



**Second Report to Court of
KSV Kofman Inc. as Proposal
Trustee of Danier Leather Inc.**

February 29, 2016

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ESTATE FILE NO.: 31-CL-2084381

COURT FILE NO.: 31-CL-2084381

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

**IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF
DANIER LEATHER INC.,
A COMPANY INCORPORATED PURSUANT TO THE LAWS OF THE
PROVINCE OF ONTARIO, WITH A HEAD OFFICE IN THE CITY OF TORONTO,
IN THE PROVINCE OF ONTARIO**

**SECOND REPORT OF KSV KOFMAN INC.
AS PROPOSAL TRUSTEE OF DANIER LEATHER INC.**

FEBRUARY 29, 2016

1.0 Introduction

1. This report ("Report") is filed by KSV Kofman Inc. ("KSV") in its capacity as proposal trustee ("Proposal Trustee") in connection with a Notice of Intention to Make a Proposal ("NOI") filed by Danier Leather Inc. (the "Company") on February 4, 2016 ("Filing Date") pursuant to Section 50.4(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended ("BIA").
2. The principal purpose of these restructuring proceedings is to create a stabilized environment to enable the Company to complete a sale and investor solicitation process ("SISP") in order to effect one or more transactions resulting therefrom. The Company is conducting the SISP with the assistance of its financial advisor, Consensus Advisory Services LLC and Consensus Securities LLC (collectively, the "Financial Advisor"), and the Proposal Trustee.
3. This Report should be read in conjunction with the affidavit of Brent Houlden, the Chief Financial Officer of the Company, sworn February 26, 2016 in support of this application (the "Affidavit").

1.1 Purposes of this Report

1. The purposes of this Report are to:
 - a) provide background information about the Company;
 - b) provide an update on the Court-approved SISP;
 - c) report on the Company's weekly cash flow projection for the period March 6, 2016 to March 26, 2016 ("Cash Flow Forecast");
 - d) discuss the Company's request for an extension of the stay of proceedings from March 6, 2016 to March 23, 2016;
 - e) provide an overview of the Company's activities since the commencement of these proceedings;
 - f) provide an overview of the Proposal Trustee's activities since the commencement of these proceedings; and
 - g) recommend that the Court make an order, *inter alia*:
 - granting the Company's request for an extension of the time to file a proposal with the Official Receiver from March 6, 2016 to March 23, 2016; and
 - approving the Proposal Trustee's First Report to Court dated February 5, 2016 (the "First Report"), this Report, and the activities of the Proposal Trustee as set out in the First Report and this Report.

1.2 Currency

1. Unless otherwise noted, all currency references in this Report are to Canadian dollars.

1.3 Restrictions

1. In preparing this Report, the Proposal Trustee has relied upon unaudited financial information prepared by the Company's representatives, the Company's books and records and discussions with its representatives. The Proposal Trustee has not performed an audit or other verification of such information. An examination of the Company's financial forecasts as outlined in the *Canadian Institute of Chartered Accountants Handbook* has not been performed. Future oriented financial information relied upon in this Report is based on the Company's representatives' assumptions regarding future events; actual results achieved may vary from this information and these variations may be material.
2. The Proposal Trustee also references its report on the Company's cash flow projections and underlying assumptions and notes that its review and commentary thereon was performed in accordance with the requirements set out in the Canadian Association of Insolvency and Restructuring Professionals' Standards of Professional Practice No. 99-5 (Trustee's Report on Cash Flow Statement).

2.0 Background

1. The Company was founded in 1972. It is Canada's largest retailer of leather apparel and accessories. The subordinated voting shares of the Company are listed on the Toronto Stock Exchange (the "TSX") and, until the Filing Date, traded under the symbol "DL". On the Filing Date, the Investment Industry Regulatory Organization of Canada issued a cease trade order in respect of the shares. The TSX has advised the Company that its shares will be delisted effective March 17, 2016.
2. The Company leases its Toronto based head office (the "St. Clair Facility"). The St. Clair Facility also serves as the Company's manufacturing, warehouse and distribution center. The Company also leases a distribution facility in Toronto, as well as two offices in China. The Company contracts production from vendors located in China, India and Pakistan.
3. The Company's merchandise is predominantly marketed under the "Danier" brand name and is currently sold in 83 leased stores across Canada, as well as online through the Company's website: www.danier.com.
4. The Company employs approximately 1,088 individuals, including 872 store-level employees, 107 employees in manufacturing and distribution, 90 employees in its head office and administration and 19 employees in China. The Company's workforce is not unionized and the Company does not maintain a pension plan.
5. Prior to the commencement of the NOI proceedings, the Company entered into an agency agreement with GA Retail Canada, ULC, or an affiliate thereof ("Stalking Horse Agreement"). Pursuant to an Order made on February 8, 2016 (the "SISP Order") the Court, *inter alia*: (i) approved the SISP; and (ii) approved and accepted the form of the Stalking Horse Agreement for purposes of being the stalking horse under the SISP.
6. Any transaction for the Company's business and assets remains subject to further Order of the Court. A copy of the SISP Order and the Endorsement of the Honourable Justice Penny is attached as Appendix "A".
7. Additional information about the Company and its background, as well as copies of the materials filed in these proceedings, can be found on the Proposal Trustee's website at: <http://www.ksvadvisory.com/insolvency-cases-2/danier-leather-inc/>.

3.0 SISP Update¹

1. The SISP is described in the First Report. A copy of the First Report is provided in Appendix "B", without appendices.
2. Pursuant to the SISP, interested parties were required to submit offers for the Company's business and/or assets to the Financial Advisor by no later than 5:00 pm EST on February 22, 2016 (the "Offer Deadline").

¹ Capitalized terms in this section have the meaning provided to them in the SISP unless otherwise defined herein.

3. Pursuant to the terms of the SISP, the Company received:
 - a) two Qualified Liquidation Bids for the Company's inventory and furniture, fixtures and equipment (in addition to the Stalking Horse Agreement); and
 - b) seven offers to acquire certain of the Company's assets, primarily certain of the Company's real property leases.
4. Pursuant to the terms of the SISP, if the Company received more than one Qualified Liquidation Bid it can conduct an Auction. Accordingly, the Company has scheduled an Auction to be held on Monday, February 29, 2016 at the offices of its legal counsel, Davies Ward Philips & Vineberg LLP ("Davies"). The outcome of the Auction will be discussed in motion materials to be filed in the context of an approval motion.

4.0 Cash Flow Extension

1. The Cash Flow Forecast and the related assumptions for the period March 6, 2016 to March 26, 2016, together with Management's Report on the Cash-Flow Statement as required by Section 50.4(2)(c) of the BIA, are provided in Appendix "C".
2. The Company anticipates that it will seek approval of the successful bid on or before March 9, 2016. As the results of the SISP are not yet known, the Cash Flow Forecast reflects the terms of the best Qualified Bid received in the SISP, being an offer submitted by Tiger Capital Group, LLC and Yellen Partners, LLC.
3. According to the Cash Flow Forecast, the Company is projected to have net cash flow of \$16.2 million during the period. The Company has sufficient liquidity to operate its business during the Cash Flow Forecast period.
4. Based on the Proposal Trustee's review of the Cash Flow Forecast, there are no material assumptions which seem unreasonable in these circumstances. The Proposal Trustee's Report on the Cash Flow Statement as required by Section 50.4(2)(b) of the BIA is attached as Appendix "D".

5.0 Company's Request for an Extension

1. The Company is seeking an extension of the time to file a proposal with the Official Receiver from March 6, 2016 to March 23, 2016.
2. The Proposal Trustee supports the Company's request for the following reasons:
 - a) the Company is acting in good faith and with due diligence;
 - b) it will allow the Company the opportunity to identify one or more transactions through the SISP and to consider the next steps in these proceedings;

- c) it should not prejudice any creditor as the Company is projected to have sufficient funds to pay for post-filing goods and services in the amounts contemplated by the Cash Flow Forecast; and
- d) as of the date of this report, the Proposal Trustee is not aware of any party opposed to an extension.

6.0 Company's Activities

1. The Company's activities since the commencement of the proceedings have included:
 - a) operating its business in the ordinary course;
 - b) communicating with suppliers, including foreign suppliers, to secure goods and services during these proceedings and to address payment terms;
 - c) corresponding with landlords to keep them apprised of the NOI proceedings;
 - d) preparing the projected cash flow filed at the commencement of the proceedings ("Original Cash Flow") and the Cash Flow Forecast;
 - e) reporting to its Board of Directors to keep it apprised of material developments in the NOI proceedings;
 - f) responding to enquiries from creditors and other stakeholders regarding the NOI proceedings;
 - g) considering cost-saving initiatives;
 - h) corresponding regularly with representatives of the Proposal Trustee to provide an update on the status of the Company's operations;
 - i) conducting the SISP;
 - j) corresponding with prospective purchasers;
 - k) reviewing offers submitted in the SISP and corresponding with the Financial Advisor and the Proposal Trustee regarding same;
 - l) reporting daily receipts and disbursements; and
 - m) dealing with employee-related matters.

7.0 Overview of the Proposal Trustee's Activities

1. The Proposal Trustee's activities since the commencement of the proceedings have included:
 - a) preparing all documents required to be filed in connection with the NOI;
 - b) corresponding regularly with the Company regarding various matters in these proceedings;
 - c) assisting the Company to procure goods and services, including corresponding with overseas suppliers and freight forwarders and other transportation companies;
 - d) attending meetings with the Company's employees on the Filing Date to advise of the NOI proceedings;
 - e) reviewing and revising a "Q&A" prepared by the Company to assist the Company's management in addressing employees' questions;
 - f) providing the Board of Directors updates on the status of the proceedings;
 - g) mailing a notice to the Company's creditors as required pursuant to the BIA;
 - h) attending at the Company's premises periodically in order to carry out the Proposal Trustee's duties and responsibilities under the BIA;
 - i) reviewing the Original Cash Flow and the Cash Flow Forecast and the underlying assumptions;
 - j) preparing Management's Reports on Cash Flow Statement;
 - k) preparing the Proposal Trustee's Reports on Cash Flow Statement;
 - l) updating the Company's creditors' list;
 - m) preparing an email to the Service List as required pursuant to the Commercial List Protocol;
 - n) reviewing and commenting on financial analyses prepared by the Company reflecting potential restructuring options;
 - o) corresponding with certain of the Company's landlords regarding the SISP;
 - p) corresponding with the Company's benefits provider to arrange for the continuation of benefits during the NOI proceedings;
 - q) monitoring the Company's receipts and disbursements, and arranging for deposits with certain suppliers;
 - r) drafting the First Report;

- s) attending at Court on February 8, 2016;
- t) corresponding with Davies, Bennett Jones LLP, the Proposal Trustee's counsel, and Chaitons LLP, counsel to the Board of Directors of the Company, regarding various matters in these proceedings;
- u) corresponding with the Financial Advisor to receive updates on the status of the SISP;
- v) corresponding with certain prospective purchasers;
- w) reviewing and commenting on materials distributed to parties participating in the SISP;
- x) reviewing information in the Company's data room, including financial information, contracts, payroll information and store information and summarizing key schedules for internal purposes;
- y) reviewing the Company's financial statements for the period ending January 30, 2016;
- z) responding to enquiries from stakeholders, including creditors and shareholders;
- aa) posting materials filed with the Court to the Proposal Trustee's website for these proceedings;
- bb) reviewing bids submitted in the SISP;
- cc) maintaining the service list; and
- dd) drafting this Report.

8.0 Conclusion and Recommendation

1. Based on the foregoing, the Proposal Trustee respectfully recommends that this Honourable Court make an order granting the relief detailed in Section 1.1(g) of this Report.

* * *

All of which is respectfully submitted,

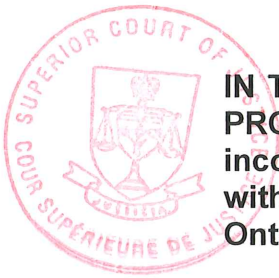


**KSV KOFMAN INC.
IN ITS CAPACITY AS TRUSTEE UNDER THE
NOTICE OF INTENTION TO MAKE A PROPOSAL OF
DANIER LEATHER INC.
AND NOT IN ITS PERSONAL CAPACITY**

Appendix “A”

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

THE HONOURABLE)	MONDAY, THE 8th
)	
MR. JUSTICE PENNY)	DAY OF FEBRUARY, 2016



**IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A
PROPOSAL OF DANIER LEATHER INC., a corporation
incorporated pursuant to the laws of the Province of Ontario,
with a head office in the City of Toronto, in the Province of
Ontario**

ORDER

THIS MOTION made by Danier Leather Inc. (the "**Company**") pursuant to the *Bankruptcy and Insolvency Act* (Canada) (the "**BIA**") was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the affidavit of Brent Houlden sworn February 4, 2016 and exhibits thereto (the "**Houlden Affidavit**"), the affidavit of Michael A. O'Hara sworn February 4, 2016 the first report (the "**Report**") of KSV Kofman Inc. in its capacity as proposal trustee (the "**Trustee**"), filed, and on hearing the submissions of Davies Ward Phillips & Vineberg LLP, counsel for the Company, Bennett Jones LLP, counsel for the Trustee, McMillan LLP, counsel for GA Retail Canada, ULC, Chaitons LLP, counsel for the directors and officers of the Company, Gowling Lafleur Henderson LLP, counsel for the Canadian Imperial Bank of Commerce, Torys LLP, counsel for The Cadillac Fairview Corporation, McLean & Kerr LLP, counsel for Morguard, Ivanhoe Cambridge, SmartRE!T and 20 V!C Management Inc., and no one else appearing although duly served as appears from the affidavits of service filed in connection with this motion;

SERVICE

1. **THIS COURT ORDERS** that the time for service and filing of the Company's notice of motion, the motion record and the Report is hereby abridged and validated so that this motion is properly returnable today and hereby dispenses with further service thereof.

SALE AND INVESTOR SOLICITATION PROCESS AND STALKING HORSE AGREEMENT

2. **THIS COURT ORDERS** that the sales and investor solicitation process procedures ("**SISP Procedures**") attached as Schedule "A" hereto are hereby approved and the Company, the Financial Advisor (as defined below) and the Trustee are hereby authorized to conduct the sales and investor solicitation process (the "**SISP**") and auction, if determined necessary, contemplated in the SISP and to perform each of their obligations thereunder.

3. **THIS COURT ORDERS** that the agency agreement dated as of February 4, 2016 between GA Retail Canada, ULC or an affiliate thereof and the Company, substantially in the form attached to the Houlden Affidavit (the "**Stalking Horse Agreement**") be and is hereby approved and accepted for the purposes of being the Stalking Horse under the SISP and this Court orders that, in the event the Stalking Horse Bidder is not the Successful Bidder, as defined in the SISP Procedures, the Company is hereby authorized and directed to pay of the Break Fee, the Expense Reimbursement and the Signage Cost Obligations (each as defined in the Stalking Horse Agreement) and the Trustee is hereby authorized and directed to return the Deposit (as defined in the Stalking Horse Agreement) in accordance with the Stalking Horse Agreement.

4. **THIS COURT ORDERS** that (a) nothing herein, including the approval of the SISP Procedures and the Stalking Horse Agreement, shall be deemed to be an amendment of or have the affect of amending any real property leases and all such real property leases shall remain unaffected by the approvals of the SISP Procedures and the Stalking Horse Agreement; and (b) nothing herein approves the sale of any property or assets of the Company on the terms set out in the Stalking Horse Agreement and

that the approval and vesting of any sale of the Assets (as defined in the SISP Procedures) shall be determined on a subsequent motion made to this Court.

5. **THIS COURT ORDERS** that in connection with the Stalking Horse Agreement and the SISP and pursuant to clause 7(3)(c) of the *Personal Information Protection and Documents Act* (Canada), the Company and the Financial Advisor may disclose personal information of identifiable individuals to prospective bidders in the SISP and to their advisors, but only to the extent desirable or required to negotiate and attempt to complete a sale of the property or assets of the Company. Each prospective bidder to whom any such personal information is disclosed shall maintain and protect the privacy of such information and limit the use of such information to its evaluation of the property or assets of the Company and related business, and if it does not complete a purchase thereof, shall return all such information to Company or in the alternative shall destroy all such information and certify such destruction to the Company. The purchaser of the property or assets of the Company shall be entitled to continue to use the personal information provided to it, and related to such property or assets, in a manner which is in all material respects similar to the prior use of such information by the Company and shall return all other personal information to the Company, or ensure that all other personal information is destroyed.

6. Each of the Financial Advisor and the Trustee, and their respective affiliates, partners, directors, employees, agents and controlling persons shall have no liability with respect to any and all losses, claims, damages or liabilities, of any nature or kind, to any person in connection with or as a result of the SISP, except to the extent such losses, claims, damages or liabilities result from the gross negligence or willful misconduct of the Financial Advisor or the Trustee, as applicable, in performing its obligations under the SISP (as determined by this Court).

RENT PAYMENTS

7. **THIS COURT ORDERS** that until a real property lease is disclaimed or resiliated in accordance with the BIA, the Company shall pay all amounts constituting rent or payable as rent under real property leases (including, for greater certainty, common

area maintenance charges, utilities and realty taxes and any other amounts payable to the landlord under the lease) or as otherwise may be negotiated between the Company and the landlord from time to time ("**Rent**") in accordance with the terms of the applicable real property lease.

FINANCIAL ADVISOR AND OCI INC.

8. **THIS COURT ORDERS** that the Company is authorized to carry out and perform its obligations under its engagement letter (the "**Consensus Engagement Letter**") with Consensus Advisory Services LLC and Consensus Securities LLC (collectively, the "**Financial Advisor**"), as financial advisor for the Company dated December 31, 2015, attached as Exhibit "F" to the Houlden Affidavit, including, without limitation, make the payments contemplated thereunder.

9. **THIS COURT ORDERS** that the Company is authorized to carry out and perform its obligations under its engagement letter with OCI Inc., as financial advisor for the Company in certain international markets dated January 11, 2016, attached as Exhibit "G" to the Houlden Affidavit, including, without limitation, make the payments contemplated thereunder.

10. **THIS COURT ORDERS** that the Financial Advisor shall be entitled to the benefit of and are hereby granted a charge (the "**Consensus Charge**") on the Company's current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof (the "**Property**"), which Consensus Charge shall not exceed an aggregate amount of US\$500,000 as security for the obligations of the Company under the Consensus Engagement Letter, and. The Consensus Charge shall have the priority set out in paragraphs 18 and 20 hereof.

DIRECTORS' AND OFFICERS' INDEMNIFICATION AND CHARGE

11. **THIS COURT ORDERS** that the Company shall indemnify its directors and officers against obligations and liabilities that they may incur as directors or officers of the Company after the commencement of the within proceedings, except to the extent

that, with respect to any officer or director, the obligation or liability was incurred as a result of the director's or officer's gross negligence or wilful misconduct.

12. **THIS COURT ORDERS** that the directors and officers of the Company shall be entitled to the benefit of and are hereby granted a charge (the "**D&O Charge**") on the Property, which charge shall not exceed the aggregate amount of \$4.9 million, as security for the indemnity provided in paragraph 11 of this Order. The D&O Charge shall have the priority set out in paragraphs 18 and 20 of this Order.

13. **THIS COURT ORDERS** that, notwithstanding any language in any applicable insurance policy to the contrary, (a) no insurer shall be entitled to be subrogated to or claim the benefit of the D&O Charge, and (b) the Company's directors and officers shall only be entitled to the benefit of the D&O Charge to the extent that they do not have coverage under any directors' and officers' insurance policy, or to the extent that such coverage is insufficient to pay amounts indemnified in accordance with paragraph 11 of this Order.

KEY EMPLOYEE RETENTION PLAN

14. **THIS COURT ORDERS** that the key employee retention plans (the "**KERP**"), attached as confidential Exhibit "H" to the Houlden Affidavit be and are hereby approved and the Company is authorized to make payments in accordance with the terms and conditions of the KERP.

15. **THIS COURT ORDERS** that the obligations of the Company under the KERP up to a maximum of \$524,000 are hereby secured by a charge on the Property (the "**KERP Charge**") and the KERP Charge shall have the priority set out in out in paragraphs 18 and 20 of this Order.

ADMINISTRATION CHARGE

16. **THIS COURT ORDERS** that the Trustee, counsel to the Trustee , counsel to the Company, the directors of the Company and counsel to the directors of the Company shall be paid their reasonable fees and disbursements (including any pre-filing fees and

disbursements), in each case at their standard rates and charges, by the Company. The Company is hereby authorized and directed to pay the accounts of the Trustee, counsel to the Trustee, counsel to the Company and counsel to the directors of the Company on a weekly basis or on such other basis as such persons may agree.

17. **THIS COURT ORDERS** that the Trustee, counsel to the Trustee, the Financial Advisor, counsel to the Company, the directors of the Company and their counsel shall be entitled to the benefit of and are hereby granted a charge (the "**Administration Charge**") on the Property, which Administration Charge shall not exceed an aggregate amount of \$600,000, as security for: (a) the professional fees and disbursements, incurred at the standard rates and charges, of the Trustee, counsel to the Trustee and the Company's counsel and (b) the fees of the Company's directors and their counsel, in all cases both before and after the making of this Order in respect of these proceedings. The Administration Charge shall have the priority set out in paragraphs 18 and 20 hereof.

VALIDITY AND PRIORITY OF CHARGES CREATED BY THIS ORDER

18. **THIS COURT ORDERS** that the priorities of the Consensus Charge, the Administration Charge, the D&O Charge and the KERP Charge, as among them, shall be as follows:

First – Administration Charge and Consensus Charge *pari passu*;

Second – D&O Charge;

Third – KERP Charge.

19. **THIS COURT ORDERS** that the filing, registration or perfection of the Consensus Charge, Administration Charge, the D&O Charge or the KERP Charge (collectively, the "**Charges**") shall not be required, and that the Charges shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered, recorded or perfected subsequent to the Charges coming into existence, notwithstanding any such failure to file, register, record or perfect.

20. **THIS COURT ORDERS** that each of the Charges shall constitute a charge on the Property and such Charges shall rank in priority to all other security interests, trusts, liens, charges and encumbrances, claims of secured creditors, statutory or otherwise (collectively, "**Encumbrances**") in favour of any person, other than security interests listed on Schedule "B" hereto.

21. **THIS COURT ORDERS** that except as otherwise expressly provided for herein, or as may be approved by this Court, the Company shall not grant any Encumbrances over any Property that rank in priority to, or *pari passu* with, any of the Consensus Charge, Administration Charge, the D&O Charge or the KERP Charge, unless the Company also obtains the prior written consent of the Trustee and the beneficiaries of the Financial Advisor Charge, Administration Charge, the D&O Charge and the KERP Charge, or further Order of this Court.

22. **THIS COURT ORDERS** that the Consensus Charge, Administration Charge, the D&O Charge and the KERP Charge shall not be rendered invalid or unenforceable and the rights and remedies of the charges entitled to the benefit of the Charges (collectively, the "**Chargees**") shall not otherwise be limited or impaired in any way by (a) the pendency of these proceedings and the declarations of insolvency made herein; (b) any application(s) for bankruptcy order(s) issued pursuant to the BIA, or any bankruptcy order made pursuant to such applications; (c) the filing of any assignments for the general benefit of creditors made pursuant to the BIA; (d) the provisions of any federal or provincial statutes; or (e) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any existing loan documents, lease, sublease, offer to lease or other agreement (collectively, an "**Agreement**") which binds the Company, and notwithstanding any provision to the contrary in any Agreement.

