

This document is important and requires your immediate attention. If you are in doubt as to how to deal with it, you should consult your investment dealer, stock broker, bank manager, lawyer, accountant or other professional advisor. The Offer has not been approved or disapproved by any securities regulatory authority nor has any securities regulatory authority passed upon the fairness or merits of the Offer or upon the adequacy of the information contained in this document. Any representation to the contrary is unlawful.

This document does not constitute an offer or a solicitation to any person in any jurisdiction in which such offer or solicitation is unlawful. The Offer is not being made to, nor will deposits be accepted from or on behalf of, holders of Shares in any jurisdiction in which the making or acceptance of the Offer would not be in compliance with the laws of such jurisdiction. However, Danier Leather Inc. may, in its sole discretion, take such action as it may deem necessary to extend the Offer to such shareholders in such jurisdiction.

DANIER

DANIER LEATHER INC.

**OFFER TO PURCHASE FOR CASH UP TO CDN\$10 MILLION IN VALUE
OF ITS SUBORDINATE VOTING SHARES
AT A PURCHASE PRICE OF
NOT LESS THAN CDN\$12.55 AND NOT MORE THAN CDN\$13.30
PER SUBORDINATE VOTING SHARE**

Danier Leather Inc. ("**Danier**" or the "**Corporation**") hereby offers (the "**Offer**") to purchase for cancellation from holders ("**Shareholders**") of subordinate voting shares of Danier (the "**Shares**") for cash up to Cdn\$10 million in value of its Shares, pursuant to (i) auction tenders at prices specified by the depositing Shareholders of not less than Cdn\$12.55 and not more than Cdn\$13.30 per Share ("**Auction Tenders**"), in increments of Cdn\$0.15 per Share, as specified by such Shareholder, or (ii) purchase price tenders without specifying a price ("**Purchase Price Tenders**"), in either case, upon the terms and subject to the conditions set forth in this offer to purchase (the "**Offer to Purchase**") and circular (the "**Circular**" and, together with the Offer to Purchase, collectively, the "**Offer and Circular**") and in the accompanying letter of transmittal (the "**Letter of Transmittal**") and notice of guaranteed delivery (the "**Notice of Guaranteed Delivery**"). Shareholders who wish to deposit Shares without specifying a price at which such Shares may be purchased by the Corporation should make a Purchase Price Tender. Under a Purchase Price Tender, Shares will be purchased at the purchase price determined as provided herein. Shareholders who validly deposit Shares without specifying whether they are making an Auction Tender or a Purchase Price Tender, or who specify that they are making an Auction Tender but fail to specify a price for such Auction Tender, will be deemed to have made a Purchase Price Tender.

The Offer expires at 7:00 p.m. (Toronto time) (the "Expiry Time") on November 28, 2012, or at such later time and date to which the Offer may be extended by Danier, unless varied or withdrawn (the "Expiry Date").

The Offer is not conditional upon any minimum number of Shares being deposited. However, the Offer is subject to certain conditions that are customary for transactions of this nature. Danier reserves the right to withdraw the Offer and not take up and pay for any Shares deposited under the Offer unless the conditions described in Section 6 of the Offer to Purchase entitled "Conditions of the Offer" are satisfied or waived.

Promptly after the Expiry Date, Danier will determine a single price per Share (the "**Purchase Price**"), which will be not less than Cdn\$12.55 and not more than Cdn\$13.30, that it will pay for each Share deposited pursuant to the Offer, taking into account the number of Shares deposited pursuant to Auction Tenders and Purchase Price Tenders and the prices specified by Shareholders making Auction Tenders. Shares deposited pursuant to Purchase Price Tenders will be deemed, for purposes of determining the Purchase Price, to have been deposited at a price of Cdn\$12.55 per Share (the minimum Purchase Price under the Offer). The Purchase Price will be the lowest price between Cdn\$12.55 and Cdn\$13.30 at which Shares have been validly deposited, or have been deemed to be deposited, that will enable the Corporation to purchase the maximum number of deposited Shares having an

(continued on the inside cover)

aggregate purchase price not exceeding Cdn\$10 million. Shares deposited by Shareholders pursuant to Auction Tenders will not be purchased by the Corporation pursuant to the Offer if the price specified by Shareholders with respect to such Shares is greater than the Purchase Price.

Each Shareholder who has validly deposited Shares pursuant to an Auction Tender at or below the Purchase Price or pursuant to a Purchase Price Tender and who has not validly withdrawn such Shares will receive the Purchase Price, payable in cash (subject to applicable withholding taxes, if any), for all Shares purchased upon the terms and subject to the conditions of the Offer, including the provisions relating to pro-ration described herein. The Corporation will first accept for purchase Shares validly deposited by any Shareholder who beneficially holds, as of the close of business on the Expiry Date, fewer than 100 Shares ("**Odd Lots**") and who deposits all such Shares pursuant to an Auction Tender at or below the Purchase Price or pursuant to a Purchase Price Tender and who checks, in either case, Box C captioned "Odd Lots" in the accompanying Letter of Transmittal and, if applicable, the Notice of Guaranteed Delivery.

Shareholders depositing Shares pursuant to Auction Tenders at Cdn\$12.55 per Share (the minimum purchase price under the Offer) and Shareholders depositing Shares pursuant to Purchase Price Tenders can reasonably expect to have such Shares purchased at the Purchase Price if any Shares are purchased under the Offer (subject to the pro-ration provisions and the preferential acceptance of Odd Lots described herein).

If more Shares are validly deposited for purchase at the Purchase Price than can be purchased for Cdn\$10 million, the deposited Shares will be purchased on a *pro rata* basis according to the number of Shares validly deposited, or deemed to be deposited, by Shareholders pursuant to the Offer, except that deposits by holders of Odd Lots will not be subject to pro-ration. See Section 3 of the Offer to Purchase entitled "Number of Shares, Odd Lots and Pro-Ration".

Danier will return all Shares not purchased under the Offer, including Shares deposited pursuant to Auction Tenders at prices greater than the Purchase Price and Shares not purchased because of pro-ration, promptly after the Expiry Date.

The Shares are listed and posted for trading on the Toronto Stock Exchange ("**TSX**") under the symbol "DL". On October 22, 2012, the last trading day immediately prior to the announcement of Danier's intention to make the Offer, the closing price per Share on the TSX was Cdn\$11.29. **The maximum Purchase Price under the Offer represents a premium of approximately 19% over the volume weighted average trading price of the Shares on the TSX of Cdn\$11.15 for the last 30 trading days preceding the date of Danier's announcement.**

The Board of Directors of Danier, on recommendation of a Special Committee of independent directors, has authorized and approved the Offer. None of the Corporation, its Board of Directors, the Special Committee, Computershare Investor Services Inc., the Depository for the Offer, or GMP Securities L.P., the Dealer Manager for the Offer, makes any recommendation to Shareholders as to whether to deposit or refrain from depositing any or all of such Shareholder's Shares to the Offer. Shareholders are strongly urged to review and evaluate carefully all information in the Offer and Circular, to consult their own financial, tax and legal advisors, and to make their own decisions as to whether to deposit Shares to the Offer and, if so, how many Shares to deposit and at what price or prices. Deloitte & Touche LLP ("**Deloitte**" or the "**Valuator**") was engaged by the Special Committee as the independent valuator to prepare a formal valuation of the Shares (the "**Valuation**"), as prescribed under Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions*. A copy of Deloitte's Valuation is attached to this Offer and Circular at Schedule "A". The Valuation contains Deloitte's opinion that, based on the scope of its review and subject to the assumptions, restrictions and limitations provided therein, as of October 23, 2012, the fair market value per Share falls within the range of Cdn\$12.55 to Cdn\$13.30. The minimum and maximum Offer prices correspond with the range of values as determined by Deloitte. Danier is making the Offer to provide a liquidity opportunity for Shareholders and because the Special Committee, the Board of Directors and senior management of Danier believe that the Shares have been trading in volumes that do not provide reasonable liquidity for Shareholders and the Offer represents an appropriate use of a portion of Danier's cash on hand. Future values and liquidity of the Shares cannot be assured and are subject to risks. The intention of the directors and officers of the Corporation to deposit any Shares held by them pursuant to the Offer is discussed in Section 8 of the Circular entitled "Ownership of Danier Securities; Transactions in Danier Securities – Acceptance of the Offer".

Shareholders should carefully consider the income tax consequences of accepting the Offer and depositing Shares to the Offer. See Section 10 of the Circular entitled "Certain Canadian Federal Income Tax Considerations".

No person has been authorized to make any recommendation on behalf of Danier as to whether Shareholders should deposit or refrain from depositing any or all Shares pursuant to the Offer. No person has been authorized to give any information or to make any representations in connection with the Offer other than as set forth in the Offer to Purchase or the accompanying Circular, Letter of Transmittal and Notice of Guaranteed Delivery. If given or made, any such recommendation or any such information or representation must not be relied upon as having been authorized by Danier, its Board of Directors, the Special Committee, the Depository or the Dealer Manager.

If permitted under applicable laws or pursuant to exemptive relief granted by the applicable securities regulatory authorities, the Corporation may acquire or offer to acquire securities of Danier otherwise than pursuant to the Offer, such as in the normal course on a published market or by way of private agreements.

Shareholders who wish to deposit all or any portion of their Shares pursuant to the Offer must comply in all respects with the delivery procedures described herein. See Section 4 of the Offer to Purchase entitled "Procedure for Depositing Shares" and the Letter of Transmittal and Notice of Guaranteed Delivery accompanying this Offer and Circular for further details.

Any questions or requests for assistance may be directed to the Depository or the Dealer Manager at the addresses and telephone and facsimile numbers set forth on the back cover page of this Offer and Circular.

The Dealer Manager for this Offer is:



GMP Securities L.P.

145 King Street West
Suite 300
Toronto, Ontario
M5H 1J8

Telephone: 416-943-6130
Fax: 416-943-6134
Email: ecm@gmpsecurities.com

The Depository for this Offer is:



Computershare Investor Services Inc.

100 University Avenue
9th Floor
Toronto, Ontario
M5J 2Y1

Toll Free: 1-800-564-6253
Fax: 905-771-4082
E-mail: corporateactions@computershare.com

October 23, 2012

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CURRENCY

Except where otherwise indicated, all dollar amounts set forth in the Offer and Circular are expressed in Canadian dollars and all references to "\$", "Cdn\$" and "dollars" shall mean Canadian dollars.

NOTICE TO HOLDERS OF OPTIONS

The Offer is made only for Shares and is not made for any options to acquire Shares (the "**Options**") or any other securities of Danier that are convertible into or exchangeable or exercisable for Shares. Any holder of such Options or other securities convertible into or exchangeable or exercisable for Shares who wishes to accept the Offer must, to the extent permitted by the terms of the security and applicable laws, exercise the Option or other securities convertible into or exchangeable or exercisable for Shares in order to obtain certificates representing Shares and deposit those Shares in accordance with the terms and conditions of the Offer. Any such conversion, exchange or exercise must be completed sufficiently in advance of the Expiry Time to ensure that the holder of such Options or other securities will have the Shares issued and, if applicable, will have received the certificate(s) representing the Shares, on such exercise available for deposit at or prior to the Expiry Time, or in sufficient time to comply with the procedures referred to below in Section 4 of the Offer to Purchase entitled "Procedure for Depositing Shares – Procedure for Guaranteed Delivery". Any such conversion, exercise or exchange will be irrevocable, including where the Shares tendered are subject to pro-ration or otherwise are not taken up.

Holders of Options or other securities that are convertible into or exchangeable or exercisable for Shares that convert, exchange or exercise such Options or other securities and then tender the Shares received on such conversion, exchange or exercise, as applicable, pursuant to the Offer could suffer adverse tax consequences. The tax consequences of the conversion, exchange or exercise of such Options or other securities are not described in this Offer and Circular and holders of such Options or other securities are urged to consult their own financial, tax and legal advisors as to the application of Canadian and U.S. income tax laws to their particular circumstances.

INFORMATION FOR UNITED STATES SHAREHOLDERS

This Offer is made by Danier, a Canadian issuer, for its own securities, and this Offer to Purchase and accompanying Circular has been prepared by Danier in accordance with the disclosure requirements of applicable Canadian law. Shareholders in the United States should be aware that these disclosure requirements may be different from those of the United States or other jurisdictions. Financial statements of Danier have been prepared in accordance with International Financial Reporting Standards and are subject to Canadian auditing and auditor independence standards and, therefore, they may not be comparable to financial statements of United States companies.

The enforcement by Shareholders of civil liabilities under the United States federal securities laws may be adversely affected by the fact that Danier is a corporation organized under the laws of the Province of Ontario, Canada, that a majority of its directors and officers are residents of Canada, that certain of the experts named in the Offer and Circular are residents of Canada, and that substantially all of Danier's assets are located outside of the United States. Shareholders in the United States may not be able to sue Danier or its directors or officers in a foreign court for violations of United States securities laws. It may be difficult to compel such parties to subject themselves to the jurisdiction of a court in the United States or to enforce any judgment obtained from a court of the United States.

Shareholders should be aware that acceptance of the Offer and disposition of the Shares as described herein may have tax consequences both in the United States and in Canada. United States income tax consequences of Shareholders are not described herein and Shareholders are urged to consult their tax and legal advisors as to the application of U.S. federal income tax laws to their particular circumstances, as well as to any state, local or foreign income or other tax consequences of a disposition of Shares pursuant to the Offer. Shareholders are urged to review Section 10 of the Circular entitled "Certain Canadian Federal Income Tax Considerations" for certain details concerning the Canadian federal income tax consequences applicable to acceptance of the Offer and a disposition of the Shares as described herein.

FORWARD-LOOKING INFORMATION

This Offer to Purchase and accompanying Circular, including, in particular, the statements and information contained in the Offer to Purchase under the Sections entitled "The Offer", "Purchase Price", "Number of Shares, Odd Lots and Pro-Ration", "Acceptance for Payment and Payment for Shares" and "Extension and Variation of the Offer" and in the Circular under the Sections entitled "Purpose and Effect of the Offer", "Ownership of Danier Securities; Transactions in Danier Securities – Acceptance of the Offer", "Ownership of Danier Securities; Transactions in Danier Securities – Effect of the Offer on Voting Interests", "Material Changes in the Affairs of Danier and Other Material Facts", "Certain Canadian Federal Income Tax Considerations", "Certain Legal Matters; Regulatory Approvals" and "Fees and Expenses", may contain statements that, to the extent they are not statements of historical fact, constitute forward-looking information and forward-looking statements which reflect the current view of Danier with respect to the Corporation's objectives, plans, goals, strategies, future growth, results of operations, financial and operating performance and business prospects and opportunities. Wherever used, the words "may", "will", "anticipate", "intend", "estimate", "expect", "plan", "believe" and similar expressions identify forward-looking statements and forward-looking information. Forward-looking statements and forward-looking information should not be read as guarantees of future events, performance or results, and will not necessarily be accurate indications of whether, or the times at which, such events, performance or results will be achieved. All of the statements and information in this Offer to Purchase and accompanying Circular containing forward-looking statements or forward-looking information are qualified by these cautionary statements.

Forward-looking statements and forward-looking information are based on information available at the time they are made, underlying estimates and assumptions made by management and management's good faith belief with respect to future events, performance and results, and are subject to inherent risks and uncertainties surrounding future expectations generally. Such risks and uncertainties include, but are not limited to, general economic conditions, consumer confidence, consumer debt levels and consumer spending, including a real or perceived slowdown in the general economy which can result in a reduction in consumer spending and can affect demand for the Corporation's products, risks associated with foreign supply, sourcing and manufacturing, including increasing leather prices and increasing constraints on foreign vendors' capacity, fashion and apparel and leather industry risks that can affect demand for the Corporation's products and inventory mark-downs, leather availability and prices, increased inflation and interest rates, unseasonably hot weather or severe or unusual weather, seasonality and fluctuations of quarterly results, foreign currency and interest rate fluctuations which can result in increased costs, competition including new competitors and expansion of current competitors, changes in consumer shopping patterns and demand, the ability of the Corporation to obtain new locations or renew or relocate existing locations on favourable lease terms or at all, events that impact the use of the Corporation's head office and distribution centre or equipment, the ability of the Corporation to attract and retain key executives and key employees, the ability of vendors to maintain, support and upgrade management information systems, performance of third party service providers and investees, inability to renew or access or obtain replacement credit facilities, higher utility and fuel prices which can result in increased costs, disruptions in the credit markets, changes or disruptions in the securities markets or the trading price or liquidity of the Corporation's Shares, the inability to complete the Offer within the timeline anticipated or at all, the satisfaction or waiver of the conditions to the Offer, the Offer not having the effects or benefits currently anticipated, the extent to which holders of Shares determine to tender their Shares to the Offer and the price or prices at which such Shares are tendered, the anticipated benefits of the Offer, the ability to successfully implement the Corporation's business strategy, financial, capital expenditure and operating budgets and activities, the ability to realize any anticipated cost savings, risks associated with international expansion (or lack thereof) and licensing and distributorship operations, potential legal proceedings, changes to the regulatory and economic environment in which the Corporation operates now and in the future, including changes in accounting policies and practices or pronouncements introduced by regulatory authorities, changes in the Corporation's tax liabilities, either through changes in tax laws or future assessments, decreases in sales from existing stores or any material disruption to the Corporation's operations, and war and acts of terrorism, among other things.

Danier cautions readers that this list of factors is not exhaustive and that should certain risks or uncertainties materialize, or should underlying estimates or assumptions prove incorrect, actual events, performance and results may vary significantly from those expected. There can be no assurance that the actual results, performance, events or activities anticipated by the Corporation will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Corporation. Potential investors and other readers are urged to consider these factors carefully in evaluating forward-looking information and forward-looking statements and are cautioned not to place undue reliance on any forward-looking information or forward-looking statements.

For additional information with respect to certain of these and other risks and uncertainties, reference should be made to Danier's continuous disclosure materials filed from time to time with the Canadian securities regulatory authorities, including the Corporation's most recent annual information form, quarterly and annual reports and financial statements and notes thereto, and supplementary information, which are available on SEDAR at www.sedar.com and in the Investor Relations section of the Corporation's website at www.danier.com. Additional risks and uncertainties not presently known to the Corporation or that Danier currently believes to be less significant may also adversely affect the Corporation. Danier disclaims any intention or obligation to update or revise any forward-looking information or forward-looking statements, whether as a result of new information, future events or otherwise, except as required under applicable securities laws.

NOTICE REGARDING INFORMATION

Certain information contained in this Offer and Circular, including certain information contained in the Valuation attached at Schedule "A" hereto, is based solely upon, and Danier has relied, without independent verification, exclusively upon information that has been provided by third party sources or that is otherwise publicly available. None of the Corporation, its Board of Directors or the Special Committee assumes any responsibility for the accuracy or completeness of such information or for any failure by any such third party to disclose events or facts that may have occurred or may affect the significance or accuracy of any such information.

SUMMARY

The following is a summary of information contained elsewhere in this Offer to Purchase and accompanying Circular and does not fully describe all of the details of the Offer. This summary is provided for convenience only and should be read in conjunction with, and is qualified in its entirety by, the more detailed information appearing or referred to elsewhere in the Offer and Circular, the Letter of Transmittal and the Notice of Guaranteed Delivery. Certain capitalized words and defined terms used in this summary are defined in the Glossary section of this Offer to Purchase found on pages 5 to 8.

WHO IS OFFERING TO PURCHASE MY SHARES?

Danier is offering to purchase your Shares.

WHAT WILL THE PURCHASE PRICE FOR THE SHARES BE?

The price range for the Offer is \$12.55 to \$13.30 per Share. Danier is conducting the Offer through a procedure commonly referred to as a modified "**Dutch auction**". This procedure allows you to choose a price (in increments of \$0.15 per Share) within this price range at which you are willing to sell your Shares. The Corporation will look at the prices chosen by Shareholders for all of the Shares validly deposited and then select a single price which will be the lowest price per Share that will enable the Corporation to buy up to \$10 million in value of its Shares. If Shares with a lesser total value are deposited, the Corporation will select the price per Share within that range that will enable it to buy all of the Shares that are validly deposited. All Shares that are purchased will be purchased at the same price per Share, even if you have chosen a lower price, but the Corporation will not purchase any Shares deposited at a price per Share above the price selected in accordance with these procedures. The Purchase Price will be payable in cash, subject to applicable withholding taxes, if any. See Section 2 of this Offer to Purchase entitled "Purchase Price" for further details.

FORMAL VALUATION:

Deloitte & Touche LLP ("**Deloitte**" or the "**Valuator**") was engaged by the Special Committee as the independent valuator to prepare a formal valuation of the Shares as prescribed under MI 61-101. A copy of Deloitte's Valuation is attached to this Offer and Circular at Schedule "A". The Valuation contains Deloitte's opinion that, based on the scope of its review and subject to the assumptions, restrictions and limitations provided therein, as of October 23, 2012, the fair market value per Share falls within the range of \$12.55 to \$13.30 per Share. See also Section 4 of the Circular entitled "Summary of Valuation" for further details.

HOW MANY SHARES WILL DANIER PURCHASE IN THE OFFER?

The Corporation is offering to purchase for cancellation from Shareholders for cash up to a maximum of \$10 million in value of its Shares. The Corporation will determine the exact number of Shares to be purchased only after the expiration of the Offer. At the maximum purchase price of \$13.30 per Share, the Corporation could purchase 751,879 Shares for cancellation, which would represent approximately 21.97% of the Corporation's issued and outstanding Shares as of October 23, 2012 (assuming no exercise of Options). At the minimum purchase price of \$12.55 per Share, the Corporation could purchase 796,812 Shares for cancellation, which would represent approximately 23.28% of the Corporation's issued and outstanding Shares as of October 23, 2012 (assuming no exercise of Options). The Offer is not conditional on any minimum number of Shares being tendered. See Section 3 of this Offer to Purchase entitled "Number of Shares, Odd Lots and Pro-Ration" for further details.

If, based on the Purchase Price, it is determined that the number of Shares tendered would result in an aggregate purchase price that exceeds \$10 million, the Corporation will pro-rate the number of Shares purchased from each

Shareholder. However, a tender of Shares by a Shareholder who owns less than 100 Shares (known as "**Odd Lots**") will be accepted on a preferential basis and will not be pro-rated if all such Shareholder's Shares are validly tendered into the Offer.

HOW CAN I MAXIMIZE THE CHANCE THAT MY SHARES WILL BE PURCHASED?

If you wish to maximize the chance that your Shares will be purchased, you should check the box next to "Purchase Price Tender" in the section of the Letter of Transmittal called "Type of Tender". By doing so, your deposited Shares will be treated the same as Shares deposited at the minimum price of \$12.55 per Share and you can reasonably expect to have such deposited Shares purchased at the Purchase Price if any Shares are purchased under the Offer (subject to pro-ration and the preferential acceptance of Odd Lots). See Sections 2 and 3 of this Offer to Purchase.

WHY IS DANIER MAKING THE OFFER?

Danier is making the Offer to provide a liquidity opportunity for Shareholders and because the Special Committee, the Board of Directors and senior management of the Corporation believe that the Shares have been trading in volumes that do not provide reasonable liquidity for Shareholders and the Offer represents an appropriate use of a portion of Danier's cash on hand. Future values and liquidity of the Shares cannot be assured and are subject to risks. The Corporation also believes that purchasing Shares under the Offer represents an attractive investment and an efficient means of providing value to those Shareholders who elect to tender to the Offer and is in the best interests of the Corporation. See Sections 2 and 3 of the Circular entitled "Background to the Offer" and "Purpose and Effect of the Offer", respectively, for further details.

HOW WILL DANIER PAY FOR THE SHARES?

The Corporation has adequate freely available cash on hand in its corporate account to pay the maximum aggregate purchase price of \$10 million for the Shares that could be purchased under the Offer.

HOW LONG DO I HAVE TO TENDER MY SHARES?

You may deposit your Shares until the Offer expires. The Offer will expire on November 28, 2012 at 7:00 p.m. (Toronto time), unless the Corporation extends it. The Corporation may choose to extend the Offer for any reason, subject to applicable laws. See Section 8 of this Offer to Purchase entitled "Extension and Variation of the Offer" for further details.

HOW WILL I BE NOTIFIED IF DANIER EXTENDS OR AMENDS THE OFFER?

The Corporation will issue a public announcement of any extension, delay, termination, variation or amendment of the Offer promptly to the extent and in the manner required by applicable laws. See Section 8 of this Offer to Purchase entitled "Extension and Variation of the Offer" for further details.

ARE THERE ANY CONDITIONS TO THE OFFER?

Yes. The Offer is subject to certain conditions that are customary for transactions of this nature and are set forth in Section 6 of this Offer to Purchase entitled "Conditions of the Offer". The Offer is not conditional on any minimum number of Shares being deposited to the Offer.

FOLLOWING THE OFFER, WILL DANIER CONTINUE AS A PUBLIC COMPANY?

Yes. The completion of the Offer in accordance with its terms and conditions is not currently expected to cause the Shares to be delisted from the TSX or cause the Corporation to no longer be subject to the periodic reporting requirements of the applicable Canadian securities laws.

HOW DO I DEPOSIT MY SHARES TO THE OFFER?

To deposit your Shares:

- if you are a Registered Shareholder, you must deliver your Share certificates(s) and a properly completed and duly executed Letter of Transmittal to the Depository at its Toronto, Ontario office address appearing on the back cover page of this Offer and Circular, or you must comply with the guaranteed delivery procedure or the book-entry transfer procedures outlined in Section 4 of this Offer to Purchase entitled "Procedure for Depositing Shares"; or

- if you are a Non-Registered Shareholder, you must request your investment dealer, stock broker, commercial bank, trust company or other intermediary to effect the transaction on your behalf.

Contact the Dealer Manager or the Depositary or, if applicable, your investment dealer, stock broker, commercial bank, trust company or other intermediary for assistance. See also Section 4 of this Offer to Purchase entitled "Procedure for Depositing Shares" and the instructions set out in the Letter of Transmittal and the Notice of Guaranteed Delivery.

ONCE I HAVE DEPOSITED SHARES TO THE OFFER, CAN I WITHDRAW MY DEPOSIT?

You may withdraw any Shares you have deposited at any time before the Corporation takes up the Shares and in the other circumstances described in Section 5 of this Offer to Purchase entitled "Withdrawal Rights". Generally, if the Corporation has taken up but not paid for your Shares within three business days, you may withdraw your Shares. Furthermore, if the Corporation amends the Offer, you will have 10 days to withdraw your Shares from the date notice is given of the amendment in accordance with Section 8 of this Offer to Purchase entitled "Extension and Variation of the Offer". However, if the amendment consists solely of an increase in the consideration offered for the Shares and the Offer is not extended for more than 10 days or the amendment consists solely of a waiver of a condition of the Offer, the amendment will not entitle you to withdraw your Shares. See Sections 4 and 5 of this Offer to Purchase entitled "Procedure for Depositing Shares" and "Withdrawal Rights", respectively.

HAS DANIER OR ITS BOARD OF DIRECTORS ADOPTED A POSITION ON THE OFFER?

Our Board of Directors, on recommendation of the Special Committee, has authorized and approved the Offer. However, none of Danier, its Board of Directors, the Special Committee, the Depositary or the Dealer Manager is making any recommendation to you as to whether you should deposit or refrain from depositing your Shares or as to the purchase price or prices per Share at which you may choose to deposit your Shares. You must make your own decision as to whether to deposit your Shares and, if so, how many Shares to deposit and the purchase price or prices per Share at which to deposit your Shares. No director or officer of Danier or, to the knowledge of Danier's directors and officers, no person with beneficial ownership of, or control or direction over, more than 10% of the voting rights attached to all of Danier's outstanding voting securities, has indicated any present intention to deposit any of his, her or its Shares pursuant to the Offer. See Section 8 of the Circular entitled "Ownership of Danier Securities; Transactions in Danier Securities – Acceptance of the Offer" for further details.

WHEN WILL DANIER PAY FOR THE SHARES I DEPOSIT?

Promptly after the Expiry Date, the Corporation will determine the Purchase Price in accordance with Section 2 of this Offer to Purchase entitled "Purchase Price" and publicly announce the Purchase Price and take up and pay for Shares to be purchased pursuant to the Offer. See Section 7 of this Offer to Purchase entitled "Acceptance for Payment and Payment for Deposited Shares" for further details.

WILL I HAVE TO PAY BROKERAGE COMMISSIONS IF I DEPOSIT MY SHARES?

If you are a Registered Shareholder and you deposit your Shares directly to the Depositary, you will not be obligated to pay any brokerage fees or commissions. If you are a Non-Registered Shareholder who holds your Shares through an investment dealer, stock broker, commercial bank, trust company or other intermediary, you should consult with such persons regarding whether any fees or commissions will apply in connection with a deposit of Shares pursuant to the Offer.

ARE THERE CANADIAN OR U.S. FEDERAL INCOME TAX CONSEQUENCES IF I TENDER MY SHARES?

Yes. A summary of the material Canadian federal income tax consequences of accepting the Offer are discussed in Section 10 of the Circular entitled "Certain Canadian Federal Income Tax Considerations". The income or other tax consequences to Shareholders under the laws of the United States or other jurisdictions outside Canada are not described herein. **In view of the deemed dividend tax treatment that should generally apply under Canadian tax law upon the sale of a Share to Danier pursuant to the Offer, as opposed to capital gains treatment which would generally apply to a sale of Shares in the market, Shareholders who wish to sell their Shares under the Offer should carefully consider the income tax consequences of accepting the Offer.** All Shareholders are urged to consult their own tax and legal advisors as to the application of all relevant income tax laws to their particular circumstances.

TRADING INFORMATION:

On October 22, 2012, the last trading day immediately prior to the announcement of Danier's intention to make the Offer, the closing price per Share on the TSX was \$11.29. **The maximum Purchase Price under the Offer represents a premium of approximately 19% over the volume weighted average trading price of the Shares on the TSX of \$11.15 for the last 30 trading days preceding the date of Danier's announcement.**

WHAT WILL HAPPEN IF I DO NOTHING?

