

C A N A D A

PROVINCE OF QUEBEC
District of Montreal

S U P E R I O R C O U R T
(Commercial Division)

No: 500-11-041238-110

IN THE MATTER OF THE *COMPANIES'*
CREDITORS ARRANGEMENT ACT,
R.S.C. 1985, c. C-36, AS AMENDED and:

HART STORES INC./MAGASINS HART
INC.

Petitioner

- and -

RSM RICHTER INC.

Monitor

**MOTION FOR THE ISSUANCE OF AN ORDER FOR A FOURTH EXTENSION
OF THE STAY PERIOD, FOR AUTHORIZATION TO FILE A PLAN OF
ARRANGEMENT AND FOR OTHER RELIEF**

(Sections 4, 5, 11 and 22 of the *Companies' Creditors Arrangement Act*,
R.S.C. 1985, C-36, as amended)

**TO THE HONOURABLE JUSTICE JEAN-YVES LALONDE OR TO ONE OF
THE HONOURABLE JUDGES OF THE SUPERIOR COURT, SITTING IN THE
COMMERCIAL DIVISION, IN AND FOR THE JUDICIAL DISTRICT OF
MONTREAL, THE PETITIONER SUBMITS THE FOLLOWING:**

1. The Petitioner hereby seeks an order (i) extending, for the fourth time, the Stay Period (as defined below) until and including March 14, 2012, (ii) renewing the DIP Facility (as defined below), the whole pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"), (iii) authorizing the filing of a plan of compromise and arrangement and certain matters relating to the approval thereof, and (iv) authorizing an extension of the Claims Bar Date to January 31, 2012;

Heenan Blaikie

I. BACKGROUND

2. On August 30, 2011 (the "**Filing Date**"), an initial order (as amended, the "**Initial Order**") pursuant to the CCAA was rendered with respect to the Petitioner, and RSM Richter Inc. was appointed Monitor, as more fully appears from the Court Record;
3. Pursuant to the Initial Order, a stay of proceedings and other relief was ordered with effect from the Filing Date until September 29, 2011 (the "**Stay Period**");
4. The Initial Order authorized the Petitioner to enter into interim financing arrangements (the "**DIP Facility**") with Wells Fargo Capital Finance Corporation Canada ("**Wells Fargo**" or the "**DIP Lender**"), the Petitioner's senior secured lender, pursuant to the DIP Commitment Letter filed in support of the Petition for an Initial Order, and the creation of a charge in favour of the DIP Lender over the Petitioner's property to secure the repayment of the DIP Facility (the "**DIP Lender Charge**"), the whole as more fully set out in the Initial Order;
5. On September 28, 2011, an order (the "**First Renewal Order**") was rendered:
 - a) extending the Stay Period to and including November 4, 2011;
 - b) creating a charge in favour of those creditors who have provided the Petitioner with goods or services subsequent to the Filing Date, and accepted to provide said goods or services on credit or delayed payment terms (the "**Post-Filing Suppliers Charge**");
 - c) authorizing the payment of quasi-insurance premiums, and creating a charge in favour of the insurance premium financier over the Petitioner's unearned insurance premiums (the "**Insurance Charge**");
6. On November 4, 2011, an order (the "**Second Renewal Order**") was rendered:
 - a) extending the Stay Period to January 18, 2012;
 - b) authorizing an extension of the DIP Facility's maturity date to January 18, 2012, and certain other consequential amendments to the DIP Commitment Letter, as such term is defined in the Initial Order (as amended, the "**DIP Commitment Letter**");

7. On November 28, 2011, an order setting the claims and meetings procedure (the "**Claims and Meeting Order**") was rendered, which provides a Claims Bar Date as of January 12, 2012, and a Restructuring Claims Bar Date as of January 31, 2012;
8. On January 18, 2012, an order was rendered extending the Stay Period to January 20, 2012;
9. As at the date hereof, the Petitioner intends to hold the Creditors' Meeting to approve its Plan of Arrangement (as defined below) on February 15, 2012;

II. **RESTRUCTURING AND PLAN OF ARRANGEMENT**

10. Since the issuance of the Initial Order, the Petitioner has acted, and continues to act in good faith and with all due diligence in order to restructure its affairs and, as such, as taken the following steps:
 - a) negotiated with prospective replacement lenders;
 - b) entered into a definitive commitment letter with a replacement lender for the refinancing of its senior secured debt (the "**Refinancing**");
 - c) is in the process of closing 32 underperforming stores (the "**Closing Stores**") and liquidating their inventory and has disclaimed almost all of the related leases;
 - d) held a process for the sale/assignment of the Closing Store leases and of the related furniture and fixtures, as more fully explained hereinafter;
 - e) is in the process of liquidating excess inventory in the continuing stores;
 - f) on-going implementation of various cost reduction initiatives;

the whole will appear from a copy of the Fourth Report of the Monitor (the "**Fourth Report of the Monitor**"), to be filed in support at the hearing, to which will be annexed cash flow projections up to April 1, 2012;
11. The Petitioner has also prepared a viable plan of compromise and arrangement (the "**Plan of Arrangement**") for its creditors, a copy of which is filed in support hereof as **Exhibit R-1**;

12. The Plan of Arrangement provides for a single class of unsecured creditors that will receive a dividend of \$ 6,000,000 to be distributed in five (5) instalments over a period of three (3) years;
13. In addition, the Plan of Arrangement provides that all unsecured creditors may elect to receive the lesser of (i) \$ 1,000, or (ii) the full amount of their proven Claims in a single lump sum payment;
14. The Petitioner intends to submit the Plan of Arrangement to its unsecured creditors for approval at the Creditors' Meeting presently scheduled to be held on February 15, 2012;
15. Subject to the approval of the Plan of Arrangement and the closing of the Refinancing, the Petitioner will emerge from these proceedings with a viable business, composed of 60 stores employing approximately 1,000 persons, and will have fully reimbursed Wells Fargo;

III. TIMELINE

16. In light of the above, the Petitioner is confident that it will be able to adhere to the following timeline in order to implement the Plan of Arrangement in a timely manner and emerge from these proceedings with a viable business:

DATE	MILESTONES
January 23, 2012	Publication and mailing of Meeting Materials*
January 31, 2012	Restructuring Claims Bar Date and Extended Claims Bar Date
February 6, 2012	Publication on Monitor's website of Monitor's Report on the Plan*
February 15, 2012	Creditors' Meeting*
February 27, 2012	Sanction Hearing on the Plan*
March 14, 2012	Closing of Refinancing and Implementation of the Plan*

* Dates subject to change with the agreement of the DIP Lender.

17. In light of the above, the Petitioner submits that no creditor will be adversely affected by the extension sought herein and that it would therefore be reasonable to extend the Stay Period until and including March 14, 2012;

IV. RENEWAL OF DIP FACILITY

18. As authorized under the Second Renewal Order, the DIP Facility matures on January 18, 2012, and an extension of the DIP Facility is therefore required so as to ensure the Petitioner's continued financing during the requested extension of the Stay Period;
19. The Petitioner and Wells Fargo have negotiated and come to an agreement regarding the terms under which the DIP Facility's maturity date would be extended to March 14, 2012, the whole as more fully appears from the Second Amending Agreement to the DIP Commitment Letter (the "**Second Amending Agreement**"), a redacted copy of which is filed in support hereof as **Exhibit R-2**. An unredacted copy to be kept confidential and filed under seal will be provided to the Court during the hearing;
20. As can be seen from the Second Amending Agreement, although the maximum amount of the DIP Facility has been slightly reduced to \$ 17,500,000, its financial terms are not materially different from the current terms, subject to the payment of an extension fee and an adjustment of the availability reserve;
21. As a result, no creditor will be adversely affected by an extension of the DIP Facility's maturity date, or by the changes made to the terms and conditions of that facility under the Second Amending Agreement;
22. For these reasons, it is submitted that it is in the interest of the Petitioner, and all of its stakeholders, that the DIP Facility be extended in accordance with the conclusions sought below;

IV. EXTENSION OF THE CLAIMS BAR DATE

23. Under the Claims and Meeting Order, the Claims Bar Date is set to January 12, 2012, while the Restructuring Bar Date is set to January 31, 2012;
24. Under the form of notices approved by the Court pursuant to the Claims and Meeting Order, each document which referred to the Claims Bar Date also referred to the Restructuring Bar Date, and vice versa, as more fully appears from the Court Record;
25. It may be that the reference to both dates in a single notice created some confusion amongst the Creditors, especially given the intervening Holiday

season, since as at January 16, 2012, only 403 Creditors of the 892 total Creditors had filed proofs of claim with the Monitor;

26. The Petitioner believes it would be unjust that Creditors be prejudiced by the co-existence of a Claims Bar Date and a Restructuring Bar Date, and therefore asks this Honourable Court to extend the Claims Bar Date to January 31, 2012;
27. Furthermore, the Petitioner respectfully asks that the Monitor be authorized to inform the Petitioner's Creditors of the extension of the Claims Bar Date concurrently with the sending of notices regarding the filing of the Plan and the calling of the Creditors' Meeting in accordance with the Claims and Meeting Order, by means of a notice substantially in accordance with the form attached hereto as Schedule "A";
28. Should the requested order not be rendered, a number of Creditors will be unduly prejudiced while the remaining Creditors will suffer no material prejudice if the order is granted;

FOR THESE REASONS, MAY IT PLEASE THE COURT TO:

- [1] **DECLARE** that sufficient prior notice of the presentation of this Motion has been given by the Petitioner to interested parties;
- [2] **DECLARE** that capitalized terms used herein and not otherwise defined shall have the meaning ascribed to them in the Plan of Arrangement;
- [3] **EXTEND** the Stay Period (as such term is defined in the Initial Order) until and including March 14, 2012, the whole subject to all other terms of the Initial Order;
- [4] **AUTHORIZE** the Petitioner to file the Plan of Arrangement, Exhibit R-1, and submit same to the vote of its' Affected Creditors at a meeting to be held on February 15, 2012 (subject to any adjournment thereof or later date as may be agreed to by the Monitor and the DIP Lender) and to seek approval thereof in accordance with the Claims and Meeting Order rendered herein on November 28, 2011 and the manner set forth herein;
- [5] **ORDER** that the Petitioner, in consultation with the Monitor and the DIP Lender, be and is hereby authorized to file any modification of, or amendment or supplement to, the Plan of Arrangement by way of a supplementary plan or plans of reorganization, compromise or arrangement (or any one or more thereof) (each a "**Plan Modification**") at or before the Creditors' Meeting, in which case any such Plan Modification

shall, for all purposes, be and be deemed to form part of and be incorporated into the Plan of Arrangement. The Petitioner shall file any Plan Modification with the Court as soon as practicable. The Petitioner shall give notice to Affected Creditors of the details of any Plan Modification at the Creditors' Meeting prior to the vote being taken to approve the Plan of Arrangement. The Petitioner may give notice of a Plan Modification at or before the Creditors' Meeting by notice which shall be sufficient if given to those Affected Creditors present at such meeting in person or by proxy. The Monitor shall post on its website at www.rsmrichter.com/Restructuring/Hart.aspx, as soon as possible, before or after the Creditors' Meeting, as the case may be, any such Plan Modification;

