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

THIRD REPORT OF THE MONITOR
ON THE STATE OF THE DEBTOR'S FINANCIAL AFFAIRS
November 3, 2011

INTRODUCTION

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. On September 27, 2011, the Debtor filed a Motion for an Order Extending the Stay Period until November 4, 2011, in order to allow the Debtor additional time to plan and execute the following:

- Closing of underperforming stores ("Closing Stores");
- Solicitation of bids for the liquidation of the inventory in the Closing Stores;
- Solicitation of bids for the assignment of the store lease rights ("Lease Sale Process") for the Closing Stores;
- Identification of the excess inventory to be liquidated in the continuing stores;
- Identification and implementation of cost reduction initiatives;
- Preparation of a business plan ("Business Plan") including financial projections;
- Negotiation with potential replacement lenders; and
- Commencement of discussions with its stakeholders with a view to prepare a plan of arrangement under the CCAA.

3. The Monitor filed its First Report on September 27, 2011 in support of the Motion for an Order Extending the Stay Period until November 4, 2011.

4. On September 28, 2011, the Court granted an Order extending the Stay Period until November 4, 2011, creating a charge in favor of those creditors who provide the Debtor with goods and services on credit subsequent to the issuance of the Initial Order and authorizing the payment on quasi-insurance premiums, and creating a charge in favor of the insurance premium financier over the Debtor's unearned insurance premiums.

5. On October 18, 2011 the Debtor filed a Motion for an Order authorizing the execution of an agency agreement for the sale of excess inventory located in the Closing Stores. On the same day the Monitor filed its Second Report to the Court summarizing the process undertaken by the Debtor with the assistance of the Monitor to select a liquidator for the realization of the inventory located in the Closing Stores. On October 19, 2011, the Court issued an Order approving the agency agreement ("Agency Agreement") with Tiger Capital Group, LLC ("Tiger") for the liquidation of the inventory located in the Closing Stores.

6. On November 4, 2011, the Debtor will present a Motion for an Order extending the Stay Period up to and including January 18, 2012.

7. This purpose of the Third Report of the Monitor is to inform and update the Court on the following:

   A. Financial Position;
   B. DIP Financing;
   C. Debtor's Restructuring Measures;
   D. Lease Sale Process;
   E. Business Plan for F2012, F2013 and F2014;
   F. Refinancing;
   G. Activities of the Monitor; and
   H. Motion to Extend the Stay Period.

8. We inform the Court that the Monitor has not conducted an audit or investigation of the information that was provided by the Debtor and that accordingly, no opinion is expressed regarding the accuracy, reliability or completeness of the information contained within this report. The information contained herein is based on unaudited financial information provided to the Monitor by the Debtor's management as well as obtained through discussions with the Debtor's management and employees.

9. The cash flow projections appended to this Report were prepared by the Debtor's management and are based on underlying financial assumptions. The Monitor cannot provide an opinion as to the accuracy, completeness or reliability of these projections. As the cash flow projections relate to future events, which are indeterminable by nature, variances will occur, which may be material. Accordingly, the Monitor does not express an opinion regarding the likelihood of materialization of these cash flow projections.

10. All amounts reflected in this report are stated in Canadian currency unless otherwise noted.

A. FINANCIAL POSITION

11. In conjunction with the filing of the Motion for the first extension of the Initial Order, the Debtor submitted cash flow projections ("Projections") for the period from September 26 to November 6, 2011. Copies of the Projections were attached as Appendix B.1 and B.2 (the latter filed under seal with the Court) to the First Report of the Monitor on the State of the Debtor's Financial Affairs.

12. We refer this Court to **Appendix A** which presents a comparison between Actual and Projected receipts and disbursements for the period from September 26 to October 30, 2011 (the "Period").

13. As of October 30, 2011, the Debtor's indebtedness totaled $10.6 million (including $1.8 million of unfunded disbursements which have not been requested by the Debtor) which is $7.5 million lower than the projected balance of $18.1 million. The $7.5 positive variance is explained as follows:

- The cash receipts for the Period were approximately $5 million higher than projected. The variance is explained by the fact that the amount representing 90% of the estimated net minimum guarantee ("NMG") collected from Tiger was higher than projected but it was partially offset by lower sales than originally projected. The NMG was higher than projected for the following two reasons: (i) it covered inventory located at 32 stores instead of 26 stores as originally projected and (ii) the realization ratio from this inventory was higher than anticipated.
- The cash disbursements for the Period were $3.2 million lower than projected mainly due to timing differences.
- The balance corresponds to the amount due to Tiger and the unfunded disbursements.

