foreign exchange gain on cash		**1**	4
Increase (decrease) in cash		**19**	(25)
Cash at beginning of year		**70**	122
Cash at end of period		**89**	97
Deduct: cash reclassified to assets of discontinued operations held for sale		**(62)**	—
Cash at end of period - continuing operations		**27**	97

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

NOTE 1. GENERAL INFORMATION

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

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

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

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

On July 22, 2015, the Company and Simon Property Group Inc. ("Simon") closed their joint venture, Simon HBC Opportunities LLC (the "HBC-Simon JV"). On September 30, 2015, prior to the acquisition discussed below, the HBC-Simon JV became a wholly-owned subsidiary of HBS Global Properties LLC (the "HBS Joint Venture").

On September 30, 2015, the Company and the HBS Joint Venture acquired GALERIA Holding GmbH for €2,317 million ($3,490 million). The transaction was structured such that effectively, the Company acquired the operating business and certain properties of GALERIA Holding GmbH ("Galeria Kaufhof") while the HBS Joint Venture acquired 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 5).

On December 6, 2017, the Company issued mandatory convertible preferred shares ("Convertible Preferred Shares") to an affiliate of Rhône Capital LLC ("Rhône") for an aggregate purchase price of U.S.$500 million ($638 million) (note 16).

On September 11, 2018, the Company announced the formation of a strategic partnership with SIGNA Retail Holdings GmbH ("SIGNA") in Europe (note 5). On October 7, 2018, in connection with this agreement, HBS Joint Venture distributed to its partners the net assets of the 41 German properties to form a new joint venture (the "European Real Estate JV") (notes 11, 22).

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. In Europe, its banners include Galeria Kaufhof, Galeria INNO, Saks Fifth Avenue OFF 5TH Europe and Hudson's Bay Netherlands, together "HBC Europe". The address of the registered office of HBC is 401 Bay Street, Suite 500, Toronto, ON, M5H 2Y4.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

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

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

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Audit Committee of HBC on December 3, 2018.

Accounting standards implemented in fiscal 2018

Revenue

In May 2014, the IASB issued IFRS 15 - Revenue from Contracts with Customers ("IFRS 15"), which provides a comprehensive framework for the recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 and was applied for the first time by the Company in the first quarter of fiscal 2018.

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

After completing the analysis of its significant customer contracts, the Company has determined that the implementation of IFRS 15 did not result in any adjustments to the opening balance of deficit or to the presentation of the Company's condensed consolidated interim balance sheet.

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

Retail merchandise sales

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

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

Gift card breakage

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

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

Loyalty programs

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

Financial Instruments

In July 2014, the IASB issued IFRS 9 - Financial Instruments ("IFRS 9"), which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 and the related consequential amendments to IFRS 7 - Financial Instruments: disclosures are effective for annual periods beginning on or after January 1, 2018 and were applied for the first time by the Company in the first quarter of fiscal 2018.

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

The impact of implementing IFRS 9 on the carrying amounts of the Company's financial assets and financial liabilities is related to a prior period modification of the Company's U.S. Term Loan B (note 12), which at the time of modification did not result in the derecognition of that loan. Under IFRS 9, this modification reduces the carrying value of U.S. Term Loan B resulting in the recognition of a $15 million modification gain, which has been recognized in the opening deficit of the current period.

Classification and measurement of financial assets and financial liabilities

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

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

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

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

Impairment of financial assets

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

The Company's financial assets at amortized cost consist of trade and other receivables, cash, restricted cash and short-term deposits.

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

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

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

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

Hedge accounting

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

New accounting standard not yet implemented

Leases

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

Uncertain Tax Positions

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

NOTE 3. SEASONALITY

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

NOTE 4. ASSETS HELD FOR SALE

(millions of Canadian dollars)	Nov 3, 2018	Oct 28, 2017	Feb 3, 2018
Lord & Taylor Fifth Avenue building	**279**	275	263
Equity interest in the European Real Estate JV	**80**	—	—
	359	275	263

a) Lord & Taylor Fifth Avenue building

On October 24, 2017, the Company announced the sale of the Lord & Taylor Fifth Avenue building to an affiliate of WeWork Property Advisors ("WPA"), which holds preferred shares of the Company jointly with Rhône (note 16). The property sale has a transaction value of U.S.$850 million (approximately $1.1 billion) and is currently expected to close in the fourth quarter of fiscal 2018 (note 22), subject to the satisfaction of applicable conditions. As a result, the carrying value of the property was classified as an asset held for sale. The Lord & Taylor Mortgage (note 12) is secured by this property and will become due and payable upon its sale. The sales proceeds will be used, in part, to repay the mortgage.

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

b) Equity interest in the European Real Estate JV

As part of the Company's strategic partnership with SIGNA, the Company entered into an agreement to sell a 12.4% equity interest in the European Real Estate JV to SIGNA (note 11). Upon formation of the European Real Estate JV on October 7, 2018, the 12.4% equity interest was classified as an asset held for sale and recorded at the lower of its carrying value and its fair value less estimated selling costs. No impairment was recorded in the period as sale proceeds exceed the carrying value. The sale closed on November 30, 2018 (note 22).

NOTE 5. DISCONTINUED OPERATIONS

Discontinued operations for the thirteen and thirty-nine weeks ended November 3, 2018 were comprised of the following:

a) HBC Europe

On September 11, 2018, the Company announced the entry into definitive agreements with SIGNA to form a strategic partnership encompassing certain of HBC's European retail assets, HBC's German real estate assets and SIGNA's retail assets. Under the terms of the agreements, HBC Europe's retail operations will combine with Karstadt Warenhaus GmbH ("Karstadt") retail operations, a subsidiary of SIGNA, and be held under a newly-formed retail holding company, in which SIGNA will have a 50.01% interest and HBC will have a non-controlling 49.99% interest.

