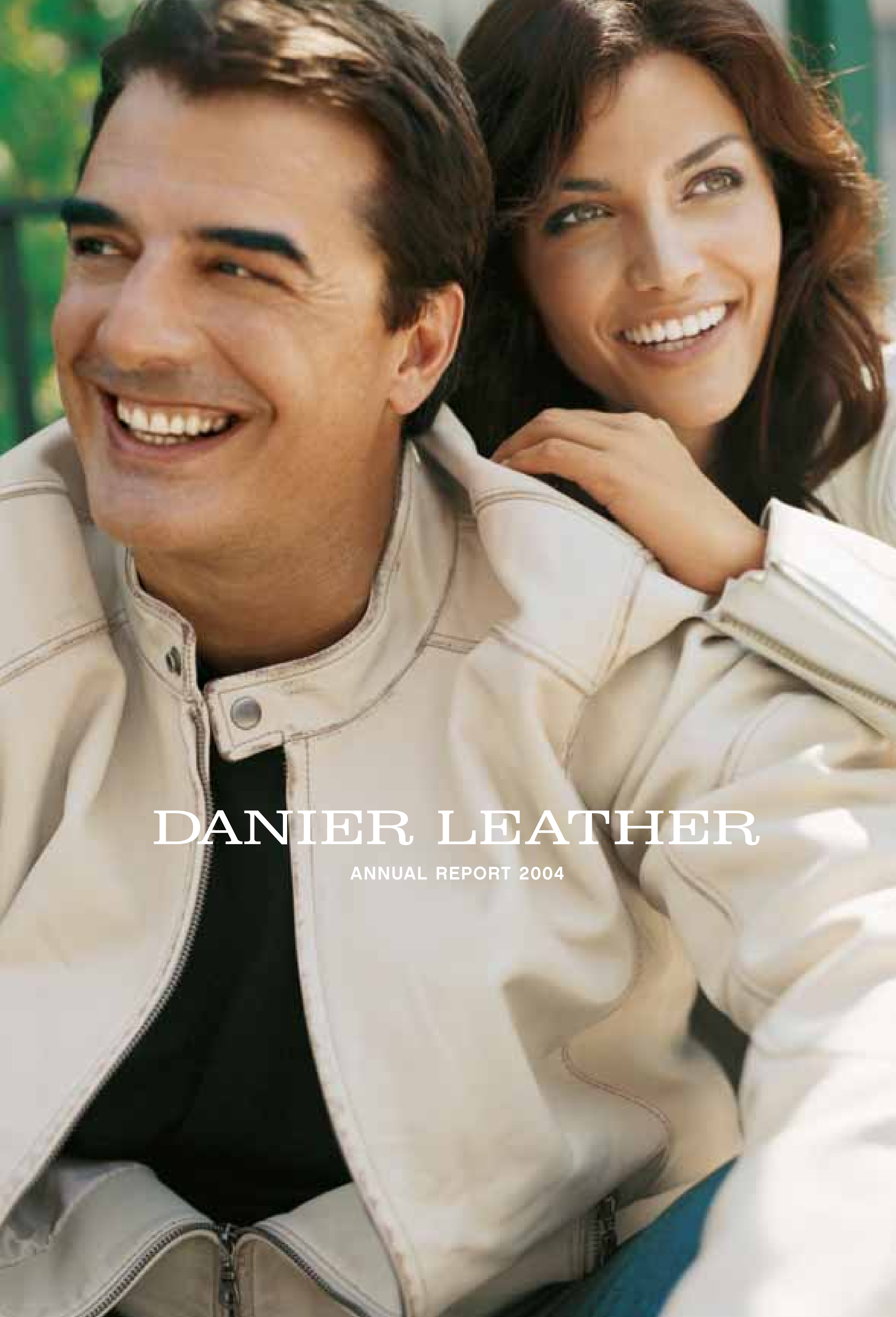

DANIER LEATHER

ANNUAL REPORT 2004

FINANCIAL HIGHLIGHTS

(in thousands of dollars, except earnings per share and shares outstanding)

	2004	2003	2002	2001	2000
Sales	178,115	175,487	179,977	165,418	143,011
Gross Profit	88,055	86,699	87,879	82,600	73,146
Earnings before income tax and litigation provision	7,547	12,016	18,154	21,115	19,062
EBITDA	(1,834)	15,305	23,684	25,530	22,556
EBITDA excluding litigation provision	13,616	18,078	23,684	25,530	22,556
Net Earnings (loss)	(7,097)	5,394	10,725	12,078	10,710
Earnings Per Share					
Basic	(1.03)	0.78	1.57	1.75	1.48
Diluted	n/a	0.76	1.53	1.73	1.40
Shares Outstanding at year-end	6,944,554	6,919,554	6,908,204	6,835,329	7,023,329
Selected Balance Sheet Data					
Cash	23,000	7,254	3,777	1,663	775
Working Capital	44,202	36,873	33,602	27,693	21,292
Total Assets	89,869	81,487	75,695	68,438	59,007
Long-term Debt	nil	nil	nil	nil	470
Shareholders' Equity	61,287	67,994	62,522	51,292	41,445

SELECTED FINANCIAL INFORMATION

	2004	2003	2002	2001	2000
Comparable store sales increase (decrease)	(4%)	(7%)	1%	8%	16%
Sales ($000)					
Shopping Mall/Street-Front/E-commerce	86,128	82,384	86,865	83,038	75,104
Power Centre	91,987	93,103	93,112	82,380	67,907
Total	178,115	175,487	179,977	165,418	143,011
Retail Square Footage					
Shopping Mall/Street-Front	118,847	117,927	108,566	95,018	84,640
Power Centre	258,680	251,235	212,672	177,574	158,624
Total	377,527	369,162	321,238	272,592	243,264
Number of Stores					
Shopping Mall/Street-Front	58	59	56	56	51
Power Centre	40	39	33	27	24
Total	98	98	89	83	75

TABLE OF CONTENTS

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CORPORATE PROFILE AND MISSION STATEMENT

Danier Leather Inc. is a leading integrated designer, manufacturer, and retailer of high-quality leather and suede clothing and accessories. The Company's merchandise is marketed exclusively under the well-known Danier brand name and is available only at its 98 shopping mall, street-front, and power centre stores, or through its corporate sales division and online through its website, www.danier.com. Since entering the retail business in 1974, Danier has produced a strong, long-term track record of growth and profits from continuing operations. Danier Leather's common shares trade on the Toronto Stock Exchange under the trading symbol "DL".

Our mission is to satisfy our customers' desire to feel good about themselves

2004 IN BRIEF

In many ways, fiscal 2004 was our most challenging year yet. While some of these challenges were the result of broader economic and market forces, our results were also impacted in areas within our control. We have learned lessons and are actively taking steps to improve in 2005 and beyond. While our financial results have yet to reflect the many positive changes already underway, we are confident that our strategy is solid and will lead to stronger financial performance while growing Danier into a major worldwide retailer and brand over the long term.

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LETTER FROM THE CHAIRMAN

On behalf of the Board of Directors, I would like to address you in light of recent events and their effect on our Company's performance this past year.

In May 2004, Danier received a negative trial court decision in a shareholder's class action lawsuit dating back six years to the time of the company's IPO. This decision, which has generated some controversy in the business and legal communities, is being appealed by the Company on the basis that it contains errors of law that should be reversed. As our financial statements for the year illustrate, the company recorded an expense to set up a provision of $15 million pursuant to the judgment. In addition, a provision of $450,000 for future legal fees in connection with the appeal was also established.

While we are profoundly disappointed with the ruling, we look forward to being vindicated on appeal. Regardless of the final outcome and near-term impact on our results, the Board is confident that Danier's long-term growth prospects remain solid and we wish you to know the following:

YOUR COMPANY IS WELL MANAGED.

Excluding the litigation provision, Danier just completed its 30th consecutive year of positive earnings. While earnings in the first half suffered from a particularly difficult holiday season, performance in the second half of the year improved considerably as the retail apparel environment improved, early merchandising missteps were corrected and the substantial time demands on management were reduced as the trial came to a close.

The Board continues to have complete confidence in Danier's senior management team, who despite recent challenges, have produced an enviable long-term track record and have positioned Danier as one of the largest publicly traded leather apparel retailers in the world.

YOUR COMPANY IS FINANCIALLY SOUND.

Danier has historically maintained a strong financial position, and this remains the case. At fiscal year-end, Danier had $23 million in cash – more than three times the amount of one year ago. The Company also has no long-term debt.

It is this financial strength that played a key role in the Board's decision to approve the payment of a quarterly cash dividend to shareholders. Even under highly challenging conditions, Danier has proven to be a strong and stable generator of cash flow. The Board expects that the Company will continue to generate sufficient cash flow from operations to pay a regular dividend while continuing to meet its ongoing capital investment requirements.

YOUR COMPANY IS WELL POSITIONED FOR GROWTH.

Your Board and management team believe that Danier is poised for improved performance in fiscal 2005. The Company's core business is healthy and its financial position and brand equity are strong. We continue to invest in multiple growth initiatives including accessories, corporate sales and international expansion.

The Board remains steadfastly committed to serving the best interests of our customers and we will continue to ensure the Company's affairs are conducted with the objective of maximizing the long-term value of the Company for our shareholders.

Edwin F. Hawken
Chairman of the Board

LETTER TO SHAREHOLDERS

By and large, fiscal 2004 was a year characterized by disappointment and frustration for Danier. While improvements in second half performance were unable to offset a poor holiday season, we believe our improved results in the third and fourth quarters provide a far better indication of Danier's potential heading into fiscal 2005.

Like most retailers in the apparel industry, Danier generates a significant portion of its total revenues – as well as a majority of its profits – during the winter holiday season. Historically we have done well during this period. For Danier, however, the past holiday season was anything but festive. Second quarter sales in fiscal 2004 were the weakest we can recall, with a comparable store sales decline of more than 13% relative to the same period the year before.

Part of this was due to external factors such as warmer weather, as well as challenging conditions in the retail apparel industry. However, other factors within our control exacerbated the problem, namely inventory imbalances. While we took rapid corrective measures, these measures could not be fully implemented until after the holiday season and therefore the positive results experienced from February to the end of the year were not enough to impact the year's overall results.

Retailing is never an exact science. At Danier, when we do make mistakes, we are careful to take valuable lessons so we can avoid repeating these same errors in the future. We also strive to raise the bar even higher and continuously improve on our strengths as a retailer.

The latter part of the year offers an example of this. We moved quickly to improve inventory planning and execution. We also began to present ourselves in a less commoditized manner, choosing instead to leverage our strong marketing and brand awareness with a renewed focus on value and style. Customers responded well to our colourful spring collection and in the final quarter of the year, we recorded comparable store gains of 15% and did so with 25% less inventory. While many challenges remain, these results are encouraging and indicate that we are on the right track.

Despite the year-over-year decline in earnings, Danier once again demonstrated its ability to generate substantial cash flow that exceeds our capital requirements. As a result, the Board of Directors has declared a quarterly dividend of six cents per share, representing an annual cash dividend of 24 cents per share.

During the fourth quarter of 2004, the Company recorded an expense and set up a provision of $15 million pursuant to a negative judgment in the class action lawsuit. In addition, a provision of $450,000 for future legal fees in connection with the appeal was also set up during the fourth quarter. While we are appealing the decision, the tremendous time demands on management from this process are now thankfully over, and we look forward to focusing all of our efforts on the Company and returning Danier to more satisfactory performance levels in keeping with the Company's strong long-term track record.

Finally, I wish to thank each of our directors for their ongoing counsel and support, our 1,300 employees for the fantastic service they give day in and day out, our customers for their enduring loyalty, and our shareholders for standing by us through difficult times and for sharing our vision for a bright future.

Jeffrey Wortsman

Jeffrey Wortsman
President and CEO
July 23, 2004

"We strive to raise the bar even higher and continuously improve on our strengths as a retailer."

ABOUT DANIER

Danier owns and operates 98 stores in North America, making us one of the largest specialty leather apparel retailers in the world and the largest in Canada. We operate 58 shopping mall and street-front stores, 40 larger format stores located in power centres and a top-rated e-commerce site. We have been manufacturing and retailing for thirty years. Along the way, we have earned international recognition as the leader in leather and suede design and production, and amassed a level of expertise unparalleled in the industry.

BRANDING AND MARKETING

Founded upon the cornerstones of style, quality, service and value, the Danier brand resonates strongly with consumers in search of leather and suede designs that are as affordable as they are fashion-forward. Our innovative fashions, carefully crafted marketing campaigns and publicity efforts have earned us placement in leading fashion and lifestyle magazines. In fiscal 2004, Danier products appeared in leading publications such as Lucky, Oprah and InStyle.

