

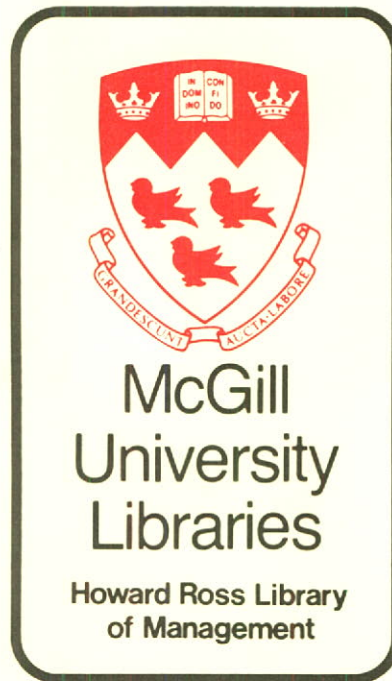


COMPANY PROFILE

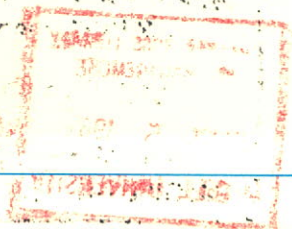


Hudson's Bay Company is Canada's oldest and one of its largest enterprises, with holdings in merchandising, real estate and natural resources. It owns, among other assets, three major retail companies, The Bay, Simpsons and Zellers; a large real estate subsidiary, Markborough Properties Inc.; and a 54.5% interest in Canadian Roxy Petroleum Ltd.

The Company aims to develop its human and material resources and capitalize on its experience in merchandising, real estate and natural resources, to anticipate and satisfy the needs of Canadians for the goods and services of these three industries at fair prices, and thereby earn a satisfactory return for its shareholders.



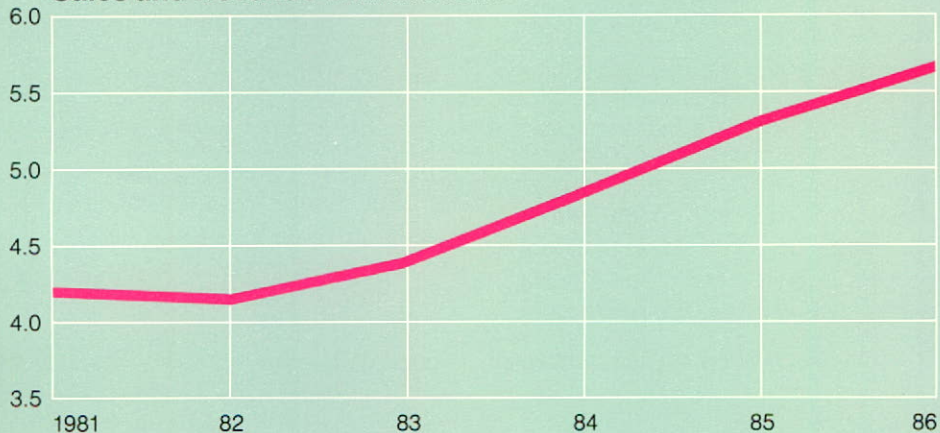
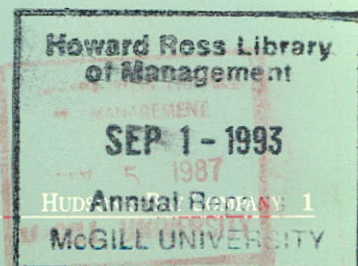
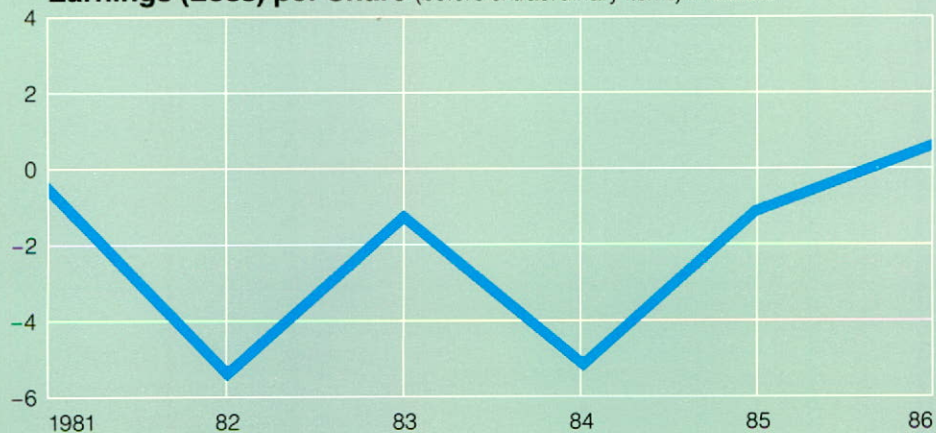
- The 318th Annual Meeting of Shareholders will be held at Commerce Hall, Commerce Court (King and Bay Streets), Toronto, on May 29, 1987 at 3.00 p.m.
- Annual Reports of Markborough Properties Inc. and Canadian Roxy Petroleum Ltd. are available from those companies.
- On peut obtenir ce rapport annuel en français sur demande.



FINANCIAL HIGHLIGHTS

	This Year 1986	Last Year 1985
	\$ millions	\$ millions
Sales and Revenue	5,692.4	5,271.5
Operating Profit	336.9	252.9
Earnings (Loss) Before Extraordinary Items	33.0	(9.1)
Extraordinary Items	(40.4)	3.5
Loss After Extraordinary Items	(7.4)	(5.6)
Cash Flow From Earnings	143.2	67.7
Capital Expenditures	88.6	146.9
Shareholders' Equity	1,214.0	1,114.0

Per Ordinary Share:	\$	\$
Earnings (Loss) Before Extraordinary Items	.32	(1.23)
Loss After Extraordinary Items	(1.07)	(1.09)
Cash Flow From Earnings	4.07	1.96
Dividends	.60	.60
Equity	28.40	30.49

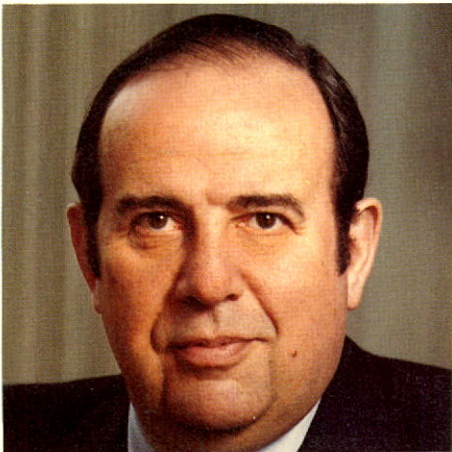
Sales and Revenue in billions of dollars**Earnings (Loss) per Share** (before extraordinary items) in dollars



Donald S. McGiverin, Governor



George J. Kosich, Executive Vice-President



T. Iain Ronald, Executive Vice-President

Summary

Your Company made significant progress in 1986 on the path to restored profitability and financial strength. Earnings per share before extraordinary items were \$0.32 compared with a loss of \$1.23 per share in 1985.

The principal factor in the improvement was a \$73.9 million increase in retail operating profit to \$185.3 million from \$111.4 million. This was partially offset by increases of \$14.9 million in interest costs and \$25.3 million in taxes.

Although the year was not without disappointments – including a retail sales slump in December and depressed real estate markets in Houston, Calgary and Denver – the Company attained, for the most part, the goals set out in this report a year ago.

They were:

1. To achieve further substantial increases in retail profit.

Result: Retail operating profit increased by 66.3%.

2. Maintain momentum of real estate operations.

Result: Higher profit from both operations and disposition of income properties more than offset a profit decline from U.S. land operations.

3. Achieve positive cash flow from overall activities.

Result: A positive cash flow of \$56.5 million compared with a negative \$303.3 million the year before.

4. Raise additional equity.

Result: The Company raised \$250 million in new equity through the sale of convertible preferred shares in June 1986.

Assuming the Canadian economy performs relatively well in 1987, in accordance with consensus predictions, we expect to achieve further gains in retail operating profit, as well as a reduction in interest costs.

Business Dispositions

The Company's disposition activities continued in 1986. The objectives are the concentration of financial and management resources on the core department store and real estate segments and the reduction of debt. Two important disposals were completed at year end and another was announced in January 1987 for closing in the first quarter of the current year.

The assets of the London Fur Sales division were sold in January 1987 to the Finnish Fur Sales Company Limited for approximately \$37 million. The real estate – a prime location in the City of London – was excluded and will be transferred to Markborough for future redevelopment. The sale of the assets of the Canadian Fur Sales division for approximately \$45 million to a group including senior management of the division, the Canada Mink Breeders Association and the Canada Fox Breeders Association was also completed as of the year end.

An agreement in principle was announced in January, 1987 to sell the Northern Stores Division, comprising about 170 stores in native and resource communities, for approximately \$180 million to a group of investors organized by The Mutual Trust Company and which will include management of the division.

The Board approved these disposals with considerable reluctance because the unique character of these operations has contributed so much to the Company's history. Hudson's Bay Company has been selling furs at public auctions since 1672. The Northern Stores Division is the direct descendant of the Fur Trade, the Company's sole business for the first two centuries of its existence.

However, the dispositions of the Fur Sales and Northern Stores are more of a symbolic than a fundamental change as these operations, combined, accounted for less than 10% of the Company's total assets.

These dispositions were only approved after the Board had assured itself of continuity of service to customers and future opportunities for management and staff.

Accounting Change

The Company has adopted the new recommendation of the Canadian Institute of Chartered Accountants on accounting for pension costs. The effect of the change was to reduce reported pension costs by \$34.9 million from what they would have been under the previous accounting rules. These reductions in expense, which will be ongoing, are reflected in the 1986 operating profits of the Bay, Simpsons and the Zellers Group to the extent of \$12.3 million, 13.0 million and \$5.0 million respectively. The adoption of this recommendation does not affect the level of funding payments made by the Company, nor does it result in any reduction in the assets of the Company's pension funds.

1986 Results

The Company recorded a profit before extraordinary items of \$33.0 million in 1986 compared with a loss of \$9.1 million the year before. After deducting preferred share dividends of \$24.6 million in 1986 and \$20.6 million in 1985, there was a profit of \$0.32 per share in 1986 compared with a loss of \$1.23 per share the previous year.

Sales and revenue increased by 8.0% in 1986 to \$5,692 million. Retail sales were ahead by 8.4%. 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; 1986 was such a 53 week year.

Total operating profit was \$336.9 million in 1986 compared with \$252.9 million the year before.

Retail operating profit was ahead by \$73.9 million to \$185.3 million with the Bay contributing \$57.1 million of the increase and the Zellers Group \$24.3 million. Operating profits for 1985 of the Bay and Simpsons have been adjusted to reflect the transfer of eight stores from Simpsons to the Bay.

Strong first half sales increases, improved gross profit rate, effective expense control and the pension expense adjustment all contributed to the gains the Bay achieved, despite a weak consumer economy in the prairie provinces. Inappropriate merchandise assortments and sales promotion in the first half and higher-than-normal stock shortages held operating profit at Simpsons at slightly below the level of a year ago.

Zellers, aided by the successful launch of the Club Z premium program, achieved an improvement in market share and contributed, together with the Northern Stores Division, to the increased operating profit of the Zellers Group.

Wholesale operating profit declined from \$10.0 million in 1985 to \$8.2 million in 1986 because of failure to achieve sales targets and some deterioration in gross profit rate. In contrast, fur profit improved to \$7.1 million from \$2.0 million, principally because of a significant increase in fur prices, particularly of dark mink, which attained record levels.

In real estate, operating profit of Markborough was \$108.6 million, compared with \$98.8 million the year before. Higher profit from income properties and gains from disposals of income properties, more than offset a decline in profit from land development. Profit from non-Markborough real estate was \$23.5 million in 1986 against \$27.6 million a year ago and arose in both years from the disposal of surplus merchandising properties.