This transaction is consistent with the Company's long-term strategy to streamline operations and improve profitability. HBC Europe represents a separate line of business of the Company which, as a result of the planned sale, the Company will no longer control. As a result, the revenue, expenses and cash flows related to HBC Europe's operations have been presented in these unaudited interim condensed consolidated financial statements as discontinued operations on a retroactive basis. As at November 3, 2018, HBC Europe's assets and liabilities have been reclassified to assets and liabilities of discontinued operations held for sale and have been recorded at the lower of their carrying value and their fair value less estimated selling costs. No impairment was recorded in the period as the recovery exceeds the carrying value of HBC Europe's net assets. This transaction closed on November 30, 2018 (note 22).

b) Gilt

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

Upon closing of the transactions, the Company received aggregate cash proceeds of $41 million and a promissory note of $2 million, subject to customary adjustments. During the thirty-nine weeks ended November 3, 2018, the Company recognized a net loss on disposal of $55 million which included a purchase price adjustment of $1 million received during the thirteen weeks ended November 3, 2018.

The net loss on disposal of Gilt was comprised of the following components:

(millions of Canadian dollars)	
Impairment loss	**(81)**
Gain on disposal	**26**
Net loss on disposal	**(55)**

c) Financial results of the discontinued operations

The combined net loss from discontinued operations was comprised of:

	Thirteen weeks ended		Thirty-nine weeks ended	
(millions of Canadian dollars)	**Nov 3, 2018**	Oct 28, 2017	**Nov 3, 2018**	Oct 28, 2017
Revenue	**974**	1,088	**3,075**	3,216
Cost of sales	**(531)**	(588)	**(1,717)**	(1,747)
Selling, general and administrative expenses [(1)]	**(474)**	(544)	**(1,636)**	(1,626)
Depreciation and amortization	**—**	(62)	**(115)**	(178)
Operating loss	**(31)**	(106)	**(393)**	(335)
Finance costs	**(8)**	(9)	**(29)**	(29)
Loss before income tax	**(39)**	(115)	**(422)**	(364)
Income tax (expense) benefit	**(1)**	(12)	**(1)**	18
Net loss for the period	**(40)**	(127)	**(423)**	(346)

(1) Includes the net loss on disposal of Gilt.

As at November 3, 2018, HBC Europe's assets and liabilities of discontinued operations held for sale were as follows:

(millions of Canadian dollars)	**Nov 3, 2018**
Cash	**62**
Inventories	**830**
Trade and other receivables	**179**
Property, plant and equipment	**1,271**
Intangible assets	**470**
Deferred tax assets	**60**
Other assets	**91**
Assets of discontinued operations held for sale	**2,963**
Loans and borrowings	**321**
Finance leases	**190**
Trade payables	**382**
Other payables and accrued liabilities	**286**
Deferred revenue	**19**
Provisions	**57**
Pensions and employee benefits	**524**
Deferred tax liabilities	**28**
Other liabilities	**517**
Liabilities of discontinued operations held for sale	**2,324**

As at November 3, 2018, HBC Europe's accumulated other comprehensive (loss) income was comprised of the following items:

	Currency translation adjustment	Employee benefits	Cash flow hedges	**Total**
AOCI	(4)	(26)	2	**(28)**

NOTE 6. REVENUE

Revenue by major customer market was as follows:

(millions of Canadian dollars)	Thirteen weeks ended Nov 3, 2018	Thirteen weeks ended Oct 28, 2017 (restated - note 5)	Thirty-nine weeks ended Nov 3, 2018	Thirty-nine weeks ended Oct 28, 2017 (restated - note 5)
Department Store	**1,043**	1,029	**3,040**	3,099
Luxury	**832**	739	**2,550**	2,413
Off Price	**312**	304	**901**	926
	2,187	2,072	**6,491**	6,438

NOTE 7. INVENTORIES

Inventories on hand as at November 3, 2018, October 28, 2017 and February 3, 2018 were available for sale. The cost of merchandise inventories recognized as expense for the thirteen and thirty-nine weeks ended November 3, 2018 was $1,326 million and $3,900 million (2017:$1,258 million and $3,934 million). The write-down of merchandise inventories below cost to net realizable value as at November 3, 2018 was $90 million (October 28, 2017: $77 million; February 3, 2018: $100 million). There was no reversal of write-downs previously taken on merchandise inventories that are no longer estimated to sell below cost. Inventory has been pledged as security for certain borrowing agreements described in note 12.

