



**2015 Q3 INTERIM
CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

For the Thirteen and Thirty-nine Weeks Ended

October 31, 2015

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HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

(unaudited)

(millions of Canadian dollars, except per share amounts)

	Notes	Thirteen weeks ended		Thirty-nine weeks ended	
		Oct 31, 2015	Nov 1, 2014	Oct 31, 2015	Nov 1, 2014
Retail sales		2,566	1,913	6,676	5,537
Cost of sales	9	(1,492)	(1,126)	(3,938)	(3,334)
Selling, general and administrative expenses		(1,012)	(690)	(2,567)	(2,023)
Depreciation and amortization	6	(110)	(84)	(311)	(247)
Gain on contribution of assets to joint ventures...	10	—	—	133	—
Gain on sale and leaseback transaction	21	—	—	—	308
Operating (loss) income		(48)	13	(7)	241
Finance costs, net	7	(29)	(47)	(128)	(151)
Share of net loss in joint ventures	10	(64)	—	(71)	—
Dilution gain from investment in the HBS Joint Venture	10	148	—	148	—
Earnings (loss) before income tax		7	(34)	(58)	90
Income tax (expense) benefit		(6)	21	72	37
Net earnings (loss) for the period		1	(13)	14	127
Net earnings (loss) per common share	14				
Basic		0.01	(0.07)	0.07	0.70
Diluted		(0.07)	(0.07)	0.01	0.70

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

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(unaudited)

(millions of Canadian dollars)

	Thirteen weeks ended		Thirty-nine weeks ended	
	Oct 31, 2015	Nov 1, 2014	Oct 31, 2015	Nov 1, 2014
Net earnings (loss) for the period	1	(13)	14	127
Other comprehensive (loss) income, net of tax:				
Items that may be reclassified subsequently to earnings or loss:				
Currency translation adjustment.....	(37)	63	12	22
Net loss on net investment hedge, net of taxes of nil and nil (2014 — nil and nil)	—	(12)	—	(3)
Net gain on derivatives designated as cash flow hedges, net of taxes of \$7 and \$2 (2014 — \$2 and \$2), respectively	20	4	8	4
Reclassification to non-financial assets of net gains on derivatives designated as cash flow hedges, net of taxes of \$2 and \$5 (2014 — nil and \$1), respectively	(6)	(1)	(14)	(2)
Reclassification to earnings of net losses (gains) on derivatives designated as cash flow hedges, net of taxes of nil and \$1 (2014 — nil and nil), respectively	1	(1)	(1)	(1)
Other comprehensive (loss) income	(22)	53	5	20
Total comprehensive (loss) income	(21)	40	19	147

(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 October 31, 2015 and November 1, 2014

(unaudited)

(millions of Canadian dollars)	Notes	Accumulated Other Comprehensive Income ("AOCI")								Total AOCI	Total Equity
		Share Capital	Retained Earnings	Contributed Surplus	Currency Translation Adjustment	Employee Benefits	Net Investment Hedge	Cash Flow Hedges			
As at January 31, 2015		1,420	693	60	382	(12)	(56)	5	319	2,492	
Total comprehensive income.....		—	14	—	12	—	—	(7)	5	19	
Share based compensation	19	—	—	20	—	—	—	—	—	20	
Dividends.....	14	—	(27)	—	—	—	—	—	—	(27)	
As at October 31, 2015		<u>1,420</u>	<u>680</u>	<u>80</u>	<u>394</u>	<u>(12)</u>	<u>(56)</u>	<u>(2)</u>	<u>324</u>	<u>2,504</u>	

(millions of Canadian dollars)	Notes	Accumulated Other Comprehensive Income ("AOCI")								Total AOCI	Total Equity
		Share Capital	Retained Earnings	Contributed Surplus	Currency Translation Adjustment	Employee Benefits	Net Investment Hedge	Cash Flow Hedges			
As at February 1, 2014		1,420	491	43	146	(6)	(54)	3	89	2,043	
Total comprehensive income.....		—	127	—	22	—	(3)	1	20	147	
Share based compensation	19	—	—	12	—	—	—	—	—	12	
Dividends.....		—	(27)	—	—	—	—	—	—	(27)	
As at November 1, 2014		<u>1,420</u>	<u>591</u>	<u>55</u>	<u>168</u>	<u>(6)</u>	<u>(57)</u>	<u>4</u>	<u>109</u>	<u>2,175</u>	

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

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

As at October 31, 2015, November 1, 2014 and January 31, 2015

(unaudited)

(millions of Canadian dollars)			(restated – note 4)	
	Notes	Oct 31, 2015	Nov 1, 2014	Jan 31, 2015
Assets				
Cash	8	292	44	168
Trade and other receivables		370	128	212
Inventories	9	3,938	2,578	2,349
Financial assets	20	12	9	24
Income taxes recoverable		7	52	7
Other current assets		154	115	69
Total current assets		4,773	2,926	2,829
Property, plant and equipment		4,797	4,111	4,606
Intangible assets		1,545	976	1,076
Goodwill		244	210	237
Pensions and employee benefits		58	58	69
Deferred tax assets		263	244	240
Investments in joint ventures	10	600	—	—
Other assets		17	16	15
Total assets		12,297	8,541	9,072
Liabilities				
Loans and borrowings	11	582	672	246
Finance leases	12	33	17	19
Trade payables		1,679	971	945
Other payables and accrued liabilities		964	595	603
Other liabilities	13	69	32	76
Deferred revenue		123	143	130
Provisions		152	142	115
Income taxes payable		4	7	8
Financial liabilities	20	2	—	2
Total current liabilities		3,608	2,579	2,144
Loans and borrowings	11	3,314	2,365	2,723
Finance leases	12	470	122	136
Provisions		85	18	63
Financial liabilities	20	56	32	68
Pensions and employee benefits		575	99	109
Deferred tax liabilities		694	634	668
Investment in joint venture	10	47	—	—
Other liabilities	13	944	517	669
Total liabilities		9,793	6,366	6,580
Shareholders' Equity				
Share capital		1,420	1,420	1,420
Retained earnings		680	591	693
Contributed surplus		80	55	60
Accumulated other comprehensive income		324	109	319
Total shareholders' equity		2,504	2,175	2,492
Total liabilities and shareholders' equity		12,297	8,541	9,072

