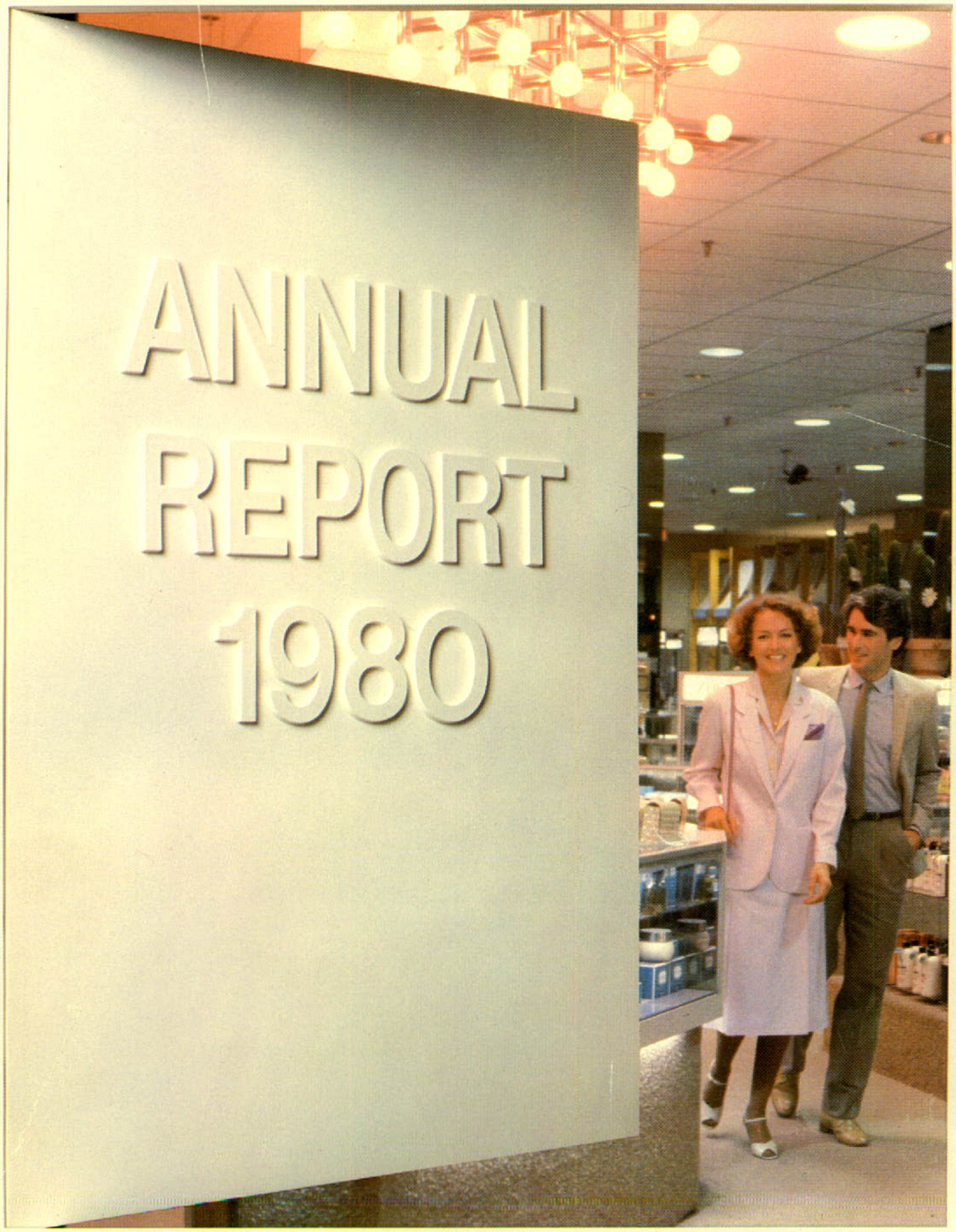
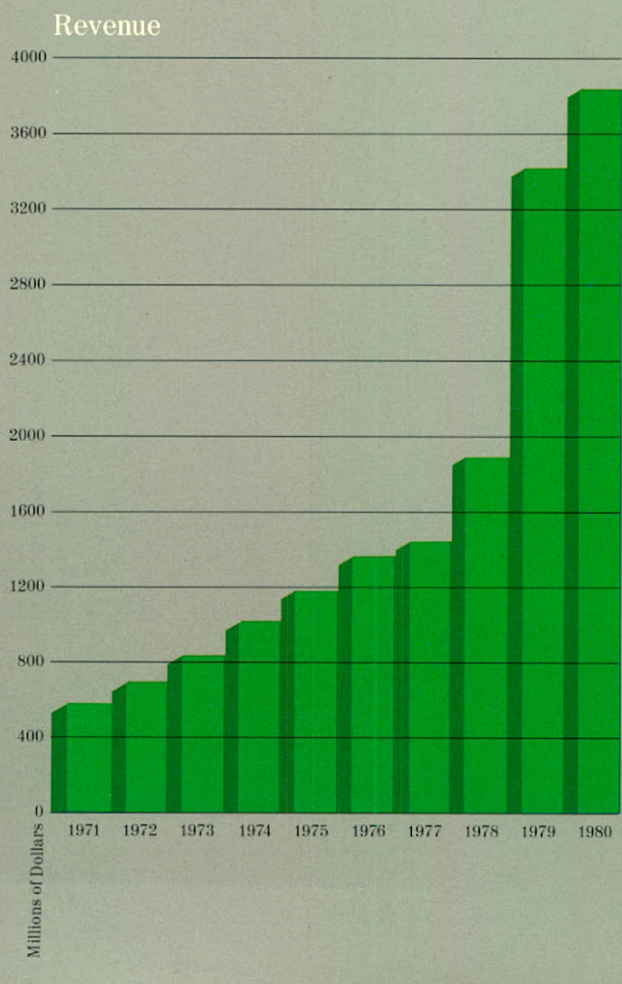
Hudson's Bay Company

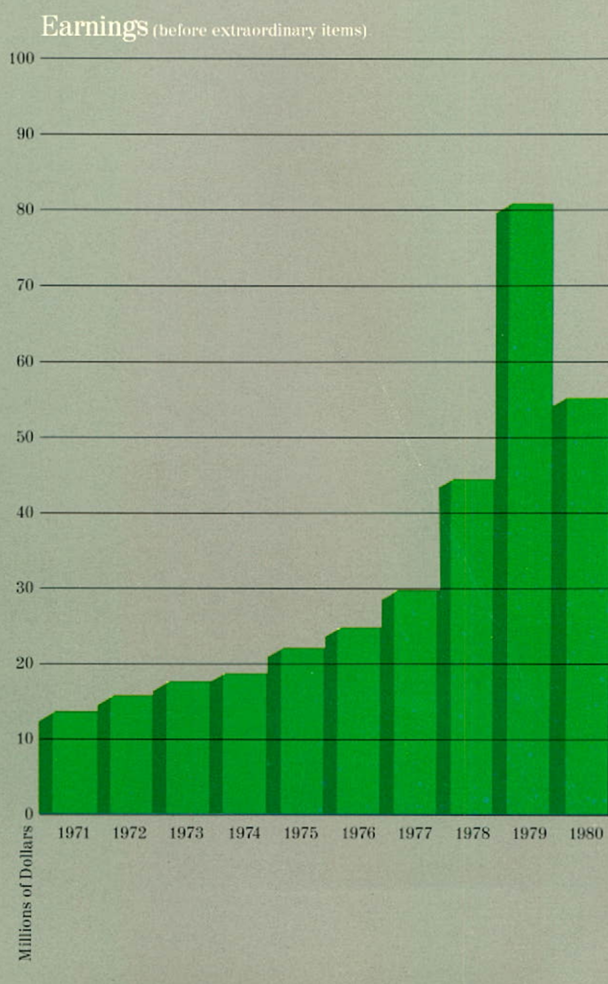


The 312th Annual Meeting of Shareholders will be held at the Winnipeg Inn, Winnipeg, Manitoba, on May 14, 1981, at 12 noon.

Shareholders wishing to receive annual reports of Markborough Properties Limited and/or Zeller's Limited are invited to write to The Secretary, Hudson's Bay Company, 2 Bloor Street East, Toronto, Ontario M4W 3H7.

On peut obtenir ce rapport annuel en français sur demande.



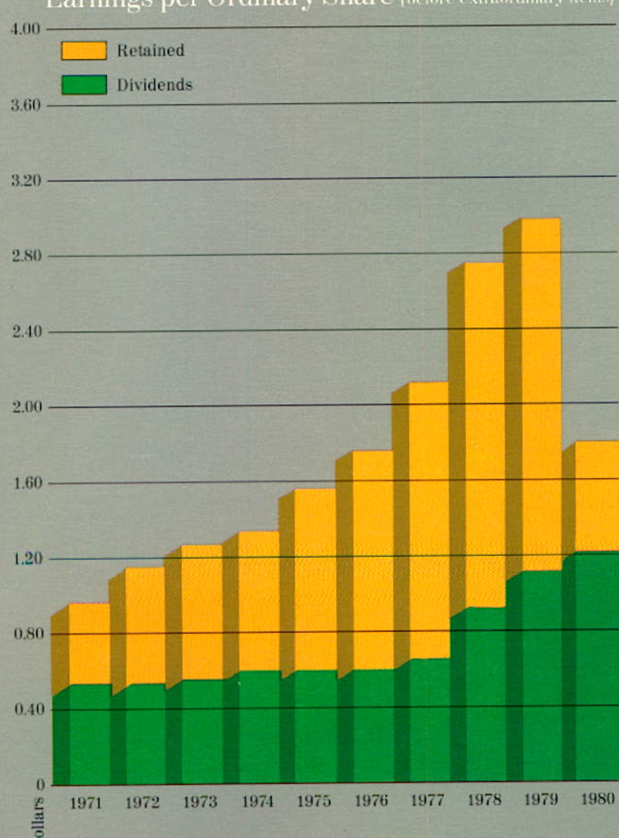


Financial Highlights

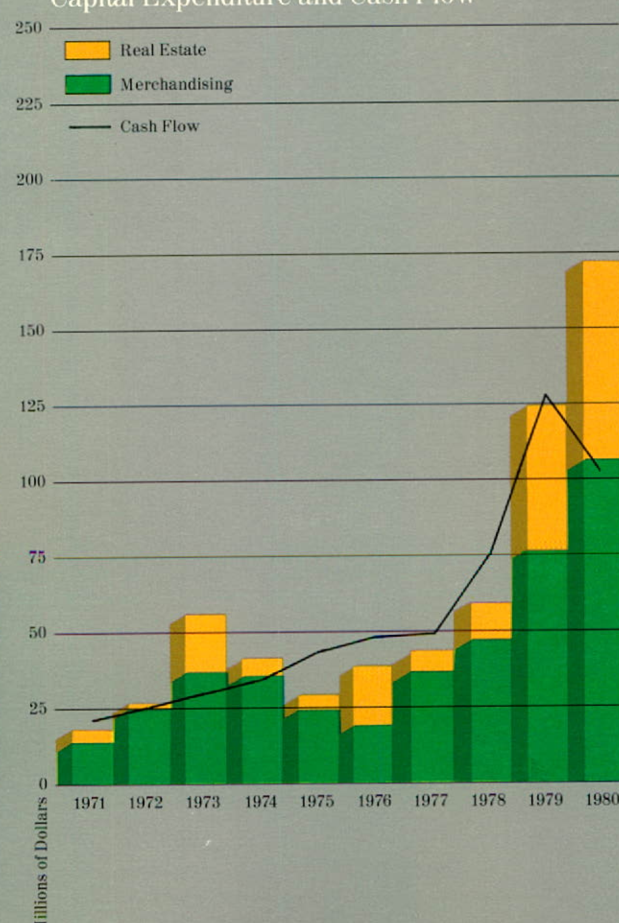
	This Year 1980 $ 000's	Last Year 1979 $ 000's	Increase (Decrease) %
Sales and revenue	**3,813,886**	3,435,209	**11.0**
Earnings before extraordinary items	**54,550**	80,346	**(32.1)**
Extraordinary items	**18,811**	23,175	**(18.8)**
Net earnings	**73,361**	103,521	**(29.1)**
Cash flow	**102,000**	127,260	**(19.8)**
Capital expenditures	**172,329**	124,977	**37.9**
Shareholders' equity	**861,212**	832,665	**3.4**

Per Ordinary Share:	$	$	
Earnings before extraordinary items	**1.80**	2.98	**(39.6)**
Net earnings	**2.59**	3.98	**(34.9)**
Dividends	**1.20**	1.10	**9.1**
Equity	**30.01**	28.59	**5.0**

Earnings per Ordinary Share (before extraordinary items)



Capital Expenditure and Cash Flow



Directors' Report to Shareholders

In 1980 your Company suffered its first decline in earnings in a decade as a result of unfavourable economic conditions in Canada. In a year of continuing high inflation, interest rates peaked twice at unusually high levels. This in turn had a depressing effect on consumer confidence, particularly in eastern Canada, and held the overall rate of Canadian retail sales growth to slightly below the inflation rate. At the same time, high interest rates had a severe impact on industry costs. Primarily as a result of these conditions, earnings per share were down to $1.80 from $2.98 the year before.

It should be pointed out that, notwithstanding the earnings decline, most of the Company's operations produced very satisfactory results, considering the economic climate. Bay department stores, Wholesale, Zellers, and real estate operations all produced a record level of operating earnings, while the results of the fur operations were exceeded only by the extraordinary level of 1979. These gains, however, were more than offset by a significant drop in Simpsons' operating profit, a decline in Simpsons-Sears' earnings, and higher interest costs.