If you do nothing, you will continue to hold the number of Shares that you owned before the Offer and your proportionate Share ownership interest in Danier will increase following the successful completion of the Offer.

WHOM CAN I TALK TO IF I HAVE QUESTIONS?

You may contact the Dealer Manager or the Depositary for further information and assistance, or consult your own broker. The Dealer Manager is GMP Securities L.P. and the Depositary is Computershare Investor Services Inc. Their contact information is set forth on the back cover page of this Offer and Circular.

NO PERSON HAS BEEN AUTHORIZED TO MAKE ANY RECOMMENDATION ON BEHALF OF DANIER AS TO WHETHER SHAREHOLDERS SHOULD DEPOSIT OR REFRAIN FROM DEPOSITING ANY OR ALL SHARES PURSUANT TO THE OFFER OR AS TO THE PURCHASE PRICE OR PRICES AT WHICH SHAREHOLDERS MAY CHOOSE TO DEPOSIT SHARES. NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS IN CONNECTION WITH THE OFFER OTHER THAN AS SET FORTH IN THIS OFFER AND CIRCULAR OR IN THE RELATED LETTER OF TRANSMITTAL AND NOTICE OF GUARANTEED DELIVERY. IF ANY SUCH RECOMMENDATION, REPRESENTATION OR INFORMATION IS GIVEN OR MADE, ANY SUCH RECOMMENDATION OR ANY SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY DANIER, ITS BOARD OF DIRECTORS, THE SPECIAL COMMITTEE, THE DEPOSITARY OR THE DEALER MANAGER.

GLOSSARY

This Glossary forms part of the Offer and Circular. In the Offer and Circular, including the Summary and the accompanying Letter of Transmittal and Notice of Guaranteed Delivery, unless the subject matter or context is inconsistent therewith, the following terms have the meanings set forth below and grammatical variations thereof have the corresponding meanings.

"**affiliate**" has the meaning ascribed thereto in the OSA;

"**Agent's Message**" has the meaning ascribed thereto under Section 4 of the Offer to Purchase entitled "Procedure for Depositing Shares – Proper Deposit of Shares";

"**associate**" has the meaning ascribed thereto in the OSA;

"**ATOP**" has the meaning ascribed thereto under Section 4 of the Offer to Purchase entitled "Procedure for Depositing Shares – Book-Entry Transfer Procedures – DTC";

"**Auction Tender**" means a deposit of Shares made by a Shareholder pursuant to the Offer where such Shareholder specifies a deposit price (of not less than \$12.55 and not more than \$13.30 per Share, in increments of \$0.15 per Share) at which such Shareholder is willing to have all such Deposited Shares purchased by the Corporation;

"**Board**" or "**Board of Directors**" means the board of directors of Danier and "**director**" means a director of Danier;

"**Book-Entry Confirmation**" has the meaning ascribed thereto under Section 4 of the Offer to Purchase entitled "Procedure for Depositing Shares – Proper Deposit of Shares";

"**business day**" means any day of the year, other than a Saturday, Sunday or day observed as a statutory holiday in Toronto, Ontario;

"**capitalization rate**" has the meaning set out in Section 4 of the Circular entitled "Summary of Valuation – Capitalized Cash Flow Approach";

"**CDS**" means CDS Clearing and Depository Services Inc. or its nominee, which at the date hereof is CDS & Co.;

"**CDSX**" means the CDS on-line tendering system pursuant to which book-entry transfers may be effected;

"**CRA**" means the Canada Revenue Agency;

"**Circular**" means the issuer bid circular accompanying and forming part of the Offer to Purchase;

"**Danier**" and the "**Corporation**" mean Danier Leather Inc., a corporation existing under the OBCA, and its successors;

"**Dealer Manager**" means GMP Securities L.P., the dealer manager for the Offer;

"**Deloitte**" and the "**Valuator**" mean Deloitte & Touche LLP, the independent valuator retained by the Special Committee to complete a formal valuation of the Shares;

"**Deloitte Engagement Letter**" means the engagement letter dated February 15, 2012 pursuant to which Deloitte & Touche LLP was engaged to prepare and deliver a written formal valuation report to the Board of Directors and the Special Committee in connection with the Offer;

"**Depository**" means Computershare Investor Services Inc., the depository for the Offer, or such other person as may be appointed to act as depository for the purposes of the Offer by Danier;

"Deposited Shares" means Shares validly deposited pursuant to the Offer, and to deposit Shares pursuant to the Offer means to validly deposit Shares to the Offer;

"DTC" means The Depository Trust Company;

"Eligible Institution" means a Canadian Schedule I chartered bank, a member of the Securities Transfer Agents Medallion Program (STAMP), a member of the Stock Exchange Medallion Program (SEMP) or a member of the New York Stock Exchange Inc. Medallion Signature Program (MSP). Members of these programs are usually members of a recognized stock exchange in Canada or the United States, members of the Investment Industry Regulatory Organization of Canada, members of the Financial Industry Regulatory Authority or banks and trust companies in the United States;

"Enterprise Value" has the meaning set out in Section 4 of the Circular entitled "Summary of Valuation – Capitalized Cash Flow Approach";

"Expiry Date" means November 28, 2012, or such later date or dates as may be fixed by Danier from time to time as provided under Section 8 of the Offer to Purchase entitled "Extension and Variation of the Offer", in which event the term **"Expiry Date"** shall refer to the date on which the Offer, as so extended by Danier, will expire;

"Expiry Time" means 7:00 p.m. (Toronto time) on the Expiry Date, or such later time or times as may be fixed by Danier from time to time as provided under Section 8 of the Offer to Purchase entitled "Extension and Variation of the Offer", in which event the term **"Expiry Time"** shall refer to the time at which the Offer, as so modified by Danier, will expire;

"formal valuation" has the meaning ascribed thereto in MI 61-101;

"Letter of Transmittal" means the letter of transmittal (printed on YELLOW paper) in the form accompanying the Offer and Circular, or a manually executed photocopy thereof;

"MI 61-101" means Multilateral Instrument 61-101 — *Protection of Minority Security Holders in Special Transactions*, as amended, supplemented or replaced from time to time;

"MI 62-104" means Multilateral Instrument 62-104 – *Take-Over Bids and Issuer Bids*, as amended, supplemented or replaced from time to time;

"Multiple Voting Shares" means the issued and outstanding multiple voting shares of Danier, each of which carries ten votes per share;

"Non-Registered Shareholder" means a Shareholder whose Shares are held through an intermediary, including an investment dealer, stock broker, commercial bank, trust company or other nominee;

"Non-Resident Shareholder" has the meaning set out in Section 10 of the Circular entitled "Certain Canadian Federal Income Tax Considerations";

"Notice of Guaranteed Delivery" means the notice of guaranteed delivery (printed on GREEN paper) in the form accompanying the Offer and Circular, or a manually executed photocopy thereof;

"OBCA" means the *Business Corporations Act* (Ontario) and the regulations made thereunder, all as amended, supplemented or replaced from time to time;

"Odd Lot" means a beneficial shareholding of fewer than 100 Shares in the aggregate as of the close of business on the Expiry Date;

"**Offer**" means the offer by Danier hereunder to purchase from Shareholders for cash up to \$10 million in aggregate value of its Shares, at a Purchase Price per Share which will be not less than \$12.55 and not more than \$13.30, on and subject to the terms and conditions set forth in the Offer and Circular and the accompanying Letter of Transmittal and Notice of Guaranteed Delivery;

"**Offer and Circular**" means the Offer to Purchase and the accompanying Circular, including the Summary, the Glossary and all schedules to the Offer and Circular;

"**Offer to Purchase**" means the formal offer to purchase dated October 23, 2012, which is accompanied by the Circular, and which, together with the Letter of Transmittal and Notice of Guaranteed Delivery, sets forth the terms and conditions of the Offer;

"**Options**" means any options to acquire Shares issued pursuant to Danier's Stock Option Plan;

"**OSA**" means the *Securities Act* (Ontario) and the regulations made thereunder, all as amended, supplemented or replaced from time to time;

"**Purchase Price**" means the price per Share (which will be not less than \$12.55 and not more than \$13.30) that Danier will pay for Shares validly deposited pursuant to the Offer and not withdrawn, taking into account the number of Shares deposited pursuant to Auction Tenders and Purchase Price Tenders and the prices specified by Shareholders making Auction Tenders;

"**Purchase Price Tender**" means a deposit (or deemed deposit) of Shares made by a Shareholder where such Shareholder does not specify a purchase price for the Shares deposited but rather agrees to have such Shareholder's Shares purchased for the Purchase Price as determined under the Offer;

"**Registered Shareholder**" means a Shareholder in whose name Shares are registered as recorded in Danier's shareholder register(s) maintained by the Depository;

"**Resident Shareholder**" has the meaning set out in Section 10 of the Circular entitled "Certain Canadian Federal Income Tax Considerations";

"**SEDAR**" means the System for Electronic Document Analysis and Retrieval maintained by the Canadian Securities Administrators at www.sedar.com;

"**SEDI**" means the System for Electronic Disclosure by Insiders;

"**Shares**" means the issued and outstanding subordinate voting shares of Danier that trade on the TSX under the symbol "DL" and "**Share**" means any one subordinate voting share of Danier, each of which carries one vote per share;

"**Shareholders**" means, collectively, the holders of Shares, whether registered or beneficial and "**Shareholder**" means any one of them;

"**Special Committee**" means the special committee of the Board of Directors, comprised of Douglas D. Murphy (Chair), Clare Copeland, Edwin F. Hawken and Stephen I. Kahn, each of whom is independent;

"**Stock Option Plan**" means the stock option plan of Danier amended and restated as of January 19, 2011, as amended, supplemented or replaced from time to time;

"**take up**" in reference to Shares means to accept such Shares for payment by giving written notice of such acceptance to the Depository and "**taking up**" and "**taken up**" have corresponding meanings;

"**Tax Act**" means the *Income Tax Act* (Canada) and all regulations made thereunder, all as amended, supplemented or replaced from time to time;

"**TSX**" means the Toronto Stock Exchange, and its successors;

"**UCC**" has the meaning set out in Section 4 of the Circular entitled "Summary of Valuation – Capitalized Cash Flow Approach";

"**Valuation**" means the formal valuation report dated October 23, 2012 delivered by the Valuator to the Board of Directors and the Special Committee; and

"**WACC**" has the meaning set out in Section 4 of the Circular entitled "Summary of Valuation – Capitalized Cash Flow Approach".

OFFER TO PURCHASE

To the Shareholders of Danier Leather Inc.

1. THE OFFER

Danier hereby offers to purchase for cancellation from Shareholders for cash up to a maximum of \$10 million in value of its Shares, pursuant to (i) Auction Tenders at prices of not less than \$12.55 and not more than \$13.30 per Share, in increments of \$0.15 per Share, as specified by such Shareholders, or (ii) Purchase Price Tenders, in either case, upon the terms and subject to the conditions set forth in this Offer and Circular and the accompanying Letter of Transmittal and Notice of Guaranteed Delivery. Shareholders who validly deposit Shares without specifying whether they are making an Auction Tender or a Purchase Price Tender, or who specify that they are making an Auction Tender but fail to specify a price for such Auction Tender, will be deemed to have made a Purchase Price Tender. A Shareholder who wishes to deposit Shares without specifying a price at which the Shares may be purchased by the Corporation should make a Purchase Price Tender.

The Offer will commence on October 24, 2012, the date of mailing and filing of this Offer to Purchase, and will expire at 7:00 p.m. (Toronto time) on November 28, 2012, or at such later time and date to which the Offer may be extended by Danier.

The Offer is not conditional upon any minimum number of Shares being deposited. The Offer is, however, subject to certain other conditions customary for transactions of this nature. Danier reserves the right to withdraw the Offer and not take up and pay for any Shares deposited under the Offer if the conditions of the Offer are not satisfied or waived. See Section 6 of this Offer to Purchase entitled "Conditions of the Offer".

Subject to the satisfaction or waiver by Danier of the conditions of the Offer, all Shareholders who have validly deposited and have not withdrawn their Shares pursuant to an Auction Tender at prices at or below the Purchase Price or pursuant to Purchase Price Tenders will receive the Purchase Price, payable in cash, for all Shares taken up and purchased by Danier, upon the terms of the Offer, including the provisions relating to pro-ration and the preferential acceptance of Odd Lots described herein. All payments for purchased Shares will be subject to deduction of any applicable withholding taxes. See Section 10 of the Circular entitled "Certain Canadian Federal Income Tax Considerations".

Danier will return all Shares not purchased under the Offer, including Shares deposited pursuant to Auction Tenders at prices greater than the Purchase Price and Shares not purchased because of pro-ration, promptly after the Expiry Date. Registered Shareholders who deposit their Shares directly to the Depositary will not be obligated to pay any brokerage fees or commissions. Non-Registered Shareholders who hold their Shares through an investment dealer, stock broker, commercial bank, trust company or other intermediary should consult with such persons regarding whether any fees or commissions will apply in connection with a deposit of Shares pursuant to the Offer.

Danier's Board of Directors has, on recommendation of the Special Committee, authorized and approved the Offer. None of the Corporation, its Board of Directors, the Special Committee, the Depositary or the Dealer Manager makes any recommendation to Shareholders as to whether to deposit or refrain from depositing any or all of such Shareholder's Shares pursuant to the Offer. Shareholders are strongly urged to review and evaluate carefully all information in the Offer and Circular, to consult their own financial, tax and legal advisors, and to make their own decisions as to whether to deposit Shares to the Offer and, if so, how many Shares to deposit and at what price or prices. The minimum and maximum Offer prices correspond with the range of values as determined by Deloitte, the independent valuator retained by the Special Committee to determine the fair market value of the Shares in connection with the Offer. Danier is making the Offer to provide a liquidity opportunity for Shareholders and because the Special Committee, the Board of Directors and senior management of Danier believe that the Shares have been trading in volumes that do not provide reasonable liquidity for Shareholders and the Offer represents an appropriate use of a portion of Danier's cash on hand. Future values and liquidity of the Shares cannot be assured and are subject to risks. Shareholders must decide for themselves whether to deposit Shares under the Offer and should refer to the "Risks and Uncertainties" section of Danier's management's discussion & analysis contained in

the 2012 Annual Report filed in respect of Danier's fiscal year ending June 30, 2012 available on SEDAR at www.sedar.com. **Shareholders are also urged to consult their own financial, tax and legal advisors.**

The accompanying Circular, which is incorporated into and forms part of this Offer to Purchase, and the related Letter of Transmittal and Notice of Guaranteed Delivery all contain important information which should be read carefully before making a decision with respect to the Offer. Shareholders are also urged to carefully consider the income tax consequences of depositing Shares under the Offer. See Section 10 of the Circular entitled "Certain Canadian Federal Income Tax Considerations" for further details. See also the "Notice to Holders of Options" above.

2. PURCHASE PRICE

As promptly as practicable following the Expiry Date, Danier will, upon the terms and subject to the conditions of the Offer, determine a single Purchase Price (which will be not less than \$12.55 and not more than \$13.30 per Share) that it will pay for the Deposited Shares taken up pursuant to the Offer, taking into account the number of Shares deposited pursuant to Auction Tenders and Purchase Price Tenders and the prices specified by Shareholders depositing Shares pursuant to Auction Tenders. Shares deposited pursuant to Purchase Price Tenders will be deemed to have been deposited at the minimum price of \$12.55 per Share for purposes of determining the Purchase Price.

The Purchase Price will be the lowest price between \$12.55 per Share and \$13.30 per Share, inclusively, at which Shares have been deposited or have been deemed to be deposited that will enable Danier to purchase the maximum number of Deposited Shares having an aggregate purchase price not exceeding \$10 million. As promptly as practicable after determining the Purchase Price, Danier will publicly announce the Purchase Price and, upon the terms and subject to the conditions of the Offer (including the pro-ration provisions and the preferential acceptance of Odd Lots described herein), all Shareholders who have validly deposited and not withdrawn their Shares pursuant to Auction Tenders at prices per Share at or below the Purchase Price or pursuant to Purchase Price Tenders will receive the Purchase Price, payable in cash (but subject to applicable withholding taxes, if any), for all Shares purchased. The Purchase Price will be denominated and paid in Canadian dollars.

Shareholders depositing Shares pursuant to Auction Tenders at \$12.55 per Share (the minimum purchase price per Share under the Offer) and Shareholders depositing Shares pursuant to Purchase Price Tenders can reasonably expect to have such Shares purchased at the Purchase Price if any Shares are purchased under the Offer (subject to the pro-ration provisions and the preferential acceptance of Odd Lots described herein).

3. NUMBER OF SHARES, ODD LOTS AND PRO-RATION

Subject to the satisfaction or waiver by Danier of the conditions of the Offer, Danier will purchase for cancellation, at the Purchase Price, the Deposited Shares up to a maximum aggregate purchase price of \$10 million. Since the Purchase Price will only be determined after the Expiry Date, the number of Shares that will be purchased will not be known until after the Expiry Date. If the Purchase Price is determined to be \$12.55 per Share, the minimum purchase price under the Offer, the maximum number of Shares that will be purchased for cancellation under the Offer is 796,812. Assuming that the Offer is fully subscribed, if the Purchase Price is determined to be \$13.30 per Share, the maximum purchase price under the Offer, the minimum number of Shares that will be purchased for cancellation under the Offer is 751,879.

As at October 23, 2012, there were 3,422,573 Shares issued and outstanding. The Offer may result in the purchase by Danier of up to 796,812 Shares (based on a Purchase Price equal to the minimum purchase price per Share of \$12.55), representing approximately 23.28% of the total number of issued and outstanding Shares on such date (assuming no exercise of Options). Assuming the Offer is fully subscribed, the Offer will result in the purchase by Danier of a minimum of 751,879 Shares (based on a Purchase Price equal to the maximum purchase price per Share of \$13.30), representing approximately 21.97% of the total number of issued and outstanding Shares on such date (assuming no exercise of Options).

If the aggregate purchase price (calculated at the Purchase Price per Share) for all Deposited Shares (not withdrawn in accordance with Section 5 of this Offer to Purchase entitled "Withdrawal Rights") is less than or equal to \$10 million, Danier will, upon the terms and subject to the conditions of the Offer, purchase at the Purchase Price all Deposited Shares.

If the number of Deposited Shares (not withdrawn in accordance with Section 5 of this Offer to Purchase entitled "Withdrawal Rights") tendered pursuant to Auction Tenders at or below the Purchase Price or pursuant to Purchase Price Tenders would result in an aggregate purchase price in excess of \$10 million, any Odd Lot deposits of Shares will be preferentially accepted for purchase and the remaining Deposited Shares will be purchased on a *pro rata* basis according to the number of Shares deposited or deemed to be deposited at or below the Purchase Price by the depositing Shareholders (with adjustments to avoid the purchase of fractional Shares). For the purposes of the foregoing, an Odd Lot deposit is a deposit by a Shareholder beneficially owning in the aggregate fewer than 100 Shares as of the close of business on the Expiry Date, who validly deposits all such Shares prior to the Expiry Time pursuant to an Auction Tender at or below the Purchase Price or pursuant to a Purchase Price Tender and who checks (or ticks) Box C captioned "Odd Lots" in either the Letter of Transmittal or the Notice of Guaranteed Delivery, as the case may be. Partial tenders will not qualify for the Odd Lot acceptance preference. The Odd Lot acceptance preference is not available to a holder of 100 or more Shares even if such holder has separate certificates for fewer than 100 Shares or holds fewer than 100 Shares in different accounts. As set forth above, Odd Lots will be accepted for purchase before any pro-ration. Registered Shareholders holding Odd Lots therefore have the opportunity to sell their Shares without incurring brokerage commissions or the odd lot discounts that they might otherwise incur if they were to sell their Shares in a transaction on the TSX.

4. PROCEDURE FOR DEPOSITING SHARES

Proper Deposit of Shares

To validly deposit Shares pursuant to the Offer, (i) the certificates for all Deposited Shares in proper form for transfer, together with a properly completed and duly executed Letter of Transmittal (or a manually executed photocopy thereof) relating to such Shares with signatures guaranteed by an Eligible Institution if so required in accordance with the Letter of Transmittal, and any other documents required by the Letter of Transmittal, must be received by the Depository at its Toronto, Ontario office address listed in the Letter of Transmittal by the Expiry Time, or (ii) the guaranteed delivery procedure described below must be followed, or (iii) such Shares must be transferred pursuant to the procedures for book-entry transfer described below (and a confirmation of such tender must be received by the Depository, including a Book-Entry Confirmation or an Agent's Message (as defined below) if the depositing Shareholder has not delivered a Letter of Transmittal). The term "**Book-Entry Confirmation**" means a confirmation of a book-entry transfer of a Shareholder's Shares into the Depository's account at CDS or DTC, as applicable. The term "**Agent's Message**" means a message, transmitted by DTC to and received by the Depository and forming part of a Book-Entry Confirmation, which states that DTC has received an express acknowledgement from the depositing participant, which acknowledgement states that such participant has received and agrees to be bound by the Letter of Transmittal and that the Corporation may enforce such Letter of Transmittal against the participant.

A Non-Registered Shareholder who wishes to deposit Shares under the Offer should immediately contact such person's investment dealer, stock broker, commercial bank, trust company or other intermediary in order to take the necessary steps to be able to deposit such Shares under the Offer.

Participants of CDS in Canada or DTC in the United States should contact such depository, or any other applicable depository, to obtain instructions as to the method of depositing Shares under the terms of the Offer. CDS in Canada and DTC in the United States will be issuing instructions to their respective participants as to the method of depositing Shares under the terms of the Offer.

The Offer is made only for Shares and is not made for any Options or any other securities of Danier that are convertible into or exchangeable or exercisable for Shares. Any holder of such Options or other securities convertible into or exchangeable or exercisable for Shares who wishes to accept the Offer must, to the extent permitted by the terms of the security and applicable laws, exercise the Option or other securities convertible into or exchangeable or exercisable for Shares in order to obtain certificates representing Shares and deposit those Shares in

accordance with the terms and conditions of the Offer. Any such conversion, exchange or exercise must be completed sufficiently in advance of the Expiry Time to ensure that the holder of such Options or other securities will have the Shares issued and, if applicable, will have received the certificate(s) representing the Shares, on such exercise available for deposit at or prior to the Expiry Time, or in sufficient time to comply with the procedures referred to below under "Procedure for Guaranteed Delivery". Any such conversion, exercise or exchange will be irrevocable, including where the Shares tendered are subject to pro-ratio or otherwise are not taken up.

In accordance with Instruction 5 of the Letter of Transmittal, or the Book-Entry Confirmation or Agent's Message in lieu thereof, each Shareholder desiring to deposit Shares pursuant to the Offer should indicate, in Box A captioned "Type of Tender" on such Letter of Transmittal or, if applicable, the Notice of Guaranteed Delivery: (a) whether Shares are deposited pursuant to an Auction Tender or a Purchase Price Tender, (b) if an Auction Tender is made, further indicate in Box B captioned "Auction Tender Price (in Canadian Dollars) Per Share at which Shares are Being Deposited" in such Letter of Transmittal, or the Book-Entry Confirmation or Agent's Message in lieu thereof, the price per Share (in increments of \$0.15 per Share) at which such Shares are being deposited and (c) whether the Shareholder is making an Odd Lot deposit by completing Box C captioned "Odd Lots" in such Letter of Transmittal, or the Book-Entry Confirmation or Agent's Message in lieu thereof, in order to qualify for the preferential treatment available to Odd Lot holders as described in Section 3 of this Offer to Purchase entitled "Number of Shares, Odd Lots and Pro-Ration".

Shares deposited pursuant to an Auction Tender in compliance with the procedures set forth herein will be taken up only if the price per Share specified in the Auction Tender is equal to or less than the Purchase Price.

A Shareholder desiring to deposit Shares in separate lots at a different price per Share and/or a different type of tender for each lot, must complete a separate Letter of Transmittal, or a Book-Entry Confirmation or Agent's Message in lieu thereof (and, if applicable, a Notice of Guaranteed Delivery), for each lot and price per Share at which the Shareholder is depositing Shares. The same Shares cannot be deposited pursuant to both an Auction Tender and a Purchase Price Tender, or pursuant to an Auction Tender at more than one price per Share. Shares deposited pursuant to both an Auction Tender and a Purchase Price Tender, or pursuant to an Auction Tender where no price is specified, will be deemed to have been deposited by way of a Purchase Price Tender. Shares deposited pursuant to an Auction Tender at more than one price per Share will be deemed to have been deposited at the lowest applicable price indicated. Shares deposited pursuant to an Auction Tender where a price is specified will only be taken up if the price specified in the Auction Tender is equal to or less than the Purchase Price.

Signature Guarantees

No signature guarantee is required on the Letter of Transmittal if either (i) the Letter of Transmittal is signed by the Registered Shareholder(s) exactly as the name(s) of the Registered Shareholder(s) appears on the Share certificate deposited therewith and payment and delivery is to be made directly to such Registered Shareholder(s), or (ii) Shares are deposited by an Eligible Institution. See Instruction 4 of the Letter of Transmittal. In all other cases, all signatures on the Letter of Transmittal must be guaranteed by an Eligible Institution.

If a certificate representing Shares is registered in the name of a person other than the person signing the Letter of Transmittal, or if payment or delivery is to be made, or certificates representing Shares not purchased or deposited are to be issued to a person other than the Registered Shareholder, the certificate must be endorsed or accompanied by an appropriate share transfer power of attorney, in either case, duly and properly completed and signed exactly as the name of the Registered Shareholder appears on the certificate with the signature on the certificate or share transfer power of attorney guaranteed by an Eligible Institution.

Book-Entry Transfer Procedures – CDS

The Depository intends to establish an account with respect to the Shares held by CDS for purposes of the Offer. Any financial institution that is a participant in CDS may make book-entry delivery of the Shares through CDSX by causing CDS to transfer such Shares into the Depository's account in accordance with CDS procedures for such transfer. Delivery of Shares to the Depository by means of a book-entry transfer through CDSX will constitute a valid tender under the Offer.

Shareholders may accept the Offer by following the procedures for a book-entry transfer established by CDS, provided that a Book-Entry Confirmation through CDSX is received by the Depository at its Toronto, Ontario office address set forth on the back cover page of this Offer and Circular prior to the Expiry Time. Shareholders, through their respective CDS participants, who utilize CDSX to accept the Offer through a book-entry transfer of their holdings into the Depository's account with CDS shall be deemed to have completed and submitted a Letter of Transmittal and to be bound by the terms thereof and, therefore, such instructions received by the Depository are considered a valid tender in accordance with the terms of the Offer. **Delivery of documents to CDS does not constitute delivery to the Depository.**

Book-Entry Transfer Procedures – DTC

The Depository intends to establish an account with respect to the Shares held by DTC for purposes of the Offer. Any financial institution that is a participant in DTC may make book-entry delivery of the Shares by causing DTC to transfer such Shares into the Depository's account in accordance with DTC procedures for such transfer.

Although delivery of the Shares may be effected under the Offer through book-entry transfer into the Depository's account at DTC, the Letter of Transmittal (or a manually signed photocopy thereof) with any required signature guarantees, or (in the case of a book-entry transfer through ATOP described below) an Agent's Message in lieu of the Letter of Transmittal and any other required documents must, in any case, be transmitted to and received by the Depository at its Toronto, Ontario office address set forth on the back cover page of this Offer and Circular prior to the Expiry Time in connection with the tender of such Shares. **Delivery of documents to DTC does not constitute delivery to the Depository.**

Shareholders who are tendering by book-entry transfer to the Depository's account at DTC may execute their tender through DTC's Automated Tender Offer Program ("**ATOP**") by transmitting their acceptance to DTC in accordance with DTC's ATOP procedures. DTC will then verify the acceptance, execute a book-entry delivery to the Depository's account at DTC and send an Agent's Message to the Depository. Delivery of the Agent's Message by DTC will satisfy the terms of the Offer in lieu of execution and delivery of a Letter of Transmittal by the participant identified in the Agent's Message. Accordingly, the Letter of Transmittal need not be completed by a Shareholder tendering through ATOP.

Procedure for Guaranteed Delivery

If a Shareholder wishes to deposit Shares pursuant to the Offer and cannot deliver certificates for such Shares, or the book-entry transfer procedures described above cannot be completed prior to the Expiry Time, or time will not permit all required documents to reach the Depository prior to the Expiry Time, such Shares may nevertheless be deposited if all the following conditions are met:

- (a) such deposit is made by or through an Eligible Institution;
- (b) a properly completed and duly executed Notice of Guaranteed Delivery (or a manually executed photocopy thereof), in the form provided by Danier (indicating the type of deposit and, in the case of an Auction Tender, the price per Share at which the Shares are being deposited) is received by the Depository at its office in Toronto, Ontario as set out in the Notice of Guaranteed Delivery, prior to the Expiry Time; and
- (c) the certificates for all Deposited Shares in proper form for transfer, together with a properly completed and duly executed Letter of Transmittal (or a manually executed photocopy thereof), relating to such Shares, with signatures guaranteed by an Eligible Institution if so required in accordance with the Letter of Transmittal, and any other documents required by the Letter of Transmittal, are received by the Depository at its Toronto, Ontario office address as set out in the Letter of Transmittal before 5:00 p.m. (Toronto time) on or before the third trading day on the TSX after the Expiry Date.

The Notice of Guaranteed Delivery may be delivered by hand, courier or mail, or transmitted by facsimile transmission to the office of the Depositary in Toronto, Ontario, as set out therein, and must include a guarantee by an Eligible Institution in the form set forth in the Notice of Guaranteed Delivery.

The tender information specified in a Notice of Guaranteed Delivery by a person completing such Notice of Guaranteed Delivery will, in all circumstances, take precedence over any inconsistent tender information that is specified in the related Letter of Transmittal that is subsequently deposited.

Notwithstanding any other provision hereof, payment for Shares deposited and accepted for payment pursuant to the Offer will be made only after timely receipt by the Depositary of certificates for such Shares, a properly completed and duly executed Letter of Transmittal (or a manually executed photocopy thereof) relating to such Shares, with signatures guaranteed if required, and any other documents required by the Letter of Transmittal.

