

APPENDIX B

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COMPARATIVE HISTORICAL AND PRO FORMA PER SHARE DATA

The historical per share income (loss), dividends, capital distribution, and book value information for Koniag, Inc., the merging village corporations (see Note 1) and Kodiak Island Seafoods, Inc., their commonly controlled affiliated company, is being presented together with related pro forma combined per share information so that each stockholder can compare per share information of shares presently owned with pro forma combined per share information for Koniag, Inc. after giving effect to the proposed mergers (see Note 2). The book value amounts do not include any value for land received or to be received under the Act, except in the case of Afognak Native Corporation who recorded surface timberland values at a nominal amount of \$1 per acre (\$2.68 book value per Afognak Native Corporation share).

If the merger had been consummated at June 30, 1980 and all participating village corporations had joined in the merger, the book value of each Koniag, Inc. share received would have been \$38.87. This amount may be more or less than the book value of each village corporation share presently owned. Also the book value of each share of Koniag, Inc. stock presently owned would be less if all participating village corporations had joined in the merger at June 30, 1980 principally due to the pro forma cash and land distributions to village corporation shareholders and new village organizations (see Note 2 below). The per share amounts will vary depending on how many and which of the village corporations join in the merger.

Koniag, Inc.:	Year Ended June 30,				
	1976	1977	1978	1979	1980
Historical:					
Net loss per share	\$(2.18)	\$(1.27)	\$ (.89)	\$(3.16)	\$(3.73)
Dividends and capital distributions per share	None	None	None	None	None
Book value per share	52.55	52.73	51.85	48.69	46.50
Pro forma combined:					
Loss per share from continuing operations				\$(2.92)	\$(.96)
Loss from discontinued operations				(.16)	(.50)
Extraordinary credit					.20
Net loss per share				<u>\$(3.08)</u>	<u>\$(1.26)</u>
Book value per share					<u>\$38.87</u>

COMPARATIVE HISTORICAL AND PRO FORMA PER SHARE DATA, Continued

Merging Village Corporations:	Year Ended December 31,					Six Months Ended
	1975	1976	1977	1978	1979	June 30, 1980
Net income (loss) per share:						
Afognak Native Corporation (4)	\$ (2.09)	\$ (4.18)	\$ (2.72)	\$ (4.36)	\$ 27.40	\$ 4.74
Akhiok-Kaguyak, Inc. (5)	(.39)	(.10)	.56	(3.07)	1.78	.70
Karluk Native Corporation	(1.11)	(1.21)	(21.85)	(3.24)	(12.17)	(3.72)
Leisnoi, Inc. (6)	(.12)	(.16)	(.83)	(8.52)	(4.11)	(2.76)
Nu-Nachk Pit, Inc.	(.11)	.02	2.01	(20.76)	(.86)	(13.20)
Old Harbor Native Corporation	(.21)	(.34)	1.37	(12.24)	(4.58)	(8.16)
Dividends and capital distributions:						
Dividends:						
Afognak Native Corporation	None	None	None	None	5.00	None
Capital distributions:						
Leisnoi, Inc.	None	None	1.00	1.00	None	None
Book value per share:						
Afognak Native Corporation	57.13	53.15	51.00	46.64	72.60	77.34
Akhiok-Kaguyak, Inc.	58.58	58.48	59.04	56.82	58.60	59.31
Karluk Native Corporation	57.77	56.56	35.74	51.52	39.35	35.63
Leisnoi, Inc. (6)	59.75	59.59	57.77	49.76	44.90	42.14
Nu-Nachk Pit, Inc.	59.32	59.33	61.34	41.46	40.60	37.36
Old Harbor Native Corporation	59.17	58.83	60.20	48.83	44.25	42.12
Kodiak Island Seafoods, Inc.:	Year Ended March 31,					Three Months Ended
	1976	1977	1978	1979	1980	June 30, 1980
Net income (loss) per share	\$ (.01)	\$.19	\$ (1.93)	\$ (.23)	\$ (1.20)	\$ (.25)
Dividends and capital distributions	None	None	None	None	None	None
Book value (stockholders' deficit) per share	.99	1.19	(.74)	.72	(.43)	(.68)

COMPARATIVE HISTORICAL AND PRO FORMA PER SHARE DATA, Continued

Notes:

- (1) Shares used in the computation of the above historical per share information are based on 100 common shares per enrollee (except for Kodiak Island Seafoods, Inc., and except for dividends, which are at actual) using the latest eligibility figures released by the U.S. Department of Interior. The common stock of Karluk Native Corporation, Leisnoi, Inc. and Nu-Nachk Pit, Inc. (corporations that authorized ten shares per shareholder) and Akhiok-Kaguyak, Inc. and Old Harbor Native Corporation (corporations that authorized 100 shares per shareholder) has not been issued to date. Per share data for these corporations is stated on the basis of 100 equivalent shares outstanding per shareholder for comparative purposes.
- (2) Pro forma per share amounts are presented after giving effect to the proposed merger of Koniag, Inc. with the six village corporations included in the plan of merger, accounted for as a pooling of interests. The pro forma amounts assume the conversion of merging village corporation shares into 100 shares of Koniag, Inc. Class B common stock for each village corporation stockholder. The plan of merger (see Section B) provides for cash distributions to merging village corporation stockholders (\$21.00 per share) and new village organizations (\$1.90 per share) totaling \$3,849,490 (\$22.90 per village corporation share) or \$7.68 per pro forma share.
- (3) Reference is made to the respective companies' accountants' reports - included in Sections B-1 to B-7 of Appendix B of this Joint Proxy Statement. The respective accountants' reports set forth certain qualifications including adverse qualifications and disclaimers of opinion.
- (4) Afognak Native Corporation had income (loss) from discontinued operations (including loss on disposals of assets in 1980 of \$3.46 per share) as follows:

	Year Ended December 31,					Six Months Ended
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>June 30, 1980</u>
Income (loss) from continuing operations	\$ (1.06)	\$ (1.09)	\$ (1.08)	\$ (2.39)	\$30.06	\$9.06
Loss from discontinued operations	<u>(1.03)</u>	<u>(3.09)</u>	<u>(1.64)</u>	<u>(1.97)</u>	<u>(2.66)</u>	<u>(4.32)</u>
Net income (loss)	<u>\$ (2.09)</u>	<u>\$ (4.18)</u>	<u>\$ (2.72)</u>	<u>\$ (4.36)</u>	<u>\$27.40</u>	<u>\$4.74</u>

COMPARATIVE HISTORICAL AND PRO FORMA PER SHARE DATA, Continued

Notes, Continued:

- (5) Akhiok-Kaguyak, Inc. had extraordinary credits from tax benefits of prior years' losses as follows:

	Year Ended December 31,		Six Months Ended
	1977	1979	June 30, 1980
Income before extraordinary credit	\$.48	\$ 1.44	\$.57
Extraordinary credit	<u>.08</u>	<u>.34</u>	<u>.13</u>
Net income	<u>\$.56</u>	<u>\$ 1.78</u>	<u>\$.70</u>

- (6) Leisnoi, Inc. has recorded its investment in Kodiak Island Seafoods, Inc. at cost (\$350,000 or \$11.82 book value per Leisnoi share).

For 1979, Leisnoi, Inc. had an extraordinary credit due to a gain from fire damage as follows:

Loss before extraordinary credit	\$(7.48)
Extraordinary credit	<u>3.37</u>
Net loss	<u>\$(4.11)</u>

CAPITALIZATION

The following table sets forth the capitalization and debt of Koniag, Inc. at June 30, 1980 (historical), and the pro forma combined capitalization and debt after giving effect to the proposed mergers of the village corporations, accounted for as a pooling of interests. This pro forma table should be read in conjunction with the Pro Forma Combined Balance Sheet (Unaudited) appearing on page A-8 of this Joint Proxy Statement.

	<u>Historical</u>	<u>Pro Forma</u>
Short-term debt:		
Notes payable to banks	\$ 1,076,340	\$ 1,938,083
Current portion of long-term debt	1,592,837	1,592,837
Term loans from bank		1,969,563
Advances from customers		1,717,075
Notes payable for insurance premiums		147,568
	<u>\$ 2,669,177</u>	<u>\$ 7,365,126</u>
Total short-term debt		
Long-term debt:		
Notes payable collateralized by deeds of trust on real property:		
9% note payable to credit union	\$ 552,965	\$ 552,965
10% note payable to bank	334,614	334,614
10% notes payable	311,354	311,354
8% note payable to bank	94,392	94,392
9.5% note payable to bank	36,851	36,851
12% note payable	626,772	626,772
Notes payable collateralized by security agreements on inventories and property and equipment:		
5.5% note payable	62,189	62,189
8% note payable	51,978	51,978
Accrued commissions		80,000
Other, including purchase contracts and capitalized lease obligations	13,186	21,064
	<u>2,084,301</u>	<u>2,172,179</u>
Total long-term debt		
Excess of equity in losses (and cash distributions) over investment in Koncor joint venture		234,009
Minority interest in equity of consolidated subsidiary		4,773
Stockholders' equity:		
Authorized:		
5,000,000 common shares in two classes, A and B		
Issued and outstanding:		
Class A, \$.01 par value; 225,200 shares	2,252	2,252
Class B, \$.01 par value; 107,900 shares (276,000 pro forma)	1,079	2,760
Contributed capital	19,930,069	26,106,135
Accumulated deficit	(4,445,180)	(6,627,873)
	<u>15,488,220</u>	<u>19,483,274</u>
Total stockholders' equity		
Total long-term debt and stockholders' equity	<u>\$17,572,521</u>	<u>\$21,894,235</u>

KONIAG, INC.

PRO FORMA COMBINED FINANCIAL STATEMENTS

(Unaudited)

The following pro forma combined statement of operations for the years ended June 30, 1979 and 1980 and the pro forma combined balance sheet as of June 30, 1980, give effect to the proposed mergers of the six village corporations into Koniag, Inc., accounted for as a pooling of interests, and to the pro forma adjustments described in the notes to the statements. As a result of the merger, Kodiak Island Seafoods, Inc. would be a wholly-owned consolidated subsidiary.

These statements are not necessarily indicative of the results of operations or the financial position as they may be in the future or as they might have been had the merger become effective on July 1, 1978.

These statements should be read in conjunction with their notes and the financial statements and related notes and accountants' reports (which include adverse qualifications and disclaimers of opinion) of Koniag, Inc. and the respective companies (see Sections B-1 to B-7 of Appendix B), the summaries of operations of the respective companies and "Comparative Historical and Pro Forma Per Share Data" included elsewhere herein.

PRO FORMA COMBINED STATEMENT OF OPERATIONS

(Unaudited)

	Years Ended June 30,	
	1979	1980
Revenues:		
Seafood sales	\$ 6,303,704	\$ 7,517,954
Merchandise sales	2,749,824	1,801,140
Timber	186,496	2,003,971
Rentals	487,220	445,880
Interest and investment income	263,443	487,410
Natural resource revenue (7(i) income)		372,954
Gain on sales of fishing boats		193,596
Other	69,177	73,957
Total	<u>10,059,864</u>	<u>12,896,862</u>
Costs and expenses:		
Cost of seafood sales	5,197,310	7,231,026
Cost of merchandise sales	2,698,156	1,669,438
Selling, general and administrative	2,965,564	3,684,176
Interest expense	517,713	756,714
Plant project costs	130,743	26,579
Equity in loss of Koncor-Forest Resource Management Company joint venture	15,098	8,487
Total	<u>11,524,584</u>	<u>13,376,420</u>
Loss from continuing operations	1,464,720	479,558
Loss from discontinued operations (including \$177,685 of loss on disposals of assets in 1980)	80,514	250,379
Loss before extraordinary credit	1,545,234	729,937
Extraordinary credit - gain on fire damage		(99,849)
Net loss	<u>\$ 1,545,234</u>	<u>\$ 630,088</u>

PRO FORMA COMBINED BALANCE SHEET
June 30, 1980 (Unaudited)

	ASSETS										Pro Forma Adjustments Add (deduct)		Pro Forma Combined
	Konfig, Inc.	Afognak Native Corporation	Akhlok- Kaguyak, Inc.	Karluk Native Corporation	Lefianol, Inc.	Nu-Nachik Pit, Inc.	Old Harbor Native Corporation	Kodiak Island Seafoods, Inc.					
Cash	\$ 177,580	\$ 31,236	\$ 13,021	\$ 5,876	\$ 189,363	\$ 9,944	\$ 114,540	\$ 161,714					\$ 703,274
Investment in short-term certificates of deposit and other securities	7,763,907	2,977,767	777,713	723,030	775,044	787,882	1,254,233			\$ (33,191) D			15,026,365
Current receivables	1,387,739	183,872	31,394	41,389	56,094	50,680	65,197	639,928		(319,390) A			2,077,411
Inventories	919,244							3,176,007		(59,492) C			4,095,251
Other current assets	111,076	7,163			1,529			142,032					261,800
Total current assets	10,359,546	3,200,038	822,128	770,295	1,022,030	848,506	1,433,970	4,119,681		(412,073)			22,164,121
Noncurrent receivables	679,318	202,751	29,596	50,500	70,986	39,843	76,038	280,453					1,429,465
Investments in affiliates:													
Cape Chiniak Impact Center Joint Venture	523,193	131,848	37,698		76,227	52,119	86,113			47,793 D			95
Kodiak Island Seafoods, Inc.	477,917				350,000					(827,917) B			
Investment in oil, gas and hydrocarbon leases	1,287,700												1,287,700
Other investments	55,000	5,500											63,000
Property and equipment at depreciated cost	6,853,241	84,387											8,351,937
Land and land improvements held for development, at cost	189,291									(137,725) D			189,291
Surface timberlands (at \$1 an acre)		137,725								220,600 D			1,265,087
Land selection costs	871,966	172,521						1,388,766					
Net assets of discontinued segment, at net realizable value		210,000											210,000
Other assets	144,915		1,050					32,769					178,734
Total assets	\$21,444,087	\$4,144,770	\$890,472	\$ 870,795	\$1,529,683	\$ 940,613	\$1,601,579	\$5,821,669		\$(1,109,122)			\$16,094,156
LIABILITIES AND EQUITY													
Short-term borrowings	\$ 2,669,177							\$4,695,949					\$ 7,165,126
Accounts payable	322,375	\$ 99,150	\$ 18,609	\$ 14,440	\$ 53,574	\$ 26,080	\$ 33,519	1,242,437		(59,492) C			1,750,692
Distributions payable from contributed capital										3,530,100 A			3,530,100
Accrued expenses	277,278	270	75					477,951		125,000 E			891,154
Other current liabilities	602,736	70,109											672,845
Total current liabilities	3,871,566	169,529	18,684	14,440	53,574	26,080	34,293	6,416,337		3,595,608			14,200,111
Long-term borrowings	2,084,301			7,878				80,000					2,112,179
Excess of equity in losses over investment in affiliated company, KISI				135,743						(447,979) B			
Excess of equity in losses (and cash distributions) over investment in Koncor joint venture													
Minority interest in equity of consolidated subsidiary													
Common stock:													
Class A	2,252									1,681 A			2,752
Class B	1,079	51,400								(51,400) A			2,760
Afognak Native Corporation								994,000		(994,000) B			
Kodiak Island Seafoods, Inc.													
Total	3,331	51,400						994,000		(1,043,719)			5,012
Contributed capital	19,930,069	3,189,274	887,257	1,427,097	1,717,009	1,427,405	2,218,090	985,000		(1,849,490) A			26,106,135
Retained earnings (deficit)	(4,445,180)	734,567	(15,469)	(764,363)	(469,682)	(668,990)	(806,922)	(2,653,668)		(1,737,570) B			(6,627,873)
Total stockholders' equity	15,484,889	3,975,241	871,788	662,734	1,247,327	758,415	1,411,168	(674,668)		(137,725) D			19,483,274
	\$21,444,087	\$4,144,770	\$890,472	\$ 870,795	\$1,529,683	\$ 940,613	\$1,601,579	\$5,821,669		\$(1,109,122)			\$16,094,156

NOTES TO PRO FORMA COMBINED FINANCIAL STATEMENTS

- A) The pro forma combined balance sheet assumes that the proposed mergers occurred as of June 30, 1980. Upon consummation of the proposed mergers, Koniag, Inc. will issue 168,100 shares of its Class B common stock in exchange for all outstanding stock (or equivalent shares) of the six village corporations (share for share). Koniag acquires the assets (and assumes the liabilities) of the village corporations except for cash distributions (and transfers of land) required to be made to village shareholders and new village organizations under the plan of merger (see Section B).

1) Issuance of Koniag, Inc. Class B common stock (\$.01 par value)	\$ 1,681
Retirement of village corporations common stock:	
Afognak Native Corporation (\$1 par value)	(51,400)
Contributed capital adjustment:	
Excess of Afognak par value over Koniag par value	\$50,886
Other villages (stock unissued)	<u>(1,167)</u> 49,719

2) To record cash distributions payable:	
Merging village stockholders	\$3,530,100
New village organizations	<u>319,390</u>
Total	<u>\$3,849,490</u>

B) Consolidation eliminations:	
Investment in Kodiak Island Seafoods, Inc.	\$ (827,917)
Excess of losses over investment	447,979
Common stock	994,000
Contributed capital:	
KISI	\$985,000
Village corporations	<u>752,570</u> <u>1,737,570</u>
Deficit	<u>\$2,351,632</u>

C) Elimination of intercompany receivables/payables	\$59,492
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NOTES TO PRO FORMA COMBINED FINANCIAL STATEMENTS, Continued

- D) Adjustments to conform the accounting policies of certain village corporations to those of Koniag, Inc.:
- | | |
|--|------------------|
| 1) Capitalization of land selection costs | \$220,600 |
| Investments in securities (joint investment account re: land selection costs allocated to a village corporation) | (33,191) |
| Investment in Cape Chiniak Joint Venture | <u>47,793</u> |
| Deficit | <u>\$235,202</u> |
| 2) Elimination of nominal value assigned to surface timberlands | \$(137,725) |
- E) Estimated merger expenses of \$125,000 are reflected in the balance sheet. Such expenses will be charged to operations in fiscal year 1981.
- F) The pro forma combined statement of operations for the year ended June 30, 1979 and 1980 has been prepared by combining the results of operations of Koniag, Inc., the merging village corporations and Kodiak Island Seafoods, Inc. (an affiliated company, wholly-owned upon merger) for the twelve-month periods then ended, as if the merger had occurred as of July 1, 1978, with appropriate elimination of intercompany transactions. Adjustments to conform the accounting policies of the merging village corporations to those adopted by Koniag, Inc. are also reflected. In addition, estimated duplicate general and administrative expenses of \$70,000 and \$75,000 for the years ended June 30, 1979 and 1980, respectively, have been eliminated.
- G) Koniag, Inc. and all merging companies have net operating loss carry-forwards for Federal income tax purposes available to reduce future income taxes, if any. The aggregate amount of tax loss carry-forwards at June 30, 1980 assuming all village corporations merge is \$7,750,000, and expire as follows:

	<u>December 31,</u>	<u>March 31,</u>	<u>June 30,</u>
1980	\$31,000		
1983			\$ 947,000
1984			650,000
1985		\$1,100,000	931,000
1986		140,000	1,583,000
1987		<u>970,000</u>	<u>1,398,000</u>
	<u>\$31,000</u>	<u>\$2,210,000</u>	<u>\$5,509,000</u>

CONDENSED SUMMARIES OF OPERATIONS

The following condensed summaries of operations for Koniag, Inc., the merging village corporations and their commonly controlled affiliated company, Kodiak Island Seafoods, Inc., for the periods indicated therein, should be read in conjunction with the respective companies' financial statements, and the related notes and accountants' reports, included in Appendix B, Sections B-1 to B-7 in this Joint Proxy Statement. The respective accountants' reports set forth certain qualifications including adverse qualifications and disclaimers of opinion.

The results of operations for the interim periods ended June 30, 1980 are not necessarily indicative of the results to be expected for the fiscal years of the respective companies. Comparative amounts for the interim periods of the prior fiscal year are not presented because the information is impractical to obtain.

AFOGNAK NATIVE CORPORATION

CONDENSED SUMMARY OF OPERATIONS

for the five years ended December 31, 1979 and
the six months ended June 30, 1980

	Years Ended December 31,					Six Months Ended June 30, 1980 (Unaudited)
	1975(A)	1976(A)	1977	1978	1979	
Revenues:						
Timber					\$1,683,350	\$507,117
Interest income	\$ 39,270	\$ 33,545	\$ 34,447	\$ 28,987	32,505	109,306
Natural resource revenue (7(i) income)					34,503	1,500
Other	750	2,732	5,269			
Total	40,020	36,277	39,716	28,987	1,750,358	617,923
Expenses and other:						
Selling, general and administrative	91,770	91,912	75,981	107,405	204,166	156,056
Interest expense	5,389	16,888	38,108	44,184	6,002	
Equity in income of Cape Chiniak joint venture					(4,727)	(3,789)
Minority interest in loss of subsidiary	(2,684)	(16,512)	(18,737)			
Total	94,475	92,288	95,352	151,589	205,441	152,267
Income (loss) from continuing operations	(54,455)	(56,011)	(55,636)	(122,602)	1,544,917	465,656
Loss from discontinued operations (including \$177,685 of loss on disposals of assets in 1980) (B)	53,117	158,700	84,038	101,592	136,503	221,824
Net income (loss) (C)	<u>\$(107,572)</u>	<u>\$(214,711)</u>	<u>\$(139,674)</u>	<u>\$(224,194)</u>	<u>\$1,408,414</u>	<u>\$243,832</u>
Earnings (loss) per common share - based on 51,400 shares (100 shares for each of the 514 shareholders en- rolled at June 30, 1980):						
Income (loss) from con- tinuing operations	<u>\$ (1.06)</u>	<u>\$ (1.09)</u>	<u>\$ (1.08)</u>	<u>\$ (2.39)</u>	<u>\$ 30.06</u>	<u>\$ 9.06</u>
Net income (loss)	<u>\$ (2.09)</u>	<u>\$ (4.18)</u>	<u>\$ (2.72)</u>	<u>\$ (4.36)</u>	<u>\$ 27.40</u>	<u>\$ 4.74</u>
Dividends per share					<u>\$ 5.00</u>	

See Notes on following page.

AFOGNAK NATIVE CORPORATION

CONDENSED SUMMARY OF OPERATIONS, Continued

for the five years ended December 31, 1979 and
the six months ended June 30, 1980

Notes:

(A) Not covered by accountants' report herein.

(B) Discontinued operations (including loss on disposal of assets):

On June 24, 1980, the assets of Northern Lights Seafood, Inc., a floating processing plant, were sold for \$150,000 resulting in a loss on disposal of \$142,279. On September 19, 1980, the operating assets of Island Air Service, Inc., an air taxi service, were sold for \$210,000 resulting in an estimated loss on disposal of \$35,406. Accordingly, the results of operations of both these entities have been included in loss from discontinued operations for the five years ended December 31, 1979 and the six months ended June 30, 1980.

(C) No provision for income taxes was recorded in 1979 and the six month period ended June 30, 1980 due to depletion allowances claimed on timber sold for tax purposes which are based upon management's estimate of the fair value of the timber at date of conveyance. Such depletion allowances for 1979 and the six months ended June 30, 1980 were \$1,683,350 and \$507,117, respectively.

(D) Timber revenues have been derived under a two year contract that expired in October, 1980. The Company received approximately \$36,000 subsequent to June 30, 1980 under the contract.

AKHIOK-KAGUYAK, INC.

CONDENSED SUMMARY OF OPERATIONS

for the five years ended December 31, 1979 and
the six months ended June 30, 1980

	Years Ended December 31, (A)					Six Months Ended June 30, 1980 (Unaudited)
	1975(B)	1976(B)	1977	1978	1979	
Revenues:						
Interest income	\$12,107	\$14,268	\$18,437	\$ 21,102	\$32,906	\$24,011
Natural resource revenue (7(i) income)			1,781		9,884	430
Other			500			
Total	<u>12,107</u>	<u>14,268</u>	<u>20,718</u>	<u>21,102</u>	<u>42,790</u>	<u>24,441</u>
Expenses and other:						
Selling, general and adminis- trative	17,901	15,687	11,372	67,328	18,036	15,152
Equity in income of Cape Chiniak joint venture					(1,355)	(1,074)
Provision (credit) for income taxes			2,348	(1,148)	5,000	2,000
Total	<u>17,901</u>	<u>15,687</u>	<u>13,720</u>	<u>66,180</u>	<u>21,681</u>	<u>16,078</u>
Income (loss) before extraordinary credit	(5,794)	(1,419)	6,998	(45,078)	21,109	8,363
Extraordinary credit - tax benefit from prior years' losses			1,200		5,000	2,000
Net income (loss)	<u><u>\$ (5,794)</u></u>	<u><u>\$ (1,419)</u></u>	<u><u>\$ 8,198</u></u>	<u><u>\$ (45,078)</u></u>	<u><u>\$26,109</u></u>	<u><u>\$10,363</u></u>
Earnings (loss) per common share - based on 14,700 shares (100 shares for each of the 147 shareholders enrolled at June 30, 1980):						
Income (loss) before extra- ordinary credit	<u>\$ (.39)</u>	<u>\$ (.10)</u>	<u>\$.48</u>	<u>\$ (3.07)</u>	<u>\$ 1.44</u>	<u>\$.57</u>
Net income (loss)	<u><u>\$ (.39)</u></u>	<u><u>\$ (.10)</u></u>	<u><u>\$.56</u></u>	<u><u>\$ (3.07)</u></u>	<u><u>\$ 1.78</u></u>	<u><u>\$.70</u></u>

(A) The years 1975 to 1979 reflect the combined operations of Natives of Akhiok, Inc. and Kaguyak, Inc. as a result of their merger effective June 29, 1979, accounted for as a pooling of interests.

(B) Not covered by accountants' report herein.

KARLUK NATIVE CORPORATION

CONDENSED SUMMARY OF OPERATIONS

for the five years ended December 31, 1979 and
the six months ended June 30, 1980

	Years Ended December 31,					Six Months Ended June 30, 1980 (Unaudited)
	<u>1975*</u>	<u>1976*</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	
Revenues:						
Interest income	\$ 3,863	\$ 3,860	\$ 5,756	\$ 6,756	\$ 17,654	\$ 14,854
Natural resource revenue (7(i) income)			553		13,303	
Other	<u>1,400</u>		<u>2,275</u>			
Total	<u>5,263</u>	<u>3,860</u>	<u>8,584</u>	<u>6,756</u>	<u>30,957</u>	<u>14,854</u>
Expenses and other:						
Selling, general and administrative	25,940	24,690	29,390	20,692	18,882	25,571
Equity in loss of KISI		1,662	347,113	46,332	238,453	50,465
Decline in estimated net realizable value of invest- ment in Cape Chiniak joint venture			<u>38,469</u>			<u>7,952</u>
Total	<u>25,940</u>	<u>26,352</u>	<u>414,972</u>	<u>67,024</u>	<u>257,335</u>	<u>83,988</u>
Net loss	<u>\$ (20,677)</u>	<u>\$ (22,492)</u>	<u>\$ (406,388)</u>	<u>\$ (60,268)</u>	<u>\$ (226,378)</u>	<u>\$ (69,134)</u>
Net loss per equivalent common share - based on 18,600 shares (100 shares for each of the 186 shareholders enrolled at June 30, 1980)	<u>\$ (1.11)</u>	<u>\$ (1.21)</u>	<u>\$ (21.85)</u>	<u>\$ (3.24)</u>	<u>\$ (12.17)</u>	<u>\$ (3.72)</u>

* Not covered by accountants' report herein.

KONIAG, INC.

CONDENSED SUMMARY OF OPERATIONS

for the five years ended June 30, 1980

	Years Ended June 30,				
	<u>1976*</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Revenues:					
Merchandise sales	\$ 776,739	\$1,785,107	\$2,787,119	\$ 2,749,824	\$ 1,801,140
Seafood sales					527,184
Rentals	44,900	348,845	437,930	474,826	440,533
Interest and investment income	95,957	29,458	40,788	133,023	157,642
Natural resource revenue (7(i) income)		37,797			254,623
Other	<u>120,717</u>	<u>83,006</u>	<u>14,491</u>	<u>41,920</u>	<u>23,726</u>
Total	<u>1,038,313</u>	<u>2,284,213</u>	<u>3,280,328</u>	<u>3,399,593</u>	<u>3,204,848</u>
Costs and expenses:					
Cost of merchandise sales	747,768	1,474,173	2,254,300	2,698,156	1,669,438
Cost of seafood sales					614,520
Selling, general and administrative	955,739	1,108,918	1,117,233	1,471,751	1,539,361
Interest expense	59,310	125,579	204,273	265,733	344,720
Equity in loss of KISI				16,330	280,671
Total	<u>1,762,817</u>	<u>2,708,670</u>	<u>3,575,806</u>	<u>4,451,970</u>	<u>4,448,710</u>
Net loss	<u>\$ (724,504)</u>	<u>\$ (424,457)</u>	<u>\$ (295,478)</u>	<u>\$ (1,052,377)</u>	<u>\$ (1,243,862)</u>
Net loss per common share - based on 333,100 shares (100 shares for each of the 3,331 shareholders enrolled at June 30, 1980)	<u>\$ (2.18)</u>	<u>\$ (1.27)</u>	<u>\$ (.89)</u>	<u>\$ (3.16)</u>	<u>\$ (3.73)</u>

* Not covered by accountants' report herein.