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

HUDSON'S BAY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the thirty-nine weeks ended October 31, 2015 and November 1, 2014

(unaudited)

(millions of Canadian dollars)	<u>Notes</u>	<u>Oct 31, 2015</u>	<u>Nov 1, 2014</u>
Operating activities			
Net earnings for the period.....		14	127
Deduct: Income tax benefit.....		(72)	(37)
Deduct: Dilution gain from investment in the HBS Joint Venture	10	(148)	—
Add: Share of net loss in joint ventures.....	10	71	—
Add: Finance costs, net.....	7	128	151
Operating (loss) income.....		(7)	241
Net cash income taxes received.....		1	4
Interest paid in cash		(107)	(102)
Distributions of earnings from joint ventures	10	59	—
Items not affecting cash flows:			
Depreciation and amortization	6	311	247
Net defined benefit pension and employee benefits expense.....		20	20
Other operating activities		(48)	(5)
Share of rent expense to joint ventures.....	10	(89)	—
Gain on contribution of assets to joint ventures.....	10	(133)	—
Gain on sale and leaseback transaction	21	—	(308)
Share based compensation	19	23	12
Settlement of share based compensation grants.....	19	(3)	—
Changes in operating working capital:			
Increase in trade and other receivables.....		(89)	(19)
Increase in inventories		(813)	(512)
Increase in other assets.....		(54)	(47)
Increase in trade and other payables, accrued liabilities and provisions ...		263	343
Increase in other liabilities		28	6
Net cash outflow for operating activities		(638)	(120)
Investing activities			
Capital investments.....		(378)	(291)
Proceeds from landlord incentives		118	74
		(260)	(217)
Proceeds from lease terminations and other non-capital landlord incentives...		22	51
Proceeds from sale of assets.....		—	35
Proceeds from sale and leaseback transaction	21	—	650
Proceeds from contribution of assets to joint ventures	10	1,134	—
Acquisition of Kaufhof Operating Business, net of cash acquired	5	(745)	—
Investment in joint ventures	10	(186)	—
Net cash (outflow for) inflow from investing activities		(35)	519
Financing activities			
Long-term loans and borrowings:			
Issued.....		1,453	—
Repayments.....		(844)	(510)
Borrowing costs		(58)	—
		551	(510)
Short-term loans and borrowings:			
Net borrowings from asset-based credit facilities.....		306	176
Net decrease in other short-term borrowings.....		(1)	(1)
		305	175
Payments on finance leases		(19)	(15)
Dividends paid		(27)	(27)
Net cash inflow from (outflow for) financing activities		810	(377)
Foreign exchange (loss) gain on cash.....		(13)	1
Increase in cash.....		124	23
Cash at beginning of period		168	21
Cash at end of period.....		292	44

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

HUDSON'S BAY COMPANY

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(For the Thirteen and Thirty-nine Weeks Ended October 31, 2015, unaudited)

NOTE 1. BASIS OF PREPARATION

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

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

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

On July 22, 2015, the Company and Simon Property Group Inc. ("Simon") closed their joint venture, Simon HBC Opportunities LLC ("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 ("HBS Joint Venture") (note 10).

On September 30, 2015, the Company and the HBS Joint Venture acquired GALERIA Holding ("Kaufhof") for €2,317 million (\$3,490 million) (the "Kaufhof Acquisition") (note 5). The transaction was structured such that effectively, the Company acquired the operating business and certain properties of Kaufhof ("Kaufhof Operating Business") for €709 million (\$1,068 million) while the HBS Joint Venture acquired the property business ("Kaufhof Property Business") for €1,608 million (\$2,422 million).

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

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

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

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Audit Committee of HBC on December 10, 2015.

New Accounting Standards Not Yet Implemented

Financial Instruments

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

Classification and measurement

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

Impairment

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

Hedge accounting

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

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

Revenue

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

Joint Arrangements

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

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

New Accounting Policies

Interest in Joint Ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Investments in joint ventures are accounted for using the equity method. Under the equity method, the investment in a joint venture is initially recognized at cost and adjusted thereafter to recognize the Company’s share of the profit or loss and other

comprehensive income of the joint venture. When the Company's share of losses of a joint venture exceeds the Company's interest in that joint venture, the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the joint venture.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its joint venture arrangements. At each reporting date, the Company determines whether there is objective evidence that the investment in its joint ventures is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, and then recognizes the loss as 'Share of net earnings (loss) in joint venture' in the consolidated statement of earnings (loss).

The Company has investments in joint ventures that are structured using separate vehicles that give each party to the arrangement rights to the net assets of the joint venture.

The Company reclassifies its share of inter-company rental income from its share of earnings in the joint ventures to rent expense recorded in selling, general and administrative expenses ("SG&A").

New Significant Accounting Judgments, Estimates and Assumptions

Judgment is used by management when determining what subsidiaries or entities to consolidate in the financial statements. Subsidiaries or entities are typically consolidated when the Company has control over the entities. In determining if control exists, management considers various factors including whether the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity either through an agreement or by voting rights, exposure or rights to variable returns from the Company's involvement with the entity, and the ability to use its power over the entity to affect the amount of the Company's returns.

The Company holds an 86.6% and 91.8% ownership interest in its joint arrangements with RioCan and Simon, respectively. Based on the contractual terms of each arrangement, the Company identified the relevant activities of each joint venture and determined that all significant decisions require the joint consent of both parties to each of the joint arrangements formed. The Company has assessed its rights and obligations arising from the joint arrangements by considering the structure and legal form of the arrangements, the terms agreed by the parties and other facts and circumstances. Based on this assessment, the arrangements have been classified as joint ventures. The Company will reassess the existence of joint control and the joint venture classification should facts and circumstances change. Gains recognized upon the initial contributions into each joint venture were determined based on determinations of fair value that incorporated assumptions from a market participant's perspective under market conditions that existed at the measurement date. Changes in assumptions about these factors could affect the reported fair value of the initial contributions made by HBC into each of the joint venture arrangements formed.