In June 2004, we announced that the popular actor Chris Noth, best known for his roles as Detective Mike Logan on *Law and Order* and Mr. Big on *Sex and the City* will star in our advertising campaign for the upcoming fall and holiday season. Noth is well-known and admired by both men and women for his contemporary sophistication and cool elegance. The campaign will feature Noth on billboards, flyers and print advertising. This represents a new marketing approach for Danier, one that we expect will be embraced by existing and potential customers.

We are planning to improve upon our marketing in other areas in fiscal 2005. We are working towards tighter coordination of our various marketing vehicles with the merchandise as well as adopting a more product-focused perspective. The marketing message will place greater emphasis on the style and value message while in-store merchandising tools and displays are being enhanced to generate greater excitement and strengthen the product presentation.

> “We are always looking to breathe new life into our stores and to enhance the shopping experience for our customers.”

CONSUMER MESSAGING

Maintaining a consistent style message is a challenge for any growing retailer, but it is critical for one like Danier, with its unique and inspired fashions. With 98 stores, 1,300 employees and thousands of products and styles, we need to ensure that our fashion message is consistent and clearly communicated to our customers.

Danier's design, merchandising and marketing teams will work in tandem to ensure the Danier vision and style message remains consistent from concept to customer. This will not only strengthen our brand position, but enhance our merchandising efforts and help our employees to work more closely with customers to choose and accessorize the fashions that are right for them.

VERTICAL INTEGRATION

Danier is rare among large leather retailers in that we are a fully vertically integrated company. In other words, we control every step of the retailing process – from raw materials sourcing and selection to product design to manufacturing and retailing. This way, we can ensure our customers are getting only the finest leather products with quality and value to match.

Few retailers can match our commitment to technology and process improvement. Quick response – the ability to produce and deliver a final product in as little time as possible – remains a key objective for Danier. Over the last 12 months we made substantial gains in our manufacturing processes. On average, our garments today are made 25% faster than a year ago and 40% faster than in 2002. We recently improved our manufacturing efficiency by installing a new pressing tunnel. This new technology, taken from the fabric industry and modified for leather, more than doubles pressing capacity without requiring additional manpower.

Looking to fiscal 2005, we are improving our processes to provide quicker replenishment of popular styles during the peak sales months by shifting a greater share of production to quick response around the holiday season. Another key objective is to further reduce domestic production lead times by streamlining administrative processes and improving factory workflow.

DANIER STORE OPERATIONS

Our mall and street-front stores form the cornerstone of our retail network and are located in prime retail centres such as top-rated shopping malls. These stores are nicely complemented by our power centre locations – larger stores known for their breadth of selection, value and convenience. Power centres typically carry current season merchandise at prices the same as mall stores but will also have past season, slightly imperfect, designer samples, as well as a greater choice of accessories; all at great prices.

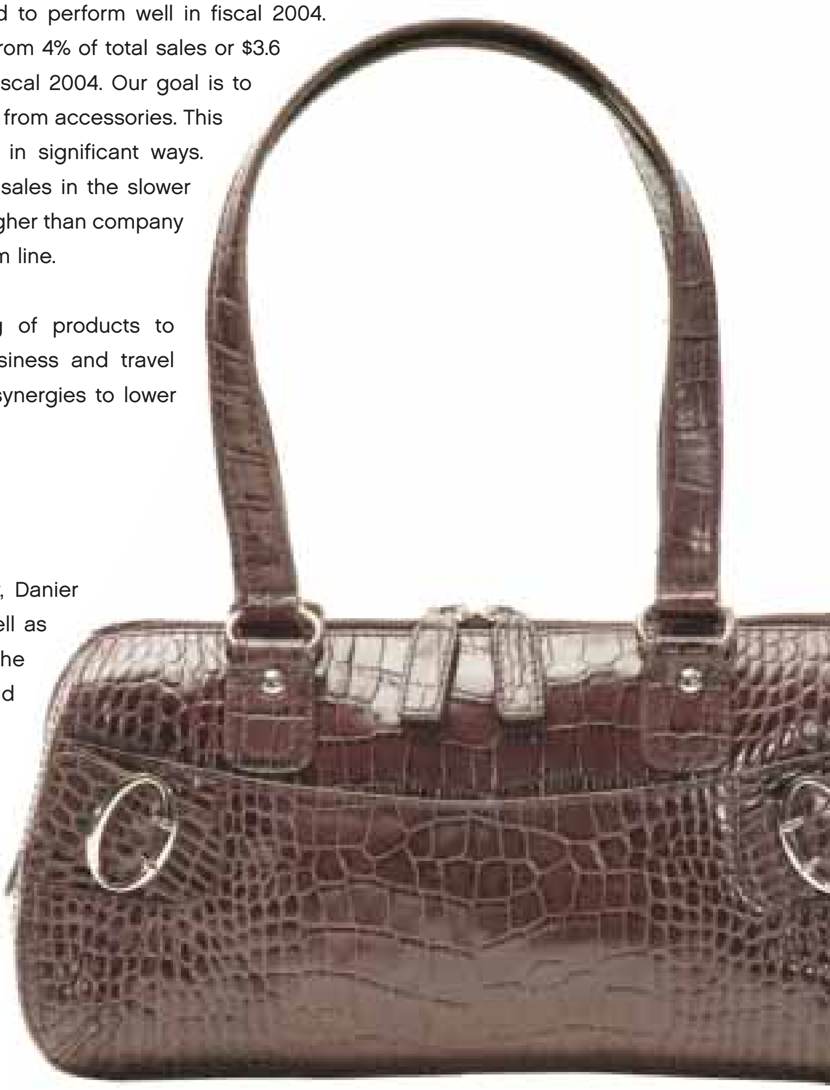
While total sales for the year increased 1%, comparable store sales declined for the second year in a row. This was due to weaker than expected consumer demand, as well as merchandising issues in the first half of the year. However, better planning and attractive new merchandise helped to lift sales beginning in the latter part of the third quarter and resulted in an overall improvement in performance. Mall stores in particular showed a marked improvement in sales performance, thanks in part to strong consumer demand in the third and fourth quarters for vibrant leather colours for spring, including a variety of pinks, blues and yellows.

At Danier, we are always looking to breathe new life into our stores and to enhance the shopping experience for our customers. We continue to re-evaluate every aspect of the sales process and introduce exciting new marketing and merchandising initiatives to excite shoppers. These include revamped signage and more customer-friendly displays. Among our priorities is a revitalized presentation format that takes a more complete merchandising approach and allows customers to better visualize an ensemble to achieve the "total look".

ACCESSORIES

Our leather and suede accessories business continued to perform well in fiscal 2004. We have successfully grown the accessories business from 4% of total sales or $3.6 million in 1998 to 18% of total sales or $32.4 million in fiscal 2004. Our goal is to eventually generate approximately 30% of our total sales from accessories. This business has increased Danier's top and bottom line in significant ways. Accessories play a key role in driving store traffic and sales in the slower summer months. Attractive profit margins (typically 3% higher than company average) have also made a positive impact to the bottom line.

We are constantly expanding our range and styling of products to introduce exciting new accessories for the home, business and travel markets, while exploiting manufacturing and logistical synergies to lower costs and reduce design and production times.



CORPORATE SALES

Since launching the corporate sales function last year, Danier has continued to grow revenues in this business, as well as the breadth and depth of the product offering. The expansion of our distribution network has created a solid foundation for continued growth in corporate sales.

One of the most appealing features of this market segment is that it dovetails perfectly with our accessories business. By leveraging our design, merchandising and manufacturing strengths in leather accessories, as well as the respected Danier brand, we will continue to offer our corporate customers a wide variety of premium branded or co-branded products at superior value. New customers added in the last year include BCE, Esso, CGI, MAC Cosmetics and Molson.

md&a

MANAGEMENT'S DISCUSSION AND ANALYSIS

As at July 23, 2004

The following management's discussion and analysis is based upon and should be read in conjunction with Danier Leather Inc. ("Danier" or the "Company") consolidated financial statements and notes thereto prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). In the discussion that follows, "2004" refers to the 52-week period ended June 26, 2004 and "2003" refers to the 52-week period ended June 28, 2003.

BUSINESS OVERVIEW

Danier is one of the largest publicly traded leather apparel retailers in the world. As a vertically integrated designer, manufacturer and retailer, Danier is able to offer its customers high-quality, fashionable leather clothing and accessories at exceptional value. Danier's products are sold exclusively at its 98 shopping mall stores, street-front stores and large format power centre locations and through its corporate sales division and website, danier.com.

OPERATING STRATEGY

Over the next several years, Danier's operating strategy will focus on the following:

1. GROW ACCESSORIES TO 30% OF TOTAL BUSINESS

Accessory sales represented $32.4 million or 18% of total company revenue in 2004 compared with $3.6 million or 4% of total company revenue in 1998. Danier's long-term objective is to grow this part of its business to 30% of total sales. This is expected to be achieved by developing a wider assortment of products within existing product lines, as well as developing innovative new accessories for business, travel and the home.

2. INCREASE THE NUMBER OF POWER CENTRE LOCATIONS

Danier operates 55 Canadian shopping mall and street-front stores, three U.S. shopping mall stores and 40 power centre locations (large format stores).

Shopping mall and street-front stores will be selectively added where sales, store profit and return on investment criteria are met. The Company anticipates opening one or two Canadian shopping mall stores per year.

A "power centre" is a group of large retail outlets ranging in size from 5,000 to 100,000 square feet. The average size of a Danier power centre location is approximately 6,500 square feet compared with 2,100 square feet for a shopping mall store. Danier power centre locations are positioned as "category killers" offering a wide selection of product at value prices. Current season merchandise is offered at the same prices as those in the shopping mall stores. In addition, Danier power centre locations offer customers merchandise from the prior season, slightly imperfect pieces and designer samples. Management believes that the Canadian market can support 50 Danier power centre locations. During fiscal 2005, Danier plans to open one new power centre location. New power centre locations are expected to generate sales of between $1.5 million to $2.0 million per store.

3. CORPORATE SALES

Sales of Danier products to corporations and other organizations for use as incentives and premiums for employees, suppliers and customers represent another growth channel. Danier believes that this line of business can achieve significant growth and sales by providing corporate customers with unique, innovative and exciting merchandise. Danier's strong brand, expertise in leather design and manufacturing, and growing line of accessories provide a solid foundation for the development of a successful corporate sales business.

4. GEOGRAPHIC GROWTH

The world market for leather clothing is highly fragmented and polarized at two ends. At one end are products of lower quality and low price with little differentiation among products or retailers. At the other end are high-quality, high-priced designer products that offer limited merchandise that appeals to a small segment of the population. Danier, through its vertical integration and 30 person design department, caters to the broad middle market by offering a wide selection of leather clothing and accessories with the fashion and quality of the designer labels at value prices. Danier's initial international expansion has been to the United States where it currently has three stores in the northeastern United States. Licensing opportunities in other countries will also be explored.

SELECTED ANNUAL INFORMATION

The following table sets forth selected annual income statement and financial position data in thousands of dollars except per share amounts for each of the last five years.

	2004	2003	2002	2001	2000
Income Statement Data					
Revenue	$ 178,115	$ 175,487	$ 179,977	$ 165,418	$ 143,011
Earnings before income tax and litigation provision	7,547	12,016	18,154	21,115	19,062
Litigation provision and related expenses	15,450	2,773	-	-	-
Net earnings (loss)	(7,097)	5,394	10,725	12,078	10,710
Per Share – Net earnings (loss)					
Basic	($1.03)	$0.78	$1.57	$1.75	$1.48
Diluted	n/a	$0.76	$1.53	$1.73	$1.40
Dividends per share	nil	nil	nil	nil	nil
Financial Position Data					
Total assets	$ 89,869	$ 81,487	$ 75,695	$ 68,438	$ 59,007
Long-term debt	nil	nil	nil	nil	470
Shareholders' equity	61,287	67,994	62,522	51,292	41,445

RESULTS OF OPERATIONS

The following tables sets forth the Company's condensed consolidated statements of income and supplemental information in thousands of dollars and as a percentage of revenue for each of the last five years.

