

KONIAG, INC.

**1980
ANNUAL REPORT**

KONIAG, INC.

THE HARBOR VIEW
P.O. BOX 746
(907) 486-4147
KODIAK, ALASKA 99615



CONSOLIDATED ANNUAL REPORT OF KONIAG, INC., REGIONAL NATIVE CORPORATION AND ITS SUBSIDIARY COMPANIES

KONIAG, INC.

Directors

JACK WICK
Chairman

HARRY CARTER
Vice Chairman

NANCY ANDERSON KARL ARMSTRONG PERRY EATON

SVEN HAAKANSON ALLEN HEITMAN JOE LLANOS

FRANK PAGANO ALLEN PANAMAROFF NICHOLAS PESTRIKOFF

FRANK PETERSON RICHARD WAMSER

Officers - Staff

J. F. MORSE
President & Chief Executive Officer

KARL ARMSTRONG PERRY EATON
Executive Vice President - Secretary Treasurer

GENE SUNDBERG RONALD B. ZENER
Vice President - Lands Vice President - Controller

HENRY EATON EDWARD CHAN
General Manager - Kazim Co. Assistant Controller

MARIE UNGER CARLENE MAHLE
Executive Assistant Senior Accountant

JULIANA MILLER BECKY MAHLE
Receptionist Secretary

RICHARD WADDELL
General Manager, Shelikof Net - Kodiak

M. K. RUARK
Manager, Shelikof Net - Dutch Harbor

WAYNE SELBY
General Manager, Kodiak Swiftsure Corp.

AUDITORS
Coopers & Lybrand

COUNSEL
Duncan, Weinberg & Miller
Washington D.C. and Anchorage

Stanley T. Fischer
Kodiak



KONIAG, INC.

HARBOR VIEW COMPLEX

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DEAR KONIAG STOCKHOLDER:

Again we review our past and our future with you.

Much is happening, indeed a great deal. Koniag is in transition: First and foremost are your village mergers which should bring a renewed vitality and enthusiasm to your company. Mergers should enable Koniag to position itself for strong acquisition opportunities and business ventures. Yes, your company plans to be a moving economic force after merger with substantial assets to draw upon. Our resource base is growing in both surface and subsurface assets, and when enacted, D-2 will enormously enhance your company in both.

A vastly improved Shelikof Net Company, the purchase of Kodiak Swiftsure and our ability to hold down our overhead costs in the face of debilitating inflation were some of our achievements this past year. The wisdom of your Sohio venture comes into clearer focus as these properties near their drilling stage. All of these are significant steps towards profitability. All are positive steps towards Koniag's destiny and role of being one of Alaska's major corporations, and make no mistake about that.

I. A YEAR IN REVIEW

The past year's financial results again highlight the urgency for your company to acquire profitable operating companies with revenues sufficient to offset our corporate overhead and expenses. Our main trouble areas remain KISI, and our real estate holdings.

Good progress can be reported on Koniag's participation with Sohio Natural Resources in the Beaufort Sea oil development (adjacent to Prudhoe Bay). Though there is pending litigation regarding the environment, our tracts are inside the Barrier Island disputed area. The exploration program for the Beaufort Sea for 1980-81 includes two wells. These are viewed as fine prospects, and we are optimistic regarding this venture though keenly aware of the risks. One of these, Challenge Island #1, (tract 95) is expected to begin drilling in November, 1980. Drilling Sag Delta #7 (tract 76) is expected to begin in mid January, 1981. Our estimated participation costs for 1980 is approximately \$150,000 and \$275,000 for 1981. These long term investments were carefully considered by your Board as a solid foundation for your future.

Koniag's exploration and development prospect with Chevron USA near Yantarni Bay on the Alaska Peninsula is now set for drilling in March, 1981. These results should be known by July - August, 1981. Equipment is already being delivered to the site.

The D-2 legislation, on which your management has spent many months will, we hope, be enacted into law before 1980 ends. The D-2 effort has been extremely costly to your company but is deemed essential to your future and the long term benefit to our stockholders. This bill exchanges lands on the Alaska Peninsula for mature timberlands on Afognak Island. Koniag retains the oil and gas rights on the relinquished lands.

Shelikof Net's operation in Kodiak is now profitable. We are looking toward expansion of its product lines. Shelikof - Dutch Harbor is still recovering from past inventory and over supply problems and again operated at a loss. New management is in place in Dutch Harbor. The Shelikof losses for the year were \$246,000, (cut in half from last year) primarily caused by inflated old inventory, inadequate margins, and poor credit practices. Further improvements will be instituted for still better results from this unit.