NOTE 3. SEASONALITY

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

NOTE 4. ACQUISITION OF SAKS

During the year ended January 31, 2015, the Company identified measurement period adjustments based on new information relating to deferred taxes. The impacts of the adjustments to previously reported amounts are as follows:

Condensed Consolidated Balance Sheet

<u>(millions of Canadian dollars)</u>	<u>Nov 1, 2014</u>
Decrease in goodwill.....	(1)
Decrease in deferred tax liabilities	(1)

NOTE 5. ACQUISITION OF GALERIA HOLDING

On September 30, 2015, the Company and the HBS Joint Venture completed their previously announced acquisition of Kaufhof for a purchase price of €2,317 million (\$3,490 million) with Metro AG (“METRO”) and Asset Immobilienbeteiligungen GmbH (“AIB”). The Company and the HBS Joint Venture paid cash for all of METRO and AIB’s shares in the department store business and non-store multi-channel retailing business that operate under the brands of the Kaufhof Banners. A nominal amount of shares in certain property companies of the acquired Kaufhof Operating Business and the Kaufhof Property Business were held as at the acquisition date by METRO, AIB, or third parties.

The transaction was structured in a manner such that HBC ultimately acquired the Kaufhof Operating Business while the HBS Joint Venture acquired the Kaufhof Property Business (note 10). Both transactions are intended to drive growth going forward consistent with the Company’s previously announced fiscal 2014 strategic initiatives; namely through global and all-channel growth in both its retail and real estate businesses.

The acquisition of the Kaufhof Operating Business by the Company was financed through proceeds from the U.S. Term Loan B facility (note 11).

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

<u>(millions)</u>	<u>€ Euros</u>	<u>\$ CDN</u>
Cash	214	323
Inventories	506	762
Property, plant and equipment	712	1,073
Intangible assets	356	537
Other acquired assets	136	203
Finance leases	(157)	(236)
Provisions	(43)	(64)
Deferred tax liabilities	(32)	(49)
Pensions and employee benefits	(318)	(479)
Other assumed liabilities	(665)	(1,002)
Total identifiable net assets acquired and cash consideration given	709	1,068

The purchase price of €2,317 million (\$3,490 million) is subject to certain adjustments to the fair values assigned to the assets acquired and liabilities assumed (“the purchase price adjustment period”), as agreed upon between the Company and METRO which could result in a final amount paid that is higher or lower than the purchase price disclosed above. The purchase price adjustment period is 90 business days from September 30, 2015.

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

Retail sales and a net loss of the Kaufhof Operating Business included in the unaudited condensed consolidated statement of earnings (loss) for the thirteen and thirty-nine weeks ended October 31, 2015 are \$387 million and \$8 million, respectively.

The Company has incurred acquisition-related costs (including costs related to the acquisition of the Kaufhof Property Business by the HBS Joint Venture) of \$137 million related to external legal fees, consulting fees, due diligence costs and investment banking fees of which \$58 million has been deferred in unamortized costs within loans and borrowings. The remaining costs of \$79 million have been included in selling, general and administrative expenses in the unaudited condensed consolidated statement of earnings (loss).

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

NOTE 6. DEPRECIATION AND AMORTIZATION

(millions of Canadian dollars)	Thirteen weeks ended		Thirty-nine weeks ended	
	Oct 31, 2015	Nov 1, 2014	Oct 31, 2015	Nov 1, 2014
Property, plant and equipment	84	66	243	195
Intangible assets	27	19	71	54
Deferred credits	(1)	(1)	(3)	(2)
	110	84	311	247

NOTE 7. FINANCE COSTS

(millions of Canadian dollars)	Thirteen weeks ended		Thirty-nine weeks ended	
	Oct 31, 2015	Nov 1, 2014	Oct 31, 2015	Nov 1, 2014
Interest expense on long-term borrowings	31	29	91	87
Interest expense on short-term borrowings	7	5	17	16
Interest expense on finance leases	6	2	13	9
Interest income	(1)	(1)	(1)	(1)
Write-off of deferred financing costs	—	—	18	18
Net interest on pensions and employee benefits	1	—	2	1
Penalties and fees on term loans	—	—	—	12
Total interest expense, net	44	35	140	142
Acquisition-related finance (income) costs (note 20)	(15)	12	(12)	9
	29	47	128	151

NOTE 8. CASH

For the purposes of the unaudited interim condensed consolidated statements of cash flows, cash includes cash on hand and in banks. Cash as at October 31, 2015, November 1, 2014 and January 31, 2015 as presented in the unaudited interim condensed consolidated balance sheets is comprised of the following:

(millions of Canadian dollars)	Oct 31, 2015	Nov 1, 2014	Jan 31, 2015
Cash	204	30	153
Restricted cash	88	14	15
	292	44	168

NOTE 9. INVENTORIES

Inventories on hand at October 31, 2015, November 1, 2014 and January 31, 2015 were available for sale. The cost of merchandise inventories recognized as expense for the thirteen and thirty-nine weeks ended October 31, 2015 was \$1,492 million and \$3,938 million, respectively (2014: \$1,126 million and \$3,334 million, respectively).

The write-down of merchandise inventories below cost to net realizable value as at October 31, 2015 was \$89 million (November 1, 2014: \$36 million; January 31, 2015: \$48 million). There was no reversal of write-downs previously taken on merchandise inventories that are no longer estimated to sell below cost. Inventory has been pledged as security for certain borrowing agreements.

NOTE 10. INVESTMENTS IN JOINT VENTURES

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

(millions of Canadian dollars)	Principal Activity	Principal Place of Business	October 31, 2015	
			Proportion of Ownership Interests	Carrying Value
RioCan-HBC JV	Real estate investment	Canada	86.6%	(47)
HBS Joint Venture	Real estate investment	United States, Germany	91.8%	586
Other joint venture	Real estate investment	United States, Germany	91.8%	14
				553

RioCan-HBC JV

Upon closing of the joint venture with RioCan, HBC contributed 7 properties with a combined value of approximately \$1,300 million. Based on RioCan's interest in the joint venture, the total gain on contribution of the owned and ground-leased properties to the RioCan-HBC JV was \$147 million of which \$15 million was deferred and recorded in non-current other liabilities (note 13). The Company also received cash proceeds of \$352 million from the RioCan-HBC JV which it primarily used to repay the Senior Term Loan B and the HBC Revolving Credit Facility.