	2004	2003	2002	2001	2000
Revenue	$ 178,115	$ 175,487	$ 179,977	$ 165,418	$ 143,011
Cost of sales	90,060	88,788	92,098	82,818	69,865
Gross profit	88,055	86,699	87,879	82,600	73,146
Selling, general and administrative expenses	80,526	74,617	69,264	60,902	54,051
Interest expense (income)	(18)	66	461	583	33
Earnings before undernoted item and income tax	7,547	12,016	18,154	21,115	19,062
Litigation provision and related expenses	15,450	2,773	-	-	-
Earnings (loss) before income tax	(7,903)	9,243	18,154	21,115	19,062
Income tax expense (recovery)	(806)	3,849	7,429	9,037	8,352
Net earnings (loss)	(7,097)	5,394	10,725	12,078	10,710
Supplemental information:					
EBITDA[1]	(1,834)	15,305	23,684	25,530	22,556
EBITDA excluding litigation provision[1]	13,616	18,078	23,684	25,530	22,556
Net earnings excluding litigation provision[1]	4,279	7,012	10,725	12,078	10,710

	2004	2003	2002	2001	2000
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	50.6%	50.6%	51.2%	50.1%	48.9%
Gross profit	49.4%	49.4%	48.8%	49.9%	51.1%
Selling, general and administrative expenses	45.2%	42.5%	38.5%	36.8%	37.8%
Interest expense (income)	-	-	0.2%	0.3%	-
Earnings before undernoted item and income tax	4.2%	6.9%	10.1%	12.8%	13.3%
Litigation provision and related expenses	8.7%	1.6%	-	-	-
Earnings (loss) before income tax	(4.5%)	5.3%	10.1%	12.8%	13.3%
Income tax expense (recovery)	(0.5%)	2.2%	4.1%	5.5%	5.8%
Net earnings (loss)	(4.0%)	3.1%	6.0%	7.3%	7.5%

Supplemental information:					
EBITDA[1]	(1.0%)	8.7%	13.2%	15.4%	15.8%
EBITDA excluding litigation provision[1]	7.7%	10.3%	13.2%	15.4%	15.8%
Net earnings excluding litigation provision	2.4%	4.0%	6.0%	7.3%	7.5%

[1]EBITDA is defined as net earnings (loss) before interest expense, income taxes, depreciation and amortization. EBITDA excluding litigation provision is defined as net earnings (loss) before interest expense, income taxes, depreciation and amortization and litigation provision and related expenses. Net earnings excluding litigation provision is defined as net earnings (loss) plus litigation and related expenses less income taxes. EBITDA as well as EBITDA excluding litigation provision is a financial metric used by management and some investors to compare companies on the basis of operating results, asset value and the ability to incur and service debt. Net earnings excluding litigation provision is a financial metric used by management and some investors to compare Danier's operating results before unusual or non-recurring items. EBITDA, EBITDA excluding litigation provision, and net earnings excluding litigation provision are not recognized measures for financial presentation under Canadian generally accepted accounting principles ("GAAP"). Non-GAAP earnings measures do not have any standardized meaning and are therefore unlikely to be comparable to similar measures presented by other issuers.

EBITDA as well as EBITDA excluding litigation provision is calculated as outlined in the following table:

	2004	2003	2002	2001	2000
Net earnings (loss)	$ (7,097)	$ 5,394	$ 10,725	$ 12,078	$ 10,710
Plus: Income tax expense (recovery)	(806)	3,849	7,429	9,037	8,352
Plus: Interest expense (income)	(18)	66	461	583	33
Plus: Amortization	6,087	5,996	5,069	3,832	3,461
EBITDA	(1,834)	15,305	23,684	25,530	22,556
Plus: Litigation provision and related expenses	15,450	2,773	-	-	-
EBITDA excluding litigation provision	$ 13,616	$ 18,078	$ 23,684	$ 25,530	$ 22,556

Net earnings excluding litigation provision is calculated as outlined in the following table:

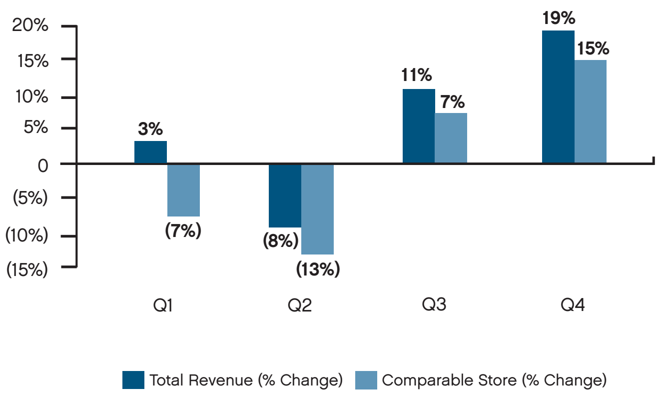
	2004	2003	2002	2001	2000
Net earnings (loss)	$ (7,097)	$ 5,394	$ 10,725	$ 12,078	$ 10,710
Plus: Litigation provision and related expenses	15,450	2,773	-	-	-
Less: Income tax recovery	(4,074)	(1,155)	-	-	-
Net earnings excluding litigation provision	$ 4,279	$ 7,012	$ 10,725	$ 12,078	$ 10,710

The following summarized statistical data compare each of the last five fiscal years.

	2004	2003	2002	2001	2000
Comparable store sales increase/(decrease)	(4%)	(7%)	1%	8%	16%
Sales ($000)					
Shopping Mall/Street-Front/Direct Sales	$ 86,128	$ 82,384	$ 86,865	$ 83,038	$ 75,104
Power Centre	91,987	93,103	93,112	82,380	67,907
Total	$ 178,115	$ 175,487	$ 179,977	$ 165,418	$ 143,011
Retail square footage					
Shopping Mall/Street-Front	118,847	117,927	108,566	95,018	84,640
Power Centre	258,680	251,235	212,672	177,574	158,624
Total	377,527	369,162	321,238	272,592	243,264
Number of stores					
Shopping Mall/Street-Front	58	59	56	56	51
Power Centre	40	39	33	27	24
Total	98	98	89	83	75

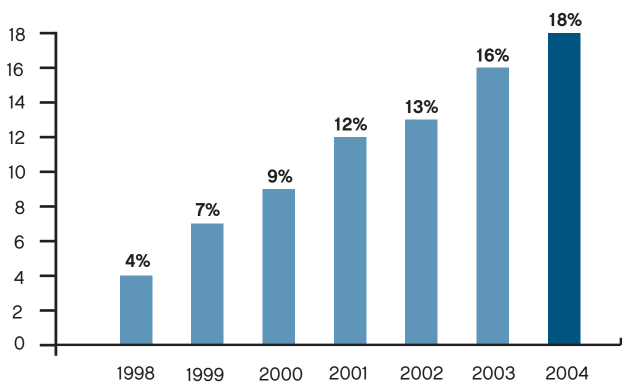
Revenue increased by 1% or $2.6 million to $178.1 million in 2004 from $175.5 million in 2003. Revenue from the four new stores opened during fiscal 2004 (two power centre locations and two shopping mall stores) as well as the increase in revenue from the full period of operation from nine new stores opened during fiscal 2003 (six power centre locations and three shopping mall stores) represented an additional $9.0 million of revenue. This revenue increase was offset by a comparable store decrease of 4% or $6.4 million.

TABLE 1
Revenue and Comparable Store Revenue Percentage Change by Quarter (2004 vs. 2003)



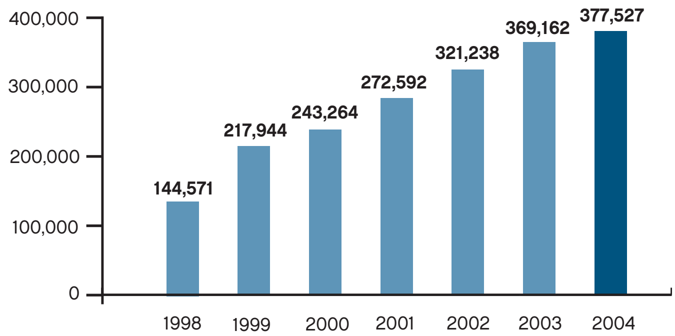
Comparable store revenue during the first half of the year declined 12% but recovered during the last half of the year with a 7% increase in Q3 and 15% increase in Q4.

TABLE 2
Accessory Sales (as a percentage of total revenues)



Accessory sales increased by 15% in 2004 and represented 18% of total revenues. Danier has achieved 44% compound annual revenue growth for accessories over the last six years.

TABLE 3
Retail Square Footage



Danier's total retail square footage increased by 2% to 377,527 square feet in 2004 from 369,162 square feet in 2003.

During the first half of the fiscal year, revenue was negatively affected by a weak operating environment in specialty apparel and warmer weather leading up to the Christmas holidays. In addition, greater consumer demand for shorter length outerwear resulted in a lower average sale per customer. During the second half of the year, comparable store revenues increased 10% and were positively affected by customer interest in the spring collection which was introduced in February. The spring collection contained merchandise in a variety of fresh and vibrant leather and suede colours such as pink, blue, orange and yellow.

POWER CENTRE REVENUES

Power centre location revenue declined by 1% to $92.0 million in 2004 compared with $93.1 million in 2003. Revenue from the two new locations opened during fiscal 2004 as well as the increase in revenue from the full period of operation from six new locations opened during fiscal 2003 represented an additional $5.3 million of revenue. This revenue increase was offset by a comparable store decrease of 8% or $6.4 million. In addition to the reasons discussed above, higher markdowns contributed to a larger decrease in average sale per customer at power centre locations compared with the decrease experienced at shopping mall stores. Since the power centre expansion began in 1998, revenue has tripled resulting in compound annual growth of 21%. In addition, power centre location revenues currently represent 52% of total company revenues compared with 33% in 1998. Over the last six years, the number of power centre locations has increased from 11 in 1998 to 40 in 2004. Power centre retail square footage increased by 3% to 258,680 square feet in 2004 compared with 251,235 square feet in 2003.

SHOPPING MALL, STREET-FRONT AND DIRECT SALES REVENUES

Shopping mall, street-front store and direct sales (e-commerce and direct sales to corporations) increased by 5% or $3.7 million to $86.1 million in 2004 from $82.4 million in 2003. Revenue from two new stores opened during fiscal 2004 as well as the increase in revenue from the full period of operation of three new stores opened during fiscal 2003 represented an additional $3.0 million of revenue. Direct sales revenue increased by $0.7 million. Comparable store sales were flat for the year. During the first half of the year, comparable store sales were down 10% but during the last half of the year comparable store sales increased 16% with strong customer response to the new spring collection and an improvement in the retail apparel environment. Two new stores were opened in 2004, three were closed and one was expanded. Shopping mall and street-front square footage increased by 1% to 118,847 square feet from 117,927 square feet in the prior year.

FOURTH QUARTER REVENUES

Revenues in the fourth quarter of 2004 increased by $4.6 million or 19% to $29.3 million compared with $24.8 million for the fourth quarter of 2003. Comparable store sales increased by 15% or $3.4 million. Prior year fourth quarter revenues were affected by the outbreak of SARS and weakness in the retail apparel sector. The fourth quarter of 2004 was positively impacted by strong customer response to colourful spring merchandise. During the fourth quarter, Danier closed three under-performing shopping mall stores and one power centre. Accessory sales increased by 18% and represented 19% of total fourth quarter sales.

Gross profit increased by 2% to $88.1 million in 2004, compared with $86.7 million in 2003. Gross profit as a percentage of revenue was 49.4% in both 2004 and 2003. During the first three quarters of the year, gross profit and gross profit as a percentage of revenue were negatively affected by more aggressive markdowns and clearance activity. In addition, realized losses of $0.8 million on U.S. dollar foreign exchange forward contracts that matured during the first half of the fiscal year also negatively affected gross profit. There are no further outstanding foreign exchange forward contracts.

Gross profit increased by 29% or $3.3 million to $14.8 million in the fourth quarter of 2004, compared with $11.5 million in the fourth quarter of 2003. Gross profit as a percentage of sales increased to 50.5% compared with 46.4% during the same period last year. Reduced markdowns in both shopping mall stores and power centre locations, a 19% sales increase, and a $0.3 million increase in the year-end estimate to actual adjustment bringing the physical inventory in line with the book inventory are the primary reasons for the increase.

Selling, general and administrative expenses increased by 8% to $80.5 million, compared with $74.6 million in 2003. This increase was due to: additional store salaries, benefits and rent and occupancy costs associated with operating four new stores, one expanded store during 2004 and the full year effect of the nine new stores and two expanded stores during 2003; higher advertising expenses; increased maintenance and support fees from the operation of new and additional computer hardware and software; head office staff termination costs; and the cost of expensing stock options.