In Natural Resources, despite adverse conditions in the petroleum industry, operating profit, principally from Canadian Roxy, at \$4.2 million, was up by \$1.1 million from 1985 (although the prior year's results included a \$7.6 million one time write-off of east coast exploration costs). The effect of significantly lower product prices was partially offset by higher production and meaningful expense reductions.

Interest expense rose to \$265.3 million from \$250.4 million. Average debt outstanding during the year increased approximately 2.3%; however, in the first four months, when interest rates were at their highest for the year, debt was up by an average of 13.7%. The Company did not fully benefit from the decline in interest rates in the last half of the year because of the costs of swap agreements that were put in place in prior years to convert variable rate to fixed rate debt. The average cost of borrowing was virtually unchanged from last year.

Financial

Your Company reduced its debt and improved its financial ratios in 1986. The net cash outflow from operating activities was reduced to \$27.5 million in 1986 from \$132.4 million in 1985 as a result, primarily, of improved earnings and tax recovery.

In addition, there was a net cash inflow of \$126.3 million from investing activities, principally because of dispositions. After distributing \$42.3 million in dividends, there was an overall cash inflow of \$56.5 million in 1986 compared with an outflow of \$303.3 million the year before.

As a result of its improved performance and prospects, the Company was able, in June, to sell \$200 million in convertible preferred shares to Canadian investors. An additional \$50 million of this issue was purchased by a subsidiary of the principal shareholder. A further

\$16.0 million of ordinary equity was raised through the Dividend Reinvestment Plan and two employee plans.

During the year, the Company called for redemption its \$102.5 million Preferred Shares Series F, forcing their exchange for shares of Sears Canada Limited and triggering a net extraordinary gain of \$1.1 million.

The Company's debt securities gained increasing acceptance throughout the year in European and Canadian markets. In 1986, the Company raised \$200 million of new debt in the European market.

Total debt decreased during the year by \$251.3 million to \$2,277 million and the ratio of debt to total equity decreased from 2.1:1 to 1.8:1.

Extraordinary Items

The Board decided, at the year end, to write down the value of the Company's investment in preferred shares of Dome Petroleum by \$43.2 million to \$18.5 million, the approximate market value of this investment (the Dome investment was acquired in 1978 as partial consideration for the Company's former investment in Siebens Oil and Gas). This was the principal component in a net after tax extraordinary loss of \$40.4 million or \$1.39 per share. There was an extraordinary gain of \$3.5 million or \$0.14 per share in 1985.

Economic Conditions

The Canadian economy grew by 3.1% in 1986 as consumer spending and residential housing were stimulated by falling interest rates. However, this impressive performance disguised some serious regional and industrial imbalances. The Canadian economy is expected to expand for the fifth consecutive year in 1987 albeit at a slightly lower rate than in 1986. Business investment, a disappointment in 1986, is expected to

accelerate because of good corporate profits, low interest rates, strong balance sheets and higher capacity utilization. Residential housing, the fastest growing sector in 1986, should remain strong.

Consumer spending, influenced positively by low interest rates and moderate growth in employment and negatively by slow growth in disposable income, should remain relatively healthy. Overall the outlook is for sound, if unspectacular growth in 1987.

1987 Plans

We expect the increase in operating profit of the three retail groups will more than offset the reduction arising from the sale of Northern Stores.

In real estate, although profit from operations of income properties should continue to improve, land development earnings will remain low and we do not anticipate the large profits earned in 1986 through disposal activities will be duplicated.

Interest costs are expected to decline in 1987 as a result of the disposals of the Northern Stores and Fur Sales operations.

The Company intends to continue to pursue its program of disposing of non-core businesses.

We expect to make further progress toward restored profitability and financial strength in 1987.

Management

The Company's senior management was materially strengthened by the appointments during the year of Neil R. Wood as President of Markborough, N.R. (Bob) Peter as President of Simpsons, Al A. Guglielmin as President of the newly formed Bay/Simpsons Merchandising Services, Ron W. McArthur as Vice-President, Hudson's Bay Wholesale and Gary J. Lukassen as Vice-President and Treasurer.

Board

Thomas S. Dobson will be retiring from the Board at the Annual Meeting in May. Mr. Dobson was elected a director in 1985 after having previously served on the Boards of Zellers and Canadian Roxy. He has played an active role on the Audit and Pension Investment Committees of the Company. We extend to him our grateful appreciation for his many contributions and offer best wishes for the future. We are pleased to announce that two new directors will be joining the Board on May 29, 1987, subject to the approval of shareholders at the Annual Meeting, to be held on that date. They are David K.R. Thomson of Toronto, and Douglas W. Mahaffy, Senior Vice-President, Finance and Administration of the Company.

Appreciation

We are most grateful to all of our employees for their continued dedication and support. We wish to add an extraordinary expression of appreciation to the employees of the Fur Sales and Northern Stores operations who will be embarking on new business adventures under different ownership in 1987. We wish them fulfillment and success. We also thank our customers, our suppliers and our shareholders for their continuing encouragement.

On behalf of the Board

D. S. McGIVERIN, Governor

G. J. KOSICH, Executive Vice-President

T. I. RONALD, Executive Vice-President

March 20, 1987



SUMMARY OF OPERATIONS

	Results in thousands of dollars	This Year	Last Year
Hudson's Bay Company	Sales and revenue	5,692,432	5,271,548
	Operating profit	336,860	252,913
	Interest	(265,311)	(250,393)
	Income taxes	(38,154)	(12,895)
	Earnings (loss) before extraordinary items	32,978	(9,055)
	Assets employed	3,586,767	3,690,350
The Bay Department Stores	Sales and revenue	1,765,790	1,620,598
	Operating profit	82,797	25,680
	Assets employed	832,808	771,645
Simpsons	Sales and revenue	643,803	619,526
	Operating profit	8,093	12,828
	Assets employed	419,223	392,223
Zellers Group	Sales and revenue	2,259,138	2,020,791
	Operating profit	92,401	68,184
	Assets employed	813,090	770,804
Hudson's Bay Wholesale	Sales and revenue	691,452	637,659
	Operating profit	8,203	10,032
	Assets employed	117,684	126,486
Hudson's Bay Company Fur Sales	Consignments	482,613	348,393
	Operating profit	7,055	1,975
	Assets employed	17,182	107,580
Real estate - principally			
Markborough	Sales and revenue	270,301	276,112
	Operating profit	132,071	126,434
	Assets employed	972,341	1,012,616
Natural resources - principally			
Canadian Roxy	Operating profit	4,226	3,057
	Assets employed	203,060	243,678

1986 Principal Operating Factors

- The Bay and Zellers Group gained market share and contributed most of the large increase in retail operating profit.
- Higher real estate profits from operations and disposals of income properties more than offset the decline from land operations.
- Two business dispositions were completed and a third announced.
- Positive cash flow was achieved.
- New equity of \$250 million was raised.

- Market share was increased in all provinces.
- Expense rate was reduced substantially.
- Eight former Simpsons stores were integrated successfully.
- Merging of Bay and Simpsons buying and sales promotion produced operating efficiencies.

- Store operations were consolidated to Toronto and Montreal markets: eight stores in other cities were transferred to the Bay.
- Renovations continued in the downtown Toronto store.
- Distribution was consolidated in one Toronto location.
- A new automated stock replenishment system was implemented.
- Buying and sales promotion were merged with the Bay.
- Higher than anticipated markdowns and stock shortage reduced profit.

- Successful launch of Club Z stimulated sales.
- In-stock position and turnover were improved.
- Fashion markdowns moderated profit growth.
- Five new Zellers stores were opened and nineteen unprofitable stores closed.
- Sale of Northern Stores Division was announced, to close in first quarter of 1987.

- Lower tobacco and confectionery margins reduced profit.
- Confectionery, food and sundry sales grew but unit volume of tobacco declined.
- Full line vending and office coffee sales increased.

- Sharp rise in fur prices increased profit.
- Two of three fur auction operations were sold.
- Dispute with competitor adversely affected New York operation.

- Expansions, acquisitions, vacancy reductions and higher rentals improved income property results.
- Substantial profit was earned from sale of income properties.
- Land development results were disappointing except for Ontario.
- Disposal of partnership interest in Homestead, Florida, gave rise to substantial loss.
- Major property assembly in Toronto was completed and co-ventured.
- Sale of surplus merchandising properties supplemented profit.

- Lower product prices reduced revenue and profit.
- Production and reserves were increased substantially.
- Operating costs were reduced significantly.

1987 Action Plan

- Achieve further substantial gains in profit from all three retail companies.
- Increase real estate profit apart from disposals.
- Reduce interest costs.
- Continue disposal program subject to market conditions.

- Open two new Bay Stores.
- Improve in-store marketing and customer service.
- Increase softgoods blend through better merchandise assortments and resetting and refocussing stores, in line with marketing strategy.
- Centralize accounting and distribution functions of the Bay and Simpsons.

- Improve in-store marketing and customer service.
- Maintain improved in-stock positions through automated replenishment and better distribution turnaround.
- Refine merchandise assortments to reflect individual store markets.
- Continue modernization of Toronto flagship store.
- Open new Fairview Mall store in Toronto.

- Introduce store productivity improvement programs.
- Achieve further improvements in inventory management and turnover.
- Complete new distribution facility in Montreal.
- Open five new stores and modernize four others.

- Hudson's Bay Company announced, on March 27, 1987, that it had signed a letter of intent to sell Hudson's Bay Wholesale to a private investment group.

- Implement new marketing plan for Hudson's Bay New York.
- Improve market share in U.S.A.

- Commence sales from three new land projects.
- Improve returns on income properties through expansion and re-leasing.
- Reorganize management along product line format.
- Expedite pre-development process on downtown Toronto property.

- Continue to restrict capital investment to cash flow generated.

REPORT ON OPERATIONS

Merchandising

THE BAY DEPARTMENT STORES

Operating profit of the Bay Department Stores rose to \$82.8 million in 1986 from \$25.7 million in 1985. The 1986 results include the favourable impact of a \$12.3 million pension accounting change.

The Bay's sales, on a comparative store basis increased 9.0% to \$1,766 million, including sales of eight former Simpsons stores transferred during the year.

Sales were stronger in Eastern Canada and British Columbia but in the three Prairie Provinces showed weaknesses attributable to the low petroleum and grain prices that affected the economy of that region. The Bay's market share increased in all provinces.

Intensified inventories, more effective sales promotion and in-store marketing programs and continuing efforts to improve customer service contributed to sales increases.

In line with marketing strategy, there was a significant improvement in the blend of soft goods sales to 59.1% from 55.8% a year ago.

The gross profit rate increased in 1986 with improvements in every region.

There was a substantial reduction in the expense rate. The buying and sales promotion functions of Simpsons and the Bay were consolidated during the year. In addition, the centralization and streamlining of various functions undertaken in 1985 resulted in substantial expense savings in 1986.

During the year, eight Simpsons stores, outside the Toronto and Montreal metro areas, were transferred to the Bay. The Bay's merchandising, sales promotion and in-store marketing had an immediate positive effect on the transferred stores.

Capital spending in 1986 was restricted to modernizing and reprofiling existing stores. This program will continue in 1987. Major resets will take place in Montreal and Winnipeg to coincide with significant retail expansion adjacent to both stores.

The downtown store and Parkade in Edmonton were sold during the year for redevelopment. The Bay will lease part of its former premises for a fashion store and will open a new store in 1987 in the Kingsway Garden Mall. These moves will strengthen the Bay's operations in Edmonton while at the same time reducing total capital invested.

Also in 1987 the Bay will open a new store in the Fairview Mall in Toronto (replacing a smaller store) as part of a major expansion of this successful centre.



The Bay competes vigorously in the broad mid-range urban and suburban markets offering fashionable, good quality merchandise at popular prices with a high level of service, integrity and good taste.