During the year your Company took the first step in the redeployment of its natural resource assets by the purchase of a majority interest in Roxy Petroleum Limited, a junior exploration company with land holdings in western Canada. Your Board intends to maintain your Company's interest in the natural resource industry and believes the investment in Roxy represents an attractive opportunity.

1980 Results

Earnings per ordinary share before extraordinary items and after providing for preferred dividends were $1.80 in 1980, as against $2.98 a year ago. Earnings in 1980 were $54.6 million, compared with $80.3 million the year before.

Sales and revenue were $3.8 billion in 1980, up from $3.4 billion in 1979, a gain of 11%. Because the Company's retail units end their accounting year on the Saturday closest to January 31, every sixth year contains an extra week's retail sales: 1980 was such a 53-week year.

In addition to the earnings reported above, the Company recorded extraordinary gains in 1980 of $18.8 million, compared with $23.2 million in 1979, arising in both years from the exchange of 6% exchangeable debentures for shares of Hudson's Bay Oil and Gas Company Limited.

Merchandising profits were lower than last year because the significant reductions in Simpsons' operating profit, in our equity share of earnings from Simpsons-Sears, and in fur earnings, more than offset gains in other operations.

Real estate earnings were ahead of last year as land sales of Markborough Properties Limited held up remarkably well, particularly in the United States, notwithstanding the high interest rate environment. Natural resource earnings were virtually unchanged. Finance costs were up 20%, due to the sharply higher rates, both long and short, which prevailed through most of the year and to the cost of carrying more fixed assets and inventories.

Further information on each segment of our operations will be found on pages 5 to 19.

Earnings for the year were made up as follows:

	This Year	Last Year
	$000's	$000's
Merchandising	**182,726**	213,000
Real estate	**33,349**	26,300
Natural resources	**15,735**	16,283
Operating profit	**231,810**	255,583
Finance costs	**(136,533)**	(113,741)
Income taxes	**(30,541)**	(52,073)
Minority interest	**(10,186)**	(9,423)
Earnings before extraordinary items	**54,550**	80,346
Extraordinary gains	**18,811**	23,175
Average number of ordinary shares outstanding	**23,713,000**	23,174,000

Financial

The Company's cost of borrowing increased considerably during the year. The average borrowing rate was up from 10.7% in 1979 to 11.7% in 1980.

Cash flow from operations amounted to $102.0 million, a decrease of 20% from the prior year. Additional sources of funds, primarily to finance the Company's large capital expenditure program, were provided mainly from two long-term financings aggregating approximately $138 million and $102.3 million from new mortgage loans. After the year end the Company completed a $60 million acceptance company debenture issue.

Donald S. McGiverin, George T. Richardson, Alexander MacIntosh

Capital expenditures amounted to $172.3 million, of which $104.7 million related to merchandising projects, and $67.6 million to real estate. A further $33.4 million of expenditure related to the acquisition of the interest in Roxy Petroleum, while property for sale and future development increased by $63.3 million.

Dividends

In March 1980 the Board increased the quarterly dividend to 30¢ from 27½¢ per share, and maintained that rate throughout the year.

Corporate Developments

Roxy Petroleum Limited

In May 1980 your Company arranged to acquire a majority interest in Roxy Petroleum Limited through the purchase of treasury shares over a period of three years for approximately $33 million.

Roxy was incorporated in March 1980 to acquire the partnership interests of a Calgary-based drilling fund. Subsequent to our year end, in February 1981, Roxy raised $9.5 million by a public share issue. After giving effect to this issue and upon completion of the subscription for treasury shares mentioned above, your Company will hold a 51% interest in Roxy.

Roxy was founded to become an active Canadian participant in the oil and gas industry. Its exploration strategy emphasizes higher risk prospects with higher reserves potential. Roxy will have sufficient Canadian ownership and control to be eligible for the maximum direct incentive payments under the Federal Government's national energy program announced in October 1980.

This acquisition follows the Company's intention of maintaining an interest in the natural resource industry and, in effect, it represents the first re-investment of funds currently invested in preferred shares of Dome Petroleum Limited.

Zeller's Limited

Your Company made an offer on March 4, 1981 for all the common shares of Zeller's Limited not already owned (approximately 38%). The offer, at $18.00 per Zellers share in cash or convertible preferred shares of HBC, will close on April 8, 1981. If the offer is accepted by the holders of all outstanding Zellers shares, the value of the acquisition will be approximately $90 million.

In January and February 1981, the Company had purchased 655,000 shares of Zellers at a cost of $11.5 million.

Your directors believe the acquisition of the Zellers minority will have important financial advantages for both companies.

The G. W. Robinson Company Limited

Subsequent to the year end your Company sold its 49.9% interest in The G. W. Robinson Company Limited, which operates department stores in the Hamilton/Niagara area, to the majority owner for a consideration of approximately $6.5 million. The sale was made at fair market value under the terms of the 1972 shareholders' agreement, which gave either partner the right to purchase the other's interest following a change of control.

Social Responsibility
For many years your Company has been a generous supporter of charitable appeals in all parts of Canada. Because the Company is so "people intensive" and its numerous employees and customers are users of health, welfare, cultural and educational facilities, the Company has adopted a higher than average standard of giving. Last year total donations amounted to $1 million, including contributions to United Way campaigns in 13 major cities, amounting to $400,000.

In 1978 your President appointed a social performance committee to examine and provide advice to him on public issues which affect or might affect the Company. The committee has considered and advised on such issues as status of women, consumerism, political involvement, operations in native communities, equal opportunity for employment, and charitable donations.

Arising in part from the activities of this committee, the Company has implemented a nutritional upgrading program in its stores in native communities in the Canadian North, where poor diet frequently contributes to social problems and hinders economic development. The program is designed to inform the consumer of nutritious foods and to stimulate appreciation of the value of a well-planned diet. The program includes the deliberate allocation of shelf space to foods of high nutritional value, labelling of recommended items, the use of display materials in the stores, and of newsletters and radio spots in the communities. The program is currently operating in 18 locations in the Northwest Territories, in the Keewatin, Franklin and Baffin Island districts, and plans are under way for its expansion to all native communities.

Directors
We regret that we are losing by retirement two of our senior directors, Mr. Allan McGavin and Sir Eric Drake. Mr. McGavin has been a director since 1969 and Sir Eric since 1976. Their counsel as directors has been highly respected. We extend our gratitude and best wishes to them both.

It is with deep regret that we record the death, in January 1981, of Viscount Amory, 31st Governor of the Company, from 1965 to 1970. Hudson's Bay Company was exceedingly fortunate to have had the leadership of this distinguished public servant at such a crucial time in its history, as he played an indispensable role in the transfer of the Company to Canada.

Outlook
Your Company's prospects for the year ahead are affected by continuing high inflation and interest rates as well as the uncertainty surrounding the failure of the federal and provincial governments to agree on a national energy pricing policy. We certainly hope that our energy pricing difficulties will be resolved this year; there is, unfortunately, little indication that the rate of inflation will decrease significantly.

Although 1981 will be a difficult and challenging year, we anticipate that the Company will achieve a substantial recovery in earnings. In the longer term we remain confident that your Company's prospects fully justify the optimism with which we entered the 1980's.

Accordingly, we are proceeding on schedule this year to open ten new Bay stores, two new Simpsons stores and 14 Zellers outlets.

Overall, this expansion of your Company's retail facilities will call for a total investment of about $160 million, and will create more than 2,500 new employment opportunities.

Appreciation
We are grateful to our employees for their valued contributions in a difficult year. We are confident their diverse talents and continuing dedication are the key to our future progress. We also wish to thank our customers, our suppliers and our shareholders for their support.

On behalf of the Board,

G. T. RICHARDSON
Governor

D. S. McGIVERIN
President

March 20, 1981.

Merchandising

Earnings from merchandising before interest and taxes were $182.7 million compared with $213.0 million in 1979.

Comments on the Company's five merchandising operating groups – The Bay, Simpsons, Zellers, Wholesale and Fur – are on the following pages.

Also included in mechandising results are equity earnings from investments in Simpsons-Sears Limited, Eaton Bay Financial Services Limited and Hudson's Bay Distillers Limited.

Net earnings of Simpsons-Sears for 1980 were $50.2 million or 58¢ per share, compared with $67.9 million or 85¢ per share in 1979.

Hudson's Bay Company's 35.6% equity share of the net earnings of Simpsons-Sears was $17.9 million, and dividends received from that company amounted to $11.2 million.

Sales of Simpsons-Sears for the 53 weeks ending February 4, 1981 were $3 billion, an increase of 12.8% over the previous year.

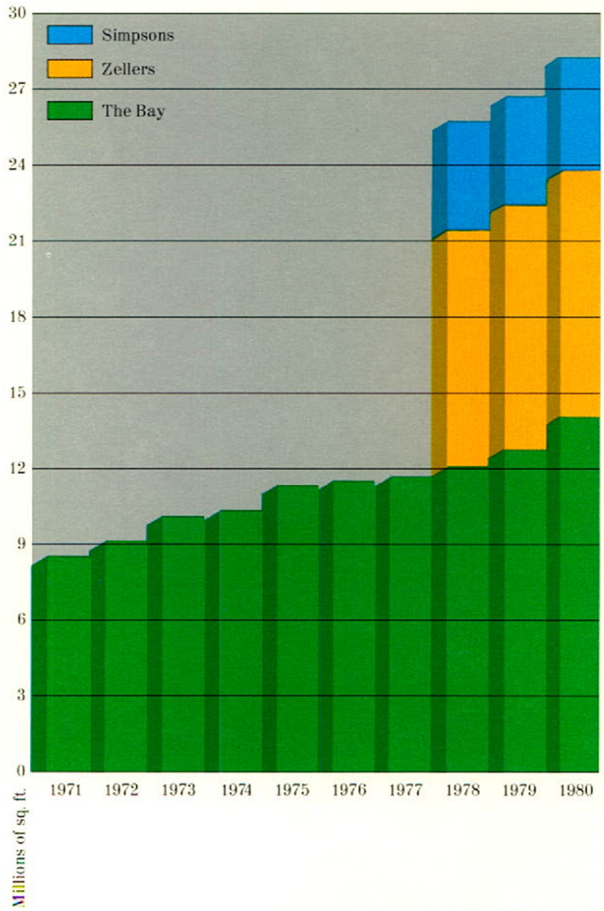
In 1980 Simpsons-Sears opened new stores in Winnipeg, Manitoba and in St. Jean and Granby, Quebec. The Granby, Quebec store and an enlarged and relocated store in Moose Jaw, Saskatchewan, are being merchandised as "test stores" designed to meet the needs of smaller communities. At year end, Simpsons-Sears operated 68 full-line department stores and 1,115 catalogue sales units across Canada.

Earnings of Eaton Bay Financial Services were adversely affected for the second consecutive year by the narrow spread in interest rates which prevailed throughout most of the period, by the cost of establishing new financial centres – three in 1980 – and by extremely competitive pricing in general insurance.

Hudson's Bay Distillers Limited, which distributes Hudson's Bay liquor products in Ontario and western Canada, had a successful year. Increased case sales combined with higher prices to produce a satisfactory earnings increase.

Total retail space occupied by The Bay, Simpsons and Zellers increased during the year by 5.25%, as shown on the accompanying graph.

Retail Facilities



the Bay

A strong performance in the fourth quarter enabled the retail operations of The Bay to achieve significant gains in sales and operating profits in 1980.

Retail sales for the 53-week year were ahead by 13.3% to $1.5 billion. The sales pattern for the first three quarters was influenced by a general decline in consumer confidence related to continuing inflation and high interest rates. Fourth quarter sales, however, increased substantially as a result of strong consumer demand for both traditional Christmas merchandise and seasonal winter goods.

The appliance business was excellent, reflecting the success of the new Beaumark line. Sales of big ticket items in home fashions held up remarkably well in the face of high interest rates. Women's wear was another area of strong growth.

On a geographic basis, sales were mixed. Stores in British Columbia and Alberta recorded healthy gains, reflecting the economy of those two provinces. Good increases were achieved in Toronto and Ottawa, while business in Montreal, which had previously been flat, made a steady recovery after the referendum in May.

Stores in several smaller communities in eastern Canada, however, suffered sharply reduced sales as a result of depressed conditions in the iron ore business and labour unrest. Forest fires last summer threatened a number of communities served by The Bay leading, in some cases, to evacuation of residents, temporary closing of our stores, and loss of sales.

The rate of gross profit improved marginally over the previous year because of lower markdowns. Expenses were well controlled despite upward pressure on energy, tax and wage rates.

During 1980 new Bay stores were opened as follows:

Location	Sq. Ft.
Nanaimo, B.C.	128,000
Winnipeg - Kildonan	124,000
Edmonton - St. Albert	93,000
Sydney, Nova Scotia	84,000
Bathurst, New Brunswick	61,000
Quesnel, B.C.	45,000
Gaspé, Quebec	45,000
Weyburn, Saskatchewan	45,000
St. Anthony, Newfoundland	18,000
Meadow Lake, Saskatchewan	16,000
Ear Falls, Ontario	16,000

All these stores, except for Meadow Lake, are part of shopping centres.

At Whitehorse, Yukon, The Bay moved into a 55,000 sq. ft. store, over two and one-half times the size of its previous building. Stores at Nakina, Ontario and Waasagomach, Manitoba were rebuilt, additional facilities for food sales were provided at Norway House and Cross Lake in Manitoba, and two stores were closed.

The 90,000 sq. ft. main floor of the downtown Edmonton store was completely modernized at a cost of over $2 million. This is the first phase of a modernization program which will result in closer integration of this store with adjacent office developments and the city's new light rail transit system.

Ten new stores will open in 1981 from Kamloops, B.C. in the West to Cornerbrook, Newfoundland in the East.