Selling, general and administrative expenses for the fourth quarter of 2004 increased by 13% to $16.6 million, compared with $14.6 million in the fourth quarter of 2003. The increase was due to: additional store salaries, benefits and rent and occupancy costs associated with the operation of four new stores and one expanded store during 2004; head office staff termination costs; stock option expense; and a year-end actual to estimate adjustment in the prior year of approximately $1.0 million reversing bonuses for head office staff, which are estimated in the second quarter based on meeting certain financial targets and then adjusted based on the Company's year-to-date results.

Litigation provision and related expenses relate to the class action litigation. On May 7, 2004 the Superior Court of Justice (Ontario) issued a judgment in favour of the Plaintiffs and awarded damages to Canadian shareholders who purchased subordinate voting shares in Danier's initial public offering (IPO).

Based solely on the information available at year-end, if the award had been paid at year-end the Company estimates the damages to be about $10 million. Interest and costs have not been dealt with by the Court but if awarded, the Company estimates the total award could increase by approximately $5 million. During the fourth quarter of 2004, the Company recorded an expense and set up a provision of $15 million pursuant to this judgment. In June 2004, a Notice of Appeal was filed by the Company and two of its Senior Officers. Payment of any damages will be deferred as the award and the judgment are stayed by the filing of the appeal. The damages award and income tax recovery is based on management's best estimate and is subject to adjustment when all facts are known and all issues are resolved. The possible adjustment could be significant.

During fiscal 2003, the Company expensed legal and professional fees of approximately $2.8 million of which approximately $1.6 million related to legal and professional fees actually incurred during fiscal 2003 and approximately $1.2 million was set up as a provision for future legal and professional fees. As at June 26, 2004, $0.5 million was set up as a provision for future legal fees in connection with the appeal.

Interest income was $18,000 in 2004 compared with interest expense of $66,000 in 2003. The decrease in interest expense was mostly due to lower borrowings and higher cash balances.

Interest income for the fourth quarter of 2004 was $120,000 compared with $47,000 in 2003. This increase was due to higher cash balances.

Effective income tax recovery was 10.2% in 2004 compared with an effective income tax expense of 41.6% last year. The change was due to differences between tax accounting and financial accounting for provisions made during the year, lower earnings available to offset unutilized losses from the United States operation and higher Ontario tax rates.

Net earnings excluding the litigation provision for 2004 was $4.3 million compared with net earnings of $7.0 million in 2003. Including the litigation provision, the net loss for 2004 was $7.1 million ($1.03 per share) compared with net earnings of $5.4 million ($0.78 per share) in 2003. The decrease in net earnings was due to the litigation provision for the class action lawsuit and reduced profitability during the first half of the year resulting from a decrease in sales and higher selling, general and administrative expenses.

Net loss for the fourth quarter excluding the litigation provision decreased to $1.1 million compared with $2.0 million in 2003. Including the litigation provision, the net loss for the fourth quarter of 2004 was $12.5 million ($1.81 per share) compared with $3.5 million ($0.50 per share) in 2003. The increase in the fourth quarter loss was due to the provision for the class action litigation.

SEASONALITY AND QUARTERLY FLUCTUATIONS

The business of the Company is seasonal and results of operations for any interim period are not necessarily indicative of the results of operations for the full fiscal year. Generally, a significant portion of the Company's sales and earnings are generated during the second quarter, which includes the holiday selling season, and sales are lowest and losses are experienced in the period from April to September.

TWO YEAR SUMMARY BY QUARTER (unaudited) (in thousands of dollars, except per share amounts)

	Q1 2004	Q2 2004	Q3 2004	Q4 2004
Revenues	23,301	79,293	46,174	29,347
Net earnings (loss)	(4,108)	8,984	531	(12,504)
Net earnings per share				
Basic	($0.59)	$1.30	$0.08	($1.81)
Diluted	n/a	$1.29	$0.08	n/a
Supplemental information[1]:				
EBITDA	(5,018)	16,998	2,545	(16,359)
EBITDA excluding litigation provision	(5,018)	16,998	2,545	(909)
Net earnings excluding litigation provision	(4,108)	8,984	531	(1,128)

	Q1 2003	Q2 2003	Q3 2003	Q4 2003
Revenues	22,695	86,615	41,414	24,763
Net earnings (loss)	(3,372)	11,777	454	(3,465)
Net earnings per share				
Basic	($0.49)	$1.70	$0.07	($0.50)
Diluted	n/a	$1.67	$0.06	n/a
Supplemental information[1]:				
EBITDA	(3,853)	21,657	2,394	(4,893)
EBITDA excluding litigation provision	(3,834)	21,697	2,541	(2,326)
Net earnings excluding litigation provision	(3,361)	11,800	540	(1,967)

[1] EBITDA as well as EBITDA excluding litigation provision is calculated as outlined in the following table:

	Q1		Q2		Q3		Q4	
	2004	2003	2004	2003	2004	2003	2004	2003
Net earnings (loss)	(4,108)	(3,372)	8,984	11,777	531	454	(12,504)	(3,465)
Plus: Income tax expense (recovery)	(2,739)	(2,295)	6,126	8,017	370	308	(4,563)	(2,181)
Plus: Interest expense (income)	76	82	135	131	(109)	(100)	(120)	(47)
Plus: Amortization	1,753	1,732	1,753	1,732	1,753	1,732	828	800
EBITDA	(5,018)	(3,853)	16,998	21,657	2,545	2,394	(16,359)	(4,893)
Plus: Litigation provision and related expenses	-	19	-	40	-	147	15,450	2,567
EBITDA excluding litigation provision	(5,018)	(3,834)	16,998	21,697	2,545	2,541	(909)	(2,326)

Net earnings excluding litigation provision is calculated as outlined in the following table:

	Q1		Q2		Q3		Q4	
	2004	2003	2004	2003	2004	2003	2004	2003
Net earnings (loss)	(4,108)	(3,372)	8,984	11,777	531	454	(12,504)	(3,465)
Plus: Litigation provision and related expenses	-	19	-	40	-	147	15,450	2,567
Less: Income tax recovery	-	(8)	-	(17)	-	(61)	(4,074)	(1,069)
EBITDA excluding litigation provision	(4,108)	(3,361)	8,984	11,800	531	540	(1,128)	(1,967)

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations and bank borrowings have been the primary funding sources for working capital requirements and capital expenditures over the last several years. Cash flows from operating activities increased by $5.5 million to $17.9 million in 2004 compared with $12.3 million in 2003. The increase in cash flows from operating activities was mostly due to a $7.1 million reduction in inventory and a $1.0 million increase in income tax payable. The $7.1 million reduction in inventory was due to a $0.9 million reduction in raw material inventory, a $0.5 million reduction in work-in-process inventory and a $5.7 million reduction of finished goods inventory. Approximately 50% of the reduction in finished goods inventory is due to reduced outerwear as the Company realized benefits from improved merchandise planning during the last half of the year and adjustments were made to the product mix from longer length jackets to shorter length jackets. Sportswear inventory, which includes blazers, pants and skirts, represented another 25% of the reduction. Accessories represented the remainder of the reduction.

Working capital increased by $7.3 million to $44.2 million in 2004 compared with $36.9 million in 2003. The increase is mainly due to a $15.7 million increase in cash balances, offset by a $7.1 million decrease in inventory, a $1.0 million increase in income tax payable. The Company had no long-term debt at the end of both 2004 and 2003.

The Company's business is seasonal with peak working capital needs expected to occur during the period June to mid-December as inventory levels are increased in advance of the peak selling season from October to March. The Company funds inventory expenditures during normal and peak selling periods through a combination of cash flows provided by operations and bank credit facilities. The Company amended its credit facilities during June 2004 and has credit facilities available to a maximum amount of $69.0 million, consisting of (i) an operating facility for working capital and for general corporate purposes to a maximum amount of $65 million that is committed until July 29, 2005 and bears interest at prime plus 0.25%, and (ii) a $4.0 million revolving capital expenditure loan facility which bears interest at prime plus 0.75% and reduces by $1.0 million on each of June 30, 2005 and June 30, 2006 and by $2.0 million on June 30, 2007 at which time it matures. Standby fees are paid for any unused portion of the credit facilities. The credit facility is subject to certain covenants and other limitations that if violated could cause a default and result in immediate repayment of amounts outstanding. Security provided includes a security interest over all personal property of the business and a mortgage over the land and building, comprising the Company's head office/distribution facility.

On February 4, 2004, the Company received approval from the Toronto Stock Exchange to renew its normal course issuer bid. The bid permits the Company to acquire up to 284,761 subordinate voting shares, representing approximately 5% of the issued and outstanding subordinate voting shares, during the period from February 6, 2004 to February 5, 2005. No shares were purchased for cancellation during 2004 under this normal course issuer bid or the previous normal course issuer bid that expired on February 5, 2004.

During 2004, capital investments totalled approximately $2.8 million comprising approximately (i) $1.8 million for the addition of two power centre outlets and two shopping mall stores, relocation to a larger store in one shopping mall, miscellaneous renovations and expenditures in the retail division, (ii) $0.6 million for information technology including upgrades to head office network and storage systems and implementation of a merchandise assortment planning system, and (iii) $0.4 million for manufacturing equipment and office furniture. For fiscal 2005, Danier plans total capital expenditures of approximately $6.4 million. Approximately $3.5 million is anticipated to be used for the addition of one new power centre outlet, one shopping mall store, approximately nine renovations at existing mall stores and miscellaneous expenditures in the retail division, $2.4 million for information technology including initial implementation of new point-of-sale hardware and software, upgrade of merchandising and manufacturing systems, and upgrade of computer hardware and software at head office, and $0.5 million for factory equipment and building improvements. The Company will fund these capital investments from existing working capital, internally generated cash flow and available credit facilities.

Management believes that cash flow from operations and existing credit facilities will provide the Company with sufficient financial resources to fund its working capital needs and planned capital investment program for fiscal 2005. In addition with $23 million of cash at year-end and an operating credit facility of up to $65 million, the Company believes that it will have sufficient cash or borrowing capacity to pay the Class Action award if the appeal is not successful.

CONTRACTUAL OBLIGATIONS ($000)

Danier has no long-term debt, capital lease obligations, purchase obligations or other long-term contractual obligations. Operating leases for stores and equipment excluding percentage rent are listed below.

Payments Due By Period	Store Leases and Equipment
Year 1	$11,653
Year 2	$10,958
Year 3	$10,305
Year 4	$8,857
Year 5	$7,089
After 5 years	$13,227
Total	$62,089

RISKS AND UNCERTAINTIES

Danier is subject to certain risks and uncertainties that are common in the leather and retail apparel industry and the market environment generally. These risks and uncertainties may impact Danier's ability to successfully execute its key strategies and may affect future performance. The risks included here are not exhaustive. Danier operates in a very competitive and rapidly changing environment. New risk factors may emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on Danier's business.

FASHION AND APPAREL AND LEATHER INDUSTRY RISKS

The Company's success is based in part on its ability to identify and interpret fashion and product trends, as well as to anticipate, gauge and react to changing consumer demands in a timely manner. If the Company is unable to identify new fashion trends and adjust the product mix in a timely manner or if market preferences are misjudged, the Company could be faced with significant excess inventories for some products and missed opportunities for other products. In response, additional markdowns or promotions may be required to reduce excess, slow-moving inventories, which may have a material adverse effect on the business, financial condition and results of operations.

Historically, a large proportion of the Company's merchandise was black and shades of brown. Current fashion trends are emphasizing more colour and the ability of the Company to correctly identify and balance its inventories with these fashion colours increases fashion risk and can have a material adverse effect on the business, financial condition and results of operations.

The apparel industry is cyclical and consumer purchases of the Company's products are discretionary. Purchases of apparel and related merchandise tend to decline during recessionary periods and may also decline at other times, particularly if the retail environment remains stagnant or declines. Further, a recession in the general economy, increased interest rates, a change in the availability of consumer credit, increased taxation levels, increased unemployment, or uncertainties regarding future economic prospects could affect consumers' spending habits and have an adverse effect on the Company's results of operations.

In addition, consumer sentiment towards and demand for leather may change. Bovine Spongiform Encephalopathy (BSE or Mad Cow Disease) and Hoof-and-Mouth Disease may affect consumer demand for leather products. Current scientific evidence suggests that such diseases cannot be transmitted to humans through contact with leather products.