KISI (Kodiak Island Seafoods, Inc.) had a profit turnaround in the 1980 fishing season but remains a major concern for the future. This annual report reflects KISI's previous year's loss (the 1979 pack season), of which Koniag's nearly 24% ownership was \$281,000. New management was instituted April 1, 1980 with gratifying results. Major and difficult decisions must be made concerning KISI in the next few months, as KISI does not offer a stockholder return as presently structured.

Chiniak's resources are being reviewed and should make a positive return to the Joint Venture in 1980-81.

Our investments in real estate produced losses of \$198,000 for the year. These real estate parcels and buildings are receiving critical attention in our continuing efforts to dispose of marginal properties.

II. BUILDING YOUR TOMORROW:

Building your tomorrow is our full time business. A multipronged strategy that will accomplish this goal is:

- 1) develop our present operations into profit-producing companies;
- 2) acquiring successful and profitable operating companies;
- 3) village mergers with Koniag; and
- 4) land selections - land exchanges.

MERGERS are a key first step for your company.

Nothing, positively nothing, can be more important to you, the stockholder, than the proposed village mergers. Some village corporations are encountering difficult times, and the prospects for protecting their assets are uncertain. Merger could be essential to their survival. Koniag, too, needs additional asset base, which these mergers will fulfill. The proposed mergers offer each a great opportunity and are intended to strengthen and reassure the stockholder. We are confident that the consolidation of assets resulting from the proposed mergers will allow the corporation to prosper. Further, mergers greatly reduce the total cost to stockholders of administering multiple village companies, and paying tens of thousands of dollars a year in overhead. It is of paramount importance to the stockholders that they get an adequate return on their assets. Common managements, with singular

goals can more readily achieve those aims. Mergers have been a success in other regions, and should prove equally so for Koniag Stockholders.

The economics, the sociology, and all other phases of merger have been debated at length and at all levels. It is simply the overwhelming conclusion of your Board of Directors that merger is in the great interest of the stockholders, and the future of village corporations and Koniag. You will be receiving a joint proxy statement. Please read it for a detailed discussion of all aspects of the proposed merger.

Another step in pursuit of our goal was the purchase of Kodiak Swiftsure Corp. Though small, this is a highly efficient freezing plant which can handle crab, salmon and herring. Full operations were begun in July, 1980, though purchased on April 1, 1980. The results of this acquisition cannot be fully seen for many months. The start-up months, not unexpectedly, were not profitable, but the forecast for the entire year looks very good, and should make a fine contribution to our 1980-81 operations. Swiftsure had a fine salmon season and is doing well on crab.

We will develop our resource base, and pursue those opportunities and business situations that will give our stockholders a long-term return. It is essential that Koniag acquire an asset base to accomplish this.

Koniag's existing operating companies must give us the profitability to overcome our current net operating losses. We are continually reviewing investment opportunities, primarily in the fisheries and timber-related field. This is time-consuming and very costly. We are looking in all areas of business, both in Alaska and outside to find a suitable business association for Koniag and its stockholders.

The management is deeply involved with various federal agencies in the possibility of exchanging certain lands adjacent to the Wildlife refuge for other lands with more utility and potential use for our stockholders. The villages involved have shown great interest in this project.

Koniag must change. And it is. Last year we had a loss of \$1.2 million, which was not unexpected. Clearly our past methods and operations are insupportable. The management understands its role to produce results - a profitable performance. With the ANCSA funds now all but exhausted, a dedication to our business success is imperative.

If Koniag continues doing the same things as before, with the same personnel, and with the same resources we will get the same negative results. We must change, there is no other choice if we are to be profitable.

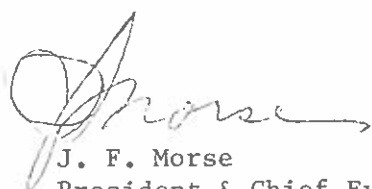
Its important for our stockholders, our suppliers, the government at all levels, our financial backers and the general public to accept and understand that Koniag is a new, developing Company, striving to formulate a business strategy and policy. Some failures are a part of that effort. However, Koniag fully intends to achieve a position of strength, business leadership and profitability in those ventures we undertake. The 1980-81 fiscal year should see Koniag attain a more positive position. Koniag has a number of potential acquisitions under review. These will be considered within the framework of our resources and asset base, which dramatically amplifies the need of our village mergers. As we enter

the 1980's we expect to follow our multipronged strategy, with a high priority on profitable acquisitions and attaining an adequate return on our asset base. Imagining Koniag's tomorrow is our most important business.

