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CANADA
PROVINCE OF QUEBEC
DISTRICT OF MONTREAL
No.: 500-11-041238-110

S U P E R I O R C O U R T
(Commercial Division)
The Companies' Creditors Arrangement Act

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT,* R.S.C. (1985), c. C-36 WITH RESPECT TO:

HART STORES INC. / MAGASINS HART INC., a legal person having its head office at 900 Place Paul-Kane, in the City and District of Laval, Province of Québec, H7C 2T2 and a place of business at 7852 Boulevard Champlain in the City and District of Montreal, Borough of LaSalle, Province of Quebec, H8P 1B3

Debtor

-and-

RSM RICHTER INC., a duly incorporated legal person having its principal place of business at 2 Place Alexis-Nihon, in the city and district of Montreal, Quebec, H3Z 3C2

Monitor

REPORT OF THE MONITOR ON THE STATE OF THE DEBTOR'S AFFAIRS AND THE PLAN OF ARRANGEMENT

February 3, 2012

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EXECUTIVE SUMMARY

1. On August 30, 2011, Hart Stores Inc. (hereinafter referred to as “Debtor” or “Hart Stores”) filed with the Quebec Superior Court, a Motion for the Issuance of an Initial Order pursuant to Section 11 of the *Companies' Creditors Arrangement Act,* R.S.C. 1985, C-36, as amended (the “CCAA”). In this regard, the Honorable Jean-Yves Lalonde, J.S.C. rendered the Initial Order appointing RSM Richter Inc. (“Richter”) as monitor (the “Monitor”).

2. This Report of the Monitor on the State of the Debtors’ Financial Affairs and the Plan of Arrangement (the “Monitor’s Report” or the “Report”), is being presented to provide information on the Debtor and to assist the creditors and the Court in their review and assessment of the Plan of Arrangement (the “Plan”) pursuant to the CCAA. The Plan is being submitted to the creditors of Hart Stores for their consideration and approval at a Meeting of Creditors to be held on **February 15, 2012, at 10:00 a.m., at The Omni Hotel (Printemps Room), located at 1050 Sherbrooke Street West, Montreal, Québec.**

3. As set out in greater detail in this Monitor’s Report, the Plan has been developed by Hart Stores in a continuing effort to provide greater value to its creditors than would be achieved in a forced liquidation, provides for payments totaling $6 million over a three (3) year period and offers a continuing source of potential revenue to most of the creditors/suppliers, landlords and employees.

4. Pursuant to the Plan, Affected Creditors (as defined in the Plan) may elect to receive the lesser of $1,000 or the amount of their Proven Claim in full and final settlement of all of their Claims (“Electing Creditors”), provided they submit to the Monitor a written notice to that effect by August 14, 2012. Alternatively, Affected Creditors who do not elect as provided above will be entitled to receive their pro rata share of the balance of the $6 million after distributions to Electing Creditors.

5. **Hart Stores and the Monitor believe that the Plan is in the best interests of all the Debtor’s creditors and recommend that all Affected Creditors vote IN FAVOUR of the Plan. The only realistic alternative to the Plan is a liquidation of the Debtor’s assets which is anticipated to generate less than the amount provided in the Plan and likely cause greater loss to all creditors, employees and landlords.**

6. **To become effective, the Plan must be voted upon and approved by the required majority (as defined in the Plan) of Hart Stores’ Affected Creditors voting on the Plan and thereafter be approved by the Court.**

7. Hart Stores has obtained a firm financing offer from CIBC (the “Replacement Lender”) for a revolving line of credit of up to $25 million conditional, amongst other things, on the acceptance of the Plan by the Affected Creditors and its approval by the Court.

8. The Voting Form, the Election Form, the Proxy and the Plan (as well as the French version) can be obtained from the Monitor’s website at: **www.rsmrichter.com/Restructuring/Hart.aspx** or by calling the Monitor’s office at 1.866.845.8958.