LEISNOI, INC.

CONDENSED SUMMARY OF OPERATIONS

for the five years ended December 31, 1979 and
the six months ended June 30, 1980

	Years Ended December 31,					Six Months Ended June 30, 1980 (Unaudited)
	1975*	1976*	1977	1978	1979	
Revenues:						
Interest income	\$24,941	\$25,153	\$ 22,147	\$ 14,676	\$ 11,130	\$ 9,624
Rentals		450	3,350	14,092	10,695	
Natural resource revenue (7(i) income)			3,574		21,208	
Other (including minority interest in loss of sub- sidiary of \$133, 1979 and \$94, 1980)					1,483	94
Total	<u>24,941</u>	<u>25,603</u>	<u>29,071</u>	<u>28,768</u>	<u>44,516</u>	<u>9,718</u>
Expenses and other:						
Selling, general and administrative	30,587	22,543	54,927	241,800	192,787	65,153
Interest expense			747	6,598	52,925	10,615
Loss on disposals of property and equipment		9,936		162		
Equity in loss of joint ventures, net				32,444	20,248	15,532
Refundable income taxes	<u>(2,157)</u>	<u>(2,243)</u>	<u>(2,115)</u>			
Total	<u>28,430</u>	<u>30,236</u>	<u>53,559</u>	<u>281,004</u>	<u>265,960</u>	<u>91,300</u>
Loss before extra- ordinary credit	(3,489)	(4,633)	(24,488)	(252,236)	(221,444)	(81,582)
Extraordinary credit - gain on fire damage					99,849	
Net loss	<u><u>\$(3,489)</u></u>	<u><u>\$(4,633)</u></u>	<u><u>\$(24,488)</u></u>	<u><u>\$(252,236)</u></u>	<u><u>\$(121,595)</u></u>	<u><u>\$(81,582)</u></u>
Loss per equivalent common share - based on 29,600 shares (100 shares for each of the 296 share- holders enrolled at June 30, 1980):						
Loss before extraordinary credit	<u>\$ (.12)</u>	<u>\$ (.16)</u>	<u>\$ (.83)</u>	<u>\$ (8.52)</u>	<u>\$ (7.48)</u>	<u>\$ (2.76)</u>
Net loss	<u><u>\$ (.12)</u></u>	<u><u>\$ (.16)</u></u>	<u><u>\$ (.83)</u></u>	<u><u>\$ (8.52)</u></u>	<u><u>\$ (4.11)</u></u>	<u><u>\$ (2.76)</u></u>
Cash distributions per share from paid-in capital			<u>\$ 1.00</u>	<u>\$ 1.00</u>		

* Not covered by accountants' report herein.

NU-NACHK PIT, INC.

CONDENSED SUMMARY OF OPERATIONS

for the five years ended December 31, 1979 and
the six months ended June 30, 1980

	Years Ended December 31,					Six Months Ended June 30, 1980 (Unaudited)
	1975*	1976*	1977	1978	1979	
Revenues:						
Interest income	\$ 5,966	\$7,125	\$11,546	\$ 14,603	\$ 17,276	\$ 17,539
Natural resource revenue (7(i) income)			2,459		13,651	593
Total	<u>5,966</u>	<u>7,125</u>	<u>14,005</u>	<u>14,603</u>	<u>30,927</u>	<u>18,132</u>
Expenses and other:						
Selling, general and admin- istrative	8,191	5,150	11,931	50,199	11,654	11,677
Equity in income of Cape Chiniak joint venture					(1,871)	(1,492)
Equity in loss (income) of KISI		1,662	(38,846)	385,960	38,596	275,890
Provision (credit) for income taxes			100	(100)		
Total	<u>8,191</u>	<u>6,812</u>	<u>(26,815)</u>	<u>436,059</u>	<u>48,379</u>	<u>286,075</u>
Net income (loss)	<u>\$ (2,225)</u>	<u>\$ 313</u>	<u>\$40,820</u>	<u>\$ (421,456)</u>	<u>\$ (17,452)</u>	<u>\$ (267,943)</u>
Earnings (loss) per equivalent common share - based on 20,300 shares (100 shares for each of the 203 share- holders enrolled at June 30, 1980)	<u>\$ (.11)</u>	<u>\$.02</u>	<u>\$ 2.01</u>	<u>\$ (20.76)</u>	<u>\$ (.86)</u>	<u>\$ (13.20)</u>

* Not covered by accountants' report herein.

OLD HARBOR NATIVE CORPORATION

CONDENSED SUMMARY OF OPERATIONS

for the five years ended December 31, 1979 and
the six months ended June 30, 1980

	Years Ended December 31,					Six Months Ended June 30, 1980 (Unaudited)
	1975*	1976*	1977	1978	1979	
Revenues:						
Interest income	\$17,577	\$ 20,628	\$27,713	\$ 32,816	\$ 44,398	\$ 29,730
Natural resource revenue (7(i) income)			4,046		22,531	979
Total	<u>17,577</u>	<u>20,628</u>	<u>31,759</u>	<u>32,816</u>	<u>66,929</u>	<u>30,709</u>
Expenses and other:						
Selling, general and administrative	25,184	30,343	24,650	56,930	24,938	30,656
Plant project costs					159,822	
Equity in income of Cape Chiniak joint venture					(3,087)	(2,476)
Equity in loss (income) of KISI		1,662	(38,846)	385,960	38,596	275,890
Credit for income taxes	(618)	-				
Total	<u>24,566</u>	<u>32,005</u>	<u>(14,196)</u>	<u>442,890</u>	<u>220,269</u>	<u>304,070</u>
Net-income (loss)	<u>\$ (6,989)</u>	<u>\$ (11,377)</u>	<u>\$45,955</u>	<u>\$ (410,074)</u>	<u>\$ (153,340)</u>	<u>\$ (273,361)</u>
Earnings (loss) per common share - based on 33,500 shares (100 shares for each of the 335 shareholders enrolled at June 30, 1980)	<u>\$ (.21)</u>	<u>\$ (.34)</u>	<u>\$ 1.37</u>	<u>\$ (12.24)</u>	<u>\$ (4.58)</u>	<u>\$ (8.16)</u>

* Not covered by accountants' report herein.

KODIAK ISLAND SEAFOODS, INC.

CONDENSED SUMMARY OF OPERATIONS

for the five years ended March 31, 1980 and
the three months ended June 30, 1980

	From February 18, 1975 (Inception) to March 31, 1976(A)	Years Ended March 31,				Three Months Ended June 30, 1980 (Unaudited)
		1977	1978	1979	1980	
Revenues:						
Seafood sales	\$1,852,881	\$4,544,579	\$ 1,984,226	\$5,414,485	\$ 7,292,651	\$1,085,145
Interest income	20,494	7,839	12,815	7,720	30,764	10,553
Gain on sales of fishing boats					193,596	
Other	7,552		41,703	31,517	32,115	17,324
Total	<u>1,880,927</u>	<u>4,552,418</u>	<u>2,038,744</u>	<u>5,453,722</u>	<u>7,549,126</u>	<u>1,113,022</u>
Costs and expenses:						
Cost of seafood sales (B)	<u>1,670,422</u>	<u>4,123,098</u>	<u>2,547,083</u>	<u>4,407,775</u>	<u>6,835,760</u>	<u>1,042,773</u>
Selling, general and adminis- trative	77,440	126,674	421,204	731,698	1,273,265	176,569
Interest and other financing expense	138,051	143,609	270,836	481,044	632,366	141,960
Provision (credit) for income taxes		<u>42,500</u>	<u>(42,500)</u>			
Total	<u>1,885,913</u>	<u>4,435,881</u>	<u>3,196,623</u>	<u>5,620,517</u>	<u>8,741,391</u>	<u>1,361,302</u>
Net income (loss)	<u>\$ (4,986)</u>	<u>\$ 116,537</u>	<u>\$ (1,157,879)</u>	<u>\$ (166,795)</u>	<u>\$ (1,192,265)</u>	<u>\$ (248,280)</u>
Earnings (loss) per common share	<u>\$ (.01)</u>	<u>\$.19</u>	<u>\$ (1.93)</u>	<u>\$ (.23)</u>	<u>\$ (1.20)</u>	<u>\$ (.25)</u>
Average number of shares out- standing	<u>600,000</u>	<u>600,000</u>	<u>600,000</u>	<u>731,667</u>	<u>994,000</u>	<u>994,000</u>

(A) Not covered by accountants' report herein.

(B) Including write downs of inventories to market value in fiscal year 1978 (undetermined amount due to change in method of pricing) and \$1,015,264 in fiscal year 1980.

INDEX TO FINANCIAL STATEMENTS

This section contains the audited annual financial statements, as originally issued, for each of the merger participants, including an affiliated company which will be wholly-owned upon merger. The statements presented include the most recent three fiscal year periods (four years in certain instances).

- B-1 Afognak Native Corporation
- B-2 Akhiok-Kaguyak, Inc.
- B-3 Karluk Native Corporation
- B-4 Koniag, Inc.
- B-5 Leisnoi, Inc.
- B-6 Nu-Nachk Pit, Inc.
- B-7 Old Harbor Native Corporation
- B-8 Kodiak Island Seafoods, Inc.

AFOGNAK NATIVE CORPORATION

Touche Ross & Co.

April 10, 1980

Board of Directors
Afognak Native Corporation
Kodiak, Alaska

We have examined the consolidated balance sheet of Afognak Native Corporation and subsidiaries as of December 31, 1979, and the related statements of earnings, stockholders' equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note E, realization of the net carrying value of assets held for resale is not currently determinable.

In our opinion, subject to the effects on the financial statements of the ultimate disposition of the assets held for resale, the financial statements referred to above present fairly the financial position of Afognak Native Corporation and subsidiaries as of December 31, 1979, and the results of their operations and the changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.

Certified Public Accountants

AFOGNAK NATIVE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1979

ASSETS

CURRENT ASSETS:	
Cash, including time certificates of deposit of \$1,162,331	\$1,213,381
Accounts receivable, net of allowance of \$7,500	167,641
Alaska Native Fund receivable - Current portion	450,000
Prepaid expenses	30,251
TOTAL CURRENT ASSETS	1,861,273
ALASKA NATIVE FUND RECEIVABLE, less current portion (Note A)	1,076,135
ASSETS HELD FOR RESALE, net of accumulated depreciation of \$58,485 (Note E)	291,106
PROPERTY, BUILDING AND EQUIPMENT, net of accumulated depreciation of \$89,783 (Note D)	299,954
TIMBERLANDS (Note A)	137,725
OTHER ASSETS:	
Investments (Note F)	93,795
Land selection and development (Note A)	178,336
Miscellaneous assets, at cost, net of accumulated amortization	5,910
	<u>\$3,944,234</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:	
Note payable	\$ 1,617
Accounts payable	92,770
Accrued liabilities	18,438
TOTAL CURRENT LIABILITIES	112,825
TIMBER DEPOSIT	100,000
STOCKHOLDERS' EQUITY:	
Common stock, \$1 par value - Authorized, 100,000 shares	51,600
Issued and outstanding, 51,600 shares	
Contributed capital - Alaska Native Fund	3,051,349
Natural resources	137,725
Retained earnings	490,735
	<u>3,731,409</u>
	<u>\$3,944,234</u>

See notes to consolidated financial statements.

AFOGNAK NATIVE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EARNINGS
YEAR ENDED DECEMBER 31, 1979

Revenues:	
Timber revenue	\$1,683,350
Air taxi services	436,309
Interest income	33,856
Other	39,230
	<u>2,192,745</u>
Costs and expenses:	
Cost of air taxi services	505,534
General and administrative	260,807
Interest expense	17,990
	<u>784,331</u>
NET EARNINGS	<u>\$1,408,414</u>

See notes to consolidated financial statements.

AFOGNAK NATIVE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 1979

	Common stock	Contributed capital Alaska Native Fund	Natural resources	Retained earnings (deficit)
Balance, January 1, 1979	\$51,600	\$3,006,199	\$ -	\$ (660,)
Enrollment changes		45,150		
Land conveyances (Note A)			137,725	
Net earnings				1,408,414
Dividend (\$5 per share)				(257,000)
Balance, December 31, 1979	<u>\$51,600</u>	<u>\$3,051,349</u>	<u>\$137,725</u>	<u>\$ 490,735</u>

See notes to consolidated financial statements.

AFOGNAK NATIVE CORPORATION AND SUBSIDIARIESCONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITIONYEAR ENDED DECEMBER 31, 1979

SOURCE OF FUNDS:	
Operations - Net earnings	\$1,408,414
Expenses not requiring working capital -	
Depreciation	49,827
Amortization	<u>1,920</u>
Funds provided by operations	1,460,161
Receipts and current portion of	
Alaska Native Fund receivable	514,260
Disposals of property, building and	
equipment, net	19,260
Timber deposit	100,000
Decrease in investments	<u>16,738</u>
	<u>\$2,110,419</u>
APPLICATION OF FUNDS:	
Land selection and development expenditures	\$ 13,780
Payments on long-term debt	109,474
Payments of deferred amounts payable for	
Joint venture	35,227
Dividends paid	257,000
Increase in working capital	<u>1,694,938</u>
	<u>\$2,110,419</u>
CHANGES IN WORKING CAPITAL BY COMPONENT:	
Increase in current assets -	
Cash	\$ 995,809
Accounts receivable	124,540
Alaska Native Fund receivable -	
Current portion	190,000
Prepaid expenses	<u>13,341</u>
	1,323,690
Decrease in current liabilities -	
Note payable	294,654
Accounts payable	44,833
Accrued liabilities	<u>31,961</u>
	<u>371,248</u>
INCREASE IN WORKING CAPITAL	<u>\$1,694,938</u>

See notes to consolidated financial statements.

AFOGNAK NATIVE CORPORATION AND SUBSIDIARIESNOTES TO CONSOLIDATED FINANCIAL STATEMENTSYEAR ENDED DECEMBER 31, 1979

NOTE A - ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES:

Organization -

Afognak Native Corporation is a village corporation within the Koniag region organized pursuant to the Alaska Native Claims Settlement Act. Under provisions of the Act, the Corporation will receive the following:

1. Entitlement to the surface estate of real property, totaling approximately 230,400 acres. At December 31, 1979, the Corporation had received interim conveyance to 137,713 acres and patent to 12 acres.

2. Approximately 8% of monies distributed to Koniag, Inc. under the terms of Section 7(j) of the Act.

Capitalization -

Stockholders' equity includes receipts from the U. S. Government and the State of Alaska under provisions of the Alaska Native Claims Settlement Act. During 1978, the Corporation recorded the estimated amounts remaining to be received as an addition to stockholders' equity, which in previous years was not determinable. The long-term portion will be received over a period of years as amounts are appropriated by the Congress of the United States and as the State of Alaska or the U. S. Government receives revenues from oil and mineral production or leases as defined in Section 9 of the Alaska Native Claims Settlement Act.

Land conveyances -

As of December 31, 1979, the Corporation had received conveyance of 137,725 acres of commercial timber and surface rights under the Alaska Native Claims Settlement Act. Because of the significant amount of land and surface rights conveyed through December 31, 1979 and to be conveyed in the future, it is not practical to determine the value of the lands and surface rights in the foreseeable future through independent appraisals or by other means subject to verification.

Because of this, the Corporation has adopted the accounting policy that the value of land and surface rights conveyed under the Act will be recorded at the nominal value of \$1 per acre unless the value can be determined by independent appraisals, or by other means subject to verification, at the date of conveyance.

No depletion of timber and surface rights has been taken for financial statement purposes, since valuation has not been determined.

Common stock -

Stock dividends paid or other stock grants are restricted, and the stock may not be sold, pledged, assigned or otherwise alienated, except in certain circumstances by court decree or by death, until January 1, 1992.

For operational purposes, the Corporation has utilized a roll comprised of 510 Alaska Natives eligible to receive stock certificates as certified by the Secretary of the Interior.

Stock issued will be adjusted at the time enrollment is finalized.

Principles of consolidation -

The accompanying consolidated financial statements include the accounts of Afognak Native Corporation and its wholly-owned subsidiaries: Island Air Service, Inc. and Northern Light Seafood, Inc. All intercompany balances and transactions have been eliminated in consolidation.

Land selection and development costs -

The Corporation has elected to defer expenses incurred for land selection. Such deferred costs will be allocated to real property when title to all land has been received.

Depreciation -

Depreciation is provided on the straight-line basis over the estimated useful lives of the assets.

Income taxes -

Alaska Native Fund monies and real property interest received under provisions of the Alaska Native Claims Settlement Act are not subject to Federal or state income taxes; however, any income earned or derived from these after receipt is subject to Federal and state income tax laws.

Investment tax credits are reflected as a reduction of income tax provisions in the year utilized.

NOTE B - MAJOR PURCHASER:

All timber revenues were received from one contract with one purchaser.

NOTE C - INCOME TAXES:

The Corporation and subsidiaries file consolidated Federal and state income tax returns.

As discussed in Note A, the financial statements do not reflect depletion on timber conveyed under the Act. For income tax purposes, depletion is recognized on timber sold based upon management's estimate of the fair value of the timber at date of conveyance. Depletion taken for tax purposes for the year ended December 31, 1979 was \$1,683,350, which resulted in no tax provision.

The Corporation has available net operating loss carryovers and investment tax credit carryovers to offset future taxable earnings which, if not utilized, will expire as follows -

<u>Year ending December 31,</u>	<u>Net operating loss</u>	<u>Investment tax credit</u>
1980	\$ 13,148	\$ -
1981	209,112	70
1982		15,806
1983		8,505
1984	154,808	7,072
1985	242,161	3,627
1986	272,994	10,042
	<u>\$892,219</u>	<u>\$43,122</u>

NOTE D - PROPERTY, BUILDING AND EQUIPMENT:

Property, building and equipment at December 31, 1979 consist of the following -

	<u>Operating</u>	<u>Air taxi</u>	<u>Total</u>
Land	\$ -	\$ 15,000	\$ 15,000
Building and improvements	20,950	72,716	93,672
Vehicles and equipment	30,023	8,402	38,425
Aircraft		202,055	202,055
Furniture and fixtures	29,657	10,928	40,585
	80,638	309,101	389,737
Less accumulated depreciation	(13,419)	(76,364)	(89,783)
	<u>\$67,217</u>	<u>\$232,737</u>	<u>\$299,954</u>

NOTE E - ASSETS HELD FOR RESALE:

The floating processing plant, previously operated by the Corporation's wholly-owned subsidiary, Northern Light Seafood, Inc., has been listed for sale with a marine broker. A sale is not expected in the near future and management is pursuing other options for the use of these assets. No depreciation was provided for the year ended December 31, 1979. Management believes that the Corporation will ultimately recapture the net carrying amount.

NOTE F - INVESTMENTS:

Investments as of December 31, 1979 consist of the following

Cape Chiniak Joint Venture (at equity)	\$104,885
American Indian National Bank	5,500
Koniag, Inc. Common Village Investment Fund	(16,590)
	<u>\$ 93,795</u>

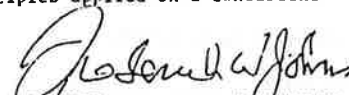
Frederick W. Johns
Certified Public Accountant
4101 Arctic Boulevard, Suite 206
Anchorage, Alaska 99503
(907) 274-7751

The Board of Directors
Afognak Native Corporation
Kodiak, Alaska 99615

I have examined the consolidated balance sheet of Afognak Native Corporation and its subsidiaries as of December 31, 1978, and the related consolidated statements of operations, capital and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as I considered necessary in the circumstances.

As discussed in notes 2 and 5 to the consolidated financial statements, the Company has received and will receive in the future monies and surface rights in amounts and at times which are not presently determinable. Such items will be material to the financial statements.

In my opinion, subject to the effects on the consolidated financial statements of the matters discussed in the preceding paragraph, the aforementioned financial statements present fairly the consolidated financial position of Afognak Native Corporation and its subsidiaries at December 31, 1978, and the consolidated results of their operations and changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.


CERTIFIED PUBLIC ACCOUNTANT

January 27, 1979

AFOGHAK NATIVE CORPORATION

CONSOLIDATED BALANCE SHEET
December 31, 1978

ASSETS

Current assets		\$ 217,572
Cash (Note 6)		
Receivables:		
Trade	\$ 38,337	
Current portion of long-term receivable	260,000	
Employees	6,727	
Accrued interest	37	
	<u>305,101</u>	
Less allowance for doubtful accounts	<u>2,000</u>	303,101
Prepaid expenses		<u>16,910</u>
Total Current Assets		537,583
Long-term receivable, less current portion (Note 2)		1,545,245
Property and equipment, at depreciated cost (Note 7)		660,147
Other assets		
Investment in joint venture (Note 8)	\$105,030	
Land selection and development costs (Note 1)	164,556	
Miscellaneous assets at cost net of amortization	13,333	
Assets in amounts to be determined (Note 5 & 13)	<u>-</u>	
		<u>282,919</u>
		<u>\$3,025,894</u>

LIABILITIES

Current liabilities		\$ 296,271
Notes payable (Note 9)		
Accounts payable		
Trade	\$ 66,092	
Koning, Inc.	<u>71,311</u>	137,403
Accrued expenses		<u>50,279</u>
Total Current Liabilities		484,0

Long-term Note payable (Note 9)	109,474
Deferred amounts payable - joint venture (Note 8)	35,227
Commitments and contingent liabilities (Note 12)	-

STOCKHOLDERS' EQUITY

Common stock, \$1 par value, 100,000 shares authorized, 51,600 shares issued and outstanding	\$ 51,600
Contributed capital (Notes 1 & 2)	3,006,199
	<u>3,057,799</u>
Accumulated deficit	<u>(660,679)</u>
	<u>2,397,120</u>
	<u>\$3,025,894</u>

The accompanying notes are an integral part of the consolidated financial statements.

AFOGNAK NATIVE CORPORATION
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
for the year ended December 31, 1978

	Common Stock	Contributed Capital	Deficit
Balance, beginning of period	\$51,600	\$3,006,199	\$436,485
Net loss for the year			<u>224,194</u>
Balance, end of period	<u>\$51,600</u>	<u>\$3,006,199</u>	<u>\$660,679</u>

AFOGNAK NATIVE CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS
for the year ended December 31, 1978

Revenues			
Air taxi services			\$ 241,380
Interest income			<u>28,987</u>
			270,367
Expenses			
Air taxi operations			
Direct expenses	\$226,265		
General operating expenses	71,761		
Other expenses	<u>4,210</u>	\$302,236	
Other operating expenses			
Personnel	39,790		
Fees	50,494		
Interest expense	27,592		
Others	<u>33,713</u>	<u>151,589</u>	<u>453,825</u>
Operating loss			(183,458)
Discontinued operations (Note 11)			
Loss on abandonment of cannery operation,			
less interest of other shareholder			
in loss (\$20,048) before acquisition			
of their common shares			<u>40,736</u>
NET LOSS			<u>\$ (224,194)</u>

The accompanying notes are an integral part of the consolidated financial statements.

The accompanying notes are an integral part of the consolidated financial statements.

AFOGNAK NATIVE CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
for the year ended December 31, 1978

Working Capital Provided by:

Receipt of Alaska Native Claims Settlement	
Act funds and increase in current portion	\$ 272,168
Increasing long-term debt	<u>109,474</u>
	<u>381,642</u>

Working Capital Used to:

Net loss	(224,194)
Less depreciation and amortization not requiring current expenditures	32,909
Add interest of other shareholder in loss of consolidated subsidiary	<u>(20,048)</u>
Working capital used in operations	211,333
Purchase plant and equipment	179,692
Increase other assets	78,296
Purchase of minority interest in subsidiary	<u>64,702</u>
	<u>534,023</u>

Decrease in Working Capital

\$ (152,381)

Changes in working capital components

Increase (decrease) in current assets	
Cash	\$(160,100)
Investments	(188,823)
Receivables	89,796
Prepaid expenses	(1,573)
Refundable deposits	<u>(19,172)</u>
	<u>(279,872)</u>

(Increase) decrease in current liabilities

Notes payable	154,771
Accounts payable	(9,416)
Accrued expenses	<u>(17,864)</u>

127,491

Decrease in Working Capital

\$ (152,381)

The accompanying notes are an integral part of the consolidated financial statements.

AFOGNAK NATIVE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1978

1. Significant Accounting Policies

The following is a summary of significant accounting policies adopted by the company.

Consolidation

The consolidated financial statements include the accounts of the company and its subsidiaries below:

Island Air Service, Inc. is 100 percent owned by the company and engaged in the air taxi business (Note 12).

Northern Lights Seafood, Inc. is 100 percent owned by the company (increased from 70% as of 11/15/78) and was engaged in fish processing (Note 11).

Island Expediting, Inc. and Island Leasing Corporation, Inc. are both 100 percent owned by the company. These subsidiaries have been incorporated but have not commenced business operations.

All material intercompany accounts and transactions have been eliminated.

Land selection and development costs

The company has elected to defer costs incurred in land selection and development. Such deferred costs will be allocated to real property interests as they are conveyed to the company pursuant to the act (Notes 2 and 5).

Depreciation

Depreciation is provided by the straight-line method. Expenditures for maintenance and repair are expensed, additions and betterments are capitalized. Gains and losses from asset dispositions are included in operating results.

Tax credits

Investment tax credits and jobs tax credits are accounted for by the flow through method as a deduction from income taxes in the year they are used.

Receipts from Alaska Native Fund

Receipts and estimated future receipts of monies from the Alaska Native Fund under the provisions of the Act are recorded as contributed capital. Future receipts have not been reflected at present value. Section 7(i) revenues will be recorded when such amounts become known. Real property interests will be recorded as determined in Note 5.

AFOGNAK NATIVE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1978

2. Alaska Native Claims Settlement Act:

The Act entitles Alaska Natives to 40 million acres of land of which the company has selected and applied for patents to 230,400 eligible acres, some of which had been approved for conveyance by the Department of Interior at December 31, 1978 (Note 5). Further, the company will be eligible for an interest in additional land under Section 12(b) of the Act (see Note 4). Koniag, Inc., will receive title to the subsurface estate in the lands selected by the village corporation.

Monies totaling \$962,500,000 (\$462,500,000 from the United States government and \$500,000,000 from royalties and lease sales of minerals owned by the State of Alaska and the Federal government) will be deposited into the Alaska Native Fund for distribution to the regional corporation established under the Act. Distribution to each regional corporation is based upon the number of Alaska Natives enrolled in each region. The \$462,500,000 will be received in varying annual amounts during the eleven years ending June 30, 1982. It is estimated that the royalty interest will produce the \$500,000,000 by 1983.

The company's estimated share of the monies has been included in the financial statements on the assumption that it will receive its .32 percent share of the total. This is the percentage of the company's stockholders to the total enrollees of all 13 regions. This is subject to change pending results of the following:

a) possible appeal of a decision reached in the United States District Court for the District of Alaska which disallows reservation natives from being included in the percentage calculation. The decision in question deleted 1,504 enrollees to other regions.

b) the extension of the enrollment process until December 1976. Such extension allowed Alaska Natives who had not previously enrolled to do so. Management does not expect that the company's share will change materially as a result of such enrollment.

c) Appeals of administrative disenrollments. The Department of Interior has instituted administrative proceedings seeking disenrollment of certain persons enrolled to all Native Corporations organized under the Act. Results of such proceedings could have an effect upon funds distributed to the company from the Alaska Native Fund and under Section 7(i) of the Act. Management does not expect the company's share will change materially as a result of such disenrollment proceedings.

AFOGNAK NATIVE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1978

2. Alaska Native Claims Settlement Act, continued

It is presently estimated that the company will receive the balance of the monies under the Act as follows:

<u>Year Ended</u>	<u>Amount</u>
December 31, 1979	\$ 260,000
December 31, 1980 to 1983	<u>1,545,245</u>
	<u>\$1,805,245</u>

The timing of receipts as scheduled above is subject to change depending on when the State and Federal governments receive lease and royalty income.