The Bloor and Yonge "flagship" store in Toronto was reset in 1986 to provide more space for softgoods.



SIMPSONS

Simpsons earned an operating profit during 1986 of \$8.1 million, down from \$12.8 million last year on a comparable basis.

Results in 1986 were improved by \$13.2 million by a pension accounting change, while those in 1985 were increased by \$15.0 million as a result of a one time reversal of a pension provision no longer required.

Sales increased by 3.9% to \$643.8 million. Softgoods sales increased 6.1% which produced a fashion blend improvement to 59.8% of retail sales. Budget clothing, reflecting success in meeting opportunities at lower price levels, was particularly strong.

The gross profit rate declined 0.8% because of higher-than-anticipated markdowns and stock shortage.

Expenses were tightly controlled through consolidation of distribution facilities into Toronto, and introduction of further shared support services, including personnel, sales promotion and buying office facilities, with the Bay.

Store renovation was restricted to the downtown Toronto store. The ladies' fashion floor was handsomely modernized and a new Food Hall concept was installed on the lower level.

Simpsons' new advertising campaigns emphasize soft goods. These programs will continue to support Simpsons' image as a world-class retailer, with more attention directed to fashion leadership at all price points.

Several activities during the year substantially impaired the Company's ability to provide anticipated profit improvement. They were distribution difficulties related to the merger of three distribution buildings into a single facility in Toronto; closing Simpsons' buying offices and the related introduction of a new buying and management organization; the transfer of eight stores to the Bay; the implementation of a new automatic stock replenishment system, and the shift of advertising management to an in-house facility shared with the Bay.

These changes are now complete and should provide excellent leverage for gains in 1987.

A new replacement store will be opened in 1987 at Fairview Mall in Toronto and six other stores will be extensively modernized.

Although progress in 1986 was slower than anticipated, Simpsons' strengthened promotional plans and improved assortments are expected to provide significant profit increases in 1987.



Simpsons aims to be the leading fashion department store across all price zones from budget to high in Canada's two largest markets. Simpsons will lead the customer in fashion direction, introducing new, exclusive and first available merchandise on a regular basis.

The trend-setting renovations at Simpsons, Toronto Downtown continued in 1986 and included the Food Hall (upper left) and the womens' fashion floor.



ZELLERS GROUP



Zellers strives to maintain its value leadership, enhance its quality image and improve its high efficiency, while operating promotional department stores in the central checkout format, in large and medium size retail markets across Canada.

Consolidated sales and revenue for the Zellers Group, including Zellers, Fields, Bay Northern Stores and Just Kids, increased by 11.8% to \$2,259 million during 1986. Operating profit increased by 35.5% to \$92.4 million in 1986 from \$68.2 million the year before.

Zellers' sales rose 13.7% to \$1,731 million. Five new stores were opened and 19 unprofitable, mainly smaller, Zellers stores were closed during 1986.

Growing customer awareness of Zellers' value and convenience contributed to significant sales gains.

Customers continue to respond well to Zellers' prototype stores which increased in number from 10 to 17. The introduction of the Club Z premium program was successful, attracting more than three million member customers, some 40% of all Canadian households. Response was more than double that expected.

Hardlines continued to be strong with 17.5% sales growth. Softlines also strengthened with a 12.3% increase. There was significant growth in softlines during the last quarter of 1986, reinforcing a trend that began in late 1985. An aggressive action plan is in place to control markdowns and improve sales performance in the higher margin classifications.

During the year Zellers stores came on-line with in-store electronic data processing and an electronic mail system. Advanced systems technology was crucial to the launch of Club Z, and provided both the Company and its customers with automated record keeping.

New prototype stores were opened in Barrie, Huntsville, Mississauga in Ontario, Lasalle, Quebec and Winnipeg, Manitoba. Major renovations were completed on stores in Halifax and Edmonton. Customer response to these improvements was most encouraging.

Markdowns on fashion goods, although unchanged from 1985, continued to be a problem. Zellers did realize improved turnover and exercised careful expense control throughout the year. The Company, building on its strong marketing successes of 1986, particularly with Club Z, is positively positioned for further improvement in results in 1987.

Fields' sales increased by 16.7% as four stores were opened during the year.

Just Kids expanded from 15 stores to 20 (including two in Quebec under the "Vogue 0 - 16" name) and sales increased 39.3%.

The Northern Stores Division improved its operating earnings in 1986. Sales were stronger in apparel in the southern stores with increases in the north coming primarily from the sale of snowmobiles and recreation vehicles. Store expansions and modernizations also contributed to sales increases.

Gross margins were unchanged from last year as rate improvements were offset by a shift in the sales blend to lower-margin goods in the more remote stores. Increased stock levels also contributed to higher end-of-season markdowns.

Expenses were tightly controlled. A relatively mild winter held energy costs down while other expense reduction programs offset the increased cost of sales support staff and sales promotion which were essential to improving customer service and traffic.

The sale of the Northern Stores Division will be completed during the first quarter of 1987.

Zellers opened another of its highly successful "prototype" stores in 1986 at South Common Mall, Mississauga, Ontario.





Hudson's Bay Vending is expanding into operations of industrial cafeterias.

HUDSON'S BAY WHOLESALE

Operating profit fell to \$8.2 million in 1986 from \$10.0 million the year before because of a decline in margins in the highly competitive tobacco and confectionery categories, which account for the major part of the business. Sales increased by 7.4% to \$798 million, including inter-company transfers, but unit volume of tobacco continued to fall. Confectionery, food and sundry sales all showed encouraging growth from the year before. Two branches in smaller communities were closed in 1986 as part of a program to improve the productivity of assets employed.

Vending branches achieved an 8.5% sales increase with excellent growth in full-line vending, as well as Red Carpet Coffee Services. Increased profitability in the vending operation resulted from higher margins, reflecting the shift in the blend of business to full-line vending and office coffee.

Hudson's Bay Wholesale anticipates improvement in sales and earnings in 1987. Emphasis will be focused on investment levels, profitable sales and on decreasing the dependency on tobacco products. Plans are in place to enlarge the customer base as well as to improve customer service to existing accounts.

Hudson's Bay Company announced, on March 27, 1987, that it had signed a letter of intent to sell Hudson's Bay Wholesale to a private investment group.

FUR SALES

Operating profit from Fur Sales increased to \$7.1 million in 1986 from \$2.0 million a year ago, as a result primarily, of a significant recovery in the latter part of the year in the level of fur prices, particularly in dark mink which attained record levels. This recovery was stimulated by strong demand from Japan aided by strength of the yen.

Results of the New York operation were adversely affected by a legal dispute with a major competitor. As a result, Hudson's Bay New York incurred the cost, not only of litigation, but also of implementing a new marketing plan, including new trademarks and supporting advertising and promotional activities.

The London and Canadian fur sales operations were sold as of January 31, 1987. Hudson's Bay New York, the remaining operation, is well positioned with facilities, technology, qualified management and well trained personnel. The importance of the New York location is recognized as a major advantage within the industry.

Natural Resources

CANADIAN ROXY

Canadian Roxy had a successful year in 1986. Despite lower product prices, Canadian Roxy succeeded in finding and developing major additions to its crude oil reserves. Reserves at the end of 1986 were 13.9 million barrels of crude oil and natural gas liquids, an increase of 4.9 million barrels from the year before.

Financial results reflected lower product prices. Oil and gas revenues, less royalties, amounted to \$20.0 million, a decline of 29%, despite a 16% increase in production of crude oil and natural gas liquids.

Cash flow from operations was \$13.0 million, compared with \$20.5 million for 1985.

Net earnings in 1986 were \$916,000 compared with 1985 earnings of \$2.5 million before unusual items. After the write-off of the total carrying cost of the East Coast drilling program, net loss for 1985 was \$2.9 million. Canadian Roxy met the challenge of tighter operating margins by materially improving operating efficiency. Operating costs, per unit of production, decreased by 11% and 17% for crude oil and natural gas respectively. General and administrative costs were reduced 26% from the 1985 level. The full impact of certain planned overhead reductions will only be realized in 1987.

Capital expenditures for 1986 were \$13 million, a decrease of 52% from 1985, reflecting Canadian Roxy's policy of spending within its cash flow capability. Capital spending remained evenly balanced between exploration and development but land acquisitions were curtailed. This does not pose an immediate concern because Canadian Roxy has a large, diversified and well located undeveloped land inventory to meet its exploration objectives for 1987.

The balance sheet of Canadian Roxy remains strong and healthy.



Canadian Roxy increased its oil production in 1986.



Real Estate

MARKBOROUGH



Gainey Ranch, Arizona



Hunter's Glen, Denver

Operating profit of Markborough increased to \$108.6 million in 1986 from \$98.8 million the year before. Higher profit from the operation of income properties and gains from sales of income properties more than offset a decline in profit from land development operations and a loss incurred on the disposal of Markborough's partnership interest in the Homestead development in Florida.

Operating profit from the income property portfolio increased by 14.2% as a result of vacancy reductions, higher rentals and income from newly acquired or expanded properties.

Office buildings in Washington, DC and Las Vegas, Nevada were completed in April 1986 and January 1987 respectively and the Beaver House project in London, England will be ready for occupancy in late 1987.

Shopping centres in which Markborough has interests, in Calgary and Toronto, are presently being expanded.

A half interest in the prestigious office project on the Beaver House site in London, England was sold at a profit in 1986 to the Royal Bank of Canada, whose European head office will occupy the buildings.

During the year, Markborough completed a major assembly of property in downtown Toronto and subsequently agreed with Trizec Corporation to develop, as equal co-venturers, a landmark office and retail project.

Thirteen other income properties were also sold during the year. These included four office buildings, six wholly owned neighbourhood shopping centres and equity interests in two community and one regional shopping centres.

These sales were part of a program to dispose of properties which do not conform to long term investment criteria and/or to provide a stronger financial base for profitable expansion.

Aggregate operating profit from disposals of income properties amounted to \$66.1 million compared with \$14.5 million in 1985.

In land development, results were disappointing in all areas except Ontario where there was a heavy demand for industrial land, build-to-suit premises and residential sites. The Calgary, Denver and Houston markets were depressed, reflecting conditions in the oil industry.

Markborough has major new land projects in Tampa, Dallas and Austin from which lot sales are expected to begin in late 1987.

To achieve its objectives more effectively, Markborough is re-organizing its management from a geographic to a product line format and, in future, management will operate in three groups: land development, shopping centres and commercial-industrial.

Markborough expects continued improvement in 1987 in earnings from Canadian income property operations but profits from land development will be relatively low and income property disposal activity is not expected to be significant.





