

RSM Richter Inc.

2, Place Alexis Nihon  
Montréal (Québec) H3Z 3C2  
Téléphone / Telephone : (514) 934-3497  
Télécopieur / Facsimile : (514) 934-3504  
www.rsmrichter.com

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

**SUPERIOR COURT**  
**(Commercial Division)**  
***The Companies' Creditors Arrangement Act***

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**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**

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**UPDATED REPORT OF THE MONITOR**  
**ON THE STATE OF THE DEBTOR'S AFFAIRS AND THE PLAN OF ARRANGEMENT**  
**February 15, 2012**

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## INTRODUCTION

1. On February 3, 2012, RSM Richter Inc. ("Richter"), the Court-appointed monitor (the "Monitor"), made available on his Web Site its report on the State of the Debtors' Financial Affairs and the Plan of Arrangement in order to provide information on Hart Stores Inc. (hereinafter referred to as "Debtor" or "Hart Stores") and to assist the creditors and the Court in their review and assessment of the Plan of Arrangement (the "Plan").
2. This Updated Report of the Monitor provides the following:
  - Update on the Claims Process; and
  - Update as to the estimated distribution to creditors under the Plan in comparison to an estimated distribution under a forced liquidation scenario.
3. **We refer the Affected Creditors to the Monitor's Report dated February 3, 2012 for a comprehensive review of the Debtor's financial affairs and of the Plan as this Updated Report deals only with the above-mentioned specific matters.**
4. 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.
5. It should be noted that the Monitor has not conducted an audit or investigation of the books and records 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.

## UPDATE ON CLAIMS PROCESS

6. On November 28, 2011, the Court issued the Claims and Meetings Procedure Order. On January 20, 2012, an Order was rendered extending to January 31, 2012 the Claims Bar Date.
7. As of January 31, 2012, 591 creditors representing 64% of the total number of creditors (928) filed Claims totaling approximately \$36.1 million, as indicated in the Monitor's Report dated February 3, 2012. 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. In this regard, the Debtor, with the assistance of the Monitor, has reviewed the most significant claims filed by the Affected Creditors and communicated with same in order to:
  - Have the Affected Creditors amend their claims where discrepancies existed as compared to the Debtor's books and records, or alternatively;
  - Have the Monitor issue Notices of Revision or Disallowance or value the claims for voting purposes and notify the Affected Creditors accordingly.
8. Following the receipt of numerous amended claims, in particular those from the landlords for damage claims, the total claims have been reduced from \$36.1 million to \$31.8 million as of the date of this Updated Report.
9. The Notices of Revision or Disallowance issued by the Monitor before the Meeting of Creditors and the valuation adjustments of certain claims for voting purposes total approximately \$4.8 million. Accordingly, the revised claims amount (\$31.8 million) has been reduced to \$27 million for voting purposes. It is important to note that the Affected Creditors for which Notices of Revision or Disallowance have been issued by the Monitor or for which their claims have been adjusted for voting purposes can contest the Monitor's position for the purpose of distribution.
10. The Debtor and the Monitor have not completed the review and reconciliation of all claims filed and the Debtor still disagrees with several claims. In this regard, the claims as per the Debtor's books and records total approximately \$26.3 million.
11. **The quantum of the claims filed will vary depending on the final results of the Claims Process.**

## UPDATE ON ESTIMATED DISTRIBUTION TO CREDITORS

12. The following data is to provide updated information to creditors regarding the revised estimated distribution to creditors under the Plan in comparison to an estimated distribution under a forced liquidation scenario.

### Plan of Arrangement

13. The following table has been compiled based on the information available as of the date of this Updated Report and illustrates the revised estimated recovery under the Plan which may be realized by the Affected Creditors in comparison to the initial estimate as per the Report dated February 3, 2012.