The new store scheduled to open in August in Quebec City will be the first Bay store in that historic community. It will be followed by a second store in Quebec City next year. The successful penetration of this market will be a major challenge for management in our Montreal Region, soon to be renamed the Quebec Region. Based on our success in Montreal over the past few years in opening new stores, and increasing productivity and market share, the Bay enters the Quebec City market with enthusiasm and optimism.

Simpsons

Retail sales for the 53 weeks of 1980 were $768 million, an increase of 4.1% over 1979. The effects of the loss of Simpsons-Sears account customers and of sales from Sears order offices contributed to a weak sales performance in the first three quarters. Although strong Christmas business led to some recovery in the last quarter, sales for the year as a whole were disappointing. Operating expenses were controlled within plan, but not sufficiently to offset the sales shortfall and the effect on gross operating profit.

Significant one-time costs were incurred in 1980 with the objective of improving customer service. A credit card re-issuance program was effected throughout Simpsons to coincide with the coming on line of a new software program which allows fast and accurate processing of credit entries. Following the resolution of some developmental problems, the new program has resulted in a noticeable improvement in the prompt handling of credit entries at peak times, which had become difficult in recent years owing to obsolete equipment and systems. IBM 3653 point-of-sale terminals have been installed throughout stores in the Ontario and Western Region, with operation of similar terminals planned for all stores by September 1981. This equipment will permit further improvements to credit and inventory management systems.

As part of the disengagement of Simpsons' operations from those of Sears, a telephone sales department has been created as a distinct profit centre in the Toronto region. In order to meet the increasing competition and enhance Simpsons' image in both the contemporary and traditional women's fashion markets, extensive renovations to the fashion floors of the Toronto downtown and Yorkdale stores were completed before the opening of the 1980 fall season. These renovations have already had a positive impact on traffic and sales.

Simpsons, which has not opened a new store in the last two years, has embarked on a more aggressive expansion program, designed to build its market share and to maintain its leadership role in the department store industry. In March this year Simpsons opened a 120,000 sq. ft. store in Oakville, Ontario, and in August will open a 135,000 sq. ft replacement for the existing 90,000 sq. ft. store in Brampton, Ontario. Also in August, the renovation of the first floor of the existing Simpsons store in Micmac Mall in Dartmouth, Nova Scotia, will be completed which, with the addition of a new second storey, will increase the store size from 90,000 to 156,000 sq. ft. Additional store openings in 1982 have been announced for Toronto, Kingston and Mississauga.

To keep pace with store expansions, distribution facilities are being increased. The existing outlet located on Metropolitan Road in Toronto, which accommodates heavy goods for both Simpsons and The Bay, has been increased in size by almost two-thirds to 734,500 sq. ft. In addition, a distribution centre of 181,000 sq. ft. has been opened in Burnside Industrial Park in Dartmouth to service the requirements of the Atlantic Canada region.

The seventy year old store in downtown Regina will be closed in June 1981 because of inefficiency of the building compared to large new retail facilities about to open in downtown Regina, and exceptionally high operating costs owing to the remoteness of the Regina store from other Simpsons operations.

In June 1980 a new company organization structure was put into place in order to define more clearly authority and responsibilities in identifiable profit centres. Although this was a major departure from the previous organization, its implementation was effected with minimum disruption and it is expected to improve significantly Simpsons' competitive position and profit potential.

In November 1980, after more than 25 years of devoted service, Mr. E. G. Burton retired as President of Simpsons. His responsibilities as chief operating officer have been assumed by the Executive Vice-President, Merchandising and Sales, Mr. C. A. M. MacRae, and the Executive Vice-President, Personnel and Administration, Mr. J. R. Davidson, both of whom are long-service Simpsons employees.

It is with deep sadness that we record the death, on February 22, 1981, of Mr. Raymond Lavoie, who had served as a director of Simpsons since January 1978 and, at the time of his death, was Chairman of the Audit Committee.

Zellers

Sales and earnings of Zellers continued to grow in 1980. Consolidated net earnings from operations amounted to \$21.8 million or \$1.65 per share compared with net operating earnings of \$19.1 million or \$1.45 per share for the prior year, an increase of 14.4%.

Consolidated sales for the 53 weeks of 1980 totalled \$885.1 million compared to \$735.2 million for the 52-week period last year, an increase of 20.4%.

Fields Stores Limited and its subsidiaries contributed \$114.6 million to consolidated sales and \$1.5 million to consolidated net earnings for the year. The reduction in net earnings contribution from Fields of \$424,000 resulted from losses incurred by its import subsidiary which was forced to take heavy price reductions in an effort to liquidate excess inventories earlier in the year. Fields added six new retail stores and closed one during 1980.

Zellers stores achieved a significant increase in sales during the 53-week period ended January 31, 1981, rising to \$770.5 million, an increase of 21.6% compared to the 52-week period last year. The substantial improvement in sales resulted from the opening of 16 new stores during 1980 and the impact of Zellers' aggressive sales promotion program which combined weekly circulars with national television and radio coverage. As a result of the sizeable sales increase in both total company and comparable stores, Zellers again achieved an improvement in its share of market compared to other department stores.

Net earnings from operations for Zellers stores totalled \$20.3 million, an increase of 16.6%. Gross margins were subjected to heavy pressure as a result of higher markdowns taken to reduce inventories during the final quarter and the highly competitive environment that existed during the entire year. Although operating expenses continued to be well controlled, the additional costs related to the opening of 16 new stores contributed to a higher expense level. Net earnings were also adversely affected by the 5% income tax surcharge introduced during the year.

Zellers' ambitious store expansion and modernization program continued during the year with the opening of twelve new stores, the expansion of one, the acquisition of four, and the refurbishing and modernization of seven. New stores were opened in Nanaimo, Fort St. John and Surrey, British Columbia; Fort McMurray, Edmonton and Calgary, Alberta; Regina and Saskatoon, Saskatchewan; St-Jean, Mont Joli and La Pocatière, Quebec; and North Sydney, Nova Scotia. The acquisition of four former Gambles stores from McLeod, Stedman was finalized during the year, three of which are located in Winnipeg and one in Regina. All four stores will be operated under the Zellers name and the services of the Gambles store personnel at these locations have been retained. The stores will be modernized and remerchandised during the first quarter of 1981. The addition of the three Winnipeg stores has enabled Zellers to improve its coverage of this important market to seven stores.

In addition to the store modernization program which included the refurbishing of seven restaurants, another eight restaurants were improved and enlarged in order to capitalize on this very profitable segment of our business. All new stores opened and acquired during the year contain restaurant facilities.

All the smaller Zellers variety stores were remerchandised during the year to reflect more completely Zellers' increased emphasis on family apparel and home needs. The change in merchandise profile of these stores produced a significant improvement in earnings for this group.

Two small variety stores were closed and one store at Chicoutimi, Quebec was destroyed by fire but will be rebuilt.

While the economic and retail environments remain uncertain, management is optimistic that further growth for Zellers will be achieved in 1981.

HUDSON'S BAY WHOLESALE

Hudson's Bay Wholesale recorded a very successful year, with an improvement in both sales and profits. Sales were ahead by 12.7% and reached $460.4 million.

Earnings before interest and taxes amounted to $11.9 million, an increase of 35.7%. Gross margins improved because of increased sales in confectionery, specialty food lines, sundries, sporting goods and home care lines. This gradual shift in the blend of business represents progress towards the strategic goal of lessening dependence of the department on tobacco sales.

The 41 Wholesale branches, which serve the retail industry as well as the institutional trade, and the Vending Divison, which distributes food, beverages, tobacco and entertainment throughout Canada, both contributed to the sales and profit improvement.

Hudson's Bay Wholesale opened branches in Dauphin and Portage la Prairie in Manitoba, which are equipped to improve service to customers in central and northern Manitoba. Existing branches were expanded in Campbell River, B.C.; Red Deer, Alberta; Prince Albert, Saskatchewan; Thunder Bay, Ontario; Trois Rivières, Québec; and Halifax, Nova Scotia. Vending service was expanded to additional areas in British Columbia, Manitoba and Nova Scotia.

The strategy of Hudson's Bay Wholesale is to continue to expand its base, particularly in sundries, confectionery and specialty foods, through its sales force of 230 across Canada. In vending our plan is to expand existing business in full-line vending and office coffee. The Vending Division now operates many large installations of full-line vending in businesses and institutions across Canada. These installations range in size from six to 250 machines, which dispense hot and cold food and beverages, cigarettes, and health and beauty aids. The installations are serviced daily by Hudson's Bay vending staff. Hudson's Bay vending sales have more than kept pace with the vending industry's growth in Canada over the past five years.

Hudson's Bay Wholesale has recently completed a business study review to forecast the requirements and updating of its distribution and EDP systems over the next ten years.

We expect Hudson's Bay Wholesale will continue to grow as a specialized distributor and a major vending operator in 1981.

Fur

Although the Company's fur business continued at a high level of activity through 1980, both sales and profits were reduced from the record levels of 1979 because of lower prices. Consignment sales were off 3.9% to $491.5 million and earnings before interest and taxes, at $17.6 million, were down from $26.5 million the previous year.

The fur selling season, which opened in December 1979, showed a price decline for most long-haired fur pelts. Further declines in all types of fur pelts occurred as the season progressed in 1980. Although the volume of the various types of pelts handled by the Company was maintained or improved over previous years, the drop in prices substantially reduced commission income.

Fur garments remain a highly desired commodity, but economic factors dictate the ability of consumers to satisfy their wants at prices they are willing to pay.

The Company's pelt customers are worldwide, with Germany and Italy amongst the more important consuming countries. The decline during the year in the purchasing power of the German mark and Italian lira against the currencies in which we sell had an important moderating effect on fur prices.

Despite these foreign exchange factors and a reduction in economic activity in consuming countries, profits for this year are the second best on record.

The Company's new modern auction facilities in London, England at Hudson's Bay and Annings Limited (59% owned) will be occupied in 1981, but the formal opening will not occur until 1982, when the auction room and ancillary facilities in that location will be available to the world fur trade.

The Company is currently constructing a new auction facility in Toronto, which will be operational for the 1981/82 season for furs sold by the Company in Canada. The new fur sales operation will complement the services provided to shippers at the existing facilities in Montreal and Winnipeg.

Real Estate


Phoenix
Meadowvale
Meadowvale
CERTIFICATE
MARKBOROUGH PROPERTIES LIMITED
ONTARIO LAND SURVEYOR
Calgary

Earnings from real estate before interest and taxes were $33.3 million, an increase of 26.8% over 1979. The Company's real estate interests (apart from land and buildings used in merchandising operations) consist principally of a 99.9% interest in Markborough Properties Limited (Markborough) and whole or partial ownership in shopping centres in Canada.

Markborough

Net profit of Markborough was up 32% in 1980, reaching a level of $6.6 million on total revenue of $70.5 million. This was a remarkably successful performance in a period of difficult times for the development and housing industry.

Although land revenue decreased to $39 million from $57.4 million in 1979, pre-tax profit derived from this source increased to $11.4 million from $11.2 million. The Calgary operation accounted for a substantial portion of the land revenue.

Although housing revenue improved slightly, to $15.2 million from $14.8 million, the gross profit from this operation rose to $1.9 million from $1 million last year. This was principally due to an improved gross profit margin in Phoenix, Arizona.

Notwithstanding an 18% increase in income property revenue, profit decreased from $1.1 million last year to $700,000 primarily because of start up costs of two projects. During the year four income properties, including a 50% interest in the Regina Inn, were sold for a pre-tax gain of $2.4 million.

The most significant event of the year was the formation of a new limited partnership in Texas, in which Markborough has an 80% interest. Among its assets are ten land development projects in Houston and six in Austin.

Other important land acquisitions were a key 640-acre site in Scottsdale, Arizona, and a 1,251-acre parcel in Sunnymead, California.

Markborough continued its emphasis on improving its income property portfolio. The Meadowvale Town Centre in Mississauga has been enlarged, an addition to the successful Woodside Square shopping centre in Scarborough will be completed this month, and Woodbine Square in Calgary will open in April. In October 1980 Markborough celebrated the opening of its 14-storey Meadowvale Inn, whose initial occupancy figures have been most encouraging. Strategic sites were acquired recently in downtown Calgary, Denver and Dallas, to accommodate early construction starts of office buildings.

Barring any further deterioration in the economies of Canada and the United States, and given a return to some degree of normalcy in the money markets, Markborough looks forward to a number of even more profitable years.

Other Real Estate

Earnings from real estate holdings other than Markborough were $15.6 million (before interest and taxes) for 1980, up from $12.2 million the year before. The main source of these earnings is 29 shopping centres, six wholly-owned and 23 in which the Company has an equity interest.