Method of Delivery

The method of delivery of certificates representing Shares and all other required documents is at the option and risk of the depositing Shareholder. If certificates representing Shares are to be sent by mail, registered mail with return receipt requested, properly insured, is recommended and the mailing must be made sufficiently in advance of the Expiry Date to permit delivery to the Depositary at or prior to the Expiry Time. Delivery will be effective only upon actual receipt of such share certificates representing the Shares by the Depositary.

Determination of Validity, Defect and Rejection

All questions as to the number of Shares to be accepted and taken up, the price per Share to be paid therefor, the form of documents and the validity, eligibility (including time of receipt) and acceptance for payment of any deposit of Shares, will be determined by Danier, in its sole discretion, which determination shall be final and binding on all parties. The Corporation reserves the absolute right to reject any or all deposits of Shares judged by it not to be in proper form or which, in the opinion of its counsel, may be unlawful for it to accept under the laws of any jurisdiction. The Corporation also reserves the absolute right to waive any of the conditions of the Offer or any defect or irregularity in any deposit of Shares. No deposit of Shares will be deemed to be validly made until all defects and irregularities have been cured or waived. None of the Corporation, the Depositary, the Dealer Manager or any other person will be under any duty to give notification of any defect or irregularity in deposits or incur any liability for failure to give any such notice. The Corporation's interpretation of the terms and conditions of the Offer (including the Letter of Transmittal and the Notice of Guaranteed Delivery) will be final and binding.

Under no circumstances will interest accrue or be paid by Danier, the Depositary or the Dealer Manager on the Purchase Price to any person depositing Shares regardless of any delay in making payment, including any delay in making payment to any person using the guaranteed delivery procedures, and the payment for Shares deposited pursuant to the guaranteed delivery procedures will be the same as that for Shares delivered to the Depositary on or prior to the Expiry Date, even if the Shares to be delivered pursuant to the guaranteed delivery procedures are not so delivered to the Depositary at such date and, therefore, payment by the Depositary on account of such Shares is not made until after the date the payment for the Deposited Shares accepted for payment pursuant to the Offer is to be made by the Corporation.

Formation of Agreement

The proper deposit of Shares pursuant to any one of the procedures described above will constitute a binding agreement between the depositing Shareholder and the Corporation, effective as of the Expiry Time, upon the terms and subject to the conditions of the Offer contained herein and in the Letter of Transmittal.

Further Assurances

Each Shareholder accepting the Offer covenants under the terms of the Letter of Transmittal to execute, upon request of Danier, any additional documents, transfers and other assurances as may be necessary or desirable to complete the sale, assignment and transfer of the Deposited Shares to the Corporation. Each authority therein conferred or agreed to be conferred may be exercised during any subsequent legal incapacity of such Shareholder and shall, to the extent permitted by law, survive the death or incapacity, bankruptcy or insolvency of the Shareholder and all obligations of the Shareholder therein shall be binding upon the heirs, personal representatives, successors and assigns of such Shareholder.

5. WITHDRAWAL RIGHTS

Except as otherwise expressly provided in this Section 5 or otherwise required or permitted by applicable laws, all deposits of Shares pursuant to the Offer will be irrevocable. Shares deposited pursuant to the Offer may be withdrawn by or on behalf of the depositing Shareholder: (a) at any time up to and including the Expiry Date; (b) at any time when the Shares have not been taken up by Danier; (c) at any time before the expiration of 10 days from the date that a notice of change or variation (other than a variation that (i) consists solely of an increase in the consideration offered for the Shares under the Offer where the time for deposit is not extended for greater than 10 days, or (ii) consists solely of the waiver of one or more conditions of the Offer) has been given in accordance with Section 8 of this Offer to Purchase entitled "Extension and Variation of the Offer"; or (d) if the Shares have not been paid for by Danier within three business days after having been taken up.

For a withdrawal to be effective, a written notice of withdrawal must be actually received in a timely manner by the Depository at the place of deposit of the relevant Shares. Any such notice of withdrawal must be signed by or on behalf of the person(s) who signed the Letter of Transmittal or Notice of Guaranteed Delivery that accompanied the Shares being withdrawn and must specify the name of the person(s) who deposited the Shares to be withdrawn, the name of the Registered Shareholder(s), if different from that of the person(s) who deposited such Shares, and the number of Shares to be withdrawn. If the Share certificates have been delivered or otherwise identified to the Depository then, prior to the release of such certificates, the depositing Shareholder must submit the serial numbers shown on the particular certificates evidencing the Shares to be withdrawn and the signature on the notice of withdrawal must be guaranteed by an Eligible Institution, except in the case of Shares deposited by an Eligible Institution or if the notice of withdrawal is signed by the Registered Shareholder(s) exactly as the name(s) of the Registered Shareholder(s) appears on the certificate representing the Shares deposited with the Letter of Transmittal. **A withdrawal of Shares deposited pursuant to the Offer can be accomplished only in accordance with the foregoing procedure. The withdrawal will take effect only upon actual receipt by the Depository of the properly completed and executed written notice.**

All questions as to the form and validity (including time of receipt) of notices of withdrawal will be determined by Danier, in its sole discretion, which determination shall be final and binding on all parties. None of the Corporation, the Depository, the Dealer Manager or any other person shall be obligated to give any notice of any defects or irregularities in any notice of withdrawal and none of them shall incur any liability for failure to give any such notice.

A Non-Registered Shareholder who wishes to withdraw Shares under the Offer and whose certificate is registered in the name of an investment dealer, stock broker, bank, trust company or other intermediary should immediately contact such nominee in order to take the necessary steps to be able to withdraw such Shares under the Offer. Participants in CDS and DTC should contact those depositories with respect to their procedures for the withdrawal of Shares deposited pursuant to the Offer.

Any Shares validly withdrawn will thereafter be deemed not to have been deposited for purposes of the Offer. However, withdrawn Shares may be re-deposited prior to the Expiry Time by again following any of the procedures described in Section 4 of this Offer to Purchase entitled "Procedure for Depositing Shares".

If Danier extends the period of time during which the Offer is open, is delayed in its purchase of Shares or is unable to purchase Shares pursuant to the Offer for any reason, then, without prejudice to Danier's rights under the Offer, the Depositary may, subject to applicable law, retain on behalf of the Corporation all Deposited Shares, and such Deposited Shares may not be withdrawn except to the extent depositing Shareholders are entitled to withdrawal rights as described in this Section 5 of this Offer to Purchase entitled "Withdrawal Rights".

6. CONDITIONS OF THE OFFER

Notwithstanding any other provision of the Offer, Danier shall not be required to accept for purchase, to purchase or to pay for any Shares deposited and may withdraw, terminate, cancel, extend or amend the Offer or may postpone the take up and payment for Shares deposited if, at any time before the payment for any such Shares, any of the following events shall have occurred (or shall have been determined by the Corporation, in its sole judgment, to have occurred) which, in the Corporation's sole judgment in any such case and regardless of the circumstances, makes it inadvisable to proceed with the Offer or with such acceptance for purchase or payment:

- (a) there shall have been threatened, instituted or pending any action or proceeding by any government or governmental authority or regulatory or administrative agency in any jurisdiction, or by any other person in any jurisdiction, before any court or governmental authority or regulatory or administrative agency in any jurisdiction, (i) challenging or seeking to cease trade, make illegal, delay or otherwise directly or indirectly restrain or prohibit the making of the Offer, the acceptance for payment of some or all of the Shares by the Corporation or otherwise directly or indirectly relating in any manner to or affecting the Offer, or (ii) seeking material damages or that otherwise, in the sole judgment of the Corporation, has or may have a material adverse effect on the Shares or the business, earnings, assets, liabilities, condition (financial or otherwise), properties, operations, results of operations or prospects of the Corporation and its subsidiaries taken as a whole, or has or may materially impair the contemplated benefits of the Offer to the Corporation;
- (b) there shall have been any action or proceeding threatened, instituted or pending or approval withheld or any statute, rule, regulation, stay, decree, judgment or order or injunction proposed, sought, enacted, enforced, promulgated, amended, issued or deemed applicable to the Offer or the Corporation or any of its subsidiaries, by any court, government or governmental authority or regulatory or administrative agency in any jurisdiction that, in the sole judgment of the Corporation, might directly or indirectly result in any of the consequences referred to in clauses (i) or (ii) of paragraph (a) above or that, in the sole judgment of the Corporation, would or might prohibit, prevent, restrict or delay the consummation of the Offer or would or might materially impair the contemplated benefits of the Offer to the Corporation or otherwise make it inadvisable to proceed with the Offer;
- (c) there shall have occurred (i) any general suspension of trading in, or limitation on prices for, securities on any securities exchange or in the over-the-counter market in Canada or the United States, (ii) the declaration of a banking moratorium or any suspension of payments in respect of banks in Canada or the United States (whether or not mandatory), (iii) a natural disaster or the commencement or material worsening of a war, armed hostilities, act of terrorism or other international or national calamity directly or indirectly involving Canada, the United States or any other region where the Corporation or its subsidiaries maintain significant business activities, (iv) any limitation by any government or governmental authority or regulatory or administrative agency or any other event that, in the sole judgment of the Corporation, might affect the extension of credit by banks or other lending institutions, (v) any significant decrease in the market price of the Shares since the close of business on October 23, 2012, (vi) any change in the general political, market, economic or financial conditions that has or may have a material adverse effect on the Corporation's business, operations or prospects or the trading in, or value of, the Shares, (vii) any decline in any of the S&P/TSX Composite Index, the Dow Jones Industrial Average or the S&P 500 Index by an amount in excess of 10%, measured from the close of business on October 23, 2012, or (viii) in the case of any of the foregoing existing at the time of the commencement of the Offer, a material acceleration or worsening thereof;

- (d) there shall have occurred any change or changes (or any development involving any prospective change or changes) in the business, earnings, assets, liabilities, condition (financial or otherwise), properties, operations, results of operations or prospects of the Corporation or its subsidiaries that, individually or in the aggregate, in the sole judgment of the Corporation, has, have or may have a material adverse effect on the Corporation and its subsidiaries taken as a whole;
- (e) the Valuator shall have withdrawn or amended the Valuation in respect of the Offer;
- (f) any take-over bid or tender or exchange offer with respect to some or all of the securities of Danier, or any amalgamation, arrangement, merger, business combination or acquisition proposal, disposition of assets, or other similar transaction with or involving Danier or any of its affiliates, other than the Offer, or any solicitation of proxies, other than by management, to seek to control or influence the Board of Directors, shall have been proposed, announced or made by any individual or entity;
- (g) any change shall have occurred or been proposed to the Tax Act or the current published administrative policies or assessing practices of the CRA or other relevant taxing authority or to relevant tax jurisprudence that, in the sole judgment of the Corporation, is detrimental to the Corporation, its affiliates or any one or more Shareholders, or with respect to making the Offer or taking up and paying for the Shares pursuant to the Offer;
- (h) the Corporation shall have reasonably determined that the consummation of the Offer and the purchase of the Shares may cause the Shares to be delisted from the TSX;
- (i) Danier shall have concluded, in its sole judgment, that the Offer or the taking up and payment for any or all of the Shares by the Corporation is illegal or otherwise not in compliance with applicable laws, or that necessary exemptions under applicable securities legislation in Canada, including exemptions from the obligation to take up Shares in the event that the Offer is extended in certain circumstances, are not available on acceptable terms to the Corporation in respect of the Offer and, if required under any such legislation, the Corporation shall not have received the necessary exemptions from or waivers of the appropriate courts or securities regulatory authorities in respect of the Offer; or
- (j) Danier shall have determined, in its sole judgment, that the Purchase Price for a Share exceeds the greater of the fair market value of such Share at the Expiry Time and at the time the Shares are acquired by the Corporation pursuant to the Offer, both determined without reference to the Offer.

The foregoing conditions are for the sole benefit of Danier and may be asserted by the Corporation, in its sole discretion, regardless of the circumstances (including any action or inaction by the Corporation) giving rise to any such conditions, or may be waived by the Corporation, in its sole discretion, in whole or in part at any time. The failure by the Corporation at any time to exercise its rights under any of the foregoing conditions shall not be deemed a waiver of any such right; the waiver of any such right with respect to particular facts and circumstances shall not be deemed a waiver with respect to any other facts and circumstances; and each such right shall be deemed an ongoing right which may be asserted at any time or from time to time. Any determination by the Corporation concerning the events described in this Section 6 shall be final and binding on all parties.

Any waiver of a condition by Danier, or the withdrawal of the Offer by the Corporation, shall be deemed to be effective on the date on which written notice of such waiver or withdrawal is delivered or otherwise communicated to the Depository at its principal office in Toronto, Ontario. The Corporation, after giving notice to the Depository of any waiver of a condition or the withdrawal of the Offer, shall forthwith thereafter make a public announcement of such waiver or withdrawal and provide or cause to be provided notice of such waiver or withdrawal to the TSX and the applicable Canadian securities regulatory authorities. If the Offer is withdrawn, the Corporation shall not be obligated to take up, accept for purchase or pay for any of the Deposited Shares, and the Depository will, as soon as practicable, return all certificates for Deposited Shares, Letters of Transmittal and Notices of Guaranteed Delivery and any related documents to the parties by whom they were deposited.

7. ACCEPTANCE FOR PAYMENT AND PAYMENT FOR DEPOSITED SHARES

If all conditions referred to in Section 6 of this Offer to Purchase entitled "Conditions of the Offer", have been satisfied or waived by Danier at or prior to the Expiry Time, after the Corporation has determined the Purchase Price in accordance with Section 2 of this Offer to Purchase entitled "Purchase Price", the Corporation will, subject to the terms and provisions of the Offer (including the pro-ration provisions and the preferential acceptance of Odd Lots described herein), take up and pay for Shares validly deposited pursuant to the Offer and not withdrawn promptly after the Expiry Time upon the terms of the Offer and subject to and in accordance with applicable securities laws. The Corporation will pay cash for Deposited Shares within three business days after taking up such Deposited Shares and cancel such Deposited Shares promptly following payment.

Number of Shares

For the purposes of the Offer, Danier will be deemed to have taken up and accepted for payment, subject to pro-ration and the preferential acceptance of Odd Lots, that number of Deposited Shares having an aggregate purchase price of not more than \$10 million that are validly deposited and not withdrawn pursuant to Auction Tenders at or below the Purchase Price (or that do not specify a price) and pursuant to Purchase Price Tenders if, as and when the Corporation gives oral (to be confirmed in writing) or written notice to the Depositary of its acceptance of such Shares for payment pursuant to the Offer.

The Corporation reserves the right, in its sole discretion, to delay taking up or paying for any Deposited Shares or to terminate the Offer and not take up or pay for any Deposited Shares if any condition referred to in Section 6 of this Offer to Purchase entitled "Conditions of the Offer" is not satisfied or waived, by giving written notice thereof or other communication confirmed in writing to the Depositary. The Corporation also reserves the right, in its sole discretion and notwithstanding any other condition of the Offer, to delay taking up and paying for Deposited Shares in order to comply, in whole or in part, with any applicable law.

Payment

The Purchase Price payable by Danier, and thus the amount owing to any depositing Shareholder, will be denominated and paid in Canadian dollars and net of any applicable withholding taxes. Shares taken up and paid for by Danier will be promptly cancelled by Danier.

Payment for Deposited Shares accepted for purchase, and not withdrawn, pursuant to the Offer will be made by depositing the aggregate Purchase Price for such Deposited Shares with the Depositary by bank transfer or other means satisfactory to the Depositary, who will act as agent for the depositing Shareholders for the purpose of receiving payment from the Corporation and transmitting such payment to the depositing Shareholders. The Depositary will also coordinate with CDS and DTC, as applicable, with respect to Shareholders who have deposited Shares by way of book-entry transfer which are taken up and accepted for payment by Danier, to arrange for payment to be made to such Shareholders in accordance with the settlement procedures of CDS and DTC, as applicable. Receipt of payment by the Depositary will be deemed to constitute receipt of payment by persons depositing Shares. **Under no circumstances will interest accrue or be paid by the Corporation, the Depositary or the Dealer Manager to persons depositing Shares regardless of any delay in paying for any Shares or otherwise.**

In the event of pro-ration of Deposited Shares, the Corporation will determine the pro-ration factor and pay for those Deposited Shares accepted for payment promptly after the Expiry Date in accordance with this Section 7. However, the Corporation does not expect to be able to announce the final results of any such pro-ration until approximately three business days after the Expiry Date. The Purchase Price for Shares deposited and purchased will be paid by cheque issued to the order of, and certificate(s) representing Shares not deposited or not purchased under the Offer will be issued or returned to, the person signing the relevant Letter of Transmittal or to the order of such other person as identified by the person signing such Letter of Transmittal, by properly completing the boxes captioned "Special Payment Instructions" and/or "Special Delivery Instructions" in such Letter of Transmittal. In the absence of an address being provided, cheques or certificates will be forwarded to the address of the person as shown on the share register(s) for the Deposited Shares. See "— Return of Unpurchased Shares" below.

The Depositary will forward, at the Corporation's expense, cheques representing the cash payment for a Shareholder's Shares taken up under the Offer and certificates representing all Shares not purchased by first class mail, postage pre-paid, to the person signing the relevant Letter of Transmittal or to such other person or such other address as identified by the person in such Letter of Transmittal (unless, in the case of a cheque, the person signing the Letter of Transmittal instructs the Depositary to hold such cheque for pick-up) by properly completing the box captioned "Special Delivery Instructions" in such Letter of Transmittal. See Section 9 of this Offer to Purchase entitled "Payment in the Event of Mail Service Interruption" in the event of a real or possible mail service interruption. Cheques mailed in accordance with this paragraph will be deemed to have been delivered at the time of mailing.

If you are a Registered Shareholder and you deposit your Shares directly to the Depositary, you will not be obligated to pay any brokerage fees or commissions. If you are a Non-Registered Shareholder who holds your Shares through an investment dealer, stock broker, commercial bank, trust company or other intermediary, you should consult with such persons regarding whether fees or commissions will apply in connection with a deposit of Shares pursuant to the Offer.

Return of Unpurchased Shares

Certificates for all Shares not purchased under the Offer, including all Shares deposited pursuant to Auction Tenders at prices in excess of the Purchase Price, Shares not purchased due to pro-ration and Shares withdrawn or not accepted for purchase pursuant to the terms and conditions of the Offer for any reason, will be returned (in the case of certificates representing Shares all of which are not purchased) or replaced with new certificates representing the balance of Shares not purchased (in the case of certificates representing Shares of which less than all are purchased) promptly after the Expiry Date or termination of the Offer without expense to the depositing Shareholder. In the case of Shares deposited by book-entry transfer pursuant to the procedures set out in Section 4 of this Offer to Purchase entitled "Procedure for Depositing Shares", such Shares will be credited to the depositing Shareholder's account maintained with CDS or DTC, as applicable, without expense to the Shareholder.

8. EXTENSION AND VARIATION OF THE OFFER

Subject to applicable law, Danier expressly reserves the right, in its sole discretion and regardless of whether or not any of the conditions specified under Section 6 of this Offer to Purchase entitled "Conditions of the Offer", shall have been satisfied or waived, at any time or from time to time, to extend the period of time during which the Offer is open or to vary the terms and conditions of the Offer by giving written or oral (to be confirmed in writing) notice of extension or variation to the Depositary and by causing the Depositary to provide to all Shareholders, where required by law, as soon as practicable thereafter, a copy of the notice in the manner set forth under Section 11 of this Offer to Purchase entitled "Notice". As soon as practicable after giving notice of an extension or variation to the Depositary, the Corporation will make a public announcement of the extension or variation and provide or cause to be provided notice of such extension or variation to the TSX and the Canadian securities regulatory authorities. Any notice of extension or variation will be deemed to have been given and be effective on the day on which it is delivered or otherwise communicated in writing to the Depositary at its principal office in Toronto, Ontario.

Where the terms of the Offer are varied (other than (i) a variation consisting solely of the waiver of one or more conditions of the Offer or (ii) a variation consisting solely of an increase in the consideration offered under the Offer where the Expiry Date is not extended for a period greater than 10 days), the period during which Shares may be deposited pursuant to the Offer shall not expire before 10 days after the notice of variation has been given to Shareholders, unless otherwise permitted by applicable law and subject to abridgement or elimination of that period pursuant to such orders or other forms of relief as may be granted by applicable securities regulatory authorities.

During any such extension or in the event of any variation, all Shares previously deposited and not taken up or withdrawn will remain subject to the Offer and may be accepted for purchase by the Corporation in accordance with the terms of the Offer, subject to Section 5 of this Offer to Purchase entitled "Withdrawal Rights". An extension of the Expiry Date or a variation of the Offer or change in information does not constitute a waiver by the Corporation of its rights under Section 6 of this Offer to Purchase entitled "Conditions of the Offer".

If, prior to the Expiry Time, a variation in the terms of the Offer increases the consideration offered to Shareholders by the Corporation, such increase shall be applicable to all Deposited Shares that are taken up pursuant to the Offer. The Purchase Price to be paid by the Corporation for any Shares taken up and paid for as a result of an extension of the Offer shall be the same Purchase Price paid to Shareholders whose Shares are taken up and paid for pursuant to, and prior to the extension of, the Offer.

Notwithstanding the foregoing, except as required by applicable securities laws, the Offer may not be extended by the Corporation if all of the terms and conditions of the Offer have been satisfied, except those waived by the Corporation, unless the Corporation first takes up all Shares validly deposited under the Offer and not withdrawn.

The Corporation also expressly reserves the right, in its sole discretion, (i) to terminate the Offer and not to accept for purchase or pay for any Shares upon the occurrence of any of the events specified in Section 6 of this Offer to Purchase entitled "Conditions of the Offer", or (ii) at any time or from time to time, to amend the Offer in any respect, including without limitation increasing or decreasing the maximum value of Shares that Danier may purchase and/or the range of prices it may pay pursuant to the Offer, subject to compliance with applicable Canadian securities laws.

If, prior to the Expiry Time or after the Expiry Time but before the expiry of all rights to withdraw Shares deposited to the Offer, a change (other than a change that is not within the control of the Corporation or its affiliates) has occurred in the information set forth in the Offer and Circular or in any notice of change or variation that would reasonably be expected to affect the decision of Shareholders to accept the Offer, the Corporation will cause a notice of change to be delivered to all Shareholders whose Shares have not been taken up as of the date of such change and will extend the time during which the Offer is open to the extent required under applicable Canadian securities laws.

Any such extension, delay, termination or amendment will be followed as promptly as practicable by a public announcement thereof. Without limiting the manner in which Danier may choose to make any public announcement, except as required by applicable law, Danier shall have no obligation to publish, advertise or otherwise communicate any such public announcement other than by issuing a news release through its usual news wire service.

9. PAYMENT IN THE EVENT OF MAIL SERVICE INTERRUPTION

Notwithstanding the provisions of the Offer and Circular, the Letter of Transmittal and the Notice of Guaranteed Delivery, cheques in payment for Shares purchased under the Offer and certificates for any Shares to be returned will not be mailed if Danier determines that delivery by mail may be delayed. Persons entitled to cheques or certificates which are not mailed for this reason may take delivery at the office of the Depositary at which the deposited certificates for the Shares were delivered until the Corporation has determined that delivery by mail will no longer be delayed. The Corporation will provide notice as provided under Section 11 of this Offer to Purchase entitled "Notice", of any determination not to mail under this Section 9 as soon as reasonably practicable after such determination is made. The deposit by the Corporation of cheques with the Depositary in these circumstances will constitute delivery to the persons entitled to them and payment for the Shares will be deemed to have been made immediately upon such deposit.

10. LIENS; DIVIDENDS

Shares acquired pursuant to the Offer shall be acquired by Danier free and clear of all hypothecs, liens, charges, encumbrances, security interests, claims, restrictions and equities whatsoever, together with all rights and benefits arising therefrom, including, without limitation, the right to any and all dividends, distributions, payments, securities, rights, assets or other interests which may be declared, paid, issued, distributed, made or transferred on or in respect of such Shares to Shareholders of record on or after the date that Danier takes up and accepts for payment the Shares under the Offer. Any dividends, distributions, payments, securities, rights, assets or other interests which may be declared, paid, issued, distributed, made or transferred on or in respect of such Shares to Shareholders of record prior to the date upon which the Shares are taken up and accepted for payment under the Offer shall be for the account of such Shareholders. Each Shareholder of record prior to the date upon which the Shares are taken up and accepted for payment under the Offer will be entitled to receive that dividend, distribution, payment, security, right, asset or other interest (if any), whether or not such Shareholder deposits Shares pursuant to the Offer.

Each depositing Shareholder will be bound by a representation and warranty that such Shareholder has full power and authority to deposit, sell, assign and transfer the Deposited Shares and any and all dividends, distributions, payments, securities, rights, assets or other interests which may be declared, paid, issued, distributed, made or transferred on or in respect of the Deposited Shares with a record date on or after the date that Danier takes up and accepts for payment the Deposited Shares and that, if the Deposited Shares are accepted for purchase by Danier, Danier will acquire good title thereto, free and clear of all hypothecs, liens, charges, encumbrances, security interests, claims, restrictions and equities whatsoever, together with all rights and benefits arising therefrom.

11. NOTICE

Without limiting any other lawful means of giving notice, any notice to be given by Danier or the Depositary under the Offer will be deemed to have been properly and validly given if it is mailed by first class mail, postage prepaid, to the Registered Shareholders at their respective addresses as shown on the share register(s) maintained in respect of the Shares and, except as otherwise provided in the Offer, will be deemed to have been received on the first business day following the date of mailing. These provisions apply despite (i) any accidental omission to give notice to any one or more Shareholders and (ii) an interruption of mail service in Canada or the United States following mailing. In the event of any interruption of mail service following mailing, the Corporation will use reasonable efforts to disseminate the notice by other means, such as publication. Except as otherwise required or permitted by law, in the event that post offices in Canada or the United States are not open for deposit of mail, or there is reason to believe there is or could be a disruption in all or any part of the postal service, any notice that the Corporation or the Depositary may give or cause to be given under the Offer will be deemed to have been properly and validly given and to have been received by Shareholders if it is issued by way of a news release and if it is published once in the National Edition of *The Globe & Mail* or the *National Post* and in a French language daily newspaper of general circulation in the Province of Québec.

12. OTHER TERMS

- (a) No broker, dealer or other person has been authorized to give any information or to make any representation on behalf of the Corporation, the Board of Directors, the Special Committee, the Dealer Manager or the Depositary other than as contained in this Offer to Purchase and the accompanying Circular, the Letter of Transmittal and the Notice of Guaranteed Delivery, and, if any such information or representation is given or made, it must not be relied upon as having been authorized by the Corporation, the Board of Directors, the Special Committee, the Dealer Manager or the Depositary.
- (b) The Offer and all contracts resulting from the acceptance thereof shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein. Each party to any agreement resulting from the acceptance of the Offer unconditionally and irrevocably attorns to the exclusive jurisdiction of the courts of the Province of Ontario and all courts competent to hear appeals therefrom.

- (c) The provisions of the Circular, the Letter of Transmittal and the Notice of Guaranteed Delivery accompanying this Offer to Purchase, including the instructions contained therein, as applicable, form part of the terms and conditions of this Offer to Purchase.
- (d) The Corporation, in its sole discretion, shall be entitled to make a final and binding determination of all questions relating to the interpretation of the Offer, the Offer and Circular, the Letter of Transmittal, the Notice of Guaranteed Delivery, the validity of any acceptance of the Offer, the *pro rata* entitlement of each depositing Shareholder, if applicable, and the validity of any withdrawals of Shares.
- (e) The Offer is not being made to, nor will deposits of Shares be accepted from or on behalf of, Shareholders residing in any jurisdiction in which the making of the Offer or the acceptance thereof would not be in compliance with the laws of such jurisdiction. The Corporation may, in its sole discretion, take such action as it may deem necessary to make the Offer in any such jurisdiction and to extend the Offer to Shareholders in any such jurisdiction.
- (f) It is a term of the Offer that for the purposes of subsection 191(4) of the Tax Act, the "specified amount" in respect of each Share will be the closing trading price of the Shares on the TSX on the Expiry Date.

None of the Corporation, its Board of Directors, the Special Committee, the Depositary or the Dealer Manager makes any recommendation to Shareholders as to whether to deposit or refrain from depositing any or all of such Shareholder's Shares pursuant to the Offer or as to the purchase price or prices at which Shareholders may choose to deposit Shares. Shareholders are strongly urged to review and evaluate carefully all information in the Offer and Circular, to consult their own financial, tax and legal advisors, and to make their own decisions as to whether to deposit Shares to the Offer and, if so, how many Shares to deposit and at what price or prices.

The accompanying Circular, together with this Offer to Purchase, constitutes the issuer bid circular required under Canadian securities laws applicable to Danier with respect to the Offer. **Shareholders are urged to carefully review the accompanying Circular and the related Letter of Transmittal and Notice of Guaranteed Delivery for additional information relating to the Offer and Danier.**

Dated: October 23, 2012

DANIER LEATHER INC.

(Signed) Douglas D. Murphy

DOUGLAS D. MURPHY

Director and Chairman of the Special Committee

CIRCULAR

This Circular is being furnished in connection with the Offer by Danier to purchase for cancellation from Shareholders for cash up to a maximum of \$10 million in value of its Shares, at a purchase price of not less than \$12.55 and not more than \$13.30 per Share, all upon the terms and subject to the conditions set forth in the accompanying Offer to Purchase. Capitalized words and defined terms used in this Circular, unless otherwise defined herein, have the meanings given to them above under the heading "Glossary" found at pages 5 to 8 of the Offer to Purchase. The terms and conditions of the Offer to Purchase, the Letter of Transmittal and the Notice of Guaranteed Delivery are incorporated into and form part of this Circular. Reference is made to the Offer to Purchase for details of the terms and conditions of the Offer.

