



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

March 4, 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**

**FIRST SUPPLEMENT TO THE THIRD REPORT OF KSV KOFMAN INC.
AS PROPOSAL TRUSTEE OF
DANIER LEATHER INC.**

MARCH 4, 2016

1.0 Introduction

1. This report ("Supplemental Report") is a supplement to the Proposal Trustee's Third Report dated March 3, 2016 (the "Third Report").
2. This Supplemental Report should be read in conjunction with the supplemental affidavit of Brent Houlden, the Chief Financial Officer of the Company, sworn March 3, 2016 in support of this motion.

1.1 Defined Terms

1. Unless otherwise defined in this Supplemental Report, defined terms have the meanings provided to them in the Third Report.

1.2 Purposes of this Supplemental Report

1. The purposes of this Supplemental Report are to:
 - a) report on the Company's weekly cash flow projection for the period March 6, 2016 to April 16, 2016 ("Cash Flow Forecast"); and

- b) recommend that the Court make an order, *inter alia*, granting the Company's request for an extension of the time to file a proposal with the Official Receiver from March 23, 2016 to April 15, 2016.

1.3 Currency

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

1.4 Restrictions

1. In preparing this Supplemental 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 Supplemental Report is based on the Company's representatives' assumptions regarding future events; actual results achieved may vary from this information and these variations may be material.
2. The Proposal Trustee also references its report on the Company's cash flow projections and underlying assumptions and notes that its review and commentary thereon was performed in accordance with the requirements set out in the Canadian Association of Insolvency and Restructuring Professionals' Standards of Professional Practice No. 99-5 (Trustee's Report on Cash Flow Statement).

2.0 Cash Flow Extension

1. The Cash Flow Forecast and the related assumptions for the period March 6, 2016 to April 16, 2016, together with Management's Report on the Cash-Flow Statement as required by Section 50.4(2)(c) of the BIA, are provided in Appendix "A".
2. The Cash Flow Forecast reflects the terms of the Successful Bid received in the SISP, being an offer submitted by a contractual joint venture comprised of Merchant Retail Solutions, ULC and Gordon Brothers Canada ULC.
3. According to the Cash Flow Forecast, the Company is projected to have net cash flow of \$24.3 million during the period. The Company has sufficient liquidity to operate its business during the Cash Flow Forecast period.
4. Based on the Proposal Trustee's review of the Cash Flow Forecast, there are no material assumptions which seem unreasonable in the circumstances. The Proposal Trustee's Report on the Cash Flow Statement as required by Section 50.4(2)(b) of the BIA is attached as Appendix "B".

3.0 Company's Request for an Extension

1. The Company is seeking an extension of the time to file a proposal with the Official Receiver from March 23, 2016 to April 15, 2016.
2. The Company advised that it is seeking the extension of time in order to commence the transaction with the Agent in an orderly fashion and to provide the Company with more time to identify and complete transactions for the Company's remaining business and assets.
3. The Proposal Trustee supports the Company's request for the following reasons:
 - a) the Company is acting in good faith and with due diligence;
 - b) the orderly commencement of the transaction with the Agent is in the interest of maximizing recoveries;
 - c) it will allow the Company the opportunity to identify and/or complete one or more transactions for the Company's remaining business and assets;
 - d) it should not prejudice any creditor as the Company has sufficient funds to pay for post-filing goods and services in the amounts contemplated by the Cash Flow Forecast; and
 - e) as of the date of this Supplemental Report, the Proposal Trustee is not aware of any party opposed to an extension.

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 1.2(1)(b) of this Supplemental 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”

Danier Leather Inc.
Projected Statement of Cash Flow
 For the period March 6, 2016 to April 16, 2016
 (C\$; unaudited)

	Note	Week Ending					Total	
		12-Mar-16	19-Mar-16	26-Mar-16	02-Apr-16	09-Apr-16		16-Apr-16
Receipts								
Estimated guaranteed amount	2	20,007,400	-	-	-	6,466,600	-	26,474,000
Sale receipts	3	4,510,000	4,961,000	5,412,000	4,961,000	4,961,000	4,510,000	29,315,000
Total Receipts		24,517,400	4,961,000	5,412,000	4,961,000	11,427,600	4,510,000	55,789,000
Disbursements								
Payments to Agent	4	-	2,913,076	3,980,606	3,922,368	3,285,641	3,522,368	17,624,059
Inventory purchases	5	2,063,790	1,717,745	1,750,226	234,370	27,766	171,558	5,965,455
Payroll and benefits	6	1,131,355	97,063	1,133,790	97,063	1,133,790	97,063	3,690,123
Rent and occupancy	7	-	-	-	1,901,420	-	-	1,901,420
Transportation	8	39,702	29,702	19,702	19,702	19,702	19,702	148,212
Sundry	9	251,381	251,381	251,381	251,381	251,381	251,381	1,508,284
Total disbursements		3,486,227	5,008,966	7,135,705	6,426,304	4,718,280	4,062,072	30,837,554
Net cash flow before the undernoted		21,031,173	(47,966)	(1,723,705)	(1,465,304)	6,709,320	447,928	24,951,446
Professional fees	10	125,000	100,000	100,000	100,000	100,000	100,000	625,000
Net cash flow		20,906,173	(147,966)	(1,823,705)	(1,565,304)	6,609,320	347,928	24,326,446
Opening bank balance		10,647,461	31,553,633	31,405,667	29,581,963	28,016,659	34,625,979	10,647,461
Net cash flow		20,906,173	(147,966)	(1,823,705)	(1,565,304)	6,609,320	347,928	24,326,446
Ending bank balance		31,553,633	31,405,667	29,581,963	28,016,659	34,625,979	34,973,907	34,973,907

The above financial projections are based on management's assumptions detailed in Appendix "1-1"
 The note references correspond to the assumption numbers shown in Appendix "1-1"

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

DANIER LEATHER INC.