Respectfully submitted,



Jack Wick
Chairman, Board of Directors



J. F. Morse
President & Chief Executive Officer

COOPERS & LYBRAND

CERTIFIED PUBLIC ACCOUNTANTS

IN PRINCIPAL AREAS
OF THE WORLD

The Stockholders
Koniag, Inc., Regional
Native Corporation
Kodiak, Alaska

We have examined the consolidated balance sheets of Koniag, Inc., Regional Native Corporation, and subsidiaries as of June 30, 1980 and 1979, and the related consolidated statements of operations and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Notes 3 and 7 to the consolidated financial statements, the Company will receive monies and subsurface rights in the future in amounts and at times which are not presently determinable. Such items will be material to the consolidated financial statements.

In our opinion, subject to the effect of adjustments which might have been required had the matters discussed in the preceding paragraph been resolved, the aforementioned financial statements present fairly the consolidated financial position of Koniag, Inc., Regional Native Corporation and subsidiaries at June 30, 1980 and 1979, and the consolidated results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.



Anchorage, Alaska
August 30, 1980, except for
matters discussed in Notes 10,
3 and 14 for which the date is
October 1, 4 and 6, 1980,
respectively

KONIAG, INC., REGIONAL NATIVE CORPORATION
CONSOLIDATED BALANCE SHEETS, June 30, 1980 and 1979

ASSETS	1980	1979
Current:		
Cash	\$ 177,580	\$ 67,427
Investments in securities, at cost (approximates market) (Note 5)	7,763,907	188,209
Receivables:		
Alaska Native Fund (Notes 3 and 9)	636,870	3,000,000
Notes	6,156	129,451
Village corporations	52,275	134,676
Trade, less allowance, \$36,834 (1980) and \$120,000 (1979)	369,189	558,546
Advances to fishermen	203,388	
Other	119,861	14,719
	<u>1,387,739</u>	<u>3,837,392</u>
Inventories (Notes 2 and 10)	919,244	746,315
Other current assets	111,076	63,669
Total current assets	10,359,546	4,903,012
Alaska Native Fund receivable, noncurrent portion (Notes 3 and 9)	636,841	7,831,777
Cape Chiniak Impact Center Joint Venture receivable (Note 4)		326,180
Notes receivable	42,477	45,019
Property and equipment, at depreciated cost (Notes 2, 6 and 10)	6,855,241	3,706,720
Other assets:		
Land selection costs (Note 2)	871,966	763,223
Investment in Cape Chiniak Impact Center Joint Venture, at cost (Note 4)	523,193	564,558
Investment in Kodiak Island Seafoods, Inc. (Notes 2 and 4)	477,917	799,670
Investment in American Indian National Bank, at cost	55,000	55,000
Investment in oil, gas, and hydrocarbon leases (Note 8)	1,287,700	
Land and land improvements held for development, at cost	189,291	189,291
Exploration costs (Note 7)	49,093	49,093
Historical library, at cost	11,218	11,218
Miscellaneous	84,604	69,879
Assets in amounts to be determined (Notes 3 and 7)		
	<u>\$21,444,087</u>	<u>\$19,314,640</u>

LIABILITIES	1980	1979
Current:		
Notes payable, banks (Note 9)	\$ 1,076,340	\$ 100,000
Current portion of long-term debt (Note 10)	1,592,837	156,348
Accounts payable	289,349	267,732
Customer deposits	33,026	72,955
Exploration monies including accrued interest (Note 7)	602,736	719,338
Accrued expenses:		
Payroll, pension and payroll taxes	66,438	73,405
Property and other taxes	71,396	51,512
Interest	134,761	24,200
Other	4,683	9,711
Total current liabilities	<u>3,871,566</u>	<u>1,475,201</u>
Long-term debt (Note 10)	<u>2,084,301</u>	<u>1,621,572</u>
Commitments and contingencies (Notes 4, 7, 8, 13 and 14)		
CAPITAL		
Common stock (Note 11):		
Authorized:		
5,000,000 common shares in two classes, A and B		
Issued and outstanding:		
Class A, 1 cent par value; 225,200 shares in 1980; 224,500 shares in 1979	2,252	2,245
Class B, 1 cent par value; 107,900 shares in 1980; 103,400 shares in 1979	1,079	1,034
Contributed capital (Notes 2, 3 and 11)	19,930,069	19,415,906
Accumulated deficit	<u>(4,445,180)</u>	<u>(3,201,318)</u>
	15,488,220	16,217,867
	<u>\$21,444,087</u>	<u>\$19,314,640</u>