1. INFORMATION CONCERNING DANIER LEATHER INC.

Founded in 1972, Danier has been manufacturing and retailing leather and suede apparel and accessories for 40 years and is one of the largest publicly traded specialty-apparel leather retailers in the world. As a vertically integrated designer, manufacturer and retailer, Danier is able to offer its customers high-quality, timeless and sophisticated leather clothing and accessories at exceptional value. Danier's in-house design team searches the world for the most inspiring trends and skillfully interprets them into timeless and sophisticated leather apparel and accessories. Danier's merchandise is marketed exclusively under the well-known Danier brand name and is available at its 89 shopping mall stores, street-front stores and large format power centre locations in Canada. Corporations and other organizations can also obtain Danier apparel and accessory merchandise for use as incentives and premiums for employees, suppliers and customers through Canada Sportswear Corp.

Danier Leather Inc., formerly Royal Leather Goods Limited, was incorporated under the OBCA by articles of incorporation dated June 30, 1972 and amalgamated with Leather Attic Shops Limited on July 1, 1985. The Corporation subsequently amalgamated under the laws of the Province of Ontario on December 1, 1994 with Jesaca Holdings Inc. and 1107011 Ontario Inc. The articles of the Corporation have since been amended on seven occasions, to change the name of the Corporation to "Danier Leather Inc.", to allow the Corporation to carry on business under the French name "Les Cuirs Danier Inc.", and on five other occasions, to modify the share capital of the Corporation.

The registered and head office of the Corporation is located at 2650 St. Clair Avenue West, Toronto, Ontario, Canada M6N 1M2. The Corporation's website is www.danier.com.

Danier's authorized capital consists of an unlimited number of class A preference shares, an unlimited number of class B preference shares, 1,224,329 Multiple Voting Shares, and an unlimited number of Shares. As of October 23, 2012, there were no class A preference shares and no class B preference shares issued and outstanding and 1,224,329 Multiple Voting Shares and 3,422,573 Shares were issued and outstanding. Each Multiple Voting Share entitles the holder to ten votes and each Share entitles the holder to one vote at all meetings of Shareholders of the Corporation. The Multiple Voting Shares are convertible into Shares on a one-for-one basis at any time at the option of the holder. The Multiple Voting Shares are also convertible into Shares upon the occurrence of certain transfers and other events. For further details concerning the rights, privileges and restrictions attached to the Shares and the Multiple Voting Shares, reference is made to Section 7 of this Circular entitled "Price Range of Shares; Dividends; Previous Sales and Purchases of Shares – Authorized and Outstanding Capital" and to the Corporation's most recent 2012 annual information form available on SEDAR at www.sedar.com.

The Shares are listed and posted for trading on the TSX under the symbol "DL". On October 22, 2012, the last trading day immediately prior to the announcement of Danier's intention to make the Offer, the closing price per Share on the TSX was \$11.29. The volume weighted average trading price of the Shares on the TSX for the 30 trading days preceding the announcement of the Offer was \$11.15.

Danier is a reporting issuer in each of the Provinces of Ontario, Alberta, British Columbia, Manitoba, New Brunswick, Newfoundland, Nova Scotia, Prince Edward Island, Québec and Saskatchewan and is subject to the information and reporting requirements of the applicable Canadian securities laws and the rules of the TSX and, in accordance therewith, files periodic reports and other information with the applicable Canadian securities regulatory authorities and the TSX relating to its business, financial condition and other matters. The Corporation files reports,

statements and other information with the Canadian Securities Administrators, which may be accessed on SEDAR at www.sedar.com.

2. BACKGROUND TO THE OFFER

Commencing in January, 2012, senior management of the Corporation and members of the Board of Directors began to discuss Danier's increasing cash position and various available options for the most effective use of such cash having regard to Danier's existing business plan, capital expenditure requirements and growth strategies in the context of the current and anticipated economic environment. Among the various alternatives discussed at that time was the possibility of pursuing a substantial issuer bid to repurchase a portion of the Corporation's outstanding Shares (an "SIB").

On January 25, 2012, in order to avoid any perceived or potential conflict by members of the Board of Directors in considering an SIB and the various alternatives thereto, the Board of Directors determined to form a Special Committee, comprised of Douglas D. Murphy (Chairman of the Special Committee), Clare Copeland, Edwin F. Hawken (Chairman of the Board of Directors) and Stephen I. Kahn, being all of the members of the Board other than Mr. Jeffrey Wortsman and Mr. Irving Wortsman (who was a director at that time). Each of the members of the Special Committee is independent (within the meaning of National Instrument 52-110 – *Audit Committees*) of Danier and its management, including Mr. Jeffrey Wortsman, the President and Chief Executive Officer of Danier and the holder of all of the outstanding Multiple Voting Shares.

On January 25, 2012, the Board also approved the mandate of the Special Committee, which includes, among other things, (i) assessing, considering and evaluating whether and when to proceed with an SIB, (ii) considering alternatives to an SIB that may be more desirable and whether it would be in the best interests of the Corporation to pursue any such SIB or any alternative thereto at such time or at a later time, (iii) identifying, consulting and engaging in discussions with the Board, management and legal and other advisors and carrying out such investigations and diligence as the Special Committee deemed necessary or advisable in connection with its mandate, and (iv) reporting and, at the appropriate time, making recommendations to the Board with respect to an SIB or any alternative thereto.

On January 30, 2012, the Special Committee engaged Stikeman Elliott LLP as its independent legal counsel to assist and advise it with respect to its duties, process and considerations.

On February 15, 2012, the Special Committee engaged Deloitte for the purposes of providing the Special Committee with preliminary financial and valuation advice with respect to a potential SIB or other alternatives, and to provide a formal valuation if and when a decision was made by the Special Committee to recommend an SIB to the Board of Directors. Additional details concerning the Engagement Letter with Deloitte and a summary of the services provided by Deloitte, including the Valuation, is contained in Section 4 of this Circular entitled "Summary of Valuation" below.

Off and on, during the period from February 15, 2012 through October 15, 2012, the members of the Special Committee met on various occasions, both formally and informally, with and without management, to evaluate Danier's cash position, financial performance, business plan execution, capital expenditure requirements and growth strategies in the context of the current and anticipated economic environment. In this context, from time to time during this period, the Special Committee considered whether the Corporation had sufficient confidence and clarity as to these matters in order to consider pursuing an SIB or other alternative use for the Corporation's excess cash position. The Special Committee received legal and financial advice throughout this period from Stikeman Elliott LLP and Deloitte. The Corporation also received legal advice throughout this period from its legal counsel, Davies Ward Phillips & Vineberg LLP.

On October 16, 2012, the Special Committee convened a formal meeting of its members to receive certain presentations from senior management of the Corporation, with a view to more fully deliberate and evaluate the possibility of recommending to the Board of Directors that the Corporation pursue an SIB. Deloitte attended a portion of this meeting to update the Special Committee on its financial and valuation work to date and to provide the Special Committee with its preliminary indicative range of value for the Shares. The Special Committee unanimously decided to instruct Deloitte to proceed with completing its formal valuation.

On October 23, 2012, the Special Committee received the Valuation, and on the basis thereof as well as the other reasons more fully discussed in Section 3 of this Circular entitled "Purpose and Effect of the Offer" below, unanimously determined to recommend to the Board of Directors that the Corporation make the Offer at the range of prices specified in this Offer and Circular, up to a maximum value of up to Cdn\$10 million of Shares. Mr. Wortsman was asked to and did attend this meeting in part for the purposes of confirming that he had no current intention of initiating any going private or similar transaction involving the Corporation. After receiving the Special Committee's recommendation and Deloitte's Valuation and upon considering the various factors set out below, among other things, and with the advice of the Corporation's and the Special Committee's respective legal counsel, the Board of Directors unanimously authorized and approved the making of the Offer (Mr. Wortsman having declared his interest and abstained from participating in the discussion relating to the Offer and voting thereon).

That same day, the Special Committee reviewed and also recommended to the Board that it approve the contents and mailing of the Offer and Circular, the Letter of Transmittal and the Notice of Guaranteed Delivery and, upon receipt of that recommendation and based on its review of the Offer to Purchase and Circular and related Offer documents, the Board of Directors approved the contents and mailing of the Offer and Circular, the Letter of Transmittal and the Notice of Guaranteed Delivery.

On October 23, 2012, the Corporation announced its intention to make the Offer.

3. PURPOSE AND EFFECT OF THE OFFER

Danier is making the Offer because it believes that the purchase of Shares under the Offer represents an equitable and appropriate use of a portion of Danier's cash resources and provides a liquidity opportunity for those Shareholders wishing to sell all or a portion of their Shares, while at the same time proportionately increasing the equity interest in the Corporation of Shareholders who do not wish to deposit any Shares under the Offer. The Board of Directors has determined, based on the unanimous recommendation of the Special Committee, that the Offer is in the best interests of Danier and unanimously approved the making of the Offer.

The Board of Directors, on recommendation of the Special Committee, gave careful consideration to a number of factors, including the following:

- (a) the Special Committee's and the Board of Directors' and senior management's belief that the Shares have been trading in volumes that do not provide reasonable liquidity for Shareholders;
- (b) the Offer provides Shareholders who desire liquidity with an opportunity to realize on all or a portion of their investment in Danier, should they desire liquidity, to an extent that might not otherwise be available in the market and without incurring brokerage commissions (subject to any fees or commissions that Non-Registered Shareholders may be charged by the intermediary holding their Shares on their behalf) which might otherwise be payable on a sale of their Shares in a transaction on the TSX;
- (c) the Offer is an equitable and efficient means of distributing capital of up to \$10 million in cash in the aggregate to Shareholders while providing Shareholders with an option to elect whether to participate in the distribution;
- (d) after giving effect to the Offer, Danier is expected to continue to have sufficient financial resources and working capital to conduct its ongoing business and operations and to fund foreseeable business strategies and opportunities as currently contemplated;
- (e) the positive impact that the purchase of Shares pursuant to the Offer could have on Danier's operating results calculated on a per Share basis, as well as on the return on equity of the Shares;
- (f) the deposit of Shares under the Offer is optional and is available to all Shareholders, and all Shareholders are free to accept or reject the Offer, subject to applicable legal constraints;

- (g) the Offer provides Shareholders who are considering the sale of all or a portion of their Shares with the opportunity to determine the price at which they are willing to sell their Shares if such Shares are deposited pursuant to an Auction Tender or the opportunity to deposit their Shares without specifying a price if such Shares are deposited pursuant to a Purchase Price Tender and, if any such Shares are purchased pursuant to the Offer, to sell such Shares for cash without the usual transaction costs associated with market sales;
- (h) generally, Shareholders that own fewer than 100 Shares, whose Shares are purchased pursuant to the Offer, will not only avoid the payment of any brokerage fees and commissions (subject to any fees or commissions that Non-Registered Shareholders may be charged by the intermediary holding their Shares on their behalf) but also any Odd Lot discounts, each of which may otherwise be applicable on a sale of their Shares in a transaction on the TSX;
- (i) the Valuation prepared by Deloitte, including the range of fair market values for Shares set forth therein, as more fully described in Section 4 of this Circular entitled "Summary of Valuation";
- (j) the Offer is not conditional on any minimum number of Shares being deposited;
- (k) Shareholders who do not deposit their Shares under the Offer will realize a proportionate increase in their equity interest in Danier to the extent that Shares are purchased by Danier pursuant to the Offer. For example, if the Offer is fully subscribed and Shares are purchased at a Purchase Price equal to the maximum purchase price per Share of \$13.30, the Offer will result in the purchase by Danier of a minimum of 751,879 Shares and those Shareholders who do not deposit any Shares under the Offer will see a 19.30% proportionate increase in their respective equity interest in Danier based on the number of Multiple Voting Shares and Shares issued and outstanding as at October 23, 2012 (assuming no exercise of Options). Similarly, if the Offer is fully subscribed and Shares are purchased at a Purchase Price equal to the minimum purchase price per Share of \$12.55, the Offer will result in the purchase by Danier of a minimum of 796,812 Shares and those Shareholders who do not deposit any Shares under the Offer will see a 20.70% proportionate increase in their respective equity interest in Danier based on the number of Multiple Voting Shares and Shares issued and outstanding as at October 23, 2012 (assuming no exercise of Options);
- (l) the Offer is only being made for the Corporation's subordinate voting shares and therefore the repurchase and cancellation of Shares thereunder will not materially affect the level of voting control over the Corporation; and
- (m) the maximum Purchase Price represents a premium of approximately 19% over the volume weighted average trading price of the Shares on the TSX of \$11.15 for the last 30 trading days preceding the date of Danier's announcement of its intention to make the Offer on October 23, 2012.

The foregoing summary of the information and factors is not intended to be exhaustive of the information and factors considered by the Special Committee in making a recommendation to the Board to make the Offer or by the Board of Directors in determining to authorize and approve the Offer, but includes the material factors considered by each of the Special Committee and the Board of Directors in reaching its recommendation and decision, as applicable. The members of the Special Committee and the Board of Directors evaluated various factors, including those summarized above, in light of their own knowledge of the business, earnings, financial position, assets, liabilities, financial condition, properties, operations, results of operations and prospects of Danier and based upon the advice of their respective advisors. In view of the numerous factors considered, neither the Special Committee nor the Board of Directors found it practicable to, and did not quantify or otherwise attempt to assign relative weight to specific factors in reaching its recommendation and decision, as applicable. In addition, individual members of the Board of Directors may have given different weight to different factors. The recommendation of the Special Committee to the Board to make the Offer and the determination of the Board of Directors to authorize and approve the Offer was made after careful consideration, evaluation and deliberation of all of the factors involved and various other information.

The Board of Directors, on recommendation of the Special Committee, authorized and approved the Offer, its final pricing and the Offer and Circular and related documents. None of the Corporation, its Board of Directors, the Special Committee, the Depositary or the Dealer Manager makes any recommendation to Shareholders as to whether to deposit or refrain from depositing any or all of such Shareholder's Shares pursuant to the Offer. No person has been authorized to make any such recommendation. Shareholders are strongly urged to review and evaluate carefully all information in the Offer and Circular, including the Valuation of Deloitte attached at Schedule "A" hereto, to consult their own financial, tax and legal advisors, and to make their own decisions as to whether to deposit Shares to the Offer and, if so, how many Shares to deposit and at what price or prices. The Valuation contains Deloitte's opinion that, based on the scope of its review and subject to the assumptions, restrictions and limitations provided therein, as of October 23, 2012, the fair market value per Share falls within the range of \$12.55 to \$13.30. The minimum and maximum Offer prices correspond with the range of values as determined by Deloitte. Danier is making the Offer to provide a liquidity opportunity for Shareholders and because the Special Committee, the Board of Directors and senior management of Danier believe that the Shares have been trading in volumes that do not provide reasonable liquidity for Shareholders and the Offer represents an appropriate use of a portion of Danier's cash on hand. Future values and liquidity of the Shares cannot be assured and are subject to risks.

Shareholders who do not tender their Shares to the Offer or whose Shares are not accepted because their tenders were at a price above the Purchase Price or due to the preferential acceptance of Odd Lots or pro-ration should be aware that while remaining Shareholders will have a proportionately increased equity interest in the Corporation, the amounts available for future returns of capital to Shareholders, if any, on a per Share basis may be less than the Purchase Price under the Offer. In addition, if the Offer is successfully completed, the liquidity of the trading of the Shares on the TSX may be reduced, thereby potentially impacting the trading volume and trading price of the Shares on the TSX.

4. SUMMARY OF VALUATION

Engagement of Valuator

Deloitte was contacted in connection with the preparation of a possible formal valuation for a possible substantial issuer bid on or about January 9, 2012, and was engaged by the Special Committee by letter dated February 15, 2012. In connection with the engagement of Deloitte to perform certain financial and valuation-related services and ultimately to prepare the Valuation, Danier agreed to pay Deloitte's fees of \$120,000 in the aggregate, and to reimburse Deloitte for reasonable out-of-pocket expenses (including an administrative charge of 7% of the fees). The fees and expenses of Deloitte are not contingent in whole or in part upon the outcome of the Offer, and Deloitte has no financial interest in Danier or in any other "interested party" (as such term is defined in MI 61-101) that may be affected by the Offer. The Special Committee determined that the compensation paid for the services provided did not in any way interfere with Deloitte's independence.

Qualifications of Valuator

Deloitte has been determined by the Special Committee to be qualified to produce the Valuation. Deloitte was determined to be qualified on the basis of its qualifications, as presented to the Special Committee and set out in the Valuation attached at Schedule "A", including, among other things, that: Deloitte is one of the leading professional services firms in Canada with over 8,000 professionals serving clients from 56 offices across Canada; Deloitte's professionals have been developing business solutions for Canadian and international organizations for more than 150 years; the Valuation Services group within Deloitte's Financial Advisory practice assists companies in managing the value of their assets and quantifying and articulating value for financial reporting, taxation, transaction, financing, strategic management and regulatory purposes; Deloitte's Canadian valuation team includes over 125 professionals, many of whom have earned various relevant professional designations; and Deloitte has indicated that it has significant experience in providing formal valuation reports in compliance with MI 61-101. On the basis of the foregoing, among other qualifications, the Special Committee believes, and Deloitte has represented to the Special Committee, that, for purposes of the Valuation, Deloitte has appropriate qualifications within the meaning given to such term in MI 61-101.

Independence of Valuator

Deloitte has been determined by the Special Committee to be independent on the basis that there has been no past relationship (except as set out below), and there is no present or anticipated relationship, other than the engagement of Deloitte by the Special Committee for purposes of preparing the Valuation, between Deloitte and Danier or any other "interested party" (as such term is defined in MI 61-101) that may be relevant to any perceived lack of independence of Deloitte including, without limitation, the holder of the Multiple Voting Shares. Deloitte has represented that it is of the view that it is independent of Danier and the holder of Multiple Voting Shares and any other interested party and that neither Deloitte nor any of its "affiliated entities" (as such term is defined in MI 61-101): (i) is an associated or affiliated entity or issuer insider of Danier or the holder of Multiple Voting Shares or any other interested party; (ii) is an advisor to Danier or the holder of Multiple Voting Shares or any other interested party in respect of the Offer; (iii) is a manager or co-manager of a soliciting dealer group for the Offer or a member of a soliciting dealer group for the Offer performing services beyond the customary soliciting dealer's function or receives more than the per security or per security holders fees payable to other members of the group; (iv) is an external auditor to Danier or the holder of the Multiple Voting Shares or any other interested party in respect of the Offer; or (v) has a material financial interest in the completion of the Offer. The compensation payable to Deloitte for the Valuation is not dependent, in whole or in part, on the conclusions reached by Deloitte or the outcome of the Offer. There are no understandings or agreements between Deloitte and Danier or any other interested party with respect to future business dealings.

In connection with a prior substantial issuer bid commenced by the Corporation on January 29, 2010 and completed on March 8, 2010, Deloitte was engaged by a special committee of the Board of Directors in January 2010 to prepare an independent valuation of the fair market value of the Shares, and delivered the valuation report in respect of such Shares as of January 20, 2010. The Special Committee has determined that this prior engagement does not impact Deloitte's independence in respect of Danier or any other interested party in respect of the Offer.

Having reviewed all of the relevant circumstances, Deloitte has advised the Special Committee that it is qualified for and independent in the preparation of the Valuation.

Scope of Review

In preparing the Valuation, Deloitte carried out the work necessary to complete the Valuation, as more particularly described in the Valuation attached at Schedule "A" hereto. Deloitte reviewed extensive information provided by Danier and undertook various procedures, including interviews and discussions with senior management and members of the Special Committee of Danier. Deloitte also conducted other investigative exercises including, but not limited to, a review of publicly available information related to corporations which may be considered to be somewhat comparable to Danier. Deloitte was given access to various books and records of Danier, management of Danier and their advisors and, to its knowledge, was not denied any type of requested information that might be considered to be material to the Valuation.

Copy of Valuation

A copy of the Valuation may be obtained by any Shareholder without charge upon request to the Senior Vice-President, Chief Financial Officer and Secretary of Danier, 2650 St. Clair Avenue West, Toronto, Ontario M6N 1M2, Telephone: (416) 762-8175 ext. 328. A copy of the Valuation is also attached at Schedule "A" to this Offer and Circular and is being filed on SEDAR at www.sedar.com and sent to Shareholders concurrently with the Offer and Circular and related documents.

General Assumptions, Qualifications and Limitations

Deloitte relied upon and assumed the completeness, accuracy and fair presentation of all financial and other information, data, advice, opinions and representations and other material obtained by it from public sources and from Danier and its respective advisors.

The Valuation was rendered on the basis of securities markets and industry, economic, financial market and general business conditions prevailing as at the date of the Valuation and on the condition and prospects, financial and otherwise, of Danier as reflected in the information and documents reviewed by Deloitte and as they were discussed with management of Danier.

In preparing its analysis and the Valuation, Deloitte made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, including inflation and exchange rates, all as more particularly described in the Valuation.

Deloitte believes that the Valuation must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analysis together, could create a misleading view of the process underlying the Valuation. The preparation of a valuation opinion is a complex process and is not necessarily susceptible to partial analysis or summary. A copy of the Valuation is attached to this Offer and Circular at Schedule "A", which Shareholders are urged to read carefully and in its entirety.

Determination of Fair Market Value

For the purposes of the Valuation, the Valuator has taken "fair market value" to mean the monetary consideration that, in an open and unrestricted market, a prudent and informed buyer would pay to a prudent and informed seller, each acting at arm's length with the other and under no compulsion to act. In determining the per Share fair market value of Danier, Deloitte has not included a downward adjustment to reflect the lack of liquidity of the Shares, the effect of the Offer on the Shares, or the fact that the Shares do not form part of a controlling interest. In addition, Shareholders are reminded that the Valuation was prepared before the Offer was announced and, as such, the Valuation did not consider the existence or impact of the Offer.

Valuation Methodology

The Valuation was prepared by Deloitte based on its professional judgment and in compliance with MI 61-101. The Valuation is based upon techniques and assumptions that Deloitte considers appropriate in the circumstances for the purposes of arriving at an opinion as to the range of fair market value of the Shares.

In preparing the Valuation, Deloitte, following a review of the historical operating results of Danier, concluded that the most appropriate method for valuing Danier was to use a capitalized cash flow approach.

Capitalized Cash Flow Approach

Based on Deloitte's review of the business operations of Danier and its discussions with management, Deloitte determined a capitalized cash flow approach to be the most appropriate method to determine the fair market value of the Shares.

The capitalized cash flow approach involves capitalizing the estimated future maintainable after-tax cash flow from operations by a rate of return, which serves as a measure of the rate of return required by a prospective purchaser of the business reflecting, among other factors, the risk inherent in achieving the determined level of maintainable cash flow. Deloitte applied the capitalized cash flow approach on an enterprise basis. Using this approach, maintainable cash flows less required sustaining capital re-investment (net of associated tax shield) are determined prior to interest expense and are capitalized using a weighted-average cost of capital ("WACC") net of an estimate for future growth (the "**capitalization rate**").

The WACC represents the overall return on investment required by Danier and is calculated as a weighted average of Danier's notional after tax cost of debt (borrowing rate) and its notional after tax cost of equity. The WACC was determined based on Deloitte's review of the operations of Danier, its relative risks, and the assumption of a normalized capital structure.

The capitalization of maintainable pre-interest, after-tax cash flow using a capitalization rate that has been calculated based on a WACC, results in a conclusion that represents the fair market value of Danier's operations. However, since the capitalized cash flow value, as determined above, has not considered the tax shelter benefit of the capital cost allowance deduction currently available, the tax shield from the undepreciated capital cost ("UCC") balances at the date of the Valuation was added to the capitalized cash flow value. The tax shield is the present value of the future tax savings available from the deduction of capital cost allowance. To determine the enterprise value (the "**Enterprise Value**") of the business as a whole, the present value of the cost of the capital expenditures expected to be spent in fiscal 2013 and 2014 in excess of the sustaining capital expenditures included in the maintainable cash flow (net of the related tax shield) was deducted.

To the Enterprise Value so determined, Deloitte added the value of net redundant assets in arriving at the fair market value of all of the Shares of Danier. Net redundant assets are assets (net of redundant liabilities) that are not required in the day-to-day operations of the business and, therefore, do not influence the going-concern value of the net operating assets otherwise determined. Based on Deloitte's analysis of the financial position of Danier and discussions with management, Deloitte determined the level of redundant cash at September 29, 2012 that was added to the Enterprise Value to determine the fair market value of all of the Shares of Danier. The amount of redundant cash so added included an amount related to the exercise of in-the-money Options. Based on Deloitte's analysis of the financial position of Danier and discussions with management, Deloitte determined that Danier did not have any interest-bearing debt at September 29, 2012.

In preparing its analysis and the Valuation, Deloitte also reviewed and considered the financial position and operating results of Danier for the period from September 30, 2012 through to October 23, 2012 and discussed with management and the Special Committee any material intervening events or developments that occurred from September 30, 2012 through to October 23, 2012. Based on that review, analysis and discussions, Deloitte concluded that there have been no material changes in financial position or financial results or material events, developments or changes that would require, as at October 23, 2012, an adjustment to its conclusions concerning the fair market value per Share of Danier as of the date of the Valuation, as set out below.

Valuation Conclusion

Based upon the foregoing and subject to the assumptions, restrictions and the scope of Deloitte's work as more fully set out in the Valuation attached at Schedule "A" hereto, which Shareholders are urged to read carefully and in its entirety, Deloitte has concluded that in its opinion, the fair market value per Share of Danier as at October 23, 2012 falls within the range of \$12.55 and \$13.30 per Share.

5. PRIOR VALUATIONS

Pursuant to the provisions of MI 61-101, an issuer making an offer for its securities must, with certain limited exceptions, disclose every prior valuation or appraisal of its securities or any material asset made in the 24 months before the date of such offer whether or not prepared by an independent valuator, which would reasonably be expected to affect the decision of a securityholder to retain or dispose of the securities affected by the offer. To the knowledge of the directors and officers of Danier, after reasonable enquiry, other than the Valuation of the Valuator prepared in connection with this Offer, a copy of which is attached to this Circular at Schedule "A", no "prior valuations" (as such term is defined in MI 61-101) regarding Danier, its securities or material assets have been prepared within the 24 months preceding the date hereof.

6. FINANCIAL INFORMATION

A copy of Danier's most recent audited consolidated financial statements for the fiscal year ended June 30, 2012, as well as its unaudited interim consolidated financial statements for the 13-week period ended September 29, 2012, are available on SEDAR at www.sedar.com. Shareholders who wish to obtain a copy of these financial statements may do so, without charge, upon request to the Senior Vice-President, Chief Financial Officer and Secretary of Danier, 2650 St. Clair Avenue West, Toronto, Ontario M6N 1M2, Telephone: (416) 762-8175 ext. 328.

7. PRICE RANGE OF SHARES; DIVIDENDS; PREVIOUS SALES AND PURCHASES OF SHARES

Authorized and Outstanding Capital

Danier's authorized capital consists of an unlimited number of class A preference shares, an unlimited number of class B preference shares, 1,224,329 Multiple Voting Shares, and an unlimited number of Shares. As of October 23, 2012, there were no class A preference shares and no class B preference shares issued and outstanding and 1,224,329 Multiple Voting Shares and 3,422,573 Shares were issued and outstanding.

Generally, the rights, privileges and restrictions attaching to the Shares and the Multiple Voting Shares are the same, except that the Shares carry one vote per share and the Multiple Voting Shares carry ten votes per share. In addition, the Multiple Voting Shares are convertible into Shares on a one-for-one basis at any time at the option of the holder and are also subject to provisions whereby, if a triggering event occurs, then each Multiple Voting Share is automatically converted into one fully paid and non-assessable Share. A "triggering event" may occur if, among other things, Mr. Jeffrey Wortsman, President and Chief Executive Officer of the Corporation, (i) dies; (ii) ceases to be a senior officer of the Corporation; (iii) ceases to own five percent or more of the aggregate number of Multiple Voting Shares and Shares outstanding; or (iv) owns less than 918,247 Multiple Voting Shares and Shares combined. The Shares provide the holders with certain additional rights in the event that a take-over bid having certain characteristics is made for the Multiple Voting Shares. None of such rights are applicable in the context of the Offer. For further details concerning the rights, privileges and restrictions attaching to each class of outstanding voting securities of the Corporation, reference is made to the Corporation's most recent 2012 annual information form available on SEDAR at www.sedar.com.

Trading of Shares on Principal Markets

The Shares are listed and posted for trading on the TSX under the symbol "DL". The following table sets forth the high and low trading prices per Share and volume of Shares traded on the TSX for the periods indicated.

Period	High Price	Low Price	Volume
October 2011.....	\$10.39	\$9.49	242,763
November 2011.....	\$10.01	\$9.45	18,049
December 2011.....	\$11.00	\$9.74	18,706
January 2012.....	\$11.20	\$10.41	25,817
February 2012.....	\$11.25	\$10.50	93,767
March 2012.....	\$11.34	\$10.85	32,224
April 2012.....	\$11.59	\$10.39	61,023
May 2012.....	\$11.24	\$10.50	40,965
June 2012.....	\$11.09	\$10.55	53,399
July 2012.....	\$11.10	\$10.52	22,427
August 2012.....	\$11.25	\$10.71	42,942
September 2012.....	\$11.50	\$10.90	41,500
October 1-22, 2012.....	\$11.50	\$11.19	17,750

Source: TMX Datalinx

Danier announced its intention to make the Offer on October 23, 2012. The closing price per Share on the TSX on October 22, 2012, the last trading day immediately prior to the announcement of Danier's intention to make the Offer, was \$11.29. The volume weighted average trading price of the Shares on the TSX for the 30 trading days

preceding the announcement of the Offer was \$11.15. **The maximum Purchase Price under the Offer represents a premium of approximately 19% over the volume weighted average trading price of the Shares on the TSX for the last 30 trading days preceding the date of Danier's announcement.**

Shareholders are urged to obtain current market quotations for the Shares.