23. **THIS COURT ORDERS** that:

- (a) the creation of the Charges shall not create or be deemed to constitute a breach by the Company of any Agreement to which it is a party;

- (b) none of the Chargees shall have any liability to any person whatsoever as a result of any breach of any Agreement or the creation of the Charges; and
- (c) the payments made by the Company pursuant to this Order, including without limitation those made to the Stalking Horse Bidder, and the granting of the Charges do not and will not constitute preferences, fraudulent conveyances, transfers at undervalue, oppressive conduct, or other challengeable or voidable transactions under any applicable law.

24. **THIS COURT ORDERS** that any of the Charges created by this Order over leases of real property in Canada shall only be a charge in the Company's interest in such real property leases.

SEALING

25. **THIS COURT ORDERS** that the KERPs and related payment information attached as confidential Exhibit "H" to the Houlden Affidavit are hereby sealed until the completion of these proposal proceedings.

26. **THIS COURT ORDERS** that the offer summary prepared by the Financial Advisor attached as a confidential appendix to the Report is hereby sealed under the completion of the transactions under the Successful Bid(s) (as defined in the SISP).

E-SERVICE PROTOCOL

27. **THIS COURT ORDERS** that the E-Service Protocol of the Commercial List (the "**Protocol**") is approved and adopted by reference herein and, in these proceedings the service of documents made in accordance with the Protocol (which can be found on the Commercial List website at <http://www.ontariocourts.ca/scj/practice/practice-directions/toronto/e-service-protocol/>) shall be valid and effective service. Subject to Rule 17.05 this Order shall constitute an order for substituted service pursuant to Rule 16.04 of the *Rules of Civil Procedure*. Subject to Rule 3.01(d) of the *Rules of Civil Procedure* and paragraph 21 of the Protocol, service of documents in accordance with

the Protocol will be effective on transmission. This Court further orders that a Case Website shall be established in accordance with the Protocol with the following URL: <http://www.ksvadvisory.com/insolvency-cases-2/danier-leather-inc>.

28. **THIS COURT ORDERS** that if the service or distribution of documents in accordance with the Protocol is not practicable, the Company and the Trustee are at liberty to serve or distribute this Order, any other materials and orders in these proceedings, any notices or other correspondence, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery or facsimile transmission to the Company's creditors or other interested parties at their respective addresses as last shown on the records of the Company and that any such service or distribution by courier, personal delivery or facsimile transmission shall be deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.

AID AND ASSISTANCE

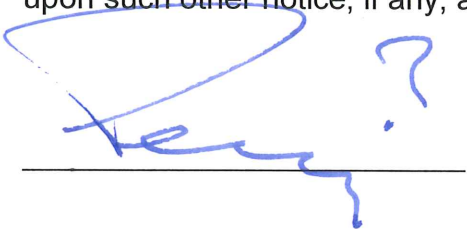
29. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States to give effect to this Order and to assist the Company, the Trustee and their respective agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Company and the Trustee, as an officer of this Court, as may be necessary or desirable to give effect to this Order, to grant representative status to the Trustee in any foreign proceeding or to assist the Company, Trustee and their agents in carrying out the terms of this Order.

30. **THIS COURT ORDERS** that each of the Company and the Trustee be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulator or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order, and that the Trustee is authorized and empowered to act as a representative in respect of the within proceedings for the purpose of having these proceedings recognized in a jurisdiction outside Canada.

31. **THIS COURT ORDERS** that the Company or the Trustee may from time to time apply to this Court for advice and directions in the discharge of its powers and duties hereunder.

32. **THIS COURT ORDERS** that nothing in this Order shall prevent the Trustee from acting as an interim receiver, a receiver, a receiver and manager, or a trustee in bankruptcy of the Company or the Property.

33. **THIS COURT ORDERS** that any interested party (including the Company and the Trustee) may apply to this Court to vary or amend this Order on not less than seven (7) days' notice to any other party or parties likely to be affected by the order sought or upon such other notice, if any, as this Court may order.



ENTERED AT / INSCRIT A TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO.:



FEB 08 2016

SCHEDULE A

Sales and Investor Solicitation Process

SALE AND INVESTOR SOLICITATION PROCESS

On February 4, 2016, Danier Leather Inc. (the "**Company**") filed a Notice of Intention to Make a Proposal under the *Bankruptcy and Insolvency Act* (the "**BIA**") and KSV Kofman Inc. was appointed as the proposal trustee (the "**Trustee**").

On February , 2016, the Ontario Superior Court of Justice (Commercial List) (the "**Court**") made an order, which, among other things: (a) approved this sale and investor solicitation process (the "**SISP**"), and (b) approved and accepted the agency agreement between the Company and dated February 4, 2016 (the "**Stalking Horse Agreement**") attached hereto as Schedule A as the stalking horse bid for the purpose of conducting the SISP.

The purpose of the SISP is to identify one or more financiers, purchasers of and/or investors in the Company, the Business and/or Assets (each as defined below) to make an offer that is superior to the offer contemplated by the Stalking Horse Agreement, and to complete the transactions contemplated by any such offer. Set forth below are the procedures (the "**SISP Procedures**") that shall govern the SISP and any transactions consummated as a result thereof.

1. Defined Terms

The following capitalized terms have the following meanings when used in this SISP:

"**Aggregate Bid**" means a combination of Portion Bids that do not overlap for Assets sought to be purchased, and which, when totaled, equal or exceed the Minimum Bid Amount;

"**Assets**" means the assets, undertakings and property of the Company;

"**Auction**" has the meaning given to it in Section 7(b)(i);

"**Back-Up Bid(s)**" means the Back-Up Sale Bid(s) and/or the Back-Up Liquidation Bid(s), as the case may be;

"**Back-Up Bidder(s)**" means the Back-Up Sale Bidder(s) and/or the Back-Up Liquidation Bidder(s), as the case may be;

"**Back-Up Bid Expiration Date**" has the meaning given to it in Section 11;

"**Back-Up Liquidation Bid**" has the meaning given to it in Section 7(b);

"**Back-Up Liquidation Bidder**" has the meaning given to it in Section 7(b);

"**Back-Up Sale Bid**" has the meaning given to it in Section 7(a);

"**Back-Up Sale Bidder**" has the meaning given to it in Section 7(a);

"**BIA**" has the meaning given to it in the introduction;

"**Bid**" has the meaning given to it in Section 5;

"**Bid Deadline**" has the meaning given to it in Section 5;

"**Bid Requirements**" has the meaning given to it in Section 6;

"**Business Day**" means any day, other than a Saturday, Sunday or statutory holiday in the Province of Ontario, on which commercial banks in Toronto, Ontario are open for business;

"**Break Fee**" has the meaning given to it in the Stalking Horse Agreement;

"**Business**" means the business of designing, manufacturing and retailing leather apparel and accessories carried on by the Company;

"**Company**" has the meaning given to it in the introduction;

"**Confidentiality Agreement**" means the confidentiality agreement entered into between the Company and an Interested Party;

"**Confidential Teaser**" means the confidential teaser describing the opportunity to acquire all or substantially all of the Assets or invest in the Business;

"**Court**" has the meaning given to it in the introduction;

"**Data Room**" means an electronic data room compiled by the Company containing confidential information in respect of the Company, the Business and the Assets;

"**Deposit**" has the meaning given to it in Section 6(1);

"**dollars**" or "\$" means Canadian dollars;

"**Expense Reimbursement**" has the meaning given to it in the Stalking Horse Agreement;

"**Financial Advisor**" means jointly, Consensus Advisory Services LLC and Consensus Securities LLC;

"**Form Purchase Agreement**" means the agreement of purchase and sale attached hereto as Schedule B;

"**Guaranty Percentage**" has the meaning given to it in the Stalking Horse Agreement;

"**Interested Party**" has the meaning given to it in Section 4;

"**Investment Proposal**" has the meaning given to it in Section 5;

"**Liquidation Proposal**" has the meaning given to it in Section 5

"Minimum Bid Amount" means (a) in the case of a Liquidation Proposal, a guaranteed amount payable thereunder that exceeds the Guaranty Percentage by not less than 2%; (b) in the case of a Sale Proposal or Investment Proposal, an overall result or value which the Company considers equivalent or better than 102% of the Guaranty Percentage;

"Outside Date" means a date that is 15 Business Days following the Bid Deadline, or such other date as the Company and Successful Bidder(s) and the Back-Up Bidder may agree, acting reasonably;

"Portion Bid" means a Bid for less than all or substantially all of the Assets that is otherwise a Qualified Bid;

"Portion Bidder" means a Qualified Bidder that submits a Portion Bid;

"Purchase Price" has the meaning given to it in Section 6(b)(i);

"Qualified Bid" has the meaning given to it in Section 6;

"Qualified Bidder" has the meaning given to it in Section 6;

"Qualified Investment Bid" is an Investment Proposal that is determined to be a Qualified Bid by the Company pursuant to Section 6;

"Qualified Liquidation Bid" is a Liquidation Proposal that is determined to be a Qualified Bid by the Company pursuant to Section 6;

"Qualified Sale Bid" is a Sale Proposal that is determined to be a Qualified Bid by the Company pursuant to Section 6;

"Sale Proposal" has the meaning given to it in Section 5;

"SISP" has the meaning given to it in the introduction;

"SISP Procedures" has the meaning given to it in the introduction;

"Stalking Horse Agreement" has the meaning given to it in the introduction;

"Stalking Horse Bidder" means GA Retail Canada, ULC, or an affiliate thereof;

"Successful Bid(s)" means the Successful Sale Bid(s) and/or the Successful Liquidation Bid(s), as the case may be;

"Successful Bidder(s)" means the Successful Sale Bidder(s) and/or the Successful Liquidation Bidder(s), as the case may be;

"Successful Sale Bid" has the meaning given to it in Section 7(a)(i);

"**Successful Sale Bidder**" has the meaning given to it in Section 7(a)(i);

"**Successful Liquidation Bid**" has the meaning given to it in Section 7(b);

"**Successful Liquidation Bidder**" has the meaning given to it in Section 7(b); and

"**Trustee**" has the meaning given to it in the introduction.

2. The SISP Procedures

The SISP Procedures set forth herein describe, among other things, the manner in which interested parties may gain access to or continue to have access to due diligence materials concerning the Company, the Business and the Assets, the manner in which a party becomes a Qualified Bidder and a Bid becomes a Qualified Bid, the receipt, evaluation and negotiation of Qualified Bids received, the procedures for conducting the Auction, if applicable, and the ultimate selection of Successful Bid(s) and/or Back-up Bids(s) and the Court's approval thereof. The Company shall supervise the SISP Procedures and will generally consult with the Trustee and the Financial Advisor in respect of all matters arising out of these SISP Procedures. The Trustee and its advisors shall direct and preside over the Auction, if applicable. In the event that there is disagreement as to the interpretation or application of these SISP Procedures, the Court will have the jurisdiction to hear and resolve such dispute.

3. "As Is, Where Is"

The sale of the Business or any part of the Assets or investment in the Company will be on an "as is, where is" basis and without surviving representations or warranties of any kind, nature or description by the Company, the Trustee, the Financial Advisor or any of their agents or advisors, except to the extent set forth in the relevant sale or investment agreement with a Successful Bidder. By participating in this process, each Interested Party is deemed to acknowledge and represent that it has had an opportunity to conduct any and all due diligence regarding the Business, the Assets or the Company prior to making its Bid, that it has relied solely on its own independent review, investigation, and/or inspection of any documents and/or regarding the Business, the Assets or the Company in making its Bid, and that it did not rely on any written or oral statements, representations, promises, warranties, conditions or guaranties whatsoever, whether express, implied, by operation of law or otherwise, regarding the Business, the Assets or the Company or the completeness of any information provided in connection therewith, except as expressly stated in the terms of any definitive transaction documents.

4. Due Diligence

The Confidential Teaser and Data Room will be made available by the Financial Advisor to any interested party (an "**Interested Party**") who has executed and delivered a Confidentiality Agreement to the Financial Advisor prior to the Bid Deadline (as defined below). An Interested Party's right to access the Data Room or receive any non-public information about the Company shall terminate immediately upon the Bid Deadline.

5. **Bid Deadline**

An Interested Party that wishes to make a bid to (a) acquire the Business or all, substantially all or any part of the Assets, including any offer to acquire some or all of the Company's retail store leases, intellectual property and furniture, fixtures and equipment (a "**Sale Proposal**"), (b) make an investment in the Company by way of private issuances, sale or placement of newly issued or treasury equity, equity-linked or debt securities, instruments or obligations of the Company with one or more lenders and/or investors or security holders (an "**Investment Proposal**"), or (c) to liquidate the Company's inventory and the Company's furniture, fixtures and equipment (to the extent not sold pursuant to a Sale Proposal) located at some or all of the Company's retail store locations, distribution centers, storage facilities and warehouses or in transit ("**Liquidation Proposal**") must deliver an executed copy of a bid (the "**Bid**") to the Financial Advisor, at the address specified in Schedule C hereto (including by email) so as to be received by it not later than 5:00 p.m. (Eastern Time) on February 22, 2016, or such other later date or time as may be agreed by the Company, in consultation with the Trustee and Financial Advisor (the "**Bid Deadline**").

6. **Bid Requirements**

A Bid will be deemed to be a "**Qualified Bid**" if it is determined by the Company, in consultation with the Trustee and Financial Advisor, to satisfy the following conditions (the "**Bid Requirements**") and each Interested Party that submits a Qualified Bid will be deemed to be a "**Qualified Bidder**":

- (a) It includes a letter stating that the Bid is irrevocable until Court approval of the Successful Bid(s), provided that if such Qualified Bidder is selected as the Successful Bidder or the Back-Up Bidder, its Bid shall remain irrevocable until the Back-Up Bid Expiration Date (as defined below);
 - (b) It includes:
 - (i) in the case of a Sale Proposal, a sealed duly authorized and executed definitive purchase agreement together with all completed schedules thereto substantially in the form of an executed mark-up of the Form Purchase Agreement containing the detailed terms and conditions of the proposed transaction, including identification of the Business or the Assets proposed to be acquired, the obligations to be assumed, the purchase price for the Business or Assets proposed to be acquired (the "**Purchase Price**"), the detailed structure and financing of the proposed transaction, together with a blackline line comparing the purchase agreement submitted to the Form Purchase Agreement;
 - (ii) in the case of an Investment Proposal, a duly authorized and executed term sheet describing the detailed terms and conditions of the proposed transaction, including details regarding the proposed equity and debt structure of the Company following completion of the proposed
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transaction, the direct or indirect investment target and the aggregate amount of equity and debt investment (including the sources of such capital, the underlying assumptions regarding the *pro forma* capital structure, as well as anticipated tranches of debt, debt service fees, interest and amortization) to be made in the Company, and the debt, equity, or other securities, if any, proposed to be allocated to creditors of the Company;

- (iii) in the case of a Liquidation Proposal, a duly authorized and executed definitive agency agreement together with all completed schedules thereto substantially in the form of an executed mark-up of the Stalking Horse Agreement containing the detailed terms and conditions of the proposed transaction, an agreement to acquire the signage or other advertising and promotional material from Stalking Horse Bidder acquired for the Sale (as defined in the Stalking Horse Agreement) at its cost, including identification of the Assets proposed to be acquired, the obligations to be assumed, consideration payable, including any net minimum guarantee amounts or percentages, together with a blackline line comparing the agency agreement submitted to the Stalking Horse Agreement;
 - (c) A Liquidation Proposal or Sale Proposal that includes an offer to sell or acquire the Company's inventory shall not be for less than all of the inventory of the Company;
 - (d) The Purchase Price (in the case of a Sale Proposal) or imputed value (in the case of an Investment Proposal or Liquidation Proposal) under the Bid or Aggregate Bid shall be an amount equal to or greater than the Minimum Bid Amount; provided that any Portion Bidder shall not be subject to the Minimum Bid Amount except to the extent that it forms an Aggregate Bid;
 - (e) It includes written evidence upon which the Company, in consultation with the Trustee and Financial Advisor, may reasonably conclude that the Interested Party has the necessary financial ability to close the contemplated transaction on or before the Outside Date and provide adequate assurance of future performance of all obligations to be assumed in such contemplated transaction. Such information should include, among other things, the following:
 - (i) evidence of the Interested Party's internal resources and proof of any debt or equity funding commitments that are needed to close the contemplated transaction;
 - (ii) contact names and phone numbers for verification of financing sources; and
 - (iii) any such other form of financial disclosure or credit-quality support information or enhancement requested by and reasonably acceptable to the
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Company demonstrating that such Interested Party has the ability to close the contemplated transaction;

- (f) It indicates whether regulatory approval is anticipated to be required;
 - (g) It is not conditioned on (i) the outcome of unperformed due diligence and/or (ii) obtaining financing;
 - (h) It fully discloses the identity of each person (including any person that controls such person) that will be directly or indirectly sponsoring or participating in the Bid, including whether any prior or current member of the Company's board, management, any employee or consultant to the Company or any creditor) or shareholder of the Company is involved in any way with the Bid or assisted with the Bid, and the complete terms of any such participation as well as evidence of corporate authority to sponsor or participate in the Bid;
 - (i) It includes an acknowledgement and representation that the Interested Party:
 - (i) has relied solely upon its own independent review, investigation and/or inspection of any documents regarding the Business and/or the Assets to be acquired, liabilities to be assumed or the Company in making its Bid; and (ii) did not rely upon any written or oral statements, representations, promises, warranties conditions or guaranties whatsoever, whether express or implied (by operation of law or otherwise), regarding the Business, Assets to be acquired, liabilities to be assumed, the Company or the completeness of any information provided in connection therewith, except as expressly provided in any definitive transaction documents;
 - (j) It includes evidence, in form and substance reasonably satisfactory to the Company and Trustee, of authorization and approval from the Interested Party's board of directors (or comparable governing body) with respect to the submission, execution, delivery and closing of the transaction contemplated by the Bid, and identifies any anticipated shareholder, regulatory or other approvals outstanding, and the anticipated time frame and any anticipated impediments for obtaining such approvals;
 - (k) It does not include any request for or entitlement to any break or termination fee, expense reimbursement or similar type of payment;
 - (l) It is accompanied by a cash deposit (the "**Deposit**") in an amount equal to 10% of the Purchase Price (in the case of a Sale Proposal) or imputed value (in the case of an Investment Proposal or Liquidation Proposal) that shall be paid to the Trustee in trust, which Deposit shall be held and dealt with in accordance with these SISP Procedures;
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- (m) If applicable, it contains full details of the proposed number of employees of the Company who will become employees of the Qualified Bidder and the proposed terms and conditions of employment to be offered to those employees;
- (n) It contains such other information as may reasonably be requested by the Company, the Trustee or Financial Advisor; and
- (o) It is received by the Financial Advisor, at the address specified in Schedule C hereto (including by email) on or before the Bid Deadline.

The Company, in consultation with the Trustee, may waive any one or more minor and non-material violations of the requirements specified for Qualified Bids and deem such non-compliant Bids to be Qualified Bids.

The Company will advise any Interested Party that its Bid constitutes a Qualified Bid and that it is a Qualified Bidder no later than two Business Days after the Bid Deadline. For certainty, the Stalking Horse Agreement is a Qualified Liquidation Bid and the Stalking Horse Bidder is a Qualified Bidder for all purposes of these SISP Procedures.

7. Evaluation of Qualified Bids and Subsequent Actions

The Company shall, in consultation with the Trustee and Financial Advisor, evaluate Qualified Bids on various grounds including, but not limited to, the Purchase Price or imputed or projected value, the treatment of creditors and related implied recovery for creditors (in each case, as applicable), the assumed liabilities, the certainty of closing the transactions contemplated by the Qualified Bid on or before the Outside Date and any delay or other risks (including closing risks) in connection with the Qualified Bids.

Following such evaluation, the Company may:

- (a) In the case of a Qualified Asset Bid or Qualified Investment Bid, including to the extent such Qualified Bids are Portion Bids:
 - (i) Accept, subject to Court approval, one (or more than one, if for distinct and compatible transactions) of the Qualified Bids (each a "**Successful Sale Bid**" and the offeror(s) making such Successful Sale Bid being a "**Successful Sale Bidder**") and take such steps as may be necessary to finalize definitive transaction documents for the Successful Sale Bid(s) with Successful Sale Bidder(s); or
 - (ii) Conditionally accept one (or more than one, if for distinct and compatible transactions) of the Qualified Bids, which acceptance will be conditional upon the failure of the transaction(s) contemplated by the Successful Sale Bid to close (the "**Back-up Sale Bid**" and offeror(s) making such Back-up Sale Bid being the "**Back-Up Sale Bidder**"); and

(b) In the case of a Qualified Liquidation Bid:

- (i) Accept, subject to Court approval, one (or more than one, if for distinct and compatible transactions) of the Qualified Liquidation Bids (each a "**Successful Liquidation Bid**" and the offeror(s) making such Successful Liquidation Bid being a "**Successful Liquidation Bidder**") and take such steps as may be necessary to finalize definitive transaction documents for the Successful Liquidation Bid(s) with Successful Liquidation Bidder(s);
- (ii) Conditionally accept one (or more than one, if for distinct and compatible transactions) of the Qualified Liquidation Bids, which acceptance will be conditional upon the failure of the transaction(s) contemplated by the Successful Bid to close (the "**Back-up Liquidation Bid**" and offeror(s) making such Back-up Bid being the "**Back-Up Liquidation Bidder**"); or
- (iii) If more than one Qualified Liquidation Bids have been received, pursue an auction (an "**Auction**") in accordance with the procedures set out in the attached Schedule D or if the Company otherwise determines that an Auction is appropriate under the circumstances.

The Company, in consultation with the Trustee and Financial Advisor shall have the option, in its discretion, to aggregate Portion Bids. Notwithstanding anything to the contrary herein, the Company shall be permitted to include Qualified Investment Bids or Qualified Sale Bids in the Auction, including to the extent such Qualified Bids are Portion Bids.

The Company shall be under no obligation to accept the highest or best offer or any offer or to pursue or hold an Auction or to select any Successful Bidder(s) and any Back-Up Bidder(s).

No later than five Business Days after the Bid Deadline the Company shall advise the Qualified Bidders if Successful Bid(s) and Back-Up Bid(s) have been accepted, or conditionally accepted, as the case may be, and if applicable, advise of the date, time and location of the Auction.

8. **Assets Not Sold**

Following the closing of the Auction, if applicable, or any time after the Outside Date, the Company may:

- (a) sell any of Assets not sold or to be liquidated pursuant to a Successful Bid in any manner it sees fit; and
- (b) retain a consultant to assist the Company in selling the Company's real property leases;

provided that if the consideration that the Company will receive for the Assets (including the leases) in any one transaction exceeds \$250,000, the Company shall seek Court approval of such sale.

9. No Qualified Bids

If no Qualified Bid is received by the Bid Deadline, then the Stalking Horse Bidder shall be declared the Successful Bidder and the Stalking Horse Agreement shall be declared the Successful Bid.

10. Approval Motion and Acceptance of Qualified Bids

The Company shall use reasonable efforts to make a motion to the Court to approve the Successful Bid(s) and Back-Up Bid(s) within five Business Days following the determination by it of the Successful Bidder(s). The Company will be deemed to have accepted the Successful Bid(s) only when it has been approved by the Court. All Qualified Bids (other than the Successful Bid(s) and the Back-Up Bid(s)) shall be deemed rejected by the Company on and as of the date of approval of the Successful Bid(s) by the Court.