14. Included in **Appendix B** are the projected receipts and disbursements for the period from October 31, 2011 to January 29, 2012.

15. Since the filing of the CCAA, the Debtor is 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 $2 million.

B. DIP FINANCING

16. The Initial Order authorized the Debtor to enter into interim financing arrangements (the "Post-Filing 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 Commitment Letter"), and created a charge in favor of the DIP Lender over the Debtor's property (as more fully described in the Initial Order).

17. As per the terms of the DIP Facility, which expires on November 4, 2011, all receipts have been applied against the Pre-Filing Revolver Loan while disbursements were funded through the Post-Filing DIP Financing.

18. On October 20, 2011, the Pre-Filing Revolver Loan was repaid in full following the collection of the amount representing 90% of the estimated NMG from Tiger.

19. The Debtor continued to submit the following to the DIP Lender as required by the DIP Commitment Letter:

- Daily monitoring schedules;
- Daily drawdown certificates;
- Weekly borrowing base certificates;
- Weekly actual receipts and disbursements with comparison to the cash flow projections; and
- Information requested by the DIP Lender from time to time.

20. As previously reported to the Court, the Monitor had been informed that according to the DIP Lender, some milestones were not met but the Debtor and the DIP Lender recently negotiated the renewal of the DIP Facility.

21. Under the First Amending Agreement to the DIP Commitment letter, which will be submitted to the Court for approval, the DIP Facility was amended to provide, among other things, an extension up to January 18, 2012 and a new Restructuring Timeline.

C. DEBTOR'S RESTRUCTURING MEASURES

22. The following is a summary of the Debtor's restructuring initiatives that are presently being implemented or are being contemplated by management:

Closing of Underperforming Stores

23. The Debtor, with the assistance of the Monitor, identified 32 stores that are underperforming and that should be closed as part of the restructuring.

24. 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 in accordance with the terms of the Agency Agreement.

25. On October 20, 2011, Tiger paid directly to Wells Fargo, the Debtor's primary lender, 90% of the estimated NMG amount as provided for in the Agency Agreement.

26. On October 21, 2011, Tiger commenced the liquidation of the inventory located in the Closing Stores which is expected to be completed by January 31, 2012.

27. The Debtor and Tiger engaged a specialized inventory service firm to perform inventory counts in each of the Closing Stores. As per the Agency Agreement, the results of the inventory count will determine the final NMG amount and accordingly, the balance of the NMG payable by Tiger to the Debtor.

28. The Agency Agreement provides that (i) inventory store counts should be completed seven days after the commencement of the liquidation sale, (ii) the final inventory reconciliation should be completed 30 days after the commencement of the liquidation sale, and (iii) the payment of the final balance of the NMG is due 2 days thereafter.

29. Due to the remote location of three of the Closing Stores, both the Debtor and Tiger agreed to extend the period for the completion of the store counts from seven (7) to twenty three (23) days and therefore the inventory counts are scheduled to be completed by November 13, 2011. Notwithstanding the aforementioned extension, the inventory reconciliation is currently under way for the stores that have been counted to date and the final reconciliation remains on target for November 20, 2011. The Debtor, therefore, expects to collect the balance of the NMG from Tiger on November 22, 2011 as originally provided for in the Agency Agreement.

30. On November 1, 2011, the Debtor issued notices of termination, effective January 2, 2012, to the 467 employees of the 32 Closing Stores with a proviso that the employees may be required either for a shorter or longer period of time, depending on the circumstances, in which case they would be advised accordingly.

31. On October 20, 2011, the Debtor sent letters to the landlords affected by the 32 Closing Stores advising that it is currently attempting to assign the lease rights of these stores and has not formally disclaimed same pursuant to the provisions under the CCAA.

<u>Liquidation of Excess Inventory in continuing stores</u>

32. The Debtor's management is in the process of planning a liquidation strategy for the liquidation of the slow moving and obsolete inventory located in the continuing stores (the "Excess Inventory").

33. The Debtor has identified the Excess Inventory and is currently planning the following:

- Preparation of the inventory in the continuing stores and in the warehouse;
- Determination of the pricing, mark-down and advertising strategy; and
- Implementation of an internal communication plan for logistics.