- [6] **ORDER** that, for purposes of considering and voting on the Plan of Arrangement, the Affected Creditors Class shall be as set forth in the Plan of Arrangement;
- [7] **ORDER** that the Monitor shall report to this Court no later than three (3) Business Days prior to the date chosen for the Sanction hearing, as hereafter defined, with respect to: (a) the results of the voting on the Resolution to approve the Plan of Arrangement; (b) the effect on the results of the vote had the Affected Creditors also voted the amount of their Affected Claims that were disputed for voting purposes; and (c) any other matter that the Monitor considers relevant in view of the Sanction Hearing;
- [8] **ORDER** that, subject to further order of this Court, if the Plan of Arrangement has been accepted by the Required Majorities, the Petitioner shall bring an application before this Court on or before February 27, 2012 (or such later date as may be agreed to with the DIP Lender) seeking the Sanction Order (the "**Sanction Hearing**");
- [9] **ORDER** that a copy of the application seeking the Sanction Order shall be published on the Monitor's website at www.rsmrichter.com/Restructuring/Hart.aspx as soon as possible after it is filed with this Court;
- [10] **ORDER** that publication of the Notice to Creditors (as defined in the Claims and Meeting Order) and this Order in accordance with paragraphs 19 and 20 of the Claims and Meeting Order shall constitute good and sufficient service of notice of the Sanction Hearing upon all Persons who may be entitled to receive such service and no other form of service needs

to be made and no other materials need to be served on such Persons in respect of the Sanction Hearing;

- [11] **ORDER** that any Person intending to object to the application seeking the Sanction Order shall file with this Court a written notice containing a description of its proposed grounds of objection and shall effect service of same upon counsel to the Petitioner, the Monitor and the DIP Lender, and upon those Persons listed on the Service List, the whole before 4:30 p.m. (Montreal time) on February 24, 2011;
- [12] **ORDER** that, in the event that the Sanction Hearing is adjourned, postponed or otherwise rescheduled, only those Persons listed on the Service List or that have filed and served a notice of objection pursuant to paragraph 11 hereof are required to be served with notice of the adjourned, postponed or otherwise rescheduled date;
- [13] **ORDER** that the Second Amending Agreement entered into between the Petitioner and the DIP Lender and dated as of January 18, 2012 (the "**Second Amending Agreement**"), Exhibit R-2, is hereby approved and any reference in the Initial Order, or any other order rendered in these proceedings to the DIP Commitment Letter shall refer to the "DIP Commitment Letter as amended by the Second Amending Agreement";
- [14] **DECLARE** that the Second Amending Agreement is a DIP Financing Document (as such term is defined in the Initial Order) and that all provisions of the Initial Order relating to the DIP Financing Documents shall apply *mutatis mutandis*, to the Second Amending Agreement;
- [15] **ORDER** that the unredacted version of Exhibit R-2 provided to this Court during the hearing be kept confidential and under seal in the Court Record;
- [16] **ORDER** that, subject to further order of this Court, no order shall be made varying, rescinding, or otherwise affecting paragraphs 14 to 16 hereof unless either (a) notice of a motion for such order is served on the DIP Lender and the Petitioner by the moving party within seven (7) days after that party was served with or otherwise notified of the Order or (b) the DIP Lender applies for or consents to such order;
- [17] **VARY** the Claims and Meeting Order to extend the Claims Bar Date from January 12, 2012 to January 31, 2012, and **ORDER** that any reference to the Claims Bar Date shall be deemed a reference to the Claims Bar Date, as extended by this Order;

- [18] **ORDER** the Monitor to advise the Creditors of the extension of the claims Bar Date by means of a notice in form and content substantially similar to the form appended hereto as Schedule "A", which is hereby approved;
- [19] **DECLARE** that any proof of claim filed with the Monitor after January 12, 2012, but before the making of this Order, shall be deemed to have been filed with the Monitor prior to the Claims Bar Date;
- [20] **REQUEST** the aid and recognition of any Court or administrative body in any Province of Canada and any Canadian federal court or administrative body and any federal or state court or administrative body in the United States of America and any court or administrative body elsewhere, to act in aid of and to be complementary to this Court in carrying out the terms of the Order;
- [21] **ORDER** provisional execution notwithstanding appeal;
- [22] **THE WHOLE** without costs, save in case of contestation.

MONTREAL, January 19, 2012

A handwritten signature in black ink, appearing to read "Heenan Blaikie LLP", is written over a horizontal line.

HEENAN BLAIKIE LLP

Attorneys for the Petitioner

AFFIDAVIT

I, the undersigned, ROBERT HARRITT, businessman, domiciled and residing for the purpose hereof at 900 Place Paul-Kane, in the City and District of Laval, Province of Québec, H7C 2T2, solemnly declares as follows:

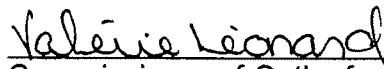
1. That I am the Chief Financial Officer and duly authorized representative of the Petitioner;
2. That all the facts contained in the present Motion for the Issuance of an Order for a Fourth Extension of the Stay Period, for Authorization to File a Plan of Arrangement and other relief are true;
3. That all the facts contained in this affidavit are true.

AND I HAVE SIGNED:



ROBERT HARRITT

Solemnly affirmed to before me, in the
City of Montreal, this 19TH day of
January, 2012



Commissioner of Oaths for the Province
of Quebec



NOTICE OF PRESENTATION

TO : Goodmans LLP
Bay Adelaide Centre
333 Bay Street, Suite 3400
Toronto, ON M5H 2S7

Attorneys for Wells Fargo

AND : Lavery deBilly LLP
Suite 4000
1 Place Ville Marie
Montreal QC H3B 4M4

Attorneys for Wells Fargo

AND: RSM Richter Inc.
2 Place Alexis Nihon,
Montréal (Québec) H3Z 3C2

AND: Norton Rose OR LLP
1 Place Ville-Marie
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Montreal (Quebec) H3B 1R1

Attorneys for Ameco-Paradisio

AND: Poliquin, Avocats
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Attorneys for Quality Draft
Home Deco Ltd.

**AND: Deveau, Bourgeois, Gagné,
Hébert & Associés, s.e.n.c.r.l.**
2540 boul. Daniel-Johnson
Bureau 400
Laval (Quebec) H7T 2S3

Attorneys for Les Immeubles
Plaisance Inc.

AND: McCarthy Tétrault LLP
1000 rue de la Gauchetière Ouest
Suite 2500
Montreal (Quebec) H3B 0A2

Attorneys for Monitor

AND : Minden Gross LLP
145 King Street West – Suite 2200
Toronto, Ontario M5H 4G2


Attorneys for 375 Daniel Street
Holdings Ltd.

TAKE NOTICE that the present Motion for the Issuance of an Order for a Fourth Extension of the Stay Period, for Authorization to File a Plan of Arrangement and other relief will be presented for adjudication before one of the judges of the Superior Court, sitting in the Commercial Division, in and for the judicial district of Montreal, on January 20, 2012, at 9:15 o'clock, in room 15.07 of the Courthouse

of Montreal, located at 1 Notre-Dame Street, in the City of Montreal, Province of
Quebec, or as soon thereafter as counsel may be heard.

AND DO GOVERN YOURSELVES ACCORDINGLY.

MONTREAL, January 19, 2012


HEENAN BLAIKIE LLP
Attorneys for the Petitioner

SCHEDULE « A »

AVIS IMPORTANT

MODIFICATION de la Date limite pour le dépôt des réclamations

Cher créancier,

Avis est par les présentes donné aux créanciers de la Requérante, Magasins Hart Inc. / Hart Stores Inc., qu'une ordonnance rendue le 20 janvier 2012 a prolongé au 31 janvier 2012, la date limite pour le dépôt des réclamations nées au plus tard le 30 août 2011 (la « Date limite modifiée de dépôt des réclamations »).

Si vous n'avez pas encore déposé votre preuve de réclamation auprès du Contrôleur, RSM Richter Inc., veuillez prendre note que toute preuve de réclamation déposée auprès du Contrôleur doit être reçue par ce dernier, **au plus tard le 31 janvier 2012 à 17 heures, heure de Montréal**, pour les réclamations nées au plus tard le 30 août 2011 (la « Date limite modifiée de dépôt des réclamations »).

Les créanciers qui n'auront pas déposé une preuve de réclamation accompagnée des documents justificatifs à la Date limite modifiée de dépôt des réclamations conformément à l'Ordonnance et aux instructions connexes, ne recevront aucun autre avis et, à moins d'une nouvelle ordonnance de la Cour supérieure, i) ne seront pas en droit de participer aux procédures en tant que créanciers, ii) ne seront pas en droit de voter sur toute question relative à ces procédures, y compris le Plan d'arrangement et de transaction déposé par la Requérante (le « Plan »), iii) ne seront pas en droit de faire valoir toute réclamation contre la Requérante, iv) ni ne seront en droit de recevoir quelque distribution que ce soit aux termes du Plan.

Nous vous invitons à consulter le formulaire de preuve de réclamation ainsi que la lettre d'instructions qui l'accompagne sur le site internet du Contrôleur à l'adresse suivante :

<http://www.rsmrichter.com/Restructuration/Hart.aspx>

La preuve de réclamation peut être déposée par poste régulière, par télécopieur, par messagerie ou par courrier électronique à l'adresse suivante :

RSM Richter Inc.

(en sa capacité de Contrôleur désigné par la Cour de Magasins Hart Inc. / Hart Stores Inc.)

2, Place Alexis Nihon, bureau 1820
Montréal (Québec) H3Z 3C2

À l'attention de : Benoit Gingues, CA, CIRP

Télécopieur : 514.934.8603

Courriel : reclamations@rsmrichter.com

IMPORTANT NOTICE

AMENDMENT to the Claims Bar Date

Dear Creditor,

Notice is hereby given to the creditors of the Petitioner, Magasins Hart Inc. / Hart Stores Inc. that an Order rendered on January 20, 2012 extended to January 31, 2012 the Claims Bar Date for claims which arose up to and including August 30, 2011 (the "Extended Claims Bar Date").

If you have not filed your proof of claim with the Monitor, RSM Richter Inc., please note that any proof of claim filed with the Monitor must be received by him **no later than January 31, 2012 at 5:00 p.m., Montreal Time**, for claims which arose up to and including August 30, 2011 (the "Extended Claims Bar Date").

