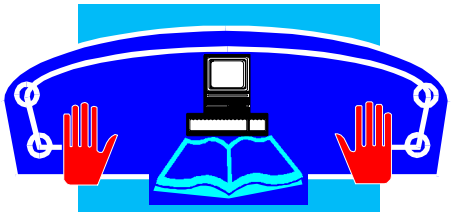

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Evaluation Of The Opportunities For Marketing Seal Leather In Canada
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EVALUATION OF THE OPPORTUNITIES FOR MARKETING SEAL LEATHER IN CANADA

PREPARED FOR THE NUNASI CORPORATION

MARCH 1986

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March 5, 1986.

Mr. John Hickes, President,
Nunasi Corporation,
280 Albert Street,
Ottawa, Ontario,

Dear Mr. Hicks:

The following draft report examines the opportunity for the Nunasi Corporation to invest in a tannery in Cobourg with Mr. Richard Beasley. We have had the opportunity to meet with Mr. Beasley on several occasions, visit the tannery and to talk to some of the leading leather manufacturers and retailers in Ontario, and feel that the project would be a good one for the Nunasi to sponsor to develop the markets for seal leather.

The response to the quality of the seal leather produced by the Cobourg plant is excellent, and several firms are interested in using the materials in their products, The concept of having supporting sales from sheepskin and cattle leathers is good, as it will provide support to the sales team while the seal leather sales are building up. The investment in the tannery will provide a momentum that will be difficult to obtain from any other course of action.

We have else had the opportunity to examine the financial projections prepared by Ernst & Whinney and have extended these to look at the next five years. The projections are reasonable, but there is ample downside that will protect the Nunasi's investment. Although the industry is highly competitive, the experience of the production workers and the management should make the plant operate profitably.

We feel that the opportunity is a good one and that the Nunasi should move as rapidly as possible to obtain financing. As noted elsewhere, there is an urgency to know whether the program can be implemented this year. If there are any questions regarding this report, please do not hesitate to ask for clarification.

Yours truly,

Gordon Kelly,
Principal.

EXECUTIVE SUMMARY

There is an excellent opportunity for the Nunasi Corporation to create a seal leather industry that will benefit the Inuit people throughout the NWT, by purchasing a tannery in Cobourg, Ontario. The advantages of participating in this plant as part of a joint venture with an experienced management team are the following:-

1. The major benefit of owning a tanning facility is that it will give the project the momentum to be successful this year, and will allow the Nunasi Corporation to have a major control over the marketing of seal leather in Canada and the offshore markets. If Nunasi fails to move into this market, it is possible that the Newfoundland sealers will take the initiative.

2. The plant will process both sheep and cattle hides as well as seal, caribou, reindeer, muskox or other Northern hides. This will provide supporting income while the seal leather markets are developed. It will take time to overcome the resistance of the market to the use of seal leather, but retailers feel that the leather has excellent appeal and will, in time, be able to command a premium price.

3. The cost of the land, building and equipment is $630,000, although the replacement cost of similar capacity in new facilities would run about $18 to $20 million. The same expenditure in the North would barely provide a facility to process the seal leathers alone. In addition, the difficulty of disposing of tanning pollutants in the permafrost areas of the NWT would be a major problem.

4. The Cobourg plant will provide experienced production workers and management;- an essential ingredient for success in a very competitive market. The Cobourg location is in the heart of Canada's leather industry.

5. The benefits to the North will be the revival of the demand for seal hides, and the opportunity for the creation of inter-settlement trade in seal meat. Partial processing of the hides and the by-products will create seasonal employment for about 20 to 25 people, and put $300,000 into the communities in the first year, rising to $2.1 million within five years under conservative growth projections.

6. The ability of the leather tannery to use all sizes of seals will expand the availability of animals for the hunters. In the past, seal fur hunters usually concentrated only on the younger animals.

7. The investment in the tannery appears to have the potential for good profitability. The market for leathers in Canada is in excess of $350 million, and while competition from offshore suppliers is strong, the experienced management will be concentrating on the specialty markets where the opportunities are better.

8. The major problem at the present time is the urgency to acquire the financing for the closing of the sale at the end of March. Failure to obtain financing by this date, or a commitment for funding, could cause the project to miss the spring sealing harvest and set the total program back by a year.

THE FINANCING PROPOSAL

1. Total Financial Requirements

Purchase of Tannery-51% of $630,000	$321,000
Working Capital Share	200,000
Total Nunasi Share	$521,000

2. Method of Financing

Eskimo Loan Fund Grant	$100,000
Eskimo Loan Fund Loan	421,000
Total	$521,000

3. Proposed Repayment Schedule

Term-	10 years
Rate of Interest	12%
Annual Rate of Repayment- Principal and Interest	$72,000/year

EVALUATION OF THE OPPORTUNITIES FOR MARKETING SEAL LEATRHER IN CANADA

PREPARED FOR THE NUNASI CORPORATION
FEBRUARY, 1986

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1.0 SUMMARY OF PROGRAM

The Nunasi Corporation is examining an opportunity to create an integrated hide and leather industry in the Canadian North that will allow the hides of the animals such as seal, cariboo, musk ox and others from the region to be marketed throughout Canada and other parts of the world, under their control. The plan presented in this proposal outlines the steps that must be taken to develop this integrated approach to the industry, and to create a potential opportunity for income for the people of the Arctic.

1.1 Background

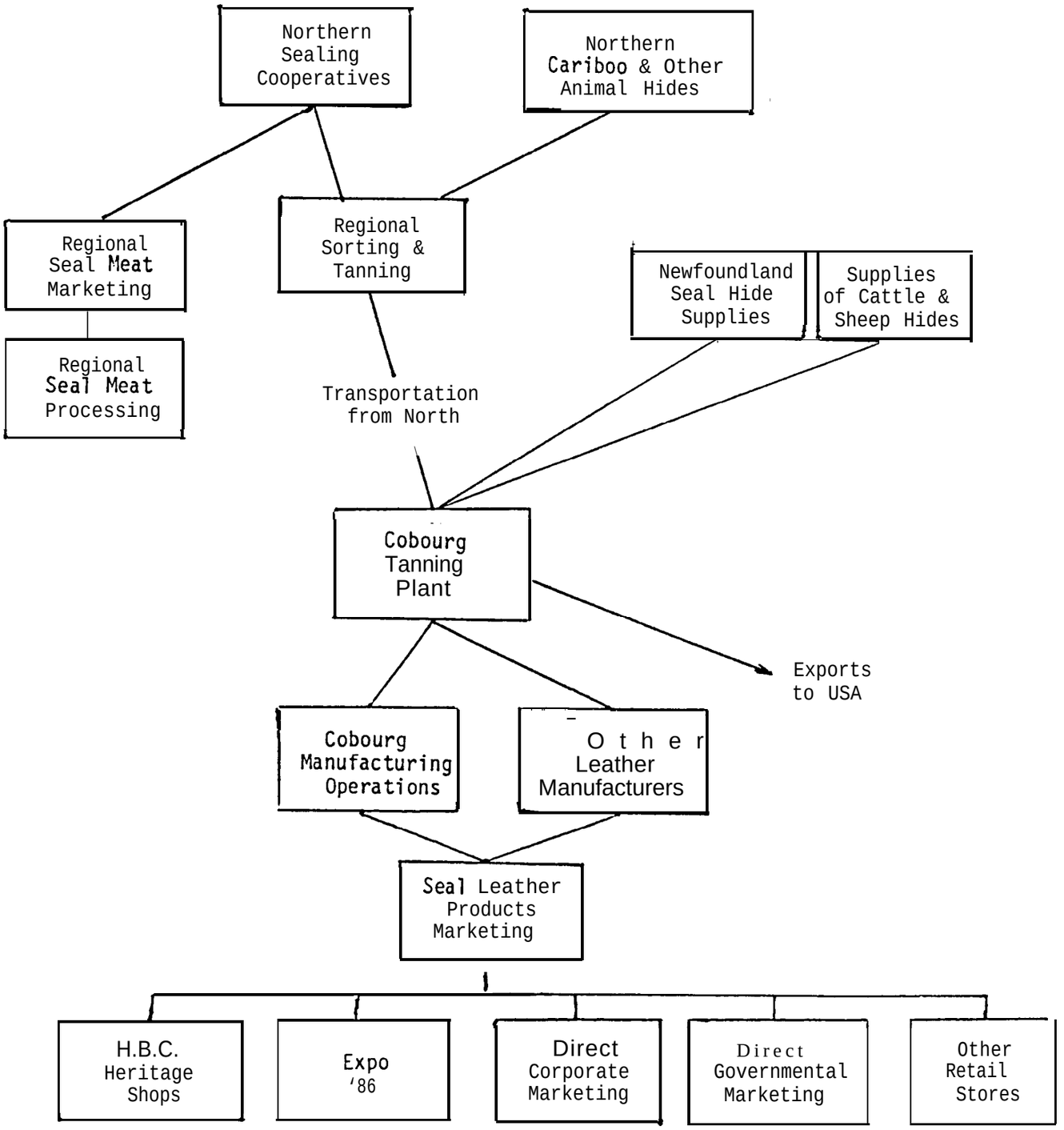
The sale of seal, cariboo and other animal hides used for meat in the Arctic has been a valuable source of incomeover the years for the people of the MacKenzie Delta and the Eastern Arctic. In peak years, the sales of some 70,000 seal skins added $1 million in income to the region and allowed the people the opportunity to purchase many of the amenities of life. This flow of income came to an end when special interest groups, led by Greenpeace, brought the seal skin hunt to an end.

The cessation of this income has had a serious impact on the Inuit, with many surviving only through welfare. Although the Greenpeace organization has reversed its stand on the slaughter of grown seals, the complete lack of interest among retailers in handling any products with seal fur, and the embargo in the American and European markets has meant negligible sales.

In seeking methods to assist the people in the North, the Nunasi were approached by Richard Beasley, a tanning expert, with the suggestion that the seal skins be turned into leather. Mr. Beasley was negotiating to purchase a tannery in Cobourg, Ontario where he planned to carry out custom tanning operations on cattle, sheep, seal and other wild animal hides. He approached the Nunasi Corporation for assistance in gaining seal hides and in the marketing of the seal leather.

The Nunasi Corporation requested assistance from the Government of the Northwest Territories (GNWT) and received commitments of funds in excess of $200,000 over the next two years to assist in the development of the seal leather markets. The GNWT hired RMC Resources Management Consultants Ltd. (RMC) to assist in the market assessment for new seal leather products and in the marketing of these in Canada. Work on the project started in late September.

PROPOSED STRUCTURE OF NUNASI LEATHER PROJECT



A small survey of retail stores and leather manufacturers found that there was strong interest for the development of a good seal leather supplier in Canada, and in the support of the Inuit in their efforts to develop a new industry. One shoe manufacturer, Dack's, presently imports seal leather from England that uses Norwegian seal skins. Other wallet and other leather goods manufacturers expressed interest in using seal skin in their products if there was a strong campaign to make the Canadian people aware of the plight of the Inuit and the use of the seal as food. It would be important that the price of the materials and the quality of the leather be acceptable. Retailers and manufacturers also felt it was important that the seal leather be distinctive so that it could be identified as seal. Most seal hides have a large number of blemishes caused by rocks, fighting, and other causes that cannot be removed, so that it can rarely be sold as a high grade leather. However, the battered appearance of the seal skin makes an attractive wallet, briefcase and other goods. Although the product will be priced above the finest cattle leathers, retailers were not concerned by the high price, as the seal leather could be marketed to the high end of the markets, if it had a distinctive appearance.

The initial stages of the leather marketing and prototype manufacturing phase went well. The supply shortage of seal skins was overcome, although the quality was poor. Transportation costs to Ontario were higher than expected. The tannery had problems processing some of the skins, but experience indicated that these difficulties could be overcome in production. Briefcases and other products that were fabricated received a high level of test market acceptance, but primarily if the product had the wrinkles or striations that identified it as seal leather.

In planning for the second phase of the test marketing program, it became apparent that the program was likely to experience difficulty because no one entity had overall responsibility for the project. The tannery could not control the prices paid for the skins, and had only an advisory role in training the Inuit how to skin the seals. Although the Nunasi Corporation had nominal control of the project, there was no clear line of authority over suppliers or the tannery. On the financial side, the funding was the responsibility of the Government of the Northwest Territories and the work had to be carried out to meet their control procedures. The marketing consultants were acting on behalf of the Nunasi, but were responsible to the Government of the Northwest Territories for budget. In addition, there are likely to be future conflicts between the tanner, the leather manufacturers and the Nusasi over the proper marketing of the seal leathers to the market.

After considerable discussion, it was decided that the best method for carrying out the program was for the Nunasi to take the lead role in the project. By having the Nunasi Corp. control the flow of seal hides to market, they will be able to maximize their opportunity and ensure that they can bring the optimum benefits to the Inuit people.

1.2 Outline of the Project

The total project consists of six major phases. These phases are:

1. The seal skin gathering process requires that there be a group of authorized purchasing groups in the North that are able to train the Inuit in the proper methods for preparing the skins for tanning, pay for the skin according to the quality and size, and screen and select the skins that should be shipped south for further processing.