In addition to the \$962,500,000 provided by the Alaska Native Fund, Section 7(i) of the Act provides that "seventy percentum of all revenues received by each regional corporation from the timber resources and subsurface estate patented to it pursuant to (the) Act shall be divided annually by the regional corporation among all twelve Alaskan regional corporations" in proportion to the number of enrollees in each.

Section 7(j) of the Act requires that each regional corporation distribute, from corporate funds received by the regional corporation (a) from the Alaska Native Fund, (b) under Section 7(i) of the Act, and (c) from "other net income," during the five years from December 18, 1971, not less than 10 percent to its stockholders. During that same period, not less than 45 percent of funds received from (a) and (b) above must be distributed by each regional corporation to the village corporations in the region and to the at-large stockholders (those stockholders not also stockholders in a village corporation). After the first five years, 50 percent of funds received from (a) and (b) above, to the village corporation in the region and to the at-large stockholders.

3. Relation to Regional Corporation:

The company, as a village corporation organized under the Act, is subject to certain controls by Koniag, Inc., Regional Native Corporation. The Act provides that:

a) Funds allocated to a village corporation may be withheld until the village has submitted a plan for the use of the money that is satisfactory to the regional corporation. The regional corporation may require a village plan to provide for joint ventures with other villages and for joint financing projects undertaken by the regional corporation that will benefit the region generally.

b) For a period of ten years after the date of enactment of the Act, the regional corporation shall be afforded the opportunity to review and render advice to the village corporations on all land sales, leases or other transactions prior to any final commitment.

AFOGNAK NATIVE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1978

4. Project

The company has entered into an agreement with the other Koniag Village Corporations whereby all lands allocated under Section 12(b) of the Act (commonly called "second round selections") by Koniag, Inc., Regional Native Corporation will be divided based on village corporation populations. Further the company is committed for future expenditures under this agreement for a project at Cape Chiniak (Note 8).

5. Assets in Amounts to be Determined

a) Surface estate and timber resources

The company has received interim conveyance to the surface estate of 72,963 acres including all the timber resources thereon from the Department of Interior. An additional 65,000 acres has been approved for conveyance by the Department of Interior.

Real property and timber resource values (Note 13) will be recorded at their fair value when such fair value can be determined. No current appraisals are available in order for management to determine these values. Amounts ultimately recorded for these values, less previously recorded land selection and development costs, will increase contributed capital. The value and the revenues which will be realized therefrom are considered by management to be material to the consolidated financial statements.

b) Revenue from Resources

As indicated in Note 1, Section 7(1) of the Act provides that certain resource revenues received by the regional corporations are subject to redistribution to all of the Alaskan regional corporations. The provision covering such redistribution was the subject of litigation which determined the method of computing the redistributable amount. The company's interest in such redistribution cannot be determined until the regional corporations make available detailed information regarding such amounts. Public statements issued by certain regional corporations indicate that transactions have been entered into which involve Section 7(1) monies. It is management's opinion that the monies to be received from the regional corporations could be material to its consolidated financial statements.

6. Cash

The company has funds in saving institutions and time certificates of deposit amounting to \$197,507 and \$8,783 and earning interest at 7% and 5% respectively. Amounts held on deposit in one saving institution is pledged against loans from that institution in the amount of \$155,918.

AFOGNAK NATIVE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1978

7. Property and equipment

Property and equipment at December 31, 1978 consists of the following:

	Operating	Air Taxi	Cannery	Total
Land		\$ 15,000		\$ 15,000
Building and improvement		66,116		66,116
Floating processing plant and equipment			\$384,657	384,657
Vehicles	\$ 6,300	10,698		16,998
Aircraft		279,096		279,096
Furniture and equipment	11,334	7,984	684	20,002
	17,634	378,894	385,341	781,869
Less accumulated depreciation	(6,771)	(56,466)	(58,485)	(121,722)
	<u>\$10,863</u>	<u>\$322,428</u>	<u>\$326,856</u>	<u>\$660,147</u>
Current depreciation expense	<u>\$ 1,890</u>	<u>\$ 28,787</u>	<u>\$ -</u>	<u>\$ 30,677</u>

8. Investment in Joint Venture

The company has a joint venture agreement with Koniag, Inc., and other village corporations in the Koniag region to develop a use for Cape Chiniak. Such lands were formerly used by the United States Air Force as a satellite tracking station. Management considers the facility to have OCS (outer continental shelf) oil development site potential. No current appraisal is available. The value of such realty is dependent upon developing a use for the facility.

The agreement gives Koniag, Inc. a 50 percent income interest in the joint venture and its properties, with the remaining 50 percent interest being divided among the village corporations in proportion to the number of stockholders enrolled in the village except for rentals of real property which are for the account of the village venturers in their entirety. The company presently retains a 10.1 percent income interest in the Cape Chiniak joint venture.

The company's share of the total investment at December 31, 1978 was \$105,030 of which the company owed Koniag, Inc. approximately \$35,227 as a deferred amount.

AFOGNAK NATIVE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1978

9. Notes payable

Notes payable at December 31, 1978, consist of the following:

Current

Notes payable to Alaska USA Federal Credit Union, bearing 8.12% interest, secured by cash on deposit with Institution \$155,919

Note payable to ORCA-Pacific Packing Company, in default, bearing 10% interest, secured by floating processing plant known as "Sookwa". 95,750

Note payable to National Bank of Alaska due in full December 1979, bearing 10.75% interest, secured by village corporation funds due it from the provisions of the Act. 44,602
\$296,271

Long-term

Note payable to Konig, Inc., due January 1, 1981, bearing 8.12% interest, without collateral, note subordinated in favor of National Bank of Alaska note above. \$109,425

Total interest expense for the year was \$44,184.

10. Income and Property Taxes

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

Real property interests received under the Act which are not developed or leased to third parties shall be exempt from state and local real property taxes until December 31, 1991.

Income derived from real property interests and from investments and operations of the company are subject to applicable federal, state and local taxation.

The company has incurred substantial net operating losses for income tax purposes through December 31, 1978. If such losses are found to constitute net operating losses as defined under existing tax statutes, they will expire in 1979 through 1985.

Various tax credits are available to offset future income tax, if any, in an amount approximating \$59,006. Such credits will expire, if not used, primarily from 1980 thru 1985.

AFOGNAK NATIVE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1978

11. Cannery Operations

The operations of Northern Lights Seafood, Inc. have been suspended due to the lack of sufficient and additional capital. The further operating continuance of this entity is dependent upon the obtaining of such capital. It is anticipated by the company that if additional capital is not provided that a formal plan of disposal will be recommended.

The company acquired the remaining 30% from Ouzinkie Native Corporation for \$64,702 of Northern Lights Seafood, Inc. in November 1978.

The company has determined that the net realizable value of the assets of Northern Lights Seafood, Inc. is in excess of its net investment and therefore no adjustment of its investment has been provided.

Net book value of Northern Lights, Inc. at December 31, 1978 consisted of:

Assets	\$350,032
Liabilities including \$199,603 due Afognak Native Corporation	355,353
Net book value:	\$ (5,321)

12. Commitments and Contingent Liabilities

At December 31, 1978 the company had liabilities of undetermined amounts as follows:

a) The company is a co-signer on a \$20,000 note to First National Bank of Anchorage, Kodiak Branch, for the Kodiak Convention and Tourism Bureau. Liability in the case of default is limited to \$2,000.

b) The company's 100 percent owned subsidiary Inland Air Service, Inc. has sustained recurring operating losses and its ability to continue as a going concern is dependent on the company's willingness to provide additional capital. The effect on the company as a whole is not ascertainable but should not be material (Note 1).

13. Subsequent event

The company entered into a contract with Afognak Logging, Inc. on January 19, 1979 to sell 25,000,000 board feet of net log scale timber from the company's properties. All timber contracted for must be removed by January 31, 1981.

Denz and Johns
Certified Public Accountants
4101 Arctic Boulevard Suite 206
Anchorage, Alaska 99503

Partners
John J. Denz
Frederick W. Johns

(907) 274-0241
(907) 274-7751

January 27, 1978

The Board of Directors
Afognak Native Corporation
Kodiak, Alaska 99615

We have examined the consolidated balance sheet of Afognak Native Corporation and its subsidiaries as of December 31, 1977, and the related consolidated statements of operations, capital and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in notes 2, 6 and 17 to the consolidated financial statements, the Company has received and will receive in the future monies and surface rights in amounts and at times which are not presently determinable. Such items will be material to the financial statements.

In our opinion, subject to the effects on the consolidated financial statements of the matters discussed in the preceding paragraph, the aforementioned financial statements present fairly the consolidated financial position of Afognak Native Corporation and its subsidiaries at December 31, 1977, and the consolidated results of their operations and changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Denz and Johns
CERTIFIED PUBLIC ACCOUNTANTS

AFOGNAK NATIVE CORPORATION

REPORT ON EXAMINATION OF CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 1977

AFOGNAK NATIVE CORPORATION

CONSOLIDATED BALANCE SHEET

December 31, 1977

ASSETS

Current assets		
Cash (Note 7)		\$ 377,672
Investments held in trust by Koniag, Inc., at cost, approximates market (Note 8)		188,823
Receivables:		
Trade	\$ 29,931	
Current portion of long-term receivable	190,000	
Stockholders	16,150	
Other Village Corporation	14,494	
Accrued interest	219	
	<u>250,794</u>	
Less allowance for doubtful accounts (Note 9)	<u>37,489</u>	213,305
Prepaid expenses		18,483
Refundable deposits		<u>19,172</u>
Total Current Assets		817,455
Long-term receivable, less current portion (Note 2)		1,817,413
Property and equipment, at depreciated cost (Note 10)		511,132
Other assets		
Investment in joint venture (Note 11)	\$106,645	
Land selection and development costs (Note 1)	90,131	
Miscellaneous assets at cost net of amortization	10,062	
Assets in amounts to be determined (Note 6)	-	
		<u>206,838</u>
		<u>\$3,352,838</u>

LIABILITIES

Current liabilities		
Notes payable (Note 12)		\$ 451,042
Accounts payable		
Trade	\$ 72,294	
Joint venture	<u>55,693</u>	127,987
Accrued expenses		<u>32,535</u>
Total Current Liabilities		61.
Deferred amounts payable - joint venture (Note 11)		35,210
Equity of other shareholders in consolidated subsidiary		84,750
Commitments and contingent liabilities (Note 17)		-
STOCKHOLDERS' EQUITY		
Common stock, \$1 par value, 100,000 shares authorized, 51,600 shares issued and outstanding (Note 13)	\$ 51,600	
Contributed capital (Notes 1, 2 and 14)	<u>3,006,199</u>	
	<u>3,057,799</u>	
Accumulated deficit	<u>(436,485)</u>	<u>2,621,314</u>
		<u>\$3,352,833</u>

The accompanying notes are an integral part of the consolidated financial statements.

AFOGNAK NATIVE CORPORATION
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
for the year ended December 31, 1977

	Common Stock	Contributed Capital	Deficit
Balance, beginning of period, as previously reported		\$3,057,799	\$325,904
Adjustment for \$1 par value common shares issued (Note 13)	\$51,600	(51,600)	
Adjustment for land selection and development costs subsequently capitalized (Note 1)			(29,093)
Balance, beginning of period, as restated	51,600	3,006,199	296,811
Net loss for the year			139,674
Balance, end of period	<u>\$51,600</u>	<u>\$3,006,199</u>	<u>\$436,485</u>

The accompanying notes are an integral part of the consolidated financial statement.

AFOGNAK NATIVE CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS
for the year ended December 31, 1977

Revenues			\$ 510,154
Cannery sales (Note 16)			50,263
Air taxi services			34,447
Interest income			5,269
Others			<u>600,133</u>
Expenses			
Cannery operations (Note 16)			
Raw product purchases	\$313,608		
Other direct expenses	82,678		
General operating expenses	124,575		
Administrative expenses	<u>54,934</u>	\$575,795	
Air taxi operations			
Direct expenses	23,628		
General operating expenses	40,278		
Administrative expenses	<u>4,754</u>	68,660	
Other operating expenses		<u>114,089</u>	<u>758,544</u>
Operating loss			(158,411)
Interest of other shareholder in loss of consolidated subsidiary			<u>18,737</u>
NET LOSS			<u>\$(139,674)</u>
Net loss per common share outstanding			<u>\$(. 71)</u>

The accompanying notes are an integral part of the consolidated financial statement.

AFOGNAK NATIVE CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
for the year ended December 31, 1977

Working Capital Provided by:

Receipt of Alaska Native Claims Settlement	
Act funds and increase in current portion	\$ 195,482
Proceeds from sale of trailers	<u>5,300</u>
	<u>200,782</u>

Working Capital Used to:

Net loss	(139,674)
Less depreciation and amortization not requiring current expenditures	50,852
net loss from sale of trailers	299
Add interest of other shareholder in loss of consolidated subsidiary	<u>(18,737)</u>
Working capital used in operations	107,260
Increase investment in joint venture	53,755
Increase plant and equipment	86,024
Increase other assets	27,968
Decrease long-term debt	<u>63,833</u>
	<u>338,840</u>

Decrease in Working Capital \$(138,058)

Changes in working capital components

Increase (decrease) in current assets	
Cash	\$ 217,178
Investments	(216,080)
Receivables	103,763
Prepaid expenses	(13,480)
Inventory	<u>(5,616)</u>

85,765

(Increase) decrease in current liabilities

Notes payable	(184,327)
Current portion of long-term debt	66,178
Accounts payable	(98,679)
Accrued expenses	<u>(7,295)</u>

(223,823)

Decrease in Working Capital \$(138,058)

The accompanying notes are an integral part of the consolidated financial statement.

AFOGNAK NATIVE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1977

1. Significant Accounting Policies

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

Consolidation

The consolidated financial statements include the accounts of the company and its subsidiaries below:

Island Air Service, Inc. is 100 percent owned by the company and engaged the air taxi business.

Northern Lights Seafood, Inc. is 70 percent owned by the company and was engaged in fish processing (Note 16).

Island Expediting, Inc. and Island Leasing Corporation, Inc. are both 100 percent owned by the company. These subsidiaries have been incorporated but have not commenced business operations.

All material intercompany accounts and transactions have been eliminated.

Land selection and development costs

The company has elected to defer costs incurred in land selection and development. Such deferred costs will be allocated and amortized beginning with the first recurring revenue from real property interests selected to the company pursuant to the act.

The above represents a change in accounting method of the merged company (Notes 13 and 14) that has no current or retroactive effect on the loss from operations since no allocation has been made to real property interests. This change in accounting method is in conformity with the accounting method adopted by management previously reported to be a better method.

Depreciation

Depreciation is provided by the straight-line method. Expenditures for maintenance and repair are expensed, additions and betterments are capitalized. Gains and losses from asset dispositions are included in operating results.

Investment tax credits

Investment tax credits are accounted for by the flow-through method as a deduction from income taxes in the year they are used.

Receipts from Alaska Native Fund

Receipts and estimated future receipts of monies from the Alaska Native Fund under the provisions of the Act are recorded as contributed capital. Future receipts have not been reflected at present value. Section 7(1) revenues will be recorded when such amounts become known. Real property interests will be recorded as determined in Note 6.

AFOGNAK NATIVE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 1977

2. Alaska Native Claims Settlement Act, continued

In addition to the \$962,500,000 provided by the Alaska Native Fund, Section 7(i) of the Act provides that "seventy percentum of all revenues received by each regional corporation from the timber resources and subsurface estate patented to it pursuant to (the) Act shall be divided annually by the regional corporation among all twelve Alaskan regional corporations" in proportion to the number of enrollees in each.

Section 7(j) of the Act requires that each regional corporation distribute, from corporate funds received by the regional corporation (a) from the Alaska Native Fund, (b) under Section 7(i) of the Act, and (c) from "other net income," during the five years from December 18, 1971, not less than 10 percent to its stockholders. During that same period, not less than 45 percent of funds received from (a) and (b) above must be distributed by each regional corporation to the village corporations in the region and to the at-large stockholders (those stockholders not also stockholders in a village corporation). After the first five years, 50 percent of funds received from (a) and (b) above, to the village corporation in the region and to the at-large stockholders.

3. Relation to Regional Corporations

The company, as a village corporation organized under the Act, is subject to regional control by Koniag, Inc., Regional Native Corporation. The Act provides that:

- a) Funds allocated to a village corporation may be withheld until the village has submitted a plan for the use of the money that is satisfactory to the regional corporation. The regional corporation may require a village plan to provide for joint ventures with other villages and for joint financing projects undertaken by the regional corporation that will benefit the region generally.
- b) For a period of ten years after the date of enactment of the Act, the regional corporation shall be afforded the opportunity to review and render advice to the village corporations on all land sales, leases or other transactions prior to any final commitment.

4. Thirteenth Regional Corporation

Certain of the company's former shareholders have become members of a thirteenth regional corporation which has been established by court decision. The company has no means of estimating the effects of the thirteenth regional corporation as of December 31, 1977 until final results of a recent election could be effected.

AFOGNAK NATIVE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 1977

5. Project

The company has entered into an agreement with the other Koniag Village Corporations whereby all lands allocated under Section 1211 of the Act (so-called "second round selections") by Koniag, Inc., Regional Native Corporation will be divided based on village corporation populations. Further the company is committed for future expenditures under this agreement for a project at Cape Chitlak (Note 11).

6. Assets in Accounts to be Determined

a) Surface estate and timber resources

The company has received Interior conveyance to the surface estate of 69,305 acres including all the timber resources therein from the Department of Interior. An additional 65,000 acres has been approved for conveyance by the Department of Interior.

Real property and timber resource values will be recorded at their fair value when such fair value can be determined. No current appraisals are available in order for management to determine these values. Appraisals ultimately recorded for these values, less provision for recorded real estate and development costs, will increase consolidated earnings. The value of timber resources which will be realized (timber resource costs) will be material to the consolidated financial statements at December 31, 1977.

b) Revenue from Resources

As indicated in Note 1, Section 7(i) of the Act provides that certain resource revenues received by the regional corporations are subject to redistribution to all of the Alaskan regional corporations. Any provision covering such redistribution was the subject of litigation which determined the method of computing the redistributable amount. The company's interest in such redistribution cannot be determined until the regional corporations make available detailed information regarding such amounts. Public statements issued by certain regional corporations indicate that transactions have been entered into which involve Section 7(i) assets. It is management's opinion that the monies to be received from the regional corporations could be material to its consolidated financial statements.

7. Cash

The company has funds in saving institutions and time certificates of deposit amounting to \$323,104 and \$37,500 and earning interest at 7% and 5% respectively.

8. Investments held in trust by Koniag, Inc.

The company has funds being held by Koniag, Inc. which has invested these funds in a joint investment account comprised principally of federal and corporate bonds and notes earning various interest rates.

AFOGNAK NATIVE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1977

9. Allowance for doubtful accounts

The amounts due from Ousinkie Native Corporation (\$14,494), which represents amounts for the Northern Villages Joint Venture agreement, and from stockholders (\$12,995), which represents amounts overpaid by Koniag, Inc., have been included in the allowance for doubtful accounts. The remainder represents allowance for doubtful trade receivables.

10. Property and equipment

Property and equipment at December 31, 1977 consists of the following:

	Graveling	Air Taxi	Gaugery	Total
Land		\$ 15,000		\$ 15,000
Building and improvement		44,540		44,540
Floating processing plant and equipment			\$304,057	304,057
Aircraft		140,569		140,569
Furniture and equipment	\$10,777	5,867	66	16,709
	10,777	56,426	325,541	692,744
Less accumulated depreciation	(6,777)	(27,890)	(225,473)	(359,940)
	\$ 4,000	\$ 28,536	\$ 100,068	\$ 132,604
Current depreciation expense	\$ 1,100	\$ 18,000	\$ 27,554	\$ 46,654

11. Investment in Joint Venture

The company has a joint venture agreement with Koniag, Inc., and other village corporations in the Koniag region to develop a use for Cape Chirikof. Such lands were formerly used by the United States Air Force as a military training station. Management considers the facility to have GCS (large commercial ship) oil development site potential. No current appraisal is available. The value of such reality is dependent upon developing a use for the facility.

The agreement gives Koniag, Inc. a 50 percent income interest in the joint venture and its properties, with the remaining 50 percent interest being divided among the village corporations in proportion to the number of stockholders enrolled in the village except for rentals of land property which are for the account of the village venturers in their entirety. The company presently retains a 10.1 percent income interest in the Cape Chirikof joint venture.

The company's share of the total investment at December 31, 1977 was \$103,645 of which the company owed Koniag, Inc. approximately \$55,693 as a current liability and \$35,210 as a deferred amount.

AFOGNAK NATIVE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1977

12. Notes payable

Notes payable at December 31, 1977, consists of the following:

Note payable to Alaska USA Federal Credit Union, due May 24, 1978, bearing 8.1% interest, secured by cash on deposit with institution	\$150,000
Note payable to ORCA-Pacific Packing Company in quarterly installments of \$15,958 plus interest at 10%, secured by floating processing plant known as "Snokwa". The September and December 1977 payments are delinquent	95,750
Note payable to National Bank of Alaska due in full December 1977 (delinquent) bearing 5 1/2% interest, secured by village corporation funds due it from the provisions of the Act	78,713
Note payable to Koniag, Inc., in default, bearing 8% interest, without collateral, note subordinated in favor of National Bank of Alaska note above	121,223
Note payable to Koniag, Inc. due in full June 15, 1978, bearing 9 1/2% interest, without collateral	5,371
	<u>\$351,057</u>

Total interest expense for the year was \$38,108

13. Common Stock

The shareholders and directors of Natives of Afoognak, Inc. and Port Lions Native Corporation (both incorporated under the provision of the Act) voted for and approved the merger of the two corporations into the present corporation (Afoognak Native Corporation) to be effective December 19, 1977. The plan of merger provided that a share for share exchange be effected to have the new corporation consist of 401 shareholders from Natives of Afoognak and 115 shareholders from Port Lions Native Corporation each holding 100 shares of \$1 par value common stock.

The method of accounting for the combination was the pooling interests method, which included all subsidiaries of each separate company.

AFOGNAK NATIVE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1977

13. Common Stock, continued

Results of operations included in combined net loss for the separate companies before combination including elimination of significant intercompany accounts and transactions.

	Natives of Afognak, Inc.	Port Lions Native Corp.
Revenues	\$ 84,029	\$516,104
Expenses	<u>165,612</u>	<u>592,932</u>
Operating loss	(81,583)	(76,828)
Minority interest	-	18,737
Net Loss	<u>\$(81,583)</u>	<u>\$(58,091)</u>
Net loss per common share	<u>\$(2.03)</u>	<u>\$(5.10)</u>
Accumulated deficit, beginning of period, as restated	<u>\$ 82,027</u>	<u>\$214,784</u>

14. Prior Period Adjustment

Capitalization of land reclamation costs, in the amount of \$29,093 was made for 1977 (Note 1). The restatement affected the following for December 31, 1977:

	Increase
Other Assets	\$29,093
Retained Earnings (Deficit)	29,093

15. Income and Property Taxes

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

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

Income derived from real property interests and from investments and operations of the company are subject to applicable federal, state and local taxation.

The company has incurred losses through December 31, 1977. If such losses are found to constitute net operating losses as defined under existing tax statutes, they will expire in 1978 through 1985. The determination of tax treatment of certain items of income and expense is the subject of Requests for Rulings filed with the Internal Revenue Service on behalf of the regional and village native corporations. While certain tax rulings have been issued, others are still pending. In addition, some of the issues contained in the tax rulings that have been issued are presently being contested in the Federal Tax Courts by certain regional and village corporations. Therefore, no determination can be made, at the present time, as to the amount of losses claimed which will eventually constitute net operating losses as defined by existing tax statutes.

AFOGNAK NATIVE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1977

15. Income and Property Taxes, continued

Various tax credits are available to offset future income tax in an amount approximating \$17,500. Such credits will expire, if not used, primarily in 1987.

16. Cannery Operations

The operations of Northern Lights Seafood, Inc. have currently been suspended due to the lack of sufficient and additional capital. The further operating continuance of this entity is dependent upon the obtaining of such capital. Afognak Native Corporation, which owns 70% of the common shares, has indicated its willingness to provide their proportionate amount. It is anticipated by the company that if additional capital is not provided that a formal plan of disposal will be recommended.

The company has determined that the net realizable value of the assets of Northern Lights Seafood, Inc. is in excess of its net investment and therefore no adjustment of its investment has been provided.

Net book value of Northern Lights, Inc. at December 31, 1977 consisted of:

Assets	\$373,346
Liabilities including \$54,761 due Afognak Native Corporation	<u>305,361</u>
Net book value	<u>\$ 67,965</u>

17. Commitments and Contingent Liabilities

At December 31, 1977 the company had liabilities of undetermined amounts as follows:

a) The company is a co-signer on a \$20,000 note to First National Bank of Anchorage, Kodiak Branch, for the Kodiak Convention and Tourism Bureau. Liability in the case of default is limited to \$2,000.

b) Koniag, Inc. has indicated that it wants to pass certain portions of the land reclamation costs it has incurred on to the village corporations. As of the date of this report they have not made a determination as to the probable amount that may be billed to the company although it may be a material amount.

AKHIOK-KAGUYAK, INC.

COOPERS & LYBRAND

CERTIFIED PUBLIC ACCOUNTANTS

IN PRINCIPAL AREAS
OF THE WORLD

The Stockholders
Akhiok-Kaguyak, Inc.
Akhiok, Alaska

We have examined the balance sheets of Akhiok-Kaguyak, Inc. as of December 31, 1979 and 1978 (restated for the pooling of interests of Natives of Akhiok, Inc. and Kaguyak, Inc.), and the related statements of operations, stockholders' equity and changes in financial position for the three years ended December 31, 1979. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 3, the value of surface rights in land to be received cannot be determined. Also, as discussed in Note 6, the Company's interest in the redistribution of revenues under Section 7(i) of the Act cannot be determined until litigation concerning the computation thereof is settled. Any of these items could create material changes in the financial statements.

In our opinion, subject to the effects on the financial statements of the matters discussed in the preceding paragraph, the aforementioned financial statements present fairly the financial position of Akhiok-Kaguyak, Inc. at December 31, 1979 and 1978, and the results of its operations and the changes in financial position for the three years ended December 31, 1979, in conformity with generally accepted accounting principles applied on a consistent basis as restated (Note 2).



Anchorage, Alaska
October 13, 1980

AKHIOK-KAGUYAK, INC.

BALANCE SHEETS, December 31, 1979 and 1978

ASSETS		1979	1978	LIABILITIES		1979	1978
Current:				Current:			
Cash		\$ 13,713	\$ 9,303	Accounts payable:			
Investments consisting of time certificates of deposit and federal and corporate obligations, held in trust by Koniag, Inc., Regional Native Corporation, at cost plus accrued interest, approximates market (Notes 2 and 7)		420,848	326,810	Trade			\$ 7,768
Receivables:				Koniag, Inc., land selection costs (Note 10)		\$ 30,155	12,904
Current portion of ANCSA monies receivable (Notes 3 and 10)		405,397	81,586	Koniag, Inc., other		6,250	7,503
Refundable income taxes		2,509	2,509	Joint venture (Note 9)		6,066	2,223
Stockholders		160	160	Other		25	25
Other		620	50				
Total current assets		843,247	420,418	Total current liabilities		42,496	30,423
ANCSA monies receivable, less current portion (Notes 3 and 10)		29,569	446,052	Accounts payable, joint venture (Note 9)			10,110
Investment in joint venture (Note 9)		30,055	32,376	Koniag, Inc., land selection costs (Note 10)			23,047
Other		1,050	50				
Assets in amounts to be determined (Notes 3 and 6)				Commitments (Notes 8 and 9)			
				STOCKHOLDERS' EQUITY			
				Common stock, \$1 par value, 5,000 shares authorized, 1,470 shares to be issued (Note 5)			
				Contributed capital (Notes 2 and 3)		887,257	887,257
				(Deficit)		(25,832)	(51,941)
						861,425	835,316
						\$903,921	\$898,896
		<u>\$903,921</u>	<u>\$898,896</u>				

The accompanying notes are a part of the financial statements.

STATEMENTS OF STOCKHOLDERS' EQUITY

for the years ended December 31, 1979, 1978 and 1977

CONTRIBUTED CAPITAL (Notes 2 and 3)	1979	1978	1977
Balance, beginning of period	\$887,257	\$874,697	\$874,697
Adjustment for settlement of Section 19B reserves		12,560	
Balance, end of period	<u>\$887,257</u>	<u>\$887,257</u>	<u>\$874,697</u>
(DEFICIT)			
Balance (deficit), beginning of period	\$ (51,941)	\$ (6,863)	\$ (15,061)
Net income (loss) for period	26,109	(45,078)	8,198
Balance (deficit), end of period	<u>\$ (25,832)</u>	<u>\$ (51,941)</u>	<u>\$ (6,863)</u>

The accompanying notes are a part
of the financial statements.

