



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

March 3, 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

THIRD REPORT OF KSV KOFMAN INC. AS PROPOSAL TRUSTEE OF
DANIER LEATHER INC.

MARCH 3, 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 March 2, 2016 in support of this motion (the "Affidavit").

1.1 Purposes of this Report

1. The purposes of this Report are to:
 - a) provide background information about the Company;
 - b) summarize the results of the Court-approved SISP;
 - c) summarize a transaction (“Transaction”) between the Company and a contractual joint venture comprised of Merchant Retail Solutions, ULC and Gordon Brothers Canada ULC (jointly, the “Agent”), whereby the Agent will sell substantially all of the Company’s inventory (the “Merchandise”) and the Company’s furniture, fixtures and equipment located at the Company’s store locations (the “FF&E”), pursuant to an agency agreement dated March 1, 2016 (the “Agency Agreement”);
 - d) discuss the rationale for a charge on certain of the Company’s assets in order to secure all amounts owing to the Agent under the Agency Agreement (the “Agent’s Charge”);
 - e) discuss the rationale for sealing the Offer Summary, as defined in Section 3.4 below; and
 - f) recommend that the Court make an order, *inter alia*:
 - approving the Agency Agreement and the Transaction;
 - authorizing and directing the Company to execute such documents and to take such additional steps as are necessary to implement the Agency Agreement and the Transaction;
 - approving the Agent’s Charge; and
 - sealing the confidential appendix.

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 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 81 leased stores across Canada, as well as online through the Company's website: www.danier.com.
4. As at the date of this Report, the Company employs 1,009 individuals, including 811 store-level employees, 105 employees in manufacturing and distribution, 74 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 ("Stalking Horse Agreement") with GA Retail Canada, ULC, or an affiliate thereof (the "Stalking Horse"). 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. Pursuant to the SISP Order, any transaction for the Company's business and assets was 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. On March 2, 2016, the Court made an Order extending the time for the Company to file a proposal with the Official Receiver from March 6, 2016 to March 23, 2016.
8. Additional information about the Company and its background is available in the materials filed in these proceedings, which can be found on the Proposal Trustee's website at: <http://www.ksvadvisory.com/insolvency-cases-2/danier-leather-inc/>.

3.0 SISP

3.1 2015 Solicitation Process

1. In February, 2015, the Financial Advisor commenced a seven month marketing process to solicit offers from parties to acquire, or invest in, the Company (the "2015 Solicitation Process"). The Company did not receive any acceptable offers during the 2015 Solicitation Process. Additional details regarding the 2015 Solicitation Process are provided in the Proposal Trustee's First Report to Court dated February 5, 2016 (the "First Report"), a copy of which is attached as Appendix "B", without appendices.

3.2 Stalking Horse Process

1. The SISP is comprised of two phases: the pre-filing phase which solicited offers from parties to be a stalking horse (the "Stalking Horse Process"), and the second phase, which sought offers for the business and assets superior to the Stalking Horse Agreement and/or for other assets of the Company ("Second Phase").
2. The following is a summary of the Stalking Horse Process:
 - a) the Company re-engaged the Financial Advisor on December, 31, 2015 with a mandate to conduct the SISP. The Company also engaged OCI Inc. ("OCI") on January 11, 2016, an overseas-based investment banker, to market the Company and its business in China, India, Qatar and the United Arab Emirates;
 - b) in the days leading up to the re-engagement of the Financial Advisor, and immediately thereafter, the Company and/or the Financial Advisor contacted 22 parties, including 19 parties that were contacted as part of the 2015 Solicitation Process, to determine whether those parties had an interest in being a stalking horse. The Financial Advisor advised the 13 most interested parties that the deadline to submit offers to act as the stalking horse was January 22, 2016 ("Stalking Horse Deadline");
 - c) all of the interested parties conducted due diligence and were provided access to a data room and a confidential teaser summarizing the opportunity;
 - d) three parties submitted offers prior to the Stalking Horse Deadline;

- e) the Company selected the Stalking Horse Agreement as the best bid submitted in the Stalking Horse Process; and
 - f) on February 8, 2016, the Court approved and accepted the Stalking Horse Agreement for purposes of acting as the stalking horse bidder in the SISP.
3. Additional details regarding the Stalking Horse Process are provided in the First Report.

3.3 Second Phase

1. Pursuant to the terms of the SISP, the Second Phase of the marketing process commenced immediately following the making of the SISP Order. A summary of the Second Phase is as follows:
- a) the Financial Advisor prepared a new teaser detailing the opportunity;
 - b) the Financial Advisor distributed the teaser to approximately 405 parties, including parties identified in the 2015 Solicitation Process, the Stalking Horse Process and by the Company;
 - c) OCI contacted 26 overseas parties;
 - d) interested parties had the opportunity to make offers to: (i) acquire all or a portion of the Company's business and/or assets; (ii) make an investment in the Company; or (iii) liquidate some or all of the Company's assets, provided however, that no liquidation bids would be considered for a portion of the Company's inventory;
 - e) 35 parties signed a confidentiality agreement ("CA"), including 18 that had signed a CA during the Stalking Horse Process. Parties who signed a CA were provided access to an online data room;
 - f) the data room was populated with information concerning the Company, including detailed inventory, operations and financial reports. The Company updated the data throughout the SISP;
 - g) the Financial Advisor and the Company facilitated diligence requests from interested parties throughout the Second Phase; and
 - h) pursuant to the terms of the SISP ("SISP Procedures"), interested parties were required to submit offers to the Financial Advisor by 5:00 p.m. EST on February 22, 2016 (the "Offer Deadline").

3.4 Second Phase SISP Results¹

1. Nine offers were submitted prior to the Offer Deadline. An offer summary is provided in Confidential Appendix “1” (“Offer Summary”). The rationale for seeking the sealing order is provided in Section 3.7 below.
2. Pursuant to the terms of the SISP, the Company received:
 - a) two Qualified Liquidation Bids for the Merchandise and FF&E (in addition to the Stalking Horse Agreement, which pursuant to the SISP Procedures is a Qualified Bid); and
 - b) seven offers for certain of the Company’s assets, which are primarily for certain of the Company’s real property leases (collectively, the “Sale Bids”).
3. Pursuant to the terms of the SISP, if the Company received more than one Qualified Liquidation Bid, the Company could:
 - a) accept one or more Qualified Liquidation Bids, subject to Court approval (the “Successful Bid”);
 - b) conditionally accept one or more Qualified Liquidation Bids (each, a “Back-Up Bid”); and
 - c) conduct an auction in accordance with the SISP Procedures (“Auction”).
4. Based on the offers received, the Company, in consultation with the Proposal Trustee and the Financial Advisor, determined that it would be in the best interests of the Company and its stakeholders to conduct an Auction for the Merchandise and FF&E. Accordingly, an Auction was conducted on February 29, 2016 at 9:30 a.m. EST at the offices of Davies Ward Phillips & Vineberg LLP (“Davies”), the Company’s counsel.

3.5 Auction

1. Pursuant to the SISP Procedures, the Proposal Trustee chaired the Auction.
2. Each of the three Qualified Liquidation Bidders participated in the Auction, being the Agent, the Stalking Horse and Tiger Capital Group, LLC (“Tiger”)/Yellen Partners, LLC (jointly, “Tiger/Yellen”).
3. The Qualified Liquidation Bid submitted by Tiger/Yellen was determined to be the best offer received by the Offer Deadline, and was therefore the Opening Bid at the Auction. A copy of the Opening Bid was distributed on February 25, 2016 to each of the Qualified Liquidation Bidders.

¹ Capitalized terms in this section and section 3.5 have the meaning provided to them in the SISP unless otherwise defined herein.

4. At the outset of the Auction, the Proposal Trustee summarized the rules of the Auction and provided copies of the rules to all of the Qualified Liquidation Bidders.
5. Bidding at the Auction was conducted in rounds. In each round, the Minimum Overbid Increment was 0.2% of the Guaranty Percentage.² Any bidder that failed to submit an Overbid in a round was not permitted to continue in the Auction.
6. The Auction concluded in the 28th round of bidding. Each of the Qualified Liquidation Bidders submitted bids for the first 22 rounds of the Auction. In round 23, the Stalking Horse declined to bid and therefore was prohibited from continuing in the Auction. In round 28, Tiger/Yellen declined to bid. Accordingly the Agent's final offer was declared the Successful Bidder and Tiger/Yellen's offer in the 27th round was selected as the Back-Up Bid.
7. On March 1, 2016, the Company's Board of Directors approved the Successful Bid and the Back-Up Bid.

3.6 The Successful Bid³

1. The key terms and conditions of the Transaction include the following:
 - a) Agent: A contractual joint venture comprised of Merchant Retail Solutions, ULC and Gordon Brothers Canada, ULC;
 - b) Guaranteed Amount: 119.7% of the aggregate Cost Value of the Merchandise, subject to adjustment if:
 - the aggregate Cost Value of the Merchandise is less than \$21 million or greater than \$23.5 million;
 - the Cost Value of the Merchandise as a percentage of the retail price of the Merchandise exceeds 48.8%;
 - the transaction does not close by March 3, 2016 - in such case, the Guaranty Percentage will decrease 0.1% for each day until the Sale Commencement Date, which must commence by March 10, 2016; and
 - 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%;

² In round 15, the Stalking Horse did not submit a bid that increased the Guaranty Percentage by 0.2%, but instead, offered \$250,000 for the FF&E. The Proposal Trustee, in consultation with the Company and the Financial Advisor, determined that the Stalking Horse's bid was an Overbid as it provided the Company with more certainty on FF&E realizations versus the structure under the Stalking Horse Agreement (based on a percentage of recoveries). None of the participants at the Auction objected and all bidders incorporated this requirement in their future bids.

³ Capitalized terms in this section have the meaning provided to them in the Agency Agreement unless otherwise defined herein.

- 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 five of the Company's stores by Tiger and consignment inventory. Merchandise received 21 days after the Sale Commencement Date will be valued at the prevailing discount being offered at that time. The Company is restricted from placing new purchase orders for Merchandise after February 29, 2016;
- d) Expenses: the Agent will be responsible for Expenses in conducting the sale, including store-level operating expenses, as well as certain head office costs to a maximum of \$10,000 per week. The Expenses for which the Agent is responsible are set out in Section Four of the Agency Agreement;
- e) Commission: after payment to the Agent of the Guaranteed Amount and the Expenses, the Agent is to be paid the next 10% 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 the business day following the issuance of the Approval Order by the Court. The Letter of Credit is to cover the Agent's obligation to fund the balance of the Guaranteed Amount. Upon payment of the balance of the Guaranteed Amount, the Letter of Credit is to be reduced to an estimate of one week's Expenses;
- h) Timing: the sale is to commence no later than March 10, 2016 and to end no later than June 30, 2016;
- i) FF&E: the Agent will have the right to sell the FF&E located in the Closing Stores and to retain the proceeds from the sale of such Owned FF&E upon payment to the Company of \$250,000. The Company has the right to remove FF&E at any store location provided there is a pro rata reduction to the \$250,000 to be paid by the Agent for the FF&E (\$3,290 per location);
- j) Termination: the Agency Agreement may be terminated if: (i) the Approval Order is not obtained by March 9, 2016, or such later date as the Company and the Agent agree; or (ii) there is an Event of Default;
- k) Sign Costs Obligations: pursuant to the terms of the Stalking Horse Agreement, and as approved by the Court in the SISP Order, the Agent must reimburse the Stalking Horse for the costs and expenses incurred by the Stalking Horse for the signage and advertising in connection with the sale to a maximum of \$175,000. In exchange, the Stalking Horse agreed to provide the signage and other promotional materials to the Agent.
- l) Conditions: the only material condition precedent to the transaction is entry of the Approval Order, which must include the Agent's Charge;

- m) Sales Guidelines: the Sale Guidelines are attached as Exhibit 8.1 to the Agency Agreement. The Sale Guidelines provide:
- the Sale will be conducted in accordance with the terms of the applicable leases or other occupancy agreements, except as provided for in any Court Order or any written agreement between the Company and a landlord;
 - the Sale shall be conducted so that each of the stores remain open during their normal hours of operation provided in their respective leases;
 - the Sale shall end by no later than June 30, 2016;
 - all display and hanging signs used by the Agent in connection with the Sale shall be professionally produced and all hanging signs shall be hung in a professional manner. No signs shall advertise the Sale as a "bankruptcy", or a "liquidation" sale;
 - at the conclusion of the Sale in each store, the Agent and the Company shall leave the premises in a "broom-swept" and clean condition, and shall arrange that the stores are in the same condition on exit as on the commencement of the Sale, ordinary wear and tear excepted;
 - the Agent shall be entitled to include in the Sale the Additional Merchandise, subject to certain limitations; and
 - the Company and the Agent shall not conduct any auctions of Merchandise or FF&E at any of the stores.
- n) Agent's Charge: The Agent's Charge is to be a first ranking Court-ordered charge in favour of the Agent on all Merchandise, the Additional Merchandise, the Proceeds, the FF&E Proceeds and the Agent's share of the proceeds from the sale of Merchant Consignment Goods in order to secure all amounts owing to the Agent under the Agency Agreement. The Agent's Charge is to rank in priority to all of the Company's existing registered security interests and any charges approved or to be approved by the Court in this proceeding, provided that the Agent's Charge shall be subordinated to all encumbrances to the extent of any unpaid entitlements due to the Company under the Agency Agreement.
- o) Other:
- The Agency Agreement is consistent with standard insolvency transactions, i.e. to be completed on an "as is, where is" basis, without any material representations or warranties. All sales of Merchandise are to be on the same terms;

- To the extent that Merchandise remains at the end of the sale, the Company will transfer such inventory to the Agent free and clear of all encumbrances; and
 - The Agent is required to give the Company seven days' notice of its intention to discontinue its use of a store location.
2. Pursuant to the SISP Order, if the Stalking Horse is not the Successful Bidder, the Court authorized and directed the Company to pay the Stalking Horse a break fee of \$250,000 and to reimburse the costs and expenses of the Stalking Horse to a maximum of \$100,000.
 3. A copy of the Agency Agreement is attached as Appendix "C".

3.7 Confidential Appendix

1. The Proposal Trustee supports the sealing of the Offer Summary since, as discussed in Section 3.10 below, the Company continues to negotiate with interested parties that submitted Sale Bids. In certain cases, the assets sought by prospective purchasers overlap. The release of the Offer Summary could negatively impact realizations.
2. The Proposal Trustee is not aware of any party that will be prejudiced if the Offer Summary is sealed. Accordingly, the Proposal Trustee believes the proposed Sealing Order is appropriate in the circumstances.

3.8 The Back-Up Bid

1. The terms of the Back-Up Bid are to be the same as those of the Successful Bid, except that Tiger/Yellen has guaranteed that the Company will receive a guaranteed payment of 119.5% of the aggregate cost value of the Merchandise as compared to 119.7% in the Successful Bid. The Company is not seeking Court-approval of the Back-Up Bid at this time, nor has a Back-up agreement been executed as of the date of this Report. Pursuant to the SISP Procedures, the Back-Up Bid is to remain open for acceptance by the Company until 5:00 pm EST on March 14, 2016.

3.9 Proposal Trustee's Recommendation

1. Section 65.13(4) of the BIA sets out factors that the Court is to consider in determining whether to authorize the sale of a company's assets outside of the normal course where an NOI has been filed. The applicable factors, and the Proposal Trustee's comments thereon, are as follows:
 - a) *Whether the process leading to the proposed sale or disposition was reasonable in the circumstances*
 - In the Proposal Trustee's view, the SISP was commercially reasonable and was carried out in accordance with the SISP Order;

- in the Proposal Trustee's view, the duration of the SISP was sufficient to allow interested parties to perform diligence, submit offers and maximize recoveries. The Proposal Trustee does not believe that continuing the SISP would yield a superior result. Many of the parties that were contacted by the Financial Advisor were familiar with this opportunity given their participation in the 2015 Solicitation Process and in the Stalking Horse Process. In addition, 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. The Company's projected losses are forecasted to be \$5.3 million during March, April and May, 2016. These losses would erode recoveries and are expected to continue after May, 2016;
 - there was significant interest in the SISP, which culminated in a competitive auction among three of the largest and most well-known professional liquidators; and
 - the auction resulted in a transaction with a value that far exceeded the Stalking Horse Agreement.
- b) *Whether the trustee approved the process leading to the proposed sale or disposition*
- The Proposal Trustee assisted the Company to develop the SISP. The First Report includes a recommendation from the Trustee that the Court issue an Order approving the SISP.
- c) *Whether the Trustee filed with the Court a report stating that in their opinion the sale or disposition would be more beneficial to the creditors than a sale or disposition under a bankruptcy*
- The Proposal Trustee is of the view that the Transaction would be more beneficial to the Company's creditors than a sale under a bankruptcy.
- d) *The extent to which the creditors were consulted*
- The Company has provided notice to all parties on the service list, including landlords and secured creditors;
 - all known creditors received notice of these proceedings through the statutory mailing to creditors;
 - creditors also had knowledge of these proceedings based on media attention due to the Company's high profile and its press releases as a public company; and

- the Company has had a dialogue with legal counsel for certain of the Company's major landlords, including feedback from them on the Sale Guidelines.
- e) *The effects of the proposed sale or disposition on the creditors and other interested parties*
- In the Trustee's view, the Agency Agreement represents the best possible transaction for the Company in the circumstances and maximizes recoveries. If the Transaction is not approved and the SISP were to continue, the projected losses over the next three months (and thereafter) would reduce the amounts available for distribution;
 - the Transaction provides certainty for the Company's stakeholders, including the landlords, as to, *inter alia*, the duration of the liquidation process; and
 - the Transaction is limited to the Merchandise and FF&E. The Company has received expressions of interest for intellectual property and other assets. The Company is continuing to explore transactions for these assets.
- f) *Whether the consideration to be received for the assets is reasonable and fair, taking into account their market value*
- The Company, through the Financial Advisor and OCI, extensively canvassed the market and the Agency Agreement represents the highest and best bid submitted. The Guaranty Percentage (as defined in the Agency Agreement) represents an increase of approximately 27% over the Guaranty Percentage in the Stalking Horse Agreement; and
 - the Proposal Trustee, in consultation with the Company and the Financial Advisor, determined that the Transaction maximizes value for the Merchandise and the FF&E, while providing the flexibility to explore transactions for other assets.
2. Based on the foregoing, the Proposal Trustee recommends the Court make an Order approving the Agency Agreement and the Transaction and granting the Agent's Charge.

3.10 Sale Bids

1. Sale Bids were received for certain of the Company's real property leases, certain raw material inventory and the Company's intellectual property, subject to some overlap among the bids. All of the Sale Bids for the Company's real property leases are conditional and require negotiation with the applicable landlords and consultation with the Agent. The Company and the Financial Advisor, with the assistance of the Proposal Trustee, are negotiating certain of the Sale Bids. They are also working to identify other transactions that will preserve some or all of the Company's business, including a number of locations and the "Danier" brand.

4.0 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(f) of this Report.

* * *

All of which is respectfully submitted,

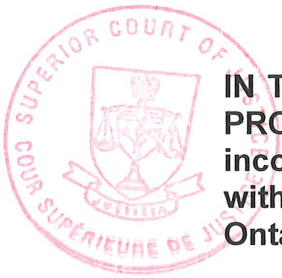


**KSV KOFMAN INC.
IN ITS CAPACITY AS TRUSTEE UNDER THE
NOTICE OF INTENTION TO MAKE A PROPOSAL OF
DANIER LEATHER INC.
AND NOT IN ITS PERSONAL CAPACITY**

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 property 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

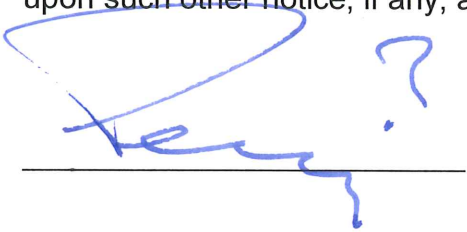
29. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States to give effect to this Order and to assist the Company, the Trustee and their respective agents in carrying out the terms of this 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.