Hart Stores Inc. Estimated Distribution Plan of Arrangement (in 000's)		Revised Estimate Feb. 15, 2012		Initial Estimate Feb. 3, 2012	
		Low	High	Low	High
<b>Affected Claims</b>					
Trade payables and employees (estimate)		\$ 27,229	\$ 23,815	\$ 27,406	\$ 24,531
Lease damages and other (estimate)		4,570	2,438	5,770	3,907
<b>Total (Note 1)</b>	<b>A</b>	<b>\$ 31,799</b>	<b>\$ 26,253</b>	<b>\$ 33,176</b>	<b>\$ 28,438</b>
<b>Distribution (Note 2)</b>					
September 14, 2012		\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
February 3, 2013		1,000	1,000	1,000	1,000
February 2, 2014		1,500	1,500	1,500	1,500
February 1, 2015		1,500	1,500	1,500	1,500
February 28, 2015		1,000	1,000	1,000	1,000
	<b>B</b>	<b>\$ 6,000</b>	<b>\$ 6,000</b>	<b>\$ 6,000</b>	<b>\$ 6,000</b>
<b>Estimated distribution %</b>	<b>B/A</b>	<b>19%</b>	<b>23%</b>	<b>18%</b>	<b>21%</b>
Note 1: Consist of the Monitor's best estimate of the Affected Claims.					
Note 2: Represents the dates on which the Debtor shall pay the instalments to the Monitor.					

14. As shown in the above table, the revised estimated recovery under the Plan is estimated to range between 19% and 23% of the total Proven Claims, which compares favorably to the initial estimate. **It is important to note that the final distribution under the Plan will vary depending on the final results of the Claims Process.**

**Forced Liquidation**

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

Hart Stores Inc.							
Estimated Net Realization in a Forced Liquidation							
	Revised Estimate - Feb. 15, 2012			Initial Estimate - Feb. 3, 2012			
	Projected Estimated Book Value as at February 29, 2012	Low	High	Projected Estimated Book Value as at February 29, 2012	Low	High	
(in 000's)							
<b>Estimated Gross Realization of Assets</b>	\$ 41,600	\$ 11,100	\$ 14,900	\$ 39,600	\$ 9,300	\$ 13,200	
Professional fees		(2,500)	(2,000)		(2,500)	(2,000)	
General expenses		(3,600)	(2,700)		(3,600)	(2,700)	
<b>Estimated Professional Fees and General Expenses</b>		<b>(6,100)</b>	<b>(4,700)</b>		<b>(6,100)</b>	<b>(4,700)</b>	
Estimated Priority Claims		(2,100)	(2,100)		(2,100)	(2,100)	
Estimated Secured Claims		(4,700)	(4,200)		(1,600)	(1,100)	
<b>Estimated Amount Available for Unsecured Creditors</b>		<b>NIL</b>	<b>\$ 3,900</b>		<b>NIL</b>	<b>\$ 5,300</b>	
Estimated Unsecured Claims (Note 1)		\$ 49,400	\$ 41,200		\$ 47,300	\$ 40,900	
<b>Estimated % Recovery for Unsecured Creditors</b>		<b>NIL</b>	<b>9%</b>		<b>NIL</b>	<b>13%</b>	
<b>Estimated Median % Recovery</b>		<b>5%</b>			<b>6%</b>		

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 Updated Report, estimated landlord damage claims and severances.

16. Based on the above table, the revised estimated recovery for Affected Creditors in the context of a forced liquidation is estimated to range between NIL and 9% of the total Proven Claims, which compares unfavorably to the initial estimate. 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.

## MONITOR'S CONCLUSION AND RECOMMENDATION

17. The Monitor is still 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.
  
18. Consequently, the Monitor is still 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 maintains its recommendation to vote in favour of the Plan.**

Dated at Montreal, this 15<sup>th</sup> day of February, 2012.

**RSM Richter Inc.**  
Court-Appointed Monitor



Benoit Gingues, CA, CIRP  
Administrator