Creditors who will not have filed a proof of claim with the supporting documents by the Amended Claims Bar Date, in compliance with the Order and instructions thereto, will receive no other notice, and unless a new Order is rendered by the Superior Court, (i) shall not be entitled to participate as a creditor in these proceedings, (ii) shall not be entitled to vote on any matter relating to these proceedings, including the Plan of compromise and arrangement filed by the Petitioner (the "Plan"), (iii) shall not be entitled to assert any claim against the Petitioner, (iv) and shall not be entitled to receive any distribution under the Plan.

We refer you to the proof of claim form as well as the accompanying instruction letter which are available on the Monitor's website at the following address:

<http://www.rsmrichter.com/Restructuring/Hart.aspx>

The proof of claim may be filed by regular mail, by facsimile, by messenger or by any other means of electronic mail addressed to:

RSM Richter Inc.

(In its capacity as Court-appointed Monitor
to Hart Stores Inc. / Magasins Hart Inc.)
2 Place Alexis Nihon, Suite 1820
Montreal, Quebec H3Z 3C2

Attention: Benoit Gingues, CA, CIRP

Fax: 514.934.8603

Email: claims@rsmrichter.com

500-11-041238-110

SUPERIOR COURT
(Commercial Division)

**IN THE MATTER OF THE COMPANIES'
CREDITORS ARRANGEMENT ACT, R.S.C.
1985, c. C-36, AS AMENDED**

HART STORES INC. / MAGASINS HART INC.

Petitioner

- and -

RSM RICHTER INC.

Monitor

**MOTION FOR AN ORDER FOR A FOURTH
EXTENSION OF THE STAY PERIOD, FOR
AUTHORIZATION TO FILE A PLAN OF
ARRANGEMENT AND FOR OTHER RELIEF**
(Sections 4, 5, 11 and 22 of the *Companies' Creditors
Arrangement Act*, R.S.C. 1985, C-36, as amended)

ORIGINAL

Code: BJ-0039

Notre réf. : 043054.0112

M^e Michael J. Hanlon

Téléphone : 514 846-2376

Télécopieur : 514-921-1376

Heenan Blaikie LLP

AVOCATS / LAWYERS

1250, boul. René-Lévesque Ouest, bureau 2500
Montréal (Québec) H3B 4Y1

C A N A D A

PROVINCE OF QUEBEC
District of Montreal

SUPERIOR COURT
(Commercial Division)

No: 500-11-041238-110

IN THE MATTER OF THE COMPANIES'
CREDITORS ARRANGEMENT ACT,
R.S.C. 1985, c. C-36, AS AMENDED and:

HART STORES INC. / MAGASINS HART
INC.

Petitioner

- and -

RSM RICHTER LLP

Monitor

LIST OF EXHIBITS

(In support of the *Motion for the Issuance of an Order
for a Fourth Extension of the Stay Period, for
Authorization to file a Plan of Arrangement and Other
Relief*)

EXHIBIT R-1 Plan of Arrangement;
EXHIBIT R-2 Second Amending Agreement (redacted);

MONTREAL, January 19, 2012



HEENAN BLAIKIE LLP
Attorneys for the Petitioner

EXHIBIT R-1

Court File No. 500-11-041238-110

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C. 1985, c. C-36, AS AMENDED**

AND IN THE MATTER OF A PLAN OF COMPROMISE AND ARRANGEMENT

OF

HART STORES INC. / MAGASINS HART INC.

**PLAN OF COMPROMISE AND ARRANGEMENT UNDER THE *COMPANIES'*
CREDITORS ARRANGEMENT ACT, R.S.C.
1985, c. C-36,**

January ●, 2012

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PLAN OF COMPROMISE AND ARRANGEMENT

Plan of Compromise and Arrangement of Hart Stores Inc. / Magasins Hart Inc. pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended.

ARTICLE 1 INTERPRETATION

1.1 Definitions

In this Plan, unless otherwise stated or the context otherwise requires:

“**Administration Charge**” has the meaning ascribed to such term in the Initial Order;

“**Administration Claim**” means a Claim secured by the Administration Charge;

“**Affected Claim**” means any Claim other than an Unaffected Claim;

“**Affected Creditor**” means a Creditor holding an Affected Claim, but only to the extent of its Affected Claim;

“**Affected Creditors Class**” means the class of Affected Creditors;

“**Business Day**” means a day, other than a Saturday, a Sunday, or a non-judicial day (as defined in article 6 of the *Code of Civil Procedure*, R.S.Q., c. C-25, as amended);

“**Capped Rent Period**” means, with respect to any lease or offer to lease for real or immovable property entered into with, or assumed by, the Petitioner containing provisions for a Capped Rent Rebate, the period in reference to which the Capped Rent Rebate is calculated;

“**Capped Rent Rebate**” means the amount of the credit to which the Petitioner is entitled against future amounts to be paid, or a reimbursement of amounts already paid to the landlord, whether as rent or otherwise, under a lease or offer to lease for real or immovable property, when the Petitioner's sales effected on the leased property did not exceed a certain threshold during the Capped Rent Period, calculated in accordance with the terms of such lease. In the case of a Disclaimed Lease, where the disclaimer became effective prior to the term of the Capped Rent Period, the Capped Rent Rebate will be prorated for that portion of the Capped Rent Period between the beginning of such period and the date on which the disclaimer or termination became effective;

“**CCAA**” means the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended;

“**CCAA Charge(s)**” means the Administration Charge, the DIP Lender Charge, the Insurance Charge and the Post-Filing Suppliers Charge;

“**CCAA Proceedings**” means the proceedings in respect of the Petitioner before the Court commenced pursuant to the CCAA;

“**Certificate of Performance**” has the meaning ascribed to it in Section 8.4;

“**Chair**” means the Monitor, or the person designated by the Monitor to preside as chairperson at the Creditors’ Meeting;

“**Claim**” means any right of any Person against the Petitioner in connection with any indebtedness, liability or obligation of any kind of the Petitioner owed to such person and any interest, or penalties accrued thereon or costs payable in respect thereof, whether liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, unsecured, present, future, known or unknown, by guarantee, surety or otherwise, and whether or not such right is executory or anticipatory in nature, including the right or ability of any Person to advance a claim for contribution or indemnity or otherwise with respect to any matter, action, cause or chose in action, whether existing at present or commenced in the future, which indebtedness, liability or obligation is based in whole or in part on facts existing, or transactions which occurred, prior to the Determination Date, or which would have been claims provable in bankruptcy had the Petitioner become bankrupt on the Determination Date, and, without limitation, including any Restructuring Claim, but excluding any Unaffected Claim;

“**Claims Bar Date**” means the bar date of January 12, 2012 for the filing of Claims for voting or distribution purposes, as set out in the Claims Procedure Order;

“**Claims Procedure Order**” means the Claims and Meetings Procedure Order issued by the Court on November 28, 2011, establishing, among other things, procedures for proving Claims and the calling of the Creditors’ Meeting, as amended or supplemented from time to time by further Order(s) of the Court;

“**Court**” means the Quebec Superior Court of Quebec (Commercial Division);

“**Creditor**” means any Person having a Claim and may, where the context requires, include the assignee of a Claim or a trustee, interim receiver, receiver, receiver and manager, or other Person acting on behalf of such Person and includes a Known Creditor. A Creditor shall not include an Excluded Creditor in respect of that Person’s claim resulting from an Excluded Claim;

“**Creditors’ Meeting**” means the meeting of Affected Creditors to be convened for the purposes of voting on the Plan, and any adjournment thereof;

“**Crown Claims**” any claim of her Majesty the Queen in right of Canada or any province and described in Section 6(3) of the CCAA;

“**D&O Claim**” means any claim of a Director for indemnification, pursuant to paragraph 33 of the Initial Order;

“**Determination Date**” means August 30, 2011;

“DIP Claim” means any and all obligations of the Petitioner to the DIP Lender pursuant to the DIP Facility Documents or the Initial Order or relating to any outstanding letters of credit as of the Plan Implementation Date;

“DIP Facility Documents” means the DIP Commitment Letter dated as of August 30, 2011 by and among the Petitioner and the DIP Lender (as amended, modified, restated and / or supplemented from time to time) together with any related collateral, loan or security documents executed in connection therewith or which relate thereto;

“DIP Lender” means Wells Fargo Capital Finance Corporation Canada;

“DIP Lender Charge” shall have the meaning ascribed to such term in the Initial Order;

“Director” has the meaning given in the Initial Order;

“Disallowed Claim” means a Claim, or that portion thereof which has been disallowed, denied, dismissed or overruled by the Monitor pursuant to the Claims Procedure Order or an order of the Court in respect of which all appeal periods, if any, have expired;

“Disclaimed Lease” means a lease for real or immovable property which was disclaimed or resiliated by the Petitioner pursuant to Section 32 of the CCAA;

“Disputed Claim” means a Claim or that portion thereof that is subject to a Notice of Revision or Disallowance and, in either case, has not become a Proven Claim or a Disallowed Claim;

“Distribution Amount” means the amount of \$ 6,000,000 to be remitted by the Petitioner to the Monitor as provided for under Section 2.4;

“Electing Creditor Claim” means all Claims in respect of which the Creditors have elected (as set forth in Section 2.4 hereof) to receive the lesser of \$ 1,000 or the amount of their Claims or to reduce their respective Claims to \$ 1,000;

“Electing Creditors” means Creditors having an Electing Creditor Claim and **“Electing Creditor”** means any of them;

“Equity Claim” means any and all Claims arising from or in connection with a Person’s interest in the issued and outstanding equity in the capital of the Petitioner, including with respect to any issued and outstanding common or preferred shares of the Petitioner of every class and series, and any and all warrants, options and agreements to purchase any of the foregoing;

“Excluded Claim” means any right of any Person against the Petitioner in connection with any indebtedness, liability or obligation of any kind which arose with respect to transactions which occurred after the Determination Date and any interest thereon, including the DIP Claim and any obligation of the Petitioner toward creditors who have supplied or shall supply services, utilities, goods or materials or who have or shall have

advanced funds to the Petitioner after the Determination Date, but only to the extent of their claims in respect of the supply of such services, utilities, goods, materials or funds after the Determination Date and to the extent that such claims are not otherwise affected by the Plan. For greater certainty, a Restructuring Claim is not an Excluded Claim;

“**Excluded Creditor**” means a Person having a Claim in respect of an Excluded Claim but only in respect of such Excluded Claim and to the extent that the Plan does not otherwise affect such Claim;

“**Final Instalment Date**” means the date referred to in Section 2.4b)(vi), as it may be extended pursuant to Section 2.4c);

“**First Instalment Date**” means the date referred to in Section 2.4b)(i), as it may be extended pursuant to Section 2.4c);

“**Gift Card Claim**” has the meaning ascribed to it in Section 2.3a)(iv) hereof;