NOTE 8. DEPRECIATION AND AMORTIZATION

(millions of Canadian dollars)	Thirteen weeks ended Nov 3, 2018	Thirteen weeks ended Oct 28, 2017 (restated - note 5)	Thirty-nine weeks ended Nov 3, 2018	Thirty-nine weeks ended Oct 28, 2017 (restated - note 5)
Property, plant and equipment	**100**	87	**287**	269
Intangible assets	**28**	25	**85**	74
Deferred credits	**—**	(1)	**(2)**	(2)
	128	111	**370**	341

NOTE 9. FINANCE COSTS, NET

(millions of Canadian dollars)	Thirteen weeks ended Nov 3, 2018	Thirteen weeks ended Oct 28, 2017 (restated - note 5)	Thirty-nine weeks ended Nov 3, 2018	Thirty-nine weeks ended Oct 28, 2017 (restated - note 5)
Interest expense on long-term loans and borrowings	**37**	32	**108**	99
Interest expense on short-term loans and borrowings	**10**	14	**28**	25
Interest expense on finance leases	**7**	6	**20**	18
Net interest on pensions and employee benefits	**—**	1	**—**	2
Interest income	**(1)**	—	**(1)**	—
Total interest expense, net	**53**	53	**155**	144
Saks acquisition-related finance income (note 14)	**—**	—	**(1)**	(1)
	53	53	**154**	143

NOTE 10. CASH

As at November 3, 2018, the Company did not hold any restricted cash (October 28, 2017: $20 million; February 3, 2018: $3 million).

NOTE 11. INVESTMENTS IN JOINT VENTURES

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

(millions of Canadian dollars, except ownership interest)	Principal Place of Business [1]	Nov 3, 2018 Ownership Interest	Nov 3, 2018 Carrying Value	Oct 28, 2017 Ownership Interest	Oct 28, 2017 Carrying Value	Feb 3, 2018 Ownership Interest	Feb 3, 2018 Carrying Value
RioCan-HBC JV	Canada	**87.5%**	**(221)**	88.0%	(44)	88.0%	(227)
HBS Joint Venture	United States	**62.4%**	**84**	62.4%	509	62.4%	509
European Real Estate JV [2]	Germany	**62.4%**	**320**	—	—	—	—
Other joint venture	Germany	**62.4%**	**96**	62.4%	97	62.4%	93
			279		562		375

(1) Following the distribution of net assets of the 41 German Properties into the European Real Estate JV on October 7, 2018, HBS Joint Venture continued its operations in the United States.

(2) The Company's 50.0% equity interest in the European Real Estate JV was recorded under investments in joint ventures and the remaining 12.4% equity interest was classified as an asset held for sale.

RioCan-HBC JV

During thirteen and thirty-nine weeks ended November 3, 2018, RioCan contributed $6 and $7 million (2017: $2 million). As a result of these contributions, the Company's ownership interest in the RioCan-HBC JV decreased from 88.0% as at February 3, 2018 to 87.5% as at November 3, 2018 and the Company realized dilution gains of $2 million and $3 million during thirteen and thirty-nine weeks ended November 3, 2018 (2017: $1 million).

On October 11, 2017, RioCan-HBC JV refinanced an existing mortgage on one of its properties. As a result of the refinancing and based on the Company's ownership interest in the joint venture, HBC received net cash proceeds of $39 million.

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

(millions of Canadian dollars)	Thirteen weeks ended Nov 3, 2018	Thirteen weeks ended Oct 28, 2017	Thirty-nine weeks ended Nov 3, 2018	Thirty-nine weeks ended Oct 28, 2017
Equity investment as at the beginning of the period	**(224)**	(4)	**(227)**	(9)
Share of net earnings from joint venture	**16**	17	**46**	56
Dilution gains from changes in equity interest	**2**	1	**3**	1
Return of capital from joint venture	**—**	(39)	**—**	(39)
Distributions of earnings from joint venture	**(15)**	(19)	**(43)**	(53)
Equity investment as at the end of the period	**(221)**	(44)	**(221)**	(44)

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)	Nov 3, 2018	Oct 28, 2017	Feb 3, 2018
Cash	**2**	1	3
Current other financial assets	**—**	7	—
Current other assets	**1**	2	—
Non-current financial assets	**149**	146	147
Non-current other assets	**1,681**	1,711	1,703
Current financial liabilities	**(362)**	(10)	(450)
Current other liabilities	**(8)**	—	(8)
Non-current financial liabilities	**(414)**	(581)	(338)
Net assets at 100%	**1,049**	1,276	1,057
Company's share of net assets in the RioCan-HBC JV based on ownership interest	**918**	1,123	930
Less gain on contributions of assets to the RioCan-HBC JV not recognized related to Company's ownership interest	**(1,139)**	(1,167)	(1,157)
Company's carrying value of investment in the RioCan-HBC JV	**(221)**	(44)	(227)

Summarized statements of earnings of the RioCan-HBC JV:

	Thirteen weeks ended		Thirty-nine weeks ended	
(millions of Canadian dollars)	**Nov 3, 2018**	Oct 28, 2017	**Nov 3, 2018**	Oct 28, 2017
Rental revenue	**27**	27	**82**	82
Rental revenue - recoveries	**2**	2	**6**	6
Property operating costs	**(4)**	(5)	**(9)**	(10)
Depreciation and amortization	**(11)**	(11)	**(33)**	(31)
Finance income	**3**	3	**8**	8
Finance costs	**(8)**	(4)	**(23)**	(12)
Net earnings at 100%	**9**	12	**31**	43
Company's share of net earnings in the RioCan-HBC JV based on ownership interest	**8**	11	**27**	38
Adjustment for the Company's share of expenses not recognized by HBC	**8**	6	**19**	18
Company's share of net earnings from the RioCan-HBC JV	**16**	17	**46**	56
Reclassification of rental income to SG&A related to the Company's ownership interest in the RioCan-HBC JV	**(22)**	(21)	**(64)**	(63)
Company's share of net loss in the RioCan-HBC JV	**(6)**	(4)	**(18)**	(7)

HBS Joint Venture

On October 7, 2018, the HBS Joint Venture distributed to its partners the portfolio of the 41 German properties. As a result, the assets, liabilities, revenue, expenses and cash flows related to the 41 German properties are not included in financial results of the HBS Joint Venture subsequent to the distribution date. As the 41 German properties represented a separate line of business of the HBS Joint Venture, their financial results prior to the distribution date have been presented as discontinued operations on a retroactive basis.