CONSOLIDATED STATEMENT OF EARNINGS

Year Ended January 31, 1987

	This Year \$ 000's	Last Year \$ 000's
Sales and Revenue (Note 2)		
Merchandising:		
Retail	4,674,349	4,312,682
Wholesale	691,452	637,659
Fur	51,356	41,372
	5,417,157	4,991,713
Real estate	270,301	276,112
Natural resources	4,974	3,723
	5,692,432	5,271,548
Source of Earnings (Note 2)		
Merchandising:		
Retail	185,305	111,415
Wholesale	8,203	10,032
Fur	7,055	1,975
	200,563	123,422
Real estate	132,071	126,434
Natural resources	4,226	3,057
Operating Profit	336,860	252,913
Interest on long-term debt	(163,096)	(180,575)
Net short-term interest	(102,215)	(69,818)
Earnings Before Income Taxes, Minority Interest and Extraordinary Items	71,549	2,520
Income Taxes (Note 3)	(38,154)	(12,895)
Earnings (Loss) Before Minority Interest and Extraordinary Items	33,395	(10,375)
Minority Interest	(417)	1,320
Earnings (Loss) Before Extraordinary Items	32,978	(9,055)
Extraordinary Items (Note 4)	(40,373)	3,471
Loss	(7,395)	(5,584)
Earnings (Loss) Per Ordinary Share		
Earnings (loss) before extraordinary items	\$.32	(\$1.23)
Loss	(\$1.07)	(\$1.09)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year Ended January 31, 1987

	This Year \$ 000's	Last Year \$ 000's
Retained Earnings at Beginning of Year	486,123	526,610
Loss	(7,395)	(5,584)
Dividends Paid		
Preferred shares	(24,572)	(20,615)
Ordinary shares	(17,521)	(14,288)
Cancellation of Preferred Shares (Note 9)	(3,828)	—
Retained Earnings at End of Year	432,807	486,123

CONSOLIDATED BALANCE SHEET

January 31, 1987

	This Year \$ 000's	Last Year \$ 000's
Current Assets		
Cash	9,712	8,335
Short-term securities (Note 8)	94,474	50,650
Accounts receivable	1,149,612	1,109,743
Income taxes recoverable	19,780	5,094
Merchandise inventories	1,095,138	994,677
Prepaid expenses	35,897	28,246
	2,404,613	2,196,745
Secured Receivables (Note 5)	106,870	109,555
Property For Sale and Development	290,371	361,850
Investments (Note 6)	387,293	447,165
Fixed Assets		
Land	124,286	146,553
Buildings	612,594	710,058
Equipment and leasehold improvements	655,302	655,658
	1,392,182	1,512,269
Less accumulated depreciation	479,458	464,864
	912,724	1,047,405
Deferred Charges	74,907	90,158
Pensions (Note 7)	19,599	—
Goodwill	98,579	100,892
Deferred Income Taxes (Note 3)	—	16,455
	4,294,956	4,370,225

	This Year \$ 000's	Last Year \$ 000's
Current Liabilities		
Bank indebtedness (Note 8)	248,377	460,576
Notes payable (Note 8)	592,290	473,965
Accounts payable and accrued expenses	613,715	612,770
Long-term debt due within one year (Note 8)	172,740	196,398
	1,627,122	1,743,709
Long-Term Debt (Note 8)	1,358,263	1,448,185
Deferred Income Taxes (Note 3)	32,660	—
Minority Interest in Subsidiaries	62,882	64,370
Shareholders' Equity		
Capital stock (Note 9):		
Preferred shares	373,715	230,709
Ordinary shares	392,987	376,981
	766,702	607,690
Additional paid-in capital (Note 10)	10,478	10,378
Retained earnings	432,807	486,123
Cumulative translation adjustment (Note 1b))	4,042	9,770
	1,214,029	1,113,961
	4,294,956	4,370,225

CONSOLIDATED STATEMENT OF ASSETS EMPLOYED

January 31, 1987

	This Year \$ 000's	Last Year \$ 000's
Merchandising		
Accounts receivable	1,076,737	1,053,903
Inventories	1,095,138	994,677
Accounts payable	(570,922)	(562,934)
Other current assets	52,763	28,789
Working capital	1,653,716	1,514,435
Investments	8,514	115,200
Fixed assets	560,741	615,243
Goodwill	68,402	70,461
Other assets	100,394	117,179
Pensions	19,599	—
	2,411,366	2,432,518
Real Estate		
Working capital	46,545	22,954
Secured receivables	81,383	80,939
Property for sale and development	290,371	361,850
Investments and fixed assets:		
Shopping centres	137,976	184,243
Commercial and industrial	267,331	244,724
Residential	118,558	87,418
Goodwill	30,177	30,431
Other assets	—	1,595
	972,341	1,014,154
Natural Resources		
Working capital	(3,837)	(4,064)
Investments and fixed assets	206,897	247,742
	203,060	243,678
Assets Employed	3,586,767	3,690,350
Provided From		
Debt (Note 8):		
Long-term	1,358,263	1,448,185
Net short-term	918,933	1,080,289
	2,277,196	2,528,474
Deferred income taxes	32,660	(16,455)
Minority interest in subsidiaries	62,882	64,370
Shareholders' equity:		
Preferred shareholders (including accrued dividends)	375,391	233,208
Ordinary shareholders	838,638	880,753
	1,214,029	1,113,961
	3,586,767	3,690,350

CONSOLIDATED STATEMENT OF CASH FLOW AND FUNDING

Year Ended January 31, 1987

	This Year \$ 000's	Last Year \$ 000's
Cash Flow From Operating Activities		
Earnings before income taxes, minority interest and extraordinary items	71,549	2,520
Current income tax recovery (expense)	15,668	(18,529)
	87,217	(16,009)
Items not affecting cash flow:		
Depreciation and amortization	94,123	92,553
Cash received from affiliates and joint ventures in excess of (less than) equity earnings	(4,981)	3,309
Pension credits	(33,125)	(12,111)
Cash inflow from earnings	143,234	67,742
Net effect of changes in operating working capital (Note 11)	(170,687)	(200,100)
Net cash outflow from operating activities	(27,453)	(132,358)
Cash Flow From Investing Activities		
Fixed assets:		
Acquisitions	(88,613)	(146,857)
Dispositions	116,236	66,160
Investments:		
Acquisitions and net advances	(41,725)	3,727
Dispositions	124,577	46,783
Property for sale and development	25,498	(49,007)
Secured receivables	2,685	(51,490)
Deferred charges	(12,745)	(8,760)
Other	389	3,659
Net cash inflow (outflow) from investing activities	126,302	(135,785)
Cash Flow From Dividends		
Preferred shareholders	(24,572)	(20,615)
Ordinary shareholders	(17,521)	(14,288)
Minority shareholders	(221)	(221)
Net cash outflow from dividends	(42,314)	(35,124)
Net Cash Inflow (Outflow) From Activities and Dividends		
	56,535	(303,267)
Funding		
Debt (Note 8):		
Long-term:		
Increase	363,473	204,141
Reduction	(425,668)	(182,687)
Increase (reduction) in net short-term debt	(149,623)	173,294
	(211,818)	194,748
Equity:		
Preferred shares	139,277	(8,950)
Ordinary shares	16,006	117,469
	155,283	108,519
Net Cash Inflow (Outflow) From Funding	(56,535)	303,267

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year Ended January 31, 1987

1. Significant Accounting Policies

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

a) Consolidation

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

b) Foreign currency translation

Assets and liabilities denominated in foreign currencies and the assets and liabilities of subsidiaries operating in the United Kingdom and in the United States are translated into Canadian dollars at the exchange rates prevailing at the balance sheet dates with the exception of hedged long-term debt repayable in U.S. dollars, which is translated at the rate at which it is hedged.

Earnings denominated in foreign currencies and the earnings of subsidiaries operating in the United Kingdom and in the United States are translated into Canadian dollars at approximately the exchange rates prevailing at the time they are earned.

Accumulated exchange gains and losses arising from the translation of the financial statements of subsidiaries operating in the United Kingdom and in the United States are classified as "cumulative translation adjustment" under the heading of Shareholders' Equity on the Consolidated Balance Sheet.

c) Leases

All leases, including those relating to store premises, have been classified as operating leases under which rentals are included in determining earnings of the period in which they accrue.

d) Earnings (loss) per ordinary share

The earnings (loss) per ordinary share reflects the accrual of preferred dividends and is based on the weighted average number of ordinary shares outstanding during the year.

e) 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.

f) Merchandise inventories

Merchandise inventories are valued at the lower of cost and net realizable value less normal profit margins. The cost of retail inventories is determined principally on an average basis by the use of the retail inventory method and the cost of other inventories is determined on a first-in, first-out basis.

g) Capitalization of interest

Interest that relates to properties which either are held for sale or development or are under construction is capitalized to such assets when their carrying value is lower than net realizable value. The amount so capitalized during the year is \$30,509,000 (last year \$31,778,000).

h) Property for sale and development

Property for sale and development is carried at the lower of cost and net realizable value at the estimated time of development or sale.

i) Investments

The Company follows the equity method in accounting for its investments in joint ventures.

Canadian Roxy Petroleum Ltd., a consolidated subsidiary of the Company, follows the full cost method of accounting for its investments in natural resource joint ventures whereby all costs of exploring for and developing oil and gas reserves are capitalized. Such costs include those related to lease acquisition, geological and geophysical activities, rentals on undeveloped properties, costs of drilling both productive and non-productive wells and overhead related to exploration and development activities. Costs accumulated, including provision for necessary future development expenditures, are depleted using the unit of production method based upon estimated proven oil and gas reserves. The unamortized costs are reviewed annually to ensure these costs do not exceed a ceiling value which consists of the aggregate of the estimated future undiscounted cash flows from proven reserves, using unescalated costs and year-end prices, and the appraised value

of unproved properties, all net of debt principal and interest related thereto and a provision for income taxes on assets for which there is no corresponding tax basis. If the unamortized costs exceed the ceiling value, the excess is expensed in the current year. All costs, net of incidental revenues with respect to a tertiary recovery pilot project, are being accumulated until the project is completed and commercial scale activities commence, at which time the costs will be amortized on the unit of production method. Depreciation of petroleum and natural gas production equipment and related facilities is being provided on the unit of production method.

Investments in other companies are carried at the lower of cost and estimated realizable value, with dividends being reflected in earnings when received.

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 - 33 $\frac{1}{3}$ %
Leasehold improvements	3 - 10%

Buildings held for the purpose of producing rental income (income properties) are generally depreciated on the sinking fund method at rates ranging between 3% and 5% over terms of 35 to 50 years.

k) Deferred charges

Deferred charges include debt discount and expense, costs associated with currency and interest hedging transactions and unamortized exchange gains and losses on long-term debt denominated in foreign currencies which are amortized on the straight-line method over the terms of the issues to which they relate. 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 subsidiaries, principally Markborough Properties Inc. and Zellers Inc., at their respective dates of acquisition.

The goodwill which relates to acquisitions subsequent to 1973, \$76,362,000 (last year \$78,675,000) after deducting accumulated amortization of \$15,940,000 (last year \$13,627,000), is being amortized on the straight-line method over 40 year periods.

m) Pension costs

Current pension costs, substantially all of which arise under trustee pension plans, are charged to operations. The accrued benefit method has been used to calculate the costs of pension plans. Adjustments arising from plan amendments, experience gains and losses, changes in actuarial assumptions, and the difference between the actuarial present value of accrued pension obligations and the value of pension plan assets as of February 1, 1986 are amortized over the expected average remaining service lives of the respective employee groups (see note 7).

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 and stores located in smaller communities. The Company has interests in the real estate industry, principally through its subsidiary, Markborough Properties Inc., and also has interests in natural resources through its subsidiary, Canadian Roxy Petroleum Ltd.

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 these consolidated financial statements and is supplemented by the following information.

Sales and revenue include the Company's equity in the pretax earnings of companies and joint ventures accounted for under the equity method, as follows:

	This Year	Last Year
	\$ 000's	\$ 000's
Pretax equity earnings (loss):		
Merchandising	(295)	3,258
Real estate	22,821	34,189
Natural resources	2,323	1,041
	24,849	38,488
Less income taxes thereon	(3,019)	(11,410)
Equity earnings	21,830	27,078

Other supplementary segmented information related to the Consolidated Statement of Earnings is as follows:

	This Year	Last Year
	\$ 000's	\$ 000's
Dividends received from Sears Canada Inc. included in revenue and earnings from merchandising operations (see note 4a)	869	2,688
Depreciation and amortization:		
Deducted in arriving at operating profit:		
Merchandising	71,848	71,565
Real estate	6,292	5,900
Natural resources	1,034	930
	79,174	78,395
Included in interest expense (amortization of deferred charges (see note 1 k))	14,949	14,158
	94,123	92,553

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	489	7,259
Real estate	173,647	86,285
Natural resources	186,632	184,022
	360,768	277,566

Merchandising assets employed predominantly relate to retail operations. During the year the Company disposed of certain fur operations (see note 4b). During the year the Company disposed of a number of non-strategic merchandising properties for an aggregate consideration of \$33,300,000 (last year \$64,900,000), resulting in pretax gains of \$24,600,000 (last year \$32,200,000) which were included in earnings from real estate operations in the Consolidated Statement of Earnings.