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

<u>(millions of Canadian dollars)</u>	<u>Thirteen weeks ended</u>	<u>Thirty-nine weeks ended</u>
	<u>Oct 31, 2015</u>	<u>Oct 31, 2015</u>
Equity investment as at the beginning of the period	(49)	—
Investment in joint venture	—	(49)
Share of net earnings from joint venture.....	15	19
Distributions from joint venture	(13)	(17)
Equity investment as at the end of the period	(47)	(47)

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

<u>(millions of Canadian dollars)</u>	<u>Oct 31, 2015</u>
Cash	1
Current assets.....	1
Non-current assets	1,539
Current financial liabilities	(4)
Non-current financial liabilities	(500)
Net assets at 100%	1,037
Company's share of net assets in the RioCan-HBC JV	898
Less gain on contribution of assets to the RioCan-HBC JV not recognized related to Company's ownership interest	(945)
Company's carrying value investment in the RioCan-HBC JV	(47)

Summarized statement of loss of the RioCan-HBC JV:

<u>(millions of Canadian dollars)</u>	<u>Thirteen weeks ended</u>	<u>Thirty-nine weeks ended</u>
	<u>Oct 31, 2015</u>	<u>Oct 31, 2015</u>
Revenue	24	30
Property operating costs.....	(2)	(3)
Depreciation and amortization	(8)	(10)
Finance income.....	2	3
Finance costs.....	(4)	(5)
Net earnings and total comprehensive income at 100%.....	12	15
Company's share of net earnings in the RioCan-HBC JV prior to adjustment.....	10	13
Adjustment for the Company's share of depreciation on the fair value increment of the contributed properties	5	6
Company's share of net earnings from the RioCan-HBC JV	15	19
Reclassification of rental income to SG&A related to the Company's ownership interest in the RioCan-HBC JV	(17)	(21)
Company's share of net loss in the RioCan-HBC JV	(2)	(2)

HBS Joint Venture

Upon closing of the HBC-Simon JV on July 22, 2015, HBC contributed forty-two properties with a combined value of approximately \$2,100 million. Based on Simon's interest in the joint venture, the total gain on contribution of the owned and ground-leased properties to the HBC-Simon JV was \$1 million. The Company also received cash proceeds of \$782 million from the HBC-Simon JV which it used to repay the Senior Term Loan B in full and to partially repay the outstanding balance on its U.S. Revolving Credit Facility.

On September 30, 2015, HBC and Simon exchanged their partnership units in the HBC-Simon JV, on a one-for-one basis, for partnership units of the newly formed HBS Joint Venture. As a result, the HBC-Simon JV became a wholly-owned subsidiary of the HBS Joint Venture.

The equity transactions resulting from the Kaufhof Acquisition at the HBS Joint Venture resulted in HBC realizing a dilution gain of \$148 million. The gain is primarily attributable to Simon's capital contribution of \$231 million and the impact of HBC's increased net investment in the HBS Joint Venture which resulted in a reduction to HBC's ownership interest from 99.9% to 91.8%.

On September 30, 2015, as part of the Kaufhof Acquisition (note 5), the HBS Joint Venture acquired the Kaufhof Property Business for €1,608 million (\$2,422 million). The transaction resulted primarily in the acquisition of forty properties. One additional property was acquired for €154 million subsequent to the closing of the transaction.

The acquisition by the HBS Joint Venture was primarily financed through the incurrence of real estate debt in the amount of €1,184 million. Additional real estate debt was used to finance the property acquired subsequent to the closing of the transaction. The remainder was financed using equity contributions and existing cash at the HBS Joint Venture.

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

<u>(millions)</u>	<u>€ Euros</u>	<u>\$ CDN</u>
Cash	152	229
Current assets	41	61
Non-current assets	1,914	2,884
Current liabilities	(226)	(341)
Non-current liabilities	(273)	(411)
Total identifiable net assets acquired and consideration given.....	<u>1,608</u>	<u>2,422</u>

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

<u>(millions of Canadian dollars)</u>	<u>Thirteen weeks ended</u>	<u>Thirty-nine weeks ended</u>
	<u>Oct 31, 2015</u>	<u>Oct 31, 2015</u>
Equity investment as at the beginning of the period	313	—
Investment in joint venture	172	489
Share of net loss from joint venture	(1)	(3)
Dilution gain from changes in equity interest	148	148
Distributions from joint venture	(39)	(42)
Other	(7)	(6)
Equity investment as at the end of the period	<u>586</u>	<u>586</u>

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

<u>(millions of Canadian dollars)</u>	<u>Oct 31, 2015</u>
Cash	271
Current financial assets	69
Non-current assets	5,112
Current liabilities	(19)
Current financial liabilities	(140)
Non-current liabilities	(333)
Non-current financial liabilities	(3,246)
Net assets at 100%	1,714
Company's share of net assets in the HBS Joint Venture	1,573
Less gain on contribution of assets to the HBS Joint Venture not recognized related to Company's ownership interest	(987)
Company's carrying value investment in the HBS Joint Venture.....	586

Summarized statement of loss of the HBS Joint Venture:

<u>(millions of Canadian dollars)</u>	<u>Thirteen weeks ended</u> <u>Oct 31, 2015</u>	<u>Thirty-nine weeks ended</u> <u>Oct 31, 2015</u>
Revenue	67	72
General and administrative expenses	(32)	(36)
Depreciation and amortization	(21)	(24)
Interest expense	(21)	(22)
Income tax expense.....	(2)	(2)
Net loss and total comprehensive loss at 100%	(9)	(12)
Company's share of net loss in the HBS Joint Venture prior to adjustment	(7)	(10)
Adjustment for the Company's share of depreciation on the fair value increment of the contributed properties	6	7
Company's share of net loss from the HBS Joint Venture	(1)	(3)
Reclassification of rental income to SG&A related to the Company's ownership interest in the HBS Joint Venture	(63)	(68)
Reclassification of interest expense to finance costs, net related to the Company's ownership interest in the HBS Joint Venture (note 15).....	2	2
Company's share of net loss in the HBS Joint Venture.....	(62)	(69)

As at October 31, 2015, future minimum payments under non-cancelable operating leases with the joint ventures are \$9,939 million.