During the thirteen and thirty-nine week periods ended November 3, 2018, Simon made no capital contributions to the HBS Joint Venture (2017: U.S.$16 million ($21 million) and U.S.$23 million ($30 million)). As a result of the contributions made during the thirteen and thirty-nine weeks ended October 28, 2017, the Company's ownership interest in the HBS Joint Venture decreased from 63.4% as at January 28, 2017 to 62.4% as at October 28, 2017 and the Company realized dilution gains of $6 million and $9 million in the respective periods.

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

	Thirteen weeks ended		Thirty-nine weeks ended	
(millions of Canadian dollars)	**Nov 3, 2018**	Oct 28, 2017	**Nov 3, 2018**	Oct 28, 2017
Equity investment as at the beginning of the period	**497**	493	**509**	481
Share of net earnings from joint venture	**23**	28	**57**	144
Dilution gains from changes in equity interest	**—**	6	**—**	9
Distributions of earnings from joint venture	**(30)**	(35)	**(102)**	(106)
Distribution of net assets of 41 German properties	**(402)**	—	**(402)**	—
Net foreign currency exchange and other	**(4)**	17	**22**	(19)
Equity investment as at the end of the period	**84**	509	**84**	509

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

(millions of Canadian dollars)	**Nov 3, 2018**	Oct 28, 2017	Feb 3, 2018
Cash	**13**	18	51
Current other financial assets	**—**	18	20
Non-current other assets	**2,128**	5,252	5,267
Current financial liabilities	**(211)**	(306)	(313)
Current other liabilities	**(13)**	—	(32)
Non-current financial liabilities	**(901)**	(2,887)	(2,920)
Non-current other liabilities	**—**	(399)	(411)
Net assets at 100%	**1,016**	1,696	1,662
Company's share of net assets in the HBS Joint Venture based on ownership interest	**634**	1,060	1,037
Less gain on contribution of assets to the HBS Joint Venture not recognized related to Company's ownership interest	**(550)**	(551)	(528)
Company's carrying value of investment in the HBS Joint Venture	**84**	509	509

Summarized statements of earnings of the HBS Joint Venture:

	Thirteen weeks ended		**Thirty-nine weeks ended**	
(millions of Canadian dollars)	**Nov 3, 2018**	Oct 28, 2017 (restated) (1)	**Nov 3, 2018**	Oct 28, 2017 (restated) (1)
Rental revenue	**42**	41	**127**	129
Rental revenue - recoveries	**1**	1	**5**	4
Property operating costs	**(2)**	(3)	**(7)**	(6)
General and administrative expenses	**(1)**	(1)	**(3)**	(3)
Depreciation and amortization	**(15)**	(15)	**(45)**	(48)
Finance costs	**(15)**	(14)	**(45)**	(44)
Earnings for the period - continuing operations	**10**	9	**32**	32
Earnings for the period - discontinued operations	**18**	27	**40**	171
Net earnings for the period	**28**	36	**72**	203
Company's share of net earnings in the HBS Joint Venture based on ownership interest	**18**	24	**45**	132
Adjustment for the Company's share of expenses not recognized by HBC	**5**	4	**12**	12
Company's share of net earnings from the HBS Joint Venture	**23**	28	**57**	144
Reclassification of rental income to SG&A related to the Company's ownership interest in the HBS Joint Venture (2)	**(28)**	(26)	**(81)**	(82)
Company's share of net (loss) earnings in the HBS Joint Venture	**(5)**	2	**(24)**	62

(1) Previously reported balances have been restated to present the financial results of the 41 German properties as discontinued operations.

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

European Real Estate JV

The European Real Estate JV was formed on October 7, 2018 upon distribution of the portfolio of the 41 German properties by HBS Joint Venture to its partners. As the distribution did not result in a change of control of these properties, net assets of the 41 German properties were recorded at their carrying values by the European Real Estate JV. The Company entered into an agreement with SIGNA to sell 12.4% of its 62.4% equity interest in the European Real Estate JV, which closed on November 30, 2018 (note 22). The Company's 12.4% equity interest in the European Real Estate JV of $80 million was classified as an asset held for sale as at November 3, 2018 (note 4).

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

(millions of Canadian dollars)	**Period from Oct 7, 2018 (date of formation) to Nov 3, 2018**
Equity investment as at the beginning of the period	—
Transfer of net assets of the 41 German properties	322
Share of net earnings from joint venture	5
Distributions of earnings from joint venture	(10)
Net foreign currency exchange	3
Equity investment as at the end of the period	320

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

(millions of Canadian dollars)	**Nov 3, 2018**
Cash	**49**
Current other financial assets	**3**
Non-current other assets	**3,118**
Current financial liabilities	**(110)**
Current other liabilities	**(21)**
Non-current financial liabilities	**(2,005)**
Non-current other liabilities	**(394)**
Net assets at 100%	**640**
Company's share of net assets in the European Real Estate JV based on ownership interest	**400**
Less 12.4% equity interest classified as asset held for sale (note 4)	**(80)**
Company's carrying value of investment in the European Real Estate JV	**320**

Summarized statement of earnings of the European Real Estate JV:

