



KONIAG, INC.

HARBOR VIEW COMPLEX

P.O. Box 746

(907) 486 - 4147

KODIAK, ALASKA 99615

November 9, 1983

Dear Shareholders:

The year ending March 31, 1983 was a disastrous one for Koniag. Since Koniag's birth in 1971, it has lost \$18,262,130. Nearly half of that loss or \$9,026,819 occurred last year. In order to satisfy creditors, assets are now being placed on the market which may sell below their original purchase price. If so, those losses which will occur in future years will be but a returning echo of the disastrous 1983 fiscal year.

The large 1983 loss coupled with huge debt caused past management to announce that Koniag was on the verge of bankruptcy. The auditors, upon independent review, stated in the audit the "going concern" exception. This exception is included when factors indicate that the Corporation may not continue in existence. Koniag, in effect, was declared near corporate death.

Shareholders, Koniag survives today in spite of all the pronouncements. Koniag survives because of the immediate life saving steps taken after the annual meeting in June. The first and most important step was to stop the massive outflow of money, the corporation's life blood. The process included:

- * negotiating to end the ongoing, costly litigation;
- * drastically reducing staff;
- * reducing the salary range of the remaining positions to reflect local pay scales;
- * increasing accountability for cash sales, accounts receivable and inventory;
- * canceling nonessential goods and services; and
- * monitoring and limiting purchases of essential goods and services.

This major life saving step has been, to a large extent, completed. The most important exception is the merger litigation which is waiting court approval presently. However, the Board of Directors have full confidence that court approval will be forthcoming.

Koniag Shareholders
November 9, 1983
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Next in the survival process are two steps of equal importance which are presently ongoing. The first aspect is that of evaluating assets to determine profitability potential and identifying present revenue sources. Assets are being examined for development in the near and long term future. Operational corrections of present revenue sources such as Shelikof Net and Harborview Apartments are being undertaken to increase profitability.

The second aspect is that of negotiating with creditors to obtain fair and reasonable repayment terms. The large debt of \$11,556,994 incurred in the past is not, contrary to common opinion, largely attributed to litigation expenses. Litigation debt, at present, is less than \$2,000,000. Creditors range from trade creditors who supplied goods and services, state agencies assessing past due 1980 to 1982 fish taxes and property taxes, employees pension funds, professionals, lawyers and others, who provided general business advice and lobbying services, and various in-state and out-of-state banks. All have special needs and the Corporation is honestly attempting to satisfy those needs.

This second stage of the survival process, that of profitability and creditor satisfaction, can more aptly be called the healing process. Successful negotiations with creditors and development of stable revenue sources which provide profits to the corporation and direct benefits to its shareholders will start the corporation on the long road to recovery.

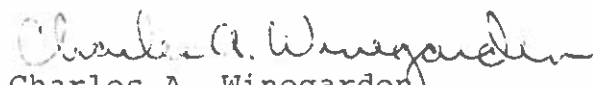
Like all entities recovering from near death, the Corporation needs the support and cooperation of those who are most important to it---its shareholders.

We invite all interested shareholders to stop by the Corporation's offices for a visit. We will be glad to answer your questions regarding the economic health of the Corporation. We are trying hard to develop an atmosphere in which you will not only feel welcome but also will feel comfortable asking questions or offering suggestions on operations or constructive criticism.

We need your support at the annual meeting. Please come.

Sincerely,

KONIAG, INC.


Charles A. Winegarden
Executive Vice President

CW/dh



KONIAG, INC.

HARBOR VIEW COMPLEX

P.O. Box 746

(907) 486-4147

KODIAK, ALASKA 99615

November 9, 1983

Dear Shareholders:

We have been in office a short six months and time already approaches for another annual meeting. Given the state of your corporation, the Board may have delayed your annual meeting for another six months but we all felt that it was important to hold ourselves to the requirements of the Koniag by-laws, those by-laws call for an annual meeting in December.

Your corporation is not the healthiest company in Alaska but it is alive. Earlier predictions by past management stated that in order for the company to survive chapter 11 bankruptcy would have to be declared. Your Board tightened up operations and kept Koniag out of bankruptcy so far. We are not out of the dark tunnel yet but we are making progress.

With regard to the out-of-court settlement proceedings on the 1980 merger litigation, you as Koniag, Inc. shareholders should be receiving notice of the settlement agreement from the State Superior court soon. You are encouraged to seriously review and consider the litigation settlement information and respond accordingly.

AFN held its annual convention in October and as usual, it was well attended. The theme of this years convention was 1991. AFN was charged with identifying and studying the options available to us on what to do about the stock alienation and other ANCSA issues. If we sell our stock to non-natives how do we as natives keep control of our corporation? If we sell our stock, who will own and control our lands? Plans must be developed and implemented in the next five years to answer these questions. We will lose what is ours by birthright if we do not act.

Although 1991 is the biggest issue facing us, we must save the Corporation first. If we lose our assets before we get to 1991, there won't be anything left. The only way to protect against the loss of assets is for each and everyone of you as stockholders to watch over our corporation. Keep your leadership accountable by letting us know you are out there and what you are thinking.

Koniag Shareholders
November 9, 1983
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As you know 51% of you must be present in person or by proxy in order for your corporation to have the annual meeting. Please sign and return your proxy to Peat Marwick & Mitchell at the address stated in the proxy material. We need your support please help.

Sincerely,

Ralph Eluska

Ralph ELuska, Sr.
Chairman, Board of Directors

RES/dh



KONIAG, INC.

HARBOR VIEW COMPLEX

P.O. Box 746

(907) 486-4147

KODIAK, ALASKA 99615

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
Saturday, December 10, 1983

Dear Shareholders:

Notice is hereby given that the Annual Meeting of Shareholders of KONIAG, INC. (The "Company") will be held at 10:00 o'clock in the morning, on Saturday, December 10, 1983 at the American Legion Hall, Kodiak, Alaska, for the following purposes:

- (1) To elect three (3) directors to serve for a term of three years; and
- (2) To transact such other business as may properly come before the meeting.

Shareholders of record on the books of the Company at the close of business on November 5, 1983, will be entitled to notice of and to vote at the meeting and any adjournment thereof.

November 9, 1983

KONIAG, INC.

By Frank R. Peterson
Secretary

IMPORTANT NOTICE

1. WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON, PLEASE SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD IN THE STAMPED ADDRESSED ENVELOPE PROVIDED FOR THIS PURPOSE.

The giving of a proxy will not affect your right to vote at the meeting if the proxy is revoked as described in the accompanying proxy statement.

2. All proxies must be RECEIVED at the Anchorage office of Peat Marwick Mitchell & Co. at or before 5:00 p.m. on December 5, 1983.

ANY PROXIES RECEIVED AFTER THAT TIME WILL NOT BE VOTED AT THE MEETING

PRIZES - POTLATCH - MUSIC - ENTERTAINMENT - DANCING - PRIZES

TO: ALL KONIAG SHAREHOLDERS
DATE: December 10, 1983
RE: Koniag/KANA Potlatch and Dance/Entertainment

Koniag, Inc. and the Kodiak Area Native Association (KANA) are jointly sponsoring a potlatch on December 10, 1983, following the Annual Stockholders meeting. The potlatch will be held at the American Legion Hall, Kodiak beginning with a NO HOST cocktail hour from 6 - 7 p.m., potlatch from 7 - 9 p.m. and dancing until ??????? Remember----All activities will be held at the American Legion.

There will be no charge for admission to the meeting. However donations will be requested for admission to the potlatch. All funds donated will go to KANA's Skip Eaton Scholarship fund. Each stockholder family is asked to bring a dish or food (your specialty) to add to the potlatch.

Coordinating all activities for this potlatch is Julie Knagin. Acting as chairpersons are Chickie Wegdahl and Tisha Harris, both of whom may be contacted at KANA by telephoning 486-5725. If you are interested in assisting with this potlatch or are willing to prepare a dish, please contact either Chickie or Tisha.

PRIZES - PRIZES - PRIZES - PRIZES

Winners will be selected in random drawing at the potlatch following the Annual Stockholders meeting of Koniag, Inc. On December 10, 1983.

To be eligible for any prize you must be:

1. A voting stockholder of Koniag, Inc.
2. You must vote in person or sign and submit your proxy by the specified date in this election.

(You need not be present to win, but you must vote to be eligible.)

NOTICE: Koniag staff, employees and Directors are NOT eligible to win any prize.

KONIAG, INC.
PROXY STATEMENT

General Information

This proxy statement and the accompanying form of proxy are furnished in connection with the solicitation of proxies by the Board of Directors of Koniag, Inc. (The "Company") for use at the Annual Meeting of Shareholders to be held on Saturday, December 10, 1983, and at any adjournment or adjournments thereof. Only shareholders of record on the books of the Company at the close of business on November 5, 1983, (the "Record Date") will be entitled to vote at the meeting. Management anticipates that the mailing to shareholders of the proxy statement and form of proxy will occur on or about November 10, 1983.

If the accompanying form of proxy is properly executed and returned, the shares represented thereby will be voted in accordance with the instructions specified in the proxy. In the absence of instructions to the contrary, the shares will be voted for all of the nominees listed in this proxy statement and named in the form of proxy.

Any shareholder who signs a proxy may revoke the proxy by taking any of the following actions:

1. Signing either a proxy or a written notice revoking the proxy, dated as of a later date than the proxy to be revoked, and delivering the later dated proxy or notice of revocation to the following address at or before 5:00 p.m. December 5, 1983:

Peat Marwick Mitchell & Co.
601 W. 5th Ave., Suite 700
Anchorage, Alaska 99501

2. Appearing at the Annual Meeting in person and casting a ballot for the election of directors.

ELECTION OF DIRECTORS

At the Annual Meeting the Company's shareholders will elect three directors to serve for a term of three years and until their successors are elected and qualify.

The only voting securities of the Company are its shares of Class A and Class B common stock (the "Common Stock").

When voting for Koniag directors, each shareholder has the number of votes equal to the number of shares owned times the number of directors to be elected. Three directors will be

elected at the Koniag Annual Meeting on December 10, 1983. If you own 100 shares of Koniag, Inc., for example, you have 300 votes for director. With cumulative voting, you may cast your votes all for one person, or distribute them among as many candidates as you wish, in the amounts you wish. This method of voting was designated to protect the interests of minority shareholders.

Up to the number of directors to be elected, the candidates receiving the highest number of votes shall be elected, provided that said number of candidates for directors have a combined vote total equal to a majority of the votes cast. In the event that a majority of the votes cast is not obtained in the election, then the candidate with the lowest number of votes will be dropped from the subsequent ballot and a further round of balloting will be held. This procedure shall continue until the votes of a majority of the shares voted is obtained.

As of the Record Date of the Annual Meeting 222,988.167 Class A and 221,241.112 Class B shares of Common Stock were entitled to vote at the Annual Meeting. If pending litigation regarding the mergers of village corporations with Koniag, Inc. is settled prior to the meeting date of December 10, 1983 the Class B shares of Common Stock that shareholders of the village corporations involved in litigation obtained through the merger may not be entitled to vote on December 10, 1983.

NOMINEES OF THE BOARD OF DIRECTORS

The Company's Board of Directors has nominated the persons named below for election as directors at the Company's Annual Meeting. Unless otherwise instructed by the shareholders in the proxy, the persons named as proxies in the enclosed proxy form intend to vote all shares represented by properly signed proxies for the nominees listed below. Although the Board of Directors believes that all of its nominees will be available to serve as directors of the Company, should any one or more of them not accept the nomination or be unable or unwilling to serve, it is intended that the proxies will be voted for the election of a substitute nominee or nominees designated by the Board of Directors.

