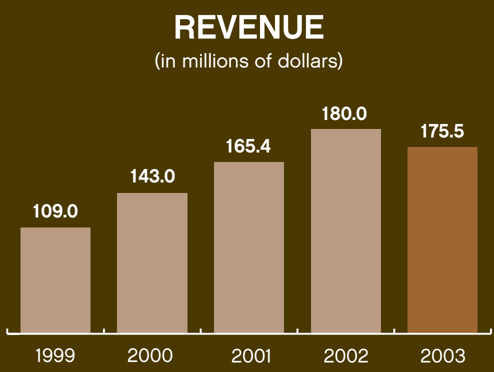
DANIER
feel the difference

Danier Leather Annual Report 2003

selected financial information

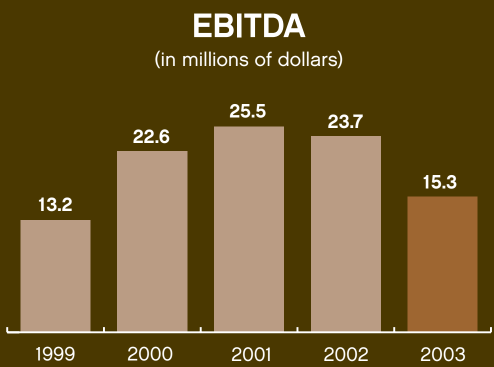
	2003	2002	2001	2000	1999
Comparable store sales increase (decrease)	(7%)	1%	8%	16%	5%
Sales ($000)					
Shopping Mall /Street-Front/Direct Sales	82,384	86,865	83,038	75,104	64,973
Power Centre	93,103	93,112	82,380	67,907	44,004
Total	175,487	179,977	165,418	143,011	108,977
Retail Square Footage					
Shopping Mall/Street-Front	117,927	108,566	95,018	84,640	78,860
Power Centre	251,235	212,672	177,574	158,624	139,084
Total	369,162	321,238	272,592	243,264	217,944
Number of Stores					
Shopping Mall/Street-Front	59	56	56	51	48
Power Centre	39	33	27	24	21
Total	98	89	83	75	69



financial highlights

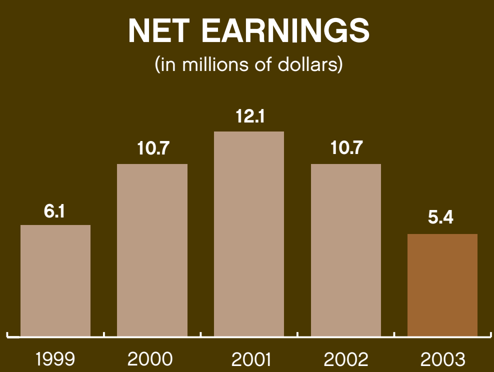
(in thousands of dollars, except earnings per share and shares outstanding)

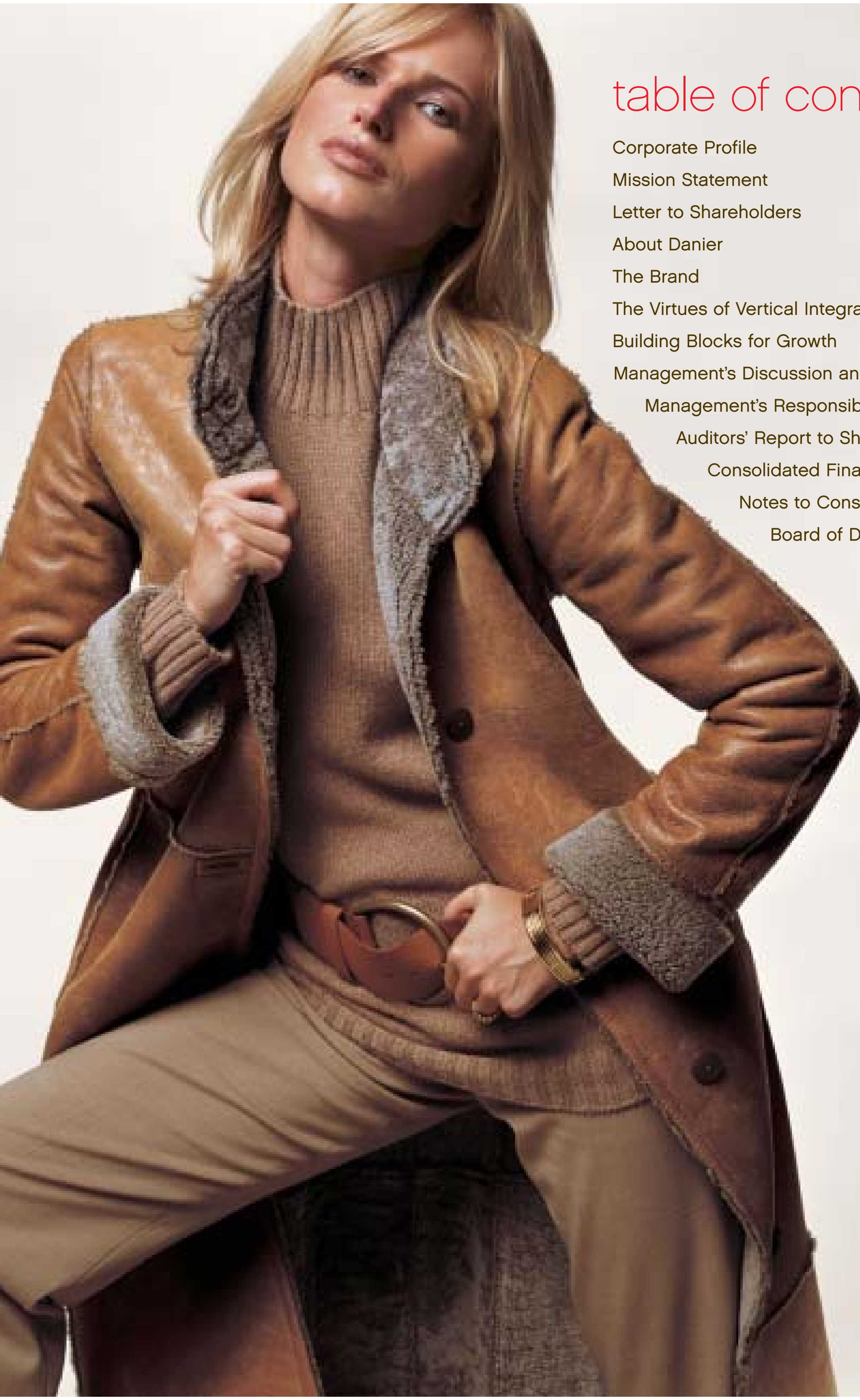
	2003	2002	2001	2000	1999
Sales	175,487	179,977	165,418	143,011	108,977
Gross Profit	86,699	87,879	82,600	73,146	52,664
EBITDA	15,305	23,684	25,530	22,556	13,222
Net Earnings	5,394	10,725	12,078	10,710	6,114
Earnings Per Share					
Basic	0.78	1.57	1.75	1.48	0.84
Fully Diluted	0.76	1.53	1.73	1.40	0.81
Shares Outstanding at year-end	6,919,554	6,908,204	6,835,329	7,023,329	7,264,329
Selected Balance Sheet Data					
Cash	7,254	3,777	1,663	775	1,628
Working Capital	36,340	33,602	27,693	21,292	17,760
Total Assets	81,487	75,695	68,438	59,007	41,655
Long-term debt	nil	nil	nil	470	740
Shareholders Equity	67,994	62,522	51,292	41,445	32,859



fiscal 2003 highlights

- Opened three new mall stores and six new power centre locations, increasing total square footage by 15% to 369,162 square feet
- Opened a third U.S. mall store at the Garden State Plaza in Paramus, New Jersey
- Increased sales of higher-margin accessories by 22% to $28.2 million
- Showcased products at the Oscars®, Grammys, JUNO and MTV Video Music Awards
- Launched corporate sales division to capitalize on large business-to-business market
- Completed 29th consecutive year of profitability