(3)

STATEMENTS OF OPERATIONS

for the years ended December 31, 1979, 1978 and 1977

	1979	1978	1977
Revenues:			
Interest income	\$32,906	\$ 21,102	\$18,437
Natural resource monies received from other regions (7(i) income) (Note 6)	9,884		1,781
Other			500
	<u>42,790</u>	<u>21,102</u>	<u>20,718</u>
Expenses:			
Board of Directors:			
Fees	1,750	1,770	1,171
Per diem	3,530	5,724	636
Travel	2,514	1,067	1,422
Land selection costs (Note 10)	(2,322)	52,900	1,781
Administrative:			
Professional fees	11,599	5,265	5,553
Travel	500	125	
Amortization		163	279
Licenses and other taxes	100	100	100
Miscellaneous	365	214	430
	<u>18,036</u>	<u>67,328</u>	<u>11,372</u>
Income (loss) from operations	24,754	(46,226)	9,346
Equity in income of joint venture (Note 9)	1,355		
Income (loss) before income taxes and extraordinary credit	26,109	(46,226)	9,346
Refundable (provision for) income taxes (Note 4)	(5,000)	1,148	(2,118)
Income (loss) before extra- ordinary credit	21,109	(45,078)	6,998
Extraordinary credit - tax benefit from prior years' losses	5,000		1,200
Net income (loss)	<u>\$26,109</u>	<u>\$ (45,078)</u>	<u>\$ 8,198</u>

The accompanying notes are a part
of the financial statements.

(4)

STATEMENT OF CHANGES IN FINANCIAL POSITION
for the years ended December 31, 1979, 1978 and 1977

	<u>1979</u>	<u>1978</u>	<u>1977</u>
Sources (uses) of working capital:			
Operations:			
Income (loss) before extraordinary credit	\$ 21,109	\$ (45,078)	\$ 6,998
Item not affecting working capital:			
Amortization		<u>162</u>	<u>280</u>
Total	<u>21,109</u>	<u>(44,916)</u>	<u>7,278</u>
Extraordinary credit - tax benefit, from prior years' losses	<u>5,000</u>		<u>1,200</u>
Working capital provided by (used in) operations	<u>26,109</u>	<u>(44,916)</u>	<u>8,478</u>
Decrease in long-term receivable, less current maturities	<u>416,483</u>	<u>68,254</u>	<u>59,794</u>
Contributed capital received or to be received from Alaska Native Fund		<u>12,560</u>	
Decrease (increase) in investments in joint venture	<u>2,321</u>	<u>(2,224)</u>	<u>(13,079)</u>
Decrease (increase) in long-term accounts payable	<u>(33,157)</u>	<u>23,047</u>	
Other	<u>(1,000)</u>		
Increase in working capital	<u>\$410,756</u>	<u>\$ 56,721</u>	<u>\$55,193</u>
Changes in components of working capital which increased (decreased) working capital:			
Cash	\$ 4,410	\$ 7,941	\$ (1,506)
Receivables	<u>324,381</u>	<u>22,771</u>	<u>30,650</u>
Investments	<u>94,038</u>	<u>28,714</u>	<u>28,682</u>
Other assets		<u>(50)</u>	<u>100</u>
Accounts payable	<u>(12,073)</u>	<u>(6,266)</u>	<u>(2,350)</u>
Income tax payable		<u>3,611</u>	<u>(383)</u>
Increase in working capital	<u>\$410,756</u>	<u>\$ 56,721</u>	<u>\$55,193</u>

The accompanying notes are a part
of the financial statements.

NOTES TO FINANCIAL STATEMENTS

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

The Act entitles Alaska Natives to 44 million acres of land and monies totaling \$962,500,000. The monies, \$462,500,000 from 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, will be deposited with the United States Treasury in the Alaska Native Fund in accordance with Section 6 of the Act.

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

Enrollees to regional and village corporations become shareholders of such corporations and are required to be Alaska Natives as defined in the Act. Under Section 6, monies provided by the Act are distributed from the Alaska Native Fund to the regional corporations based on enrollment percentages. Land provided by the Act is allocated to the regional areas based on a formula which includes both enrollment and land area. All subsurface rights in the land will vest with the regional corporations, while surface rights will be allocated between regional and village corporations.

Section 7(i) of the Act provides that 70 percent of revenues received by each regional corporation from timber resources and subsurface estate patented to it under the Act, shall be divided annually among the twelve Alaska regional corporations in proportion to the number of enrollees in each (Note 6).

Section 7(j) of the Act requires that, five years after enactment (December 18, 1971), each regional corporation must distribute not less than 50 percent of funds received under Sections 6 and 7(i) to the village corporations in its region and to its at-large shareholders.

NOTES TO FINANCIAL STATEMENTS, Continued

2. Incorporation and Accounting Policies:

Akhiok-Kaguyak, Inc. was incorporated June 29, 1979 resulting from the merger of Natives of Akhiok, Inc. and Kaguyak, Inc., both incorporated in 1973 as village corporations pursuant to provisions of the Act.

The merger has been accounted for as a pooling of interests involving the combining of account balances of the two companies. Accordingly, the accompanying prior years' financial statements have been restated for the combination as if the two companies constituted a single entity for all such periods.

Each stockholder continues to own the same number of shares of stock in the new corporation as was owned in the respective companies before the merger. Revenues, income before extraordinary credit and net income of the companies for the period January 1, to June 29, 1979, follows:

	Natives of Akhiok, Inc.	Kaguyak, Inc.	Total
Revenues	\$9,324	\$6,156	\$15,480
Income before extra- ordinary credit	\$5,957	\$2,001	\$ 7,958
Net income	\$7,446	\$2,501	\$ 9,947

The Company is subject to certain controls by Koniag, Inc., a regional corporation organized under the Act. The Act provides, among other things, that:

- a) Funds allocated to a village corporation may be withheld until the corporation has submitted a plan for use of the money that is satisfactory to the regional corporation. The regional corporation may require a village to enter joint ventures with other village corporations and jointly finance projects undertaken by the regional corporation that will benefit the region generally. In the event of disagreement over provisions of the plan, issues in disagreement shall be submitted to arbitration as shall be provided for in the articles of incorporation of the regional corporation.
- b) For a period of ten years after the date of enactment of the Act, the regional corporation shall be afforded the opportunity to review and render advice to village corporations on all land sales, leases or other transactions prior to any final commitment.

Continued

NOTES TO FINANCIAL STATEMENTS, Continued

2. Incorporation and Accounting Policies, Continued:

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

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

Expenses of selecting land under the Act are charged to operations as incurred.

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

The Company's share of the monies has been included in the financial statements on the assumption that Koniag, Inc. (regional corporation related to the Company) will receive 4.247 percent of the total (see Note 1). This is the percentage of enrollment in the Koniag region to the total enrollment of all 13 regions (3,328 to 78,361). The Company's share is the percentage of the Company's enrollees to total enrollees of Koniag region.

The Company estimates it will receive \$405,397 of these monies in 1980 and \$29,569 in 1981.

In addition to the monies discussed above, the Company will receive surface rights to 138,240 acres of land, subsurface rights being owned by Koniag, Inc., Regional Native Corporation. Such land will be recorded at fair value when interim conveyances are received or when fair values have been determined, whichever event occurs later. As of December 31, 1979, the Company has received interim conveyance to 63,358 acres; fair value has not been determined for this acreage. The value of surface rights are considered by management to be material to the financial statements. Further, the Company may be eligible for an interest in additional land under Section 12(b) of the Act (see Note 8).

Monies and land received or to be received are considered to be contributed capital and are shown as such in the financial statements.

NOTES TO FINANCIAL STATEMENTS, Continued

4. Income and Property Taxes:

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

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

Income derived from real property interests and from investments and operations of the Company are subject to applicable Federal, state and local taxation.

At December 31, 1979, the Company has a net operating loss carryforward of \$24,561 for Federal income tax purposes available to reduce future taxable income, if any, expiring in 1985.

5. Capital Stock:

As provided in the articles of incorporation, 100 shares of common stock are to be issued to each Native enrolled to the Company. No shares have been issued as of December 31, 1979, although 147 qualified individuals have been recorded as stockholders in the Company's records for voting purposes and to establish a distribution roll.

For a period of twenty years from December 18, 1971, stock dividends paid or other stock rights are restricted pursuant to the Act. Such stock may not be sold, pledged, assigned or otherwise alienated except in certain circumstances by court decree or by death. For the twenty year period stock shall carry voting rights only if the holder thereof is an eligible Native. On January 1, 1992, all stock previously issued shall be deemed to be cancelled and shares of stock will be issued to each stockholder of record, without restriction, share for share.

6. Assets in Amounts to be Determined:

As indicated in Note 1, Section 7(i) of the Act provides that certain resource revenues received by regional corporations are subject to redistribution to all of the Alaskan regional corporations. This Section of the Act is the subject of litigation to determine the method of computing redistributable amounts. The Company's

Continued

NOTES TO FINANCIAL STATEMENTS, Continued

6. Assets in Amounts to be Determined, Continued:

interest in such redistribution cannot be determined until such litigation is settled. To date, the Company has received \$11,665 of Section 7(i) revenues.

It is management's opinion that Section 7(i) monies to be received may be material to its financial statements.

7. Investments:

Investments in securities consist of the Company's financial interest in the net assets of a joint investment account formed for the benefit of village corporations in the Koniag region. Amounts received under Section 6 of the Act by Koniag, Inc., Regional Native Corporation in trust for subsequent distribution to village corporations have been deposited in the joint investment account.

8. Projects:

The Company has entered into an agreement with other Koniag area village corporations whereby all lands allocated under Section 12(b) of the Act (commonly called "second round selections") by Koniag, Inc. Regional Native Corporation will be held in trust and income from such lands will be divided based on village corporation populations. Further, the Company is committed for future expenditures under this agreement for a project at Cape Chiniak (Note 9).

9. Investment in Joint Venture:

	<u>1979</u>	<u>1978</u>
Cape Chiniak Impact Center		
Joint Venture, 2.9% equity		
interest:		
Investment at December 31	\$30,055	\$32,376
Equity in income for the		
period	\$ 1,355	
Related accounts payable:		
Current	\$ 6,066	\$ 2,223
Noncurrent		\$10,110

During 1976, the Company entered into a joint venture with Koniag, Inc., Regional Native Corporation and other village corporations in the Koniag region to develop a use for Cape Chiniak. Such lands were formerly used by the United States Air Force as a satellite tracking station. Management considers the facility to have multiple use potential.

Continued

NOTES TO FINANCIAL STATEMENTS, Continued

9. Investment in Joint Venture, Continued:

The agreement gives Koniag, Inc., Regional Native Corporation a 50 percent income interest in the joint venture and its properties, with the remaining 50 percent interest being divided among the village corporations in proportion to the number of stockholders enrolled except for rentals of real property which are for the account of the village venturers in their entirety. The Company presently retains a 2.9 percent income interest in the Cape Chiniak joint venture.

10. Land Selection Costs:

Koniag, Inc. billed the Company \$52,900 in 1978 and \$1,781 in 1977 (and a credit of \$2,322 was given in 1979) for land selection costs incurred in assisting the Company in its selection of lands to be received under the Act (Notes 1 and 3). The unpaid balance will be repaid by allocating 25 percent of future ANCSA monies distributed to the Company.

11. Subsequent Event:

The Company's Board of Directors on September 29, 1980 approved a plan for the merger of the Company with Koniag, Inc. and certain other Koniag region village native corporations (Afognak Native Corporation, Karluk Native Corporation, Leisnoi, Inc., Nu-Nachk Pit, Inc., and Old Harbor Native Corporation). The plan of merger is subject to the affirmative vote by a majority of shareholders of the Company and Koniag, Inc.

KARLUK NATIVE CORPORATION

KARLUK NATIVE CORPORATION

Notes to Financial Statements

The Company together with the other stockholders of KISI have entered into agreements with banks whereby they have individually and severally guaranteed indebtedness of KISI in an amount not to exceed \$7,060,000. Noncompliance by KISI with certain of the loan provisions as they pertain to \$2,060,000 of the debt outstanding at March 31, 1980 have resulted in events of default. The lender has chosen not to exercise its right to declare the loan due and payable, pending analysis of future performance of the Company.

On July 22, 1980, KISI reached a settlement of litigation which had commenced in 1978. KISI's financial statements include provision for such settlement, \$35,000 of which was charged to operations during the year ended March 31, 1980.

During 1978, KISI issued 394,000 shares of stock for \$3.50 a share, the result of which was to increase the carrying value of the Company's ownership interest in KISI by \$348,282. This increase in carrying value was not reflected in Karluk's December 31, 1978 financial statements as they were originally issued. The 1978 financial statements as presented herein have been restated to reflect the correction of the above as follows:

	Previously stated	Restated
Investments	\$ 2,372	156,547
Provision for decline in value of investment	\$ 195,107	-
Paid-in capital	\$ 1,129,280	1,477,562

(6) Land Conveyances

In accordance with the Act, 83,767 acres of land located on Kodiak Island in the general vicinity of the Village of Karluk were conveyed to the Company in 1978. It was not practical to determine the fair value of the land at December 31, 1979. Accordingly, no value has been included in the financial statements for the conveyance.

(7) Contingencies

Koniag, Inc. has assessed the Company approximately \$26,000 for assistance with land selections provided in prior years. Company management does not agree with this assessment and intends to contest it. A provision for this obligation, if any, has not been recorded in the 1979 or 1978 financial statements.

PEAT, MARWICK, MITCHELL & Co.

CERTIFIED PUBLIC ACCOUNTANTS

THE FINANCIAL PLAZA

601 WEST 8TH AVENUE, SUITE 700

ANCHORAGE, ALASKA 99501

Board of Directors
Karluk Native Corporation:

We have examined the balance sheets of Karluk Native Corporation as of December 31, 1978 and 1977, and the related statements of loss, stockholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as explained in the following paragraph.

We did not examine the financial statements of Kodiak Island Seafoods, Inc. (KISI), a 20% and 33-1/3% owned corporation at December 31, 1978 and 1977, respectively. The Company's liability related to KISI at December 31, 1978 and 1977 was \$195,107 and \$148,775, respectively, and its share of losses of KISI for the years then ended was \$46,332 and \$347,113. The financial statements of KISI were examined by other auditors whose report thereon has been furnished to us. As discussed more fully in note 5, the auditor's report on those financial statements as of March 31, 1979 and 1978 was qualified as subject to the outcome of litigation against KISI, and except for the effects on the results of operations for the year ended March 31, 1978 of an inconsistency in the method of determining inventory carrying amounts.

In our opinion, based upon our examinations and the qualified report of other auditors, except for the effects of such adjustments, if any, as might have been required had we been able to determine the effects on the results of operations for the year ended March 31, 1978 of the change in the method of valuing inventory of KISI and subject to the outcome of the previously discussed litigation, the aforementioned financial statements present fairly the financial position of Karluk Native Corporation at December 31, 1978 and 1977 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

March 28, 1979, except for
financial information for
KISI, as of and for the
years ended March 31, 1979
and 1978 as to which the
date is June 15, 1979.

KARLUK NATIVE CORPORATION
Notes to Financial Statements

Summary of Significant Accounting Policies

Property and Depreciation

Depreciation of furniture and equipment is provided over their estimated useful lives of three years using the straight-line method.

Resource Revenue Distributions

Resource revenues distributable to the Company under the terms of the Act are recorded when the amount thereof is determined and its receipt is reasonably assured.

Amortization

Organization costs are amortized by use of the straight-line method over five years. At December 31, 1978, organization costs are fully amortized.

Investment in Business Ventures

The Company's investment in Kodiak Island Seafoods, Inc. (KISI) is stated at cost less the Company's share of losses since acquisition, limited to the carrying value thereof plus the amount of guaranteed debt.

(2) Investments

The following is a summary of investment activity for the Company during the period August 16, 1973 (inception) through December 31, 1978:

Receipts from Alaska Native Fund invested	\$ 453,451
Investment income	34,132
Resource revenues	553
	<u>488,136</u>
Less withdrawals	<u>358,238</u>
Balance, December 31, 1978	\$ <u>129,898</u>

These funds are held in trust by Koniag, Inc. and are invested in time certificates of deposit and federal and corporate notes.

(Continued)

KARLUK NATIVE CORPORATION
Notes to Financial Statements

(3) Alaska Native Fund Receivable

As discussed in note 1, the Company is to receive a proportionate share of future distributions from the Alaska Native Fund. A summary of amounts and anticipated year of receipt is as follows:

1979	\$ 150,690
1980	108,390
1981	99,925
1982	126,705
1983	128,370
1984	<u>60,172</u>

\$ 674,252

The above estimates are based upon the schedule of federal appropriations as provided for in the Act, and the State of Alaska's projected receipt of state mineral royalties and stockholders' eligibility as of December 29, 1978.

(4) Income Taxes

Funds received under provisions of the Act from the Alaska Native Fund are not subject to federal, state or local income taxes. Real property interests received pursuant to the Act are also not subject to income taxes; however, income derived from the real property interest and other operations of the Company are subject to federal, state and local income taxes.

The Company has available to reduce taxable earnings of future periods net operating loss carryforwards as follows:

Net operating loss expiring in:	
1979	\$ 9,512
1980	20,152
1983	19,630
1984	11,392
1985	<u>13,910</u>

\$ 74,596

Net cumulative operating loss carryforwards for income tax purposes differ from cumulative financial statement losses primarily as a result of recording the Company's proportionate share of the undistributed losses of KISI and the decline in the net realizable value of the investment in Cape Chiniak joint venture.

Investment tax credits are accounted for by use of the flow-through method, whereby such credits are recorded when realized.

(Continued)

KARLUK NATIVE CORPORATION
Statements of Changes in Financial Position
Years ended December 31, 1978 and 1977

	1978	1977
Sources of working capital:		
Increase in contributed capital	\$ 5,382	19,185
Decrease in noncurrent Alaska Native Fund receivable	82,311	125,309
Provision for decline in value of investment transferred to noncurrent liabilities	148,775	-
Total sources of working capital	<u>236,668</u>	<u>144,494</u>
Uses of working capital:		
Net loss	60,268	406,388
Less items which do not use working capital:		
Depreciation and amortization	287	662
Share of losses of investee, net of resulting current liability of \$148,775 in 1977	46,332	198,338
Decline in estimated realizable value of investment, net of current year's investment	-	21,783
Working capital used by operations	<u>13,649</u>	<u>185,605</u>
Increase in Alaska Native Fund receivable	5,382	-
Investment in Kodiak Island Seafoods, Inc.	-	-
Investment in Cape Chiniak joint venture	3,372	-
Transfer of receivable from stockholders to long-term assets	-	9,110
Total uses of working capital	<u>22,403</u>	<u>194,715</u>
Increase (decrease) in working capital	\$ <u>214,265</u>	<u>(50,221)</u>
Changes in components of working capital:		
Increase (decrease) in current assets:		
Cash	1,787	3,837
Investments	42,396	3,661
Receivables	7,258	86,576
Prepaid expenses	(254)	254
	<u>51,187</u>	<u>94,328</u>
Increase (decrease) in current liabilities:		
Accounts payable	2,709	(2,551)
Koniag, Inc., Regional Native Corporation	(582)	(9,392)
Due to joint venture	(16,430)	10,919
Accrued and withheld payroll taxes	-	(4,202)
Provision for decline in value of investment	<u>(148,775)</u>	<u>148,775</u>
	<u>(163,078)</u>	<u>144,549</u>
Increase (decrease) in working capital	\$ <u>214,265</u>	<u>(50,221)</u>

See accompanying notes to financial statements.

KARLUK NATIVE CORPORATION
Notes to Financial Statements
December 31, 1978 and 1977

(1) History and Significant Accounting Policies

History

Karluk Native Corporation (the Company) was incorporated pursuant to the Alaska Native Claims Settlement Act (the Act), which resolved the Alaska native land claims. Under the provisions of the Act, the natives and various regional and village corporations are to receive distributive shares in the settlement which includes 40,000,000 acres of land and cash totaling \$962,500,000 (the Alaska Native Fund).

Management estimates that the Company's share of distributions received and to be received under the Act will be approximately \$1,130,000 and the surface estate of approximately 92,160 acres of land. The regional corporation within whose designated boundaries the Company is located will receive title to the subsurface estate of this land.

In addition to the basic settlement under the Act, as described above, under Section 7(1), regional corporations organized pursuant to the Act are required to distribute certain portions of any revenues derived from timber resources and the subsurface estate patented to such corporations. The Company will share in such distributed revenues to the extent of .2417%. At December 31, 1978, amounts due the Company from these sources, if any, have not been determined and are therefore not recorded in the accompanying financial statements.

The authorized capital stock of the Company consists of 2,500 shares of non-assessable common stock with \$1 par value. As of December 31, 1978, no stock had been issued.

Distributions received by the Company as of December 31, 1978, have been based upon stockholder eligibility as compiled by the United States Department of Interior at December 29, 1979. These figures are subject to further revision.

Under the provisions of the Act, for the period of twenty years from December 18, 1971, the stock issued, dividends to be paid or other stock rights may not be sold, pledged, assigned or otherwise alienated except in certain circumstances by court decree or by death. For the twenty-year period, the stock shall carry voting rights only if the holder thereof is an eligible Alaska native.

(Continued)

KARLUK NATIVE CORPORATION

Notes to Financial Statements

At December 31, 1976, the Company recorded its share of the loss of KISI based on financial statements as of KISI's prior year-end, March 31, 1976. To provide a more current reflection of KISI's operations, at December 31, 1977, the Company recorded its share of KISI's loss through March 31, 1978. Had the Company recorded its share of KISI's operations in a similar manner in the prior years, the Company would have increased its 1976 earnings by \$40,508 and decreased 1975 earnings by \$1,662. Since these amounts were not considered material to the financial statements of the Company, the net effect (\$38,846) was included in the Company's operations for the year ended 1977.

For years ended March 31, 1977 and prior, the inventories of canned salmon of KISI were stated at the lower of cost (first-in, first-out) or market. For the years ended March 31, 1979 and 1978, the inventory was stated at the lower of average cost of production or market. KISI believes the change in accounting in 1978 results in a more representative allocation of costs to canned salmon produced. However, the Company has not determined the effects on carrying amounts of inventories and on operations that may have resulted from the change. Accordingly, the Company cannot determine the effect of such change on its share of the losses of KISI.

KISI is defendant in a lawsuit commenced in September 1978, alleging that KISI owes plaintiff \$222,000 plus interest for goods and services furnished by plaintiff; that KISI breached a contract for sale of its 1977 canned salmon pack (the amount of claimed damages for which is unstated), and that KISI owes plaintiff \$13,000 under terms of a contract assigned to plaintiff. KISI has counterclaimed for \$154,000 (plus other damages, the amount of which is to be determined), alleging that plaintiff breached its Technical Services Agreement with KISI.

A liability has been recorded in the financial statements for a portion of the plaintiff's claim. The final outcome of this litigation is not presently determinable.

The Company has guaranteed a portion of a \$2.1 million loan made to KISI by a financial institution; accordingly, the provision for decline in the value of the investment has been reclassified to noncurrent liabilities.

(6) Land Conveyances

In accordance with the Act, 83,767 acres of land located on Kodiak Island in the general vicinity of the village of Karluk were conveyed to the Company in 1978. It was not practical to determine the fair value of the land at December 31, 1978. Accordingly, no value has been included in the financial statements for the conveyance.

KARLUK NATIVE CORPORATION
Notes to Financial Statements

(5) Investments in Business Ventures

The following is a summary of the Company's investments (provision for decline in value) in business ventures:

	<u>1978</u>	<u>1977</u>
Cape Chiniak Impact Center Joint Venture	\$ <u>3,372</u>	<u>-</u>
Kodiak Island Seafoods, Inc.	\$ <u>(195,107)</u>	<u>(148,775)</u>

In 1976, the Company entered into a joint venture with Koniag, Inc., a regional native corporation, and other village corporations in the Koniag region to develop a use for land and buildings at Cape Chiniak, Alaska. The property was formerly used by the United States Air Force as a satellite tracking station. Management considered the facility to have OCS (outer continental shelf) oil development site potential.

The agreement provides for ownership based on proportionate stockholder enrollment as follows:

Koniag, Inc.	50.0%
Natives of Kodiak, Inc.	10.3
Afognak Natives, Inc.	7.9
Natives of Akhiok, Inc.	1.9
Karluk Native Corporation	3.7
Nu-Nachk-Pit, Inc.	4.0
Old Harbor Native Corporation	6.6
Ouzinkie Native Corporation	6.6
Port Lions Native Corporation	2.2
Leisnoi, Inc.	5.9
Kaguyak, Inc.	1.0

100.0%

The Company has a current liability of \$3,372 and \$19,802 and a long-term liability of \$12,900 as of December 31, 1978 and 1977 payable to the joint venture.

In 1977, it was determined that the OCS utilization potential was limited and significant alternative uses for the property had not been developed. Accordingly, deferred development costs totaling \$38,469 were included as an expense in the statement of loss for that year.

(Continued)

KARLUK NATIVE CORPORATION
Notes to Financial Statements

In 1975, the Company acquired one-third of the capital stock of KISI, which owns a cannery located in Larsen Bay, Alaska. During 1978 the issuance of stock by KISI resulted in the reduction of the Company's investment to 20% of the outstanding common stock. The Company has recorded its share of the KISI losses as follows:

December 31:	
1975	\$ -
1976	1,662
1977	347,113
1978	<u>46,332</u>

A summary of the balance sheets of KISI at March 31, 1979 and 1978 and the statements of operations for the years then ended follows:

Balance Sheets

	<u>1979</u>	<u>1978</u>
Current assets	\$ 5,424,967	2,726,979
Other assets	<u>1,328,772</u>	<u>1,449,595</u>
Total assets	\$ <u>6,753,739</u>	<u>4,176,574</u>
Current liabilities	4,337,862	4,622,902
Other liabilities	1,700,000	-
Stockholders' equity (deficit)	<u>715,877</u>	<u>(146,328)</u>
Total liabilities and stockholders' equity	\$ <u>6,753,739</u>	<u>4,176,574</u>

Statements of Operations

Sales	5,414,485	1,984,226
Cost of sales	<u>4,407,775</u>	<u>2,547,083</u>
	1,006,710	(562,857)
Selling, administrative and other income and expenses	<u>1,173,505</u>	<u>595,022</u>
Net loss	\$ <u>166,795</u>	<u>1,157,879</u>

(Continued)

KARLUK NATIVE CORPORATION

Notes to Financial Statements

Resource Revenue Distributions

Resource revenues distributable to the Company under the terms of the Act are recorded when the amount thereof is determined and its receipt is reasonably assured.

Investment in Business Ventures

The Company's investment in 20% of the outstanding stock of Kodiak Island Seafoods, Inc. (KISI) is stated at cost less the Company's share of losses since acquisition, limited to the carrying value thereof plus the Company's share of outstanding guaranteed debt.

(2) Investments

The following is a summary of investment activity for the Company during the period August 16, 1973 (inception) through December 31, 1979:

Receipts from Alaska Native Fund invested	\$ 570,707
Resource revenues received	13,061
Investment income	<u>48,647</u>
	632,415
Less withdrawals	<u>381,546</u>
Balance, December 31, 1979	\$ <u>250,869</u>

These funds are held in trust by Koniag, Inc. and are invested in time certificates of deposit and federal and corporate notes.

(3) Alaska Native Fund Receivable

As discussed in note 1, the Company is to receive a proportionate share of future distributions from the Alaska Native Fund. A summary of amounts and anticipated year of receipt is as follows:

1980	\$ 524,525
1981	<u>35,610</u>
	\$ <u>560,135</u>

(4) Income Taxes

Funds received under provisions of the Act from the Alaska Native Fund are not subject to federal, state or local income taxes. Real property interests received pursuant to the Act are also not subject to income taxes; however, income derived from the real property interest and other operations of the Company are subject to federal, state and local income taxes.

(Continued)

KARLUK NATIVE CORPORATION

Notes to Financial Statements

The Company has available to reduce taxable earnings of future periods net operating loss carryforwards as follows:

Net operating loss expiring in:	
1980	\$ 20,152
1983	19,630
1984	11,392
1985	<u>13,910</u>
	\$ <u>65,084</u>

Net cumulative operating loss carryforwards for income tax purposes differ from cumulative financial statement losses primarily as a result of recording in the financial statements the Company's proportionate share of the undistributed losses of KISI and the decline in the net realizable value of the investment in Cape Chiniak joint venture.