Seven new shopping centres in which the Company has ownership interests were opened during the year. They are:

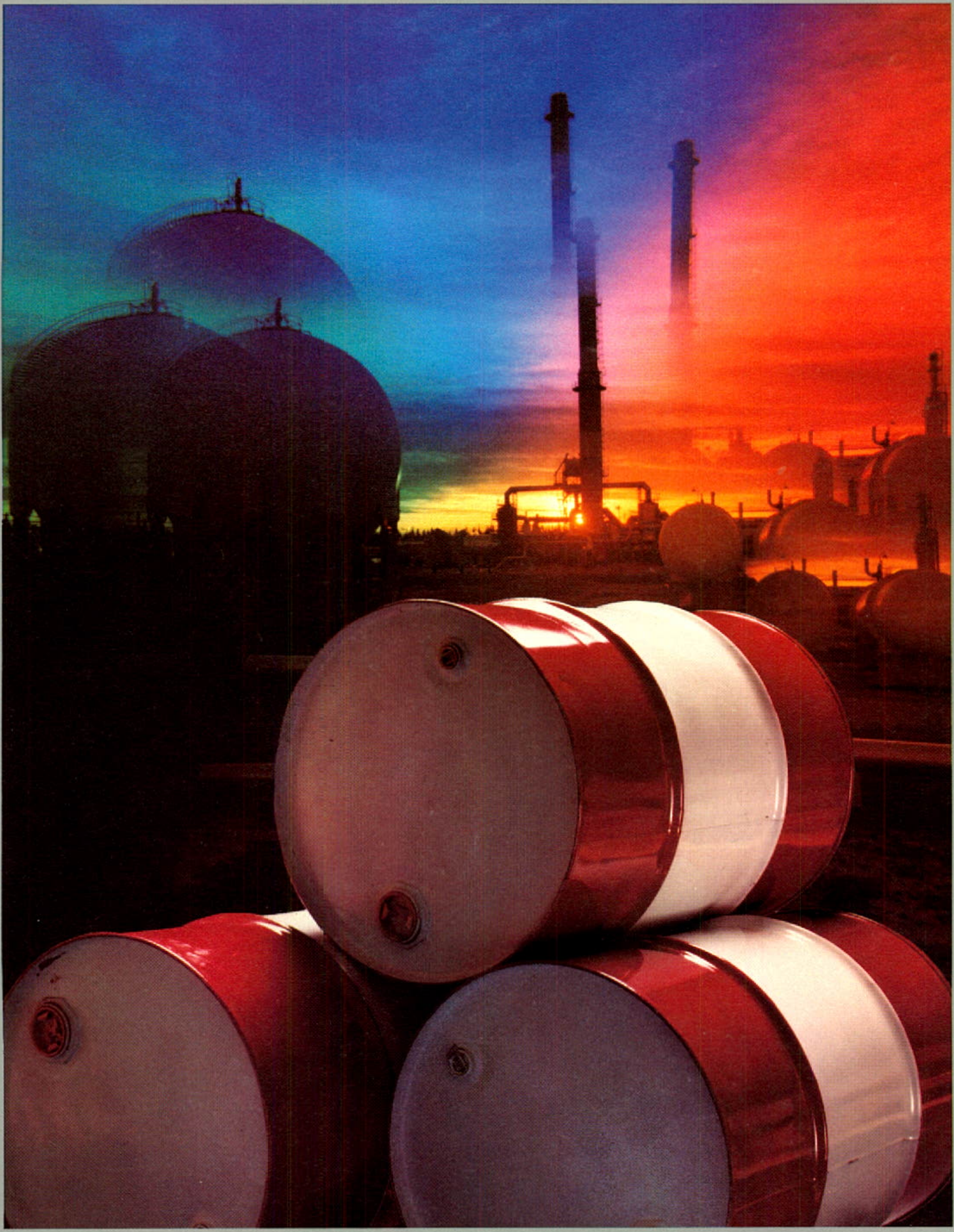
- St. Albert Shopping Centre in Edmonton – 100% owned, comprising 330,000 sq. ft.
- Rutherford Village, Nanaimo, B.C. – 100% owned, comprising 290,000 sq. ft.
- Mayflower Mall, Sydney, Nova Scotia – 50% owned, comprising 365,000 sq. ft.
- Kildonan Place Winnipeg, Manitoba – 20% owned, comprising 445,000 sq. ft.
- Maple Park Shopping Centre, Quesnel, B.C. – 50% owned, comprising 140,000 sq. ft.
- Weyburn Square, Weyburn, Saskatchewan – 50% owned, comprising 138,000 sq. ft.
- Carrefour Gaspé, Gaspé, Quebec – 50% owned, comprising 136,000 sq. ft.

Also completed during 1980 were two partially-owned office buildings located adjacent to important Company shopping facilities. They are:

- Principal Plaza, 25% owned, comprising 400,000 sq. ft., located on Jasper Avenue in downtown Edmonton;
- Southcentre Executive Tower, 50% owned, comprising 106,000 sq. ft., located in south Calgary.

The Company will have equity participation in five new shopping centres scheduled to open in 1981.

Natural Resources



Earnings from natural resources before interest and taxes were $15.7 million, compared with $16.3 million in 1979. We have three principal natural resource holdings, as follows:

- a 16.1% interest in the common shares of Hudson's Bay Oil and Gas Company Limited (HBOG);
- $123 million in preferred shares of Dome Petroleum Limited, this holding having been acquired in January 1979 in exchange for your Company's former investment in Siebens Oil & Gas Ltd.;
- a controlling equity interest in Roxy Petroleum Limited.

Natural resource earnings were made up principally of dividends from HBOG of $7.4 million and preferred dividends from Dome of $8.8 million. To date, all activities of Roxy have related to exploration, the costs of which have been capitalized and have had no effect on our natural resource earnings.

Our interest in HBOG declined from 18.4% to 16.1% as 1.7 million shares were disposed of in exchange for Hudson's Bay Company's 6% exchangeable debentures. When all these debentures, originally issued in 1973, are exchanged, our interest in HBOG will be 10.1%.

Hudson's Bay Oil and Gas
The investment programs of HBOG continued to gain momentum in 1980, and the results achieved were extremely gratifying. Higher levels of revenues, funds generated and net earnings were recorded and reserves of crude oil and natural gas increased.

Net earnings were $145 million, a gain of $13.6 million or 10.3% from the prior year. Funds generated from operations were up 9.9% and totalled $301 million. On a per share basis, net earnings rose from $1.74 to $1.92, while funds generated increased from $3.61 to $3.97. Dividends declared on common shares totalled $0.575 per share compared with $0.52 per share in 1979. The per share amounts reflect the number of common shares outstanding after a four-for-one split, effective May 12, 1980.

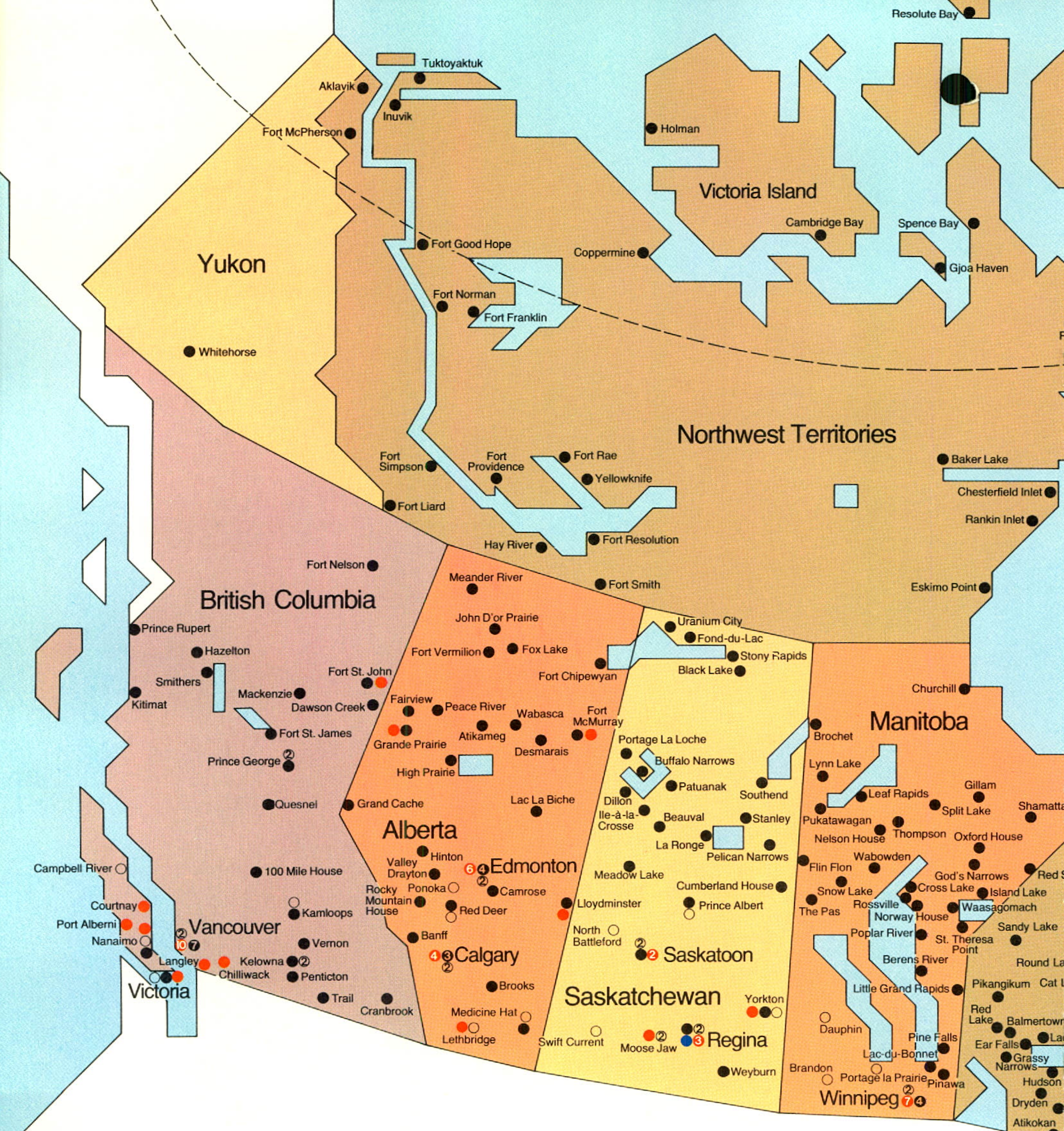
Net production revenues in 1980 totalled $579 million, up $129 million from 1979, primarily owing to higher prices. Total expenses, exclusive of income taxes, rose $80 million to $319 million, reflecting expanded exploration programs, the inclusion of Syncrude operating costs for the full year, and the effect of inflation on HBOG operations.

Production of crude oil and natural gas liquids averaged 77,700 barrels per day, essentially unchanged from 1979. Sales of natural gas averaged 357 million cubic feet per day, down 15.4% from 1979, owing to continuing weak demand for Canadian natural gas in the United States.

In 1980, total capital expenditures and exploration expenses totalled $367 million, almost equal to the record level of expenditures in 1979 when HBOG spent $180 million for an interest in Syncrude.

HBOG had planned to increase substantially its investments in exploration and development in Canada in 1981. Many of the planned projects, however, were rendered uneconomic by the federal government's new budget and the national energy program. Accordingly, HBOG's capital commitments and exploration expenses in 1981 will be reduced by 40% from an originally planned $580 million to $360 million.

HBOG cannot accurately predict the extent of the impact of the new federal policies on its future operations. However, had the petroleum and gas revenue tax and the elimination of the depletion allowance been in effect throughout 1980, these measures would have reduced the amount of funds generated from HBOG's operations by more than 20%, and its net earnings by almost 50%.



Hudson's Bay Company

Retail and Wholesale Locations
January 31, 1981

- The Bay (283)
- Simpsons (21)
- Zellers (171)
- Wholesale Branches (56)

Excludes Shop Rite stores in Ontario (66)
and Fields stores in Western Canada (81)

Southern Ontario
Midland
Orillia
Owen Sound
Barrie
Hanover
Newmarket
Oshawa
Richmond Hill
Brampton
Georgetown
Toronto
Guelph
Milton
Mississauga
Kitchener / Waterloo
Cambridge
Burlington
St. Catharines
Hamilton
Brantford
Grimsby
Niagara Falls
London
Welland
Sarnia
Port Colborne
St. Thomas
Fort Erie
Wallaceburg
Chatham
Windsor
Leamington
Arctic Bay
Pond Inlet
Nanisivik
Clyde
Baffin Island
Arctic Circle
Broughton Island
Igloolik
Hall Beach
Pangnirtung
Repulse Bay
Frobisher Bay
Cape Dorset
Lake Harbour
Coral Harbour
Sugluk
Maricourt
Payne Bay
Povungnituk
Fort Chimo
Rigolet
Cartwright
North West River
Newfoundland
Inukjuak
Hudson Bay
Happy Valley
St. Anthony
Schefferville
Blanc-Sablon
Rivière-St-Paul
St-Augustin
Sanikiluaq
Labrador City
La Tabatière
Chevery
La Romaine
Grand Falls
Carbonear
St. John's
Poste-de-la-Baleine
Fort Severn
Québec
Gagnon
Havre-St-Pierre
Rivière-au-Tonnerre
Fort-George
Maliotenam
Stephenville
Sept-Îles
Nouveau-Comptoir
Marystown
Sucker Lake
Port-Cartier
Attawapiskat
Eastmain
Gaspé
Bearskin Lake
Baie-Comeau
Kashechewan
Hauterive
Chandler
Trout Lake
Fort Albany
Betsiamites
Mont-Joli
P.E.I.
Sydney
Webequie
Moosonee
Mistassini
Forestville
Rimouski
Bathurst
Charlottetown
Fort Rupert
Pickle Lake
Wunnummin Lake
Moose Factory
Chibougamau
Newcastle
Chatham
Summerside
Alma
Chapais
Chicoutimi
New Glasgow
Lansdowne House
Ontario
Matagami
New Brunswick
Amherst
New Osnaburgh
Ogoki
Obedjiwan
Nova Scotia
Hearst
La Tuque
La Pocatière
Moncton
Truro
Seul
Noranda
Fredericton
Kentville
Armstrong
Nakina
Smooth Rock Falls
Québec
Sussex
Halifax/Dartmouth
Geraldton
Longlac
St-Georges (Beauce)
Sioux Lookout
Hornepayne
Val-d'Or
St-John
Bridgewater
Schreiber
Manitouwadge
Iroquois Falls
Trois-Rivières
Thetford Mines
Nipigon
Marathon
Manouane
Victoriaville
Yarmouth
Red Rock
Wawa
New Liskeard
St-Jérôme
Drummondville
White River
St-Hyacinthe
Thunder Bay
Pembroke
Beloeil
North Bay
Lachute
Montréal
Sudbury
Ottawa / Hull
Lac-Mégantic
Elliot Lake
Cornwall
Sherbrooke
Smiths Falls
St-Jean
Sault Ste. Marie
Brockville
Peterborough
Kingston
Lindsay
Trenton
Cobourg
see Inset

Hudson's Bay Company Directors and Officers

Board

Ian A. Barclay
Vancouver
Chairman of the Board
British Columbia Forest Products Limited

Marcel Bélanger
Quebec
President, Gagnon et Bélanger Inc.