11. Back-Up Bidder

If a Successful Bidder fails to close the transaction contemplated by the Successful Bid(s) on or before the Outside Date for any reason, then the Company will be deemed to have accepted the Back-Up Bid(s) and will proceed with the transaction pursuant to the terms thereof. The Back-Up Bid(s) shall remain open for acceptance until 5p.m. (Eastern time) on a date that is 15 Business Days after the Bid Deadline, or such other date as the Company and the Back-Up Bidder may agree, acting reasonably (the "**Back-Up Bid Expiration Date**").

12. Deposits

All Deposits shall be held by the Trustee in a single interest bearing account designated solely for such purpose. A Deposit paid by a Successful Bidder shall be dealt with in accordance with the definitive documents for the transactions contemplated by the Successful Bid. Deposits, and any interest earned thereon, paid by Qualified Bidders not selected as either a Successful Bidder or a Back-Up Bidder shall be returned to such Qualified Bidders within three Business Days of Court approval of the Successful Bid. In the case of Back-Up Bid(s), the Deposit and any interest earned thereon shall be retained by the Trustee until the Back-Up Bid Expiration Date and returned to the Back-Up Bidder within three Business Days thereafter or, if a Back-Up Bid becomes a Successful Bid, shall be dealt with in accordance with the definitive documents for the Back-Up Bid.

13. Modifications and Termination

The Company or the Trustee shall have the right to adopt such other rules for the SISP Procedures (including rules that may depart from those set forth herein) that will better promote the sale of the Business or all or any part of the Assets or investment in the Company under these

SISP Procedures. The Company or the Trustee shall apply to the Court if they wish to materially modify or terminate the process set out in these SISP Procedures. For certainty, any amendments to the Bid Deadline or other dates set out in these SISP Procedures, including those relating to the Auction, shall not constitute a material modification.

SCHEDULE A

STALKING HORSE AGREEMENT

[To be attached when approved by the Court. See Exhibit "C" to the Affidavit of Brent Houlden sworn February 4, 2016 for the fully executed Stalking Horse Agreement]

SCHEDULE B
FORM PURCHASE AGREEMENT

ASSET PURCHASE AGREEMENT

DANIER LEATHER INC.

- and -

■

■, 2016

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THIS ASSET PURCHASE AGREEMENT is made the _____ day of _____, 2016

BY AND AMONG:

DANIER LEATHER INC.,
a corporation existing under the laws of
the Province of Ontario,

(hereinafter referred to as "Seller"),

- and -

■
a corporation existing under the laws of
[the Province of ■],

(hereinafter referred to as "Purchaser").

RECITALS:

- A. On February 4, 2016, Seller filed a Notice of Intention to Make a Proposal under the *Bankruptcy and Insolvency Act* (the "BIA") and KSV Kofman Inc. was appointed as the proposal trustee (the "Trustee");
- B. Seller, with the approval of the Court, has run a sales and investor solicitation process, pursuant to which Purchaser has submitted this Agreement; and
- C. Subject to court approval, Seller has declared this Agreement a Successful Bid (as defined below) and has agreed to sell, transfer and assign to Purchaser, all of Seller's interest in and to the Purchased Assets (as defined below) and Purchaser has agreed to purchase the Purchased Assets upon the terms and subject to the conditions set forth herein.

THEREFORE in consideration of the foregoing and their respective representations, warranties, covenants and agreements herein contained, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the Parties (as defined herein) hereby agree as follows:

ARTICLE 1

DEFINITIONS AND PRINCIPLES OF INTERPRETATION

1.1 Definitions

Whenever used in this Agreement the following words and terms shall have the meanings set out below:

"Affiliate" of any Person means, at the time such determination is being made, any other Person controlling, controlled by or under common control with such first Person, where "control" means the possession, directly or indirectly, of the power to direct the management and policies of such Person whether through the ownership of voting securities or otherwise;

"Agent" means GA Retail Canada, ULC or an affiliate thereof;

"Agency Agreement" means the agency agreement made between the Agent and Seller dated February 4, 2016;

"Agreement" means this asset purchase agreement, including all schedules, and all amendments or restatements, as permitted, and references to **"Article"**, **"Section"**, **"Appendix"** or **"Schedule"** mean the specified Article or Section of, Appendix or Schedule to, this Agreement;

"Assumed Contracts" has the meaning set out in Section 2.1(d);

"Assumed Liabilities" has the meaning set out in Section 2.3;

"Authorization" means, with respect to any Person, any order, permit, approval, consent, waiver, licence or similar authorization of any Governmental Authority related to the Purchased Assets or the Business;

"Back-Up Bid" has the meaning set out in the SISP;

"Back-Up Bidder" has the meaning set out in the SISP;

"BIA" has the meaning set out in the recitals;

"Bid Deadline" has the meaning set out in the SISP;

"Books and Records" has the meaning set out in Section 2.1(k);

"Break Fee" has the meaning set out in the Agency Agreement;

"Business" means the business of designing, manufacturing and retailing leather apparel and accessories carried on by Seller;

"Business Day" means any day other than a Saturday, Sunday or statutory holiday in the Province of Ontario;

"Cash Portion of the Purchase Price" has the meaning set out in Section 2.5;

"Closing" means the successful completion of the Transaction pursuant to the terms of this Agreement;

"Closing Date" means ■ or such other date as may be agreed to in writing by the Parties;

"Closing Inventory Amount" means an amount equal to ■% of the aggregate Cost set out in the Closing Report;

"Closing Report" has the meaning set out in Section 2.8(b);

"Closing Time" means 10:00 a.m. (Toronto time) on the Closing Date, or such other time on the Closing Date as Seller and Purchaser may agree;

"Computers" has the meaning set out in Section 2.1(c);

"Confidentiality Agreement" means the confidentiality agreement between Seller and Purchaser dated ■, 2016;

"Contracts" means all contracts, licences, leases, agreements, obligations, promises, undertakings, understandings, arrangements, documents, commitments, entitlements or engagements to which Seller is a party, by which Seller is bound or under which Seller has, or will have, any liability or contingent liability (in each case, whether written or oral, express or implied) relating to the Purchased Assets and/or the Business, as same may be amended and/or restated, and including any and all related quotations, orders, proposals, tenders or bookings which remain open for acceptance, warranties, guarantees and documents ancillary thereto relating to the Business;

"Cost" means the cost of each item of Inventory located in Seller's Stores and Distribution Centers, distribution centers operated by third parties and in transit as reflected in perpetual inventory, at cost and includes the Canadian dollar purchase price, freight and duties;

"Court" means the Ontario *Superior Court of Justice* (Commercial List);

"Deposit" means the deposit to be remitted by Purchaser to Seller in an amount equal to 10% of the Purchase Price and any and all interest earned thereon;

"Dispute Motion" has the meaning set out in Section 2.9(b);

"Employees" means any and all (a) employees or contractors of Seller who are actively at work (including full-time, part-time or temporary employees), and (b) employees or contractors of Seller who are on lay-off or other leaves of absence (including maternity leave, parental leave, disability leave, sickness leave, workers' compensation and other statutory leaves);

"Employee Plan" means the Green Shield Canada retail/head office/plant benefit plan sponsored by Seller comprised of life insurance, critical illness, long-term disability, health care and dental coverage, as such plan may be amended and restated from time to time;

"Encumbrances" means any encumbrance, lien, charge, hypothec, pledge, mortgage, title retention agreement, security interest of any nature, adverse claim, exception, reservation, easement, encroachment, servitude, restriction on use, right of occupation, any matter capable of registration against title, option, right of first offer or refusal or similar right, restriction on voting

(in the case of any voting or equity interest), right of pre-emption or privilege or any contract to create any of the foregoing;

"**Equipment**" has the meaning set out in Section 2.1(b);

"**ETA**" means Part IX of the *Excise Tax Act* (Canada), as amended from time to time;

"**Excluded Assets**" has the meaning set out in Section 2.2;

"**Excluded Equipment and Fixtures**" has the meaning set out in Section 2.2(f);

"**Excluded Liabilities**" has the meaning set out in Section 2.4;

"**Excluded Locations**" means Seller's retail store locations, distribution centers, storage facilities and warehouses, other than the Stores and Distribution Centers;

"**Expense Reimbursement**" has the meaning set out in the Agency Agreement;

"**Financial Advisor**" means jointly, Consensus Advisory Services LLC and Consensus Securities LLC;

"**Governmental Authority**" means governments, regulatory authorities, governmental departments, agencies, commissions, bureaus, officials, ministers, Crown corporations, courts, bodies, boards, tribunals or dispute settlement panels or other law or regulation-making organizations or entities: (a) having or purporting to have jurisdiction on behalf of any nation, province, territory, state or other geographic or political subdivision thereof; or (b) exercising, or entitled or purporting to exercise, any administrative, executive, judicial, legislative, policy, regulatory or taxing authority or power;

"**HST**" means all Taxes payable under the ETA, including goods and services Taxes and any harmonized sales Taxes in applicable provinces, or under any provincial legislation similar to the ETA, and any reference to a specific provision of the ETA or any such provincial legislation shall refer to any successor provision thereto of like or similar effect;

"**ITA**" means the *Income Tax Act* (Canada);

"**Initial Inventory Amount**" means an amount equal to ■% of the aggregate Cost as set out in the Initial Report;

"**Initial Report**" has the meaning set out in Section 2.8(a);

"**Intellectual Property**" has the meaning set out in Section 2.1(e);

"**Inventory**" has the meaning set out in Section 2.1(a);

"**Inventory Taking Instructions**" the procedures and instructions for taking a physical inventory of the Inventory, mutually agreed between Seller and Purchaser, acting reasonably;

"Law" means any federal, provincial, county, territorial, district, municipal, local, foreign, supranational or international law, statute, ordinance, regulation, by-law, rule, code, treaty or rule of common law or otherwise of, or any order, judgment, injunction, decree or similar authority enacted, issued, promulgated, enforced or entered by, any Governmental Authority;

"Liquidation" means the sale and liquidation of certain of the Excluded Assets, including the [Inventory] [NTD – only to the extent not acquired pursuant to Section 2.1(a) of this Agreement] and Excluded Equipment and Fixtures by Seller, the Trustee or an agent engaged by Seller or the Trustee including pursuant to the Agency Agreement, to the extent such agreement is declared a Successful Bid;

"Liquidation Term" means the period beginning on or before the Closing Date and ending on the date on which the Liquidation ends, which date shall be no later than June 30, 2016;

"Outside Date" means a date that is 15 Business Days following the Bid Deadline, or such other date as Seller, Purchaser and Back-Up Bidder may agree, acting reasonably;

"Parties" means Seller and Purchaser and **"Party"** means any one of them;

"Permitted Encumbrances" means the Encumbrances listed in 1.1(b);

"Person" means any individual, sole proprietorship, partnership, firm, entity, unincorporated association, unincorporated syndicate, unincorporated organization, trust, body corporate, Governmental Authority, and where the context requires any of the foregoing when they are acting as trustee, executor, administrator or other legal representative;

"Purchased Assets" has the meaning set out in Section 2.1;

"Purchase Price" has the meaning set out in Section 2.5;

"QST" means *An Act Respecting the Quebec Sales Tax*, and any reference to a specific provision of the QST shall refer to any successor provision thereto of like or similar effect;

"Seller" has the meaning set out in the Recitals;

"Signage Costs Obligations" has the meaning set out in the Agency Agreement;

"SISP" means the sales and investor solicitation process attached as Exhibit "D" to the Affidavit of Brent Houlden sworn February 4, 2016;

"Software" means any computer program, operating system, application, system, firmware or software of any nature, point-of-entry system, peripherals, and data whether operational, active, under development or design, nonoperational or inactive, including all object code, source code, comment code, algorithms, processes, formulae, interfaces, navigational devices, menu structures or arrangements, icons, operational instructions, scripts, commands, syntax, screen designs, reports, designs, concepts, visual expressions, technical manuals, tests scripts, user

manuals and other documentation therefor, whether in machine-readable form, virtual machine-readable form, programming language, modeling language or any other language or symbols, and whether stored, encoded, recorded or written on disk, tape, film, memory device, paper or other media of any nature, and all databases necessary or appropriate in connection with the operation or use of any such computer program, operating system, application, system, firmware or software;

"Stores and Distribution Centers" means Seller's retail store locations, distribution centers, storage facilities and warehouses identified on Schedule 1.1(a);

"Subsidiaries" means, collectively, Danier International Corporation and Danier Leather (USA), Inc.;

"Successful Bid" has the meaning set out in the SISP;

"Tax" and "Taxes" means any taxes, duties, fees, premiums, assessments, imposts, levies and other charges of any kind whatsoever imposed by any Governmental Authority, including all interest, penalties, fines, additions to tax or other additional amounts imposed by any Governmental Authority in respect thereof, and including those levied on, or measured by, income, gross receipts, profits, capital, transfer, land transfer, sales, goods and services, harmonized sales, use, excise, withholding, business, franchising, property, development, occupancy, payroll, health, social services, education and social security taxes, all surtaxes, all customs, duties and import and export taxes, countervail and anti-dumping, all licence, franchise and registration fees and all employment insurance, health insurance and Canada, and other government pension plan premiums or contributions;

"Transaction" means the transaction of purchase and sale contemplated by this Agreement;

"Transfer Taxes" has the meaning set out in Section 4.1;

"Transferred Employees" has the meaning set out in Section 3.1;

"Trustee" has the meaning set out in the recitals hereto;

"Trustee's Certificate" means the certificate filed with the Court by the Trustee certifying that the Trustee has received written confirmation from the Parties that all conditions of Closing have been satisfied or waived by the applicable Parties and that the Trustee has received the Cash Portion of the Purchase Price; and

"Vesting Order" means an order issued by the Court on service satisfactory to Purchaser, acting reasonably, approving this Agreement and the Transaction and vesting in and to Purchaser the Purchased Assets free and clear of all Encumbrances (other than Permitted Encumbrances), substantially in the form attached at Schedule 1.1(c) subject to such amendments as Seller and Purchaser may mutually agree acting reasonably.

1.2 Certain Rules of Interpretation

In this Agreement:

- (a) **Currency** – All references to dollar amounts are to lawful currency of Canada unless otherwise stated;
- (b) **Headings** – Headings of Articles and Sections are inserted for convenience of reference only and shall not affect the construction or interpretation of this Agreement;
- (c) **Including** – Where the word "including" or "includes" is used in this Agreement, it means "including (or includes) without limitation";
- (d) **No Strict Construction** – The language used in this Agreement is the language chosen by the Parties to express their mutual intent, and no rule of strict construction shall be applied against any Party;
- (e) **Number and Gender** – Unless the context otherwise requires, words importing the singular include the plural and vice versa and words importing gender include all genders;
- (f) **Time Periods** – Unless otherwise specified, time periods within or following which any payment is to be made or act is to be done shall be calculated by excluding the day on which the period commences and including the day on which the period ends and by extending the period to the next Business Day following if the last day of the period is not a Business Day; and
- (g) **Legislation** – A reference to any legislation or to any provision of any legislation shall include any amendment to, and any modification or re-enactment thereof, any legislative provision substituted therefore and all regulations and statutory instruments issued thereunder or pursuant thereto.

1.3 Entire Agreement

This Agreement, the Confidentiality Agreement and the agreements and other documents required to be delivered pursuant to this Agreement, constitute the entire agreement between the Parties and set out all the covenants, promises, warranties, representations, conditions, understandings and agreements between the Parties relating to the subject matter of this Agreement and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written. There are no covenants, promises, warranties, representations, conditions, understandings or other agreements, oral or written, express, implied or collateral between the Parties in connection with the subject matter of this Agreement except as specifically set forth in this Agreement. Any cost estimates, projections or other predictions contained or referred to in any other material that has been provided to Purchaser or any of its Affiliates, subsidiaries, agents or representatives are not and shall not be deemed to be

representations or warranties of Seller or its Affiliates, agents, advisors, legal counsel, employees or representatives.

1.4 Schedules

The schedules to this Agreement, listed below, are an integral part of this Agreement:

<u>Schedule</u>	<u>Description</u>
Schedule 1.1(b)	- Permitted Encumbrances
Schedule 1.1(c)	- Vesting Order
Schedule 2.1(b)	- Equipment
Schedule 2.1(d)	- Assumed Contracts
Schedule 2.1(e)	- Intellectual Property
Schedule 2.1(j)	- Leased Real Property
Schedule 2.2(a)	- Excluded Assets
Schedule 2.11.	- Purchase Price Allocation Methodology
Schedule 3.1	- Employee Offers

1.5 Conflict

In the event of any conflict between the provisions of the body of this Agreement and the Appendices and Schedules, the provisions of the body of this Agreement shall prevail.

ARTICLE 2 PURCHASE AND SALE

2.1 Purchase and Sale of Purchased Assets

Subject to the provisions of this Agreement, at the Closing Time, Seller shall transfer, sell, convey, assign and deliver unto Purchaser, and Purchaser shall purchase, acquire and accept from Seller all of Seller's right, title and interest, in and to the property and assets of every kind and description, and wheresoever situate, other than the Excluded Assets (collectively, the "**Purchased Assets**"), including the following:

- (a) Inventory. All, but not less than all, inventories manufactured by Seller or purchased from third party vendors, including raw materials, work-in-process and packaging materials and all finished goods inventory saleable in the ordinary course of the Business or any item of merchandise, including Inventory located at the Excluded Locations (collectively, the "**Inventory**");

- (b) Equipment, Fixtures and Furniture. All manufacturing equipment, fixtures and furniture, including at the Stores and Distribution Centers, displays and signage currently situate at the Stores and Distribution Centers, including the machinery, equipment and furniture described in Schedule 2.1(b) (collectively, the "**Equipment**");
- (c) Computers and Software. All computer hardware and Software owned by or licensed Seller and used in connection with the Business (collectively, the "**Computers**");
- (d) Assumed Contracts. All Contracts, including those Contracts listed on Schedule 2.1(d) but excluding the Excluded Contracts (collectively, the "**Assumed Contracts**");
- (e) Intellectual Property. All right, title and interest of Seller in and to intellectual property of any nature owned by Seller and relating to the Business, including, customer lists, supplier lists, trademarks, proposed trademarks, certification marks, distinguishing guises, industrial designs, copyrights, formulae, processes, research data, technical expertise, know-how, trade secrets, inventions, patent rights, patent registrations, patent continuations or patents, whether domestic or foreign and whether registered or unregistered, and all applications for registration in respect thereof, including the intellectual property listed on Schedule 2.1(e) (collectively, the "**Intellectual Property**");
- (f) Business and Domain Names. All rights of Seller to all trade names, business names and domain names, including the domain names and business names listed on Schedule 2.1(e) and any derivation thereof or any trademarks or trade names incorporating such business names;
- (g) Goodwill. The goodwill of the Business, together with the ~~exclusive~~ right of Purchaser to represent itself as carrying on the Business in continuation of and in succession to Seller, including all choses in action and other intangibles relating to the Business that do not form part of the Intellectual Property;
- (h) Prepaid Expenses. All prepaid expenses;
- (i) Authorizations. All Authorizations, owned, held or used by Seller in connection with the Business to the extent that they are transferable;
- (j) Leased Real Property. All rights of Seller as lessee of real property for the Stores and Distribution Centers under the leases described in 2.1(j) and all leasehold improvements related thereto;
- (k) Books and Records. All books and records (other than those required by Law to be retained by Seller, copies of which will be made available to Purchaser), including customer lists, sales records, price lists and catalogues, sales literature,

advertising material, manufacturing data, production records, employee manuals, personnel records, supply records, inventory records and correspondence files (together with, in the case of any such information which is stored electronically, the media on which the same is stored) but for greater certainty, excluding corporate and tax records in respect of Seller (collectively, the "**Books and Records**");

- (l) Shares. The shares or other equity interests of each of the Subsidiaries owned by Seller; and
- (m) Express Consents – Canada's Anti-Spam Law. All express consents obtained by Seller under applicable privacy and anti-spam Laws from any person to (i) send or cause to be sent an electronic message to such person, (ii) alter or cause to be altered the transmission data in an electronic message so that the message is delivered to a destination other than or in addition to that specified by such person.

2.2 Excluded Assets

The Purchased Assets shall not include any of the following property and assets (collectively, the "**Excluded Assets**"):

- (a) the property and assets described in Schedule 2.2(a);
- (b) rights of Seller under this Agreement and the Agency Agreement;
- (c) all Books and Records required by Law to be retained by Seller, including personnel records, corporate minute books and tax records;
- (d) **[the Inventory] [NTD – only to the extent not acquired pursuant to Section 2.1(a) of this Agreement];**
- (e) all insurance policies and rights of Seller and benefits thereunder, including any prepaid premiums in respect thereof;
- (f) all manufacturing equipment, fixtures and furniture, displays and signage currently situate at the Excluded Locations (collectively, the "**Excluded Equipment and Fixtures**");
- (g) all rights of Seller as lessee of real property for the Excluded Locations and all leasehold improvements related thereto;
- (h) ~~cash on hand, cash equivalents and bank deposits; and~~
- (i) income Tax instalments paid by Seller and the right to receive any refund of income Taxes paid by Seller.

2.3 Assumed Liabilities

On the terms and subject to the conditions of this Agreement, Purchaser agrees, effective at the Closing Time, to assume and be responsible for and thereafter honour, perform, discharge and pay as and when due the following obligations and liabilities of Seller:

- (a) all debts, liabilities and obligations with respect to the Purchased Assets arising on or after the Closing Date, including all debts, liabilities and obligations and services to be rendered in connection with the Business solely in relation to the Purchased Assets for the period from and after the Closing Date;
- (b) all debts, liabilities and obligations under the Assumed Contracts for the period from and after the Closing Date;
- (c) any Transfer Taxes payable by Purchaser pursuant to Section 4.1; and
- (d) all liabilities and obligations of Seller in respect of the gift cards and credit notes established and administered for customers of Seller,

(collectively the "Assumed Liabilities").

2.4 Excluded Liabilities

Other than the Assumed Liabilities, Purchaser shall not assume and shall not be liable for any debts, liabilities or obligations of Seller (the "Excluded Liabilities") which, for greater certainty, shall include:

- (a) all debts, liabilities and obligations related to any Excluded Assets;
- (b) all debts, liabilities and obligations arising from the ownership or use of the Purchased Assets prior to the Closing Date;
- (c) all debts, liabilities and obligations of Seller in respect of any actions, causes of action, litigation proceedings, lawsuits, court proceedings or proceedings before any Governmental Authority against Seller;
- (d) any Taxes payable or remittable by Seller, other than Transfer Taxes payable by Purchaser pursuant to Section 4.1;
- (e) Encumbrances, other than Permitted Encumbrances;
- (f) all liabilities and obligations of Seller related to the Employee Plan;
- (g) all liabilities of Seller in respect of indebtedness for borrowed money and guarantees in respect thereof; and

- (h) all liabilities and obligations of Seller to the Employees arising prior to the Closing Date.

2.5 Purchase Price

The purchase price (the "**Purchase Price**") for the Purchased Assets at the Closing Time, exclusive of all applicable sales and Transfer Taxes is (a) \$■ payable in cash (the "**Cash Portion of the Purchase Price**") plus (b) the assumption of the Assumed Liabilities, subject to adjustment, if any, in accordance with Section 2.10.

2.6 Satisfaction of Purchase Price

The Purchase Price shall be satisfied at the Closing Time as follows:

- (a) the Cash Portion of the Purchase Price shall be paid in cash (i) as to an amount equal to the Deposit, by the release of the Deposit from escrow by the Trustee, (ii) as to an amount equal to the Initial Inventory Amount, by wire transfer to the Trustee for the account of Seller, (iii) as to an amount equal to the Break Fee, Expense Reimbursement and Signage Costs Obligations (if the Agency Agreement is not the Successful Bid), by wire transfer to the Trustee for the account of the Stalking Horse Bidder, and (iv) as to the remainder, by wire transfer to the Trustee for the account of Seller; and
- (b) by Purchaser's assumption of the Assumed Liabilities effective at the Closing Time.