The accompanying notes are a part of the
consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

for the years ended June 30, 1980 and 1979

	1980	1979
Revenues:		
Merchandise sales	\$ 1,801,140	\$ 2,749,824
Seafood sales	527,184	
Rentals	440,533	474,826
Interest and investment income	157,642	133,023
Natural resource revenue (7(i) income) received from other regional native corporations (Note 7)	254,623	
Other	23,726	41,920
	<u>3,204,848</u>	<u>3,399,593</u>
Operating expenses:		
Cost of merchandise sales	1,669,438	2,698,156
Cost of seafood sales	614,520	
General and administrative (including direct costs of rental properties):		
Personnel	514,076	470,717
Directors' fees and expenses	36,973	92,928
Professional fees and expenses:		
Legal	154,875	90,021
Accounting	60,312	48,470
Other	47,870	119,894
Rental, utilities and janitorial	175,392	135,198
Travel	59,638	73,222
Provision for bad debts	16,884	54,505
Depreciation and amortization	168,311	125,203
Interest	344,720	265,733
Insurance	53,548	36,871
Taxes	45,877	44,533
Other	205,605	180,189
	<u>4,168,039</u>	<u>4,435,640</u>
Loss from operations	(963,191)	(1,036,047)
Equity in loss of investee (KISI)	(280,671)	(16,330)
Net loss	(1,243,862)	(1,052,377)
Accumulated deficit, beginning of year	(3,201,318)	(2,148,941)
Accumulated deficit, end of year	<u>\$(4,445,180)</u>	<u>\$(3,201,318)</u>
Loss per common share	<u>\$ (3.73)</u>	<u>\$ (3.21)</u>

The accompanying notes are a part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

for the years ended June 30, 1980 and 1979

	1980	1979
Sources (applications) of working capital:		
Operations:		
Net loss	\$(1,243,862)	\$(1,052,377)
Depreciation and amortization	258,660	160,339
Equity in loss of Kodiak Island Seafoods, Inc.	280,671	16,330
Gain on sales of property and equipment	(4,313)	(38,668)
Working capital used in operations	(708,844)	(914,376)
Collection and current maturities of noncurrent receivables:		
Alaska Native Fund	7,194,936	3,471,217
Village corporations		85,000
Notes	2,542	118,238
Long-term borrowings	637,395	700,422
Allocation of land selection costs to village corporations	24,903	
Contributed capital (\$514,163) and common stock (\$52) adjustments (Note 11)	514,215	
Proceeds on dispositions of property and equipment	95,621	43,045
Purchases of property and equipment	(3,453,977)	(224,912)
Decrease (increase) in Cape Chiniak Impact Center Joint Venture:		
Investment	41,365	(6,348)
Receivable	326,180	182,849
Land selection costs incurred	(133,646)	(134,347)
Investment in oil, gas and hydrocarbon leases	(1,287,700)	
Investment in Kodiak Island Seafoods, Inc.		(819,000)
Expenditures on land and land improvements held for development		(101,848)
Payments on long-term debt	(174,666)	(218,191)
Increase in other miscellaneous assets	(18,155)	(35,251)
Increase in working capital	<u>\$ 3,060,169</u>	<u>\$ 2,146,498</u>

Continued

CONSOLIDATED STATEMENTS OF CHANGES IN
FINANCIAL POSITION, Continued

for the years ended June 30, 1980 and 1979

	<u>1980</u>	<u>1979</u>
Changes in components which increased (decreased) working capital:		
Cash	\$ 110,153	\$ (57,219)
Investments	7,575,698	42,560
Receivables	(2,449,653)	1,439,024
Inventories	172,929	(269,099)
Property held for sale		(57,828)
Other current assets	47,407	(2,540)
Notes payable	(2,412,829)	961,243
Accounts payable and customer deposits	18,312	145,500
Exploration monies	116,602	(55,297)
Accrued expenses	(118,450)	154
Increase in working capital	<u>\$3,060,169</u>	<u>\$2,146,498</u>

The accompanying notes are a part of the
consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Alaska Native Claims Settlement Act (the Act):

The Act entitles Alaska Natives to 44 million acres of land and monies totaling \$962,500,000. The monies will be deposited in the Alaska Native Fund, \$462,500,000 by the Federal government and \$500,000,000 from royalties and lease sales of minerals owned by the State of Alaska and the Federal government in Alaska.