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corporate profile

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 at danier.com. Danier has produced a strong, long-term track record of growth and has been profitable every year since entering the retail business in 1974.

Danier's common shares trade on the Toronto Stock Exchange under the trading symbol "DL".

mission statement

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

letter to shareholders

Fiscal 2003 presented Danier with one of the most difficult retail environments in decades. Despite early hopes to the contrary, the sluggish economy persisted throughout the year, which in turn hampered consumer spending, especially in the retail apparel industry. More challenges arose as the year went on, including the war in Iraq, transportation disruptions and a highly publicized outbreak of Sudden Acute Respiratory Syndrome in one of our key markets. While difficult to quantify their effect in absolute dollars, these events worsened an already difficult business situation and led to further decreases in tourism, store traffic and ultimately sales.

As a result, we reported revenues of $175.5 million, down 2% for the year. Profits declined as well, as we incurred costs from recent strategic investments in our infrastructure. While this kind of financial performance is both unusual and unwelcome at Danier, it needs to be viewed in light of the extremely challenging conditions that we faced. On the plus side, gross margins increased and, in a difficult retail environment, we generated earnings of $5.4 million or $0.78 per share. This marks Danier's 29th consecutive year of net profit since entering the retail business in 1974. We also ended the year with a strong and debt-free balance sheet, ensuring both financial strength and flexibility as we move ahead.

While a good deal of the year's performance can be attributed to factors beyond our control, there were nonetheless areas where we could have executed better. We can always create more excitement in the merchandise and in-store experience.

In addition, our marketing and advertising campaign could have resonated better with our target customers. We intend to improve in these areas going forward with strategies that will bring us closer than ever to our core customers, delivering the style and value they seek while heightening their awareness of Danier as a destination and brand.

These challenges notwithstanding, in fiscal 2003 we stayed true to the sound principles of our long-term growth plan and showed continued progress in key areas of the business.

Still Growing Strong

Our store network continued to grow in fiscal 2003 as we added three new mall stores and six new power centres, while expanding three existing mall stores. We now operate a total of 98 stores across our network and increased our total retail footprint by 15% to 369,162 square feet at year-end.

Among these store openings was our third U.S. mall location, in the Garden State Plaza in Paramus, New Jersey. This store is situated in a highly desirable location and is off to a promising start. Moreover, our two existing U.S. mall stores on Long Island, New York also showed improvement in the year and we remain very excited about Danier's potential in the United States. Our long term commitment and optimism towards this market remain unchanged.

Another of our growth platforms – leather and suede accessories – continues to set new company sales records, while adding to margins and increasing store traffic in the slower season. Accessory sales rose 22% to $28.2 million for the year, and we look forward to future gains as we expand the range and styling of our attractive yet functional accessories for the home, business and travel markets.

During the year, we launched a corporate sales division that will allow us to tap into the high-potential business-to-business market at little incremental cost. Despite less than ideal market conditions, this business is gaining momentum, having already added blue-chip companies to its growing list of business customers.

From a marketing perspective, Danier's products once again were featured in key fashion publications and at the most widely-watched industry events, including the Oscars® for the second year in row. This has further stimulated brand awareness.

Our status as a vertically integrated designer, manufacturer and retailer of leather apparel and accessories continues to distinguish us from our competitors. On the manufacturing side, we have improved our quick response capability to produce and deliver popular items to stores on a timelier basis. During the year, we commissioned a new, computer-assisted leather-cutting machine that has improved our ability to do fine detail work while reducing waste and improving product yield. Over the last 6 months, these types of innovations at our Toronto manufacturing facility resulted in a 35% reduction in the time it takes to complete an order.

Focusing on 2004

For the coming year, our key priority remains a heightened focus on execution. This entails a number of things: getting even closer to our customers, making the shopping experience more enjoyable, delivering more exciting fashions, and maximizing the productivity of our existing stores while improving processes across the company.

We also intend to continue our steady store growth with the addition of two new mall stores and two power centres in Canada. Along the way, we'll surpass the exciting 100-store milestone for the first time – a great way to kick off our 30th year in the retail industry.

While there remain many factors outside our control, we are optimistic that 2004 will bring improved performance for Danier and its shareholders.

On behalf of the Board of Directors, I would like to express my gratitude to the dedicated Danier team members at every level of the company. Your contributions are deeply appreciated and critical to Danier's success. To our shareholders, thank you for your continued support. We will continue to work diligently to ensure your trust and long-term investment in Danier are rewarded.

As a growing leather brand with global aspirations and the means to achieve them, Danier is a company that is very much dressed for success.

Jeffrey Wortsman

Jeffrey Wortsman
President and CEO
July 25, 2003

about danier

Danier is one of the largest leather apparel retailers in the world and the second largest outerwear retailer in Canada, with 98 locations and 369,162 square feet of total retail space. We operate 59 shopping mall and street-front stores, 39 larger format stores located in power centres and a top-rated e-commerce site.

We have been manufacturing and retailing for nearly thirty years, earning international recognition as the leader in leather and suede design and production, and amassing a level of expertise unparalleled in the industry.

Fall 2003 brand campaign – Canada & US

the brand

Founded upon the cornerstones of fashion, quality, service and value, the Danier brand continues to grow in popularity. Our innovative fashions, carefully crafted marketing campaigns and publicity efforts have earned us placement in leading fashion and lifestyle magazines. In fiscal 2003, Danier products appeared in leading publications such as Cosmopolitan, Glamour, InStyle, Vogue Girl and Fitness, among others.

The Danier brand occupies a distinct and carefully cultivated niche in a fragmented and polarized market. There are virtually no major leather and suede specialty retailers outside North America, and those that exist are largely concentrated at the market's extreme high or low ends. Danier, on the other hand, appeals to the large segment of the market in search of fashion and value in the same package.

As globalization and the trend towards casual wear continue to spread, Danier is well positioned to extend the reach of its brand and sales network in the years to come.

the virtues of vertical integration

Danier is almost unique 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 to retailing. This way, we can ensure our customers are getting only the finest leather products with quality and value to match.