(millions of Canadian dollars)	**Period from Oct 7, 2018 (date of formation) to Nov 3, 2018**
Rental revenue	**22**
Rental revenue - recoveries	**1**
Depreciation and amortization	**(4)**
Finance costs	**(6)**
Income tax expense	**(3)**
Net earnings at 100%	**10**
Company's share of net earnings in the European Real Estate JV	**5**

NOTE 12. LOANS AND BORROWINGS

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

Current loans and borrowings

(millions of Canadian dollars)	Nov 3, 2018	Oct 28, 2017	Feb 3, 2018
Global ABL	**1,149**	1,741	375
Current portion of long-term loans and borrowings	**8**	8	8
	1,157	1,749	383
Less: unamortized costs	**(10)**	(22)	(20)
	1,147	1,727	363

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

(millions of Canadian dollars)	Nov 3, 2018	Oct 28, 2017	Feb 3, 2018
Gross borrowing base availability	**2,950**	2,897	2,435
Drawings (1)	**(1,461)**	(1,741)	(375)
Outstanding letters of credit (1)	**(371)**	(330)	(332)
Borrowing base availability net of drawings and letters of credit (1)	**1,118**	826	1,728

(1) As at November 3, 2018, drawings included $312 million which are included in liabilities of discontinued operations held for sale. Outstanding letters of credit included $285 million in letters of credit issued by the Company with respect to HBC Europe. Borrowing base availability net of drawings and letters of credit included $91 million with respect to HBC Europe.

As the Global ABL is available for and used to finance working capital needs, capital expenditures, operating activities of the Company's Canadian, U.S., and European operations and other general corporate purposes, it has been classified in the unaudited interim condensed consolidated balance sheets as part of current loans and borrowings. However, the Company is not required to repay any balance outstanding until the maturity date of February 5, 2021.

Long-term loans and borrowings

(millions of Canadian dollars)	Nov 3, 2018	Oct 28, 2017	Feb 3, 2018
U.S. Term Loan B	**656**	644	619
Lord & Taylor Mortgage	**512**	508	488
Saks Mortgage	**1,639**	1,609	1,548
Other loans	**28**	13	36
	2,835	2,774	2,691
Less: unamortized costs	**(76)**	(70)	(67)
Less: amounts due within one year	**(8)**	(8)	(8)
	2,751	2,696	2,616

NOTE 13. OTHER LIABILITIES

(millions of Canadian dollars)	Nov 3, 2018	Oct 28, 2017	Feb 3, 2018
Deferred landlord incentives	**1,130**	1,052	1,113
Straight-line rent liabilities	**291**	369	393
Deferred gain on sale and leaseback transaction	**205**	215	212
Deposit for sale of Lord & Taylor Fifth Avenue building (note 4)	**131**	—	93
Deferred proceeds from lease terminations	**63**	64	65
Income taxes payable	**31**	30	60
Financial liabilities	**1**	15	18
Operating lease intangible liability	**—**	104	87
Other	**62**	88	100
	1,914	1,937	2,141
Current	**236**	145	290
Non-current	**1,678**	1,792	1,851
	1,914	1,937	2,141

NOTE 14. FINANCIAL INSTRUMENTS

The fair values of the Global ABL, U.S. Term Loan B, Lord & Taylor Mortgage, Saks Mortgage and other loans are determined using either quoted prices for identical or similar securities or a discounted cash flow model that uses current market interest rates for items of similar risk. These instruments are classified within Level 2 of the fair value hierarchy.

As at November 3, 2018, October 28, 2017 and February 3, 2018, the carrying value and fair value of these debt instruments were:

(millions of Canadian dollars)	Nov 3, 2018	Oct 28, 2017	Feb 3, 2018
Carrying value (1)	**3,984**	4,515	3,066
Fair value	**3,835**	4,514	2,980

(1) Carrying values exclude unamortized costs.

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

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

As at November 3, 2018, October 28, 2017 and February 3, 2018, the fair value and carrying value of derivative financial assets and financial liabilities were as follows:

(millions of Canadian dollars)	Nov 3, 2018	Oct 28, 2017	Feb 3, 2018
Current financial assets (included in other current assets)	**30**	17	23
Current financial liabilities (included in other current liabilities)	**1**	12	18
Non-current financial liabilities (included in other liabilities)	**—**	3	—

Certain features of the warrants issued in connection with the acquisition of Saks result in the warrants being presented as derivative financial liabilities recorded at fair value in the unaudited interim condensed consolidated balance sheets. These warrants are exercisable into common shares of the Company at an exercise price of $17.00 per warrant which in certain circumstances is subject to adjustment. The 1.5 million warrants issued concurrently with the execution of the merger agreement expired on July 26, 2018 and the 5.25 million warrants issued upon closing of the acquisition of Saks will expire on November

4, 2018. In relation to these warrants, the Company recognized acquisition related finance income of less than $1 million and $1 million during the thirteen and thirty-nine weeks ended November 3, 2018 (2017: less than $1 million and $1 million) representing mark-to-market adjustments. As at November 3, 2018, the fair value of the warrants was nil (October 28, 2017: $4 million; February 3, 2018: $1 million).