Investment tax credits are accounted for by use of the flow-through method, whereby such credits are recorded when realized.

(5) Investments in Business Ventures

The following is a summary of the Company's investments in (provision for decline in value) and earnings (loss) from business ventures as of December 31, 1979 and 1978:

	<u>Investment</u>		<u>Earnings (loss)</u>	
	<u>1979</u>	<u>1978</u>	<u>1979</u>	<u>1978</u>
Cape Chiniak Impact Center (4% ownership interest)	\$ -	<u>3,372</u>	1,714	-
Kodiak Island Seafoods, Inc.	\$ (85,278)	<u>153,175</u>	(238,453)	(46,332)
			\$ (236,739)	(46,332)

In 1976, the Company entered into a joint venture with Koniag, Inc., a regional native corporation, and other village corporations in the Koniag region to develop a use for land and buildings at Cape Chiniak, Alaska. The property was formerly used by the United States Air Force as a satellite tracking station.

(Continued)

KARLUK NATIVE CORPORATION
Notes to Financial Statements

During 1978, the joint venture entered into a lease agreement with the United States Government for the use of the building facilities at Cape Chiniak. The lease provides for an initial twenty month term, commencing February 1, 1979 with options to renew for eight consecutive one year periods. As full compensation for the lease, the joint venture received title to a hotel in New Jersey. During 1979 the joint venture sold the hotel which resulted in net cash proceeds to the joint venture of approximately \$180,000. The terms of the lease specify that the net cash proceeds are to be earned by the joint venture over the sixty month period beginning February 1, 1979.

Subsequent to year-end, the government informed the joint venture that they would be terminating the lease effective September 30, 1980. It is anticipated that the joint venture will have to remit approximately \$120,000 of the cash received from the sale of the hotel to the government.

A summary of the unaudited financial data of the joint venture as of and for the year ended December 31, 1979 follows:

Balance Sheet

	1979 (unaudited)
Assets:	
Due from village participants	\$ 189,754
Deferred charges	<u>1,046,386</u>
	<u>\$ 1,236,140</u>
Liabilities and venturers' agents:	
Deferred lease income	134,866
Due to Konlag, Inc.	54,888
Venturers' equity	<u>1,046,386</u>
	<u>\$ 1,236,140</u>

Statement of Net Earnings

Lease income	\$ 18,227
Interest income	<u>5,353</u>
	<u>\$ 23,580</u>

(Continued)

KARLUK NATIVE CORPORATION
Notes to Financial Statements

A summary of the Company's liability to the joint venture at December 31, 1979 and 1978 follows:

	1979	1978
Currently due	\$ -	3,372
Long-term payable	<u>7,878</u>	<u>12,900</u>
Total	<u>\$ 7,878</u>	<u>16,272</u>

A summary of the balance sheets of KISI at March 31, 1980 and 1979 and the statements of operations for the years then ended follows:

Balance Sheets

	1980	1979
Current assets	\$ 3,773,657	5,424,967
Other assets	<u>1,583,368</u>	<u>1,328,772</u>
Total assets	<u>\$ 5,357,025</u>	<u>6,753,739</u>
Current liabilities	5,703,413	4,337,862
Other liabilities	80,000	1,700,000
Stockholders' equity (deficit)	<u>(426,388)</u>	<u>715,877</u>
Total liabilities and stockholders' equity	<u>\$ 5,357,025</u>	<u>6,753,739</u>

Statements of Operations

Sales	\$ 7,292,651	5,414,485
Cost of sales	<u>6,835,760</u>	<u>4,407,775</u>
	456,891	1,006,710
Selling, administrative and other income and expenses	<u>1,649,156</u>	<u>1,173,505</u>
Net loss	<u>\$ 1,192,265</u>	<u>166,795</u>

(Continued)

KARLUK NATIVE CORPORATION

Statements of Loss

Years ended December 31, 1979 and 1978

	<u>1979</u>	<u>1978</u>
Revenues:		
Interest income	\$ 14,515	6,756
Resource revenues	13,303	-
Interest received from the Alaska Native Fund	<u>3,139</u>	<u>-</u>
	<u>30,957</u>	<u>6,756</u>
Expenses:		
Board of Directors:		
Fees	2,900	3,200
Per diem	4,824	3,950
Travel	3,848	3,615
Accounting and consulting fees	5,576	8,035
Legal fees	1,022	1,044
Payroll and payroll taxes	1,680	-
Licenses	50	50
Depreciation	40	169
Rent	-	254
Office supplies	-	131
Amortization	-	118
Other	<u>655</u>	<u>126</u>
	<u>20,595</u>	<u>20,692</u>
Net loss from investees (note 5)	<u>236,739</u>	<u>46,332</u>
	<u>257,334</u>	<u>67,024</u>
Net loss	\$ <u>226,377</u>	<u>60,268</u>

See accompanying notes to financial statements.

KARLUK NATIVE CORPORATION

Statements of Stockholders' Equity

Years ended December 31, 1979 and 1978

	<u>1979</u>	<u>1978</u>
Paid-in capital:		
Balance at beginning of year	\$ 1,477,562	1,123,898
Changes in Alaska Native Fund receivable (note 3)	-	5,382
Increase in investment carrying value resulting from stock issuance by investee (note 5)	-	<u>348,282</u>
Balance at end of year	\$ <u>1,477,562</u>	<u>1,477,562</u>
Deficit:		
Balance at beginning of year	519,317	459,049
Net loss for the year	<u>226,377</u>	<u>60,268</u>
Balance at end of year	\$ <u>745,694</u>	<u>519,317</u>

See accompanying notes to financial statements.

KARLUK NATIVE CORPORATION
Statements of Changes in Financial Position
Years ended December 31, 1979 and 1978

	1979	1978 restated (note 5)
Sources of working capital:		
Receipts and change in amount due from Alaska Native Fund within one year	\$ 487,952	82,511
Increase in contributed capital	-	353,664
Reclassification of provision for decline in value of investment	-	148,775
Decrease in investment in joint venture	5,086	-
Total sources of working capital	<u>493,038</u>	<u>584,950</u>
Uses of working capital:		
Net loss	226,377	60,268
Less items which do not use working capital:		
Depreciation and amortization	40	287
Share of losses of investees, net of resulting current liability of \$85,278 in 1979	151,461	46,332
Working capital used by operations	<u>74,876</u>	<u>13,649</u>
Increase in Alaska Native Fund receivable	-	5,382
Decrease in long-term amounts due to joint venture	5,022	-
Investment in joint venture	-	3,372
Increase in investment carrying value resulting from issuance of stock by investee	-	1348,282
Total uses of working capital	<u>79,898</u>	<u>370,685</u>
Increase in working capital	<u>\$ 413,140</u>	<u>214,265</u>
Changes in components of working capital:		
Increase (decrease) in current assets:		
Cash	(358)	1,787
Investments	120,971	42,396
Receivables	374,630	7,258
Prepaid expenses	-	(254)
	<u>495,243</u>	<u>51,187</u>
Increase (decrease) in current liabilities:		
Accounts payable	(1,218)	2,709
Koniag, Inc., Regional Native Corporation	593	(582)
Due to joint venture	(3,372)	(16,430)
Provision for decline in value of investment	85,278	(148,075)
Other	822	-
	<u>82,103</u>	<u>(163,078)</u>
Increase in working capital	<u>\$ 413,140</u>	<u>214,265</u>

See accompanying notes to financial statements.

KARLUK NATIVE CORPORATION
Notes to Financial Statements
December 31, 1979 and 1978

(1) History and Significant Accounting Policies
History

Karluk Native Corporation (Company) was incorporated pursuant to the Alaska Native Claims Settlement Act (Act), which resolved the Alaska native land claims. Under the provisions of the Act, the natives and various regional and village corporations are to receive distributive shares in the settlement which includes 40,000,000 acres of land and cash totaling \$962,500,000 (the Alaska Native Fund).

Management estimates that the Company's share of distributions received and to be received under the Act will be approximately \$1,130,000 and the surface estate of approximately 92,160 acres of land. The regional corporation within whose designated boundaries the Company is located will receive title to the subsurface estate of this land.

In addition to the basic settlement under the Act, as described above, under Section 7(i), regional corporations organized pursuant to the Act are required to distribute certain portions of any revenues derived from timber resources and the subsurface estate patented to such corporations. The Company will share in such distributed revenues to the extent of .1187%.

The authorized capital stock of the Company consists of 2,500 shares of non-assessable common stock with \$1 par value. As of December 31, 1979, no stock had been issued.

Distributions received by the Company as of December 31, 1979, have been based upon stockholder eligibility as compiled by the United States Department of Interior at December 31, 1979. These figures are subject to further revision.

Under the provisions of the Act, for the period of twenty years from December 18, 1971, the stock issued, dividends to be paid or other stock rights may not be sold, pledged, assigned or otherwise alienated except in certain circumstances by court decree or by death. For the twenty year period, the stock shall carry voting rights only if the holder thereof is an eligible Alaska native.

Summary of Significant Accounting Policies

Property and Depreciation

Depreciation of furniture and equipment is provided over their estimated useful lives of three years using the straight-line method.

(Continued)



Peat, Marwick, Mitchell & Co

Certified Public Accountants

Alaska Mutual Bank Building
601 West 5th Avenue, Suite 700
Anchorage, Alaska 99501



Peat, Marwick, Mitchell & Co

Board of Directors
Karluk Native Corporation
2

Board of Directors
Karluk Native Corporation:

We have examined the balance sheets of Karluk Native Corporation as of December 31, 1979 and 1978, and the related statements of loss, stockholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as explained in the following paragraph.

We did not examine the financial statements of Kodiak Island Seafoods, Inc. (KISI), a 20% owned corporation at December 31, 1979 and 1978. The Company's investment (liability) related to KISI at December 31, 1979 and 1978 was \$(85,278) and \$153,175, respectively, and its share of losses of KISI for the years then ended was \$238,453 and \$46,332. The financial statements of KISI were examined by other auditors whose report thereon has been furnished to us. As discussed more fully in note 5, the auditor's report on those financial statements as of March 31, 1980 and 1979 was qualified subject to the Company's ability to continue as a going concern which is dependent upon continuing postponement of demand for payment of term notes payable or the obtaining of alternative financing, and the ability of the Company to generate profitable operations which, among other factors, is dependent upon the strength of the 1980 salmon runs and quantities of fish delivered to the Company to be packed.

The Company has guaranteed bank loans of KISI who has not complied with certain loan conditions as more fully described in note 5. The bank has chosen not to declare the loans due and payable. The effect on the financial position of the Company in the event that the bank were to declare the loans due and payable is not presently determinable.

In our report dated March 28, 1979, our opinion on the 1979 financial statements was qualified subject to the outcome of litigation against KISI. As is explained in note 5, this litigation was settled on July 22, 1980. Accordingly, our present opinion on the 1978 financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, based upon our examination and the report of the other auditors, subject to the effects, if any, of ultimate resolution of the uncertainties as discussed in the second and third paragraphs, the aforementioned financial statements present fairly the financial position of Karluk Native Corporation at December 31, 1979 and 1978 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co

April 1, 1980, except for
financial information for
KISI, as of and for the
years ended March 31, 1980
and 1979 as to which the
date is July 30, 1980.

KARLUK NATIVE CORPORATION

Balance Sheets

December 31, 1979 and 1978

<u>Assets</u>	<u>1979</u>	<u>1978 restated (note 5)</u>
Current assets:		
Cash	\$ 7,225	7,583
Investments, plus accrued interest, at cost, which approximates market (note 2)	250,869	129,898
Receivables:		
Alaska Native Fund, to be received within one year (note 3)	524,525	150,690
Resource revenues receivable	795	-
Notes from stockholder	-	6,179
Karluk Village Council - fuel tank	-	3,840
	<u>525,320</u>	<u>160,709</u>
Less allowance for doubtful receivables	-	10,019
Net receivables	<u>525,320</u>	<u>150,690</u>
Total current assets	<u>783,414</u>	<u>288,171</u>
Office furniture and equipment, at cost	-	1,633
Less accumulated depreciation	-	1,593
Net office furniture and equipment	-	40
Due from stockholders	9,110	9,110
Alaska Native Fund, excluding amounts to be received within one year (note 3)	35,610	523,562
Investments (note 5)	-	156,547
	<u>\$ 828,134</u>	<u>977,430</u>

<u>Liabilities and Stockholders' Equity</u>	<u>1979</u>	<u>1978 restated (note 5)</u>
Current liabilities:		
Accounts payable	\$ 1,695	2,913
Koniag, Inc., Regional Native Corporation	593	-
Due to joint venture (note 5)	-	3,372
Provision for decline in value of investment (note 5)	85,278	-
Other	822	-
Total current liabilities	<u>88,388</u>	<u>6,285</u>
Due to joint venture, excluding current portion (note 5)	7,878	12,900
Stockholders' equity (note 1):		
Common stock of \$1 par value. Authorized 2,500 shares; none issued	-	-
Paid-in capital (note 5)	1,477,562	1,477,562
Deficit	<u>745,694</u>	<u>519,317</u>
Total stockholders' equity	<u>731,868</u>	<u>958,245</u>
Contingencies (notes 5 and 7)	-	-
	<u>\$ 828,134</u>	<u>977,430</u>

See accompanying notes to financial statements.

KARLUK NATIVE CORPORATION

Balance Sheets

December 31, 1978 and 1977

<u>Assets</u>	<u>1978</u>	<u>1977</u>
Current assets:		
Cash	\$ 7,583	5,796
Investments, plus accrued interest, at cost, which approximates market (note 2)	129,898	87,502
Receivables:		
Alaska Native Fund, to be received within one year (note 3)	150,690	141,622
Notes from stockholder	6,179	6,179
Karluk Village Council - fuel tank	3,840	5,650
	<u>160,709</u>	<u>153,451</u>
Less allowance for doubtful receivables	10,019	10,019
Net receivables	<u>150,690</u>	<u>143,432</u>
Prepaid expenses	-	254
Total current assets	<u>288,171</u>	<u>236,984</u>
Office furniture and equipment, at cost	1,633	1,633
Less accumulated depreciation	1,593	1,424
Net office furniture and equipment	<u>40</u>	<u>209</u>
Due from stockholders	9,110	9,110
Alaska Native Fund, excluding amounts to be received within one year (note 3)	<u>523,562</u>	<u>600,691</u>
	<u>532,672</u>	<u>609,801</u>
Investment in joint venture	3,372	-
Organization costs, net of accumulated amortization	-	118
	<u>\$ 824,255</u>	<u>847,112</u>

See accompanying notes to financial statements.

<u>Liabilities and Stockholders' Equity</u>	<u>1978</u>	<u>1977</u>
Current liabilities:		
Accounts payable	\$ 2,913	204
Koniag, Inc., Regional Native Corporation	-	582
Due to joint venture (note 5)	3,372	19,802
Provision for decline in value of investment (note 5)	-	148,775
Total current liabilities	<u>6,285</u>	<u>169,363</u>
Provision for decline in value of investment (note 5)	195,107	-
Due to joint venture, excluding current portion (note 5)	12,900	12,900
Stockholders' equity (note 1):		
Common stock of \$1 par value. Authorized 2,500 shares; none issued	-	-
Paid-in capital	1,129,280	1,123,898
Deficit	<u>519,317</u>	<u>459,049</u>
Total stockholders' equity	<u>609,963</u>	<u>664,849</u>
Contingencies (note 5)	-	-
	<u>\$ 824,255</u>	<u>847,112</u>

KARLUK NATIVE CORPORATION

Statements of Loss

Years ended December 31, 1978 and 1977

	<u>1978</u>	<u>1977</u>
Revenues:		
Interest income	\$ 6,756	5,756
Resource revenues	-	553
Other	-	2,275
	<u>6,756</u>	<u>8,584</u>
Expenses:		
Board of Directors:		
Fees	3,200	1,830
Per diem	3,950	3,600
Travel	3,613	4,191
Accounting and consulting fees	8,035	5,968
Legal fees	1,044	-
Rent	254	1,752
Office supplies	131	642
Land selection costs	-	553
Depreciation	169	481
Amortization	118	181
Licenses	50	50
Payroll taxes	-	42
Other	126	81
	<u>20,692</u>	<u>19,371</u>
Provision for doubtful receivables	-	10,019
Share of losses of investee (note 5)	46,332	347,113
Decline in estimated net realizable value of investment (note 5)	-	38,469
	<u>67,024</u>	<u>414,972</u>
Net loss	\$ <u>60,268</u>	<u>406,388</u>

See accompanying notes to financial statements.

KARLUK NATIVE CORPORATION

Statements of Stockholders' Equity

Years ended December 31, 1978 and 1977

	<u>1978</u>	<u>1977</u>
Paid-in capital:		
Balance at beginning of year	\$ 1,123,998	1,104,713
Alaska Native Fund distributions (note 3)	5,382	17,608
Other	-	1,577
Balance at end of year	\$ <u>1,129,380</u>	<u>1,123,898</u>
Deficit:		
Balance at beginning of year	459,049	52,661
Net loss for the year	<u>60,268</u>	<u>406,388</u>
Balance at end of year	\$ <u>519,317</u>	<u>459,049</u>

See accompanying notes to financial statements.

KONIAG, INC.

COOPERS & LYBRAND

CERTIFIED PUBLIC ACCOUNTANTS

IN EVERY CORNER
OF THE WORLD

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

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

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

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

Laurence E. Lybrand

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

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

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

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

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

CONSOLIDATED STATEMENTS OF OPERATIONS
for the years ended June 30, 1980 and 1979

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

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

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
for the years ended June 30, 1980 and 1979

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

Continued

(4)

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION, Continued
for the years ended June 30, 1980 and 1979

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

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

(5)

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

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

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

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

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

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

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

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

2. Incorporation and Significant Accounting Policies:

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

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

Consolidation

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

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

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

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

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

Receipts from Alaska Native Fund

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

Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

2. Incorporation and Significant Accounting Policies, Continued:

Inventories

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

Land Selection Costs

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

Depreciation and Amortization

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

Investment Tax Credits

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

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

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

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

Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

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

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

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

4. Investments in Affiliates and Joint Venture Operations:

Investment in Affiliates

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

Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

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

Investment in Affiliates, Continued

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

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

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

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

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

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

Cape Chiniak Impact Center Joint Venture

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

Continued

(10)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

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

Cape Chiniak Impact Center Joint Venture, Continued

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

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

5. Investments in Securities:

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

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

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

(11)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

6. Property and Equipment:

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

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

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

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

Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

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

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

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

8. Investment in Oil, Gas and Hydrocarbon Leases:

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

9. Notes Payable, Banks:

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

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

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

10. Long-term Debt:

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

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

Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

10. Long-term Debt, Continued:

	<u>Current</u>	<u>Long-term</u>
Swiftsure Fisheries, Inc., due in annual installments of \$175,876 plus 12% interest	\$ 175,876	\$ 626,772
Seattle-First National Bank, due in quarterly installments of \$30,000, including interest at the prime rate plus 2.5% but not to exceed 12% (paid in full October 1, 1980)	666,849	
Seattle-First National Bank, due in quarterly installments of \$26,000, including interest at the prime rate plus 2.25% (paid in full October 1, 1980)	566,051	
Notes payable collateralized by security agreements on inventories and property and equipment:		
U.S. Small Business Administration, due in monthly installments of \$925 including 5.5 percent interest	7,456	62,189
J.M.B. Corporation, due \$10,396 annually plus 8 percent interest	10,396	51,978
Other, including purchase contracts and capitalized lease obligations, at monthly payments of \$1,505 including interest from 13% to 15.25% and semi-annual installments of \$427 plus 7% interest	18,807	13,106
	<u>\$1,592,837</u>	<u>\$2,084,101</u>

11. Capital Stock and Contributed Capital:

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

Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

11. Capital Stock and Contributed Capital, Continued:

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

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

12. Income and Property Taxes:

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

13. Retirement Plan:

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

14. Subsequent Event:

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

COOPERS & LYBRAND

CERTIFIED PUBLIC ACCOUNTANTS

100-100000000-0000
200-100000000-0000

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

We have examined the consolidated balance sheets of Koniag, Inc., Regional Native Corporation and its subsidiaries as of June 30, 1978 and 1977, and the related consolidated statements of operations and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Notes 3 and 8 to the consolidated financial statements, the Company will receive monies and subsurface rights in the future in amounts and at times which are not presently determinable. Such items will be material to the consolidated financial statements.

In our opinion, subject to the effects on the consolidated financial statements of the matters discussed in the preceding paragraph, the aforementioned financial statements present fairly the consolidated financial position of Koniag, Inc., Regional Native Corporation and its subsidiaries at June 30, 1978 and 1977, and the consolidated results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

Anchorage, Alaska
September 3, 1978

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KONIAG, INC., REGIONAL NATIVE CORPORATION
CONSOLIDATED BALANCE SHEETS, June 30, 1978 and 1977

ASSETS	1978	1977
Current:		
Cash	\$ 124,646	\$ 93,862
Investments in securities, at cost (approximates market) (Note 5)	145,649	175,341
Receivables (Note 9):		
Alaska Native Fund (Note 3)	1,491,000	1,736,000
Notes (Note 6)	65,337	127,070
Village corporations	246,193	
Trade, less allowance of \$87,621, 1978 and \$51,320, 1977	563,348	285,685
Other	32,490	32,909
	2,398,368	2,181,664
Inventories (Notes 2, 9 and 10)	1,015,414	857,092
Property held for sale	57,828	
Other current assets	66,209	44,806
Total current assets	3,808,114	3,352,765
Alaska Native Fund receivable, long- term (Notes 3 and 9)	11,302,994	11,934,000
Cape Chiniak Impact Center joint venture receivable (Note 4)	509,029	355,004
Village corporations, long-term receivable, less \$230,000 current	85,000	
Notes receivable (Note 6)	163,257	52,818
Property and equipment, at depreciated cost (Notes 2, 7, 9 and 10)	3,638,924	3,199,367
Other assets:		
Land selection costs (Note 2)	628,876	827,590
Investment in Cape Chiniak Impact Center Joint Venture, at cost (Note 4)	558,210	404,184
Investment in American Indian National Bank, at cost	55,000	55,000
Land held for development, at cost	92,043	48,045
Exploration costs (Note 8)	49,093	49,093
Historical library	11,218	11,218
Miscellaneous	34,628	21,755
Assets in amounts to be determined (Notes 3 and 8)		
	<u>\$20,936,386</u>	<u>\$20,310,839</u>

LIABILITIES	1978	1977
Current:		
Notes payable (Note 9)	\$ 1,115,434	\$ 777,944
Current portion of long-term debt (Note 10)	102,157	67,244
Accounts payable	452,604	321,774
Exploration monies including accrued interest (Note 8)	664,041	623,137
Accrued payroll and payroll taxes	21,109	29,620
Accrued interest	33,023	39,365
Accrued other	135,433	81,707
Total current liabilities	2,526,801	1,939,807
Long-term debt (Note 10)	1,139,341	805,310
Commitments and contingencies (Note 14)		

CAPITAL	1978	1977
Common stock (Note 11):		
Authorized:		
5,000,000 common shares in two classes, A and B		
Outstanding:		
Class A, 1 cent par value, 201,000 shares issued in 1978	2,011	
Class B, 1 cent par value, 125,000 shares issued in 1978	1,250	
Contributed capital (Notes 2 and 3)	19,415,918	19,119,187
Accumulated deficit	(2,148,944)	(3,553,419)
	17,276,244	17,000,122
	<u>\$20,936,386</u>	<u>\$20,310,839</u>

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

CONSOLIDATED STATEMENTS OF OPERATIONS
for the years ended June 30, 1978 and 1977

	1978	1977
Revenues:		
Merchandise sales	\$ 2,787,119	\$ 1,785,107
Rentals	437,930	348,845
Interest and investment income	40,788	29,458
Helicopter joint venture income	10,000	
Printing and accounting services		57,989
Natural resource monies received from other region (7(i) income) (Note 8)		37,797
Other	4,491	25,017
	<u>3,280,328</u>	<u>2,284,213</u>
Operating expenses:		
Cost of goods sold and direct costs	2,201,949	1,474,173
General and administrative:		
Personnel	357,589	431,245
Professional fees	160,653	210,558
Travel	95,462	90,475
Rent and utilities	124,744	136,711
Depreciation	128,081	106,935
Interest	204,273	125,579
Insurance	85,047	66,086
Taxes	53,850	44,862
Other	213,685	194,682
	<u>3,625,333</u>	<u>2,881,306</u>
Less reimbursable costs by Cape Chiniak Joint Venture (Note 4)	(49,527)	(172,636)
	<u>3,575,806</u>	<u>2,708,670</u>
Net loss	(295,478)	(424,457)
Accumulated deficit, beginning of year	(1,853,463)	(1,429,006)
Accumulated deficit, end of year	\$(2,148,941)	\$(1,853,463)
Loss per common share	\$ (1.90)	\$ (1.30)

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

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
for the years ended June 30, 1978 and 1977

	1978	1977
Sources (applications) of working capital:		
Operations:		
Loss	\$(295,478)	\$(424,457)
Depreciation and amortization	128,643	108,902
Working capital used in operations	(166,835)	(315,555)
Alaska Native Fund receivable collections, less current maturities	631,006	751,000
Additional long-term debt	458,500	400,000
Allocation of land selection costs to village corporations, less \$85,000 receivable beyond one year	230,000	
Contributed capital adjustment (Note 3)		485,000
Disposition of property and equipment	61,968	47,315
Purchase of property and equipment	(630,163)	(671,530)
Increase in Cape Chiniak Impact Center Joint Venture:		
Investment	(154,026)	(29,375)
Receivable	(154,026)	(180,000)
Payments on long-term debt	(121,967)	(71,275)
Land selection costs incurred	(110,266)	(42,607)
Additional long-term notes receivable	(110,439)	(52,813)
Purchase of land held for development	(43,993)	
Other	(12,373)	(11,111)
Increase (decrease) in working capital	\$(131,641)	\$ 69,330
Changes in components of working capital, Increase (decrease):		
Cash	\$ 10,714	\$(117,170)
Investments	(29,692)	(606,600)
Receivables	216,203	371,700
Inventories	193,922	(107,000)
Property held for sale	57,823	
Other current assets	21,133	21,000
Notes payable	(372,100)	(27,000)
Accounts payable	(139,200)	37,330
Exploration monies	(10,903)	(39,100)
Accrued payroll and payroll taxes	4,111	1,111
Accrued interest	6,362	800
Other current liabilities	(53,726)	(3,117)
Increase (decrease) in working capital	\$(131,641)	\$ 69,330

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The Act entitles Alaska Natives to 40 million acres of land and monies totaling \$962,500,000. The monies will be deposited in the Alaska Native Fund, \$462,500,000 by the Federal government and \$500,000,000 from royalties and lease sales of minerals owned by the State of Alaska and the Federal government in Alaska.

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

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

Section 7(i) of the Act provides that 70 percent of revenues received by each regional corporation from timber resources and subsurface estate patented to it under the Act shall be divided annually among the twelve Alaskan regional corporations in proportion to the number of enrollees in each (Note 8).

Section 7(j) of the Act requires that each regional corporation distribute, from funds received by the regional corporation (a) from the Alaska Native Fund, (b) under Section 7(i) of the Act and (c) from "other net income", during the five years from December 18, 1971, not less than 10 percent to its stockholders. During the same period, not less than 45 percent of funds received from (a) and (b) above must be distributed by each regional corporation to village corporations in the region and to at-large stockholders (those stockholders not also stockholders in a village corporation). After the first five years, each regional corporation must distribute not less than 50 percent of funds received from (a) and (b) above to village corporations in the region and to at-large stockholders.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

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

Because the Company has incurred losses in each of the years through calendar year 1976, there was no "other net income" to distribute. In the opinion of counsel, the Company is not required by the Act to distribute "other net income" to village corporations or to at-large stockholders, nor does the Act require any specific minimum distribution to regional corporation stockholders from (a), (b) or (c) above after December 18, 1976.

2. Incorporation and Significant Accounting Policies:

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

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

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Kazim Company and Cook Inlet Constructors, Inc. (owned by Kazim Company).

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

Fishing supply sales are conducted by Shelikof Net Company, a division of Kazim Company. Such sales include transactions with certain stockholders, directors and officers of the Company.

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

Receipts from Alaska Native Fund

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

Inventories

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

2. Incorporation and Significant Accounting Policies, Continued:

Land Selection Costs

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

Depreciation

Depreciation is provided by the straight-line method. Gains and losses from asset disposals are included in operating results.