2. Local Skin Processing may be attractive because there are likely to be some skins that should be trimmed and processed before shipment. In addition, there may be some skins that may not be suitable for leathers, but can be used effectively for clothing or crafts in the North, if they could be tanned or processed locally. The potential for the creation of small-scale tanneries or processing plants in the North is presently being examined by the Government of the Northwest Territories. These should be integrated with the Nunasi program, even if run independently by local people, since it would be highly beneficial to reduce the weight of tne skins being shipped, and avoid the costs of transporting unacceptable skins to the tannery where they are scrapped.

3. Seal bleat Trade can be a valuable offshoot of the local seal harvest if properly handled and controlled. While Federal inspection would be needed for the meat to be sold outside the Territories, this might be arranged at some future time, once the operations had become well established. The harvest of some 150 to 200 tons of seal meat could save people of the Territories about $1 million/yr. in imports from the south, as well as provide many jobs for the processing, transportation and sale of seal meat *in* the North. There is also the potential revenue that might flow into the Territories if the seal meat could be canned or frozen under Federal regulations and shipped to the gourmet markets of the world.

4. The Tannery that is planned for the project is located in Cobourg, Ontario and has the reputation for good quality leathers, although it is one of the oldest tanneries in the industry. However, the equipment is good, the management is capable, and the plant can run a variety of leather products that will cover overhead and operating costs until the seal leather demand picks up. The tannery will concentrate in custom tanning and in lines where there is less competition from foreign suppliers.

5. [manufacturing of Leather Products can be carried out by the Nunasi Corporation in the Cobourg plant or contracted out to a number of smaller manufacturers. There are many advantages to having some of the manufacturing operations in-house, because the grading of the seal leather quality will allow the materials to be sorted according to its use in products where maximum return can be obtained. Some of the products might be made in the North, but this will have to be examined as a separate opportunity once tne main project is successfully underway. The company has selected a number of articles including briefcases, wallets, desk specialties, coasters, and similar products that can be made out of leather and seal leather, and be marketed through direct sales or retail outlets.

6. Marketing is an important phase of the operation that needs careful control since there are both direct and indirect sales opportunities, and the two can be in conflict if not carefully managed. There appears to besignificant opportunity for the Nunasi to sell finished seal leather products directly to the corporate markets. Only some of the initial sales opportunities are shown in the chart, such as Expo '86, the H.B.C. Heritage shops, direct sales by tne Nunasito specific corporate and governmental markets, and the sales of leather to other manufacturers.

1.3 Organizational Plan

In putting the project together, it is proposed that the Nunasi form a joint venture with Final Touch Leathers, with the Nunasi having the controlling share with 51 per cent of the voting stock. Tne other shareholders will be either Final Touch Leathers or possibly other Inuit organizations that may wish to participate.

Final Touch Leathers consists of four people with over 100 years of tanning and leather marketing experience. The four men and their future roles are described in greater detail in the main report but they will be as follows:

* Richard Beasley	President
* John Beasley	Vice-President
* Tim Peake	Plant Manager
* Maurice Fraser	Office Manager

All of the personnel have experience with the Cobourg plant, and with the leather markets in these competitive times. Additional staff may be added in the financial, purchasing and manufacturing areas once the operations have started. Although the personnel listed above can be active in the startup operations, especially in the purchasing of seal hides in the North and the training of the proper skinning procedures, this will eventually resort to local people.

In the transportation area, the Nunasi have control of NTCL and Nunasi Air, both of which have experts that can find the most efficient methods for moving the hides, meat and other products in and out of the North. This should help reduce the transportation cost element, and make the seal or other hides less costly.

By having one organization that will be responsible for the collection, grading, transportation, tanning, marketing and manufacturing of the leather products in the North, it will be possible to ensure that the quality of product, its costing and its marketing are all done in the most efficient manner. The single organization will avoid" conflicts between groups, and reduce the excess costs that arise from many organizations with separate overhead expenses.

1.4 Market Potential

The market for leather in Canada in 1982 was reported at $239.4 million, with imports representing $83.6 million, or 35 per cent of the market. Imports of leather have risen from the 1982 levels to $132.0 million and are estimated to be about 50 per cent of the market of $265 million in 1985. The Nunasi sales target of $8.8 million in 1986 means that the plant is looking to capture about 3.0 per cent of the total Canadian market, or 6.0 per cent of domestic production. Since some of the sales are aimed at the U.S. market, the target is not unreasonable.

The imports of leather from offshore are quite competitive. The foreign tanners, especially in Italy and Spain, are able to provide an excellent product at a reasonable price. Other countries have poorer grades of leather, but their prices are lower. As a result, there has been a significant shift towards foreign supplies, with a resulting decline in the market potential for domestic sources. Most domestic plants are not highly automated, and the high wages in a labour-intensive industry make it difficult for many of the domestic firms to compete on the lower priced leathers, although they are still competitive in the better grades of leather.

To compete in a market that is facing intensive competition requires a good knowledge of the end markets and a high degree of flexibility. Domestic leather manufacturers will continue to buy supplies from domestic firms, since there are advantages in having nearby suppliers. However, many of the smaller leather goods manufacturers are facing difficult competition in their markets and the numbers are shrinking. Shoes manufacturers are under the most severe pressure, with heavy pressure on luggage manufacturers. In spite of the competition from abroad, the domestic manufacturers are creating innovative products and can supply fashion-sensitive products on short notice.

The Cobourg plant is aware of these competitive pressures and is specializing in particular markets. These include the sales of lightweight leathers for handbags, one of the markets where domestic manufacturers are still strong. Another market is sheepskin for garments, another stronghold of domestic suppliers, where the company will be the only domestic supplier.

In addition to cattle and sheep leather, the company plans to market seal leathers and a variety of seal leather products. The projections call for 140,000 Sq. ft., for sales of about $700,000 in the initial year. This would include sales of leather to internal manufacturing operations.

The markets for manufacturered leather goods is fairly strong as shown in the figures below.

EXHIBIT 1.2

Estimated Markets for Domestic and Imported Leather Goods-1985
($ millions)

Type of product	Domestic	Imported	To ta 1
Luggage, briefcases, etc.	20.0	85.0	105.0
Handbags, purses, etc.	60.0	50.0	110.0
Billfolds, wallets, etc	25.0	10.0	35.0
Other leather specialties	10.0	5.0	15.0
Total Markets	115.0	150.0	265.0

Since the company is only projecting sales of seal leather products of about $260,000 for the first year of operation for the manufacturing plant, the share of market is relatively small. Sales are expected to climb to $1.0 million by 1988, as people become aware of seal leather products and the impact of the marketing program makes them eager to have seal leather products of their own. These projections are only for seal leather and for Canada only. If the ban on seal leather in the U.S. and in Europe can be lifted, sales should be equal to the Canadian market targets.

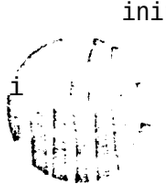
1.5 The Financial Plan

The acquisition of the Cobourg tannery is the major cost in the formation of the Nunasi Leather Marketing project. The cost of the plant and equipment are estimated as follows:

Estimated Cost of the Cobourg Plant, Facilities and Startup Costs

	1000's
Building, land and equipment	$630
Working capital and startup costs	200
Inventory of hides, skins, etc	175
Total cost	$1,005

Not all of the above funds are required for the initial purchase, but will be expended over the first year of operations. Half of the costs for new machinery and repairs ($158,500) will be covered by the Eastern Ontario Development Corporation (EODC) and about $60,000 of the startup costs have been budgetted by the Government of the Northwest Territories under the seal leather marketing program for training, brochures and marketing expenses. Other costs are expensed as part of the operations. In addition, the bank has committed a line of credit of $500,000 to cover Accounts Receivable once the operations are started. This reduces the initial capital to about $1.1 million.



The funding of the plant and inventory is expected to be shared by the Nunasi Corporation and Final Touch Leathers, with 51 per cent of the voting shares to be held by Nunasi. An agreement will be drawn up between the two partners to ensure the allocation of authority and responsibility, as well as determine the method by which the operations will be split in case of dispute.

A detailed financial plan has been prepared by Ernst & Whinney that apply to the Cobourg plant and the sale of leather products. Sales are projected for Fiscal 1986 at $8.8 million, and $10.5 million in 1987. These figures do not include the sales of manufactured leather goods that are projected at $0.3 million in 1986, and $0.6 million for 1987. Sales of cariboo/reindeer hides, seal meat or other products that might be added to the system are also not included.

The plant is projected to make profits of $630,000 after tax in 1986, and $948,000 i n 1987. This would assume that the leather goods manufacturing operations were operated at a breakeven during this period, since it is expected that scrap and training costs will keep profitability low in comparison to the above figures.

1.6 Summary of Project Potential

This project appears to have a high chance of success because the three essential ingredients--finance, production and marketing--are found in the project. Tne combined financial strengths of the two parties under the joint venture is strong. The production skills for the gathering, transportation, tanning, and manufacturing of the leathers is also enhanced by the two organizations, since it will allow trained personnel from both organizations to act directly in gathering, preparing and moving the hides to Cobourg. Finally, the marketing of leathers is well known to Final Touch Leather personnel, dnd the market development program over the next year for the creation of seal leather markets (with the support of the Government of the Northwest Territories) should allow the company to develop the knowledge for the marketing in these markets as well.

It may be noted tnat there are other options for developing the seal leather markets without the acquisition of a tannery in Cobourg. There is the option of having the seal leather custom tanned and selling seal leather products independently, but it loses the synergism that will be generated by having two organizations working together. There are many advantages to the Nunasi-Final Touch joint venture besides the synergism. These include:

1. Good Value of Assets

The plant and land is being purchased for $630,000, out is insured for $11 million. The construction of a new plant with equivalent capacity would likely run between $18 dnd $20 million. Although not a modern plant, the facility can produce high-quality leathers at a competitive price.

2. Experienced Personnel

The new management in the joint venture has extensive experience in the leather tanning industry in Canada and abroad. The production workers in the plant also have many years of experience in producing good quality leather.

3. Momentum and Support

The joint venture creates greater momentum and support in the organization, and will permit more rapid growth for both groups. The seal leather operations will get significant strength from the marketing of cowhide and sheepskin, while the traditional markets will get diversification opportunities from seal, caribou and other Northern hides.

4. Good Investment

The investment in the Cobourg plant appears to be a good one, with the potential of making the Nunasi Corporation a return of 20 per cent or more on their investment over the next few years.

However, it must be noted that the project is not without risk. The leather goods industry is a fiercely competitive one, both domestically and from imported sources. While we believe the project can be successful, it must be recognized that the opportunity for success lies entirely in management's hands. If the new management can achieve the sales forecasts and maintain production at the costs predicted, it will be successful. The expansion of seal leather sales can then progress with the impetus of a successful plant behind it.

2.0 THE NUNASI AND SEAL HUNTING

The development of a leather and fur processing operation by the Nunasi Corporation that will cover the Inuit communities has important sociological and economic implications. Of particular interest is the region shown in the map in Exhibit 2.1.

There are 30 communities stretched across the northern and eastern Arctic that are of predominantly Inuit population. These are itemized in Exhibit 2.2, showing the 1981 census of the community, the 1982-1983 hunter population and the revenue derived from both land and marine hunting and trapping. In addition, the table shows the animals and marine mammals that are harvested, with the numbers of seals that were credited to the area in the 1982-1983 season. It should be noted that the total harvest of seals in the Northwest Territories in that season was approximately 14,900, and these 30 communities accounted for the total kill. The purpose of this Exhibit is to show the major communities from which various types of skins are being sourced, with the emphasis on the seal harvest, showing volumes at a level that could support a modest seal leather operation.

The Exhibit also shows the revenue derived, by community, from various hunting and trapping activities. Although there are 1,392 hunters/trappers listed for the region, the average income earned by each is approximately $550 per year. Only two hunters in the total region earned over $8,000 from their hunting or trapping activities, with slightly over 200 earning over $600.

There has been a major drop in hunting revenue since 1980-1981, due to the decline in the demand for seal skins, which has dropped precipitously since the seal fur ban. At the peak harvests, over 42,000 seals were killed throughout the Northwest Territories, and income in 1980-1981 was close to the million-dollar range. Since that time, it has declined steadily each year and in 1983-1984, had dropped to $76,600 (see Exhibit 2.2). Demand has continued to decline, creating extreme privation among the Inuit people of the region, with many facing a life of welfare in communities rather than living off the land.

The major hunting efforts of the Nunavut communities bring in harvests of caribou, hare, polar bear, and marine animals such as narwhal, seal and beluga. The polar bear is a good source of income for most communities, although their numbers are restricted by quota. Exhibit 2.4 shows the marine animals hunted in the 1982-1983 season. It can be seen that narwhal, beluga and walrus form an important part of the food supply in many of these communities, with the narwhal and walrus also supplying tusks for carving or other uses.

Virtually all the communities hunt polar bear; 24 of the 30 communities hunt seal. This is almost matched by the number of communities hunting caribou (26), with 19 hunting fox, 13 communities hunting beluga, 11 communities hunting walrus and 10 communities hunting narwhal.