Nominations at the Annual Meeting

Nominations can be made by the shareholders from the floor at the annual meeting as allowed by the By-laws, Section 10(E), of the Coporation.

The following table lists the names, addresses and ages of the nominees of the Board of Directors, and the year in which each was either elected or appointed to serve as director before.

<u>Name & Address</u>	<u>Age</u>	<u>Annual Meeting First Elected/Appt.</u>
Lawrence Anderson P.O. Box 1013 Kodiak, Alaska 99615	50	N/A
Jim Dunham 1530 S. Lake Stickey Lynnwood, Washington 98036	37	N/A
Frank Pagano 2247 W. 46th St. Anchorage, Alaska 99503	56	Elected 1976 Elected 1979 Appt. 1982

LAWRENCE ANDERSON was born and raised on Kodiak Island, has been married to Haroldean for 27 years and they have nine children. Six are now married and the three youngest attend schools in Kodiak. He served two years in the U.S. Army and was honorably discharged in 1955. He was employed by the City of Kodiak for seven years as a patrolman and transferred to the Kodiak Small Boat Harbor and worked another seven years. He is presently employed by the Kodiak Island School District as a dayman at Peterson Elementary School. Lawrence has worked for the district for 10 years and is a self-employed commercial fisherman during the summer. He was recently appointed to the Resource Board for the Natives of Kodiak. He has served as a scoutmaster in Kodiak for two years and is a member of the Elks Club, BPOE 1772 and a member of the Russian Orthodox Church. He has served two years on the Church Council and two years as president of the St. Innocent Brotherhood. He is presently serving a three year term on the Kodiak Port Advisory Board and was president of the Kodiak Island Borough School District Classified Association for two years, and is now representative from Peterson School for the Joint KSCDA/Administration Committee. He is second cousin to William Anderson.

JIM DUNHAM was born in Tulsa, Oklahoma and moved back to Kodiak with his parents at the age of six months. He graduated from Ballard High School in Seattle, and worked in fisheries in Kodiak in 1965. He served in the Armed Forces from 1965 to 1971. He worked as a painter for Vanderlip Company in Seattle and in 1971 became a partner in that business. In 1980 he formed his own company, Southeast Alaska Construction, and was instrumental in the construction of the new Alaskas Airlines Terminal building located in Kodiak, which was constructed in 1983. He is first cousin to Arnold Olsen.

FRANK PAGANO was born in Kodiak, Alaska and is married to Ellen Simeonoff. They have three children. He served in the U.S. Army in the Korean War and is retired from the Alaska Army National Guard and from the Civil Service. He is a past board

member of Leisnoi, Inc. and has served on the Koniag Board for about six years. He was a police officer for four years for the City of Kodiak and has been a commercial fisherman. His experience and background is in personnel administration, investigations, and program management. He resigned from the Koniag Board in March 1982 along with others because he felt that the corporation was being grossly mismanaged and efforts were not being made to settle the Olsen litigation. Because of the controlled board by management, they were unable to change the direction of the corporation. He, along with others mailed newsletter to shareholders stating their concern and information concerning the corporation mismanagement. Because of this, the past board and management filed a complaint with the Securities Commission and a \$5 million lawsuit against him and others. These lawsuits and complaint with the Securities Commission have not been settled to date. The present board has agreed to settle in principle, however, has not finalized an agreement. The law suit and complaint were filed by the past board and management to harrass and scare off any shareholders from voicing their complaints against the corporation for mismanagement. He supported and took part in the recall of the past board during the June 1983 meeting and was appointed to the board to fill a vacancy which expires this year. He is father to Michael Pagano, brother-in-law to Judy Meidinger, and second cousin to Emil Norton.

DIRECTORS CURRENTLY IN OFFICE

The Company's Board of Directors consists of nine (9) directors, each of whom serves for a term of three years. Consequently the directors elected at the Annual Meeting of 1982 will continue in office after the 1983 Annual Meeting. The directors appointed at the 1982 Annual Meeting to fill the two year seats, left vacant upon resignation of directors, will continue in office until the terms of those seats are expired. The following table lists the names, addresses and ages of directors continuing after the 1983 Annual Meeting.

<u>Name & Address</u>	<u>Age</u>	<u>Annual Mtg. 1st Elected/ Appt. Director</u>	<u>Year Current Term Expires</u>
William "Andy" Anderson Box 67 Ouzinkie, Alaska 99644	35	1982	1984
Ralph Eluska 5028 Mills Dr. Anchorage, Alaska 99503	38	1982	1985

Judy Meidinger 2711 Valley Forge Circle Anchorage, Alaska 99502	43	1982	1985
Emil Norton Box 1002 Kodiak, Alaska 99615	61	1982	1985
Arnold "Ole" Olsen Box 555 Kodiak, Alaska 99615	36	1982	1983
Frank Pagano 2247 W. 46th St. Anchorage, Alaska 99503	56	1976	1983
Michael Pagano 8040 Fairwood Circle Anchorage, Alaska 99502	24	1981	1984
Frank Peterson Box 1639 Kodiak, Alaska 99615	43	1978	1984
Vacant			1983

WILLIAM "ANDY" ANDERSON was born and raised in Ouzinkie and attended high school at Mt. Edgecumbe High School. He attended Sheldon Jackson and Central Washington State College. Served in the U.S. Army from 1969 to 1972. From 1972 to 1973 worked as teletype operator at ITT in Anchorage. From 1973 to 1974 he was employed as Indian Education Coordinator at State Operated Schools. From 1974 to present he has been employed at Ouzinkie Native Corporation as Manager and served as President from 1974 to 1980. He has served on the Koncor Board of Directors since 1966. He is second cousin to Lawrence Anderson.

RALPH ELUSKA was born in Akhiok on Kodiak Island and graduated from Mt. Edgecumbe High School in 1964. He graduated from Ft. Lewis College in Durango, Colorado in December 1969 with a BA Degree in Education. He served as Director of Comprehensive Fisheries Program, Alaska Native Foundation; Special Assistant to the Assistant Secretary of Indian Affairs, U.S. Department of Interior, BIA, Washington, D.C.; Deputy Director, Aleutian Pribilof Island Association; Economic Development Planner, KANA; Coordinator of Education Programs, Alaska State Operated Schools; Director, Student Special Services, Anchorage Community and Field Coordinator for Alaska State Community Action Programs College. He is currently the Director of Instructional Support, Rural Education, University of Alaska. He serves as First Vice President, National Congress of American Indians and Executive Council member to the World Council of Indigenous People. He is second cousin to Frank Peterson

JUDY MEIDINGER was born at Woody Island and has been a resident of Anchorage for 15 years. She has been employed as Executive Vice President of Alaska Native Foundation, Inc.; Executive Director, Copper River Native Association; Executive Director, Copper River Housing Authority; Management Specialist, Alaska Federation of Natives, Inc.; and private consultant. She is presently President of Counselor's Inc., providing management and community relations services to the oil industry in Alaska. Judy is presently a member of the Board of Directors of Alaska Federation of Natives, Inc., a statewide native organization serving Alaska native organizations for political and social advocacy, as well as a member of the Board of Directors of Common Sense for Alaska, Inc., a statewide organization advocating the "Common Sense" approach to growth and direction of government in Alaska. She is also a registered lobbyist. She is aunt to Michael Pagano and sister-in-law to Frank Pagano.

EMIL NORTON was born in Kodiak, graduated from Kodiak High School in 1940 and has been a lifelong resident of Kodiak. He served in the U.S. Army and is a World War II veteran. He has 45 years experience in fisheries and fisheries management. He has served as a Councilman for the City of Kodiak, as a member of the State School Board and as a member of the Kodiak Island Borough School Board. He is currently superintendent of Columbia Wards Fisheries in Kodiak and has been employed by them since 1968. He is second cousin to Frank Pagano and his wife is first cousin to Arnold Olsen.

ARNOLD "OLE" OLSEN was born on Afognak Island and was raised in Afognak and Kodiak. He graduated from Kodiak High School in 1966 and worked as a commercial pilot for several years in Anchorage, Fairbanks and Kodiak. He was President of Kodiak Island Seafoods from November 1977 through May 1980, and served as General Manager of Alaska Shell (Chignik Fisheries) from June 1980 to May 1981. He was employed by Queen Fisheries in Seattle and Alaska from May 1981 to February 1982, and was General Manager of Yakutat Fisheries in Yakutat and Seattle from February 1982 to January 1983. He is presently General Manager at Kodiak King Crab since January 1983. He attended the University of Portland from 1966 to 1968. He received his Flight Certificate from Treasure Valley College in Ontario, Oregon and attended there from 1968 to 1969. He attended the University of Alaska at Fairbanks from 1970 to 1972. He is presently serving as a Board Member of Afognak Corporation. He is first cousin to Jim Dunham and first cousin to Emil Norton's wife.

FRANK PAGANO served in the military from 1946 to 1952 and is retired from there. He also served in the Alaska National Guard. He worked in Kodiak as a commercial fisherman for several years. Employed by the City of Kodiak as a police officer from 1956 to 1963. He is retired from the FAA since 1982. He is a past board member of Koniag, Inc. and past board member of Leisnoi, Inc. He is presently employed by Counselor's, Inc. in Anchorage

as a field representative concerning issues in Western Alaska off-shore oil leases sales in the Bering Sea. He resigned from the Board of Directors for Koniag, Inc. because of differences concerning management and the law suits. Based on actions taken after that, was sued by Koniag, Inc. During the Annual Meeting of June 10, 1983, was appointed by the Board of Directors to fill a vacant seat which expires this year. He is father to Michael Pagano, brother-in-law to Judy Meidinger, and second cousin to Emil Norton.

MICHAEL PAGANO for the past five years worked in various seasonal jobs, including commercial fishing, carpentry and construction, oil drillings and hotel services. From 1976 to 1978 he was a student at the University of Alaska campuses of Fairbanks and Anchorage. He was a board of director of Leisnoi, Inc. from 1977 through 1980. He worked as a staff assistant in Senator Frank Murkowski's office in Washington, D.C. from January through April 1983. He participated in the Job Corps program at AFN in 1978 for two months. He is son to Frank Pagano and nephew to Judy Meidinger.

FRANK PETERSON was born in Lazy Bay (Alitak) on Kodiak Island and raised in Akhiok. He has lived in Old Harbor, Kodiak, Anchorage, Washington, D.C. and Larsen Bay. He graduated from Sheldon Jackson High School and served in the U.S. Marine Corps from 1960 to 1965. He worked for KACDC from 1967 to 1978, Rural CAP from 1968 to 1970 and served Congressman Nick Begich from 1970 to 1972. He worked for AFN from 1972 to 1974 and KANA from 1974 to 1979. He is currently a staff member of Koniag, Inc. He is chairman of the Afognak Joint Venture; member of Alaska Advisory Committee to U.S. Commission on Civil Rights; Director and Secretary of Koniag, Inc. Board of Directors; President of Ayakulik, Inc. and former Director of the Kodiak Area Native Association. He resigned from the Board of Directors in March 1982 along with others because he felt the corporation was being mismanaged. Because of this he, with others mailed newsletters to shareholders stating their concerns and information concerning the coporation mismanagement. The past board and management filed a complaint with the Securities Commission against him and others. This suit has not been settled to date. The present board has agreed to settle in princliple, however, has not finalized an agreement. He is second cousin to Ralph Eluska.