Investment Tax Credits

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

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

The Company's share of the monies has been included in the consolidated financial statements on the assumption that it will receive its share of 4.16 percent of \$962,500,000 (Note 1). This is the percentage of the Company's enrollees to the total enrollees of all 13 regions (3,267 to 78,479). This is subject to change pending results of the following:

- a) possible appeal of a decision reached in the United States District Court for the District of Alaska which disallowed the inclusion of reservation Natives in the percentage calculation. The decision in question deleted 1,504 enrollees to other regions. If the appeal is unsuccessful the above percentage will increase from 4.16 percent to 4.25 percent.
- b) extension of the enrollment process until December 1976. Such extension allowed Alaska Natives who had not previously enrolled to do so. Management does not expect that the Company's share will change materially as a result of final determination of such enrollment.

Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

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

- c) appeals of administrative disenrollments. The Department of Interior has instituted administrative proceedings seeking disenrollment of certain persons enrolled to all Native Corporations organized under the Act. Results of such proceedings could have an effect upon funds distributed to the Company from the Alaska Native Fund and under Section 7(i) of the Act. Management does not expect the Company's share will change materially as a result of such disenrollment proceedings.

It is presently estimated that the Company will receive the balance of monies from the Alaska Native Fund as follows:

<u>Year Ended</u>	<u>Amount</u>
June 30, 1979	\$ 1,491,000
1980	\$ 1,827,000
1981	2,184,000
1982	2,898,000
1983	4,393,294
	<u>\$11,302,994</u>

These amounts reflect results of an election held in November 1976, whereby certain individuals who live outside of Alaska could elect to transfer their enrollment from/to the thirteenth regional corporation to/from the Company. The Company recorded the effect of such election results by increasing the estimated Alaska Native Fund receivable and contributed capital by \$485,000 in fiscal year 1977.

The timing of receipts, as scheduled above, is subject to change depending on when the State and Federal governments receive mineral lease and royalty revenues.

In addition to monies discussed above, the Company estimates that it will receive subsurface rights to a minimum of 1,022,000 acres of land. Such acreage will be increased by 415,000 if certain presently uncertified village corporations are certified. Surface rights will be owned principally by village corporations in the region. Subsurface rights will be recorded at fair value upon interim conveyance, but not before such fair value has been

Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

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

determined. The value of subsurface rights, and revenues which will ultimately be realized therefrom, are considered by management to be material to the financial statements. Amounts ultimately recorded for surface and subsurface rights, less previously recorded land selection costs, will increase contributed capital.

4. Joint Venture Operations:

Cape Chiniak Impact Center

The Company has selected, for a village corporation in its area, under Section 12(b) of the Act, certain lands located on Cape Chiniak (45 miles from the City of Kodiak). Such lands were formerly used by the United States Air Force as a satellite tracking station. Situated on the lands are numerous buildings and some personal property, all in an excellent state of repair. The United States Government has valued the buildings and personal property at an amount in excess of \$7,000,000, which value is assumed to be based on historical costs. No current appraisal is available. The value of such realty is dependent upon developing a use for the facility. Management considers the facility to have many potential uses.

The village corporation for which this property was selected has received a temporary use permit for the real property and the Company received the same for the personal property. Upon receipt of this permit the village corporation entered into a joint venture agreement with the remaining village corporations (including, for this purpose, Natives of Kodiak, Inc.) in the regional area and the Company itself. Such agreement calls for the joint development of the property and, in effect, gives the Company a 50 percent income interest in the joint venture and its properties except for rentals of real property which are for the account of the village venturers in their entirety. The Company has been retained by the joint venture to manage the properties. At June 30, 1978 the Company had expended \$1,067,239, in its management function which includes an allocation of general and administrative expenses in the aggregate of \$611,151. Such general and administrative expenses allocated for 1978 and 1977 were \$49,527 and \$172,636, respectively. The Company's share of these

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

4. Joint Venture Operations, Continued:

Cape Chiniak Impact Center, Continued

expenditures, \$558,210, has been included in the balance sheet as an investment. The remaining costs (\$509,029 at June 30, 1978) are reimbursable by the village venturers.

Carson-Koniag Helicopters Joint Venture

On June 6, 1977, Kazim Company entered into a joint venture agreement for the purpose of performing helicopter services in Alaska. This agreement provides for 51 percent ownership by Kazim Company. No monies have been advanced to this joint venture as of June 30, 1978.

Former Joint Ventures

Kodiak Kwik Kopy

On July 1, 1976, Kazim Company sold its 51 percent interest in Kodiak Kwik Kopy, Inc. The total sales price was \$15,981, which was equal to Kazim Company's investment.

Martini and Associates, Ltd.

Effective January 31, 1977, a partnership known as Martini and Associates, Ltd., which was in the business of providing consulting and accounting services, was dissolved. The Company's share of the partnership's operating loss in fiscal 1977 was \$69,383. In addition, the Company wrote off in 1977 its unamortized balance of goodwill of \$22,897 that was recorded when the Company acquired its 51 percent interest in the partnership.

Accounting Services of Kodiak

Effective July 1, 1977, a division known as Accounting Services of Kodiak, which was formed January 31, 1977 to succeed the business of Martini and Associates, Ltd., was dissolved. Its loss in fiscal 1978 was \$10,406.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

5. Investments in Securities:

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

Joint investments at June 30, 1978 consist of the following:

	<u>Carrying Value</u>	<u>Indicated Yield</u>
U. S. Treasury notes	\$ 707,546	7.4%
National Bank of Alaska, time certificate of deposit	250,000	7.4%
Corporate bonds and notes:		
Ford Motor Credit	300,000	7.7%
Smithkline Corporation	150,000	8.2%
Dreyfus Mutual Fund	42,097	6.8%
Credit Union deposit	12,480	7.0%
Accrued interest	<u>24,180</u>	
	1,486,303	
Amounts held in trust for benefit of village corporations and shareholders	<u>(1,340,654)</u>	
	\$ 145,649	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

6. Notes Receivable:

Notes receivable at June 30, 1978 consists of the following:

	<u>Current</u>	<u>Long-term</u>
Afognak Native Corporation bearing 8.1 percent interest and due January 1, 1981; without collateral		\$169,471
Washington Koniag Native Association bearing 8 percent interest, upon demand; without collateral	\$ 2,730	
Alaska Federation of Natives, Inc. bearing 6 percent interest and due August 1, 1979; without collateral	20,127	
St. Hermans Pastorial School bearing 8 percent interest, upon demand; without collateral	10,000	
Mr. Alan Austerman bearing 9 percent interest and due in monthly installments of \$221; collateralized by common stock	1,910	16,294
Kodiak Kwik Kopy bearing 9 percent interest and due in monthly installments of \$446; without collateral	3,750	33,110
Aloha Association bearing 8 percent interest and due upon partial settlement of Hawaiian land claims; without collateral		20,000
Mr. Archie Jorgenson bearing 12 percent interest and due \$15,000 per month beginning August 1, 1978; collateralized by fishing equipment	43,000	
M/V Osprey bearing 18 percent interest and due in installments of \$4,000 on November 1, 1978, February 1, 1979 and balance June 1, 1979; collateralized by fishing equipment	11,627	
Accrued interest receivable	<u>1,103</u>	<u>4,351</u>
	96,247	103,257
Allowance for loss	<u>(30,911)</u>	<u>(20,106)</u>
	\$66,437	\$107,402

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

7. Property and Equipment:

Property and equipment at June 30, 1978 consists of the following:

	<u>Total</u>	<u>Operating</u>	<u>Rentals</u>
Land	\$ 633,244	\$168,500	\$ 464,744
Buildings	2,858,233	375,529	2,482,704
Residential furniture	140,770		140,770
Office furniture and equipment	103,708	103,708	
Machinery and equipment	101,513	101,513	
Vehicles	54,048	54,048	
Training equipment	23,052	23,052	
	<u>3,914,568</u>	<u>826,350</u>	<u>3,088,218</u>
Accumulated depreciation	<u>(275,644)</u>	<u>(83,279)</u>	<u>(192,365)</u>
	<u>\$3,638,924</u>	<u>\$743,071</u>	<u>\$2,895,853</u>

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

As indicated in Note 1, Section 7(i) of the Act provides that certain resource revenues received by regional corporations, are subject to redistribution to all of the Alaskan regional corporations. Section 7(i) is the subject of litigation which will determine the method of computing redistributable amounts and proportionate basis for redistributions among regional corporations. The Company's interest in such redistributions cannot be finally determined until conclusion of litigation and until other regional corporations make available detailed information regarding such amounts. Public statements issued by certain other regional corporations indicate that transactions have been entered into which involve Section 7(i) monies.

To date, the Company has itself generated resource revenues distributable to other regional corporations under Section 7(i). Seventy percent of the gross amount, \$664,041, has been included in the balance sheet as a liability. The amount is subject to reduction for deferred exploration and other costs.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

9. Notes Payable:

Current notes payable at June 30, 1978 consists of the following:

Note payable, credit union, maturing September 11, 1978 and bearing 9 percent interest; collateralized by a Deed of Trust on real property commonly known as the "Harborview Building"	\$ 700,422
Note payable, bank, maturing September 27, 1978 and bearing prime plus 2.5 percent interest; collateralized by assignment of receivables	300,000
Note payable, bank, maturing August 7, 1978 (extended to October 7, 1978) and bearing prime plus 2.0 percent interest; collateralized by assignment of receivables	75,000
Note payable, bank, bearing 11 percent interest; collateralized by a security agreement on inventory	40,012
	<u>\$1,115,434</u>

10. Long-term Debt:

Long-term debt at June 30, 1978 consists of the following:

	<u>Current</u>	<u>Long-term</u>
Note payable to Kodiak Island Properties in monthly installments of \$207 including 8 percent interest and reserves; collateralized by a Deed of Trust on a house and lot	\$ 1,096	\$ 11,905
Note payable to R. S. Acheson Company in annual amounts of \$20,000 plus 10 percent interest; collateralized by a Deed of Trust on land and building commonly known as the "Donnelly Building"	20,000	120,000
Note payable to U. S. Small Business Administration in monthly installments of \$925 including 5.5 percent interest; collateralized by a security agreement on certain assets utilized by Shelikof Net Company, including inventory and property and equipment	6,683	76,655

Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

10. Long-term Debt, Continued:

	<u>Current</u>	<u>Long-term</u>
Note payable to First National Bank of Anchorage in monthly installments of \$1,424 including 9.5 percent interest; collateralized by a Deed of Trust on certain land and buildings utilized by Shelikof Net Company	\$ 10,694	\$ 61,470
Note payable to Kodiak Island Properties in monthly installments of \$345 including 8 percent interest and reserves; collateralized by a Deed of Trust on two houses and lots	1,270	25,245
Note payable to J.M.B. Corporation in annual amounts of \$10,396 plus 8 percent interest; collateralized by a security agreement on certain assets utilized by Shelikof Net Company, including inventory and property and equipment	10,396	72,769
Note payable to First National Bank of Anchorage in monthly installments of \$4,298 including 10 percent interest; collateralized by a Deed of Trust on commercial land and buildings	13,973	368,331
Assessment payable to the City of Kodiak in semi-annual installments of \$427 including 7 percent interest	854	4,271
Note payable to Kodiak Welding and Fishing Supply Co., Inc. in monthly installments of \$2,831 including 10 percent interest; collateralized by a Deed of Trust on real property	8,420	250,906
Note payable to National Bank of Alaska in monthly installments of \$3,056 including 8 percent interest; collateralized by a Deed of Trust on real property	23,817	147,789
Note payable to National Bank of Alaska, Small Business Administration in monthly installments of \$658 including 3 percent interest on 90 percent of the loan and 7.5 percent on 10 percent of the loan; collateralized by a Deed of Trust on real property	4,954	
	\$102,157	\$1,139,741

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

11. Capital Stock:

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 enrollees.

12. Income and Property Taxes:

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

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

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

The Company has filed Federal income tax returns for the years shown below reporting net operating losses for income tax purposes of:

<u>Year Ended (a)</u>	<u>(Loss) (b)</u>	<u>Expires (b)</u>
June 30, 1973	\$ (153,890)	June 30, 1978
1974	(447,964)	1979
1975	(487,669)	1980
1976	(1,066,262)	1983
1977	(431,804)	1984

a) Tax returns for the year ended June 30, 1978 have not yet been prepared. The Internal Revenue Service has completed audits of the Company's returns for the years ended June 30, 1973 and 1974 and has issued tentative reports essentially disallowing all expenses claimed.

b) Under the Internal Revenue Service position (which is believed to apply to all regional native corporations) the Company would not be allowed to carry forward its reported net operating losses through June 30, 1974 to offset taxable income in future periods. The Company is currently protesting the position taken by the Internal Revenue Service. Due to this issue,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

12. Income and Property Taxes, Continued:

and others which may yet be brought forth by the Internal Revenue Service, all of which may require extensive litigation, no determination can be made as to the amount of losses claimed which will eventually constitute net operating losses as defined by existing tax statutes.

Investment tax credits of approximately \$22,000 are available to offset future income taxes, if any, and expire in 1980 through 1985.

13. Retirement Plan:

The Company has a non-contributory retirement plan which covers substantially all of its salaried employees who meet certain eligibility requirements as to age and length of service. The plan requires that contributions be made to an insurance company for future purchase of individual annuity contracts and payments are made as required on an annual basis. Pension costs are funded currently and include amortization of past service costs over a period of 30 years.

14. Commitments and Contingencies:

On July 10, 1978 the Company entered into a construction contract for excavation work to be performed on real estate held in Kodiak. The contract price was \$97,230 with terms of a \$10,000 advance and progress payments of 25% at completion of a like amount of work.

The Company has guaranteed \$500,000 of a Kodiak Island Seafoods, Inc. (KISI) working capital loan. KISI is owned by three village corporations within the Company's regional area.

LEISNOI, INC.



Peat, Marwick, Mitchell & Co.

Certified Public Accountants

Alaska Mutual Bank Building
601 West 5th Avenue, Suite 700
Anchorage, Alaska 99501

Board of Directors
Leisnoi, Inc.:

We have examined the consolidated balance sheets of Leisnoi, Inc. and subsidiaries as of December 31, 1979 and 1978 and the related consolidated statements of loss, stockholders' equity and changes in financial position for the years then ended. Except as explained in the third paragraph, 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.

In our report dated March 28, 1979, we did not express an opinion on the 1978 financial statements due, in part, to uncertainty regarding ultimate recoverability of the Company's investment in property located on Woody Island. As is explained in note 4, the Woody Island property was destroyed by fire during 1979 and the Company's investment has been recovered through insurance proceeds. Accordingly, our present opinion, as it pertains to the Woody Island property, is different from that expressed in our previous report.

As discussed in note 5, the Company owns a 10% interest in Kodiak Island Seafoods, Inc. (KISI). We were unable to obtain audited financial statements of KISI for the year ended March 31, 1980. As such, we could not determine the recoverability of the Company's recorded investment in KISI, which at December 31, 1979 is reported at \$350,000.

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles that contemplate continuation of the Company as a going concern; the Company, however, is involved in litigation challenging its eligibility as a village under the Alaska Native Claims Settlement Act (note 9). Continuation as a going concern is dependent upon the outcome of this litigation, the resolution of which cannot be determined at this time.

Because of the matters referred to in the two preceding paragraphs, we are unable to and do not express an opinion on the consolidated financial statements taken as a whole.

Peat, Marwick, Mitchell & Co.

April 3, 1980

LEISNOI, INC.
AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 1979 and 1978

<u>Assets</u>	<u>1979</u>	<u>1978</u>	<u>Liabilities and Stockholders' Equity</u>	<u>1979</u>	<u>1978</u>
Current assets:			Current liabilities:		
Cash	\$ 88,546	354,445	Notes payable	\$ -	95,000
Time certificates of deposit	-	200,000	Current installments of long-term debt (note 6)	350,000	800
Investments, plus accrued interest, at cost, which approximates market (note 2)	9,923	-	Accounts payable	4,116	3,257
Receivables:			Due to Koniag, Inc.	1,997	115,354
Insurance claim (note 4)	427,200	-	Due to joint venture (note 5)	-	5,255
Alaska Native Fund, to be received within one year (note 3)	336,000	187,000	Due to Kodiak Island Seafoods, Inc. (note 5)	-	350,000
Resource revenues receivable	1,300	-	Other accrued expenses	14,448	1,672
Other	184	3,256	Total current liabilities	<u>370,561</u>	<u>572,368</u>
Total receivables	<u>764,684</u>	<u>190,256</u>			
Prepaid expenses	6,471	5,254	Long-term debt, excluding current installments (note 6)	-	359,953
Other	-	141	Due to joint venture (note 5)	12,521	20,220
Total current assets	<u>869,624</u>	<u>750,096</u>	Minority interest in subsidiary	4,867	-
Buildings, furniture and equipment, at cost (note 4)	22,515	403,262			
Less accumulated depreciation	3,438	18,989	Stockholders' equity (note 3):		
Net buildings, furniture and equipment	<u>19,077</u>	<u>384,273</u>	Common stock of \$1 par value. Authorized 25,000 shares; none issued	-	-
Alaska Native Fund, excluding amounts to be received within one year (notes 3 and 6)	535,851	889,685	Paid-in capital	1,717,009	1,739,371
Investments (note 5)	277,598	385,645	Deficit	388,100	266,505
Due from stockholders	13,708	13,708	Total stockholders' equity	<u>1,329,909</u>	<u>1,472,366</u>
Other	1,000	1,000			
	<u>\$ 1,716,858</u>	<u>2,424,407</u>	Contingency (note 9)		
				<u>\$ 1,716,858</u>	<u>2,424,407</u>

See accompanying notes to consolidated financial statements.

LEISNOI, INC.
AND SUBSIDIARIES

Consolidated Statements of Loss

Years ended December 31, 1979 and 1978

	<u>1979</u>	<u>1978</u>
Revenues:		
Rental income	\$ 10,695	14,092
Interest income	<u>6,141</u>	<u>14,676</u>
	<u>16,836</u>	<u>28,768</u>
Costs and expenses:		
Legal	83,758	96,060
Salaries and payroll taxes	24,322	33,642
Auditing and other professional services	19,996	7,498
Depreciation	19,034	13,247
Insurance	12,172	11,584
Utilities	8,775	12,731
Repairs and maintenance	5,025	5,468
Board of Directors:		
Travel and per diem	5,048	6,004
Fees	4,400	6,675
Rent	1,500	2,318
Taxes and licenses	845	1,270
Other supplies	691	1,659
Advertising	306	754
Other travel	95	4,191
Other	<u>2,139</u>	<u>1,199</u>
	<u>188,106</u>	<u>204,300</u>
Operating loss	171,270	175,532
Other income (deductions):		
Interest expense	(52,925)	(6,598)
Resource revenues	21,208	-
Net loss from joint ventures (note 5)	(20,248)	(32,444)
Interest received from the Alaska Native Fund	4,989	-
Land selection costs	(4,681)	(37,500)
Gain (loss) on disposal of property and equipment	1,350	(162)
Minority interest in loss of subsidiary	<u>133</u>	<u>-</u>
	<u>(50,174)</u>	<u>(76,704)</u>
Loss before extraordinary item	221,444	252,236
Extraordinary item - gain on fire damage (note 4)	<u>99,849</u>	<u>-</u>
Net loss	\$ <u>121,595</u>	<u>252,236</u>

See accompanying notes to consolidated financial statements.

LEISNOI, INC.
AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

Years ended December 31, 1979 and 1978

	<u>1979</u>	<u>1978</u>
Paid-in capital:		
Balance at beginning of year	\$ 1,739,371	1,724,269
Increase due to distribution of 19(b) reserves	-	44,602
Decrease due to changes in enrollment	(22,362)	-
Stockholder distribution	<u>-</u>	<u>(29,500)</u>
Balance at end of year	\$ <u>1,717,009</u>	<u>1,739,371</u>
Deficit:		
Balance at beginning of year	266,505	1,269
Net loss for the year	<u>121,595</u>	<u>252,236</u>
Balance at end of year	\$ <u>388,100</u>	<u>266,505</u>

See accompanying notes to consolidated financial statements.

LEISNOI, INC.
AND SUBSIDIARIES

Consolidated Statements of Changes in Financial Position

Years ended December 31, 1979 and 1978

	1979	1978
Sources of working capital:		
Receipts and change in amounts receivable from the Alaska Native Fund within one year	\$ 353,834	137,967
Proceeds from investment in joint ventures	87,799	-
Proceeds from long-term borrowings	-	350,000
Increase in contributed capital due to distribution of 19(b) reserve	-	44,602
Proceeds from sale of property and equipment, net gain of \$1,350 in 1979 and loss of \$162 in 1978	36,875	1,863
Minority interest in subsidiary	5,000	-
Sources of working capital, exclusive of extraordinary item	483,308	534,432
 Extraordinary item - insurance proceeds from property and equipment destroyed by fire, net of associated expenses of \$2,123	425,077	-
Total sources of working capital	<u>908,585</u>	<u>534,432</u>
 Uses of working capital:		
Loss before extraordinary item	221,444	252,236
Items which do not (use) provide working capital:		
Depreciation	(19,034)	(11,247)
Share of losses of investees	(20,248)	(32,444)
Minority interest in loss of subsidiary	133	-
Working capital used by operations, exclusive of extraordinary item	182,295	206,545
 Additions to buildings and equipment	13,941	122,114
Decrease in contributed capital due to change in enrollment	22,362	-
Current installments and repayment of long-term debt	359,953	420
Decrease in payable to joint venture	7,699	-
Increase in long-term investments	-	357,785
Distribution to stockholders	-	29,500
Increase in long-term receivable	-	14,708
Total uses of working capital	<u>588,250</u>	<u>731,072</u>
 Increase (decrease) in working capital	\$ <u>320,335</u>	<u>(196,640)</u>

LEISNOI, INC.
AND SUBSIDIARIES

Consolidated Statements of Changes in Financial Position, Continued

	1979	1978
Changes in components of working capital:		
Increase (decrease) in current assets:		
Cash	\$ (265,399)	301,515
Time certificates of deposit	(200,000)	200,000
Investments	9,923	(220,337)
Receivables	574,428	53,288
Prepaid expenses	1,217	12
Other	(141)	(3,438)
	<u>119,523</u>	<u>330,540</u>
 Increase (decrease) in current liabilities:		
Notes payable	(95,000)	95,000
Current installments of long-term debt	349,200	29
Accounts payable	859	(34,361)
Due to Kodiak Island Seafoods, Inc.	(350,000)	350,000
Due to Koniag, Inc.	(113,357)	115,354
Due to joint venture	(5,285)	-
Other accrued expenses	12,776	1,158
	<u>(200,807)</u>	<u>327,130</u>
 Increase (decrease) in working capital	\$ <u>320,335</u>	<u>(196,640)</u>

See accompanying notes to consolidated financial statements.

LEISNOI, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 1979 and 1978

(1) History and Significant Accounting Policies

History

Leisnoi, Inc. (Company) was incorporated pursuant to the Alaska Native Claims Settlement Act (Act), which resolved the Alaska native land claims. Under the provisions of the Act, the natives and various regional and village corporations are to receive distributive shares in the settlement which includes 40,000,000 acres of land and cash totaling \$962,500,000 (Alaska, Native Fund).

Management estimates that the Company's share of distributions received and to be received under the Act will be approximately \$1,800,000 and the surface estate of approximately 115,200 acres of land. The regional corporation within whose designated boundaries the Company is located will receive title to the subsurface estate of this land.

In addition to the basic settlement under the Act, as described above, under Section 7(1), regional corporations organized pursuant to the Act are required to distribute certain portions of any revenues derived from timber resources and the subsurface estate patented to such corporations. The Company shares in such distributed revenues to the extent of .1889%.

The authorized capital stock of the Company consists of 25,000 shares of non-assessable common stock with \$1 par value. As of December 31, 1979, no stock had been issued. Based upon the December 29, 1978 enrollment, the Company will be required to issue 2,960 shares.

Alaska Native Fund distributions received and to be received by the Company as of December 31, 1979 have been based upon stockholder eligibility as compiled by the United States Department of Interior at December 23, 1979. These figures are subject to further revision.

Under the provisions of the Act, for the period of twenty years from December 18, 1971, the stock issued; dividends to be paid or other stock rights may not be sold, pledged, assigned or otherwise alienated except in certain circumstances by court decree or by death. For the twenty year period, the stock shall carry voting rights only if the holder thereof is an eligible Alaska native.

(Continued)

LEISNOI, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company's wholly-owned subsidiary, WUF-1, and a 75% owned subsidiary, Land Surveying Services, Inc. (LSSI). All significant intercompany transactions have been eliminated in consolidation.

Depreciation

Depreciation of property and equipment is provided over their estimated useful lives of three to ten years using the straight-line method.

Investments in Business Ventures

The Company's investments in joint ventures are accounted for by use of the equity method of accounting. The Company's 10% investment in Kodiak Island Seafoods, Inc. (XISI) is stated at cost.

Resource Revenue Distributions

Resource revenues distributable to the Company under the terms of the Act are recorded when the amount thereof is determined and its receipt is reasonably assured.

Income Taxes

Investment tax credits are recognized when the benefit is realized.

(2) Pooled Investments

The following is a summary of pooled investment activity for the Company for the period April 20, 1973 (inception) through December 31, 1979:

Receipts from Alaska Native Fund	\$	909,147
Investment income		98,725
Resource revenues		23,482
		<u>1,031,354</u>
Less:		
Withdrawals	\$	1,006,329
Stockholder overpayments		<u>15,102</u>
		<u>1,021,431</u>
Balance December 31, 1979	\$	<u>9,923</u>

These funds are held in trust by Koniag, Inc. and are invested in time certificates of deposit and federal and corporate obligations.

(Continued)

LEISNOT, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Alaska Native Fund Receivable

As discussed in note 1, the Company is to receive a proportionate share of future distributions from the Alaska Native Fund. A summary of amounts and anticipated year of receipt is as follows:

1980	\$ 336,000
1981	419,000
1982	<u>116,851</u>
	\$ <u>871,851</u>

The above estimates are based upon the schedule of federal appropriations as provided for in the Act and the State of Alaska's projected receipt of state mineral royalties and stockholders' eligibility as of December 23, 1979.

(4) Buildings, Furniture and Equipment

A summary of buildings, furniture and equipment follows:

	<u>1979</u>	<u>1978</u>
Buildings	\$ 12,143	372,574
Furniture and equipment	<u>10,372</u>	<u>30,688</u>
	\$ <u>22,515</u>	<u>403,262</u>

In 1975, the Company received a permit from the United States Government granting them all the rights and privileges of ownership of property located on Woody Island. The permit is valid until such time as the Company receives interim conveyance. The value of the subject property has not been determined, and accordingly it is not recorded in the financial statements.

During 1978, the Company completed the renovation of several duplexes and a water and sewer treatment plant located on Woody Island. Approximately \$352,000 was invested in the project.

(Continued)

LEISNOT, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

On December 12, 1979, the Company's Woody Island project was completely destroyed by fire. The extraordinary credit resulting from the fire is computed as follows:

Insurance proceeds receivable	\$ 427,200
Less: expenses associated with fire	<u>2,123</u>
Net proceeds	\$ 425,077
Less: net carrying value of property and equipment destroyed	<u>325,228</u>
Extraordinary item	\$ <u>99,849</u>

(5) Investments in Business Ventures

A summary of the Company's investments in and earnings (loss) from business ventures as of December 31, 1979 and 1978 follows:

	<u>Investment</u>		<u>Earnings (loss)</u>	
	<u>1979</u>	<u>1978</u>	<u>1979</u>	<u>1978</u>
Kodiak Island Seafoods, Inc.	\$ 350,000	350,000	-	-
Koncor Forest Resource Management Company, a joint venture	(135,419)	(32,444)	(22,975)	(32,444)
Cape Chiniak Impact Center	60,517	65,589	2,727	-
Other	<u>2,500</u>	<u>2,500</u>	-	-
	\$ <u>277,598</u>	<u>285,645</u>	<u>(20,248)</u>	<u>(32,444)</u>

In 1977, the Company, through its wholly-owned subsidiary, WUF-1., entered into a joint venture agreement with wholly-owned subsidiaries of Cuzinkia Native Corporation and Natives of Kodiak, Incorporated. During 1979, YAK, Inc., a wholly-owned subsidiary of Yak-Tak-Kwan, Inc. was admitted to the joint venture. The joint venture, Koncor Forest Resource Management Company (Koncor), was formed for the purpose of managing harvesting and growing timber on lands owned or to be owned by the venturers.

(Continued)

LEISNOI, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

At December 31, 1979, Yak-Tat-Kwan, Inc., Natives of Kodiak, Incorporated and Ouzinkie Native Corporation had assigned timber rights to the joint venture valued at approximately \$190,800,000 based upon a mutually agreed to initial value of \$3,000 per forested acre. To date Lesnoi has not received title to any lands specified in the joint venture agreement.