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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 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

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;

- (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(e) 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 Cuir Danier Inc.; Danier Leather Inc. Les Cuir Danier Inc.; Les Cuir 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	Expiration Date	Nature Amount	Parties	Description of Property (Summary)	Comments
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	Nature Amount	Parties	Description of Property (Summary)	Comments
	Registration Date				
	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 Cuir Danier Inc.; Danier Leather Inc./Les Cuir Danier Inc., acting under the names: Les Cuir 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 Cuir 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, rights of way, 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 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

DAVIES WARD PHILLIPS & VINEBERG LLP
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Lawyers for Danier Leather Inc.


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

February 8, 2016

See attached counsel slip.

I am satisfied that the
preconditions to making the
order sought are met in this
case. Reasons to follow.
Order to issue in the
form signed by me this
day.



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

Proceeding commenced at Toronto

**MOTION RECORD
(Motion Returnable February 8, 2016)**

VOLUME 1 OF 2

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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.

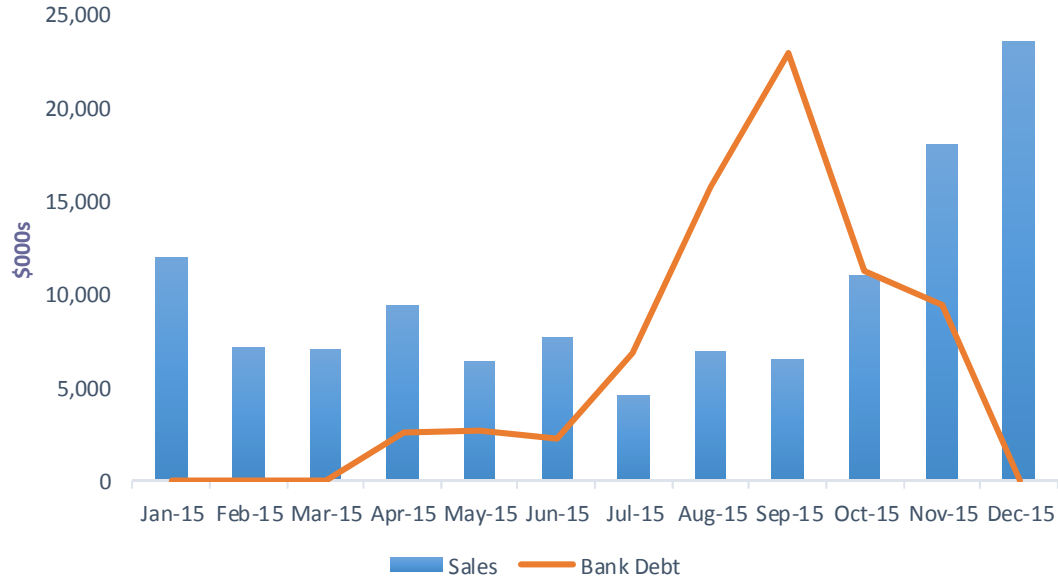
⁵ Estimated by the Company.

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”

AGENCY AGREEMENT

This Agency Agreement (the "Agreement") is made as of March 1, 2016, by and between a contractual joint venture comprised of Merchant Retail Solutions, ULC and Gordon Brothers Canada ULC (collectively, the "Agent"), and Danier Leather Inc. ("Merchant"), a corporation incorporated under the laws of the Province of Ontario.

RECITALS

WHEREAS Merchant has filed a notice of intention to make a proposal (the "NOI") under the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the "BIA") and KSV Kofman Inc. has agreed to act as trustee to the proposal (the "Trustee") on or about February 4, 2016;

AND WHEREAS Merchant as a result of the filing of the NOI, and the commencement of proposal proceedings under the BIA (the "BIA Proceedings"), benefits from a stay of proceedings against it or its property and other protections for an initial period of thirty (30) days, subject to renewal;

AND WHEREAS on the date of the filing of the NOI, Merchant operated 84 retail stores across Canada in Alberta, British Columbia, Manitoba, New Brunswick, Newfoundland, Nova Scotia, Ontario, Saskatchewan and Québec;

AND WHEREAS as part of its restructuring under the BIA, Merchant wishes to engage an agent for the limited purposes of (a) selling, by conducting a "store closing", "sale on everything", "everything must go" or mutually agreed theme sale (the "Sale"), all of the Merchandise (each as hereinafter defined) located in 76 of Merchant's retail store locations identified in Exhibit 1A annexed hereto (collectively, the "Closing Stores" and each a "Closing Store"); and (b) subject to Section 14 hereof, disposing of Merchant's owned furniture, trade fixtures and equipment (collectively, "Owned FF&E") located at the Closing Stores, subject to the terms and conditions set forth herein;

AND WHEREAS Agent is willing to serve as Merchant's exclusive agent to conduct the Sale at the Closing Stores in accordance with the terms and conditions of this Agreement;

AND WHEREAS the Ontario Superior Court of Justice (the "Court") has entered an order establishing a Sales and Investment Solicitation Procedure (the "SISP") to allow Merchant to call for offers for the Merchandise, the Owned FF&E and other assets owned by Merchant which are not the subject matter of this Agreement and identify the best or highest bid or bids for those assets;

AND WHEREAS the Merchant has determined, pursuant to the SISP, that this Agreement is the Successful Bid (as defined in the SISP) and as a result, this Agreement shall govern the conduct of the Sale at the Closing Stores and Merchant's and Agent's respective rights and obligations with respect thereto; and

AND WHEREAS Merchant believes that entering into this Agreement is in the best interest of the Merchant and will result in the highest or best price being generated for the Merchant's assets;

NOW THEREFORE, in consideration of the mutual covenants and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Agent and Merchant hereby agree as follows:

Section 1. Definitions and Exhibits.

1.1 Defined Terms. The terms set forth below are defined in the Sections referenced of this Agreement:

<i>Defined Term</i>	<i>Section Reference</i>
Additional Merchandise	Section 2.4
Adjustment Amount	Section 3.3(f)
Agency Accounts	Section 3.7(c)
Agency Documents	Section 11.1(b)
Agent	Preamble
Agent Claim	Section 12.5
Agent Indemnified Parties	Section 13.1
Agent's Charge	Section 2.3(j)
Agent's Fee	Section 3.1(c)
Agent's Sharing Recovery Amount	Section 3.1(c)
Agreement	Preamble
Approval Order	Section 2.3
Base Payroll	Section 4.2
Benefits Cap	Section 4.1(c)
Business Day	Section 3.3(c)
BIA	Recitals
BIA Proceedings	Recitals
Cash in Registers	Section 3.1(l)
Central Services Expenses	Section 4.2
Charged Property	Section 2.3(j)
Closing Stores	Recitals
Cost Factor	Section 3.1(i)
Cost Factor Threshold	Section 3.1(i)
Cost Files	Section 5.2(a)
Cost Value	Section 5.2(a)
Court	Recitals
Credit Card Processing Facilities	Section 7.2
Defective Merchandise	Section 5.1(a)(i)
Deposit	Section 3.3(a)
Designated Merchant Accounts	Section 3.7(a)

<i>Defined Term</i>	<i>Section Reference</i>
Distribution Centres	Section 3.4(d)
Encumbrances	Section 2.3(c)
Events of Default	Section 15
Excluded Benefits	Section 4.2
Excluded Defective Merchandise	Section 5.1(a)(ii)
Excluded Merchandise	Section 5.1(a)
Excluded Pricing Adjustments	Section 5.2(c)
Expenses	Section 4.1
FF&E	Section 2.3(e)
FF&E Guaranteed Amount	Section 14(a)
FF&E Proceeds	Section 14(a)
Final Inventory Report	Section 3.3(c)
Final Reconciliation	Section 3.6(b)
Gross Rings	Section 3.5
Gross Rings Period	Section 3.5
Gross Sale Proceeds	Section 7.1
GST	Section 3.3(e)
Guaranteed Amount	Section 3.1(a)
Guaranty Percentage	Section 3.1(a)
Incentive Plan	Section 9.4
Initial Guaranty Payment	Section 3.3(b)
Inventory Completion Date	Section 3.4(a)
Inventory Date	Section 3.4(a)
Inventory Taking	Section 3.4(a)
Inventory Taking Service	Section 3.4(a)
Lender	Section 2.3(c)
Letter of Credit	Section 4.3
Merchandise	Section 5.1(a)
Merchandise Ceiling	Section 3.1(h)
Merchandise Mix	Section 3.1(j)
Merchandise Mix Percentage	Section 3.1(j)
Merchandise Threshold	Section 3.1(h)
Merchant	Preamble
Merchant Consignment Goods	Section 5.3
Merchant Indemnified Parties	Section 13.2
Merchant's Obligations	Section 2.3(j)
Merchant's Sharing Recovery Amount	Section 3.1(c)
NOI	Recitals
Non FF&E Stores	Section 14(c)
Occupancy Expenses	Section 4.1(a)
Owned FF&E	Recitals
Payment Date	Section 3.3(b)
Pre-Sale Returned Merchandise	Section 8.5

<i>Defined Term</i>	<i>Section Reference</i>
Proceeds	Section 7.1
QST	Section 3.3(e)
Refund	Section 8.5
Remaining Merchandise	Section 3.2
Retail Price	Section 3.1(i)
Retained Employee	Section 9.1
Sale	Recitals
Sale Commencement Date	Section 6.1
Sale Guidelines	Section 8.1
Sale Term	Section 6.1
Sale Termination Date	Section 6.1
Sales Tax Holdback	Section 3.7(b)
Sales Taxes	Section 3.3(e)
Shipping Variance	Section 3.4(d)
Shipping Variance Response	Section 3.4(d)
SISP	Recitals
Third Party	Section 4.2
Threshold Guaranteed Amount	Section 3.3(b)
Trustee	Recitals
Unpaid Merchant's Entitlements	Section 2.3(j)(ii)
Vacate Date	Section 6.2

1.2 Exhibits. The Exhibits and Schedules annexed to this Agreement, as listed below, are an integral part of this Agreement:

Exhibit 1A	List of Closing Stores
Exhibit 3.1(h)	Guaranty Percentage Adjustment
Exhibit 3.1(i)	Cost Factor
Exhibit 3.1(j)	Merchandise Mix Adjustment
Exhibit 3.4(a)	Inventory Taking Instructions
Exhibit 4.1(a)	Occupancy Expenses
Exhibit 8.1	Sale Guidelines
Exhibit 11.1(c)	Encumbrances on Owned FF&E
Exhibit 11.1(s)	Merchant's Promotional Calendar
Appendix A	Sales and Investment Solicitation Procedure

1.3 Currency. Unless otherwise specified, all references to monetary amounts refer to Canadian dollars.

Section 2. Appointment of Agent.

2.1 Appointment. Merchant hereby appoints Agent, and Agent hereby agrees to serve, as Merchant's exclusive agent for the limited purpose of conducting the Sale at the

Closing Stores in accordance with the terms and conditions of this Agreement. Merchant's and Agent's obligations hereunder are subject to the approval of the Court and shall be of no force and effect in the event that the Approval Order is not entered. Neither Merchant nor Agent shall be obligated to perform this Agreement and this Agreement shall not be effective unless, by 5:00 p.m. (Eastern Time) on March 9, 2016 or such later date as the parties may agree, Merchant has obtained the Approval Order and the Approval Order shall not have been stayed, varied, or vacated nor shall an application to restrain or prohibit the completion of the Sale be pending.

2.2 No Other Agreements. Except for incurring Expenses in connection with the Sale and as otherwise specifically provided in this Agreement, Agent shall have no authority to enter into any contract, agreement or other arrangement or take any other action, by or on behalf of Merchant, that would have the effect of creating any obligation or liability, present or contingent, on behalf of or for the account of Merchant without Merchant's prior written consent.

2.3 Approval Order. Merchant shall, no later than five Business Days after accepting this Agreement as the Successful Bid, use commercially reasonable efforts to bring a motion to obtain an order of the Court authorizing Agent and Merchant to conduct the Sale in accordance with the terms hereof. Merchant shall obtain the issuance and entry of an order of the Court (the "Approval Order"), in form and substance and satisfactory to and obtained on application made on notice to such persons as, Merchant and Agent determine, acting reasonably. The Approval Order shall provide, among other things, that:

- (a) the terms of this Agreement, including the Sale Guidelines, and each of the transactions contemplated hereby, including the Sale, are approved;
- (b) Merchant and Agent shall be authorized to take any and all actions as may be necessary or desirable to implement this Agreement and each of the transactions contemplated hereby;
- (c) Agent shall be entitled to sell all Merchandise, and the Owned FF&E, hereunder free and clear of all security interests (whether contractual, statutory, or otherwise), hypothecs, mortgages, trusts or deemed trusts (whether contractual, statutory, or otherwise), liens, executions, levies, charges, or other financial or monetary claims, reservation of ownership or right of a third party of any nature or kind whatsoever, including, without limitation, the charges and encumbrances in favour of Canadian Imperial Bank of Commerce (the "Lender") and the charges granted by the Court (collectively, "Encumbrances"), which Encumbrances will attach instead to the Guaranteed Amount and other amounts paid or to be paid to the Merchant under this Agreement in the same order and priority as they existed on the Sale Commencement Date;
- (d) subject to Section 2.3 hereof, no Encumbrances shall attach to any amounts payable by Merchant to, or retained by Agent under, this Agreement, or to any amounts that must be reimbursed by Merchant to Agent in the event that Agent over-funds any amounts due to Merchant, and Merchant will pay such amounts to

Agent, and Agent will be entitled to receive and will retain such amounts, free and clear of any and all Encumbrances, notwithstanding any enforcement;

- (e) Agent shall have the right to use the Closing Stores and all related store services, all furniture, trade fixtures and equipment, including the Owned FF&E (collectively, the "FF&E"), and other assets of Merchant as designated hereunder for the purpose of conducting the Sale, free of any interference from any entity or person, subject to the terms of this Agreement, the Approval Order and the Sale Guidelines approved by the Court;
- (f) subject to compliance by Merchant and Agent with this Agreement and the Approval Order and the Sale Guidelines, all utilities, landlords, creditors, any successor or assignee of Merchant under any and all leases relating to the Closing Stores and all persons acting for or on their behalf shall not interfere with or otherwise impede the conduct of the Sale, or institute any action in any court or before any administrative body which in any way directly or indirectly interferes with or obstructs or impedes the conduct of the Sale;
- (g) subject to Section 8.1(d) hereof, Agent, as agent for Merchant, is authorized to conduct, advertise, use A-frames and sign-walkers, post signs and otherwise promote the Sale without further consent of any person in accordance with the terms and conditions of this Agreement and the Sale Guidelines;
- (h) Agent shall be granted a limited, royalty free, license and right to use until the Sale Termination Date the Merchant's trade names, trademarks and logos, website and social media accounts relating to and used in connection with the operation of the Closing Stores solely for the purpose of advertising and conducting the Sale in accordance with the terms of this Agreement; provided that Agent shall provide Merchant with copy of any advertising prior to its use in the Sale;
- (i) Agent shall not be liable for any claims against Merchant other than as expressly provided for in this Agreement, and Agent shall have no successor liabilities whatsoever;
- (j) Subject to the entry of the Approval Order, a valid and perfected security interest and charge (the "Agent's Charge") is granted in favour of the Agent in all of the Merchandise, the Additional Merchandise, the Proceeds, the Owned FF&E, the FF&E Proceeds and the Agent's share of the proceeds from the sale of Merchant Consignment Goods, (collectively, the "Charged Property") as security for all of the obligations of Merchant to Agent under this Agreement, including all amounts that are or may become owing or payable by Merchant to Agent under or in connection with this Agreement (the "Merchant's Obligations"). Upon entry of the Approval Order and payment of the Initial Guaranty Payment and the FF&E Guaranteed Amount, the Agent's Charge shall be deemed properly perfected without any further act by the Agent, Merchant, or any other party. For greater certainty, the

Agent's Charge shall not extend to any property of Merchant other than the Charged Property. The Agent's Charge shall:

- (i) be limited to the amount of the Merchant's Obligations;
 - (ii) from the time of payment of the Initial Guaranty Payment to Merchant pursuant to this Agreement, rank in first priority to any and all other Encumbrances that may now exist or hereinafter arise, provided, however, that, to the extent of any unpaid portion of the Guaranteed Amount, the Merchant's Share Recovery Amount, FF&E Guaranteed Amount and Merchant's share of the proceeds from the sale of Merchant Consignment Goods due to Merchant hereunder (the "Unpaid Merchant's Entitlements"), the Agent's Charge shall be subordinate to all other court-ordered charges ordered by any further order of the Court and all other Encumbrances, but solely to the extent of any Unpaid Merchant's Entitlements; and
 - (iii) be valid and enforceable as against all of the Charged Property against all persons, including, without limitation, any trustee in bankruptcy, receiver, receiver and manager or interim receiver of Merchant, for all purposes.
- (k) notwithstanding (i) the bankruptcy of Merchant; (ii) the provisions of any federal or provincial statutes; or (iii) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances contained in any existing loan document, lease, sublease or offer to lease or other agreement which binds Merchant or any receiver/receiver manager, trustee in bankruptcy or agent of Merchant; and notwithstanding any provision to the contrary in any such agreement, the entering into of this Agreement and any other ancillary or related documents or agreements and any steps or actions taken in relation hereto, including the vesting of any Remaining Merchandise at the Sale Termination Date in Agent's possession free of any Encumbrances pursuant to Section 3.2 hereof, and the granting of the Agent's Charge and all steps taken and registrations made in any jurisdiction in the sole discretion of Agent, do not and will not constitute fraudulent preferences, fraudulent conveyances, transfer at undervalue, conduct that is oppressive, unfairly prejudicial to or that unfairly disregards the interest of any person, settlements or other challengeable, voidable or reviewable transactions under any applicable law and shall be binding on any receiver and any trustee in bankruptcy that may be appointed in respect of Merchant and shall not be void or voidable by creditors of Merchant;
- (l) the amounts deposited in Merchant's accounts in connection with this Agreement shall be held in trust in favour of the Merchant and Agent, and shall be distributed as set out in this Agreement; and

- (m) the transaction contemplated in this Agreement is exempt from the *Bulk Sales Act* (Ontario).

2.4 Additional Merchandise. Merchant shall be permitted to transfer Merchandise between and among the Closing Stores and for greater certainty the Merchant is prohibited from transferring merchandise from any other store to a Closing Store. As directed by the Agent and agreed to by the Merchant, acting reasonably, the Merchant shall purchase additional inventory of like nature and quality (the costs of which, net of applicable Sales Taxes, shall be an Expense and paid for by the Merchant as set forth in Section 3.7(a) out of the Proceeds) to include in the Sale ("Additional Merchandise"). In consideration of the right to include such Additional Merchandise in the Sale, the net sales of such Additional Merchandise (being the sales proceeds (exclusive of Sales Taxes)), if any, shall be Proceeds for the purposes of this Agreement and for greater certainty the expenses related to such Additional Merchandise shall be Expenses as set forth in Section 4.1.

Section 3. Guaranteed Amount and Other Payments.

3.1 Payments to Merchant and Agent.

- (a) As a guaranty of Agent's performance hereunder in respect of the Sale of the Merchandise, Agent guarantees that Merchant shall receive an amount equal to one hundred nineteen point seven percent (119.7%) (the "Guaranty Percentage") of the aggregate Cost Value of the Merchandise included in the Sale at the Closing Stores (the "Guaranteed Amount"). All Merchandise received at the Closing Stores within the twenty-one (21) day period commencing the Sale Commencement Date (and any inventory at the Distribution Centre that the Agent requires to be maintained at the Distribution Centre) will be valued pursuant to the Guaranteed Amount and included in the Merchandise Threshold, Merchandise Ceiling, Cost Factor Threshold and Merchandise Mix Calculations. The Guaranteed Amount will be calculated based upon the aggregate Cost Value of the Merchandise as determined by the Final Inventory Report after verification and reconciliation thereof by Agent and Merchant. As required and from time to time, any reference to "Guaranteed Amount" shall mean the amount as calculated and modified from time to time in accordance with this Section. As to other adjustments, their calculation and nature is reflected in Section 5 hereof.
- (b) Merchandise received at the Closing Stores after the twenty-one (21) day period referred to in Section 3.1(a) shall be valued independently by multiplying Cost Value and Retail Price by one minus the average prevailing discount on the Retail Price across the applicable product category at the time of receipt at the Closing Store. For greater clarity, if Merchandise is received on the twenty-second (22nd) day after the Sale Commencement Date and the prevailing discount on that date is equal to 10%, the Cost Value and Retail Price of the Merchandise will be multiplied by 90% (1-10%=90%).