MAP SHOWING AREA OF NUNASI INTEREST

Exhibit 2.1

SUMMARY OF INUIT COMMUNITIES AND THEIR HUNTING ACTIVITY

of mm ty	1981 Pop.	No. of Hunters/ Trappers	Hunting Income-$	--- Land Animals ------ Caribou	Hare	Muskox	Bear	Wolf	Fox	-- Marine Animals -- Narwhal	Walrus	Seals	Beluga	No. of eals	Comments
Arctic Bay	375	70	5.1oo	×	X		×		×	×		×		220	
Baker Lake	954	77	25 0oo	×				×	×						4350 Caribou
Bathurst Inlet	80	19	12 4oo	×		×	×	×	×		×			n.a.	
Broughton Island	378	80	17·5oo					×		×	×	X	×	1700	
Cambridge Bay	815	57	21.1oo	×	X	×	×		X			X		86	
Cape Dorset	784	53	13,000	X			X	×	×	X	×	×	×	120	
Clyde River	443	63	34,700	X			X			X		×		240	
Chesterfield Inlet	249	33	31,700	X			X	×	X			×	X	11	
Coppermine	809	113	67,700	X			X	×	X				X	900	
Coral Harbour	429	66	83,000				X	×			X	X		120	
Eskimo Point	1022	130	≡2,2oo	%			×	×	×		X		X	-	45 Beluga, 2599 caribou
Frobisher Bay	2333	46	4,6oo			X					X			250	
Gjoa Haven	523	44	21,0oo	×	×	X	×		×			×		6	
Grise Fiord	106	14	2,6oo							×	×	×	X	100	
Hall Beach	349	18	2,5oo							×	×	×	X	30	200 Walrus
Holman	300	58	34,000	X		X	X		×			X		1500	
Jaloolik	246	59	6,000	X		X	X	X	×	X	×	X	×	220	
Lake Harbour	252	29	8,700	X			X				×	X		340	
Pangnirtung	1,022	159	148,900	X	×		X			X		X	×	770	
Paulatuk	181	23	5,200	X		X	X	X						-	No marine harvest
Pelly Bay	257	11	4,200	X			X		×					-	No marine harvest
Pond Inlet	705	37	16,900	X			X				×	×	X	80	
Rankin Inlet	109	55	18,000	X			X	×	×		×		X	-	
Repulse Bay	352	49	23,200	X			X	×	×	×	×	×	X	80	
Resolute	168	11	4200	X		X	X					×	X	3	
Sach's Harbour	101	35	49,200	X		X	X							-	2000 muskox
Sanikiluaq	383	3	400				X	×			×			-	
Spence Bay	431	53	19,000	X		X	X		×			×		200	
Tuktoyaktuk	772	46	36,900	X		X	X		×				×	-	
Whale Cove	188	24	9,000	X			X		×	×			×		2500 caribou
otals	6,616	1,535	848,100	23	4	8	24	8	19	8	1	19	13	14,900	

EXHIBIT 2.3

VALUE OF SEAL PELTS HARVESTED IN THE NORTHWEST TERRITORIES

	1979-80	1980-81	1981-82	1982-83	1983-84
Number of pelts	30,860	42,120	24,556	14,837	7,689
Value per pelt	$19.05	$21.13	$ 19.42	$14.86	$9.85
Total revenue (000's)	$ 588.0	$890.3	$476.9	$220.6	$76.6

EXHIBIT 2.4

MARINE HARVEST IN THE INUIT COMMUNITIES - 1980 and 1982

	1980-1981	1982-1983
Harp Seals	6,184	4,268
Ringed Seals	33,848	10,310
Other Seals	2,088	259
Bel uga	342	484
Narwhal	336	382
Walrus	430	551

EXHIBIT 2.5

ESTIMATED COST OF A BRINE PROCESSING PLANT IN PANGNIRTUNG

Flesher	$10,000
Brine tanks	8,000
Wringer	4,000
Other Equipment	8,000
Installation	10,000
Freight	12,000
Building	28,000
Total Cost	$80,000

Pangirtung is the largest and most successful hunting community, with nearly $150,000 of revenue in 1982-1983, followed by Eskimo Point, Coral Harbour and Coppermine. Of these three latter communities, only Coppermine has any significant seal harvest. The major seal hunting communities are along the northern coast of Baffin Island, with Pangirtung, Broughton Island and Clyde River being the three major communities in that region, and Coppermine and Holman in the Eastern Beaufort Sea Region, being the largest source of seal in the Western Arctic. These five communities account for nearly 90 per cent of the total seal harvest in most seasons.

The major sources of caribou are in the communities on the western side of Hudson's Bay, especially Baker Lake, Whale Cove and Eskimo Point, where some 9400 animals are harvested annually. The major sources of reindeer are in the MacKenzie Delta.

The major harvest of musk ox are found at Sachs Harbour and Holman, where the hunters have access to the animals on the island.

Thus it can be seen that while the harvest of both land animals and marine mammals is fairly widely distributed throughout the Arctic, there are certain areas where the harvest of specific animals is concentrated. This is important when examining the potential for some form of fur or hide processing plant, to be located in the northern or eastern Arctic. This is discussed later in greater detail.

2.1 Potential for Skin Processing in the Arctic

In looking at the potential a fur or skin processing plant in the north, the major opportunities for the Inuit lie in the processing of caribou or seal hides. There are several advantages to the possible location of a processing plant in the north. The major advantage is avoiding the transporting of spoiled or poor hides to the south where they must be scrapped. It is better to screen out the badly processed hides in the north and tan them in order to provide clothing and seal hides for handicrafts, rather than transporting them south for processing. This report does not intend to examine the potential for tanning hides in the North, since this would be part of a long-range plan, but the processing of hides in the north could have considerable merit in the reduction of scrap at the Coburg plant and the improved quality of seal leather moving to the market place.

During the test market phase, there has been significant difficulty in processing many of the hides that have been obtained because of the poor quality. Because the total seal harvest is down significantly, many of the hides used in the trial marketing program have been in storage for upwards of five years and have become badly hardened, subject to mold and other bacteria action, or have not been properly processed for leather purposes. It is important that if a high-quality seal leather industry is to be established through this project, major efforts be made to upgrade the skinning of the seals and in the processing of the hides prior to shipment to southern markets. In addition, it appears a quality grading service that would adjust the price according to the potential use of the skin is needed.

The major difficulty, at the present time, appears to be that many of the Inuit in these northern areas do not know how to skin hides for leather-making purposes. When the seal skins were used for fur purposes, minor nicks from the fleshing knife were not critical since the fur hid the damage. However, when the same skin is used for leather, the nick in the leatner leaves permanent damage which cannot be corrected, and the skin must be used in small pieces or scrapped. The program planned for the development of sealing in tne north has allocated specific budgets for the proper training of the Inuit throughout the major sealing communities in order that they are trained to skin seals in a manner acceptable for leather-making purposes. It must be remembered the cattle hides used for leather are processed under very strict conditions in order to ensure proper fleshing operations are carried out, with minimal damage to the skin for leather-making purposes. The cattle hides are rigorously graded and it would appear that similar processes must be put into place in order to ensure the highest quality of seal leather flowing to the market over the long term.

In addition to good skinning procedures, it is important that proper preservation processes be used on the seal leather before snipping to market. The proper preservation of seal leather, or any leather, requires proper salting of the hide before transportation to market, in order to avoid damage through bacteria and other forms of deterioration. For this reason, it is proposed that preliminary processing plants be established in the northern communities to properly clean, trim, inspect and salt the hides prior to shipping to the major tannery in southern Ontario. During the inspection operation, the hides not up to normal leather specifications should be diverted for local tanning and handicrafts in the region rather than being snipped to soutnern Ontario at a high cost, where they are eventually scrapped or sold at substantially reduced prices.

Another factor that should be implemented in the northern skin preparation process is the proper inspection and grading of the skins at the time of purchase. At the present time, a uniform price is paid for all skins, regardless of quality, size or other characteristics. It would appear beneficial there be a premium paid for high-quality skins and those skins where good skinning characteristics ensure a high-quality hide. Conversely, a lower price should be paid for damaged skins, unless used for fur handicrafts.

Preliminary discussions with the Cooperatives in these communities indicate strong interest in their role as collectors and graders of skins for this project. In addition, they are interested in the potential for harvesting the meat for distribution throughout the Inuit communities and into other parts of the Northwest Territories.

2.2 The Proposed Gathering System

The need for a proper grading and skin preservation system in the Northwest Territories can be established through the Cooperatives, and be put in place in a very short period of time. Plans are in place to have the initial training sessions in March and April of this year.

The proposed seal skin collection process will vary from one community to the other, but most can be equipped to carry out the entire program. The program will have four essential steps, as outlined below.

2.2.1 Training in Proper Skinning Methods

The training of the proper methods for skinning seals to avoid damaging the skin is the most important feature of the program. In general, skinning is best done before the animal has lost its body heat, but some Cooperatives are planning to have the seals brought to the community in a frozen state for processing and skinning by the Cooperative.

The advantage of processing in the Cooperative is the recovery of the skin, meat, seal oil and the penis bone, which will increase the financial gain from the animal for everyone. The quality of the skinning operation will ensure the recovery of skins is better than at present.

2.2.2 Proper Preservation Processes

There are many ways for the proper preservation and curing of hides prior to shipment to market. One of the oldest and most traditional methods is air drying. Many hides and skins obtained throughout the world have been processed by this method.

Air drying has the advantage of being the simplest form of hide and skin preservation, and is most practical in areas where salt is expensive and a small number of skins are to be cured. It is most beneficial in desert areas, but can create problems where high humidity, such as along the sea coast of the Arctic regions, is encountered. For this reason, it is important that a better method of processing the hide before shipment to market be established.

It is planned that the training program in the North include proper preservation techniques. The simplest and lowest cost method is to properly salt the hides at the time of skinning, after all excess fat and flesh has been removed. Proper methods of salting will preserve the hides for six months--and often longer than a year--without spoilage.

2.2.3 Recovery of Other By-Products

The recovery of meat, seal oil and the penis bone from the seal can increase the financial gain for the hunter and the community. The Government of the Northwest Territories has spent $3.5 million over the past few years establishing community freezers in 11 communities for the preservation of "country foods" such as seal meat.

The gathering of the meat by the Cooperatives and the collection of seal oil and blubber could raise the yield from the seal to the $30 to $35 range rather than only $15 from the skin. Seal penises are reportedly selling at $16 each in Hong Kong, and the recovery of a barrel of seal oil from seven to nine seal will add to the income. The recovery of 100 pounds or more of meat per seal for the Inuit communities will help save on the outward flow of funds from the region. There have been extensive studies on the potential trade from the products and the system is partially in place already.

2.2.4 Proper Transportation Methods

The ability of the Nunasi Corporation to arrange better methods of shipping the seal hides from the North should reduce the costs. At the present time, the cost of moving a hide from the North is nearly $2.00 per skin.

Better co-ordination of the gathering and shipping process will provide the opportunity to obtain bulk rates and special concessions. It is anticipated that the cost of shipping can be reduced by half.

2.3 The Potential for Northern Tanning Operations

The reason why the Nunasi are planning to invest in a southern tannery rather than one in the North must be examined as well. There are several reasons:

2.3.1 cost

The cost of tne Cobourg plant, including land and equipment, is $630,000. It has a capacity of over eight million square feet per shift for processing hides. The cost is low (it is insured for $11 million) because the facilities are old, the plant has been in receivership for two years, and the receivers are eager to dispose of the property.

The replacement value of a plant of this capacity would be about $18 to $20 million. It must be recognized that a new plant would be more efficient than the Cobourg operations, but the carrying cost of the additional investment at present interest rates would eat up most of the benefits.

The cost of establishing a leather tanning operation in the Arctic to process only the seal hides would likely be around the $600,000 level. However, the Cobourg plant can generate $6 to $8 million in sales from cow and sheep leathers that will support the sales of seal leather as part of the same capital investment.

2.3.2 Pollution

The tanning of leathers requires chemical processes for dissolving the hair and permanently preserving the skin. There are a wide range of acids, alkalis and other chemicals used in the processes that must be treated to prevent pollution. Pollution control in permafrost areas is a large expense, as demonstrated by the high costs of sanitation systems in Inuvik Yellowknife and other communities in the North.

Cobourg has integrated the tannery into its sanitation *sewer* treatment system, and can handle the chemicals in the water at a reasonable cost. The plant has expanded its own pollution control facilities with the addition of a large settling tank. The cost of equivalent treatment facilities in the North would likely require $500,01)0.

2.3.3 Fur Tannina

The potential for fur tanning in the North is presently under study by the Government of the Northwest Territories. Small-scale tanning of furs is quite viable since the chemicals used are not as severe as those required for manufacturing leather. Since the fur is generally desired and protected, the chemicals used are specifically designed to avoid damage to it, while preserving the skin. Many of the fur tanning chemicals can be neutralized for disposal in a Northern environment without creating pollution problems, although most tannery experts probably would prefer to avoid the delicate environment of the North as a disposal area.