Operating and overhead expenses reduction

34. Management, has identified potential cost reduction initiatives at the stores and head office levels coupled with measures to stimulate sales and gross margin, including:

- Reduction in the number of advertising circulars and optimization of circular distribution;
- Review of employee hours' optimization at the store level;
- Optimization of transportation activities between warehouse and stores;
- Headcount reductions before and /or following the store closures;
- Elimination of visual store merchandisers' position;
- Implementation of internal processes to control costs; and
- Various sales and gross margin improvement initiatives.

35. The Company has already begun implementing some of these corrective measures.

D. SALE/ASSIGNMENT OF CLOSING STORE LEASES

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

37. The Monitor and the Debtor compiled a list of potential interested parties on September 22 and 23, 2011, the Monitor then sent a solicitation e-mail to those who were approved by the Debtor. The list consisted of Canadian and U.S. retail chains who might have an interest in purchasing from the Debtor the Closing Stores leases.

38. Upon signature of a confidentiality agreement, interested parties were granted access to an online data room containing information regarding the Closing Stores leases.

39. Parties were also informed that the deadline for submission of written letters of interest was October 21, 2011.

40. Letters of interest were actually received and are currently under analysis and the Debtor intends to negotiate the sale/assignment of these leases during the extended Stay Period.

41. A detailed report on the Lease Sale Process will be submitted to the Court in due time.

E. BUSINESS PLAN FOR THE PERIOD FROM F2012 TO F2014

42. The Debtor with the assistance of the Monitor completed its Business Plan including financial projections and analysis of the detailed assumptions related thereto for the period from F2012 to F2014. The financial projections reflect the impact of the store closures, the sale of the Excess Inventory in the continuing stores and the cost cutting measures to be implemented by the Debtor.

F. REFINANCING

43. Following the issuance of the Initial Order, the Debtor had re-initiated discussions with a number of chartered banks and asset based lenders with a view to refinance its affairs. To date, six lenders have been approached by the Debtor and detailed financial and operational information have been provided to those prospective replacement lenders.

44. The Business Plan was recently submitted to the prospective replacement lenders to complete the information that they require in order to finalize their analysis of this refinancing opportunity. The Debtor expects to receive conditional financing term sheets by November 30, 2011.

G. ACTIVITIES OF THE MONITOR

45. Since the Initial Order was issued, the Monitor continues to participate in meetings and work sessions with the Debtor’s management with the view of maintaining and restructuring their operations efficiently. The Monitor is not, however, taking any managerial decisions, same being entirely left to the Debtor’s management.

46. The Monitor has been actively involved with the Debtor’s management in analyzing various restructuring alternatives, including the preparation of the Business Plan.

47. The Monitor has assisted management in its analysis of the store profitability and Excess Inventory.

48. The Monitor has devoted time and energy in implementing the liquidation of the inventory at the Closing Stores and the Lease Sale Process, including the set-up of the respective virtual data rooms and communication with interested parties. The Monitor continues to communicate with Wells Fargo, the Debtor’s principal secured lender and DIP Lender, to keep it apprised of the evolution of the restructuring, of the daily monitoring as well as of the actual weekly financial results in comparison to cash flow projections.

49. The Monitor assisted the Debtor in its dealings with a number of suppliers in order to ensure an uninterrupted flow of goods and services.

50. The Debtor continued to provide the Monitor with its full cooperation and the Monitor has had unrestricted access to its premises, as well as to the various books and records.

51. The Monitor performs weekly monitoring of the receipts and disbursements, as provided by the CCAA. The weekly monitoring includes a variance analysis of actual results against the Debtor's cash flow projections filed in connection with the CCAA proceedings.

52. The Monitor, to its knowledge, has been kept informed of the Debtors' major activities and has reviewed the disbursements to ensure that they were related to current commitments.

H. MOTION TO EXTEND THE STAY PERIOD

53. The Debtor's application to extend the Stay Period to January 18, 2012 is reasonable and the Monitor recommends that this Court agrees to it, given inter alia the following factors:

- The requested delay is essential in order to allow time for the Debtor to plan and execute the following:
    - Liquidation of the inventory at the 32 Closing Stores;
    - Negotiation of the expressions of interest for the sale/assignment of the Closing Store lease rights and sale of furniture and fixtures;
    - Liquidation of the Excess Inventory in the continuing stores;
    - Implementation of cost reduction initiatives;
    - Negotiations with prospective replacement lenders;
    - Implementation of a Claim Process;
    - Preparation of a Plan of Arrangement for the unsecured creditors.
- If the extension is granted, we are not aware that any creditor will be materially prejudiced.
- Several suppliers and employees have indicated their support to Hart Stores during the current restructuring process.
- The extension of the Stay Period is supported by Wells Fargo, the Debtor's principal secured lender.
- Several direct and indirect jobs are at stake.