Sourcing

When it comes to buying raw leather materials, there is simply no substitute for experience – three decades worth. Our extensive network of contacts and rigorous standards have been the key to our excellent relationships with the most reputable tanneries. Our size, financial strength, and year-round purchasing policy have earned us preferred customer status and ensure that only the best quality materials make their way into Danier products.

World-Class Design

Our 29 person in-house design department is among the largest and most sophisticated in the leather industry. Interpreting and transforming the latest runway fashions into beautiful leather and suede garments is a Danier specialty that keeps us well ahead of our competitors on the fashion spectrum.

Industry-Leading Manufacturing

Danier maintains two manufacturing facilities in Toronto. Classic items are produced overseas to our rigorous standards, while smaller production runs of more fashion-forward items are handled in our Toronto facilities. As a result, we can respond quickly to changes in market demand and quickly repeat more popular sellers. This contributes to stronger margins and provides our stores with a steady flow of fresh merchandise.

Last year, we continued to invest in our advanced manufacturing systems, commissioning a new, computer-assisted leather-cutting machine that has improved our ability to do fine detail work while reducing waste. Next year we are investing in higher speed pressing equipment that will make further strides in integrating our quick response capability and quality improvement.

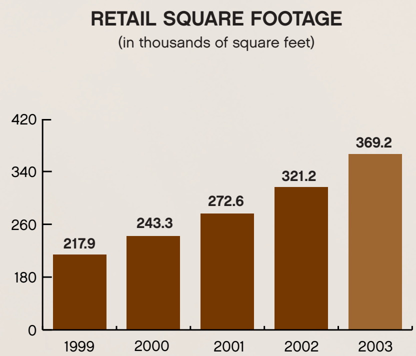
building blocks for growth

Street-Front and Mall Stores

Our 59 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. Danier's locations have all been carefully chosen and have historically outperformed other retailers in our peer category in terms of sales and productivity.

A very challenging market in fiscal 2003 led to disappointing performance and our first comparable store sales decline in 5 years. However, we expect to see improvements in 2004, as we re-evaluate every aspect of the sales process and introduce new marketing and merchandising initiatives to excite shoppers. 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" they desire.

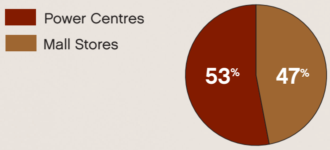
During the year, we opened two new mall stores in Ontario. We also expanded our stores in Yorkdale Mall in Toronto, Oakville Place in Oakville and Devonshire Mall in Windsor. These expansions are part of our growth strategy aimed at increasing the store footprint in select locations to feature an expanded range of products, especially our rapidly growing line of accessories. In fiscal 2004, we expect to open two new mall stores in Canada.



Power Centres

At fiscal year end, Danier operated a total of 39 power centre locations, with an aggregate sales area of 251,235 square feet - about double that of our mall store total. Our power centre stores are known for their breadth of selection, value and convenience. They typically carry current season merchandise at prices the same as mall stores but will also have past season, slightly imperfect, designer samples, and a greater choice of accessories.

FISCAL 2003 SALES BY STORE FORMAT



Power centre retailing is ideally suited to showcase our breadth of products and represents a retail growth area and increasingly popular destination for shoppers.

Sales from power centres have increased at a compounded annual growth rate of 26% since 1998.

During the year, we opened six new power centre locations in five provinces, building on our presence as Canada's largest specialty leather retailer. We currently have 39 power centres and believe the Canadian market can support about 50, providing room to grow our network further in the coming years. In fiscal 2004, we plan to open two new Danier power centres in select Canadian markets.

International Growth

International sales represent a significant growth opportunity going forward. In the fourth quarter of fiscal 2003 we opened our third U.S. mall store, located in the Garden State Plaza in Paramus, New Jersey. Performance at our existing U.S. stores improved during the year as the regional economic effects of September 11th slowly began to recede and a number of company initiatives began to take effect.

Garden State Plaza store – Paramus, New Jersey

Recent strategic investments have provided Danier with the ability to devote greater resources to its U.S. operations. In the area of branding and marketing, we continue to infuse our U.S. stores with the Danier culture and to train staff in the Danier way, ensuring superior customer service.

A steady and controlled expansion into the United States will allow Danier to select and secure the most attractive and convenient locations for customers. By clustering stores, we will be able to build on our growing brand recognition while improving accessibility for regional manager visits. This will ensure that operations are locally supervised and managed on a continuous basis.

Significant long-term potential awaits us in the European, Asian and South American markets, which display a healthy appetite for leather garments and goods. Moreover, the offsetting nature of the winter and summer seasons in South America will in time help to smooth out fluctuations in quarterly performance. These remain longer-term opportunities, however, as we continue to focus on the largely untapped potential closer to home.

Accessories

Our leather accessories business performed well during the year and remains one of the company's key growth platforms. Every Danier accessory is a lesson in form and function, and expertly crafted and coordinated for that polished Danier look.

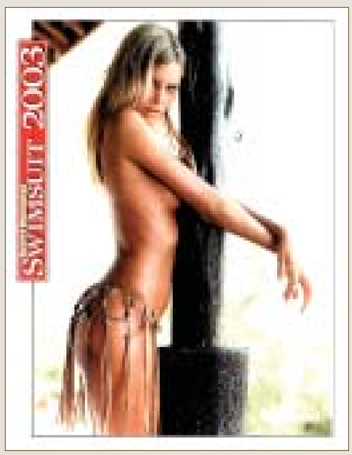
Sales of accessories rose 22% to $28.2 million in fiscal 2003. We have successfully grown the accessories business from 4% of total sales to 16% in just 5 years, and our goal is to eventually generate about 30% of our total sales from this product category. Sales of accessories have risen at an annual compounded sales rate of 51% since 1998.

This business has boosted Danier's top and bottom line in significant ways. Accessories have helped us to drive store traffic and sales in the slower summer months, while the higher profit margins (typically 3% higher than company average) have made a positive impact to the bottom line.

At the 75th Annual Academy Awards® in March, performers and presenters alike received Danier's signature turquoise leather travel flask – the second consecutive year that Danier products have been included at the Oscars®.

Other original designs include our cognac leather duffel and leather coaster sets, given to celebrities at the most recent Grammy and JUNO Awards, and in February 2003, a custom-made leather bikini was featured on the website of Sports Illustrated in connection with their widely publicized swimsuit edition.

We will continue to expand 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.



Featured merchandise at the Academy Awards®, Grammy Awards, JUNO Awards and on the Sports Illustrated website

Corporate Sales

Corporate sales – gifts and incentives for employees, suppliers and customers – represent another significant growth platform for Danier. There are many opportunities in the high-potential, business-to-business market for corporate sales and premium incentives. This growth platform is especially appealing as it allows us to leverage our existing investments and infrastructure in our accessories business. As a result, we can begin to exploit this market at little additional cost, using our design, merchandising and manufacturing strengths in leather to offer a premium product at superior value.

Corporate Sales Catalogue

Despite launching the Corporate Sales division in a challenging market, Danier has already secured such large and respected customers as TD Financial Group and General Motors. We expect to see further growth as we continue to expand our network and begin to serve repeat customers as longer-term negotiations bear fruit in the months ahead.