“**Governmental Authority**” means any (i) multinational, national, provincial, state, regional, municipal, local or other government, governmental or public department, ministry, central bank, court, tribunal, arbitral body, commission, board, official, minister, bureau or agency, domestic or foreign, (ii) subdivision, agent, commission, board or authority of any of the foregoing; or (iii) quasi-governmental or private body, including any tribunal, commission, regulatory agency or self regulatory organization, exercising any regulatory, expropriation or taxing authority under, or for the account of, any of the foregoing;

“**Initial Order**” means the order of the Court made on August 30, 2011, as renewed and amended from time to time, under the CCAA;

“**Insurance Charge**” has the meaning given in the Order rendered September 28, 2011;

“**Insurance Claim**” means a Claim secured by the Insurance Charge;

“**Laws**” means all laws, statutes, codes, ordinances, decrees, rules, regulations, by-laws, judicial or arbitral or administrative or ministerial or departmental or regulatory judgments, injunctions, orders or decisions of any Governmental Authority, statutory body or self-regulatory authority, including general principles of law having the force of law and the term “**applicable**” with respect to such Laws and, in the context that refers to any Person, means such Laws as are applicable to such Person or its business, undertaking, property or securities and emanate from a Governmental Authority or self regulatory authority having jurisdiction over the Person or its business, undertaking, property or securities;

“**Meeting Date**” means the date fixed for the Creditors’ Meeting in accordance with the Claims Procedure Order, or any subsequent Order, or any subsequent date following an adjournment of that meeting, as the case may be;

“**Monitor**” means RSM Richter Inc., in its capacity as Monitor duly appointed by the Court pursuant to the Initial Order;

“**Monitor’s Certificate**” has the meaning ascribed to it in Section 8.3;

“**Notice of Dispute**” means the appeal motion referred to in paragraph 7 (b) of the Claims Procedure Order;

“**Notice of Revision or Disallowance**” has the meaning ascribed thereto in the Claims Procedure Order;

“**Order**” means any order of the Court in the CCAA Proceedings;

“**Original Currency**” has the meaning ascribed to it in Section 7.7;

“**Person**” means any individual, corporation, limited or unlimited liability company, general or limited partnership, association, trust, trustee, executor, administrator, legal personal representative, estate, unincorporated organization, joint venture, governmental body or agency, or any other entity;

“**Petitioner**” means Hart Stores Inc. / Magasins Hart Inc.;

“**Plan**” means this plan of compromise and arrangement of the Petitioner pursuant to the provisions of the CCAA, as it may be amended, varied or supplemented by the Petitioner from time to time in accordance with its terms;

“**Plan Implementation Date**” means the date on which all conditions precedent to the implementation of this Plan, as set out in Section 8.1, have occurred or been satisfied or waived;

“**Post-Filing Suppliers Charge**” has the meaning given in the Order rendered September 28, 2011;

“**Proof of Claim**” has the meaning ascribed to such term in the Claims Procedure Order;

“**Proven Claim**” means, in respect of a Creditor, the amount of the Claim of such Creditor as finally determined for distribution purposes in accordance with Section 4.2 and the other provisions of this Plan, the CCAA and the Claims Procedure Order;

“**Released Parties**” has the meaning ascribed thereto in Section 6.2 hereof;

“**Replacement Lender**” means the person who will provide the Replacement Loan;

“**Replacement Loan**” means the senior secured facility to be provided by the Replacement Lender or such other loan provided by the Replacement Lender or another Person in lieu of the Replacement Lender;

“Required Majorities” means the affirmative vote of a majority in number of the Affected Creditors voting in the Affected Creditors Class, having Voting Claims and voting on the Plan (in person or by proxy) at the Creditors’ Meeting and representing not less than 66²/₃ % in value of the Voting Claims of the Affected Creditors voting (in person or by proxy) at the Creditors’ Meeting;

“Reserve” means the reserve to be established and maintained under this Plan by the Monitor by holding, on account of Disputed Claims, an amount equal to the aggregate amount that the holders of Disputed Claims would be entitled to receive if all such Disputed Claims had been Proven Claims as of the First Instalment Date;

“Resolution” means, collectively, when required by the context, one or any of, the resolutions providing for the approval of the Plan by the Affected Creditors;

“Restructuring Claim” means any right of any Person against the Petitioner in connection with any indebtedness, liability or obligation of any kind owed to such Person arising out of the restructuring, the disclaimer, or the resiliation of any contract, lease, employment agreement, collective agreement or other agreement, whether written or oral, after the Determination Date, including any right of any Person who receives a notice of repudiation or termination from the Petitioner; provided however, that a Restructuring Claim shall not include an Excluded Claim. Without limiting the generality of the above, a Restructuring Claim shall include the claim of a landlord whose lease has been disclaimed or terminated and the claim of an employee whose employment has been terminated after the Determination Date. For greater certainty, a Restructuring Claim is an Affected Claim;

“Restructuring Claims Bar Date” means 5:00 p.m. (Montréal time) on January 31, 2012;

“Sanction Date” means the date on which the Sanction Order is issued;

“Sanction Order” means the Order of the Court to be made under the CCAA sanctioning the Plan, as such Order may be affirmed, amended or modified by the Court at any time prior to the Plan Implementation Date or, if appealed, then, unless such appeal is withdrawn, abandoned or denied, as affirmed or amended on appeal, in form and content which is satisfactory to the Petitioner and the DIP Lender acting reasonably;

“Section 6(5) Claim” means any claim of an employee or former employee described in Section 6(5) of the CCAA but only to the extent of such amounts as required to be paid under the CCAA;

“Section 19(2) Claims” means any claim described in Section 19(2) of the CCAA;

“Secured Claim” means the Claim of a Secured Creditor, to the extent of the value of such Secured Creditor’s security;

“Secured Creditor” has the meaning given to such term in the CCAA, but only to the extent that such creditor’s mortgage, hypothec, pledge, charge, lien or other security interest over the property of the Petitioner was valid, opposable, perfected, and could be set up against third parties, including a trustee to the Petitioner’s bankruptcy, on both the Determination Date and the Claims Bar Date, failing which that Secured Creditor will be deemed to be an unsecured creditor, as such term is defined in the CCAA;

“Taxes” means all federal, state, provincial, territorial, county, municipal, local or foreign taxes, duties, imposts, levies, assessments, tariffs and other charges imposed, assessed or collected by a Governmental Authority, including (a) any gross income, net income, gross receipts, business, royalty, capital, capital gains, goods and services, value added, severance, stamp, franchise, occupation, premium, capital stock, sales and use, real property, land transfer, personal property, ad valorem, transfer, licence, profits, windfall profits, environmental, payroll, employment, employer health, pension plan, anti-dumping, countervail, excise, severance, stamp, occupation, or premium tax, (b) all withholdings on amounts paid to or by the relevant Person, (c) all employment insurance premiums, Canada, Quebec and any other pension plan contributions or premiums, (d) any fine, penalty, interest, or addition to tax, (e) any tax imposed, assessed, or collected or payable pursuant to any tax-sharing agreement or any other contract relating to the sharing or payment of any such tax, levy, assessment, tariff, duty, deficiency, or fee, and (f) any liability for any of the foregoing as a transferee, successor, guarantor, or by contract or by operation of law;

“Unaffected Claim” means any right of any Person in connection with any indebtedness, liability or obligation of any kind of the type described in Section 2.3 hereof. For greater certainty, the Unaffected Claims include the Excluded Claims;

“Unaffected Creditor” means a Person having a Claim in respect of an Unaffected Claim, but only in respect of such Unaffected Claim, and for greater certainty, includes an Excluded Creditor;

“Volume Rebate” means a rebate, whether in cash or as a credit note, granted by a supplier to the Petitioner to be applied against amounts owing, or to become owing, by the Petitioner to the supplier, based on the gross amount of purchases made by the Petitioner of such supplier’s goods or services over the Volume Rebate Period, calculated, in each case, in accordance with the agreements between the parties. In the event the Determination Date arrived during the Volume Rebate Period, then the Volume Rebate will be pro rated for that portion from the beginning of such Volume Rebate Period;

“Volume Rebate Period” means with respect to any supplier who has granted a Volume Rebate to the Petitioner, the period in reference to which such Volume Rebate is calculated; and

“**Voting Claim**” means, in respect of a Creditor, the amount of such Creditor’s claim which has been accepted for voting purposes in accordance with Section 4.2 and the other provisions of this Plan, the Claims Procedure Order and the CCAA.

1.2 Interpretation

For purposes of this Plan:

- a) any reference in this Plan to a contract, instrument, release, indenture, agreement or other document being in a particular form or on particular terms and conditions means that such document shall be substantially in such form or substantially on such terms and conditions;
- b) any reference in this Plan to an existing document or exhibit filed or to be filed means such document or exhibit as it may have been or may be amended, modified or supplemented;
- c) all references to currency and to “\$” or “C \$” are to Canadian dollars except as otherwise indicated;
- d) all references in this Plan to Articles and Sections are references to Articles and Sections of this Plan;
- e) unless otherwise specified, the words “hereof”, “herein” and “hereto” refer to this Plan in its entirety rather than to any particular portion of this Plan;
- f) the division of this Plan into Articles, Sections and paragraphs and the insertion of captions and headings to Articles, Sections and paragraphs are for convenience of reference only and are not intended to affect the interpretation of, or to be part of this Plan;
- g) where the context requires, a word or words importing the singular shall include the plural and vice versa and a word or words importing one gender shall include all genders;
- h) the words “includes” and “including” are not limiting; and
- i) the word “or” is not exclusive.

1.3 Date for any Action

In the event that any date on which any action is required to be taken under this Plan by any of the parties is not a Business Day, that action shall be required to be taken on the next succeeding day which is a Business Day.

1.4 Statutory References

Any reference in this Plan to a statute includes all regulations made thereunder and all amendments to such statute or regulations in force, from time to time, or any statute or regulations that supplement or supersede such statute or regulations.

ARTICLE 2 COMPROMISE AND ARRANGEMENT

2.1 Persons Affected

The purpose of this Plan is to provide for the full and final settlement of all Affected Claims, including any claim resulting directly or indirectly from the consequences and effects of the Plan's acceptance by the Affected Creditors, its sanction by the Court, the implementation of the Plan, or the debt forgiveness resulting from same. Except as specifically provided for in this Plan, this Plan will become effective on the Plan Implementation Date in accordance with its terms, and all Affected Claims against the Petitioner will be fully and finally, settled, compromised and released or otherwise assigned, transferred or alienated as set forth in this Plan upon the Distribution Amount being fully paid to the Monitor, it being understood that any Affected Claim that is paid in full pursuant to this Plan before such date shall be settled, compromised and released on the date of such payment. This Plan shall be binding on and enure to the benefit of the Petitioner, the Affected Creditors, the Released Parties, any trustee, agent or other Person acting on behalf of any Affected Creditor and such other Persons who have received the benefit of, or are bound by any waivers, releases or indemnities hereunder.