OUTLINE AND RESERVES

9. As previously stated, the purpose of the Monitor’s Report is to provide useful information on the state of the Debtors’ financial affairs and the Plan, assist the creditors and the Court in their review and assessment of the Plan and provide information with respect to the following:

   - Background information;
   - Events leading to CCAA filing;
   - Restructuring measures;
   - DIP Financing;
   - Cash flow projections;
   - Claims Process;
   - Summary of the Plan;
   - Distribution to creditors; and
   - Monitor’s assessment of the Plan and recommendation.

10. All amounts are stated in Canadian dollars unless otherwise noted. Capitalized terms used herein and not defined herein shall have the meaning ascribed to them in the Plan.

11. It should be noted that the Monitor has not conducted an audit or investigation of the books and records or the receipts and disbursements of the Debtor and that accordingly, no opinion is expressed regarding the accuracy or completeness of the information contained herein. The present information emanates from the Debtors’ books and records that have been made available to the Monitor, as well as from discussions with its management.

INTRODUCTION

Legal Proceedings

12. On August 30, 2011, Hart Stores filed with the Quebec Superior Court, a Motion for the Issuance of an Initial Order pursuant to Section 11 of the CCAA. In this regard, the Honorable Jean-Yves Lalonde, J.S.C. rendered the Initial Order appointing Richter as the Monitor.

13. The Initial Order authorized the Debtor to enter into an interim financing (the "DIP Financing") with Wells Fargo Capital Corporation Canada ("Wells Fargo" or the "DIP Lender") pursuant to the DIP commitment letter filed in support of the Initial Order (the "DIP Facility") and created a charge in favour of the DIP Lender over the Debtor's property (as more fully described in the Initial Order). As per the terms of the DIP Facility, which expires on March 14, 2012, all funds collected by the Debtor have been applied against the pre-filing Revolver Loan while disbursements were funded through the post-filing DIP Financing.

14. Since the issuance of the Initial Order, the Stay Period has been extended at four (4) occasions by the Court. In this regard, on January 20, 2012, the Court granted an Order extending the Stay Period until March 14, 2012 in order to allow the Debtor additional time to:

- Hold the Creditors' Meeting following the filing of the Plan of Arrangement; and
- Meet the conditions set out in the Firm Term Sheet of the Replacement Lender and complete the refinancing.

15. On October 19, 2011, the Honorable Jean-Yves Lalonde, J.S.C. rendered an Order authorizing the sale of the inventory located in the Closing Stores by Tiger Capital Group LLC ("Tiger") the whole pursuant to the terms of an Agency Agreement negotiated with Tiger.

16. On November 28, 2011, the Court issued the Claims and Meetings Procedure Order which established the procedure for the review, determination and adjudication of all claims as well as a claims bar date of January 12, 2012 for claims which arose up to and including August 30, 2011 and a restructuring claims bar date of January 31, 2012 for claims which arose after August 30, 2011 with respect to contracts terminated in accordance with the prescription of the CCAA.

17. The Order rendered on January 20, 2012 extended the Claims Bar Date to January 31, 2012.

Background Information

18. The Debtor was constituted by a Certificate of Amalgamation issued pursuant to the *Canada Business Corporations Act* (the “CBCA”) on October 25, 1984. Hart Stores, however, can trace its history to 1960, when Mr. Harry Hart founded the original Hart Department Stores in Rosemere, Quebec.

19. The Debtor is a Canadian public company, listed on the TSX Venture Exchange. The Debtor operates a chain of mid-sized department stores located in secondary and tertiary markets throughout Ontario, Quebec, Newfoundland and Labrador, New Brunswick and Nova Scotia under the names “Hart”, “Géant des Aubaines” and “Bargain Giant”.

20. As of the date hereof, the Debtor had approximately 969 active employees, including 861 sales associates in the stores, 60 warehouse employees and 48 head office staff.

