



**Third Report of
KSV Kofman Inc. as
Court Appointed Receiver of
Danier Leather Inc.**

August 10, 2018

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COURT FILE NO.: CV16-11322-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF AN APPLICATION UNDER SECTION 101 OF THE *COURTS OF JUSTICE ACT*, R.S.O. 1990, C. C.43, AS AMENDED

AND IN THE MATTER OF THE RECEIVERSHIP OF DANIER LEATHER INC.

THIRD REPORT OF KSV KOFMAN INC.
AS COURT APPOINTED RECEIVER OF
DANIER LEATHER INC.

AUGUST 10, 2018

1.0 Introduction

1. On February 4, 2016, Danier Leather Inc. (the “Company”) filed a Notice of Intention to Make a Proposal (“NOI”) pursuant to Section 50.4(1) of the *Bankruptcy and Insolvency Act* R.S.C. 1985, c. B-3, as amended (“BIA”), and KSV Kofman Inc. (“KSV”) was appointed proposal trustee in the Company’s NOI proceedings (the “Proposal Trustee”).
2. In accordance with an order of the Ontario Superior Court of Justice (Commercial List) (“Court”) made on February 8, 2016 (“SISP Order”), the Company, with the assistance of its financial advisor, Consensus Advisory Services LLC and Consensus Securities LLC (the “Financial Advisor”), and the Proposal Trustee, carried out a sale and investor solicitation process (“SISP”).
3. As a result of the SISP, on March 1, 2016, the Company entered into a Court-approved transaction with a contractual joint venture comprised of Merchant Retail Solutions, ULC and Gordon Brothers Canada ULC (jointly, the “Agent”), resulting in the execution of an agency agreement (“Agency Agreement”) pursuant to which the Agent sold the Company’s inventory, furniture, fixtures and equipment in its then-remaining 76 store locations (the “Sale”).
4. On March 2, 2016, the Court granted the Company an extension to March 23, 2016 to file a proposal with the Official Receiver under Section 65(1) of the BIA.
5. On March 17, 2016, the Company’s Board of Directors passed a resolution, pursuant to which the Company made an assignment in bankruptcy on March 21, 2016 and KSV was appointed as trustee in bankruptcy of the Company’s bankrupt estate (the “Trustee”). The appointment of KSV as Trustee was affirmed at the First Meeting of Creditors, which was held on April 11, 2016.

6. In order to, *inter alia*, assist with the performance of the Agency Agreement, on March 21, 2016, the Court made an order (the "Receivership Order") appointing KSV as the receiver ("Receiver") of the Company's property, assets and undertaking pursuant to section 101 of the *Courts of Justice Act*, R.S.O. 1990, c. C.43, as amended. This report ("Report") is filed by KSV in its capacity as Receiver.

1.1 Purposes of this Report

1. The purposes of this Report are to:
 - a) provide background information about the Company and these insolvency proceedings;
 - b) provide an overview of the Receiver's activities since the commencement of the receivership proceedings;
 - c) recommend that the Receiver be discharged of its duties and obligations under the Receivership Order subject to filing a certificate with the Court confirming that all outstanding receivership matters have been completed (the "Discharge Certificate"); and
 - d) recommend that the Court issue an order:
 - i. approving the activities of the Receiver, as described in the Receiver's First Report dated April 27, 2016 (the "First Report", a copy of which is provided (without appendices) in Appendix "A"), the Receiver's Second Report dated June 27, 2016 (the "Second Report", a copy of which is provided (without appendices) in Appendix "B") and this Report (collectively, the "Reports");
 - ii. discharging the Receiver upon filing the Discharge Certificate; and
 - iii. releasing the Receiver, upon the Receiver's discharge, from any and all liability that KSV now has or may hereafter have by reason of, or in any way arising out of, the acts or omissions of KSV while acting as Receiver, save and except for its gross negligence or wilful misconduct.

1.2 Currency

1. All currency references in this Report are to Canadian dollars.

1.3 Restrictions

1. In preparing this Report, the Receiver has relied upon the Company's books and records and discussions with its representatives and advisors. The Receiver has not performed an audit or other verification of such information. The Receiver expresses no opinion or other form of assurance with respect to the financial information presented in this Report.