Fur tanning appears to be a good potential industry for the North, because there are only small economies of scale to be gained from large fur tanning plants. Leather plants, on the other hand, have considerable economies of scale.

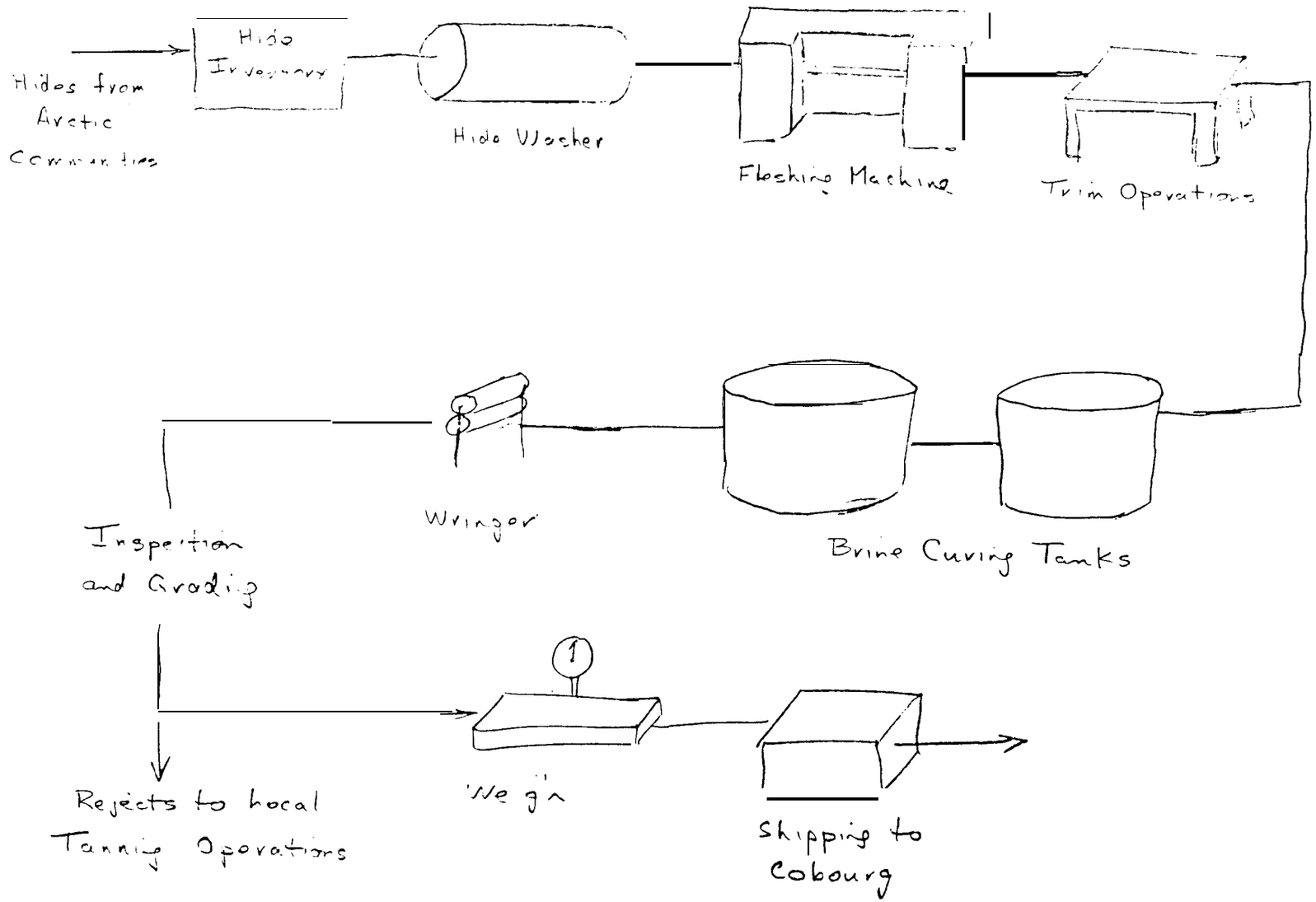
2.3.4 Trained Labour Force

The tanning of leather in a competitive market is not for inexperienced people, and the joint venture by the Nunasi Corporation with the Cobourg Tannery provides them with experienced management and trained personnel right from the start. A start-up leather operation in the North, with the high capital costs of equipment and untrained personnel, would likely experience financial problems within two years. The marketplace for leathers is highly competitive, and it is important that management and staff be well trained right from the start.

A small pre-processing operation that can properly use salt or brine for the preservation of the skin is needed and it is proposed that funds be allocated for the building of d brine-curing system, possibly at Pangirtung, so that hides being shipped to Ontario are properly treated.

Exhibit 2.4

Proposed Brine Curing Operations in Arctic Communities



The establishment of a brine curing system at a location such as Pangirtung would have the advantage of low-cost transportation of salt, via ship, and easy transportation of the buildings and equipment necessary for the establishment of such a system. The process is shown in the simplified drawing in Exhibit 2.5, and consists of the following operations:

* Hide Washer - all skins from the local area and surrounding communities would first be washed in a large hide washing machine. Tnis is a large, horizontally-mounted tank, with pegs on the inside walls for tumbling the hides in fresh water to remove dirt and other impurities.

* Flesher - these machines are designed to remove flesh and dirt simultaneousl y, after tne hide has been chilled from the washing machine. The fleshing operation removes the remaining fat or flesh clinging to the skin so putrification cannot occur in later stages.

* Trim Operation - the defleshed hides are trimmed to remove excess hide that would be scrapped on receipt at the tannery.

* Brine Cure - the fleshed hides are then soaked in brine, either in vats or in a race-way system. This operation will take approximately 48 hours and is considered complete when the hides have been completely saturated with brine.

* Wringer - following removal from the brine tank, tne hides are passed through a large wringer which removes the bulk of the moisture.

* Inspection and Grading - the skins would then be inspected and graded according to quality. It would be at this point that possible pricing might occur, so the poor-grade leathers were down-graded in price while higher-quality leathers were upgraded in price. Skins improperly removed from an animal, or having excessive damage prior to being received, would be segregated for utilization in the local area. Acceptable skins would then be dried and packed for shipment to the south.

The main advantage of brine curing is tnat it is a relatively easy operation, and while not as effective as salt preservation, the length of storage time required for the seal skins is relatively short and better methods of curing are not required. Brine-cured hides are generally safe for a period of six months, a period considered satisfactory for the Nunasi operation. More importantly, it ensures that the hides being shipped to the tannery in the south are of reasonably high quality. If proper quality and price adjustments are made to the skin, the hunters and trappers will be encouraged to upgrade their hides to obtain the highest possible price.

The opportunity for tanning hides cannot be evaluated at this particular time, since the number of rejected skins that mignt be available for this cannot be anticipated at present. A small tanning operation can be established for 5,000 to 10,000 hides per year, but this needs further research and evaluation.

The capital cost of a small brine processing plant in a community such as Pangirtung is estimated at approximately $80,000. The bulk of this cost is the high transportation cost of buildings and supplies to the northern community, and the cost of construction in the North.

The potential for pollution of surrounding waters with a brine preservation plant is considered to be reasonably low. With Pangirtung being situated on the sea, the flowing of brine into the sea is not a major problem since the material is compatible with the natural product.

The advantage of the brine process is that it does not require chemicals that need to be treated in special effluent plants, and although the flesh from the fleshing operations may have minor disposal problems, it is a natural product, and can either be burned, fed to animals or rendered through natural decay processes. The material is biodegradable and compatible with nature since no chemicals will be used.

EXHIBIT 3.1

PRODUCTION OF CATTLE HIDES IN SELECTED COUNTRIES

(1000 tonnes)

	1978	1979	1980	1981	1982	1983
Argentina	371	358	322	333	293	259
Australia	202	158	149	142	168	140
Brazil	336	281	280	291	308	322
Canada	106	89	91	96	98	96
EEC	690	682	698	683	667	678
South Africa	65	64	60	52	53	53
New Zealand	48	44	40	44	46	48
United States	1134	964	964	987	1020	1038
USSR	741	867	867	890	890	950
	3693	3507	3471	3518	3543	3584

EXHIBIT 3.2

UNITED STATES MARKET FOR LEATHER

($ Millions)

	1981	1982	1983	1984	1985 (est)
Domestic shipments	1903	1735	1872	2063	2080
Imports	293	318	299	405	450
	2196	2053	2171	2468	2530

3.0 LEATHER AND LEATHER PRODUCT MARKETS

This chapter of the report examines the markets for leather and leather products, and the trends occurring within these markets. In addition, it examines the marketing plans the Nunasi can carry out in marketing both leathers from the tannery and for the creation for a leather goods industry, based on seal, caribou and other northern leathers. The section also briefly examines the world situation in leather, because of the influence that the world market has on Canadian prices and supplies.

3.1 World Makets for Leather

Leather is a product that has finite supplies in a world where demand for the product fluctuates with fashions. Although vinyl has invaded the markets for leather in some products, there is always a demand for the quality that can be obtained only from real leather. Virtually al 1 artifical leather plants of 15 to 20 years ago have gone because discerning purchasers will not buy the ersatz product.

The production of leather is mostly dependent on cattle hides, with sheep, pig and goat providing the next most abundant sources of hides. Exhibit 3.1 shows the major supplying countries for cattle hides and their volumes. It can be seen that volumes have not increased over the six years shown. In 1979, the drop in supplies from the peak in 1977, caused world-wide panic buying when the Japanese purchased a major share of the world's production to ensure their tanning plants did not run short. Prices rose from the 30 to 35 cents (U.S.) per pound range to a peak of 90 cents per pound before dropping back to 40 to 50 cents per pound in tne early 1980s. Present prices have stabilized in the 55 to 60 cents (U.S.) per pound range.

With increasing demand from an affluent world, there has been increased pressure on hide supplies because of export restrictions placed on domestic production by countries such as Argentina, Brazil and India. These countries have restricted exports of hides and allow only finished or semi-finished leathers to be exported.

The development of extensive leather manufacturing industries in many of the Third World countries has also had a major impact on the profitability of the North American industry. Historically, Asia, Africa and South America exported their raw hides to Europe and the United States where they were made into leather and sold as quality fashion items. In recent years, many of the Third World countries have developed their own leather manufacturing operations and been able to achieve high quality at a low price. Although many of the new countries cannot achieve the quality of Spanish or Italian leathers, their products are well priced and extremely competitive.

Unlike their North American counterparts, the emerging nations have adapted the most modern equipment and the latest manufacturing techniques, and are able to supply high-quality leathers at prices difficult to match. For this reason, many of the tanneries and leather industries in the United States and Canada are facing increasing pressure as imports mount. However, in spite of the foreign competition, the U.S. tanning industry is maintaining a fairly strong 80 per cent share of leather demand in the country, as shown in ExhiDit 3.2.

3.2 The Canadian Leather Industry

A similar situation exists in Canada. Most of the leather-consuming industries are facing strong pressure from foreign imports. However, the industry, as a whole, is profitable, as shown in Exhibit 3.3. Tnis shows the profitability of the larger firms in the industry (sales over $10 million) for the last five years. These figures contain all companies, including the former money-losing Robson-Lang plants, so that the profitability of many firms is better than the 11 and 15 per cent return on shareholders equity, and the five to seven per cent return on total assets shown in the Exhibit.

Sections of the tanning industry are generally profitable as well. Most of the leather tanneries are large companies owned by meat packing firms or other holding companies that do not publish individual profits for their tannery operations. Thus, obtaining an accurate picture of the profitability of tne large tanners is difficult, but the profits of one of the largest tanners (A. R. Clarke) were published recently and are shown in Exhibit 3.4. The tannery has twice tne capacity of the Cobourg plant, and was seriously losing money in the mid-1970's until good management took over and restored the operations to good profitability. However, the leather operations of Canada Packers are reported to be losing money. It must be noted that there is excessive leather tanning capacity in Canada. Exhibit 3.5 shows approximate capacities of the larger tanneries. Capacity of 16,300 sides and 11,000 splits per day means the industry can produce about double the demand for domestic product.

In competing against the rising levels of imports, it is important for a Canadian tannery to seek out those areas where it has the greatest opportunity for success and profit. By selective marketing and speciality operations, it is possible to maintain specific markets for its products that competitive products cannot erode. By selective production in areas where foreign competition is not particularly interested, it should be possible for a small, independent tannery to maintain a reasonable level of operation.

In addition, the prospect of integrating down the manufacturing chain to provide a wide range of speciality leather goods will create the opportunity for additional revenues and profitability.