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

NOTE 15. SHARE BASED COMPENSATION

Senior executive option transactions were as follows:

	Thirty-nine weeks ended			
	Nov 3, 2018		Oct 28, 2017	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of year	16,303,997	$15.55	16,289,564	$19.03
Granted	450,000	$10.12	3,521,561	$9.17
Exercised	(48,005)	$8.95	—	—
Forfeited	(1,260,688)	$16.24	(3,897,076)	$19.06
Expired	(129,048)	$19.11	—	—
Outstanding at end of period	15,316,256	$15.32	15,914,049	$16.84
Share options exercisable at end of period	7,761,875	$18.48	3,487,349	$17.08

During the thirteen and thirty-nine weeks ended November 3, 2018, the grant date fair value of senior executive options was nil and $2 million (2017: $1 million and $10 million). The weighted average share price at the date of exercise for options exercised during the thirteen and thirty-nine weeks ended November 3, 2018 was $10.92.

The following table summarizes information about the senior executive share options outstanding and exercisable as at November 3, 2018:

Range of exercise prices	**Number of outstanding options**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price**	**Number exercisable at November 3, 2018**	**Weighted average exercise price**
$8.50 to $8.99	2,017,806	5.6	$8.95	672,596	$8.95
$10.00 to $10.49	3,805,704	6.1	$10.39	—	—
$11.00 to $11.49	308,641	6.0	$11.45	102,880	$11.45
$15.00 to $15.49	99,126	4.6	$15.01	66,080	$15.01
$16.00 to $16.49	87,096	4.2	$16.28	—	—
$16.50 to $16.99	105,709	4.9	$16.96	70,470	$16.96
$17.00 to $17.49	6,382,164	4.3	$17.01	4,339,839	$17.01
$17.50 to $17.99	471,168	2.5	$17.61	471,168	$17.61
$23.50 to $23.99	1,201,349	3.8	$23.83	1,201,349	$23.83
$24.00 to $24.49	100,000	3.9	$24.22	100,000	$24.22
$28.00 to $28.49	737,493	3.6	$28.34	737,493	$28.34
Total	15,316,256	4.8	$15.32	7,761,875	$18.48

Other management option transactions were as follows:

	Thirty-nine weeks ended			
	Nov 3, 2018		Oct 28, 2017	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of year	1,371,466	$19.05	1,861,600	$19.13
Forfeited	(164,802)	$18.80	(430,268)	$19.18
Expired	(13,866)	$18.35	—	—
Outstanding at end of period	1,192,798	$19.10	1,431,332	$19.05
Share options exercisable at end of period	1,134,074	$19.23	1,010,489	$17.22

During the thirteen and thirty-nine weeks ended November 3, 2018 and October 28, 2017, no other management options were granted.

The following table summarizes information about the other management options outstanding and exercisable as at November 3, 2018:

Range of exercise prices	**Number of outstanding options**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price**	**Number exercisable at November 3, 2018**	**Weighted average exercise price**
$15.00 to $15.49	28,800	4.6	$15.01	19,188	$15.01
$16.00 to $16.49	12,800	4.2	$16.28	—	—
$17.00 to $17.49	610,398	1.9	$17.03	574,086	$17.03
$17.50 to $17.99	315,200	2.5	$17.61	315,200	$17.61
$23.50 to $23.99	44,800	3.8	$23.85	44,800	$23.85
$28.00 to $28.49	180,800	3.6	$28.34	180,800	$28.34
Total	1,192,798	2.5	$19.10	1,134,074	$19.23

The assumptions used to measure the fair value of senior executive options granted during the thirty-nine weeks ended November 3, 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

During the thirteen and thirty-nine weeks ended November 3, 2018 the following share-based units were granted:

	Thirteen weeks ended				Thirty-nine weeks ended			
	Nov 3, 2018		Oct 28, 2017		**Nov 3, 2018**		Oct 28, 2017	
	New grants	**Dividend equivalents**	New grants	Dividend equivalents	**New grants**	**Dividend equivalents**	New grants	Dividend equivalents
Deferred share units (“DSUs”)	—	**794**	—	416	**189,111**	**2,241**	142,391	2,640
Restricted share units (“RSUs”)	**80,257**	**8,380**	165,795	2,481	**1,601,804**	**24,603**	1,682,099	13,804
Performance share units (“PSUs”)	—	**7,499**	—	862	**917,604**	**21,358**	842,290	4,394
Performance restricted units (“PRSUs”)	—	**1,886**	—	1,372	—	**5,308**	—	10,416
Phantom share units	—	—	—	—	—	—	492,663	—

The grant date fair value of DSUs and RSUs granted during the thirteen and thirty-nine weeks ended November 3, 2018, were nil and $2 million (2017: nil and $1 million) and $1 million and $17 million (2017: $1 million and $15 million) respectively. The fair values of the grants were determined based on the Company’s share price at the date of the grant. RSUs granted vest over terms ranging from 12 to 36 months.

The grant date fair value of PSUs granted during the thirteen and thirty-nine weeks ended November 3, 2018, were nil and $8 million (2017: nil and $8 million). Of the PSUs granted, $8 million (2017: nil and $7 million) is expected to vest. The fair value was determined based on the Company's share price at the date of the grant and an award life of 4 years. Based on the achievement of specified performance targets,which are linked to the maximum 90-day average share price observed over the vesting period, the number of PSUs that vest will range from 50% and 150% of the number of units awarded. If at the expiry date the performance targets are not met, no PSUs will vest.

The grant date fair value of phantom shares granted during the thirty-nine weeks ended October 28, 2017 was $4 million.