CONSUMER SHOPPING PATTERNS

Changes in customer shopping patterns could affect sales. Most of the Company's stores are located in enclosed shopping malls and power centres. The ability to sustain or increase the level of sales depends in part on the continued popularity of malls and power centers as shopping destinations and the ability of malls and power centres, tenants and other attractions to generate a high volume of customer traffic. Many factors that are beyond the control of the Company may decrease mall and power centre traffic, including economic downturns, closing of anchor department stores, weather, concerns of terrorist attacks, construction and accessibility, alternative shopping formats such as e-commerce, discount stores and lifestyle centres, among other factors. Any changes in consumer shopping patterns could adversely affect the Company's financial condition and operating results.

WEATHER

Extreme changes in weather can affect the timing of consumer spending and may have an adverse effect upon the Company's results of operations. In particular, unseasonably warm weather, especially during Danier's peak selling season, may have an adverse effect on the Company's sales.

SEASONALITY

The Company's business is seasonal, as are most retail businesses. Historically, approximately 47% or more of the Company's total annual sales have been generated during its second fiscal quarter, which includes the Christmas season. The Company's results of operations depend significantly upon the sales generated during this period. Any material decrease in sales for such period could have a material adverse effect upon the Company's profitability. The Company's quarterly results of operations may also fluctuate as a result of a variety of other factors, including the timing of new store openings and net sales contributed by new stores, the impact of new stores on existing stores within the same trade area, the merchandise mix and the timing and level of markdowns, timing and level of markdowns and promotions by competitors and consumer shopping patterns and preferences.

COMPETITION

The retail industry is highly competitive with price, quality, service, selection, fashion, location and store environment being the principal competitive factors. The Company competes with numerous national and international mass merchandisers, discounters, department stores, specialty apparel stores that supplement their product line with leather merchandise and accessories, leather and suede specialty stores and designers and manufacturers of apparel and accessory products, some of which are significantly larger and have substantially greater resources than the Company. Increased competition may reduce sales, increase operating expenses, decrease profit margins and negatively affect the Company's ability to obtain site locations and sales associates and other employees.

LEATHER AVAILABILITY AND PRICES

Leather comprises approximately two-thirds of the garment cost of leather apparel and the availability and price of leather may fluctuate significantly. A number of factors affect the price of leather, including the demand for leather in other industries such as shoe, furniture, and automobile upholstery industries. Leather supply is influenced by a number of factors including wars, worldwide meat consumption and the availability of hides. Certain leather-supplying countries have experienced highly publicized outbreaks of Mad Cow Disease and Hoof-and-Mouth Disease. The effect of these diseases cannot be determined but could affect leather supply and pricing. Fluctuations in leather supply and pricing, which can be significant, may have a material adverse effect on the Company's business and profitability.

FOREIGN SOURCING AND MANUFACTURING

Danier sources a majority of its garments from independent foreign contract manufacturers located primarily in the Far East. Risks associated with foreign sourcing include economic and political instability, transportation delays and interruptions, restrictive actions by foreign governments, inability to meet the Company's quality standards, production delays, duties, trade and foreign tax laws, fluctuations in currency exchange rates and restrictions on the transfer of funds, tariffs and quotas and boycotts or other actions prompted by domestic concerns regarding foreign labour practices. Any event causing a sudden disruption of imports from the Far East, primarily China, including a disruption due to financial difficulties of a supplier, could have a material adverse effect on the Company. The Company regularly seeks out new sources of supply and sub-contractors to minimize the impact of potential disruptions. The Company has not historically experienced material adverse effects from foreign sourcing of finished goods.

LEGAL PROCEEDINGS

In fiscal 1999, the Company and certain of its directors and officers were served with a Statement of Claim under the Class Proceedings Act (Ontario) concerning the accuracy and disclosure of certain information contained in a financial forecast issued by the Company during its initial public offering ("IPO") in 1998. The suit sought damages be paid equal to the alleged diminution in value of the shares.

In October 2001, a motion to certify the action as a class action was granted. The trial commenced in the Superior Court of Justice (Ontario) during May 2003 and was completed in January 2004. On May 7, 2004 the Judge issued a judgment in favour of the Plaintiffs and awarded damages to Canadian shareholders who purchased subordinate voting shares in the IPO. The Judge concluded that at the time of pricing of the IPO, which was two weeks before the closing, the forecast was reasonable and that the Company's CEO and CFO had an honest belief at the time the IPO closed that the forecast could be achieved. The Judge further held that the forecast was, in fact, substantially achieved. Despite these findings, the Court decided that management's judgement that the forecast was still achievable at the time of closing was not reasonable. The Company is contesting this decision and has filed a Notice of Appeal as discussed below.

For those shareholders who sold their shares between June 4 and 9, 1998, the Court awarded them the difference between the IPO price and the price at which they sold their shares. For those shareholders who sold or still hold those shares after June 9, 1998, the Court awarded $2.35 per share.

Based solely on the information available at year-end, if the award had been paid at year-end the Company estimates the damages to be about $10 million. Interest and costs have not been dealt with by the Court but if awarded, the Company estimates the total award could increase by approximately $5 million. During the fourth quarter of 2004, the Company recorded an expense and set up a provision of $15 million pursuant to this judgment. The judgment is a joint and several responsibility of the Company and two of its Senior Officers. The Company carries directors and officers insurance and it expects that the insurance will cover the two Senior Officers' portion of the total award but the amount of insurance is not reasonably determinable at this time and its recovery has therefore not been accrued. The provision for recovery of income taxes related to the award is based on the entire $15 million provision and does not take account of the potential results of the appeal discussed in the next paragraph, any possible insurance recoveries or future tax adjustments. The damages award and income tax recovery is based on management's best estimate and is subject to adjustment when all facts are known and all issues are resolved. The possible adjustment could be significant.

In June 2004, a Notice of Appeal was filed by the Company and two of its Senior Officers. Payment of any damages will be deferred as the award and the judgment are stayed by the filing of the appeal.

During fiscal 2003, the Company expensed legal and professional fees of approximately $2.8 million of which approximately $1.6 million related to legal and professional fees actually incurred during fiscal 2003 and approximately $1.2 million was set up as a provision for future legal and professional fees. As at June 26, 2004, $0.5 million was set up as a provision for future legal fees in connection with the appeal.

Even though the Company is appealing the judgment, if the judgment awarded by the Superior Court of Justice (Ontario) is upheld by the Court of Appeal and if directors and officers insurance does not cover the two Senior Officers' portion of the total award, then the Company may be required to pay the total award and this could have a material adverse affect on the Company's financial condition. Furthermore, the amount of interest and costs are estimated as of the current period. Should the Company lose the appeal, additional interest and costs may be awarded by the Court.

RISKS OF GROWTH STRATEGY

There can be no assurance that the Company's growth strategy will be successful or that the Company's overall net revenue will increase as a result of an increase in the number of retail stores. The Company's future growth and profitability may be restricted if it is unable to open new stores on a profitable basis, increase sales at existing stores, identify, consummate and integrate strategic acquisitions, identify, negotiate, lease and open stores in suitable locations on a profitable and timely basis, obtain necessary capital to operate the business and hire, train and retain qualified personnel including management, executives and sales associates.

WAR AND ACTS OF TERRORISM

War and acts of terrorism, or if either is threatened, may negatively impact Danier's ability to source leather and obtain and ship merchandise available for sale. The majority of Danier's stores are located in enclosed shopping malls and power centres. Any threat of terrorist attacks or actual terrorist events could lead to lower customer traffic in shopping malls and power centres and could negatively affect consumer behaviour, spending and shopping patterns which may result in an adverse effect upon the Company's results of operations.

SENIOR MANAGEMENT

Danier's success depends largely on the efforts and abilities of the current senior management team. Mr. Jeffrey Wortsman in particular has been with the Company since 1986 and has been instrumental in defining and implementing the Company's growth strategy and providing direction on merchandising and marketing strategy. The senior management and Mr. Wortsman's experience and worldwide contacts in the leather industry significantly benefit the Company. If Danier were to lose the benefit of their expertise and contacts, the Company could be adversely affected. A succession planning process is in place and this process is reviewed annually by the Human Resources and Governance Committee of the Board of Directors.

MANAGEMENT INFORMATION SYSTEMS

Danier relies on vendors to support, maintain and periodically upgrade merchandise, distribution, accounting and financial reporting packages. The inability of these vendors to continue to maintain and upgrade these software programs could disrupt operations if Danier were unable to convert to alternate systems in an efficient and timely manner.

CONCENTRATION OF HEAD OFFICE AND DISTRIBUTION CENTRE

Danier's corporate office and main distribution centre are in one location. Operations could be materially and adversely affected if a catastrophic or other event impacts the use of this facility.

INFLATION

Inflation has not had a material impact on Danier's results of operations during the past several years, however, there can be no assurance that Danier's business will not be affected by inflation in the future.

FOREIGN CURRENCY

A significant portion of Danier's raw material and imported finished goods purchases are denominated in U.S. dollars. Accordingly, the Company's foreign currency exposure is mainly related to fluctuations between the Canadian and U.S. dollar. From time to time, the Company uses forward contracts to fix the exchange rate on a portion of its expected requirements for U.S. dollars. Forward contracts expose the Company to credit risk representing the maximum potential accounting loss due to non-performance by counterparties under terms of their contracts. The Company manages credit risk under its foreign exchange contracts by only dealing with major financial institutions. As at June 26, 2004 there were no forward foreign exchange contracts outstanding.

REAL ESTATE

With the exception of the head office store, all of Danier's store locations are leased. Competition for prime locations within shopping malls, power centres and for street-front locations is intense and there can be no assurance that Danier will be able to obtain new locations or renew existing locations at existing or favourable terms.

CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies are described in note 1 of the consolidated financial statements. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Some of the Company's significant accounting policies involve a higher degree of judgment or complexity than its other accounting policies. The policies described below are considered to be critical accounting estimates, as they require significant estimation or judgment.

LITIGATION PROVISION AND RELATED EXPENSES

The amount of damages, costs and interest were estimated based on the May 7, 2004 judgment issued by the Superior Court of Justice (Ontario). Interest and costs were not dealt with by the Court and were estimated by management as of June 26, 2004 and do not include any potential interest and costs that could be awarded from June 26, 2004 to the date a decision is received from the Court of Appeal. Any change in the amount of costs and interest actually awarded by the Superior Court of Justice (Ontario) or any change in damages, costs and interest by the Court of Appeal could have a significant impact on operating results and cash flows. In addition, the amount of provision could change by the amount of directors and officers insurance recovered, the amounts of which cannot be reasonably determined at this time and its recovery has therefore not been accrued in the financial statements. Proceeds from directors and officers insurance could have a significant impact on operating results and cash flows.

INVENTORY

Inventory is valued at the lower of cost or market. For finished goods and work-in-process, market is defined as net realizable value and for raw materials, market is defined as replacement cost. Cost is determined using the weighted average cost method and includes standard costs, estimates and averages for domestic labour, exchange rates for U.S. dollar purchases of leather and finished goods purchased from foreign vendors, freight, duty, brokerage and overhead. In addition, a provision is recorded to reduce the cost of inventories for loss due to theft (shrinkage), obsolete, damaged and slow moving items to their estimated net realizable values. Any significant unanticipated changes in consumer demand, fashion trends, retail markdowns, or in any of the standard costs, estimates and averages could have a significant impact on the value of inventories and operating results including cost of sales and gross profit.

CAPITAL ASSETS

Capital assets consist of store leasehold improvements, furniture and fixtures, computer equipment and manufacturing equipment in addition to the Company's building. These assets are recorded at cost and are amortized over their estimated useful lives. Capital assets are reviewed for impairment whenever events such as a decision to close a store or changes in circumstances indicate that the carrying value of an asset may not be recoverable in which case accelerated amortization over the revised useful life or a write-down is recorded in the financial statements.

INCOME TAXES

Income taxes are provided for using the asset and liability method of accounting. This method recognizes future tax assets and liabilities that arise from differences between the accounting basis of the Company's assets and liabilities and their corresponding tax basis. Future taxes are measured using tax rates expected to apply when the asset is realized or the liability is settled. Certain assumptions are required in order to determine the provision for income taxes, including filing positions on certain items and the realization of future tax assets.

The Company is audited regularly by federal and provincial authorities in the areas of income taxes and the remittance of sales taxes. These audits consider the timing and amount of deductions and compliance with federal and provincial tax laws. To the extent that the Company's filing positions are challenged, the Company's effective tax rate in a given financial statement period could be materially affected.