21. The Debtor’s 200,000 square foot head office and distribution center is located in Laval, Quebec and is leased from a wholly owned subsidiary (the “Subsidiary”).

EVENTS LEADING TO CCAA FILING

22. The following table summarizes the financial results for the past three (3) fiscal years.

Hart Stores Inc. (consolidated) Historical Annual Financial Results For the fiscal years ended (000's)	F2009	F2010	F2011
	Audited	*Audited*	*Audited*
Sales	**$ 175,086**	**$ 179,462**	**$ 174,692**
Cost of sales and expenses	169,880	174,259	173,665
Operating earnings	**5,206**	**5,203**	**1,027**
Financial charges	925	602	746
Amortization	2,872	3,696	2,922
Other expenses (income)	(350)	(1,602)	-
Earnings (losses) before income taxes	1,759	2,507	(2,641)
Income taxes	563	922	(929)
Net earnings (losses)	**$ 1,196**	**$ 1,585**	**$ (1,712)**

23. The sales decreased by 2.7% from fiscal 2010 to fiscal 2011, with same-store sales decreasing by 4.4% during the same period.

24. The Debtor's management attributes the overall negative results of fiscal 2011 to the reduced consumer spending observed in the 3rd and 4th quarters resulting from the economic downturn at the time. In addition, the Debtor explains the decrease in net earnings by the impact of lower value in same-store sales, higher salaries due to minimum wage increases and additional costs related to the implementation of a new point-of-sale and inventory merchandising systems.

25. The following table summarizes the financial results for the first and second quarters of fiscal 2012 (based on the Debtor's unaudited consolidated financial statements).

Hart Stores Inc.
Historical Quarterly Financial Results

(000's)	1st Quarter (May 1, 2011)		2nd Quarter (July 31, 2011)		YTD July 31, 2011	
	F2011	F2012	F2011	F2012	F2011	F2012
	Unaudited	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*
Sales	**$ 35,041**	**$ 29,695**	**$ 45,941**	**$ 38,707**	**$ 80,982**	**$ 68,402**
Cost of sales and expenses	36,548	33,600	44,951	38,926	81,499	72,526
Operating earnings	**(1,507)**	**(3,905)**	**990**	**(219)**	**(517)**	**(4,124)**
Financial charges	165	249	194	279	359	528
Amortization	674	767	689	801	1,363	1,568
Earnings (losses) before income taxes	(2,346)	(4,921)	107	(1,299)	(2,239)	(6,220)
Income taxes	(916)	(1,427)	35	(377)	(881)	(1,804)
Net earnings (losses)	**$ (1,430)**	**$ (3,494)**	**$ 72**	**$ (922)**	**$ (1,358)**	**$ (4,416)**

26. As shown in the above table, the sales and net earnings for the first two quarters of fiscal 2012 continued to decline significantly as compared to the previous year.

- For the first quarter ended May 1, 2011 the Debtor recorded sales of $29.7 million, representing a 15% decrease in comparison to sales of $35 million for the same period in previous year. Consequently, the net loss was $3.5 million compared to a net loss of $1.4 million in the previous year;
- Sales in the second quarter ending July 31, 2011 declined 16% reaching $38.7 million in comparison to sales of $45.9 million for the comparable period last year. The net loss was $0.9 million as compared to net earnings of $72,000 in the prior year.

27. On a cumulative basis, as at July 31, 2011, sales were down 16% reaching $68.4 million in comparison to sales of $80.9 million for the same period last year (there were 92 stores in operation as at July 31, 2011 compared to 90 at the end of the same period the previous year). The Debtor recorded a net loss of $4.4 million for the 26-week period ended July 31, 2011 compared to $1.4 million in fiscal 2011, a significant deterioration of its financial performance.

28. Per management, the unusually cold spring weather and the resulting decrease in customer traffic were the most important factors responsible for the decrease in sales in the first quarter of fiscal 2012. In addition, management believes that the cold weather also greatly impacted many weather-related categories of inventory including fashion and seasonal products.