With our recognized expertise in leather goods and a trend towards branded and co-branded products, we are well suited to succeed in this large and growing market.

Danier's Corporate Sales Division is twofold.

We offer a wide variety of high quality customized leather products perfect for gifts, incentives, promotions and other special occasions. Whether you want to motivate, thank or reward someone or perhaps an entire group, we have the product selection and the customer service to help you choose wisely and make that lasting impression.

We have also expanded into the realm of corporate contract work, manufacturing specific leather products for large corporations. Most recently we were contracted for the flight crew uniforms for the Canadian airline, Jetsgo. Other projects include creating the leather components that are incorporated into a variety of other companies' core product lines.

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

management's discussion and analysis

The following management's discussion and analysis is based upon and should be read in conjunction with the Company's consolidated financial statements and notes. In the discussion that follows, "2003" refers to the 52-week period ended June 28, 2003 and "2002" refers to the 52-week period ended June 29, 2002. The information below contains certain forward-looking statements which reflect the current view of Danier Leather Inc. ("Danier" or the "Company") 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 risks and uncertainties that could cause actual performance or results to differ materially from those expressed in forward-looking statements, historical results or current expectations. The Company assumes no obligation to publicly update or revise its forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

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 unmatched 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 website, danier.com. Since entering the retail business 29 years ago, Danier has generated net earnings every year.

GROWTH STRATEGY

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

1. GROW ACCESSORIES TO 30% OF TOTAL BUSINESS

Accessory sales have grown at a compound annual growth rate of 51% over the last 5 years. Accessory sales represented $28.2 million or 16% of total Company revenue in 2003 compared with $3.6 million or 4% of total Company revenue in 1998. Danier's long-term objective is to grow this part of the business to 30% of total sales. This is expected to be achieved by selectively expanding the size of Danier's shopping mall stores from an average of 2,000 square feet to between 2,500 and 3,000 square feet, 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 39 power centre locations (large format stores) generating average annual sales of $2.4 million per location. 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 6,400 square feet compared with 2,000 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 also 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 2004, Danier plans to open two new power centre locations. New power centre locations are expected to generate annual sales of between $1.5 million to $2.0 million per store.

3. CORPORATE SALES

Sales of Danier products to corporations and other organizations to use as incentives and premiums for employees, suppliers and customers represents 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 are 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 niche of the population. Danier, through its vertical integration and 29 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. International expansion began with two stores in Long Island, New York and a recently opened store at Garden State Plaza in Paramus, New Jersey.

RESULTS OF OPERATIONS

The following table 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 5 years.

	2003	2002	2001	2000	1999
Revenue	$ 175,487	$ 179,977	$ 165,418	$ 143,011	$ 108,977
Cost of sales	88,788	92,098	82,818	69,865	56,313
Gross profit	86,699	87,879	82,600	73,146	52,664
Selling, general and administrative expenses	77,390	69,264	60,902	54,051	41,740
Interest expense (income)	66	461	583	33	(48)
Earnings before income tax	9,243	18,154	21,115	19,062	10,972
Income tax expense	3,849	7,429	9,037	8,352	4,858
Net earnings	5,394	10,725	12,078	10,710	6,114
Supplemental information:					
EBITDA[1]	15,305	23,684	25,530	22,556	13,222

	2003	2002	2001	2000	1999
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	50.6%	51.2%	50.1%	48.9%	51.7%
Gross profit	49.4%	48.8%	49.9%	51.1%	48.3%
Selling, general and administrative expenses	44.1%	38.5%	36.8%	37.8%	38.3%
Interest expense (income)	-	0.2%	0.3%	-	-
Earnings before income tax	5.3%	10.1%	12.8%	13.3%	10.0%
Income tax expense	2.2%	4.1%	5.5%	5.8%	4.4%
Net earnings	3.1%	6.0%	7.3%	7.5%	5.6%
Supplemental information:					
EBITDA[1]	8.7%	13.2%	15.4%	15.8%	12.1%

[1] EBITDA is defined as net earnings before interest expense, income taxes, depreciation and amortization. EBITDA is a financial metric used by management and many investors to compare companies on the basis of operating results, asset value and the ability to incur and service debt. EBITDA is not a recognized measure for financial presentation under Canadian generally accepted accounting principles ("GAAP"). Non-GAAP earnings measures such as EBITDA, do not have any standardized meaning and are therefore unlikely to be comparable to similar measures presented by other issuers. EBITDA is calculated as outlined in the following table.

	2003	2002	2001	2000	1999
Net Earnings	$ 5,394	$ 10,725	$ 12,078	$ 10,710	$ 6,114
Plus: Income tax expense	3,849	7,429	9,037	8,352	4,858
Plus: Interest expense (income)	66	461	583	33	(48)
Plus: Amortization	5,996	5,069	3,832	3,461	2,298
EBITDA	$ 15,305	$ 23,684	$ 25,530	$ 22,556	$ 13,222

The following summarized statistical data compare each of the last 5 fiscal years.

	2003	2002	2001	2000	1999
Comparable store sales					
increase/(decrease)	(7%)	1%	8%	16%	5%
Sales ($000)					
Shopping Mall/					
Street-Front/Direct Sales	82,384	86,865	83,038	75,104	64,973
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Number of stores					
Shopping Mall/Street-Front	59	56	56	51	48
Power Centre	39	33	27	24	21
Total	98	89	83	75	69

Revenue decreased by 2% or $4.5 million to $175.5 million in 2003 from $180.0 million in 2002. Comparable store sales decreased by 7% compared to a 1% increase in the prior year. The combination of weak consumer confidence, economic uncertainty (especially in retail apparel), the war in Iraq, an outbreak of Severe Acute Respiratory Syndrome ("SARS") and supply chain interruptions caused by the West Coast lockout and rail disruptions all contributed to a decline in store traffic and revenue during the year. The comparable store sales decrease was offset to some degree by revenues from six additional power centre locations, three new shopping mall stores and three expanded shopping mall stores. Accessory sales increased by 22% and represented 16% of total revenues. Although 2003 was a difficult and disappointing year, Danier has nevertheless achieved 15% compound annual revenue growth over the last 5 years. Danier's total retail square footage increased by 15% to 369,162 square feet from 321,238 square feet in 2002.

Power centre location revenues remained virtually flat at $93.1 million in 2003 compared with $93.1 million in 2002. Comparable power centre location revenue decreased by approximately 8% for the same reasons outlined above. The comparable store decrease was offset by the addition of six new power centre locations. Revenue from power centres has more than doubled over the last 5 years resulting in compound annual growth of 26%. Power centre location revenues now account for 53% of total company revenues compared with 33% in 1998. Over the last 5 years, Danier opened 28 power centre locations and now has 39 locations in operation. Power centre retail square footage increased by 18% to 251,235 square feet in 2003 compared with 212,672 square feet in 2002.