The Act provides for division of the State of Alaska into twelve regional areas, each of which is represented by a regional corporation. Further, a thirteenth regional corporation was established for those Alaska Natives residing outside of Alaska. Each regional area has, in turn, a number of village corporations which were also established by the Act.

Enrollees to regional and village corporations become stockholders of such corporations and are required to be Alaska Natives as defined in the Act. Monies provided by the Act are distributed from the Alaska Native Fund to regional corporations based on enrollment percentages. Land provided by the Act is allocated to regional areas based on a formula which includes both enrollment and land area. All subsurface rights to land will vest with the regional corporations, while surface rights will be allocated between regional and village corporations.

Section 7(i) of the Act provides that 70 percent of revenues received by each regional corporation from timber resources and subsurface estate patented to it under the Act shall be divided annually among the twelve Alaskan regional corporations in proportion to the number of enrollees in each (see Note 7).

Section 7(j) of the Act requires that each regional corporation distribute certain portions of funds received by the regional corporation:

- (a) from the Alaska Native Fund, and
- (b) under Section 7(i) of the Act.

Not less than 50% of the funds, in the above two categories which are received after December 18, 1976 must be distributed to the village corporations in the region and to "at-large" stockholders (those stockholders not also stockholders in a village corporation). Prior to December 18, 1976, a different basis of distribution was applicable.

2. Incorporation and Significant Accounting Policies:

Koniag, Inc., Regional Native Corporation, was incorporated on June 23, 1972 under provisions of the Act.

The following is a summary of significant accounting policies adopted by the Company:

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, The Kazim Company, Kodiak Swiftsure Corporation (formerly Southcentral Ocean Resources Enterprises, Inc.), Shelikof Net Company (owned by The Kazim Company), and Cook Inlet Constructors, Inc. (owned by The Kazim Company and currently inactive). Inter-company transactions and accounts are eliminated in consolidation.

The Company is engaged in the businesses of general investments, seafood processing, commercial and residential real property investment and development, and fishing supply merchandise sales.

Seafood processing is conducted by Kodiak Swiftsure Corporation. The operating assets of a processing plant located in Kodiak, Alaska were purchased in March, 1980 for cash and notes. Swiftsure's operations in fiscal 1980 were limited to the herring fishery season. Fishing supply sales are conducted by Shelikof Net Company. Transactions are conducted in the normal course of Shelikof's and Swiftsure's business with stockholders, directors and officers of the Company.

Investments in affiliates 20% to 50% owned are recorded at cost, adjusted for Koniag's equity in undistributed earnings or losses since acquisition. Investments in companies in which the ownership interest is less than 20% are carried at cost.

See Note 4 with respect to the Company's joint venture operations.

Receipts from Alaska Native Fund

The Company's share of receipts and estimated future receipts of monies from the Alaska Native Fund under provisions of the Act are recorded as contributed capital. Future receipts have not been reflected at present value (see Note 3).

Continued

2. Incorporation and Significant Accounting Policies, Continued:

Inventories

Inventories are priced at the lower of cost (first-in, first-out) or market.

Land Selection Costs

The Company has elected to defer expenses incurred for land selection. Such deferred costs will be allocated to real property interests as they are conveyed to the Company (see Notes 1 and 3).

Depreciation and Amortization

Depreciation and amortization of property and equipment is provided by the straight-line method over the estimated useful lives of the assets (or terms of related leases for leasehold improvements, if shorter). Gains and losses from asset disposals are included in operating results.

Investment Tax Credits

Investment tax credits will be accounted for as a reduction of income tax expense in periods allowable as credits to taxes payable (the "flow-through method").

3. Monies and Land Received and to be Received as a Result of the Act:

The Company's share of the monies has been included in the financial statements on the assumption that the Koniag region will receive 4.246 percent of \$962,500,000 (see Note 1). This is the percentage of enrollment in the Koniag region to the total enrollment of all 13 regions (3,331 to 78,454). This is subject to change pending results of an extension of the enrollment process which closed December, 1976. Such extension allowed Alaska Natives who had not previously enrolled to do so. The Bureau of Indian Affairs has not yet certified the final enrollment. Management does not expect that the Company's share will change materially as a result of final determination of such enrollment.

It is presently estimated that the Company will receive the balance of monies from the Alaska Native Fund as follows: \$636,870 in fiscal year 1981 and \$636,841 in fiscal year 1982.