29. Aside from these seasonal effects, the Debtor's financial performance has been challenged by the following:

- A number of the Debtor's stores were not profitable, or were at the very least underperforming;
- The Debtor's overhead structure was no longer in line with its reduced business volume; and
- A significant build-up of excess inventory resulting from a decline in sales, compounded by inventory purchases made in anticipation of better sales was difficult to sell in the ordinary course of business (the "Excess Inventory").

30. Consequently, from January 29 to July 31, 2011 (end of 2nd quarter), the Debtor's indebtedness towards Wells Fargo, its principal secured lender, increased from $13.5 million to $28.3 million, while accounts payable and accrued liabilities increased from $14.9 million to $23.5 million.

31. While in the months preceding the Initial Order the Debtor sought to refinance its affairs with another lender, its efforts remained then unsuccessful and the Debtor's Board of Directors concluded at the time that it would not be able to refinance its affairs under the then existing circumstances.

32. In light of the above, the Debtor's Board of Directors decided last August that the best course of action was to seek the protection of the Court to restructure its affairs under the CCAA.

DEBTOR'S RESTRUCTURING MEASURES

33. Since the issuance of the Initial Order, the Debtor has, amongst other things, implemented or is in the process of implementing the following measures in order to restructure its operations:

- Selected a Replacement Lender;
- Closed a number of underperforming stores;
- Conducted a process for the sale/assignment of Closing Stores leases;
- Sold Closing Stores furniture and fixtures;
- Liquidated a portion of the Excess Inventory in the continuing stores;
- Reduced its operating and overhead expenses; and
- Proceeded to changes in Merchandising and Retailing.

Refinancing

34. Following the issuance of the Initial Order, the Debtor re-initiated discussions with a number of chartered banks and asset based lenders with a view to refinance its business and undertakings. Nine (9) lenders were approached by the Debtor and detailed financial and operational information was provided to those prospective replacement lenders with a view to assist them assessing this refinancing opportunity.

35. On January 17, 2012, the Debtor accepted a Firm Term Sheet from the Replacement Lender. The Firm Term Sheet provides for a revolving line of credit of up to $25 million and is conditional, amongst other things, on the acceptance of the Plan by the Affected Creditors and its approval by the Court.

36. The legal due diligence process has been initiated and is expected to be completed by the end of February 2012.

Closing of Underperforming Stores

37. The Debtor with the assistance of the Monitor identified 32 stores that were underperforming and that had to be closed as part of the restructuring initiatives ("Closing Stores").

38. The Debtor and the Monitor were of the opinion that the best way to sell the inventory of these Closing Stores was by entering into an agency agreement with a specialized retail store liquidator. This was to allow the Debtor to immediately monetize the value of the inventory at the Closing Stores and would also allow the Debtor to focus on other aspects of its restructuring, particularly the remaining 60 stores which were not designated to be closed.

39. The Monitor planned and managed a solicitation process for the selection of an agent to liquidate the inventory of the Closing Stores whereby liquidators were invited to submit liquidation proposals to the Debtor.

40. On October 19, 2011, the Honorable Jean-Yves Lalonde, J.S.C. issued an Order authorizing the sale of the inventory located in the Closing Stores by Tiger, the whole pursuant to the terms of an Agency Agreement entered into between the Debtor and Tiger.

41. On October 20, 2011, Tiger paid directly to Wells Fargo, the Debtor's primary lender, 90% of the estimated net minimum guarantee amount provided for in the Agency Agreement and the balance has been paid later.

42. The liquidation of the inventory located in the Closing Stores commenced on October 21, 2011 and was initially scheduled to be completed on January 31, 2012 but is now scheduled to be completed by the end of February 2012.

43. On December 1, 2011, the Debtor sent lease repudiation notices to the landlords of four (4) of the Closing Stores notifying them of the repudiation of their leases effective December 31, 2011.