G. Allan Burton
Toronto
Company Director

Sir Eric Drake
London, England
Company Director

C. W. (Wally) Evans
Toronto
President, The Bay

Gurth C. Hoyer Millar
London, England
Director, J. Sainsbury Ltd.

G. Richard Hunter ♦
Winnipeg
Partner, Pitblado & Hoskin

Martin W. Jacomb★
London, England
Vice-Chairman, Kleinwort, Benson Limited

Josette D. Leman
Montreal
Travel Consultant, McGregor Travel Co. Ltd.

Alexander J. MacIntosh★
Toronto
Partner, Blake, Cassels & Graydon

W. Donald C. Mackenzie♦
Calgary
President, W. D. C. Mackenzie Consultants Ltd.

Allan M. McGavin ♦
Vancouver
Chairman of the Board, McGavin Foods Limited

Donald S. McGiverin★ ♦
Toronto
President, Hudson's Bay Company

Dawn R. McKeag
Winnipeg
President, Walford Investments Ltd.

John H. Moore★
London, Ontario
Chairman, Executive Committee
London Life Insurance Company

George T. Richardson★ ♦
Winnipeg
President, James Richardson & Sons, Limited

Kenneth R. Thomson
Toronto
Chairman of the Board
Thomson Newspapers Limited

John A. Tory
Toronto
President, The Thomson Corporation Limited

The Rt. Hon. Lord Trend
Oxford, England
Rector, Lincoln College

Donald O. Wood
Toronto
Corporate Vice-President, Systems and Distribution Services, Hudson's Bay Company

Peter W. Wood★
Toronto
Executive Vice-President, Hudson's Bay Company

★Member of Executive Committee
♦ Member of Audit Committee

Officers and Senior Management

George T. Richardson
Governor

Alexander J. MacIntosh
Deputy Governor

Donald S. McGiverin
President

Peter W. Wood
Executive Vice-President

Malcolm H. MacKenzie
Corporate Vice-President, Personnel

John G. W. McIntyre
Corporate Vice-President
Real Estate and Development

T. Iain Ronald
Corporate Vice-President, Finance

Donald O. Wood
Corporate Vice-President
Systems and Distribution Services

William H. Evans
Vice-President, Inter-Corporate Relations

Brian C. Grose
Vice-President and Controller

Louis J. Henry
Vice-President, Furs

A. Rolph Huband
Vice-President and Secretary

A. Ernest Wilkes
Vice-President, Pension Investments

Peter F. S. Nobbs
Treasurer

Donald H. Carlisle
Assistant Treasurer

Christopher J. Desjardins
Assistant Secretary

Dwane B. Byers
Manager, Fur Sales Department, Montreal

Hugh M. Dwan
Managing Director
Hudson's Bay and Annings Limited

Peter W. Schmidt
Corporate General Manager
Food Services

William F. Thompson
Executive Vice-President
Hudson's Bay Distillers Limited

Operating Groups and Principal Subsidiaries

THE BAY

Board

Marcel Bélanger
President, Gagnon et Bélanger Inc.

J. Evan Church
Vice-President, Merchandising, The Bay

C. W. (Wally) Evans
President, The Bay

Al A. Guglielmin
Vice-President, Department Stores
The Bay

Allan M. McGavin
Chairman of the Board, McGavin Foods Limited

Donald S. McGiverin
President, Hudson's Bay Company

Dawn R. McKeag
President, Walford Investments Ltd.

T. Iain Ronald
Corporate Vice-President, Finance
Hudson's Bay Company

Marvin E. Tiller
General Manager, National Stores Department
The Bay

John A. Tory
President, The Thomson Corporation Limited

Officers and Senior Management

C. W. (Wally) Evans
President

Al A. Guglielmin
Vice-President, Department Stores

J. Evan Church
Vice-President, Merchandising

John A. English
Vice-President, Personnel

Douglas W. Mahaffy
Vice-President, Planning and Control

Arthur A. Adamic
General Manager, Western Region

Hal L. Spelliscy
General Manager, Calgary Region

J. Blair Bustard
General Manager, Edmonton Region

Al W. Brent
General Manager, Central Region

Robert P. Boutin
General Manager, Montreal Region

George J. Kosich
General Manager, Toronto Region

Gary W. McLeod
General Manager, Ottawa Region

Marvin E. Tiller
General Manager, National Stores Department

J. Lorne Klapp
General Manager, Wholesale Department

D. G. (Peter) Buckley
General Manager, Shop-Rite Catalogue Stores

D. Keith McConnell
Director of Operations Services

SIMPSONS

Board

Ian A. Barclay
Chairman of the Board
British Columbia Forest Products Limited

Thomas J. Bell
Chairman of the Board
Abitibi-Price Inc.

Alexander J. MacIntosh
Partner, Blake, Cassels & Graydon

Donald S. McGiverin
President, Hudson's Bay Company

J. Michael G. Scott
Vice-President & Director, Wood Gundy Limited

Charles B. Stewart
Retired officer, Simpsons Limited

Kenneth R. Thomson
Chairman of the Board
Thomson Newspapers Limited

A. Ernest Wilkes
Vice-President, Pension Investments
Hudson's Bay Company

Peter W. Wood
Executive Vice-President, Hudson's Bay Company

Officers and Senior Management

Donald S. McGiverin
Chairman of the Board

J. Richard Davidson
Executive Vice-President
Personnel and Administration

Charles A. M. MacRae
Executive Vice-President
Merchandising and Sales

G. Archie L. Keown
Vice-President and Controller

Lou Marzolini
Director of Merchandising

Ernest C. Bengert
General Manager
Ontario & Western Region

Kenneth S. Clark
General Manager
Toronto Region

Maurice Poitras
General Manager
Quebec & Maritime Region

Christopher J. Desjardins
Secretary

ZELLERS

Board

James G. Balfour
Chairman of the Board, Zeller's Limited

Donald N. Byers
Partner, Byers, Casgrain

R. Ross Craig
Executive Vice-President, Commercial
Dominion Foundries and Steel Limited

Graham R. Dawson
President, Dawson Construction Limited

Thomas S. Dobson
Chairman, Easton United Securities Ltd.

C. Frederick Graves
President, Fields Stores Limited

Josette D. Leman
Travel Consultant, McGregor Travel Co. Ltd.

John M. Levy
President, Zeller's Limited

Keith H. MacDonald
Company Director

Donald S. McGiverin
President, Hudson's Bay Company

J. Robert Ouimet
President, J. Rene Ouimet Enterprises Ltd.

Peter W. Wood
Executive Vice-President, Hudson's Bay Company

Officers

James G. Balfour
Chairman of the Board

John M. Levy
President

William H. Buggs
Vice-President, Real Estate,
Store Expansion and Food Service

Thomas H. Burdon
Vice-President, Human Resources

Hans E. Busse
Vice-President, Store Management

Murray M. Bozniak
Vice-President, Merchandise

Michael A. Montagano
Vice-President, Finance

Eric S. Paul
Vice-President, Merchandise Distribution,
Planning and Control

Marc-André Filion
Secretary and Legal Counsel

William E. Vickers
Treasurer

MARKBOROUGH PROPERTIES

Board

Peter A. Anker
Executive Vice-President
Markborough Properties Limited

Tullio Cedraschi
President, CN Investment Division
Canadian National Railways

Alex R. Grant
Chairman, George Wimpey Canada Limited

Gordon C. Gray
Chairman of the Board, A. E. LePage Limited

Captain Joseph Jeffrey
Chairman of the Board
London Life Insurance Company

H. Peter Langer
President, Markborough Properties Limited

Alexander J. MacIntosh
Partner, Blake, Cassels & Graydon

Brian R. B. Magee
Deputy Chairman of the Board
Markborough Properties Limited

Donald S. McGiverin
President, Hudson's Bay Company

John G. W. McIntyre
Corporate Vice-President, Real Estate and
Development, Hudson's Bay Company

Donald F. Prowse
Executive Vice-President
Markborough Properties Limited

Peter W. Wood
Executive Vice-President, Hudson's Bay Company

Officers

Donald S. McGiverin
Chairman of the Board

Brian R. B. Magee
Deputy Chairman of the Board

H. Peter Langer
President

Peter A. Anker
Executive Vice-President

Donald F. Prowse
Executive Vice-President

John B. Alguire
Senior Vice-President

Donald R. Cole
Senior Vice-President

George H. Mundy
Senior Vice-President

James C. Shapland
Senior Vice-President and Secretary

John A. Brough
Treasurer

Reginald W. Munro
Assistant Secretary

Corporate Information*

Registered Office
Hudson's Bay House, 77 Main Street
Winnipeg, Manitoba R3C 2R1

Corporate Office
2 Bloor Street East
Toronto, Ontario M4W 3H7

Principal Bankers
The Royal Bank of Canada
The Toronto-Dominion Bank
Canadian Imperial Bank of Commerce
Bank of Montreal

Registrars and Transfer Agents
The Royal Trust Company, Calgary, Montreal, Toronto, Vancouver and Winnipeg
Williams & Glyn's Registrars Limited, London

Stock Exchange Listings
Ordinary shares—London, Montreal, Toronto and Winnipeg
Preferred shares Series A—Montreal, Toronto and Winnipeg

Auditors
Peat, Marwick, Mitchell & Co.

Principal Investments*

Dome Petroleum Limited
$123,316,000 preferred shares

Eaton/Bay Financial Services Limited
Markets financial services
592,231 common shares (38.7%)

Hudson's Bay Oil and Gas Company Ltd.
Petroleum exploration and production
12,235,904 common shares (16.1%)

The G. W. Robinson Company, Limited
Operates department stores in south-western Ontario
108,178 common shares (27%)

Roxy Petroleum Limited
Petroleum exploration
3,296,573 common shares (33.7%)

Simpsons-Sears Limited
Operates department stores and catalogue offices throughout Canada
31,095,925 common shares (35.6%)

Principal Subsidiary Companies*

(wholly-owned unless otherwise indicated)

Hudson's Bay and Annings Limited (59%)
Fur brokers

Hudson's Bay Company Acceptance Limited
Purchases accounts receivable

Hudson's Bay Company Developments Limited

Hudson's Bay Company Properties Limited
Property owning companies

Hudson's Bay Company Fur Sales Inc.
Fur brokers

Markborough Properties Limited (99.9%)

Markland Properties, Inc.

Markborough California, Inc.

Markborough Colorado Inc.

Markborough Texas Inc.

Markborough Holdings Inc.
Property development companies

Simpsons Limited
Holding company

The Robert Simpson Company Limited
Operates department stores

Simpsons Acceptance Company Limited
Purchases accounts receivable

Zeller's Limited (59.7%)
Operates department stores

Fields Stores Limited
Operates family clothing stores

Marshall Wells Limited
Distributes hardware

Real Estate Holdings*

	Net Interest
Markborough Properties Limited	
15 shopping centres	1,019,000 sq. ft.
6 office buildings	751,000 sq. ft.
22 industrial buildings	740,000 sq. ft.
2 hotels	366 rooms
3 apartment buildings	583 suites
Markborough also owns land for residential development	
Other Real Estate	
29 shopping centres	4,984,000 sq. ft.
8 office/commercial buildings	1,172,000 sq. ft.

*At January 31, 1981.