However, the joint venture agreement provides for an "as if" computation and an estimate has been prepared as to the value of timber rights to be received by the Company and assigned to the joint venture. Based on this estimate, the Company has recognized in the current year its portion of the joint venture's losses of \$22,975. During 1978 the Company recognized its portion of the joint venture losses of \$21,524 and \$10,920 for 1978 and 1977, respectively.

The joint venture is to conduct a cruise within three years of the receipt of title to establish a revised valuation of timber rights assigned by each owner company. This valuation is to be used to retroactively adjust, to January 1, 1977, the related venturer's equity accounts.

(Continued)

LEISNOI, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Koncor's financial position at December 31, 1979 and 1978 and the results of its operations for the years then ended are presented in the following summary which was taken from audited financial statements which were accompanied by a qualified opinion due to the auditors' inability to determine the reasonableness of the valuation of timber rights.

Balance Sheets

	1979	1978
Assets:		
Cash	\$ 1,216,944	892,792
Timber rights	188,830,940	142,263,550
Other	205,505	213,476
	<u>\$ 190,253,389</u>	<u>143,371,318</u>
Liabilities and venturers' equity:		
Accounts payable and accrued expenses	9,526	10,796
Stumpage credits	97,144	-
Advanced royalty	-	175,000
Venturers' equity	<u>190,146,719</u>	<u>143,186,022</u>
	<u>\$ 190,253,389</u>	<u>143,371,318</u>

Statements of Revenues and Expenses

	1979	1978
Revenues	\$ 1,912,229	1,776,003
Expenses	<u>1,988,668</u>	<u>1,902,513</u>
Net loss.	<u>\$ 176,439</u>	<u>126,515</u>

In 1976, the Company entered into a joint venture with Konlag, Inc., a regional native corporation, and other village corporations in the Konlag region to develop a use for land and buildings at Cape Chinik, Alaska. The property was formerly used by the United States Air Force as a satellite tracking station.

(Continued)

LEISNOI, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

During 1978, the joint venture entered into a lease agreement with the United States Government for the use of the building facilities at Cape Chiniak. The lease provides for an initial twenty month term, commencing February 1, 1979 with options to renew for eight consecutive one-year periods. As full compensation for the lease, the joint venture received title to a hotel in New Jersey. During 1979 the joint venture sold the hotel which resulted in net cash proceeds to the joint venture of approximately \$180,000. The terms of the lease specify that the net cash proceeds are to be earned by the joint venture over the sixty month period beginning February 1, 1979.

Subsequent to year end, the government informed the joint venture that they would be terminating the lease effective September 30, 1980. It is anticipated that the joint venture will have to remit approximately \$120,000 of the cash received from the sale of the hotel to the government.

Management believes that all costs invested in the joint venture can be realized by selling timber on the land, which is not included in the joint venture financial statements.

A summary of the unaudited financial data of the joint venture as of and for the year ended December 31, 1979 follows:

<u>Balance Sheet</u>	1979 (unaudited)
Assets:	
Due from village participants	\$ 189,734
Deferred charges	1,046,386
	<u>\$ 1,236,140</u>
Liabilities and venturers' agents:	
Deferred lease income	134,866
Due to Koniag Incorporated	54,888
Venturers' equity	1,046,386
	<u>\$ 1,236,140</u>
<u>Statement of net earnings</u>	
Lease income	18,227
Interest income	5,353
	<u>\$ 23,580</u>

(Continued)

LEISNOI, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

A summary of the Company's liability to the joint venture at December 31, 1979 and 1978 follows:

	1979	1978
Currently due	\$ -	5,285
Long-term payable	12,521	20,220
Total	<u>\$ 12,521</u>	<u>25,505</u>

The company owns a 10% interest in Kodiak Island Seafoods, Inc. (KISI). A summary of KISI's balance sheet at March 31, 1979 and the statement of operations for the year then ended follows:

<u>Balance Sheet</u>	
Current assets	\$ 5,424,967
Other assets	1,328,772
Total assets	<u>\$ 6,753,739</u>
Current liabilities	4,337,862
Other liabilities	1,700,000
Stockholders' equity	715,877
Total liabilities and stockholders' equity	<u>\$ 6,753,739</u>
<u>Statement of Operations</u>	
Sales	\$ 5,414,485
Cost of sales	4,407,775
	<u>1,006,710</u>
Selling, administrative and other expenses, and income	1,173,505
Net loss	<u>\$ 166,795</u>

Management considers the decline in value of its investment to be of a temporary nature.

The Company has guaranteed a portion of KISI's long-term debt not to exceed \$280,000.

Financial statements for KISI are not currently available for the year ended March 31, 1980.

(Continued)

LEISNOI, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(6) Long-term Debt

A summary of long-term debt follows:

	<u>1979</u>	<u>1978</u>
Note payable to bank, due in 1980, interest at prime rate plus 1-1/2%, due quarterly beginning March 31, 1979; secured by assignment of 50% of future receipts from the Alaska Native Fund	\$ 350,000	350,000
8-3/4% mortgage note payable in monthly install- ments of \$142, including interest, through February 1988; secured by real property	-	10,753
Total long-term debt	<u>350,000</u>	<u>360,753</u>
Less current installments of long-term debt	<u>350,000</u>	<u>800</u>
Long-term debt, excluding current installments	\$ <u>-</u>	<u>359,953</u>

(7) Income Taxes

Funds received under provisions of the Act from the Alaska Native Fund are not subject to federal, state or local income taxes. Real property interests received pursuant to the Act are also not subject to income taxes; however, income derived from the real property interest and other operations of the Company are subject to federal, state and local income taxes.

The Company has available to reduce taxable earnings of future periods net operating loss carryforwards as follows:

<u>Year of expiration</u>	
1984	\$ 53,000
1985	352,000
1986	<u>240,000</u>
	\$ <u>645,000</u>

(Continued)

LEISNOI, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(9) Contingency

The Company is a defendant in litigation challenging the eligibility of Leisnoi as a village under the Act (note 1). On October 16, 1978, the United States District Court entered its judgment dismissing the action. The plaintiffs have subsequently filed a Notice of Appeal with the District Court appealing the case to the Ninth Circuit U. S. Court of Appeals where the case is now pending. The outcome of the appeal cannot be determined at this time.



Peat, Marwick, Mitchell & Co

Certified Public Accountants

Alaska Mutual Bank Building
601 West 5th Avenue, Suite 700
Anchorage, Alaska 99501

Board of Directors
Leisnoi, Inc.:

We have examined the consolidated balance sheets of Leisnoi, Inc. and subsidiary as of December 31, 1978 and the related consolidated statements of loss, stockholders' equity and changes in financial position for the year then ended. Except as explained in the following paragraph, our examination was 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 financial statements of Leisnoi, Inc. and subsidiary for the year ended December 31, 1977 were examined by other auditors, whose report dated March 4, 1978 was qualified, subject to the future receipt of cash and surface rights to land in amounts and at times which were either not determinable or were subject to change.

As discussed in note 4, the Company completed renovation of property located on Woody Island. The ultimate recoverability of the investment cannot be assured.

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles that contemplate continuation of the Company as a going concern; however, the Company is involved in litigation challenging its eligibility as a village under the Alaska Native Claims Settlement Act (note 9). Continuation as a going concern is dependent upon the outcome of this litigation, the resolution of which cannot be determined at this time.

Because of the uncertainties referred to in the two preceding paragraphs, we are unable to and do not express an opinion on the consolidated financial statements taken as a whole.

Peat, Marwick, Mitchell & Co

March 28, 1979

LEISNOI, INC.
AND SUBSIDIARY

Notes to Consolidated Financial Statements

(6) Long-term Debt

A summary of long-term debt follows:

	<u>1978</u>	<u>1977</u>
Note payable to bank, due upon demand or in November 1985, interest at prime plus 1-1/2%, due quarterly beginning March 31, 1979; secured by assignment of 50% of future receipts from the Alaska Native Fund	\$ 350,000	-
8-3/4% mortgage note payable in monthly installments of \$142, including interest, through February 1988; secured by real property with a depreciated cost of \$30,733	<u>10,753</u>	<u>11,144</u>
Total long-term debt	<u>360,753</u>	<u>11,144</u>
Less current installments of long-term debt	<u>800</u>	<u>771</u>
Long-term debt, excluding current installments	\$ <u>359,953</u>	<u>10,373</u>

(7) Income Taxes

Funds received under provisions of the Act from the Alaska Native Fund are not subject to federal, state or local income taxes. Real property interests received pursuant to the Act are also not subject to income taxes; however, income derived from the real property interest and other operations of the Company are subject to federal, state and local income taxes.

The Company has available to reduce taxable earnings of future periods net operating loss carryforwards as follows:

<u>Year of expiration</u>	
1984	\$ 13,252
1985	<u>219,792</u>
	\$ <u>233,044</u>

(Continued)

LEISNOI, INC.
AND SUBSIDIARY

Notes to Consolidated Financial Statements

Additionally, the Company has available to reduce taxes of future periods investment tax credit carryforwards as follows:

<u>Year of expiration</u>	
1982	\$ 68
1983	741
1985	<u>370</u>
	\$ <u>1,179</u>

(8) Development Stage Enterprise

In prior years, the Company was in a development stage and reported accordingly. A development-stage company is generally a corporation whose principal efforts are directed toward establishing a new business and planned principal operations have not commenced or have commenced but have not produced significant revenues.

(9) Contingency

The Company is a defendant in litigation challenging the eligibility of Leisnoi as a village under the Act (note 1). On October 16, 1978, the United States District Court entered its judgment dismissing the action. The plaintiffs have subsequently filed a Notice of Appeal with the District Court appealing the case to the Ninth Circuit U. S. Court of Appeals where the case is now pending. The outcome of the appeal cannot be determined at this time.

LEISNOI, INC.
AND SUBSIDIARY

Consolidated Statements of Loss
Years ended December 31, 1978 and 1977

	1978	1977
Revenues:		
Interest income	\$ 14,676	22,147
Rental income	14,092	3,350
Natural resource revenues received from other regions	-	3,574
Other	-	2,115
	<u>28,768</u>	<u>31,186</u>
Expenses:		
Legal	96,060	8,558
Land selection costs	37,500	3,574
Salaries and payroll taxes	33,642	7,796
Depreciation	13,247	1,919
Utilities	12,731	546
Insurance	11,584	3,970
Auditing and consulting fees	7,498	3,165
Board of Directors:		
Fees	6,675	7,600
Travel and per diem	6,004	7,587
Interest	6,598	747
Repairs and maintenance	5,468	2,804
Other travel	4,191	-
Rent	2,318	2,314
Office supplies	1,659	272
Taxes and licenses	1,270	-
Advertising	754	513
Annual meeting	-	2,080
Other	1,199	2,229
	<u>248,398</u>	<u>55,674</u>
Share of losses of investees (note 5)	32,444	-
Loss on sale of equipment	162	-
Net loss	\$ <u>252,236</u>	<u>24,488</u>

See accompanying notes to consolidated financial statements.

LEISNOI, INC.
AND SUBSIDIARY

Consolidated Statements of Stockholders' Equity
Years ended December 31, 1978 and 1977

	1978	1977
Paid-in capital:		
Balance at beginning of year	\$ 1,724,269	1,753,769
Increase due to distribution of 19(B) reserves	44,602	-
Stockholder distribution	(29,500)	(29,500)
Balance at end of year	\$ <u>1,739,371</u>	<u>1,724,269</u>
Deficit:		
Balance at beginning of year	14,269	(10,219)
Net loss for the year	252,236	24,488
Balance at end of year	\$ <u>266,505</u>	<u>14,269</u>

See accompanying notes to consolidated financial statements.

LEISNOI, INC.
AND SUBSIDIARY

Notes to Consolidated Financial Statements

(5) Investments in Business Ventures

The following is a summary of the Company's investments in business ventures:

	<u>1978</u>	<u>1977</u>
Kodiak Island Seafoods, Inc.	\$ 350,000	-
Koncor Forest Resource Management Company, a joint venture	(32,444)	-
Cape Chiniak Impact Center	65,589	60,304
Other	<u>2,500</u>	<u>-</u>
	<u>\$ 385,645</u>	<u>60,304</u>

In 1977, the Company, through its wholly-owned subsidiary, WUF-1 Inc., entered into a joint venture agreement with wholly-owned subsidiaries of Ouzinkie Native Corporation and Natives of Kodiak, Incorporated. The joint venture, Koncor Forest Resource Management Company (Koncor), was formed for the purpose of managing, harvesting and growing timber on lands owned or to be 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.

At December 31, 1978, Natives of Kodiak, Incorporated and Ouzinkie Native Corporation had assigned timber rights to the joint venture valued at \$146,700,000 based upon a mutually agreed to initial value of \$3,000 per forested acre. To date the Company has not received title to any lands specified in the joint venture agreement.

However, the joint venture agreement provides for an "as if" computation and an estimate has been prepared as to the value of timber rights to be received by the Company and assigned to the joint venture. Based on this estimate, the Company has recognized in the current year its portion of the joint venture's losses of \$21,524 and \$10,920 for 1978 and 1977, respectively.

The joint venture is to conduct a cruise within three years of the receipt of title to establish a revised valuation of timber rights assigned by each owner company. This valuation is to be used to retroactively adjust, to January 1, 1977, the related venturer's equity accounts.

(Continued)

LEISNOI, INC.
AND SUBSIDIARY

Notes to Consolidated Financial Statements

Koncor's financial position at December 31, 1978 and 1977 and the results of its operations for the periods then ended are presented in the following summary which was taken from audited financial statements which were accompanied by a qualified opinion due to the auditors' inability to determine the reasonableness of the valuation of timber rights.

Balance Sheets

	<u>1978</u>	<u>1977</u>
Assets:		
Cash	\$ 892,792	319,374
Timber rights	142,263,550	79,908,000
Other	<u>215,476</u>	<u>56,152</u>
	<u>\$ 143,371,818</u>	<u>80,283,526</u>
Liabilities and venturers' equity:		
Accounts payable and accrued expenses	10,796	10,279
Deferred sales proceeds	-	179,483
Advanced royalty	175,000	250,000
Venturers' equity	<u>143,186,022</u>	<u>79,843,764</u>
	<u>\$ 143,371,818</u>	<u>80,283,526</u>

Statements of Revenues and Expenses

	<u>1978</u>	<u>1977</u>
Revenues	\$ 1,776,003	6,971
Expenses	<u>1,902,618</u>	<u>71,207</u>
Net loss	<u>\$ 126,615</u>	<u>64,236</u>

In 1976, the Company entered into a joint venture with Koniag, Inc., a regional native corporation, and other village corporations in the Koniag region to develop a use for land and buildings at Cape Chiniak, Alaska. The property was formerly used by the United States Air Force as a satellite tracking station.

(Continued)

LEISNOI, INC.
AND SUBSIDIARY

Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant intercompany transactions have been eliminated in consolidation.

Depreciation

Depreciation of furniture and equipment is provided over their estimated useful lives of three to twenty years using the straight-line method.

Investments in Business Ventures

The Company's investments are stated at cost less the Company's share of losses since acquisition or net realizable value, except for the 10% investment in Kodiak Island Seafoods, Inc. (KISI) which is stated at cost.

Resource Revenue Distributions

Resource revenues distributable to the Company under the terms of the Act are recorded when the amount thereof is determined and its receipt is reasonably assured.

(2) Pooled Investments

The following is a summary of pooled investment activity for the Company for the period April 20, 1973 (inception) through December 31, 1978:

Receipts from Alaska Native Fund	\$ 721,686	
Investment income	100,641	
Resource revenues	<u>3,574</u>	
	825,901	
Less:		
Withdrawals	\$ 831,681	
Stockholder overpayments	<u>15,102</u>	<u>846,783</u>
Net overdraw, included in due to Koniag, Inc.		\$ <u>20,882</u>

These funds are held in trust by Koniag, Inc. and are invested in time certificates of deposit and federal and corporate obligations.

(Continued)

LEISNOI, INC.
AND SUBSIDIARY

Notes to Consolidated Financial Statements

(3) Alaska Native Fund Receivable

As discussed in note 1, the Company is to receive a proportionate share of future distributions from the Alaska Native Fund. A summary of amounts and anticipated year of receipt is as follows:

1979	\$ 187,000
1980	171,904
1981	216,006
1982	200,954
1983	203,594
1984	<u>97,227</u>
	\$ <u>1,076,685</u>

The above estimates are based upon the schedule of federal appropriations as provided for in the Act and the State of Alaska's projected receipt of state mineral royalties and stockholders' eligibility as of December 29, 1978.

(4) Buildings, Furniture and Equipment

A summary of buildings, furniture and equipment follows:

	<u>1978</u>	<u>1977</u>
Buildings	\$ 372,574	32,341
Furniture and equipment	<u>30,688</u>	<u>22,524</u>
	\$ <u>403,262</u>	<u>55,065</u>

In 1975, the Company received a permit from the United States Government granting them all the rights and privileges of ownership of property located on Woody Island. The permit is valid until such time as the Company receives interim conveyance. The value of the subject property has not been determined, and accordingly it is not recorded in the financial statements.

During 1978, the Company completed the renovation of several duplexes and a water and sewer treatment plant located on Woody Island. Approximately \$352,000 has been invested in the project, the purpose of which is to provide housing on the island.

(Continued)

LEISNOI, INC.
AND SUBSIDIARY

Consolidated Statements of Changes in Financial Position

Years ended December 31, 1978 and 1977

	1978	1977
Sources of working capital:		
Proceeds from long-term borrowings	\$ 350,000	11,269
Receipts and change in amounts receivable from the Alaska Native Fund within one year	182,569	124,548
Proceeds from sale of equipment, net of loss of \$162	1,863	-
Increase in contributed capital due to change in enrollment	44,602	-
Total sources of working capital	<u>579,034</u>	<u>135,817</u>
Uses of working capital:		
Net loss	252,236	24,488
Less items which do not use working capital:		
Depreciation	13,247	1,919
Share of losses of investees	32,444	-
Working capital used by operations	<u>206,545</u>	<u>22,569</u>
Increase in receivable from Alaska Native Fund	44,602	-
Increase in long-term receivables	14,708	-
Additions to buildings and equipment	122,114	165,022
Current installments and repayment of long-term debt	420	896
Distribution to stockholders	29,500	29,500
Increase in long-term investments	357,785	26,158
Total uses of working capital	<u>775,674</u>	<u>244,145</u>
Decrease in working capital	\$ <u>196,640</u>	<u>108,328</u>
Changes in components of working capital:		
Increase (decrease) in current assets:		
Cash	301,515	37,663
Time certificates of deposit	200,000	-
Investments	(220,837)	(191,847)
Receivables	53,288	64,753
Prepaid insurance	12	732
Other	(3,438)	3,579
	<u>330,540</u>	<u>(85,120)</u>
Increase (decrease) in current liabilities:		
Notes payable	95,000	-
Current installments of long-term debt	29	771
Accounts payable	(34,361)	24,361
Due to Kodiak Island Seafoods, Inc.	350,000	-
Due to Koniag, Inc.	115,354	-
Other accrued expenses	1,158	(1,924)
	<u>527,180</u>	<u>23,208</u>
Decrease in working capital	\$ <u>196,640</u>	<u>108,328</u>

See accompanying notes to consolidated financial statements.

LEISNOI, INC.
AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 1978 and 1977

(1) History and Significant Accounting Policies

History

Leisnoi, Inc. (Company) was incorporated pursuant to the Alaska Native Claims Settlement Act (Act), which resolved the Alaska native land claims. Under the provisions of the Act, the natives and various regional and village corporations are to receive distributive shares in the settlement which includes 40,000,000 acres of land and cash totaling \$962,500,000 (Alaska Native Fund).

Management estimates that the Company's share of distributions received and to be received under the Act will be approximately \$1,800,000 and the surface estate of approximately 115,200 acres of land. The regional corporation within whose designated boundaries the Company is located will receive title to the subsurface estate of this land.

In addition to the basic settlement under the Act, as described above, under Section 7(1), regional corporations organized pursuant to the Act are required to distribute certain portions of any revenues derived from timber resources and the subsurface estate patented to such corporations. The Company will share in such distributed revenues to the extent of .3835%. At December 31, 1978, amounts due the Company from these sources, if any, have not been determined and are therefore not recorded in the accompanying financial statements.

The authorized capital stock of the Company consists of 25,000 shares of non-assessable common stock with \$1 par value. As of December 31, 1978, no stock had been issued. Based upon the December 29, 1978 enrollment, the Company will be required to issue 2,950 shares. The Articles of Incorporation will be amended to accommodate this requirement.

Distributions received by the Company as of December 31, 1978 have been based upon stockholder eligibility as compiled by the United States Department of Interior at December 29, 1978. These figures are subject to further revision.

Under the provisions of the Act, for the period of twenty years from December 18, 1971, the stock issued, dividends to be paid or other stock rights may not be sold, pledged, assigned or otherwise alienated except in certain circumstances by court decree or by death. For the twenty year period, the stock shall carry voting rights only if the holder thereof is an eligible Alaska native.

(Continued)

LEISNOI, INC.
AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 1978 and 1977

<u>Assets</u>	<u>1978</u>	<u>1977</u>	<u>Liabilities and Stockholders' Equity</u>	<u>1978</u>	<u>1977</u>
Current assets:			Current liabilities:		
Cash	\$ 354,445	52,930	Notes payable	\$ 55,000	-
Time certificate of deposit	200,000	-	Current installments of long-term debt (note 6)	800	771
Investments, plus accrued interest, at cost, which approximates market (note 2)	-	220,837	Accounts payable	3,257	11,858
Receivables:			Due to Koniag, Inc. (note 2)	115,354	-
Alaska Native Fund, to be received within one year (note 3)	187,000	120,913	Due to joint venture (note 5)	5,285	31,045
Accrued interest	2,930	-	Due to Kodiak Island Seafoods, Inc. (note 5)	350,000	-
Income tax refund	326	2,347	Other accrued expenses	1,672	514
Due from stockholders	-	13,708	Total current liabilities	<u>571,368</u>	<u>44,188</u>
Total receivables	<u>190,256</u>	<u>136,968</u>			
Prepaid insurance	5,254	5,242	Long-term debt, excluding current installments (note 6)	359,953	10,373
Other	141	3,579	Due to joint venture (note 5)	20,220	20,219
Total current assets	<u>750,096</u>	<u>419,556</u>			
Construction in progress	-	230,072			
Buildings, furniture and equipment, at cost (note 4)	403,262	55,065	Stockholders' equity (note 3):		
Less accumulated depreciation	18,989	7,869	Common stock of \$1 par value. Authorized 25,000 shares; none issued	-	-
Net buildings, furniture and equipment	<u>384,273</u>	<u>47,196</u>	Paid-in capital	1,739,371	1,724,269
Alaska Native Fund, excluding amounts to be received within one year (note 3)	889,685	1,027,652	Deficit	266,505	14,269
Investments (note 3)	385,645	60,304	Total stockholders' equity	<u>1,472,866</u>	<u>1,710,000</u>
Due from stockholders	13,708	-			
Other	1,000	-	Contingency (note 9)		
	<u>\$ 2,424,407</u>	<u>1,784,780</u>		<u>\$ 2,424,407</u>	<u>1,784,780</u>

See accompanying notes to consolidated financial statements.

LEISNOI, INC.
AND SUBSIDIARY

Notes to Consolidated Financial Statements

The agreement provides for ownership based on proportionate stockholder enrollment as follows:

Koniag, Inc.	50.0%
Natives of Kodiak, Inc.	10.3
Afognak Natives, Inc.	7.9
Natives of Akhiok, Inc.	1.9
Karluk Native Corporation	3.7
Nu-Nachk-Pit, Inc.	4.0
Old Harbor Native Corporation	6.6
Ouzinkie Native Corporation	6.6
Port Lions Native Corporation	2.2
Leisnoi, Inc.	5.8
Kaguyak, Inc.	<u>1.0</u>

100.0%

During 1978, the joint venture entered into a lease agreement with the United States Government for the use of the building facilities at Cape Chiniak. The term of the lease is to be for the period February 1, 1979 to September 30, 1980 with options to renew for eight (8) consecutive one-year terms. The joint venture is to receive title to a hotel located in New Jersey as full payment of rent for the primary term of the lease and any option periods exercised by the government.

Management believes that all costs invested in the joint venture can be realized by selling timber on the land.

A summary of the Company's liability to the joint venture at December 31, 1978 and 1977 follows:

	<u>1978</u>	<u>1977</u>
Currently due	\$ 5,285	31,045
Long-term payable	<u>20,220</u>	<u>20,219</u>
Total	<u>\$ 25,505</u>	<u>51,264</u>

During 1978, the Company entered into an agreement with KISI to purchase 100,000 shares of KISI stock at \$3.50 per share. As of December 31, 1978 the Company had made no payments toward the aforementioned commitment. Accordingly, a \$350,000 current liability is reflected on the balance sheet. The investment represents a 10% ownership interest in KISI.

(Continued)

LEISNOI, INC.
AND SUBSIDIARY

Notes to Consolidated Financial Statements

A summary of KISI's balance sheet at March 31, 1979 and the statement of operations for the year then ended follows:

Balance Sheet

Current assets	\$ 5,424,967
Other assets	<u>1,328,772</u>
Total assets	\$ <u>6,753,739</u>
Current liabilities	4,337,862
Other liabilities	1,700,000
Stockholders' equity	<u>715,877</u>
Total liabilities and stockholders' equity	\$ <u>6,753,739</u>

Statement of Operations

Sales	\$ 5,414,485
Cost of sales	<u>4,407,775</u>
	1,006,710
Selling, administrative and other income and expenses	<u>1,173,505</u>
Net loss	\$ <u>166,795</u>

The Company has guaranteed a portion of KISI's long-term debt not to exceed \$280,000.

(Continued)

NU-NACHK PIT, INC.

COOPERS & LYBRAND

CERTIFIED PUBLIC ACCOUNTANTS

IN FINANCIAL AREAS
OF THE WORLD

The Stockholders
Nu-Nachk Pit, Inc.
Larsen Bay, Alaska

We have examined the balance sheets of Nu-Nachk Pit, Inc. as of December 31, 1979 and 1978, and the related statements of operations, stockholders' equity and changes in financial position for the three years ended December 31, 1979. 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. With respect to the Company's investment in Kodiak Island Seafoods, Inc. (KISI), reflecting an excess of equity in losses over cost of investment of \$82,372 at December 31, 1979, and equity in net loss of \$38,596 and \$385,960 for the years ended December 31, 1979 and 1978, respectively, we have received the reports of other independent public accountants on their examinations of financial statements of KISI for the years ended March 31, 1979 and 1978. Our opinion expressed herein, insofar as it relates to the amounts included for such investee, is based solely upon the reports of other auditors.

As discussed in Note 3, the value of surface rights in land to be received cannot be determined. Also, as discussed in Note 6, the Company's interest in the redistribution of revenues under Section 7(1) of the Act cannot be determined until litigation concerning the computation thereof is settled. Any of these items could create material changes in the financial statements.

In our opinion, based upon our examinations and the reports of other independent auditors referred to above and subject to the effects on the financial statements of the matters discussed in the preceding paragraph, the aforementioned financial statements present fairly the financial position of Nu-Nachk Pit, Inc. at December 31, 1979 and 1978, and the results of its operations and the changes in financial position for the three years ended December 31, 1979, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

Anchorage, Alaska
May 7, 1980

NU-NACHIK PIT, INC.

BALANCE SHEETS, December 31, 1979 and 1978

ASSETS	1979	1978
Current:		
Cash	\$ 7,576	\$ 1,364
Receivables:		
Stockholders	8,260	8,260
Current portion of ANCSA monies		
receivable (Notes 3 and 10)	561,633	112,666
Refundable income taxes	108	210
Other	2,578	2,697
Investments consisting of time certificates		
of deposit and federal and corporate		
obligations; held in trust by Koniag, Inc.,		
Regional Native Corporation; at cost		
plus accrued interest; approximates market		
(Notes 2 and 7)	272,717	142,964
Total current assets	852,872	268,161
ANCSA monies receivable, less current		
portion (Notes 3 and 10)	39,037	615,977
Investment in joint venture (Note 9)	41,504	44,659
Office furniture and equipment, at cost		
less accumulated depreciation of		
\$1,498 in 1979 and \$1,198 in 1978 (Note 2)	145	445
Assets in amounts to be determined		
(Notes 3 and 6)		
	<u>\$933,558</u>	<u>\$ 929,242</u>

LIABILITIES	1979	1978
Current:		
Accounts payable:		
Koniag, Inc., land selection costs	\$ 13,925	\$ 24,994
(Note 10)	27	422
Koniag, Inc., other	8,412	3,071
Joint venture (Note 9)	4,608	1,369
Other		
Total current liabilities	26,972	29,856
Accounts payable, joint venture (Note 9)		13,944
Excess of equity in losses over investment in		
affiliated company (Note 9)	82,372	43,776
Commitments (Notes 8, 9 and 10)		
STOCKHOLDERS' EQUITY		
Common stock, \$1 par value, 2,500 shares		
authorized, 2,030 shares to be issued		
(Note 5)		
Contributed capital (Notes 2 and 3)	1,225,261	1,225,261
Retained earnings (deficit)	(401,047)	(383,595)
	<u>824,214</u>	<u>841,666</u>
	<u>\$ 933,558</u>	<u>\$ 929,242</u>

The accompanying notes are a part
of the financial statements.