The completion of the Offer in accordance with its terms and conditions is not currently expected to cause the Shares to be delisted from the TSX or cause the Corporation to no longer be subject to the periodic reporting requirements of the applicable Canadian securities laws.

Dividend Policy

The Corporation's dividend policy is based on its results of operations, its financial position and condition, its financing requirements for ongoing business and operations and future business strategies and opportunities and other factors that the Corporation's Board of Directors may deem relevant in the circumstances. No dividends were declared in the 2010, 2011 or 2012 fiscal years and, as of the date hereof, no dividends have been declared during fiscal 2013. Danier's Board of Directors periodically reviews its dividend policy. It cannot be determined at this time whether any dividends will be declared in the future. Danier currently has no plans or intentions to declare dividends or to alter its dividend policy.

Previous Purchases and Sales

Except for the issuance of Shares pursuant to the exercise of Options described below, no securities of Danier have been purchased or sold by Danier during the 12 months preceding the date of the Offer.

Previous Distributions of Shares

During the five years preceding the Offer, Danier has distributed Shares pursuant to the exercise of Options as set out below. These distributions were made pursuant to and in accordance with the terms of the applicable Option and Danier's Stock Option Plan. Under the Stock Option Plan, Options to acquire Shares are granted from time to time to directors, senior officers, key employees and service providers of Danier and its subsidiaries in order to incentivize and sustain commitment to long-term profitability and to maximum shareholder value.

Name and Title of Recipient	Date of Transaction	Nature (Issue / Exercise)	Number of Shares	Issue / Exercise Price per Share	Aggregate Proceeds
Bruce Aitken <i>Vice-President, Planning & Allocation</i>	October 22, 2007	Exercise of Options	375	\$6.85	\$2,568.75
Philip Cutter <i>Vice-President, Information Technology & Chief Information Officer</i>	November 5, 2007	Exercise of Options	9,800	\$6.85	\$67,130.00
Brian Adamson <i>Chief Accountant</i>	January 28, 2008	Exercise of Options	1,500	\$6.85	\$10,275.00
Olga Koel <i>Executive Vice-President & Chief Merchandise Officer</i>	May 1, 2008	Exercise of Options	40,000	\$6.85 ⁽¹⁾	— ⁽¹⁾
Karen Marshall <i>Vice-President, Logistics & Distribution</i>	May 1, 2008	Exercise of Options	13,000	\$6.85 ⁽¹⁾	— ⁽¹⁾
Bruce Aitken <i>Vice-President, Planning & Allocation</i>	October 29, 2009	Exercise of Options	5,000	\$3.15	\$15,750.00
Guia Lopez <i>Vice-President & Chief Sourcing Officer</i>	May 13, 2010	Exercise of Options	3,300	\$3.15	\$10,395.00

Name and Title of Recipient	Date of Transaction	Nature (Issue / Exercise)	Number of Shares	Issue / Exercise Price per Share	Aggregate Proceeds
Guia Lopez <i>Vice-President & Chief Sourcing Officer</i>	May 14, 2010	Exercise of Options	3,300	\$3.15	\$10,395.00
Jennifer Steckel Elliott <i>Former Vice-President, Marketing</i>	August 16, 2010	Exercise of Options	6,666	\$3.97	\$26,464.02
Philip Cutter <i>Vice-President, Information Technology & Chief Information Officer</i>	September 1, 2010	Exercise of Options	5,000	\$3.15	\$15,750.00
Bryan Tatoff <i>Senior Vice-President, Chief Financial Officer & Secretary</i>	October 26, 2010	Exercise of Options	8,400	\$3.15	\$26,460.00
Edwin Hawken <i>Director</i>	October 27, 2010	Exercise of Options	4,000	\$11.20	\$44,800.00
Edwin Hawken <i>Director</i>	October 27, 2010	Exercise of Options	4,000	\$10.96	\$43,840.00
Stephen Kahn <i>Director</i>	October 27, 2010	Exercise of Options	4,000	\$11.20	\$44,800.00
Jeffrey Wortsman <i>Director, President & Chief Executive Officer</i>	October 27, 2010	Exercise of Options	21,000	\$3.15	\$66,150.00
Bryan Tatoff <i>Senior Vice-President, Chief Financial Officer & Secretary</i>	October 27, 2010	Exercise of Options	5,100	\$3.15	\$16,065.00
Jeffrey Wortsman <i>Director, President & Chief Executive Officer</i>	October 28, 2010	Exercise of Options	1,000	\$3.15	\$3,150.00
Bryan Tatoff <i>Senior Vice-President, Chief Financial Officer & Secretary</i>	October 28, 2010	Exercise of Options	600	\$3.15	\$1,890.00
Bryan Tatoff <i>Senior Vice-President, Chief Financial Officer & Secretary</i>	October 29, 2010	Exercise of Options	1,400	\$3.15	\$4,410.00
Brian Adamson <i>Chief Accountant</i>	October 29, 2010	Exercise of Options	1,400	\$3.15	\$4,410.00
Cheryl Sproul <i>Vice-President, Human Resources</i>	October 29, 2010	Exercise of Options	13,333	\$3.15	\$41,998.95
Jeffrey Wortsman <i>Director, President & Chief Executive Officer</i>	November 1, 2010	Exercise of Options	5,700	\$3.15	\$17,955.00
Bryan Tatoff <i>Senior Vice-President, Chief Financial Officer & Secretary</i>	November 1, 2010	Exercise of Options	10,500	\$3.15	\$33,075.00
Guia Lopez <i>Vice-President & Chief Sourcing Officer</i>	November 1, 2010	Exercise of Options	6,700	\$3.15	\$21,105.00
Philip Cutter <i>Vice-President, Information Technology & Chief Information Officer</i>	November 1, 2010	Exercise of Options	8,300	\$3.15	\$26,145.00

Name and Title of Recipient	Date of Transaction	Nature (Issue / Exercise)	Number of Shares	Issue / Exercise Price per Share	Aggregate Proceeds
William Jeong <i>Director, Raw Material Sourcing</i>	November 1, 2010	Exercise of Options	3,300	\$3.15	\$10,395.00
Julie Cutter <i>Director of Finance</i>	November 1, 2010	Exercise of Options	3,300	\$3.15	\$10,395.00
Brian Adamson <i>Chief Accountant</i>	November 1, 2010	Exercise of Options	1,900	\$3.15	\$5,985.00
Jeffrey Wortsman <i>Director, President & Chief Executive Officer</i>	November 2, 2010	Exercise of Options	2,300	\$3.15	\$7,245.00
Clare Copeland <i>Director</i>	November 2, 2010	Exercise of Options	4,000	\$11.20	\$44,800.00
Clare Copeland <i>Director</i>	November 2, 2010	Exercise of Options	4,000	\$10.96	\$43,840.00
Irving Wortsman <i>Former Director</i>	November 2, 2010	Exercise of Options	4,000	\$11.20	\$44,800.00
Irving Wortsman <i>Former Director</i>	November 2, 2010	Exercise of Options	4,000	\$10.96	\$43,840.00
Stella Tsui <i>Director – Imports</i>	January 24, 2011	Exercise of Options	3,000	\$3.15	\$9,450.00
Leslie Laing <i>General Merchandise Manager</i>	January 24, 2011	Exercise of Options	3,300	\$3.15	\$10,395.00
Ron Kohn <i>Director, Visual Merchandising</i>	January 24, 2011	Exercise of Options	3,300	\$3.15	\$10,395.00
Bryan Tatoff <i>Senior Vice-President, Chief Financial Officer & Secretary</i>	January 24, 2011	Exercise of Options	10,000	\$7.80	\$78,000.00
Olga Koel <i>Executive Vice-President & Chief Merchandise Officer</i>	January 26, 2011	Exercise of Options	10,000	\$3.15	\$31,500.00
Bruce Aitken <i>Vice-President, Planning & Allocation</i>	January 26, 2011	Exercise of Options	5,000	\$10.96	\$54,800.00
Bruce Aitken <i>Vice-President, Planning & Allocation</i>	January 26, 2011	Exercise of Options	5,000	\$3.15	\$15,750.00
Karen Marshall <i>Vice-President, Logistics & Distribution</i>	April 27, 2011	Exercise of Options	4,800	\$3.15	\$15,120.00
Jennifer Steckel Elliott <i>Former Vice-President, Marketing</i>	April 29, 2011	Exercise of Options	6,667	\$3.97	\$26,467.99
Brian Adamson <i>Chief Accountant</i>	November 9, 2011	Exercise of Options	550	\$3.15	\$1,732.50
Stella Tsui <i>Director – Imports</i>	November 9, 2011	Exercise of Options	650	\$3.15	\$2,047.50
Brian Adamson <i>Chief Accountant</i>	November 11, 2011	Exercise of Options	510	\$3.15	\$1,606.50
Stella Tsui <i>Director – Imports</i>	November 11, 2011	Exercise of Options	590	\$3.15	\$1,858.50

Name and Title of Recipient	Date of Transaction	Nature (Issue / Exercise)	Number of Shares	Issue / Exercise Price per Share	Aggregate Proceeds
Brian Adamson <i>Chief Accountant</i>	November 15, 2011	Exercise of Options	180	\$3.15	\$567.00
Stella Tsui <i>Director – Imports</i>	November 15, 2011	Exercise of Options	220	\$3.15	\$693.00
Brian Adamson <i>Chief Accountant</i>	November 16, 2011	Exercise of Options	460	\$3.15	\$1,449.00
Stella Tsui <i>Director – Imports</i>	November 16, 2011	Exercise of Options	540	\$3.15	\$1,701.00
Jennifer Steckel Elliott <i>Former Vice-President, Marketing</i>	May 3, 2012	Exercise of Options	6,667	\$3.97	\$26,467.99
Guia Lopez <i>Vice-President & Chief Sourcing Officer</i>	June 11, 2012	Exercise of Options	6,700	\$3.15	\$21,105.00
Julie Cutter <i>Director of Finance</i>	June 12, 2012	Exercise of Options	1,700	\$3.15	\$5,355.00

Note:

- (1) The Shares issued upon the exercise of Options were issued pursuant to a "cashless exercise" of the Options in accordance with the terms of such Options and the Corporation's Stock Option Plan. Accordingly, the actual exercise price per Option was not payable to the Corporation.

Except for the distribution of Shares pursuant to the exercise of Options described above, no other securities of Danier have been distributed by Danier during the five years preceding the date of this Offer and Circular.

Options Issued Pursuant to Stock Option Plan

As of October 23, 2012, an aggregate of 299,767 Options were outstanding under the Stock Option Plan for directors, senior officers, key employees and services providers, exercisable to acquire an aggregate of 299,767 Shares. Each Option is exercisable for one Share at exercise prices ranging from \$3.15 to \$10.96. To date, a total of 620,167 Shares have been reserved for issuance pursuant to outstanding Options, some of which have been forfeited or expired in accordance with their terms without being exercised. For further details concerning the number of Options held by directors and officers of Danier, please see Section 8 of this Circular entitled "Ownership of Danier Securities; Transactions in Danier Securities" below.

8. OWNERSHIP OF DANIER SECURITIES; TRANSACTIONS IN DANIER SECURITIES

Ownership of Securities of Danier

The following tables indicate, as at October 23, 2012, the number of outstanding securities of any class of Danier beneficially owned, or over which control or direction was exercised, by Danier and each director and officer of Danier and, to the knowledge of Danier after reasonable enquiry, each insider of Danier (other than the directors and officers), each associate and affiliate of Danier, and each associate and affiliate of each insider of Danier. Danier does not beneficially own, or have direction or control over, any outstanding securities of any class of the Corporation. No person or company is acting jointly or in concert with Danier in connection with the Offer.

Name	Relationship with Danier	Number of Shares ⁽¹⁾	% of Outstanding Shares ⁽²⁾	Number of Options to Purchase Outstanding Shares ⁽¹⁾	% of Outstanding Options
Edwin F. Hawken	Director; Chairman of the Board	13,700 Shares	0.400%	NIL	NIL
Jeffrey Wortsman	Director; President & Chief Executive Officer	10,000 Shares	0.292%	140,000	46.70%
		1,224,329 Multiple Voting Shares	100%	—	—
Clare Copeland	Director	1,000 Shares	0.029%	NIL	NIL
Stephen I. Kahn	Director	5,000 Shares	0.146%	4,000	1.33%
Douglas D. Murphy	Director	2,000 Shares	0.058%	NIL	NIL
Bryan Tatoff	Senior Vice President, Chief Financial Officer & Secretary	8,200 Shares	0.240%	49,000	16.35%
Olga E. Koel	Executive Vice President & Chief Merchandise Officer	2,000 Shares	0.058%	10,000	3.34%
Philip A. Cutter	Vice President, Information Technology & Chief Information Officer	NIL	NIL	6,700	2.24%
Guia Lopez	Vice President & Chief Sourcing Officer	NIL	NIL	15,000	5.00%
Bruce Aitken	Vice President, Planning & Allocation	NIL	NIL	5,000	1.67%
Karen J. Marshall	Vice President, Logistics & Distribution	315 Shares	0.009%	10,200	3.40%
P. Cris Ruivo	Vice President, Store Operations	NIL	NIL	20,000	6.67%
Cheryl Sproul	Vice President, Human Resources	NIL	NIL	6,667	2.22%
Elizabeth Gill	Vice President, Marketing	NIL	NIL	28,100	9.37%

Notes:

- (1) The information concerning Shares and Options beneficially owned, directly or indirectly, or over which control or direction is exercised, not being entirely within the knowledge of Danier, has been furnished by the respective directors and officers listed above and based upon information publicly filed on SEDI. Unless otherwise indicated, (a) beneficial ownership is direct and (b) the person indicated has sole voting and investment power.
- (2) The percentage of outstanding shares disclosed is calculated as the number of shares of the class held by such director or officer divided by the aggregate number of shares of that same class issued and outstanding as of the date hereof.

To the knowledge of the Corporation, as at October 23, 2012, all directors and officers of Danier as a group (and together with their associates and affiliates, if any) beneficially owned, or exercised control or direction over, an aggregate of 42,215 Shares, or 1.23% of the outstanding Shares. To the knowledge of the Corporation, as at October 23, 2012, all directors and officers of Danier as a group (and together with their associates and affiliates, if any) beneficially own an aggregate of 294,667 Options to acquire an aggregate of 294,667 Shares, some of which are not currently exercisable, or representing 98.30 % of the outstanding Options or, assuming the exercise of all the outstanding Options held by directors and officers (and their associates and affiliates, if any), representing 7.93% of the then outstanding Shares. Including the Multiple Voting Shares held by Mr. Jeffrey Wortsman, President and

Chief Executive Officer of the Corporation, the directors and officers of Danier as a group beneficially own Shares and Multiple Voting Shares that, on an aggregate basis, comprise 27.26% of the total outstanding equity securities of the Corporation.

To the knowledge of the directors and officers of Danier, after reasonable enquiry, the only persons or companies that beneficially own or exercise control or direction over any class of securities carrying more than 10% of the votes attached to that class of shares as of October 23, 2012, are as follows:

Name	Number of Shares Beneficially Owned, Controlled or Directed	Percentage of Outstanding Shares of Class	Percentage of Votes Attached to Presently Outstanding Voting Shares of all Classes
Jeffrey Wortsman <i>President & Chief Executive Officer, Director</i>	1,224,329 Multiple Voting Shares 10,000 Shares	100% of Multiple Voting Shares 0.29% of Shares	78.22%
Chou Associates Management Inc. ⁽¹⁾	679,200 Shares	19.84% of Shares	4.34%
Bissett Investment Management ⁽²⁾	512,500 Shares	14.97% of Shares	3.27%
I.A. Michael Investment Counsel, Ltd. ⁽³⁾	503,500 Shares	14.71% of Shares	3.21%

Notes:

- (1) Based on the insider reports publicly filed by Chou Associates Management Inc. on SEDI as of October 22, 2012.
- (2) Based on the alternative monthly report under National Instrument 62-103 – *The Early Warning System and Related Take-Over Bid and Insider Reporting Issues* publicly filed on SEDAR by Franklin Templeton Investments Corp., on behalf of its operating division, Bissett Investment Management, in respect of the Corporation on July 11, 2012.
- (3) Based on information contained on I.A. Michael Investment Counsel, Ltd.'s website at www.abcfunds.com, which is stated as being current as of June 29, 2012.

Acceptance of the Offer

To the knowledge of the Corporation and its directors and officers, after reasonable enquiry, no director or officer of the Corporation, no associate or affiliate of a director or officer of the Corporation, no insider of the Corporation (other than a director or officer), no associate or affiliate of Danier or any insider of Danier, and no person or company acting jointly or in concert with the Corporation, has indicated any present intention to deposit any of such person's or company's Shares pursuant to the Offer. However, in the event that the circumstances or decisions of any such persons or companies change they may decide to tender Shares to the Offer or sell their Shares through the facilities of the TSX or otherwise during the period prior to the Expiry Date.

Effect of Offer on Voting Interests

If Danier purchases 796,812 Shares pursuant to the Offer (the maximum number of Shares that the Corporation could purchase at the minimum Purchase Price of \$12.55 per Share, assuming no exercise of Options), the effect of the Offer will be to increase the voting interest of continuing Shareholders by 5.09%, or by a factor of 1.0509. If Danier purchases 751,879 Shares pursuant to the Offer (the maximum number of Shares that the Corporation could purchase at the maximum Purchase Price of \$13.30 per Share, assuming no exercise of Options), the effect of the Offer will be to increase the equity interest of continuing Shareholders by 4.80%, or by a factor of 1.0480. A summary of the estimated increase in their respective equity and voting interests is as follows (assuming such persons listed below do not deposit any Shares under the Offer):

Name	Equity and Voting Interests Pre-Offer⁽¹⁾	Voting Interest Post-Offer⁽²⁾	Equity Interest Post-Offer⁽³⁾
Jeffrey Wortsman <i>President & Chief Executive Officer, Director</i>	26.56% (Equity) 78.22% (Voting)	82.41%	32.06%
Directors and Officers as a group (excluding Jeffrey Wortsman)	0.69% (Equity) 0.21% (Voting)	0.22%	0.84%
Bissett Investment Management	11.03% (Equity) 3.27% (Voting)	3.45%	13.31%
Chou Associates Management Inc.	14.62% (Equity) 4.34% (Voting)	4.57%	17.64%
I.A. Michael Investment Counsel, Ltd.	10.84% (Equity) 3.21% (Voting)	3.39%	13.08%

Notes:

- (1) The voting interest disclosed is the percentage of votes attached to all of the outstanding voting shares of all classes held by each of the individuals and entities (or categories of individuals) named above, being the Multiple Voting Shares and the Shares, as of October 23, 2012, to the knowledge of the Corporation. The equity interest disclosed is the percentage of all of the outstanding shares of all classes held by each of the individuals and entities (or categories of individuals) named above, being the Multiple Voting Shares and the Shares, as of October 23, 2012, to the knowledge of the Corporation.
- (2) The voting interest disclosed is the percentage of votes attached to all of the outstanding voting shares of all classes held by each of the individuals and entities (or categories of individuals) named above, being the Multiple Voting Shares and the Shares, as of October 23, 2012, to the knowledge of the Corporation, and assuming the repurchase of 796,812 Shares by the Corporation pursuant to the Offer, which is the maximum number of Shares the Corporation could repurchase at the minimum purchase price of \$12.55 per Share. The figures disclosed also assume that none of the individuals and entities (or categories of individuals) named above tender any of their Shares under the Offer or trade any of their Shares in the market prior to the Expiry Time of the Offer and that no Options are exercised prior to the Expiry Time.
- (3) The equity interest disclosed is the percentage of all of the outstanding shares of all classes held by each of the individuals and entities (or categories of individuals) named above, being the Multiple Voting Shares and the Shares, as of October 23, 2012, to the knowledge of the Corporation, and assuming the repurchase of 796,812 Shares by the Corporation pursuant to the Offer, which is the maximum number of Shares the Corporation could repurchase at the minimum purchase price of \$12.55 per Share. The figures disclosed also assume that none of the individuals and entities (or categories of individuals) named above tender any of their Shares under the Offer or trade any of their Shares in the market prior to the Expiry Time of the Offer and that no Options are exercised prior to the Expiry Time.

Sales During the Offer

Each of the directors and officers of Danier who beneficially own, directly or indirectly, or exercise control or direction over, Shares have indicated that he or she has no present intention to sell Shares on the open market during the period prior to the Expiry Date.

Commitments to Acquire Shares

Danier has no agreements, commitments or understandings to purchase, and will not purchase prior to the Expiry Time, Shares or other equity securities of the Corporation, other than pursuant to the Offer. To the knowledge of the Corporation, after reasonable enquiry, no person or company named above under "— Ownership of Securities of Danier" has any agreement, commitment or understanding to purchase Shares or other equity securities of Danier.

Benefits from the Offer

To the knowledge of the Corporation, after reasonable enquiry, no person or company named above under "— Ownership of Securities of Danier" will receive any direct or indirect benefit from accepting or refusing to accept the Offer, other than those benefits available to any Shareholder from accepting or refusing to accept the Offer. See also "— Effect of Offer on Voting Interests" above.

Agreements, Commitments or Understandings with Securityholders

There are no agreements, commitments or understandings made or proposed to be made between the Corporation and any securityholder of the Corporation with respect to the Offer.

9. MATERIAL CHANGES IN THE AFFAIRS OF DANIER AND OTHER MATERIAL FACTS

Except as otherwise described or referred to in this Offer and Circular, Danier is not aware of any material fact concerning the Shares or any other matter not previously generally disclosed and known to the Corporation that would reasonably be expected to affect the decision of Shareholders to accept or reject the Offer. See Section 6 of this Circular entitled "Financial Information". The Corporation reviews acquisition and disposition opportunities in the ordinary course of business from time to time. Except as described or referred to herein or as otherwise publicly disclosed, the Corporation has no current plans or proposals to make any material change in its affairs, including material changes in its business, corporate structure, management or personnel.

Danier currently has no plans or proposals for material changes in the affairs of the Corporation, such as a "going private transaction" or other extraordinary corporate transactions involving the Corporation such as a business combination, merger, amalgamation, liquidation, sale or transfer of all or a substantial part of its assets, or to acquire Shares from Shareholders who do not accept the Offer by way of compulsory acquisition. Canadian securities laws prohibit Danier and its affiliates from acquiring any Shares other than pursuant to the Offer until at least 20 business days after the Expiry Date or the date of termination of the Offer. Subject to applicable law, Danier may in the future purchase additional Shares on the open market, pursuant to normal course issuer bids, in private transactions, through subsequent issuer bids, or otherwise. Any such purchases may be on the same terms or on terms that are more or less favourable to Shareholders than the terms of the Offer. Any possible future purchases by Danier will depend on many factors, including the market price of the Shares, Danier's business and financial position, the results of the Offer, and general economic and market conditions.

10. CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

This summary is of a general nature only and is not intended to be, nor should it be considered to be, legal or tax advice to any particular Shareholder and no representation is made with respect to the income tax consequences to any particular Shareholder. Accordingly, Shareholders should consult their own tax advisors concerning the application and effect of the income and other taxes of any country, province, territory, state or local tax authority, having regard to their particular circumstances.

The Corporation has been advised by Davies Ward Phillips & Vineberg LLP that the following summary describes certain of the principal Canadian federal income tax considerations pursuant to the Tax Act generally applicable to Shareholders who sell Shares to Danier pursuant to the Offer.

This summary is based on the current provisions of the Tax Act and the regulations thereunder, all specific proposals to amend the Tax Act and the regulations thereunder publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof and counsel's understanding of the current published administrative practices of the CRA. This summary does not otherwise take into account or anticipate any changes in income tax law or administrative practice, whether by judicial, governmental or legislative decision or action, nor does it take into account provincial, territorial or foreign tax considerations, which may differ significantly from those discussed herein. This summary is not exhaustive of all Canadian federal income tax considerations.

This summary is not applicable to a Shareholder: (i) that is a "financial institution" for the purposes of the "mark-to-market" rules; (ii) that is a "specified financial institution"; (iii) that has elected under the functional currency rules to report its "Canadian tax results" in a currency other than Canadian currency; or (iv) an interest in which is a "tax shelter investment", as each of those terms is defined in the Tax Act. This summary does not address all tax consequences potentially relevant to a Shareholder that acquired a Share on the exercise of an Option.

In view of the deemed dividend tax treatment that should generally apply under Canadian tax law upon the sale of a Share to Danier pursuant to the Offer, as opposed to capital gains treatment which would generally apply to a sale of Shares in the market, Shareholders who wish to sell their Shares under the Offer should carefully consider the income tax consequences of accepting the Offer.

Residents of Canada

The following portion of the summary is applicable to a Shareholder who, at all relevant times for the purposes of the Tax Act is or is deemed to be a resident of Canada, deals at arm's length with, and is not "affiliated" with Danier, holds its shares as capital property and is not exempt from tax under Part I of the Tax Act ("**Resident Shareholder**").

Generally, Shares will be considered to be capital property to a Resident Shareholder provided that the Resident Shareholder does not hold the Shares in the course of carrying on a business and has not acquired them in one or more transactions considered to be an adventure or concern in the nature of trade. A Resident Shareholder whose Shares might not otherwise qualify as capital property may, in certain circumstances, make an irrevocable election under subsection 39(4) of the Tax Act to have the Shares and every "Canadian security", as defined in the Tax Act, owned by such Resident Shareholder in the taxation year of the election and in all subsequent taxation years deemed to be capital property.

Disposition of Shares

A Resident Shareholder who sells Shares to Danier pursuant to the Offer will be deemed to receive a taxable dividend on a separate class of shares comprising the Shares so sold equal to the excess, if any, of the amount paid by Danier for the Shares over their paid-up capital for income tax purposes. Danier estimates that the paid-up capital per Share on the date of take-up under the Offer will be approximately \$4.39457. As a result, Danier expects that a Resident Shareholder who sells Shares under the Offer will be deemed to receive a dividend.

Any dividend deemed to be received by a Resident Shareholder who is an individual (including a trust) will generally be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received by Canadian resident individuals from a taxable Canadian corporation, including the enhanced gross-up and dividend tax credit if the dividend recipient receives notice from Danier designating the dividend as an "eligible dividend". There may be limitations on the ability of a corporation to designate dividends as eligible dividends. Danier has advised counsel it intends to designate all deemed dividends arising as a result of a sale of Shares pursuant to the Offer as eligible dividends for these purposes.

Subject to the application of subsection 55(2) of the Tax Act, as described below, any dividend deemed to be received by a Resident Shareholder that is a corporation will be included in computing such Resident Shareholder's income as a dividend, and will ordinarily be deductible in computing its taxable income. To the extent that such a deduction is available, private corporations (as defined in the Tax Act) and certain other corporations

may be liable to pay refundable tax under Part IV of the Tax Act at a rate of 33 $\frac{1}{3}$ % of the amount of the deemed dividend.

Under subsection 55(2) of the Tax Act, a Resident Shareholder that is a corporation may be required to treat all or a portion of any deemed dividend that is deductible in computing taxable income as proceeds of disposition and not as a dividend if the result of the deemed dividend is to effect a significant reduction in the portion of the capital gain that, but for the dividend, would have been realized on a disposition of any Share immediately before the deemed dividend. Subsection 55(2) does not apply, however, to the portion of the dividend, if any, that is subject to tax under Part IV of the Tax Act provided that the tax is not refunded under circumstances described in subsection 55(2). The application of subsection 55(2) involves a number of factual considerations that will differ for each Resident Shareholder and a Resident Shareholder to whom it may be relevant is urged to consult its own tax advisors concerning its application having regard to its particular circumstances.

The amount paid by Danier under the Offer for the Shares (less any amount deemed to be received by the Resident Shareholder as a dividend) will be treated as proceeds of disposition of the Shares. The Resident Shareholder will realize a capital gain (or capital loss) on the disposition of the Shares equal to the amount by which the Resident Shareholder's proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to the Resident Shareholder of the Shares sold to Danier pursuant to the Offer.

Taxation of Capital Gains and Losses

Generally, a Resident Shareholder will be required to include in computing its income for a taxation year one-half of any capital gain (a "taxable capital gain") realized by it in that year. A Resident Shareholder will generally be required to deduct one-half of the amount of any capital loss (an "allowable capital loss") realized in a taxation year from taxable capital gains realized by the Resident Shareholder in that year, and any excess may be carried back to any of the three preceding taxation years or carried forward to any subsequent taxation year and deducted against net taxable capital gains realized in such years, to the extent and under the circumstances specified in the Tax Act.

The amount of a capital loss realized on the disposition of a Share by a Resident Shareholder that is a corporation may, to the extent and under the circumstances specified in the Tax Act, be reduced by the amount of dividends received or deemed to be received on the Shares (including any dividends deemed to be received as a result of the sale of Shares to the Corporation under the Offer). Similar rules may apply where Shares are owned by a partnership or trust of which a corporation, trust or partnership is a member or beneficiary.

A Resident Shareholder who is an individual (other than a trust) may have all or a portion of any capital loss on the sale of Shares under the Offer denied if the "superficial loss" rules in the Tax Act apply. This may arise where the Resident Shareholder (or a person affiliated with the Resident Shareholder for purposes of the Tax Act) acquires additional Shares in the period commencing 30 days prior to, and ending 30 days after, the disposition of the Shares under the Offer. Resident Shareholders are urged to consult their own tax advisors with respect to the "superficial loss" rules.

Similarly, a Resident Shareholder that is a corporation, trust or partnership may have all or a portion of any capital loss on the sale of the Shares under the Offer suspended if it (or a person affiliated with it for purposes of the Tax Act) acquires additional Shares in the period commencing 30 days prior, and ending 30 days after, the disposition of Shares under the Offer. A Resident Shareholder that is a corporation, trust or partnership is urged to consult its own tax advisors with respect to the "suspended loss" rules.

A Resident Shareholder that is a Canadian-controlled private corporation throughout the year (as defined in the Tax Act) may be liable to pay an additional refundable tax of 6% on its "aggregate investment income" for the year, which is defined to include an amount in respect of taxable capital gains (but not dividends, or deemed dividends, deductible in computing taxable income).