Per:

Date

Bret Foulds
 March 4/16

KSV ROFMAN INC.
 TRUSTEE UNDER THE NOTICE OF
 INTENTION TO MAKE A PROPOSAL

Per:

Date

[Signature]
 March 4/16

Danier Leather Inc.
Notes to Projected Statement of Cash Flow
For the period March 6, 2016 to April 16, 2016
(C\$; unaudited)

Purpose and General Assumptions

1. The purpose of the projection is to present a forecast of the cash flow of Danier Leather Inc. (the "Company") for the period March 6, 2016 to April 16, 2016 (the "Period") in respect of the Company's proposal proceedings under the *Bankruptcy and Insolvency Act*.

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

The Company has scheduled a sale approval motion for March 9, 2016 in its Court-approved Sale and Investor Solicitation Process ("SISP"). The cash flow forecast reflects the terms of the best offer (the "Offer") submitted in the SISP for the Company's inventory and furniture, fixtures and equipment at its stores ("FF&E"), being an offer from a contractual joint venture comprised of Merchant Retail Solutions, ULC and Gordon Brothers Canada ULC (the "Agent"). The projection does not reflect the sale of the Company's other assets, including its business, intellectual property, and/or leases.

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

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

Hypothetical Assumptions

2. The Offer results in the Company receiving a minimum recovery of 119.7% of the cost value of substantially all of the Company's inventory and \$250,000 for the Company's furniture, fixtures and equipment at its stores, subject to adjustment. Pursuant to the terms of the Offer, the Agent is required to pay the Company 85% of the guaranteed payment on the day after the Court enters an Approval and Vesting Order. The Company expects to receive the balance of the guaranteed payment within 30 days of the closing of the transaction. A letter of credit is to be provided by the Agent to the Company to secure the balance of the guaranteed payment.
3. Receipts have been estimated based on management's current sales forecast assuming the commencement of a liquidation during the week ending March 12, 2016.
4. Pursuant to the terms of the Offer, the Company is to pay to the Agent all sales proceeds generated during the week less various holdbacks, including, *inter alia*, sales taxes, occupancy costs, store payroll costs and other expenses incurred by the Company for the purposes of the sale.
5. Represents payments for Spring inventory. Payments include freight, duty, customs and brokerage charges.

Most Probable Assumptions

6. Represents gross payroll and benefits for store staff, factory workers and head office employees. Payroll is paid bi-weekly and benefits are paid monthly.
7. Represents the payment of April's occupancy costs to the landlords for the stores, head office and the distribution centre.
8. Represents the estimated costs to transport goods from the Company's distribution facility to its stores and for inter-store transfers.
9. Represents sundry disbursements, including selling, general and administrative expenses, technology expenses, repairs and maintenance expenses and bank charges.
10. Professional fees are estimated and include the fees of the Proposal Trustee and its counsel and the Company's legal counsel.

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

The management of Danier Leather Inc. (the "Company") has developed the assumptions and prepared the attached statement of projected cash flow of the Company for the period ending April 16, 2016.

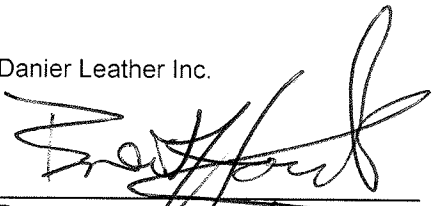
The hypothetical assumptions are reasonable and consistent with the purpose of the projection described in Note 1, and the probable assumptions are suitably supported and consistent with the plans of the Company and provide a reasonable basis for the projection. All such assumptions are disclosed in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

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

The projection has been prepared solely for the purpose described in Note 1, using a set of hypothetical and probable assumptions set out in Notes 2 to 10. Consequently, readers are cautioned that it may not be appropriate for other purposes.

Dated at Toronto, Ontario, this 4th day of March, 2016.

Danier Leather Inc.


Per: Brent Henke
CFO

Appendix “B”

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

The attached statement of projected cash-flow of Danier Leather Inc. (the "Company"), as of the 4th day of March, 2016, consisting of a weekly cash flow statement for the period March 6, 2016 to April 16, 2016, has been prepared by the management of the insolvent person for the purpose described in Note 1, using the probable and hypothetical assumptions set out in Notes 2-10.

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

Based on our review, nothing has come to our attention that causes us to believe that, in all material respects:

- (a) the hypothetical assumptions are not consistent with the purpose of the projection;
- (b) as at the date of this report, the probable assumptions developed by management are not suitably supported and consistent with the plans of the insolvent person or do not provide a reasonable basis for the projection, given the hypothetical assumptions; or
- (c) the projection does not reflect the probable and hypothetical assumptions.

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

The projection has been prepared solely for the purpose described in Note 1 and readers are cautioned that it may not be appropriate for other purposes.

Dated this 4th day of March, 2016.

**KSV KOFMAN INC.
TRUSTEE**

Per. Robert Kofman

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

Court File No. 31-CL-208438

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

Proceeding commenced at Toronto

**FIRST SUPPLEMENT TO THE THIRD REPORT OF
THE PROPOSAL TRUSTEE
MARCH 4, 2016**

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