

June 2nd, 2011

To all participating growers:

On the 11th May the US buyer, who the prior week had said to ship the container, said he would not take the fibre. The vessel was booked and container was ready to load. It seems he just changed his mind, despite all the contacting and commitments he had made from our side. It seems that he just suddenly decided he could not follow through on the purchase.

We did not commence this business with you the grower until we had a confirmation in hand back in December 2010. He cancelled after the invoice copies and shipping documents were sent to him. The worst day of this project was Wednesday May 11th 2011.

This is a difficult business. We do not have enough volume, (30% of the fibre we received was necks, bellies and legs) to be of interest to large users. Of the 70% left, 80% was in the 25 - 30 micron range. Obviously people are keeping the sub 20 micron fibre hoping for higher prices. With every step of the process there are additional costs. To start, all the breeding, vet and feed costs. Then add shearing, transportation, and sorting, then scouring, combing and carding and then spinning and finally the end use.

Since then, we have sold 40% the stock he had committed to buy, have 10% on firm offer, but to five different customers at prices that were better or equal to our original budget in US dollars. These are all trials and we expect that the balance of the stock will be taken up by new customers we have offered and sampled. We had one low bid and one workable offer from local buyers. We resisted the low bid and managed with our exports and other local sales to achieve the same or higher prices. This helps alleviate the loss from the exchange rate movement.

Scoured fibre (26 micron+) is being purchased for \$4 NZ per kg. We have been able to achieve substantially more than that.

What it continues to prove is that there are few buyers out there for fibre either scoured or unscoured, even fewer in this economic environment, no one came to us with higher offers to buy the fibre.

We certainly acknowledge that there appear to be at least five markets for fibre:

- 1) Our distribution method to a limited number of buyers internationally, with limited value add, and little grower involvement, hoping to generate enough revenue to justify the business for growers for tax purposes and to at least cover shearing costs
- 2) Keep the fibre on the farm and make value added products in small quantities as a side business. You can send raw fibre to a mill and for about \$35 a kg have it converted to yarn. You could sell the yarn for \$50 or so – but again not in significant quantities.
- 3) A full time job, 150+ animals, concentrating on lower micron (sub 18) investing in herd genetics, value add to the raw fibre, develop own markets, achieving high per kg prices, but with limited quantities (say 200 kg annually)
- 4) There are a number of buyers from different industries offering \$2 per kg for raw fibre
- 5) Burn it, toss it, throw it out, or keep it in the shed hoping something else will come along with a higher price in the future.

We will provide an accounting for the prices that we have achieved by the end of June now that we have some visibility as to all the costs and realized prices for 50% of the fibre.

Payment will be by Direct Credit. Please complete the attached form, or email the information back to me so we have it on file.

We want to continue on with this project, but will not proceed again until the monies have been accounted for in full. We also will not proceed further until we have more reliable sales partners and confirmation of an ongoing business.

I have considered lawsuits for specific performance, while likely to be successful they could take years and be very expensive, given he is based in the US. I have not ruled out the possibility.

Regarding the future; we feel there are still possibilities for sales of this fibre. What this past year proves is that the fibre business is very, very difficult.

The market is controlled strongly by Peruvians mills. They produce Top or Yarn and little unprocessed fibre finds its way out of South America. Top sells currently for approximately \$20 US a kg but you still have to find a buyer. There are Chinese buyers – but they want to be able to buy larger weights on a regular basis.

Consequently, to find mills who will comb alpaca on their own account or on commission for us is difficult. This allows Peru to make good profit and keep fibre prices low to growers internationally.

To make a success of this business growers should bear in mind there is no pot of gold. If fibre is to be a real business, farm costs need to be controlled from the capital cost of stock, to vet bills and more importantly shearing. We as an aggregator need to reduce our costs and will do so next time as we know a lot more about how to operate; we will also try for improved prices.

You can help by reducing the inward freight and sorting costs as mentioned in my previous email.

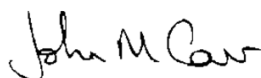
We feel there are margins to be made but it is not a get rich quick scheme and all sides of the price equation need to be examined. We are exploring ways to comb this fibre to add value and to achieve better returns overall.

I am at this point obviously open to any suggestions. While I have had a huge learning curve in the past 12 months, by no means do I have all the answers. If you have ideas as to how to do this differently, or improve it – please share it.

I will be at the New Zealand Alpaca Annual Conference in Nelson from June 24th to June 26th 2011 and will be available to answer any questions.

You are welcome to contact me to discuss the future of this business and about the buyer and brokers at john@carr.co.nz

Sincerely



John M Carr

Pacific Alpacas PO Box 29684 Remuera Auckland 1541

We will be sending Buyer generated GST invoices, so we will need the following information please:

Name of farm or business or trading business name: _____

Contact name: _____ Phone / Cell phone _____

Business address: _____

Mailing address: _____

FREIGHT CREDIT

If you shipped more than 100kg – please confirm approx. date shipped and shipper _____

If you dropped off the fibre in Cromwell please confirm the approx. date _____

If you paid to mail / ship the fibre to us – please advise the method and approx date and shipper

(You will not be assessed the domestic inbound freight allocation)

Are you registered for GST? – If so, please provide GST number below and we will add GST to the payment amount and generate a buyer generated invoice

Not registered for GST _____

GST number: _____

Account in the name of: _____

Bank name: _____

Account number: _____