The recognition of future tax assets depends on management's assumption that future earnings will be sufficient to realize the future benefit. Presently, no tax benefit is recognized for losses in the U.S. operation which is set up under a separate U.S. corporate structure. The provision for recovery of income taxes related to the class action lawsuit is based on the entire $15 million provision and does not take account of the potential results of the appeal that has been filed by the Company, any possible insurance recoveries or future tax reassessments. The income tax recovery related to the class action provision is subject to adjustment when all facts are known and all issues are resolved. The possible adjustment for any of the factors noted could be significant.

ACCOUNTING STANDARDS IMPLEMENTED IN 2004

The Canadian Institute of Chartered Accountants ("CICA") amended Handbook section 3870 "Stock-based Compensation and Other Stock-based Payments" to require employee and director stock options be accounted for using the fair value-based method and be recognized as an expense in the financial statements. As permitted by the amended standard, the Company has elected to prospectively apply the fair value-based method of accounting for the Company's stock options granted on or after June 29, 2003. Accordingly, compensation cost is measured at fair value at the date of grant using the Black-Scholes Option Pricing Model and is recognized as an expense over the vesting period of the option. As a result, $0.2 million of compensation expense was recognized during the year ended June 26, 2004. The Company continues to use settlement accounting to account for all other options outstanding. Under settlement accounting, consideration paid by employees and directors, which represents the exercise price on the exercise of stock options, is recorded as share capital. Pro forma disclosures relating to net earnings per share figures, as if the fair value method had been used for awards granted during fiscal 2003 are presented in note 6 of the consolidated financial statements.

The Company has implemented CICA Accounting Guideline (AcG-14) "Disclosures of Guarantees" which expands previously issued accounting guidance and requires additional disclosures. This guideline is effective for fiscal periods beginning on or after January 1, 2003. See note 11(b) to the consolidated financial statements for the year ended June 26, 2004 for additional information.

FUTURE ACCOUNTING STANDARDS

The CICA has issued the following recommendations and accounting guidelines. CICA Accounting Guideline (AcG-13) "Hedging Relationships," is effective for fiscal years beginning on or after July 1, 2003. The guideline addresses the identification, designation, documentation and effectiveness of hedging transactions for the purposes of applying hedge accounting. It also establishes conditions for applying or discontinuing hedge accounting. Under the new guideline, the Company will be required to document its hedging transactions and explicitly demonstrate that the hedges are sufficiently effective in order to use accrual accounting for positions hedged with derivatives. As at June 26, 2004, the Company does not have any hedges or derivatives outstanding. The Company does not believe that the adoption of AcG-13 will have a material effect on its balance sheet or statement of earnings.

OUTSTANDING SHARE DATA

As of year-end, 5,720,225 subordinate voting shares and 1,224,329 multiple voting shares were issued and outstanding. Each subordinate voting share entitles the holder to one vote and each multiple voting share entitles the holder to 10 votes at meetings of shareholders of the Company.

OUTLOOK

The Company maintains a strong balance sheet with excellent liquidity and borrowing capacity should the need arise to capitalize on business opportunities. A key priority for next year will be on strategy execution including a narrower and deeper merchandising strategy, quicker response for fast moving items, improving the styling of merchandise used in marketing events and promotions, and improving processes across the Company. The Accessories and Corporate Sales divisions are expected to continue to show sales increases. Danier intends to open one new power centre location, one new mall store, and to renovate up to nine existing mall stores.

The Company believes it is well positioned for improved performance in 2005 as it leverages its vertically integrated structure, highly-respected brand, multiple growth initiatives and market position as one of the largest specialty-apparel leather retailers in the world.

FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements which reflect the current view of Danier with respect to future events and financial performance. Wherever used, the words “may,” “will,” “anticipate,” “intend,” “expect,” “plan,” “believe,” and similar expressions identify forward-looking statements. Forward-looking statements should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether, or the times at which, such performance or results will be achieved. Forward-looking statements are based on information available at the time they are made, assumptions made by management, and management’s good faith belief with respect to future events, and are subject to the risks and uncertainties outlined in this report that could cause actual performance or results to differ materially from those expressed in forward-looking statements, historical results or current expectations.

ADDITIONAL INFORMATION

Additional information, including the Company’s annual information form, quarterly and annual reports, and supplementary information is available on SEDAR at www.sedar.com. Press releases and other information is also available in the Investor Relations section of the Company’s website at www.danier.com.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements and other financial information contained in this annual report are the responsibility of management. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles using management's best estimates and judgements based on currently available information, where appropriate. The financial information contained elsewhere in this annual report has been reviewed to ensure consistency with that in the financial statements.

Management is also responsible for a system of internal controls which is designed to provide reasonable assurance that assets are safeguarded, liabilities are recognized and that financial records are properly maintained to provide timely and accurate financial reports.

The Board of Directors is responsible for ensuring that management fulfills its responsibility in respect of financial reporting and internal control. The Audit Committee of the Board, which is comprised solely of unrelated and outside directors, meets regularly to review significant accounting and auditing matters with management and the independent auditors and to review the interim and annual financial statements.

The financial statements have been audited by PricewaterhouseCoopers LLP, the independent auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. The Auditors' Report outlines the nature of their examination and their opinion on the financial statements. PricewaterhouseCoopers LLP have full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the financial reporting.

Jeffrey Wortsman
President and CEO

Bryan Tatoff, C.A.
Senior Vice-President, CFO and Secretary

AUDITORS' REPORT TO SHAREHOLDERS

To the Shareholders of Danier Leather Inc.

We have audited the consolidated balance sheets of Danier Leather Inc. as at June 26, 2004 and June 28, 2003 and the consolidated statements of earnings, retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 26, 2004 and June 28, 2003 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Toronto, Ontario
July 23, 2004

cfs

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 26, 2004 AND JUNE 28, 2003

CONSOLIDATED BALANCE SHEETS (THOUSANDS OF DOLLARS)

	June 26, 2004	June 28, 2003
ASSETS		
Current Assets		
Cash	$ 23,000	$ 7,254
Accounts receivable	634	600
Income taxes recoverable	-	83
Inventories (Note 2)	29,915	37,029
Prepaid expenses	923	889
Future income tax asset (Note 8)	107	368
	54,579	46,223
Other Assets		
Capital assets (Note 3)	30,212	34,246
Goodwill (Note 4)	342	342
Future income taxes asset	4,736	676
	$ 89,869	$ 81,487
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 9,425	$ 9,350
Income taxes payable	952	-
	10,377	9,350
Accrued litigation provision and related expenses (Note 9)	15,450	1,209
Deferred lease inducements	2,283	2,238
Future income tax liability (Note 8)	472	696
	28,582	13,493
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	24,166	23,995
Contributed surplus (Note 6)	219	-
Retained earnings	36,902	43,999
	61,287	67,994
	$ 89,869	$ 81,487

Approved by the Board

Edwin F. Hawken, Director

Jeffrey Wortsman, Director

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (THOUSANDS OF DOLLARS)

	For the Years Ended	
	June 26, 2004	June 28, 2003
Retained earnings, beginning of year	**$ 43,999**	**$ 38,605**
Net earnings (loss)	(7,097)	5,394
Retained earnings, end of year	**$ 36,902**	**$ 43,999**

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) (THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

	For the Years Ended	
	June 26, 2004	June 28, 2003
Revenue	$ 178,115	$ 175,487
Cost of sales (Note 7)	90,060	88,788
Gross profit	88,055	86,699
Selling, general and administrative expenses (Note 7)	80,526	74,617
Interest (income) expense – net	(18)	66
Earnings before undernoted item and income taxes	**7,547**	**12,016**
Litigation provision and related expenses (Note 9)	15,450	2,773
Earnings (loss) before income taxes	(7,903)	9,243
Provision for income taxes (Note 8)		
Current	3,217	4,353
Future	(4,023)	(504)
	(806)	3,849
Net earnings (loss)	**$ (7,097)**	**$ 5,394**
Net earnings (loss) per share (Note 6(c))		
Basic	**($1.03)**	**$0.78**
Diluted	**n/a**	**$0.76**

CONSOLIDATED STATEMENTS OF CASH FLOW (THOUSANDS OF DOLLARS)

	For the Years Ended	
	June 26, 2004	June 28, 2003
OPERATING ACTIVITIES		
Net earnings (loss)	$ (7,097)	$ 5,394
Items not affecting cash:		
Amortization	6,087	5,996
Amortization of deferred lease inducements	(404)	(347)
Loss on disposal of capital assets	696	633
Stock based compensation	219	-
Accrued litigation provision and related expenses	15,450	1,209
Future income taxes	(4,023)	(504)
Net change in non-cash working capital items (Note 10)	6,947	(54)
Cash flows from operating activities	**$ 17,875**	**$ 12,327**
FINANCING ACTIVITIES		
Subordinate voting shares issued	171	78
Proceeds from lease inducements	449	748
Cash flows from financing activities	**620**	**826**
INVESTING ACTIVITIES		
Acquisition of capital assets	(2,749)	(9,676)
Cash flows from investing activities	**(2,749)**	**(9,676)**
Increase in cash	**15,746**	**3,477**
Cash, beginning of year	7,254	3,777
Cash, end of year	**$ 23,000**	**$ 7,254**
Supplementary cash flow information:		
Interest paid	223	219
Income taxes paid	2,376	5,241

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

(a) Basis of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary companies. On consolidation, all intercompany transactions and balances have been eliminated.

(b) Year-end:

The fiscal year end of the Company consists of a 52 or 53 week period ending on the last Saturday in June each year. The fiscal year for the financial statements presented is the 52-week period ended June 26, 2004, and comparably the 52-week period ended June 28, 2003.

(c) Revenue recognition:

Revenue includes sales to customers through stores operated by the Company and sales to corporate customers through the Company's direct sales division. Sales to customers through stores operated by the Company are recognized at the time the transaction is entered into the point-of-sale register net of returns. Sales to corporate customers are recognized at the time of shipment.

(d) Cash:

Cash consists of cash on hand, bank balances, and money market investments with original maturities of three months or less.

(e) Inventories:

Inventories are valued at the lower of cost or market. Cost is determined using the weighted average cost method. For finished goods and work-in-process, market is defined as net realizable value; for raw materials, market is defined as replacement cost.

(f) Capital assets:

Capital assets are recorded at cost and annual amortization is provided using the declining balance method as follows:

Building	4%
Furniture and equipment	20%
Computer hardware and software	30%

Leasehold improvements are amortized on a straight-line basis over the term of the lease, unless the Company has decided to terminate the lease, at which time the unamortized balance is written off.

(g) Goodwill:

Goodwill represents the excess of the cost of acquisition over the fair market value of the identifiable assets acquired. Goodwill with an indefinite life is not amortized, but is tested for impairment at least annually at year-end. If required, any impairment in the value of goodwill would be written off against earnings.

(h) Deferred lease inducements:

Deferred lease inducements represent cash benefits received from landlords pursuant to store lease agreements. These lease inducements are amortized against rent expense over the term of the lease, not exceeding 10.5 years.

(i) Store opening costs:

Expenditures associated with the opening of new stores, other than furniture and fixtures, equipment, and leasehold improvements are expensed as incurred.

(j) Income taxes:

Income taxes are determined using the asset and liability method of accounting. This method recognizes future tax assets and liabilities that arise from differences between the accounting basis of the Company's assets and liabilities and their corresponding tax basis. Future taxes are measured using tax rates expected to apply when the asset is realized or the liability settled.

(k) Earnings per share:

Earnings per share are calculated using the weighted average number of shares outstanding during the year (see Note 6). The treasury stock method is used to calculate diluted earnings per share. The treasury stock method computes the number of incremental shares by assuming the outstanding stock options exercisable at exercise prices below the average monthly market price are exercised during the fiscal year and then that number of incremental shares is reduced by the number of shares that could have been repurchased from the issuance proceeds, using the average monthly market price of the Company's shares during the fiscal year.

(l) Translation of foreign currencies:

Subsidiary accounts and accounts in foreign currencies are translated into Canadian dollars. Monetary balance sheet items are translated at the rates of exchange in effect at year-end and non-monetary items are translated at historical exchange rates. Revenues and expenses (other than amortization, which is translated at the average rate as the related capital assets) are translated at the rates in effect on the transaction dates or at the average rates of exchange for the reporting period. The resulting net gain or loss is included in the statement of earnings.

(m) Financial instruments:

From time-to-time the Company utilizes derivative financial instruments in the management of its foreign currency exposure. Derivative financial instruments are not used for trading purposes. Accounting guideline (AcG13) was implemented June 29, 2003 on a prospective basis. There was no impact on the current year.