Renumeration
For Fiscal Year Ending
March 31, 1983

	<u>Gross Wages</u>	<u>Personel Benefits</u>
Morse	\$93,096.00	\$45,127.00
Zener	58,488.00	3,843.00

Armstrong	55,392.00	3,034.00
Sunberg	42,720.00	-0-
Carter	20,000.00	3,270.00

Officers and Directors as a group (17 persons)	\$360,850.00	\$76,407.00
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The Company maintains a non-contributory, defined benefit pension plan for its employees.

Mr. J. F. Morse served as President of the Company until May 31, 1983, but was not physically present at the Company office after January 1983. Harry Carter served in the capacity of Acting President from June 1 through June 11, 1983. Joe Llanos also served in the capacity of Acting President from June 12 to July 30, 1983. On August 1, 1983, Charles Winegarden became the Executive Vice President of the Company.

Annuity and insurance benefits were provided by the Company to Mr. Morse under an Employment Contract. A Termination of Employment Agreement was executed on May 31, 1983 by and between the Company and J.F. Morse. The Company paid to Crown Life Insurance Company all amounts required to complete the premium payments on the flexible premium retirement annuity policy for the benefit of Morse and his spouse, and the Company transferred all of its interests, including its ownership interest in the policy, to Morse or his designee. The Company also paid to Hartford National Bank & Trust Company all amounts required to complete the payments to the trust reserve which had been established to provide funding for permanent insurance on the life of Morse.

On execution of this agreement, the Company conveyed to Morse a 1982 Buick.

The Company also agreed to pay to Morse, the sum of \$93,096, payable in 24 equal installments on or before the 15th day and last day of each and every month. Beginning June 15, 1983, together with interest at 10% per annum, until paid in full. In the event of a default under the terms of the note, the interest rate shall increase to 12% per annum until the default is cured.

The Company waived any right to recover, seek repayment of a bonus paid in January 1982, in advance at the time granted, in the amount of \$66,000 or for continued performance by Morse for such advance bonus.

The Company agreed to reimburse Morse for all reasonable and actual costs, fees and expenses which he incurred during and as a result of the negotiation and execution of this Agreement.

The Present Board of Directors is considering contesting the validity of the termination agreement.

The Company's Directors were paid \$250 per day for attending meetings of the Board of Directors or Committees of the Board, and for engaging in special assignments for the Company. In addition, Directors who traveled to and from such functions received \$100 per day for each day of travel to and from the place in which the function was performed, and an allowance of \$78 per day for food and lodging. After June 11, 1983, when new management assumed control, those amounts changed to \$200 per day for attendance and \$125 per diem.

EMPLOYMENT CONTRACTS AND BONUSES

No employment contracts or bonuses have been in effect since June 11, 1983.

CERTAIN TRANSACTIONS

None of the present management or Board Members are indebted to the Company or any of its subsidiaries.

LITIGATION

This is to provide you with updated information about the current litigation.

Koniag is a defendant to legal action (Olsen v. Afognak Native Corporation, Koniag, Inc., et al., 3AN-80-8227 Civil) initiated in December 1980 by a Koniag shareholder (who is also a shareholder of Afognak Native Corporation) concerning the proposed merger of Afognak Native Corporation and Koniag (and the consummated mergers of five other Native village corporations with Koniag). The original defendants in this action were Afognak Native Corporation, Koniag, Inc. and the individual directors of Afognak who voted to favor the plan of merger.

The six mergers were approved by vote of the shareholders of Koniag on December 6, 1980, and the shareholders of Afognak and each of the five other village corporations on December 4, 1980.

However, the court granted a temporary restraining order and issued a preliminary injunction enjoining certification of the merger between Afognak and Koniag and, accordingly, such merger was not consummated.

In December 1982, May 1982 and July 1982, an individual shareholder of each of the merged former village corporations, Leisnoi, Inc., Akhiok-Kaguyak, Inc. and Old Harbor Native Corporation, filed separate suits which are similar to the Olsen v. Afognak, et al., litigation above. The claims and the party defendants are substantially the same, except the plaintiff

shareholders of Akhiok-Kaguyak, Inc. and Old Harbor Native Corporation have not sued the former officers and directors of their former village corporations as in the other cases, and have omitted claims such as those relating to Koniag's business decisions. These plaintiffs seek rescission of the merger of injunction relief and damages. On April 20, 1982 a preliminary injunction was granted by the court requiring Koniag to hold separate any identifiable assets of the former Leisnoi, Inc., pending resolution of the suit on their merits. On January 13, 1983, similar preliminary injunctions were issued in the Old Harbor and Akhiok-Kaguyak cases.

Litigation, pending since 1976, which challenged the eligibility of Leisnoi, Inc. as an Alaska Native village under the Act was dismissed May 18, 1982 pursuant to a settlement agreement reached with the plaintiffs whereby Koniag agreed to sell approximately 18,750 acres of the Leisnoi lands, upon receiving conveyance, for \$284,300 payable \$17,066 at closing and the balance over 10 years, with interest at 9.5%. The particular land involved in the settlement is encumbered by a grazing lease which does not expire until the year 2001.

However, management has been advised by counsel for the shareholder plaintiff in the Leisnoi merger suit above, that he does not recognize the validity of the settlement, and may challenge such settlement at a later date.

In July 1983, the Koniag Board of Directors entered into settlement negotiations with the plaintiffs in the above described lawsuits. At this time, the Corporation has reached an agreement in principle with the plaintiffs which, when approved by the Court, would dismiss the Corporation from the the litigation. The cost to the Corporation is expected to consist of a maximum of \$365,585.80 in cash paid to various village corporations, three percentage points in the Afognak Joint Venture, which hold valuable timber resources on Afognak Island plus a contingent liability for the plaintiffs' attorneys' fees which will be set by the Court. It is expected that this contingent liability will be at least one million dollars and perhaps as high as two million. As part of the settlement the Corporation will receive any net proceeds from the legal action against the attorneys and accountants who were involved in drafting the proxy statement if the plaintiffs prevail. The Corporation will be liable for any defendant attorney's fees assessed by the court if the plaintiffs do not prevail. It is anticipated that the recovery will be at least sufficient to pay the plaintiff's attorney's fees.

Koniag v. John Bradbury, et al., Case No. 3AN-82-6200. This lawsuit was begun by Koniag against certain lawyers and law firms, Joe Llanos, Frank Pagano, and Frank Peterson for alledged defamatory statements made by the defendants in proxy materials issued in March and April 1982. Koniag and John Bradbury,

Bradbury, Bliss & Riordan, Henry A. Carey and Henry A. Carey, P.C., have settled their claims. The settlement agreement provides that Koniag will pay the attorneys' fees incurred by the settling defendants in defending the lawsuit. The amount of the fees is unknown at this time. Koniag has not settled with Joe Llanos, Frank Pagano, and Frank Peterson. At this time, there are no settlement discussions with the remaining defendants.

Koniag and certain of its subsidiaries are involved in other legal actions arising in the ordinary course of business, none of which, in the opinion of management, is expected to materially affect Koniag's consolidated financial position.

BOARD AND COMMITTEE MEETINGS

The Board of Directors designated the following committees during the FY 83 from April 1, 1982 to March 31, 1983

Nominating

Harry Carter
Nancy Anderson
Allen Panamaroff
Sven Haakanson
Karl Armstrong
Michael Pagano
Terry Cratty
Allen Heitman
Pete Olsen
Nicholas Pestrikoff

Executive & Litigation

Harry Carter
Nancy Anderson
Allen Panamaroff
Terry Cratty
Allen Heitman
Nicholas Pestrikoff (alt.)

Finance

Allen Panamaroff
Nancy Anderson

Audit

Nancy Anderson
Nicholas Pestrikoff
Terry Cratty

Elections/Rules

Pete Olsen
Margaret Roberts
Virginia Abston
Dolores Padilla

Land

Jack Wick
Allen Panamaroff
Sven Haakanson
Walter Simeonoff
Fred Coyle

Information Concerning the Company's Accountants

The Company's principal certified public accountants for the last fiscal year were Coopers & Lybrand. Representatives of

Coopers & Lybrand will not be present at the Annual Meeting.

In addition to examination of the Company's financial statements in connection with a regular audit, Coopers & Lybrand provided the Company with consulting services related to the preparation of the Company's federal income tax returns, accounting and tax services related to potential acquisitions, special auditing services relating to litigation under Section 7(i) of the Alaska Native Claims Settlement Act and services in connection with meetings of the Company's shareholders, including counting proxies and ballots and reporting election results. The fees paid to Coopers & Lybrand for non-audit services represent approximately 47% per cent of the aggregate fees for audit and non-audit services during the Company's last fiscal year.

By-law Changes

All changes in the By-laws have to be reported to the Shareholders per Section 6 of the By-laws. The following changes in the By-laws have been made:

Section 7 -- Annual Meeting Election & Rules Committee: This standing committee shall have its chairman elected by and from the committee membership. The committee shall consist of no less than five (5) voting members including one member of the board of Directors who shall have at least one (1) year remaining in his term as a board member. The remaining members shall be appointed by a majority vote of the board from community-at-large.

CHANGE

.....The committee shall consist of three (3) to five (5) voting members including one member of the board of directors who shall have at least one (1) year remaining in his term as a board member.

Section 6 -- Voting (a) Each share of stock in the corporation shall be entitled to one (1) vote upon each matter submitted to a vote at a meeting of stockholders.

(b) At an election of directors, every stockholder may cast, in person or by proxy, as many votes for directors as he has shares of stock multiplied by the number of directors to be elected. Up to the number of directors to be elected, the candidates receiving the highest number of votes shall be elected, provided that said number of candidates for directors have a combined vote total equal to a majority of the votes cast. In the event that a majority of the votes cast is not obtained in the election then the candidate with the lowest number of votes will be dropped from the subsequent ballot, and a further round of balloting will be held. The procedure shall continue until the votes of a majority of the shares voted is obtained.

CHANGE

(b) At an election of directors, every stockholder may cast, in person or by proxy, as many votes for directors as he has shares of stock multiplied by the number of directors to be elected. Up to the number of directors to be elected, the candidates receiving the highest number of votes shall be elected, provided that said number of candidates for directors have a combined vote total equal to a majority of the votes cast. In the event that a majority of the votes cast is not obtained in the election then the candidate with the lowest number of votes will be dropped from the subsequent ballot and a further round of balloting will be held. This procedure shall continue until the votes of a majority of the shares voted is obtained.

Section 7 ---Notice of Meetings Notice of regular meeting shall be given by mail to each director and officer at least ten (10) days before the meeting, and shall include planned agenda items.

CHANGE

Notice of regular meetings shall be given by mail to each director and officer at least ten (10) days before the meeting, and shall include planned agenda items. There will be a regular meeting of the board of directors held on the second Tuesday of every month.

Other Business

As of the date of this proxy statement, management knows of no business which will be presented for action at the meeting other than the election of directors. If any other business requiring a vote of shareholders should come before the meeting, the persons designated as your proxies will vote, or refrain from voting, in accordance with their best judgment.

Solicitation of Proxies

The proxy accompanying this proxy statement is solicited by the Board of Directors of the Company. Proxies may be solicited on behalf of the Board of Directors by officers, directors, and employees of the Company. Solicitations of proxies may be made personally, or by mail, telephone, telegraph or messenger. All of the costs of solicitation of proxies by the Board of Directors will be paid by the Company. The Company does not expect the expenses incidental to the solicitation of the proxies by the Board of Directors will exceed \$7,000.

KONIAG, INC.

A handwritten signature in dark ink, appearing to read "Frank R. Peterson", is written over a horizontal line.