2.0 Background

1. The Company was founded in 1972. The Company was Canada's largest retailer of leather apparel and accessories.
2. The Company's subordinated voting shares were formerly listed on the Toronto Stock Exchange ("TSX"). On February 4, 2016, the Investment Industry Regulatory Organization of Canada issued a cease trade order in respect of the shares. On March 17, 2016, the Company's shares were delisted from the TSX.
3. The Company leased its Toronto-based head office ("Head Office"). The Head Office was also the Company's manufacturing, warehouse and distribution center. The Company also leased a separate distribution facility in Toronto.
4. The Company's merchandise was predominantly marketed under the "Danier" brand and, as at the date of the receivership, was being sold at 76 leased stores across Canada. All of the Company's leased premises have been vacated and all leases have been assigned or terminated.
5. As at the date immediately prior to the receivership, the Company had approximately 900 employees. As a result of the bankruptcy, all of the Company's employees were automatically terminated. Pursuant to the terms of the Receivership Order, the Receiver engaged the majority of the employees on a temporary and day-to-day basis to assist with the Sale and the wind-down of the Company's business. The Company's workforce was not unionized and the Company did not maintain a pension plan. All of the Company's former employees engaged by the Receiver have been terminated.

3.0 Realizations

1. Attached as Appendix "C" is a statement of receipts and disbursements for the period March 21, 2016 to August 3, 2018 (the "R&D"). The R&D only reflects the banking activity of the Receiver (and not the Trustee).
2. The Receiver has realized on all of the Company's assets, generating proceeds of approximately \$85.6 million, including proceeds from the Sale, the assignment of certain of the Company's leasehold interests and the sale of the Company's intellectual property. From the realizations, the Receiver paid, *inter alia*, amounts due to the Agent, the Company's operating expenses and the costs of realization, including professional costs. After payment of all the receivership expenses, the Receiver transferred approximately \$36.1 million to the Trustee's bank account. These funds were used to pay bankruptcy expenses and make distributions to creditors and shareholders.

4.0 Distributions

4.1 Distributions to Creditors

1. The Trustee conducted a claims process. A summary of the proven creditor claims, exclusive of interest, is as follows:

	(\$)
Preferred claims (landlords)	2,051,737
Ordinary claims – Employees	10,572,511
Ordinary claims – non-Employees	5,244,093
	<u>17,868,341</u>

2. All proven creditor claims have been paid in full by the Trustee, together with statutory interest of 5% per annum, as required under Section 143 of the BIA. The total amount of interest paid to creditors was \$1,065,612.

4.2 Distributions to Shareholders

1. Pursuant to an order of the Court dated March 1, 2018, the Trustee has made distributions totaling approximately \$15.2 million to the Company's shareholders (the "Shareholders") from the surplus funds in the Company's estate, after the payment of all proven creditor claims, inclusive of interest. The distributions to the Shareholders were by way of a reduction of stated capital of approximately \$11.2 million and the balance by way of taxable dividends.

4.3 Surplus Funds

1. As set out in the R&D, the funds on hand in the receivership bank account as at July 23, 2018 total approximately \$179,000. In addition to the funds in the Receiver's bank account, the balance in the Trustee's bank account totals approximately \$193,000.
2. Following payment of all receivership expenses, the balance of funds remaining in the Receiver's bank account will be transferred to the Trustee's estate bank account. All funds remaining in the Trustee's bank account net of actual and projected bankruptcy expenses will be distributed to the Shareholders prior to the Trustee's discharge.