2.2 Classes of Affected Claims

There shall only be one class of Affected Creditors for the purpose of voting on, and receiving distributions pursuant to this Plan, being the Affected Creditors Class.

2.3 Unaffected Claims

- a) This Plan does not affect the following claims (each, an "**Unaffected Claim**" and, collectively, the "**Unaffected Claims**"), the holders of which will not be entitled to vote at the Creditors' Meeting or receive any distributions under this Plan in respect thereof:
 - (i) the Excluded Claims;
 - (ii) any Administration Claim;
 - (iii) any D&O Claim;
 - (iv) any claim with respect to gift-cards, lay-away deposits and other customer certificates (collectively, "**Gift Card Claims**");
 - (v) Crown Claims;

- (vi) Section 6(5) Claims;
 - (vii) Section 19(2) Claims; and
 - (viii) Secured Claims.
- b) Nothing in this Plan shall affect the Petitioner's rights and defences, both legal and equitable, with respect to any Unaffected Claim including any rights arising under or pursuant to the Claims Procedure Order or this Plan or any rights with respect to legal and equitable defences or entitlements to set-offs or recoupments against such Unaffected Claims.

2.4 Treatment of Affected Claims

- a) At any time prior to August 14, 2012, any Affected Creditor may elect, by written notice to the Monitor to that effect, (in any manner acceptable to the Monitor) to receive the lesser of \$ 1,000.00 or the amount of its Proven Claim or to irrevocably and unconditionally reduce such Proven Claim to \$ 1,000.00, whereupon:
- (i) any such Proven Claim in excess of \$ 1,000.00 shall be deemed, for all purposes, to have been irrevocably and unconditionally reduced to \$ 1,000.00 and the Affected Creditor having a Proven Claim in excess of \$ 1,000.00 shall be deemed to have irrevocably and unconditionally waived and renounced to any rights to participate in any further distribution; and
 - (ii) any such Affected Creditor shall be treated as an Electing Creditor and such Creditor's Proven Claim shall be treated as an Electing Creditor Claim under this Plan.
- b) The Distribution Amount shall be paid by the Petitioner without any interest thereon whatsoever, in full and final settlement, release and discharge of all Affected Claims, on the following dates, namely:
- (i) the full amount of all Electing Creditor Claims shall be paid to the Monitor on or before September 14, 2012 for distribution to all Electing Creditors as herein set forth, in full and final settlement, release and discharge of all Electing Creditor Claims;
 - (ii) an amount of \$ 1,000,000, less all amounts set forth in Section 2.4b)(i) hereof, shall be paid by the Petitioner to the Monitor on or before the First Instalment Date, for distribution to all Affected Creditors (other than Electing Creditors) as herein set forth;
 - (iii) a second amount of \$ 1,000,000 shall be paid by the Petitioner to the Monitor on or before February 3, 2013 for distribution to all

Affected Creditors (other than Electing Creditors) as herein set forth;

- (iv) a third amount of \$ 1,500,000 shall be paid by the Petitioner to the Monitor on or before February 2, 2014 for distribution to all Affected Creditors (other than Electing Creditors) as herein set forth;
 - (v) a fourth amount of \$ 1,500,000 shall be paid by the Petitioner to the Monitor on or before February 1, 2015 for distribution to all Affected Creditors (other than Electing Creditors) as herein set forth; and
 - (vi) a fifth amount of \$ 1,000,000 shall be paid by the Petitioner to the Monitor on or before February 28, 2015 for distribution to all Affected Creditors (other than Electing Creditors) as herein set forth.
- c) Notwithstanding the foregoing, the Petitioner may, with the Monitor's consent, defer the date on which any instalment is to be made, so long as the payment date of any instalment is not delayed for more than 90 days.
- d) All amounts referred to in 2.4b)(i) to 2.4b)(vi) hereof (if applicable) shall be paid by the Petitioner to the Monitor on or before each of the respective dates therein set forth and shall thereafter be distributed by the Monitor to the Affected Creditors, according to the amount of their respective Proven Claims, as follows:
- (i) the amounts set forth in Section 2.4a) hereof shall be distributed by the Monitor to the Electing Creditors as set forth in Section 2.4b)(i) hereof; and
 - (ii) the amounts set forth in Sections 2.4b)(ii) through 2.4b)(vi) shall be distributed by the Monitor to the Affected Creditors (other than the Electing Creditors) on a *pro rata* basis, according to the amounts of their respective Proven Claims.

ARTICLE 3 TREATMENT OF UNAFFECTED CREDITORS

3.1 Treatment of the DIP Lender

On or before the Plan Implementation Date, the DIP Lender shall receive full payment in cash of the DIP Claim.

3.2 Treatment of Excluded Claims and Insurance

Subject to Section 3.1 hereof, the other Excluded Claims and any Insurance Claim will remain in full force and effect in accordance with their terms after the Plan Implementation Date, and will be paid in full by the Petitioner in the normal course of its operations as and when they become due.

3.3 Treatment of Administration and D&O Claims

All Administration Claims, and all D&O Claims, if any, will be paid in full by the Petitioner as and when they become due, and any remaining balance will be settled as soon as practicable after the issuance of the Certificate of Performance.

3.4 Treatment of Gift Card Claims

Gift Card Claims will be honoured in accordance with the terms of the relevant gift card, gift certificate or lay-away deposit upon presentation of such gift card, gift certificate or lay-away deposit by the holder at any of the Petitioner's retail stores.

3.5 Treatment of Crown Claims

Within six months after the Plan Implementation Date, all Crown Claims will be paid in full by the Petitioner.

3.6 Treatment of Section 6(5) Claims

Section 6(5) Claims, if any, will be paid in such amounts as required under the CCAA immediately after the Plan Implementation Date.

3.7 Section 19(2) Claims

Section 19(2) Claims, if any, will be paid by the Petitioner as and when they become due.

3.8 Secured Claims

Secured Claims will be dealt with as provided for under the agreements between the Petitioner and the relevant Secured Creditor, or as may be otherwise agreed by them.

ARTICLE 4 VALUATION OF CLAIMS, CREDITORS' MEETING AND RELATED MATTERS

4.1 Conversion of Affected Claims into Canadian Currency

For the purposes of determining the value of Affected Claims denominated in currencies other than Canadian dollars for voting purposes, such Affected Claims shall be converted by the Monitor to Canadian dollars at the Bank of Canada noon spot rate of

exchange for exchanging currency to Canadian dollars on the Determination Date (which in the case of US Dollars was C \$ 0.9793 for US \$1 dollar).

4.2 Affected Claims

Affected Creditors shall be entitled to prove their respective Affected Claims, vote their Voting Claims in respect of the Plan, and, if their Affected Claims become Proven Claims, receive the distributions provided for pursuant to the Claims Procedure Order and this Plan.

All amounts recognized as Voting Claims or Proven Claims shall be net of any amount that the Petitioner is entitled to offset, recoup, compensate or otherwise apply in reduction of such amounts, including on account of any Capped Rent Rebate or Volume Rebate to which the Petitioner is entitled.

4.3 Creditors' Meeting

The Creditors' Meeting shall be held in accordance with this Plan, the Claims Procedure Order, and any further Order which may be made from time to time for the purposes of considering and voting on the Resolution or other matters to be considered at the Creditors' Meeting.

4.4 Approval by Affected Creditors

The Petitioner will seek approval of the Plan by the affirmative vote of the Required Majorities. The Resolution to be voted on at the Creditors' Meeting, which will be decided by the Required Majorities on a vote by ballot, unless the Chair decides, in his or her sole discretion, to hold such vote by way of show of hands. The result of any vote will be binding on all Affected Creditors, whether or not any such Affected Creditor is present and voting (in person or by proxy) at the Creditors' Meeting.

4.5 Claims Bar Date and Restructuring Bar Date

If an Affected Creditor holding an Affected Claim has failed to file its Proof of Claim prior to the relevant Claims Bar Date or Restructuring Claims Bar Date and has not been permitted to file a late claim pursuant to an Order, that Affected Creditor shall be barred from voting at the Creditors' Meeting and the Affected Creditor shall have no right to receive a distribution, and the Petitioner shall be released from the Affected Claims of such Creditor and Section 6.2 of this Plan shall apply to all such Affected Claims.

4.6 Holders of Equity Claims

Any Persons holding an Equity Claim shall not be entitled to receive any payment, compensation or distribution hereunder with respect to their Equity Claims, and any Claims that any such Persons may have that are directly or indirectly related to or are derived from such Equity Claims shall be deemed to be released in full. Any Person

holding an Equity Claim shall also not be entitled to vote in respect of such Equity Claim on the Plan at a Meeting of Affected Creditors.

**ARTICLE 5
PROCEDURE FOR RESOLVING DISTRIBUTIONS
IN RESPECT OF DISPUTED CLAIMS**

5.1 No Distributions Pending Allowance

Notwithstanding any other provision of this Plan, no distributions shall be made with respect to a Disputed Claim unless and until it has become a Proven Claim. Disputed Claims shall be dealt with in accordance with the Claims Procedure Order and this Plan.

5.2 Distributions From Reserve Once Disputed Claims Resolved

The Monitor shall make allocations from the Reserve to holders of Disputed Claims following the First Instalment Date in accordance with this Plan. To the extent that Disputed Claims become Proven Claims after the First Instalment Date, the Monitor shall, from time to time at its sole discretion, distribute from the Reserve to the holders of such Proven Claims, the amount which they would have been entitled to receive in respect of such Proven Claims had such Claims been Proven Claims on the First Instalment Date. To the extent that any Disputed Claim or a portion thereof has become a Disallowed Claim, then the Monitor shall distribute, to the holders of Claims that have previously been adjudicated under this Plan to be Proven Claims, their pro rata share from the Reserve of such additional amount kept in the Reserve on account of such Disallowed Claims.

**ARTICLE 6
EFFECT OF THE PLAN AND RELEASES**

6.1 Effect of the Plan

Upon the Distribution Amount being remitted to the Monitor and the issuance of the Certificate of Performance, all Affected Claims shall be deemed to be fully and finally settled, compromised and released, as of the date of issuance of the Certificate of Performance, subject only to an Affected Creditor's right to recover the distributions under this Plan, except for such claims as may have been fully paid prior to such date, in which case those Affected Claims will be deemed to be settled as of such payment.