44. On December 28, 2011, the Debtor sent lease repudiation notices to the landlords of the remaining 28 Closing Stores notifying them of the repudiation of their leases effective January 31, 2012.

<u>Process for the Sale / Assignment of Closing Stores Leases</u>

45. On September 22, 2011, the Debtor with the assistance of the Monitor initiated a Lease Sale Process for the sale / assignment of the Closing Store leases and possibly the sale of related furniture and fixtures.

46. Following this process, the Debtor received letters of interest for the assignment of certain Closing Stores leases, which ultimately did not materialize in any firm offers.

Sale of Closing Stores Furniture and Fixtures

47. As per the terms of the Agency Agreement, Tiger is in process of selling the furniture and fixtures of the remaining Closing Stores.

Liquidation of Excess Inventory in Continuing Stores

48. The Debtor is in the process of liquidating the slow moving and obsolete inventory located in the continuing stores through targeted higher mark-downs and a tailored advertising strategy.

Reduction of Operating and Overhead Expenses

49. The Debtor revised its advertising program by reducing the number of advertising circulars and optimizing the circular distribution. This initiative will result in annual savings of approximately $1.0 million.

50. Headcount reductions were done at the head office and warehouse resulting in permanent payroll savings of approximately $1.0 million annually.

51. Management has also identified other potential cost reduction initiatives at the stores and head office levels to be implemented throughout the upcoming months, and measures to stimulate sales and gross margin, including:

- Review of employee hours' optimization at the store level;
- Optimization of transportation activities between warehouse and stores;
- Implementation of internal processes to control costs; and
- Various sales and gross margin improvement initiatives.

Operational, Merchandising and Retail Changes

52. Management has made certain operational changes and is in the process of implementing the following merchandising and retail changes:

- Revised its pricing and promotion strategy to be more competitive;
- Revised its buying strategy and implemented a structured buying policy; and
- Changed its visual presentation displays in its stores.

DIP FINANCING UPDATE

53. The Initial Order authorized the Debtor to enter into a DIP Financing with Wells Fargo pursuant to the DIP commitment letter filed in support of the Initial Order (the “DIP Facility”), and created a charge in favor of the DIP Lender over the Debtor’s property (as more fully described in the Initial Order).

54. As per the terms of the DIP Facility, as amended, which expires on March 14, 2012, all funds received by the Debtor have been applied against the pre-filing Revolver Loan while disbursements have been funded using the post-filing DIP Financing.

55. On October 20, 2011, the pre-filing Revolver Loan was fully repaid, while the post-filing DIP Financing was repaid on or about December 16, 2011.

56. Under the Second Amending Agreement to the DIP Facility, which was approved by the Court on January 20, 2012, the DIP Facility was amended to provide, among other things, for an extension up to March 14, 2012 of same and a new Restructuring Timeline.

CASH FLOW PROJECTIONS

57. We refer the reader to the Fourth Report of the Monitor dated January 19, 2012 for details relating to the projected receipts and disbursements for the period from January 2, 2012 to April 1, 2012, which indicates that the Debtor will be using the DIP Facility discussed above beginning February 2012.

58. Since the Initial Order, the Debtor has been paying its suppliers based on negotiated terms or upon a cash – on – delivery basis. The Debtor advises that as of the date of this Report, unpaid post-filing trade payables total approximately $0.7 million, which is well below the Post-Filing Suppliers Charge of $2 million.

UPDATE ON CLAIMS PROCESS

59. On November 28, 2011, the Court issued the Claims and Meetings Procedure Order.

60. On December 1, 2011, in accordance with the terms of the Claims and Meetings Procedure Order, notice was given by the Monitor to all known creditors that proofs of claims had to be filed with the Monitor no later than January 12, 2012 at 5:00 p.m., Eastern Standard Time, for claims which arose up to and including August 30, 2011 (the "Claims Bar Date") and/or January 31, 2012 at 5:00 p.m., Eastern Standard Time, for claims which arose after August 30, 2011 (the "Restructuring Claims Bar Date").