2.7 Deposit

The parties acknowledge that Purchaser paid the Deposit to the Trustee pursuant to the SISP. The aggregate Deposit shall be held by the Trustee in trust and applied in accordance with the terms of this Agreement and the SISP.

2.8 Inventory Reporting

(a) Purchaser acknowledges receipt of a report from Seller prepared as of ■, 2016 that contains a physical inventory and the Cost of each item of Inventory as at such date (the "**Initial Report**").

(b) Within 15 Business Days following the Closing Date (or such other date as is mutually agreed to by Seller and Purchaser in writing), Purchaser will, at its own cost, prepare and deliver to Seller and the Trustee a report prepared as at the close of business on the Closing Date that contains a physical inventory and the Cost of each item of Inventory as at the Closing Date (the "**Closing Report**").

(c) The Parties agree that taking a physical inventory of the Inventory for the purpose of the Initial Report and the Closing Report shall be conducted in accordance with the Inventory Taking Instructions.

2.9 Objection and Dispute Resolution Mechanism

(a) Seller or the Trustee may object to the Closing Report at any time within 10 Business Days after receipt thereof by giving notice to Purchaser and the Trustee, as applicable, setting out in reasonable detail the nature of such objection. If Seller so objects, the parties shall attempt to resolve the matters in dispute within 15 Business Days from the date Seller gives such notice to Purchaser.

(b) If the Parties cannot resolve all matters in dispute within such 15-day period, Seller may, bring a motion (the "**Dispute Motion**") before the Court for a determination of all unresolved matters. The Court's determination of all such matters shall be final and binding on both Parties and shall not be subject to appeal by either Party. Each Party shall be responsible for their own fees and expenses in connection with the Dispute Motion.

2.10 Purchase Price Adjustment

(a) If the Closing Report is the subject of a dispute, any Closing Inventory Amount calculated on the basis of such report shall be adjusted to the extent to give effect to any resolution between the Parties or the decision of the Court.

(b) The Purchase Price will be increased or decreased, as the case may be, dollar-for-dollar, to the extent that the Initial Inventory Amount is more or less than the Closing Inventory Amount and any difference shall be paid to Seller, or Purchaser (where the Initial Inventory Amount is greater than the Closing Inventory Amount), as applicable, as such Party may direct.

2.11 Purchase Price Allocation

Seller and Purchaser agree to allocate the Purchase Price among the Purchased Assets and to report the sale and purchase of the Purchased Assets for all federal, provincial and local tax purposes in a manner consistent with such allocation no later than the earlier of (a) 10 Business Days after receipt of the Closing Report by Seller, or (b) to the extent Seller has delivered an objection to the Closing Report in accordance with Section 2.9(a), 10 Business Days after the resolution of such Closing Report. The allocation of the Purchase Price shall be allocated using the methodology set out in Schedule 2.11.

ARTICLE 3
EMPLOYEE MATTERS

3.1 Offers to Employees

Conditional upon the Closing and with effect as of the Closing Date (or such later date on which those Employees who are on leave return to active service) Purchaser shall offer

employment to those Employees identified in Schedule 3.1 and such other Employees that Purchaser may identify in writing to Seller in its sole discretion prior to such time, such offers of employment to be on terms and conditions of employment which are substantially similar in the aggregate to those terms and conditions as are applicable to such Employees as at the date hereof (including recognition of past service). The Employees who accept Purchaser's offer of employment are collectively referred to as herein as the "**Transferred Employees**".

ARTICLE 4

TAX MATTERS

4.1 Transfer Taxes

Purchaser shall be liable for and shall pay all federal and provincial sales Taxes (including any HST, retail sales taxes and land transfer taxes) and all other duties, fees or other like charges of any jurisdiction ("**Transfer Taxes**") properly payable by Purchaser in connection with the Transaction. Purchaser agrees to indemnify and save Seller harmless from and against all claims and demands for payment of such Transfer Taxes including penalties and interest thereon and any liability or costs incurred as a result of any failure by Purchaser to pay such Transfer Taxes when due.

4.2 ETA and QST Elections

Purchaser and Seller shall, on the Closing Date, elect jointly under subsection 167(1) of the ETA, under section 75 of the QST and under any similar provision of any applicable provincial legislation, in the form prescribed for the purposes of each such provision, in respect of the sale and transfer of the Purchased Assets hereunder, and Purchaser shall file such elections with Canada Revenue Agency, Revenue Quebec and any other applicable Governmental Authorities within the time and in the manner required by applicable Laws, and provide Seller with proof of receipt by Canada Revenue Agency, Revenue Quebec or such other applicable Governmental Authority of the receipt of such elections. Purchaser shall indemnify and hold Seller (and its shareholders, directors, officers and employees) harmless from and against any Taxes payable under the ETA, the QST, or other applicable provincial legislation and any penalty or interest in respect thereof which may be payable by or assessed against Seller as a result of or in connection with Seller's failure to collect the applicable Taxes payable under the ETA, the QST, or other applicable provincial legislation on the sale of the Purchased Assets hereunder, including any such Taxes, penalties and interest arising as a result of any failure or refusal by any Governmental Authority to accept any such election or on the basis that any such election was inapplicable, invalid or not properly made.

4.3 Other Tax Elections

Purchaser and Seller shall execute and deliver such other Tax elections and forms as they may mutually agree upon.

4.4 Post-Closing Tax Co-operation

Following the Closing, Purchaser shall reasonably cooperate with Seller or the Trustee and their authorized representatives in connection with the preparation and filing of any Tax filings or returns or any audit or assessment of Seller or the Trustee by a Governmental Authority in connect with Taxes.

ARTICLE 5
CLOSING AND CLOSING CONDITIONS

5.1 Closing

Subject to compliance with the terms and conditions hereof, the transfer of possession of the Purchased Assets shall be deemed to take effect as at the commencement of business on the Closing Date. The Closing shall take place at the offices of Davies Ward Phillips & Vineberg LLP, counsel for Seller, 155 Wellington Street West, Toronto, Ontario M5V 3J7.

5.2 Seller's Deliveries

On the Closing Date, Seller shall deliver or cause to be delivered:

- (a) customary deeds, assignments, bills of sale and other conveyancing documents, to be settled between counsel for Seller and counsel for Purchaser, sufficient to transfer the various categories of Purchased Assets;
- (b) specific assignments of all the right, title and interest of Seller in and to the Intellectual Property as may be required for registration purposes;
- (c) a receipt for the Purchase Price;
- (d) a copy of the issued and entered Vesting Order;
- (e) a certificate by a senior officer of Seller certifying that the representations and warranties of Seller set out herein are true and correct at the Closing Time;
- (f) an acknowledgement dated the Closing Date that each of the conditions precedent in Section 5.5 have been fulfilled, performed or waived as of the Closing Time;
- (g) an executed copy of the Trustee's Certificate;
- (h) share certificates and share transfers in respect of Seller's interest in the Subsidiaries;
- (i) if applicable, the elections referred to in Sections 4.2 and 4.3; and
- (j) any other documents required pursuant to this Agreement in form and substance satisfactory to the Parties, each acting reasonably.

5.3 **Purchaser's Deliveries**

On the Closing Date, Purchaser shall deliver or caused to be delivered:

- (a) the Cash Portion of the Purchase Price;
- (b) customary deeds, assignments, bills of sale and other conveyancing documents to be settled between counsel for Seller and counsel for Purchaser, sufficient to transfer the various categories of Purchased Assets;
- (c) instruments evidencing Purchaser's assumption of the Assumed Liabilities;
- (d) a certificate by a senior officer of Purchaser certifying that the representations and warranties of Purchaser set out herein are true and correct at the Closing Time and attaching certified copies of the articles of incorporation and by-laws of Purchaser and the resolution of Purchaser's directors or shareholders approving the subject matter of this Agreement;
- (e) an acknowledgement dated the Closing Date that each of the conditions precedent in Section 5.4 have been fulfilled, performed or waived as of the Closing Time;
- (f) a receipt for the Purchased Assets;
- (g) payment of all Transfer Taxes (if any) payable pursuant to Section 4.1;
- (h) the elections referred to in Sections 4.2 and 4.3; and
- (i) any other documents required pursuant to this Agreement in form and substance satisfactory to the Parties, each acting reasonably.

5.4 **Conditions of Closing in Favour of Purchaser**

The sale and purchase of the Purchased Assets is subject to the following terms and conditions for the exclusive benefit of Purchaser to be performed or fulfilled at or prior to the Closing Time and which may be waived in whole or in part by Purchaser at any time:

- (a) **Covenants.** All of the terms, covenants and conditions of this Agreement to be complied with or performed by Seller at or before the Closing Time shall have been complied with or performed in all material respects;
- (b) **No Bankruptcy.** Seller shall not have made, or be deemed to have made, an assignment in bankruptcy under the BIA;
- (c) **Successful Bid.** This Agreement is the Successful Bid;
- (d) **Vesting Order.** The Vesting Order shall have been duly granted, and the operation and effect of such order shall not have been stayed, amended, modified,

reversed, dismissed or appealed (or any such appeal shall have been dismissed with no further appeal therefrom or the applicable appeal periods shall have expired) at the Closing Time;

- (e) No Action or Proceeding. No legal or regulatory action or proceeding shall be pending or threatened by any Governmental Authority to enjoin, restrict or prohibit the purchase and sale of the Purchased Assets contemplated hereby;
- (f) Injunctions. There shall be in effect no injunction against closing the transactions contemplated by this Agreement entered by a court of competent jurisdiction;
- (g) No Material Damage. No material damage by fire or other hazard to the whole or any material part of the Purchased Assets shall have occurred prior to the Closing Time; and
- (h) Documents. Seller shall have delivered the documents referred to in Section 5.2.

If any of the foregoing conditions in this Section 5.4 has not been fulfilled by the Closing Time, Purchaser may terminate this Agreement by notice to Seller. However, Purchaser may waive compliance with any condition in whole or in part if it sees fit to do so, without prejudice to its rights of termination in the event of non-fulfilment of any other condition, in whole or in part, or to its rights to recover damages, if any, for the breach of any representation, warranty, covenant or condition contained in this Agreement.

5.5 Conditions of Closing in Favour of Seller

The sale and purchase of the Purchased Assets is subject to the following terms and conditions for the exclusive benefit of Seller, to be performed or fulfilled at or prior to the Closing Time and which may be waived in whole or in part by Seller at any time:

- (a) Representations and Warranties. The representations and warranties of Purchaser contained in this Agreement shall be true and correct at the Closing Time (unless they are expressed to be made only as of an earlier fixed date, in which case they need be true and correct only as of such earlier date);
- (b) Covenants. All of the terms, covenants and conditions of this Agreement to be complied with or performed by Purchaser at or before the Closing Time shall have been complied with or performed in all material respects;
- (c) No Action or Proceeding. No legal or regulatory action or proceeding shall be pending or threatened by any Governmental Authority to enjoin, restrict or prohibit the purchase and sale of the Purchased Assets contemplated hereby;
- (d) Injunctions. There shall be in effect no injunction against closing the transactions contemplated by this Agreement entered by a court of competent jurisdiction;

- (e) No Bankruptcy. Seller shall not have made, or be deemed to have made, an assignment in bankruptcy under the BIA;
- (f) Successful Bid. This Agreement is the Successful Bid;
- (g) Vesting Order. The Vesting Order shall have been duly granted, and the operation and effect of such order shall not have been stayed, amended, modified, reversed, dismissed or appealed (or any such appeal shall have been dismissed with no further appeal therefrom or the applicable appeal periods shall have expired) at the Closing Time; and
- (h) Documents. Purchaser shall have made the payments and delivered the documents referred to in Section 5.3.

If any of the foregoing conditions in this Section 5.5 has not been fulfilled by the Closing Time, Seller may terminate this Agreement by notice to Purchaser. However, Seller may waive compliance with any condition in whole or in part if it sees fit to do so, without prejudice to its rights of termination in the event of non-fulfilment of any other condition, in whole or in part, or to its rights to recover damages, if any, for the breach of any representation, warranty, covenant or condition contained in this Agreement.

5.6 Risk of Loss

The Purchased Assets shall be at the risk of Seller until the Closing Date. If before the Closing Date, all or substantially all of the Purchased Assets are lost, damaged or destroyed then:

- (a) Purchaser may terminate this Agreement forthwith upon written notice to Seller to such effect; or
- (b) Purchaser may require Seller to assign to Purchaser the proceeds of any insurance payable as a result of the occurrence of such loss, damage or destruction and to reduce the Purchase Price by the amount of the replacement cost of the Purchase Assets which were lost, damaged or destroyed less the amount of any proceeds of insurance payable as a result of the occurrence and Purchaser shall complete the purchase of the Purchased Assets hereunder.

ARTICLE 6 **REPRESENTATIONS AND WARRANTIES**

6.1 Representations and Warranties of Seller

Seller hereby represents and warrants to Purchaser as follows and acknowledges that Purchaser is relying on such representation and warranty in connection with its purchase of the Purchased Assets:

- (a) Seller is a corporation duly formed and existing under the laws of Ontario and has the power and authority to enter into, and to perform its obligations under, this Agreement.
- (b) The execution, delivery and performance by Seller of this Agreement:
 - (i) has been duly authorized by all necessary corporate action;
 - (ii) does not (or would not with the giving of notice, the lapse of time or the happening of any other event or condition) require any consent or approval under, result in a breach or a violation of, or conflict with, any of the terms or provisions of its constating documents or by-laws or any contracts or instruments to which it is a party or pursuant to which any of its assets or property may be affected; and
 - (iii) will not result in the violation of any Law.
- (c) This Agreement has been duly executed and delivered by Seller.
- (d) Seller is not a non-resident of Canada for the purposes of the ITA.
- (e) Seller and its Affiliates do not have assets in Canada that exceed \$100 million or gross revenues from sales in, from or into Canada that exceed \$200 million, all as determined in accordance with Part IX of the *Competition Act* and Notifiable Transactions Regulations thereunder.
- (f) Seller is a registrant in the Provinces of Ontario, Quebec, British Columbia, Manitoba and Saskatchewan, whose registration numbers are as follows:
 - (i) Ontario: 104644810, (ii) Quebec: 1147590062, (iii) British Columbia: PST-1001-6947, (iv) Manitoba: 104644810MT0002 and (v) Saskatchewan: 1872654.

6.2

Representations and Warranties of Purchaser

Purchaser represents and warrants to Seller as follows and acknowledges and confirms that Seller is relying on such representations and warranties in connection with its sale of the Purchased Assets:

- (a) Purchaser is a corporation duly formed and existing under the laws of ■ and has the power and authority to enter into, and to perform its obligations under, this Agreement.
- (b) The execution, delivery and performance by Purchaser of this Agreement:
 - (i) has been duly authorized by all necessary corporate action;

- (ii) does not (or would not with the giving of notice, the lapse of time or the happening of any other event or condition) require any consent or approval under, result in a breach or a violation of, or conflict with, any of the terms or provisions of its constating documents or by-laws or any contracts or instruments to which it is a party or pursuant to which any of its assets or property may be affected; and
- (iii) will not result in the violation of any Law.
- (c) This Agreement has been duly executed and delivered by Purchaser.
- (d) Other than the Vesting Order, there is no requirement for the Purchaser to make any filing with, give any notice to or obtain any licence, permit, certificate, registration, authorization, consent or approval of, any Governmental Authority as a condition to the lawful consummation of the transactions contemplated by this Agreement.
- (e) Purchaser is a registrant **[or will become registered on or prior to Closing]** in the Provinces of Ontario, Quebec, British Columbia, Manitoba and Saskatchewan, whose registration numbers are as follows: (i) Ontario: ■, (ii) Quebec: ■, (ii) British Columbia: ■, (iv) Manitoba: ■ and (v) Saskatchewan: ■.
- (f) Purchaser is not a non-resident of Canada for the purposes of the ITA.
- (g) Purchaser is not a "Non-Canadian" within the meaning of the *Investment Canada Act* (Canada).
- (h) Purchaser and its Affiliates do not have assets in Canada that exceed **[\$300]** million or gross revenues from sales in, from or into Canada that exceed **[\$200]** million, all as determined in accordance with Part IX of the *Competition Act* and Notifiable Transactions Regulations thereunder.
- (i) Purchaser has the financial means to complete the Transaction, including to pay the Cash Portion of the Purchase Price pursuant to Section 2.6(a), without resort to any external sources of financing not committed at the date hereof and to the extent that the Purchaser is relying on external sources of financing, it has provided firm commitments from lenders and/or other financing parties to Seller and the Trustee.
- (j) There are no actions, suits, appeals, claims, applications, orders, investigations, proceedings, grievances, arbitrations or alternative dispute resolution processes in progress, pending, or to Purchaser's knowledge, threatened against Purchaser that could prohibit, restrict or seek to enjoin the Transaction.
- (k) Purchaser (i) has relied solely upon its own independent review, investigation and/or inspection of any documents regarding Seller, the Business, the Purchased

Assets and the Assumed Liabilities, and (ii) did not rely upon any written or oral statements, representations, promises, warranties conditions or guaranties whatsoever, whether express or implied (by operation of Law or otherwise), regarding Seller, the Business, the Purchased Assets and the Assumed Liabilities or the completeness of any information provided in connection therewith, except as expressly provided in Section 6.1.

ARTICLE 7

COVENANTS OF THE PARTIES

7.1 Covenants of Seller

Seller covenants and agrees with Purchaser as follows:

- (a) until the Closing Time, Sellers shall furnish Purchaser and its representatives reasonable access to the Business and the Purchased Assets at all times during normal business hours, as well as such information within the possession or control of Seller regarding the Business as Purchaser and its representatives may reasonably request;
- (b) until the Closing Time, Sellers shall use commercially reasonable efforts to maintain in full force all policies and contracts of insurance that are now in effect (or renewals thereof) and under which it, the Business or any of the Purchased Assets are insured, provided that Seller has sufficient advance funding to maintain such insurance;
- (c) Seller agrees that within 15 Business Days from the Closing Date it shall change its name to a name which does not include the word "Danier" or any part thereof or any similar words; and
- (d) Seller shall use commercially reasonable efforts to fulfill the conditions set out in Section 5.4 of this Agreement and shall cooperate with Purchaser in its efforts to cause the satisfaction of the conditions set out in Section 5.5 of this Agreement.

7.2 Covenants of Purchaser

Purchaser covenants and agrees with Seller as follows:

- (a) For a period of five years following the Closing Date, Purchaser covenants to use reasonable care to preserve the Books and Records of Seller and to permit Seller and its representatives and successors and assigns and any trustee in bankruptcy access to such Books and Records as Seller and its representatives and successors and assigns and any trustee in bankruptcy may reasonably request;
- (b) Purchaser acknowledges and agrees that this Agreement is subject to the terms of the Agency Agreement and Purchaser shall not interfere with Agent's conduct of

the Sale or its right to occupy the Closing Stores as provided therein (each as defined in the Agency Agreement); and

- (c) Purchaser shall use commercially reasonable efforts to fulfill the conditions set out in Section 5.5 of this Agreement and shall cooperate with Seller in its efforts to cause the satisfaction of the conditions set out in Section 5.4 of this Agreement.

7.3 Indemnification for Assumed Liabilities

Purchaser hereby agrees that upon taking assignment of the Assumed Liabilities, it shall indemnify Seller, its partners, agents, and employees from, and hold them harmless against, any loss, liability or expense incurred or suffered by them arising out of or in connection with Purchaser's failure to pay when due and perform, observe, discharge and satisfy in accordance with their individual terms, the Assumed Liabilities, including the reasonable costs and expenses of legal counsel in defending itself against any claim made against it hereunder; provided however that, such loss, liability or expense is not the result of the gross negligence or wilful misconduct of Seller.

ARTICLE 8 **LICENSES**

8.1 License to use Trade Names, Trademarks and Logos

To the extent Seller is conducting a Liquidation, Purchaser hereby grants to Seller, and authorizes Seller to sublicense, an exclusive and royalty-free license during the Liquidation Term, to use, display and incorporate, and authorize third parties to perform the forgoing acts, in respect of the trade names, trademarks and logos of Seller, solely for the purpose of any signage, logos, identification, advertising, marketing or promotion in connection with the Liquidation.

ARTICLE 9 **CONFIDENTIALITY**

9.1 Confidentiality

Each of Purchaser and Seller covenants and agrees that neither it nor its respective affiliates or representatives, will disclose the existence or terms of this Agreement or the fact of its execution and delivery to any third party without the prior written consent of the other party, except as and to the extent required by Law, unless and until Seller has served materials in connection with a motion seeking approval of the Stalking Horse and SISP Order. For greater certainty, Seller and its representatives will disclose the existence and terms of this Agreement in connection with the SISP following the approval of the SISP pursuant to the Stalking Horse and SISP Order. The Parties agree that the existence and the terms and conditions of this Agreement shall be subject to the Confidentiality Agreement and any information delivered pursuant to its terms shall be considered "Confidential Information" for the purposes thereof. The Parties will cooperate and consult with one another, to the extent reasonably practical, with respect to the

issuance of any press release or other public statement regarding this Agreement and the Transaction.

ARTICLE 10 **TERMINATION**

10.1 Termination

- (a) This Agreement may be terminated at any time prior to the Closing Time:
 - (i) by mutual written agreement of Seller and Purchaser;
 - (ii) as provided in Sections 5.4, 5.5 and 5.6(a), provided that the terminating Party has not breached its obligations under the Agreement in such a manner as to cause a closing condition not to be fulfilled;
 - (iii) by Seller, if Closing shall not have occurred on or prior to the Outside Date, provided that Seller has not breached its obligations under the Agreement in such a manner as to cause a closing condition not to be fulfilled.
- (b) This Agreement shall automatically terminate at any time prior to the Closing Time upon the occurrence of:
 - (i) if this Agreement is not the Successful Bid or the Back-Up Bid (as determined pursuant to the SISP); or
 - (ii) if this Agreement is the Back-Up Bid and the transactions contemplated by the Successful Bid(s) are closed.

10.2 Effect of Termination

- (a) If this Agreement is terminated pursuant to, or due to the occurrence of any of the events set out in, Section 10.1 all further obligations of the Parties under or pursuant to this Agreement shall terminate without further liability of any Party to the other except for the provisions of Section 9.1 and this Section 10.2.
- (b) If this Agreement is terminated pursuant to Section 5.5 due to the Purchaser's failure to perform any of its obligations hereunder, then the full amount of the Deposit shall be released to Seller by the Trustee and shall become the property of and be retained by Seller to compensate Seller for expenses incurred in connection with the Transaction and the delay caused to Seller's efforts to sell the Purchased Assets.
- (c) Under no circumstance shall any of the Parties or their respective directors, officers, employees or agents be liable for any special, punitive, exemplary, consequential or

indirect damages (including loss of profits) that may be alleged to result, in connection with, arising out of, or relating to this Agreement or the Transaction.