5.0 Overview of Receiver's Activities

1. The Receiver's activities since the commencement of these proceedings have included, *inter alia*, the following:

General Activities

- corresponding with management of the Company, FAAN Advisors Group Inc., the Company's Chief Restructuring Officer, Davies Ward Phillips and Vineberg LLP ("Davies"), counsel to the Company, and Bennett Jones LLP ("Bennett Jones"), counsel to the Receiver, regarding all matters in the Company's insolvency proceedings;

- reviewing the Company's financial reporting;
- reviewing and commenting on Court materials in connection with the receivership application;
- attending at the Head Office to oversee operations;
- corresponding with the Company's insurance brokers to request that the Receiver be added as the loss payee and named insured on the Company's insurance policies;
- arranging at the commencement of the receivership for the back up of the Company's computer systems;
- preparing an occupancy agreement between the Trustee and the Receiver pursuant to which the Receiver occupied the Company's leased premises;
- preparing sales tax returns for the receivership period;
- corresponding extensively with various suppliers;
- attending calls with government agencies regarding the Company's accounts, including Ministry of Finance, Revenu Quebec, Workplace Health, Safety & Compensation Commission of Newfoundland and Labrador, Alberta Occupational Health and Safety, the Workers' Compensation Board of BC and multiple U.S. state tax departments;
- corresponding with utilities and other vendors to terminate services as the Company's stores were closed and working with the Company to reconcile and pay final amounts owing to each of these parties;
- arranging for the storage of the Company's books and records;
- arranging for benefit coverage for the Company's employees during the proceedings;
- corresponding with Canada Revenue Agency regarding payroll and excise tax matters;
- corresponding with the Company's creditors regarding the receivership proceedings;
- preparing the Notice and Statement of Receiver and five Interim Reports of the Receiver pursuant to Sections 245(1) and 246(2) of the BIA;
- maintaining the Service List;
- preparing the Reports;

Employees

- conducting several town hall meetings with employees at the outset of the proceedings and periodically thereafter;
- preparing a Key Employee Retention Plan (“KERP”) for a limited number of employees and drafting letters to eligible employees setting out the details of their KERP;
- reviewing multiple requests for employee payroll information from Service Canada in relation to its review of employment insurance claims filed by former employees of the Company and preparing responses to same;
- preparing and providing termination letters for employees as the stores were vacated by the Agent and corresponding with the Company’s Director of Human Resources and the Agent regarding same;

Banking

- corresponding frequently with Canadian Imperial Bank of Commerce, the Company’s bank, regarding the Company’s cash management system;
- corresponding with Scotiabank, Royal Bank of Canada, the Toronto Dominion Bank and Bank of Montreal regarding the Company’s retail bank accounts;
- dealing with cash management issues and closing retail bank accounts, as required;
- corresponding with the Company’s merchant payment vendor to advise of the receivership proceedings and to arrange to continue service;

Realizations

- corresponding with the Agent regarding the Agency Agreement, including the calculation and payment of the net minimum guarantee, inventory threshold levels and payments due from the Agent to the Company;
- working with the Agent to prepare the final inventory and payment reconciliation;
- reviewing offers from parties interested in purchasing the Company’s intellectual property;
- negotiating the sale of the Company’s intellectual property to Rehan Marketing;
- attending at Court to seek approval of the sale of intellectual property assets;
- selling other assets of the Company, including a vehicle and seat licenses for the Toronto Maple Leafs and Toronto Raptors season tickets;

- negotiating and executing assignment agreements for leases for certain store locations;
- attending at Court regarding a motion related to a lease assignment and the sale of certain assets related thereto;
- negotiating a liquidation services agreement with Infinity Asset Solutions Inc. (“Infinity”), the liquidator that purchased the furniture, fixtures and equipment located at the Head Office;
- corresponding with Infinity regarding the liquidation; and
- dealing generally with all receivership matters not specifically detailed herein.

6.0 Receiver’s Discharge

1. Prior to completing its administration, the Receiver intends to:
 - prepare and file the Receiver’s final report required under Section 246 of the BIA;
 - transfer the remaining funds in the Receiver’s bank account to the Trustee’s estate account so that the Trustee can make a final distribution to shareholders; and
 - deal with any sundry issues not specified above.
2. Once the Receiver has completed its activities, it intends to file the Discharge Certificate as its duties and responsibilities under the Receivership Order and other orders made in these proceedings will have been completed.