61. On December 1, 2011, the Monitor also published Newspaper notices in La Presse (Montreal) and The Globe and Mail (Toronto), to advise any potential creditors of the Claims Bar Dates and of the Instruction Letters for claims.

62. On January 20, 2012, an Order was rendered extending to January 31, 2012 the Claims Bar Date.

63. The creditors having Restructuring Claims had until January 31, 2012 to file a claim as per the terms of the Claims and Meetings Procedure Order.

64. As of January 31, 2012, 591 creditors representing 64% of the total number of creditors (928) filed Claims totaling approximately $36.1 million. It is important to note that the Debtor disagrees with numerous claims filed by the Affected Creditors, in particular those from the landlords for damage claims. The final amount of all claims will be determined pursuant to the Claims and Meetings Procedure Order.

ACTIVITIES OF THE MONITOR

65. The Debtor has continued to provide the Monitor with its full cooperation and unrestricted access to its premises, books and records. The Monitor has been monitoring the Debtor's operations and receipts and disbursements as more fully described hereunder.

66. The Monitor has also assisted the Debtor in its dealings with certain suppliers and landlords.

67. Pursuant to the initial Order rendered on August 30, 2011, the Monitor established a website at http://www.rsmrichter.com/Restructuring/Hart/aspx (the "Website") which has been updated to include materials filed by the Monitor with this Court, mailing of the Notice to Creditors and all Orders issued by the Court.

68. The Monitor has been addressing and continues to address all queries from the creditors and other stakeholders through its dedicated hotline and e-mail address at:

Local:	514.908.3803
Toll free	1.866.845.8958
E-mail:	HartStores@rsmrichter.com

69. The Monitor has continued to actively assist the Debtor in the implementation of its restructuring plan.

70. The Monitor has provided assistance to the Debtor with the following:

- Weekly financial reporting to Wells Fargo;
- Reviews of financial projections to assist management in its restructuring plan and refinancing efforts;
- Management of the Claims Process;
- Negotiation of settlement with creditors;
- Preparation of the CCAA Plan and associated proceedings; and
- Assistance on various strategic and operational issues.

PLAN OF ARRANGEMENT

Summary of the Plan

71. Please note that the following is only a summary of the terms of the Plan and **creditors are strongly invited to read the Plan for complete details of its terms.**

72. The Plan provides that the Debtor will remit to the Monitor a total of $6 million from September 2012 to February 2015, for distribution to Affected Creditors, which amounts will be funded out of operating cash flow.

73. Affected Creditors shall constitute a single class under the Plan for all purposes. Any Excluded Creditors and Secured Creditors shall not be entitled to vote at the Meeting of Creditors or to receive any distributions in respect of their Excluded Claims or Secured Claims.

74. If the Plan is approved by a majority in number of the Affected Creditors representing 2/3 in value of the Affected Claims present at the Meeting of Creditors and voting either in person or by proxy, and thereafter sanctioned by the Court, the Plan will be binding on Hart Stores and all Persons affected by the Plan.

Amounts to be Distributed to Affected Creditors

75. The Plan provides for the Monitor to distribute the above-mentioned amount to the Affected Creditors within a reasonable time after its receipt as follows:

- At any time prior to August 14, 2012, any Affected Creditor may elect to receive the lesser of $1,000 or the amount of its ordinary claim and for any excess be deemed to have irrevocably and unconditionally reduced their claim to $1,000 (defined as an Electing Creditor). Electing Creditors will receive a one-time payment of a maximum of $1,000 from the funds to be remitted by the Debtor to the Monitor on or before September 14, 2012. Thereafter, Electing Creditors shall not receive any further dividends;
- Affected Creditors other than Electing Creditors will be entitled to receive their pro rata share of the balance of the $6 million, after distributions to the Electing Creditors.