(n) Stock option plan:

The Company has a stock option plan which is described in Note 6 where options to purchase subordinate voting shares are issued to directors, officers and employees.

In the year ended June 26, 2004 the Canadian Institute of Chartered Accountants (CICA) amended Handbook Section 3870 "Stock-based Compensation and Other Stock-based Payments", which provides guidance on accounting for stock-based compensation, to require the use of the fair value-based method to account for stock options. In accordance with the transitional provisions allowed under the revised accounting standard, the Company has prospectively applied the fair value-based method to all stock options granted on or after June 29, 2003. Accordingly, compensation cost is measured at fair value at the date of grant using the Black-Scholes Option Pricing Model and is recognized as an expense over the vesting period of the stock option.

The Company continues to use settlement accounting to account for stock options granted prior to June 29, 2003. In accordance with the prospective method of adoption of the new standard, no compensation expense is recognized for options granted prior to fiscal 2004. Pro forma disclosures relating to net earnings per share figures, as if the fair value method had been used for awards granted during fiscal 2003, are presented in Note 6(e).

(o) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on management's best knowledge of current events and actions that the Company may undertake in the future. Significant areas requiring the use of management estimates relate to the determination of litigation award reserves, inventory valuation, realizable value of capital assets, deferred tax assets, and income tax provisions. By their nature, these estimates are subject to measurement uncertainty and the impact on the consolidated financial statements of future periods could differ materially from those estimated.

(p) Comparative figures:

Certain amounts included in the June 28, 2003 comparative figures were reclassified to conform with the current year's financial statement presentation. Reclassification of these amounts had no effect on previously reported shareholders' equity or net earnings.

NOTE 2: INVENTORIES (THOUSANDS OF DOLLARS)

	June 26, 2004	June 28, 2003
Raw materials	$ 4,043	$ 4,970
Work-in-process	1,363	1,830
Finished goods	24,509	30,229
	$ 29,915	$ 37,029

NOTE 3: CAPITAL ASSETS (THOUSANDS OF DOLLARS)

	June 26, 2004			June 28, 2003		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	$ 1,000	$ -	$ 1,000	$ 1,000	$ -	$ 1,000
Building	7,066	1,080	5,986	6,988	832	6,156
Leasehold improvements	27,351	12,779	14,572	26,492	9,899	16,593
Furniture and equipment	12,101	7,036	5,065	11,918	6,029	5,889
Computer hardware and software	8,973	5,384	3,589	9,225	4,617	4,608
	$ 56,491	$ 26,279	$ 30,212	$ 55,623	$ 21,377	$ 34,246

NOTE 4: GOODWILL (THOUSANDS OF DOLLARS)

Goodwill of $342 (June 28, 2003 - $342) is stated at cost less accumulated amortization of $205 (June 28, 2003 - $205).

NOTE 5: BANK OVERDRAFT

As at June 26, 2004, the Company had credit facilities available to a maximum amount of $69.0 million. The credit facilities consist of an operating facility for working capital and for general corporate purposes to a maximum amount of $65 million, bearing interest at prime plus 0.25% and a $4.0 million revolving capital expenditure loan facility bearing interest at prime plus 0.75%. The maximum amount available under the revolving capital expenditure loan facility reduces by $1.0 million on each of June 30, 2005 and June 30, 2006 and by $2.0 million on June 30, 2007. The operating facility is committed until July 29, 2005 and the revolving capital expenditure loan facility matures on June 30, 2007. The Company is required to comply with covenants regarding financial performance.

Security provided includes a security interest over all personal property of the business and a mortgage over the land and building, comprising the Company's head office/distribution facility.

NOTE 6: SHARE CAPITAL (THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

(a) Authorized
1,224,329 Multiple Voting Shares
Unlimited Subordinate Voting Shares
Unlimited Class A Preference Shares

(b) Issued

Multiple Voting Shares	Number	Consideration
Balance June 29, 2002	1,224,329	Nominal
Balance June 28, 2003	1,224,329	Nominal
Balance June 26, 2004	1,224,329	Nominal

Subordinate Voting Shares	Number	Consideration
Balance June 29, 2002	5,683,875	$ 23,917
Shares issued upon exercising of stock options	11,350	78
Balance June 28, 2003	5,695,225	$ 23,995
Shares issued upon exercising of stock options	25,000	171
Balance June 26, 2004	5,720,225	$ 24,166

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 a triggering event occurs then each Multiple Voting Share is converted into one fully paid and non-assessable Subordinate Voting Share. A triggering event may occur if Mr. Jeffrey Wortsman: (i) dies; (ii) ceases to be a senior officer of the Company; (iii) ceases to own less than 5% of the aggregate number of Multiple Voting Shares and Subordinate Voting Shares outstanding; or (iv) owns less than 918,247 Multiple Voting Shares and Subordinate Voting Shares combined.

(c) Earnings (loss) per share

	June 26, 2004	June 28, 2003
Earnings per share		
Basic	$ ($1.03)	$ 0.78
Diluted	$ n/a	$ 0.76
Weighted average number of shares outstanding		
Basic	6,920,447	6,913,636
Diluted	6,978,904	7,052,865
Shares outstanding		
Basic	6,944,554	6,919,554
Diluted	6,985,068	6,975,677

(d) Normal course issuer bid

During the years ended June 26, 2004 and June 28, 2003 no shares were repurchased under the Normal Course Issuer Bid.

(e) Stock option plan

As at June 26, 2004, the Company has reserved 915,275 Subordinate Voting Shares for issuance under its Stock Option Plan. The granting of options and the related vesting periods are at the discretion of the Board of Directors and have a maximum term of 10 years. A summary of the status of the Company's Stock Option Plan as of June 26, 2004 and June 28, 2003 and changes during the years ending on those dates is presented below:

	June 26, 2004		June 28, 2003	
Stock Options	Shares	Weighted-average exercise price	Shares	Weighted-average exercise price
Outstanding at beginning of year	730,400	$ 11.16	580,750	$ 9.97
Granted	44,000	$ 10.96	186,000	$ 14.93
Exercised	(25,000)	$ 6.85	(11,350)	$ 6.85
Forfeited	(100,000)	$ 11.80	(25,000)	$ 13.57
Outstanding at end of year	649,400	$ 11.21	730,400	$ 11.16
Options exercisable at end of year	523,650	$ 10.53	501,400	$ 9.80

The following table summarizes the distribution of these options and the remaining contractual life as at June 26, 2004:

	Options Outstanding			Options Exercisable	
Exercise Prices	# Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	# of Shares Exercisable	Weighted Average Exercise Price
$6.02	18,500	5.2 years	$6.02	18,500	$6.02
$6.85	118,400	4.0 years	$6.85	118,400	$6.85
$10.40	33,250	6.1 years	$10.40	30,500	$10.40
$10.50	15,000	6.3 years	$10.50	11,250	$10.50
$10.96	44,000	9.1 years	$10.96	-	$10.96
$11.20	24,000	7.1 years	$11.20	24,000	$11.20
$11.25	265,250	3.9 years	$11.25	265,250	$11.25
$15.85	111,000	8.1 years	$15.85	45,750	$15.85
$17.94	20,000	7.8 years	$17.94	10,000	$17.94
	649,400	5.4 years	$11.21	523,650	$10.53

For the year ended June 28, 2003, the Company used settlement accounting to account for its Stock Option Plan, in accordance with CICA Handbook Section 3870. No compensation cost was recorded when stock options were granted. When options were exercised, consideration paid by employees and directors were recorded in the financial statements as an increase of share capital based on the exercise price of the options.

In September 2003, the CICA amended Handbook Section 3870 to require the use of the fair value-based method to account for stock options, commencing with fiscal years beginning on or after January 1, 2004. Under the fair value-based method, compensation cost is measured at fair value at the date of the grant and is expensed over the vesting period. In accordance with the permitted transitional options, during the fourth quarter of 2004, the Company has prospectively applied the fair value-based method to all stock options granted on or after June 29, 2003.

Accordingly, options granted prior to that date continue to be accounted for using the settlement accounting method, and the results for the year ended June 28, 2003 have not been restated. The prospective application of the fair value-based method increased contributed surplus and net loss by $0.2 million, and increased basic loss per share by $0.03.

During the year ended June 28, 2003, the Company granted 111,000 stock options (net of 25,000 forfeited options during fiscal 2003 and 50,000 forfeited options during fiscal 2004) with an exercise price of $15.85. Had compensation cost been determined using the fair value-based method at the grant date of the stock options awarded to employees and directors, the net earnings and earnings per share for the years ended June 26, 2004 and June 28, 2003 would have been reduced to the pro forma amounts indicated in the following table:

	Year Ended June 26, 2004		Year Ended June 28, 2003	
	As Reported	**Pro forma**	**As Reported**	**Pro forma**
Net earnings (loss)	($7,097)	($7,339)	$5,394	$4,885
Basic earnings (loss) per share	($1.03)	($1.06)	$0.78	$0.71
Diluted earnings per share	n/a	n/a	$0.76	$0.69

To determine compensation cost, the fair value of stock options is recognized on a straight-line basis over the vesting period of the options.

The pro forma effect on net earnings of the period is not representative of the pro forma effect on net income of future periods because it does not take into consideration the pro forma compensation cost related to options awarded prior to June 29, 2002.

The fair value of options granted was estimated on the grant date using the Black-Scholes Option Pricing Model with the following assumptions for the stock options granted since the beginning of the year:

Expected dividend yield ....None
Expected volatility 54%
Risk-free interest rate 5.25%
Expected life ....10 years

The weighted average fair value of stock options granted during the year ended June 26, 2004 was $7.54.

The Black-Scholes Option Pricing Model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, the Black-Scholes Option Pricing Model requires the use of subjective assumptions including the expected stock price volatility. As a result, the Company's stock option plan having characteristics different from those of traded options, and because changes in the subjective assumptions can have a material effect on the fair value estimate, the Black-Scholes Option Pricing Model does not necessarily provide a reliable single measure of the fair value of options granted.

NOTE 7: AMORTIZATION (THOUSANDS OF DOLLARS)

Amortization included in cost of sales and selling, general and administrative expenses is summarized as follows:

	June 26, 2004	June 28, 2003
Amortization included in cost of sales	$ 773	$ 777
Amortization included in selling, general and administrative expenses	5,314	5,219
	$ 6,087	$ 5,996

NOTE 8: INCOME TAXES (THOUSANDS OF DOLLARS)

Future income tax asset (liability) is summarized as follows:

	June 26, 2004	June 28, 2003
Amortization	$ (505)	$ (696)
Deferred lease inducements	$ 803	$ 676
Litigation provision and related expenses	$ 4,074	$ 342
Other	$ (1)	$ 26
	$ 4,371	$ 348
Future income tax asset	$ 4,843	$ 1,044
Future income tax liability	$ (472)	$ (696)

Furthermore, the U.S. subsidiary has unutilized non-capital loss carry forwards available to reduce future year's income taxes, the potential benefit of which have not been recognized in these financial statements. These losses can be utilized in future years up to 2020.

The Company's effective income tax rate consists of the following:

	June 26, 2004	June 28, 2003
Combined basic federal and provincial average statutory rate	(36.1%)	37.6%
Litigation provision and related expenses,		
manufacturing and processing deduction and other	20.5%	0.1%
Effect of foreign operating losses	5.4%	3.9%
	(10.2%)	41.6%

NOTE 9: LITIGATION PROVISION AND RELATED EXPENSES

	June 26, 2004	June 28, 2003
Provision for damages, costs and interest	$ 15,000	$ -
Legal and professional fees	$ 450	$ 1,209
Accrued litigation provision and related expenses	$ 15,450	$ 1,209

In fiscal 1999, the Company and certain of its directors and officers were served with a Statement of Claim under the Class Proceedings Act (Ontario) concerning the accuracy and disclosure of certain information contained in a financial forecast issued by the Company during its initial public offering ("IPO") in 1998. The suit sought damages be paid equal to the alleged diminution in value of the shares.

In October 2001, a motion to certify the action as a class action was granted. The trial commenced in the Superior Court of Justice (Ontario) during May 2003 and was completed in January 2004. On May 7, 2004 the Judge issued a judgment in favour of the Plaintiffs and awarded damages to Canadian shareholders who purchased subordinate voting shares in the IPO. The Judge concluded that at the time of pricing of the IPO, which was two weeks before the closing, the forecast was reasonable and that the Company's CEO and CFO had an honest belief at the time the IPO closed that the forecast could be achieved. The Judge further held that the forecast was, in fact, substantially achieved. Despite these findings, the Court decided that management's judgement that the forecast was still achievable at the time of closing was not reasonable. The Company is contesting this decision and has filed a Notice of Appeal as discussed below.