ARTICLE 11 **AS IS WHERE IS**

11.1 Acquisition of Assets on "As Is, Where Is" Basis

Purchaser acknowledges that Seller is selling the Purchased Assets on an "as is, where is" basis as they shall exist on the Closing Date and that, as of the date of this Agreement, Purchaser has had an opportunity to conduct any and all due diligence regarding Seller, the Purchased Assets, the Business and the Assumed Liabilities and that it has relied solely on its own independent review, investigation, and/or inspection of any documents and/or regarding Seller, the Purchased Assets, the Business and the Assumed Liabilities. Other than the adjustment contemplated pursuant to Section 2.10, if applicable, no reduction in the Purchase Price will be made for any change in condition, value, quantity or quality of any of the Purchased Assets from the date hereof to the Closing Date, or otherwise. Any information provided by Seller to Purchaser describing the Purchased Assets, the Business and the Assumed Liabilities has been prepared solely for the convenience of prospective purchasers and is not warranted to be complete, accurate or correct. Unless specifically stated herein, Purchaser acknowledges that it did not rely on any written or oral statements, representations, promises, warranties, conditions or guaranties whatsoever, whether express, implied, by operation of law or otherwise, regarding Seller, the Business, the Purchased Assets or Assumed Liabilities or the completeness of any information provided in connection therewith or in any instrument furnished in connection with this Agreement including, without limitation, the respective rights, titles and interests of Seller, if any, in the Purchased Assets. This Section 11.1 shall not merge on the Closing Date and is deemed incorporated by reference in all documents delivered pursuant to the terms of this Agreement.

ARTICLE 12 **GENERAL**

12.1 Disputes

Any dispute arising out of or in connection with this Agreement shall be submitted to and finally resolved by a motion brought before the Court.

12.2 Notices

Any notice, consent or approval required or permitted to be given in connection with this Agreement shall be in writing and shall be sufficiently given if delivered (whether in person, by courier service or other personal method of delivery), or if transmitted by facsimile:

- (a) in the case of a notice to Seller at:

Danier Leather Inc.
2650 St. Claire Avenue West
Toronto, ON M6N 1M2

Attention: Brent Houlden
Email: boulden@danier.com

with a copy (which shall not constitute notice) to:

Davies Ward Phillips & Vineberg LLP
40th Floor, 155 Wellington Street West
Toronto, ON M5V 3J7

Attention: Jay Swartz/Natalie Renner
Fax No.: 416.863.0871
Email: jswartz@dwpv.com/nrenner@dwpv.com

(b) in the case of a notice to Purchaser at:

with a copy (which shall not constitute notice) to:

Any notice delivered or transmitted to a Party as provided above shall be deemed to have been given and received on the day it is delivered or transmitted, provided that it is delivered or transmitted on a Business Day prior to 5:00 p.m. local time in the place of delivery or receipt. However, if the notice is delivered or transmitted after 5:00 p.m. local time or if such day is not a Business Day then the notice shall be deemed to have been given and received on the next Business Day.

Any Party may, from time to time, change its address by giving notice to the other Party in accordance with the provisions of this Section.

12.3 Assignment

Neither Party shall assign this Agreement or any rights or obligations arising under this Agreement without the prior written consent of the other Party.

12.4 Time of the Essence

Time shall be of the essence in respect of the obligations of the Parties arising prior to Closing under this Agreement.

12.5 Enurement

This Agreement shall enure to the benefit of and be binding upon the Parties and their respective successors (including any successor by reason of amalgamation of any Party) and permitted assigns.

12.6 Amendment

No amendment, supplement, modification or waiver or termination of this Agreement and, unless otherwise specified, no consent or approval by any Party, shall be binding unless executed in writing by the Party to be bound thereby.

12.7 Further Assurances

The Parties shall, with reasonable diligence, do all such things and provide all such reasonable assurances as may be required to consummate the transactions contemplated by this Agreement, and each Party shall provide such further documents or instruments required by any other Party as may be reasonably necessary or desirable to effect the purpose of this Agreement and carry out its provisions, whether before or after the Closing Date provided that the reasonable costs and expenses of any actions taken after Closing Date at the request of a Party shall be the responsibility of the requesting Party.

12.8 Severability

If any provision of this Agreement is determined by a court of competent jurisdiction to be invalid, illegal or unenforceable in any respect, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party hereto. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the extent possible.

12.9 Applicable Law

This Agreement shall be construed, interpreted and enforced in accordance with, and the respective rights and obligations of the parties shall be governed by, the laws of the Province of Ontario and the federal laws of Canada applicable therein, and each party irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts of such province and all courts competent to hear appeals therefrom.

12.10 Execution and Delivery

This Agreement may be executed by the Parties in counterparts and may be executed and delivered by facsimile or other electronic means and all such counterparts and facsimiles (or other electronic deliveries) shall together constitute one and the same agreement.

[Remainder of page intentionally left blank]

IN WITNESS OF WHICH the Parties have executed this Agreement on the date first written above.

DANIER LEATHER INC.

By: _____
Name:
Title:

[PURCHASER]

By: _____
Name:
Title:

SCHEDULE C

FINANCIAL ADVISOR ADDRESS

Consensus Advisory Services LLC and
Consensus Securities LLC
100 River Ridge Drive, Suite 202
Norwood, MA 02062

Attention: Michael A. O'Hara and William D. Busko II

Email: mohara@consensusadvisors.com
bbusko@consensusadvisors.com

SCHEDULE D

AUCTION PROCEDURES

Auction

- 1 If the Company determines to conduct an Auction pursuant to the SISP Procedures, the Company will notify the Qualified Bidders who made a Qualified Liquidation Bid that the Auction will be held at the offices of Davies Ward Phillips & Vineberg LLP, 155 Wellington Street West, Toronto, Ontario at 9:00 a.m. (Eastern Time) on date that is determined by the Company, provided that it is a date that is not later than seven Business Days after the Bid Deadline, or such other place, date and time as the Company may advise. Capitalized terms used but not defined herein have the meaning given to them in the SISP Procedures. The Auction shall be conducted in accordance with the following procedures:
 - (a) Participation At The Auction. Only a Qualified Bidder is eligible to participate in the Auction. Each Qualified Bidder must inform the Company and the Trustee whether it intends to participate in the Auction no later than 12:00 p.m. (Eastern Time) on the Business Day prior to the Auction. Only the authorized representatives of each of the Qualified Bidders, the Trustee, the Company and Financial Advisor and their respective counsel and other advisors shall be permitted to attend the Auction.
 - (b) Bidding at the Auction. Bidding at the Auction shall be conducted in rounds. The highest Qualified Bid at the beginning of the Auction shall constitute the "Opening Bid" for the first round and the highest Overbid (as defined below) at the end of each round shall constitute the "Opening Bid" for the following round. In each round, a Qualified Bidder may submit no more than one Overbid. Any Qualified Bidder who bids in a round (including the Qualified Bidder that submitted the Opening Bid for such round) shall be entitled to participate in the next round of bidding at the Auction. For greater certainty, an Aggregate Bid may be determined to be the Opening Bid for any round including the opening round.
 - (c) Trustee Shall Conduct The Auction. The Trustee and its advisors shall direct and preside over the Auction. At the start of the Auction, the Trustee shall provide the terms of the Opening Bid to all participating Qualified Bidders at the Auction. The determination of which Qualified Liquidation Bid constitutes the Opening Bid for each round shall take into account any factors that the Trustee reasonably deems relevant to the value of the Qualified Liquidation Bid, including, among other things, the following:
 - (i) the amount and nature of the consideration, including the value of any non-cash consideration;
 - (ii) the proposed assumption of any liabilities and the related implied impact on recoveries for creditors;
 - (iii) the Trustee's reasonable assessment of the certainty of the Qualified Bidder to close the

proposed transaction on or before the Outside Date; (iv) the likelihood, extent and impact of any potential delays in closing; (v) net minimum guarantee amounts or percentages; (vi) the impact of the contemplated transaction on any actual or potential litigation; (vii) the net economic effect of any changes from the Opening Bid of the previous round, (viii) the net after-tax consideration to be received by the Company; and (ix) such other considerations as the Trustee deems relevant in its reasonable business judgment (collectively, the "**Bid Assessment Criteria**"). For greater certainty, the Trustee may ascribe monetary values to non-monetary terms in Overbids for the purposes of assessing and valuing such Overbids, including without limitation, the value to be ascribed to any liabilities or contracts to be assumed. All Bids made after the Opening Bid shall be Overbids, and shall be made and received on an **open** basis, and all material terms of the highest and best Overbid shall be fully disclosed to all other Qualified Bidders that are participating in the Auction. The Trustee shall maintain a record of the Opening Bid and all Overbids made and announced at the Auction, including the Successful Liquidation Bid and the Back-Up Liquidation Bid.

- (d) Terms of Overbids. An "**Overbid**" is any Bid made at the Auction subsequent to the Trustee's announcement of the Opening Bid. To submit an Overbid, in any round of the Auction, a Qualified Bidder must comply with the following conditions:
- (i) *Minimum Overbid Increment:* Any Overbid shall be made in such increments of as the Trustee may determine in order to facilitate the Auction (the "**Minimum Overbid Increment**"). The amount of the cash purchase price consideration or value of any Overbid shall not be less than the cash purchase price consideration or value of the Opening Bid, plus the Minimum Overbid Increment(s) at that time plus any additional Minimum Overbid Increments.
 - (ii) *The Bid Requirements same as for Qualified Bids:* Except as modified herein, an Overbid must comply with the Bid Requirements, provided, however, that the Bid Deadline shall not apply. Any Overbid made by a Qualified Bidder must provide that it remains irrevocable and binding on the Qualified Bidder and open for acceptance until the closing of the Successful Bid(s).
 - (iii) *Announcing Overbids:* At the end of each round of bidding, the Trustee shall announce the identity of the Qualified Bidder and the material terms of the then highest and/or best Overbid, including the nature of the transaction, the assets proposed to be acquired and the obligations proposed to be assumed, the basis for calculating the total consideration offered in such Overbid, and the resulting benefit to the Company based on, among other things, the Bid

Assessment Criteria. For greater certainty, an Aggregated Bid may be determined to be the highest and/or best Overbid.

- (iv) *Consideration of Overbids:* The Trustee reserves the right, in consultation with the Company and Financial Advisor, to make one or more adjournments in the Auction to, among other things: (A) facilitate discussions between the Company and individual Qualified Bidders; (B) allow individual Qualified Bidders to consider how they wish to proceed; (C) consider and determine the current highest and/or best Overbid at any given time during the Auction; and, (D) give Qualified Bidders the opportunity to provide the Trustee with such additional evidence as it, or the Company, may require, that the Qualified Bidder has obtained all required internal corporate approvals, has sufficient internal resources, or has received sufficient non-contingent debt and/or equity funding commitments, to consummate the proposed transaction at the prevailing Overbid amount. The Trustee and Company may have clarifying discussions with a Qualified Bidder, and the Trustee may allow a Qualified Bidder to make technical clarifying changes to its Overbid following such discussions.
- (v) *Portion Bids:* Notwithstanding the forgoing, each Portion Bidder entitled to participate in the Auction shall be entitled to submit an Overbid (in a minimum increment to be determined by the Trustee) with respect to the Assets it is bidding on without being required to submit an Overbid with respect to all Assets or the applicable Opening Bid; provided that any Aggregated Bid that is an Overbid shall be subject to these Auction procedures as any other Overbid, including that such Aggregated Bid that is an Overbid shall be subject to the Minimum Overbid Increment. Portion Bids can be aggregated with any other Qualified Bid, as determined by the Company, the Trustee and the Financial Advisor.
- (vi) *Failure to Bid:* If at the end of any round of bidding a Qualified Bidder (other than a Portion Bidder, or the Qualified Bidder that submitted the then highest and/or best Overbid or Opening Bid, as applicable) fails to submit an Overbid, then such Qualified Bidder shall not be entitled to continue to participate in the next round of the Auction.
- (e) Combining Bids. A Qualified Bidder shall not combine its Qualified Liquidation Bid, including, a Portion Bid, with another Qualified Liquidation Bid for the purpose of submitting an Overbid without the consent of the Trustee, except to the extent that the Qualified Liquidation Bid was an Aggregate Bid on the Bid Deadline, in which case, provided that the Qualified Bidders that submit the Overbid are the same Qualified Bidders that submitted the Aggregate Bid.

- (f) Additional Procedures. The Trustee may, in consultation with the Company and Financial Advisor, adopt rules for the Auction at or prior to the Auction that will better promote the goals of the Auction, including rules pertaining to the structure of the Auction, the order of bidding provided they are not inconsistent with any of the provisions of the SISP Procedures and provided further that no such rules may change the requirement that all material terms of the then highest and/or best Overbid at the end of each round of bidding will be fully disclosed to all other Qualified Bidders.
- (g) Closing the Auction. The Auction shall be closed after the Trustee, with the assistance of the Company and Financial Advisor and their respective legal counsel, has (i) reviewed the final Overbid of each Qualified Bidder on the basis of financial and contractual terms and the factors relevant to the sale process, including those factors affecting the speed and certainty of consummating the proposed sale, and (ii) identified the Successful Bid and the Back-Up Bid and advise the Qualified Bidders participating in the Auction of such determination. One or more Portion Bids can, in the discretion of the Trustee, form part of a Successful Bid and Back-Up Bid so long as such Portion Bids do not overlap in respect of the Assets sought to be purchased and in such case, such Portion Bid shall be included in the definition of Successful Bidder or Back-Up Bid, as applicable.
- (h) Finalizing Documentation. Promptly following a Bid of a Qualified Bidder being declared the Successful Bid or the Back-Up Bid, the applicable Qualified Bidder shall execute and deliver such revised and updated definitive transaction agreements as may be required to reflect and evidence the Successful Bid or Back-Up Bid.
- (i) Qualified Investment Bids and Qualified Sale Bids. Notwithstanding any other provision of these SISP Procedures, if a Qualified Bidder submits an Qualified Sale Bid or Qualified Investment Bid, which the Company or the Trustee considers would result in a greater value being received for the benefit of the Company's creditors than the Qualified Liquidation Bids, then the Trustee may allow such Qualified Bidder to participate in the Auction, notwithstanding that such Qualified Investment Bid or Qualified Sale Bid may not otherwise comply with the terms of these SISP Procedures relating to the Auction. In such case, the Trustee may adopt appropriate rules to facilitate such Qualified Bidder's participation in the Auction.

SCHEDULE B

Security

Province	Registration Type	Secured Party	Debtor	Collateral Classification	General Collateral Description	Reference File No. Registration No. Registration Period
ON	Financing Statement	Hewlett-Packard Financial Services Canada Company Compagnie de Services Financiers Hewlett-Packard Canada	Danier Leather Inc.	E, O	Enterprise business lease agreement. Any and all equipment, tangible and intangible, pursuant to Enterprise Business Lease Agreement Number 80218, and amendments thereto, and all amounts owing thereunder.	691248897 20131022 1419 8077 7738 (4 years)
	Financing Statement	Honda Canada Finance Inc.	Danier Leather Inc.	CG, E, MV	2013 Honda Crosstour, VIN 5J6TF2H50DL800321 00000170840948	686530134 20130501 0848 9221 7960 (3 years)
	Financing Statement	Toyota Credit Canada Inc.	Danier Leather Inc.	CG, E, O, MV	2012 Toyota Venza, VIN 4T3BK3BB6CU068158	676665351 20120306 1944 1531 8102 (4 years)
	Financing Statement	Canadian Imperial Bank of Commerce, as Agent	Danier Leather Inc.; Les Cuirs Danier Inc.; Danier Leather Inc. Les Cuirs Danier Inc.; Les Cuirs Danier Inc. Danier Leather Inc.	I, E, A, O, MV		862972605 20000619 1437 9065 9354 (6 years)

Province	Registration Type	Secured Party	Debtor	Collateral Classification	General Collateral Description	Reference File No. Registration No. Registration Period
	Renewals					20060418 1450 1529 2801 20110331 1945 1531 9117
	Financing Statement	Canadian Imperial Bank of Commerce	Royal Leather Goods Inc.	I, E, A, O, MV		060405687 19941125 1636 0043 6335 (10 years)
	Amendment					19980114 1459 0043 4014
	Amendment					19990812 1439 1530 8902
	Renewals					20000518 1502 0043 7239 20071105 1440 1530 0827 20121023 1446 1530 0483
	Bank Act	Canadian Imperial Bank of Commerce	Danier Leather Inc.			01266950
	Bank Act	Canadian Imperial Bank of Commerce	Danier Leather Inc.			01294235
BC	Financing Statement	Canadian Imperial Bank of Commerce	Danier Leather Inc.		All of the debtor's present and after acquired personal property as defined in Personal Property Security Act.	7670185 (5 years)
	Amendments					8419503 8933730
	Renewals					8874815 645068D 622561G
AB	Financing Statement	Canadian Imperial Bank of Commerce	Danier Leather Inc.		All of the debtor's, present and after acquired personal property as defined in Personal Property Security Act.	98052619974

Province	Registration Type	Secured Party	Debtor	Collateral Classification	General Collateral Description	Reference File No. Registration No. Registration Period
	Amendments					99081312300 00062025879
	Renewals					00051805190 07050129456 12030715414
SK	Financing Statement	Canadian Imperial Bank of Commerce	Danier Leather Inc.		All of the debtor's present and after-acquired personal property.	115109763
	Amendment					
	Renewals					
MB	Financing Statement	Canadian Imperial Bank of Commerce	Danier Leather Inc.		All debtor's, present and after acquired personal property as defined in Personal Property Security Act. Collateral Classification: Mixed	980527107800
	Amendments					990816106346 000621112015 201505474614
	Renewals					000518110063 200219479718 200904887616 201322404315
NB	Financing Statement	Canadian Imperial Bank of Commerce	Danier Leather Inc.		All of the debtor's present and after acquired personal property as defined in Personal Property Security Act.	3554380
	Amendments					5043516 6040651
	Renewals					5916976 14795058 21195961

Province	Registration Type	Secured Party	Debtor	Collateral Classification	General Collateral Description	Reference File No. Registration No. Registration Period
NS	Financing Statement	Canadian Imperial Bank of Commerce	Danier Leather Inc.		All of the debtor's present and after acquired personal property as defined in Personal Property Act.	622159
	Amendments					2095565 2951997 3036663
	Renewals					2952013 12356523 19244631
	Financing Statement	Canadian Imperial Bank of Commerce	Danier Leather Inc.		A security interest is taken in all of the debtor's present and after-acquired personal property.	2930868
	Amendment					3036716
	Renewals					12356531 19244649
NFLD	Financing Statement	Canadian Imperial Bank of Commerce	Danier Leather Inc.		A security interest is taken in all of the debtor's present and after acquired personal property.	287128
	Amendment					363978
	Renewals					5656113 9790826

REGISTER OF PERSONAL AND MOVABLE REAL RIGHTS

	Registration number				
	Registration Date	Nature Amount	Parties	Description of Property (Summary)	Comments
	Expiration Date				
1.	95-0046164-0001 April 27, 1995 April 27, 2005 Renewed until April 7, 2023	Conventional hypothec without delivery \$23,000,000 with interest at the rate of 25% per annum.	Creditor: Canadian Imperial Bank of Commerce Debtor: Royal Leather Goods Limited; Royal Leather Goods Limited, acting under the name: Danier	See SCHEDULE 1	Deed under private writing dated February 28, 1995. Change of name 00-0176618-0002 on June 27, 2000: Former name: Royal Leather Goods Limited New name: Danier Leather Inc. Change of name 00-0176618-0003 on June 27, 2000: Former name: Danier Leather Inc. New name: Danier Leather Inc.; Les Cuir Danier Inc.
2.	98-0101734-0001 August 10, 1998 July 16, 2008 Renewed until June 13, 2018	Conventional hypothec without delivery \$37,375,000 with interest at the rate of 25% per annum.	Creditor: Banque Canadienne Impériale de Commerce Debtor: Danier Leather Inc.	Universality of property in stock, present and future; Universality of claims, present and future; Universality of equipment, present and future; Insurance and expropriation indemnities pertaining to the hypothecated property. ¹	Deed under private writing dated July 16, 1998.
3.	00-0194829-0001 July 13, 2000	Conventional hypothec without delivery \$54,000,000.00 in	Creditor : Canadian Imperial Bank of Commerce Debtor:	See SCHEDULE 2	Notarial deed dated July 13, 2000, before Paul Anthony Laberge, notary, under minute number 12419.

1

The description of the charged property which appears in the registration statement on which this report is based is in French. The description as contained in this report has been translated into English for your convenience only. The French version of the description as it appears in the registration statement is the only description which governs and which has force of law.

	Registration number				
	Registration Date	Nature Amount	Parties	Description of Property (Summary)	Comments
	Expiration Date				
	July 13, 2010 Renewed until June 7, 2018	legal tender of Canada (the "Principal") with interest at the rate of 25% per annum and an amount equal to 15% of the Principal.	Danier Leather Inc.; Les Cuirs Danier Inc.; Danier Leather Inc./Les Cuirs Danier Inc., acting under the names: Les Cuirs Danier; Danier Leather; Danier		
4.	15-0105487- 0001 February 10, 2015 February 10, 2025	Conventional hypothec without delivery \$46,000,000.00 in legal tender of Canada with interest at a rate of 25% per annum; including an additional amount equal to 15% of the principal amount of the hypothec of \$40,000,000.00.	Creditor : Canadian Imperial Bank of Commerce Debtor: Danier Leather Inc.; Les Cuirs Danier Inc.	See SCHEDULE 3	Notarial deed dated February 10, 2015, before Cristina Napoleoni, notary, under minute number 249. Mention: This hypothec is granted to secure the payment of obligations pursuant to article 2692 of the Civil Code of Québec. The Agent authorizes the Grantor to collect the Claims. This authorization may be withdrawn by the Agent upon the occurrence of an Event of Default (as defined in the deed of hypothec referred to under the heading "Référence à l'acte constitutif") which is continuing.

SCHEDULE 1

THE UNIVERSALITY OF GRANTOR'S PROPERTY, BOTH PRESENT AND FUTURE, CORPOREAL AND INCLUDING WITHOUT LIMITATION; PROPERTY IN STOCK, CLAIMS, EQUIPEMENT AND ALL OF THE GRANTOR'S PRESENT AND AFTER ACQUIRED REAL PROPERTY, TOGETHER WITH ALL BUILDINGS PLACED, INSTALLED OR ERECTED ON ANY SUCH REAL PROPERTY AND ALL FIXTURES AND ALL OF THE GRANTORS PRESENT AND AFTER ACQUIRED PERSONAL PROPERTY AND UNDERTAKING WHERE:

"PROPERTY IN STOCK" MEANS THE UNIVERSALITY OF ALL EXISTING AND FUTURE PROPERTY IN STOCK OWNED BY THE GRANTOR OR HELD ON HIS BEHALF, INCLUDING MOVEABLE PROPERTY HELD FOR THE PURPOSE OF BEING SOLD, RENTED OR ALTERED BY MEANS OF TRANSFORMATION OR MANUFACTURING PROCESS OF A GOOD DESTINED FOR SALE OR FOR RENT OR WITH RESPECT TO SERVICES OFFERED, OR GOODS HELD BY THIRD PARTIES WITH RESPECT TO A RENTAL AGREEMENT, LEASING CONTRACT, FRANCHISE CONTRACT OR LICENCE OR OTHER AGREEMENT EXECUTED WITH THE GRANTOR, REGARDING RAW MATERIALS, MANUFACTURED OR SEMIMANUFACTURED OR TREATED MATERIALS OR PRODUCTS, OR GOODS USED FOR PACKAGING, MINERAL OR PETROLEUM SUBSTANCES, ANIMALS OR FOODSTUFFS. GOODS THAT WERE PART OF ANY GOODS IN STOCK WHICH, PURSUANT TO AN ALIENATION CONTRACT EXECUTED WITH RESPECT THERETO FOR THE BENEFIT OF A THIRD PARTY, SHALL REMAIN THE PROPERTY OF THE GRANTOR PURSUANT TO A RESERVATION OF OWNERSHIP IN ITS FAVOUR, AND SHALL BE DEEMED TO BE PROPERTY IN STOCK AS LONG AS THE OWNERSHIP THEREOF IS NOT TRANSFERRED TO SUCH THIRD PARTIES; ARE ALSO DEEMED TO BE PROPERTY IN STOCK, GOODS WHICH, AFTER HAVING BEEN ALIENATED, HAVE AGAIN BECOME THE PROPERTY OF THE GRANTOR AS A RESULT OF A RESOLUTION, TERMINATION OR REPOSSESSION.

