



NORTH AMERICAN FUR AUCTIONS

February 23, 2009

Important Message to our Wild Fur Producers from the President

Dear Trapper,

Since the conclusion of our wild fur sale we have received many phone calls from concerned producers wanting to know why we were not able to sell all of our wild furs. Let me try to explain to you as best I can what has happened in the wild fur market.

Over the past 15 years, NAFA has spent a tremendous amount of money promoting wild fur and found a very hungry market for our product in Russia. The Russians have historically loved furs and wild fur has become one of their favourites. In 2008, a very high percentage (80%) of our beaver, raccoon, lynx, lynx cats and fishers ended up in the retail stores in Russia, and it is the current Russian economy that is giving us a severe headache at this time. The Russian currency is called the ruble. In February of 2008 it was trading at 23 to 24 rubles per \$1 USD. When the financial crisis began in October 2008 in the U.S., it was at 26 to 27 rubles per \$1 USD. Today, the Russians are paying 36 rubles to buy \$1 USD — a decrease of over 50% since February 2008 and approximately 40% since December.

Besides the devaluation of the Russian currency as a result of the financial crisis, the Russian banks have had a lot of financial troubles. The government had to bail out many of the Russian banks and has since limited credit facilities to the consumers as well as businesses. Russian consumers over the last 5 years have been buying a lot of consumer products like fur coats using their credit cards, but because of the cash situation in Russia, the banks have curtailed the use of credit cards sharply and consumers can no longer borrow money from credit card companies.

Because of the decline in retail sales and the value of the ruble, along with government restrictions on sending funds out of Russia, Russian retailers have not been paying the Greek, Turkish and Chinese suppliers for the garments that they purchased on credit for the 2008/09 retail season. In fact, it's so bad that many of these suppliers have been asked by the Russian retailers to take 40% less for their receivables. All of this is creating severe cash shortages for those Greek, Turkish, Chinese and Russian buyers that we normally sell wild fur to. Last year we had over 20 Turkish companies attend our sale — this year we had 3. Last year we had over 40 Russian companies — this year we had 12.

A very logical question that has come up in the last two days is what is the difference between ranch mink (which we sold 100%) and wild fur. It should be noted that ranch mink prices were also down approximately 40% from last year, depending on colour. Also, in the case of ranch mink, we are selling 85% to China. The Chinese domestic retail market has had a very good selling season and they have now sold 80%–85% of their mink garments, so they need to buy mink to replace their inventories.

China does buy wild fur, but it is primarily for re-export to Russia, which is the weakest part of our business, as we've explained above. For the articles the Chinese use in their domestic retail market, such as muskrats and some sables and foxes, we did comparatively well.



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It is obvious that over the next couple of years we will have to increase our promotional efforts in China to make sure that wild fur takes a higher percentage of the fur garment sales. Also, the Chinese currency, the RMB, has actually gained 5% against the US\$ over the last 12 months, so they have 5% more money to buy goods with. Another very important question that we have been asked is what we are going to do about this. Well, the first step we have taken this morning is that we have analyzed the raccoon catalogue, where we sold the 2/3 colours to China for consumption in Russia exceptionally well. But where we could get \$35 for a very big 2/3 colour (natural raccoon), we could not get \$22 for the same size and quality in the 4/5 colours (off colours). To address this, we are taking 5,000 of our 4/5 colour raccoon and sending them to a dressing plant in Europe, where the dressing company will use 5 new colours and processes. We will have these dressed and dyed skins in our building before our May auction and will offer them to the world. We are hopeful that when our Chinese customers see these new processes, they will realize that they can copy them in their own dressing plants in China, creating a new market for our 4/5 colours.

In the beavers, we have lost a major dressing plant in Winnipeg, Canada, which was known as the "beaver dresser", as well as a very large dressing plant in Poland which had to close because of environmental issues. The beavers were mostly for Russia, but right now dressing these beavers in any quantity requires a lengthy delivery time. We are working very hard with our contacts in China to help the Chinese dressing plants improve the quality of their work. You may remember that NAFA sent Canadian beaver dressing experts to China a number of years ago. Unfortunately the quality control and the quality of workmanship has gone down again and we need to readdress this.

We are also looking at special promotions for several of our products. We are talking to the international trade ongoingly about how best to approach the problem we have. We fully understand that we have to sell our product, even if it is cheaper, so that new manufacturers will start using wild fur and making money so that they can come back for the next season.

The Russian economy is hugely important to us, but unfortunately unless oil prices go back up to \$60-\$70 we see no improvement in Russia in the short term. The world economy has to strengthen and financial stability is required, but these are all factors that we do not have control over.

For those who are critical of NAFA's promotional efforts and are in the wild fur selling business, please put your money where your mouth is or stop criticizing. For those who are NAFA shippers, please remember that we are the only wild fur auction with a true promotional program that spends millions of dollars introducing and promoting wild fur into the global markets. Be assured that NAFA's programs will continue despite these difficult economic times, and in fact, we will most likely double our efforts over the next couple of years.

For those producers who live in Canada, your rate of exchange at this auction will be \$1.255 CAD. Please be assured that NAFA always has and always will pay you the proper rate of exchange, unlike others.

What we can tell you is that we are working very hard on your behalf and that we do not take our job lightly.

Yours truly,

Herman Jansen
President & CEO
HJ/sgc