Shopping mall, street-front store and direct sales decreased by 5% or $4.5 million to $82.4 million in 2003 from $86.9 million in 2002. Comparable store sales decreased approximately 7% for the same reasons explained above. Three new stores were opened in 2003 including one store in the United States at Garden State Plaza in Paramus, New Jersey, bringing the total number of stores in the United States to three. Three stores were expanded (Yorkdale Mall in Toronto, Ontario, Devonshire Mall in Windsor, Ontario, and Oakville Place in Oakville, Ontario) and no stores were closed. Shopping mall and street-front square footage increased by 9% to 117,927 square feet from 108,566 square feet in the prior year.

Revenues in the fourth quarter of 2003 decreased by 4% to $24.8 million compared with $25.8 million for the fourth quarter of 2002. Comparable store sales decreased by 12% as the ongoing effects of SARS and weakness in the retail apparel sector continued. Approximately half of Danier's locations and sales are in Ontario, the province in which most

SARS cases were reported and in which the resulting economic effects have been most severe. During the fourth quarter, Danier opened one shopping mall store in the United States at the Garden State Plaza in Paramus, New Jersey. Accessory sales increased by 13% and represented 19% of total fourth quarter sales.

Gross profit decreased by 1% to $86.7 million in 2003, compared with $87.9 million in 2002. Gross profit as a percentage of revenue increased to 49.4% compared with 48.8% in 2002. During the first half of the year, gross profit and gross margin benefited from advantageous purchasing of finished goods merchandise following September 2001. During the second half of the year, prices for raw materials and finished goods returned to normal levels while weak consumer confidence and economic uncertainty made deeper discounting necessary. In addition, a more aggressive promotional strategy and a higher product mix of lower margin suede all had a negative impact on gross margin.

Gross profit margin for the fourth quarter of 2003 decreased to 46.4% compared with 49.2% for the fourth quarter of 2002. Higher product costs and deeper discounting had a negative effect on the fourth quarter of 2003 compared with the fourth quarter of 2002.

Selling, general and administrative expenses increased by 12% to $77.4 million, compared with $69.3 million in 2002. This increase was due to: additional store salaries, benefits and rent and occupancy costs associated with operating 9 additional stores and three expanded shopping mall stores versus the same period last year; higher amortization resulting from capital expenditures; head office staff additions; and additional legal and professional fees associated with defending the class action lawsuit.

Selling, general and administrative expenses for the fourth quarter of 2003 increased by 21% to $17.2 million, compared with $14.2 million in the fourth quarter of 2002 with the increase resulting from more stores in operation, head office staff additions and additional legal and professional fees related to defending the class action lawsuit.

Interest expense was $66,000 in 2003 compared with $461,000 in 2002. The decrease is mostly due to lower borrowings and higher cash balances.

Interest income for the fourth quarter of 2003 was $47,000 compared with $5,000 in 2002. The increase was due to higher cash balances.

Income tax effective rates increased to 41.6% from 41.0% last year due to lower earnings available to offset non-deductible losses from the United States operations. The increase was offset to some degree by lower Federal tax rates.

Net earnings for 2003 were $5.4 million ($0.78 per share) compared with $10.7 million ($1.57 per share) in 2002. The decrease in net earnings is mainly due to a decrease in sales and higher selling, general and administrative expenses.

Net loss for the fourth quarter of 2003 was $3.5 million ($0.50 per share) compared with $0.8 million ($0.12 per share) in 2002. The increase in the fourth quarter loss was due to decreased sales, lower gross margin and higher selling general and administrative expenses associated with more stores in operation, head office staff additions and legal and professional fees related to defending the class action lawsuit.

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 generally 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		Q2		Q3		Q4	
	2003	2002	2003	2002	2003	2002	2003	2002
Revenues	22,695	21,426	86,615	86,218	41,414	46,501	24,763	25,832
EBITDA[1]	(3,853)	(2,384)	21,657	20,836	2,394	5,605	(4,893)	(373)
Net earnings (loss)	(3,372)	(2,315)	11,777	11,358	454	2,522	(3,465)	(840)
Net earnings (loss) per share								
Basic	($0.49)	($0.34)	$1.70	$1.66	$0.07	$0.37	($0.50)	($0.12)
Diluted	n/a	n/a	$1.67	$1.64	$0.06	$0.36	n/a	n/a

(1) Net earnings (loss) before interest, income taxes, depreciation and amortization. A reconciliation of EBITDA to net earnings is provided in the Company's quarterly financial statements mailed to shareholders and filed with Sedar.

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 decreased by $3.0 million to $12.3 million in 2003 compared with $15.3 million in 2002. The decrease in cash flows from operating activities was due to a decrease in net earnings of $5.3 million offset by a $1.6 million reduction in inventory. Factors affecting inventory overall were:

(i) Reduction in opportunity purchases for the following season amounted to approximately $6.5 million. Finished goods inventory included approximately $9.5 million of goods for next fall and basic items compared with $16.0 million in 2002.

(ii) Inventory required for the addition of six new power centre locations, three new shopping mall stores, and three expanded shopping mall locations amounted to approximately $3.0 million. The average power centre requires approximately $450,000 of inventory and the average mall store requires approximately $130,000 of inventory.

(iii) Fall outerwear inventory from the prior season was approximately $3.0 million higher than the previous year. Even though outerwear inventory mainly consists of black and brown jackets which can be sold in the normal course of business, more aggressive markdowns may be taken in Q1 2004 to clear this inventory so that current season inventory which carries higher margins can be prominently featured.

Working capital increased to $36.3 million in 2003 compared with $33.6 million in 2002. The increase is mainly due to higher cash balances. The Company had no long-term debt at the end of 2003 and 2002.

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 periods through a combination of cash flows provided by operations and bank credit facilities. The Company has committed credit facilities available to a maximum amount of $74.0 million, consisting of an operating facility for working capital and for general corporate purposes to a maximum amount of $65 million that expires on October 31, 2005 and bears interest at prime plus 0.25% and a $9.0 million revolving capital expenditure loan facility which bears interest at prime plus 0.75% and reduces by $1.0 million on June 30, 2004 and by $2.0 million on each of June 30, 2005 and June 30, 2006 and by $4.0 million on June 30, 2007. The revolving capital expenditure loan facility matures on June 30, 2007. Standby fees are paid for any unused portion of the credit facilities. The credit facility is subject to certain covenants and other limitations and 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 3, 2003, 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 284,351 subordinate voting shares, representing approximately 5% of the total outstanding subordinate voting shares, during the period from February 6, 2003 to February 5, 2004. No shares were purchased for cancellation during 2003 under this normal course issuer bid or the previous normal course issuer bid that expired on February 5, 2003.

During 2003, capital investments totalled approximately $9.7 million comprising approximately (i) $7.6 million for the addition of six power centre outlets and three shopping mall stores, relocation to larger stores in three shopping malls, miscellaneous renovations and expenditures in the retail division, (ii) $1.2 million for upgrading hardware, software and implementation of information technology for merchandising, manufacturing, and financial systems, (iii) $0.5 million for building improvements and equipment related to the Company's office, manufacturing and distribution facilities, and (iv) $0.4 million for factory equipment. For fiscal 2004, Danier plans capital expenditures of approximately $5.1 million to add two power centre outlets, two shopping mall stores, relocation to larger stores in up to two shopping malls, renovations and miscellaneous expenditures in the retail division, $1.0 million for information technology, and $1.1 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 2004.