"CLAIMS" MEANS THE UNIVERSALITY OF ALL CLAIMS, ACCOUNT BOOKS, ACCOUNTS RECEIVABLE, DEMANDS AND AMOUNTS OF ANY NATURE WHICH ARE PRESENTLY OWNED TO THE GRANTOR AND WHICH MAY BE OWNED TO HIM IN THE FUTURE, INCLUDING ALL THE DEMANDS AND BENEFITS WHICH ARE OR COULD BE OWNED TO THE GRANTOR IN THE FUTURE PURSUANT TO ANY INSURANCE POLICY WHATSOEVER AND ALL OF THE GRANTOR'S RIGHTS TO THE CREDIT BALANCE OF THE ACCOUNTS HELD ON HIS BEHALF BY THE TITULAIRE (SUBJECT TO THE LATTER'S RIGHTS OF COMPENSATION) OR BY ANY FINANCIAL INSTITUTION OR OTHER PERSON, THE WHOLE ALSO INCLUDING ANY JUDGEMENTS AND OTHER ACCESSORIES, HYPOTHECS, RIGHTS AND SECURITY RELATING THERETO AS WELL AS ANY DEEDS, DOCUMENTS, INSTRUMENTS, CONTRACTS, BILLS OF EXCHANGE, NOTES AND OTHER APPROPRIATE VOUCHERS AS WELL AS THE BOOKS AND FILES RELATING THERETO. A CLAIM, A RIGHT OR A DEMAND SHALL NOT BE EXCLUDED FROM THE CLAIMS SOLELY BECAUSE (O) THE DEBTOR IS DOMICILED OUTSIDE QUÉBEC OR (II) THE DEBTOR IS AN AFFILIATE (AS THIS TERM IS DEFINED IN THE CANADA BUSINESS CORPORATIONS ACT) OF THE GRANTOR OR THE DEBTOR OR (III) THE CLAIM, RIGHT OR DEMAND IS NOT RELATED TO THE BUSINESS OF THE GRANTOR, WHEN SUCH GRANTOR IS NOT A NATURAL PERSON.

"DEBTOR" MEANS ANY PERSON FOR WHOM THE GRANTOR IS A GUARANTOR WITH RESPECT TO HIS DEBTS OR OBLIGATIONS IN FAVOUR OF THE LENDERS.

"LOCATION" MEANS ALL OF THE LAND, CONSTRUCTIONS AND WORKS WHOSE ACQUISITION, DEVELOPMENT OR USE ARE FINANCED IN WHOLE OR IN PARTY BY MEANS

OF THE FUNDS OBTAINED FROM THE TITULAIRE BY THE GRANTOR OR THE DEBTOR, AS THE CASE MAY BE, OR ANY PROPERTY CHARGED WITH A HYPOTHEC OR OTHER SECURITY SECURING THE INDEBTEDNESS, IN WHOLE OR IN PART.

"EQUIPMENT" MEANS THE UNIVERSALITY OF THE PRESENT AND FUTURE MACHINERY, TOOLS, PROFESSIONAL EQUIPMENT AND FURNITURE OWNED BY THE GRANTOR OR HELD ON HIS BEHALF AS WELL AS EXISTING AND FUTURE ACCESSORIES, ADDITIONS, REPAIRS AND SPARE PARTS THERETO, INCLUDING LOGGING AND FARM MACHINERY AND TOOLS.

WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, THE HYPOTHEC HEREBY CONSTITUTED ALSO CHARGES THE FOLLOWING UNIVERSALITIES OF PROPERTY:

(A) ALL THE FRUITS AND PRODUCTS OF THE SOIL, AND THE MATERIALS AND OTHER THINGS FORMING AN INTEGRAL PART OF AN IMMOVABLE, NOW OR IN THE FUTURE, AND WHICH ARE OWNED BY THE GRANTOR WHEN SUCH FRUITS, PRODUCTS, MATERIALS OR OTHER THINGS BECOME MOVABLES WITH A SEPARATE EXISTENCE ATTACHING TO THE HYPOTHECATED PROPERTY OR WITH RESPECT THERETO;

(B) THE PROCEEDS OF ANY SALE, RENTAL OR OTHER DISPOSITION OF THE HYPOTHECATED PROPERTY, ANY CLAIM RESULTING FROM SUCH SALE, RENTAL OR OTHER DISPOSITION AS WELL AS ANY PROPERTY ACQUIRED IN REPLACEMENT THEREOF (IT BEING UNDERSTOOD THAT THIS CLAUSE SHALL NOT BE INTERPRETED AS ALLOWING THE GRANTOR TO ENCUMBER THE HYPOTHECATED PROPERTY IN VIOLATION HEREOF);

(C) ALL THE EXISTING AND FUTURE INTELLECTUAL AND INDUSTRIAL PROPERTY RIGHTS OF THE GRANTOR AS WELL AS ALL EXISTING AND FUTURE PERMITS, LICENCES, AUTHORIZATIONS OR OTHER RIGHTS ATTACHING TO ITS ENTERPRISE OR TO THE HYPOTHECATED PROPERTY;

(D) ALL INSURANCE OR EXPROPRIATION INDEMNITIES PAYABLE WITH RESPECT TO THE HYPOTHECATED PROPERTY;

(E) ALL RIGHTS ATTACHING TO THE HYPOTHECATED PROPERTY AS WELL AS THE FRUITS AND REVENUES GENERATED THEREBY;

(F) ALL CONDITIONAL RIGHTS OR RIGHTS LIKELY TO BE DECLARED NULL REGARDING A CORPOREAL OR INCORPOREAL MOVABLE PROPERTY OWNED OR HELD BY THE GRANTOR OR ON ITS BEHALF; AND

(G) ALL THE TITLES, DOCUMENTS, REGISTERS, INVOICES AND ACCOUNTS EVIDENCING THE HYPOTHECATED PROPERTY OR WITH RESPECT THERETO.

SCHEDULE 2

The following universalities of property are charged by the hypothec constituted hereby:

Accessions;
Books and Records;
Claims;
Contracts;
Documents of Title;
Equipment;
Goods;
Instruments;
Intangibles;
Intellectual
Property Rights;
Inventory;
Money;
Permits;
Property in Stock;
Real Property; and
Securities.

Without limiting the generality of the foregoing, the hypothec hereby constituted also charges the following universalities of property:

- (a) All the fruits and products of the soil, and the materials and other things forming an integral part of an immovable, now or in the future, and which are owned by the Constituant when such fruits, products, materials or other things become movables with a separate existence attaching to the Hypothecated Property or with respect thereto;
- (b) The proceeds of any sale, rental or other disposition of the Hypothecated Property, any claim resulting from such sale, rental or other disposition as well as any property acquired in replacement thereof (it being understood that this clause shall not be interpreted as allowing the Constituant to encumber the Hypothecated Property in violation hereof);
- (c) All the existing and future intellectual and industrial property rights of the Constituant as well as all existing and future permits, licences, authorizations or other rights attaching to its enterprise or to the Hypothecated Property;
- (d) All insurance or expropriation indemnities payable with respect to the Hypothecated Property;
- (e) All rights attaching to the Hypothecated Property as well as the fruits and revenues generated thereby;
- (f) All conditional rights or rights likely to be declared null regarding a corporeal or incorporeal movable property owned or held by the Constituant or on its behalf; and
- (g) All the titles, documents, registers, invoices and accounts evidencing the Hypothecated Property or with respect thereto.

The universality of all other movable or immovable property of whatsoever nature and wherever situated, now owned or hereafter acquired by the Constituant.

For the purposes hereof,

"Accessories" means Goods that are installed in or affixed to other Goods;

"Books and Records" means and refers to the universality of books, records, agreements and/or arrangements relating to Claims, Equipment and/or Inventory, including but not limited to: all records, ledgers, computer software, including, without limitation, programs, disc or tape files, and printouts, runs and other computer prepared information indicating, summarising or evidencing Claims, Intangibles, Equipment and/or Inventory;

"Claims" means the universality of all claims, account books, accounts receivable, demands and amounts of any nature which are presently owed to the Constituant and which may be owed to him in the future, including all the demands and benefits which are or could be owed to the Constituant in the future pursuant to any insurance policy whatsoever and all of the Constituant's rights to the credit balance of the accounts held on his behalf by the Agent (subject to the latter's rights of compensation) or by any financial institution or other person, the whole also including any judgements and other accessories, hypothecs, rights and security relating thereto as well as any deeds, documents, instruments, contracts, bills of exchange, notes and other appropriate vouchers as well as the books and files relating thereto. A claim, a right or a demand shall not be excluded from the Claims solely because (i) the debtor is domiciled outside Quebec or (ii) the debtor is an affiliate (as this term is defined in the Canada Business Corporations Act) of the Constituant or (iii) the claim, right or demand is not related to the business of the Constituant.

"Contracts" means all contracts, licenses and agreements to which the Constituant is now or in the future a party or pursuant to which the Constituant has acquired rights or in the future acquires rights, as such contracts may from time to time be amended, supplemented or otherwise modified, including (a) all present and future rights of the Constituant to receive Money or any other amounts or in connection therewith, (b) all present and future rights of the Constituant to damages arising out of, or for, breach or default in respect thereof, and (c) all present and future rights of the Constituant to perform and to exercise all remedies thereunder;

"Document of Title" means any writing that purports to be issued by or addressed to a person and purports to cover such Goods in such person's possession as are identified or fungible portions of an identified mass, and that in the ordinary course of business is treated as establishing that the person in possession of it is entitled to receive, hold and dispose of the document and the Goods it covers;

"Equipment" means the universality of the present and future machinery, tools, professional equipment and furniture owned by the tor or held on his behalf as well as existing and future accessories, additions, repairs and spare parts thereto, including logging and farm machinery and tools;

"Goods" means corporeal movable property other than Claims, Documents of Title, Instruments, Money and Securities, and includes fixtures, growing crops, the unborn young of animals, timber to be cut, and minerals and hydrocarbons to be extracted;

"Instrument" means, a bill, note or cheque within the meaning of the Bills of Exchange Act (Canada) or any other writing that evidences a right to the payment of money and is of a type that in the ordinary course of business is transferred by delivery with any necessary endorsement or assignment, or a letter of credit and an advice of credit if the letter or advice states that it must be surrendered upon claiming payment thereunder, but does not include a writing that constitutes part of a Claim, a Document of Title or a Security;

"Intangible" means all incorporeal movable property that is not Goods, Documents of Title, Instruments, Money or Securities;

"Intellectual Property Rights" means all past, present and future: trade secrets and other proprietary information; trademarks, service marks, business names, designs, logos, indicia, and/or other source and/or business identifiers of or used by the Constituant and the goodwill of the business relating thereto and all registrations or applications for registrations now or hereafter issued thereon throughout the world; copyrights (including, without limitation, copyrights for computer programs) of the Constituant or in which the Constituant has any right, title or interest and copyright registrations or applications for registrations now or hereafter issued throughout the world and all corporeal property embodying such copyrights; unpatented inventions (whether or not patentable) of the Constituant or in which the Constituant has any right, title or interest; patent applications and patents of the Constituant or in which the Constituant has any right, title or interest; industrial designs, industrial design applications and registered industrial designs of the Constituant or in which the Constituant has any right, title or interest; license agreements related to any of the foregoing and income therefrom; books, records, writings, computer tapes or disks, flow diagrams, specification sheets, source codes, object codes and other physical manifestations, embodiments or incorporations of any of the foregoing; the right to sue for all past, present and future infringements of any of the foregoing; and all common law and other rights throughout the world in and to all of the foregoing;

"Inventory" means Goods that are held for sale or lease or that have been leased or that are to be furnished or have been furnished under a contract of service, or that are raw materials, work in process or materials used or consumed in a business or profession;

"Location" means all of the land, constructions, works and any other property charged with a hypothec or other security securing the Indebtedness, in whole or in part.

"Money" means a medium of exchange authorised or adopted by the Parliament of Canada as part of the currency of Canada or by a foreign government as part of its currency;

"Permits" means all permits, licenses, authorisations, approvals, franchises, rightsofway, servitudes and entitlements that the Constituant has, requires or is required to have, to own, possess or operate any of its property or to operate and carry on any part of its business;

"Property in Stock" means the universality of all existing and future property in stock owned by the Constituant or held on his behalf, including moveable property held for the purpose of being sold, rented or altered by means of transformation or manufacturing process of a good destined for sale or for rent or with respect to services offered, or goods held by third parties with respect to a rental agreement, leasing contract, franchise contract or licence or other agreement executed with the Constituant, regarding raw materials, manufactured or semimanufactured or treated materials or products, or goods used for packaging, mineral or petroleum substances, animals or foodstuffs. Goods that were part of any goods in stock which, pursuant to an alienation contract executed with respect thereto for the benefit of a third party, shall remain the property of the Constituant pursuant to a reservation of ownership in its favour, and shall be deemed to be Property in Stock as long as the ownership thereof is not transferred to such third parties; are also deemed to be Property in Stock, goods which, after having been alienated, have again become the property of the Grantor as a result of a resolution, termination or repossession.

"Real Property" means the universality of all of the Constituant's right, title, estate and interest, leases of real or immovable property, present and future, in and to all lands, immovable property and premises now or in the future owned by the Constituant or in which the Constituant now or in the future has any interest of any nature whatsoever or which may at any time in the future be acquired by the Constituant of which the Constituant may at any time in the future become possessed or obtain any interest or to which the Constituant may at any time in the future become entitled, in any such case wherever located, together with all buildings, erections, structures, improvements, fixtures, fixed plant, fixed machinery and fixed equipment now or in the future located, constructed or placed in, under or upon any such lands and premises and all rights, entitlements, rights of way, servitudes, licences and privileges appurtenant or appertaining to such lands and premises;

"Security" means a document that is: (a) issued in bearer, order or registered form, (b) of a type commonly dealt with upon securities exchanges or markets or commonly recognised in any area in which it is issued or dealt in as a medium for investment, (c) one of a class or series or which by its terms is divisible into a class or series of documents, and (d) evidence of a share, participation or other interest in property or in an enterprise or is evidence of an obligation of the issuer; and

"Toxic Substance" means both (a) any pollutant or contaminant within the meaning given to these words in the Environment Quality Act (Quebec) and (b) any toxic substance within the meaning given to these words in the Canadian Environmental Protection Act.

SCHEDULE 3

The following universalities of property of the Grantor (collectively, the "Hypothecated Property"):

Accessions;
Books and Records;
Claims;
Contracts;
Documents of Title;
Equipment;
Goods;
Instruments;
Intangibles;
Intellectual Property Rights;
Inventory;
Money;
Permits;
Property in Stock;

Real Property, except for leases and leasehold interests for which the consent of the landlord is required prior to a charge thereof and for which such consent has not been obtained; and Securities.

Without limiting the generality of the foregoing, the hypothec hereby constituted also charges the following universalities of property:

(a) All the fruits and products of the soil, and the materials and other things forming an integral part of an immovable, now or in the future, and which are owned by the Grantor when such fruits, products, materials or other things become movables with a separate existence attaching to the Hypothecated Property or with respect thereto;

(b) The proceeds of any sale, rental or other disposition of the Hypothecated Property, any claim resulting from such sale, rental or other disposition as well as any property acquired in replacement thereof (it being understood that this clause shall not be interpreted as allowing the Grantor to encumber the Hypothecated Property in violation hereof);

(c) All the existing and future intellectual and industrial property rights of the Grantor as well as all existing and future permits, licences, authorizations or other rights attaching to its enterprise or to the Hypothecated Property;

(d) All insurance or expropriation indemnities payable with respect to the Hypothecated Property;

(e) All rights attaching to the Hypothecated Property as well as the fruits and revenues generated thereby;

(f) All conditional rights or rights likely to be declared null regarding a corporeal or incorporeal movable property owned or held by the Grantor or on its behalf;

(g) All the titles, documents, registers, invoices and accounts evidencing the Hypothecated Property or with respect thereto; and

(h) All other movable or immovable properties of whatsoever nature and wherever situated, now owned or hereafter acquired by the Grantor.

DEFINITIONS

"Accessions" means Goods that are installed in or affixed to other Goods;

"Agent" means CANADIAN IMPERIAL BANK OF COMMERCE, together with its successors and permitted assigns.

"Books and Records" means and refers to the universality of books, records, agreements and/or arrangements relating to Claims, Equipment and/or Inventory, including but not limited to: all records, ledgers, computer software, including, without limitation, programs, disc or tape files, and printouts, runs and other computer prepared information indicating, summarising or evidencing Claims, Intangibles, Equipment and/or Inventory;

"Claims" means the universality of all claims, account books, accounts receivable, demands and amounts of any nature which are presently owed to the Grantor and which may be owed to him in the future, including all the demands and benefits which are or could be owed to the Grantor in the future pursuant to any insurance policy whatsoever and all of the Grantor's rights to the credit balance of the accounts held on his behalf by the Agent (subject to the latter's rights of compensation) or by any financial institution or other person, the whole also including any judgements and other accessories, hypothecs, rights and security relating thereto as well as any deeds, documents, instruments, contracts, bills of exchange, notes and other appropriate vouchers as well as the books and files relating thereto. A claim, a right or a demand shall not be excluded from the Claims solely because (i) the debtor is domiciled outside Quebec or (ii) the debtor is an affiliate (as this term is defined in the Canada Business Corporations Act) of the Grantor or (iii) the claim, right or demand is not related to the business of the Grantor;

"Contracts" means all contracts, licenses and agreements to which the Grantor is now or in the future a party or pursuant to which the Grantor has acquired rights or in the future acquires rights, as such contracts may from time to time be amended, supplemented or otherwise modified, including (a) all present and future rights of the Grantor to receive Money or any other amounts or in connection therewith, (b) all present and future rights of the Grantor to damages arising out of, or for, breach or default in respect thereof, and (c) all present and future rights of the Grantor to perform and to exercise all remedies thereunder, but excluding all leases and contracts creating leasehold interests for which the consent of the landlord is required prior to a charge thereof and for which such consent has not been obtained;

"Document of Title" means any writing that purports to be issued by or addressed to a person and purports to cover such Goods in such person's possession as are identified or fungible portions of an identified mass, and that in the ordinary course of business is treated as establishing that the person in possession of it is entitled to receive, hold and dispose of the document and the Goods it covers;

"Equipment" means the universality of the present and future machinery, tools, professional equipment and furniture owned by the Grantor or held on his behalf as well as existing and future accessories, additions, repairs and spare parts thereto, including logging and farm machinery and tools;

"Goods" means corporeal movable property other than Claims, Documents of Title, Instruments, Money and Securities, and includes fixtures, growing crops, the unborn young of animals, timber to be cut, and minerals and hydrocarbons to be extracted;

"Grantor" means Danier Leather Inc./Les Cuir Daniers Inc., together with its successors and permitted assigns.

"Instrument" means, a bill, note or cheque within the meaning of the Bills of Exchange Act (Canada) or any other writing that evidences a right to the payment of money and is of a type that in the ordinary course of business is transferred by delivery with any necessary endorsement or assignment, or a letter of credit and an advice of credit if the letter or advice states that it must be surrendered upon claiming payment thereunder, but does not include a writing that constitutes part of a Claim, a Document of Title or a Security;

"Intangibles" means all incorporeal movable property that is not Goods, Documents of Title, Instruments, Money or Securities;

"Intellectual Property Rights" means all past, present and future: trade secrets and other proprietary information; trademarks, service marks, business names, designs, logos, indicia, and/or other source and/or business identifiers of or used by the Grantor and the goodwill of the business relating thereto and all registrations or applications for registrations now or hereafter issued thereon throughout the world; copyrights (including, without limitation, copyrights for computer programs) of the Grantor or in which the Grantor has any right, title or interest and copyright registrations or applications for registrations now or hereafter issued throughout the world and all corporeal property embodying such copyrights; unpatented inventions (whether or not patentable) of the Grantor or in which the Grantor has any right, title or interest; patent applications and patents of the Grantor or in which the Grantor has any right, title or interest; industrial designs, industrial design applications and registered industrial designs of the Grantor or in which the Grantor has any right, title or interest; license agreements related to any of the foregoing and income therefrom; books, records, writings, computer tapes or disks, flow diagrams, specification sheets, source codes, object codes and other physical manifestations, embodiments or incorporations of any of the foregoing; the right to sue for all past, present and future infringements of any of the foregoing; and all common law and other rights throughout the world in and to all of the foregoing;

"Inventory" means Goods that are held for sale or lease or that have been leased or that are to be furnished or have been furnished under a contract of service, or that are raw materials, work in process or materials used or consumed in a business or profession;

"Money" means a medium of exchange authorized or adopted by the Parliament of Canada as part of the currency of Canada or by a foreign government as part of its currency;

"Permits" means all permits, licenses, authorizations, approvals, franchises, rights of way, servitudes and entitlements that the Grantor has, requires or is required to have, to own, possess or operate any of its property or to operate and carry on any part of its business;

"Property in Stock" means the universality of all existing and future property in stock owned by the Grantor or held on his behalf, including moveable property held for the purpose of being sold, rented or altered by means of transformation or manufacturing process of a good destined for sale or for rent or with respect to services offered, or goods held by third parties with respect to a rental agreement, leasing contract, franchise contract or licence or other agreement executed with the Grantor, regarding raw materials, manufactured or semimanufactured or treated materials or products, or goods used for packaging, mineral or petroleum substances, animals or foodstuffs. Goods that were part of any goods in stock which, pursuant to an alienation contract executed with respect thereto for the benefit of a third party, shall remain the property of the Grantor pursuant to a reservation of ownership in its favour, and shall be deemed to be Property in Stock as long as the ownership thereof is not transferred to such third parties; are also deemed to be Property in Stock, goods which, after having been alienated, have again become the property of the Grantor as a result of a resolution, termination or repossession;

"Real Property" means the universality of all of the Grantor's right, title, estate and interest, leases of real or immovable property, present and future, in and to all lands, immovable property and premises now or in the future owned by the Grantor or in which the Grantor now or in the future has any interest of any nature whatsoever or which may at any time in the future be acquired by the Grantor or of which the Grantor may at any time in the future become possessed or obtain any interest or to which the Grantor may at any time in the future become entitled, in any such case wherever located, together with all buildings, erections, structures, improvements, fixtures, fixed plant, fixed machinery and fixed equipment now or in the future located, constructed or placed in, under or upon any such lands and premises and all rights, entitlements, rights of way, servitudes, licences and privileges appurtenant or appertaining to such lands and premises; and

"Security" means a document that is: (a) issued in bearer, order or registered form, (b) of a type commonly dealt with upon securities exchanges or markets or commonly recognised in any area in which it is issued or dealt in as a medium for investment, (c) one of a class or series or which by its terms is divisible into a class or series of documents, and (d) evidence of a share, participation or other interest in property or in an enterprise or is evidence of an obligation of the issuer.

**IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF DANIER
LEATHER INC., a corporation incorporated pursuant to the laws of the Province of Ontario, with
a head office in the City of Toronto, in the Province of Ontario**

Court File No. 31-CL-2084381

**ONTARIO
SUPERIOR COURT OF JUSTICE
(Commercial List)**

Proceeding commenced at Toronto

ORDER

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Lawyers for Danier Leather Inc.