- (c) To the extent that Proceeds from the Sale of Merchandise and the Additional Merchandise included in the Sale exceed the sum of (i) the Guaranteed Amount, (ii) the Expenses in respect of such Closing Stores and (iii) ten percent (10%) of the sum of the aggregate Cost Value of the Merchandise in such Closing Stores plus the cost of the Additional Merchandise (the "Agent's Fee"), then all remaining Proceeds of such Sale shall be shared fifty percent (50%) to Merchant (the "Merchant's Sharing Recovery Amount") and fifty percent (50%) to Agent (the "Agent's Sharing Recovery Amount"). To the extent that Merchant is entitled to receive any Merchant's Sharing Recovery Amount from the Proceeds, Agent shall pay the Merchant's Sharing Recovery Amount in accordance with Section 3.3(d) hereof.
- (d) [INTENTIONALLY OMITTED]
- (e) Agent shall pay to Merchant the Guaranteed Amount, the Merchant's Sharing Recovery Amount, if any, and the FF&E Guaranteed Amount in the manner and at the times specified in Section 3.3 below.
- (f) Subject to Section 3.3(e) below, if and to the extent that Agent or Merchant over-funds any amounts due to the other hereunder, then Merchant or Agent, as applicable, agrees to promptly reimburse (by no later than the next weekly reconciliation contemplated by Section 3.6) such over-payment amounts to Agent or Merchant, as applicable, to the extent such amount is not disputed by the other. If such over-payment amount is disputed by Merchant or Agent, then Merchant or Agent, as applicable, shall reimburse such over-payment amount to the other, if any, no later than five (5) days following the date on which such dispute is resolved pursuant to this Agreement.
- (g) Subject to Section 3.3 below, to ensure accurate sales audit functions, as well as accurate calculations of the Merchant's Sharing Recovery Amount, Agent shall be required to utilize Merchant's existing point-of-sale system for recording all sales of Merchandise in the Closing Stores.
- (h) The Guaranty Percentage has been established based upon the assumption that aggregate Cost Value of the Merchandise included in the Sale is not less than twenty-one million dollars (\$21,000,000) (the "Merchandise Threshold") and is not more than twenty-three million five hundred thousand dollars (\$23,500,000) (the "Merchandise Ceiling"). To the extent that the aggregate Cost Value of the Merchandise included in the Sale is less than the Merchandise Threshold, or higher than the Merchandise Ceiling, the Guaranty Percentage shall be adjusted, on a pro rata basis, in accordance with Exhibit 3.1(h) hereto, as and where applicable.
- (i) The Guaranty Percentage has also been established based upon the assumption that the Cost Value-to-Retail Price relationship of the Merchandise (Cost Value divided by Retail Price) (the "Cost Factor") shall not be greater than forty-eight

and eight-tenths percent (48.8%) (the “Cost Factor Threshold”). If the Cost Factor is greater than the Cost Factor Threshold, the Guaranty Percentage shall be adjusted downward in accordance with Exhibit 3.1(i) attached hereto. As used in this Agreement, “Retail Price” shall mean for each item of Merchandise, the lower of (a) the lowest point-of-sale price, ticketed, shelf or marked price, and (b) the PLU, scan or file price (at retail) referenced in the Cost Files; items of Merchandise that are erroneously marked shall not be used in determining the Retail Price.

- (j) The Cost Value of Merchandise for season codes 2016 Key Items, 2016 Spring and 2016 Seasonal Repeat (the “Merchandise Mix”) as a percentage of the total Cost Value of Merchandise for all Merchandise (the “Merchandise Mix Percentage”) shall be no less than forty percent (40%) In the event the Merchandise Mix of the Merchandise falls below forty percent (40%), Merchant and Agent agree that the Guaranteed Amount will be adjusted downwards in accordance with Exhibit 3.1(j) attached hereto.
- (k) The adjustments to the Guaranty Percentage contemplated by Exhibit 3.1(h), Exhibit 3.1(i) and Exhibit 3.1(j) shall be independent and cumulative.
- (l) On the Sale Commencement Date, Agent and Merchant shall confirm the amount of cash in the registers at the Closing Stores as of the Sale Commencement Date (“Cash in Registers”). An actual count of such cash shall be conducted by Agent and Merchant at the start of the Sale Commencement Date prior to any transactions. The Cash in Registers shall be made available for use by Agent during the Sale and the Agent shall pay the Merchant an amount equal to the Cash in Registers on the Final Reconciliation.

3.2 Remaining Merchandise. Provided that no Event of Default has occurred and continues to exist on the part of Agent, and after all payments are made to Merchant as required hereunder, all Merchandise remaining, if any, at the Sale Termination Date (the “Remaining Merchandise”) shall become the property of Agent free and clear of all Encumbrances, provided, however, that all proceeds received by Agent from the disposition shall nevertheless constitute Proceeds for the purposes of this Agreement. Notwithstanding the foregoing, Agent shall use commercially reasonable efforts and act in good faith to dispose of all of the Merchandise during the Sale Term.

3.3 Time of Payments.

- (a) The Agent has paid to the Trustee, to be held in trust, a refundable deposit equal to two million and two hundred thousand dollars (\$2,200,000) (the “Deposit”).
- (b) Payment of Guaranteed Amount. On or before the next Business Day following the date the Approval Order is issued and entered in form acceptable to Agent by the Court (the “Payment Date”), Agent shall pay to an account designated by Merchant an amount equal to eighty-five percent (85%) of the estimated

Guaranteed Amount (the “Initial Guaranty Payment”) calculated based upon Merchant's projection of the Cost Value of the Merchandise in the Closing Stores and the Distribution Centres on the Sale Commencement Date set out in Section 3.1(h) attributable to the Merchandise, (the “Threshold Guaranteed Amount”), less the Deposit (which Deposit shall be credited against the Initial Guaranty Payment). On or before the Payment Date, the Agent shall also pay to an account designated by Merchant the FF&E Guaranteed Amount. Such payments shall be made to Merchant by wire transfer to an account designated by Merchant. For greater certainty, the Sale shall not commence until the Initial Guaranty Payment and the FF&E Guaranteed Amount has been received by Merchant.

- (c) Payment of Balance of Guaranteed Amount. The balance of the Guaranteed Amount, if any, shall be paid by Agent to Merchant by wire transfer to the account designated by Merchant on the second Business Day following the issuance of the final certified report of the aggregate Cost Value of the Merchandise by the Inventory Taking Service (the “Final Inventory Report”), after review, reconciliation and verification thereof by Merchant and Agent. For the purposes of this Agreement, “Business Day” means any day excluding a Saturday, Sunday or statutory holiday in the Province of Ontario.
- (d) Payments in respect of Merchant’s Sharing Recovery Amount. Agent shall pay to Merchant all amounts on account of the Merchant’s Sharing Recovery Amount, if any, as part of the Final Reconciliation pursuant to Section 3.6(b).
- (e) Payments to Agent. Subject to payment of the Guaranteed Amount, Expenses, Merchant’s Sharing Recovery Amount, if any, and all other amounts payable to Merchant from Proceeds hereunder, Agent shall retain from Proceeds, as its compensation for services rendered to Merchant hereunder, the Agent’s Fee, plus Agent’s Sharing Recovery Amount, if any. Agent shall be entitled to receive, and retain from the Proceeds, any applicable sales, excise, consumption or use, or similar taxes or any other government charges (other than taxes on income), including GST and QST, (“Sales Taxes”) payable by Merchant on any compensation or fees for services received by Agent under this Agreement, including the Agent’s Fee and the Agent’s Sharing Recovery Amount. Such Sales Taxes shall be payable by the Merchant to the Agent in addition to the compensation received by the Agent. “GST” means any goods and services or harmonized sales tax imposed under Part IX of the *Excise Tax Act* (Canada). “QST” means any Québec sales tax imposed under Title I of an *Act respecting the Québec Sales Tax* (Québec).
- (f) Over-Funding by Agent. In the event that the reconciliation of the Final Inventory Report indicates that the Initial Guaranty Payment exceeds the Guaranteed Amount (with the amount of such excess being the “Adjustment Amount”), Merchant shall remit such Adjustment Amount to Agent within five

(5) Business Days after the Final Inventory Report has been issued. Merchant acknowledges that the Adjustment Amount will be an expenditure or liability of the Merchant secured by the Agent's Charge granted by Order of the Court. Merchant agrees to retain the Adjustment Amount in trust in its Designated Merchant Accounts until the completion and certification of the Inventory Taking by the Inventory Taking Service and the reconciliation of the Inventory Taking by Merchant and Agent that confirms there has been no over-funding resulting in any Adjustment Amount.

- (g) Timing of Wire Transfer Payments. All amounts required to be paid by Agent or Merchant under any provision of this Agreement shall be made by wire transfer of immediately available funds which shall be wired by Agent or Merchant, as applicable, no later than 2:00 p.m. (Eastern Time) on the date that such payment is due; provided, however, that all of the information necessary to complete the wire transfer has been received by Agent or Merchant, as applicable, by 11:00 a.m. (Eastern Time) on the date that such payment is due. In the event that the date on which any such payment is due is not a Business Day, then such payment shall be made by wire transfer on the next Business Day. Notwithstanding any of the foregoing, the Initial Guaranty Payment must be actually received by Merchant prior to the Sale commencing pursuant to Section 6.1 hereof.
- (h) Set-Off. Merchant agrees that if at any time during the Sale Term, Agent holds any amounts due to Merchant hereunder, Agent, may in its discretion, offset such amounts being held by Agent against any undisputed amounts due and owing by, or required to be paid by Merchant under this Agreement. Merchant may, in its discretion, offset any amounts held by Merchant against any undisputed amounts due and owing by, or required to be paid by Agent under this Agreement. Any such setoffs shall be reconciled and accounted for as part of the weekly reconciliation.

3.4 Inventory Taking.

- (a) Subject to the provisions of this paragraph, the parties have agreed to use the current book value of inventory as of the Sale Commencement Date, to determine the aggregate Cost Value of the Merchandise located in the Closing Stores on the Sale Commencement Date in accordance with this Agreement. In order to test the validity of the aggregate Cost Value of the Merchandise as reflected on Merchant's current books and records, subject to the availability of the Inventory Taking Service, on or within ten (10) days of the Approval Order (the "Inventory Completion Date"), Agent shall use its best efforts to cause to be taken a SKU level Retail Price physical inventory on a style and colour basis (the "Inventory Taking") of the Merchandise located in the Closing Stores (the date of the Inventory Taking at each Closing Store shall be referred to as the "Inventory Date" for such Closing Store). Merchant and Agent shall jointly employ a mutually acceptable inventory taking service (the "Inventory Taking Service") to

conduct the Inventory Taking in accordance with procedures set forth on Exhibit 3.4(a) annexed hereto.

- (b) As an Expense, Agent shall be responsible for fifty percent (50%) of (i) the fees and expenses of the Inventory Taking Service and (ii) Base Payroll accruing during the Inventory Taking for Retained Employees who work at the Closing Stores during the Inventory Taking in such Closing Stores, and Merchant shall pay the remaining fifty percent (50%) of the fees and expenses of the Inventory Taking Service and related payroll costs. Except for the Inventory Taking costs provided for in the immediately preceding sentence in respect of allocation, Merchant and Agent shall each bear all other of their respective costs and expenses relative to the Inventory Taking. Merchant, Agent, and Trustee may each have representatives present during the Inventory Taking and each shall have the right to review and verify the listing and tabulation of the Inventory Taking. Merchant agrees that, the Inventory Taking in each of the Closing Stores shall be conducted either after or during normal Closing Store hours. Merchant and Agent agree to cooperate with each other to conduct the Inventory Taking at such times as would minimize disruption to the Sale. Merchant and Agent further agree that until the Inventory Taking is completed in each of the Closing Stores, neither Merchant nor Agent shall: (x) other than with respect to sales of Merchandise in the ordinary course as part of the Sale at the Closing Stores, transfer any Merchandise to or from any of Closing Stores, so as to make any such items unavailable for counting as part of the Inventory Taking, and/or (y) remove any hang tags, price tickets or inventory control tags affixed to any Merchandise. Merchant and Agent agree that they will, and agree to cause their respective representatives to, cooperate and assist in the preparation and calculation of the aggregate Cost Value of the Merchandise included in the Sale, including, without limitation, making available, to the extent necessary books, records, work papers and personnel.
- (c) The Inventory Taking, including, but not limited to, the determination of the aggregate Cost Value of the Merchandise, shall be reconciled by Merchant and Agent within fourteen (14) days after its completion and Agent and Merchant shall use their reasonable best efforts to accomplish such reconciliation within such fourteen (14) day period; provided, further, that the Final Inventory Report shall be completed not later than thirty (30) days after the Sale Commencement Date. In the event there is any dispute with respect to the reconciliation of the aggregate Cost Value of the Merchandise following completion of the Inventory Taking, then any such dispute shall be resolved in the manner and at the times set forth in Section 3.6(c) hereof.
- (d) With respect to Merchandise at Merchant's warehouses or distribution centres and at third party warehouses such as Remco and Amazon locations (collectively, the "Distribution Centres") on the Sale Commencement Date and on-order Merchandise on the Sale Commencement Date that is received at the Closing

Stores after the Inventory Taking and in accordance with a mutually agreed allocation plan, such Merchandise shall be counted as such inventory leaves the distribution center in accordance with the procedures and instructions to be mutually agreed by Merchant and Agent, which procedures shall determine the aggregate Cost Value of such Merchandise. The number of cartons of such Merchandise shall be counted and reconciled within five (5) business days after receipt of such goods in the Closing Stores in accordance with the procedures and instructions as agreed and absent prior notification and agreement of Merchant, Agent's failure to report any variance between the received shipment from the respective shipping documents (each a "Shipping Variance"), within such five (5) business day period, shall (absent manifest error) result in such receipts being deemed confirmed received consistent with the applicable shipping documents. Merchant shall have five (5) Business Days to verify a timely issued Shipping Variance (each a "Shipping Variance Response"), and absent prior notification and agreement of Agent, Merchant's failure to respond to an asserted Shipping Variance within such five (5) business day period shall (absent manifest error) result in such Shipping Variance being deemed valid. If Merchant timely issues a Shipping Variance Response that disputes the asserted Shipping Variance, Merchant and Agent shall cooperate with each other to verify and resolve such dispute. The Agent and Merchant agree that they will, and agree to cause their respective representatives to, cooperate and assist in the preparation and the calculation of the aggregate Cost Value of the Merchandise included in the Sale, including, without limitation, making available to the extent necessary, books, records, work papers and personnel.

3.5 Gross Rings. For the period from the Sale Commencement Date until the Inventory Date for each Closing Store (the "Gross Rings Period"), Merchant and Agent shall jointly keep (a) a strict count of all gross cash register receipts less applicable Sales Taxes but excluding any prevailing discounts and (b) cash reports of sales at the Closing Stores to determine the actual Cost Value of the Merchandise sold by SKU and Retail Price ("Gross Rings") during the Gross Rings Period. All such records and reports shall be made available to Merchant and Agent during regular business hours upon reasonable notice. Any Merchandise included in the Sale using the Gross Rings shall be included in Merchandise using the Gross Rings method, and as soon as determinable and in no event later than with the payment of the balance of the Guaranteed Amount pursuant to Section 3.3(c) hereof.

3.6 Reconciliation.

- (a) Weekly Reconciliation. On each Thursday during the Sale Term, commencing on the second Thursday after the Sale Commencement Date, Merchant and Agent shall cooperate to jointly prepare a reconciliation of the weekly Proceeds of the Sale, Expenses and FF&E Proceeds and any other Sale related items that either party may reasonably request, in each case for the prior week or partial week (i.e. Sunday through Saturday), all pursuant to procedures agreed upon by Merchant and Agent.

- (b) Final Reconciliation. Within thirty (30) days after the Sale Termination Date, Merchant and Agent shall jointly prepare a final reconciliation of the Sale, including, without limitation, a summary of Proceeds, Expenses, FF&E Proceeds, Sales Taxes and any other accounting required hereunder (the “Final Reconciliation”). Within five (5) days of completion of the Final Reconciliation, Agent shall pay to Merchant, or Merchant shall pay to Agent, as the case may be, any and all amounts due to the other pursuant to the Final Reconciliation, whether such amounts are disputed or not, plus, in the case of disputed amounts, a reasonable estimate of interest to be accrued on such disputed amounts for a period of three (3) months. Merchant or Agent, as the case may be, shall hold any disputed amounts in trust pending resolution of the dispute by agreement of the parties or as determined in the manner set out in Section 3.6(c) below. During the Sale Term, and until all of Agent’s obligations under this Agreement have been indefeasibly satisfied in full, Merchant and Agent shall have reasonable access to Merchant’s and Agent’s records with respect to the Merchandise, Proceeds, FF&E Proceeds, Sales Taxes and Expenses to review and audit such records relating to the Sale.
- (c) Dispute Resolution. In the event that there is any dispute with respect to the Final Reconciliation or the determination of the aggregate Cost Value of the Merchandise as reflected in the Final Inventory Report or with respect to any other matters arising from or related to this Agreement, such dispute shall be promptly (and in no event later than the third Business Day following the request by either Merchant or Agent) submitted to the Court for resolution.

3.7 Control of Proceeds.

- (a) During the Sale Term, all Gross Sale Proceeds of the Sale (including credit card proceeds) of the Merchandise and Additional Merchandise shall be collected by Agent and deposited on a daily basis into Merchant’s existing accounts (the “Designated Merchant Accounts”) in trust for the Agent and the Merchant, as applicable; provided, however, that the Lender has agreed not to take any action with respect to such Gross Sale Proceeds deposited into the Designated Merchant Accounts during the Sale Term or Merchant has obtained an order of the Court confirming same. Merchant shall request, cause to be paid, receive and hold, from time to time and until they are disbursed in accordance with this Agreement, all of the Gross Sale Proceeds in trust for the benefit of Agent and Merchant, as the case may be, for disbursement pursuant to this Agreement. No portion of the Gross Sale Proceeds which are to be paid over to Agent pursuant to this Agreement shall be subject to any Encumbrances. The Approval Order shall give effect to this Section.
- (b) From Gross Sale Proceeds, Merchant shall establish a holdback in the Designated Merchant Accounts in an amount equal to the Sales Taxes applicable to such Gross Sale Proceeds (the “Sales Tax Holdback”). Sales Taxes are to be remitted

from the Sales Tax Holdback by Merchant pursuant to Section 8.3 hereof, as part of the weekly reconciliation conducted by the Parties pursuant to Section 3.6(a) hereof. Subject to the terms of this Agreement, if the Sales Tax Holdback exceeds the Sales Taxes that should have been charged and collected on the Sale, any surplus funds are to be released to the Agent from the Sales Tax Holdback.