7.0 Conclusion and Recommendation

1. Based on the foregoing, the Receiver respectfully recommends that this Honourable Court make order granting the relief detailed in section 1.1(d) of this Report.

* * *

All of which is respectfully submitted,



**KSV KOFMAN INC.
SOLELY IN ITS CAPACITY AS COURT APPOINTED RECEIVER OF
DANIER LEATHER INC.
AND NOT IN ITS PERSONAL OR CORPORATE CAPACITY**

Appendix “A”



**First Report to Court of
KSV Kofman Inc. as
Court Appointed Receiver of
Danier Leather Inc.**

April 27, 2016

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COURT FILE NO.: CV16-11322-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF AN APPLICATION UNDER SECTION 101 OF THE *COURTS OF JUSTICE ACT*, R.S.O. 1990, C. C.43, AS AMENDED

AND IN THE MATTER OF THE RECEIVERSHIP 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

FIRST REPORT OF KSV KOFMAN INC.
AS COURT APPOINTED RECEIVER OF
DANIER LEATHER INC.

APRIL 27, 2016

1.0 Introduction

1. On February 4, 2016, Danier Leather Inc. (the “Company”) filed a Notice of Intention to Make a Proposal (“NOI”) pursuant to Section 50.4(1) of the *Bankruptcy and Insolvency Act* R.S.C. 1985, c. B-3, as amended, and KSV Kofman Inc. (“KSV”) was appointed proposal trustee in the Company’s NOI proceedings (the “Proposal Trustee”).
2. In accordance with an Order of the Ontario Superior Court of Justice (Commercial List) (“Court”) made on February 8, 2016 (“SISP Order”), the Company, with the assistance of its financial advisor, Consensus Advisory Services LLC and Consensus Securities LLC, and the Proposal Trustee, carried out a sale and investor solicitation process (“SISP”).
3. As a result of the SISP, the Company entered into an Agency Agreement (“Agency Agreement”) with a contractual joint venture comprised of Merchant Retail Solutions, ULC and Gordon Brothers Canada ULC (jointly, the “Agent”) to liquidate the inventory, furniture, fixtures and equipment in 76 of its store locations.

4. As described in some additional detail below, the SISP resulted in a number of offers for discrete assets of the Company (including certain leases). Other than the Agency Agreement, no additional sale transactions were completed during the NOI proceedings through the SISP.
5. On March 21, 2016, the Company made an assignment in bankruptcy and KSV was appointed as Trustee in Bankruptcy of the Company's bankrupt estate ("Trustee").
6. Pursuant to an Order of the Court made on March 21, 2016 ("Receivership Order"), KSV became Receiver (the "Receiver") of the Company's properties, assets and undertakings pursuant to Section 101 of the *Courts of Justice Act*, R.S.O. 190, c. C.43, as amended. A copy of the Receivership Order is attached as Appendix "A".
7. This report is filed by KSV in its capacity as Receiver.

1.1 Purposes of this Report

1. The purposes of this report ("Report") are to:
 - a) provide background information about the Company;
 - b) summarize a transaction (the "Transaction") contemplated by an Offer to Purchaser (the "Offer to Purchase") between the Company and Michael Kors (Canada) Holdings Ltd. (the "Assignee") dated February 22, 2016 (as amended, extended, supplemented, restated and/or amended and restated from time to time, including by the Agreement Confirming Purchase Agreement between the Receiver and the Assignee dated April 27, 2016 (the "Confirming Agreement"), the "Assignment Agreement") with respect to the Company's Halton Hills lease and certain assets related thereto ("Purchased Assets"). The Offer to Purchase and the Confirming Agreement are attached as Appendix "B" and "C", respectively; and
 - c) recommend that the Court issue an Order, *inter alia*:
 - i. Approving the Transaction;
 - ii. Ratifying the Receiver's execution of the Assignment Agreement and authorizing the Receiver to execute all other ancillary documents and agreements required to complete the Transaction; and
 - iii. Vesting in the Assignee the Receiver's and the Company's right, title and interest in and to the Purchased Assets free and clear of all liens, charges and security interests and other encumbrances.