Continued

3. Monies and Land Received and to be Received as a Result of the Act, Continued:

In addition to monies discussed above, the Company estimates that it will receive subsurface rights to a minimum of approximately 1,101,000 acres of land, of which approximately 185,000 acres will be restricted to oil and gas rights, and of which approximately an additional 68,438 acres are for the time being restricted to oil and gas. Surface rights will be owned principally by village corporations in the region. Subsurface rights will be recorded at fair value upon interim conveyance, but not before such fair value has been determined. The value of subsurface rights, and revenues which will ultimately be realized therefrom, are considered by management to be material to the financial statements. Amounts ultimately recorded for surface and subsurface rights, less previously recorded land selection costs, will increase contributed capital.

The Company and village corporations have requested the Congress of the United States to make certain modifications in the selection of both surface and subsurface lands whereby entitlement to surface and/or subsurface estate on the Alaska Peninsula would be exchanged for surface and subsurface estate in lands located on Afognak Island. Provisions embodying this request are included in the D-2 legislation (HR 39) which, as of August 1980, had been passed by both the House of Representatives and the Senate. While the provisions respecting the Koniag Exchange proposal are identical in the Versions of HR 39 as passed by the House and Senate, there are differences in other aspects which must be reconsidered. The legislation therefore remained pending before Congress when it recessed temporarily on October 4, 1980. If the Exchange proposal is adopted by the Congress, the Company estimates that it will own approximately 1,094,000 acres of subsurface estate, of which approximately 393,000 acres will be oil and gas rights only. In addition, the Company estimates that if the Exchange proposal is adopted it will own a fractional interest in a land ownership and timber joint venture on Afognak Island (the other venturers being the village corporations) based on the Company's entitlement of approximately 53,000 acres.

4. Investments in Affiliates and Joint Venture Operations:

Investment in Affiliates

In November, 1978, the Company acquired 234,000 shares of common stock of Kodiak Island Seafoods, Inc. (KISI), representing a 23.54% equity interest. KISI operates a cannery, fishing vessels and a store and is located in Larsen Bay, Alaska.

Continued

4. Investments in Affiliates and Joint Venture Operations, Continued:

Investment in Affiliates, Continued

KISI was formed in 1975 by three village corporations, Nu-Nachk Pit, Inc. (Larsen Bay), Old Harbor Native Corporation and Karluk Native Corporation. In 1978, Leisnoi Native Corporation also invested in KISI.

KISI reported a net loss of \$1,192,265 for the year ended March 31, 1980. At that date, it had an accumulated deficit of \$2,405,388 and total stockholders' equity deficiency of \$426,388. The Company's equity in KISI's net loss for fiscal 1980 was \$280,671.

The cost of the Company's investment was \$622,343 in excess of its equity in KISI's underlying net assets at date of acquisition. This excess cost (goodwill) is being amortized over 20 years on a straight-line basis. Amortization for 1980 and 1979 was \$41,082 and \$3,000, respectively.

The Company has guaranteed certain bank loans of KISI which amounted to \$473,000 at June 30, 1980.

The Company and the remaining shareholders of KISI have jointly and severally guaranteed a line of credit from a bank of up to \$4,700,000, but not in excess of the borrowing base which is an amount calculated from stipulated percentages of eligible trade accounts receivable and canned salmon inventories (\$361,743 in related loans outstanding at June 30, 1980).

Also, the Company has guaranteed a line of credit from a KISI supplier, not to exceed \$85,000, to December 31, 1980.

Cape Chiniak Impact Center Joint Venture

The Company selected, for a village corporation in its area, under Section 12(b) of the Act, certain lands located on Cape Chiniak, Alaska. Situated on the lands are commercial quantities of timber, numerous buildings, and some personal property. The village corporation entered into a joint venture agreement with certain other village corporations in the regional area and the Company. The agreement calls for the joint development of the property and, in effect, gives the Company a 50 percent income interest in the joint venture and its properties except for rentals of real property which are for the account of the village venturers in their entirety. The Company has been retained by the joint venture to manage the properties.

Continued

4. Investments in Affiliates and Joint Venture Operations, Continued:

Cape Chiniak Impact Center Joint Venture, Continued

Effective February 1, 1979, the joint venture leased a portion of the facilities to the U.S. Department of Labor, Job Corps for operation of a Job Corps Center. The lease has been terminated by the Job Corps effective September 30, 1980.

Through June 30, 1980, the Company has advanced funds in its management function and allocated certain general and administrative expenses. The Company's share of the joint venture net expenditures (\$523,193) has been included in the balance sheet as an investment. Unreimbursed advances of \$46,099 at June 30, 1980 due from the U.S. Department of Labor, Job Corps, are included in other current receivables.