EXHIBIT 3.5

ESTIMATED CAPACITY OF MAJOR LEATHER TANNERIES IN CANADA
(Firms with 20 or more employees)

NAME OF FIRM	TOWN	PROVINCE	CAPACITY (Sides/day)
Champion Dressing Corp.	Vine Lasalle	Quebec	Shut down
Coyle Tanning Company Limited	Louisville	Quebec	2,000
Fortan Inc.	Quebec	Quebec	700
Tannerie des Ruisseaux Inc.	Kamouraska	Quebec	1,000
A. R. Clark & Co. Inc.	Toronto	Ontario	3,000
Canada Packers Inc.			
- Beardmore Division	Toronto	Ontario	2,000
- Collis Division	Toronto	Ontario	800
Frank Heller & Company Ltd.	Acton	Ontario	5,000*
Barrie Leathers Ltd.	Barrie	Ontario	6,000*
Lang Leathers Ltd.	Kitchener	Ontario	1,750
Amiq Leathers Ltd.	Cobourg	Ontario	1,500
Wickett & Craig	Toronto	Ontario	600
United Canadian Share Ltd.	Winnipeg	Manitoba	2,000
Dominion Tanners Division	Edmonton	Alberta	1,000

*Split Tannery

EXHIBIT 3.6

ESTIMATED GROWTH OF LEATHER MARKETS IN CANADA

	1981	1982	1983	1984	1990
Domestic Shipments	218.7	178.2	191.6	210 E	25(I
Leather Imports	98.9	83.6	112.3	132.(I	250
	317.6	261.8	303.9	338.0	500

EXHIBIT 3.7

ESTIMATED GROWTH OF GLOVE AND GARMENT LEATHER DEMAND IN CANADA

$ Millions

	1981	1982	1983	1984
Sheep and lamb	4.2	12.3	6.3	21.4
Other leathers	42.5	37.6	52.3	57.2
Total Imports	56.7	49.9	68.7	78.6
Domestic production	21.2	19.4	24.3	26.4
Total Demand	77.9	69.3	93.0	105.0

Another benefit is that the tannery can specialize in more exotic leathers, such as seal, walrus and caribou. The tannery will be the only source of these products in Canada and it should be possible to establish markets for these leathers in Asia where the products have good acceptance. Within this framework, it is worthwhile to examine the markets for leather and leather products within Canada for the next several years.

3.2 Leather Markets

Historical figures for the tannery industry in Canada show that between 1974 and 1979, industry sales increased from $97.3 million to $229.3 million; an average of 18.7 per cent annual increase. In 1980, sales dropped by $28 million, recovered slightly in 1981 and continued to drop to $178.2 million in 1982, but rose slightly to $191.6 million in 1983. Much of the drop in shipments during this period was due to financial difficulties experienced by some of the tanneries (especially Robson-Lang), as well as the erosion of many of their traditional markets. It should be noted that in 1982, imports also suffered a 15.5 per cent drop in volume, rising by 34 per cent in 1983 and 17.5 per cent in 1984. This would indicate the leather-consuming industry in Canada had recovered from the 1982 slow-down in business activity, and it is anticipated that domestic industry sales also rose, although not to the same levels as the imports.

In looking to the future of leather markets in Canda (see Exhibit 3.6), it is anticipated that markets and total demand in 1990 will be approximately $500 million, of which 50 per cent will be supplied by domestic firms. This would indicate the domestic industry will not show a high degree of substantial growth between 1984, where estimated sales are $210 million and 1990, where they will be $250 million. Under these circumstances, the bulk of growth in demand for leather in Canada is expected to be supplied by imports.

In order to maintain even this 50 per cent share of market by 1990, the domestic leather manufacturers will be required to change their production and marketing strategy to concentrate on those markets where there is good growth and where domestic production can achieve a reasonable market snare.

It is anticipated the shoe industry will continue its present decline, especially with the removal of the quota. At the same time, it is expected that new leather-using industries will spring up in Canada, in items such as handbags, garments and other fashion areas where imported products have difficulty responding to the fast-moving fashion trends of North America. Most of these new products require thinner leathers, and it is this market that the Coburg plant is planning to supply.

Glove and garment leather demand in 1981 was $77.9 million (see Exhibit 3.7), of which imports supplied 56.7 per cent. In 1982, demand dropped slightly to $69.3 million, of which imports accounted for $49.9 million. It is estimated that demand in 1984 was approximately $105 million, of which imports accounted for $78.6 million. Although the demand for leather goods has eased in the garment trade, demand is still estimated to be in excess of $100 million in 1986. Selling into this market, especially at the volumes projected by the Coburg plant, should not be difficult because there are no domestic suppliers of sheepskin, which is a popular leather in this market.

The prices of imported glove and garment leathers in 1984 from various country sources is shown in Exhibit 3.8. It can be seen that prices of leather vary fairly widely between countries, a general indication of both quality and the pricing structure of the supplier. In the financial projections for the Cobourg plant, prepared by Ernst and Whinney, lamb skins are projected to sell at an average price of $1.97 per square foot, with the high-quality leather going at $2.05 and the lower grade going at $1.90 per square foot. The average prices of the same leathers from countries such as the U. K., Spain, and Italy ranged from $2.03 to $2.90 per square foot in 1985, so the Cobourg plant is competitive in this area. The Cobourg plant should not run into undue difficulty in selling at these prices because the import statistics do not include cost of freight, tariffs, commission and mark-up.

It must be realized that most manufacturers in Canada like to have one high-quality domestic source supply for their main leathers. There are many advantages to having a high-quality supplier in the vicinity, especially when product lines are successful in the market place. Unexpected demands can lead to rush sales, and it is difficult to bring in foreign leathers, except with considerable lead time. For this reason, most manufacturers will split their orders in order to keep key domestic suppliers in business.

The limited market research done for this project indicated that the Coburg plant had a good reputation in the market place for good-quality leathers and finishes. It also had a reputation for having slightly higher prices than many other competitors. If it can maintain its quality but become more price competitive under the new management, it should be able to sell in a market dominated by low priced imports which may not have the same quality characteristics.

The marketing of seal leather and other exotic leathers from northern animals can be integrated into the same channels. The major difficulty in marketing these leathers will be the establishment of a proper grading and quality-control system so buyers who are purchasing seal, caribou or other leathers know the quality they are getting. Some standards have been established by European firms; it may be advantageous to adopt many of these. There appears to be a good market for seal leather and products such as shoes, brief cases, wallets and other sundry leather products, and it is anticipated that similar markets can be established for walrus, caribou, reindeer and muskox, and possibly even beluga and narwhal.

EXHIBIT 3.8

PRICES OF IMPORTED LEATHERS BY GRADE AND SOURCE, 1982-1985
($/sq. ft.)

Glove and Garment Leather - Sheep/Lamb

	1982	1983	1984	1985
United Kingdom	1.65	1.71	1.85	2.03
Italy	2.00	2.52	1.99	2.24
Spain	2.86	3.18	2.98	2.91
United States	1.81	1.69	1.43	1.67
Average Price	1.60	1.59	1.69	1.95

Upper Leather - Cattle

	1982	1983	1984	1985
Argentina	1.32	1.25	1.45	1.11
United States	2.14	1.83	1.79	1.61
Average Price	1.79	1.60	1.68	1.36

Glove and Garment Leather - N.E.S.

	1982	1983	1984	1985
Argentina	0.84	0.98	1.19	1.06
Brazil	1.00	0.82	0.97	0.81
United States	0.93	0.91	0.95	1.00
Average Price	0.90	0.91	1.04	1.02

Bag/Case/Strap Leather

	1992	1983	1984	1985
Italy	1.65	1.87	2.17	1.54
United Kingdom	1.95	1.69	1.71	2.08
United States	1.83	1.39	1.61	1.56
Average Price	1.77	1.29	1.64	1.63

There are already markets waiting for these exotic leathers: Dack's Shoes indicated a need for approximately 10,000 square feet of seal leather for one of their line of shoes. Buxton Canada also expressed an interest in getting some of the better quality hides for production of wallets, key containers and other similar products fabricated by them. Handbag manufacturers were also approached, and some samples made from seal leather, with the intention of testing the high-quality bag market. Thus there are two potential channels for the marketing of seal and other northern leathers; one of which is the marketing to other manufacturers, the other, for Nunasi to maintain control through the establishment of a small manufacturing plant.

3.3 Sales of Manufactured Leather Products

There appears to be a good opportunity for the marketing of seal leather products in Canada. Tne reception of buyers to high-quality seal leather briefcases has been exceptional, and there is every indication that the public will have the same response if the attitudes toward seal leather can be reversed.

However, the development of a captive seal (or other Northern) leather manufacturing operation needs to be considered with care, since it is important that the Nunasi not be in competition with its own leather customers. The establishment of a tannery that manufactures its own leather products can have potential pitfalls. It is important that if leather goods are to be marketed to other leather manufacturers, there be no conflicts between the products manufactured by the captive plant and potential customers for leather.

It must be noted that there are many advantages to having a captive manufacturing plant, especially in the start-up phase when quality of seal hides is erratic. It is important that there be a quality screening process on the manufacturing of seal hides in order to have varying grades of product across the system. The advantage of doing one's own manufacturing is that it is possible to stockpile hides according to end use. For those applications where high-grade hide is required, these can be sorted and matched to provide a first-class product. Second-class products can be pressed or otherwise treated to provide a reasonably matched finish, while poor-quality goods can be selectively cut and allocated into the lower-grade of products. In this manner, optimum utilization of seal leather can be achieved and maximum price obtained.

3.4 Market Potential for Leather Products

The market for various types of leather products in 1982 was $191.1 million, comprised of:

* luggage
* suitcases
* billfolds
* coin purses
* and handbags

EXHIBIT 3.9

SHIPMENTS AND IMPORTS OF SELECTED LEATHERS -"1982
$ millions)

Type of Leather	Domestic	Imports	Subtotal	% Domestic
Upper	89.7	16.5	106.3	84.4
Glove and Garment	17.7	49.9	67.6	26.2
Bag, case and strap	12.2	1.2	13.4	91.0
Other	36.1	15.9	52.0	69.3
	155.8	83.6	239.4	65.1

EXHIBIT 3.10

GROWTH OF SELECTED LEATHER IMPORTS
($ millions)

Type of Leather	1981	1982	1983	1984
Upper	18.9	16.6	23.6	25.2
Garment and Glove	56.7	49.9	68.7	78.6
Bag, Case and strap	2.0	1.2	3.7	2.4
Upholstry	1.9	4.3	6.0	11.8
Other	19.4	11.6	10.3	14.0
	98.9	83.6	112.3	132.0
Domestic Production	218.7	178.2	206.7	224.8
	317.6	261.8	319.0	357.1)

EXHIBIT 3.11

SHIPMENTS AND IMPORTS OF SELECTED LEATHER PRODUCTS - 1982
$ millions)

	Domestic	Imports	Total	% Domestic
Luggage and suitcases	41.5	40.2	81.7	50.7
Billfolds, wallets, coin purses	18.1	3.4	21.5	84.1
Handbags	54.2	33.7	87.9	51.6
	113.8	77.3	191.1	59.5

The Canadian markets for these products are shown in Exhibit 3.11, where it can be seen that domestic supplies account for approximately 60 per cent of the total market.

3.4.1 Luggage and Suitcases

In the luggage and suitcase market, the total market in 1982 was $81.7 million, of which $51.4 million was supplied from domestic sources. This represented 51.7 per cent of demand, as shown in Exhibit 3.12. The imports of vinyl and leather luggage and suitcases has risen from $40 million in 1982 to $70.4 million in 1984 (see Exhibit 3.12). It is estimated that local or domestic suppliers have maintained about the same market as in 1982, so the domestic share has slipped to approximately 35 per cent.

The luggage market is split into three main categories, of which the very high-priced product, is made of leather. The majority of the other products in this category are plastics, such as vinyl, formed ABS and various synthetic, padded nylons. At the lower end of the market, imports made of low-grade vinyl, especially from Taiwan, are flooding the market. There are virtually no domestic suppliers which can compete with the low prices found in these imported products.

There is a small market for leather luggage, and seal skin leather probably could be successful in gaining acceptance. However, at the present time, there are more receptive markets, and it is recommended that no significant efforts be made to develop the seal leather luggage markets until seal has become more widely accepted.

3.4.2 Billfolds, Wallets and Coin Purses

In the markets for billfolds, wallets and coin purses, domestic suppliers still control about 84 per cent of the $21.5 million market. As can be seen in Exhibit 3.12, the imports have risen from $3.4 million in 1981 to $8.2 million in 1984. The domestic market has probably risen to $20 million in 1984, so the total market in that year was approximately $28 million.

The wallet and billfold market is also divided into three major segments, with very high-quality leather demanding unit prices in the $60 or higher (retail) range. Medium-priced leather wallets range from $20 to $60, with vinyl products dominating the lower end of the market. It is the vinyl products which are taking an increasing share of the lower end of the market, with some increase in tne middle price range coming from countries such as Spain, Italy and other parts of Europe. The potential to market a high-quality seal leather wallet is very good. Hudson's Bay personnel were very positive toward the sample wallet shown to them, even with a $80 to $100 retail price.