6.2 Plan Releases

Upon the implementation of this Plan on the Plan Implementation Date, (i) the Petitioner; (ii) the Monitor and its legal counsel in the CCAA Proceedings; (iii) all present and future directors, officers and employees, legal counsel, accountants, financial advisors, consultants and agents of the Petitioner in such capacities (and their respective directors, officers and employees); and (iv) the DIP Lender and its legal counsel in the CCAA Proceedings (each being herein referred to individually as a "**Released Party**") shall be released and discharged from any and all demands, claims, actions, causes of

action, counterclaims, suits, debts, sums of money, accounts, covenants, damages, judgments, expenses, executions, liens and other recoveries on account of any liability, obligation, demand or cause of action of whatever nature which any Person (including any Secured Creditor in respect of each Released Party, except the Petitioner and solely in respect of its Secured Claim), may be entitled to assert (including any and all Claims in respect of statutory liabilities of present and former directors, officers and employees of the Petitioner and any alleged fiduciary or other duty) whether known or unknown, mature or unmatured, foreseen or unforeseen, existing or hereafter arising, based in whole or in part on any act or omission, transaction, duty, responsibility, indebtedness, liability, obligation, dealing or other occurrence existing or taking place on or prior to the Plan Implementation Date in any way relating to, arising out of or in connection with Claims, the business and affairs of the Petitioner, this Plan and the CCAA Proceedings, and all claims arising out of such actions or omissions shall be forever waived and released (other than the right to enforce the Petitioner's obligations under the Plan or any related document), all to the full extent permitted by law, provided that nothing herein:

- a) shall release or discharge a Released Party from an Unaffected Claim or shall release or discharge the Petitioner from or in respect of its obligations under this Plan;
- b) shall affect the right of any Person:
 - (i) to recover an indemnity from any insurance coverage under which that Person is an insured; or
 - (ii) to obtain recovery on a claim or liability against a Released Party from any insurance coverage pursuant to which that Released Party is an insured, but, for certainty, any claim or liability to which an insurer is or would otherwise be subrogated as against the Petitioner is released hereunder and the recovery to which such Person shall be entitled under such insurance coverage shall be limited to the proceeds of insurance actually paid by the insurer with respect to such claim or liability; or
- c) shall release or discharge present or former directors of the Petitioner with respect to matters set out in Section 5.1(2) of the CCAA;

and provided further, however, that, notwithstanding the foregoing release under the Plan, any Claim shall remain subject to any right of set-off that otherwise would be available to the Person against whom such Claim is asserted.

6.3 Injunction Related to Releases

The Sanction Order will enjoin the prosecution, whether directly, derivatively or otherwise, of any claim, obligation, suit, judgment, damage, demand, debt, right, cause of action, liability or interest released, discharged or terminated pursuant to this Plan.

6.4 Waiver of Defaults

From and after the Plan Implementation Date, all Persons shall be deemed to have waived any and all defaults of the Petitioner (except for defaults under the securities, contracts, instruments, releases and other documents delivered under this Plan or entered into in connection herewith or pursuant hereto) then existing or previously committed by the Petitioner or caused by the Petitioner, directly or indirectly, or non-compliance with any covenant, positive or negative pledge, warranty, representation, term, provision, condition or obligation, express or implied, in any contract, credit document, agreement for sale, lease or other agreement, written or oral, and any and all amendments or supplements thereto, existing between such Person and the Petitioner arising from the filing by the Petitioner under the CCAA or the transactions contemplated by this Plan or otherwise, and any and all notices of default and demands for payment under any instrument, including any guarantee arising from such default, shall be deemed to have been rescinded.

ARTICLE 7 PROVISIONS GOVERNING DISTRIBUTIONS

7.1 Partial Distributions for Claims Allowed

Except as otherwise provided herein or as ordered by the Court, distributions shall be made by the Monitor at the time and in the manner deemed reasonable by the Monitor, and partial distributions may be made prior to receipt of the full amount of the Distribution Amount. In such a case, all such partial payments shall represent the pro rata amount of the distribution to which the holders of a Proven Claim would otherwise be entitled to receive.

Notwithstanding the foregoing, the amount referred in Section 2.4b)(i) shall be distributed to the Electing Creditors within a reasonable time after receipt of the amount referred to in that Section.

7.2 Currency to be used for the Distribution

For the purposes of determining of the Claims denominated in currencies other than Canadian dollars for distribution purposes, such Claims shall be converted by the Monitor to Canadian dollars at the Bank of Canada noon spot rate of exchange for exchanging currency to Canadian dollars on the Determination Date (which in the case of US Dollars was C \$ 0.9793 for US \$ 1 dollar).

7.3 Assignment of Claims

For purposes of determining entitlement to receive any distribution pursuant to this Plan, the Petitioner and the Monitor and each of their respective agents, successors and assigns shall have no obligation to recognize any transfer of Claims except as provided for under the Claims Procedure Order.

7.4 Interest on Affected Claims

Except as specifically provided in the Plan, the Sanction Order or any contract, instrument release, settlement or other agreement entered into in connection with this Plan, following the Determination Date, interest shall not be treated as accruing on account of any Affected Claims for purposes of determining the allowance and distribution of such Affected Claim. To the extent that any Proven Claim to which a distribution under this Plan relates is comprised of indebtedness and accrued but unpaid interest thereon, such distribution shall, to the extent permitted by applicable law, be allocated for Tax purposes to the principal amount of the Proven Claim (including the secured and unsecured portion of the principal amount of such Proven Claim) first and then, to the extent that the consideration exceeds the principal amount of the Proven Claim, to the portion of such Proven Claim representing accrued but unpaid interest (including interest in respect of any secured portion of such Proven Claim).

7.5 Distributions by Monitor

The Petitioner shall be entitled to remit to the Monitor the Distribution Amount in five instalment payments, as provided for in Section 2.4. The Monitor shall make all distributions required under this Plan subject to the provisions of Article 5 and Article 7 hereof. The Monitor shall receive, without further Court approval, reasonable compensation from the Petitioner for distribution services rendered pursuant to the Plan.

7.6 Delivery of Distributions

- a) Proven Claims. Subject to Section 7.3 hereof, distributions shall be made by the Monitor (i) at the addresses set forth on the Proof of Claim form filed by the Affected Creditors (or at the last known addresses of such Affected Creditors if no Proof of Claim form was filed or if the Petitioner or the Monitor have been notified in writing of a change of address), (ii) at the addresses set forth in any written notice of address change delivered to the Monitor after the date of any related Proof of Claim, or (iii) in a registered retirement savings plan account designated by any employee of the Petitioner.
- b) Undeliverable Distributions. If any distribution to a Creditor is returned as undeliverable, no further distributions to such Creditor shall be made unless and until the Monitor is notified of the then-current address of such Creditor, at which time all missed distributions shall be made to such Creditor without interest. The Petitioner shall make reasonable efforts to locate Affected Creditors for which distributions were undeliverable. Any claim for undeliverable distributions must be made on or before the later to occur of (i) three months after the Final Instalment Date, or (ii) three months after such Creditor's Claim becomes a Proven Claim, after which date all unclaimed property shall revert to the Petitioner free of any restrictions or claims thereon and the claim of any Creditor with respect to

such property shall be discharged and forever barred, notwithstanding any federal or provincial laws to the contrary.

7.7 No Double Recovery

The aggregate recovery on account of any Proven Claim from all sources, regardless of whether on account of a theory of primary or secondary liability, by reason of guarantee, surety, indemnity, joint and several obligations or otherwise, shall not exceed (A) 100 % of the underlying indebtedness, liability or obligation giving rise to such Claim or, (B) where the underlying indebtedness, liability or obligation giving rise to such Claim is denominated in a currency (the “**Original Currency**”) other than Canadian dollars, 100 % of such underlying indebtedness, liability or obligation after conversion of the value of the distributions received in Canadian dollars back to the Original Currency at the Bank of Canada noon spot rate of exchange for exchanging Canadian dollars to the Original Currency on the date of applicable distribution date.

7.8 Guarantees and Similar Covenants

No Person who has a Claim under any guarantee, surety, indemnity or similar covenant in respect of any Claim which is settled, compromised, released or otherwise dealt with under this Plan or who has any right under any such covenant against a Creditor in respect of, or to be subrogated to, the rights of any Person in respect of a Claim which is compromised under this Plan shall not be entitled to any greater rights than the Creditor whose Claim is settled, compromised, released or otherwise dealt with under this Plan.

ARTICLE 8 IMPLEMENTATION OF THE PLAN

8.1 Conditions Precedent to Implementation of Plan

The implementation of this Plan by the Petitioner is subject to the following conditions precedent which, except for subsection a) below and as otherwise would be in violation of applicable Laws, may be waived as provided in Section 8.2 hereof:

- a) the approval of this Plan by the Required Majorities shall have been obtained;
- b) the Sanction Order sanctioning this Plan shall have been issued, and not appealed from and the operation and effect of the Sanction Order shall not have been stayed, reversed or amended, and shall, among other things:
 - (i) declare that: (i) this Plan has been approved by the Required Majorities of Affected Creditors of the Petitioner in conformity with the CCAA; (ii) the Petitioner has complied with the provisions of the CCAA and the Orders of the Court made in the CCAA Proceedings in all respects; (iii) the Court is satisfied that the Petitioner has neither done nor purported to do anything that is

not authorized by the CCAA; and (iv) this Plan and the transactions contemplated thereby are fair and reasonable;

- (ii) order that this Plan, including the compromises and arrangements set out herein, is sanctioned and approved pursuant to Section 6 of the CCAA and, as at the Plan Implementation Date, will be effective and will enure to the benefit of and be binding upon the Petitioner, the Affected Creditors and all other Persons stipulated in this Plan or in the Sanction Order;
- (iii) order that the full and final release and discharge of the Claims will be effective and will enure to the benefit of and be binding upon the Petitioner, the Affected Creditors and all other Persons stipulated in this Plan upon the issuance of the Certificate of Performance;
- (iv) declare that the Petitioner and the Monitor are authorized to take all steps and actions necessary to implement this Plan;
- (v) declare that all Proven Claims determined in accordance with the Claims Procedure Order are final and binding on the Petitioner and all Affected Creditors;
- (vi) a declaration and an order declaring that any Claims for which a Proof of Claim has not been filed by the Claims Bar Date shall be forever barred and extinguished;
- (vii) a declaration and order declaring that all distributions and payments by or at the direction of the Monitor, in each case on behalf of the Petitioner, under the Plan are for the account of the Petitioner and the fulfillment of its obligations under the Plan;
- (viii) a declaration and an order declaring that the Petitioner and the Monitor may apply to the Court for advice and direction in respect of any matters arising from or under the Plan;
- (ix) declare that, subject to the performance by the Petitioner of its obligations under this Plan, all contracts, leases, agreements and other arrangements to which the Petitioner are a party and that have not been terminated or repudiated pursuant to the Initial Order will be and remain in full force and effect, unamended, as at the Plan Implementation Date, and no Person who is a party to any such contract, lease, agreement or other arrangement may accelerate, terminate, rescind, refuse to perform or otherwise repudiate its obligations thereunder, or enforce or exercise any right (including any right of dilution or other remedy) or make any demand under or in respect of any such contract, lease, agreement

or other arrangement and no automatic termination will have any validity or effect, by reason of:

- i. any event that occurred on or prior to the Plan Implementation Date and is not continuing that would have entitled such Person to enforce those rights or remedies (including defaults, events of default, or termination events arising as a result of the insolvency of the Petitioner);
 - ii. the insolvency of the Petitioner or the fact that the Petitioner sought or obtained relief under the CCAA; or
 - iii. any compromises or arrangements effected pursuant to this Plan or any action taken or transaction effected pursuant to this Plan;
- (x) declare that the stay of proceedings under the Initial Order continues until the Plan Implementation Date;
 - (xi) confirm the scope of the release contemplated by Section 6.2;
 - (xii) preclude the commencement or prosecution, whether directly, derivatively or otherwise, or any demands, claims, actions, causes of action, counterclaims, suits, or any indebtedness, liability, obligation or cause of action released and discharged pursuant to this Plan;
 - (xiii) order that the DIP Lender Charge will be released and discharged as of the Plan Implementation Date upon receipt of an acknowledgment by the DIP Lender of payment in full of the DIP Claim;
 - (xiv) order that all CCAA Charges, other than the DIP Lender Charge and the Insurance Charge, will be released and discharged upon the issuance of the Sanction Order; and
- c) the Replacement Loan is disbursed following (i) the satisfaction of the condition in Section 8.1a), and (ii) the Sanction Order being issued without an appeal having been lodged therefrom prior to disbursement.