- (c) Following the entry of the Approval Order and commencing on the first Business Day following the payment by Agent of the Initial Guaranty Payment and on each Tuesday and Friday thereafter (or as soon thereafter as is practicable), during and following the Sale Term Merchant shall promptly transfer or take all steps required by it to cause to be transferred, by wire fund transfers, all Gross Sale Proceeds deposited in the Designated Merchant Accounts (but, for clarity, not any other funds, including, without limitation, any proceeds of Merchant's inventory sold prior to the Sale Commencement Date, if any) less the Sales Tax Holdback and less the Merchant's Expenses (net of Sales Taxes charged to the Merchant in respect of such Merchant's Expenses) as agreed to in the weekly reconciliation, to one or more segregated trust account(s) established by Agent, dedicated solely for the deposit of the Proceeds and the disbursement of amounts payable to Agent hereunder (the "Agency Accounts"). For clarity, Proceeds received after 12:00 pm (Eastern Time) on the day of transfer will be remitted by the Merchant to the Agent on the next following day of transfer. Merchant shall promptly upon Agent's request execute and deliver all necessary documents to open and maintain the Agency Accounts. Agent shall exercise sole signatory authority and control with respect to the Agency Accounts; provided, however, that upon request from Merchant from time to time, Agent shall deliver to Merchant copies of all bank statements and other information relating to such accounts. Merchant shall not be responsible for and Agent shall pay as an Expense hereunder, all bank fee and charges, including wire transfer charges, related to the Agency Accounts, whether incurred during or after the Sale Term.

- (d) Permitted Disbursements from Agency Accounts. The following disbursements are permitted to be made from the Agency Accounts after receipt by Merchant of payment by Agent of the Guaranteed Amount in full:
 - (i) after payment/reimbursement of all Expenses for the applicable week (plus all applicable Sales taxes charged and collected by the Agent on, or in respect of, such Expenses), as part of the weekly reconciliation conducted pursuant to Section 3.6(a) of the Agency Agreement, all Proceeds remaining in the Agency Account shall be released to Agent on account of the return of the Guaranteed Amount paid by Agent, up to the maximum of the Guaranteed Amount;

 - (ii) after payment/reimbursement of all Expenses for the applicable week (plus all applicable Sales Taxes charged and collected by the Agent on, or in respect of, such Expenses), payment in full to Agent of Agent's return

of funds on account of the Guaranteed Amount, as part of the weekly reconciliation conducted pursuant to Section 3.6(a) hereof, all Proceeds remaining in the Agency Accounts shall be released to Agent on account of the Agent's Fee plus applicable Sales Taxes charged and collected by Agent on the Agent's Fee; and

- (iii) after payment/reimbursement of all Expenses for the Sale Term (plus all applicable Sales Taxes charged and collected by the Agent, on or in respect of, such Expenses), payment in full to Agent of Agent's return of funds on account of the Guaranteed Amount, and payment to Agent of the Agent's Fee and all Sales Taxes thereon in accordance with paragraph (ii) above, as part of the weekly reconciliation conducted pursuant to Section 3.6(a) of the Agency Agreement, all Proceeds remaining in the Agency Account shall be released to Merchant as to fifty percent (50%) of such remaining Proceeds (on account of Merchant's Sharing Recovery Amount) , after deducting Sales Taxes charged and collected by Agent on the Agent's Sharing Recovery Amount and to Agent as to fifty percent (50%) of such remaining Proceeds (on account of Agent's Sharing Recovery amount) plus the Sales Taxes charged and collected by the Agent on the Agent's Sharing Recovery Amount.

Section 4. Payment of Expenses.

4.1 Expenses. Agent shall be unconditionally responsible for all Expenses incurred in conducting the Sale during the Sale Term that are not paid out of Proceeds, which expenses shall (i) in the case of Expenses incurred by the Merchant, the Expense shall be net of Sales Taxes and shall be paid from the Proceeds in the Designated Merchant Accounts prior to the transfer of Proceeds to the Agency Accounts as described in Section 3.7(c), or if such balance in the Designated Merchant Accounts is insufficient, by the Agent to the extent of the insufficiency; and (ii) in the case of Expenses incurred by the Agent after payment of the Guaranteed Amount, the Expenses shall be paid by the Agent from the Proceeds transferred to the Agency Accounts and if there is an insufficiency in the Agency Account, by the Agent directly; provided, however, that such Expenses shall not reduce the Guaranteed Amount). As used herein, "Expenses" shall mean all Closing Store level operating expenses of the Sale that arise or are incurred during the Sale Term (and in the case of the Expenses set forth in Sections 4.1(f), 4.1(q), 4.1(r), and 4.1(t) below, such expenses also include expenses incurred prior to or in connection with the Sale and are not confined to Closing Store level operating expenses of the Sale and in connection with Section 4.1(v) are not confined to Closing Store level operating expenses of the Sale) limited to the following (without duplication):

- (a) occupancy expenses for the Closing Stores on a per location and per diem basis through the Vacate Date (as defined in Section 6.2 hereof) in an amount up to the per diem totals by Closing Store set forth on Exhibit 4.1(a) hereto (the "Occupancy Expenses");

- (b) remittances by Agent to Merchant of an amount equal to the Base Payroll for all Retained Employees used in conducting the Sale for actual days/hours worked during the Sale Term;
- (c) remittances by Agent to Merchant of any actual amounts paid by Merchant for benefits that accrue solely during and are referable to the Sale Term for Retained Employees used in the Sale (including, but not limited to, Canadian pension plan and Quebec pension plan payments, employment insurance premiums, employer health tax, health services fund payments, workers' compensation benefits and health care and insurance benefits, vacation pay accruing during the Sale Term (but not in arrears) and statutory holiday pay) but excluding Excluded Benefits, in an amount not to exceed seventeen percent (17%) of the Base Payroll for each Retained Employee in the Closing Stores (the "Benefits Cap");
- (d) remittances by Agent to Merchant of any amounts payable by Merchant under an Agent approved employee incentive plan to eligible Retained Employees in an amount not to exceed ten percent (10%) of the Base Payroll for each Retained Employee in the Closing Stores; as provided in Section 9.4 below;
- (e) all costs associated with Agent's on-site supervision of the Sale by Agent's employees or independent contractors and associated reasonable corporate travel costs (based on economy fares and reasonable hotels) and reasonable and customary bonuses;
- (f) all costs of signage and banners (interior and exterior) and in-store signs which are produced for the Sale, approved by Merchant pursuant to Section 8.1(d) hereof and in compliance with the Sale Guidelines, whether incurred prior to the Sale or during the Sale Term;
- (g) out-of pocket promotional costs incurred by Agent pursuant to the terms of this Agreement, including, without limitation, use of Agent's social media and Agent's website, sign walkers, advertising and direct mailings relating to the Sale;
- (h) cost of additional supplies used at the Closing Stores as may be required by Agent in the conduct of the Sale (excluding those supplies located at the Closing Stores on the Sale Commencement Date which may be used by Agent at no charge);
- (i) credit card and bank card fees, bank charges, chargebacks and discounts with respect to Merchandise sold in the Sale;
- (j) costs of processing moving, transferring or consolidating Merchandise between and among the Closing Stores and any and all costs, including delivery and freight costs, related to the processing, transfer and consolidation of Merchandise between and among such Closing Stores;

- (k) bank service charges (for Closing Store and Merchant corporate accounts), cheque guarantee fees, and bad cheque expenses, to the extent attributable to the Sale;
- (l) all Agent fees and charges required to comply with applicable laws in connection with the Sale;
- (m) Closing Stores' cash theft and other cash shortfalls in the cash registers;
- (n) postage, courier and overnight mail charges to and from or among the Closing Stores and head office (to the extent relating to the Sale);
- (o) fifty percent (50%) of each of (i) the fees of the Inventory Taking Service to conduct the Inventory Taking at the Closing Stores and (ii) the Base Payroll, plus overtime and commissions, if applicable, during the Inventory Taking for Retained Employees who work at the Closing Stores during the Inventory Taking in such Closing Stores;
- (p) Third Party payroll processing fees;
- (q) cost of Agent's actual cost of capital, letter of credit fees and currency conversion expenses related to the Sale, including wire transfer and bank charges related to the payment of the Initial Guaranty Payment, in an amount not to exceed \$250,000;
- (r) Agent's reasonable out-of-pocket expenses, including, but not limited to, travel, due-diligence, legal fees and expenses, incurred in connection with the review of data, preparation, negotiation and execution of this Agreement, the Approval Order, Sale Guidelines and any ancillary documents incurred prior to the Sale Term, in an amount not to exceed \$100,000;
- (s) all costs and expenses of providing such additional Closing Store-level services, including, without limitation, the employment of temporary help (which shall be coordinated and implemented through Merchant's human resources department) pursuant to Section 9.1 hereof, which Agent in its discretion considers appropriate, and other miscellaneous Closing Store-level expenses incurred by Agent as approved by Merchant;
- (t) actual cost of Agent's insurance reasonably allocable to this Agreement and the transactions contemplated hereby required under Section 12.3 hereof;
- (u) all costs associated with the acquisition and sale of Additional Merchandise;
- (v) Central Services Expenses in an amount equal to \$10,000 per week for each week during the Sale, which amount shall be paid weekly to Merchant.

For those Expenses set out in 4.1(e), 4.1(f) and 4.1(g) Agent shall provide Merchant with a good faith estimate of such Expenses and the parties acknowledge and agree that (a) the Agent has full decision making authority with respect to such Expenses and (b) that such estimates may not be representative of the final amounts of such Expenses and may be subject to change.

“Expenses” shall not include: (i) Excluded Benefits; (ii) any rent or other occupancy expenses other than Occupancy Expenses in accordance with Section 4.1(a) hereof; (iii) Central Services Expenses (except as provided in Section 4.1 or any expenses associated with any of the Distribution Centers); (iv) any costs, expenses or liabilities arising during the Sale Term in connection with the Sale of Merchandise, other than the Expenses listed above, all of which shall be paid by Agent or Merchant, as applicable, promptly when due during the Sale Term. Additionally in the case of Expenses incurred by the Merchant, the Merchant shall only recover such Expenses net of applicable Sales Taxes. Notwithstanding anything herein to the contrary, to the extent that any Expense listed in Section 4.1 is also included on Exhibit 4.1(a), then Exhibit 4.1(a) shall control and such Expense shall not be double counted.

4.2 Certain Definitions.

As used in this Article 4 and this Agreement, the following terms have the following respective meanings:

“Base Payroll” means base hourly payroll, overtime and commissions and bonuses under the Agent approved employee incentive plan, but excluding bonuses, vacation pay and statutory holiday pay payable under Merchant’s compensation policy in effect as at the Sale Commencement Date.

“Central Services Expenses” means costs and expenses for Merchant’s central administrative services necessary for the Sale including, but not limited to (a) Merchant’s inventory control system, including inventory handling, data processing and reporting; (b) payroll system; (c) accounting system; (d) Merchant’s social media and Merchant’s website and (e) allocation systems for Merchandise.

“Excluded Benefits” means vacation days or vacation pay (other than as provided for in Section 4.1(b) hereof), sick days or sick leave, maternity leave benefits, disability benefits or other leaves of absence, termination or severance pay (including, without limitation, any notice or pay, in lieu of notice in accordance with provincial employment/labour standards, common law, or contract) and similar amounts, and all benefits in excess of the Benefits Cap provided for in Section 4.1(c) above. Excluded Benefits also means and includes any amounts payable for pension, profit sharing, bonus or other retirement, benefit or incentive plans other than those expressly described in Section 4.1(c) above.

“Third Party” means, with reference to any Expenses to be paid to a “third party”, a party that is not affiliated with or related to Merchant.

All Expenses incurred during each week (i.e., Sunday through Saturday) of the Sale Term shall be paid by Merchant out of Proceeds in the Designated Merchant Account or by Agent as set out

in Section 4.1, immediately following the weekly reconciliation by Merchant and Agent pursuant to Section 3.6(a) above, based upon invoices and other documentation satisfactory to Agent, acting reasonably; provided, however, Agent shall be obligated to pre-fund any Occupancy Expenses and payroll-related expenses consistent with Merchant's customary rent and payroll funding practices and timing, and Merchant shall reimburse Agent in accordance with Section 3.1(f) any over-advance in respect of Occupancy Expenses for any Occupancy Expenses pre-funded by Agent in respect of a period after which Agent has vacated the Closing Store.

4.3 Security. In order to secure Agent's obligations under this Agreement to pay the balance of the Guaranteed Amount, on or prior to the date that is one Business Day after the date of the Approval Order, Agent shall furnish Merchant, in form and substance and from an issuer reasonably acceptable to Merchant, an irrevocable standby letter of credit naming Merchant as beneficiary in the aggregate original face amount equal to the sum of 15% of the estimated Guaranteed Amount (the "Letter of Credit"). Upon the payment of the balance of the Guaranteed Amount by the Agent, the Letter of Credit shall be reduced to an amount that the parties mutually agree upon as an estimate of one week of Expenses. The Letter of Credit shall have an expiry date of no earlier than 60 days after the Sale Termination Date. Unless the parties shall have mutually agreed that they have completed the Final Reconciliation under this Agreement (or the Court has determined that the Final Reconciliation has been completed), then, at least five days prior to the initial or any subsequent expiry date Merchant shall receive an amendment to the Letter of Credit solely extending (or further extending, as the case may be) the expiry date by at least 60 days. If Merchant fails to receive such amendment to the Letter of Credit no later than five days before the expiry date, then Merchant shall be permitted to draw the full amount under the Letter of Credit to hold as security for amounts that may become due and payable to Merchant. In the event that Agent, after receipt of five Business Days' written notice, fails to pay an undisputed portion of the amounts owing hereunder (include any Expenses), Merchant may draw on the Letter of Credit in an amount equal to the unpaid, past due amount owing.

Section 5. Merchandise

5.1 Merchandise Subject to this Agreement.

- (a) For purposes of this Agreement, including, without limitation, the calculation of the Guaranteed Amount, "Merchandise" shall mean: (i) all finished goods inventory, including display merchandise, that is owned by Merchant and located at the Closing Stores or within the Distribution Centres, at the request of the Agent, as of the Sale Commencement Date; (ii) Defective Merchandise, (iii) Pre-Sale Returned Merchandise which is saleable as first quality merchandise and received during the Sale Term pursuant to Section 8.5 hereof; and (iv) merchandise subject to Gross Rings. Notwithstanding the foregoing, Merchandise shall not include: (1) goods which belong to sublessees, licensees or concessionaires of Merchant; (2) goods held by Merchant on memo, on consignment, or as bailee, unless otherwise agreed to by Merchant and Agent; (3) FF&E, including Owned FF&E, which are located in the Closing Stores; (4) Pre-Sale Returned Merchandise which is not saleable as first quality merchandise,

whether returned during or after the Sale Term; (5) Excluded Defective Merchandise; (6) Additional Merchandise and (7) returned to vendor goods collectively, the "Excluded Merchandise"). For greater certainty, any inventory received by or delivered to the Closing Stores after the twenty-one (21) day period referred to in Section 3.1(a) (other than from a Closing Store) shall be valued in accordance with Section 3.1(b). As used in this Agreement the following terms have the respective meanings set forth below:

- (i) "Defective Merchandise" means any item of non-first quality inventory that is not saleable in its current physical condition, worn, scratched, faded, torn, soiled or affected by other similar defects rendering it not first quality and for greater certainty, excludes Excluded Defective Merchandise.
- (ii) "Excluded Defective Merchandise" shall mean (i) those items of Defective Merchandise that are not saleable in the ordinary course because they are so damaged or defective that they cannot reasonably be used for their intended purpose, including items missing a component of a set (e.g. a single glove) and missized pairs and (ii) those items of Defective Merchandise for which Merchant and Agent cannot agree upon a Cost Value.

5.2 Valuation.

- (a) For purposes of this Agreement, "Cost Value" shall mean with respect to each item of Merchandise, the aggregate total of the actual SKU level cost on a style and colour basis for such item of Merchandise as reflected in Merchant's due diligence materials identified as "Style by Location as of Week 28.xls" and "Master SKU_Style List Jan 11 2016.xls" provided by Merchant and any subsequent update (the "Cost Files"); provided, however, that the Cost Value of Defective Merchandise shall be dealt with in accordance with Section 5.2(d) below. If there is a discrepancy between "Style by Location as of Week 28.xls" or "Master SKU_Style List Jan 11 2016.xls" and any subsequent file, the lowest actual SKU level cost on a style and colour basis for such item of Merchandise as reflected in the Cost Files shall apply.
- (b) Merchant represents, and Agent acknowledges, that the Retail Price does not account for any Excluded Pricing Adjustments, and no such adjustments shall be taken into account in determining the Retail Price of any item of Merchandise.
- (c) For purposes of this Agreement, "Excluded Pricing Adjustments" shall mean the following discounts or price adjustments offered by Merchant: (i) employee discounts; (ii) member or customer appreciation points or coupons; (iii) multi-unit purchase discounts; (iv) adjustments for damaged, defective, or "as-is" items; (v) "buy one, get one" type discounts; (vi) customer savings pass discounts or bounce back coupons, or discounts for future purchases based on dollar value of past

purchases; and (vii) temporary point of sale markdowns and sale overrides such as the Chinese New Year promotion.

- (d) For purposes of determining the Cost Value of Defective Merchandise, such Cost Value shall be mutually agreed to in Inventory Taking by Agent and Merchant.

5.3 Excluded Goods. Merchant shall retain all rights and responsibility for any goods not included as "Merchandise" hereunder, including, without limitation, the Excluded Merchandise, and shall remove such goods from the Closing Stores prior to the Sale Commencement Date, or as soon thereafter as reasonably practicable. If Merchant elects on the first day of the Sale Term, Agent shall accept those goods not included as "Merchandise" hereunder and as identified by Merchant for sale as "Merchant Consignment Goods". Election by the Merchant to include Merchant Consignment Goods in the Sale constitutes a representation and warranty by Merchant that it is entitled to sell such goods and to allocate the proceeds of such sale as provided for in this Agreement. The Agent shall retain fifty percent (50%) of the sale price (less one hundred percent (100%) of applicable Sales Taxes) for all sales of Merchant Consignment Goods, and Merchant shall receive fifty percent (50%) of the sale price, plus one hundred percent (100%) of applicable Sales Taxes in respect of such sales. Merchant shall receive its share of the receipts of sales of Merchant Consignment Goods on a weekly basis, immediately following the weekly reconciliation by Merchant and Agent pursuant to Section 3.6(a) hereof. If Merchant does not elect to have Agent sell such goods not included as Merchandise, then all such items will be removed by Merchant from the Closing Stores at its expense as soon as practicable after the date hereof. Except as expressly provided in this Section 5.3, Agent shall have no cost, expense or responsibility in connection with any goods not included in Merchandise, including but not limited to, sales commissions and percentage rent.

Section 6. Sale Term.

6.1 Term. The Sale shall commence at the Closing Stores on the first Business Day following the date of entry of the Approval Order and the payment of the Initial Guaranty Payment or forthwith as soon as is practicable thereafter, but in no event later than March 10, 2016 (the "Sale Commencement Date"), provided, however, that the Initial Guaranty Payment shall have been received by Merchant in accordance with Sections 3.3(a) hereof prior to the commencement of the Sale. If the Sales Commencement Date is not on or before March 3, 2016, then the Guaranty Percentage shall be reduced by 1/10th of one percent for each day after until the Sales Commencement Date (for example, if the Sales Commencement Date is March 10, 2016, the Guaranty Percentage shall be 119%). Agent may on seven (7) day's notice to Merchant terminate the Sale at any Closing Store in its sole discretion. Notwithstanding, Agent shall complete the Sale and vacate each Closing Store's premises in favour of Merchant or its representative or assignee on or before June 30, 2016, unless otherwise: (a) extended by mutual agreement between Merchant and Agent, and with the consent of the affected landlord for such Closing Store(s) if the extension is proposed to go beyond the sale termination date provided for in the Sale Guidelines; or (b) accelerated by Agent on not less than seven (7) days' advance written notice to Merchant, (the "Sale Termination Date"). The period from the Sale

Commencement Date to the Sale Termination Date shall be referred to herein as the "Sale Term".