The Company has operations outside Canada, including fur operations in the United States and, until their disposal on January 31, 1987 (see note 4b), fur operations in the United Kingdom. The Company also has real estate operations in the United States and in the United Kingdom. None of these operations generates 10% or more of the Company's revenue or employs 10% or more of its assets.

3. Income Taxes

The average statutory Canadian income tax rate for the Company this year was 51.0% (last year 49.0%). The following schedule reconciles a nominal provision at these rates with the amount actually provided in the Consolidated Statement of Earnings.

	This Year	Last Year
	\$ 000's	\$ 000's
Earnings before income taxes	71,549	2,520
Nominal income tax provision at statutory Canadian income tax rates	36,454	1,235
Increase (decrease) resulting from:		
Inventory allowance	(1,206)	(14,514)
Tax rates in foreign jurisdictions	(4,175)	(1,995)
Capital gains and losses	(4,472)	2,752
Recovery of current losses at prior years' rates	4,870	—
Non-deductible costs	3,368	917
Tax-free dividends	(443)	(1,414)
Future tax benefits of losses not recognized	—	19,793
Other	3,758	6,121
Provision for income taxes per Consolidated Statement of Earnings	38,154	12,895

During the year, in a non-monetary transaction with a related party, the Company exchanged certain subsidiaries with losses available for tax purposes for companies with taxable income thereby maximizing its use of available tax losses in future years.

Cumulative tax losses for accounting purposes at January 31, 1987 amounted to approximately \$481,000,000. Of this total, the Company has taken credit for the potential future income tax recovery from the carry forward of approximately \$157,000,000 of losses in respect of depreciation recorded in the consolidated financial statements but not yet claimed for income tax purposes. The amount not recognized in the consolidated financial statements is approximately \$324,000,000 of which \$102,000,000 is also in respect of unclaimed depreciation. The remaining losses may be carried forward until the year ending January 31:

1990 - \$66,000,000; 1991 - \$54,000,000;
1992 - \$92,000,000; 1993 - \$10,000,000.

4. Extraordinary Items

Extraordinary items comprise the following:

	This Year	Last Year
	\$ 000's	\$ 000's
Gain on disposition of merchandising investments	3,062	6,582
Gain on disposition of fur operations	3,961	—
Loss on write down of investment in Dome Petroleum Limited	(43,158)	—
	(36,135)	6,582
Deferred income taxes thereon	(4,238)	(3,111)
	(40,373)	3,471

a) Gain on disposition of merchandising investments

During the year ended January 31, 1987 the Company disposed of its holding of 12,764,448 common shares of Sears Canada Inc. Of this total, 12,735,945 shares were exchanged for series F preferred shares of the Company and 28,503 shares were sold for cash (see note 6d). The proceeds of approximately \$107,000,000 resulted in a gain of \$4,014,000 before provision for deferred income taxes of \$2,955,000. Additional costs related to investments disposed of in the previous year amounting to \$952,000 before credit for deferred income taxes of \$481,000, reduced the total pretax gain for the year ended January 31, 1987 to \$3,062,000.

During the year ended January 31, 1986 the Company disposed of a number of non-strategic merchandising investments as part of a program to dispose of assets that are not part of the mainstream of the Company's business. The proceeds of these disposals totalled approximately \$66,000,000, resulting in an aggregate gain of \$6,582,000 before income taxes of \$3,111,000. Earnings from these operations during the year to date of disposal amounted to \$1,577,000, net of income taxes of \$1,100,000; corresponding revenues were \$18,223,000.

b) Gain on disposition of fur operations

On January 31, 1987 the Company sold its U.K. fur operations for total proceeds comprising cash and the assumption of debt totalling \$37,500,000 and its Canadian fur operations for cash proceeds receivable on closing on March 19, 1987 of \$45,500,000. As a consequence of these disposals the Company incurred costs related to the cancellation of interest swap arrangements no longer required and other costs, resulting in an aggregate net gain of \$3,961,000 before deferred income taxes of \$1,764,000.

c) Loss on write down of investment in Dome Petroleum Limited ("Dome")

At January 31, 1987 the Company wrote down its investment in preferred shares of Dome by \$43,158,000 to a carrying value of \$18,500,000, which represents the approximate quoted market value at that date on The Toronto Stock Exchange of the common shares into which they may be converted (see note 6a).

5. Secured Receivables

Secured receivables include mortgages which arise principally from sales of real property and loans outstanding under the employee share ownership plan.

	This Year	Last Year
	\$ 000's	\$ 000's
Total secured receivables	158,166	167,467
Less amounts due within one year classified as accounts receivable	(51,296)	(57,912)
	106,870	109,555
Average rate of interest	8.1%	10.3%

Maturities during the five years ending January 31, 1992 are as follows:

1988 - \$51,296,000; 1989 - \$38,657,000; 1990 - \$40,801,000; 1991 - \$9,969,000; 1992 - \$6,271,000.

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

6. Investments

Investments comprise the following:

	This Year	Last Year
	\$ 000's	\$ 000's
Sears Canada Inc.	—	102,524
Real estate joint ventures	173,647	86,285
Natural resource joint ventures	186,632	184,022
Dome Petroleum Limited	18,500	61,658
Other	8,514	12,676
	387,293	447,165

a) Dome Petroleum Limited ("Dome")

At January 31, 1987 the investment in Dome Petroleum Limited ("Dome"), consisted of 4,110,517 10% series 1 subordinated cumulative convertible preferred shares. On that date the carrying value was reduced from cost to the approximate quoted value on The Toronto Stock Exchange of the common shares into which the preferred shares may be converted. The series 1 preferred shares were received on March 12, 1986 in exchange for an equal number of series D preferred shares. On March 13, 1986 Dome announced the suspension of the payment of dividends on all its preferred shares, including the series 1 preferred shares, until June 1, 1987. The Company has the right to convert the series 1 preferred shares to Dome common shares at \$3.33 per share and Dome has the right to force conversion at that price if the price of Dome common shares reaches \$3.885. If all of the series 1 preferred shares held by the Company were converted, the Company would receive in exchange 18,515,842 common shares of Dome.

To the date of exchange of the series D preferred shares, Dome was obligated to pay interest to the Company, in lieu of dividends otherwise accruing on the series D preferred shares, at a variable rate per annum equal to 2% plus the domestic prime rate of a Canadian chartered bank. The Company offset the interest received against "net short-term interest" in the Consolidated Statement of Earnings.

b) 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		
Cash	4,957	—
Accounts receivable	83,086	103,633
Property for sale and development	338,554	192,663
Fixed assets, net	338,360	321,509
	764,957	617,805
Liabilities		
Accounts payable and accrued expenses	49,421	78,065
Long-term debt	541,889	453,455
	591,310	531,520
Investment in real estate joint ventures	173,647	86,285
Revenue	113,118	123,360
Expenses		
Interest	34,689	30,598
Depreciation	4,735	4,673
Other	50,873	53,900
	90,297	89,171
Pretax earnings of real estate joint ventures	22,821	34,189

The Company is contingently liable at January 31, 1987 for \$85,200,000, representing the liabilities of its co-owners in unincorporated joint ventures but against such contingent liability the Company would have a claim upon the joint venture assets of its co-owners. The value of the assets of each of these joint ventures exceeds the contingent liability.

c) Natural resource joint ventures

The Company's share of natural resource joint ventures is summarized as follows:

	This Year	Last Year
	\$ 000's	\$ 000's
Oil and gas properties	162,666	158,282
Accounts receivable	9,058	20,955
Other assets	20,390	21,185
Accounts payable and accrued expenses	(5,482)	(16,400)
Investment in natural resource joint ventures	186,632	184,022
Revenue	19,977	28,245
Expenses		
Depletion and depreciation	9,119	10,241
Production and operating costs	4,563	4,907
Interest	2,651	2,682
Other	1,321	1,789
Provision against offshore East Coast Canada cost centre	—	7,585
	17,654	27,204
Pretax earnings of natural resource joint ventures	2,323	1,041

The carrying value of the offshore East Coast Canada cost centre was reduced to nil by Canadian Roxy Petroleum Ltd. at December 31, 1985 to reflect the lack of commercial quantities of reserves.

d) Sears Canada Inc. ("Sears")

At January 31, 1986 the investment in Sears consisted of 12,764,448 common shares, representing 14.6% of all of the outstanding shares of Sears. During the year then ended 676,350 common shares had been exchanged for the Company's series F preferred shares (see note 9).

During the year ended January 31, 1987 12,735,945 of the Sears shares were exchanged for the Company's series F preferred shares and the remaining 28,503 Sears shares were sold for cash (see note 4a).

7. Pensions

For the year ended January 31, 1987 the Company has adopted prospectively the new recommendations of the Canadian Institute of Chartered Accountants on accounting for pension costs and obligations as described in note 1 m).

As of January 31, 1987 the aggregate actuarial present value of accrued pension benefits is \$348,000,000 and the aggregate market value of pension plan assets is \$570,000,000.

The effect of adopting the change in accounting policy for pension costs has been to reduce expenses by \$34,900,000 for the year ended January 31, 1987, with a related increase in the deferred income tax provision of \$17,800,000. The amount of \$19,599,000 described as "pensions" on the Consolidated Balance Sheet represents the recorded portion of the excess of pension plan assets over accrued pension benefits net of other obligations to retired employees.

8. Debt

Total debt of the Company may be analyzed as follows:

	This Year	Last Year
	\$ 000's	\$ 000's
Bank indebtedness (a)	248,377	460,576
Notes payable (a)	592,290	473,965
Long-term debt due within one year	172,740	196,398
Less short-term securities (b)	(94,474)	(50,650)
Net short-term debt	918,933	1,080,289
Long-term debt	1,358,263	1,448,185
	2,277,196	2,528,474

Long-term debt comprises the following:

	This Year	Last Year
	\$ 000's	\$ 000's
Secured on property:		
Hudson's Bay Company Properties Limited		
5 ³ / ₄ % first mortgage bonds series A due 1990	7,684	7,684
7 ¹ / ₂ % first mortgage bonds series B due 1991	5,204	5,204
11 ¹ / ₂ % first mortgage bonds series C due 1995	23,259	23,469
9 ⁷ / ₈ % first mortgage bonds series D due 1997	35,025	35,987
10 % first mortgage bonds series E due 1998	27,406	27,406
Markborough Properties Inc. (includes floating rate debt of \$184,863,000) (c)		
Mortgages and obligations on property for sale and development, 8.8% average (last year 9.2%), repayable by instalments to 1993	129,360	134,979
Mortgages on income property permanent financing, 11.4% average (last year 11.4%), repayable by instalments to 2005	127,664	117,972
Mortgages on income property interim financing, 7.3% average (last year 10.3%), repayable by instalments to 1987	72,931	108,647
Canadian Roxy Petroleum Ltd.		
Term loan, 13.875%, due 1987	12,000	13,500
Other	4,781	4,347
	445,314	479,195

Secured on accounts receivable:

Hudson's Bay Company Acceptance Limited		
13 ¹ / ₄ % debentures series C due 1989	3,437	3,437
8 ³ / ₄ % debentures series D due 1991	20,000	20,000
8 ¹ / ₄ % debentures series E due 1993	20,000	20,000
10 ¹ / ₂ % debentures series F due 1996	22,158	22,471
13 ³ / ₄ % debentures series G due 2001	44,544	47,544
Floating rate debt: (c)		
Term loan due 1988	50,000	—
Term loan due 1993	35,000	—