5. Investments in Securities:

Investments consist of the Company's financial interest in the net assets of a joint investment account.

Joint investments at June 30, 1980 consist of the following:

Cash and short-term cash investments (from receipts of Alaska Native Fund distribution made June 30, 1980)	\$14,204,923
U.S. Treasury notes	3,357,945
Smithkline Corporation, 8.15% bonds due December 15, 1984	150,000
Dreyfus Mutual Fund	167,740
Accrued interest	75,027
	17,955,635
Amounts held in trust for benefit of village corporations and shareholders	(10,191,728)
Company share	<u>\$ 7,763,907</u>

6. Property and Equipment:

Property and equipment at June 30, 1980 consists of the following:

	<u>Total</u>	<u>Operating</u>	<u>Rentals</u>
Land	\$1,031,994	\$ 593,909	\$ 438,085
Buildings	4,344,259	2,001,146	2,343,113
Dock	419,089	419,089	
Leasehold improvements	111,845	111,845	
Residential furniture	141,643		141,643
Office furniture and equipment	108,015	108,015	
Machinery and equipment	1,222,795	1,222,795	
Vehicles	61,369	61,369	
Training equipment	23,052	23,052	
	7,464,061	4,541,220	2,922,841
Accumulated depreciation and amortization	(608,820)	(252,270)	(356,550)
	<u>\$6,855,241</u>	<u>\$4,288,950</u>	<u>\$2,566,291</u>

7. Assets in Amounts to be Determined and Related Liability for Exploration Monies Received:

As indicated in Note 1, Section 7(i) of the Act provides that certain natural resource revenues received by regional corporations are subject to redistribution to all twelve Alaskan regional corporations. Section 7(i) is the subject of litigation which will determine the method of computing redistributable amounts and proportionate basis for re-distributions among regional corporations. During 1979, the regional corporations were ordered by the court to make distributions of the uncontested portion of 7(i) receipts. The Company received \$254,623 of such distributions in fiscal 1980. The Company's interest in remaining redistributions cannot be finally determined until conclusion of litigation and until other regional corporations make available detailed information regarding such amounts. Public statements issued by certain other regional corporations indicate that substantial transactions have been entered into which involve Section 7(i) monies.

7. Assets in Amounts to be Determined and Related Liability for Exploration Monies Received, Continued:

To date, the Company has itself generated resource revenues distributable to other regional corporations under Section 7(i). Seventy percent of the gross amount, including accrued interest, and after payments of uncontested amounts of \$173,874, has been included in the balance sheet as a liability. The amount is subject to reduction for deferred exploration and other costs as determined by litigation referred to above.

It is management's opinion that monies to be received from other regional corporations will be material to its financial statements.

8. Investment in Oil, Gas and Hydrocarbon Leases:

On November 11, 1979, Koniag, Inc., Regional Native Corporation (Koniag, Inc.) entered into a joint venture agreement with Sohio Natural Resources Company (Sohio), BP Alaska Exploration Inc. (BP) and three other investors to bid on leases of certain parcels of land in the Beaufort Sea area. These parcels were offered for lease in December 1979 during the joint Federal/State government, Beaufort Sea Oil and Gas Lease Sale. Koniag, Inc. had a 1% participating interest in this agreement which called for the payment of 1% of all bidding and shared information costs.

The joint venture's bids were successful on several tracts. On March 13, 1980, the venturees entered into operating agreements for the purpose of exploration, development and operation of the tracts of land covered by the leases. Sohio and BP are the primary participants, holding 96% to 97% combined interest (depending on tracts leased), with Sohio designated as the operator. The Company has a 1% participating interest in these agreements which provides for payment of 1% of all costs and ownership of 1% of all production and assets acquired. There has been no exploration or development work conducted as of June 30, 1980. The Company's share of costs incurred to date, principally lease bid/acquisition costs, have been capitalized.

The joint venture agreement is in effect to February 1, 1990 and so long thereafter as any lease or lease extension, or renewal is in force, unless terminated by unanimous consent. At its election, the Company may suspend payment of its 1% share of costs incurred relating to any or all of the leased tracts. If this election is exercised, the Company's participating interest is accordingly reduced.

9. Notes Payable, Banks:

Notes payable to banks at June 30, 1980 consisted of the following:

Note originally due in various installments to October 1, 1981 (paid in full July 1, 1980)	\$1,051,340
Note due October 1, 1980, with interest at 2% above the bank's prime lending rate	25,000
	<u>\$1,076,340</u>

Alaska Native Fund receivables were pledged as collateral under these notes.