Appendix “B”



**First Report to Court of
KSV Kofman Inc. as Proposal
Trustee of Danier Leather Inc.**

February 5, 2016

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ESTATE FILE NO.: 31-CL-2084381

COURT FILE NO.: 31-CL-2084381

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

**IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF
DANIER LEATHER INC.,
A COMPANY INCORPORATED PURSUANT TO THE LAWS OF THE
PROVINCE OF ONTARIO, WITH A HEAD OFFICE IN THE CITY OF TORONTO,
IN THE PROVINCE OF ONTARIO**

FEBRUARY 5, 2016

1.0 Introduction

1. This report ("Report") is filed by KSV Kofman Inc. ("KSV") in its capacity as proposal trustee ("Proposal Trustee") in connection with a Notice of Intention to Make a Proposal ("NOI") filed by Danier Leather Inc. (the "Company") on February 4, 2016 ("Filing Date") under Section 50.4(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended ("BIA").
2. The principal purpose of these restructuring proceedings is to create a stabilized environment to enable the Company to pursue a restructuring of its business by completing a transaction to be identified through a "stalking horse" sale and investor solicitation process ("SISP"). The SISP will be conducted by the Company, with the assistance of its financial advisor, Consensus Advisory Services LLC and Consensus Securities LLC (collectively, the "Financial Advisor"), and the Proposal Trustee.
3. This Report should be read in conjunction with the affidavit of Brent Houlden, the Chief Financial Officer of the Company, sworn February 4, 2016 (the "Houlden Affidavit") and the Affidavit of Michael A. O'Hara, a representative of the Financial Advisor, sworn February 4, 2016 (the "O'Hara Affidavit"), each filed in support of this application.

1.1 Purposes of this Report

1. The purposes of this Report are to:
 - a) provide background information about the Company;

- b) discuss the terms of the SISP (the “SISP Procedures”);
- c) discuss the terms of the Financial Advisor’s engagement letter (the “Consensus Engagement Letter”);
- d) discuss the terms of OCI Inc.’s (“OCI”) engagement letter (the “OCI Engagement Letter”);
- e) summarize an offer for substantially all of the Company’s inventory (the “Merchandise”) submitted by GA Retail Canada, ULC or an affiliate thereof (the “Agent”) in the form of an agency agreement (the “Stalking Horse Agreement”), which would serve as the “stalking horse” in the SISP, subject to the approval of the Court;
- f) discuss the rationale for:
 - a charge in the amount of \$600,000 on all of the Company’s current and future assets, properties and undertakings (the “Property”) to secure the fees and disbursements of the Proposal Trustee, the Proposal Trustee’s counsel, Bennett Jones LLP, the Company’s counsel, Davies Ward Phillips and Vineberg LLP and the directors of the Company and their counsel, Chaitons LLP (the “Administration Charge”);
 - a charge in the amount of US\$500,000 on the Property to secure the fees and disbursements of the Financial Advisor (the “Consensus Charge”);
 - a charge in the amount of \$4.9 million on the Property in favour of the directors and officers of the Company (“D&O Charge”);
 - a charge (“KERP Charge”) in the amount of \$524,000 on the Property in respect of a Key Employee Retention Plan (“KERP”);
 - sealing (a) a summary of bids received to-date and provided in confidential appendix “1” attached hereto (“Confidential Appendix”), and (b) Exhibit “H” to the Houlden Affidavit which contains certain detailed information about the KERP; and
- g) recommend that the Court make an order, *inter alia*:
 - authorizing the Company to perform its obligations under the Consensus Engagement Letter and the OCI Engagement Letter, including making the payments contemplated thereunder;
 - approving the SISP Procedures and authorizing the Company, the Financial Advisor and the Proposal Trustee to conduct the SISP;

- approving and accepting the Stalking Horse Agreement for the purposes of conducting the SISP only ¹, and authorizing and directing the Company to pay the Break Fee, the Expense Reimbursement and the Signage Costs Obligations (each as defined below);
- sealing the Confidential Appendix and Exhibit "H" to the Houlden Affidavit;
- approving the KERP; and
- approving the Administration Charge, the Consensus Charge, the D&O Charge and the KERP Charge.

1.2 Currency

1. Unless otherwise noted, all currency references in this Report are to Canadian dollars.

1.3 Restrictions

1. In preparing this Report, the Proposal Trustee has relied upon unaudited financial information prepared by the Company's representatives, the Company's books and records and discussions with its representatives. The Proposal Trustee has not performed an audit or other verification of such information. An examination of the Company's financial forecasts as outlined in the Canadian Institute of Chartered Accountants Handbook has not been performed. Future oriented financial information relied upon in this Report is based on the Company's representatives' assumptions regarding future events; actual results achieved may vary from this information and these variations may be material.

2.0 Background

1. The Company was founded in 1972. It is Canada's largest retailer of leather apparel and accessories. The shares of the Company are listed on the Toronto Stock Exchange and trade under the symbol "DL".
2. The Company's head office, manufacturing, warehouse and distribution center is located in Toronto (the "St. Clair Facility"). In addition to this 130,000 square foot facility, the Company also leases a 20,000 square foot distribution facility in Toronto, as well as two offices in China. The Company manufactures at the St. Clair Facility and contracts production from vendors located in China, India and Pakistan.

¹ The proposed Order specifically provides that nothing therein approves the sale of any property or assets of the Company on the terms of the Stalking Horse Agreement and that the approval and vesting of any sale of the Assets (as defined in the SISP Procedures) shall be determined on a subsequent motion made to the Court.

3. The Company's merchandise is predominantly marketed under the "Danier" brand name and is currently sold in 84 stores across Canada, as well as online through the Company's website: www.danier.com. As at the date of this Report, the Company is in the process of closing eight of its stores.
4. The Company leases all of its facilities, including its head office, as discussed further herein.
5. The Company employs approximately 1,293 individuals, comprised of 1,065 store-level employees, 106 employees in manufacturing and distribution, 102 employees in its head office and administration and 20 employees in China. The Company's workforce is not unionized and it does not maintain a pension plan.
6. The Company owns two subsidiaries, Danier International Corporation ("DIC") and Danier Leather (USA) Inc. ("Danier USA"). DIC is a Barbados corporation which owns international trademarks associated with the "Danier" brand. Danier USA is a dormant Delaware corporation with no material assets or liabilities.

2.1 Financial Difficulties and Insolvency

1. Over the past three years, the Company has incurred significant operating losses, resulting from, *inter alia*, operational challenges, increased competition from US retailers and macroeconomic factors impacting Canadian retailers, including the depreciation of the Canadian dollar relative to the US dollar. The Company's income statement for the six months ending December 26, 2015 and the years ending June 27, 2015 ("Fiscal 2015") and June 28, 2014 ("Fiscal 2014") is presented in the following table.²

(\$000s; consolidated)	6 months ending December 26, 2015 (unaudited)	12 months ending June 27, 2015 (audited)	12 months ending June 28, 2014 (audited)
Revenue	70,870	126,046	141,930
Cost of sales	37,139	70,226	73,697
Gross margin	33,731	55,820	68,233
Gross margin (%)	47.6%	44.3%	48.1%
Selling, general and administrative	34,759	72,898	77,110
Other	359	2,791	(1,214)
Operating loss	(1,387)	(19,869)	(7,663)
Gain on sale of the St. Clair Facility	7,066	-	-
Net income/(loss)	5,679	(19,869)	(7,663)

² The fiscal year of the Company ends on the last Saturday of June each year.

2. The income statement reflects that the Company incurred:
 - a) net losses of approximately \$19.9 million and \$7.7 million during Fiscal 2015 and Fiscal 2014, respectively; and
 - b) an operating loss of approximately \$1.4 million for the six months ending December 26, 2015. The Company projects that it will incur significant losses in the second half of fiscal 2016 due to, *inter alia*, the seasonality of its business.
3. A summary of the Company's financial position as at December 26, 2015 is presented in the table below.

(unaudited; consolidated)	(\$000s)
Assets	
Cash	13,124
Inventory	28,680
Net fixed assets	8,473
Tax asset	2,075
Other assets	2,135
Total assets	54,487
Liabilities	
Vendors	10,243
Sales tax	3,610
Payroll	2,755
Other	3,606
	20,214
Contingent liabilities:	
Estimated amounts due under all leases ^{3, 4}	90,700
Employee – severance and termination ⁵	7,500
	98,200
Total liabilities, including contingent liabilities	118,414
Net surplus/(deficit)	(63,927)

³ Represents an estimate of the sum of the remaining rents owing under all leases, including an estimate for common area costs.

⁴ Estimated based on Company information.

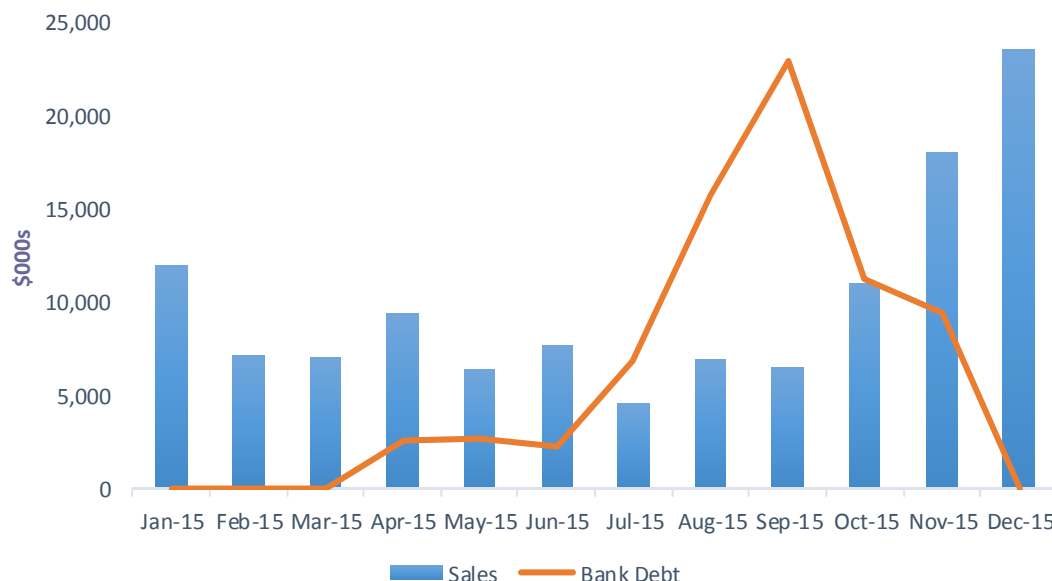
⁵ Estimated by the Company.

2.2 Strategic Process

1. In November, 2014, as a result of the challenges then facing the Company, the Company formed a special committee comprised of independent members of the Board of Directors (the “Special Committee”) to consider strategic initiatives, including a potential sale of its business.
2. As a result of the strategic process announced in February, 2015, the Company:
 - a) converted its senior secured operating loan facility with the Canadian Imperial Bank of Commerce (“CIBC”) into a senior secured revolving asset-based facility (“ABL Facility”);
 - b) sold and leased back the St. Clair Facility, resulting in a gain on the sale of approximately \$7.1 million, with the proceeds used to reduce its then outstanding CIBC indebtedness; and
 - c) directed the Financial Advisor to conduct a sale and investment solicitation process (the “2015 Solicitation Process”).
3. On September 18, 2015, the Board of Directors disbanded the Special Committee so that the Company could turn its attention to the Fall and Winter seasons, which included refocusing its product line on more current trends and fashions. The Fall and Winter seasons started strongly; however, the business underperformed commencing in November, which continued into December due to, among other factors, unseasonably warm weather. Because of the magnitude of its prior losses, the Company could not afford to underperform as it lacked the capital to continue to source product and to operate indefinitely on a going-concern basis.

2.3 Secured Creditors

1. There are no amounts currently owing under the ABL Facility.
2. The Company's business is seasonal. In the normal course, the Company is required to draw on its financing facility during the Spring as the Company begins purchasing for the Fall and Winter seasons. Borrowing typically peaks around September. The chart below illustrates this trend for 2015.



3. The Company projected that it would breach its minimum tangible net worth covenant under its ABL Facility by no later than its fiscal year end on June 26, 2016. As a result, the Company did not know whether it would be able to continue to have access to its ABL Facility, which would impact its ability to source fresh product for its busy season later in the calendar year and thus its ability to continue as a going concern. The Company was concerned that it not procure goods and services for which it may not be able to pay.
4. The CIBC has issued a notice of default as a result of the Company filing the NOI, which, *inter alia*, canceled all undrawn amounts under the ABL Facility. As at the date hereof, the Company currently has more than \$9 million on hand. The Company's cash flow forecast that will be filed in accordance with the provisions of the BIA will reflect that the Company has sufficient cash to fund its projected operating costs during its restructuring process, as well as the costs of these proceedings.
5. The following additional parties have a registered security interest against the Company.

Party	Description
Hewlett-Packard Financial Services Canada Company	Equipment financing
Honda Canada Finance Inc.	Vehicle lease
Toyota Credit Canada Inc.	Vehicle lease

3.0 Financial Advisors

3.1 2015 Solicitation Process

1. The Financial Advisor was retained with a mandate to, *inter alia*, provide strategic advice to the Company and to conduct the 2015 Solicitation Process. The Financial Advisor's engagement included:
 - a) identifying potential investors and/or purchasers for the Company's business and/or assets;
 - b) preparing marketing materials, including a teaser and a confidential information memorandum;
 - c) coordinating management presentations and due diligence; and
 - d) analyzing and negotiating offers.
2. As part of the 2015 Solicitation Process:
 - a) 169 parties were contacted by the Financial Advisor, including strategic and financial parties;
 - b) 33 parties executed confidentiality agreements and were provided with access to a confidential information memorandum and a data room; and
 - c) seven parties expressed interest in purchasing the Company.
3. No acceptable offers were received as part of the 2015 Solicitation Process.
4. Additional details regarding the 2015 Solicitation Process are contained in the Houlden Affidavit and the O'Hara Affidavit.

3.2 Consensus Engagement Letter

1. The Company re-engaged the Financial Advisor and entered into the Consensus Engagement Letter on December 31, 2015. A copy of the Consensus Engagement Letter is attached as Appendix "A". The Consensus Engagement Letter provides that its mandate will continue if the Company elects to file an NOI. To protect the Financial Advisor for its potential fees, the Company is seeking an Order authorizing the Company to perform its obligations under the Consensus Engagement Letter and the Consensus Charge.
2. A summary of the Financial Advisor's fees is as follows:
 - a) Retainer: US\$50,000, which was paid upon the execution of the Consensus Engagement Letter.

- b) Success Fee: US\$350,000, plus 1.5% of the purchase price or imputed value of any transaction, with a credit of US\$25,000 of the retainer to be applied against the success fee (the “Success Fee”).
 - c) First Bonus: an initial bonus of up to US\$100,000 if 36 store leases are assigned. The bonus is calculated on a pro-rata sliding scale requiring a minimum of 20 store leases to be assigned.
 - d) Second Bonus: a second bonus of US\$50,000 if 60 or more store leases are assigned. The second bonus is only payable if at least 60 leases are assigned.
3. The Success Fee is capped at US\$525,000, less a US\$25,000 credit in respect of the retainer; however, the first bonus and second bonus are not subject to the cap.

3.3 Consensus Engagement Letter Recommendation

1. The Proposal Trustee has considered numerous factors relevant to the successful completion of the SISP, including:
 - a) the time, effort and expediency required to carry out the SISP; and
 - b) the complexity and time commitment required to complete a transaction for the Company on an accelerated basis.
2. The Proposal Trustee recommends that the Court authorize the Company to perform its obligations under the Consensus Engagement Letter for the following reasons:
 - a) the Financial Advisor has industry experience – its business focus is consumer products and the retail sector;
 - b) the Financial Advisor is familiar with the Company and parties interested in purchasing and/or investing in the Company’s business and/or assets as a result of, *inter alia*, the 2015 Solicitation Process; and
 - c) the Proposal Trustee is of the view that it is appropriate to incentivize the Financial Advisor to carry out the SISP and the contemplated success fees are reasonable in the circumstance, including in light of the factors discussed in paragraph 3 of this Section below.
3. In addition to the above considerations, the Financial Advisor’s initial engagement letter with the Company provided a “tail” which required the Company to pay the Financial Advisor its fees in the event of a sale or other transaction with a party identified by the Financial Advisor during the 2015 Solicitation Process. As a result, the Financial Advisor could have a significant claim in these proceedings for the amounts owing under the tail provisions and therefore would have been compensated to some extent by way of its claim notwithstanding the termination of its previous mandate.

3.4 OCI Engagement Letter

1. The Financial Advisor's engagement is focused on targeting purchasers and/or investors in North America. The Company engaged OCI to market the Company and its business in China, India, Qatar and the United Arab Emirates. A copy of the OCI Engagement Letter is attached as Appendix "B".
2. The OCI Engagement Letter has only a success fee component. If a transaction is originated by OCI or OCI introduces the purchaser and/or investor to the Company, OCI will earn a fee of 4% of the purchase price or imputed value of a transaction in addition to the fees earned by the Financial Advisor.

3.5 OCI Engagement Letter Recommendation

1. The Proposal Trustee recommends that the Court authorize the Company to perform its obligations under the OCI Engagement Letter for the following reasons:
 - a) canvassing overseas markets reaches additional parties;
 - b) OCI's engagement letter does not have a guaranteed fee. OCI will only be compensated if a transaction is originated by OCI or OCI introduces the ultimate purchaser and/or investor to the Company. The Proposal Trustee believes that OCI's fee is reasonable in the circumstances; and
 - c) the Company is of the view that OCI has expertise that warranted this engagement.

4.0 Sale and Investor Solicitation Process

4.1 Stalking Horse Process

1. The SISP is effectively comprised of two phases: the pre-filing phase which solicited offers from parties to be a stalking horse ("Stalking Horse Process"), and the next phase, which is intended to seek offers for the business and assets superior to the stalking horse.
2. Shortly before the re-engagement of the Financial Advisor, the Company contacted the parties that appeared most interested in this opportunity during the 2015 Solicitation Process. In the days leading up to the re-engagement of the Financial Advisor, and immediately thereafter, 22 parties were contacted by either the Company or the Financial Advisor, 19 of which had been contacted during the 2015 Solicitation Process. As a result of these efforts, the Financial Advisor sent an email to each⁶ of the most interested parties (12 parties) advising of the deadline to submit offers to act as the stalking horse, being January 22, 2016 (the "Stalking Horse Deadline").

⁶ The only party that did not receive an email advising of the bid deadline was Tiger Capital Group, LLC ("Tiger"). Tiger was retained in late 2015 by the Company to liquidate inventory in the stores that the Company is presently closing. Tiger was advised verbally by the Financial Advisor, the Proposal Trustee and Company representatives of the Stalking Horse Deadline. Tiger submitted an offer on the Stalking Horse Deadline.

3. All of the most interested parties conducted due diligence, and a data room was populated with information concerning the Company, including detailed inventory, operations and financial reports. The Company has routinely added information to the data room so that the most current information is available to interested parties.
4. The Company received three offers prior to the Stalking Horse Deadline. The Company and the Financial Advisor identified the two most attractive offers and requested that those two bidders address certain issues and fine tune their bids. Each party was asked to resubmit its bid on January 27, 2016, and each did so. Neither party objected to the January 27 deadline. The Company and the Financial Advisor ultimately determined that the offer from the Agent should be selected as the stalking horse.

4.2 Confidential Appendix

1. A summary of the offers received is provided in Confidential Appendix “1” (“Offer Summary”)⁷.
2. The Proposal Trustee respectfully requests that the Offer Summary be filed with the Court on a confidential basis and be sealed as the documents contain confidential information. If the terms of the Offer Summary are not sealed, the Proposal Trustee is of the view the information contained therein may negatively impact realizations through the balance of the SISP process, as well as the integrity of the process.
3. The Proposal Trustee is not aware of any party that will be prejudiced if the Offer Summary is sealed. Accordingly, the Proposal Trustee believes that the request for sealing is appropriate in the circumstances.

4.3 The Stalking Horse Agreement⁸

1. Subject to Court approval, the Company intends to enter into the Stalking Horse Agreement with the Agent. A copy of the Stalking Horse Agreement is attached as Appendix “C”. The key terms and conditions of the Stalking Horse Agreement include the following:
 - a) Agent: GA Retail Canada, ULC or its affiliate. GA Retail Canada, ULC is an affiliate of Great American Group LLC;
 - b) Guaranteed Amount: the Agent has guaranteed that the Company will receive a net minimum payment of 94.6% of the aggregate Cost Value of the Merchandise, subject to adjustment if:
 - i) The aggregate Cost Value of the Merchandise is less than \$22 million or greater than \$25 million;

⁷ Subsequent to the date that the Offer Summary was prepared, negotiations with the Agent continued which resulted in certain changes to the Stalking Horse Agreement. The final terms of the Stalking Horse Agreement are described in this Report.

⁸ Capitalized terms in this section have the meaning provided to them in the Stalking Horse Agreement unless otherwise defined herein.

- ii) The Cost Value of the Merchandise as a percentage of the retail price of the Merchandise exceeds 48.8%;
 - iii) The transaction does not close by March 3, 2016; and/or
 - iv) The mix of the Cost Value of Merchandise for season codes '2016 Key Items', '2016 Spring' and '2016 Repeat Season' as a percentage of total cost value of Merchandise is less than 40%;
- c) Merchandise: includes all inventory at the Company's stores and inventory to be received during the course of the sale, other than, *inter alia*, Merchandise currently being liquidated at eight of the Company's stores by Tiger Capital Group, LLC and consignment inventory. Merchandise received 21 days after the Sale Commencement Date will be valued at the prevailing discount being offered at that time;
 - d) Expenses: the Agent will be responsible for Expenses in conducting the sale, including store-level operating expenses. The Expenses for which the Agent is responsible are set out in Section 4.1 of the Stalking Horse Agreement;
 - e) Commission: after payment of the Guaranteed Amount and the Expenses, the Agent is to be paid the next 5% of the aggregate Cost Value of Merchandise;
 - f) Sharing: any additional proceeds from the sale after the payment of the commission are to be split on a 50/50 basis between the Company and the Agent;
 - g) Letter of Credit: the Agent is required to pay 85% of the Guaranteed Amount on or before the business day after that the Court enters the Approval Order. The Agent is to provide the Company with the Letter of Credit to cover the Agent's obligation to fund the balance of the Guaranteed Amount. Upon the payment of the balance of the Guaranteed Amount by the Agent, the Letter of Credit will be reduced to an estimate of one week's Expenses;
 - h) Timing: the sale will commence no later than March 10, 2016 and will end no later than June 30, 2016;
 - i) Deposit: \$2.2 million;
 - j) Furniture, Fixtures and Equipment (collectively, the "FF&E"): the Agent will have the right to sell the FF&E and to receive a commission of 18% on the proceeds from the sale of FF&E and will be reimbursed for out-of-pocket expenses related thereto; provided, that if the Company sells the FF&E in any store location, it will pay the Agent \$1,300 per location, i.e. if for example, a party acquires a store lease and wishes to acquire the FF&E at that location;
 - k) Break Fee: \$250,000 payable to the Agent on the closing of the transaction if the Agent's bid is not the Successful Bid;

- l) Expense Reimbursement: maximum of \$100,000 of costs and expenses incurred by the Agent in connection with the Stalking Horse Agreement if the Agent's bid is not the Successful Bid;
- m) Signage Costs Obligations: payable to the Agent to a maximum of \$175,000 of costs and expenses incurred by the Agent for the signage and advertising in connection with the sale if the Agent's bid is not the Successful Bid. If the Agent is not the Successful Bid, the Agent will make the signage and other promotional materials available to a Successful Bidder that is a liquidator;
- n) Termination: The Stalking Horse Agreement may be terminated if: (i) the Approval and Vesting Order is not obtained by March 9, 2016, or such later date as the Company and the Agent agree; (ii) the agreement is not the Successful Bid; (iii) the agreement is the Back-Up Bid and the Successful Bid closes; or (iv) there is an Event of Default;
- o) Conditions: the only material conditions precedent to the transaction are:
 - i) court approval of the SISP, including the Stalking Horse Agreement; and
 - ii) entry of the Approval Order;
- p) Other:
 - i) The Stalking Horse Agreement is consistent with standard insolvency transactions, i.e. to be completed on an "as is, where is" basis. All sales of Merchandise are also to be on an "as is, where is" basis;
 - ii) To the extent that there is Merchandise remaining at the end of the sale, the Company will transfer such inventory to the Agent free and clear of all encumbrances;
 - iii) If mutually agreed to by the Agent and the Company, the Company shall purchase additional Merchandise to include in the sale;
 - iv) The Agent is required to give the Company seven days' notice of its intention to discontinue its use of a store location; and
 - v) The Stalking Horse Agreement contemplates the creation of a Court-ordered charge in favour of the Agent on the Merchandise and proceeds from the sale in order to secure all amounts due and owing to the Agent under the Stalking Horse Agreement (the "Agent's Charge")⁹.