Hudson's Bay Company
Consolidated Statement of Earnings

Year Ended January 31, 1981

	This Year	Last Year
	$ 000's	$ 000's
Sales and revenue (Note 2)		
Merchandising:		
Retail	3,190,191	2,847,927
Wholesale	460,356	408,434
Fur	63,342	66,302
	3,713,889	3,322,663
Real estate	83,828	96,263
Natural resources	16,169	16,283
	3,813,886	3,435,209
Source of earnings (Note 2)		
Merchandising:		
Retail	153,314	177,755
Wholesale	11,856	8,737
Fur	17,556	26,508
	182,726	213,000
Real estate	33,349	26,300
Natural resources	15,735	16,283
Operating profit	231,810	255,583
Interest on long-term debt	(97,814)	(82,448)
Net short-term interest	(38,719)	(31,293)
Earnings before income taxes, minority interest and extraordinary items	95,277	141,842
Income taxes (Note 2)	(30,541)	(52,073)
Earnings before minority interest and extraordinary items	64,736	89,769
Minority interest	(10,186)	(9,423)
Earnings before extraordinary items	54,550	80,346
Gain on disposition of investments (Note 4)	18,811	23,175
Net earnings	73,361	103,521
Earnings per ordinary share		
Earnings before extraordinary items	$1.80	$2.98
Net earnings	$2.59	$3.98

Consolidated Statement of Retained Earnings

Year Ended January 31, 1981

	This Year	Last Year
	$ 000's	$ 000's
Retained earnings at beginning of year	425,415	358,241
Net earnings	73,361	103,521
Dividends paid		
Preferred shares	(11,874)	(10,866)
Ordinary shares	(28,455)	(25,481)
Retained earnings at end of year	458,447	425,415

Hudson's Bay Company
Consolidated Balance Sheet

January 31, 1981

	This Year	Last Year
	$ 000's	$ 000's
Current assets		
Cash	**12,835**	11,202
Short-term securities, at market value	**10,165**	3,679
Accounts receivable	**675,976**	645,942
Income taxes recoverable	**970**	3,807
Merchandise inventories	**697,111**	592,241
Prepaid expenses	**20,015**	13,378
	1,417,072	1,270,249
Secured receivables (Note 5)	**26,927**	33,005
Property for sale and future development, at cost	**226,526**	163,186
Investments (Note 6)	**503,607**	439,430
Fixed assets		
Land	**131,411**	124,032
Buildings	**523,219**	431,979
Equipment and leasehold improvements	**379,411**	313,086
	1,034,041	869,097
Less accumulated depreciation	**239,881**	200,021
	794,160	669,076
Deferred charges	**20,712**	16,518
Goodwill	**62,229**	60,129
	3,051,233	2,651,593

	This Year	Last Year
	$ 000's	$ 000's
Current liabilities		
Bank indebtedness	**376,621**	251,272
Notes payable	**110,420**	147,564
Accounts payable and accrued expenses	**398,541**	323,390
Long-term debt due within one year	**71,260**	29,768
	956,842	751,994
Long-term debt (Note 7)	**1,091,362**	918,559
Pensions (Note 8)	**31,694**	34,659
Deferred income taxes	**56,566**	64,118
Minority interest in subsidiaries	**53,557**	49,598
Shareholders' equity		
Capital stock (Note 9):		
$1.80 cumulative redeemable preferred shares series A	**128,947**	134,321
Variable rate, cumulative redeemable preferred shares series C	**20,000**	20,000
Ordinary shares	**249,701**	249,701
	398,648	404,022
Additional paid-in capital (Note 10)	**4,117**	3,228
Retained earnings	**458,447**	425,415
	861,212	832,665
	3,051,233	2,651,593

Hudson's Bay Company
Consolidated Statement of Assets Employed

January 31, 1981

	This Year	Last Year
	$ 000's	$ 000's
Merchandising		
Accounts receivable	**634,889**	620,026
Inventories	**697,111**	592,241
Accounts payable	**(369,314)**	(303,725)
Other current assets	**28,900**	26,249
Working capital (see below)	**991,586**	934,791
Investments	**283,261**	271,402
Fixed assets	**583,820**	521,084
Goodwill	**31,365**	29,034
Other assets	**23,136**	25,768
Pensions	**(31,694)**	(34,659)
Deferred income taxes	**(485)**	(31,213)
	1,880,989	1,716,207
Real estate		
Working capital (see below)	**14,768**	6,921
Secured receivables	**18,290**	22,032
Property for sale and future development	**226,526**	163,186
Fixed assets and investments:		
Shopping centres	**138,693**	94,454
Commercial	**87,876**	72,901
Residential	**39,691**	16,572
Goodwill	**30,864**	31,095
Other assets	**6,213**	1,723
Deferred income taxes	**(55,045)**	(32,905)
	507,876	375,979
Natural resources		
Working capital (see below)	**2,012**	1,468
Hudson's Bay Oil and Gas Company Limited	**7,704**	8,777
Dome Petroleum Limited	**123,316**	123,316
Roxy Petroleum Limited	**33,406**	–
Deferred income taxes	**(1,036)**	–
	165,402	133,561
Assets employed	**2,554,267**	2,225,747
Provided from		
Long-term debt	**1,091,362**	918,559
Short-term debt–net (see below)	**548,136**	424,925
	1,639,498	1,343,484
Minority interest in subsidiaries	**53,557**	49,598
Shareholders' equity:		
Preferred shares	**148,947**	154,321
Ordinary shares	**249,701**	249,701
Additional paid-in capital	**4,117**	3,228
Retained earnings	**458,447**	425,415
	861,212	832,665
	2,554,267	2,225,747

Working capital is shown before deduction of short-term debt–net, which comprises bank indebtedness, short-term notes payable and long-term debt due within one year, less short term securities.

Hudson's Bay Company
Consolidated Statement of Changes in Financial Position

Year Ended January 31, 1981

	This Year	Last Year
	$ 000's	$ 000's
Source of funds		
Earnings before minority interest and extraordinary items	64,736	89,769
Items not affecting working capital:		
Equity in undistributed earnings of affiliates and joint ventures	(3,922)	(15,068)
Depreciation and amortization	48,738	43,378
Deferred income taxes	(7,552)	9,181
Provided from operations	102,000	127,260
Issue of long-term debt	291,041	217,511
Proceeds from disposition of investments	20,161	24,878
Decrease in secured receivables	6,078	–
Issue of preferred shares	–	20,033
Issue of ordinary shares:		
Stated value	–	12,147
Additional paid-in capital	–	3,228
	419,280	405,057
Use of funds		
Capital expenditures:		
Merchandising	104,693	75,613
Real estate	67,636	49,364
Increase in property for sale and future development	63,340	37,794
Investments:		
Roxy Petroleum Limited	33,406	–
Simpsons-Sears Limited	–	27,209
Other	27,543	7,420
Reduction of long-term debt	118,238	91,277
Purchase of preferred shares for cancellation	4,485	2,025
Dividends paid:		
Preferred shareholders	11,874	10,866
Ordinary shareholders	28,455	25,481
Minority shareholders	2,026	2,170
Deferred charges	7,347	4,463
Acquisition of shares of subsidiaries:		
Zeller's Limited	6,535	–
Simpsons Limited	–	20,107
Increase in secured receivables	–	7,004
Other–net	1,727	5,574
	477,305	366,367
Increase (decrease) in working capital	(58,025)	38,690
Working capital at beginning of year	518,255	479,565
Working capital at end of year	460,230	518,255

1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are prepared by management on the historical cost basis in accordance with accounting principles generally accepted in Canada and conform in all material respects with International Accounting Standards. The significant policies are summarized below:

a) Consolidation

The consolidated financial statements include the accounts of Hudson's Bay Company and of all its subsidiary companies.

b) Currency Translation

The accounts of the U.S. and U.K. subsidiaries are translated into Canadian dollars at approximately the exchange rates prevailing at the balance sheet dates.

c) Leases

The Company classifies leases as either operating leases (under which rentals are included in determining earnings of the period in which they accrue) or capital leases (under which substantially all of the benefits and risks of ownership are transferred to the lessee) based on an assessment of each lease and its materiality. All leases, including those relating to store premises, have been classified as operating leases in these consolidated financial statements.

d) Store Pre-Opening Expenses

Costs associated with the opening of new stores are charged against earnings in the year in which the stores open for business.

e) Earnings Per Ordinary Share

Earnings per ordinary share calculations are based on the weighted average number of ordinary shares outstanding during the year.

f) Accounts Receivable

In accordance with recognized retail industry practice, accounts receivable classified as current assets include customer instalment accounts of which a portion will not become due within one year.

g) Merchandise Inventories

Merchandise inventories are valued at the lower of cost and net realizable value less normal profit margins, with cost determined on a first-in, first-out basis.

h) Capitalization of Interest and Taxes

Interest and real estate taxes are capitalized to the extent that they relate to properties which are either held for sale or development or are under construction. The amount so capitalized includes interest of $25,431,000 (last year $14,617,000).

i) Investments

The Company follows the equity method in accounting for its investments in joint ventures and in companies in which the Company's ownership interest exceeds 20% and the Company is able to elect a significant proportion of the board of directors of the investee company. Under the equity method, investments are recorded at cost plus the Company's equity in undistributed earnings since acquisition.

Investments in other companies are carried at cost, with dividends being reflected in earnings when received with respect to common shares and non-cumulative preferred shares and as accrued in the case of cumulative preferred shares.

j) Fixed Assets

Fixed assets are carried at cost.

Buildings (other than income properties), equipment and leasehold improvements are depreciated on the straight-line method at rates which will fully depreciate the assets over their estimated useful lives. The depreciation rates applicable to the various classes of assets are as follows:

Buildings	2– 5%
Equipment	7–20%
Leasehold improvements	3–10%

Buildings held for the purpose of producing rental income (income properties) are depreciated on a 3% 40-year sinking fund method. Under this method the depreciation charged against earnings is an amount which increases annually and comprises a predetermined fixed sum and 3% compound interest, which together will fully depreciate each building over its estimated useful life.

k) Deferred Charges

Deferred charges principally comprise debt discount and expense which is amortized on the straight-line method over the terms of the issues to which it relates. The amortization is included with interest on long-term debt in the Consolidated Statement of Earnings.

l) Goodwill

Goodwill comprises the unamortized balance of the excess of the cost to the Company over the fair value of its interest in the identifiable net assets of Markborough Properties Limited and Zeller's Limited at the respective dates of acquisition.

The goodwill which relates to acquisitions subsequent to 1973, $40,012,000 (last year $37,912,000), after deducting accumulated amortization of $2,335,000 (last year $1,354,000), is being amortized on the straight-line method over 40 year periods.

m) Pension Costs

Current pension costs, substantially all of which arise under trusteed pension plans, are charged to operations. The costs of plan improvements are charged to operations over appropriate periods as they are funded.

n) Last Year's Figures

Certain of last year's figures have been restated for the purpose of consistency with this year's presentation.

2. SUPPLEMENTARY SEGMENTED INFORMATION

The Company is engaged in merchandising through retail stores, including investments in other companies, through wholesale distribution of tobacco and other products and through fur auction operations. The retail stores include full-line and promotional department stores, department stores located in smaller communities and catalogue stores. The Company has interests in the real estate industry through Markborough Properties Limited and through real estate joint ventures and income properties. The Company also has interests in natural resources through investments in Hudson's Bay Oil and Gas Company Limited, Dome Petroleum Limited and Roxy Petroleum Limited.

Reported industry segments are merchandising, real estate and natural resources with merchandising further divided, where significant, into retail, wholesale and fur. Information pertaining to these segments is included in the consolidated financial statements and is supplemented by the following additional information.

Sales and revenue include the Company's equity in the pre-tax earnings of companies and joint ventures accounted for under the equity method. Amounts included in earnings by source are as follows:

	THIS YEAR			LAST YEAR		
	Operating Profit Excluding Equity Earnings	Pre-tax Equity Earnings	Source of Earnings Per Consolidated Statement of Earnings	Operating Profit Excluding Equity Earnings	Pre-tax Equity Earnings	Source of Earnings Per Consolidated Statement of Earnings
	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's
Merchandising:						
Retail	123,861	29,453	153,314	134,758	42,997	177,755
Wholesale	11,856	–	11,856	8,737	–	8,737
Fur	17,556	–	17,556	26,508	–	26,508
	153,273	29,453	182,726	170,003	42,997	213,000
Real estate	25,771	7,578	33,349	20,068	6,232	26,300
Natural resources	15,735	–	15,735	16,283	–	16,283
Operating profit	194,779	37,031	231,810	206,354	49,229	255,583
Interest expense–net			(136,533)			(113,741)
Income taxes (including $17,600,000 (last year $21,400,000) in respect of equity earnings)			(30,541)			(52,073)
Minority interest			(10,186)			(9,423)
Earnings before extraordinary items			54,550			80,346

Dividends received in respect of investments carried at cost amount to $16,169,000 (last year $16,625,000) and are included in revenue and earnings from natural resources.

Depreciation and amortization deducted in arriving at operating profit are as follows:

	This Year	Last Year
	$ 000's	$ 000's
Merchandising	44,524	39,823
Real estate	2,591	2,137
	47,115	41,960

In addition to amortization charged against operating profit, a further $1,623,000 (last year $1,418,000) relating to debt discount and expense has been included with interest expense.

Investments in joint ventures and other companies accounted for by the equity method which are included by segment in the Consolidated Statement of Assets Employed are as follows:

	This Year	Last Year
	$ 000's	$ 000's
Merchandising	278,221	273,544
Real estate	57,444	32,489
	335,665	306,033

Merchandising assets employed predominantly relate to retail operations.

The fur segment includes operations of auction houses in the United Kingdom and the United States. All other operations are in Canada.

3. ACQUISITION OF SIMPSONS LIMITED

In 1978 the Company acquired 88.3% of the outstanding common shares of Simpsons Limited ("Simpsons"). At a special shareholders' meeting of Simpsons held on July 31, 1979, an agreement was approved and adopted providing for the amalgamation of Simpsons with Bayhud Inc., a newly incorporated wholly-owned subsidiary of the Company. Following the amalgamation, Simpsons became a wholly-owned subsidiary of the Company. Pursuant to the agreement, the minority shareholders of Simpsons were entitled to receive in exchange for eight shares of Simpsons either one ordinary share of the Company valued at $28.50 or $28.50 made up of $28.40 in cash and one preferred share series B with a stated value of $.10 redeemable immediately. After giving effect to the amalgamation, the Company was required to issue 145,000 ordinary shares and to pay $4,625,000. In addition, Simpsons paid $10,748,000 to dissenting minority shareholders. The total consideration, including costs of acquisition, was $20,107,000 and this cost was allocated as follows:

	$ 000's
Reduction in minority interest	15,465
Fixed assets	4,642
Total cost, being the fair value of consideration paid	20,107

4. GAIN ON DISPOSITION OF INVESTMENTS

The gain of $18,811,000 (last year $23,175,000) is after deducting income taxes of $247,000 (last year $243,000) and results from the exchange by debentureholders of their 6% exchangeable subordinated debentures for shares of Hudson's Bay Oil and Gas Company Limited owned by the Company (see Note 6(b)).

5. SECURED RECEIVABLES

Secured receivables include mortgages which arise principally from land transactions and loans outstanding under the employee share purchase plan.