By Frank R. Peterson
Secretary

November 9, 1983
Kodiak, Alaska

List of Litigation involving Koniag, Inc.

1. Name of Case: Arnold A. Olsen v. Afognak Native Corporation
2. Cause Number: 3AN-80-8227 Civil
3. Parties:
 - A. Plaintiff: Arnold A. Olsen
 - B. Defendants: Afognak Native Corporation
Koniag, Inc.
Marvin Frost
Ivan Lukin
Pete Olsen
Fred Pestrikoff
Gene Sunberg
Nancy Anderson
Harry Carter
Jacob Wick
Perry Eaton
Sven Haakanson, Sr.
Allen Heitman
Joseph Llanos
Frank Pagano
Allen Panamaroff
Nicholas Pestrikoff
Frank Peterson
Richard Wamser
Karl Armstrong
J.F. Morse
Dan Hensley
Margie MacNeille
Duncan, Weinberg & Miller, P.C.
Edward Weinberg
Coopers & Lybrand
Touche, Ross & Company
4. Complaint filed: December 2, 1980
5. Challenges certain merger-related representations of Koniag and Afognak, and certain corporate actions; seeks damages and other relief.

1. Name of Case: Nicholas Shuravloff v. Koniag
2. Case Number: 3AN-81-8353 Civil
3. Parties:
 - A. Plaintiff: Nicholas Shuravloff
 - B. Defendants: Koniag, Inc.
Leisnoi, Inc.
Coopers & Lybrand
Touche Ross & Co.
John M. Waller
Peter Resoff
Marie Unger
Fred Sharoff
Charles C. Naughton
Carlene Mahle
Robert Erickson
Michael Pagano
Nancy Anderson
Harry Carter
Jacob Wick
Perry Eaton
Sven Haakanson, Sr.
Allen Heitman
Joseph Llanos
Frank Pagano
Allen Panamaroff
Nicholas Pestrikoff
Frank Peterson
Karl A. Armstrong
James F. Morse
Duncan Weinberg & Miller, P.C.
Edward Weinberg
Daniel A. Hensley
Margie MacNeille
4. Complaint filed: November 30, 1981
5. Description: Challenges to certain merger-related representations of Koniag and Leisnoi, and certain corporate actions; seeks damages to unwind the merger, and other relief.

1. Name of Case: Ralph Eluska v. Koniag, Inc.
2. Case Number: 3AN-82-4218
3. Parties:
 - A. Plaintiff: Ralph Eluska
 - B. Defendants: Koniag, Inc.
Akhiok-Kaguyak, Inc.
Coopers & Lybrand
Nancy Peterson
Harry Carter
Jacob Wick
Perry Eaton
Sven Haakanson, Sr.
Allen Heitman
Allen Panamaroff
Nicholas Pestrikoff
Karl A. Armstrong
James F. Morse
Duncan, Weinberg & Miller
Edward Weinberg
Dan Hensley
Margie MacNeille
4. Complaint filed: May 24, 1982
5. Description: Challenges merger-related representations of Koniag and Akhiok-Kaguyak; seeks damages to unwind the merger, and other relief

1. Name of Case: Victor Peterson v. Koniag, Inc.

2. Case number: 82-5673 Civil

3. Parties:

A. Plaintiff: Victor Peterson

B. Defendant(s) Koniag, Inc.
Old Harbor Native Corporation
Coopers & Lybrand
Nancy Anderson
Harry Carter
Jacob Wick
Sven Haakanson, Sr.
Allen Heitman
Nicholas Pestrikoff
Karl A. Armstront
James F. Morse
Duncan, Weinberg & Miller, P.C.
Edward Weinberg
Dan Hensley
Margie MacNeille

4. Complaint Filed: July 19, 1982

5. Description: Challenges certain merger-related representatives of Koniag and Old Harbor; seeks damages, to unwind the merger, and other relief.

1. Name of Case: Frank Pagano v. State of Alaska:
2. Case Number: 82-6501 Civil
3. Parties:
 - A. Appellants: Frank Pagano
Frank Peterson
Joseph Llanos
 - B. Appellee: State of Alaska, Dept. of Commerce and
Economic Development, Division of
Banking and Securities
4. Complaint Filed: August 19, 1982
5. Description: Appeal by Pagano, Peterson and Llanos
from the Findings of Fact, Conclusions of
Law and Order of Administrator of
Securities, dated July 9, 1982. Koniag
has sought to intervene and appellants
have opposed that intervention. (Koniag
has previously mailed a copy of the July
9, 1982 letter to all Koniag
shareholders).

1. Name of Case: Koniag, Inc. v. John H. Bradbury
2. Case Number: 3AN-82-6200 Civil
3. Parties:
 - A. Plaintiff: Koniag, Inc.
 - B. Defendants: John H. Bradbury
Bradbury, Bliss & Riordan, Inc.
Henry A. Carey
Henry A. Carey, P.C.
Joseph Llanos
Frank Pagano
Frank Peterson
4. Complaint filed: August 9, 1982
5. Description: This lawsuit was begun by Koniag against certain lawyers and law firms, Joe Llanos Frank Pagano, and Frank Peterson for alleged defamatory statements made by the defendants in proxy materials issued in March and April, 1982.

COOPERS & LYBRAND

CERTIFIED PUBLIC ACCOUNTANTS

IN PRINCIPAL AREAS
OF THE WORLD

The Board of Directors
and Stockholders
Koniag, Inc.
Kodiak, Alaska

We have examined the consolidated balance sheets of Koniag, Inc. and its subsidiaries as of March 31, 1983 and 1982, and the related consolidated statements of operations, stockholders' equity, and changes in financial position for the year ended March 31, 1983 and the nine-month period ended March 31, 1982. 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.

The outcome of certain matters create the following uncertainties which are indeterminable as to amount and could significantly affect the accompanying consolidated financial statements:

- . As more fully discussed in Note 1 to the financial statements, the Company is involved in litigation brought by four shareholders regarding the merger of certain Alaska Native village corporations with the Company who are seeking injunctive relief and damages. The ultimate liability for litigation costs and other effects, if any, on the financial statements resulting from this matter cannot be reasonably estimated.
- . As discussed in Notes 1 and 10, a bank term loan of a subsidiary company of \$1,400,289 at March 31, 1983 is in technical default (although current installments have been paid to date as they became due) as certain covenants of the loan agreement have not been met. However, the bank has informed the company it will postpone its right to demand payment in full on an annual basis. Accordingly, classification of the term loan as between current and noncurrent is based on the terms of the underlying notes and continued forbearance by the bank postponing its right to demand payment in full.

- . The accompanying financial statements are prepared on the assumption the Company will continue to function as a going concern. As shown in the financial statements, the Company incurred a net loss of \$9,235,000 during the year ended March 31, 1983, and, as of that date, the Company's current liabilities exceeded its current assets by \$2,545,000 and it experienced a negative cash flow from continuing operations of \$366,000. These factors, among others, as discussed in Notes 1 and 2, indicate that the Company may be unable to continue in existence. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.
- . In our report dated July 30, 1982, our opinion on the 1982 financial statements was qualified for the first and second uncertainties stated above. As discussed in Note 2, in view of the uncertainty of continued reliance on the going concern assumption, our present opinion on the 1982 financial statements, as presented herein, is different from that expressed in our previous report.

As discussed in Note 10, a \$500,000 bank loan classified as noncurrent in the accompanying consolidated balance sheet at March 31, 1983, is in technical default as certain covenants of the loan agreement have not been met, and such events have not been expressly waived by the bank. In our opinion, generally accepted accounting principles require that, absent the express waiver by the bank of the events of technical default, such loan should be classified as current.

Our examination and related field work was substantially completed at June 10, 1983. We subsequently reviewed matters included in the consolidated financial statements described in Notes 1, 2, 3, 9, 10 and 11 occurring thereafter to September 20, 1983, and in Notes 8 and 12 as of October 7, 1983. As more fully discussed in Note 19, Company management, on October 10, 1983, entered into a proposed settlement agreement with the plaintiffs in the merger litigation. Since we are co-defendants in that litigation, we are not independent with respect to the matters discussed in Note 19, and as a consequence our opinion does not cover such matters or effects thereof on the consolidated financial position of the Company at March 31, 1983.

In our opinion, subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties about the recoverability and classification of recorded asset amounts and the amounts and classification of liabilities referred to in the second paragraph been known, and except for the effect on

the financial statements of not classifying the \$500,000 bank loan as a current liability as referred to in the third paragraph, the financial statements referred to above present fairly the consolidated financial position of Koniag, Inc. and its subsidiaries as of March 31, 1983 and 1982, and the consolidated results of their operations and changes in their financial position for the year ended March 31, 1983 and the nine-month period ended March 31, 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

Cropper & Lybrand

Anchorage, Alaska

June 10, 1983, except for certain matters discussed in Notes 1, 2, 3, 9, 10, and 11 for which the date is September 20, 1983 and Notes 8 and 12 for which the date is October 7, 1983.

KONIAG, INC.

CONSOLIDATED BALANCE SHEETS, March 31, 1983 and 1982

	ASSETS	<u>1983</u>	<u>1982</u>
Current:			
Cash		\$ 177,372	\$ 232,972
Investments in securities, at cost (approximates market)		427,541	527,397
Receivables, net		713,937	472,630
Inventories		594,570	708,017
Prepaid and other current assets		62,998	57,600
Current assets of discontinued segment		<u>3,563,051</u>	<u>6,697,560</u>
Total current assets		5,539,469	8,696,176
Natural resource revenues due from other regional corporations		205,962	205,962
Notes receivable		259,863	278,002
Property and equipment, at depreciated cost		3,067,477	3,186,618
Other assets:			
Investments in joint ventures and partnerships		2,122,843	4,254,142
Land selection costs		1,239,006	1,239,006
Miscellaneous investments and other		141,088	140,642
Noncurrent assets of discontinued segment:			
Excess of cost over net assets of acquired business less \$56,804 amortization		-	2,421,922
Other		4,789,020	5,827,581
Assets in amounts to be determined (Notes 2, 7 and 16)		<u>-</u>	<u>-</u>
		<u>\$17,364,728</u>	<u>\$26,250,051</u>

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

	LIABILITIES	<u>1983</u>	<u>1982</u>
Current:			
Notes payable		\$ 4,117,111	\$ 4,443,131
Current portion of long-term debt		251,847	307,367
Accounts payable		2,484,663	1,546,170
Payable to customers, canned salmon recall			466,585
Accrued expenses		<u>1,231,258</u>	<u>1,551,674</u>
Total current liabilities		8,084,879	8,314,927
Long-term:			
Long-term debt		3,427,451	2,886,528
Minority interest in subsidiary		<u>44,664</u>	<u>5,600</u>
Total liabilities		<u>11,556,994</u>	<u>11,207,055</u>

Commitments and contingencies
(Notes 1, 8, 11 and 14)

STOCKHOLDERS' EQUITY

Common stock:			
Authorized:			
5,000,000 common shares in two classes, A and B			
Issued and outstanding:			
Class A, 1 cent par value; 225,100 shares 1983; 225,200 shares 1982		2,251	2,252
Class B, 1 cent par value; 225,800 shares 1983; 225,900 shares 1982		2,258	2,259
Contributed capital		24,065,355	24,065,304
Accumulated deficit		<u>(18,262,130)</u>	<u>(9,026,819)</u>
		5,807,734	15,042,996
		<u>\$17,364,728</u>	<u>\$26,250,051</u>