6.2 Vacating the Closing Stores. Subject to the terms of Section 6.1 hereof, if Agent intends to vacate a Closing Store prior to the Sale Termination Date, Agent shall provide Merchant with not less than seven (7) days' advance written notice thereof (as to each such Closing Store, as applicable, the "Vacate Date"). For greater certainty, the Vacate Date shall not be later than the Sale Termination Date. On each Vacate Date and on the Sale Termination Date (as applicable), Agent shall vacate each Closing Store in favor of Merchant or its representatives or assignee, remove all Remaining Merchandise (subject to the right to abandon, neatly in place, the FF&E) and leave the applicable Closing Stores in an orderly and "broom swept" condition. Agent agrees that it shall be obligated to forthwith repair any damage caused by Agent (or any representative, agent or licensee thereof) to any Closing Store during the Sale Term, ordinary wear and tear excepted. Agent's obligations to pay all Expenses, including Occupancy Expenses, for each Closing Store subject to Vacate Date notice shall continue until the applicable Vacate Date for such Closing Store. All assets of Merchant not used by Agent in the conduct of the Sale (e.g. FF&E, supplies, etc.) shall be returned by Agent to Merchant or left at the Closing Stores, as applicable, unless otherwise disposed of through no fault of Agent. Where reference is made in this Section 6 to vacating the Closing Stores, such shall mean vacating the Closing Stores, in favor of Merchant, its representatives or assignee and shall not mean vacating possession or disclaimer of lease in favor of the landlord or owner of the Closing Store premises, such lease being the property of Merchant.

6.3 Liquidation of other stores. The Agent acknowledges that the Merchant has eight (8) other stores that are currently being liquidated. At Merchant's request, within five (5) days of the Sales Commencement Date, the Agent and Merchant shall discuss terms on which the Agent would be willing to liquidate the eight (8) other stores on a fee basis, and if mutually agreeable terms can be agreed to, Merchant and Agent shall enter into an agreement with respect to the liquidation of such eight (8) other stores.

Section 7. Sale Proceeds

7.1 Proceeds. For purposes of this Agreement, "Proceeds" shall mean the total amount (in dollars) of all sales of Merchandise and Additional Merchandise made under this Agreement, excluding Sales Taxes on such sales, and "Gross Sale Proceeds" shall mean Proceeds plus Sales Taxes on such sales. Notwithstanding anything herein to the contrary, "Proceeds" shall be exclusive of (i) Sales Taxes, and (ii) returns, allowances and customer credits. All proceeds of Merchant's insurance (net of any deductible) directly attributable to loss or damage to Merchandise or loss of cash arising from events occurring during the Sale Term shall constitute Proceeds under this Agreement. Proceeds shall also include any and all proceeds received by Agent from the disposition of unsold Merchandise at the end of the Sale whether through salvage, bulk sale or otherwise. Agent shall have the right (but not the obligation) during the Sale Term to use Merchant's depository accounts for cash Proceeds relating solely to the Sale.

7.2 Credit Card Proceeds. Agent shall have the right (but not the obligation) during the Sale Term to use Merchant's credit card facilities (including Merchant's credit card terminals and processor(s), credit card processor coding, merchant identification number(s) and existing bank accounts) for credit card Proceeds relating solely to the Sale (collectively, the "Credit Card Processing Facilities"); provided, however, Agent shall have the right to obtain Agent's own merchant identification numbers and bank accounts following the payment of the Initial Guaranty Payment on the Sale Commencement Date and all other amounts payable to Merchant on such date. To the extent that Agent uses Merchant's existing Credit Card Processing Facilities, Agent shall comply with all of Merchant's existing agreements with persons providing such Credit Card Processing Facilities. To the extent Agent so elects, Merchant shall exercise commercially reasonable efforts to assist Agent in obtaining such merchant identification number and bank accounts and shall update their systems to recognize and accept such merchant identification numbers and Merchant shall process credit card transactions on behalf of Agent and for Agent's account, applying customary practices and procedures. To the extent available, Agent shall have the right to accept Merchant's proprietary card. Without limiting the foregoing, Merchant shall cooperate with Agent to down-load data from all credit card terminals each day during the Sale Term and to effect settlement with Merchant's credit card processor(s) and shall take such other actions necessary to process credit card transactions on behalf of Agent under Merchant's identification number(s). Merchant shall not be responsible for and Agent shall pay as an Expense hereunder, all credit card fees, charges and chargebacks related to the Sale, whether received during or after the Sale Term. For greater certainty, the FF&E Proceeds do not constitute "Proceeds" as such term is defined herein.

Section 8. Conduct of the Sale.

8.1 Rights of Agent. Subject to the issuance and entry of Approval Order by the Court, Agent shall be permitted to conduct the Sale throughout the Sale Term in a manner consistent with (a) applicable laws and regulations, (b) the leases and other occupancy agreements relating to the Closing Stores, except as amended by Court order or agreement of the applicable landlord, (c) the sale guidelines annexed hereto as Exhibit 8.1, as the same may be modified and approved by the Court, subject to Agent's approval, acting reasonably ("Sale Guidelines") and (d) the terms of this Agreement. In addition to any other rights granted to Agent hereunder, in conducting the Sale, Agent, in the exercise of its sole discretion, but expressly subject in all cases to the restrictions set out above, shall have the right:

- (a) to establish Closing Stores' hours, which are consistent with the terms of applicable leases, mortgages or other occupancy agreements and local laws or regulations;
- (b) subject to Section 3.3 hereof, to use without charge during the Sale Term (except where otherwise designated as an Expense pursuant to Section 4.1 hereof), all Owned FF&E and other FF&E, advertising materials, Merchant website, Merchant social media accounts (but for greater certainty, the costs or amounts payable to third parties relating to an email blast out of the ordinary course of business shall be an Expense), bank accounts, Closing Store level customer lists

and mailing lists, Closing Store level (and to the extent available, corporate) point of sale systems and equipment and computer hardware and software, existing supplies located at the Closing Stores, intangible assets (including Merchant's names, logos, trademarks and tax identification numbers), Closing Stores' keys, case keys, security codes, and safe and lock combinations required to gain access to and operate the Closing Stores, and any other assets of Merchant located at the Closing Stores (whether owned, leased, or licensed) consistent with applicable terms of leases or licenses. Agent shall exercise due care and return to Merchant immediately at the end of the Sale (or leave in the vacated Stores) all materials and supplies except materials or supplies expended;

- (c) subject to Section 3.3 hereof, to use without charge (except as otherwise provided in Section 4.1 hereof) all of the Merchant's assets located at the Closing Stores or used in the ordinary course of business at the Closing Stores, including but not limited to Merchant's central office facilities, POS systems, central administrative services and personnel to process payroll, perform MIS and provide other central office services necessary for the Sale to the extent that such services are normally provided by Merchant in house at no cost to the Agent (except as otherwise provided in Section 4.1 hereof) and the Merchant has the obligation to provide such facilities, systems, services and personnel; provided, however, that in the event Agent requests Merchant to provide services other than those normally provided to the Closing Stores and relating to the sale of Merchandise by Merchant in the ordinary course of business and as expressly contemplated by this Agreement, Agent shall be responsible to reimburse Merchant for actual incremental cost of such services incurred by Merchant as an Expense of the Sale hereunder;
- (d) to establish Sale prices and implement advertising, signage (including exterior banners and signs), and promotional programs consistent with the sale theme described herein, and as otherwise provided in the Approval Order and the Sale Guidelines, as and where applicable (including, without limitation, by means of media advertising, A-frame, offsite signage and similar signage, and use of sign walkers); and
- (e) once the Inventory Taking has been completed at both the transferring Closing Store and the receiving Closing Store, to transfer as an Expense Merchandise between and among the Closing Stores.

8.2 Terms of Sales to Customers. Subject to Agent's compliance with applicable law, all sales of Merchandise will be "final sales" (and the same shall be printed or stamped on customer receipts) and "as is, where is" and all advertisements and sales receipts will reflect the same. Agent shall not warrant the Merchandise in any manner, but will, to the extent legally permissible, pass on all manufacturers' warranties to customers. All sales will be made only for cash or, nationally recognized bank credit and debit cards.

8.3 Sales Taxes. During the Sale Term, all Sales Taxes attributable to the sales of Merchandise as indicated on the Merchant's point of sale equipment shall be added to the sales price of Merchandise and collected by Agent at the time of sale on Merchant's behalf, and deposited in the Designated Merchant's Accounts. Provided that Agent has collected all Sales Taxes during the Sale and remitted the proceeds thereof to Merchant, Merchant shall promptly pay all Sales Taxes and file all applicable reports and documents required by the applicable taxing authorities. Merchant will be given access to the computation of gross receipts for verification of all such Sales Tax collections. Provided Agent performs its responsibilities in accordance with this Section 8.3, Merchant shall indemnify and hold harmless Agent from and against any and all costs, including, but not limited to, reasonable legal fees, investigation and legal expenses, assessments, claims, demands, actions, proceedings, fines or penalties which Agent sustains or incurs as a result or consequence of the failure by Merchant to promptly pay such taxes to the proper taxing authorities and/or the failure by Merchant to promptly file with such taxing authorities all reports and other documents required, by applicable law, to be filed with or delivered to such taxing authorities. If Agent fails to perform its responsibilities in accordance with this Section 8.3, and provided Merchant complies with its obligations in accordance with this Section 8.3, Agent shall indemnify and hold harmless Merchant from and against any and all costs including, but not limited to, reasonable legal fees, investigation and legal expenses, assessments, claims, demands, actions, proceedings, fines or penalties which Merchant sustains or incurs as a result or consequence of the failure by Agent to collect Sales Taxes, remit to Merchant, and/or, to the extent Agent is required hereunder to prepare reports and other documents, the failure by Agent to promptly deliver any and all reports and other documents required to enable Merchant to file any requisite returns with such taxing authorities. These indemnities shall continue in full force and effect subsequent to and notwithstanding the expiration of termination of this Agreement.

8.4 Supplies. Agent shall have the right to use all existing supplies necessary to conduct the Sale (e.g., boxes, bags, twine, merchandise credits or the like) located at the Closing Stores at no charge to Agent. In the event that additional supplies are required in any of the Closing Stores during the Sale, the acquisition of such additional supplies shall be the responsibility of Agent as an Expense; provided, however, that Merchant shall assist Agent in obtaining supplies from Merchant's vendors at Merchant's cost.

8.5 Returns of Merchandise. During the Sale Term, and only at the Closing Stores, Agent shall accept returns of merchandise sold by Merchant prior to the Sale Commencement Date (the "Pre-Sale Returned Merchandise"). To the extent that any item of Pre-Sale Returned Merchandise is saleable as first-quality merchandise and is received during the Sale Term, then such item shall be included in the Sale and as Merchandise at the Cost Value as adjusted by the prevailing discount as described in Section 3.1(b). To the extent that any item of Pre-Sale Returned Merchandise is returned is not saleable first quality merchandise or is received after the Sale Term, then such item shall form part of the Excluded Merchandise under this Agreement. The aggregate Cost Value of the Merchandise shall be increased by the applicable Cost Value of any Pre-Sale Returned Merchandise (as adjusted by the prevailing discount as described in Section 3.1(b)) included in Merchandise as provided for in this Section 8.5. Agent shall reimburse customers for Pre-Sale Returned Merchandise in the same tender as such item was

purchased (as the case may be, the “Refund”). Merchant shall promptly reimburse Agent in cash for any Refunds Agent is required to issue to customers in respect of any Pre-Sale Returned Merchandise as part of the weekly reconciliation process. To the extent that Merchant is required to reimburse Agent for refunds to customers in respect of any Pre-Sale Returned Merchandise, such amounts shall not reduce Proceeds under this Agreement. Any Pre-Sale Returned Merchandise not included in Merchandise shall be disposed of by Agent in accordance with instructions received from Merchant or, in the absence of such instructions, returned to Merchant at the end of the Sale Term.

8.6 Gift Certificates. During the Sale Term, Agent shall be entitled to accept gift certificates, gift cards, or Merchandise credits issued by Merchant prior to the Sale Commencement Date. No gift certificates, gift cards or Merchandise credits shall be issued by Agent during the Sale Term. Merchant shall promptly reimburse Agent in cash in the amount of such gift certificates, gift cards or merchandise cards so honoured.

8.7 Force Majeure. If any casualty, act of terrorism, or act of God (excluding a snow or ice storm) prevents or substantially inhibits the conduct of business in the ordinary course at any Closing Store for more than one day, such Closing Store and the Merchandise located at such Closing Store shall, in Agent’s discretion, be eliminated from the Sale and considered to be deleted from this Agreement as of the date of such event, and Agent and Merchant shall have no further rights or obligations hereunder with respect thereto; provided, however, that (i) subject to the terms of Section 7.1 above, the proceeds of any insurance attributable to such Merchandise shall constitute Proceeds hereunder, and (ii) the Guaranteed Amount shall be reduced to account for any Merchandise eliminated from the Sale which is not the subject of insurance proceeds, and Merchant, shall reimburse Agent for the amount the Guaranteed Amount is so reduced prior to the end of the Sale Term. Merchant’s obligation to reimburse Agent shall be deemed to be an overpayment and the obligation to reimburse same to Agent shall be secured by the Agent’s Charge.

8.8 Merchant’s Right to Monitor. In addition to Merchants right to review Agent’s books and records relating to the Sale under Section 3.6(b), Merchant shall have the right to monitor the Sale and activities attendant thereto and to be present in the Closing Stores during the hours when the Closing Stores are open for business; provided, however, that Merchant’s presence does not unreasonably disrupt the conduct of the Sale. Merchant shall also have a right of access to the Closing Stores at any time in the event of an emergency situation and shall promptly notify Agent of such emergency.

Section 9. Employee Matters.

9.1 Merchant’s Employees. Merchant shall use commercially reasonable best efforts to make available and Agent may use Merchant's store-level employees in the conduct of the Sale to the extent Agent in its sole discretion deems expedient. Agent may recommend to Merchant the selection and scheduling of the number and type of Merchant's employees to assist with the conduct of the Sale. Merchant shall use commercially reasonable best efforts (which shall not include payment of any additional amounts above current employee compensation) to

make all of Merchant's employees at the Closing Stores available to Agent for the Sale. Agent shall assist Merchant in identifying any such store-level employees to be used in connection with the Sale (each such employee, a "Retained Employee") prior to the Sale Commencement Date. Notwithstanding the foregoing, Merchant's employees shall at all times remain employees of Merchant and shall not be considered or deemed to be employees of Agent. Merchant and Agent agree that except to the extent that the amount of wages and benefits of Retained Employees constitute Expenses to be reimbursed by Agent to Merchant hereunder, nothing contained in this Agreement and none of Agent's actions taken in respect of the Sale shall be deemed to constitute an assumption by Agent of any of Merchant's obligations relating to any of Merchant's employees including, without limitation, Excluded Benefits, notice and other termination type claims and obligations, or any other amounts required to be paid by statute or law; nor shall Agent become liable under any employment agreement or be deemed a related, joint or successor employer with respect to any of such employees. Agent shall use commercially reasonable efforts to comply in the conduct of the Sale with all of Merchant's employee rules, regulations, guidelines and policies which have been provided to Agent in writing. Merchant shall not, without the prior consent of Agent, raise the salary or wages or increase the benefits for, or pay any bonuses or other extraordinary payments to, any of the Retained Employees prior to the Sale Termination Date. If the number of Retained Employees made available to Agent pursuant to this Section 9.1 is insufficient to effectively run the Sale as determined by Agent in its sole discretion, Agent may request that Merchant engage additional temporary contract personnel on a per diem basis, and Merchant shall use reasonable commercial efforts to fulfill such request. If Merchant fails to facilitate the engagement of sufficient Retained Employees and temporary contract personnel as requested by Agent hereunder, Agent may engage such temporary personnel and all related costs and expenses shall constitute Expenses of Agent under this Agreement.

9.2 Termination of Employees By Merchant. All responsibility for hiring and firing and supervision of the conduct of the Retained Employees shall rest with Merchant. Agent may in its discretion stop using any Retained Employee at any time during the Sale. In the event Agent determines to discontinue its use of any Retained Employee in connection with the conduct of the Sale, Agent will provide written notice to Merchant at least seven (7) days prior thereto, except for discontinuance of use "for cause" (such as dishonesty, fraud or breach of employee duties), in which event no prior notice to Merchant shall be required, provided Agent shall notify Merchant as soon as practicable prior to such discontinuance of use so that Merchant can coordinate the termination of such Retained Employee and Agent shall provide Merchant with all supporting documents or information so that Merchant can arrange for the termination of such Retained Employee. From and after the date of this Agreement and until the Sale Termination Date, Merchant shall not transfer or terminate Retained Employees (except "for cause") without Agent's prior consent (which consent shall not be unreasonably withheld).

9.3 Payroll Matters. During the Sale Term, Merchant shall process and pay the Base Payroll, commissions, and all related payroll taxes, worker's compensation, employment and unemployment insurance, and benefits, including accruing vacation pay (but not arrears) for all Retained Employees or temporary contract personnel to be reimbursed by Agent as per

Section 4.1 hereof (except for employees and independent contractors hired by Agent) in accordance with its usual and customary procedures.

9.4 Employee Incentive Plan. Agent shall have the right to elect to pay, as an Expense, retention bonuses (each a “Incentive Plan”) (which bonuses shall be inclusive of payroll taxes but as to which no benefits shall be payable), up to a maximum aggregate amount equal to ten percent (10%) of aggregate Base Payroll, to selected Retained Employees who do not voluntarily leave employment and are not terminated “for cause”. Subject only to limitation of ten percent (10%) of aggregate Base Payroll, the actual amount of the Incentive Plan to be paid to any Retained Employee shall be in an amount to be determined by Agent, and shall be payable within thirty (30) days after the Sale Termination Date, and shall be processed through Merchant’s payroll system. Agent shall provide Merchant with a copy of Agent’s Incentive Plan at least one (1) Business Day prior to its implementation.

Section 10. Conditions Precedent.

The willingness of Merchant and Agent to enter into the transactions contemplated under this Agreement is directly conditioned upon the satisfaction of the following conditions at the time or during the time periods indicated, unless specifically waived in writing by the applicable party:

- (a) All representations and warranties of Merchant and Agent hereunder shall be true and correct in all material respects and no Event of Default shall have occurred at and as of the date hereof and as of the Sale Commencement Date;
- (b) [INTENTIONALLY OMITTED.]; and
- (c) The Court shall have entered the Approval Order, in a form and substance acceptable to Merchant and Agent, acting reasonably, on or before March 9, 2016 or such later date as the parties may agree, and the Approval Order shall not have been stayed, varied, or vacated nor shall an application to restrain or prohibit the completion of the Sale be pending.

Section 11. Representations, Warranties, Covenants and Acknowledgements.

11.1 Merchant’s Representations, Warranties and Covenants. Merchant hereby represents, warrants and covenants to Agent as follows:

- (a) Merchant (i) is a corporation duly incorporated under the laws of the Province of Ontario, and (ii) is and during the Sale Term will continue to be, duly authorized, and qualified to do business and in good standing in each jurisdiction where the nature of its business or properties requires such qualification, including all jurisdictions in which the Closing Stores are located, except, in each case, to the extent that the failure to be in good standing or so qualified could not reasonably be expected to have a material adverse effect on the ability of Merchant to execute and deliver this

Agreement and perform fully its obligations hereunder. Merchant has all requisite corporate power and authority to own, lease and operate the assets and properties of Merchant and to carry on Merchant's business as presently conducted.