	This Year	Last Year
	\$ 000's	\$ 000's
Secured on accounts receivable: (cont'd)		
Simpsons Acceptance Company Limited		
6 ³ / ₄ % debentures series E due 1986	—	10,000
8 ³ / ₈ % debentures series F due 1992	10,000	10,000
8 ³ / ₈ % debentures series G due 1992	15,000	15,000
9 ⁷ / ₈ % debentures series H due 1997	16,170	17,370
Hudson's Bay Company		
Floating rate term loan due 1988	—	50,000
	236,309	215,822
Secured by floating charge on assets of subsidiaries:		
Zellers Inc.		
7 % sinking fund debentures series C due 1986	—	2,393
10 ¹ / ₄ % sinking fund debentures series 1974 due 1994	8,363	8,370
	8,363	10,763
Unsecured:		
Hudson's Bay Company		
13 ³ / ₄ % series D notes due 1986	—	50,000
16 ¹ / ₂ % series G notes due 1986	—	1,000
18 % notes due 1987	—	56,060
10 ¹ / ₂ % debentures due 1989	31,396	35,064
17 % notes due 1989	—	33,828
12 ¹ / ₂ % note due 1989	182	161
14 ¹ / ₄ % notes due 1989	48,535	50,000
13.85% loan due 1990	25,000	25,000
11 ¹ / ₂ % debentures due 1990	—	91,550
10 % notes due 1991 (U.S. \$75,000,000)	96,362	—
10 ³ / ₄ % notes due 1991	80,000	—
Dual currency bonds due 1991-1993 (U.S. \$97,629,000) (d)	130,823	141,075
11 % notes due 1993	25,000	—
10 % debentures due 1994 (U.S. \$31,732,000)	42,521	45,218
15.36% term loan due 1995-1997 (£5,592,000)	11,351	11,239
Floating rate debt: (c)		
Syndicated bank loans due 1986 and 1987 (U.S. \$42,750,000)	53,822	64,741
Series F notes due 1986 and 1987	7,500	47,500
Term loan due 1988 (U.S. \$40,000,000)	57,908	57,908
Term loan due 1989 (U.S. \$25,000,000)	31,352	31,352
Notes due 1989 (U.S. \$50,000,000)	67,000	71,250
Bankers' acceptances due 1989	50,000	50,000
Promissory notes due 1989	30,000	20,000
Notes due 1991 (U.S. \$20,000,000)	26,800	28,500
Simpsons Limited		
6 ¹ / ₂ % debentures series F due 1987	1,319	1,655
9 ¹ / ₂ % debentures series G due 1989	2,902	2,927
8 ³ / ₈ % debentures series H due 1993	6,870	6,870
9 ¹ / ₈ % debentures series I due 1994	4,692	4,692
11 ³ / ₄ % debentures series J due 1995	8,864	10,364
	840,199	937,954
Subordinated:		
Zellers Inc.		
5 ¹ / ₂ % convertible subordinated debentures series 1971 due 1991 (e)	818	849
	1,531,003	1,644,583
Less amounts due within one year	(172,740)	(196,398)
	1,358,263	1,448,185

- (a) The effective interest rate on \$415,628,000 of the short-term debt has been fixed at 12.8% by way of various currency and interest exchange transactions.
- (b) Short-term securities at January 31, 1987 include interest bearing instruments of \$76,800,000 (last year \$47,400,000) held by various financial institutions to fulfil obligations of various currency and interest hedging transactions and increase or decrease depending on movements in international financial markets.
- (c) Long-term debt (including amounts due within one year) includes floating rate debt in the amount of \$594,245,000. Of this amount, \$411,530,000 has been fixed at 11.8% by way of various currency and interest exchange agreements. The balance has been capped at 12.5% through various interest rate cap agreements.
- (d) The dual currency bonds bear interest at 8% per annum on a notional principal amount of 162,715,000 Swiss Francs. The effective hedged Canadian interest rate on this borrowing is 13.0% per annum.
- (e) The holders of Zellers Inc. 5½% convertible subordinated debentures series 1971 have the right to exchange such debentures for ordinary shares of Hudson's Bay Company at the rate of 32.43 ordinary shares per \$1,000 of debenture principal.

Several of the long-term debt issues are 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, 1992 are as follows:
 1988 - \$172,740,000; 1989 - \$209,992,000; 1990 - \$284,749,000;
 1991 - \$50,693,000; 1992 - \$252,571,000.

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 "redeemable preferred shares series B", "\$1.512 convertible redeemable preferred shares series D" and "redeemable preferred shares series E", 11,750,000 shares have been designated as "\$1.80 cumulative redeemable preferred shares series A", 800,000 have been designated as "variable rate, cumulative redeemable preferred shares series C", 4,500,000 have been designated as "\$2.25 cumulative redeemable exchangeable preferred shares series F", 4,500,000 have been designated as "\$2.25 cumulative redeemable preferred shares series G" and 10,000,000 have been designated as "\$1.875 cumulative redeemable convertible preferred shares series H".

Shares issued and outstanding comprise the following:

	This Year		Last Year	
	Number of shares	\$ 000's	Number of shares	\$ 000's
Preferred shares:				
\$1.80 cumulative redeemable preferred shares series A (stated capital \$22.50 each)	4,776,259	107,466	4,806,459	108,145
Variable rate, cumulative redeemable preferred shares series C (stated capital \$25.00 each)	737,000	18,425	762,500	19,062
\$1.512 convertible redeemable preferred shares series D (stated capital \$18.00 each)	50,391	907	52,873	952
\$2.25 cumulative redeemable exchangeable preferred shares series F (stated capital \$22.50 each)	—	—	4,254,816	102,548
\$2.25 cumulative redeemable preferred shares series G (stated capital \$22.50 each)	12,250	300	100	2
\$1.875 cumulative redeemable convertible preferred shares series H (stated capital \$25.00 each)	10,000,000	246,617	—	—
		373,715		230,709
Ordinary shares	29,532,745	392,987	28,886,002	376,981
		766,702		607,690

The changes in shares issued and outstanding during the two years ended January 31, 1987 are as follows:

	Number of shares	\$ 000's
Preferred shares series A:		
Issued and outstanding at January 31, 1985	4,951,259	111,403
Less purchased for cash and cancelled	(144,800)	(3,258)
Issued and outstanding at January 31, 1986	4,806,459	108,145
Less purchased for cash and cancelled	(30,200)	(679)
Issued and outstanding at January 31, 1987	4,776,259	107,466
Preferred shares series C:		
Issued and outstanding at January 31, 1985	800,000	20,000
Less purchased for cash and cancelled	(37,500)	(938)
Issued and outstanding at January 31, 1986	762,500	19,062
Less purchased for cash and cancelled	(25,500)	(637)
Issued and outstanding at January 31, 1987	737,000	18,425
Preferred shares series D:		
Issued and outstanding at January 31, 1985	61,175	1,101
Less purchased for cash and cancelled	(6,950)	(126)
Less converted into ordinary shares	(1,352)	(23)
Issued and outstanding at January 31, 1986	52,873	952
Less purchased for cash and cancelled	(1,600)	(29)
Less converted into ordinary shares	(882)	(16)
Issued and outstanding at January 31, 1987	50,391	907
Preferred shares series F:		
Issued and outstanding at January 31, 1985	4,480,266	107,982
Less converted into series G shares	(100)	(2)
Less exchanged for shares of Sears Canada Inc.	(225,350)	(5,432)
Issued and outstanding at January 31, 1986	4,254,816	102,548
Less converted into series G shares	(12,150)	(292)
Less exchanged for shares of Sears Canada Inc.	(4,233,165)	(102,027)
Less purchased for cash and cancelled	(9,501)	(229)
Issued and outstanding at January 31, 1987	—	—
Preferred shares series G:		
Issued on conversion of series F shares in the year ended January 31, 1986 and outstanding at January 31, 1986	100	2
Issued on conversion of series F shares	12,150	298
Issued and outstanding at January 31, 1987	12,250	300
Preferred shares series H:		
Issued in the year ended January 31, 1987, net of issue expenses and related income taxes, and outstanding January 31, 1987	10,000,000	246,617

Ordinary shares:

Issued and outstanding at January 31, 1985	23,787,166	259,489
Issued:		
Under the employee share ownership plan	97,612	2,514
Under the executive stock option plan	2,000	37
Under the dividend reinvestment plan	217,161	5,249
Under the rights offer	4,778,153	109,574
On conversion of series D shares	836	23
On conversion of Zellers Inc. 5 1/2% convertible subordinated debentures series 1971	3,074	95
Issued and outstanding at January 31, 1986	28,886,002	376,981
Issued:		
Under the employee share ownership plan	89,649	2,656
Under the executive stock option plan	109,300	2,012
Under the dividend reinvestment plan	446,285	11,291
On conversion of series D shares	506	16
On conversion of Zellers Inc. 5 1/2% convertible subordinated debentures series 1971	1,003	31
Issued and outstanding at January 31, 1987	29,532,745	392,987

The series A shares may be redeemed at the Company's option at prices declining from \$22.90 at February 1, 1987 to \$22.50 after December 31, 1988.

The holders of the series C shares are entitled to receive dividends at the rate of 8.53% until September 15, 1989. 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 certain intervals at the Company's option at \$25.00.

The series D shares may be redeemed at the Company's option at prices declining from \$18.72 at February 1, 1987 to \$18.00 after January 31, 1991. Each series D share is convertible into 0.5752 ordinary shares at the holder's option until January 31, 1991.

The series G shares may be redeemed at the Company's option from April 1, 1988 at prices declining from \$26.00 at that date to \$25.00 after March 31, 1992.

On June 11, 1986 the Company issued \$250,000,000 series H shares of which \$50,000,000 were purchased by a subsidiary of the controlling shareholder of the Company. Under certain conditions the series H shares may be redeemed from June 30, 1989 at the Company's option at prices declining from \$25.40 on that date to \$25.00 after June 29, 1991. Each series H share is convertible into 0.6944 ordinary shares at the holder's option until June 30, 1993.

As at January 31, 1987 1,688,700 ordinary shares are reserved for issuance under the Executive Stock Option Plan and options are outstanding with a number of employees to purchase, in aggregate, up to 1,527,600 ordinary shares at their fair market value on the respective dates on which they were granted. The options expire between the sixth and the tenth anniversary of the date of grant. The outstanding options expire at various dates between January 1991 and December 1996 and have an average issue price of \$26.15. During the years ended January 31, 1987 and January 31, 1986 options in respect of 109,300 shares and 2,000 shares, respectively, were exercised at average prices of \$18.61 and \$18.50 per share, respectively. At January 31, 1987 161,100 options were unallocated.

On November 25, 1985 the Board approved a Rights Offer whereby holders of ordinary shares on December 20, 1985 were entitled to subscribe for one additional ordinary share at a price of \$23.00 for each five shares held. The rights expired on January 16, 1986, at which time 4,593,636 shares had been subscribed for. Under an additional subscription privilege, which formed a part of the Rights Offer, shareholders had committed to acquire the remaining 184,517 shares on or before February 10, 1986. The total proceeds of the Rights Offer were recorded as of January 31, 1986 and that portion of the proceeds received during the first ten days of February 1986, \$4,225,000, was included in "accounts receivable" in the Consolidated Balance Sheet at January 31, 1986.

Effective with the dividend paid on October 31, 1985, the Company introduced a Dividend Reinvestment Plan which provides a means for eligible holders of ordinary shares to reinvest dividend proceeds in new ordinary shares at 95% of their market price. At January 31, 1987 the holders of approximately 61% of the ordinary shares were participating in the plan.