1.2 Currency

1. All currency references in this Report are to Canadian dollars.

1.3 Restrictions

1. In preparing this Report, the Receiver has relied upon the Company's books and records and discussions with its representatives and advisors. The Receiver has not performed an audit or other verification of such information.

2.0 Background

1. The Company was founded in 1972. The Company was Canada's largest retailer of leather apparel and accessories. The Company's subordinated voting shares were listed on the Toronto Stock Exchange ("TSX") and, until February 4, 2016, traded under the symbol "DL". On February 4, 2016, the Investment Industry Regulatory Organization of Canada issued a cease trade order in respect of the shares. On March 17, 2016, the Company's shares were delisted from the TSX.
2. The Company leases its Toronto based head office (the "St. Clair Facility"). The St. Clair Facility also served as the Company's manufacturing, warehouse and distribution center. The Company also leases a separate distribution facility in Toronto.
3. The Company's merchandise is predominantly marketed under the "Danier" brand name. As at the date of this Report, the Company's merchandise continues to be sold by the Agent at 40 leased stores across Canada. Since the date of receivership, the Agent has vacated 36 stores - 35 of the store leases have been disclaimed by the Trustee, as authorized by the estate inspectors, and the Halton Hills' premises is vacant pending the closing of the Transaction. The last day of business at the Halton Hills' premises was April 25, 2016.
4. As a result of the bankruptcy, all of the Company's employees were terminated on the date of bankruptcy. Pursuant to the terms of the Receivership Order, the Receiver engaged substantially all of the Company's former employees on a temporary and day-to-day basis to assist with the wind-down of the Company's business. The Company's workforce is not unionized and the Company does not maintain a pension plan.
5. Additional information about the Company's insolvency proceedings is available on the Trustee's website at: <http://www.ksvadvisory.com/insolvency-cases-2/danier-leather-inc/>.

3.0 Assignment Agreement

1. As part of the SISP, the Company's real property leases were marketed for sale. As detailed in the Proposal Trustee's Third Report to Court, a copy of which is attached as Appendix "D" (without appendices), three offers were received for the lease to the Halton Hills premises. A summary of the offers will be provided to the Court upon request.

2. The Assignee's offer represented the best and highest offer made for the Halton Hills' lease.
3. On February 22, 2016, the Company entered into the Offer to Purchase with the Assignee for the Purchased Assets. The Offer to Purchase was acknowledged and agreed to by the Proposal Trustee on March 3, 2016. A copy of the letter acknowledging the Offer to Purchase is attached as Appendix "E". As a result of the bankruptcy and receivership that have occurred since the date of the Offer to Purchase, the Assignee and the Receiver entered into the Confirming Agreement to, *inter alia*, confirm that the Receiver would be bound by the Offer to Purchase.
4. The key terms and conditions of the Assignment Agreement are as follows¹:
 - a) Purchase Price: \$250,000
 - b) Purchased Assets: The right, title and interest of the Receiver and the Company in and to the Halton Hills lease, including all renewal options relating thereto and in the leasehold improvements, trade fixtures and equipment situated in the Halton Hills premises on the Closing Date and all plans and drawings relating thereto.
 - c) Conditions:
 - i. The Halton Hills lease shall not have been modified or disclaimed;
 - ii. No legal proceedings shall be pending or threatened by any person to enjoin, restrict or prohibit the sale of the Purchased Assets;
 - iii. the Court shall have issued the Approval and Vesting Order; and
 - iv. The Landlord² shall have consented in writing to the assignment of the Halton Hills' lease in favour of the Assignee.
 - d) Closing Date: The later of:
 - i. the third Business Day following the issuance by the Court of the Approval and Vesting Order; and
 - ii. five Business Days following notice to the Assignee that the liquidation of inventory at the Halton Hills premises is complete.
5. The only remaining condition is the Court's granting of the proposed Approval and Vesting Order. The Landlord consent was received on April 22, 2016.

¹ Capitalized terms not otherwise defined have the meaning provided to them in the Assignment Agreement.

² The landlord for the Halton Hills' premises is Halton Hills Shopping Centre Partnership.