Alternative Minimum Tax

A capital gain realized, or a dividend received (or deemed to be received) by a Resident Shareholder who is an individual, including a trust (other than certain specified trusts), as a result of the sale of Shares pursuant to the Offer may give rise to a liability for alternative minimum tax. Such Resident Shareholders should consult their own tax advisors with respect to the alternative minimum tax rules set out in the Tax Act.

Non-Residents of Canada

The following portion of the summary is applicable to a Shareholder who, at all relevant times for purposes of the Tax Act: (i) is not resident or deemed to be resident in Canada, (ii) does not use or hold, and is not deemed to use or hold, its Shares in connection with carrying on a business in Canada, (iii) has not, either alone or in combination with persons with whom the Shareholders do not deal at arm's length, owned 25% or more of the issued shares of any class or series of the capital stock of Danier at any time within a 60-month period preceding the sale of the Shares under the Offer, (iv) does not hold Shares that are deemed under the Tax Act to be taxable Canadian property to the Shareholder, and (v) in the case of a Shareholder that is an insurer, establishes that its Shares do not constitute designated insurance property ("**Non-Resident Shareholder**").

A Non-Resident Shareholder who sells Shares to Danier pursuant to the Offer will be deemed to receive a dividend equal to the excess, if any, of the amount paid by Danier for the Shares over their paid-up capital for Canadian income tax purposes. Danier estimates that the paid-up capital per Share on the date of take-up under the Offer will be approximately \$4.39457. As a result, the Corporation expects that Non-Resident Shareholders who sell Shares under the Offer will be deemed to receive a dividend. Any such dividend will be subject to Canadian withholding tax at a rate of 25% or such lower rate as may be provided under the terms of an applicable Canadian tax treaty.

The amount paid by Danier for the Shares (less any amount deemed to be received by the Non-Resident Shareholder as a dividend) will be treated as proceeds of disposition of the Shares. A Non-Resident Shareholder will not be subject to tax under the Tax Act in respect of any capital gain realized on the disposition of Shares under the Offer.

11. CERTAIN LEGAL MATTERS; REGULATORY APPROVALS

Danier is not aware of any license or regulatory permit that is material to the Corporation's business that might be adversely affected by the Corporation's acquisition of Shares pursuant to the Offer or of any approval or other action by any government or governmental, administrative or regulatory authority or agency in any jurisdiction, that would be required for the acquisition or ownership of Shares by the Corporation pursuant to the Offer and that has not been obtained on or before the date hereof. Should any such approval or other action be required, the Corporation currently contemplates that such approval would be sought or other action would be taken. Danier cannot predict whether it may determine that it must delay the acceptance for payment of Shares deposited pursuant to the Offer pending the outcome of any such matter. There can be no assurance that any such approval or other action, if required, would be obtained or taken or would be obtained or taken without substantial conditions or that the failure to obtain or take any such approval or other action might not result in adverse consequences to the Corporation's business.

The Offer is an "issuer bid" within the meaning of MI 61-101. MI 61-101 provides that, unless exempted, an issuer proposing to carry out an issuer bid is required to engage an independent and qualified valuator to prepare a formal valuation of the affected securities and provide to the holders of the affected securities a summary of such valuation. In connection with the Offer, the Corporation has obtained a formal valuation of the Shares from an independent and qualified valuator. See Section 4 of the Circular entitled "Summary of Valuation". A copy of the Valuation is also attached at Schedule "A" to this Circular.

12. SOURCE OF FUNDS

Danier has adequate cash on hand to fund the purchase of the maximum number of Shares that could be purchased under the Offer.

13. DEALER MANAGER

GMP Securities L.P. has been retained by Danier to serve as Dealer Manager in connection with the Offer. For additional details, see Section 16 of this Circular entitled "Fees and Expenses" below.

14. DEPOSITARY

Danier has appointed Computershare Investor Services Inc. to act as the Depositary for: (i) the receipt of certificates representing Shares and related Letters of Transmittal deposited under the Offer; (ii) the receipt of Notices of Guaranteed Delivery and certificates delivered pursuant to the procedures for guaranteed delivery set forth in Section 4 of the Offer to Purchase entitled "Procedure for Depositing Shares"; (iii) the receipt from the Corporation of cash to be paid in consideration of the Shares acquired by the Corporation under the Offer, as agent for the depositing Shareholders; and (iv) the transmittal of such cash to the depositing Shareholders. The Depositary may, but shall be under no obligation to, contact Shareholders by mail, telephone or facsimile, and may request investment dealers, stock brokers, commercial banks, trust companies or other intermediaries to forward materials relating to the Offer to beneficial owners of Shares. The Depositary is not an affiliate of Danier and the Depositary also acts as Danier's transfer agent and registrar.

15. STATUTORY RIGHTS

Securities legislation in the provinces and territories of Canada provides Shareholders with, in addition to any other rights they may have at law, one or more rights of rescission, of price revision or to damages, if there is a misrepresentation in a circular or notice that is required to be delivered to the Shareholders. However, such rights must be exercised within prescribed time limits. Shareholders should refer to the applicable provisions of the securities legislation of their province or territory for particulars of those rights or consult with a lawyer.

16. FEES AND EXPENSES

No fee or commission will be payable by any Registered Shareholder who deposits such Shares directly with the Depositary in connection with this Offer. If you are a Non-Registered Shareholder who holds your Shares through an investment dealer, stock broker, commercial bank, trust company or other intermediary, you should consult with such persons regarding whether fees or commissions will apply in connection with a deposit of Shares pursuant to the Offer. Investment dealers, stock brokers, commercial banks, trust companies and other intermediaries may, in certain circumstances, be reimbursed by the Corporation for customary clerical and mailing expenses incurred by them in forwarding materials to their customers.

The Valuator was retained to provide a formal valuation of the fair market value of the Shares in accordance with MI 61-101. In connection with the engagement of Deloitte to perform certain valuation-related services and ultimately to prepare the Valuation, the Valuator will be paid a fee and will be reimbursed for certain expenses, which fees and expense are not contingent in whole or in part upon the outcome of the Offer or Deloitte's conclusions in the Valuation. Deloitte's fees are \$120,000 in the aggregate, plus reimbursement of its reasonable out-of-pocket expenses (including an administrative charge of 7% of the fees).

As discussed above in Section 14 of this Circular entitled "Depositary", Danier has retained Computershare Investor Services Inc. to act as the Depositary in connection with the Offer. The Depositary will receive reasonable and customary compensation for its services, will be reimbursed for certain reasonable out-of-pocket expenses incurred in connection with its duties as Depositary and will be indemnified against certain liabilities and expenses in connection with the Offer, including certain liabilities under Canadian securities laws.

As described above in Section 13 of this Circular entitled "Dealer Manager", Danier has retained GMP Securities L.P. to serve as Dealer Manager in connection with the Offer. Danier has agreed to reimburse the Dealer Manager for certain reasonable out-of-pocket expenses incurred in connection with the Offer and to indemnify the Dealer Manager against certain liabilities.

The Dealer Manager has undertaken to form a soliciting dealer group comprising members of the Investment Industry Regulatory Organization of Canada and members of the TSX to solicit tenders to the Offer from Shareholders resident in Canada. Each member of the soliciting dealer group is referred to herein as a "Soliciting Dealer". Danier has agreed to pay the Dealer Manager and each Soliciting Dealer whose name appears on the applicable Letter of Transmittal a fee of \$0.04 per Share deposited and acquired by Danier under the Offer. Danier has agreed to pay the Dealer Manager a fee of \$0.04 per Share in respect of each Share deposited and acquired under the Offer where no Soliciting Dealer is named in the Letter of Transmittal. The aggregate amount payable to a Soliciting Dealer with respect to any single beneficial owner account whose Shares were deposited will be a minimum of \$25 and a maximum of \$1,500, provided that the minimum fee shall only be payable in respect of 625 or more Shares deposited by any one beneficial owner. The Corporation will not be required to pay a fee to more than one Soliciting Dealer in respect of any one beneficial owner of Shares. Danier may require the Soliciting Dealers to furnish evidence of beneficial ownership satisfactory to the Corporation at the time of deposit.

Assuming the maximum number of Shares are purchased under the Offer, Danier is expected to incur fees and expenses of approximately \$500,000 in connection with the Offer, including filing fees and legal fees and Depositary, Dealer Manager, Soliciting Dealer, printing, mailing and translation fees and expenses and the fees related to the Valuation provided by Deloitte. Such fees and expenses will be paid by Danier from available cash on hand.

17. DIRECTORS' APPROVAL

The contents of the Offer and Circular have been approved, and the sending, communicating or delivery of the Offer and Circular to the Shareholders of Danier has been authorized, by the Board of Directors of the Corporation.

CERTIFICATE

The Offer and Circular contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made.

DATED: October 23, 2012

(Signed) Jeffrey Wortsman

JEFFREY WORTSMAN
President and Chief Executive Officer

(Signed) Bryan Tatoff

BRYAN TATOFF
Senior Vice-President, Chief Financial
Officer and Secretary

On behalf of the Board of Directors

(Signed) Douglas D. Murphy

DOUGLAS D. MURPHY
Director and Chairman of the Special Committee

(Signed) Edwin F. Hawken

EDWIN F. HAWKEN
Director and Chairman of the Board of Directors

CONSENT OF DAVIES WARD PHILLIPS & VINEBERG LLP

TO: The Board of Directors of Danier Leather Inc.

We consent to the reference to our opinion contained under "Certain Canadian Federal Income Tax Considerations" in the offer to purchase and accompanying issuer bid circular of Danier Leather Inc. dated October 23, 2012 and the inclusion of the foregoing opinion therein.

DATED: October 23, 2012

(Signed) DAVIES WARD PHILLIPS & VINEBERG LLP

CONSENT OF DELOITTE & TOUCHE LLP

TO: The Board of Directors of Danier Leather Inc.

We refer to the formal valuation dated October 23, 2012, which we prepared for the Special Committee and the Board of Directors of Danier Leather Inc. in connection with the offer to purchase made by Danier Leather Inc. to the holders of subordinate voting shares. We hereby consent to the filing of the formal valuation with the applicable securities regulatory authorities and the inclusion of our name and all references to our valuation opinion and report dated October 23, 2012 in Danier Leather Inc.'s offer to purchase and accompanying issuer bid circular and the sections entitled "The Offer", "Conditions of the Offer", "Background to the Offer", "Purpose and Effect of the Offer", "Summary of Valuation", "Prior Valuations" and "Fees and Expenses" in the offer to purchase and accompanying issuer bid circular dated October 23, 2012.

DATED: October 23, 2012

(Signed) DELOITTE & TOUCHE LLP

SCHEDULE "A"
VALUATION REPORT

(Please see attached)



Danier Leather Inc.

Formal valuation of the
subordinate voting shares
as at October 23, 2012



Deloitte & Touche LLP
181 Bay Street
Bay Wellington Tower –
Brookfield Place
Suite 1400
Toronto ON M5J 2V1

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October 23, 2012

The Special Committee and the Board of Directors of
Danier Leather Inc.
2650 St. Clair Avenue West
Toronto ON M6N 1M2
Canada

Attention: Mr. Doug Murphy, Chairman of the Special Committee

Dear Sirs/Mesdames:

Subject: Formal valuation of the subordinate voting shares of Danier Leather Inc.

You have requested that Deloitte & Touche LLP (“Deloitte”, “we” or “us”) provide you with a formal valuation (the “Valuation”) setting out our opinion as to the fair market value as at October 23, 2012 (the “Valuation Date”) of the issued and outstanding subordinate voting shares (the “Shares”) of Danier Leather Inc. (“Danier” or the “Company”).

Our Valuation has been prepared in conformity with the practice standards of the Canadian Institute of Chartered Business Valuators (“CICBV”), including practice standard No. 110 and Appendix A to standard No. 110 and the rules pertaining to formal valuations in connection with issuer bids contained in Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions* (“MI 61-101”).

Purpose

We understand that our Valuation is required in connection with a substantial issuer bid to be announced on October 23, 2012 (the “Offer”) pursuant to the requirements outlined in MI 61-101. Deloitte was first contacted by Danier in respect of the Offer on January 9, 2012. The Special Committee of the Board of Directors formally engaged Deloitte by letter dated February 15, 2012 to provide financial and valuation advice.

Independence

Deloitte is independent of Danier and the holders of multiple voting shares of Danier and any other “interested party” for the purposes of section 6.1 of MI 61-101 and neither it nor any of its affiliated entities (as such terms are defined in MI 61-101): (i) is an associated or affiliated entity or issuer insider of Danier or the holders of multiple voting shares of Danier or any other interested party; (ii) is an advisor to Danier or the holders of multiple voting shares of Danier or any other interested party in respect of the Offer; (iii) is a manager or co-manager of a soliciting dealer group for the Offer, or a member of a soliciting dealer group for the Offer performing services beyond the customary soliciting dealer's function



Danier Leather Inc.
October 23, 2012
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or receives more than the per security or per security holders fees payable to other members of the group; (iv) is an external auditor to Danier or the holders of the multiple voting shares of Danier or any other interested party in respect of the Offer; or (v) has a material financial interest in the completion of the Offer. The fees payable to Deloitte for the Valuation are not dependent on the conclusions reached by Deloitte or the outcome of the Offer. The principal valuator and other staff involved in the preparation of the Valuation acted independently and objectively in completing this engagement. There are no understandings or agreements between Deloitte and Danier or any other "interested party" with respect to future business dealings.

Qualifications of Deloitte

Deloitte is one of the world's largest and most reputable professional services organizations with approximately 195,000 people in over 150 countries. In Canada, Deloitte is one of the country's leading professional services firms and provides audit, tax, financial advisory and consulting services through more than 8,000 people in 56 offices.

Deloitte's professionals have significant experience in providing advisory services for various purposes, including fairness opinions, mergers and acquisitions, corporate finance, business valuations, litigation matters and corporate income tax, amongst other things.

As a global market leader with over 125 valuation professionals in Canada and over 500 valuation professionals globally, Deloitte has a leading valuation practice with international delivery capabilities, deep financial and accounting acumen and robust industry experience. Our valuation services group includes finance professionals, many of whom have earned professional designations including Chartered Business Valuator (CBV), Chartered Financial Analyst (CFA), Chartered Accountant (CA), Certified Public Accountant (CPA) and Accredited Senior Appraiser (ASA).

Definition of value

Fair market value for the purpose of the Valuation is the monetary consideration that, in an open and unrestricted market, a prudent and informed buyer would pay to a prudent and informed seller, each acting at arm's length with the other and under no compulsion to act, with no downward adjustment to reflect the liquidity of the Shares, the effect of the Offer on the Shares or the fact that the Shares do not form part of a controlling interest.

Fair market value as defined above is a concept of value, which may or may not equal the purchase/sale price in an actual market transaction. Within the marketplace, there may exist "special purchasers" who may be willing to pay higher prices because of reduced or eliminated competition, ensured source of sales, cost savings arising on business combination following acquisition, or other synergies or strategic advantages which could be enjoyed by the purchaser. Typically, the special purchaser is better able to quantify the value of the perceived synergies and strategic advantages than is the vendor. Given the nature and stated purpose of this engagement, we have not exposed the Shares to the marketplace to identify special purchasers, if any, who, for their own reasons, might perceive a value different from that determined by us.



Danier Leather Inc.
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Page 3

Currency of report

Unless otherwise noted, all amounts shown in this report and attached schedules are expressed in Canadian Dollars. Translation of values expressed in other currencies, if any, has been made at the rate of exchange prevailing as at the Valuation Date.

Restrictions and qualifications

Except as contemplated in the last sentence of this paragraph, this letter and attached report are not intended for general circulation or publication, nor are they to be reproduced or used for any purpose other than that outlined above without our written permission in each specific instance. We do not assume any responsibility or liability for losses incurred by any party as a result of the circulation, publication, reproduction or use of this letter or report contrary to the provisions of this paragraph. We have consented, subject to the terms of our engagement, to the inclusion of the Valuation in Danier's offer to purchase and circular for the Offer to be prepared by Danier and mailed to the holders of the Shares and to the filing thereof with the applicable Canadian securities regulatory authorities.

We reserve the right if we consider it necessary, to revise our Valuation in light of any information existing at the Valuation Date which becomes known to us after the date of this report.

We believe that our analyses must be considered as a whole and that selecting portions of the analyses or the factors considered by us, without considering all factors and analyses together, could create a misleading view of the process underlying the Valuation. The preparation of a formal valuation is a complex process and is not necessarily susceptible to partial analysis or summary description. Any attempt to do so could lead to undue emphasis on any particular factor or analysis. The accompanying report, including schedules and appendices, is an integral part of our communication and provides a summary of our findings and the methodology leading to our value conclusions.

Valuation conclusion

Based upon the scope of our review, major assumptions and our research, analysis and experience, it is our opinion that the fair market value as at October 23, 2012 of the Shares on a rateable per share basis lies in the range of \$12.55 to \$13.30. The attached report and schedules are an integral part of this opinion and must be read in conjunction herewith.

Yours very truly,

A handwritten signature in black ink that reads "DELOITTE & TOUCHE LLP". The signature is written in a cursive, slightly slanted style.

Richard Taylor
Partner
Financial Advisory
Deloitte & Touche LLP

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1 Nature and history of the business

1.1 History and profile of Danier

Danier Leather Inc. (“Danier” or the “Company”) is a vertically integrated designer, manufacturer, distributor and retailer of fashion leather and suede apparel and accessories for both men and women. Danier controls virtually every step in the retailing process from sourcing the raw leather, to product design, to domestic and overseas manufacturing, and to selling its products in retail stores. Founded in 1972, the Company operates in Canada, selling its products at its 89 shopping mall stores, street-front stores and large format power centre locations. Corporations and other organizations can obtain Danier products for use as incentives and premiums for employees, suppliers and customers through Canada Sportswear Corp. Its product offering is marketed exclusively under the Danier brand name and comprises men’s and women’s clothing, including coats, jackets, blazers, skirts and pants, and accessories (including handbags, wallets, gloves, briefcases, belts, scarves, laptop and tablet cases, and business accessories). The Company employs approximately 1,100 employees across Canada and is headquartered in Toronto, Ontario.

2 Review of financial position and operating results

2.1 Review of financial position of Danier

We have reviewed the audited consolidated historical statements of financial position of Danier for the fiscal years ended June 25, 2005 to June 30, 2012 (Schedule 2), and an unaudited consolidated statement of financial position as at September 29, 2012. Our analysis of Danier's historical financial position indicates the following:

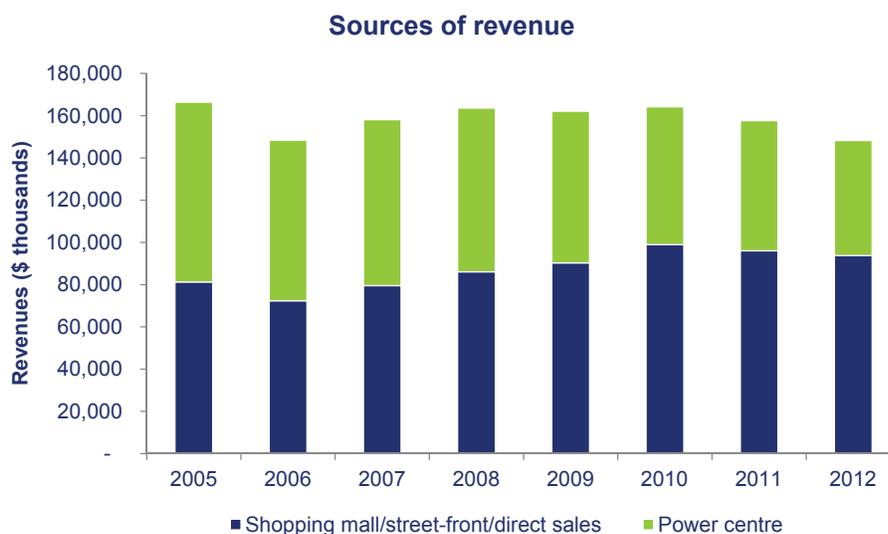
- Danier had approximately \$16.6 million in cash as at September 29, 2012 (in addition to credit card receivables which have rapid turnover and are essentially cash equivalents). Danier generated positive cash flows for the year ended June 30, 2012 (Schedule 4), and will apply some of these cash flows to fund investments in non-cash working capital, engage in strategic purchases of inventory and to finance capital expenditures ("CAPEX").
- Danier's non-cash working capital decreased from \$29.5 million at September 24, 2011 to \$27.2 million at September 29, 2012. This represents a 7.8% decrease in non-cash working capital from 2011 to 2012. Non-cash working capital is currently managed efficiently with inventory turnover of greater than two times and an average accounts payable turnover of approximately 60 days. Accounts receivable, on average, represent an immaterial component of non-cash working capital. The resulting cash conversion cycle of approximately 105 days is stronger than the 2009 cash conversion cycle of 140 days.
- The largest component of non-cash working capital is inventory. Purchases of raw materials and finished goods peak between August and November in order to build inventory for the holiday selling season in the second quarter. Between fiscal 2005 and fiscal 2012, inventory, comprising raw materials, work in process and finished goods, averaged \$27.3 million with seasonal fluctuations reflecting the normal sales and purchases cycle. As at September 29, 2012, inventory was \$35.1 million.
- Cash is a major component of Danier's working capital and a significant portion is critical in maintaining adequate financing and for engaging in strategic inventory purchases. Opportunistic purchases, from time to time, if any, enable Danier to manage material costs to support margins.
- Danier had approximately \$16.9 million in net fixed assets as at September 29, 2012, consisting of its head office building in Toronto, leasehold improvements, furniture and equipment, and computer hardware and software.

2.2 Review of the historical operating results of Danier

We have reviewed Danier's audited consolidated statements of earnings for the fiscal years ended June 25, 2005 to June 30, 2012 (Schedule 3) and an unaudited consolidated statement of earnings for the three months ended September 29, 2012. Our analysis of Danier's historical operating results indicates the following:

Revenue

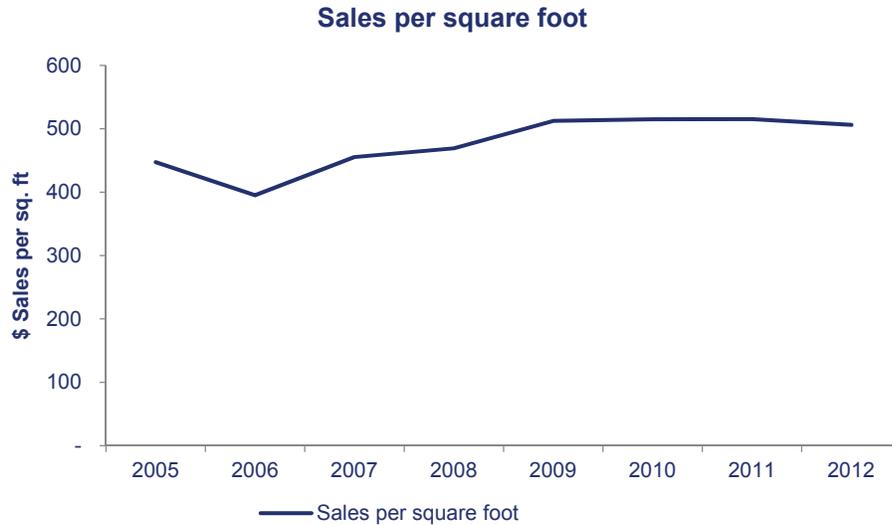
- Danier earns revenue through street-front, shopping mall and power centre stores located across Canada. Revenue increased from a low of \$148.4 million in fiscal 2006 to \$164.2 million in fiscal 2010 before decreasing to \$148.2 million in fiscal 2012. Sales declined by 6% from \$157.6 million in fiscal 2011 to \$148.2 million in fiscal 2012. The decrease in revenue in fiscal 2011 was the result of a 5% decrease in the average sale amount due to high consumer debt levels and a highly promotional retail environment that caused customers to shift their purchases to lower price point merchandise. The further drop in 2012 revenue was a result of, among other things, an uncharacteristically warm winter negatively impacting outerwear sales.¹ The Canadian apparel retail industry has been growing relatively consistently from 2007 to 2011 with a compound annual growth rate (“CAGR”) of 3.4%.² The following chart shows the revenue breakdown for Danier:



- Revenue generated from shopping mall and street-front stores grew by a CAGR of 2.1% for the years spanning fiscal 2005 to fiscal 2012 compared to an annual decline in power centre sales by 6.2% during the same period. As a result of the Company’s increased focus on shopping mall stores, sales per square foot have risen from \$447 in fiscal 2005 to \$515 in fiscal 2011 before declining slightly to \$506 per square foot in fiscal 2012.

¹ Danier Annual Report 2012.

² Datamonitor – Apparel Retail in Canada Industry Profile, February 2012.



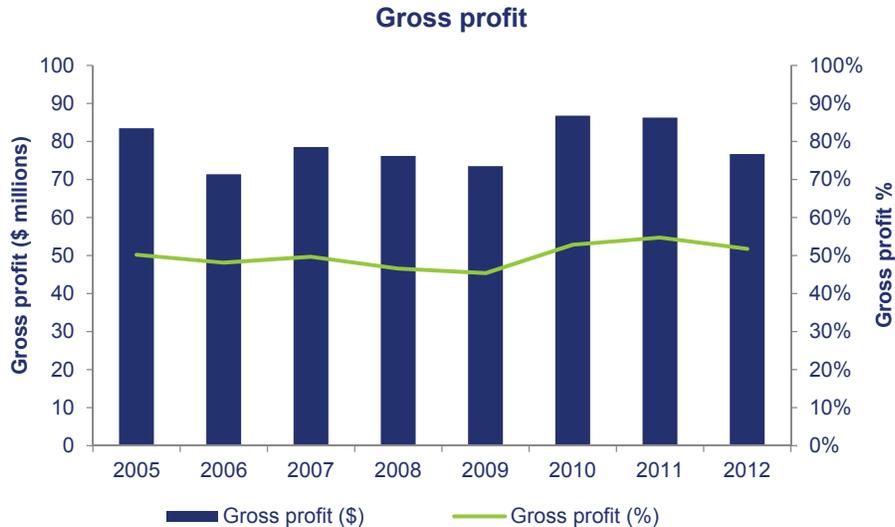
- Danier has three broad product lines: outerwear, sportswear and accessories. Between fiscal 2009 and 2010, the sales mix remained relatively stable although a higher focus on accessories subsequent to 2010 is evident in the following statistics:³
 - Outerwear (64% in 2011 and 60% in 2012);
 - Sportswear (9% in 2011 and 8% in 2012); and
 - Accessories (27% in 2011 and 32% in 2012).

The increased focus on accessories lowers the average dollar sale but produces higher margins and reduces seasonality as accessories are less seasonal than outerwear and sportswear.

Gross Profit

- Danier's gross profit increased from \$83.5 million in fiscal 2005 to \$86.3 million in fiscal 2011, which translates to a compound annual growth rate of 0.5%. The gross profit peaked in 2010 at \$86.8 million before declining to \$76.7 million in fiscal 2012. From fiscal 2005 to fiscal 2012, the average gross profit margin as a percentage of revenue was 49.9%. The gross profit as a percentage of revenue peaked in fiscal 2011 at 54.7% before declining to 51.8% in fiscal 2012.

³ Danier Annual Report 2012.

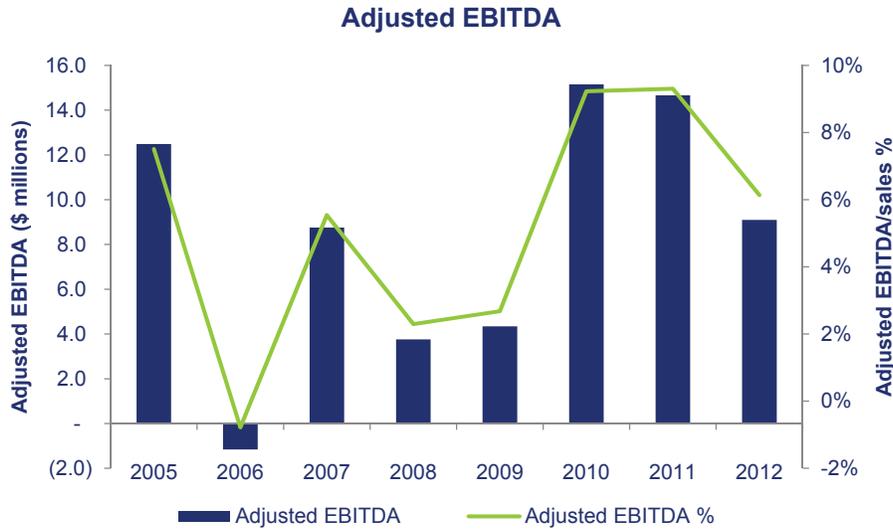


- In 2012, the gross profit was negatively impacted by, among other things, increased leather prices as well as an uncharacteristically warm winter which resulted in lower sales levels. Leather prices are affected by demand in different countries and industries and the cost of the tanning process, which results in price fluctuations. Leather makes up approximately two-thirds of the cost of Danier products resulting in leather prices having a significant impact on the gross margin.⁴
- In addition, Danier's gross profit is sensitive to general economic conditions and fluctuations in the Canadian Dollar with respect to both the U.S. Dollar and Chinese Renminbi since a significant portion of raw materials and finished good purchases are sourced in China and denominated in U.S. Dollars.