10. Long-term Debt:

Long-term debt at June 30, 1980 consists of the following:

	<u>Current</u>	<u>Long-term</u>
Notes payable collateralized by deeds of trust on real property:		
Credit union, due in monthly installments of \$9,319 including 9 percent interest	\$ 59,135	\$ 552,965
First National Bank of Anchorage, due in monthly installments of \$4,298 including 10 percent interest	17,175	334,614
Kodiak Welding and Fishing Supply Co., Inc., due in monthly installments of \$2,831 including 10 percent interest	10,275	231,354
National Bank of Alaska, due in monthly installments of \$3,056 including 8 percent interest	27,904	94,392
R.S. Acheson Company, due \$20,000 annually plus 10 percent interest	20,000	80,000
First National Bank of Anchorage, due in monthly installments of \$1,424 including 9.5 percent interest	12,913	36,851

10. Long-term Debt, Continued:

	<u>Current</u>	<u>Long-term</u>
Swiftsure Fisheries, Inc., due in annual installments of \$175,876 plus 12% interest	\$ 175,876	\$ 626,772
Seattle-First National Bank, due in quarterly installments of \$30,000, including interest at the prime rate plus 2.5%; but not to exceed 12% (paid in full October 1, 1980)	666,849	
Seattle-First National Bank, due in quarterly installments of \$26,000, including interest at the prime rate plus 2.25% (paid in full October 1, 1980)	566,051	
Notes payable collateralized by security agreements on inventories and property and equipment:		
U.S. Small Business Administration, due in monthly installments of \$925 including 5.5 percent interest	7,456	62,189
J.M.B. Corporation, due \$10,396 annually plus 8 percent interest	10,396	51,978
Other, including purchase contracts and capitalized lease obligations, at monthly payments of \$1,505 including interest from 13% to 15.25% and semi-annual installments of \$427 plus 7% interest	<u>18,807</u>	<u>13,186</u>
	<u>\$1,592,837</u>	<u>\$2,084,301</u>

11. Capital Stock and Contributed Capital:

As provided in the Act, 100 shares of stock have been issued to each Native person enrolled to the Company. The shares are in two classes of common stock; Class A for persons also enrolled to a village corporation and Class B for the remaining at-large enrollees.

Continued

11. Capital Stock and Contributed Capital, Continued:

The extension of the enrollment process (which closed in December 1976, see Note 3) resulted in 52 and 12 new enrollees and, 5,200 and 1,200 additional shares of stock issued by the Company during fiscal years ended June 30, 1980 and 1979, respectively.

An adjustment to contributed capital of \$514,163 giving effect to these and prior years' changes in enrollment was recorded in fiscal 1980.

12. Income and Property Taxes:

Monies and properties received under provisions of the Act are not subject to any form of Federal, state or local taxation at time of receipt.

Real property interests received under the Act which are not developed or leased to third parties are exempt from state and local property taxes until December 18, 1991.

Income derived from real property interests, investments and operations are subject to applicable Federal and state taxes.

The Company has a net operating loss carryforward for Federal income tax purposes of \$3,298,000 at June 30, 1980 available to reduce future income taxes, if any. The loss carryforwards expire as follows:

June 30, 1983	\$ 718,000
1984	416,000
1985	291,000
1986	955,000
1987	<u>918,000</u>
	<u>\$3,298,000</u>

Investment and new jobs tax credits of approximately \$143,000 are also available to offset future income taxes payable.

13. Retirement Plan:

The Company has a non-contributory retirement plan which covers substantially all of its employees (except employees of Kodiak Swiftsure Corporation) who meet certain eligibility requirements as to age and length of service. The plan requires that annual contributions be made to an insurance company for future purchase of individual annuity contracts. Pension expense was \$47,862 in 1980 and \$37,694 in 1979, which includes amortization of past service costs over a period of 30 years. The Company's policy is to fund pension costs accrued.

14. Subsequent Event:

The Company's Board of Directors on October 6, 1980 approved a plan for the merger of certain Koniag region village native corporations with the Company. The Board of Directors of village corporations who also approved the plan of merger were Afognak Native Corporation., Akhiok-Kaguyak, Inc., Karluk Native Corporation, Leisnoi, Inc., Nu-Nachk Pit, Inc., and Old Harbor Native Corporation. The plan of merger is subject to the affirmative vote by a majority of shareholders of the Company and each participating village native corporation.