In addition, during the thirteen weeks ended October 31, 2015, the Company contributed \$14 million to the other joint venture.

NOTE 11. Loans and Borrowings

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

a) Current loans and borrowings

<u>(millions of Canadian dollars)</u>	<u>Oct 31, 2015</u>	Nov 1, 2014	Jan 31, 2015
HBC Revolving Credit Facility	5	79	159
U.S. Revolving Credit Facility	578	613	108
Current portion of long-term loans and borrowings	20	2	4
	<u>603</u>	694	271
Less: unamortized costs.....	(21)	(22)	(25)
	<u>582</u>	<u>672</u>	<u>246</u>

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

HBC Revolving Credit Facility

<u>(millions of Canadian dollars)</u>	<u>Oct 31, 2015</u>	Nov 1, 2014	Jan 31, 2015
Gross borrowing base availability	600	581	457
Drawings.....	(5)	(79)	(159)
Outstanding letters of credit.....	(13)	(9)	(9)
Borrowing base availability net of drawings and letters of credit.....	<u>582</u>	493	289

As the HBC Revolving Credit Facility is available for and used to finance working capital requirements, capital expenditures and other general corporate purposes, it has been classified in the unaudited interim condensed consolidated balance sheets as part of current loans and borrowings. However, the Company is not required to repay the balance outstanding as at October 31, 2015 until the maturity date of December 17, 2019.

U.S. Revolving Credit Facility

<u>(millions of Canadian dollars)</u>	<u>Oct 31, 2015</u>	Nov 1, 2014	Jan 31, 2015
Gross borrowing base availability (U.S.\$1,100)	1,438	1,071	1,348
Drawings	(578)	(613)	(108)
Outstanding letters of credit	(26)	(17)	(19)
Borrowing base availability net of drawings and letters of credit	<u>834</u>	441	1,221

As the U.S. Revolving Credit Facility is available for and used to finance working capital requirements, capital expenditures and other operating activities, it has been classified in the unaudited interim condensed consolidated balance sheets as part of current loans and borrowings. However, the Company is not required to repay the balance outstanding as at October 31, 2015 until the maturity date of November 4, 2018.

b) Long-term loans and borrowings

<u>(millions of Canadian dollars)</u>	<u>Oct 31, 2015</u>	Nov 1, 2014	Jan 31, 2015
Senior Term Loan B.....	—	2,085	826
U.S. Term Loan B	1,419	—	—
Yorkdale Mortgage	47	49	48
Lord & Taylor Mortgage.....	327	282	318
Saks Mortgage	1,644	—	1,599
Other loans	9	9	10
	<u>3,446</u>	2,425	2,801
Less: unamortized costs	(112)	(58)	(74)
Less: amounts due within one year	(20)	(2)	(4)
	<u>3,314</u>	<u>2,365</u>	<u>2,723</u>

U.S. Term Loan B

On September 30, 2015, in connection with the closing of the Kaufhof Acquisition, the Company entered into an agreement for a U.S.\$1,085 million term loan facility (“U.S. Term Loan B”) with Bank of America, N.A. as the administrative agent.

U.S. Term Loan B matures September 30, 2022 and carries an interest rate of LIBOR plus 3.75% per annum. The agreement is structured such that LIBOR will be deemed to be not less than 1% per annum (“LIBOR Floor”). U.S. Term Loan B is subject to mandatory prepayments. The term loan is secured by a second lien over inventory and accounts receivables, a first lien over certain assets as well as a pledge of the shares of material subsidiaries of the Company.

NOTE 12. FINANCE LEASES

<u>(millions of Canadian dollars)</u>	<u>Oct 31, 2015</u>	<u>Nov 1, 2014</u>	<u>Jan 31, 2015</u>
Real estate finance leases.....	474	116	130
Equipment finance leases.....	29	23	25
	503	139	155
Less: amounts due within one year	(33)	(17)	(19)
	470	122	136

NOTE 13. OTHER LIABILITIES

<u>(millions of Canadian dollars)</u>	<u>Oct 31, 2015</u>	<u>Nov 1, 2014</u>	<u>Jan 31, 2015</u>
Deferred landlord incentives.....	481	240	356
Deferred gain on sale and leaseback transaction	235	245	242
Deferred gain on contribution of assets to the RioCan-HBC JV (note 10).....	15	—	—
Deferred proceeds from lease terminations	65	32	49
Other deferred credits	10	12	11
Operating lease intangible liability	118	—	—
Other liabilities	89	20	87
	1,013	549	745
Non-current.....	944	517	669
Current.....	69	32	76
	1,013	549	745

NOTE 14. SHARE CAPITAL

On September 10, 2015, June 10, 2015 and March 9, 2015 the Company’s Board of Directors declared a dividend of \$0.05 per common share, which was paid on October 15, 2015, July 15, 2015 and April 15, 2015 to shareholders of record at the close of business on September 30, 2015, June 30, 2015 and March 31, 2015, respectively.

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

<u>(millions of Canadian dollars or shares except per share amounts)</u>	<u>Thirteen weeks ended</u>		<u>Thirty-nine weeks ended</u>	
	<u>Oct 31, 2015</u>	<u>Nov 1, 2014</u>	<u>Oct 31, 2015</u>	<u>Nov 1, 2014</u>
Net earnings (loss) for basic earnings per share	1	(13)	14	127
Impact of options and warrants.....	(14)	—	(11)	—
Net (loss) earnings for diluted earnings per share.....	(13)	(13)	3	127
Weighted average common shares outstanding	182	182	182	182
Dilutive effect of options and warrants.....	4	—	5	—
Diluted weighted average common shares outstanding	186	182	187	182
Net earnings (loss) per common share				
Basic	0.01	(0.07)	0.07	0.70
Diluted	(0.07)	(0.07)	0.01	0.70

NOTE 15. RELATED PARTY TRANSACTIONS

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

On May 6, 2011, a subsidiary of L&T Acquisition entered into a 2 year lease with SP 35 L.P. (the "Landlord") for approximately 31,000 square feet in Shrewsbury, NJ. The lease was amended on January 17, 2013 to include 3 renewal options. The first 2 renewal options are for terms of 2 and 3 years, respectively, at an annual cost of U.S.\$440 thousand. The third renewal option is for a term of 5 years at an annual cost of U.S.\$484 thousand. The first and second renewal options were exercised. Amounts charged to the Company under the rental arrangement for the thirteen and thirty-nine weeks ended October 31, 2015 were U.S.\$110 thousand and U.S.\$330 thousand, respectively (2014: U.S.\$100 thousand and U.S.\$300 thousand, respectively). The Landlord is an affiliate of National Realty & Development Corp. ("NRDC"). Richard and Robert Baker, the principals of NRDC, are Directors of the Company.