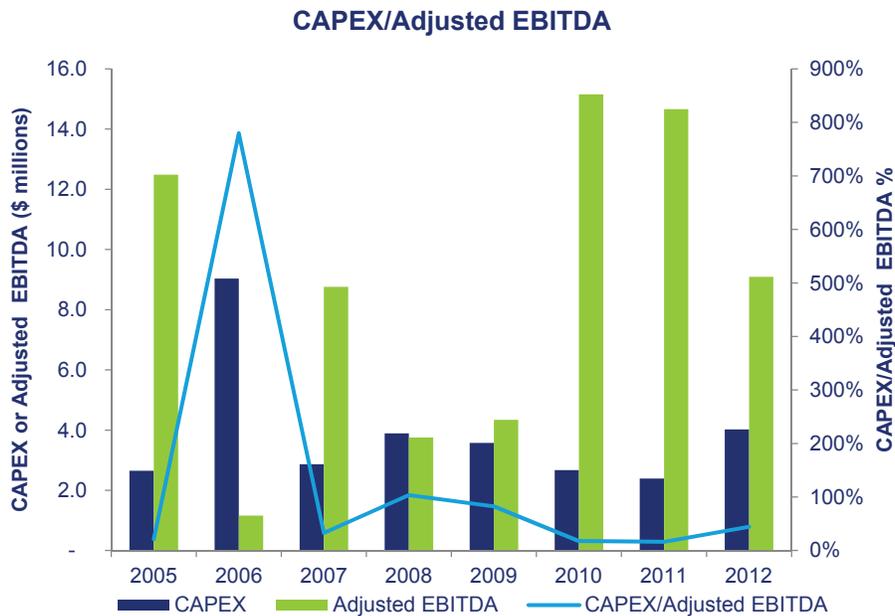
Earnings before interest, taxes, depreciation and amortization (“EBITDA”)

- Danier's adjusted EBITDA margin (excluding litigation provision, restructuring costs and goodwill impairment) has ranged from a low of (0.8%) in fiscal 2006 to a high of 9.3% in fiscal 2011. Adjusted EBITDA margins in fiscal 2006 were negatively impacted by higher than normal discounting and increased customer preference for lower price point merchandise. Conversely, adjusted EBITDA margins in fiscal 2007 were positively impacted by higher than normal same store sales growth and for fiscal 2010 were positively impacted by improved merchandise planning and a strong appreciation in the Canadian Dollar relative to the U.S. Dollar. In fiscal 2012, the adjusted EBITDA margin fell to 6.1% due to higher than anticipated discounts implemented to reduce outerwear inventory following a warmer than normal winter season. This is consistent with sensitivities related to consumer demand and exchange rates noted in our analysis of the revenue, gross profit and gross profit percentage.

⁴ *Ibid.*



- The following chart presents CAPEX as a proportion of adjusted EBITDA (please note that for presentation, the absolute values of both have been presented). From fiscal 2005 to fiscal 2012, excluding fiscal 2006 when there was negative adjusted EBITDA, the ratio of CAPEX to adjusted EBITDA reached a minimum of 16.3% in fiscal 2011 and a maximum of 103.6% in fiscal 2008. The large increase in CAPEX in fiscal 2006 was substantially the result of higher expenditures on retail stores as well as the implementation of a new point-of-sale hardware, software and customer relationship management system.



- Based on discussions with Management and our understanding of the current lease portfolio, normalized CAPEX amounts to approximately \$4.25 million per year (the midpoint of the range of \$4.0 million to \$4.5 million) with the following allocation for fiscal 2012:
 - Retail store renewal (90%);
 - Information Technology (9%); and

- Manufacturing and head office (1%).

July-September (Q1) fiscal 2012 vs. July-September (Q1) fiscal 2013

- Revenue for the three months ended September 29, 2012 was \$23.1 million compared to \$22.1 million for the three months ended September 24, 2011, representing an increase of 4.5%. Gross margin as a percentage of revenue decreased from 52.9% for the same three months in fiscal 2012 to 50.2% for the three months in fiscal 2013 due to, among other things, continued reduction of past season merchandise through higher markdowns so that more new styles could be purchased for the upcoming fall/winter season. Adjusted EBITDA also decreased by \$1.1 million to a loss of \$4.0 million for these three months in fiscal 2013.

<i>In CAD\$ thousands</i>	<i>Q1 FY 2013</i>	<i>Q1 FY 2012</i>
Sales	23,098	22,091
Cost of sales	11,507	10,401
Gross profit	11,591	11,690
Gross profit %	50.2%	52.9%
Operating profit (Loss)	(4,778)	(3,861)
Adjusted EBITDA	(4,014)	(2,957)

3 Economic and industry outlook

3.1 Economic outlook

We have summarized the general economic conditions prevailing as at the Valuation Date in Appendix C.

3.2 Industry overview

We have summarized the industry conditions prevailing as at the Valuation Date in Appendix D.

4 Basis of valuation

4.1 Methodology

There is no single standard or specific valuation formula that can be applied to every business interest. The approach adopted is dependent upon the particular business interest being valued. Historically, where a business has a commercial value as a going-concern, the generally accepted approaches to determining value are:

1. the income/cash flow approach;
2. approaches based on empirical or market data; and
3. the asset based approach.

Various sub-techniques of these approaches can be used, and often value determinations rely on a combination of these approaches. Each of these methodologies is described below.

4.2 The income/cash flow approach

The income/cash flow approach ascribes value to a business interest based on its ability to generate future discretionary cash flow and earn a reasonable return on investment after consideration of risks related thereto. Examples of the income/cash flow approach include the capitalized earnings/cash flow and the discounted cash flow methods.

4.3 Market approach

The empirical or market approach involves estimating the fair market value of a business interest based on value relationships and/or activity ratios derived or implied from the analysis of other market transactions that can be applied to the company in question. Both merger and acquisition activity and stock market activity are considered in deriving various value measures to apply. The market approach also has the benefit of obtaining information to apply to the income approach.

4.4 The asset based approach

The asset-based approach generally uses the current value of a company's tangible net assets as the prime determinant of value. This approach is generally used where a business is not viable as a going concern and is therefore suitable only for liquidation; where a company is properly valued as a going concern but where the going concern value is closely related to the value of its underlying tangible assets; or, where it is used as an aid in establishing the reasonableness of value conclusions derived via the income or market approach.

4.5 Valuation approach selected

Based on our review of the business operations of Danier and our discussions with Management, we have considered a capitalized cash flow approach to be appropriate. The capitalized cash flow approach was selected because liquidation is not contemplated, sustaining capital reinvestment is a significant use of cash flow and following a review of the historical operating results of Danier and expectations of market and industry performance, the Company appears viable as a going-concern, and capable of earning a reasonable rate of return on investment, as indicated by:

- Danier has historically generated positive EBITDA with the exception of fiscal 2006;
- Based on our discussions with Management, and general knowledge of the retail apparel industry, Danier currently is expected to continue to generate positive pre-tax cash flow; and
- Positive growth is forecasted for the retail apparel industry.

We have not used a market approach in determining the fair market value of Danier as Danier differs significantly from other retail apparel companies in its business operations and CAPEX as a proportion of estimated maintainable EBITDA, such that EBITDA is not a reliable proxy for free cash flow. Market comparables were utilized in determining investor rate of return requirements (refer to Section 5.4 "Weighted average cost of capital").

5 Capitalized cash flow approach

5.1 Methodology

The capitalized cash flow approach contemplates a continuing business operation with potential for maintaining cash flow from operations at a level that will provide a reasonable return on investment.

The capitalized cash flow approach involves capitalizing the estimated future maintainable after-tax cash flow from operations by a rate of return, which serves as a measure of the rate of return required by a prospective purchaser of the business reflecting, among other factors, the risk inherent in achieving the determined level of maintainable cash flow.

The capitalized cash flow approach to value capitalizes earnings:

1. before depreciation, but after a notionally assumed income tax on these cash flows; and,
2. after sustaining capital reinvestment, defined as the annual capital outlay required to maintain operations at existing levels, net of the related tax shield benefit.

We have applied the capitalized cash flow approach on an enterprise basis. Using this approach, maintainable cash flows are determined prior to interest expense and are capitalized using a weighted-average cost of capital (“WACC”) net of an estimate for future growth (the “capitalization rate”).

The WACC represents a weighted average of Danier’s notional cost of debt (borrowing rate) and its notional cost of equity. An investment that is expected to generate a return equal to the WACC would be capable of covering interest costs to Danier’s notional debt holders and providing an acceptable rate of return to Danier’s equity holders. Accordingly, the WACC is the overall return on investment required by Danier. The WACC was determined based on our review of the operations of Danier, its relative risks, and the assumption of a normalized capital structure.

When discretionary after-tax cash flow is capitalized using a capitalization rate that has been calculated based on a WACC net of an estimate for future growth, the resulting conclusion represents the capitalized value of Danier’s operations. However, since the capitalized cash flow value, as determined above, has not considered the capital cost allowance deduction currently available, the tax shield from the undepreciated capital cost (“UCC”) balances at the Valuation Date is typically added to the capitalized cash flow value to determine the enterprise value (“EV”) of the business as a whole. The tax shield is the present value of the future tax savings available from the deduction of capital cost allowance. After determining the EV, we add the value of the non-operating assets and deduct the value of the interest bearing debt, if any, to calculate the en bloc fair market value of the shares of Danier.

5.2 Non-operating assets

Where a business interest is being valued using the capitalized cash flow approach, it is also necessary to consider whether there are any assets redundant to the operations of that business. Redundant assets are defined as assets that are excess to, and therefore do not influence, the going-concern value of the operations. A knowledgeable vendor would not sell a business as a going-concern without either extracting such assets from its business or adding the value of the redundant assets to the EV of the business. As at September 29, 2012, the redundant assets comprise cash and cash equivalents.

5.3 Estimated maintainable cash flow

Maintainable cash flow implies a level of cash flow, which can reasonably be expected in the future. It should not be construed as a level that will be achieved in each and every year into perpetuity, but rather a reasonable average expected level over an undefined and indefinite period. To the extent that future cash flow growth is anticipated, it is considered in the selection of the capitalization rate or multiple.

The selection of an appropriate maintainable cash flow level must consider not only Danier's actual performance to the Valuation Date, but also the potential cash flow based on the general market and economic environment at that date. In determining the maintainable cash flow level for Danier we reviewed the historical operating results of Danier for fiscal years 2005 to 2012 and the operating results for the 13 week period ended September 29, 2012.⁵ We have considered the need for adjustments for any unusual or non-recurring items that would not be present in future operations and significant changes in the nature of operations.

In arriving at maintainable cash flow, we selected a range of \$10 million to \$12 million based on the adjusted EBITDA amounts for the past five fiscal years 2008 through 2012, with greater reference to more recent years. We selected these pre-tax cash flows as a starting point since we believe they are generally reflective of the future maintainable cash flows of Danier's operations.

Although our Valuation has been based on EBITDA adjusted for future capital reinvestment and income taxes, we considered the sensitivity of Danier's operations to a variety of factors including (among others):

- Market growth;
- Same store sales growth;
- Gross profit percentage;
- Sales mix;
- Working capital;
- Foreign exchange; and
- Capital spending.

In determining the estimated maintainable after-tax cash flow of Danier, we made a deduction for sustaining capital reinvestment (Schedule 1). Based on discussions with Management and our review of historic CAPEX, operations, maintenance and leasehold improvements, we estimate the amount of sustaining capital reinvestment to approximate \$4.25 million (the midpoint of the range of \$4.0 million to \$4.5 million), before consideration of the related tax shield benefit.

Based on the foregoing, we have estimated the annual discretionary after-tax cash flow of Danier to be in a range of \$4.1 million to \$5.2 million annually as summarized on Schedule 1.

5.4 Weighted average cost of capital

The capitalization rate comprises the WACC net of an estimate for future growth. The WACC represents a weighted average of the after-tax cost of debt and after-tax cost of equity (rate of return on equity). The weighting is based on a company's normalized debt-equity ratio, measured at market. We determined the WACC for Danier to be in a range of 11.75% to 13.25% (Schedule 5), on the basis of the following parameters.

⁵ In addition, we have considered the subsequent financial results of Danier and any material intervening events or developments that may have occurred from September 30 to October 23, 2012 – refer to Section 5.8 hereof.

After-tax cost of equity

In our determination of the cost of equity, we have considered the Capital Asset Pricing Model (“CAPM”). This method takes into account various measures of risk, including the following:

- A risk-free rate of return (such as the long-term government bond yield);
- A general equity risk premium;
- A measure of the industry-specific risk for the retail apparel industry, referred to as the beta coefficient; and
- An incremental risk premium, which includes adjustments for considerations specific to Danier. For example, factors that would be considered include size, geographic scope, diversity, market share, depth of management, financial strength and other company-specific factors.

The specific components that were considered in estimating the cost of equity for Danier are summarized below.

Risk-free rate of return (“ R_f ”)

R_f represents the rate of return associated with very low risk long-term investments. For example, long-term government bonds or treasury bills are typically used as a proxy for R_f . As of September 29, 2012, we have considered the 20 year U.S. Treasury Constant Maturity Yields of 2.42%.

Equity risk premium (“ R_p ”)

The equity risk premium represents the additional return an investor expects to receive to compensate for the additional risk associated with investing in equities as opposed to investing in risk-free assets. The equity risk premium is essentially the difference between the expected rate of return on the market portfolio and the risk-free rate.

We have estimated the market risk premium to be approximately 7.00% based on the historical and prospective equity returns relative to the risk-free rate of return.⁶

Beta coefficient

To adjust for the differing risks of particular industries versus the equity market in general, the CAPM uses a multiple of the equity risk premium that reflects the volatility of the return on a stock relative to the stock market in general. That factor, referred to as beta, represents the risk specific to the particular industry in which a company operates. In our assessment of the beta for Danier, we considered the betas of somewhat comparable guideline public companies operating in the retail apparel industry. Our analysis indicates that levered betas in the order of 1.06 to 1.17 are reasonable for this industry as at September 29, 2012.

Risk factors specific to Danier

In addition to the above, we have considered an incremental risk premium, which includes adjustments for considerations specific to Danier vis-à-vis the general publicly-traded stock in the subject industry. To the extent that Danier’s risk characteristics may be greater or less than the typical risk characteristics of the companies from which the equity risk premium and the betas were drawn, a further adjustment may be necessary to estimate the cost of capital for Danier. For example, factors that would be considered include relative size, market share, depth of management, and financial strength, among others. We have applied a risk premium in the order of 4.8% to 5.8% (comprising a size premium of 4.3% and company

⁶ The risk free rate of return and the equity risk premium were derived from U.S. data. Accordingly, a country risk adjustment was required to reflect the reduced economic and political risk of Danier’s Canadian operations in the amount of negative 0.85% to negative 0.89% (2012 Ibbotson & Associates International Cost of Capital Report).

specific risk of 0.5% to 1.5%). In considering the incremental risk premium, we have considered the following:

- Qualitative factors addressing Danier's relative risk and competitive advantages including, among others:
 - Danier has a strong financial position with substantial cash and minimal debt;
 - Danier has financing facilities in place to meet anticipated inventory purchases and to fund anticipated CAPEX;
 - Danier has strong supply relationships and maintains a pipeline of new suppliers to mitigate the risk of losing existing suppliers;
 - Danier has a strong retail presence in the Canadian marketplace and a recognized brand targeting an identified demographic;
 - Danier's efforts to increase accessories in the sales mix may lead to reduced seasonality and increased margins; and,
 - Danier maintains vertical integration from leather sourcing, to product design, to manufacturing and retail.
- Qualitative factors addressing Danier's relative competitive risks including, among others:
 - Danier has limited store expansion opportunities within Canada;
 - As a result of the majority of purchases being denominated in U.S. Dollars, Danier is exposed to currency risk;
 - The supply of leather is impacted by demand for leather in other countries and other industries exposing Danier to inventory sourcing and/or price risk;
 - Demand for Danier's outerwear and sportswear depends, in part, on weather and, in particular, weather during its second and to a lesser degree third fiscal quarters;
 - Danier's operations are highly seasonal (refer to efforts to increase accessories sales to reduce seasonality, above);
 - The market for leather goods is sensitive to changes in consumer confidence and spending and general economic conditions; and
 - Failure to identify fashion trends and respond in a timely manner exposes the Company to excess working capital costs and margin pressures.

After consideration of the foregoing specific company factors among others, we have concluded that a company-specific premium that is appropriate with respect to Danier is in the order of 4.8% to 5.8%.

Applying the foregoing components of the CAPM, we have determined a reasonable cost of equity for Danier to be in the range of 13.8% to 15.6% (Schedule 5).

After-tax cost of debt

We have estimated Danier's after-tax cost of debt to be in the range of 3.7% to 4.0%, based on consideration of Danier's current financing agreements and long term average business prime rates, and an income tax rate of 26.50% based on Danier's expected combined federal and provincial tax rates.

Market debt ratio

After considering debt ratios within the industry, together with our analysis of the debt capacity of Danier, we have assumed a normalized capital structure of 20% debt and 80% equity.

5.5 Range of selected cash flow capitalization rates

We have adjusted the WACC for an expected long-term annual growth rate in maintainable cash flow of 2.0%, yielding capitalization rates in the range of 9.75% to 11.25%.

We have assumed a long-term growth rate based on the above noted strengths and weaknesses of Danier and the following considerations, among other things:

- The increasing proportion of accessories in the sales mix will have a resulting positive impact on margins;
- The limited growth prospects in terms of number of stores and same store sales;
- A five-year average forecast inflation in the order of 2.1%; and
- A five-year average forecast real GDP growth in the order of 2.2%.

5.6 Enterprise value

Based on the estimated maintainable after tax cash flow in the range of \$4.1 million to \$5.2 million and capitalization rates in the range of 9.75% to 11.25%, we have determined the capitalized cash flow value of Danier as at September 29, 2012 to be in a range of approximately \$42.1 million to \$46.0 million as summarized on Schedule 1. To this amount we have added the present value of the tax shield available on the depreciable capital property as at September 29, 2012. In addition, we have deducted an estimate of the capital required in fiscal 2013 and 2014 in excess of the maintainable CAPEX, with regard to our discussions with management and our review of the store renovation schedule, in an amount of approximately \$5.1 million to \$6.0 million before the related tax shield.

Based on the foregoing, as summarized on Schedule 1, we estimate the enterprise value of Danier as at September 29, 2012 to be in a range of approximately \$39.9 million to \$44.6 million.

5.7 En-bloc equity value of Danier

Net debt

The value of the business and operating assets of Danier as determined above represents the fair market value of the enterprise (i.e., total debt plus equity). Accordingly, to estimate the en bloc equity value of Danier we have to deduct the net interest-bearing debt, if any, as at September 29, 2012. Based on the unaudited consolidated balance sheet as at September 29, 2012 and discussions with Management, Danier does not have any interest-bearing debt as at September 29, 2012.

Net redundant assets

Net redundant assets are assets (net of redundant liabilities) that are not required in the day-to-day operations of the business and, therefore, do not influence the going-concern value of the net operating assets otherwise determined. Based on our analysis of the financial position of Danier and discussions with Management, we have determined that there is redundant cash at September 29, 2012. As of September 29, 2012, Danier reported cash of \$16.6 million, accounts receivable of \$855,000 (of which we understand the majority comprises credit card receivables which are appropriately treated as cash equivalents given their short duration) and income taxes recoverable of \$2.6 million. Based on an analysis of expected cash requirements including ongoing CAPEX, results of operations, investment in non-cash working capital over the business cycle, Danier's credit facilities, and the Company's historical working capital management practices, we determined that \$19.5 million to \$20.5 million of the cash balance was redundant as of September 29, 2012. To this we added \$1.3 million related to the notional exercise of in-the-money options. Based on our review and discussions with management, we believed that there were no other material assets or liabilities redundant to the operations of Danier at September 29, 2012.

Based upon our scope of review, analysis, assumptions used, and our experience, it is our opinion that the fair market value of all of the issued and outstanding shares of Danier, considered en bloc, as at September 29, 2012 was in a range from \$61.7 million to \$65.4 million (Schedule 1).

5.8 Valuation update to October 23, 2012

In preparing its analysis and the Valuation, Deloitte also discussed with management and the Special Committee any material changes in financial position or operating results, or material intervening events or developments that occurred from September 30, 2012 through to October 23, 2012. Based on that review, analysis and discussions, we concluded that there have been no material events, developments or changes that would require at October 23, 2012 an adjustment to our conclusions concerning the fair market value per Share of Danier as at September 29, 2012.

5.9 Fair market value of the issued subordinate voting shares of Danier

As at the date hereof, Danier has 1,224,329 multiple voting shares issued and outstanding and 3,422,573 subordinate voting shares issued and outstanding for a total of 4,646,902 issued and outstanding shares. In determining the total number of issued and outstanding shares, we have also added the number of shares corresponding to exercisable in-the-money options.

The multiple voting shares and subordinate voting shares have identical attributes except that the multiple voting shares entitle the holder to ten votes per share and the subordinate voting shares entitle the holder to one vote per share. Each multiple voting share is convertible at any time, at the holder's option, into one fully paid and non-assessable subordinate voting share. The multiple voting shares are subject to provisions whereby, if certain triggering events occur, each multiple voting share is converted into one fully paid and non-assessable subordinate voting share. The holder of the multiple voting shares has also entered into a coattail agreement for the protection of the holders of the Shares in certain circumstances.

Based upon the above and our scope of review, analysis, assumptions used, and our experience, it is our opinion that the fair market value of a subordinate voting share is appropriately determined based on a rateable portion of the en bloc fair market value of Danier, with no discount relative to the subordinate voting rights or to reflect the lack of liquidity of the Shares, the effect of the Offer on the Shares, or the fact that the Shares subject to the Offer do not form part of a controlling interest, consistent with the direction provided in MI 61-101. Readers are reminded that the Valuation was prepared before the Offer was announced, and, as such, the Valuation did not consider the existence or impact of the Offer.

6 Market approach

The empirical or market approach involves estimating the fair market value of a company based on value relationships and/or activity ratios derived or implied from the analysis of other market transactions that can be applied to the company in question. This approach has inherent limitations given the difficulty associated with identifying comparable companies or transactions on which to base value. Accordingly, we would generally consider market ratios of somewhat comparable companies/transactions as a test of our primary valuation approach. A selection of somewhat comparable companies is outlined in Schedule 5.

The limitations in directly applying public company multiples and transaction value relationships in the context of a valuation of Danier are particularly exacerbated due to differences in the size, nature and diversification of operations of the companies viewed to be somewhat comparable. In particular we note that:

- Relative to the somewhat comparable companies, Danier has a substantially higher ratio of cash in order to secure necessary financing for leather purchases and to engage in opportunistic inventory purchases throughout the year;
- Sufficiently detailed financial information that would allow an analysis of redundant assets is not publicly available for the somewhat comparable companies;
- There were no transactions where relevant value relationships could be observed and applied to Danier in the last twenty-four months; and
- Danier spends, on average, a substantially higher proportion of EBITDA on CAPEX than the somewhat comparable companies which suggests that publicly available market multiples of EBITDA to free cash flow do not accurately apply to Danier.

As such, we believe it is not appropriate to consider implied public company trading multiples and transaction value relationships in assessing the overall conclusions of the fair market value of all of the issued shares of Danier.

In addition, we reviewed the stock market prices and trading history for the Shares of Danier, and believe that due to the thin trading of the stock it is not appropriate to consider the stock market price at September 29, 2012 or the Valuation Date as determinative of fair market value.

7 Conclusion

Based upon the scope of our review, major assumptions and our research, analysis and experience, it is our opinion that the fair market value as at October 23, 2012 of the Shares on a rateable per share basis lies in a range of \$12.55 to \$13.30 (Schedule 1).

Schedule 1 – Fair market value

<i>In CAD\$ thousands [F1]</i>	Notes	Low	High
EBITDA		10,000	12,000
less: adjusted interest expense		(114)	(105)
add: adjusted interest income		148	148
		<hr/>	<hr/>
		10,034	12,043
less: Tax	[F2]	(2,659)	(3,191)
		<hr/>	<hr/>
		7,375	8,851
CAPEX		(4,000)	(4,500)
less: Tax shield on CAPEX		729	820
		<hr/>	<hr/>
		(3,271)	(3,680)
Discretionary after-tax cash flow		4,104	5,172
Rate of return		9.75%	11.25%
Capitalized value		42,093	45,970
Tax shield on existing assets		2,758	2,758
Less: One time CAPEX adjustment		(6,044)	(5,054)
Plus: Shield on CAPEX adjustment		1,102	921
		<hr/>	<hr/>
Enterprise value		39,909	44,595
Add: Redundant cash	[F3]	20,500	19,500
Add: Proceeds on exercise of in-the-money options		1,334	1,334
		<hr/>	<hr/>
En-bloc value of Danier		61,743	65,429
Multiple voting shares		1,224,329	1,224,329
Subordinate voting shares		3,422,573	3,422,573
Exercisable in-the-money options		271,667	271,667
Outstanding Shares	[F4]	<hr/>	<hr/>
		4,918,569	4,918,569
		<hr/>	<hr/>
\$/Share		12.55	13.30

Notes:

[F1] In CAD\$ thousands, except for the rate of return, number of shares and options, and \$/Share.

[F2] Based on an effective tax rate of 26.5%.

[F3] The level of redundant assets was determined as cash of \$20.5 to \$19.5 million plus approximately \$1.334 million related to the exercise of in-the-money options.

[F4] Comprised of issued multiple voting and subordinate voting shares of 4,646,902 plus the number of exercisable in-the-money options.

Schedule 2 – Financial position

Consolidated statements of financial position for Danier Leather Inc.									
<i>In CAD\$ millions</i>	25-Jun-05	24-Jun-06	30-Jun-07	For the fiscal year ended		26-Jun-10	25-Jun-11	30-Jun-12	13 weeks ended
				28-Jun-08	27-Jun-09				29-Sep-12
Current Assets									
Cash	21.2	11.8	20.6	19.9	24.6	26.6	28.7	34.3	16.6
Accounts receivable	0.6	0.4	0.7	0.8	0.4	0.5	0.4	0.5	0.9
Income taxes recoverable	0.9	2.5	-	0.0	0.6	-	-	0.4	2.6
Inventories	29.0	32.3	28.6	27.4	21.0	26.5	29.0	24.9	35.1
Prepaid expenses	0.5	1.0	1.4	1.2	1.2	1.1	0.9	0.8	0.7
Future income tax asset	0.2	0.5	5.1	0.6	0.2	-	-	-	-
Total Current Assets	52.5	48.6	56.4	49.9	48.1	54.8	58.9	61.0	55.8
Property and equipment	25.3	27.3	23.6	21.3	17.6	15.7	14.4	15.0	16.2
Computer software	0.3	0.3	0.3	0.3	1.7	1.4	1.1	0.7	0.7
Future income tax asset	5.3	6.0	1.4	1.6	1.7	1.7	1.7	1.9	1.9
Total Assets	83.4	82.2	81.7	73.1	69.1	73.6	76.1	78.6	74.6
Current Liabilities									
Accounts payable and accrued liabilities	8.2	10.7	9.4	9.8	10.6	12.4	11.0	10.2	9.6
Current portion of capital lease obligation	-	0.9	1.0	0.9	-	-	-	-	-
Income taxes payable	-	-	1.5	-	-	3.9	0.3	-	-
Sales return provision	-	-	-	-	-	-	0.0	0.1	0.1
Accrued litigation provision and related expenses	-	-	18.0	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	1.6	1.5	1.5	1.4
Customer deposits	-	-	-	-	-	-	-	-	-
Future income tax liability	-	0.6	0.4	0.5	0.4	-	-	-	-
Total Current Liabilities	8.2	12.2	30.3	11.2	11.0	18.0	12.8	11.7	11.2
Capital lease obligation	-	1.8	0.9	-	-	-	-	-	-
Accrued litigation provision and related expenses	18.0	18.0	-	-	-	-	-	-	-
Deferred lease inducements and rent liability	1.8	2.1	1.8	1.7	1.4	1.3	1.3	1.4	1.4
Future income tax liability	0.4	0.1	0.1	0.1	-	-	-	-	-
Total Liabilities	28.4	34.3	33.0	12.9	12.4	19.3	14.2	13.1	12.6
Share capital	22.5	22.5	22.0	21.4	19.9	14.2	15.2	15.0	15.0
Contributed surplus	0.2	0.3	0.4	0.5	0.8	1.3	0.9	0.9	0.9
Retained earnings	32.2	25.1	26.2	38.2	36.0	38.8	45.8	49.5	46.1
Total Equity	54.9	48.0	48.7	60.1	56.7	54.3	61.9	65.5	62.1
Total Liabilities & Shareholders' Equity	83.4	82.2	81.7	73.1	69.1	73.6	76.1	78.6	74.6

Schedule 3 – Operating results

Consolidated statements of operating results for Danier Leather Inc.				For the fiscal year ended						13 weeks
<i>In CAD\$ millions</i>	2005	2006	2007	2008	2009	2010	2011	2012	ended	
	25-Jun-05	24-Jun-06	30-Jun-07	28-Jun-08	27-Jun-09	26-Jun-10	25-Jun-11	30-Jun-12	29-Sep-12	
Revenue	166.4	148.4	158.1	163.6	162.1	164.2	157.6	148.2	23.1	
<i>Year over year revenue growth</i>	<i>n/a</i>	<i>-10.6%</i>	<i>6.6%</i>	<i>3.4%</i>	<i>-0.9%</i>	<i>1.3%</i>	<i>-4.0%</i>	<i>-6.0%</i>		
Cost of Sales	82.9	77.0	79.6	87.4	88.6	77.4	71.4	71.5	11.5	
Gross profit	83.5	71.4	78.5	76.2	73.5	86.8	86.3	76.7	11.6	
<i>Gross profit %</i>	<i>50.2%</i>	<i>48.1%</i>	<i>49.7%</i>	<i>46.6%</i>	<i>45.4%</i>	<i>52.8%</i>	<i>54.7%</i>	<i>51.8%</i>	<i>50.2%</i>	
Selling, general and administrative expenses	77.2	78.8	76.4	78.6	74.7	75.9	75.6	71.4	16.4	
Interest expense (income), net	(0.3)	(0.4)	(0.4)	0.1	0.1	0.1	(0.1)	(0.2)	(0.0)	
Earnings (loss) before undemoted items and income tax	6.6	(7.0)	2.6	(2.5)	(1.3)	10.8	10.7	5.5	(4.8)	
Restructuring costs	-	1.4	-	-	1.5	(0.2)	-	-	-	
Goodwill impairment charge	-	-	-	-	0.3	-	-	-	-	
Litigation provision (recovery) and related expenses	3.1	-	-	(20.0)	-	-	-	-	-	
Earnings (loss) before discontinued operations and income taxes	3.5	(8.3)	2.6	17.5	(3.1)	10.9	10.7	5.5	(4.8)	
Provision for (recovery of) income taxes	0.9	(2.8)	0.9	4.6	(0.8)	3.7	3.1	1.5	(1.3)	
Earnings (loss) before discontinued operations	2.6	(5.5)	1.7	12.9	(2.3)	7.2	7.6	4.0	(3.5)	
Loss from discontinued operations, net of income taxes	2.8	-	-	-	-	-	-	-	-	
Net earnings (loss)	(0.2)	(5.5)	1.7	12.9	(2.3)	7.2	7.6	4.0	(3.5)	
Adjusted EBITDA [F1]	12.5	(1.2)	8.8	3.8	4.3	15.2	14.7	9.1	(4.0)	
<i>Adjusted EBITDA/Sales %</i>	<i>7.5%</i>	<i>-0.8%</i>	<i>5.5%</i>	<i>2.3%</i>	<i>2.7%</i>	<i>9.2%</i>	<i>9.3%</i>	<i>6.1%</i>	<i>-17.4%</i>	

Notes:

[F1] Adjusted EBITDA is calculated to exclude restructuring costs, goodwill impairment charges, and provision for and recovery of litigation and related expenses.