8.2 Waiver of Conditions

Each of the conditions set forth in Section 8.1 above except for the conditions set forth in Section 8.1a), may be waived in whole or in part by the Petitioner or the other relevant parties to the documents and transactions referred to therein without any other notice to parties in interest or the Court and without a hearing. The failure to satisfy or waive any condition prior to the Plan Implementation Date may be asserted by the Petitioner regardless of the circumstances giving rise to the failure of such condition to be

satisfied (including any action or inaction by the Petitioner). The failure of the Petitioner to exercise any of the foregoing rights shall not be deemed a waiver of any other rights, and each such right shall be deemed an ongoing right that may be asserted at any time.

8.3 Monitors' Certificate

Upon satisfaction of all the conditions set out in Section 8.1 (or waiver thereof, as the case may be), the Monitor shall file with the Court a certificate stating that all such conditions have occurred or have been satisfied or waived, as the case may be, and that the Plan Implementation Date has occurred (the "**Monitor's Certificate**").

8.4 Certificate of Performance

Upon receipt of the last instalment payable by the Petitioner pursuant to Section 2.4, the Monitor will deposit with the Court a certificate of performance of the Plan (the "**Certificate of Performance**").

8.5 Effect of Plan

As of the issuance of the Certificate of Performance, the settlement of the Affected Claims in accordance with this Plan shall become final and binding on the Petitioner, and all of the Affected Creditors and their respective successors and assigns, and this Plan shall result in the full and final settlement of all Affected Claims, including for greater certainty, any Restructuring Claim and any Claims resulting, directly or indirectly, from the consequences and effects relating to the acceptance of the Plan by the Affected Creditors, its sanction by the Court, or its implementation, and any indebtedness, obligations or undertakings which the Petitioner may subsequently become subject to, directly or indirectly, as a result of an obligation, transaction or an event that occurred before the Determination Date, as well as any indebtedness, obligations or any undertakings that the Petitioner may be subject to on any date whatsoever in connection with the Plan, the approval thereof by the Court or the implementation thereof. For greater certainty, this Plan shall not affect or impair any rights, remedies and recourses which the Petitioner had, has or may have after the issuance of the Certificate of Performance in connection with transactions, facts or obligations existing prior to the Determination Date.

ARTICLE 9 CREDITORS' COMMITTEE

The Affected Creditors may appoint a Creditors' Committee at the Creditors' Meeting consisting of not more than three (3) persons, to exercise the following duties:

- a) be informed from time to time by the Monitor of the progress made in implementing the Plan;
- b) extend, where applicable, the time period for payment to the Monitor of any sum to be distributed to the Affected Creditors beyond the delays provided for in Section 2.4c); and

- c) assist the Monitor in an advisory capacity in relation to the administration of the Plan.

ARTICLE 10 MISCELLANEOUS

10.1 Confirmation of Plan

Provided that this Plan is approved by the Required Majorities, and the Sanction Order is made in form and substance acceptable to the Petitioner and the DIP Lender, each acting reasonably, and the satisfaction or waiver of the conditions to the implementation of this Plan set forth in Article 8 hereof, this Plan shall be implemented by the Petitioner and shall be binding upon the Petitioner and all Persons referred to in Section 2.1 hereof and their respective successors and assigns.

10.2 Paramountcy

From and after the Plan Implementation Date, any conflict between this Plan and/or the covenants, warranties, representations, terms, conditions, provisions or obligations, express or implied, of any contract, mortgage, security agreement, and/or indenture, trust indenture, loan agreement, commitment letter, agreement for sale, the by-laws of the Petitioner, lease or other agreement, undertaking or any other source of obligations, written or oral and any and all amendments or supplements thereto existing between one or more of the Affected Creditors and the Petitioner as at the Plan Implementation Date will be deemed to be governed by the terms, conditions and provisions of this Plan and the Sanction Order, which shall take precedence and priority. For greater certainty, all Affected Creditors shall be deemed irrevocably for all purposes to consent to all transactions contemplated in and by this Plan.

10.3 Modification of Plan

The Petitioner, in consultation with the Monitor and the DIP Lender, reserves the right to file any modification of, or amendment or supplement to, this Plan by way of a supplementary plan or plans of reorganization, compromise or arrangement (or any one or more thereof) at or before the Creditors' Meeting, in which case any such supplementary plan or plans of reorganization, compromise or arrangement (or any one or more thereof), shall, for all purposes, be and be deemed to form part of and be incorporated into this Plan. The Petitioner shall file any supplementary plans with the Court as soon as practicable. The Petitioner shall give notice to Affected Creditors of the details of any such modification, amendment or supplement at the Creditors' Meeting prior to the vote being taken to approve this Plan. The Petitioner may give notice of a proposed modification, amendment or supplement to this Plan at or before the Creditors' Meeting by notice which shall be sufficient if given to those Affected Creditors present at such meeting in person or by proxy.

After the Creditors' Meeting (and both prior to and subsequent to the obtaining of the Sanction Order), the Petitioner, in consultation with the Monitor and, if prior to the

Plan Implementation Date, the DIP Lender, may at any time and from time to time vary, amend, modify or supplement this Plan, except the amount of the Distribution Amount, without the need for obtaining an order of the Court or providing notice to the Affected Creditors if the Monitor determines that such variation, amendment, modification or supplement would not be materially prejudicial to the interests of the Affected Creditors under this Plan or the Sanction Order and is necessary in order to give effect to the substance of this Plan or the Sanction Order.

10.4 Deeming Provisions

In this Plan, the deeming provisions are not rebuttable and are conclusive and irrevocable.

10.5 Sections 95 to 101 BIA

Notwithstanding Section 36.1 of the CCAA, Sections 38 and 95 to 101 of the *Bankruptcy Insolvency Act* (Canada) shall not apply to this Plan, and neither the Monitor nor any Creditor may exercise a right or remedy, or commence an action or proceeding based on those sections.

10.6 Responsibilities of the Monitor

The Monitor is acting in its capacity as Monitor in the CCAA Proceedings with respect to the Petitioner and not in its personal or corporate capacity and will not be responsible or liable for any responsibilities or obligations of the Petitioner under this Plan or otherwise, including with respect to the making of distributions or the receipt of any distribution by any Creditor or any other Person pursuant to the Plan. The Monitor will have the powers and protections granted to it by this Plan, the CCAA, the Initial Order, the Claims Procedure Order, the Sanction Order and any other Orders

10.7 Notices

- a) Any notices or communication to be made or given hereunder to the Petitioner or the Monitor shall be in writing and shall refer to this Plan and may, subject as hereinafter provided, be made or given by personal delivery, by courier, by prepaid mail or by telecopier addressed to the respective parties as follows:

- (i) if to Petitioner:

Hart Stores Inc. / Magasins Hart Inc.
900 Place Paul-Kane
Laval (Quebec) H7C 2T2
Canada

Attention: Robert Farah
Fax: (450) 661.1054

With a copy to:

Heenan Blaikie LLP
1250, Rene-Levesque Blvd. West, Suite 2500
Montreal (Quebec) H3B 3V2
Canada

Attention: Michael J. Hanlon
Nicolas Plourde
Stephen D. Hart
Fax: (514) 846-3427

(ii) if to the Monitor:

RSM Richter Inc.
2 Place Alexis-Nihon
Montreal (Quebec) H3Z 3C2
Canada

Attention: Benoît Gingués
Stéphane de Broux
Fax: (514) 934.3504

With a copy to:

McCarthy Tetrault
1000 De La Gauchetiere Street West
Suite 2500
Montreal (Quebec) H3B 0A2
Canada

Attention: Alain N. Tardif
Fax: (514) 875-6246

or to such other address as any party may from time to time notify the others in accordance with this Section 10.7. In the event of any strike, lock-out or other event which interrupts postal service in any part of Canada, all notices and communications during such interruption may only be given or made by personal delivery or by telecopier and any notice or other communication given or made by prepaid mail within the five Business Day period immediately preceding the commencement of such interruption, unless actually received, shall be deemed not to have been given or made. All such notices and communications shall be deemed to have been received, in the case of notice by telecopier or by delivery prior to 5:00 p.m. (local time) on a Business Day, when received or if received after 5:00 p.m. (local time) on a Business Day or at any time on a non-Business Day, on the next following Business Day and, in the case of notice mailed as aforesaid, on the fourth Business Day following the date

on which such notice or other communication is mailed. The unintentional failure by the Petitioner or the Monitor to give any notice contemplated hereunder to any particular Creditor shall not invalidate this Plan or any action taken by any Person pursuant to this Plan.

- b) Any notices or communication to be made or given hereunder by the Monitor or the Petitioner to a Creditor may be sent by e-mail, ordinary mail, registered mail, courier or facsimile transmission to the email address, address or facsimile number specified by such Creditor in its Proof of Claim, or in any subsequent written notice of change of address given to the Monitor. A Creditor shall be deemed to have received any document sent pursuant to this Plan four Business Days after the document is sent by ordinary or registered mail and on the Business Day immediately following the day on which the document is sent by courier, email or facsimile transmission.