EXHIBIT 3.12

GROWTH OF SELECTED LEATHER/VINYL PRODUCT IMPORTS

	1981	1982	1983	1984
Luggage and suitcases	43.2	40.2	56.2	70.4
Leather mitts and gloves	17.6	17.5	22.6	27.3
Women's handbags	35.6	33.7	37.6	46.7
Billfolds, wallets, coin purses	6.0	3.4	5.1	8.2
Watch straps	1.1	1.4	0.9	1.3
	103.5	96.2	122.4	153.0

EXHIBIT 3.13

DOMESTIC SHIPMENTS OF BRIEFCASES IN CANADA

($ millions)

	1979	1980	1981	1 982	1983 (E)
Leather	5.3	5.4	8.3	7.8	9.2
Non-leather	8.9	9.0	11.8	9.2	7.0
	14.2	14.4	20.1	17.0	16.2

EXHIBIT 3.14

DOMESTIC SHIPMENTS OF LUGGAGE AND SPORTS BAGS

	1979	1980	1981	1982	1983
Men's luggage	9.7	13.6	11.5	8.8	8.()
Womenis luggage	15.1	17.7	12.2	9.4	9.5
Sport bags, tote bags	3.5	5.9	7.2	6.3	6.5
	28.3	37.2	30.9	24.5	24.0

EXHIBIT 3.15

DOMESTIC SHIPMENTS OF OTHER LEATHER GOODS

	1979	1980	1981	1982	1983
Billfolds, wallets	17.6	18.8	15.3	14.6	13.8
Coin purses	0.4	0.7	0.8	1.3	0.8 E
Body belts	2.0	2.9	1.6	2.2	2.5 E
Other purses, wallets	3.4	5.7	6.8	6.5	7.9 E
	23.4	28.1	24.5	23.6	25.0 E

3.4.3 Handbags

Another market of interest is the handbag market. In 1982, the total market for handbags was $87.9 million, of which $33.7 million were imports. At that time, the domestic suppliers had 61.6 per cent of the market. In 1984, imports of handbags had risen to $46.7 million, and as the domestic market has risen to to an estimated $60 million, the total market for handbags is probably in the $105 to $110 million range.

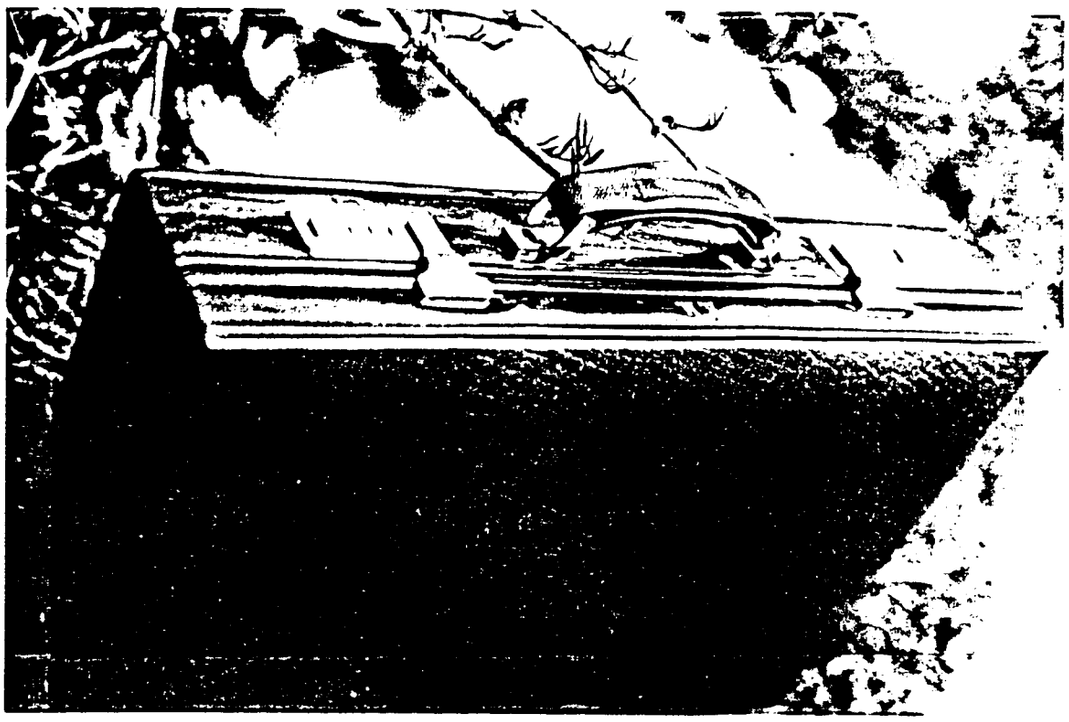
Domestic suppliers of handbags are able to maintain their market share because the rapid change in fashions make it beneficial to have short supply lines. Retail stores must place orders six to eight months in advance to have imported handbags available. Most retailers will only order part of their requirements from abroad, relying on domestic suppliers to provide the remaining supplies, since fashions change quickly and retailers must be prepared to meet demand levels accordingly. If orders are placed from abroad, the long lead time either catches them with surplus inventory or short-falls in demand. As a result, there is always business for domestic suppliers who are able to keep their costs and quality at a competitive level.

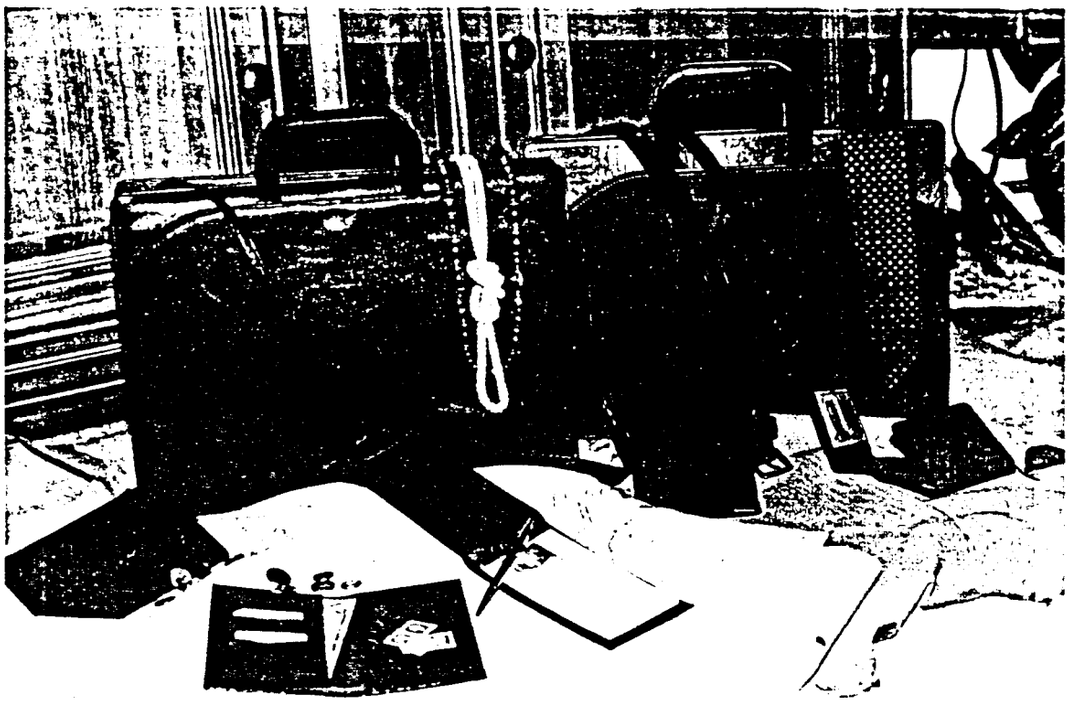
In the small market study carried out for this report, several handbags were made up and appear to have some potential in sales through the Heritage Shops. However, the research effort was limited at this time to the souvenir trade, but effort should be made when additional supplies of high-grade leather are available, to go after the high-quality boutiques and retail outlets such as Holt Renfrew and other higher-price, retail chains. The distinctive look of seal leather, with proper finishes, can command a high premium price, and if distinctively finished, will be much in demand under proper circumstances.

3.4.4 Briefcases

The briefcase market is also one that is particularly attractive. In 1982, total shipments of briefcases from domestic sources was $17.0 million, of which $7.8 million were made of leather. This percentage is believed to have increased, as several Canadian manufacturers, especially Renwick of Montreal, have been able to become quite competitive against imports. Although large numbers of briefcases are being imported from abroad, the exact figures are unknown because they are presently included in the luggage and suitcase totals.

The opportunity to create a special seal leather briefcase is extremely good. The sample models that have been made by Final Touch Leathers (see Exhibit 3.16) have received exceptional acclaim, and virtually all people who have seen them have been desirous of obtaining one, even at the $200 to $300 price range these products must command. Recommendations have been made that these cases should be enlarged slightly, in order to provide a briefcase that can accommodate both metric and Imperial papers, and can carry two bound reports side by side within the briefcase. The slightly greater dimensions will bring it in line with the Samsonite models that have been specifically sized to accommodate tne traveling business person. Many of the leather briefcases on the market are just





slightly too small, and it is recommended that in order to become a premium product in the market, the sizes of the briefcases be changed. It has also been recommended that slightly higher quality locks and fittings be obtained.

It is proposed to try to encourage the Government of Canada, especially External Affairs and DRIE, to publicize the seal leather suitcases by awarding them to the top 200 exporting personnel in Canada. The creation of a prestige award of this type for the traveling Canadian business exporter would create a sizable impact on the business community, if properly promoted, and could result in significant sales if the promotion was successful. Many business personnel have no problem purchasing their briefcases through their corporations, and prices of $200 to $400 for high-quality briefcases which are uniquely distinctive can be justified by many top executives in the country.

3.4.5 Garments of Leather

The markets for garments are also extremely large. As noted earlier, the amount of leather moving into the garment glove industry was extremely high, at approximately $80 million. Since then, fashions have continued to place emphasis on the beautiful leathers from Europe. Undoubtedly seal leather could command a major share of this market, even at the high price required. However, little attention has been paid to this market at the present time, because the quality of leathers from seal skins have not been sufficiently high, nor has the necessary quantities required to implement this market been available. It is recommended that this market be examined in greater detail when ample supplies of high-grade seal leather are available.

3.4.6 Upholstry Leather

The upholstry market is another potential user of seal leather. Samples of seal leather sofas have been provided for Expo '86, and it is reported that they make exceptionally attractive furniture. However, this market has also not been examined in any great detail because of the relative shortage of high-grade seal hides at the present time, and the high price of the product compared to cattle leather. This market should be examined in greater detail in one or two years.

3.4.7 Leather office Accessories

The leather office accessories, such as note book covers, calculator covers and similar uses are considered to be relatively small, with total markets estimated at the $2 to $3 million range. These products can be sold very effectively through mail order, and it is proposed that the Nunasi market many of these products directly.

EXHIBIT 3.17

PROJECTED SALES OF MANUFACTURED SEAL LEATHER GOODS
housands of Dollars)

	1986	1987	1988	1989	1990
Direct Sales of Mfgd. Goods					
Briefcases	80	130	200	250	300
Wallets, cardholders	12	15	20		40
Office Specialties	18	30	60	1::	150
Subtotal	110	175	280	280	490
Retail Sales of Mfgd. Goods					
Heritage Shops	6	80	100	120	150
Other Retail	10	30	60	100	150
Subtotal	70	110	160	220	300
Total Sales	180	285	440	600	7911
Gross Margin (40%)	72	114	176	240	316
Sales Expenses					
Sales personnel	40	65	100	110	120
Sales literature	10	15	20	25	30
Direct Mail	8	12	15	20	25
Subtotal	58	92	135	155	175
Gross Profit	14	22	41	85	141
Taxes	1	3	5	10	42
Net Profit (after tax)	13	19	36	75	99

The leather coaster trade market in seal leather is also expected to be fairly attractive. In this market, direct mail advertising would encourage firms to purchase seal leather coasters that could be embedded with the corporate logo. A small sticker on the back would tell interested parties how the sale of this item had assisted the Inuit in northern communities.

3.5 Other Promotional Work

It is planned to develop a full-scale public relations program to make the Canadian public aware of the plight of the Inuit people. The timing of this is proposed for late April to early May of 1986, when Expo is opening and the initial flow of merchandise will be moving toward the Hudson's Bay stores. In this manner, the potential hostility toward the use of seal leather should be ameliorated in the eyes of the Canadian public.

The proposed program will aim at trying to get coverage from the CBC Journal, the CTV national news and other television coverage, as possible. In addition, it would be advantageous to have Inuit spokespersons appear on national shows such as Morningside and Cross-Country Check-up to bring the plight of the Inuit to the attention of radio listeners.

In addition to coverage through the electronic media, if funds are available, we would propose to have advertisements placed in major newspaper chains across Canada, where the Hudson Bay store has Heritage Shops. This would be a photographic and text explanation as to the development of the seal leather industry as an alternative means of employment for the Inuit, emphasizing fact that it is important to the well-being of people in the north. To assist this program, the GNWT has allocated $40,000 in the first phase of the study for advertising and promotion. Additional funds ($ 20,000) may be made available in the second phase of the study. The Nunasi also plans to seek support from the Department of Indian and Northern Affairs to provide funding for the creation of films for television and the costs of transporting Inuit spokespersons to Expo '86 or radio programs across the country.

3.6 Projected Sales of Seal Leather Products

The sales of seal leather products will vary widely with the availability of funding for promotion of the Inuit story about the use of seal for food in the North, and the acceptance of seal leather by the Canadian people. If adequate governmental funding is obtained, there is little doubt that some public opinion can be swayed to purchase fine quality seal leather products.