Share based compensation expense

Total share based compensation expense for thirteen and thirty-nine weeks ended November 3, 2018 is summarized as follows:

	Thirteen weeks ended		Thirty-nine weeks ended	
(millions of Canadian dollars)	**Nov 3, 2018**	Oct 28, 2017 (restated - note 5)	**Nov 3, 2018**	Oct 28, 2017 (restated - note 5)
Share options	**3**	4	**7**	14
PSUs	**3**	1	**10**	(1)
RSUs	**9**	5	**23**	10
Other share based compensation (1)	**2**	1	**4**	3
	17	11	**44**	26

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

During the thirteen and thirty-nine weeks ended November 3, 2018, $2 million and $9 million (2017: $1 million and $7 million) of share based compensation was settled. Of the total settlement, $1 million and $4 million (2017: $1 million and $3 million) of common shares were purchased on the open market while the Company issued common shares for the remainder.

NOTE 16. SHARE CAPITAL

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

(millions of Canadian dollars)	Nov 3, 2018	Oct 28, 2017	Feb 3, 2018
Authorized:			
Unlimited number of common shares			
Unlimited number of preferred shares, issued in series			
Issued:			
183,305,219 common shares (October 28, 2017: 182,690,190, February 3, 2018: 182,853,504)	**1,432**	1,426	1,427
50,919,608 preferred shares (October 28, 2017: nil, February 3, 2018: 50,919,608)	**618**	—	618
	2,050	1,426	2,045

During the thirteen and thirty-nine weeks ended November 3, 2018, the Company issued 54,441 and 451,715 (2017: 41,141 and 439,045) common shares in connection with the settlement of vested share based awards.

On December 6, 2017, the Company issued 50,919,608 series "A" 8-year mandatory Convertible Preferred Shares. As at November 3, 2018, the Convertible Preferred Shares were held by WPA and Rhône. The holders have the option to convert any or all outstanding Convertible Preferred Shares into common shares. The conversion amount is equal to U.S.$500 million plus cumulative interest accrued at 5% per annum, divided by a conversion price that was set at U.S$9.82 on the issuance date. The conversion price is subject to adjustment from time to time in accordance with the terms of the Convertible Preferred Shares. As at November 3, 2018, the outstanding Convertible Preferred Shares could have been converted into 53,548,791 common shares (October 28, 2017: nil, February 3, 2018: 51,398,944).

During the thirteen and thirty-nine weeks ended November 3, 2018, the Company's Board of Directors declared the following dividends on common shares:

Date of declaration	Record date	Date paid	Dividend per share	Number of shares (millions)	Dividends paid
March 1, 2018	March 30, 2018	April 13, 2018	$0.0125	183	2
June 6, 2018	June 29, 2018	July 13, 2018	$0.0125	183	2
September 13, 2018	September 28, 2018	October 15, 2018	$0.0125	183	3
					7

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

	Thirteen weeks ended		**Thirty-nine weeks ended**	
(millions of Canadian dollars or shares except per share amounts)	**Nov 3, 2018**	Oct 28, 2017 (restated - note 5)	**Nov 3, 2018**	Oct 28, 2017 (restated - note 5)
Net loss from continuing operations	**(124)**	(116)	**(405)**	(319)
Net loss from discontinued operations	**(40)**	(127)	**(423)**	(346)
Total net loss for basic and diluted earnings per share	**(164)**	(243)	**(828)**	(665)
Weighted average common shares outstanding	**183**	183	**183**	182
Weighted average common shares that could be issued upon conversion of Convertible Preferred Shares	**53**	—	**53**	—
Basic and diluted weighted average common shares outstanding	**236**	183	**236**	182
Loss per share - basic and diluted				
Continuing operations	**(0.52)**	(0.64)	**(1.72)**	(1.75)
Discontinued operations	**(0.17)**	(0.69)	**(1.79)**	(1.90)
Total operations	**(0.69)**	(1.33)	**(3.51)**	(3.65)

NOTE 17. RELATED PARTY TRANSACTIONS

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

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

A subsidiary of L&T Acquisition has a lease with SP 35 L.P. (the "Landlord") for approximately 31,000 square feet in Shrewsbury, NJ. Amounts charged to the Company under the rental arrangement for thirteen and thirty-nine weeks ended November 3, 2018 were U.S.$110 thousand and U.S. $330 thousand (2017: U.S.$110 thousand and U.S.$330 thousand). The Landlord is an affiliate of National Realty & Development Corp. ("NRDC"). Richard and Robert Baker, the principals of NRDC, are directors of the Company.

HBC has entered into vendor agreements with 2 related companies in which Earl Rotman, a director of the Company, has a non-controlling ownership interest. The agreements relate to menswear and womenswear sold in Saks Fifth Avenue and the Department Store Group ("DSG"), as defined in note 19. During the thirteen and thirty-nine weeks ended November 3, 2018, HBC purchased goods of approximately $201 thousand and $508 thousand (2017: $449 thousand and $1 million) from these companies.

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

	Thirteen weeks ended		Thirty-nine weeks ended	
(millions of Canadian dollars)	**Nov 3, 2018**	Oct 28, 2017	**Nov 3, 2018**	Oct 28, 2017
Management agreements reimbursement - continuing operations	**—**	—	**1**	—
Rent expense - continuing operations	**67**	65	**199**	201
Rent expense - discontinued operations	**71**	70	**217**	206

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

	RioCan-HBC JV			HBS Joint Venture			European Real Estate JV [1]
(millions of Canadian dollars)	**Nov 3, 2018**	Oct 28, 2017	Feb 3, 2018	**Nov 3, 2018**	Oct 28, 2017	Feb 3, 2018	**Nov 3, 2018**
Prepaid rents (included in other current assets)	**9**	2	7	**13**	—	32	**20**
Receivables (included in trade and other receivables)	**—**	—	—	**1**	16	16	**4**
Payables (included in other current liabilities)	**—**	—	—	**—**	(3)	(4)	**—**
Loans payable (included in other current liabilities)	**—**	—	—	**—**	(12)	(12)	**—**

(1) Prepaid rents and receivables related to the European Real Estate JV were reclassified to assets of discontinued operations held for sale as of November 3, 2018.