3.1 Recommendation

1. For the following reasons, the Receiver recommends that the Court issue an order approving the Transaction and vesting clean title to the Purchased Assets in the Assignee:
 - a) The SISP, including the marketing of the Company's leased stores, was conducted in accordance with the SISP Order;
 - b) The Offer to Purchase was the highest and best offer received pursuant to the SISP;
 - c) The offer is unconditional but for the issuance of the Approval and Vesting Order; and
 - d) As a result of the Transaction, claims against the estate will be reduced.

4.0 Conclusion and Recommendation

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

* * *

All of which is respectfully submitted,



**KSV KOFMAN INC.
IN ITS CAPACITY AS COURT APPOINTED RECEIVER OF
DANIER LEATHER INC.
AND NOT IN ITS PERSONAL CAPACITY**

Appendix “B”



**Second Report to Court of
KSV Kofman Inc. as
Court Appointed Receiver of
Danier Leather Inc.**

June 27, 2016

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COURT FILE NO.: CV16-11322-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF AN APPLICATION UNDER SECTION 101 OF THE *COURTS OF JUSTICE ACT*, R.S.O. 1990, C. C.43, AS AMENDED

AND IN THE MATTER OF THE RECEIVERSHIP OF DANIER LEATHER INC.

SECOND REPORT OF KSV KOFMAN INC.
AS COURT APPOINTED RECEIVER OF
DANIER LEATHER INC.

JUNE 27, 2016

1.0 Introduction

1. On February 4, 2016, Danier Leather Inc. (the “Company”) filed a Notice of Intention to Make a Proposal (“NOI”) pursuant to Section 50.4(1) of the *Bankruptcy and Insolvency Act* R.S.C. 1985, c. B-3, as amended, and KSV Kofman Inc. (“KSV”) was appointed proposal trustee in the Company’s NOI proceedings (the “Proposal Trustee”).
2. In accordance with an Order of the Ontario Superior Court of Justice (Commercial List) (“Court”) made on February 8, 2016 (“SISP Order”), the Company, with the assistance of its financial advisor, Consensus Advisory Services LLC and Consensus Securities LLC (the “Financial Advisor”), and the Proposal Trustee, carried out a sale and investor solicitation process (“SISP”).
3. Pursuant to an Order of the Court made on March 21, 2016 (“Receivership Order”), KSV was appointed the receiver (“Receiver”) of the Company’s properties, assets and undertakings pursuant to section 101 of the *Courts of Justice Act*, R.S.O. 1990, c. C.43, as amended. A copy of the Receivership Order is attached as Appendix “A”. Also on March 21, 2016, the Company made an assignment in bankruptcy and KSV was appointed as trustee in bankruptcy of the Company’s bankrupt estate.

4. As a result of the SISP, the Company entered into a Court-approved transaction with a contractual joint venture comprised of Merchant Retail Solutions, ULC and Gordon Brothers Canada ULC (jointly, the “Agent”), resulting in the execution of an agency agreement (“Agency Agreement”) pursuant to which the Agent sold the Company’s inventory, furniture, fixtures and equipment in 76 of its store locations (the “Sale”). The Sale was completed on May 9, 2016.
5. Offers for the Company’s intellectual property were sought during the SISP; however no acceptable offers were received during the SISP for the intellectual property. Efforts to find a buyer for the intellectual property continued following execution of the Agency Agreement, resulting in the transaction discussed in this Report, as more fully detailed below.
6. This report is filed by KSV in its capacity as Receiver.