The cost of shares reacquired at amounts other than book value in each of the two years ended January 31, 1987 has been allocated as follows:

	Cost	Allocated to		
		Capital stock	Additional paid-in capital	Retained earnings
	\$ 000's	\$ 000's	\$ 000's	\$ 000's
In the year ended				
January 31, 1987:				
Preferred shares series A	578	679	(101)	—
Preferred shares series D	30	29	1	—
Preferred shares series F	106,376	102,548	—	3,828
	106,984	103,256	(100)	3,828
In the year ended				
January 31, 1986:				
Preferred shares series A	2,483	3,258	(775)	—
Preferred shares series D	97	126	(29)	—
	2,580	3,384	(804)	—

10. Additional Paid-in Capital

The amount at January 31, 1987 and the changes during the two years then ended are as follows:

	This Year	Last Year
	\$ 000's	\$ 000's
Amount at beginning of year	10,378	9,574
Excess of stated value over cost of shares purchased for cash and cancelled	100	804
Amount at end of year	10,478	10,378

11. Consolidated Statement of Cash Flow and Funding

The "net effect of changes in operating working capital" appearing in the Consolidated Statement of Cash Flow and Funding comprises the following:

	This Year	Last Year
	\$ 000's	\$ 000's
Decrease (increase) in:		
Cash	(1,377)	389
Accounts receivable	(36,234)	(186,396)
Merchandise inventories	(100,461)	(107,878)
Prepaid expenses	(9,767)	(3,524)
Income taxes recoverable - net	(14,686)	(11,528)
Increase (decrease) in accounts payable and accrued expenses	(8,162)	108,837
	(170,687)	(200,100)

12. Leases

a) As lessee

The Company conducts a substantial part of its merchandising operations from leased premises. All leases involving the Company as lessee have been accounted for as operating leases.

Rental expenses charged to earnings amount to \$117,400,000 (last year \$105,700,000).

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 ending January 31, 1988	104,900
1989	101,800
1990	95,100
1991	88,800
1992	81,100
Thereafter	1,080,000
Total minimum lease payments	1,551,700

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 are classified as operating leases.

"Fixed assets" in the Consolidated Balance Sheet include real estate leased to others under operating leases amounting to \$328,200,000 (last year \$430,200,000), net of accumulated depreciation of \$32,700,000 (last year \$30,900,000).

Real estate revenues include rentals from the above properties of \$61,400,000 (last year \$59,200,000).

13. Related Party Transactions

The Company is involved in numerous transactions with related parties in the ordinary course of its business. Reference is also made to the transaction described in note 3. None of these transactions is significant in relation to these consolidated financial statements.

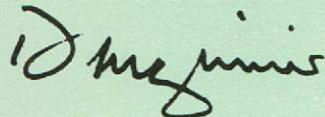
14. Subsequent Event

On January 30, 1987 the Company announced that agreement in principle had been reached to sell the assets and operations of its Northern Stores Division, accounted for on a fully consolidated basis in these financial statements, effective March 31, 1987 for proceeds of approximately \$180,000,000, of which approximately 80% will be in cash and the balance in securities, some of which will be convertible.

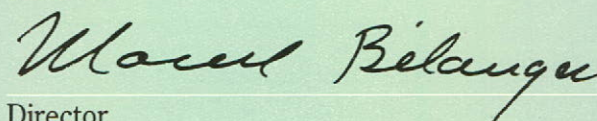
APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements, 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:



Director



Director

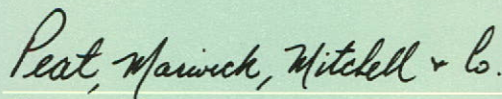
Toronto, Canada
March 20, 1987



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, 1987 and the consolidated statements of earnings, retained earnings and cash flow and funding for the year then ended. 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.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at January 31, 1987 and the results of its operations and its cash flow and funding for the year then ended in accordance with generally accepted accounting principles applied, except for the change, with which we concur, in the method of recording pension expense as explained in note 7 to the consolidated financial statements, on a basis consistent with that of the preceding year.



Chartered Accountants

Toronto, Canada
March 20, 1987

TEN YEAR CONSOLIDATED FINANCIAL SUMMARY

1986

Results For The Year (in thousands of dollars)

Sales and revenue:	
Retail	4,674,349
Wholesale	691,452
Fur	51,356
Merchandising	5,417,157
Real estate	270,301
Natural resources	4,974
Total sales and revenue	5,692,432
Source of earnings:	
Retail	185,305
Wholesale	8,203
Fur	7,055
Merchandising	200,563
Real estate	132,071
Natural resources	4,226
Operating profit	336,860
Interest expense	(265,311)
Earnings (loss) before income taxes and minority interest	71,549
Income taxes	(38,154)
Earnings (loss) before minority interest	33,395
Minority interest	(417)
Earnings (loss) before extraordinary items	32,978
Extraordinary items	(40,373)
Net earnings (loss)	(7,395)
Dividends paid:	
Preferred shares	24,572
Ordinary shares	17,521
Cancellation of shares	3,828
Increase (decrease) in retained earnings	(53,316)
Capital expenditures	88,614
Depreciation	70,067
Cash flow from earnings	143,234

Year End Financial Position (in thousands of dollars)

Merchandising	2,411,366
Real estate	972,341
Natural resources	203,060
Assets employed	3,586,767
Debt	2,277,196
Deferred income taxes	32,660
Minority interest	62,882
Preferred shareholders' interest (including accrued dividends)	375,391
Ordinary shareholders' equity	838,638

Results Per Ordinary Share (in dollars)

Earnings (loss) before extraordinary items	.32
Net earnings (loss)	(1.07)
Cash flow from earnings	4.07
Dividends	.60
Shareholders' equity	28.40

Shareholders and Employees

Number of ordinary shareholders	10,000
Ordinary shares outstanding (in thousands)	29,533
Range in share price (in dollars)	33 ¹ / ₄ -22 ¹ / ₄
Number of employees	41,000

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

1985	1984	1983	1982	1981	1980	1979	1978	1977
4,312,682	3,958,422	3,618,145	3,427,378	3,443,040	3,190,191	2,847,927	1,432,712	1,019,831
637,659	581,813	522,857	485,153	497,058	460,356	408,434	356,967	323,810
41,372	38,338	39,763	38,311	42,604	63,342	66,302	42,568	34,059
4,991,713	4,578,573	4,180,765	3,950,842	3,982,702	3,713,889	3,322,663	1,832,247	1,377,700
276,112	243,452	176,946	126,945	173,003	83,828	96,263	48,712	36,004
3,723	7,300	12,817	60,884	16,737	16,169	16,283	15,343	13,686
5,271,548	4,829,325	4,370,528	4,138,671	4,172,442	3,813,886	3,435,209	1,896,302	1,427,390
111,415	3,779	53,861	7,696	81,858	153,314	177,755	76,495	40,912
10,032	5,319	10,102	10,016	13,060	11,856	8,737	7,392	8,064
1,975	8,029	(4,019)	4,342	12,058	17,556	26,508	11,092	7,706
123,422	17,127	59,944	22,054	106,976	182,726	213,000	94,979	56,682
126,434	87,844	52,681	47,012	67,035	33,349	26,300	17,842	14,856
3,057	6,912	12,535	60,584	16,248	15,735	16,283	15,343	13,686
252,913	111,883	125,160	129,650	190,259	231,810	255,583	128,164	85,224
(250,393)	(199,275)	(173,696)	(261,307)	(244,307)	(136,533)	(113,741)	(47,868)	(37,351)
2,520	(87,392)	(48,536)	(131,657)	(54,048)	95,277	141,842	80,296	47,873
(12,895)	(19,292)	30,142	8,677	57,208	(30,541)	(52,073)	(29,757)	(16,095)
(10,375)	(106,684)	(18,394)	(122,980)	3,160	64,736	89,769	50,539	31,778
1,320	(750)	488	800	573	(10,186)	(9,423)	(5,894)	(1,897)
(9,055)	(107,434)	(17,906)	(122,180)	3,733	54,550	80,346	44,645	29,881
3,471	—	82,806	(5,420)	382,435	18,811	23,175	98,367	—
(5,584)	(107,434)	64,900	(127,600)	386,168	73,361	103,521	143,012	29,881
20,615	20,645	19,918	11,437	11,746	11,874	10,866	—	—
14,288	14,237	14,234	17,815	28,510	28,455	25,481	16,111	9,181
—	—	2,174	552	6,603	—	—	—	—
(40,487)	(142,316)	28,574	(157,404)	339,309	33,032	67,174	126,901	20,700
146,858	152,979	94,666	120,335	147,600	172,329	124,977	58,915	43,075
69,376	65,652	62,702	59,827	51,414	43,909	38,886	21,301	16,473
67,742	(7,258)	17,880	(104,670)	51,044	102,000	127,260	75,312	48,209
2,432,518	2,300,147	2,056,035	2,119,307	2,132,011	1,881,474	1,747,420	1,522,050	601,610
1,014,154	872,571	743,940	742,565	689,182	562,921	408,884	313,750	246,843
243,678	179,123	169,718	592,092	640,594	166,438	133,561	134,084	29,595
3,690,350	3,351,841	2,969,693	3,453,964	3,461,787	2,610,833	2,289,865	1,969,884	878,048
2,528,474	2,249,068	1,717,233	2,306,074	2,133,906	1,639,498	1,343,484	1,124,318	535,470
(16,455)	(7,001)	(1,300)	30,559	51,326	56,566	64,118	54,937	45,306
64,370	74,690	75,046	68,296	69,270	53,557	49,598	58,505	21,308
233,208	243,092	244,786	142,019	147,345	149,499	154,744	136,329	—
880,753	791,992	933,928	907,016	1,059,940	711,713	677,921	595,795	275,964
(1.23)	(5.40)	(1.63)	(5.63)	(.34)	1.80	2.98	2.74	2.12
(1.09)	(5.40)	1.86	(5.86)	15.78	2.59	3.98	8.79	2.12
1.96	(1.18)	(.09)	(4.89)	1.66	3.80	5.02	4.63	3.41
.60	.60	.60	.75	1.20	1.20	1.10	.91	.65
30.49	33.29	39.36	38.00	44.58	30.01	28.59	25.80	19.50
14,000	15,000	16,100	18,300	19,300	20,800	22,500	30,600	20,900
28,886	23,787	23,728	23,870	23,777	23,712	23,712	23,092	14,155
28-15 ¹ / ₈	23 ¹ / ₂ -17	25 ³ / ₄ -20 ¹ / ₈	23-15	30 ⁵ / ₈ -20 ¹ / ₄	31 ³ / ₄ -23	35-21 ¹ / ₄	24 ¹ / ₂ -17 ¹ / ₈	19 ¹ / ₈ -14 ¹ / ₈
41,000	42,500	44,000	45,000	48,000	47,000	46,000	45,000	20,000

Hudson's Bay Company

Board

Ian A. Barclay Vancouver Associate McQuaid Rudman Young Limited	Donald S. McGiverin Toronto Governor Hudson's Bay Company
Marcel Bélanger Quebec President Gagnon et Bélanger Inc.	Dawn R. McKeag Winnipeg President Walford Investments Ltd.
J. W. (Bud) Bird Fredericton President and General Manager J.W. Bird and Company Ltd.	Peter W. Mills Toronto Vice-President and General Counsel The Woodbridge Company Ltd.
W. Michael Brown New York President International Thomson Organization Limited	David E. Mitchell Calgary President Alberta Energy Company Ltd.
Thomas S. Dobson Calgary Chairman Easton United Securities Limited	T. Iain Ronald Toronto Executive Vice-President Hudson's Bay Company
Gurth C. Hoyer Millar London, England Director J. Sainsbury PLC	Kenneth R. Thomson Toronto Chairman of the Board and President Thomson Newspapers Limited
George J. Kosich Toronto Executive Vice-President Hudson's Bay Company	John A. Tory Toronto President The Thomson Corporation Ltd.

Principal Subsidiaries/ Divisions

The Bay Dept. Stores

George J. Kosich
Chief Executive Officer
C.W. (Wally) Evans
President

Simpsons Limited

George J. Kosich
Chairman and Chief
Executive Officer
N. Robert Peter
President

Bay/Simpsons Merchandise Services

Al A. Guglielmin
President

Zellers Inc.

T. Iain Ronald
Chairman and Chief
Executive Officer
Eric Paul
President

Hudson's Bay Wholesale

Ron W. McArthur
Vice-President

Hudson's Bay New York (Fur Sales)

William H. Evans
President

Markborough Properties Inc.