- (b) Subject to the entry of the Approval Order and pursuant to the order of the Court:
 - (i) Merchant has the right, power and authority to execute and deliver this Agreement and each other document and agreement contemplated hereby (collectively, together with this Agreement, the "Agency Documents") and to perform the obligations of Merchant thereunder; (ii) all necessary action has been taken by or on behalf of Merchant to authorize the execution and delivery by Merchant of the Agency Documents and no further consent or approval is required for Merchant to enter into and deliver the Agency Documents, to perform the obligations thereunder, and to consummate the Sale; (iii) each of the Agency Documents has been duly executed and delivered by or on behalf of Merchant and constitutes the legal, valid and binding obligation of Merchant enforceable in accordance with its terms; and (iv) no court order or decree of any federal, state, local, or provincial governmental authority or regulatory body is in effect that would prevent or materially impair, or is required for Merchant's consummation of, the transactions contemplated by this Agreement, and no consent of any Third Party which has not been obtained is required therefor, other than as shall be obtained prior to the Sale Commencement Date, except for any such consent the failure of which to be obtained could not reasonably be expected to have a material adverse effect on the ability of Merchant to execute and deliver this Agreement and perform fully its obligations hereunder. Other than for any consent as shall be obtained prior to the Sale Commencement Date, no contract or other agreement to which Merchant is a party or by which Merchant is otherwise bound will prevent or materially impair the consummation of the Sale and the other transactions contemplated by this Agreement.
- (c) Merchant owns, and will own at all times during the Sale Term, good and marketable title to all of the Merchandise and Owned FF&E to be included in the Sale, free and clear of all Encumbrances of any nature, other than the Encumbrances listed on Exhibit 11.1(c) and any applicable statutory liens. Merchant shall not create, incur, assume or suffer to exist any Encumbrance upon or with respect to any of the Merchandise or the Proceeds, in each case, except for the Agent's Charge and such Encumbrances as shall have been disclosed by Merchant to Agent and identified in Exhibit 11.1(c) and any applicable statutory liens).
- (d) Merchant has maintained its pricing files (including the Cost File) in the ordinary course of business and prices charged to the public for goods are the same in all material respects as set forth in such pricing files for the periods indicated therein (without consideration of any point of sale markdowns), and all pricing files and the Cost File and all records relating thereto are true and accurate in all material

respects as to the actual cost recognized on Merchant's books and records for the goods referred to therein and as to the selling prices to the public for such goods, without consideration of any point of sale markdowns, as of the dates and for the periods indicated therein. Merchant represents that (i) the ticketed prices of all items of Merchandise do not and shall not include any Sales Taxes and (ii) all cash registers located at the Closing Stores are programmed to correctly compute all Sales Taxes required to be paid by the customer under applicable law, as such calculations have been identified to Merchant by its retained service provider.

- (e) Through the Sale Commencement Date, Merchant shall ticket or mark all items of inventory received at the Closing Stores prior to the Sale Commencement Date in a manner consistent with similar Merchandise located at the Closing Stores. To the extent Merchandise is not pre-ticketed prior to its receipt in the Closing Stores, Agent shall be responsible for ticketing Merchandise transferred from other Closing Stores pursuant to Section 2.4. The removal from such merchandise of any sale stickers or other markings indicating items are on sale prior to the Sale Commencement Date, if any, will be done in the ordinary course of Merchant's business. From January 25, 2016 to the Sale Commencement Date, the Merchant has not and will not take additional permanent markdowns.
- (f) Merchant will continue to provide Agent reasonable access to all pricing and cost files, computer hardware, software and data files, inter-stores transfer logs, markdown schedules, invoices, style runs and all other documents relative to the price, mix and quantities of inventory located at the Closing Stores for the duration of the Sale Term.
- (g) During the Sale Term, Merchant agrees that any distribution to secured creditors shall be subject to reimbursement agreements binding upon such secured creditors unless otherwise agreed to by the Agent.
- (h) To the best of Merchant's knowledge, all Merchandise is in compliance with all applicable federal, state, provincial or local product safety laws, rules and standards. Merchant shall provide Agent with its historic policies and practices, if any, regarding product recalls prior to the Sale Commencement Date.
- (i) Subject to the provisions of the Approval Order and the terms of this Agreement, throughout the Sale Term, Agent shall have the right to and the Merchant shall provide the unencumbered use and occupancy of, and peaceful and quiet possession of, each of the Closing Stores, the assets currently located at the Closing Stores and the utilities and other services provided at the Closing Stores. Merchant shall, throughout the Sale Term, and to the extent within its control, maintain in good working order, condition and repair all cash registers, heating systems, air conditioning systems, and all other mechanical devices necessary for the conduct of the Sale at the Closing Stores. Except any amounts owing as a result of the commencement of the BIA Proceedings, and absent a bona fide

dispute, throughout the Sale Term, Merchant shall remain current on all expenses and payables necessary for the conduct of the Sale (other than those relating to any period prior to the commencement of the BIA Proceedings), subject to any restrictions that may be imposed under the BIA.

- (j) From January 25, 2016, Merchant will not mark up or raise the price of any items of Merchandise, except with respect to SKU numbers 204110036, 104030452, 104030555, 204030596, 204030635, 210030066, and will provide Agent with an updated price file for each promotion on no less than a weekly basis. In addition, Merchant will not remove or alter any tickets or any indicia of clearance merchandise unless any such Merchandise was erroneously ticketed. No such Merchandise has been ticketed or marketed in contemplation of the Sale. Merchant has not and shall not purchase or transfer to or from the Closing Stores any merchandise or goods outside the ordinary course in anticipation of the Sale or of the Inventory Taking. Merchant shall not enter into any purchase orders after February 29, 2016.
- (k) Except any amounts owing as a result of the commencement of the BIA Proceedings, Merchant had paid, and will continue to pay throughout the Sale Term, all self-insured or Merchant-funded employee benefit programs for Closing Store employees, including health and medical benefits and insurance and all proper claims made or to be made in accordance with such programs (other than those relating to any period prior to the commencement of the BIA Proceeding).
- (l) Other than the proceeding under the BIA, no action, arbitration, suit, notice, or legal, administrative or other proceeding before any court or governmental body has been instituted by or against Merchant, or has been settled or resolved, or to Merchant's knowledge, is threatened against or affects Merchant, relative to Merchant's business or properties, or which questions the validity of this Agreement, or that if adversely determined, would adversely affect the conduct of the Sale.
- (m) Merchant has not taken, and shall not throughout the Sale Term take, any action, the result of which is to materially increase the cost of operating the Sale including, without limitation, increasing salaries, wages or other amounts payable to employees, except to the extent that an employee was due an annual raise.
- (n) Merchant is not party to any collective bargaining agreements with its employees at the Closing Stores and no labour unions represent Merchant's employees at the Closing Stores and as at the date of this Agreement, there are no strikes, work stoppages or other labour disruptions affecting the Closing Stores or Merchant's central office facilities.
- (o) Merchant shall operate its business at the Closing Stores in all respects up to the date of the court approval of the Approval Order in the ordinary course. Notwithstanding anything to the contrary in this Agreement, Merchant shall not

offer any further discounts, overrides or promotions after February 29, 2016 other than for defective or damaged goods.

- (p) Merchant has provided and will continue to provide Agent with all available sales, financial, inventory and other information that Agent has requested and hereafter may request relevant to the transaction contemplated under this Agreement to the extent that such information is in the Merchant's possession.
- (q) Other than in the ordinary course of its business, Merchant has not (i) transferred inventory from previous closing stores into the Closing Stores, (ii) transferred inventory out of the Closing Stores to any other stores of Merchant and (iii) no employee(s) of Merchant has been transferred out of or into the Closing Stores.
- (r) Merchant has satisfied any potential claims by the Merchant's employees pursuant to Sections 81.3, 81.4, 81.5 and 81.6 of the BIA.
- (s) Exhibit 11.1(s) sets forth the Merchant's promotional calendar and the Merchant shall not run any promotions other than those set forth in the promotional calendar unless mutually agreed. The Merchant shall provide the Agent with details of the Merchant's promotions, prior to the date of such promotions, from the date hereof to the Sale Commencement Date. The Merchant shall not run any promotion for longer than seven (7) days other than as set out in Exhibit 11.1(s). Notwithstanding the foregoing, the Massive End of Season Liquidation promotion contained in Exhibit 11.1(s) shall be modified as followed: (i) the Merchant may continue the Massive End of Season Liquidation promotion in a manner consistent with the way it is currently run until February 15, 2016 after which date all yellow and black liquidation signs as well as any other liquidation signs must be removed from the Closing Stores and (ii) the Merchant may continue to discount inventory that is the subject of the Massive End of Season Liquidation promotion up to seventy-five percent (75%) off but the Merchant may not use any signs to promote the Massive End of Season Liquidation promotion. Additionally, from January 25, 2016 until the Sale Commencement Date the Merchant may not discount the retail price of merchandise associated with seasonal categories 2016 Key Items, 2016 Spring or 2016 Seasonal Repeat by more than forty percent (40%).

11.2 Agent's Representations, Warranties and Covenants. Agent hereby represents, warrants and covenants in favor of Merchant as follows:

- (a) Each entity comprising Agent is (i) an unlimited liability company, duly and validly existing and in good standing under the laws of Nova Scotia, (ii) has all requisite power and authority to carry on its business as presently conducted in the jurisdictions where the Closing Stores are located and to consummate the transactions contemplated hereby and (iii) is and during the Sale Term will continue to be duly authorized and qualified to do business, and in good standing,

in each jurisdiction where the nature of its business or properties requires such qualification.

- (b) Agent has the right, power and authority to execute and deliver each of the Agency Documents to which it is a party and to perform its obligations thereunder. Agent has taken all necessary actions required to authorize the execution, delivery, and performance by Agent of the Agency Documents, and no further consent or approval is required on the part of Agent for Agent to enter into and deliver the Agency Documents and to perform its obligations thereunder and to consummate the Sale. Each of the Agency Documents has been duly executed and delivered by Agent and constitutes the legal, valid and binding obligation of Agent enforceable in accordance with its terms. No court order or decree of any federal, provincial, state or local governmental authority or regulatory body is in effect that would prevent or impair or is required for Agent's consummation of the transactions contemplated by this Agreement, and no consent of any Third Party which has not been obtained is required therefor other than as provided herein. No contract or other agreement to which Agent is a party or by which Agent is otherwise bound will prevent or impair the consummation of the transactions contemplated by this Agreement.
- (c) No action, arbitration, suit, notice, or legal administrative or other proceeding before any court or governmental body has been instituted by or against Agent, or has been settled or resolved, or to Agent's knowledge, has been threatened against or affects Agent, which questions the validity of this Agreement or any action taken or to be taken by Agent in connection with this Agreement, or which if adversely determined, would have a material adverse effect upon Agent's ability to perform its obligations under this Agreement.
- (d) The Sale shall be conducted in compliance with the terms of this Agreement, the Sale Guidelines and the Approval Order.

Section 12. Insurance.

12.1 Merchant's Liability Insurance. Merchant shall continue, at its expense, until the Sale Termination Date, in such amounts as it currently has in effect, all of its liability insurance policies including, but not limited to, products liability, comprehensive public liability, auto liability and umbrella liability insurance, covering injuries to persons and property in, or in connection with Merchant's operation of the Closing Stores, and shall cause Agent to be named an additional named insured with respect to all such policies. Prior to the Sale Commencement Date, Merchant shall, on a best efforts basis, deliver to Agent certificates evidencing such insurance setting forth the duration thereof and naming Agent as an additional named insured, in form reasonably satisfactory to Agent. All such policies shall, on a best efforts basis, require at least thirty (30) days' prior notice to Agent of cancellation, non-renewal or material change. In the event of a claim under any such policies Merchant shall be responsible for the payment of all deductibles, retentions or self-insured amounts to the extent said claim arises from or relates to

the alleged acts or omissions of Merchant or its employees, agents (other than Agent's employees), or independent contractors (other than Agent and independent contractors hired by Agent in conjunction with the Sale).

12.2 Merchant's Casualty Insurance. Merchant shall continue until the Sale Termination Date, in such amounts as it currently has in effect, fire, flood, theft and extended coverage casualty insurance covering the Merchandise in a total amount equal to no less than the Cost Value thereof, which coverage shall be reduced from time to time to take into account the sale of Merchandise. In the event of a loss to the Merchandise on or after the date of this Agreement, the proceeds of such insurance attributable to the Merchandise (net of any deductible to be paid by Merchant) shall constitute Proceeds. Prior to the Sale Commencement Date, Merchant shall, on a best efforts basis, deliver to Agent certificates evidencing such insurance setting forth the duration thereof and naming Agent as additional named insured, in form and substance reasonably satisfactory to Agent. All such policies shall, on a best efforts basis, require at least thirty (30) days prior notice to Agent of cancellation, non-renewal or material change. Merchant shall not make any change in the amount of any deductibles or self-insurance amounts prior to the Sale Termination Date, without Agent's prior written consent.

12.3 Agent's Insurance. Agent shall maintain as an Expense throughout the Sale Term in such amounts as it currently has in effect, comprehensive public liability and automobile liability insurance policies covering injuries to persons and property in or in connection with Agent's agency at the Closing Stores and shall cause Merchant to be named an additional insured with respect to such policies. Prior to the Sale Commencement Date, Agent shall deliver to Merchant certificates evidencing such insurance policies, setting forth the duration thereof and naming Merchant as an additional insured, in form and substance reasonably satisfactory to Merchant. In the event of a claim under such policies Agent shall be responsible for the payment of all deductibles, retentions or self-insured amounts thereunder, to the extent said claim arises from or relates to the alleged acts or omissions of Agent or Agent's employees, agents or independent contractors.

12.4 Worker's Compensation Insurance. Merchant shall continue to pay until the Sale Termination Date appropriate worker's compensation insurance (including employer liability insurance) covering all Retained Employees in compliance with all statutory requirements.

12.5 Risk of Loss. Without limiting any other provision of this Agreement, Merchant acknowledges that Agent is conducting the Sale on behalf of Merchant solely in the capacity of an agent, and that in such capacity (i) Agent shall not be deemed to be in possession or control of the Closing Stores or the assets located therein or associated therewith, or of Merchant's employees located at the Closing Stores, and (ii) except as expressly provided in this Agreement, Agent does not assume any of Merchant's obligations or liabilities with respect to any of the foregoing. Agent shall not be deemed to be a successor employer. Merchant and Agent agree that, subject to the terms of this Agreement, Merchant shall bear all responsibility for liability claims of customers, employees and other persons arising from events occurring at the Closing Stores during and after the Sale Term, except to the extent any such claim arises from the acts or omissions of Agent or its supervisors, agents, independent contractors, or employees (an "Agent

Claim”). In the event of any liability claim other than an Agent Claim, Merchant shall administer such claim and shall present such claim to Merchant’s liability insurance carrier in accordance with Merchant’ policies and procedures existing immediately prior to the Sale Commencement Date, and shall provide a copy of the initial documentation relating to such claim to Agent at the address listed in this Agreement. To the extent that Merchant and Agent agree that a claim constitutes an Agent Claim or the parties cannot agree whether a claim constitutes an Agent Claim, each party shall present the claim to its own liability insurance carrier, and a copy of the initial claim documentation shall be delivered to the other party to the foregoing address.

Section 13. Indemnification.

13.1 Merchant Indemnification. Merchant shall indemnify and hold Agent and its officers, directors, employees, agents and independent contractors (collectively, “Agent Indemnified Parties”) harmless from and against all claims, demands, penalties, losses, liability or damage, including, without limitation, reasonable legal fees and expenses, asserted directly or indirectly against an Agent Indemnified Party resulting from, or related to:

- (a) Merchant’s material breach of or failure to comply with any local, state, provincial, or federal laws or regulations, or any of its agreements, covenants, representations and warranties contained in the Agency Documents;
- (b) any harassment, discrimination or violation of any laws or regulations or any other unlawful, tortious or otherwise actionable treatment of any customers, employees or agents of Agent by Merchant or any of its employees, agents, independent contractors or other officers, directors or representatives of Merchant;
- (c) any claims by any party engaged by Merchant as an employee or independent contractor arising out of such employment or by Retained Employees;
- (d) subject to Agent’s performance and compliance with its obligations pursuant to Section 4.1(b), 4.1(c) and Section 9 hereof, any failure by Merchant to pay its employees any wages, salaries or benefits due to such employee during the Sale Term or other claims asserted against Agent by Merchant’s employees resulting from Merchant’s (and not Agent’s) treatment of its employees;
- (e) subject to Agent’s compliance with its obligations under Section 8.3 hereof, any failure by Merchant to pay any Sales Taxes to the proper taxing authorities or to properly file with any taxing authorities any reports or documents required by applicable law to be filed in respect thereof;
- (f) the gross negligence (including omissions) or willful misconduct of Merchant or any of its officers, directors, employees, agents (other than Agent) or representatives;

- (g) violations of law by Merchant; provided, however, that Merchant shall not indemnify Agent from and against any claims, demands, penalties, losses, liability or damage, including, without limitation, reasonable legal fees and expenses arising from or contributed to by Agent's negligent or willful wrongful acts or omissions;
- (h) expense incurred by the Agent due to any failure of the Merchant to supply the central administrative services (as described in Section 4.2) necessary for the Sale; and
- (i) if GST is deemed to be collected by Agent in respect of the indemnified amount, the amount of indemnification shall be increased so that Agent receives the same net amount, after deducting any such GST deemed to be collected upon receipt of the increased amount, that it would have received had GST not been deemed to be collected in respect of the indemnified amount. If GST is not deemed to be collected by Agent, but GST is payable by Merchant to Agent in respect of the indemnified amount, then such GST is payable by Merchant to Agent in addition to the indemnified amount. The foregoing applies *mutatis mutandis* to the application of QST.

13.2 Agent Indemnification. Agent shall indemnify and hold Merchant and its officers, directors, employees, agents and representatives ("Merchant Indemnified Parties") harmless from and against all claims, demands, penalties, losses, liability or damage, including, without limitation, reasonable legal fees and expenses, asserted directly or indirectly against a Merchant Indemnified Party resulting from, or related to:

- (a) Agent's material breach of or failure to comply with any local, state, provincial or federal laws or regulations, or any of its agreements, covenants, representations or warranties contained in this Agreement or other Agency Document and any order of the Court relating to the Sale;
- (b) any harassment, discrimination or violation of any laws or regulations or any other unlawful, tortious or otherwise actionable treatment of any customers, employees or agents of Merchant by Agent or any of its employees, agents, independent contractors or other officers, directors or representatives of Agent;
- (c) any claims by any party engaged by Agent as an employee or independent contractor arising out of such engagement;
- (d) any Agent Claims;
- (e) any Sales Tax assessments (and penalties and interest arising therefrom or in respect thereof) in the event that Agent uses any system other than Merchant's point of sale system to compute Sales Taxes relating to the Sale as described in Section 8.3;

- (f) the gross negligence (including omissions) or willful misconduct of Agent or any of its officers, directors, employees, agents or representatives; and
- (g) violations of law by Agent; provided, however, that Agent shall not indemnify Merchant from and against any claims, demands, penalties, losses, liability or damage, including, without limitation, reasonable legal fees and expenses arising from or contributed to by Merchant's negligent or willful wrongful acts or omissions.

The foregoing indemnity is supplemental to and does not replace any of the other indemnities in this Agreement given by Agent, including, without limitation, the indemnities of Agent contained in Section 8.3 hereof.

Section 14. Fixtures.

- (a) With respect to Owned FF&E located in the Closing Stores, other than the Non FF&E Stores after Merchant provides notice to Agent to stop selling as provided in Section 14(c) below, Agent shall have the exclusive right to dispose of all of the Owned FF&E located in the Closing Stores and retain the proceeds from the sale of such Owned FF&E (the "**FF&E Proceeds**") upon payment to the Merchant of the amount of two-hundred and fifty thousand dollars (\$250,000) (the "**FF&E Guaranteed Amount**"). As of the Sale Termination Date, Agent may abandon, in place, in a neat and orderly manner any unsold Owned FF&E at the Closing Stores. The removal of any sold Owned FF&E shall be done in a manner consistent with the Sale Guidelines.
- (b) All FF&E Proceeds shall be deposited by Agent or Merchant in the Designated Merchant Accounts for transfer to the Agency Accounts. FF&E Proceeds are to be remitted to Agent as part of the weekly reconciliation conducted by the Parties pursuant to Section 3.6(a) of this Agreement.
- (c) The Merchant reserves the right to provide notice to Agent to stop selling FF&E in any Closing Store (a "Non FF&E Store"), provided that Merchant shall reimburse the Agent an amount equal to the product of: (a) (i) \$250,000 divided by (ii) 76; multiplied by (b) the number of Non FF&E Stores for which Merchant provided notice to Agent (each an "**FF&E Adjustment Amount**"). Each FF&E Adjustment Amount shall be paid by Merchant to Agent within two (2) days of the Merchant providing notice to Agent of any Non FF&E Store.