KONIAG, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

for the year ended March 31, 1983 and the
nine-month period ended March 31, 1982

	Common Stock				Contributed Capital	Accumulated Deficit
	Class A		Class B			
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>		
Balance, June 30, 1981	225,200	\$2,252	225,400	\$2,254	\$23,967,737	\$ (7,524,519)
Adjustment for changes in enrollment			500	5	97,567	
Net loss						(1,502,300)
Balance, March 31, 1982	225,200	2,252	225,900	2,259	24,065,304	(9,026,819)
Adjustment for change in enrollment	(100)	(1)	(100)	(1)	51	
Net loss						(9,235,311)
Balance, March 31, 1983	<u>225,100</u>	<u>\$2,251</u>	<u>225,800</u>	<u>\$2,258</u>	<u>\$24,065,355</u>	<u>\$ (18,262,130)</u>

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

KONIAG, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

for the year ended March 31, 1983 and the
nine-month period ended March 31, 1982

	Year Ended March 31, 1983	Nine Months Ended March 31, 1982
Revenues:		
Merchandise sales	\$ 1,535,917	\$ 1,160,450
Rentals	469,113	350,096
Interest and investment income	120,034	188,578
Natural resource revenues:		
Current year	540,868	355,025
Settlement of prior years		1,194,249
Other	<u>1,181,431</u>	<u>518,063</u>
	<u>3,847,363</u>	<u>3,766,461</u>
Costs and expenses:		
Merchandise sales	1,588,342	1,325,252
Rentals	336,599	231,189
Natural resources	64,125	
Corporate general and administrative	1,757,922	1,103,576
Interest	228,142	94,118
Equity in loss of joint ventures	65,605	39,942
Minority interest in earnings of subsidiary	39,064	1,781
Estimated loss contingency - Provident Refinery Project	<u>2,000,000</u>	
	<u>6,079,799</u>	<u>2,795,858</u>
Income (loss) before merger litigation expenses	(2,232,436)	970,603
Merger litigation expenses	<u>(1,087,814)</u>	<u>(364,616)</u>
Income (loss) from continuing operations (\$7.36) and \$1.34 per share	<u>(3,320,250)</u>	<u>605,987</u>
Discontinued operations (Note 3):		
Loss from operations	(2,869,466)	(1,141,494)
Loss on disposal	<u>(3,045,595)</u>	<u>(966,793)</u>
	<u>(5,915,061)</u>	<u>(2,108,287)</u>
Net (loss) (\$20.48) and (\$3.33) per share	<u>\$ (9,235,311)</u>	<u>\$ (1,502,300)</u>

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

KONIAG, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

for the year ended March 31, 1983 and the
nine-month period ended March 31, 1982

	<u>1983</u>	<u>1982</u>
Cash and securities, beginning of year	\$ 760,369	\$3,487,743
Sources of cash:		
Continuing operations:		
Income (loss)	(3,320,250)	605,987
Items not affecting cash:		
Depreciation and amortization	147,080	124,250
Equity in loss of Koncor Joint Venture	65,605	39,942
Loss (gain) on sales of property and equipment	144	(433,925)
Gain on sale of investment in oil and gas leases	(435,493)	
Estimated loss contingency - Provident Refinery Project	2,000,000	
Other		49,093
Working capital provided (used) by continuing operations	(1,542,914)	385,347
Working capital components provided (used) by continuing operations:		
Receivables	(241,307)	(125,811)
Inventories	113,447	(3,683)
Other current assets	(5,398)	33,021
Accounts payable and due to customers	184,688	(76,277)
Natural resource revenues payable		(974,047)
Accrued expenses	102,243	14,019
Cash used by continuing operations	(1,389,241)	(747,431)
Collection and current maturity of notes receivable	56,724	21,062
Proceeds from sales of property and equipment	7,251	760,721
Proceeds from sale of investment in oil and gas leases	766,625	
Issuance of long-term debt	846,181	13,355
Adjustment for changes in enrollment	49	97,572
Other	49,909	14,899
Total sources	337,498	160,178
Uses of cash:		
Continuing operations:		
Increase in natural resource revenues receivable, noncurrent		205,962
Issuance of long-term notes receivable	38,585	260,000
Additions to property and equipment	26,920	54,334
Investment in oil and gas leases	15,001	165,685
Payments of long-term debt	360,778	546,787
Investment in refinery project		2,000,000
Investment in and advances to Cape Chiniak project	250,437	22,128
Additions to land selection costs		64,077
Other	11,626	22,894
	703,347	3,341,867

Continued

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION, Continued

for the year ended March 31, 1983 and the
nine-month period ended March 31, 1982

	<u>1983</u>	<u>1982</u>
Uses of cash, Continued:		
Discontinued operations:		
Loss	\$5,915,061	\$2,108,287
Items not affecting cash:		
Depreciation and amortization	(546,578)	(475,931)
Write-off of goodwill	(2,359,954)	
Gain (loss) on sales of property and equipment	96,229	(11,726)
Property and equipment valuation reserve	(51,560)	
Write-off of fishermen receivables	(400,000)	
Other		(31,860)
Working capital used by discontinued operations	<u>2,653,198</u>	<u>1,588,770</u>
Working capital components used (provided) by discontinued operations:		
Decrease in current assets of discontinued segment	(3,134,509)	(1,913,541)
Accounts payable and due to customers	(287,220)	1,382,691
Accrued expenses	<u>422,659</u>	<u>(627,839)</u>
Cash used (provided) by discontinued operations	(345,872)	430,081
Proceeds from sales of property and equipment	(912,384)	(519,274)
Additions to property and equipment	369,643	418,943
Issuance of long-term notes receivable	700,000	30,000
Collection of notes receivable	(128,598)	(63,649)
Increase (decrease) in receivables from fishermen, noncurrent	(209,370)	713,313
Decrease (increase) in notes payable	326,020	(1,470,668)
Other	<u>(9,832)</u>	<u>6,939</u>
	<u>(210,393)</u>	<u>(454,315)</u>
Total uses	<u>492,954</u>	<u>2,887,552</u>
Decrease in cash and securities	<u>155,456</u>	<u>2,727,374</u>
Cash and securities, end of year	<u>\$ 604,913</u>	<u>\$ 760,369</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 1983

1. Management Reorganization, Merger and Other Litigation and Subsequent Events:

Effective June 12, 1983, the shareholders of Koniag, Inc. (Koniag), approved a new slate of Directors. The new Directors appointed new personnel to manage the Company. The new director and management team are addressing the following significant matters to date, as of September 20, 1983:

- . Approving the disposal and liquidation of loss operations described in Note 3.
- . Negotiating the settlement of litigation brought by shareholders related to the December 10, 1980 merger with five village corporations described in Note 2, including the proposal to rescind the mergers of Akhiok-Kaguyak, Inc., Leisnoi, Inc. and Old Harbor Native Corporation; the proposed merger of Afognak Native Corporation (Afognak) initiated by a shareholder of Koniag and Afognak; and the other village corporation shareholder derivative suits against Koniag, prior Koniag directors, prior management and certain Koniag professionals involved in the December 10, 1980 merger proxy statement, including the present auditors, see Note 19.
- . Negotiating the release of investments restricted pursuant to Court injunctions (described in Note 4) and their return to the village corporations.
- . Negotiating the recovery of Koniag's investment in the Provident Refinery Project described in Note 8.
- . Negotiating the principal, interest and repayment terms of the notes payable to banks and attorneys described in Notes 9 and 10.

Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

March 31, 1983

Management Reorganization, Merger and Other Litigation and Subsequent Events, Continued:

- . The Company and certain of its subsidiaries are involved in other legal actions arising in the ordinary course of business, none of which, in the opinion of management, is expected to materially affect the Company's consolidated financial position.

Many of the above matters are still pending finalization; accordingly, the effects, if any, on the financial statements of potential gain or loss is presently not determinable.

Incorporation and Significant Accounting Policies:

Koniag, Inc., a Regional Native Corporation, was incorporated on June 23, 1972 under provisions of the Alaska Native Claims Settlement Act (the Act).

The Company changed its fiscal year-end from June 30 to March 31 in 1982.

Alaska Native Claims Settlement Act

The Act entitles Alaska Natives to 44 million acres of land and monies totaling \$962,500,000. The monies were 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.

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

Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

March 31, 1983

2. Incorporation and Significant Accounting Policies,
Continued:

Alaska Native Claims Settlement Act, Continued

Enrollees to regional and village corporations became stockholders of such corporations and were required to be Alaska Natives as defined in the Act. Monies provided by the Act were distributed from the Alaska Native Fund to the regional corporations from 1974 through December 1981 based on enrollment percentages. Land provided by the Act has been allocated to regional areas based on a formula which includes both enrollment and land area. All subsurface rights in the land vest with the regional corporations, while surface rights are 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. The Koniag region final enrollment percentage for Section 7(i) purposes is 4.50%.

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, see Note 16.

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.

Significant Accounting Policies

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

Going Concern Assumption

The accompanying financial statements assume the Company will continue in existence, however, the following factors indicate there may be reason to question that assumption.

Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

March 31, 1983

2. Incorporation and Significant Accounting Policies,
Continued:

Going Concern Assumption, Continued

As shown in the financial statements, the Company is experiencing the following:

- . Negative working capital, \$2,545,410 at March 31, 1983;
- . Continuing net losses, \$9,235,311 for fiscal 1983;
- . Increasing accumulated deficit, \$18,262,130 at March 31, 1983;
- . Negative cash flow from continuing operations, \$365,849 in fiscal 1983;
- . Short and long-term loans in default;
- . Loss of potential income producing assets pursuant to proposed litigation settlement, see Note 1.

These factors, among others, indicate that the Company may be unable to continue in existence. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

Consolidation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries - The Kazim Company, Kodiak Swiftsure Corporation, Kodiak Island Seafoods, Inc. (KISI), Kodiak Industries Corporation, Alaska Logging and Timber, Inc., Shelikof Net Company (owned by The Kazim Company); and a 80% owned subsidiary, Land Surveying Services, Inc.

The Company is engaged in the businesses of general investments, commercial and residential real property management, and fishing supply merchandise sales; and, until July 1983 was engaged in seafood processing and marketing. See Note 3 with respect to discontinued operations.

Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

March 31, 1983

2. Incorporation and Significant Accounting Policies,
Continued:

Consolidation, Continued

Fishing supply sales are conducted by Shelikof Net Company. Transactions are conducted in the normal course of Shelikof's, KISI's and Kodiak 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 8 with respect to the Company's joint venture operations.

Business Acquisitions and Mergers

Effective December 10, 1980, five village corporations within the Koniag region (Akhiok-Kaguyak, Inc., Karluk Native Corporation, Leisnoi, Inc., Nu-Nachk-Pit, Inc. and Old Harbor Native Corporation) were merged with Koniag, Inc. in exchange for 116,700 shares of the Company's Class B common stock. This merger has been accounted for as a pooling of interests and, accordingly, all financial data for periods prior to the merger have been restated to combine the operations of the merged Village Corporations and the Company. As a result of the merger, KISI (previously 76.46% owned by the Village Corporations and 23.54% by the Company, and accounted for on the equity method) became a wholly-owned consolidated subsidiary.

On April 30, 1981, KISI acquired the net assets and business of Swiftsure Fisheries, Inc., a seafood marketing, brokering and exporting firm for a net purchase price of \$2,600,302 of which \$320,315 is still due.

The purchase price exceeded the fair market value of net tangible assets acquired by \$2,478,726. The excess cost (assigned value of trademarks and goodwill of the business acquired) was being amortized over 40 years on a straight-line basis. The unamortized balance of \$2,359,954 at March 31, 1983 was written off to loss on disposal from discontinued operations, see Note 3.

Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

March 31, 1983

2. Incorporation and Significant Accounting Policies,
Continued:

Going Concern Assumption, Continued

As shown in the financial statements, the Company is experiencing the following:

- . Negative working capital, \$2,545,410 at March 31, 1983;
- . Continuing net losses, \$9,235,311 for fiscal 1983;
- . Increasing accumulated deficit, \$18,262,130 at March 31, 1983;
- . Negative cash flow from continuing operations, \$365,849 in fiscal 1983;
- . Short and long-term loans in default;
- . Loss of potential income producing assets pursuant to proposed litigation settlement, see Note 1.

These factors, among others, indicate that the Company may be unable to continue in existence. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

Consolidation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries - The Kazim Company, Kodiak Swiftsure Corporation, Kodiak Island Seafoods, Inc. (KISI), Kodiak Industries Corporation, Alaska Logging and Timber, Inc., Shelikof Net Company (owned by The Kazim Company); and a 80% owned subsidiary, Land Surveying Services, Inc.

The Company is engaged in the businesses of general investments, commercial and residential real property management, and fishing supply merchandise sales; and, until July 1983 was engaged in seafood processing and marketing. See Note 3 with respect to discontinued operations.

Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

March 31, 1983

2. Incorporation and Significant Accounting Policies,
Continued:

Consolidation, Continued

Fishing supply sales are conducted by Shelikof Net Company. Transactions are conducted in the normal course of Shelikof's, KISI's and Kodiak 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 8 with respect to the Company's joint venture operations.

Business Acquisitions and Mergers

Effective December 10, 1980, five village corporations within the Koniag region (Akhiok-Kaguyak, Inc., Karluk Native Corporation, Leisnoi, Inc., Nu-Nachk-Pit, Inc. and Old Harbor Native Corporation) were merged with Koniag, Inc. in exchange for 116,700 shares of the Company's Class B common stock. This merger has been accounted for as a pooling of interests and, accordingly, all financial data for periods prior to the merger have been restated to combine the operations of the merged Village Corporations and the Company. As a result of the merger, KISI (previously 76.46% owned by the Village Corporations and 23.54% by the Company, and accounted for on the equity method) became a wholly-owned consolidated subsidiary.

On April 30, 1981, KISI acquired the net assets and business of Swiftsure Fisheries, Inc., a seafood marketing, brokering and exporting firm for a net purchase price of \$2,600,302 of which \$320,315 is still due.

The purchase price exceeded the fair market value of net tangible assets acquired by \$2,478,726. The excess cost (assigned value of trademarks and goodwill of the business acquired) was being amortized over 40 years on a straight-line basis. The unamortized balance of \$2,359,954 at March 31, 1983 was written off to loss on disposal from discontinued operations, see Note 3.

Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

March 31, 1983

2. Incorporation and Significant Accounting Policies,
Continued:

Business Acquisitions and Mergers, Continued

The acquisition was accounted for as a purchase and Swiftsure Fisheries operated as a division of KISI, with the results of Swiftsure Fisheries operations included in the Company's consolidated operating results since May 1, 1981.

Receipts From Alaska Native Fund

Receipts of monies from the Alaska Native Fund under provisions of ANCSA have been recorded as contributed capital. As of December 31, 1981, the Company had received all of its share of the Alaska Native Fund.

Amounts distributed to the Company from the Alaska Native Fund, and held for subsequent distribution to shareholders and village corporation, are not included as assets or liabilities in the consolidated financial statements, see Note 4.

Inventories

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

Inventories of the discontinued canned salmon and frozen seafood products operations are stated at the lower-of-average cost of production for the various species processed, or market. Certain preseason costs relating to product procurement and incurred prior to the Alaska salmon fisheries season were deferred and included in inventories in order to appropriately match such costs with future revenues.

Land Selection Costs and Assets in Amounts to be Determined

The Company elected to defer expenses incurred for land selection through March 31, 1982. Such deferred costs will be allocated to real property interests as they are conveyed to the Company, see Note 7.

Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

March 31, 1983

2. Incorporation and Significant Accounting Policies,
Continued:

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 made in the ordinary course of business 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. Discontinued Operations:

During 1982, the Company discontinued its canned salmon business segment, KISI Division, and completed the sale of the Division's Larsen Bay Cannery (including all equipment and supplies inventory), effective June 1, 1982. The sale price was \$800,000 of which \$100,000 was received on closing, \$100,000 in October 1982, and the balance due under the terms of asset purchase agreement (and related promissory note and real estate contract), see (a) below. On July 12, 1983, Company management decided to discontinue its seafood processing and marketing business segment, comprised of Kodiak Swiftsure Corporation and Swiftsure Fisheries Division of KISI, due to the fiscal 1983 and continuing operating losses and depressed condition of the fisheries industry. Management has commenced a program of liquidation of their assets.

Accordingly, the consolidated financial statements have been reclassified to report separately these discontinued operations. The liabilities of the discontinued segments have not been separately segregated in the consolidated balance sheets as the Company has guaranteed related debt and intends to satisfy other creditors.

Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

March 31, 1983

3. Discontinued Operations, Continued:

The assets of the discontinued business segments are comprised of the following at March 31, 1983:

	Canned Salmon Segment	Seafood Processing and Marketing Segment	Total
Current assets:			
Cash	\$ 18,114	\$ 32,458	\$ 50,572
Receivables, trade	176,620	1,532,675	1,709,295
Receivables, fishermen and producers	155,582	419,675	575,257
Product inventory	488,025	514,874	1,002,899
Supplies inventory		176,848	176,848
Prepaid and other current assets		48,180	48,180
	<u>\$838,341</u>	<u>\$2,724,710</u>	<u>\$3,563,051</u>
Noncurrent assets:			
Receivables from fishermen, less \$118,200 current portion		\$ 103,943	\$ 103,943
Notes receivable, less \$56,857 current portion (a)	\$777,011		777,011
Property and equipment net of valuation reserve of \$51,560 and accumulated depreciation of \$1,005,076		3,881,563	3,881,563
Other		26,503	26,503
	<u>\$777,011</u>	<u>\$4,012,009</u>	<u>\$4,789,020</u>

- (a) Including balances of \$623,967 due on the sale of the Larson Bay Cannery in installments, including principal and interest at 10.7%, as follows: quarterly payments of \$18,588, commencing December 31, 1982, through March 31, 1992; and a final installment (estimated at \$517,730) on (or before) June 30, 1992. Such payment schedule is based on an amortization period through June 30, 2004 and assumes no prepayments, which are also allowed, in whole or in part, at any time after June 1, 1987, upon one year's notice.

Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

March 31, 1983

3. Discontinued Operations, Continued:

The results of operations of the discontinued segments are included in the consolidated statements of operations under the caption "Discontinued Operations" and include:

	Year Ended March 31, 1983		Nine Months Ended March 31, 1982		
	Seafood Processing and Marketing Segment	Canned Salmon Segment	Seafood Processing and Marketing Segment	Canned Salmon Segment	
	Loss From Operations	Loss On Disposal	Income From Operations	Loss From Operations	Loss On Disposal
Revenues:					
Net sales	\$28,534,029	\$2,192,663	\$30,888,861	\$ 3,711,734	
Interest	131,377		90,371	10,827	\$ 14,802
Other		94,296	17,537	6,000	3,750
	<u>28,665,406</u>	<u>2,286,959</u>	<u>30,996,769</u>	<u>3,728,561</u>	<u>18,552</u>
Costs and expenses:					
Cost of sales (including write-down of inventory to net realizable value)	29,224,348	2,237,852	28,049,390	5,064,181	
General and administrative	1,835,218		1,719,338	83,691	42,896
Interest	475,306	67,438	468,922	215,264	372,060
Provision for canned salmon recall expenses				266,038	
Provision for phase-out period costs		\$ 90,332			278,222
Write-off of goodwill		2,359,954			
Write-down of advances to fishermen		400,000			
Write-down on dispositions of equipment		51,560			292,167
Write-down of inventories		42,728	30,000		
	<u>31,534,872</u>	<u>2,944,574</u>	<u>2,387,980</u>	<u>5,629,174</u>	<u>985,345</u>
Income (loss)	<u>\$ (2,869,466)</u>	<u>\$ (2,944,574)</u>	<u>\$ 759,119</u>	<u>\$ (1,900,613)</u>	<u>\$ (966,793)</u>

The loss on disposal of the seafood processing and marketing segment includes write-downs of equipment based on actual dispositions of assets through August 31, 1983. Additionally, as a result of the decision to discontinue the seafood processing and marketing segment, the carrying value of inventories and certain receivables has been adjusted to estimated net realizable values. Provision for additional costs and expenses estimated to be incurred during the phase out period, July 13, through September 30, 1983, has also been recorded.

The provision for loss on disposal of the canned salmon segment made in 1982, was reassessed in 1983 and in the opinion of management, adequately provides for future related costs and expenses.

The provision for loss on disposal of the seafood processing and marketing segment does not, however, include potential additional losses which may be sustained on the sale or other disposition of remaining plant and equipment, ultimate collection of receivables, and other costs and expenses, as such amounts are not presently determinable.

Operations of the discontinued seafood processing and marketing segment from April 1, to July 12, 1983, resulted in further losses; however the Company has been unable, to date, to ascertain the aggregate amount within reasonable limits.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

March 31, 1983

4. Investments in Securities:

Investments in securities consist of the Company's financial interest in the net assets of a joint investment account, comprised of the following at March 31, 1983:

Dreyfus Money Market Fund	\$637,071
U.S. Land Bank notes, 8.1%, due July 22, 1985	150,239
Smithkline Corporation bonds, 8.15%, due December 15, 1984	150,000
Accrued interest	<u>5,746</u>
	943,056
Amounts held on account for village corporations and shareholders	<u>(515,515)</u>
	<u>\$427,541</u>

Company share

In addition, funds held on account for former shareholders of Leisnoi, Inc., Akhiok-Kaguyak, Inc. and Old Harbor Native Corporation totaling \$190,659 at March 31, 1983, have been invested in Merrill Lynch Ready Asset Accounts and are restricted pursuant to court injunctions pending settlement of related litigation, see Note 1.

5. Receivables:

Current receivables were comprised of the following at March 31, 1983 and 1982:

	<u>1983</u>	<u>1982</u>
Trade, less allowances for uncollectable accounts of \$58,036 (1983) and \$68,886 (1982)	\$130,294	\$127,096
Natural resource revenues due from other regional corporations (Note 15)	492,316	308,083
	55,556	18,719
Notes receivable	<u>35,771</u>	<u>18,732</u>
Other	<u>\$713,937</u>	<u>\$472,630</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

March 31, 1983

6. Property and Equipment:

Property and equipment at March 31, 1983 consists of the following:

	<u>Total</u>	<u>Operating</u>	<u>Rentals</u>	<u>Held For Development or Sale</u>
Land	\$ 723,373	\$168,385	\$ 405,194	\$149,794
Buildings	2,660,377	365,912	2,232,088	62,377
Machinery and equipment	83,554	83,554		
Vehicles	31,729	31,729		
Office furniture and equipment	230,865	230,865		
Apartment furniture	146,964		146,964	
Leasehold improvements	26,446	26,446		
	3,903,308	906,891	2,784,246	212,171
Accumulated depreciation and amortization	(835,831)	(275,849)	(559,982)	
	<u>\$3,067,477</u>	<u>\$631,042</u>	<u>\$2,224,264</u>	<u>\$212,171</u>

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

The Company is entitled to receive subsurface rights and/or surface ownership in certain lands as a result of the Act, see Note 2.