Schedule 4 – Cash flows

Consolidated statements of cash flow for Danier Leather Inc.		For the fiscal year ended								13 weeks
<i>In CAD\$ millions</i>	2005	2006	2007	2008	2009	2010	2011	2012	ended	
	25-Jun-05	24-Jun-06	30-Jun-07	28-Jun-08	27-Jun-09	26-Jun-10	25-Jun-11	30-Jun-12	29-Sep-12	
Net Income (Loss)	(0.2)	(5.5)	1.7	12.9	(2.3)	7.2	7.6	4.0	(3.5)	
Items not affecting cash:										
Amortization - continuing operations	6.2	7.1	6.6	6.2	5.5	3.7	3.4	3.3	0.8	
Amortization - discontinued operations	1.3	-	-	-	-	-	-	-	-	
Amortization of intangible assets	-	-	-	-	-	0.6	0.5	0.4	-	
Impairment loss on property and equipment	-	-	-	-	-	-	0.1	0.1	-	
Amortization of deferred lease inducements	(0.4)	(0.4)	(0.5)	(0.5)	(0.4)	(0.2)	(0.2)	(0.2)	-	
Goodwill impairment charge	-	-	-	-	0.3	-	-	-	-	
Straight line rent expense	-	0.4	0.2	0.1	0.1	0.1	0.0	0.0	0.0	
Stock-based compensation	0.0	0.0	0.2	0.1	0.3	0.3	0.1	0.0	0.0	
Accrued litigation provision (recovery) and related expenses	2.6	-	-	(18.0)	-	-	-	-	-	
Accrued net interest income	-	-	-	-	-	-	(0.1)	(0.2)	(0.0)	
Future income taxes	(0.6)	(0.8)	(0.2)	4.5	0.0	0.0	-	-	-	
Provision for income taxes	-	-	-	-	-	-	3.1	1.5	(1.3)	
Net change in non-cash working capital items	(2.2)	(2.6)	5.6	0.4	7.2	2.3	(3.4)	3.2	(11.1)	
Proceeds from deferred lease inducements	-	0.3	-	0.1	0.1	0.1	0.2	0.2	-	
Repayment of deferred lease inducements	-	-	(0.1)	-	(0.1)	-	-	-	-	
Discontinued operations	0.8	0.0	-	-	-	-	-	-	-	
Net interest received	-	-	-	-	-	-	(0.1)	0.2	0.1	
Income taxes paid	-	-	-	-	-	-	(6.7)	(2.5)	(0.8)	
Cash from (used in) Operating Activities	7.4	(1.5)	13.4	5.8	10.8	14.0	4.5	10.1	(15.8)	
Acquisition of property and equipment	(2.6)	(9.0)	(2.9)	(3.9)	(3.6)	(2.4)	(2.2)	4.0	(2.0)	
Acquisition of intangible assets	-	-	-	-	-	(0.3)	(0.2)	0.1	(0.0)	
Proceeds from sublease	-	-	0.2	-	-	-	-	-	-	
Cash from (used in) Investing Activities	(2.6)	(9.0)	(2.7)	(3.9)	(3.6)	(2.7)	(2.4)	4.0	(2.0)	
Subordinate voting shares issued	0.0	0.0	0.0	0.1	-	0.0	0.9	0.1	-	
Subordinate voting shares repurchased	(4.6)	-	(1.1)	(1.7)	(1.6)	(9.4)	(0.9)	(0.5)	-	
Dividends	(1.6)	(1.6)	-	-	-	-	-	-	-	
Proceeds from capital lease obligation	-	2.9	-	-	-	-	-	-	-	
Repayment of obligations under capital lease	-	(0.2)	(0.9)	(1.0)	(0.9)	-	-	-	-	
Cash from (used in) Financing Activities	(6.2)	1.2	(2.0)	(2.6)	(2.5)	(9.4)	0.0	(0.5)	-	
Net Change in Cash	(1.4)	(9.4)	8.7	(0.7)	4.7	1.9	2.1	5.6	(17.7)	
Net Cash - Beginning Balance	22.6	21.2	11.8	20.6	19.9	24.6	26.6	28.7	34.3	
Net Cash - Ending Balance	21.2	11.8	20.6	19.9	24.6	26.6	28.7	34.3	16.6	

Schedule 5 – Weighted average cost of capital

Ticker	Guideline Companies:	Total Book Value of Debt (1)	Total Book Value of Preferred (1)	Total Market Value of Equity (2)	Total Market Value of Capital	Debt to Capital	Equity to Capital	Historical Effective Tax Rate	Levered Equity Beta (3)	Historical Debt to Capital (4)	Unlevered Equity Beta	
DL	Danier Leather Inc.	\$ -	\$ -	\$ 53	\$ 53	0.0%	100.0%	31.3%	0.72	0%	0.72	
GIII	G-III Apparel Group, Ltd.	\$ 89	\$ -	\$ 719	\$ 808	11.0%	89.0%	38.9%	1.38	21%	1.19	
KCP	Kenneth Cole Productions Inc.	\$ 71	\$ 4	\$ 82	\$ 157	45.0%	55.0%	40.0%	1.22	38%	0.89	
PERY	Perry Ellis International Inc.	\$ 175	\$ -	\$ 323	\$ 497	35.1%	64.9%	31.0%	1.43	40%	0.97	
JNY	The Jones Group Inc.	\$ 859	\$ -	\$ 1,033	\$ 1,892	45.4%	54.6%	140.2%	1.76	36%	2.29	
TBAC	Tandy Brands Accessories Inc.	\$ 12	\$ -	\$ 10	\$ 22	53.8%	46.2%	0.0%	0.49	50%	0.24	
JOEZ	Joe's Jeans Inc.	\$ 3	\$ -	\$ 70	\$ 73	3.7%	96.3%	40.0%	1.09	6%	1.05	
FNP	Fifth & Pacific Companies, Inc.	\$ 503	\$ -	\$ 1,445	\$ 1,948	25.8%	74.2%	0.0%	2.03	47%	1.08	
RET.A	Reitmans Canada Ltd.	\$ 9	\$ -	\$ 861	\$ 871	1.1%	98.9%	29.1%	0.72	1%	0.71	
PCCS	PCCS Group Bhd	\$ 31	\$ -	\$ 9	\$ 40	76.9%	23.1%	0.0%	0.63	79%	0.13	
COH	Coach, Inc.	\$ 23	\$ -	\$ 15,976	\$ 15,999	0.1%	99.9%	34.0%	1.35	0%	1.34	
						Minimum	0.0%	23.1%	0.0%	0.49	0.3%	0.13
						Average	27.1%	72.9%	35.0%	1.17	29.1%	0.97
						Adjusted Aver.	24.6%	75.4%	27.2%	1.15	26.8%	0.91
						Median	25.8%	74.2%	31.3%	1.22	36.2%	0.97
						Maximum	76.9%	100.0%	140.2%	2.03	78.9%	2.29
						Selected	20.0%	80.0%				0.94
		<u>Low</u>	<u>High</u>									
Unlevered Equity Beta		0.89	0.99			Unlevered Equity Beta = Levered Equity Beta / [1 + (1 - Tax Rate) x Debt-to-Equity]						
Debt-to-Equity		25.0%	25.0%									
Selected Subject Tax Rate		26.5%	26.5%			Based on the long-term provincial and federal effective tax rate for the Company						
Relevered Equity Beta		1.06	1.17			Levered Equity Beta = Unlevered Equity Beta x [1 + (1 - Tax Rate) x Debt-to-Equity]						
Risk Free Rate		2.42%	2.42%			20 year U.S. Treasury Constant Maturity Yields as of the September 29, 2012. Source: U.S. Federal Reserve						
Equity Risk Premium		7.00%	7.00%			Source: Deloitte Financial Advisory research. Adjusted Ibbotson ERP for Volatility and P/E to reflect 85 year trailing market fluctuations.						
Levered Equity Beta		1.06	1.17									
Cost of Equity Capital		9.84%	10.62%			Cost of Equity Capital = Risk Free Rate + [Equity Beta x Equity Risk Premium].						
Unsystematic Risk Factors:												
Size Premium		4.34%	4.34%			Source: 2012 Ibbotson & Associates Risk Premium Report.						
Company-Specific Risk		0.50%	1.50%			Risk premium based on qualitative factors that reflect company specific risks.						
Country Adjustment Factor		-0.85%	-0.89%			Source: 2012 Ibbotson & Associates International Cost of Capital Report						
Subject's Cost of Equity Capital		13.83%	15.56%									
Subject's Estimated Pre-Tax Cost of Debt Capital		5.00%	5.50%			Based on the Company's existing financing agreements and long-term business prime rates						
Tax Rate		26.50%	26.50%									
After-Tax Cost of Debt		3.68%	4.04%									
Debt-to-Capital		20.0%	20.0%			Based on comparable companies.						
Equity-to-Capital		80.0%	80.0%									
Weighted Average Cost of Capital		11.80%	13.26%			WACC = [(Debt-to-Capital x Cost of Debt x (1 - Tax Rate))] + [Equity-to-Capital X Cost of Equity Capital]						
Weighted Average Cost of Capital (Rounded)		11.75%	13.25%									

Notes:

- (1) Book value of debt used as an approximation of market value. For purposes of calculating capital structure, preferred equity, if any, was added to equity at book value.
- (2) Represents current stock price times common shares outstanding.
- (3) Bloomberg beta based on 5-Year historical weekly data per Capital IQ.
- (4) Based on debt to market value of invested capital as at September 29, 2012.

Appendices

Appendix A	Scope of review
Appendix B	Restrictions, limitations and major assumptions
Appendix C	Economic conditions
Appendix D	Industry overview

Appendix A – Scope of review

In preparing our Valuation, we have reviewed and relied upon, *inter alia*, the information and data as listed below:

1. The audited financial statements and the management discussion and analyses of Danier for fiscal years 2005 to 2012;
2. The unaudited consolidated financial statements of Danier for the 13 weeks ended September 29, 2012 and management's discussion and analysis for the same period;
3. Capital Cost Allowance with Capital Lease schedules as of June 30, 2012;
4. The Annual Information Form of Danier for the fiscal year ended June 30, 2012;
5. Public filings and financial data for guideline public companies;
6. Various analyst and industry reports;
7. Canadian demographic information; and
8. Ibbotson Cost of Capital 2012 Yearbook.

In addition, we have:

1. Discussed with Management the historical financial results and operations of Danier (including the unaudited financial position and operating results of Danier for the 13 weeks ended September 29, 2012), the operations of Danier in the period from September 30 through October 23, 2012, including the existence of any material intervening events, developments or changes in that period, and the future prospects facing the Company as at September 29, 2012 and the Valuation Date; and,
2. Conducted a review of public market data and research reports relating to the retail apparel industry and general economic trends.

We have not audited or otherwise verified the information relied upon in preparing the Valuation.

Appendix B – Restrictions, limitations and major assumptions

The following represent restrictions, limitations and assumptions in addition to those set out elsewhere in this report.

Deloitte has relied upon the completeness, accuracy, and fair presentation of all the financial and other information, data, advice, opinions or representations obtained by it from Management of the Company and its consultants and advisors (collectively, the “Information”). The Valuation is conditional upon the completeness, accuracy, and fair presentation of such Information. Except as expressly described herein, Deloitte has not attempted to verify independently the completeness, accuracy or fair presentation of the Information.

No opinion, counsel, or interpretation is intended in matters that require legal or other appropriate professional advice. It is assumed that such opinion, counsel, or interpretations have been or will be obtained from the appropriate professional sources. To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, we assume no responsibility therefore, and assume, in connection with such matters, other than as specifically disclosed to us, that:

1. The title to all such assets, properties, or business interests purportedly owned by the Company is good and marketable, and there are no adverse interests, encumbrances, engineering, environmental, zoning, planning or related issues associated with these interests, and that the subject assets, properties, or business interests are free and clear of any and all liens, encumbrances or encroachments (except as pledged as security for the bank line of credit);
2. There is full compliance, in all material respects, with all applicable federal, local, provincial, and national regulations and laws, as well as the policies of all applicable regulators, and that all required licences, rights, consents, or legislative or administrative authority from any federal, local, provincial or national government, private entity, regulatory agency or organization have been or can be obtained or renewed for the operation of the business of the Company; and
3. There are no material legal proceedings regarding the business, assets, or affairs of the Company other than as disclosed to Deloitte.

The Valuation is rendered on the basis of securities markets, economic, financial, and general business conditions prevailing as at September 29, 2012 and October 23, 2012 and the condition and prospects, financial and otherwise, of the Company and any of its subsidiaries and affiliates as they were reflected in the Information and as they have been represented to us in discussions with Management of the Company. In the analyses and in preparing the Valuation, we made numerous assumptions with respect to industry performance, general business, and economic conditions and other matters, many of which are beyond our control, including, but not limited to, inflation and exchange rates.

The Valuation is given as of October 23, 2012 and we disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting the Valuation, which may come or be brought to our attention after the date hereof. Without limiting the foregoing, in the event that there is any material change in any fact or matter affecting the Valuation after the date hereof, we reserve the right to change, modify or withdraw the Valuation.

In arriving at our value conclusion, we have relied upon the following additional major assumptions:

1. The fair market value of the assets and liabilities of the Company as at the Valuation Date were approximated by their reported book values, except where noted herein;
2. The Company had no material unusual or non-recurring expense or revenue items during the period reviewed other than as noted herein;
3. There were no significant non-arm’s length transactions during the period under review which took place at other than fair market value, unless otherwise noted herein;

4. At the Valuation Date, there were no material contingent liabilities, known environmental issues, unusual contractual obligations, litigation pending or threatened, or substantial commitments other than as disclosed to Deloitte; and
5. The Company had no redundant assets or excessive liabilities as at the Valuation Date, except where noted herein.

Amendment of any of the foregoing assumptions or any of the assumptions delineated throughout this report could have a material impact on the Valuation.

Should any of the major assumptions not be accurate or should any of the Information not be factual or correct, our Valuation, as expressed in this report, could be significantly different.

Appendix C – General economic conditions

Canadian economics

The Canadian retail industry is broadly impacted by macroeconomic conditions. The following is a summary of views expressed by the Economics Intelligence Unit (“EIU”) regarding the Canadian economic outlook.⁷

- Canadian GDP is expected to stay relatively stable over the forecast period (to 2016 – see charts below). After a slight deceleration in 2012 to 2.0%, GDP growth currently is expected to increase slightly to 2.1% in 2013 based on new monetary stimulus in the U.S. The performance of the Canadian economy depends on conditions in the U.S. economy, global commodity prices and the domestic housing market, among other factors. Although Canada has little exposure to a euro collapse, the Canadian economy would still be negatively impacted if a collapse occurred. Exports account for approximately one-third of GDP resulting in concerns regarding a euro crisis and the slowdown in China;
- Consumer price inflation is expected to be 1.6% in 2012 which is below the Canadian central bank’s 2% target rate. Inflation is expected to increase slightly in 2013 to 1.9% due to higher commodity prices resulting from global monetary stimulus. The average annual inflation rate from 2013 to 2016 is expected to be 2.2%. The high unemployment rate resulted in decreasing wage growth. The unemployment rate is expected to decrease over the forecast period to 6.0% in 2016 from 7.3% in 2012 and modest rises in real wages are also expected;
- The Bank of Canada’s (BOC) overnight rate is expected to remain the same as the 2011 rate of 1.2%. The BOC is expected to not increase the rate until late 2013 based on slow global growth, continued U.S. monetary stimulus and the uncertainty with the euro. Although interest rate cuts are possible, the BOC is hesitant to encourage spending due to high debt in the household sector. Household debt was approximately 143% of disposable income in the first quarter of 2012;
- Canada’s current account has had a deficit since 2009. The deficit is expected to be manageable at 2% of annual GDP over the forecast period. The current account deficit is expected to gradually decline from 2011 to 2016; and
- The exchange rate is expected to remain around parity with the U.S. Dollar for the forecast period at a rate of C\$1:U.S.\$1. The Canadian Dollar can be viewed as a safe haven due to Canada’s relatively stable economy, however it is influenced by global commodity prices and investor risk appetite.

The table below provides a summary of Canada’s key economic indicators from 2011 to 2016:

Key economic indicators	2011 ^a	2012 ^b	2013 ^b	2014 ^b	2015 ^b	2016 ^b
Real GDP growth (%)	2.4	2.0	2.1	2.2	2.2	2.4
Consumer price inflation (avg; %)	2.9	1.6	1.9	2.2	2.3	2.3
3-mth prime corp. paper rate (avg; %)	1.2	1.2	1.2	1.9	2.4	3.0
Unemployment rate (%)	7.5	7.3	6.9	6.6	6.3	6.0
Exchange rate (avg; C\$:U.S.\$)	1.0	1.0	1.0	1.0	1.0	1.0

a Economist Intelligence Unit estimates.

b Economist Intelligence Unit forecasts.

⁷EIU – Canada: Country Forecast, September 2012.

Appendix D – Industry overview

Canadian apparel manufacturing industry⁸

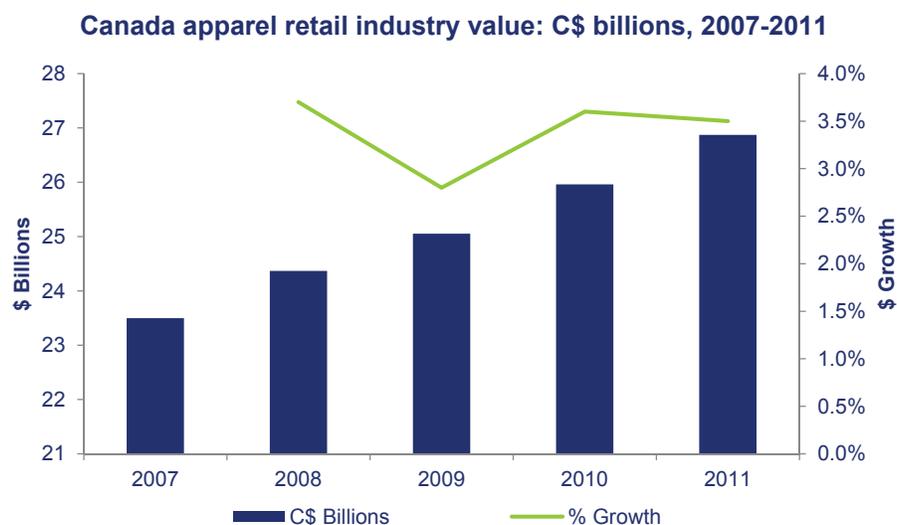
The Canadian apparel manufacturing industry is highly fragmented, with approximately 96.3% of the firms having fewer than 100 employees. The number of employees in the industry decreased by a compound annual rate of 14.6% between 2001 and 2012. The average annual salary for production and administrative employees in the apparel manufacturing industry has increased by a compound annual growth rate of 3.5% from 2001 to 2010. There was a 4.5% decrease in salaries from 2009 to 2010. Regionally, Québec accounts for 47.2% of the value of Canada's apparel manufacturing, with Ontario, British Columbia and Alberta also contributing a significant amount.

Over the last decade, the GDP in the clothing manufacturing subsector has been decreasing steadily, falling from \$3.6 billion in 2002 to \$1.4 billion in 2011. This decrease represents a compound annual rate of 10.2%. Between 2010 and 2011 alone the total value-added of the clothing manufacturing subsector decreased by 3.8%.

Canadian apparel retail industry⁹

The Canadian apparel retail industry has had steady growth and is expected to continue to grow over the forecast period (to 2016 – see forecast graph below). The industry generated total revenues of \$26.9 billion in 2011 compared to \$23.5 billion in 2007. This translates to a compound annual growth rate (CAGR) of 3.4% for the period spanning 2007 to 2011. In comparison, the U.S. and Mexican apparel retail industries grew by CAGRs of 2.7% and 2.8%, respectively over the same time frame.

The following graph represents total sales in the Canadian apparel retail industry and industry growth from 2007 to 2011 in Canadian Dollars.



Source: Datamonitor¹⁰

The apparel retail industry is segmented into three categories: womenswear, menswear and childrenswear. These markets comprise activewear, casual wear, essentials, formalwear, and outerwear for women, men and children.

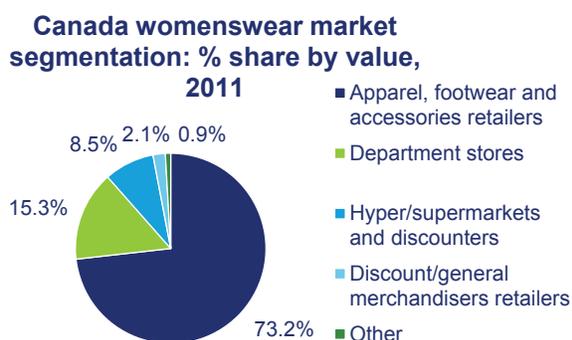
⁸ Statistics Canada, Gross Domestic Product by Industry, 2002 to 2011.

⁹ Datamonitor – Apparel Retail in Canada Industry Profile, February 2012.

¹⁰ *Ibid.*

Womenswear is the largest segment and accounts for approximately 53.2% of all apparel retail revenues, followed by menswear which generated 30.1% of total sales. However, the menswear market has grown at a faster pace from 2007 to 2011 with a CAGR of 4.2%, compared to a CAGR of 3.6% for womenswear.

The clothing, footwear, and accessories retailers segment is expected to be the most profitable after generating approximately 73.2% of the Canadian womenswear market's overall revenues in 2011, compared to 58.7% of the menswear market's sales in the same year. Department stores generated the second-largest percentage of aggregate revenues, accounting for 19.5% and 15.3% of all menswear and womenswear sales, respectively.



Source: Datamonitor¹¹



Source: Datamonitor¹²

Leather industry

The GDP in the leather and allied product manufacturing subsector has decreased from \$399.0 million in 2002 to \$174.0 million in 2011. The decrease in GDP reported over the last decade represents a compound annual rate of 8.8%. Between 2010 and 2011, the total value-added of the leather and allied product manufacturing subsector increased by 1.2%.¹³

Trends¹⁴

Green initiatives

In an effort to differentiate themselves and appeal to consumers who favour “conscious spending”, many companies are attempting to position themselves as a “green brand”. Numerous brands are offering environmentally friendly and ethically-sound products in response to consumers who are becoming increasingly aware of the impact of their purchases on the environment and society as a whole. The Sustainable Apparel Coalition was launched in March 2011 by the U.S. Environmental Protection Agency to design an industry wide index to measure sustainability and to improve the supply chain’s social and environmental impacts.

Changing customer preferences

In 2011, the global luxury goods industry grew by 10% according to Bain & Co. Travel retail is a key contributor to the sales growth. Foreign tourists are contributing to sales of luxury goods. For example, Tiffany & Co estimated that 23% of its fiscal 2012 U.S. sales were to foreign visitors.

¹¹ Datamonitor – Womenswear in Canada Industry Profile, February 2012.

¹² Datamonitor – Menswear in Canada Industry Profile, February 2012.

¹³ Statistics Canada, Gross Domestic Product by Industry, 2002-2011.

¹⁴ Standard & Poor’s – Apparel & Footwear Industry Survey, April 26, 2012.

Changing demographics

Teenagers aged 15 to 19, who represent 7.1% of the U.S. population¹⁵, have proved very lucrative for the retail industry over the last decade. Retailers that appeal to this age group are desperately trying to hold on to these consumers as they enter their 20s, as shoppers aged 25 and older often have more to spend on apparel and may need to expand their wardrobes to include professional clothes for the office.

Female shoppers over the age of 35 are still the most desirable target for retailers as they spend the majority of retail dollars. However, specialty retailers and apparel manufacturers continue to have difficulty attracting this lucrative target market. In addition, based on a comparison of the 2006 and 2011 census, the age of the largest segment of the female population has increased from early 40's to mid to late 40's.¹⁶

While women over 35 tend to have higher discretionary incomes, they have also been heavily affected by the global economic slowdown, with rising unemployment and decreased household wealth. To increase spending, specialty apparel retailers are hosting special events including trunk shows and "meet the designer events" as an incentive to get these women shopping again.¹⁷

Competition

Foreign retailers have entered the North American market with unique strategies. Stores such as H&M and Zara offer fashionable items at affordable prices. The companies are unique based on their fast inventory turnover resulting in a reputation for "fast fashion." The new competitors are successful with high margins as evidenced by H&M's 60.1% gross margin.¹⁸

Stores including Wal-Mart and Target are also competition for luxury brands. After the economic recession, the targeted women over 35 are shifting their spending tactics toward a more practical and value driven approach due to decreased discretionary wealth.¹⁹

Many competitors in the fashion retail industry offer credit cards and loyalty programs to their customers in order to increase sales and customer visits. Nordstrom is one of these companies with two segments: retail and credit.²⁰ Both Target and Nordstrom are entering the Canadian market by 2014.

Outlook

The apparel retail industry is strongly dependant on the strength of the economy. Unemployment rates in Canada and the U.S. are expected to decrease in 2012 resulting in an increase in spending. There are more people with jobs and less people in fear of losing their jobs, resulting in higher spending.²¹

The apparel and retail industry is expected to face continuing pricing pressures in the future as profit margins are impacted by higher product costs. Although costs are increasing, strong brands are able to pass higher costs off to their customers by increasing prices.

The industry faces opportunities with online channels. Selling products online increases convenience and value for customers as it increases flexibility for shoppers. Moreover, stores such as American Eagle attain higher margins through online sales. It is important for industry players to maintain a competitive position through e-commerce.

Over the longer term, the Canadian apparel retail industry is expected to continue to grow, but at a declining rate. An anticipated CAGR of 3.1% for the period 2011 to 2016 is expected to drive the industry to a value of \$30.4 billion by the end of 2016. This growth will be led by the menswear market, which has

¹⁵ Canadian demographic trends expected to be similar to the U.S.

¹⁶ Statistics Canada, Comparison Age Pyramids, 2006 and 2011, <<http://www12.statcan.gc.ca/census-recensement/2011/dp-pd/pyramid-pyramide/comp/index-eng.cfm>>.

¹⁷ Standard & Poor's – Apparel & Footwear Industry Survey, April 26, 2012.

¹⁸ *Ibid.*

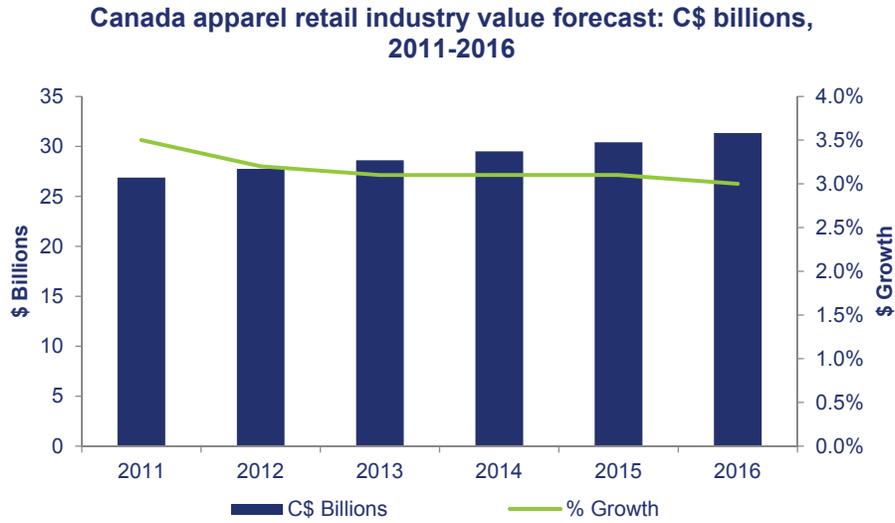
¹⁹ *Ibid.*

²⁰ Nordstrom Inc., Annual Report, 2011.

²¹ Standard & Poor's – Apparel & Footwear Industry Survey, April 26, 2012.

an anticipated CAGR of 3.6% for the forecast period, compared to a CAGR of 3.2% for the womenswear market.²²

The following graph shows the forecasted sales figures of the Canadian apparel retail industry from 2011 to 2016.



Source: Datamonitor²³

²² Datamonitor – Apparel Retail in Canada Industry Profile, February 2012.

²³ Datamonitor – Apparel Retail in Canada Industry Profile, February 2012.

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Toronto, Ontario
M5C 3H2
Attention: Corporate Actions

By Hand, Courier or Registered Mail:

Computershare Investor Services Inc.
100 University Avenue
9th Floor
Toronto, Ontario
M5J 2Y1
Attention: Corporate Actions

By Facsimile:

Fax: 905-771-4082

Toll Free: 1-800-564-6253

E-mail: corporateactions@computershare.com

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