- Since the issuance of the Initial Order, the Debtor has continued to act diligently, in good faith and in the interest of its creditors.
- Since August 30, 2011, the Debtor has continued to pay its employees and suppliers of goods and services on time and/or according to existing agreements.
- If the Initial Order issued by this Court on August 30, 2011 is not extended as requested by the Debtor, there is a strong possibility it will go bankrupt and a liquidation will ensue.

Respectfully submitted at Montreal, this 3rd day of November, 2011.

RSM Richter Inc.
Court-Appointed Monitor

Benoit Gingues, CA, CIRP

Appendix A

Cash Flow Statement (Actual vs. Projected)
For the Period from September 26 to October 30, 2011 (in 000's)

		5 weeks ended October 30, 2011			
		Actual	Projection	Variance	Notes
Continuing Stores					
Receipts		**$ 28,352**	**$ 23,400**	**$ 4,952**	1
Disbursements					2
Rent		(2,781)	(1,600)	(1,181)	3, 4
Payroll		(2,458)	(2,896)	438	
Merchandise		(5,107)	(5,704)	597	4
Expenses - operating		(882)	(2,560)	1,678	4
Utilities		(412)	(791)	379	4
Distribution costs		(151)	(557)	406	4
Insurance		(137)	(138)	1	4
Professional fees		(697)	(798)	101	4
GST-QST Remittance		-	(794)	794	4
Interest		(128)	(119)	(9)	5
		(12,753)	**(15,956)**	**3,203**	
Net Cash Inflow- Continuing Stores		**15,599**	**7,444**	**8,155**	
Closing Stores					
Receipts		**2,044**	**-**	**2,044**	
Disbursements					
Rent		207	-	207	
Payroll		237	-	237	
Other		7	-	7	
		451	**-**	**451**	
Net Cash Inflow - Closing Stores		**1,593**	**-**	**1,593**	
Total Net Cash Inflow		**$ 17,192**	**$ 7,444**	**$ 9,748**	
Pre-Filing Revolver Loan					
Opening balance		$ 18,892	$ 18,892	$ -	
Cash receipts		(18,892)	(18,892)	-	6
Closing balance		**-**	**-**	**-**	
Post-Filing DIP Financing					
Opening balance	A	6,605	6,605	-	
Continuing Stores					
Cash receipts		(9,804)	(4,508)	5,295	6
Advances		12,005	15,956	3,951	
	B	2,201	11,448	9,246	
Closing Stores					
Cash receipts		(2,044)	-	2,044	9
Advances		451	-	(451)	
		(1,593)	-	1,593	
Remittances to Tiger Capital		630	-	(630)	9
	C	(963)	-	963	
Unfunded disbursements during the 5 week Period	D	461	-	(461)	
Closing balance	**Sum of A to D**	**8,305**	**18,053**	**9,748**	
Due to Tiger Capital		963	-	(963)	7
Closing balance (including payable to Tiger Capital)	**E**	**9,268**	**18,053**	**8,785**	
Unfunded disbursements (opening balance)	F	1,302	-	(1,302)	8
Total Exposure	**E + F**	**$ 10,570**	**$ 18,053**	**$ 7,483**	

Note 1: The cash receipts represent the transfers to the Pre-Filing Revolver and DIP Financing Loans during the period and exclude end of week deposits in TD Bank accounts to be transferred the following week.

Note 2: The disbursements are reflected on a book basis (when checks are issued).

Note 3: Represents October and November 2011 rent, excluding adjustments relating to the pre-filing period.

Note 4: The variances represent mainly timing differences.

Note 5: Interest is charged directly to the Pre-Filing Revolver Loan and Post-Filing DIP Financing.

Note 6: Includes funds owed to Tiger Capital Group, LLC pursuant to sales made in the 32 Closing Stores.

Note 7: Funds owed to Tiger Capital Group LLC as per the Agency Agreement dated October 20, 2011.