In December 1980, Congress approved as a part of PL 96-487 certain modifications in the selection by the Company and village corporations of both surface and subsurface lands whereby entitlements to surface and/or subsurface lands on the Alaska Peninsula are to be exchanged for surface and subsurface estate in lands located on Afognak Island. One of the provisions of the exchange is the formation of a Joint Venture to accept ownership of the exchange lands on Afognak Island. When this Joint Venture becomes effective, the Company's entitlements will be modified as indicated below.

Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

March 31, 1983

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

Additional surface estate entitlements are available to village corporations under Section 12(b) of the Act. The Company is entitled to the subsurface estate in such lands. The village corporations have agreed, under the "12(b) Memorandum of Understanding", to jointly own the 12(b) lands in proportion to their respective population. The Company owns a fractional interest in the 12(b) lands by reason of the merger with some of the village corporations.

	<u>Modified</u> <u>Entitlements</u> (approximate	<u>Original</u> <u>Entitlements</u> acres)
Surface Estate	492,000	629,000
Subsurface Estate	1,090,000 (1)	1,098,000 (2)
Ownership interest in Afognak Joint Venture	59.6% of 280,000 acres	
Cape Chiniak Joint Venture	78.9% of 3,400 acres	78.9% 3,400 acres
12(b) Joint Venture	57.8% of 11,600 acres	57.8% 96,600 acres

(1) 393,000 subsurface acres restricted to oil and gas rights only.

(2) 185,000 subsurface acres restricted to oil and gas rights only.

Also see Notes 1 and 19 with respect to proposed settlement of merger litigation which, if consummated, would reduce certain of Koniag's entitlements as indicated above.

Surface rights not owned by the Company would be owned by village corporations in the region.

Management has determined that because of the significant amount of land and subsurface rights, and the lack of comparable market data, it is not practical to determine the

Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

March 31, 1983

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

value of the lands and the surface and subsurface rights in the foreseeable future through independent appraisals or by other means subject to verification. Because of this, the Company has adopted the accounting policy that the value of the land and the surface and subsurface rights conveyed under the Act will not be recorded unless the value can be determined by independent appraisals, or by other means subject to verification, at the date of conveyance.

The value of land and surface and 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.

8. Investments in Joint Ventures and Partnerships:

The Company's interest in joint ventures and partnerships were as follows at March 31, 1983 and 1982:

	<u>1983</u>	<u>1982</u>
Oil and gas leases	\$1,401,626	\$1,717,757
Provident Refinery Project	2,000,000	2,000,000
Estimated loss contingency	(2,000,000)	-
Cape Chiniak Impact Center Joint Venture (including advances of \$203,865 and \$70,013)	1,162,312	911,875
Koncor Forest Resource Management Company Joint Venture	<u>(441,095)</u>	<u>(375,490)</u>
	<u>\$2,122,843</u>	<u>\$4,254,142</u>

Oil and Gas Leases

In December 1979, Koniag, Inc., along with Sohio Natural Resources Company (Sohio), BP Alaska Exploration Inc. (BP) and three other investors successfully bid on leases of several tracts in the joint Federal/State Beaufort Sea Oil and Gas Lease Sale.

Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

March 31, 1983

8. Investments in Joint Ventures and Partnerships, Continued:

Oil and Gas Leases, Continued

The venturers have entered into operating agreements for the purpose of exploration, development and operation of the leasehold interests. Sohio and BP are the primary participants, holding a 96% to 97% combined interest (depending on tracts leased), with Sohio designated as the operator. There has been limited exploration and no development work conducted through March 31, 1983.

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 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.

The Company has up to a maximum 1% participating interest in each tract, with the amount of participation determined by the amount of cost contributions by the Company in relation to the cost contributions of all participants. The balance of the Company's share of costs paid through March 31, 1983 (\$1,401,626), fractionally less than 1%, have been capitalized.

In August, 1982, the Company sold, for cash, its interest in one of the leased tracts (with a capitalized cost of \$331,133) to one of the other participants at a gain of \$435,493.

Provident Refinery Project

On August 27, 1981, the Company purchased for \$2,000,000 cash (through its newly formed subsidiary, Kodiak Industries Corporation) a 7.25% limited partnership interest in a proposed oil refinery project to be constructed in Phoenix, Arizona. If certain future events were to transpire, the Company could alternatively own a 10-12% interest (maximum of 20.25%) in the project as a general partner, without further investment.

Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

March 31, 1983

8. Investments in Joint Ventures and Partnerships, Continued:

Provident Refinery Project, Continued

Since 1981, the manager of the joint venture has been seeking sources of financing for the project which is presently estimated to cost in excess of \$350 million to complete.

Due to the delays in the project, Koniag has filed suit for recovery of its investment, plus interest. Management is currently unable to assess the extent of ultimate recovery, if any, on this investment.

Based on counsel's advice, that while the Company should prevail in its suit, it is uncertain as to whether a judgment can be satisfied by the defendants, as Provident has advised it does not have sufficient net assets to satisfy the Company's claim. Accordingly, management by Board action on October 7, 1983 has provided for an estimated loss contingency of two million dollars as of March 31, 1983.

Cape Chiniak Impact Center Joint Venture

The Company selected, for a village corporation in its area, under Section 12(b) of the Act, approximately 3,394 acres 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 to develop a use for the land and buildings. The Company has been retained by the joint venture to manage the properties.

The Company has a 79 percent income interest in the joint venture and its properties, except for rentals of real property, in which it has a 58 percent income interest, see Notes 1 and 2. The joint venture had no earnings during fiscal years 1983 or 1982. The Company has advanced funds in its management function for the maintenance of the facility which have been capitalized by the joint venture as acquisition costs. The Company's share of the joint venture net expenditures are similarly carried as an investment.

Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

March 31, 1983

8. Investments in Joint Ventures and Partnerships, Continued:

Koncor Forest Resource Management Company Joint Venture

In 1977, the merged village corporation, Leisnoi, Inc., through its wholly-owned subsidiary, Alaska Logging and Timber Corporation entered into a joint venture agreement with wholly-owned subsidiaries of Ouzinkie Native Corporation and Natives of Kodiak, Inc. In April 1979, Yak-Tat-Kwaan, Inc., and in October 1981, Chenega Corporation, through wholly-owned subsidiaries, were admitted to the joint venture. Koncor was formed for the purpose of managing, harvesting and growing timber on lands owned by the venturers. The venture agreement provides for the initial contributions from the venturers to consist of assignments of timber rights on specified lands received or to be received under the terms of the Act.

As of December 31, 1982, the other venturers had assigned timber rights to the joint venture valued at approximately \$205,000,000 which was based upon an initial, tentative estimated value of harvestable timber and is subject to revision. The Company has not received title to any of the Leisnoi, Inc. lands (see Notes 1 and 2). However, the joint venture agreement provides for an "as if" computation and an estimate has been prepared as to the tentative value of such timber rights to be received by the Company and assigned to the joint venture (approximately 9,800 forested acres).

The Company's equity in the losses of Koncor, and cash distributions received, based on the Company's assumed ownership interest (currently 11.0%), were as follows:

<u>Company's Fiscal Year</u>	<u>Equity in Koncor Losses</u>	<u>Cash Distributions</u>	<u>Total</u>
1978	\$ 10,920		
1979	21,524	\$ 80,000	
1980	22,975	81,225	
1981	35,704	83,200	
1982	39,942		
1983	<u>65,605</u>		
Totals	<u>\$196,670</u>	<u>\$244,425</u>	<u>\$441,095</u>

Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

March 31, 1983

8. Investments in Joint Ventures and Partnerships, Continued:

Koncor Forest Resource Management Company Joint Venture, Continued

The joint venture is to conduct a timber cruise to establish a more detailed and accurate timber inventory and a revised valuation of timber rights assigned by each owner company. A final determination of such valuation will require substantial additional information about the inventories and markets. This valuation is to be used to retroactively adjust, to January 1, 1977, the related venturer's equity accounts. Therefore, the Company has deferred recording its investment in the lands specified in the joint venture agreement.

9. Notes Payable:

Notes payable consisted of the following at March 31, 1983 and 1982:

	<u>1983</u>	<u>1982</u>
Notes payable, bank, interest at 2% above the Spokane Bank for Cooperatives rate (13.5% at March 31, 1983); collateralized by inventories and receivables of KISI Division (in default at March 31, 1983)	\$1,646,235	\$2,322,489
Notes payable, bank, interest at the bank's prime rate plus 1.5% (12% at March 31, 1983); collateralized by inventories and receivables of Swiftsure Fisheries Division and Kodiak Swiftsure Corporation and, effective May 13, 1983, by a deed of trust on the real property of Kodiak Swiftsure Corporation (Kodiak seafood processing plant)	1,602,523	2,120,642

Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

March 31, 1983

9. Notes Payable, Continued:

	<u>1983</u>	<u>1982</u>
Notes payable under the terms of fee agreement with attorney firm for legal services billed and unpaid, with interest at 12-14%; collateralized by deed of trust on undeveloped real estate and assignment of proceeds from recovery of Provident Refinery Project investment	\$ 868,353	
	<u>\$4,117,111</u>	<u>\$4,443,131</u>

Related principal balances under these notes at September 20, 1983 were \$1,288,015, \$242,578, and \$950,650, respectively, and management was in negotiations with the lenders with respect to repayment arrangements.

10. Long-term Debt:

Long-term debt consisted of the following at March 31, 1983 and 1982:

	<u>1983</u>	<u>1982</u>
Bank term loan, see (a) below	\$1,400,289	\$1,495,919

Notes payable collateralized by deeds of trust on real property:

Bank loan, due \$71,429 quarterly commencing July 1, 1985 to January 1, 1987 (with additional borrowings of \$500,000 through June 30, 1983 - also due \$71,429 quarterly July 1, 1985 to January 1, 1987) plus interest at the bank's prime rate (10.5% at March 31, 1983); collateralized by undeveloped real estate and irrevocably guaranteed by a resource company (in technical default of certain loan covenants, principally relating to changes in management, financial reporting to the bank and delinquencies in payment of other indebtedness)

500,000

Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

March 31, 1983

10. Long-term Debt, Continued:

	<u>1983</u>	<u>1982</u>
Credit union, due in monthly installments of \$9,319 including 9% interest to March 10, 1987	\$ 435,719	\$ 505,643
First National Bank of Anchorage, due in monthly installments of \$4,298 including 10% interest to March 1, 1992	300,943	321,438
Kodiak Welding and Fishing Supply Co., Inc., due in monthly installments of \$2,831 including 10% interest to November 1, 1992	210,922	222,427
National Bank of Alaska, due in monthly installments of \$3,056 including 8% interest to May 1, 1984	39,939	71,845
R.S. Acheson Company, due \$20,000 annually plus 10% interest to October 25, 1984	40,000	60,000

Other:

Notes payable under the terms of fee agreement with attorney firm for legal services billed and unpaid within 30 days, with interest at the greater of 12% or 1% over Rainier National Bank's prime rate (12.5% at March 31, 1983); collateralized by pledge of The Kazim Company's capital stock and a deed of trust on the Kodiak Harborview complex (additional billings to September 20, 1983 totaled \$75,857 under the terms of the fee agreement, net of \$19,121 principal repayments)	317,304	
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

March 31, 1983

10. Long-term Debt, Continued:

	<u>1983</u>	<u>1982</u>
Business purchase contract payable, modified as to payment terms November 1, 1982; balance due April 1, 1984, with interest at prime rate commencing October 3, 1982	\$ 320,315	\$ 393,024
Note payable, U.S. Small Business Administration, due in monthly installments of \$925 including 5.5% interest to June 5, 1987; collateralized by security agree- ments on inventories and property and equipment	48,070	56,320
J.M.B. Corporation, due \$10,396 annually plus 8% interest to October 1, 1985	31,187	41,583
Other long-term obligations, \$25,000, under employee termina- tion agreement; \$8,755 due in monthly installments of \$500 including 20.5% interest to December 1984; \$854 due in semi-annual installments of \$427 plus 7% interest	<u>34,610</u>	<u>25,696</u>
Total long-term debt	3,679,298	3,193,895
Less current portion	<u>(251,847)</u>	<u>(307,367)</u>
Long-term portion	<u>\$3,427,451</u>	<u>\$2,886,528</u>

- (a) In connection with the sale of the Larsen Bay Cannery effective June 1, 1982 (see Note 3), the terms of the loan agreement were modified to change the final payment to June 30, 1992, and requiring increased minimum principal payments (plus accrued interest at 10.7%) annually on December 31 of each year.