1.1 Purposes of this Report

1. The purposes of this report (“Report”) are to:
 - a) provide background information about the Company;
 - b) summarize a transaction (“Transaction”) between the Receiver and Rehan Marketing (the “Purchaser”) whereby the Purchaser will acquire the Receiver’s and the Company’s right, title and interest, if any, in and to the Company’s intellectual property and certain related assets (the “Purchased Assets”) pursuant to the terms of the Asset Conveyance and the Supplemental Asset Conveyance, attached as Appendices “B” and “C”, respectively; and
 - c) recommend that the Court issue an Order, *inter alia*:
 - i. approving the Transaction;
 - ii. approving the Receiver’s execution of the Asset Conveyance and the Supplemental Asset Conveyance and authorizing the Receiver to execute all other ancillary documents and agreements required to complete the Transaction;
 - iii. vesting in the Purchaser the Receiver’s and the Company’s right, title and interest in and to the Purchased Assets free and clear of all liens, charges and security interests and other encumbrances; and
 - iv. authorizing the Receiver to provide the Purchaser with personal information for the purpose of engaging certain of the Company’s former employees (“Transferred Information”).

1.2 Currency

1. All currency references in this Report are to Canadian dollars.

1.3 Restrictions

1. In preparing this Report, the Receiver has relied upon the Company's books and records and discussions with its representatives and advisors. The Receiver has not performed an audit or other verification of such information. The Receiver expresses no opinion or other form of assurance with respect to the financial information presented in this Report.

2.0 Background

1. The Company was founded in 1972. The Company was Canada's largest retailer of leather apparel and accessories. The Company's subordinated voting shares were listed on the Toronto Stock Exchange ("TSX") and, until February 4, 2016, traded under the symbol "DL". On February 4, 2016, the Investment Industry Regulatory Organization of Canada issued a cease trade order in respect of the shares. On March 17, 2016, the Company's shares were delisted from the TSX.
2. The Company leased its Toronto based head office ("St. Clair Facility"). The St. Clair Facility also served as the Company's manufacturing, warehouse and distribution center. The Company also leased a separate distribution facility in Toronto.
3. The Company's merchandise was predominantly marketed under the "Danier" brand name and as the date of the receivership was being sold at 76 leased stores across Canada.
4. As at the date of this Report, all of the Company's leased premises have been vacated and all leases have been assigned, terminated or disclaimed. Five of the Company's former employees continue to be retained by the Receiver on an hourly basis to assist with the completion of these proceedings.
5. Additional information about the Company's insolvency proceedings can be found on the Receiver's website at: <http://www.ksvadvisory.com/insolvency-cases-2/danier-leather-inc/>.

3.0 Transaction

1. Since the completion of the SISP, efforts were made by the Company, the Financial Advisor and the Receiver to market the Company's remaining assets for sale, including the Purchased Assets. Representatives of each of these firms had discussions with several parties who expressed an interest in these assets, including many who performed diligence, including meeting with the Receiver and the Company's management team and reviewing information in an electronic data room¹.
2. As detailed in the Proposal Trustee's Third Report to Court (attached as Appendix "D", without appendices), two offers were received for the Purchased Assets during the SISP as part of combined offers for other assets of the Company. Since the completion of the SISP, three additional offers were received for the Purchased Assets by the Receiver. The Receiver also had discussions with another party who never submitted an offer. Details regarding these discussions, as well as a summary of all offers received, are provided in Confidential Appendix "1".

3.1 Asset Conveyance

1. On May 20, 2016, the Receiver and the Purchaser executed the Asset Conveyance. The key terms and conditions of the Asset Conveyance are as follows²:
 - a) Purchase Price: \$600,000, plus HST.
 - b) Deposit: A non-refundable deposit of \$60,000³ to be applied against the Purchase Price.
 - c) IP Assets: all foreign and domestic intellectual property owned by the Company, whether or not registered, including:
 - i. all trademarks, trade names, copyrights, patents, industrial designs, business names, domain names and other registrable intellectual property, all continuations and divisionals thereof, all applications therefor, and all goodwill associated therewith;
 - ii. the Company's e-commerce website; and
 - iii. all inventions, formula, processes, research data, technical expertise, trade secrets, and know how including customer lists, supplier lists customer names and emails, employee lists and information, and store training materials.
 - d) Transferred Information: personal information.

¹ Access to the data room was only provided to interested parties that executed a confidentiality agreement ("CA").

² Capitalized terms not otherwise defined have the meaning provided to them in the Asset Conveyance.

³ Received and deposited by the Receiver on May 20, 2016.