On February 25, 2014, the Company closed its agreement to sell its downtown Toronto flagship retail complex and the Simpson's Tower to an affiliate of The Cadillac Fairview Corporation Limited, an affiliate of H.S. Investments L.P. ("HSILP"), for a purchase price of \$650 million (note 21). 2380162 Ontario Limited, a subsidiary of Ontario Teachers' Pension Plan and successor in interest to HSILP, is a shareholder of the Company.

On May 18, 2015, a subsidiary of L&T Acquisition entered into a 10 year lease with Mack Properties Co. No. 6 LLC ("Mack Properties") for approximately 35,000 square feet in Paramus, NJ. The lease has 2 renewal options for terms of 10 and 5 years, respectively. There has been no amount charged to the Company under the rental arrangement for the thirteen and thirty-nine weeks ended October 31, 2015 since the rent commencement date has not yet occurred. Mack Properties is owned by William Mack, a Director of the Company.

As at October 31, 2015, the Company has an outstanding receivable in the amount of \$269 thousand (2014: \$300 thousand) due from Hudson's Bay Trading Company, LP, a shareholder of the Company, with respect to the reimbursement of expenses for services provided by HBC on their behalf.

HBC has entered into vendor agreements with two related companies that are affiliated with Earl Rotman, a Director of the Company. The agreements relate to menswear and womenswear sold in Saks and DSG (note 18). During the thirteen weeks ended October 31, 2015, HBC purchased approximately \$524 thousand of goods from these companies, and has committed to ordering approximately \$2 million for the remainder of Fiscal 2015 and Fiscal 2016.

In connection with the closing of its agreements to sell and leaseback various U.S. properties to the HBS Joint Venture, HBC paid for certain cash reserves and financing and operating expenses on behalf of the HBS Joint Venture for which the Company received a promissory note in the amount of \$8 million. The promissory note matures on July 22, 2016 and carries an interest rate of 5% per annum. As at October 31, 2015, the promissory note had an outstanding balance of \$6 million and was included in trade and other receivables. As at October 31, 2015, the Company has an outstanding receivable in the amount of \$1 million due from the HBS Joint Venture with respect to the reimbursement of expenses paid by HBC on their behalf. In addition, a subsidiary of the Company guaranteed third-party debt which was obtained by the HBS Joint Venture in conjunction with the closing of the transaction. The maximum aggregate liability of the Company under this guarantee will not exceed U.S.\$250 million.

The Company entered into management agreements with the joint ventures upon their closing. Pursuant to the management agreements, HBC is reimbursed for expenses relating to advisory and administrative services it provides to the RioCan-HBC JV and the HBS Joint Venture. Reimbursement related to expenses for the thirteen and thirty-nine weeks ended October 31, 2015 were \$500 thousand.

As part of the acquisition of the Kaufhof Operating Business, the Company assumed a \$22 million liability due to a wholly-owned subsidiary of the HBS Joint Venture which relates to two properties for which the Company meets the definition of control. In addition, the Company acquired options to purchase these properties that when exercised, would relieve this liability. This liability has been included in other liabilities.

During the thirteen and thirty-nine weeks ended October 31, 2015, the Company incurred rent expense of \$83 million and \$93 million respectively, related to both the RioCan-HBC JV and the HBS Joint Venture. As at October 31, 2015, other current assets included prepaid rent to the HBS Joint Venture of \$12 million.

As at October 31, 2015, the Company has outstanding receivables in the amount of \$4 million due from the HBS Joint Venture. The receivables relate to interest on an extinguished related party loan of \$2 million and \$2 million resulting from a profit transfer agreement under German commercial law.

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

NOTE 16. CONTINGENT LIABILITIES

As of October 31, 2015, the Company is involved in and potentially subject to various claims by third parties arising out of the normal course and conduct of its business. Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims and litigation, tax assessments and reassessments, to the extent not covered by the Company's insurance policies or otherwise provided for, not to be material to the unaudited interim condensed consolidated financial statements, but may have a material impact in future periods.

NOTE 17. OPERATING LEASE ARRANGEMENTS

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

(millions of Canadian dollars)

Fiscal year:	
2015	263
2016	264
2017	271
2018	245
2019	218
Thereafter	2,285
Total minimum lease payments	3,546

NOTE 18. SEGMENTED REPORTING

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

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

(millions of Canadian dollars)	Thirteen weeks ended		Thirty-nine weeks ended	
	Oct 31, 2015	Nov 1, 2014	Oct 31, 2015	Nov 1, 2014
Retail sales				
Canada	690	654	1,946	1,854
United States	1,489	1,259	4,343	3,683
Europe	387	—	387	—
	2,566	1,913	6,676	5,537
(millions of Canadian dollars)	Thirteen weeks ended		Thirty-nine weeks ended	
	Oct 31, 2015	Nov 1, 2014	Oct 31, 2015	Nov 1, 2014
Operating (loss) income				
Canada	(34)	6	75	263
United States	(12)	7	(80)	(22)
Europe	(2)	—	(2)	—
	(48)	13	(7)	241

<u>(millions of Canadian dollars)</u>	<u>Oct 31, 2015</u>	<u>Nov 1, 2014</u>	<u>Jan 31, 2015</u>
		(restated – note 4)	
Non-current assets⁽¹⁾			
Canada	741	631	666
United States	4,328	4,682	5,268
Europe	1,534	—	—
	6,603	5,313	5,934
<u>(millions of Canadian dollars)</u>			
Total assets			
Canada	2,717	1,893	1,903
United States	6,785	6,648	7,169
Europe	2,795	—	—
	12,297	8,541	9,072

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

NOTE 19. SHARE BASED COMPENSATION

Senior executive option transactions were as follows:

	Thirty-nine weeks ended			
	Oct 31, 2015		Nov 1, 2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	8,945,597	\$18.07	6,562,603	\$17.13
Granted	3,105,806	\$26.79	2,063,548	\$17.48
Forfeited	(1,438,605)	\$18.78	(608,871)	\$17.01
Outstanding at end of period	10,612,798	\$20.52	8,017,280	\$17.23
Share options exercisable at end of period	—	—	—	—

During the thirteen and thirty-nine weeks ended October 31, 2015, the grant date fair value of senior executive options granted was \$6 million and \$20 million (2014: \$1 million and \$10 million, respectively).