Other

76. The Plan provides that Section 38 and 95 to 101 of the *Bankruptcy and Insolvency Act* (Canada) shall not apply to the Plan as permitted by Section 36.1 of the CCAA.

Creditors' Committee

77. The Plan provides for the creation of a committee which shall be comprised of, at most, three (3) individuals (the "Creditors' Committee") designated by the Affected Creditors at the Meeting of Creditors. The Creditors' Committee shall have the following powers:

- Receive information from time to time from the Monitor regarding the progress made in implementing the Plan;
- 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 the Plan; and
- Assist the Monitor in an advisory capacity in relation to the administration of the Plan.

VOTING ON THE PLAN

78. The Plan shall be deemed to be accepted by the creditors if, and only if, the Affected Creditors vote for the acceptance of the Plan by a majority in number and two thirds in value of the Affected Creditors present, personally or by proxy, at the Meeting of Creditors.

ESTIMATED DISTRIBUTION TO CREDITORS

79. In the event the creditors reject the Plan, the new financing would not be concluded and there would be no other alternative than to initiate a liquidation of the Debtor's assets. The following data is to inform the creditors of the estimated distribution to creditors under the Plan in comparison to an estimated distribution under a forced liquidation scenario.

Plan of Arrangement

80. As described previously in this Report, the Plan provides for a $6 million distribution to Affected Creditors to be paid in five (5) installments over three (3) years. The following table illustrates the estimated recovery under the Plan which may be realized by the Affected Creditors based on the information available as of the date of this Report.

Hart Stores Inc. Estimated Distribution (in 000's)		Low	High
Affected Claims			
Trade and employees (estimate)		$ 27,406	$ 24,531
Lease damages (estimate)		5,770	3,907
Total (Note 1)	**A**	**$ 33,176**	**$ 28,438**
Distribution	B	$ 6,000	$ 6,000
Estimated distribution %	**B/A**	**18%**	**21%**

Note 1: Consist of the Monitor's best estimate of the Affected Claims.

81. As shown in the above table, the recovery under the Plan is estimated to range between 18% and 21% of the total Proven Claims. **It is important to note that the final distribution under the Plan will vary depending on the results of the Claims Process.**

Forced Liquidation

82. The Monitor has estimated the net realization of the Debtor's assets using the projected estimated net book value of the Debtor's assets as at February 29, 2012. The estimated realization under a forced liquidation scenario is summarized as follows:

Hart Stores Inc.
Estimated Net Realization in a Forced Liquidation

(in 000's)	Projected Estimated Book Value as at February 29, 2012	Low	High
Estimated Gross Realization of Assets	**$ 39,600**	**$ 9,300**	**$ 13,200**
Estimated Professional Fees and General Expenses		(6,100)	(4,700)
Estimated Priority Claims		(2,100)	(2,100)
Estimated Secured Claims		(1,600)	(1,100)
Estimated Amount Available for Unsecured Creditors		**NIL**	**$ 5,300**
Estimated Unsecured Claims (Note 1)		$ 47,300	$ 40,900
Estimated % Recovery for Unsecured Creditors		**NIL**	**13%**
Estimated Median % Recovery		**6%**	

Note 1: Includes pre-filing trade payables as per the books and records of the Debtor adjusted for the claims received as at the date of this report, estimated landlord damage claims and severances.

Based on the above table, the recovery for Affected Creditors in the context of a forced liquidation is estimated to range between NIL and 13% of the total Proven Claims. **It is important to note that the process would take several months and involves risks which could negatively impact the liquidation results estimated by the Monitor**.

Furthermore, it is important to note that the forced liquidation would occur during a low retail season and yield a significantly lower realization as compared to the liquidation in the 32 Closing Stores which took place during the high retail season (November 2011 to January 2012).