In addition, included in other current liabilities as at October 28, 2017 were promissory notes in the aggregate amount of $12 million to both RioCan-HBC JV and RioCan ($6 million each) which pertained to a tenant improvement advance from the joint venture to the Company. The promissory notes were interest-free and were fully settled during the fourth quarter of fiscal 2017 as HBC had satisfied its tenant improvement commitment.

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

NOTE 18. CONTINGENT LIABILITIES

As at November 3, 2018, the Company is involved in and potentially subject to various claims by third parties arising out of the normal course and conduct of its business. Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims and litigation, tax assessments and reassessments, to the extent not covered by the Company's insurance policies or otherwise provided for, not to be material to the unaudited interim condensed consolidated financial statements, but may have a material impact in future periods.

NOTE 19. SEGMENTED REPORTING

The Company has 5 operating segments: Hudson's Bay, Lord & Taylor, and Home Outfitters (collectively referred to as DSG); Saks Fifth Avenue; and Saks OFF 5TH, which are aggregated into 1 reportable segment, Department Stores, as they have similar economic characteristics, products and services and customers. The Department Stores segment earns revenue from the sale of fashion apparel, accessories, cosmetics and home products to customers in a similar target market, is managed by the Chief Operating Decision Maker and supported by an integrated shared services function.

HBC Europe ceased being an operating segment of the Company following reclassification into discontinued operations during the second quarter of fiscal 2018 (note 5).

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

	Thirteen weeks ended		Thirty-nine weeks ended	
	Nov 3, 2018	Oct 28, 2017	**Nov 3, 2018**	Oct 28, 2017
(millions of Canadian dollars)		(restated - note 5)		(restated - note 5)
Retail sales				
Canada	**760**	738	**2,172**	2,145
United States	**1,427**	1,334	**4,319**	4,293
	2,187	2,072	**6,491**	6,438

(millions of Canadian dollars)	Nov 3, 2018	Oct 28, 2017	Feb 3, 2018
Non-current assets[1]			
Canada	**1,029**	1,005	1,004
United States	**4,077**	4,271	4,006
Europe	**—**	1,723	1,810
	5,106	6,999	6,820

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

NOTE 20. CHANGES IN OPERATING WORKING CAPITAL

	Thirty-nine weeks ended	
	Nov 3, 2018	Oct 28, 2017
(millions of Canadian dollars)		(restated - note 5)
Decrease in trade and other receivables	**56**	18
Increase in inventories	**(466)**	(461)
Increase in other assets	**(37)**	(12)
Increase in trade and other payables, accrued liabilities and provisions	**188**	356
Decrease in other liabilities	**(58)**	(42)
	(317)	(141)

NOTE 21. CHANGES IN PRESENTATION

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

	October 28, 2017	
(millions of Canadian dollars)	**Decrease in trade and other receivables**	**Decrease in trade payables**
Reclassification of vendor debit balances	16	16

NOTE 22. SUBSEQUENT EVENTS

a) Lord & Taylor Fifth Avenue building

On November 5, 2018, WPA exercised its option to extend the closing date from November 13, 2018 to January 31, 2019 and paid an additional deposit of U.S.$25 million ($33 million) on November 7, 2018.

b) HBC Europe

On November 30, 2018, the Company completed the first stage of the strategic transaction with SIGNA. Under the terms of the agreements:

i) HBC's European retail operations were combined with Karstadt's retail operations, and held under a newly formed retail operating company, in which SIGNA has a 50.01% interest and HBC has a 49.99% interest. HBC received €100 million ($150 million) from SIGNA, and both HBC and SIGNA contributed €100 million ($150 million) each to the retail operating company for an aggregate investment of €200 million ($300 million) to provide additional liquidity.

ii) 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. HBC's net cash proceeds, excluding transaction fees and related expenses, were €171 million ($259 million). The Company used the proceeds to permanently repay U.S.$175 million ($233 million) of the U.S. Term Loan B.

The following stages of the strategic transaction with SIGNA have not yet been completed:

i) HBC will receive €250 million (approximately $375 million) for a 50% equity interest in 18 additional German properties owned by HBC, which are unencumbered and have not previously been contributed to any joint venture.

ii) SIGNA has also agreed that it will, following closing, acquire 100% interest in two German properties from the European Real Estate JV for gross proceeds of approximately €430 million (approximately $645 million), of which €200 million (approximately $300 million) will be invested in the new retail operating company to provide additional capital and €230 million (approximately $345 million) will be applied to repay debt of the European Real Estate JV.

The sale of the 18 additional German properties is expected to close during the fourth quarter of fiscal 2018, and the sale of the two German properties is expected to close during the first quarter of fiscal 2019.

c) Global ABL

In connection with the merger of HBC's European retail operations with Karstadt's retail operations on November 30, 2018, the German and Dutch subfacilities of the Global ABL were terminated, which resulted in reduction of the borrowing line from U.S. $2.25 billion to U.S.$1.94 billion. The Global ABL's borrowing line of U.S.$1.94 billion consists of a U.S. subfacility and a Canadian subfacility.

d) Loan Guarantees

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 newly formed retail operating company. 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 retail operating company defaults on its lease commitments.