Section 15. Events of Default. The following shall constitute "Events of Default" hereunder:

- (a) Merchant or Agent shall fail to perform any of their respective material obligations hereunder, if such failure remains uncured seven (7) days after receipt of written notice thereof;

- (b) Any representation or warranty made by Merchant or Agent proves untrue in any material respect as of the date made or at any time during the Sale Term, to the extent curable, continues uncured seven (7) days after written notice to the defaulting party; or
- (c) Subject to Section 8.7, the Sale is terminated or materially interrupted or impaired at any Closing Store for any reason other than (i) an Event of Default by Agent; or (ii) any other material breach or action by Agent not authorized under this Agreement.

In the event of an Event of Default, the non-defaulting Party in the case of an Event of Default under subsection (a) or (b) or Agent in the case of subsection (c) may, in its discretion, elect to terminate this Agreement upon seven (7) Business Days' written notice to the other Party and pursue any and all rights and remedies and damages resulting from such Event of Default hereunder.

Section 16. [INTENTIONALLY OMITTED]

Section 17. [INTENTIONALLY OMITTED]

Section 18. Miscellaneous.

18.1 Notices. All notices and communications provided for pursuant to this Agreement shall be in writing, and sent by hand, by facsimile, electronic (PDF) transmission or courier delivery, as follows:

If to Agent:

MERCHANT RETAIL SOLUTIONS ULC
C/O HILCO MERCHANT RESOURCES, LLC
5 Revere Drive, Suite 206
Northbrook, IL 60062 USA

Attn.: Ian S. Fredericks
Tel: (847) 418-2075
Fax: (847) 897-0859
Email: ifredericks@hilcoglobal.com

GORDON BROTHERS CANADA ULC
C/O GORDON BROTHERS RETAIL
PARTNERS, LLC
Prudential Tower
800 Boylston Street
Boston, MA 02119

Attn: Michael Chartock
Tel: (617) 210-7116
Email: mchartock@gordonbrothers.com

With a mandated copy (which shall not constitute notice) to:

OSLER, HOSKIN & HARCOURT LLP
1000 De La Gauchetiere Street West, Suite 2100
Montreal, QC H3B 4W5

Attn: Sandra Abitan
Tel: (514) 904-5648
Fax: (514) 904-8101
Email: sabitan@osler.com

If to Merchant:

DANIER LEATHER INC.
2650 St. Clair Avenue West
Toronto, ON M6N 1M2

Attn: Jeffrey Wortsman
Tel: (416) 762-8175 (ex. 302)
Fax: (416) 762-7408
Email: jefferyw@danier.com

With a mandated copy (which shall not constitute notice) to:

DAVIES WARD PHILIPS & VINEBERG LLP
155 Wellington Street West
Toronto, ON M5V 3J7

Attn: Jay Swartz
Tel: (416) 863-5520
Fax: (416) 863-0871
Email: jswartz@dwpv.com

18.2 Governing Law; Consent to Jurisdiction. This Agreement shall be governed and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein, without regard to conflicts of laws principles thereof. The parties hereto agree that the Court shall retain exclusive jurisdiction to hear and finally determine any disputes arising from or under this Agreement, and by execution of this Agreement each party hereby irrevocably accepts and submits to the jurisdiction of such Court with respect to any such action or proceeding and to service of process by certified mail, return receipt requested to the address listed above for each party.

18.3 Entire Agreement. This Agreement, together with the other Agency Documents, contain the entire agreement between the parties hereto with respect to the transactions contemplated hereby and supersede and cancel all prior agreements, including, but not limited to, all proposals, letters of intent or representations, written or oral, with respect thereto, including, without limitation, the Agent's proposal.

18.4 Amendments. This Agreement may not be modified except in a written instrument executed by each of the parties hereto.

18.5 No Waiver. No consent or waiver by any party, express or implied, to or of any breach or default by the other in the performance of its obligations hereunder shall be deemed or construed to be a consent or waiver to or of any other breach or default in the performance by such other party of the same or any other obligation of such party. Failure on the part of any party to complain of any act or failure to act by the other party or to declare the other party in default, irrespective of how long such failure continues, shall not constitute a waiver by such party of its rights hereunder.

18.6 Successors and Assigns; Merchant's Authority. This Agreement shall inure to the benefit of and be binding upon Merchant and Agent, including, but not limited to, any trustee in bankruptcy or receiver or interim receiver thereof; provided, however, that this Agreement may not be assigned by Merchant without the prior written consent of Agent. Notwithstanding anything to the contrary herein, to the extent that Merchant sells its business and/or assigns or otherwise transfers its right, title and interest in and under any of the leases for any of the Closing Stores, any such assignment or transfer shall be subject to the terms of this Agreement and shall contain an express provision that such assignee or transferee shall not interfere with Agent's conduct of the Sale and/or rights to occupy the Closing Stores as provided herein.

18.7 Subcontractors. Agent may utilize the services of subcontractors and or licensees in connection with the performance of its obligations hereunder.

18.8 Confidentiality. The terms of this Agreement shall be confidential, except for disclosures which may be required by law or as Merchant considers appropriate, acting reasonably and in consultation with Agent, in connection with obtaining the Approval Order. Agent acknowledges and agrees that in connection with Merchant's application for the Approval Order, Merchant will file a copy of this Agreement with the pricing information redacted and without Exhibit 4.1(a) to this Agreement and will seek an order sealing an unredacted copy of this Agreement, including such Exhibits.

18.9 Execution in Counterparts. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original and all of which together shall constitute but one agreement. This Agreement may be executed by facsimile or other electronic transmission, and such facsimile or electronic signature shall be treated as an original signature hereunder.

18.10 Section Headings. The headings of sections of this Agreement are inserted for convenience only and shall not be considered for the purpose of determining the meaning or legal effect of any provisions hereof.

18.11 Survival. All representations, warranties, covenants, agreements and indemnities made herein, by the parties hereto, shall be continuing, shall be considered to have been relied upon by the parties and shall survive the execution, delivery and performance of this Agreement.

18.12 Termination. This Agreement shall remain in full force and effect until:


- (a) if this Agreement is the Successful Bid, the expiration of the Sale Term and completion and certification by Merchant and Agent of the Final Reconciliation pursuant to Section 3.6 above, provided however, if the Approval Order is not obtained on or prior to March 9, 2016, or such later date as the parties may agree, the Merchant shall immediately return the Deposit to the Agent and this Agreement shall otherwise terminate and no other amounts shall be payable hereunder to Agent, including the Break Fee and Expense Reimbursement,
- (b) if this Agreement is not the Successful Bid, the date of determination by the Company of the Successful Bid(s) and the Back-Up Bid(s),
- (c) if this Agreement is the Back-Up Bid, the date that the transaction(s) contemplated by the Successful Bid(s) are closed; or
- (d) terminated pursuant to Section 15 (in which case the Deposit, and if the termination is caused by a breach by the Merchant, the Break Fee, Expense Reimbursement and Signage Costs Obligations shall be paid forthwith to the Agent).

Notwithstanding the foregoing, (x) the representations, warranties and indemnities of Merchant and Agent contained herein and the provisions of Section 11, Section 13 and Section 18.8 above, and (y) any claim arising from a breach of this Agreement prior to its termination shall survive the termination of this Agreement pursuant to this Section 18.12 in the case of termination under Section 15, the rights of termination under that Section shall apply.

[SIGNATURES NEXT PAGE]

IN WITNESS WHEREOF, Agent and Merchant have executed this Agreement as of the day and year first written above.

MERCHANT RETAIL SOLUTIONS, ULC

By 
Name: Jan S. Fredericks
Title: Vice President

GORDON BROTHERS CANADA ULC

By _____
Name:
Title:

DANIER LEATHER INC.

By _____
Name:
Title:

IN WITNESS WHEREOF, Agent and Merchant have executed this Agreement as of the day and year first written above.

MERCHANT RETAIL SOLUTIONS, ULC

By _____
Name:
Title:

GORDON BROTHERS CANADA ULC

By Michael Chmura
Name: Michael Chmura
Title: Secretary

DANIER LEATHER INC.

By _____
Name:
Title:

IN WITNESS WHEREOF, Agent and Merchant have executed this Agreement as of the day and year first written above.

MERCHANT RETAIL SOLUTIONS, ULC

By _____
Name:
Title:

GORDON BROTHERS CANADA ULC

By _____
Name:
Title:

DANIER LEATHER INC.

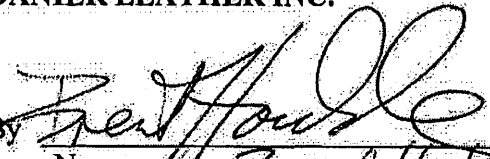
By  _____
Name: Brent Howden
Title: CFO

Exhibit 1A

LIST OF CLOSING STORES

(Attached)

**Danier Leather
Store List
Exhibit 1-A**

Str	Address	City	ST	Zip
2	1800 Sheppard Avenue East, Unit 252	Willowdale (Toronto)	ON	M2J 5A7
4	900 Mapleview Avenue	Burlington	ON	L7S 2J8
6	1 Promenade Circle, Unit 211A	Thornhill (Toronto)	ON	L4J 4P8
7	2960 Kingsway Drive	Kitchener	ON	N2C 1X1
8	419 King Street W	Oshawa	ON	L1J 2K5
9	218 Yonge Street, Unit 2123A, 2nd Level	Toronto	ON	M5B 2H6
10	1105 Wellington Road	London	ON	N6E 1V4
11	221 Glendale Avenue	St. Catharines	ON	L2T 2K9
12	300 Borough Drive	Scarborough	ON	M1P 4P5
13	100 City Centre Drive, Unit 2-910	Mississauga	ON	L5B 2C9
14	3100 Howard Avenue	Windsor	ON	N8X 3Y8
15	240 Leighland Avenue	Oakville	ON	L6H 3H6
16	1200 St. Laurent Blvd.	Ottawa	ON	K1K 3B8
17	3035 Boul. Le Carrefour	Laval	QC	H7T 1C8
18	999 Upper Wentworth Street	Hamilton	ON	L9A 4X5
19	100 Bayshore Drive	Ottawa	ON	K2B 8C1
21	50 Rideau Street	Ottawa	ON	K1N 9J7
22	1680 Richmond Street N. BOX #23	London	ON	N6G 3Y9
25	21 MicMac Blvd., Unit 208	Halifax	NS	B3A 4N3
26	1 Place Ville Marie, Unit 11098	Montreal	QC	H3B 3Y1
27	3401 Dufferin Street	Toronto	ON	M6A 2T9
29	25 The West Mall, PO BOX #101	Etobicoke (Toronto)	ON	M9C 1B8
30	2650 St. Clair Avenue W.	Toronto	ON	M6N 1M2
31	5100 Erin Mills Parkway	Mississauga	ON	L5M 4Z5
35	1638 No. 3 Road, Unit 6551	Richmond	BC	V6Y 2B6
37	#2177- 4700 Kingsway	Burnaby	BC	V5H 4M1
40	3147 Douglas Street, Unit 610	Victoria	BC	V8Z 6E3
41	1018 Robson Street	Vancouver	BC	V6E 1A7
42	309 Boul. Des Promenades #15	Ste Bruno-de-Montarville (Montreal)	QC	J3V 6A7
43	2271 Harvey Avenue	Kelowna	BC	V1Y 6H2
44	17600 Yonge Street, PO #68	Newmarket	ON	L3Y 4Z1
48	6631 Island Highway N., Unit 294A	Nanaimo	BC	V9T 4T7
49	100 Anderson Road S.E., Unit 7	Calgary	AB	T2J 3V1
50	1225 St. Mary's Road, Unit 64	Winnipeg	MB	R2M 5E5
51	3625 Shagnappi Trail NW	Calgary	AB	T3A 0E2
55	8882 170th Street, Unit 1310	Edmonton	AB	T5T 4M2
57	6455 MacLeod Trail S.W.	Calgary	AB	T2H 0K9
58	1485 Portage Avenue, Unit L136	Winnipeg	MB	R3G 0W4
62	477 Paul Street, Unit E-9A	Dieppe (Moncton)	NB	E1A 4X5
63	8 Lebovic Avenue	Scarborough	ON	M1L 4V9
65	7500 Lundy's Lane	Niagara Falls	ON	L2G 1T6
66	6070- 200 Street, Unit #103	Langley	BC	V3A 1N4
69	821 Golf Links Road Unit 7	Ancaster	ON	L9K 1L5
70	5950 Rodeo Drive	Mississauga	ON	L5R 3V6
72	3175 Highway 7, Unit 400	Markham	ON	L3R 0J5
74	5643 Signal Hill Centre S.W.	Calgary	AB	T3H 3P8
76	90 Kingston Road E	Ajax	ON	L1Z 1G1
77	2210 Bank Street, Bldg "D"	Ottawa	ON	K1V 1J5
78	3900 Highway 7	Woodbridge	ON	L4L 1A6
81	30 Pinebush Road, Unit 104	Cambridge	ON	N1R 8K5
82	190 Great Lakes Drive, Unit 141	Brampton	ON	L6R 2K7
87	101 Schoolhouse Street, Unit 210	Coquitlam	BC	V3K 4X8
89	999 Rue du Marché Central, #C-1	Montreal	QC	H4N 1J8
104	390 North Front Street, Unit D1A	Belleville	ON	K8P 3E1
106	66 Wellington Street, Unit 44	Toronto	ON	M5K 1A1
108	7999 Boulevard Les-Galeries-d'Anjou, #B008A	Montreal	QC	H1M 1W9
110	6380 Fallsview Blvd, Unit 236	Niagara Falls	ON	L2G 7H6
113	4154 Village Green, Unit 102	Whistler	BC	V0N 1B4
114	1250 South Service Road, Unit 103	Mississauga	ON	L5E 1V4

**Danier Leather
Store List
Exhibit 1-A**

Str	Address	City	ST	Zip
115	945 Gardiners Road, Unit L014	Kingston	ON	K7M 7H4
117	1349 Lasalle Boulevard	Sudbury	ON	P3A 1Z2
119	1355 Kingston Rd Unit #184	Pickering	ON	L1V 1B8
120	645 Lansdowne St SW, Unit 141	Peterborough	ON	K9J 7Y5
121	10355 152 Street, Unit 2055	Surrey	BC	V3R 7C1
122	13850 Steeles Ave West, Unit 506	Halton Hills	ON	L7G 0J1
123	300 Taylor Road, Unit 605	Niagara on the Lake	ON	L0S 1J0
124	8555 Campeau Drive, Unit 820	Ottawa	ON	K2T 1B7
125	19001 Chemin Notre-Dame, Suite 415	Mirabel	QC	J7J 0T1
151	1592 Regent Avenue, Unit 2	Winnipeg	MB	R2C 3B4
159	1 Bass Pro Mills Drive, Unit 521	Vaughan	ON	L4K 5W4
161	11854 Sarcee Trail NW Bldg. H1	Calgary	AB	T3R 0A1
162	1420 Parsons Rd NW Bldg. G Unit 103	Edmonton	AB	T6N 0B5
163	261055 crossiron Blvd Unit 461	Rocky View	AB	T4A 0G3
164	48 Kenmount Rd	St. John's	NL	A1B 1W3
165	3311 Simcoe Rd 89., Unit C 21	Cookstown	ON	L0L 1L0
166	3120 Boulevard de la Gare, Unit 122	Vaudreuil	QC	J7V 8W5

Exhibit 3.1(h)

GUARANTY PERCENTAGE ADJUSTMENT

(Attached)

Danier Leather
Exhibit 3.1(h)

MERCHANDISE CEILING (\$000'S CAD)

Incremental Dollars in Inventory	Cost Value of Merchandise	Guarantee %	Guarantee \$	Guarantee Increase / (Decrease)	Decremental Percent in Guarantee
100	24,700	117.30%	28,973	44	-0.300%
100	24,600	117.60%	28,930	44	-0.300%
100	24,500	117.90%	28,886	45	-0.300%
100	24,400	118.20%	28,841	45	-0.300%
100	24,300	118.50%	28,796	70	-0.200%
100	24,200	118.70%	28,725	71	-0.200%
100	24,100	118.90%	28,655	71	-0.200%
100	24,000	119.10%	28,584	71	-0.200%
100	23,900	119.30%	28,513	96	-0.100%
100	23,800	119.40%	28,417	96	-0.100%
100	23,700	119.50%	28,322	96	-0.100%
100	23,600	119.60%	28,226	96	-0.100%
CEILING	23,500	119.70%	28,130		

MERCHANDISE THRESHOLD (\$000'S CAD)

Incremental Dollars in Inventory	Cost Value of Merchandise	Guarantee %	Guarantee \$	Guarantee Increase / (Decrease)	Decremental Percent in Guarantee
Threshold	21,000	119.70%	25,137		
100	20,900	119.60%	24,996	(141)	-0.100%
100	20,800	119.50%	24,856	(140)	-0.100%
100	20,700	119.40%	24,716	(140)	-0.100%
100	20,600	119.30%	24,576	(140)	-0.100%
100	20,500	119.10%	24,416	(160)	-0.200%
100	20,400	118.90%	24,256	(160)	-0.200%
100	20,300	118.70%	24,096	(160)	-0.200%
100	20,200	118.50%	23,937	(159)	-0.200%
100	20,100	118.20%	23,758	(179)	-0.300%
100	20,000	117.90%	23,580	(178)	-0.300%
100	19,900	117.60%	23,402	(178)	-0.300%
100	19,800	117.30%	23,225	(177)	-0.300%

*** For every \$100,000 below \$19.8 million and above \$24.7 million, guarantee shall be reduced by 0.40%
Cost Value between the increments will be handled on a pro rata basis

Exhibit 3.1(i)
COST FACTOR
(Attached)

Danier Leather
Exhibit 3.1(i)

Cost Factor Threshold (as % of Retail Price)

Incremental Cost Factor Percentage	Cost Factor	Guarantee %	Decremental Percent in Guarantee
0.10%	50.00%	114.900%	-0.50%
0.10%	49.90%	115.400%	-0.50%
0.10%	49.80%	115.900%	-0.50%
0.10%	49.70%	116.400%	-0.50%
0.10%	49.60%	116.900%	-0.40%
0.10%	49.50%	117.300%	-0.40%
0.10%	49.40%	117.700%	-0.40%
0.10%	49.30%	118.100%	-0.40%
0.10%	49.20%	118.500%	-0.30%
0.10%	49.10%	118.800%	-0.30%
0.10%	49.00%	119.100%	-0.30%
0.10%	48.90%	119.400%	-0.30%
	48.80%	119.700%	

***for every 0.1% beyond 50.0%, guarantee % shall be reduced by 0.6%
Cost Factor within increments shall be handled on a pro rata basis

Exhibit 3.1(j)

MERCHANDISE MIX ADJUSTMENT

(Attached)

Danier Leather
Exhibit 3.1(j)

Current Merchandise as % of Aggregate Cost Value of Merchandise (1)	Guarantee %
40.00%	119.70%
39.50%	119.20%
39.00%	118.70%
38.50%	118.20%
38.00%	117.70%
37.50%	117.20%
37.00%	116.70%
36.50%	116.20%
36.00%	115.70%
35.50%	115.20%
35.00%	114.70%

(1) Current Merchandise = Spring 2016, Seasonal Repeat 2016, Key Item 2016

***For every 0.5% below 35.0%, Guarantee % shall be adjusted downward by 0.5%

Actual mix % within increments shall be handled on a prorata basis

Exhibit 3.4(a)**INVENTORY TAKING INSTRUCTIONS**

Merchant and Agent shall jointly employ WIS International, RGIS, LLC or another mutually acceptable inventory taking service (the “**Inventory Taking Service**”) to conduct the Inventory Taking.