Exhibit 3.17 shows the sales projections for manufacturered seal leather products under conditions of relatively high governinent restraint. Sales of manufactured products will rise from $180,000 in 1986 to $290,000 in 1990. This forecast is highly conservative if the Canadian public can be made aware of the problems that the ban on seal has caused the people in

the North. However, without a significant advertising/media blitz, most people will not buy seal products since the adverse publicity of the Labrador seal hunt. Random discussions with people met in the course of the study indicate that there is widespread antipathy towards the seal hunt, and that people will not change their opinions without extensive exposure to the Inuit problems.

3.7 Sales of Other Northern Hides and Leathers

There are very strong indications that the sale of other northern leathers could contribute an increasing portion of the revenue to the plant over the next few years. Unsolicited inquiries from a firm in Hamburg (WuttKe and Ratn) for 100,000 to 150,000 sq. ft. of deerskin leather on a long term arrangement have been received, with particular interest in establishing other lines and opportunities with a Canadian plant.

There are other opportunities, especially in deerskin, that the management of the plant are aware of, but have been unable to take advantage of. The demands for these wild animal skin throughout the world are fairly strong and the supply of hides in Canada is fairly good.

The opportunity to market Northern Leathers such as caribou, reindeer, muskox, and possibly even narwhal and beluga, also appear to be reasonably good. The land animals would have a wide market throughout North America and Europe, while the marine animals would likely be restricted initially to Canada and the Far East. More research needs to be done on these markets, but the initial indications appear to be attractive.

4.0 EVALUATION OF THE COBOURG OPERATIONS

This section of the report examines the Cobourg plant as a potential investment for the Nunasi, and the long-term implications of the facility. Tne evaluation draws heavily *on* the business plan prepared for the tanning operation by Ernst and Whinney. Many of the projections and figures are based *on* information contained in that report.

4.1 Capital Investment

The capital investment in the Cobourg plant, the startup and inventory investment is estimated as follows:

EXHIBIT 4.1

Estimated Cost of the Cobourg Plant, Facilities and Startup Costs

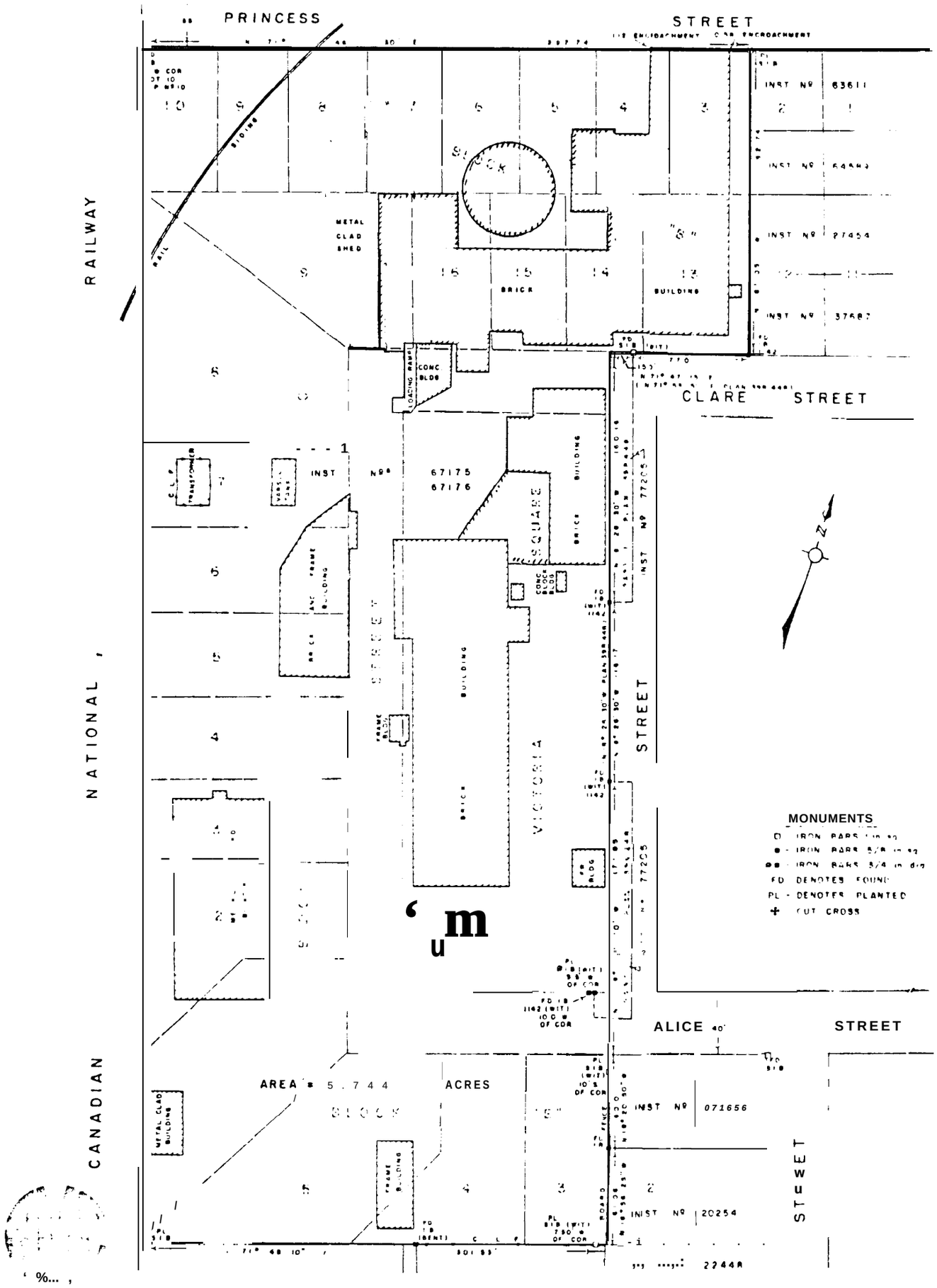
	1000's
Building, land and equipment-Cobourg	$630
Working capital and startup costs	2(IO
Inventory of hides,skins, etc	200
Total cost	$1,030

The costs above cover the capital costs of the facility and the base costs of inventory and working capital. An additional $317,000 is planned for new equipment and repairs to the building over the coming year. Half of the costs for new machinery and repairs ($158,500) will be covered by the Eastern Ontario Development Corporation (EODC) and about $60,000 of the startup costs have been budgetted by the Government of the Northwest Territories under the seal leather marketing program for training, brochures and marketing expenses. Other costs are expensed as part of the operations. In addition, the Continental Bank has committed a line of credit of $500,000 to cover Accounts Receivable once the operations are started. This reduces the initial capital to about $1.1 million.

The funding of this is expected to be shared by the Nunasi Corporation and Final Touch Leathers, with the result that 51 per cent of the voting shares will be held by Nunasi. This would make the Nunasi 's share about $561, 000. An agreement will be drawn up between the two partners to ensure the allocation of authority and responsibility, as well as shareholders agreement in case of dispute.

4.2 The Facilities

The Cobourg plant is situated on 5.74 acres, near the centre of tne community, as shown in the plant plan in Exhibit 4.2. The facility is a three-storey wooden structure with some portions of tne plant dating back eight or nine decades.


PRINCESS STREET
RAILWAY
NATIONAL
CANADIAN
METAL CLAD SHED
BRICK BUILDING
CONC BLOCK
CLARE STREET
INST Nº 67175
67176
VICTORIA SQUARE
VICTORIA STREET
ALICE STREET
AREA = 5.744 ACRES
BLOCK
INST Nº 63611
INST Nº 64883
INST Nº 27454
INST Nº 37687
INST Nº 77205
INST Nº 071656
INST Nº 20254
MONUMENTS
IRON BARS
IRON BARS 5/8 in dia
IRON BARS 3/4 in dia
FD DENOTES FOUND
PL - DENOTES PLANTED
CUT CROSS

The plant has been cleaned up extensively and repainted during the recent shutdown period, giving the facility a fairly attractive appearance, in spite of the age of the premises. New facilities, in the form of a new steel building, several additions and a 100,000 gallon storage tank have been added in recent years. Two new gas-fired boilers have been added in the past year. Tne plant has a very modern machine shop, with a full range of lathes, drill presses, milling machines and other equipment for fabricating replacement parts for the older machinery in the plant.

The plant has a good range of equipment for large and small production runs. While much of the equipment is old, it is not obsolete. *Many* of the other pieces of equipment are new and reflect the latest technology. The older equipment is in good condition, and the housekeeping appears to be methodical. While the equipment is not the latest technology, the plant has a reputation in the industry for very good quality leathers and reliable delivery.

The majority of the production staff in the plant are experienced. Although unionized, the relationship between the union and management has generally been good.

The capabilities of the new management team are set out in detail in the Ernst & Whinney business plan. The top four members of the group have a total of 100 years experience *in* the tanning business, with strong knowledge in the production, purchasing and marketing areas.

The Ernst and Whinney report concentrates in greater detail on the initial two years of operation of the Cobourg plant. This time span is particularly important because it constitutes a start-up period in which many businesses fail. However, the Cobourg plant is different from many new operations because costs are known to a greater degree than in a start-up situation, and the markets tne company can pursue are not restricted by being part of a three-plant operation.

There must be considerable examination made of an investment being made into a plant that has gone into receivership twice within a period of three years. It would appear that many of the difficulties faced by the Robson-Lang operations in the Cobourg plant were caused by absentee management and the transfer of much of the business to associated plants. The lack of flexibility created by a three-plant operation caused much of the economic difficulty experienced by the firm prior to being put into receivership. These difficulties no longer exist, as the plant is now independent and free to pursue the most attractive markets available. In addition, there appears to have been significant upgrading in the quality of management and their knowledge of the Canadian tanning industry.

Examination of records from several years ago show that the plant operated profitably (see Exnibit 4.4), but that the losses that were incurred in the 1980-1981 period were largely caused by the high carrying costs of interest. The inventory adjustment of $230,000 in 1980 also nad a major impact. Thus it can be shown that the Cobourg plant was profitable between 1976 and 1979; a period when A. R. Clarke was halving financial difficulty.

It would appear that the reasons for the losses in 1980-81 were largely due to poor management, combined with rapidly changing interest rates and cattle hide prices. Volumes in 1981 were down because business was being transferred to another plant in order to make it appear more profitable for sale to a competitor.

4.3 The Financial Plan

A detailed financial plan has been prepared by Ernst & Whinney that applies to the Cobourg plant and the sale of leathers. Sales are projected for 1986 at $8.8 million, and $10.5 million in 1987. These figures do not include the sales of manufactured leather goods that are projected at $0.2 million in 1986, and $0.3 million for 1987. Sales of caribou/reindeer hides, seal meat or other products that might be added to the system are also not included.

The plant is projected to make profits of $630,000 after tax in 1986, and $948,000 in 1987. These projections were put together by a reliable consulting firm, using cost estimates that appear to be reliable, but it is difficult to accept high profits of this magnitude in such a competitive market. There are several areas where these profit margins can be reduced and it is worthwhile to examine them. They include the following:

* Prices may not be as high as projected. There is a highly competitive market in the leather industry and price erosion from offshore competition could reduce the gross margins of the plant. However, the plant can still break even with prices about 10% lower than forecast. Even a reduced 17% gross margin will permit the plant to make about $200,000 per year after taxes. This means about a 20% return on capital--an acceptable rate of return on a project such as this. As noted earlier, the prices paid for many of the U.S. and European leathers in 1985 were higher than the Amiq price projections.

* The scrap from the seal skins is not included in the cost estimates. This could impact profitability to the extent of $100,000 per year if excess volumes of seal hides were bought without better controls. The marketability of the seal leathers might also be hurt if quality is not improved from the test runs. However, the scrap rate should be reduced because the test skins were very old. The scrap rate can be controlled by a good inspection and salt/brine operation in the North, with price differentials for quality. If this can be achieved, there should be no concern over getting competitive prices and good margins on the seal leather.