RISKS AND UNCERTAINTIES

Danier is subject to certain risks and uncertainties that are common in the leather and retail apparel industry and that 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 trends, as well as to anticipate, react to and satisfy changing consumer demands in a timely manner.

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. Although current scientific evidence suggests that such diseases cannot be transmitted to humans through contact with leather products, demand for leather products could be affected as a result of the publicity regarding these diseases.

The apparel industry is cyclical. 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.

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.

Seasonality

The Company's business is seasonal, as are most retail businesses. Historically, approximately 48% or more of the Company's 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.

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 local leather and suede specialty stores and with numerous international and national retailers, designers and manufacturers of apparel and accessory products, some of which are significantly larger and have substantially greater resources than the Company.

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 or square footage. 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, obtain necessary capital to operate the business and hire, train and retain qualified personnel including management, executives and sales associates.

Foreign Sourcing and Manufacturing

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. Leather supply is influenced by a number of factors including wars, weather conditions, 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.

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, 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 constantly 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 raw materials and finished goods.

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.

Senior Management

Danier's success depends largely on the efforts and abilities of the current senior management team. Their 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.

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 forward contracts by only dealing with major financial institutions. As at June 28, 2003 there were U.S. $7.5 million of foreign exchange contracts outstanding at an average rate of US$1.00 = 1.4631. There were no forward foreign exchange contracts entered into during 2002.

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.

Weather

Extreme changes in weather can affect the timing of consumer spending habits and may have an adverse effect upon the Company's results of operations.

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.

Severe Acute Respiratory Syndrome (SARS)

Heightened concern with SARS could lead to lower customer traffic in shopping malls and power centres and could negatively affect consumer behaviour, spending and shopping patterns. In addition, SARS cases have been reported in Asia where the Company sources its product; therefore, Danier's ability to source and ship merchandise available for sale could be negatively impacted. These factors could result in an adverse effect upon the Company's results of operations.

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). The claim relates to subordinate voting shares purchased at the time of the Company's initial public offering in May 1998. The suit seeks damages equal to the alleged diminution in value of the shares. In October 2001 the claim was certified as a class action and in May 2003 the matter proceeded to trial. The trial is currently underway. While the Company strongly believes the suit is wholly without merit and is vigorously defending it, if the action is ultimately successful and the Court assesses damages against the Company, the amount of damages could have a material adverse effect on the Company's financial condition and operations. No amounts have been provided in the accounts of the Company in respect of any of the amounts being claimed in this matter. During 2003, the Company expensed and accrued legal and professional fees in defense of this matter of $2.7 million of which $1.5 million relates to legal and professional fees actually incurred during 2003 and $1.2 million relates to future legal and professional fees in defense of this action.

ACCOUNTING STANDARDS IMPLEMENTED IN 2003

Effective June 30, 2002, the Company adopted prospectively the Canadian Institute of Chartered Accountants ("CICA") Handbook section 3870 "Stock-based Compensation and Other Stock-based Payments". The new standard establishes standards for the recognition, measurement and disclosure of stock-based compensation to employees and directors. The Company uses settlement accounting to account for its stock option plan. Consideration paid by employees and directors, which represents the exercise price on the exercise of stock options, is recorded as share capital. Under the new standard, the Company continued the use of settlement accounting for options granted to employees and directors and also provides full disclosure of pro forma net earnings and pro forma earnings per share, using the fair value based accounting method. During the year ended June 28, 2003, the Company granted 161,000 stock options (net of 25,000 forfeited options) with exercise prices of $13.57 and $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 for the fourth quarter and year-to-date would have decreased by $157,000 and $598,000, respectively, and diluted earnings per share would have decreased by $0.02 and $0.08, respectively.

FUTURE ACCOUNTING STANDARDS

The CICA has issued the following recommendation and accounting guidelines. These sections and guidelines are not expected to have a material impact on the Company's financial position:

Section 3063 "Impairment of Long Lived Assets" effective for fiscal years beginning on or after January 1, 2003 – The section establishes standards for the recognition, measurement and disclosure of the impairment of long-lived assets.

Section 3475 "Disposal of Long-Lived Assets and Discontinued Operations," effective for disposals on or after May 1, 2003 – The section establishes standards for the recognition, measurement and disclosure of the disposal of long-lived assets and the disclosure of discontinued operations.

Accounting Guideline 13 "Hedging Relationships," effective for fiscal years beginning on or after July 1, 2003 – The guideline establishes conditions when hedge accounting may be applied.

Exposure Draft amending Section 3870 "Stock-based Compensation and Other Stock-based Payments" – The proposed amendments would require the recognition of expenses for all employee stock-based compensation transactions and eliminate the current option to disclose the effect of such transactions on net earnings and net earnings per share on a pro forma basis. These amendments would be effective for fiscal years beginning on or after January 1, 2004.

OUTLOOK

The economic outlook for fiscal 2004 remains uncertain. Danier is, however, optimistic that the economic effects of the war in Iraq and SARS will begin to abate. A key priority for the year will be a heightened focus on strategy execution. This includes developing stronger and closer relationships with our core customers, enhancing the shopping experience, delivering increasingly exciting fashions and maximizing the productivity of existing stores while improving processes across the Company. The Accessories division is expected to continue to show sales increases and the Corporate Sales division is off to a promising start in a challenging market. Danier intends to open two new power centre locations and two new mall stores as it continues to grow its network. The Company also maintains a strong balance sheet with excellent liquidity and borrowing capacity should the need arise to capitalize on business opportunities.

The Company believes it is well positioned for improved performance in 2004 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.

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 28, 2003 and June 29, 2002 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 28, 2003 and June 29, 2002 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 25, 2003

consolidated financial statements

for the years ended june 28, 2003 and june 29, 2002

CONSOLIDATED BALANCE SHEETS

(THOUSANDS OF DOLLARS)

	June 28, 2003	June 29, 2002
ASSETS		
Current Assets		
Cash	$ 7,254	$ 3,777
Accounts receivable	600	484
Income taxes recoverable	83	-
Inventories (Note 2)	37,029	38,662
Prepaid expenses	889	603
Future income tax asset (Note 8)	1,044	628
	46,899	44,154
Other Assets		
Capital assets (Note 3)	34,246	31,199
Goodwill (Note 4)	342	342
	$ 81,487	$ 75,695
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 10,559	$ 10,472
Income taxes payable	-	80
	10,559	10,552
Deferred lease inducements	2,238	1,837
Future income tax liability (Note 8)	696	784
	13,493	13,173
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	23,995	23,917
Retained earnings	43,999	38,605
	67,994	62,522
	$ 81,487	$ 75,695