<u>Assumptions – Forced Liquidation</u>

83. The above estimate was prepared by the Monitor, with the assistance of the Debtor, and is based on the following key assumptions:

- The gross realization on the inventory was estimated based on the results of the actual liquidation presently conducted in the 32 Closing Stores, discounted by 15% to 20% to reflect that the forced liquidation would take place in a low retail season;
- The Monitor's experience in similar situations;
- Results of the Claims Process as at the date of this Report;
- Information obtained from the Debtor;
- The forced liquidation would begin on February 29, 2012;
- The high and low gross realizations of the Debtor's Subsidiary that owns the land and building (the only asset in this company) where the head office and distribution centre is located are based on the Monitor's discussion with a specialized real estate firm and include conservatory costs, corporate taxes, realtor fees and other ancillary costs;
- Included in the general expenses are the head office and operating costs, payroll and benefits for head office and warehouse employees, safeguard and protective measures and other costs related to the forced liquidation;
- The amount owed to the secured creditors consists of an estimate of the DIP Facility balance and the post-filing suppliers charge created by the Order of the Court;
- The revised cash flow projections prepared by the Debtor, updated to reflect the actual opening balances as at January 30, 2012, indicate that the DIP Facility projected as at February 29, 2012 is approximately $600,000;
- The Monitor has obtained an independent legal opinion confirming the validity of Wells Fargo's secured loan on all of the assets of the Debtor;
- Included in the Affected Claims are landlord damage claims and severance to employees that would be terminated following a forced liquidation process (such claims are inexistent in a going concern scenario, such as in the Plan scenario). **In the event of a forced liquidation, the landlord damage claims would increase substantially over the current estimate utilized in the Plan as 92 leases would be repudiated as opposed to 32 leases under the Plan**; and

- The forced liquidation analysis does not take into account any potential proceeds from the sale of the brand name and/or the 60 store leases since the Lease Sales Process for the 32 Closing Stores conducted by the Debtor did not result in any realization.

Preferential Payment Analysis

84. By the Approval of the Plan, all the creditors are deemed to have waived their remedies provided by Section 36.1 of the CCAA. These remedies relate to the recovery of certain amounts in the event that there were reviewable transactions, preferential treatments and/or asset disposals by the Debtor.

85. The Monitor has performed a summary analysis of the major transactions that occurred during the three month period (with unrelated third parties) and 12 month period (for major transactions with related parties), prior to the issuance of the Initial Order. Pursuant to our review of these transactions, it appears that same have been concluded in the normal course of business according to historical payment patterns and/or terms of payment made available to the Debtor by the creditors.

Ongoing Operations

86. Acceptance of the Plan will benefit the creditors and all of the Debtor's stakeholders including the following constituents:

- In excess of 969 employees will continue to be employed in approximately 60 stores as well as at the head office and warehouse;
- Merchandise suppliers and service suppliers will have a going concern entity with which to continue doing business; and
- Landlords of approximately 60 store locations will continue to have Hart Stores as a tenant.

MONITOR'S CONCLUSION AND RECOMMENDATION

87. The Monitor is of the opinion that if the Plan is not approved by the creditors, the Debtor would have no alternative than to proceed with the immediate liquidation of its assets. Taking into account the risks and uncertainties inherent to a liquidation, it is estimated that the Affected Creditors would receive less than what is being offered pursuant to the Plan.

88. Consequently, the Monitor is of the view that the acceptance of the Plan would be more advantageous for the creditors than the liquidation of the Debtors' assets. **The Monitor therefore recommends to vote in favour of the Plan.**

89. The creditors may remit their Voting Letter as well as their Proxy to the Monitor prior to the Meeting of Creditors or, alternatively, they may attend the Meeting of Creditors to obtain any additional clarification they may deem necessary and vote thereat.

Dated at Montreal, this 3rd day of February, 2012.

RSM Richter Inc.
Court-Appointed Monitor

Benoit Gingues, CA, CIRP
Administrator