* The efficiency of an old plant can also have an impact on the profitability of the operations. The maintenance costs of an old plant are higher, it is more difficult to get higher efficiencies because there is no potential to reduce manual handling and the batch sizes are usually smaller than more modern plants. Offsetting these factors is the lower cost of tne investment. Although the plant

AMIQ LEATHER LIMITED

Projected Income Statement

	1986	1987	1988	1989	1990
sales (1000's of Square Feet)					
Square Feet-Cowside	2 335	2 688	2 822	2 963	3 111
-Lambskin	1 624	2 040	2 142	2 249	2 361
-seal/Other	85	170	330	540	600
custom Tanning	1 920	2 400	2 400	2 400	2 400
Total Sq. Ft.	5 963	7 298	7 694	8 152	8 472
sales ($1000)					
cows ide	5 136	5 914	6 208	6 519	6 844
Lambskin	3 215	4 039	4 241	4 453	4 675
Seal	320	585	1 140	1 850	1 980
Other	15	60	90	120	150
Custom Tanning	403	504	504	504	504
Allowance for Bad Debt/Returns	(127)	(155)	(171)	(188)	(198)
Net Sales **Revenue**	8 962	10 946	12 013	13 257	13 955
Costof Goods Sold					
Raws t ock	4 105	4 985	5 492	6 095	6 455
Materials & Supplies	1 347	1 633	1 759	1 905	2 002
Direct Labour	766	933	1 020	1 123	1 186
Indirect Labour	300	300	300	300	300
Freight	109	132	145	160	169
Heat	140	140	140	140	140
Light & Power	55	60	62	65	68
Maintenance & Repairs	150	153	162	171	178
Water and Sewage	25	31	32	34	36
Other	20	20	20	20	20
Total Cost of Goods sold	7 017	8 388	9 131	10 014	10 553
Gross Margin	1 945	2 558	2 882	3 243	3 402
overhead Expenses					
sales Expense	247	271	335	370	389
Marketing Expenses	102	140	164	182	191
Administration	400	440	440	440	440
Depreciation	66	128	125	128	133
Interest-Bank Line	79				
Management Fee	144	144	144	144	144
Total Overhead Expenses	1 038	1 123	1 209	1 263	1 298
Net Income Before Tax	907	1 435	1 674	1 980	2 104
Interest Income	7	14	150	320	531
Income Taxes	296	510	659	850	984
Net Income	618	940	1 164	1 450	1 651

AMIQ LEATHER LIMITED

Projected Cash Flow Statement
($'000s)

	1986	1987	1988	1989	1990
Opening Bank Balance	200	50	100	1 070	2 289
Receipts					
Profit After Tax	618	940	1 164	1 450	1 651
Depreciation	66	128	125	128	133
Equity	1 030				
Debt-Current	565				
-Long Term Debt					
Accounts Payable	397	80	44	52	32
Total Receipts	2 676	1 148	1 333	1 630	1 816
Disbursements					
Inventory	1 000	214	116	138	84
Accounts Receivable	896	198	107	124	70
Capital Expenditures	730	120	140	150	160
Debt Repayment-Current		565			
-LTD					
Total Disbursements	2 626	1 097	362	412	313
Closing Bank Position	50	100	1 070	2 289	3 791

AMIQ LEATHER LIMITED

Projected Balance Sheet
($1000's)

	opening	1986	1987	1988	1989	1990
Current Assets						
Cash	200	50	100	1 070	2 289	3 791
Accounts Receivable		896	1 095	1 201	1 326	1 395
Inventories	200	1 000	1 213	1 329	1 467	1 550
Total Current Assets	400	1 946	2 408	3 601	5 081	6737
Fixed Assets						
Land	80	80	80	80	80	80
Buildings	250	320	370	420	470	520
Machinery & Equipment	300	330	400	490	590	700
subtotal:	630	730	850	990	1 140	1 300
Less Depreciation		66	193	318	446	579
Net Fixed Assets	630	665	657	672	694	721
Total Assets	1 030	2 610	3 065	4 273	5 775	7 458
Accounts Payable		397	477	521	573	604
operating Bank Loan		565				
Total Liabilities		962	477	521	573	604
shareholders Equity	1 030	1 030	1 030	1 030	1 030	1 030
Retained Earnings		618	1 558	2 722	4 173	5 823
Total Equity	1 030	1 648	2 588	3 752	5 203	6 853
Total Liabilities	1 030	2 610	3 065	4 273	5 775	7 458

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personnel are unionized, they are also experienced, and can turn out good quality leather. The management of the plant can ensure that cost targets are met, and the new management of the Cobourg plant have over 100 years of experience in tanning operations.

* Although the previous plant went into receivership, all of the major problems that caused it have been modified. There were many factors as outlined earlier, but operating conditions and management have changed. In particular, the whole marketing strategy is different, especially in the marketing of higher price leathers. Although the marketplace is more competitive, the plant is now independent and free to pursue the most attractive markets available. In addition, there appears to have been significant upgrading in the quality of management and their knowledge of the Canadian tanning industry appears to be more specialized than the previous U.S. owners. One particular factor that must be weighed heavily, is that the present management are operating with their own money.

* The plant might not meet the sales forecasts because manufacturers may be wary of a supplier that has gone into receivership twice in recent years. However, the one saleman in the Quebec sales force individually has achieved sales of over six million square feet in past years, so the company should be able to meet the projected sales targets with the combined talents of senior management.

The acquisition of a tanning plant is not a necessity for the success of the seal leather project, but it does provide the control of the seal skins from the Arctic to the marketplace that we feel will make the project a success. We feel that it is important for the management of the tanning plant to be able to control the quality and gathering of the raw seal skins. We also feel that it will be very beneficial for the success of the project to have sales of other skins through the tannery to help support the seal skin operations, because it provides momentum and flexibility to the project. It will take time to gain acceptance for the seal skin leathers, and having a sales force that can sell other products will allow them to wait out the market without excessive costs.

The integration of the tannery into the total project will, in our opinion, provide a momentum to the project that cannot be achieved by other methods. Having a going operation to work from provides an impetus to any project, since people are kept busy when the emerging market is slow. Having to wait for a market to develop can cause dedicated people to lose faith, while having an ongoing market allows them to keep busy.

4.4 Sensitivity Analysis

The Ernst and Whinney report examined the profitability of the operation for the first two years on a month-by-month basis. RMC created a similar model to examine the next five years, using most of the same assumptions used by Ernst and Whinney. The results are shown in Exhibits 4.5 to 4.7.

EXHIBIT 4.8

RATIO OF LEATHER TANNERIES

	1980		1981		1982		983	
	$MM	%	$MM	%	$MM	%		
Sales	201.9	00.0	218.7	100.0	183.2	00.0	191.6	100.0
Materials	133.9	66.3	142.0	64.9	94.1	51.4	125.9	65.7
Fuel and electricity	4.1	2.0	5.0	2.3	3.7	2.0	5.2	2.7
Wages	26.5	13.1	30.9	14.1	21.0	11.5	31.1	16.2
Overhead/salaries	8.4	4.2	7.4	3.4	7.5	4.1	7.2	3.8
Average wage/hr.	$ 6.75		$ 7.51		$ 8.24		$ 9.13	
Person hrs/$ sales	51.54		52.23		51.88		56.28	
Number of plants	34		30		37		35	

SOURCE: Statistics Canada

EXHIBIT 4.9

VOLUMES AND AVERAGE PRICE OF FURS FROM CANADIAN TANNERIES

	1980		1981		1982		1983	
	Volume	$/m^2	Volume	$/m^2	Volume	$/m^2	Volume	$/m^2
Upper Leather	4,948.6	19.59	5,935.4	19.09	4,493.1	19.96	5,055.0	21.84
Upper Splits	1,590.4	12.18	1,793.7		1,218.8		1,051.7	11.10
Shoe Lining	312.7	12.31	285.9	11.85	342.6	11.06	92.2	12.60
Glover Leather	912.7	12.53	1,014.2		698.5		328.2	10.32
Case Bag and Strap	702.4	18.19	832.8	20.46	812.9	15.08	799.3	19.12
Garment	576.2	15.64	657.8		n.a.			
n.a.								
Other Splits	1,420.5	7.05	1,709.0		654.9		341.3	8.66
Other (estimated)	1,725.0		1,508.0		1,823.0		1,794.3	
	12,189		13,737		10,044		9,461	
Value of other	26,972		24,131		30,999		32,011	

The results of these projections were compared to past operations in the plant and with industry averages as compiled by Statistics Canada. Comparisons of this type can be misleading if conditions change, but do provide an overview of the forecasts.

Cost of Goods Sold

Industry averages (shown in Exhibit 4.9) show materials and supplies run about 65 per cent of shipments, while the projections for Amiq show about 60 per cent. This could be caused by the cost projection for Amiq products being too low, or it may mean that Amiq is expecting higher prices because of its better quality.

Energy Costs

Industry averages for fuel and power run 2.0 to 2.7 per cent of sales, but many of these averages were incurred at a time of rapidly rising fuel and power costs. The installation of two new gas-fired boilers will bring Amiq below the industry average at about 1.8 per cent.

Wages

The industry average for wages runs between 11.5 and 16.2 per cent of sales, while the initial projections for Amiq showed results of 12.1 to 12.6 per cent. This is within normal estimates since the projections are likely based on products with higher margins.

Overhead Wages

Industry averages show that overhead salaries represent between 3.4 and 4.2 per cent of sales. Amiq's forecasts for its initial year show salaries of $269,000, or about 3.0 per cent. The management acknowledges that they are running a "tight" operation and will do all they can to ensure that overhead salaries remain low. The percentage may be low compared to other companies because the salesman in Quebec operates on a commission instead of a salary.

The use of economic projections can give an educated guess as to the future success of a new operation, but the essential ingredients for success remain effective control of marketing, production and finance. The company appears to have a solid depth of management in the senior positions, but it must be noted that the present marketplace is facing overcapacity from domestic suppliers, severe price competition from offshore suppliers, declining and/or changing markets for leather products, and low profits or losses for many of the other companies in the tanning business. The success of the operation is due entirely to the calibre of management and whether they can achieve what they are forecasting they can do.

4.5 General Summary on Plant

The plant and land have been evaluated at $500,000 alone, and the equipment in the facility can possibly be sold for $800,000 on an individual basis over a period of time. Many of the better pieces of equipment were scheduled to be removed from the plant prior to the commitment made to Mr. Beasley to purchase it intact.

If the decision would be made to establish a Northern processing operation, there are probably several pieces of equipment that might be used. This would allow some operations to be done in the North, but still avoid the problems that might be associated with pollution.

5.0 Alternative Courses of Action

This section of the report examines the alternative courses of action that might be taken by the Nusasi Corporation that does not involve investment in the Cobourg plant. This acquisition of the plant is an attractive one, since it provided a synergism and momentum that will be difficult to duplicate without in the scenario. At the same time, it is not the only way that the Nunasi Corporation can go to develop the markets for seal leather over the long term future.

The courses of action that can be taken without direct investment in the tannery will depend to a high degree on what happens with the Cobourg tannery. If Richard Beasley operates it, the time spent making samples will not be lost, but if the tannery is not purchased, it will take time to get samples made and production under way. The loss of a few weeks at this phase of the program could be serious, since it has the potential for causing the entire project to be delayed into another year. It is most important to have a tannery that can tan seal leather well. Unfortunately, samples have not been submitted to other tanneries at this time, although this can be done quickly.

The priorities at this time to get the program on schedule are as follows:

1. To establish a training program in several of the major Northern communities on the proper methods of skinning and preserving seals for leather purposes. A very high percentage of the seal skins from the North have been poor quality because of the skinning process and improper processing before storage. By contrast, tne seal hides from Newfoundland are generally providing a much better quality leather with a higher yield from the manufacturing process.

2. To complete the tanning of sufficient seal leather in a wrinkled pattern and in three major colours to provide materials to the leather goods manufacturers for both samples and production runs. A minimum of 5000 sq. ft. of good material is felt to be necessary. At the present scrap rates, this might require 2000 to 3000 skins, and a very high tannery cost.

3. To complete samples of wallets, coin purses, purses, coasters and other leather products to show to the Hudson's Bay Company in order to obtain purchase orders for the summer displays at the Heritage shops. Although no firms orders have been placed, there is anticipation of $50,000 to $100,000 of orders that might be expected, depending on the pricing and quality of the leather.

4. The promotional campaign for the introduction of seal leather into the market needs to be finalized, and funds committed to the project. The design of good point-of-sale literature or displays needs to be finalized and put on order for delivery in conjunction with the shipments of the leather products. The promotional campaign should be timed to coincide with the introduction of the products in

the stores. Without adequate funding for a promotional campaign, even on a regional basis, the sale of seal leather is expected to be low.

5. The role of seal leather products at Expo '86 needs to be clarified so that proper supplies of seal leather and/or products can be prepared. Several prototype products have been manufactured, but the role of the seal leather promotion needs to be clarified.

6. If the Nunasi Corporation does not gain control of the Cobourg tannery, it will be necessary for them to add a person to their staff to supervise and coordinate the seal leather project. This person will have to be a senior person with adequate experience and be given the authority to make the seal leather project successful, and have specific budgets allocated for travel, promotion, materials, and inventory. The allocation of funds is discussed in greater detail below.

As noted earlier in the report, the major deficiency with the program to date has been the fragmentation of tasks, and the allocation of one person to supervise and coordinate the work will overcome many of the difficulties. This role would have been filled by Richard Beasley if the plant was acquired, but a person of equivalent capability is needed for the project to be successful.

It is difficult to forecast how well the seal leather project will do until some test marketing has been carried out, but the following estimate shows the possible sales and costs that might be expected under two conditions;- one with the Cobourg plant, and the other using contract tanners.

Exhibit 5.1

Estimated Sales and Costs of the Leather Program

Sales	With Cobourg	Without Cobourg
Seal Leathers	240	140
Other Northern Leathers	100	60
Subtotal	340	200
costs		
Salesman/Coordinator	35	50
Travel & Sales Support	50	70
Office Overheads	5	30
Sample costs for tanning		20
Inventory-tanned hides	incl	150
-finished goods	50	100
Manufacturing costs	20	20
Displays & P.O.S. materials	25	25
Warehouse costs		50
Extra handling & freight		
Subtotal	185	515

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