Note 8: Represents the portion of the weekly disbursements for which the Debtor has yet to request funding as checks are not all cashed immediately. The total unfunded disbursements as at October 30, 2011 amounted to $1,763K.

Note 9: The $1,593K represents the net operating cash inflows from the inventory liquidation in the Closing Stores. During the Period, Hart remitted $630K to Tiger Capital Group LLC and has a balance of $963K yet to be remitted.

Appendix B

CANADA	SUPERIOR COURT
District of: Quebec	(Commercial Division)
Division No.: 01-Montréal	*Companies' Creditors Arrangement Act*
Court No.: 500-11-041238-110	RSC 1985, c C-36, as amended
File No.: 0000074-2011-QC	

Report on Cash-Flow Statement by the Debtor Company
(Sections 4, 5 and 11 of the *Companies' Creditors Arrangement Act*)

In the matter of the Plan of Arrangement
with respect to
Hart Stores Inc.
Of the City of Laval
In the Province of Quebec

The management of Hart Stores Inc. has developed the assumptions and prepared the attached statement of projected cash flow of the debtor company, as of November 3, 2011, consisting of the period from October 31, 2011 to January 29, 2012.

The hypothetical assumptions are reasonable and consistent with the purpose of the projections described in the notes attached, and the probable assumptions are suitably supported and consistent with the plans of the debtor company and provide a reasonable basis for the projections. All such assumptions are disclosed in the notes attached.

Since the projections are based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.

The projection has been prepared solely for the purpose described in the notes attached, using the probable and hypothetical assumptions set out in the notes attached. Consequently, readers are cautioned that it may not be appropriate for other purposes.

Dated at Laval, in the Province of Quebec, this 3rd day of November 2011.

Hart Stores Inc., Debtor company
Per: Robert Harritt, Vice-President Finance & CFO

CANADA	SUPERIOR COURT
District of: Quebec	(Commercial Division)
Division No.: 01-Montréal	*Companies' Creditors Arrangement Act*
Court No.: 500-11-041238-110	RSC 1985, c C-36, as amended
File No.: 0000074-2011-QC	

Report on Cash-Flow Statement by the Debtor Company - Attachment
(Sections 4, 5 and 11 of the *Companies' Creditors Arrangement Act*)

In the matter of the Plan of Arrangement
with respect to
Hart Stores Inc.
Of the City of Laval
In the Province of Quebec

Purpose:
On August 30, 2011, Hart Stores Inc. ("Hart" or the "Company") filed with the Quebec Superior Court a Petition 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"). On August 30, 2011, the Honourable Jean-Yves Lalonde, J.C.S. issued an Initial Order (the "Initial Order"), appointing RSM Richter Inc. as monitor (the "Monitor"). On September 28, 2011, the Debtor presented a Motion and an Order extending the stay period was rendered up to and including November 4, 2011.
This Statement of Projected Cash Flow has been prepared by the management based on available financial information at that date in accordance with Section 11.02 of the *Companies' Creditors Arrangement Act*. Readers are cautioned that this information may not be appropriate for other purposes.

Projection Notes:
The Statement of Projected Cash-Flow has been prepared using probable assumptions supported and consistent with the plans of the Company for the period October 31, 2011 to January 29, 2012, considering the economic conditions that are considered the most probable by Management.
As the Projected Cash-Flow is based upon various assumptions regarding future events and circumstances, variances will exist and said variances may be material. Accordingly, we express no assurance as to whether the projections will be achieved.

Projected Assumptions:
(a) Projected Cash Receipts
- Receipts were projected based upon the historical sales by store for the same period last year, adjusted to reflect the recent trending. In addition, projected receipts include management's best estimate relating to the sale of a portion of the Debtor's inventory with respect to the liquidation process currently underway with Tiger Capital Group, LLC.
(b) Projected Cash Disbursements
- Projected cash disbursements reflect the payment of payroll, occupancy and other operating expenses as these amounts come due. Amounts were projected based on recent trending and represent the best estimate of the Company.
- Projected cash disbursements also include the purchase of merchandise based on Management's best estimate.
- The cash disbursements do not provide for the payment of arrears to unsecured creditors.

Dated at Laval, in the Province of Quebec, this 3rd day of November 2011.