⁹ The Agent's Charge is not being sought at this time. If the Stalking Horse Agreement is the Successful Bid, the Company intends to seek an order seeking the Agent's Charge at that time.

4.3.1 Break Fee, Expense Reimbursement and Signage Costs Obligations

1. The Stalking Horse Agreement includes a Break Fee of \$250,000, an Expense Reimbursement of up to \$100,000 and Signage Costs Obligations of up to \$175,000 (collectively, the “Termination Fees”).
2. The purpose of the Termination Fees is to, *inter alia*, provide the Stalking Horse with:
 - a) an incentive to be the stalking horse bidder; and
 - b) a means to recover its costs and expenses incurred in connection with the Stalking Horse Agreement in the event it is not the successful bidder.
3. The Proposal Trustee is of the view that the Termination Fees are reasonable as:
 - a) it is the Proposal Trustee’s experience that the Termination Fees on transactions of this nature typically range from 2% and 4%. The Proposal Trustee estimates that the value of the Stalking Horse Agreement is, at a minimum, approximately \$20.8 million¹⁰. Based on the estimated value of the transaction, the maximum amount of the Termination Fees represents approximately 2.5% of the imputed value of the Stalking Horse Agreement transaction; and
 - b) each bidder requested a Break Fee and Expense Reimbursement as part of its proposal. Without these protections, a party has little incentive to act as the stalking horse.
4. The Proposal Trustee is of the view that the Termination Fees are reasonable as, in its view, the aggregate amount of the Termination Fees is unlikely to discourage a third party from submitting an offer that is superior to the Stalking Horse Agreement.
5. In addition, the Proposal Trustee notes that if a Liquidation Proposal is the Successful Bid, the Successful Bidder would be required, pursuant to the SISF and the Stalking Horse Agreement, to buy the signage and advertising material prepared by the Agent, instead of the requirement that the Company pay the Signage Costs Obligations.

¹⁰ Represents 94.6% (guaranteed percentage) of \$22 million (the minimum inventory threshold).

4.4 Next Phase of the SISP¹¹

1. The next phase of the SISP is to identify one or more purchasers of and/or investors in the Company, its business and/or its assets with a view to generating a result superior to the Stalking Horse Agreement and to complete the transaction(s) contemplated by any such offer(s).
2. The SISP is attached as Appendix “A” to the Stalking Horse Agreement and the second phase is summarized as follows:
 - a) the Company will conduct the SISP with the assistance of the Financial Advisor and the Proposal Trustee;
 - b) the Financial Advisor has prepared a new teaser to describe the assets available for sale, which will be disseminated to all interested parties if the Court approves the SISP;
 - c) the Financial Advisor will continue to engage all interested parties and provide them with access to due diligence information, including to the data room and to management, provided that interested parties have executed a confidentiality agreement;
 - d) interested parties may make a bid to: (i) acquire all or a portion of the Company’s business and/or assets (a “Sale Proposal”); (ii) make an investment in the Company (an “Investment Proposal”); or (iii) liquidate some or all of the Company’s assets (“Liquidation Proposal”), provided however, that no liquidation bids will be considered for a portion of the Company’s inventory;
 - e) the Financial Advisor will contact a large number of interested parties and ask that they provide offers on a sealed basis on the non-inventory assets (such as leases and intellectual property);
 - f) the aggregation of partial bids shall be permitted, including those for the non-inventory assets, with a view to generating a global bid greater than the Minimum Bid Amount (as defined below);
 - g) bids for all assets (inventory and non-inventory) will be required to be submitted to the Financial Advisor by 5:00 p.m. (Eastern time) on February 22, 2016 (the “Bid Deadline”);
 - h) the successful transaction will be completed on an “as is, where is” basis with representations and warranties consistent with transactions of this nature;

¹¹ Capitalized terms in this section have the meaning provided to them in the SISP unless otherwise defined herein.

- i) subject to Court approval, the following table sets out the SISP timeline:

Milestone	Timeline
Motion for approval of SISP and Stalking Horse Agreement	February 8, 2016
Bid Deadline	February 22, 2016
Determining Successful Bid and Back-Up Bid (if no auction)	No later than 5 business days after Bid Deadline
Auction (if required)	No later than 7 business days after the Bid Deadline
Sale approval motion	Within 5 business days after determining the
	Successful Bid

- j) the Company or the Proposal Trustee will have the right to extend or amend the SISP as considered appropriate to better promote the sale of the business, the assets or an investment in the Company. The Company or the Proposal Trustee will need to apply to Court if the SISP is to be terminated or materially modified.

4.5 SISP Procedures

1. The SISP Procedures are summarized below.
2. To be a “Qualified Bid”, a bid must meet the following requirements, among others:
 - a) in the case of a Sale Proposal, it includes an executed definitive purchase agreement substantially in the form attached as Schedule “B” to the SISP (the “Form Purchase Agreement”), together with a blackline to the Form Purchase Agreement;
 - b) in the case of an Investment Proposal, it includes an executed term sheet describing, among other things, the terms and conditions of the proposed transaction;
 - c) in the case of a Liquidation Proposal, it includes (a) an executed agency agreement substantially in the form of the Stalking Horse Agreement, together with a blackline comparing the agency agreement to the Stalking Horse Agreement, and (b) an agreement to purchase the signage purchased by the Stalking Horse Bidder at its cost;
 - d) it must be for an amount at least equal to 102% of the value of the Guaranteed Amount (the “Minimum Bid Amount”);
 - e) it includes a cash deposit equal to 10% of the purchase price in a Sale Proposal or the imputed value of the Investment Proposal or Liquidation Proposal;
 - f) it includes evidence satisfactory to the Company, in consultation with the Financial Advisor and the Proposal Trustee, that the bidder has the financial ability to close the contemplated transaction;

- g) it contemplates a closing within 15 days following the Bid Deadline or such other date as the Company and the Successful Bidder or the Back-Up Bidder, as applicable, may agree;
- h) it does not entitle the bidder to any transaction fee or break fee, expense reimbursement or similar type fee or payment;
- i) it identifies any liabilities proposed to be assumed;
- j) it does not contain any due diligence or financing contingencies; and
- k) if applicable, it contains full details of the proposed number of employees to be retained and the proposed terms and conditions of employment to be offered.

4.6 Evaluation of Qualified Bids

1. If no other Qualified Bids are submitted by the Bid Deadline, the Stalking Horse Agreement will be accepted, subject to Court approval.
2. If one or more Qualified Asset Bids or Qualified Investment Bids are received by the Bid Deadline, the Company may;
 - a) accept one or more of the Qualified Asset Bids and/or Qualified Investment Bids, subject to Court approval (the “Successful Sale Bid”); or
 - b) conditionally accept one or more of the Qualified Asset Bids and Qualified Investment Bids, which acceptance will be conditional upon the failure of the transaction(s) contemplated by the Successful Sale Bid to close (the “Back-up Sale Bid”);
3. If one or more Qualified Liquidation Bids are received by the Bid Deadline, the Company may:
 - a) accept one or more of the Qualified Liquidation Bids, subject to Court approval (the “Successful Liquidation Bid”);
 - b) conditionally accept one of the Qualified Liquidation Bids, which acceptance will be conditional upon the failure of the transaction(s) contemplated by the Successful Liquidation Bid to close (the “Back-up Liquidation Bid”); or
 - c) conduct an auction (“Auction”).
4. If a Qualified Bidder submits a Qualified Asset Bid or a Qualified Investment Bid, which the Proposal Trustee considers would result in greater value than Stalking Horse Agreement, the Proposal Trustee may permit the bidder to participate in the Auction.

4.7 Auction Procedures

1. The proposed procedures for the Auction include:
 - a) the Proposal Trustee will conduct the Auction;
 - b) bidding at the Auction shall be restricted to parties that submitted a Qualified Liquidation Bid, which includes the Agent (each individually a “Qualified Bidder”); however, if a Qualified Bidder submits a Qualified Asset Bid or a Qualified Investment Bid, which the Proposal Trustee considers would result in a greater value than the Stalking Horse Agreement, the Proposal Trustee may permit the bidder to participate in the Auction;
 - c) bidding at the Auction shall be conducted in rounds. The Proposal Trustee, with the assistance of its advisors, will determine the opening bid for each round. The minimum overbid increment in each round will be determined by the Proposal Trustee; and
 - d) upon conclusion of the bidding, the Proposal Trustee, with the assistance of the Company, the Financial Advisor and legal advisors will identify the Successful Bid and the Back-Up Bid. One or more bids for portions of assets can form part of the Successful Bid and the Back Up Bid as long as the portion bids do not overlap.

4.8 Unsold Assets

1. If any of the Company’s assets remain unsold after the Auction: (i) the Company may sell the assets thereafter; and (ii) engage a consultant to assist the Company in assigning its real property leases, without further Court approval, provided that the proceeds from any transaction do not exceed \$250,000.

4.9 SISP Recommendation

1. The Proposal Trustee recommends that this Court issue an Order approving the SISP and the Stalking Horse Agreement for the following reasons:
 - a) in the Proposal Trustee’s view, the SISP is commercially reasonable and provides an opportunity to generate a result superior to the transaction contemplated by the Stalking Horse Agreement;
 - b) in the Proposal Trustee’s view, the duration of the SISP is (and has been) sufficient to allow interested parties to perform diligence and submit offers. Many of the parties that will be contacted by the Financial Advisor are familiar with this opportunity given their participation in the 2015 Solicitation Process and in the pre-filing phase of the SISP, and the Company has a comprehensive data room already compiled;

- c) the Financial Advisor, who has extensive experience in marketing retail companies and assets, believes that the SISP (including the timelines) is appropriate in the circumstances;
- d) in the normal course, cumulative losses of approximately \$5.3 million are projected in March, April and May, 2016, thus necessitating that the SISP be concluded in the near term, as the projected losses would reduce the amounts available for distribution;
- e) given the seasonality of the Company's business – the Fall and Winter seasons are the Company's strongest – the realizable value of the Company's inventory will depreciate significantly in the near term;
- f) it is the Proposal Trustee's view that the Termination Fees are reasonable in the circumstances and should not discourage potential purchasers or investors from participating in the SISP; and
- g) the Company and the Proposal Trustee have the right to extend or amend the SISP to better promote the sale of the business or all or any part of the assets or investment in the Company.

5.0 Court Ordered Charges

5.1 Professional Charges

1. The Company is seeking an Administration Charge in the amount of \$600,000 in respect of the fees and expenses of the Proposal Trustee, its counsel, the Company's counsel, the directors of the Company¹², and counsel to the directors of the Company.
2. The Company is seeking the Consensus Charge in the amount of US\$500,000 in respect of the fees and expenses of the Financial Advisor. The Consensus Charge secures the Success Fee payable to the Financial Advisor under the Stalking Horse Agreement.¹³ The Consensus Charge would rank *pari passu* with the Administration Charge.
3. Professional fee charges are common in restructuring proceedings. The beneficiaries of the Administration Charge and the Consensus Charge require the benefit of these charges to secure payment of their fees and expenses in order to have certainty of payment. The Proposal Trustee assisted the Company in the calculation of the Administration Charge and the Consensus Charge and is of the view that these charges are reasonable and appropriate in the circumstances.

¹² \$120,000.

¹³ The Success Fee under the Stalking Horse Agreement would be US\$525,000, with \$25,000 of the Financial Advisor's retainer to be credited against the Success Fee.

5.2 D&O Charge

1. The Company is seeking a D&O Charge in the amount of \$4.9 million for any liabilities the directors and officers of the Company may incur from and after the Filing Date, except to the extent that the obligation was incurred as a result of an officers' or directors' gross negligence or willful misconduct.
2. The Proposal Trustee understands that the Company is current on all pre-filing obligations for which directors may be personally liable. The cash flow contemplates that all such amounts will continue to be paid in the ordinary course and the Company is projected to have sufficient liquidity to do so. The proposed charge provides protection for the directors and officers in the event that the Company fails to pay certain obligations which may give rise to liability for directors and officers. The D&O Charge is only to be available to the directors and officers of the Company in the event that their existing insurance policy does not provide adequate coverage or to the extent that the Company cannot satisfy any indemnities that it has provided to its directors and officers.
3. The amount of the D&O Charge was estimated by the Company and its advisors in consultation with the Proposal Trustee, taking into consideration payroll obligations, employee source deduction obligations, vacation pay obligations, including those owing as of the Filing Date, and sales tax obligations that may arise during the NOI and/or proposal proceedings.¹⁴ The following chart provides a summary of the calculation:

(\$000s; unaudited)	
Payroll, including source deductions	1,600
Vacation pay	1,100
Sales tax	2,200
Total	4,900

4. The Proposal Trustee has been advised that the directors and officers of the Company have indicated that they are not prepared to continue in such capacity unless the Court grants the D&O Charge.
5. The Proposal Trustee is of the view the D&O Charge is reasonable in these circumstances and that the continued involvement of the directors and officers is beneficial to these proceedings.

¹⁴ The calculation includes pre-filing vacation pay, which is a potential liability and is commonly included in the calculation of such a charge.

5.3 KERP and the KERP Charge

1. In order to have the continued participation of critical employees and contractors during the NOI proceedings, the Company is seeking approval of a KERP and the creation of a related charge in the amount of \$524,000 to secure the payments due under the KERP. If approved, the KERP will cover 13 employees and contractors, each of whom is considered by the Company to be key to the successful completion of these restructuring proceedings.
2. A summary of the KERP is attached as a confidential appendix to the Houlden Affidavit.
3. The KERP was developed by the Company and its advisors, in consultation with the Proposal Trustee. The Company has advised the Proposal Trustee that the beneficiaries of the KERP are critical either to the completion of the SISP or to continuing operations of the business, or to both. The Company further believes that incentives are required to encourage employees to continue their employment during the restructuring proceedings.
4. The Proposal Trustee is of the view that the KERP amounts are reasonable and that the KERP Charge will provide security for the individuals entitled to the KERP. This will add stability to the business during these proceedings and will assist to maximize realizations.
5. The Company is seeking to seal on the Court file Exhibit "H" to the Houlden Affidavit, which contains detailed information with respect to the KERP. The Company believes that if the information were to be publicly available, it could have a negative effect on the Company's operations. The Proposal Trustee supports the sealing of Exhibit "H" to the Houlden Affidavit, and notes that such type of information is typically sealed in order to avoid disruption for the debtor company and to protect the privacy of the individual employees who are the beneficiaries of the KERP.

5.4 Priority of Charges

1. The Company proposes that the charges rank subordinate to the Existing Security and have the following priority:
 - First, the Administration Charge and the Consensus Charge;
 - Second, the D&O Charge; and
 - Third, the KERP Charge.

6.0 Conclusion and Recommendation

1. Based on the foregoing, the Proposal Trustee respectfully recommends that this Honourable Court make an order granting the relief detailed in Section 1.1(g) of this Report.

* * *

All of which is respectfully submitted,

KSV Kofman Inc.

**KSV KOFMAN INC.
IN ITS CAPACITY AS TRUSTEE UNDER THE
NOTICE OF INTENTION TO MAKE A PROPOSAL OF
DANIER LEATHER INC.
AND NOT IN ITS PERSONAL CAPACITY**

Appendix “C”

Danier Leather Inc.

Projected Statement of Cash Flow

For the period March 6, 2016 to March 26, 2016

(C\$; unaudited)

	Note	Week Ending			Total
		12-Mar-16	19-Mar-16	26-Mar-16	
Receipts					
Estimated guaranteed amount	2	18,064,200	-	-	18,064,200
Sale receipts	3	4,510,000	4,961,000	5,412,000	14,883,000
Total Receipts		22,574,200	4,961,000	5,412,000	32,947,200
Disbursements					
Payments to Liquidator	4	-	3,293,645	4,361,175	7,654,820
Inventory purchases	5	2,063,790	1,717,745	1,750,226	5,531,761
Payroll and benefits	6	1,131,355	97,063	1,133,790	2,362,208
Rent and occupancy	7	-	-	-	-
Transportation	8	39,702	29,702	19,702	89,106
Sundry	9	251,381	251,381	251,381	754,142
Total disbursements		3,486,227	5,389,535	7,516,274	16,392,036
Net cash flow before the undernoted		19,087,973	(428,535)	(2,104,274)	16,555,164
Professional fees	10	125,000	100,000	100,000	325,000
Net cash flow		18,962,973	(528,535)	(2,204,274)	16,230,164
Opening bank balance		10,647,461	29,610,433	29,081,898	10,647,461
Net cash flow		18,962,973	(528,535)	(2,204,274)	16,230,164
Ending bank balance		29,610,433	29,081,898	26,877,625	26,877,625

The above financial projections are based on management's assumptions detailed in Appendix "I-1"

The note references correspond to the assumption numbers shown in Appendix "I-1"

The statement of projected cash-flow of Danier Leather Inc. has been prepared in accordance with the provisions of the *Bankruptcy and Insolvency Act* and should be read in conjunction with the Trustee's Report on Cash-flow Statement.

DANIER LEATHER INC.

Per:

Date

KSV KOFMAN INC.

TRUSTEE UNDER THE NOTICE OF
INTENTION TO MAKE A PROPOSAL

Per:

Date

Danier Leather Inc.
Notes to Projected Statement of Cash Flow
For the period March 6, 2016 to March 26, 2016
(C\$; unaudited)

Purpose and General Assumptions

1. The purpose of the projection is to present a forecast of the cash flow of Danier Leather Inc. (the "Company") for the period March 6, 2016 to March 26, 2016 (the "Period") in respect of the Company's proposal proceedings under the *Bankruptcy and Insolvency Act*.

The projected cash flow statement has been prepared based on hypothetical and most probable assumptions developed and prepared by management of the Company.

The Company is conducting a Court-approved Sale and Investor Solicitation Process ("SISP"). The Company has scheduled a sale approval motion for March 9, 2016. As the results of the SISP are not yet known, the cash flow forecast reflects the terms of the best Qualified Bid received in the SISP (the "Offer"), being an offer submitted by Tiger Capital Group, LLC and Yellen Partners, LLC. (the "Agent"). The projection does not reflect the sale of the Company's other assets, including its business, intellectual property, and/or leases.

Transactions in US dollars have been converted to Canadian dollars at an exchange rate of C\$1.4/U\$1.

Sales taxes are included in the Company's receipts and disbursements.

Hypothetical Assumptions

2. The Offer would result in the Company receiving a minimum recovery of 96.6% of the cost value of substantially all of the Company's inventory, subject to adjustment. Pursuant to the terms of the Offer the Agent is to pay the Company 85% of the guaranteed payment on the day after the Court enters an Approval and Vesting Order. The Company estimates the payment to be approximately \$18 million.
3. Receipts have been estimated based on management's current sales forecast assuming the commencement of a sale during the week ending March 12, 2016.
4. Pursuant to the terms of the Offer, the Company is to pay to the Agent all sales proceeds generated during the week less various holdbacks, including including, *inter alia*, sales taxes, occupancy costs, store payroll costs and other expenses incurred by the Company for the purposes of the sale.
5. The Company is projected to receive approximately \$5.5 million of Spring inventory during the Period. Inventory is assumed to be paid when inventory received. Payments include freight, duty, customs and brokerage charges.

Most Probable Assumptions

6. Represents gross payroll and benefits for store staff, factory workers and head office employees. Payroll is paid bi-weekly and benefits are paid monthly.
7. No occupancy costs are projected to be paid during the Period.
8. Represents the estimated costs to transport goods from the Company's distribution facility to its stores and for inter-store transfers.
9. Represents sundry disbursements, including selling, general and administrative expenses, technology expenses, repairs and maintenance expenses and bank charges.
10. Professional fees are estimated and include the fees of the Proposal Trustee and its counsel and the Company's legal counsel.

**Report on Cash Flow Statement by the Person Making the Proposal
(Paragraphs 50(6)(c) and 50.4(2)(c) of the BIA)**

The management of Danier Leather Inc. (the "Company") has developed the assumptions and prepared the attached statement of projected cash flow of the Company for the period ending March 26, 2016.

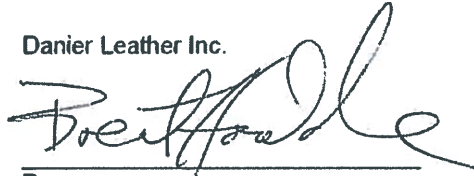
The hypothetical assumptions are reasonable and consistent with the purpose of the projection described in Note 1, and the probable assumptions are suitably supported and consistent with the plans of the Company and provide a reasonable basis for the projection. All such assumptions are disclosed in Notes 1 to 10.

Since the projection is 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 Note 1, using a set of hypothetical and probable assumptions set out in Notes 2 to 10. Consequently, readers are cautioned that it may not be appropriate for other purposes.

Dated at Toronto, Ontario, this 26th day of February, 2016.

Danier Leather Inc.

A handwritten signature in black ink, appearing to read "Brent Houde", written over a horizontal line.

Per:

Brent Houde .

Appendix “D”

**Trustee's Report on Cash-flow Statement
(Paragraphs 50(6)(b) and 50.4(2)(b) of the Act)**

The attached statement of projected cash-flow of Danier Leather Inc. (the "Company"), as of the 26th day of February, 2016, consisting of a weekly cash flow statement for the period March 6, 2016 to March 26, 2016, has been prepared by the management of the insolvent person for the purpose described in Note 1, using the probable and hypothetical assumptions set out in Notes 2-10.

Our review consisted of inquiries, analytical procedures and discussion related to information supplied to us by the management and employees of the insolvent person. 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 the 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 by management 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 Note 1 and readers are cautioned that it may not be appropriate for other purposes.

Dated this 26th day of February, 2016.

**KSV KOFMAN INC.
TRUSTEE**

Per: Robert Kofman

IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL
OF DANIER LEATHER INC., a corporation incorporated pursuant to the
laws of the Province of Ontario, with a head office in the City of Toronto,
in the Province of Ontario

Court File No. 31-CL-208438

**ONTARIO
SUPERIOR COURT OF JUSTICE
(Commercial List)**

Proceeding commenced at Toronto

**SECOND REPORT OF THE PROPOSAL TRUSTEE
FEBRUARY 29, 2016**

BENNETT JONES LLP

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Inc.