T. Iain Ronald
Chairman of the Board
Neil R. Wood
President

Canadian Roxy Petroleum Ltd.

Peter W. Wood
Chairman of the Board
Joseph R. Dundas
President

Officers

Donald S. McGiverin Governor	Brian C. Grose Vice-President and Controller	Donald C. Rogers Vice-President
George J. Kosich Executive Vice-President	Robert N.D. Hogan Vice-President, Credit	Real Estate and Development
T. Iain Ronald Executive Vice-President	A. Rolph Huband Vice-President and Secretary	Larry W. Rowe Vice-President
Douglas W. Mahaffy Senior Vice-President Finance and Administration	Gary J. Lukassen Vice-President and Treasurer	Information Services
		Kenneth C. Wong Assistant Treasurer

CORPORATE INFORMATION

Corporate Data

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

Corporate Office
401 Bay Street
Toronto, Ontario M5H 2Y4

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

Registrars and Transfer Agents
The Royal Trust Company, Calgary, Montreal,
Toronto, Vancouver and Winnipeg
The Royal Bank of Scotland PLC, London

Stock Exchange Listings
Ordinary Shares – London, Montreal, Toronto
and Winnipeg
Preferred Shares:
Series A – Montreal, Toronto and Winnipeg
Series H – Montreal and Toronto

Auditors
Peat, Marwick, Mitchell & Co.

Principal Subsidiary Companies

(wholly owned unless otherwise indicated)

Canadian Roxy Petroleum Ltd. (54.5%)
Petroleum company

Markborough Properties Inc.
Property development company

Simpsons Limited
Department store company

Zellers Inc.
Department store company

Retail Space

The Bay Department Stores	11,422,000 sq. ft.
Zellers Group	13,518,000 sq. ft.
Simpsons	3,643,000 sq. ft.

Real Estate Holdings

Markborough Properties Inc. Net Interest	
32 shopping centres	7,554,000 sq. ft.
11 office/commercial buildings	1,074,000 sq. ft.
23 industrial buildings	790,000 sq. ft.
Construction in progress	284,000 sq. ft.
1 hotel	192 rooms
2 apartment buildings	340 suites
Land held for and under development	10,961 acres

Petroleum Reserves

at December 31, 1986
(working interest before royalty)

Canadian Roxy Petroleum Ltd. HBC Net Interest	
Crude oil and natural gas liquids	7,595,000 bbls
Natural gas	75,000 mmcf



"Company of Adventurers"

The story of the first century of company history is retold with colour and excitement in Peter Newman's "Company of Adventurers", a 1985 Canadian best-seller. A second volume to be called "Caesars of the Wilderness" covering the period to 1870, will be published in the autumn of this year.

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.

The Fur Trade

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). It acquired Henry Morgan & Co. Limited (1960), A.J. Freiman Limited (1971) and 35% of Siebens Oil and Gas Ltd. (1973). It acquired control of Markborough Properties Limited (1973), Simpsons Limited (1978) and Zellers Inc. (1978). It disposed of its Siebens investment (1979), acquired control of Roxy Petroleum (1980) and disposed of its HBOG investment (1982).

TV DRIVES SALES

Your Company uses television extensively to stimulate retail sales. TV ads from Simpsons, the Bay and Zellers promote merchandise offerings and sale events and also reflect store image and market positioning. As a result, the style and content of TV ads varies noticeably between the three retail operations.



Simpsons

TV advertising that is exciting and leading edge is designed to position Simpsons as Canada's leading fashion department store across all price zones. Ads are targeted to the fashion-conscious consumer and aim to establish Simpsons' credibility as the store for fashion and value.



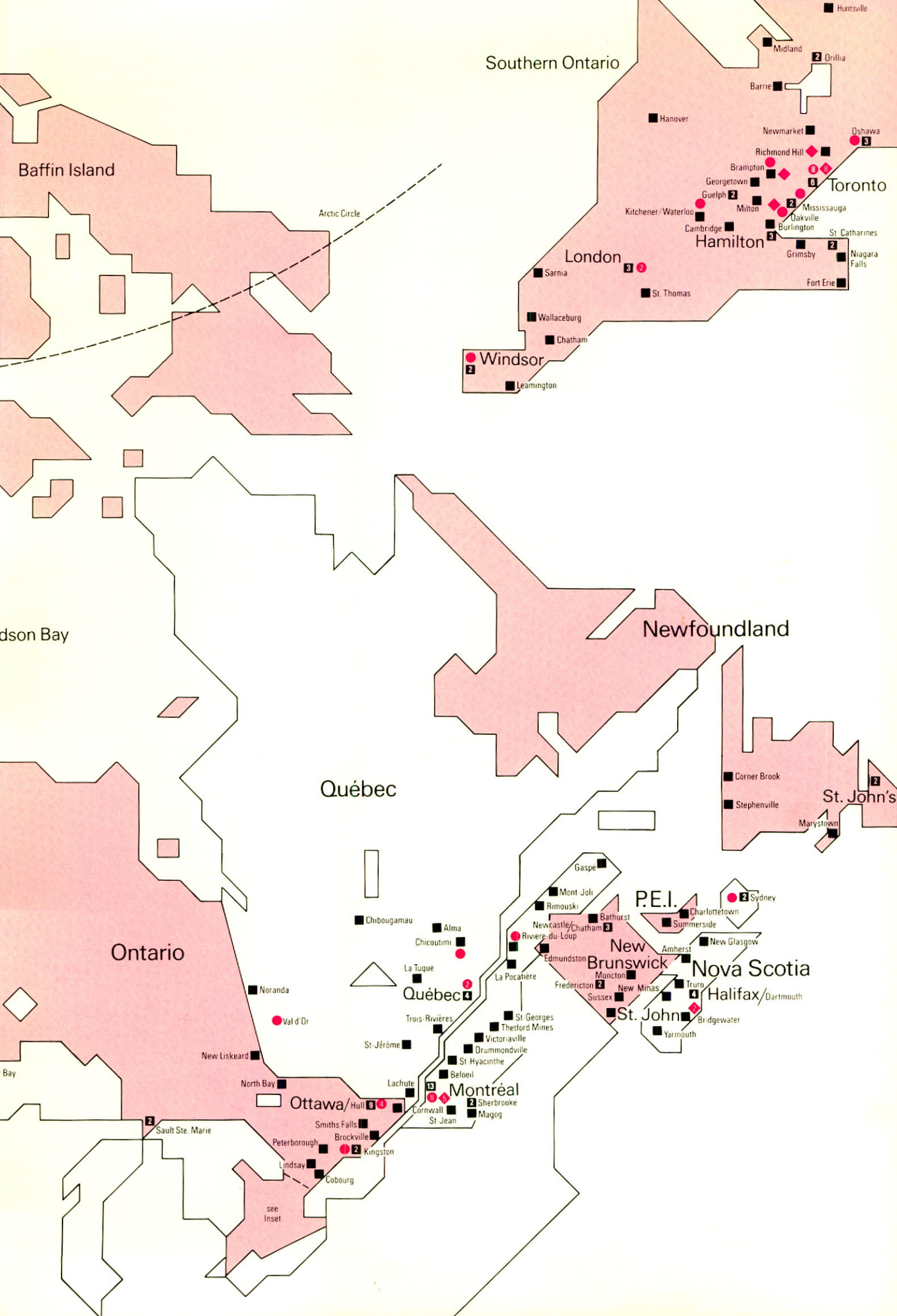
The Bay

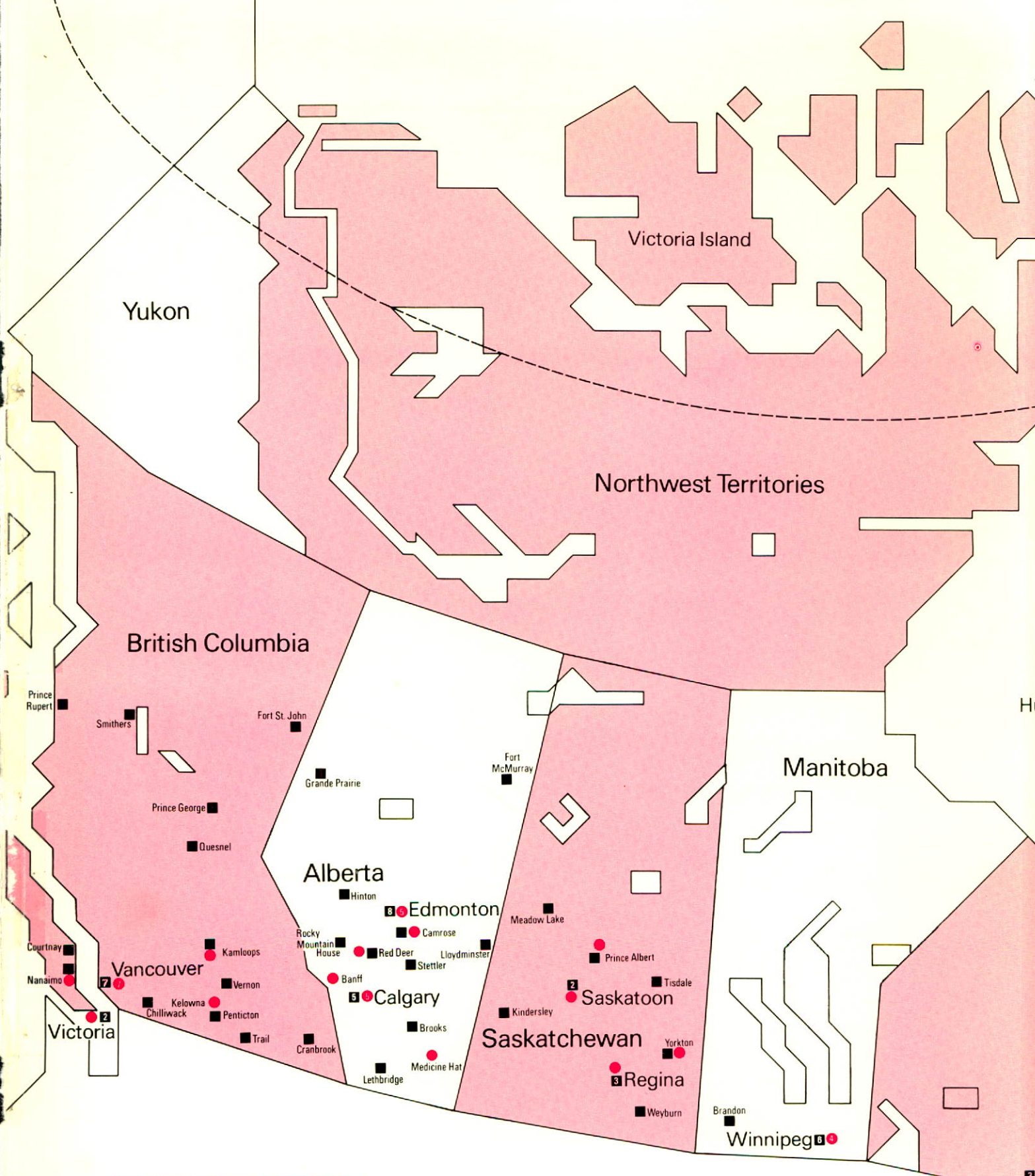
Targeted to consumers in the middle income bracket, Bay advertising promotes merchandise in the medium to medium-low price zones. Television ads feature opening price points in a friendly informal style designed to appeal to the average Canadian.



Zellers

Canadians from coast to coast discovered Club Z through an extensive launch on television and in print advertising. Less than one year after its introduction, Club Z boasts over three million members. Zellers uses TV to firmly position itself as the store for the budget conscious consumer.





Hudson's Bay Company

Retail Locations April 25, 1987

- The Bay Department Stores (69)
- ◆ Simpsons (16)
- Zellers (201)

Excludes Fields stores in Western Canada (97)
and Just Kids in Eastern Canada (20)