Hart Stores Inc., Debtor company
Robert Harritt, Vice-President Finance & CFO

CANADA
District of: Quebec
Division No.: 01-Montréal
Court No.: 500-11-041238-110
File No.: 0000074-2011-QC

SUPERIOR COURT
(Commercial Division)
Companies' Creditors Arrangement Act
RSC 1985, c C-36, as amended

Monitor's Report on Cash-Flow Statement
(Sections 4, 5 and 11 of the *Companies' Creditors Arrangement Act*)

In the matter of the Plan of Arrangement
with respect to
Hart Stores Inc.
Of the City of Laval
In the Province of Quebec

The attached statement of projected cash flow of Hart Stores Inc., as of November 3, 2011, consisting of the period from October 31, 2011 to January 29, 2012, has been prepared by the management of the insolvent person for the purpose described in the notes attached, using the probable and hypothetical assumptions set out in the notes attached.

Our review consisted of inquiries, analytical procedures and discussion related to information supplied to us by the management and employees of the debtor company. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the projection. We have also reviewed the support provided by management for the probable assumptions and preparation and presentation of the projection.

Based on our review, nothing has come to our attention that causes us to believe that, in all material respects,
(a) the hypothetical assumptions are not consistent with the purpose of the projection;
(b) as at the date of this report, the probable assumptions developed are not suitably supported and consistent with the plans of the insolvent person or do not provide a reasonable basis for the projection, given the hypothetical assumptions; or
(c) the projection does not reflect the probable and hypothetical assumptions.

Since the projection is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the projection will be achieved.

The projection has been prepared solely for the purpose described in the notes attached, and readers are cautioned that it may not be appropriate for other purposes.

Dated at Montréal in the Province of Quebec, this 3rd day of November 2011.

RSM Richter Inc.
Court-appointed Monitor

Benoit Gingues, CA, CIRP
2 Place Alexis Nihon, Suite 1820
Montréal QC H3Z 3C2
Telephone: 514.934.3440 Facsimile: 514.934.3504

CANADA
District of: Quebec
Division No.: 01-Montréal
Court No.: 500-11-041238-110
File No.: 0000074-2011-QC

SUPERIOR COURT
(Commercial Division)
Companies' Creditors Arrangement Act
RSC 1985, c C-36, as amended

Monitor's Report on Cash-Flow Statement - Attachment
(Sections 4, 5 and 11 of the *Companies' Creditors Arrangement Act*)

In the matter of the Plan of Arrangement
with respect to
Hart Stores Inc.
Of the City of Laval
In the Province of Quebec

Purpose:

On August 30, 2011, Hart Stores Inc. ("Hart" or the "Company") filed with the Quebec Superior Court a Petition 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"). On August 30, 2011, the Honourable Jean-Yves Lalonde, J.C.S. issued an Initial Order (the "Initial Order"), appointing RSM Richter Inc. as monitor (the "Monitor"). On September 28, 2011, the Debtor presented a Motion and an Order extending the stay period was rendered up to and including November 4, 2011.
The purpose of this Statement of Projected Cash Flow is to present the estimated cash receipts and disbursements of Hart for the period from October 31, 2011 to January 29, 2012. This Statement of Projected Cash Flow has been prepared by the management based on available financial information at that date in accordance with Section 11.02 of the *Companies' Creditors Arrangement Act*. Readers are cautioned that this information may not be appropriate for other purposes.

Projection Notes:

The Statement of Projected Cash-Flow has been prepared using probable assumptions supported and consistent with the plans of the Company for the period October 31, 2011 to January 29, 2012, considering the economic conditions that are considered the most probable by Management.
As the Projected Cash-Flow is based upon various assumptions regarding future events and circumstances, variances will exist and said variances may be material. Accordingly, we express no assurance as to whether the projections will be achieved.

Projected Assumptions:

(a) Projected Cash Receipts
- Receipts were projected based upon the historical sales by store for the same period last year, adjusted to reflect the recent trending. In addition, projected receipts include management's best estimate relating to the sale of a portion of the Debtor's inventory with respect to the liquidation process currently underway with Tiger Capital Group, LLC.

(b) Projected Cash Disbursements
- Projected cash disbursements reflect the payment of payroll, occupancy and other operating expenses as these amounts come due. Amounts were projected based on recent trending and represent the best estimate of the Company.
- Projected cash disbursements also include the purchase of merchandise based on Management's best estimate.
- The cash disbursements do not provide for the payment of arrears to unsecured creditors.

Dated at Montréal in the Province of Quebec, this 3rd day of November 2011.