The following table summarizes information about the senior executive share options outstanding and exercisable as at October 31, 2015:

<u>Range of exercise prices</u>	<u>Number of outstanding options</u>	<u>Weighted average remaining contractual life (years)</u>	<u>Weighted average exercise price</u>	<u>Number exercisable at Oct 31, 2015</u>	<u>Weighted average exercise price</u>
\$17.00 to \$17.49	5,409,358	7.0	\$17.01	—	—
\$17.50 to \$17.99	1,045,184	5.5	\$17.61	—	—
\$23.50 to \$23.99	2,174,665	6.5	\$23.73	—	—
\$24.00 to \$24.49	100,000	7.0	\$24.22	—	—
\$28.00 to \$28.49	1,883,591	6.7	\$28.34	—	—
Total	10,612,798	6.7	\$20.52	—	—

Other management option transactions were as follows:

	Thirty-nine weeks ended			
	Oct 31, 2015		Nov 1, 2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year.....	1,729,400	\$17.35	969,600	\$17.03
Granted	500,800	\$27.47	1,021,600	\$17.55
Forfeited.....	(312,000)	\$18.78	(121,400)	\$17.06
Outstanding at end of period.....	1,918,200	\$19.77	1,869,800	\$17.31
Share options exercisable at end of period.....	—	—	—	—

During the thirteen and thirty-nine weeks ended October 31, 2015, the grant date fair value of other management options granted was \$600 thousand and \$3 million (2014: \$100 thousand and \$5 million, respectively).

The following table summarizes information about the other management share options outstanding and exercisable as at October 31, 2015:

Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at Oct 31, 2015	Weighted average exercise price
\$17.00 to \$17.49	810,200	4.4	\$17.04	—	—
\$17.50 to \$17.99	632,800	5.5	\$17.61	—	—
\$23.50 to \$23.99	112,000	6.8	\$23.86	—	—
\$28.00 to \$28.49	363,200	6.7	\$28.34	—	—
Total.....	1,918,200	5.3	\$19.77	—	—

The assumptions used to measure the fair value of senior executive and other management options granted during the thirteen weeks ended October 31, 2015 under the Black-Scholes option pricing model at the grant date were as follows:

Expected dividend yield.....	0.83% - 0.84%
Expected share price volatility.....	29%
Risk-free interest rate.....	0.72% - 0.73%
Expected life of options (years).....	5

During the thirteen and thirty-nine weeks ended October 31, 2015, the Company granted nil and 109,250 (2014: nil and 183,150, respectively) phantom share units with a grant date fair value of nil and \$3 million, respectively (2014: nil and \$3 million, respectively).

During the thirteen and thirty-nine weeks ended October 31, 2015, the Company granted 31,662 and 99,229 (2014: 15,886 and 269,918, respectively) restricted share units (“RSUs”) with grant date fair values of \$1 million and \$3 million, respectively (2014: \$300 thousand and \$5 million, respectively). The fair values of the grants were determined based on the Company’s share price at the date of grant. RSUs were granted under similar terms and conditions as those granted concurrently with the Company’s initial public offering.

During the thirteen and thirty-nine weeks ended October 31, 2015, the Company granted 15,356 and 623,847 (2014: 20,566 and 1,036,937) performance share units (“PSUs”) with grant date fair values of \$400 thousand and \$18 million (2014: \$400 thousand and \$18 million, respectively), of which \$300 thousand and \$13 million, respectively, (2014: \$300 thousand and \$13 million, respectively) is expected to vest. The fair value was determined based on the Company’s share price at the date of the grant and adjusted to reflect non-entitlement of dividends to PSUs.

During the thirteen and thirty-nine weeks ended October 31, 2015, the Company granted 346 and 60,431 (2014: 1,956 and 52,013, respectively) deferred share units (“DSUs”) with grant date fair values of \$9 thousand and \$1 million, respectively (2014: \$34 thousand and \$1 million, respectively). The fair values of the grants were determined based on the Company’s share price at the date of grant.

During the thirteen and thirty-nine weeks ended October 31, 2015, the Company granted nil and 1,470,724 performance restricted share units (“PRSUs”) to senior executives with a total grant date fair value of \$15 million. In addition, during the thirteen weeks and thirty-nine weeks ended October 31, 2015, the Company granted 2,994 and 5,671 PRSUs, respectively, as dividend equivalents. The PRSUs vest if the Company’s shares achieve at least a 10% Total Shareholder Return (“TSR”) over the 5 year performance period from the date of grant and the senior executive is still employed at the end of a service period of 7 years. The TSR is calculated using the sixty-day trading day volume-weighted average stock price immediately prior to the beginning and ending of the 5 year performance period. If this increase in TSR is not met, the PRSUs lapse without vesting. If this increase in TSR is met, but the Company is considered to have materially over-performed or under-performed, which is defined as ranking within the top 25% or bottom 50% of the TSR of peer companies (“Peer Group”) in both Canada and the United States, respectively, then at the discretion of the Company, the number of PRSUs which vest can be adjusted upward by up to 25% (in the cases of over-performance relative to the Company’s Peer Group) or adjusted downward by up to 75% (in the cases of under-performance relative to the Company’s Peer Group).