For those shareholders who sold their shares between June 4 and 9, 1998, the Court awarded them the difference between the IPO price and the price at which they sold their shares. For those shareholders who sold or still hold those shares after June 9, 1998, the Court awarded $2.35 per share.

Based solely on the information available at year-end, if the award had been paid at year-end the Company estimates the damages to be about $10 million. Interest and costs have not been dealt with by the Court but if awarded, the Company estimates the total award could increase by approximately $5 million. During the fourth quarter of 2004, the Company recorded an expense and set up a provision of $15 million pursuant to this judgment. The judgment is a joint and several responsibility of the Company and two of its Senior Officers. The Company carries directors and officers insurance and it expects that the insurance will cover the two Senior Officers' portion of the total award but the amount of insurance is not reasonably determinable at this time and its recovery has therefore not been accrued. The provision for recovery of income taxes related to the award is based on the entire $15 million provision and does not take account of the potential results of the appeal discussed in the next paragraph, any possible insurance recoveries or future tax adjustments. The damages award and income tax recovery is based on management's best estimate and is subject to adjustment when all facts are known and all issues are resolved. The possible adjustment could be significant.

In June 2004, a Notice of Appeal was filed by the Company and two of its Senior Officers. Payment of any damages will be deferred as the award and the judgment are stayed by the filing of the appeal.

During fiscal 2003, the Company expensed legal and professional fees of approximately $2.8 million of which approximately $1.6 million related to legal and professional fees actually incurred during fiscal 2003 and approximately $1.2 million was set up as a provision for future legal and professional fees. As at June 26, 2004, $0.5 million was set up as a provision for future legal fees in connection with the appeal.

NOTE 10: CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS (THOUSANDS OF DOLLARS)

	June 26, 2004	June 28, 2003
Accounts receivable	$ (34)	$ (116)
Inventories	$ 7,114	$ 1,633
Prepaid expenses	$ (34)	$ (286)
Accounts payable and accrued liabilities	$ (1,134)	$ (1,122)
Income taxes payable	$ 1,035	$ (163)
	$ 6,947	$ (54)

NOTE 11: COMMITMENTS & CONTINGENCIES (THOUSANDS OF DOLLARS)

(a) Legal proceedings

In addition to the class action matter discussed in Note 9, in the course of its business, the Company from time-to-time becomes involved in various claims and legal proceedings. In the opinion of management, all such claims and suits are adequately covered by insurance, or if not so covered, the results are not expected to materially affect the Company's financial position.

(b) Guarantees

Effective June 29, 2003, the Company implemented the CICA's Accounting Guideline (AcG-14) "Disclosure of Guarantees", which expands previously issued accounting guidance and requires additional disclosure, by a guarantor, in its interim and annual financial statements, for certain guarantees.

In the normal course of business, the Company enters into numerous agreements that many contain features that meet the AcG-14 definition of a guarantee. AcG-14 defines a guarantee to be a contract (including an indemnity) that contingently requires the Company to make payments to the guaranteed party based upon certain criteria including failure of another party to perform under an obligating agreement or failure of a third party to pay its indebtedness when due.

The Company has provided the following guarantees to third parties and no amounts have been accrued in the financial statements for these guarantees:

(i) In the ordinary course of business, the Company has agreed to indemnify its lenders under its credit facility against certain costs or losses resulting from changes in laws and regulations or from a default in repaying a borrowing. These indemnifications extend for the term of the credit facility and do not provide any limit on the maximum potential liability. Historically, the Company has not made any indemnification payments under such agreements.

(ii) In the ordinary course of business, the Company has provided indemnification commitments to certain counterparties in matters such as real estate leasing transactions, director and officer indemnification agreements and certain purchases of fixed assets such as computer software. These indemnification agreements generally required the Company to compensate the counterparties for costs or losses resulting from legal action brought against the counterparties related to the actions of the Company. The terms of these indemnification agreements will vary based on the contract and generally do not provide any limit on the maximum potential liability.

(iii) The Company sublet one location during fiscal 2004 and has provided the landlord with a guarantee in the event the subtenant defaults on its obligation to pay rent. The term of the guarantee is approximately 4.5 years and the Company's maximum exposure is $176.

NOTE 12: COMMITMENTS (THOUSANDS OF DOLLARS)

(a) Operating leases

Minimum rentals for the next five fiscal years and thereafter, excluding rentals based upon revenue are as follows:

2005	$ 11,653
2006	$ 10,958
2007	$ 10,305
2008	$ 8,857
2009	$ 7,089
Thereafter	$ 13,227

(b) Letters of credit

The Company had outstanding letters of credit in the amount of $6,804 (June 28, 2003 - $7,237) for imports of finished goods inventories to be received.

NOTE 13: FINANCIAL INSTRUMENTS (THOUSANDS OF DOLLARS)

The carrying value of the Company's accounts receivable and accounts payable and accrued liabilities approximates their fair value.

The Company is exposed to credit risk on its accounts receivable from corporate customers through sales made by the direct sales division. Accounts receivable are net of applicable allowance for doubtful accounts, which is established based on the specific credit risks associated with each corporate customer and other relevant information.

The Company purchases a significant portion of its leather and finished goods inventory from foreign vendors with payment terms in U.S. dollars. From time-to-time the Company may enter into foreign exchange forward contracts to manage foreign exchange risk associated with these purchases. As at June 26, 2004, the Company did not have any outstanding foreign exchange forward contracts to purchase U.S. dollars (June 28, 2003 - US$7,500).

The Company is exposed to interest rate risk based on the use of the credit facilities which bears interest at floating rates. For fiscal 2004, a +/-1% change in interest rates would change interest expense by +/- $52 (2003 +/- $49).

NOTE 14: SEGMENTED INFORMATION

Management has determined that the Company operates in one dominant industry and geographic segment which involves the design, manufacture and retail of fashion leather and suede apparel.

BOARD OF DIRECTORS

Edwin F. Hawken
Chairman

Mr. Hawken is Chairman of the Board of Directors and Chairman of the Audit Committee. Prior to joining Danier's board of directors in May 1998, he held the positions of Vice Chairman of Newcourt Credit Group Inc. and President and Chief Executive Officer of Commcorp Financial Services Inc.

Jeffrey Wortsman
Director, President & CEO

Mr. Wortsman joined Danier in 1986 and was appointed President in 1994 and Chief Executive Officer in 1997. Prior to joining the company, Mr. Wortsman was employed by a prominent Canadian investment firm. Mr. Wortsman received a Masters Degree in Business Administration and a Bachelor of Laws Degree from York University and a Bachelor of Arts Degree in Economics from the University of Western Ontario and was called to the Ontario Bar in 1985. Mr. Wortsman is also a director of Cars4U.com Ltd., an online retailer of automobiles.

Clare Copeland
Director

Mr. Copeland joined the board of Danier in May 1998 is also Chairman of Danier's Human Resources and Governance Committee and a member of the Audit Committee. For the past 35 years, Mr. Copeland has held senior executive positions with major corporations such as, Peoples Jewellers, Zale Corporation, Granada Canada, and Drake International. Mr. Copeland is also Chairman of Toronto Hydro and holds directorships with Rio Can and several other Canadian companies. Mr. Copeland is also on the Advisory Board for the Richard Ivey School of Business and the Molson Indy Foundation.

Stephen Kahn
Director

Mr. Kahn joined the board of Danier in May 1998 and is also a member of Danier's Audit Committee and Human Resources Governance Committee. Prior to being acquired by Alloy Inc. in 2003, Mr. Kahn was Chairman, Chief Executive Officer and co-founder of dELiA*s, a multichannel retailer that markets apparel, accessories and home furnishings to teenage girls and young women.

Doug Murphy
Director

Mr. Murphy joined the board of Danier in January 2004 and is currently Executive Vice-President, Business Development for Nelvana Limited, a division of Corus Entertainment, where he oversees all sales, marketing and merchandising activities. Mr Murphy has significant retail experience, including more than 10 years in senior positions with The Walt Disney Company, where he led the development of Disney's international growth strategy for the Parks and Resorts segment and managed the growth of The Disney Store in North America and Japan.

Howard Stotland
Director

Mr. Stotland joined the board of Danier in May 1998 and is also a member of Danier's Human Resources and Governance Committee. He is the founder of STS Systems, a leading information systems company for the retail industry, which was acquired by NSB Retail Systems PLC in December 2000. Mr. Stotland is also a director of Reitmans.

Irving Wortsman
Director

Mr. Wortsman is the founder of Danier Leather Inc. and was instrumental in growing the company from a manufacturer and wholesaler to department stores to a multichannel national retailer.

Peter Brown, CA
Director

Mr. Brown joined the board of Danier in 1994. He is currently President of Weswin Developments Limited, a real estate development firm. Mr. Brown will not be seeking re-election as a director at the October 2004 annual meeting of shareholders.

CORPORATE INFORMATION

COMPANY OFFICERS

Jeffrey Wortsman
President and CEO

Olga E. Koel
Executive Vice-President and CMO

Bryan Tatoff, C.A.
Senior Vice-President, CFO and Secretary

Philip J. Cutter
Vice-President, Information Technology and CIO

Bruce Aitken
Vice-President, Planning and Allocation

Mila Daniely
Vice-President, Design

Karen J. Marshall
Vice-President, Logistics and Distribution

George Miltenburg
Vice-President, Manufacturing

Linda F. Montalbano
Vice-President, Store Operations

Cris Ruivo
Vice-President, Store Operations

Cheryl Sproul
Vice-President, Human Resources

Kevin Strachan
Vice-President, Direct Sales

HEAD OFFICE

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Fax: (416) 762-4570

INVESTOR RELATIONS

Bryan Tatoff
Senior Vice-President and CFO
Telephone: (416) 762-8175 ext.328
bryan@danier.com

AUDITORS

PricewaterhouseCoopers LLP, Toronto

LEGAL COUNSEL

Davies Ward Phillips & Vineberg LLP, Toronto

BANKERS

Canadian Imperial Bank of Commerce, Toronto

HSBC Bank of Canada, Toronto
Scotiabank, Toronto

STOCK TRADING SYMBOL

DL on the Toronto Stock Exchange

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada

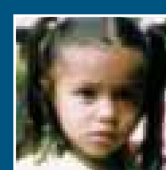
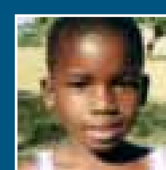
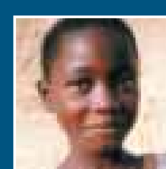
ANNUAL MEETING

The Annual Meeting of Shareholders will be held at
The Design Exchange
234 Bay Street, Toronto, Ontario
Tuesday, October 19th, 2004
4:00pm (Eastern Daylight Time)

WEBSITE

www.danier.com

FOSTER PARENTS PLAN


Danier Leather is proud to sponsor over 141 children through Foster Parents Plan.

CORPORATE GOVERNANCE

Danier Leather treats its fiduciary responsibility to shareholders with the utmost importance. The Company's Board of Directors is charged with overseeing the proper management of the Company's affairs with the objective of maximizing the long-term value of the Company for its shareholders. The Company's directors are experienced businesspersons representing varied professional backgrounds. On behalf of Danier's shareholders, the Board of Directors is responsible for stewardship of the corporation, establishing overall policies, reviewing strategic plans and holding accountable management to whom it delegates day-to-day operations. Further information on Danier's corporate governance is available from the Company's regulatory filings.

FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements that deal with potential future circumstances and developments. Forward-looking statements involve risks and uncertainties, including, but not limited to, the weather and performance of the economies in the markets in which the Company operates, continued acceptance of the Company's products, competitive factors, the Company's ability to identify and interpret fashion trends, factors affecting its sourcing of skins in Europe, New Zealand and Asia, and other such risks as we may identify in this report or in other published documents. Any of these risks could cause actual results to differ materially from those expressed in or implied by the statements. Accordingly, readers are cautioned not to place undue reliance on these statements.

CORPORATE SALES

Danier's Corporate Sales division offers a wide variety of quality, customized leather goods for gifts, incentives, promotions and other special occasions. Whether you want to motivate, thank or reward one person or an entire group, we have the product selection and customer service to help you choose wisely and make a lasting impression.

For more information, or a catalogue and pricing, please contact the professionals in our corporate sales group at 1-877-9danier or e-mail us at corporatesales@danier.com.


DANIER LEATHER
www.danier.com 1-877-9danier