	This Year $ 000's	Last Year $ 000's
Total secured receivables	51,365	48,675
Less amounts due within one year classified as accounts receivable	24,438	15,670
	26,927	33,005
Average rate of interest	11.2%	9.2%

Maturities during the five years ending January 31, 1986 are as follows:
1982–$24,438,000; 1983–$2,562,000; 1984–$1,967,000; 1985–$765,000; 1986–$3,383,000.

Under certain conditions, the amounts due may be paid prior to maturity.

6. INVESTMENTS

Investments comprise the following:

	This Year $ 000's	Last Year $ 000's
Simpsons-Sears Limited	249,682	243,633
Hudson's Bay Oil and Gas Company Limited	7,704	8,777
Dome Petroleum Limited	123,316	123,316
Roxy Petroleum Limited	33,406	–
Real estate joint ventures	57,444	32,489
Other	32,055	31,215
	503,607	439,430

a) Simpsons-Sears Limited ("Sears")

During 1979 the Company acquired, pursuant to a rights offering by Sears dated August 20, 1979, 3,886,979 class B shares of Sears at a cost of $27,209,000. This investment, together with approximately 27,200,000 class B shares of Sears previously owned, is carried at cost plus the Company's equity in undistributed earnings since acquisition, and represents 88.4% of the total class B shares, 44.2% of the total voting shares and 35.6% of all outstanding shares of Sears.

	This Year		Last Year	
	Per Share $	$ 000's	Per Share $	$ 000's
Investment				
At carrying value	8.03	249,682	7.83	243,633
At underlying Sears book value	6.53	203,050	6.31	196,216
At quoted market value, The Toronto Stock Exchange	7.63	237,262	7.87	244,725

b) Hudson's Bay Oil and Gas Company Limited ("HBOG")

The investment in HBOG, carried at cost, consists of 12,235,904 common shares (last year 13,941,212), of which 4,534,616 (last year 6,239,924) are held in escrow by The Royal Trust Company pursuant to the Trust Indenture providing for the Company's 6% exchangeable subordinated debentures. During the current year, 1,705,308 (last year 2,093,412) of the HBOG common shares were exchanged at $12 per share for 6% exchangeable subordinated debentures.

	This Year		Last Year	
	Per Share		Per Share	
	$	$ 000's	$	$ 000's
Investment				
At carrying value	.63	7,704	.63	8,777
At underlying HBOG book value at previous month end	8.90	108,850	7.55	105,326
At quoted market value, The Toronto Stock Exchange	24.12	295,191	27.00	376,413

Numbers of shares and per share amounts shown above have been adjusted to give effect to the four-for-one subdivision of HBOG common shares effective May 12, 1980.

At January 31, 1981 the common shares of HBOG are held 52.9% by Conoco Companies Inc., 16.1% by the Company and 31.0% by approximately 9,700 other shareholders.

c) Dome Petroleum Limited ("Dome")

The investment in Dome, carried at cost, consists of 4,110,517 preferred shares, series D and 4,110,516 preferred shares, series E. The series D preferred shares have a dividend rate of 7.25% per annum and are retractable in whole or in part at the Company's option on January 3, 1984 and at the end of each five-year period thereafter. The series E preferred shares have a dividend rate of 7% per annum and are to be retracted on January 4, 1982. The series D and series E shares were issued by Dome and acquired by the Company in 1979.

d) Roxy Petroleum Limited ("Roxy")

Between May 26, 1980 and January 31, 1981, the Company invested $33,406,000 in cash in Roxy, a recently incorporated company engaged in oil and gas exploration. Of this amount, $13,155,000 was used to acquire 3,296,573 common shares of Roxy, representing 33.7% of all common shares of Roxy outstanding at January 31, 1981. The remainder will be used to acquire additional common shares or class A shares prior to June 30, 1983. In February 1981 the Company used some of that remainder to acquire 5,225,000 class A shares of Roxy so that after such acquisition, and after a public issue of 2,000,000 common shares of Roxy also in February 1981, the Company owns in excess of 50% of the outstanding voting shares of Roxy. Fully-paid class A shares are convertible into common shares on a one-for-one basis and rank equally with the common shares in all respects. This investment has been accounted for by the equity method from May 26, 1980.

The activities of Roxy are in the exploratory stage and accordingly all costs related to the exploration for and the development of oil and gas reserves, including general and administrative costs net of nominal revenues, have been capitalized by Roxy.

e) Real Estate Joint Ventures

The investment in real estate joint ventures, consisting of shopping centre, commercial, industrial and residential interests, is carried at cost plus the Company's equity in undistributed earnings since acquisition. The Company's share of real estate joint ventures is summarized as follows:

	This Year	Last Year
	$ 000's	$ 000's
Assets		
Accounts receivable	20,037	10,376
Property for sale and future development	97,923	47,248
Fixed assets	196,930	145,675
	314,890	203,299
Liabilities		
Bank indebtedness	64,582	31,269
Accounts payable	29,972	21,102
Long-term debt	162,892	118,439
	257,446	170,810
Investment in real estate joint ventures	57,444	32,489
Revenue	41,318	36,338
Expenses:		
Interest	11,663	13,355
Depreciation	2,710	3,131
Other	19,367	13,620
	33,740	30,106
Pre-tax earnings of real estate joint ventures	7,578	6,232

f) Other

Other investments consist primarily of interests in merchandising companies carried at cost plus the Company's equity in undistributed earnings since acquisition.

7. LONG-TERM DEBT

	This Year $ 000's	Last Year $ 000's
Secured on property:		
Hudson's Bay Company Properties Limited		
5¾% first mortgage bonds series A due 1990	9,701	9,975
7½% first mortgage bonds series B due 1991	6,683	6,870
11½% first mortgage bonds series C due 1995	28,605	30,005
9⅞% first mortgage bonds series D due 1997	40,489	40,800
10 % first mortgage bonds series E due 1998	32,194	32,434
Hudson's Bay Company Developments Limited		
Mortgages, 10.1% average (last year 9.9%), repayable by instalments to 2002	15,605	14,820
Markborough Properties Limited		
8½% sinking fund debentures due 1983	4,000	5,500
Mortgages and obligations on property for future development, 16.8% average (last year 14.3%), repayable by instalments to 1988	122,900	64,230
Mortgages on income property permanent financing, 9.7% average, repayable by instalments to 2003	44,012	46,421
Mortgages on income property interim financing, 18.2% average (last year 15.0%), payable and maturing by 1983	38,919	6,732
Other	3,768	3,977
	346,876	261,764
Secured on accounts receivable:		
Hudson's Bay Company Acceptance Limited		
6 % debentures series A due 1980	–	10,000
5¾% debentures series B due 1983	10,000	10,000
13¼% debentures series C due 1989	4,628	18,719
8¾% debentures series D due 1991	20,000	20,000
8¼% debentures series E due 1993	20,000	20,000
10½% debentures series F due 1996	33,398	34,945
Simpsons Acceptance Company Limited		
6 % debentures series B due 1981	15,000	15,000
5½% debentures series C due 1982	10,000	10,000
5¾% debentures series D due 1984	10,000	10,000
6¾% debentures series E due 1986	10,000	10,000
8⅜% debentures series F due 1992	10,000	10,000
8⅜% debentures series G due 1992	15,000	15,000
9⅞% debentures series H due 1997	24,325	25,000
	182,351	208,664
Secured by floating charge on assets of subsidiaries:		
Zeller's Limited		
5½% sinking fund debentures series B due 1982	–	2,006
7 % sinking fund debentures series C due 1986	3,266	3,488
10¼% sinking fund debentures series 1974 due 1994	12,797	13,409
Marshall Wells Limited		
7½% sinking fund debentures series A due 1982	979	1,210
	17,042	20,113
Unsecured or guaranteed by certain subsidiaries:		
Hudson's Bay Company		
10¼% notes due 1981	35,000	35,000
13¾% series D notes due 1986	50,000	–
10½% debentures due 1989	60,000	60,000
11½% debentures due 1990 (U.S. $75,000,000)	87,750	–
10 % debentures due 1994 (U.S. $50,000,000)	58,500	57,500
Bankers' acceptances	188,000	158,000
Simpsons Limited		
5¾% debentures series D due 1984	2,899	3,640
5¾% debentures series E due 1985	2,897	4,149
6½% debentures series F due 1987	4,276	5,078
9½% debentures series G due 1989	6,884	7,684
8⅜% debentures series H due 1993	14,080	16,858
9⅛% debentures series I due 1994	8,441	9,944
11¾% debentures series J due 1995	17,864	19,114
Zeller's Limited		
Floating rate bank term loan	20,000	–
	556,591	376,967

	This Year $000's	Last Year $000's
Subordinated:		
Hudson's Bay Company		
6 % exchangeable subordinated debentures due 1993, sinking fund commencing 1984	54,416	74,879
Zeller's Limited		
5½% convertible subordinated debentures series 1971 due 1991	5,346	5,940
	59,762	80,819
	1,162,622	948,327
Less amounts due within one year	71,260	29,768
	1,091,362	918,559

Bankers' acceptances, which are due within one year, have been classified as long-term debt as they may be converted, at the Company's option to long-term borrowing facilities, expiring November 30, 1982 and November 30, 1986, provided by the Company's bankers.

The floating rate bank term loan of Zeller's Limited is repayable in six annual instalments commencing July 15, 1984, each instalment equal to 8.33% of the principal outstanding, with a final instalment on July 15, 1990.

The holders of Hudson's Bay Company Acceptance Limited series C debentures had the right to be prepaid on March 2, 1980 and $14,091,000 was prepaid on that date. Effective March 2, 1980, the rate of interest was increased from 9¾% to 13¼% on those series C debentures whose holders did not elect for prepayment and such holders were granted the right to elect to be prepaid on March 2, 1985.

The holders of Hudson's Bay Company 6% exchangeable subordinated debentures have the right to exchange such debentures for outstanding common shares of Hudson's Bay Oil and Gas Company Limited at an exchange price of $12 per share (adjusted to give effect to the four-for-one subdivision of HBOG common shares effective May 12, 1980) at any time prior to maturity. During the current year $20,463,000 (last year $25,121,000) of the debentures were exchanged.

The majority of the long-term debt is subject to redemption at the option of the issuers at various times or under certain conditions. For the most part, redemption earlier than within three or four years of maturity of the securities would require the payment of redemption premiums.

Aggregate maturities and sinking fund requirements during the five years ending January 31, 1986 are as follows:
1982–$71,260,000; 1983–$152,052,000; 1984–$45,912,000; 1985–$60,725,000; 1986–$57,929,000.

8. PENSIONS

The amount of $31,694,000 shown in the Consolidated Balance Sheet at January 31, 1981 is adequate to provide for all unfunded pension liabilities. Funding payments are expected to extinguish substantially all of the unfunded liabilities over the next ten years.

9. CAPITAL STOCK

The authorized classes of shares of the Company consist of an unlimited number of ordinary shares without nominal or par value and an unlimited number of preferred shares without nominal or par value. Unlimited numbers of the preferred shares have been designated as "$1.80 cumulative redeemable preferred shares series A" and "redeemable preferred shares series B" and 800,000 have been designated as "variable rate, cumulative redeemable preferred shares series C".

Shares issued and outstanding at January 31, 1981 and the changes during the two years then ended are as follows:

	Number of Shares	$000's
$1.80 cumulative redeemable preferred shares series A (stated capital $22.50 each)		
Issued and outstanding at January 31, 1979	6,059,067	136,329
Issued in the year ended January 31, 1980 to the holders of Simpsons Limited shares in partial payment for common shares of that company acquired in the year ended January 31, 1979	742	17
Less purchased for cash and cancelled in the year ended January 31, 1980	(90,000)	(2,025)
Issued and outstanding at January 31, 1980	5,969,809	134,321
Less purchased for cash and cancelled in the year ended January 31, 1981	(238,841)	(5,374)
Issued and outstanding at January 31, 1981	5,730,968	128,947
Redeemable preferred shares series B (stated capital $.10 each)		
Issued in the year ended January 31, 1980 to the holders of Simpsons Limited shares on the amalgamation of that company with Bayhud Inc.	162,286	16
Less redeemed for cash in the year ended January 31, 1980	(162,286)	(16)
Issued and outstanding at January 31, 1980 and January 31, 1981	–	–
Variable rate, cumulative redeemable preferred shares series C (stated capital $25.00 each)		
Issued for cash in the year ended January 31, 1980 and outstanding at January 31, 1980 and January 31, 1981	800,000	20,000

	Number of Shares	$ 000's
Ordinary shares		
Issued and outstanding at January 31, 1979	23,091,608	237,554
Issued in the year ended January 31, 1980:		
To the holders of Simpsons Limited shares and of Zeller's Limited shares in partial payment for common shares of those companies acquired in the year ended January 31, 1979	466	9
To the holders of Simpsons Limited shares on the amalgamation of that company with Bayhud Inc.	145,000	905
Under the employee share purchase plan	475,455	11,233
Issued and outstanding at January 31, 1980 and January 31, 1981	23,712,529	249,701

The Company may not redeem the $1.80 cumulative redeemable preferred shares series A prior to December 31, 1983. Thereafter, these preferred shares may be redeemed at the Company's option at rates varying from $23.50 at January 1, 1984 to $22.50 after December 31, 1988.

The holders of the variable rate, cumulative redeemable preferred shares series C will be entitled to receive dividends at the rate of 7.35% until September 15, 1984. On that date and thereafter at five-year intervals the rate will be 52% of the average of the five-year guaranteed investment certificate rate of certain trust companies plus 2%. The shares may be redeemed at the Company's option at their issue price at certain intervals after 1984.