Between _____, 2016 and _____, 2016, Merchant and Agent shall cause to be taken an UPC level Retail Price physical inventory on a SKU style and colour basis (the “**Inventory Taking**”) of the Merchandise located in the Closing Stores. (The date of the Inventory Taking at each Closing Store shall be referred to as the “**Inventory Date**” for such Closing Store).

The Inventory Taking will be conducted during or after regular business hours, resulting in minimal or no disruption to the sale process and customer experience.

Merchant, Agent and Trustee may each have representatives present during the Inventory Taking and each shall have the right to review and verify the listing and tabulation of the Inventory Taking. A schedule of dates and times for the Inventory Taking at each Closing Store will be prepared by Agent, in consultation with Merchant. The Inventory Taking will proceed at the scheduled date and time, subject only to the presence of the Inventory Taking Service personnel conducting the Inventory Taking, regardless of the attendance or absence of any other party.

Merchant and Agent agree that until the Inventory Taking is completed in each of the Closing Stores, neither Merchant nor Agent shall, other than with respect to sales of Merchandise in the ordinary course as part of the Sale at the Closing Stores, transfer any Merchandise to or from any of Closing Stores, so as to make any such items unavailable for counting as part of the Inventory Taking, and/or remove any hang tags, price tickets or inventory control tags affixed to any Merchandise.

Merchant and Agent agree to cooperate with each other to conduct the Inventory Taking commencing at the scheduled time. Merchant and Agent agree that they will, and agree to cause their respective representatives to, cooperate and assist in the preparation and calculation of the aggregate Cost Value of the Merchandise included in the Sale, including, without limitation, making available, to the extent necessary books, records, work papers and personnel.

The Inventory Taking, including, but not limited to, the determination of the aggregate Cost Value of the Merchandise, shall be reconciled by Merchant and Agent within fourteen (14) days after its completion, and Agent and Merchant shall use their reasonable best efforts to accomplish such reconciliation within such fourteen (14) day period.

The final certified inventory report shall be completed not later than thirty (30) days after the Sale Commencement Date.

Exhibit 4.1(a)

OCCUPANCY EXPENSES

(Attached)

Danier Leather
Exhibit 4.1(a)
Occupancy Per Diem Schedule (\$CAD)

Str	City	Rent	CAM	Utilities	Taxes	Merch Assoc Dues	R&M	Total Per Diem
2	Willowdale (Toronto)	627	230	107	302	22	15	1,303
4	Burlington	315	123	37	90	27	15	607
6	Thornhill (Toronto)	247	115	49	50	10	15	486
7	Kitchener	415	84	43	139	9	15	706
8	Oshawa	293	82	25	106	17	15	538
9	Toronto	1,487	491	140	401	57	15	2,590
10	London	241	69	31	97	16	15	468
11	St. Catharines	287	88	22	125	23	15	560
12	Scarborough	473	167	50	174	41	15	920
13	Mississauga	608	270	75	206	39	15	1,214
14	Windsor	278	86	9	140	28	15	556
15	Oakville	327	100	45	65	19	15	572
16	Ottawa	584	228	70	211	35	15	1,143
17	Laval	774	148	47	231	27	15	1,242
18	Hamilton	231	94	31	129	11	15	511
19	Ottawa	658	222	27	166	34	15	1,123
21	Ottawa	444	153	42	109	27	15	790
22	London	277	111	43	132	8	15	585
25	Halifax	416	118	28	142	32	15	752
26	Montreal	256	67	11	81	13	15	443
27	Toronto	1,677	413	55	587	106	15	2,852
29	Etobicoke (Toronto)	788	183	0	326	28	15	1,340
30	Toronto	0	0	0	0	0	15	15
31	Mississauga	127	51	25	48	11	15	277
35	Richmond	388	136	47	94	28	15	708
37	Burnaby	870	161	33	90	31	15	1,200
40	Victoria	253	91	25	99	19	15	502
41	Vancouver	951	68	15	217	0	15	1,266
42	Ste Bruno-de-Montarville (384	95	31	97	8	15	630
43	Kelowna	223	67	6	43	16	15	371
44	Newmarket	575	136	17	101	27	15	871
48	Nanaimo	174	49	24	35	14	15	311
49	Calgary	313	116	29	97	27	15	597
50	Winnipeg	292	97	10	113	21	15	548
51	Calgary	408	97	38	114	15	15	687
55	Edmonton	1,043	376	18	0	34	15	1,486
57	Calgary	380	118	28	131	17	15	689
58	Winnipeg	508	157	47	219	18	15	964
62	Dieppe (Moncton)	133	88	35	107	10	15	389
63	Scarborough	360	46	82	155	0	15	658
65	Niagara Falls	587	213	61	180	56	15	1,112
66	Langley	355	66	33	95	0	15	564
69	Ancaster	395	46	49	155	0	15	659
70	Mississauga	410	58	60	133	0	15	676
72	Markham	341	40	49	64	0	15	508
74	Calgary	616	66	54	143	0	15	894
76	Ajax	561	120	76	142	0	15	914
77	Ottawa	509	66	50	153	0	15	793
78	Woodbridge	504	88	74	132	0	15	814
81	Cambridge	322	40	58	144	0	15	579
82	Brampton	435	58	50	148	0	15	706
87	Coquitlam	468	68	63	154	0	15	767
89	Montreal	534	76	49	272	0	15	946
104	Belleville	226	300	22	95	17	15	675

Danier Leather
Exhibit 4.1(a)
Occupancy Per Diem Schedule (\$CAD)

Str	City	Rent	CAM	Utilities	Taxes	Merch Assoc Dues	R&M	Total Per Diem
106	Toronto	495	77	30	101	5	15	723
108	Montreal	235	60	29	168	3	15	510
110	Niagara Falls	0	76	20	13	12	15	136
113	Whistler	319	67	10	0	0	15	411
114	Mississauga	160	70	25	42	22	15	333
115	Kingston	138	86	26	52	8	15	325
117	Sudbury	190	59	20	60	10	15	354
119	Pickering	165	73	10	59	15	15	338
120	Peterborough	0	0	11	0	0	15	26
121	Surrey	261	122	8	70	32	15	508
122	Halton Hills	280	63	24	79	28	15	489
123	Niagara on the Lake	280	47	22	66	19	15	449
124	Ottawa	249	74	57	71	28	15	494
125	Mirabel	321	80	23	73	33	15	546
151	Winnipeg	379	53	37	132	0	15	616
159	Vaughan	610	149	50	102	50	15	977
161	Calgary	424	84	45	119	0	15	687
162	Edmonton	472	80	54	107	0	15	729
163	Rocky View	325	163	35	45	46	15	628
164	St. John's	166	43	26	31	0	15	280
165	Cookstown	124	78	22	44	18	15	301
166	Vaudreuil	295	35	27	62	0	15	434
76	Total	\$31,237	\$8,537	\$2,856	\$9,271	\$1,326	\$1,140	\$54,367

Exhibit 8.1
SALE GUIDELINES
(Attached)

Exhibit 8.1**SALE GUIDELINES**

The following procedures shall apply to the Sale to be conducted at the Closing Stores of Danier Leather, Inc. All terms not herein defined shall have the meaning set forth in the Agency Agreement by and between a contractual joint venture comprised of Merchant Retail Solutions, ULC and Gordon Brothers Retail Partners ULC (together, the "Agent") and Danier Leather Inc. (the "Merchant") dated March 1, 2016 (the "Agency Agreement").

1. Except as otherwise expressly set out herein, and subject to: (i) the Approval Order or any further Order of the Court; or (ii) any subsequent written agreement between the Merchant and the applicable landlord(s) (individually, a "Landlord" and, collectively, the "Landlords") and approved by Agent, the Sale shall be conducted in accordance with the terms of the applicable leases/or other occupancy agreements to which the affected landlords are privy for each of the affected Closing Stores (individually, a "Lease" and, collectively, the "Leases"). However, nothing contained herein shall be construed to create or impose upon the Merchant or the Agent any additional restrictions not contained in the applicable Lease or other occupancy agreement.
2. The Sale shall be conducted so that each of the Closing Stores remain open during their normal hours of operation provided for in the respective Leases for the Closing Stores until the respective Vacate Date of each Store. The Sale at the Closing Stores shall end by no later than June 30, 2016. Rent payable under the respective Leases shall be paid as provided in the Order of the Court in the within proceedings dated February 8, 2016.
3. The Sale shall be conducted in accordance with applicable federal, provincial and municipal laws and regulations, unless otherwise ordered by the Court.
4. All display and hanging signs used by the Agent in connection with the Sale shall be professionally produced and all hanging signs shall be hung in a professional manner. The Agent may advertise the Sale at the Closing Stores as a "going out of business", "everything on sale", everything must go", "store closing" or similar theme sale at the Closing Stores (provided however that no signs shall advertise the Sale as "bankruptcy" or a "liquidation" it being understood that the French equivalent of "clearance" is "liquidation" and is permitted to be used). Forthwith upon request from a Landlord, the Landlord's counsel, the Merchant or the Trustee, the Agent shall provide the proposed signage packages along with the proposed dimensions and number of signs (as approved by the Merchant pursuant to the Agency Agreement) by e-mail or facsimile to the applicable Landlords or to their counsel of record. The Agent shall not use neon or day-glow or handwritten signage (unless otherwise contained in the sign package or "you pay" or "topper" signs). Nothing contained herein shall be construed to create or impose upon the Merchant or the Agent any additional restrictions not contained in the applicable Leases. In addition, the Agent shall be permitted to utilize exterior banners/signs at stand alone or strip mall Closing Stores or enclosed mall Closing Stores with a separate entrance from the exterior of the enclosed mall; provided, however, that where such banners are not permitted by the applicable Lease and the Landlord requests in writing

that the banner are not to be used, no banner shall be used absent further Order of the Court, which may be sought on an expedited basis on notice to the Landlord. Any banners used shall be located or hung so as to make clear that the Sale is being conducted only at the affected Closing Store and shall not be wider than the premises occupied by the affected Closing Store. All exterior banners shall be professionally hung and to the extent that there is any damage to the facade of the premises of a Closing Store as a result of the hanging or removal of the exterior banner, such damage shall be professionally repaired at the expense of the Agent.

5. The Agent shall be permitted to utilize sign walkers and street signage; provided, however, such sign walkers and street signage shall not be located on the shopping centre or mall premises.
6. Conspicuous signs shall be posted in the cash register areas of each Closing Store to the effect that all sales are "final".
7. The Agent shall not distribute handbills, leaflets or other written materials to customers outside of any of the Closing Stores on any Landlord's property, unless permitted by the applicable Lease or, if distribution is customary in the shopping centre in which the Closing Store is located. Otherwise, the Agent may solicit customers in the Closing Stores themselves. The Agent shall not use any giant balloons, flashing lights or amplified sound to advertise the Sale or solicit customers, except as permitted under the applicable Lease or agreed to by the Landlord.
8. At the conclusion of the Sale in each Closing Store, the Agent and the Merchant shall arrange that the premises for each Closing Store are in "broom-swept" and clean condition, and shall arrange that the Closing Stores are in the same condition as on the commencement of the Sale, ordinary wear and tear excepted. No property of any Landlord of a Closing Store shall be removed or sold during the Sale. No permanent fixtures (other than FF&E for clarity) may be removed without the Landlord's written consent unless otherwise provided by the applicable Lease. Subject to the foregoing, the Agent shall vacate the Closing Stores in accordance with the terms and conditions of the Agency Agreement. Any fixtures or personal property left in a Closed Store after it has been vacated by the Agent or in respect of which the applicable Lease has been disclaimed by the Merchant shall be deemed abandoned, with the applicable Landlord having the right to dispose of the same as the Landlord chooses, without any liability whatsoever on the part of the Landlord.
9. Subject to the terms of paragraph 8 above, the Agent may sell furniture, fixtures and equipment ("FF&E") owned by the Merchant and located in the Closing Stores during the Sale. The Merchant and the Agent may advertise the sale of FF&E consistent with these guidelines on the understanding that the any Landlord may require that such signs be placed in discreet locations with the Closing Stores acceptable to the Landlord, acting reasonably. Additionally, the purchasers of any FF&E sold during the Sale shall only be permitted to remove the FF&E either through the back shipping areas designated by the Landlord or through other areas after regular store business hours or through the front door of the Store during Store business hours if the FF&E can fit in a shopping bag with

Landlord's supervision as required by the Landlord. The Agent shall repair any damage to the Closing Stores resulting from the removal of any FF&E by Agent or by third party purchasers of FF&E from Agent.

10. The Agent shall not make any alterations to interior or exterior Closing Store lighting, except as authorized pursuant to the applicable Lease. No property of any Landlord of a Closing Store shall be removed or sold during the Sale. No permanent fixtures (other than FF&E for clarity) may be removed without the Landlord's written consent unless otherwise provided by the applicable Lease. The hanging of exterior banners or other signage, where permitted in accordance with the terms of these guidelines, shall not constitute an alteration to a Closing Store.
11. The Agent hereby provides notice to the Landlords of the Agent's intention to sell and remove FF&E from any Closing Store. If requested by a Landlord within seven (7) days after the Sale Commencement Date, Agent shall conduct a walk through with the Landlord to identify the FF&E Agent proposes to sell. The relevant Landlord shall be entitled to have a representative present in the Closing Store to observe such removal. If the Landlord disputes the Agent's entitlement to sell or remove any FF&E under the provisions of the Lease, such FF&E shall remain on the premises and shall be dealt with as agreed between the Merchant, the Agent and such Landlord, or by further Order of this Court upon application by the Merchant on at least two (2) days' notice to such Landlord. If the Merchant has disclaimed or resiliated the Lease governing such Closing Store in accordance with the BIA, it shall not be required to pay rent under such Lease pending resolution of any such dispute (other than rent payable for the notice period provided for in the BIA), and the disclaimer or resiliation of the Lease shall be without prejudice to the Merchant's or Agent's claim to the fixtures in dispute.
12. If a notice of disclaimer or resiliation is delivered pursuant to BIA to a Landlord while the Sale is ongoing and the Closing Store in question has not yet been vacated, then: (a) during the notice period prior to the effective time of the disclaimer or resiliation, the landlord may show the affected leased premises to prospective tenants during normal business hours, on giving the Merchant and the Agent 24 hours' prior written notice; and (b) at the effective time of the disclaimer or resiliation, the relevant Landlord shall be entitled to take possession of any such Closing Store without waiver of or prejudice to any claims or rights such landlord may have against the Applicant in respect of such Lease or Closing Store, provided that nothing herein shall relieve such Landlord of its obligation to mitigate any damages claimed in connection therewith. Absent Agent's consent, Merchant shall not seek to disclaim or resiliate any Lease of a Closing Store prior to the earlier of (i) the applicable Vacate Date for such Closing Store and (ii) June 30, 2016.
13. The Agent and its agents and representatives shall have the same access rights to the Closing Stores as the Merchant under the terms of the applicable Lease, and the Landlords shall have the rights of access to the Closing Stores during the Sale provided for in the applicable Lease (subject, for greater certainty, to any applicable stay of proceedings).

14. The Merchant and the Agent shall not conduct any auctions of Merchandise or FF&E at any of the Closing Stores.
15. The Agent shall be entitled to include in the Sale the Additional Merchandise, to the extent permitted under the Agency Agreement; provided that: (i) the Additional Merchandise will not exceed \$4 million at cost in the aggregate; and (ii) the Additional Merchandise is of like kind and category and no lesser quality to the Merchandise, and consistent with any restriction on usage of the Closing Stores set out in the applicable Leases.
16. The Agent shall designate a party to be contacted by the Landlords should a dispute arise concerning the conduct of the Sale. The initial contact person for Agent shall be Ian Fredericks who may be reached by phone at (847) 418-2075 or email at ifredericks@hilcoglobal.com. If the parties are unable to resolve the dispute between themselves, the Landlord or Merchant shall have the right to schedule a "status hearing" before the Court on no less than two (2) days written notice to the other party or parties, during which time the Agent shall cease all activity in dispute other than activity expressly permitted herein, pending the determination of the matter by the Court; provided, however, that if a banner has been hung and is the subject of a dispute, the Agent shall not be required to take any such banner down pending determination of the dispute.
17. Nothing herein is, or shall be deemed to be a consent by any Landlord to the sale, assignment or transfer of any Lease, or shall, or shall be deemed to, or grant to the Landlord any greater rights than already exist under the terms of any applicable Lease.
18. These Sale Guidelines may be amended by written agreement between the Merchant, the Agent and any applicable Landlord (provided that such amended Sale Guidelines shall not affect or bind any other Landlord not privy thereto without further Order of the Court approving the amended Sale Guidelines).

Exhibit 11.1(c)

ENCUMBRANCES ON OWNED FF&E

EXHIBIT 11.1(C)

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 Cuir Danier Inc.; Danier Leather Inc. Les Cuir Danier Inc.; Les Cuir Danier Inc. Danier Leather Inc.	I, E, A, O, MV		862972605 20000619 1437 9065 9354 (6 years)

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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

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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

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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

Quebec - REGISTER OF PERSONAL AND MOVABLE REAL RIGHTS

	Registration number	Nature Amount	Parties	Description of Property (Summary)	Comments
	Registration Date				
	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 Cuir Danier Inc.; Danier Leather Inc./Les Cuir Danier Inc., acting under the names: Les Cuir 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 Cuir 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 THRD 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.

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"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,

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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.

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"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,

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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;

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"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.

Exhibit 11.1(s)

MERCHANT'S PROMOTIONAL CALENDAR

FY16 MARKETING CALENDAR

	Fiscal Week	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
FEBRUARY 2016	32			<p>Email - Chinese New Year - We pay the tax on everything red excluding spring arrivals (Friday, Feb 5 - Monday, Feb 8) - ADDED SHOWCARD TO PROMOTE EVENT</p>			<p>Email - Happy Chinese New Year - We pay the tax on everything red excluding spring arrivals (Friday, Feb 5 - Monday, Feb 8) - ADDED SHOWCARD TO PROMOTE EVENT - 4 DAYS</p> <p>Chinese New Year showcard in-store - We pay the tax on everything red excluding spring arrivals (Friday, Feb 5 - Monday, Feb 8) - ADDED SHOWCARD TO PROMOTE EVENT</p>	<p>Chinese New Year showcard - We pay the tax on everything red excluding spring arrivals (Friday, Feb 5 - Monday, Feb 8) - ADDED SHOWCARD TO PROMOTE EVENT</p>
	33	<p>Chinese New Year showcard - We pay the tax on everything red excluding spring arrivals (Friday, Feb 5 - Monday, Feb 8) - ADDED SHOWCARD TO PROMOTE EVENT</p>	<p>Family Day BC</p> <p>Chinese New Year showcard - We pay the tax on everything red excluding spring arrivals (Friday, Feb 5 - Monday, Feb 8) - ADDED SHOWCARD TO PROMOTE EVENT</p>	<p>Valentine's Day showcard</p>		<p>Email - Festive Vday Kerl Collection bags</p>		
	34	<p>Valentine's Day</p>	<p>Family Day (Ontario/Alberta/Saskatchewan)</p> <p>Manitoba - Louis Riel Day</p>	<p>Email - All bundled up for under \$250 (feature winter outfit + coat, hat, gloves, bag under \$250)</p>		<p>Email - Make it blueline bag back in stock (how colour)</p>		
	35			<p>Email - Spotlight on Jordan's years - MOVED UP EMAIL ON FEB 25 TO FEB 23</p>			<p>Email - All bundled up for under \$200 (feature winter outfit + coat, hat, gloves, bag under \$200) - MOVED EMAIL FROM FEB 23 TO FEB 26</p>	

Appendix A
Sales and Investment Solicitation Procedure

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 8, 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;

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"**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

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"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);

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"**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 in 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.

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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:

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- (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

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- (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;

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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 SISF 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

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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**

[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

[See Schedule B to the SISP appended to the Order of the Honourable Justice Penny made
February 8, 2016]

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.

**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

**THIRD REPORT OF THE PROPOSAL TRUSTEE
MARCH 3, 2016**

BENNETT JONES LLP

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