RSM Richter Inc.
Court-appointed Monitor

Benoit Gingues, CA, CIRP
2 Place Alexis Nihon, Suite 1820
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Hart Stores Inc.
Projected Cash Flow Statement (000's)
October 31 to January 29, 2011

Appendix B

Week-Ending	1 6-Nov	2 13-Nov	3 20-Nov	4 27-Nov	5 4-Dec	6 11-Dec	7 18-Dec	8 25-Dec	9 1-Jan	10 8-Jan	11 15-Jan	12 22-Jan	13 29-Jan	Total
PROJECTED RECEIPTS														
Receipts - including taxes	$ 2,163	$ 2,135	$ 4,272	$ 2,590	$ 3,505	$ 3,747	$ 4,164	$ 4,211	$ 1,729	$ 1,385	$ 1,385	$ 1,385	$ 1,385	$ 34,057
Vendor discounts / rebates and other	57	56	62	68	33	35	39	40	16	34	34	34	34	543
	2,220	2,191	4,334	2,658	3,539	3,782	4,204	4,251	1,745	1,419	1,419	1,419	1,419	34,600
PROJECTED DISBURSEMENTS														
Payroll	(1,491)	-	(1,114)	-	(1,114)	-	(1,062)	-	(1,062)	-	(1,063)	-	(1,063)	(7,967)
Rent	(1,043)	-	-	-	(1,217)	-	-	-	-	(1,217)	-	-	-	(3,478)
Utilities & Taxes	(568)	-	-	-	(443)	-	-	-	-	(443)	-	-	-	(1,455)
Merchandise	(1,714)	(1,691)	(1,871)	(2,052)	(658)	(703)	(781)	(790)	(324)	(206)	(206)	(206)	(206)	(11,409)
Distribution Costs	(81)	(80)	(88)	(97)	(125)	(134)	(149)	(150)	(62)	(49)	(49)	(49)	(49)	(1,164)
Additional Expenses / Excess Inventory	(81)	(80)	(88)	(97)	(97)	(104)	(115)	(117)	(48)	(39)	(39)	(39)	(39)	(984)
Advertising/OPEX/Administrative/Other	(227)	(224)	(247)	(271)	(224)	(239)	(266)	(269)	(110)	(286)	(286)	(286)	(617)	(3,550)
Insurance	(69)	-	-	-	(69)	-	-	-	-	(69)	-	-	-	(207)
Inventory Taking - shared 50/50 with liquidator	-	(171)	-	-	-	-	-	-	-	-	-	-	-	(171)
GST/HST/QST Remittance	-	-	-	(431)	-	-	-	-	242	-	-	-	(1,145)	(1,334)
Interest & DIP Renewal Fee	(216)	-	-	-	(133)	-	-	-	-	(136)	-	-	-	(486)
Professional Fees	(149)	(147)	(163)	(179)	(120)	(120)	(120)	(120)	(120)	(91)	(91)	(91)	(91)	(1,602)
	(5,639)	(2,393)	(3,572)	(3,127)	(4,200)	(1,299)	(2,492)	(1,445)	(1,484)	(2,538)	(1,734)	(672)	(3,211)	(33,806)
PROJECTED NET CASH FLOW	$ (3,419)	$ (202)	$ 762	$ (468)	$ (662)	$ 2,483	$ 1,712	$ 2,805	$ 261	$ (1,119)	$ (315)	$ 747	$ (1,792)	$ 794
Post-Filing DIP Financing														
Beginning Balance (excluding unfunded disbursements, see Note 1)	8,807	12,225	12,427	11,665	12,134	12,795	10,312	8,601	5,795	5,534	6,653	6,968	6,220	8,807
Deposits	(2,220)	(2,191)	(4,334)	(2,658)	(3,539)	(3,782)	(4,204)	(4,251)	(1,745)	(1,419)	(1,419)	(1,419)	(1,419)	(34,600)
Advances	5,639	2,393	3,572	3,127	4,200	1,299	2,492	1,445	1,484	2,538	1,734	672	3,211	33,806
Ending Balance	$ 12,225	$ 12,427	$ 11,665	$ 12,134	$ 12,795	$ 10,312	$ 8,601	$ 5,795	$ 5,534	$ 6,653	$ 6,968	$ 6,220	$ 8,013	$ 8,013

Note 1: The unfunded disbursements of $1,765K as at October 30, 2011 are projected to remain constant during the reference period.

Robert Harritt, Vice President Finance & CFO