Approved by the Board

Edwin F. Hawken, Director

Jeffrey Wortsman, Director

CONSOLIDATED STATEMENTS OF EARNINGS

(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

	For the Years Ended	
	June 28, 2003	June 29, 2002
Revenue	$ 175,487	$ 179,977
Cost of sales (Note 7)	88,788	92,098
Gross profit	86,699	87,879
Selling, general and administrative expenses (Note 7)	77,390	69,264
Earnings before interest and income taxes	9,309	18,615
Interest expense – net	66	461
Earnings before income taxes	9,243	18,154
Provision for income taxes (Note 8)		
Current	4,353	7,314
Future	(504)	115
	3,849	7,429
Net earnings	**$ 5,394**	$ 10,725
Net earnings per share (Notes 1(k) & 6 (c))		
Basic	**$0.78**	$1.57
Diluted	**$0.76**	$1.53

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(THOUSANDS OF DOLLARS)

	For the Years Ended	
	June 28, 2003	June 29, 2002
Retained earnings, beginning of year	**$ 38,605**	**$ 27,880**
Net earnings	5,394	10,725
Retained earnings, end of year	**$ 43,999**	**$ 38,605**

CONSOLIDATED STATEMENTS OF CASH FLOW

(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

	For the Years Ended	
	June 28, 2003	**June 29, 2002**
OPERATING ACTIVITIES		
Net earnings	$ 5,394	$ 10,725
Items not affecting cash:		
Amortization	5,996	5,069
Amortization of deferred lease inducements	(347)	(273)
Loss on disposal of capital assets	633	260
Future income taxes	(504)	115
	11,172	15,896
Net change in non-cash working capital items (Note 9)	1,155	(613)
Cash flow from operating activities	**12,327**	15,283
FINANCING ACTIVITIES		
Subordinate voting shares issued	78	505
Proceeds from lease inducements	748	747
Future income taxes related to the IPO	-	442
Cash flow from financing activities	**826**	1,694
INVESTING ACTIVITIES		
Acquisition of capital assets	(9,676)	(11,377)
Cash flow from investing activities	**(9,676)**	(11,377)
Increase in cash	3,477	5,600
Cash/(bank overdraft), beginning of year	3,777	(1,823)
Cash, end of year	**$ 7,254**	$ 3,777
Supplementary cash flow information:		
Interest paid	219	472
Income taxes paid	5,241	8,147

notes to consolidated financial statements

for the years ended june 28, 2003 and june 29, 2002

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 28, 2003, and comparably the 52-week period ended June 29, 2002.

(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 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 related leasehold improvements are amortized to the date of lease termination.

(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.

Note 1: Significant Accounting Policies (continued)

(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. The amendments to Foreign Currency Translation, of the Canadian Institute of Chartered Accountants, "CICA", Handbook Section 1650, applicable June 30, 2002, did not have an impact on the Company's operations.

(m) Financial instruments:
The Company utilizes derivative financial instruments in the management of its foreign currency exposure. In April 2003, foreign exchange contracts in U.S. dollars were entered into with large Canadian chartered banks to hedge a portion of future inventory purchases that are denominated in U.S. dollars. Gains and losses on these contracts will be recognized as an adjustment of cost when the inventory purchase is recorded. Derivative financial instruments are not used for trading purposes.

(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.

On June 30, 2002, the Company adopted prospectively the Canadian Institute of Chartered Accountants (CICA) Handbook section 3870 "Stock-based Compensation and Other Stock-based Payments". The new standard establishes standards for the recognition, measurement and disclosure of stock-based compensation to employees. Under the new standard, as in prior periods, the Company uses settlement accounting to account for its stock option plan. Consideration paid by employees and directors, which represents the exercise price on the exercise of stock options, is recorded as share capital. Options granted to employees include full disclosure of pro forma net earnings and pro forma earnings per share, using the fair value based accounting method (see Note 6 (e)).

(o) Use of estimates:
The preparation of financial statements in conformity with Canadian generally accepted accounting principles

Note 1: Significant Accounting Policies (continued)

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. 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.

Note 2: Inventories (thousands of dollars)

	June 28, 2003	June 29, 2002
Raw materials	$ 4,970	$ 5,210
Work-in-process	2,228	2,430
Finished goods	29,831	31,022
	$ 37,029	$ 38,662

Note 3: Capital Assets (thousands of dollars)

	June 28, 2003			June 29, 2002		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	$ 1,000	$ -	$ 1,000	$ 1,000	$ -	$ 1,000
Building	6,988	832	6,156	6,768	580	6,188
Leasehold improvements	26,492	9,899	16,593	21,608	8,073	13,535
Furniture and equipment	11,918	6,029	5,889	10,953	5,529	5,424
Computer hardware and software	9,225	4,617	4,608	8,623	3,571	5,052
	$ 55,623	$ 21,377	$ 34,246	$ 48,952	$ 17,753	$ 31,199

Note 4: Goodwill (thousands of dollars)

Goodwill of $342 (June 29, 2002 - $342) is stated at cost less accumulated amortization of $205 (June 29, 2002 - $205).

Note 5: Bank Overdraft

As at June 28, 2003, the Company had credit facilities available to a maximum amount of $75.0 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 $10.0 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, 2003 and June 30, 2004 and by $2.0 million on each of June 30, 2005 and June 30, 2006 and by $4.0 million on June 30, 2007. The operating facility is committed until October 31, 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 30, 2001	1,224,329	Nominal
Balance June 29, 2002	1,224,329	Nominal
Balance June 28, 2003	1,224,329	Nominal

Subordinate Voting Shares	**Number**	**Consideration**
Balance June 30, 2001	5,611,000	$ 23,412
Shares issued upon exercising of stock options	72,875	505
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

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 per share

	June 28, 2003	June 29, 2002
Earnings per share		
Basic	$ 0.78	$ 1.57
Diluted	$ 0.76	$ 1.53
Weighted average number of shares outstanding		
Basic	6,913,636	6,849,788
Diluted	7,052,865	7,025,292
Shares outstanding		
Basic	6,919,554	6,908,204
Diluted	6,975,677	7,163,435

(d) Normal course issuer bid
During the years ended June 28, 2003 and June 29, 2002 no shares were repurchased under the Normal Course Issuer Bid.