3.2 Supplemental Asset Conveyance

1. The Supplemental Assets (as defined in the Supplemental Asset Conveyance) include Danier designs and branded products, as well as all samples for the fall 2016 line, all paper patterns for the fall 2016 line, supplier fabrics, mannequins and marketing materials. The Supplemental Assets are integral to a timely relaunch of the “Danier” brand by the Purchaser. The consideration for the Supplemental Assets is nominal as these assets were intended to be part of the Asset Conveyance.
2. The Receiver believes that the Supplemental Assets are not saleable to any party other than a purchaser of the Purchased Assets.

3.3 Recommendation

1. The Receiver recommends that the Court issue an Approval and Vesting Order for the following reasons:
 - a) The SISP, including the marketing of the Purchased Assets, was conducted in accordance with the SISP Order; however, that process failed to identify any acceptable offers for the intellectual property;
 - b) The Purchased Assets continued to be marketed by the Receiver and the Financial Advisor following the completion of the SISP and interested parties that executed a CA were provided the opportunity to perform diligence, including meeting with the Company’s former management team and reviewing information in a data room;
 - c) The Purchaser’s offer represents the highest and best offer received for the Purchased Assets;
 - d) Further time marketing the Purchased Assets is unlikely to result in a superior transaction. There are no active discussions with any other party at this time in respect of an intellectual property transaction;
 - e) There are no other assets of the Company available for sale – completion of this transaction will complete the realization process in these proceedings; and
 - f) The Transaction is only conditional on the issuance of the Approval and Vesting Order.

3.4 Transferred Information

1. The Purchaser has advised that it wishes to hire certain former Company employees. Accordingly, the Asset Conveyance includes the Transferred Information.
2. The Receiver recommends that it be authorized to provide the Transferred Information to the Purchaser as it is related to and is necessary for the Purchaser to restart the business.

4.0 Conclusion and Recommendation

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

* * *

All of which is respectfully submitted,

A handwritten signature in black ink that reads "KSV Kofman Inc". The letters are cursive and fluid.

**KSV KOFMAN INC.
SOLELY IN ITS CAPACITY AS COURT APPOINTED RECEIVER OF
DANIER LEATHER INC.
AND NOT IN ITS PERSONAL OR CORPORATE CAPACITY**

Appendix “C”

Danier Leather Inc. (the "Company")

Interim Statement of Receipts and Disbursements

For the Period March 21, 2016 to July 23, 2018

(CAD; unaudited)

Description	Notes	Amount
Receipts:		
Transfers from Company's operating accounts		34,342,310
Proceeds from liquidation	1	47,151,731
Sales tax refunds		1,684,283
IP sale		1,098,671
Lease assignments	2	550,085
Miscellaneous refunds	3	391,887
Other		416,110
Total receipts		<u>85,635,077</u>
Disbursements:		
Transfers to Trustee's estate account		36,118,608
Payments to Agent	1	29,640,059
HST/GST paid		6,991,607
Wages, source deductions and benefits		6,186,683
Rent and occupancy		3,054,004
Sundry expenses	4	1,888,512
Professional fees		
Receiver		813,801
Legal		434,686
Chief Restructuring Officer		243,093
Tax Advisor		85,184
Total disbursements		<u>85,456,238</u>
Ending Bank balance		<u><u>178,840</u></u>

General Notes

This statement has been prepared on a cash basis and does not include accruals.

Notes

1. The Company entered into a Court-approved transaction with a contractual joint venture comprised of Merchant Retail Solutions, ULC and Gordon Brothers Canada ULC (jointly, the "Agent"), resulting in the execution of an agency agreement pursuant to which the Agent sold the Company's inventory, furniture, fixtures and equipment in 76 of the Company's stores.
2. Represents proceeds from the assignment of the Company's Yorkdale Shopping Centre, Halton Hills Shopping Centre and Avalon Mall leases.
3. Miscellaneous refunds are primarily comprised of security deposits returned by vendors.
4. Sundry expenses includes: credit card fees, IT services, telecommunications, transportation, repairs and maintenance, security, and other items.