10.8 Severability of Plan Provisions

If, prior to the Sanction Date, any term or provision of this Plan is held by the Court to be invalid, void or unenforceable, the Court, at the request of the Petitioner, which request shall be made in consultation with the Monitor and the DIP Lender, shall have the power to either (i) sever such term or provision from the balance of this Plan and provide the Petitioner with the option to proceed with the implementation of the balance of this Plan as of and with effect from the Plan Implementation Date, or (ii) alter and interpret such term or provision to make it valid and enforceable to the maximum extent practicable, consistent with the original purpose of the term or provision held to be invalid, void or unenforceable, and such term or provision shall then be applicable as altered or interpreted. Notwithstanding any such severing, holding, alteration or interpretation, and provided the Petitioner proceeds with the implementation of this Plan, the remainder of the terms and provisions of this Plan shall remain in full force and effect and shall in no way be affected, impaired or invalidated by such severing, holding, alteration or interpretation.

10.9 Revocation, Withdrawal or Non-Consummation

The Petitioner, upon consultation with the Monitor and the DIP Lender, reserves the right to revoke or withdraw this Plan at any time prior to the Sanction Date and to file subsequent plans of arrangement and compromise. If the Petitioner revokes or withdraws this Plan, or if the Sanction Order is not issued, (i) this Plan shall be null and void in all respects, (ii) any Claim, any settlement or compromise embodied in this Plan (including the fixing or limiting of any Claim to an amount certain), assumption or termination, repudiation of executory contracts or leases affected by this Plan, and any document or agreement executed pursuant to this Plan shall be deemed null and void, and (iii) nothing contained in this Plan, and no act taken in preparation for consummation of this Plan, shall: (a) constitute or be deemed to constitute a waiver or release of any Claims by or against the Petitioner or any other Person; (b) prejudice in any manner the rights of the

Petitioner or any Person in any further proceedings involving the Petitioner; or (c) constitute an admission of any sort by the Petitioner or any other Person.

10.10 Further Assurance

Notwithstanding that the transactions and events set out in this Plan shall occur and be deemed to occur in the order set out herein without any additional act or formality, each of the Persons affected hereby shall make, do and execute, or cause to be made, done and executed at the cost of the requesting party, all such further acts, deeds, agreements, transfers, assurances, instruments or, documents as may reasonably be required by the Petitioner in order to better implement this Plan.

10.11 Governing Law

This Plan shall be governed by and construed in accordance with the law of the Province of Quebec and the federal laws of Canada applicable therein. Any questions as to the interpretation or application of this Plan and all proceedings taken in connection with this Plan and its provisions shall be subject to the exclusive jurisdiction of the Court.

10.12 Successors and Assigns

This Plan shall be binding upon and shall enure to the benefit of the heirs, administrators, executors, legal personal representatives, successors and permitted assigns of any Person named or referred to in Section 2.1 hereof.

[Signature Page Follows]

Signed in Montreal, Quebec, this ● day of January , 2012.

**HART STORES INC. / MAGASINS
HART INC.**

Per: _____
Robert Farah

EXHIBIT R-2

SECOND AMENDING AGREEMENT

THIS AGREEMENT is made as of the 18th day of January, 2012.

B E T W E E N:

HART STORES INC. / MAGASINS HART INC. (the
“Borrower”)

- and -

**WELLS FARGO CAPITAL FINANCE CORPORATION
CANADA** (the “DIP Lender”)

WHEREAS the Borrower has filed for protection under the *Companies' Creditors Arrangement Act* (Canada) (the “**CCAA Proceedings**”) and the Quebec Superior Court, Commercial Division, for the Judicial District of Montreal, Quebec (the “**Court**”) granted an initial order in the CCAA Proceedings on August 30, 2011;

AND WHEREAS in connection with the CCAA Proceedings, the Borrower and the DIP Lender entered into a DIP Commitment Letter dated as of August 30, 2011 (as amended, modified, restated and/or supplemented from time to time, the “**DIP Commitment Letter**”) in which the DIP Lender agreed to provide interim financing to the Borrower while under CCAA protection;

AND WHEREAS pursuant to a First Amending Agreement dated November 3, 2011 between the Borrower and the DIP Lender (the “**First Amending Agreement**”), the parties to the DIP Commitment Letter agreed to amend the DIP Commitment Letter in accordance with the terms of the First Amending Agreement;

AND WHEREAS the parties to the DIP Commitment Letter have agreed to further amend the DIP Commitment Letter in accordance with the terms of this Second Amending Agreement;

NOW THEREFORE in consideration of the respective covenants of the parties hereto herein contained and other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged) the parties hereto agree as follows:

ARTICLE 1 INTERPRETATION

1.1 Defined Terms

All capitalized terms used (including in the recitals) and not otherwise defined herein shall have the meanings specified in the DIP Commitment Letter.

**ARTICLE 2
AMENDMENTS TO THE DIP COMMITMENT LETTER**

2.1 Amendment to the Maximum Amount

The paragraph in the DIP Commitment Letter entitled “DIP Facility and Maximum Amount” is hereby amended by deleting the amount of “Cdn\$20,000,000” and replacing it with the amount of “Cdn\$17,500,000”.

2.2 Amendment to the Maturity Date

The paragraph in the DIP Commitment Letter entitled “Repayment” is hereby amended by deleting the date of “January 18, 2012” and replacing it with the date of “March 14, 2012”.

2.3 Amendment to the Cash Flow Projections

The paragraph in the DIP Commitment Letter entitled “Cash Flow Projections” is hereby amended and restated in its entirety by replacing it with the following:

“The Borrower has provided to the DIP Lender cash flow projections, attached as Schedule “C” hereto, reflecting the projected cash requirements of the Borrower for the period commencing on January 2, 2012 and ending on April 1, 2012, presented on a weekly basis (the “**Cash Flow Projections**”).

The Borrower, with the assistance of the Monitor, shall provide the DIP Lender on the Tuesday of each week with a comparison of the previous week’s actual cash flow to the projections for that week.”

Schedule “C” to the DIP Commitment Letter, shall be Schedule “C” attached to this Second Amending Agreement.

2.4 Amendment to the DIP Lender Fees

The paragraph in the DIP Commitment Letter entitled “DIP Lender Fees” is hereby amended by inserting the following at the end of this paragraph:

“The Borrower shall pay the DIP Lender an extension fee of Cdn\$50,000, which fee shall be payable immediately after the granting of a stay extension order of the Court extending the stay of proceedings in the CCAA Proceedings past January 18, 2012.”

2.5 Amendment to the Restructuring Timeline

The Restructuring Timeline set out under section (p) of the paragraph in the DIP Commitment Letter entitled “Affirmative Covenants” is hereby amended by deleting the remainder of the paragraph following and including the bullet reference of “January 18, 2012” and replacing it with the following:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

2.6 Amendments to the Events of Default

Sub-paragraph (i) of the paragraph entitled “Events of Default” of the DIP Commitment Letter is hereby amended by deleting the date of “November 13, 2011” and replacing it with the date of “January 29, 2012”, and by deleting the date of “November 20, 2011” and replacing it with the date of “February 5, 2012”.

Sub-paragraph (l) of the paragraph entitled “Events of Default” of the DIP Commitment Letter is hereby amended and restated in its entirety by replacing it with the following: “Failure of the Borrower to comply with the Restructuring Timeline set out under section (p) above in the paragraph entitled “Affirmative Covenants”, including, without limitation, to comply with and satisfy all obligations and milestone dates relating to the approval and implementation of the Plan and, if applicable, the Dual Track Sale Process and the updated Cash Flow Projections relating to same and prepared on a wind-down basis that are to be delivered in connection therewith;”.

2.7 Amendment to the Availability Reserves



ARTICLE 3 GENERAL PROVISIONS

3.1 Court Approval

In accordance with the terms of the DIP Commitment Letter, the Borrower and the DIP Lender acknowledge and agree that Court approval of this Second Amending Agreement shall be sought and obtained before the amendments contained herein become effective.

3.2 Other Documents

Any reference to the DIP Commitment Letter made in any documents delivered pursuant thereto or in connection therewith shall be deemed to refer to the DIP Commitment Letter as amended, extended, modified, renewed or supplemented from time to time, unless the context otherwise permits.

3.3 Ratification and Confirmation

Except for the specific amendments to the DIP Commitment Letter contained herein, the DIP Commitment Letter and all related documents are in all other respects hereby ratified and confirmed and the DIP Commitment Letter as amended and extended hereby shall be read, taken and construed as one and the same instrument.

3.4 Headings

The division of this Second Amending Agreement into articles, sections and clauses, and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Second Amending Agreement.

3.5 Governing Law

This Second Amending Agreement shall be governed by and construed in accordance with the laws of the Province of Quebec and the federal laws of Canada applicable therein.

3.6 Attornment

The parties hereto irrevocably submit and attorn to the non-exclusive jurisdiction of the Court for all matters arising out of or in connection with this Second Amending Agreement.

3.7 Binding Effect

This Second Amending Agreement shall be binding upon and enure to the benefit of each of the parties hereto and their respective successors and permitted assigns.

3.8 Further Assurances

The parties hereto shall execute and deliver such supplemental documents and take such supplemental action as may be necessary or desirable to give effect to the provisions and purposes of this Second Amending Agreement, all at the expense of the Borrower.

3.9 Execution in Counterparts

This Second Amending Agreement may be executed and delivered by facsimile or other electronic transmission and in any number of counterparts, each of which when so executed and delivered is an original but all of which taken together constitute one and the same instrument.

[Remainder of page intentionally left blank.]

IN WITNESS HEREOF, the parties hereby execute this Second Amending Agreement as at the date first above mentioned.

**HART STORES INC. / MAGASINS HART
INC., as Borrower**

Per: 

Name: ROBERT HARRITT
Title: V-P FINANCE & CFO

I have authority to bind the corporation.

**WELLS FARGO CAPITAL FINANCE
CORPORATION CANADA, as DIP Lender**

Per: _____

Name:

Title:


I have authority to bind the corporation.

IN WITNESS HEREOF, the parties hereby execute this Second Amending Agreement as at the date first above mentioned.

**HART STORES INC. / MAGASINS HART
INC., as Borrower**

Per: _____
Name:
Title:
I have authority to bind the corporation.

**WELLS FARGO CAPITAL FINANCE
CORPORATION CANADA, as DIP Lender**

Per:  _____
Name: *Dominic Cosentino*
Title: *Vice President*
I have authority to bind the corporation.

SCHEDULE "C"

Cash Flow Projections

(see attached document)

[Cash Flow Projections Redacted]

500-11-041238-110

SUPERIOR COURT
(Commercial Division)

**IN THE MATTER OF THE COMPANIES'
CREDITORS ARRANGEMENT ACT, R.S.C.
1985, c. C-36, AS AMENDED**

HART STORES INC. / MAGASINS HART INC.

Petitioner

- and -

RSM RICHTER INC.

Monitor

**LIST OF EXHIBITS
and EXHIBITS R-1 and R-2**

ORIGINAL

Code: BJ-0039

Notre réf. : 043054.0112

M^e Michael J. Hanlon

Téléphone : 514 846-2376
Télécopieur : 514-921-1376

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