Share Based Compensation Expense

Total share based compensation expense is summarized as follows:

(millions of Canadian dollars)	Thirteen weeks ended		Thirty-nine weeks ended	
	Oct 31, 2015	Nov 1, 2014	Oct 31, 2015	Nov 1, 2014
Share options	4	4	11	8
PSUs	3	1	6	1
RSUs	1	—	3	1
Other share based compensation ⁽¹⁾	1	1	3	2
	9	6	23	12

(1) Includes phantom shares, DSUs and PRSUs.

During the thirteen and thirty-nine weeks ended October 31, 2015, \$1 million and \$3 million (2014: nil) of forfeited share options were settled.

NOTE 20. FINANCIAL INSTRUMENTS

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

As at October 31, 2015, November 1, 2014 and January 31, 2015, the carrying value and fair value of these debt instruments were:

(millions of Canadian dollars)	Oct 31, 2015	Nov 1, 2014	Jan 31, 2015
Carrying value	4,020	3,108	3,058
Fair value	4,025	3,116	3,062

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

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

As at October 31, 2015, November 1, 2014 and January 31, 2015, the fair value and carrying value of derivative financial assets and financial liabilities were:

<u>(millions of Canadian dollars)</u>	<u>Oct 31, 2015</u>	<u>Nov 1, 2014</u>	<u>Jan 31, 2015</u>
Financial assets.....	12	9	24
Financial liabilities	58	32	70

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

During the thirteen and thirty-nine weeks ended October 31, 2015, in relation to the 1.5 million warrants issued to HSILP concurrently with the definitive merger agreement with Saks (“Merger Agreement Warrants”), the Company recognized acquisition related finance income of \$4 million and \$3 million, respectively (2014: costs of \$3 million and \$2 million, respectively), representing mark-to-market adjustments to the fair value as at October 31, 2015. As at October 31, 2015, the fair value of the Merger Agreement Warrants was \$12 million (November 1, 2014: \$7 million; January 31, 2015: \$15 million).

In relation to the 5.25 million warrants issued to HSILP and West Face Long Term Opportunities Global Master L.P. on November 4, 2013 upon closing of the transaction (“Acquisition Warrants”), the Company recognized acquisition related finance income of \$11 million and \$9 million during the thirteen and thirty-nine weeks ended October 31, 2015, respectively (2014: costs of \$9 million and \$7 million, respectively), representing the mark-to-market adjustments to the fair value as at October 31, 2015. As at October 31, 2015, the fair value of the Acquisition Warrants was \$44 million (November 1, 2014: \$25 million; January 31, 2015: \$53 million).

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

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

	<u>Oct 31, 2015</u>	<u>Nov 1, 2014</u>	<u>Jan 31, 2015</u>
Share price	\$22.73	\$19.56	\$23.42
Expected volatility	40%	24%	45%
Dividend yield.....	0.88%	1.02%	0.85%
Risk-free interest rate	0.75%	1.40%	0.50%
Expected life – Merger Agreement Warrants	2.8 years	3.8 years	3.5 years
Expected life – Acquisition Warrants	3.0 years	4.0 years	3.8 years

In connection with the acquisition of Kaufhof, the Company had previously entered into 2 separate forward foreign exchange contracts (the “FX forward contracts”) during the thirteen weeks ended August 1, 2015 that resulted in the Company eliminating its foreign currency exposure on a portion of the proceeds that were to be used in the acquisition of Kaufhof. Each FX forward contract was designated as a hedge of the exposure to changes in USD/EUR related to the then forecasted Kaufhof Acquisition denominated in EUR. Each hedging relationship was assessed to be highly effective throughout the designated hedging period which ended on September 30, 2015; the Kaufhof Acquisition date.

A net realized loss of \$6 million, along with \$2 million of deferred taxes previously included in other comprehensive (loss) income representing the mark-to-market adjustment to fair value from the date of execution of each FX forward contract, June 18, 2015 and June 29, 2015, respectively to September 30, 2015 was included as part of the purchase price allocation of the Kaufhof Property Business acquired by the HBS Joint Venture subsequent to the closing of the Kaufhof Acquisition.

The fair value of each FX forward contract was determined using a valuation technique that employs the use of market observable inputs and based on the differences between the contract rate and the market rates as at the period-end date, taking into consideration discounting to reflect the time value of money.

NOTE 21. SALE AND LEASEBACK TRANSACTION

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

The total gain on the sale and leaseback transaction was \$560 million, \$308 million of which was recognized immediately in the unaudited interim condensed consolidated statements of earnings (loss). The remaining \$252 million of the gain was deferred and is being amortized over the term of the lease as a reduction in rent expense. The deferred gain is included in non-current other liabilities (note 13) in the unaudited interim condensed consolidated balance sheets.

NOTE 22. SUBSEQUENT EVENTS

On November 17, 2015, the Company announced that it sold a portion of its equity investment in the HBS Joint Venture for proceeds of U.S.\$533 million, to 3 new third party investors. Proceeds from the equity sale, together with cash on hand, were used to reduce the Company's outstanding U.S. Term Loan B from U.S.\$1,085 million to U.S.\$500 million. The total third party investment is comprised of individual investments from the following entities:

- U.S.\$250 million equity investment by Ivanhoé Cambridge;
- U.S.\$150 million equity investment by Madison International Realty; and
- U.S.\$133 million equity investment by a large U.S. pension.

As a result of the transaction, the Company expects to recognize a gain on the equity sale equal to approximately U.S.\$400 million, and write off costs associated with the U.S. Term Loan B equal to approximately \$30 million in the fourth quarter of Fiscal 2015.

On November 25, 2015, HBC announced that it had closed the second tranche of the RioCan-HBC JV which resulted in the Company indirectly contributing 3 additional ground leased properties consisting of Yorkdale Shopping Centre, Scarborough Town Centre, and Square One. These leases were assessed and classified as operating leases and the Company recorded a pre-tax gain on the contribution of the 3 additional ground leased properties of approximately \$28 million based on RioCan's interest in the joint venture after the closing of the second tranche. Additionally, as part of closing the second tranche of their joint venture with RioCan, the Company's Yorkdale Mortgage of \$47 million was assumed by an entity related to the RioCan-HBC JV and the remaining deferred financing costs were written off.