10. ADDITIONAL PAID-IN CAPITAL

	$ 000's
Amount at January 31, 1980, representing the excess of the fair value of shares issued to the holders of Simpsons Limited shares on the amalgamation of that company with Bayhud Inc. over their stated value of $6.24 each	3,228
Add excess of stated value over cost of $1.80 cumulative redeemable preferred shares series A purchased for cash and cancelled during the year ended January 31, 1981	889
Amount at January 31, 1981	4,117

11. CONTINGENCIES

The Company has contingent commitments, along with others, relating to its investments in certain shopping centre companies and joint ventures. In the event that the Company had to meet any of these contingencies it would have a claim on the assets of the applicable development.

12. LEASES

a) As Lessee

The Company conducts a substantial part of its merchandising operations from leased premises. No significant capital leases were entered into in the year ended January 31, 1981 and all leases involving the Company as lessee have been accounted for as operating leases.

Rental expenses charged to earnings amount to $59,700,000 (last year $46,700,000).

The future minimum rental payments required under leases having initial or remaining noncancellable lease terms in excess of one year are summarized as follows:

	$ 000's
Year ended January 31, 1982	57,600
1983	57,900
1984	55,000
1985	51,300
1986	45,300
Thereafter	575,200
Total minimum lease payments	842,300

In addition to these rental payments (and, in a few cases, relatively minor contingent rentals), the leases generally provide for the payment by the Company of real estate taxes and other related expenses.

b) As Lessor

The Company leases space to others in a number of regional shopping centres and commercial properties. All of these leases are classified as operating leases.

Fixed assets in the Consolidated Balance Sheet include real estate leased to others under operating leases amounting to $194,900,000 (last year $139,000,000), net of accumulated depreciation of $10,000,000 (last year $8,300,000).

Real estate revenues include rentals from the above properties of $22,400,000 (last year $17,600,000).

13. RELATED PARTY TRANSACTIONS

The Company is involved in numerous transactions with related parties in the ordinary course of its business. None of these transactions is significant in relation to these consolidated financial statements.

14. EVENTS SUBSEQUENT TO THE YEAR END

a) Sale of Debentures

On February 3, 1981 Hudson's Bay Company Acceptance Limited, a wholly-owned subsidiary of the Company, sold to underwriters $60,000,000 principal amount of 13¾% debentures series G secured equally and rateably with the other outstanding debentures of that subsidiary for the sum of $59,400,000. Expenses connected with the issue, including a commission of $990,000, are estimated at $1,140,000.

b) Acquisition of Shares of Zeller's Limited ("Zellers")

On February 5, 1981 the Company acquired 283,700 common shares of Zellers through cash purchases in the open market. On February 24, 1981 the Company announced its offer to purchase the remaining common shares of Zellers for a price of $18 per share or, at the option of the Zellers shareholder, one convertible preferred share series D or 100 redeemable preferred shares series E of the Company for each Zellers common share. The offer will close on April 8, 1981 unless extended by the Company.

c) Capital Stock

In connection with the offer for Zellers shares referred to above, unlimited numbers of preferred shares have been designated "$1.512 convertible preferred shares series D" and "redeemable preferred shares series E".

Each preferred share series D will be convertible into 0.6154 ordinary shares at the option of the holder until January 31, 1986 and thereafter into 0.5625 ordinary shares until January 31, 1991, after which date it will cease to be convertible. The Company may not redeem the series D shares prior to February 1, 1984, but thereafter they may be redeemed under certain conditions at rates varying from $18.90 at February 1, 1984 to $18.00 after January 31, 1991.

It is the intention of the Company to redeem the preferred shares series E at the price of $0.18 per share immediately after they are issued.

Approval of Consolidated Financial Statements

The consolidated financial statements, contained on pages 25 to 37, including the notes thereto, have been reviewed by the Audit Committee of the Board of Directors, a majority of whom are outside directors, and have been approved by the Board on the recommendation of the Audit Committee.

On behalf of the Board:

Toronto, Canada
March 20, 1981

George T. Richardson
Director

D McGinnis
Director

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet and the consolidated statement of assets employed of Hudson's Bay Company as at January 31, 1981 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. For Hudson's Bay Company and for those other companies of which we are the auditors and which are consolidated or are accounted for by the equity method in these financial statements, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For Markborough Properties Limited and Simpsons Limited, which are consolidated, and for Simpsons-Sears Limited and other companies accounted for by the equity method in these financial statements, we have relied on the reports of the auditors who have examined their financial statements for their respective latest fiscal years, and have obtained such other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Hudson's Bay Company as at January 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
March 20, 1981

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Hudson's Bay Company
Ten Year Consolidated Financial Summary

		1980	1979
Results for the year ($000's)	Sales and revenue:		
	Retail	**3,190,191**	2,847,927
	Wholesale	**460,356**	408,434
	Fur	**63,342**	66,302
	Merchandising	**3,713,889**	3,322,663
	Real estate	**83,828**	96,263
	Natural resources	**16,169**	16,283
		3,813,886	3,435,209
	Fur consignment sales	**491,507**	511,628
	Source of earnings:		
	Retail	**153,314**	177,755
	Wholesale	**11,856**	8,737
	Fur	**17,556**	26,508
	Merchandising	**182,726**	213,000
	Real estate	**33,349**	26,300
	Natural resources	**15,735**	16,283
	Operating profit	**231,810**	255,583
	Finance costs	**136,533**	113,741
	Earnings before income taxes and minority interest	**95,277**	141,842
	Income taxes	**30,541**	52,073
	Earnings before minority interest	**64,736**	89,769
	Minority interest	**10,186**	9,423
	Earnings before extraordinary items	**54,550**	80,346
	Extraordinary items	**18,811**	23,175
	Net earnings	**73,361**	103,521
	Dividends paid:		
	Preferred shares	**11,874**	10,866
	Ordinary shares	**28,455**	25,481
	Earnings retained	**33,032**	67,174
	Cash flow	**102,000**	127,260
	Capital expenditures	**172,329**	124,977
	Depreciation	**43,909**	38,886
Year end financial position ($000's)	Merchandising	**1,880,989**	1,716,207
	Real estate	**507,876**	375,979
	Natural resources	**165,402**	133,561
	Assets employed	**2,554,267**	2,225,747
	Debt	**1,639,498**	1,343,484
	Minority interest	**53,557**	49,598
	Shareholders' equity	**861,212**	832,665
Results per ordinary share (Dollars)	Earnings before extraordinary items	**1.80**	2.98
	Net earnings	**2.59**	3.98
	Dividends	**1.20**	1.10
	Shareholders' equity	**30.01**	28.59
Shareholders and employees	Number of ordinary shareholders	**20,800**	22,500
	Ordinary shares outstanding (000's)	**23,712**	23,712
	Range in share price (Dollars)	**31¾–23**	35–21¼
	Number of employees	**43,000**	42,000

Note: Where appropriate, figures have been restated for the purpose of comparability.

1978	1977	1976	1975	1974	1973	1972	1971
1,432,712	1,019,831	992,575	892,766	780,854	641,063	538,989	440,685
356,967	323,810	263,461	231,995	190,875	153,456	126,414	111,612
42,568	34,059	26,987	21,178	22,304	21,190	15,475	13,565
1,832,247	1,377,700	1,283,023	1,145,939	994,033	815,709	680,878	565,862
48,712	36,004	52,945	32,174	17,852	4,294	862	–
15,343	13,686	10,480	8,020	6,308	5,853	5,485	4,927
1,896,302	1,427,390	1,346,448	1,186,133	1,018,193	825,586	687,225	570,789
329,773	283,000	244,344	185,252	175,661	167,250	131,666	109,238
76,495	40,912	34,922	34,868	32,308	27,666	23,738	19,225
7,392	8,064	7,622	6,897	5,808	4,051	3,316	3,137
11,092	7,706	6,286	4,537	4,719	4,968	2,993	2,541
94,979	56,682	48,830	46,302	42,835	36,685	30,047	24,903
17,842	14,856	23,207	14,615	10,313	2,191	715	–
15,343	13,686	10,480	8,020	6,308	5,852	5,485	4,927
128,164	85,224	82,517	68,937	59,456	44,728	36,247	29,830
47,868	37,351	33,443	26,669	24,493	11,460	8,868	6,719
80,296	47,873	49,074	42,268	34,963	33,268	27,379	23,111
29,757	16,095	21,184	18,548	15,514	15,158	11,725	9,798
50,539	31,778	27,890	23,720	19,449	18,110	15,654	13,313
5,894	1,897	3,080	1,716	1,029	446	–	–
44,645	29,881	24,810	22,004	18,420	17,664	15,654	13,313
98,367	–	–	–	–	–	–	677
143,012	29,881	24,810	22,004	18,420	17,664	15,654	13,990
–	–	–	–	–	–	–	–
16,111	9,181	8,391	8,362	8,286	7,661	7,048	7,048
126,901	20,700	16,419	13,642	10,134	10,003	8,606	6,942
75,312	48,209	47,645	42,760	34,010	29,795	25,507	21,277
58,915	43,075	38,163	29,586	41,715	56,588	27,282	17,849
21,301	16,473	14,598	13,157	11,485	9,314	7,607	6,342
1,495,531	580,461	505,857	445,564	451,201	378,913	308,929	272,711
285,332	222,686	208,179	163,793	156,791	137,794	7,630	5,127
134,084	29,595	23,881	20,142	17,763	16,305	10,095	10,095
1,914,947	832,742	737,917	629,499	625,755	533,012	326,654	287,933
1,124,318	535,470	463,473	375,184	387,187	306,543	130,219	100,478
58,505	21,308	20,022	17,973	16,618	16,180	754	380
732,124	275,964	254,422	236,342	221,950	210,289	195,681	187,075
2.74	2.12	1.77	1.58	1.33	1.29	1.16	.98
8.79	2.12	1.77	1.58	1.33	1.29	1.16	1.03
.91	.65	.60	.60	.60	.56	.52	.52
25.80	19.50	18.05	16.90	15.93	15.23	14.44	13.80
30,600	20,870	21,861	22,806	24,036	24,474	24,880	25,558
23,092	14,155	14,096	13,985	13,936	13,809	13,553	13,553
24½–17⅛	19⅛–14⅛	20⅞–13½	18⅝–14¼	20–9¾	22¾–15	21⅛–16½	20–14½
42,000	20,000	20,000	20,000	20,000	18,000	17,000	16,000

The Company – A Brief Description

THE COMPANY TODAY

Merchandising Approximately 600 stores in three retail groups, *The Bay, Simpsons* and *Zellers,* serve the diversified needs of Canadians from Newfoundland to the Yukon and from the Arctic Islands to the United States border. The Bay is strongly represented in ten of Canada's important cities and is the leading retailer throughout the Canadian North. Shop-Rite catalogue stores are located in Ontario. Simpsons operates full-line department stores in eight major cities. Zellers operates promotional department stores and variety stores across Canada and Fields family clothing stores in the western provinces. *Hudson's Bay Wholesale* distributes giftwares, confectionery and tobacco products through a network of branches located from coast to coast. The Company's famous blankets and spirits are sold throughout Canada.

The Company maintains its traditional interest in fur, with auction houses in Montreal, New York, London and Winnipeg.

Natural Resources The Company has three principal natural resource investments. *Hudson's Bay Oil and Gas Company Limited,* 16.1% owned, was formed in the 1920's as a joint venture between HBC and Continental Oil Company, and is today one of Canada's leading exploration and production companies. Most of its current production of oil and natural gas is from the province of Alberta. Exploration rights are owned in Canada and many other countries.

The second investment, in preferred shares of *Dome Petroleum Limited,* is the result of the disposition in 1979 of a 35% equity interest in Siebens Oil & Gas Ltd.

The Company has aquired a majority interest in *Roxy Petroleum Limited,* a recently-incorporated company which holds exploratory acreage in western Canada.

Real Estate The Company's real estate interests consist principally of whole or partial ownership of shopping centres and commercial buildings in Canadian cities, in addition to ownership of *Markborough Properties Limited.* Markborough is a Canadian property development company with substantial holdings of residential, commercial and industrial properties located in the Toronto area and in other Canadian and United States cities.

Personnel In its various activities, including Simpsons and Zellers, the Company employs over 40,000 people.

HISTORY

Incorporation King Charles II granted on May 2, 1670 to 18 Adventurers, a Charter incorporating them as The Governor and Company of Adventurers of England trading into Hudson's Bay. This followed the successful voyage of the ketch "Nonsuch", with des Groseilliers aboard, to Hudson Bay to trade for furs.

In 1970, three hundred years after its incorporation, the Company was continued as a Canadian corporation and the headquarters were transferred from the United Kingdom to Canada.

Competition During the first century of the Company's existence the men on the Bay established forts and traded with the Indians.

As competition from the Montreal-based North West Company increased in the 1770's, the Company moved into the interior and gradually built a network of routes and forts spread out over the North and West. The two rival companies amalgamated under the Hudson's Bay Company name in 1821.

Deed of Surrender In 1870, by Deed of Surrender, the Company's chartered territory was formally transferred to the Government of Canada in return for farm lands in the prairie provinces which were sold to settlers during the next 85 years.

Following the Deed of Surrender the Company turned its attention to the retail trade, which is now its most important activity.

Twentieth Century The Company built downtown department stores in each of the major cities of western Canada (1913-1968). It co-founded Hudson's Bay Oil and Gas Company Limited (1926), acquired Henry Morgan & Co. Limited (1960), A. J. Freiman Limited (1971) and 35% of Siebens Oil & Gas Ltd. (1973). It acquired control of Markborough Properties Limited (1973), Simpsons Limited (1978) and Zeller's Limited (1978), and disposed of its Siebens investment (1979).

Fine liquor products
distributed by Hudson's Bay Distillers.