Note 6: Share Capital (continued) (thousands of dollars, except per share amounts)

(e) Stock option plan

The Company has reserved 1,025,000 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 28, 2003 and June 29, 2002 and changes during the years ending on those dates is presented below:

		June 28, 2003		June 29, 2002
Stock Options	**Shares**	**Weighted-average exercise price**	**Shares**	**Weighted-average exercise price**
Outstanding at beginning of year	580,750	$ 9.97	561,000	$ 9.22
Granted	186,000	$ 14.93	94,000	$ 12.01
Exercised	(11,350)	$ 6.85	(72,875)	$ 6.92
Forfeited	(25,000)	$ 13.57	(1,375)	$ 6.85
Outstanding at end of year	730,400	$ 11.16	580,750	$ 9.97
Options exercisable at end of year	501,400	$ 9.80	462,250	$ 9.57

The following table summarizes information about stock options outstanding as at June 28, 2003:

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	6.2 years	$ 6.02	17,250	$ 6.02
$ 6.85	143,400	5.0 years	$ 6.85	142,150	$ 6.85
$ 10.03	50,000	8.4 years	$ 10.03	12,500	$ 10.03
$ 10.40	33,250	7.1 years	$ 10.40	27,750	$ 10.40
$ 10.50	15,000	7.3 years	$ 10.50	7,500	$ 10.50
$ 11.20	24,000	8.1 years	$ 11.20	24,000	$ 11.20
$ 11.25	265,250	4.9 years	$ 11.25	265,250	$ 11.25
$ 13.57	50,000	9.4 years	$ 13.57	-	-
$ 15.85	111,000	9.1 years	$ 15.85	-	-
$ 17.94	20,000	8.8 years	$ 17.94	5,000	$ 17.94
	730,400	6.5 years	$ 11.16	501,400	$ 9.80

Effective June 30, 2002, the Company adopted prospectively the new CICA standard for Stock-based Compensation. Under the new standard, as in prior periods, the Company uses settlement accounting to account for its stock option plan. Consideration paid by employees and directors, which represents the exercise price on the exercise of stock options, is recorded as share capital.

Note 6: Share Capital (continued) (thousands of dollars, except per share amounts)

During the year ended June 28, 2003, the Company granted 161,000 stock options (net of 25,000 forfeited options) with exercise prices of $13.57 and $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 would have been reduced to the pro forma amounts indicated in the following table:

	Year Ended June 28, 2003	
	As Reported	**Pro forma**
Net earnings	$ 5,394	$ 4,796
Basic earnings per share	$ 0.78	$ 0.69
Diluted earnings per share	$ 0.76	$ 0.68

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 income 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 28, 2003 was $10.62.

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 model requires the use of subjective assumptions including the expected stock price volatility. Because the Company's stock option plan has 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 of $5,996 (June 29, 2002 - $5,069) is included in cost of sales and selling, general and administrative expenses.

Note 8: Income Taxes (thousands of dollars)

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

	June 28, 2003	June 29, 2002
Amortization	$ (696)	$ (810)
Deferred lease inducements	$ 676	$ 600
Other	$ 368	$ 54
	$ 348	$ (156)
Future income tax asset	$ 1,044	$ 628
Future income tax liability	$ (696)	$ (784)

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 28, 2003	June 29, 2002
Combined basic federal and provincial average statutory rate	37.6%	40.4%
Manufacturing and processing credit	(0.9%)	(1.5%)
Effect of foreign operating losses	3.9%	2.0%
Other	1.0%	0.1%
	41.6%	41.0%

Note 9: Changes in non-cash operating working capital items (thousands of dollars)

	June 28, 2003	June 29, 2002
Accounts receivable	$ (116)	$ 180
Inventories	$ 1,633	$ 565
Prepaid expenses	$ (286)	$ (144)
Accounts payable and accrued liabilities	$ 87	$ (110)
Income taxes payable	$ (163)	$ (1,104)
	$ 1,155	$ (613)

Note 10: Commitments & Contingencies (thousands of dollars)

(a) Legal proceedings

In the course of its business, the Company from time to time becomes involved in various claims and 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). The Claim relates to subordinate voting shares purchased at the time of the Company's initial public offering in May 1998. Essentially, the suit seeks damages be paid equal to the alleged diminution in value of the shares. The plaintiff also brought a motion to certify the action as a class action on behalf of investors who purchased shares pursuant to the initial public offering. A motion to certify the action as a class action was heard in July, 2001, and in October, 2001, the motion for certification was granted. The trial commenced in May 2003 and is currently underway. No amounts have been provided in the accounts of the Company in respect of any of the amounts being claimed in this matter. The Company strongly believes the suit is

Note 10: Commitments & Contingencies (continued) (thousands of dollars)

wholly without merit and continues to vigorously defend it. In that regard, the Company has expensed and accrued legal and professional fees of approximately $2,700 during the fourth quarter of 2003 of which approximately $1,500 relates to legal and professional fees actually incurred during fiscal 2003 and approximately $1,200 relates to future legal and professional fees in defense of this action.

(b) Operating leases
Minimum rentals for the next five fiscal years and thereafter, excluding rentals based upon revenue are as follows:

2004	$	11,509
2005	$	10,739
2006	$	9,892
2007	$	9,318
2008	$	7,838
Thereafter	$	16,960

(c) Letters of credit
The Company had outstanding letters of credit in the amount of $7,237 (June 29, 2002 - $7,640) for imports of finished goods inventories to be received.

Note 11: 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. These accounts receivable are net of applicable allowance for doubtful accounts, which are established based on the specific credit risks associated with each corporate customer and other relevant information.

The Company purchases a significant portion of its finished goods inventory from foreign vendors with payment terms in U.S. dollars. To manage foreign exchange risk and fix exchange rates associated with these purchases, in April 2003, the Company hedged approximately 33% of the anticipated finished goods purchases for the months from May 2003 to December 2003. As at June 28, 2003, the Company had foreign exchange forward contracts to purchase U.S. $7,500 ($10,973) at an average rate of US$1.00 = 1.4631 maturing up to December 2003. Based on the closing rate of the U.S. dollar as at June 27, 2003, the fair value of the Company's foreign exchange forward contracts as disclosed above is $10,097 resulting in an unrealized loss of $876.

The Company's is exposed to interest rate risk based on the use of the credit facilities which bears interest at floating rates. For fiscal 2003, a +/-1% change in interest rates would change interest expense by +/- $49 (2002 +/- $89).

Note 12: 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

Mr. Edwin F. Hawken, Chairman[1]

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.

Mr. 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.

Mr. 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. Clare Copeland, Director[1,2]

Mr. Copeland joined the board of Danier in May 1998 is also Chairman of Danier's Compensation 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[1,2]

Mr. Kahn joined the board of Danier in May 1998 and is also a member of Danier's Compensation Committee and a member of the Audit Committee. Mr. Kahn is the 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.

Howard Stotland, Director[2]

Mr. Stotland joined the board of Danier in May 1998 and is also a member of Danier's Compensation Committee. He is a director of Reitman's and Momentis Systems Inc. and acts as governor for Montreal Technovision, a non-profit organization promoting the advancement of technology in the Montreal area.

Mr. 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.

1. Member, Audit Committee
2. Member, Compensation Committee

corporate information

Head Office
2650 St. Clair Avenue West
Toronto, Ontario M6N 1M2
Telephone (416) 762-8175
Fax (416) 762-4570

Investor Relations
Bryan Tatoff, Senior Vice-President
and Chief Financial Officer
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
Wednesday, October 15, 2003
4:00 pm (Eastern Standard Time)

Website
www.danier.com

company officers

Jeffrey Wortsman
President and CEO

Daniel J. Soper
Executive Vice-President
and COO

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 Aiken
Vice-President,
Planning & 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

Ellen P. Réthoré
Vice-President, Marketing

Cris Ruivo
Vice-President,
Store Operations

Cheryl Sproul
Vice-President,
Human Resources

John E.A. Briggs, C.M.A.
Controller

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

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 expresses in or implied by the statements. Accordingly, readers are cautioned not to place undue reliance on these statements.