The final loan balance, payable on or before June 30, 1992, is estimated at \$576,641, assuming no principal prepayments are made (see below).

Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

March 31, 1983

10. Long-term Debt, Continued:

Because a number of loan agreement covenants have not been met by KISI (principally relating to limitations on the borrowing of money, timeliness of financial reporting to the bank, and maintenance of specified financial ratios and amounts) the loan is in technical default.

However, in the past the bank has postponed its right on an annual basis to demand payment in full in consideration of, among other things: payment of current installments as they become due; the unconditional guarantee of Koniag, Inc.; and, pledge of collections on certain other non-trade receivables of KISI, including an escrow agreement providing for collection and remittance to the bank of the payments due on notes receivable from the sale of the Larsen Bay Cannery in June, 1982. Accordingly, the term loan is substantially classified as noncurrent based on continued future forbearance by the bank.

The aggregate maturities of long-term debt are as follows:

Fiscal Year Ended <u>March 31,</u>	
1984	\$ 251,847
1985	903,366
1986	516,385
1987	456,650
1988	245,204
Subsequent to 1988	<u>1,305,846</u>
	<u>\$3,679,298</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

March 31, 1983

11. Accrued Expenses:

Accrued expenses consisted of the following at March 31, 1983 and 1982:

	<u>1983</u>	<u>1982</u>
Payroll and payroll taxes	\$ 177,008	\$ 168,187
Pension contributions	277,905	124,812
Incentive bonus payable		218,005
Property and other taxes	498,152	283,368
Interest	159,234	209,021
Canned salmon recall		201,813
Phase-out period costs of discontinued segments	115,332	318,222
Other	<u>3,627</u>	<u>28,246</u>
	<u>\$1,231,258</u>	<u>\$1,551,674</u>

At March 31, 1983, a pension contribution of \$76,345 and State of Alaska fisheries business taxes of \$400,105 were delinquent and subject to late payment penalties and interest.

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 (as amended) which are not developed or leased to third parties or are used solely for the purposes of exploration are exempt from state and local real property taxes for a period ending December 2, 2000, or twenty years from the date of issuance of interim conveyance or patent, whichever is earlier.

Income derived from real property interests, investments and operations are subject to applicable Federal and state taxes. The Company files consolidated income tax returns. Net operating loss carryforwards for federal tax purposes at March 31, 1983, totaling \$12,900,000, are available to reduce future taxable income of the Company and its subsidiaries (except for KISI for periods prior to

Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

March 31, 1983

12. Income and Property Taxes, Continued:

December 10, 1980 when separate returns were filed), and expire as follows:

<u>Fiscal Year</u> <u>Ended March 31,</u>	
1991	\$ 740,000
1992	480,000
1993	530,000
1994	1,150,000
1995	1,010,000
1996	740,000
1997	1,450,000
1998	<u>6,800,000</u>
	<u>\$12,900,000</u>

KISI's net operating loss carryforwards prior to December 10, 1980 totaled \$2,060,000 (which would have expired in 1992 - 1994) and were available to reduce KISI's future taxable income only.

Investment and new jobs tax credits of \$248,000 are also available to offset future income taxes payable; investment tax credits (\$153,000) will expire March 31, 1989 through 1998, and the new jobs tax credit (\$95,000) will expire March 31, 1986.

13. Retirement Plans:

The Company has noncontributory retirement plans which cover substantially all employees (except employees of Kodiak Swiftsure Corporation) who meet certain eligibility requirements as to age and length of service. The plans require that annual contributions be made to insurance companies for future purchases of individual annuity contracts. Pension expense was \$166,667 in 1983 and \$145,943 in 1982, which includes amortization of past service costs over a period of 30 years. The Company's policy is to fund pension costs accrued.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

March 31, 1983

14. Lease Commitments:

At March 31, 1983, the Company was obligated for minimum rentals under noncancelable operating leases for office and warehousing facilities entered into by Swiftsure Fisheries Division as follows: 1984 - \$119,886 and 1985 - \$107,705. The Company is attempting to sublease and/or transfer these obligations.

Total rent expense for these facilities, and certain equipment, amounted to \$112,598 in fiscal 1983 and \$133,990 in fiscal 1982.

Swiftsure Fisheries Division also leased certain processing vessels for the 1982 Alaska fisheries season only. The rental expense of the processing vessels was \$475,000 in fiscal 1983.

15. 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.

The extension of the enrollment process (which closed in December 1976) resulted in 5 new enrollees and 500 additional shares of stock issued by the Company during fiscal 1982. In 1983, a former Koniag enrollee, with 100 shares of Class A and 100 shares of Class B stock, transferred out of the region.

An adjustment to contributed capital of \$97,567, giving effect to fiscal 1982 and prior years' changes in enrollment, was recorded in fiscal 1982.

16. Natural Resource Revenues:

As indicated in Note 2, 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) had been the subject of continuing litigation to determine the method of computing redistributable amounts among the regional corporations.

Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

March 31, 1983

16. Natural Resource Revenues, Continued:

On June 29, 1982, the twelve regional corporations approved a settlement agreement and in July 1983 the litigation was dismissed by the Court. The agreement provides the basis for determination of Gross and Net Section 7(i) Revenues and Costs for all fiscal years through March 31, 1982 ("Past Years"), and for the future.

The Company previously had recorded, as a payable to other regions, natural resource revenues of \$974,047 (including accrued interest). Based on the terms of the settlement agreement, the Company had no liability for Past Years. Accordingly, this amount, less \$49,093 of deferred exploration costs, was reflected as income in fiscal 1982. In addition, based on the terms of the settlement agreement, \$269,295 due from other regions for Past Years was included in income for fiscal 1982. Of the amount receivable from other regions, \$205,962 is due beyond one year, with interest at 14%.

Also, as Koniag's Section 7(i) costs for the Past Years exceeded its Gross Section 7(i) Revenues, it has an excess deduction carry-forward of \$722,054 which may be applied against Gross Section 7(i) Revenues in future years.

In addition, Koniag has made prior excess distributions of \$173,874 which is available to offset future years distributable Section 7(i) Revenues.

Current years' natural resource revenues, and current receivables due from other regions at March 31, 1983 and 1982, consisted of:

	<u>1983</u>		<u>1982</u>	
	<u>Income</u>	<u>Current Receivable</u>	<u>Income</u>	<u>Current Receivable</u>
Company generated revenues	\$107,128		\$110,275	
Other regions' distributions:				
Current year	433,740	\$428,983	244,750	\$244,750
Past years		63,333		63,333
	<u>\$540,868</u>	<u>\$492,316</u>	<u>\$355,025</u>	<u>\$308,083</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

March 31, 1983

17. Other Revenues:

Other revenues consisted of the following for fiscal years 1983 and 1982:

	<u>1983</u>	<u>1982</u>
Resource company fees in consideration for potential bidding rights	\$ 675,000	
Gain on sale of interest in an oil and gas lease (Note 8)	435,493	
Gain on sales of property and equipment		\$433,925
Land surveying revenues, net	40,460	10,990
Miscellaneous - principally land usage permits and fees	<u>30,478</u>	<u>73,148</u>
	<u>\$1,181,431</u>	<u>\$518,063</u>

18. Corporate General and Administrative Expenses:

Corporate general and administrative expenses consisted of:

	<u>Year Ended March 31, 1983</u>	<u>Nine Months Ended March 31, 1982</u>
Personnel	\$ 580,599	\$ 484,599
Directors' fees and expenses	110,219	68,505
Professional fees and expenses:		
Legal	439,472	190,559
Accounting	97,616	68,516
Other, including \$117,427 and \$63,383 relating to land exchange legislation	145,011	75,320
Travel	79,644	69,744
Annual Shareholders' meeting	118,393	32,975
Office rental, utilities and janitorial	26,964	27,827
Dues and subscriptions	27,062	21,103
Depreciation and amortization	28,655	19,352
Telephone	16,752	12,622
Office expenses	10,790	9,823
Equipment rental	8,909	8,641
Insurance	22,471	7,099
Other	<u>45,365</u>	<u>6,891</u>
	<u>\$1,757,922</u>	<u>\$1,103,576</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

March 31, 1983

19. Subsequent Event - Proposed Settlement of Merger Litigation
(Unaudited):

On October 10, 1983, Company management approved a proposed settlement agreement with plaintiffs Arnold A. Olsen, Ralph Eluska, Nicholas Shuravloff and Victor Peterson in their individual capacities and derivatively on behalf of their respective village corporations, Afognak Native Corporation, Akhiok-Kaguyak, Inc., Leisnoi, Inc. and Old Harbor Native Corporation in the merger litigation (see Notes 1 and 2). If approved by the court, the settlement would rescind the mergers of Akhiok-Kaguyak, Inc., Leisnoi, Inc. and Old Harbor Native Corporation. In addition, the agreement provides for stipulated judgment against Koniag settling all claims existing between Koniag, Afognak Native Corporation, Akhiok-Kaguyak, Inc., Leisnoi, Inc. and Old Harbor Native Corporation, the plaintiffs, and plaintiffs' attorneys. The former directors and officers of Koniag and other defendants in the related law suits are not parties to the proposed settlement agreement. The plaintiffs' claims against the former directors, officers and other defendants are scheduled for trial in Superior Court, State of Alaska beginning November 7, 1983.

The terms of the proposed settlement agreement provide for:

- . Return of certain identifiable assets, including:
 - .. escrow funds held on account, see Note 4;
 - .. land entitlements, see Note 7;
 - .. respective investment interests in Cape Chiniak and Koncor Forest Resource Management Company Joint Ventures, see Note 8;
- . Transfer of one percentage point interest in the Afognak Joint Venture to Akhiok-Kaguyak, Inc., Leisnoi, Inc., and Old Harbor Native Corporation for damages as defined (or three such percentage points);
- . Cash payments or assumption of liabilities totaling approximately \$400,000;
- . Reimbursement of plaintiffs' attorneys fees, costs and expenses. The plaintiffs have agreed to pursue their claims against the other defendants and have assigned any net recoveries thereon to the benefit of Koniag.

Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

March 31, 1983

19. Subsequent Event - Proposed Settlement of Merger Litigation (Unaudited), Continued:

- . Indemnification of plaintiffs for any attorneys fees, costs and expenses awarded to defendants against plaintiffs.

If the proposed settlement agreement is not ultimately approved by the court, the plaintiffs' claims against the Company would go to trial in July 1984 under the Superior Court's present schedule.

In the opinion of counsel and management, the ultimate outcome of the outstanding merger litigation and related effect on the Company's financial statements is not determinable at this time.