STATEMENTS OF STOCKHOLDERS' EQUITY
for the years ended December 31, 1979, 1978 and 1977

CONTRIBUTED CAPITAL (Notes 2 and 3)	1979	1978	1977
Balance, beginning of period	\$1,225,261	\$1,207,404	\$1,207,404
Adjustment for settlement of Section 19B reserves		17,857	
Balance, end of period	<u>\$1,225,261</u>	<u>\$1,225,261</u>	<u>\$1,207,404</u>

RETAINED EARNINGS (DEFICIT)	1979	1978	1977
Balance (deficit), beginning of period	\$ (383,595)	\$ 37,861	\$ (2,959)
Net income (loss) for period	<u>(17,452)</u>	<u>(421,456)</u>	<u>40,820</u>
Balance (deficit), end of period	<u>\$ (401,047)</u>	<u>\$ (383,595)</u>	<u>\$ 37,861</u>

The accompanying notes are a part
of the financial statements.

(3)

STATEMENTS OF OPERATIONS
for the years ended December 31, 1979, 1978 and 1977

	1979	1978	1977
Revenues:			
Interest income	\$ 17,276	\$ 14,603	\$11,546
Natural resource monies received from other regions (7(i) income) (Note 6)	<u>13,651</u>	<u></u>	<u>2,459</u>
	<u>30,927</u>	<u>14,603</u>	<u>14,005</u>
Expenses:			
Board of Directors:			
Per diem	680	1,336	1,307
Management contract fees	800	3,600	
Land selection costs (Note 10)	<u>4,077</u>	<u>37,500</u>	<u>2,459</u>
Administrative:			
Professional fees	4,580	5,418	5,697
Travel	266	1,389	1,031
Office supplies	444	209	201
Depreciation	300	299	299
Amortization		149	180
Licenses and other taxes	50	150	175
Insurance	337		
Miscellaneous	120	49	407
Annual meetings		<u>100</u>	<u>175</u>
	<u>11,654</u>	<u>50,199</u>	<u>11,931</u>
Income (loss) from operations	19,273	(35,596)	2,074
Equity in income of joint venture (Note 9)	1,871		
Equity in income (loss) of affiliated company (Note 9)	<u>(38,596)</u>	<u>(385,960)</u>	<u>38,846</u>
Income (loss) before income taxes	(17,452)	(421,556)	40,920
Refundable (provision for) income taxes (Note 4)		<u>100</u>	<u>(100)</u>
Net income (loss)	<u>\$ (17,452)</u>	<u>\$ (421,456)</u>	<u>\$40,820</u>

The accompanying notes are a part
of the financial statements.

(4)

STATEMENTS OF CHANGES IN FINANCIAL POSITION

for the years ended December 31, 1979, 1978 and 1977

	1979	1978	1977
Sources (uses) of working capital:			
Operations:			
Net income (loss)	\$ (17,452)	\$ (421,456)	\$ 40,820
Items not affecting working capital:			
Depreciation and amortization	300	448	479
Equity in (income) loss of business ventures	<u>36,725</u>	<u>385,960</u>	<u>(38,846)</u>
Working capital provided by (used in) operations	19,573	(35,048)	2,453
Decrease in long-term receivable, less current maturities	576,940	91,812	84,511
Contributed capital received or to be received from Alaska Native Fund		17,857	
Decrease (increase) in investments in business ventures	5,026	(108,070)	(18,040)
Decrease in long-term accounts payable	<u>(13,944)</u>		
Increase (decrease) in working capital	<u>\$587,595</u>	<u>\$ (33,449)</u>	<u>\$68,924</u>
Changes in components of working capital which increased (decreased) working capital:			
Cash	\$ 6,212	\$ 394	\$ (1,117)
Receivables	448,746	29,722	44,356
Investments	129,753	(60,540)	41,564
Land selection costs payable	11,069	(24,994)	
Accounts payable	(8,185)	21,869	(15,779)
Income tax payable		100	(100)
Increase (decrease) in working capital	<u>\$587,595</u>	<u>\$ (33,449)</u>	<u>\$68,924</u>

The accompanying notes are a part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

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

The Act entitles Alaska Natives to 44 million acres of land and monies totaling \$962,500,000. The monies, \$462,500,000 from 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, will be deposited with the United States Treasury in the Alaska Native Fund in accordance with Section 6 of the Act.

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

Enrollees to regional and village corporations become shareholders of such corporations and are required to be Alaska Natives as defined in the Act. Under Section 6, monies provided by the Act are distributed from the Alaska Native Fund to the regional corporations based on enrollment percentages. Land provided by the Act is allocated to the regional areas based on a formula which includes both enrollment and land area. All subsurface rights in the land will vest with the regional corporations, while surface rights will be allocated between regional and village corporations.

Section 7(i) of the Act provides that 70 percent of revenues received by each regional corporation from timber resources and subsurface estate patented to it under the Act shall be divided annually among the twelve Alaska regional corporations in proportion to the number of enrollees in each (Note 6).

Section 7(j) of the Act requires that, five years after enactment (December 18, 1971), each regional corporation must distribute not less than 50 percent of funds received under Sections 6 and 7(i) to the village corporations in its region and to its at-large shareholders.

NOTES TO FINANCIAL STATEMENTS, Continued

2. Incorporation and Accounting Policies:

Nu-Nachk Pit, Inc. was incorporated on October 19, 1973 as a village corporation pursuant to provisions of the Act.

The Company is subject to certain controls by Koniag, Inc., a regional corporation organized under the Act. The Act provides, among other things, that:

- a) Funds allocated to a village corporation may be withheld until the corporation has submitted a plan for use of the money that is satisfactory to the regional corporation. The regional corporation may require a village to enter joint ventures with other village corporations and jointly finance projects undertaken by the regional corporation that will benefit the region generally. In the event of disagreement over provisions of the plan, issues in disagreement shall be submitted to arbitration as shall be provided for in the articles of incorporation of the regional corporation.
- b) For a period of ten years after the date of enactment of the Act, the regional corporation shall be afforded the opportunity to review and render advice to village corporations on all land sales, leases or other transactions prior to any final commitment.

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

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

Expenses of selecting land under the Act are charged to operations as incurred.

Continued

NOTES TO FINANCIAL STATEMENTS, Continued

2. Incorporation and Accounting Policies, Continued:

Office furniture and fixtures are recorded at cost and depreciated using the straight-line method.

Investment tax credits are reflected in operations on the "flow-through method".

The equity method of accounting is used for investments owned 20 to 50 percent. Under this method, the Company reports currently its share of the investee's income or losses, see Note 9.

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

The Company's share of the monies has been included in the financial statements on the assumption that Koniag, Inc. (regional corporation related to the Company) will receive 4.247 percent of the total (see Note 1). This is the percentage of enrollment in the Koniag region to the total enrollment of all 13 regions (3,328 to 78,361). The Company's share is the percentage of the Company's enrollees to total enrollees of Koniag region.

The Company estimates it will receive \$561,633 of these monies in 1980 and \$39,037 in 1981.

In addition to the monies discussed above, the Company will receive surface rights to 115,200 acres of land, subsurface rights being owned by Koniag, Inc., Regional Native Corporation. Such land will be recorded at fair value when interim conveyances are received or when fair values have been determined, whichever event occurs later. As of December 31, 1979, the Company has received interim conveyance to 72,144 acres; fair value has not been determined for this acreage. The value of surface rights are considered by management to be material to the financial statements. Further, the Company may be eligible for an interest in additional land under Section 12(b) of the Act (see Note 8).

Monies and land received or to be received are considered to be contributed capital and are shown as such in the financial statements.

NOTES TO FINANCIAL STATEMENTS, Continued

4. Income and Property Taxes:

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

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

Income derived from real property interests and from investments and operations of the Company are subject to applicable Federal, state and local taxation.

The Company did not provide taxes in 1977 which would have been payable if undistributed earnings of its affiliated company were remitted because the Company considered these earnings to be invested in the affiliate for an indefinite period.

At December 31, 1979, the Company has a net operating loss carryforward of \$13,651 for federal income tax purposes available to reduce future taxable income, if any, expiring in 1985.

5. Capital Stock:

As provided in the articles of incorporation, ten shares of common stock are to be issued to each Native enrolled to the Company. No shares have been issued as of December 31, 1979, although 203 qualified individuals have been recorded as stockholders in the Company's records for voting purposes and to establish a distribution roll.

For a period of twenty years from December 18, 1971, stock dividends paid or other stock rights are restricted pursuant to the Act. Such stock may not be sold, pledged, assigned or otherwise alienated except in certain circumstances by court decree or by death. For the twenty year period stock shall carry voting rights only if the holder thereof is an eligible Native. On January 1, 1992 all stock previously issued shall be deemed to be cancelled and shares of stock will be issued to each stockholder of record, without restriction, share for share.

NOTES TO FINANCIAL STATEMENTS, Continued

6. Assets in Amounts to be Determined:

As indicated in Note 1, Section 7(i) of the Act provides that certain resource revenues received by regional corporations are subject to redistribution to all of the Alaskan regional corporations. This Section of the Act is the subject of litigation to determine the method of computing redistributable amounts. The Company's interest in such redistribution cannot be determined until such litigation is settled. To date, the Company has received \$16,110 of Section 7(i) revenues.

It is management's opinion that Section 7(i) monies to be received may be material to its financial statements.

7. Investments:

Investments in securities consist of the Company's financial interest in the net assets of a joint investment account formed for the benefit of village corporations in the Koniag region. Amounts received under Section 6 of the Act by Koniag, Inc., Regional Native Corporation in trust for subsequent distribution to village corporations have been deposited in the joint investment account. The village investment account is controlled by Koniag, Inc.

8. Projects:

The Company has entered into an agreement with other Koniag area village corporations whereby all lands allocated under Section 12(b) of the Act (commonly called "second round selections") by Koniag, Inc., Regional Native Corporation will be held in trust and income from such lands will be divided based on village corporation populations. Further, the Company is committed for future expenditures under this agreement for a project at Cape Chiniak (Note 9).

NOTES TO FINANCIAL STATEMENTS, Continued

9. Investments in Business Ventures:

The following is a summary of the Company's investments in business ventures:

Joint Venture

	<u>1979</u>	<u>1978</u>
Cape Chiniak Impact Center Joint Venture, 4% equity interest:		
Investment at December 31	\$41,504	\$44,659
Equity in income for the period	1,871	
Related accounts payable:		
Current	8,412	3,071
Noncurrent		13,944

During 1976, the Company entered into a joint venture with Koniag, Inc., Regional Native Corporation and other village corporations in the Koniag region to develop a use for Cape Chiniak. Such lands were formerly used by the United States Air Force as a satellite tracking station. Management considers the facility to have multiple use potential.

The agreement gives Koniag, Inc., Regional Native Corporation a 50 percent income interest in the joint venture and its properties, with the remaining 50 percent interest being divided among the village corporations in proportion to the number of stockholders enrolled except for rentals of real property which are for the account of the village venturers in their entirety. The Company presently retains a 4.0 percent income interest in the Cape Chiniak joint venture.

Affiliated Company

	<u>1979</u>	<u>1978</u>	<u>1977</u>
Kodiak Island Seafoods, Inc.:			
Cost of investment	\$305,000	\$ 305,000	\$200,000
Equity in income (losses) since acquisition	<u>(387,372)</u>	<u>(348,776)</u>	<u>37,184</u>
Balance, end of year (excess of equity in losses over cost of investments, 1979 and 1978)	<u>\$(82,372)</u>	<u>\$(43,776)</u>	<u>\$237,184</u>
Equity in income (loss) for the period (1)	<u>\$(38,596)</u>	<u>\$(385,960)</u>	<u>\$ 38,846</u>

Continued

(11)

NOTES TO FINANCIAL STATEMENTS, Continued

9. Investments in Business Ventures, Continued:

Affiliated Company, Continued

- (1) Based on the Company's 23.14% equity interest in KISI's net loss of \$166,795 for the fiscal year ended March 31, 1979; and the Company's 33.33% equity interest in KISI's net loss of \$1,157,879 for fiscal year 1978 and their net income of \$116,517 for fiscal year 1977. It is estimated that KISI's fiscal 1980 loss will approximate \$1,192,000, resulting in a stockholders' deficit in that corporation approximating \$426,000 at March 31, 1980.

In 1975, the Company acquired 200,000 shares of common stock of Kodiak Island Seafoods, Inc. (KISI), a new corporation formed by the Company and two other Koniag region village corporations, for \$200,000. KISI operates a cannery, fishing vessels and a store located in Larsen Bay, Alaska.

In December 1978, the Company acquired 30,000 additional shares (of a 400,000 share offering by KISI) for \$105,000, reducing the Company's equity interest in KISI from 33-1/3% to 23%. Koniag, Inc. and Leisnoi Native Corporation (previously not shareholders of KISI) acquired 234,000 and 100,000 shares, respectively, of the 1978 offering.

The Company has guaranteed short-term loans of KISI with a bank in an amount not to exceed \$5,000,000 (\$1,498,798 outstanding at December 31, 1979). The Company has also guaranteed 23% of up to \$2.8 million in loans to KISI by another bank (\$2,016,000 of loans outstanding at December 31, 1979), pledging its assets as collateral.

Effective in May 1980 the Company, together with the other investors in KISI, guaranteed up to \$10 million in loans to KISI by two other banks for which the Company is jointly and severally liable.

10. Land Selection Costs:

Koniag, Inc. billed the Company \$4,077 in 1979, \$37,500 in 1978 and \$2,459 in 1977, for land selection costs incurred in assisting the Company in its selection of lands to be received under the Act (Notes 1 and 3). The unpaid balance will be repaid by allocating 25 percent of future ANCSA monies distributed to the Company.

(12)

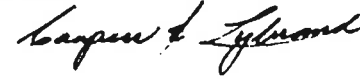
OLD HARBOR NATIVE CORPORATION

COOPERS & LYBRAND

CERTIFIED PUBLIC ACCOUNTANTS

IN PRINCIPAL AREAS
OF THE WORLD

the results of its operations and the changes in its financial position for the years ended December 31, 1979, 1978 and 1977 in conformity with generally accepted accounting principles applied on a consistent basis.



The Stockholders
Old Harbor Native Corporation
Old Harbor, Alaska

Anchorage, Alaska
April 6, 1980

We have examined the balance sheets of Old Harbor Native Corporation as of December 31, 1979 and 1978, and the related statements of operations, stockholders' equity and changes in financial position for the years ended December 31, 1979, 1978 and 1977. 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. With respect to the Company's investment in Kodiak Island Seafoods, Inc. (KISI), reflecting an excess of equity in losses over cost of investment of \$82,372 at December 31, 1979, and equity in net loss of \$38,596 and \$385,960 for the years ended December 31, 1979 and 1978, respectively, we have received the reports of other independent public accountants on their examinations of financial statements of KISI for the years ended March 31, 1979 and 1978. Our opinion expressed herein, insofar as it relates to the amounts included for such investee, is based solely upon the reports of other auditors.

As discussed in Note 3, the value of surface rights in land to be received cannot be determined. Also, as discussed in Note 6, the Company's interest in the redistribution of revenues under Section 7(i) of the Act cannot be determined until litigation concerning the computation thereof is settled. As discussed in Note 11, the Company has made no provision for any liability for unpaid costs claimed by a consulting firm in connection with a proposed seafood processing plant project which was terminated by the Company. Accordingly, the ultimate resolution of this matter is uncertain. Any of these items could create material changes in the financial statements.

In our opinion, based upon our examination and the reports of other independent auditors referred to above and subject to the effects on the financial statements of the ultimate resolution of matters discussed in the preceding paragraph, the aforementioned financial statements present fairly the financial position of Old Harbor Native Corporation at December 31, 1979 and 1978 and

OLD HARBOR NATIVE CORPORATION
(BALANCE SHEETS, December 31, 1979 and 1978)

ASSETS	1979	1978	LIABILITIES	1979	1978
Current:			Current:		
Cash	\$ 108,143	\$ 65,800	Accounts payable:		
Investments consisting of time certificates of deposit and federal and corporate obligations; held in trust by Koniag, Inc., Regional Native Corporation; at cost plus accrued interest; approximates market (Notes 2 and 7)	403,923	374,129	Joint venture (Note 9)	\$ 13,891	\$ 5,064
Receivables:			Koniag, Inc., land selection costs (Note 10)	4,681	16,924
Current portion of ANCSA monies receivable (Notes 3 and 10)	922,672	185,372	Koniag, Inc., other	2,527	447
Other	1,030	100	Accrued and withheld payroll taxes	612	1,023
Total current assets	1,435,768	625,401	Total current liabilities	21,711	23,458
ANCSA monies receivable, less current portion (Notes 3 and 10)	64,132	1,013,479	Account payable, joint venture (Note 9)		23,008
Note receivable, City of Old Harbor	12,513	12,513	Excess of equity in losses over investment in affiliated company (Note 9)	82,372	43,776
Investment in joint venture (Note 9)	68,492	73,685	Commitments (Notes 8, 9 and 10)		
Furniture and equipment, at cost (Note 2)	8,627	3,587	Contingencies (Note 11)		
Less accumulated depreciation	(3,064)	(2,698)			
Assets in amounts to be determined (Notes 3 and 6)					
			STOCKHOLDERS' EQUITY		
			Common stock, \$1 par value, authorized 2,600 shares, 3,350 to be issued (Note 5)	2,015,946	2,015,946
			Contributed capital (Notes 2 and 3)	(533,561)	(380,221)
			Retained earnings (deficit)	1,482,385	1,635,725
				\$1,586,468	\$1,725,967
	<u>\$1,586,468</u>	<u>\$1,725,967</u>			

The accompanying notes are a part of the financial statements.

STATEMENTS OF STOCKHOLDERS' EQUITY

for the years ended December 31, 1979, 1978 and 1977

CONTRIBUTED CAPITAL (Notes 2 and 3)	1979	1978	1977
Balance, beginning of period	\$2,015,946	\$1,986,841	\$1,986,841
Adjustment for settlement of Section 19B reserves		29,105	
Balance, end of period	<u>\$2,015,946</u>	<u>\$2,015,946</u>	<u>\$1,986,841</u>
RETAINED EARNINGS (DEFICIT)			
Balance, beginning of period	\$ (380,221)	\$ 29,853	\$ (16,102)
Net income (loss) for period	<u>(153,340)</u>	<u>(410,074)</u>	<u>45,955</u>
Balance, end of period	<u>\$ (533,561)</u>	<u>\$ (380,221)</u>	<u>\$ 29,853</u>

The accompanying notes are a part
of the financial statements.

STATEMENTS OF OPERATIONS

for the years ended December 31, 1979, 1978 and 1977

	1979	1978	1977
Income:			
Interest income (Note 7)	\$ 44,398	\$ 32,816	\$27,713
Natural resource monies received from other regions (7(i) income) (Notes 6 and 7)	<u>22,531</u>	<u></u>	<u>4,046</u>
	<u>66,929</u>	<u>32,816</u>	<u>31,759</u>
Expenses:			
Board of Directors:			
Per diem	1,593	1,583	1,015
Travel	925	321	289
Land selection (Note 10)	3,688	37,500	4,071
Administrative:			
Salaries	9,086	8,457	11,759
Payroll taxes	1,050	1,018	1,400
Professional fees	7,764	3,868	2,595
Travel and per diem	166	1,146	1,927
Office supplies	144	1,634	393
Depreciation	366	572	515
Amortization		186	279
Taxes and licenses		100	100
Miscellaneous	156	545	307
	<u>24,938</u>	<u>56,930</u>	<u>24,650</u>
Income (loss) from operations	41,991	(24,114)	7,109
Plant project costs (Note 11)	(159,822)		
Equity in income of joint venture (Note 9)	3,087		
Equity in income (loss) of affiliated company (Note 9)	<u>(38,596)</u>	<u>(385,960)</u>	<u>38,816</u>
Net income (loss)	<u>\$ (153,340)</u>	<u>\$ (410,074)</u>	<u>\$ 45,955</u>

The accompanying notes are a part
of the financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

for the years ended December 31, 1979, 1978 and 1977

	1979	1978	1977
Sources (uses) of working capital:			
Operations:			
Net income (loss)	\$ (153,340)	\$ (410,074)	\$ 45,955
Charges (credits) to income not affecting working capital:			
Depreciation and amortization	366	758	794
Equity in (income) loss of business ventures	<u>35,509</u>	<u>385,960</u>	<u>(38,846)</u>
Working capital provided from (used in) operations	(117,465)	(23,356)	7,903
Decrease in long-term receivable, less current maturities	949,347	151,300	139,121
Decrease (increase) in investments in business ventures	8,280	(110,063)	(29,766)
Contributed capital received or to be received from Alaska Native Fund		29,105	
Decrease in long-term payable	(23,008)		
Purchase of furniture and equipment	(5,040)	(830)	
Increase in long-term notes receivable		<u>(12,513)</u>	
Increase in working capital	<u>\$ 812,114</u>	<u>\$ 33,643</u>	<u>\$117,258</u>
Changes in working capital components:			
Increase (decrease) in current assets:			
Cash	\$ 42,343	\$ (6,802)	\$ 11,849
Investments	29,794	(20,310)	49,373
Receivables	<u>738,230</u>	<u>47,773</u>	<u>67,197</u>
	<u>810,367</u>	<u>20,661</u>	<u>128,419</u>
Decrease (increase) in current liabilities:			
Accounts payable	1,336	12,892	(11,101)
Accrued and withheld payroll taxes	<u>411</u>	<u>90</u>	<u>(60)</u>
	<u>1,747</u>	<u>12,982</u>	<u>(11,161)</u>
Increase in working capital	<u>\$ 812,114</u>	<u>\$ 33,643</u>	<u>\$117,258</u>

The accompanying notes are a part of the financial statements.

(6)

NOTES TO FINANCIAL STATEMENTS

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

The Act entitles Alaska Natives to 44 million acres of land and monies totaling \$962,500,000. The monies, \$462,500,000 from 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, will be deposited with the United States Treasury in the Alaska Native Fund in accordance with Section 5 of the Act.

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

Enrollees to regional and village corporations become shareholders of such corporations and are required to be Alaska Natives as defined in the Act. Under Section 6, monies provided by the Act are distributed from the Alaska Native Fund to the regional corporations based on enrollment percentages. Land provided by the Act is allocated to the regional areas based on a formula which includes both enrollment and land area. All subsurface rights in the land will vest with the regional corporations, while surface rights will be allocated between regional and village corporations.

Section 7(i) of the Act provides that 70 percent of revenues received by each regional corporation from timber resources and subsurface estate patented to it under the Act shall be divided annually among the twelve Alaska regional corporations in proportion to the number of enrollees in each (Note 6).

Section 7(j) of the Act requires that, five years after enactment (December 18, 1971), each regional corporation must distribute not less than 50 percent of funds received under Sections 6 and 7(i) to the village corporations in its region and to its at-large shareholders.

(7)

NOTES TO FINANCIAL STATEMENTS, Continued

4. Income and Property Taxes, Continued:

Income derived from real property interest and from investments and operations of the Company are subject to applicable Federal, state and local taxation.

The Company did not provide taxes in 1977 which would have been payable if undistributed earnings of its affiliated company were remitted because the Company considered these earnings to be invested in the affiliate for an indefinite period.

At December 31, 1979, the Company has a net operating loss carryforward of \$142,000 available to reduce future taxable income, if any, expiring 1983 through 1986. A charitable contribution carryover of \$4,000 is also available to offset taxable income through 1981.

5. Capital Stock:

As provided in the articles of incorporation, ten shares of common stock are to be issued to each Native enrolled to the Company. No shares have been issued as of December 31, 1979, although 335 qualified individuals have been recorded as stockholders in the Company's records for voting purposes and to establish a distribution roll. An amendment to the articles of incorporation will be necessary to change the authorized number of shares from its present amount, 2,600 shares, to an amount sufficient to meet this future distribution of common stock.

For a period of twenty years from December 18, 1971, stock dividends paid or other stock rights are restricted pursuant to the Act. Such stock may not be sold, pledged, assigned or otherwise alienated except in certain circumstances by court decree or by death. For the twenty year period, stock shall carry voting rights only if the holder thereof is an eligible Native. On January 1, 1992, all stock previously issued shall be deemed to be cancelled and shares of stock will be issued to each stockholder of record, without restriction, share for share.

6. Assets in Amounts to be Determined:

As indicated in Note 1, Section 7(i) of the Act provides that certain resource revenues received by regional corporations are subject to redistribution to all of the Alaska regional corporations. This Section of the Act

Continued

(10)

NOTES TO FINANCIAL STATEMENTS, Continued

6. Assets in Amounts to be Determined, Continued:

is the subject of litigation to determine the method of computing redistributable amounts. The Company's interest in such redistribution cannot be determined until such litigation is settled. To date, the Company has received \$26,577 of Section 7(i) revenues.

It is management's opinion that Section 7(i) monies to be received may be material to its financial statements.

7. Investments:

Investments in securities consist of the Company's financial interest in the net assets of a joint investment account formed for the benefit of village corporations in the Koniag region. Amounts received under Section 6 of the Act by Koniag, Inc., Regional Native Corporation in trust for subsequent distribution to village corporations have been deposited in the joint investment account. The village investment account is controlled by Koniag, Inc.

8. Projects:

The Company has entered into an agreement with other Koniag area village corporations whereby all lands allocated under Section 12(b) of the Act (commonly called "second round selections") by Koniag, Inc., Regional Native Corporation will be held in trust and income from such lands will be divided based on village corporation populations. Further, the Company is committed for future expenditures under this agreement for a project at Cape Chiniak (Note 9).

9. Investments in Business Ventures:

The following is a summary of the Company's investments in business ventures:

<u>Joint Venture</u>	<u>1979</u>	<u>1978</u>
Cape Chiniak Impact Center Joint Venture, 6.6% equity interest:		
Investment at December 31	\$68,492	\$73,685
Equity in income for the period	3,087	
Related accounts payable:		
Current	13,891	5,064
Noncurrent		23,008

Continued

(11)

NOTES TO FINANCIAL STATEMENTS, Continued

2. Incorporation and Accounting Policies:

Old Harbor Native Corporation was incorporated on September 13, 1973 as a village corporation pursuant to the provisions of the Act.

The Company is subject to certain controls by Koniag, Inc., a regional corporation organized under the Act. The Act provides, among other things, that:

- a) Funds allocated to a village corporation may be withheld until the corporation has submitted a plan for use of the money that is satisfactory to the regional corporation. The regional corporation may require a village to enter joint ventures with other village corporations and jointly finance projects undertaken by the regional corporation that will benefit the region generally. In the event of disagreement over provisions of the plan, issues in disagreement shall be submitted to arbitration as shall be provided for in the articles of incorporation of the regional corporation.
- b) For a period of ten years after the date of enactment of the Act, the regional corporation shall be afforded the opportunity to review and render advice to village corporations on all land sales, leases or other transactions prior to any final commitment.

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

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

Expenses of selecting land under the Act are charged to operations as incurred.

Furniture and equipment are recorded at cost and depreciated using the straight-line method.

Investment tax credits are reflected in operations on the "flow-through method".

Continued

NOTES TO FINANCIAL STATEMENTS, Continued

2. Incorporation and Accounting Policies, Continued:

The equity method of accounting is used for investments owned 20 to 50 percent. Under this method, the Company reports currently its share of the investee's income or losses, see Note 9.

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

The Company's share of the monies has been included in the financial statements on the assumption that Koniag, Inc. (regional corporation related to the Company) will receive 4.247 percent of the total (see Note 1). This is the percentage of enrollment in the Koniag region to the total enrollment of all 13 regions (3,328 to 78,361). The Company's share is the percentage of the Company's enrollees to total enrollees of Koniag region.

The Company estimates it will receive \$922,672 of these monies in 1980 and \$64,132 in 1981.

In addition to the monies discussed above, the Company will receive surface rights to 115,200 acres of land, subsurface rights being owned by Koniag, Inc., Regional Native Corporation. Such land will be recorded at fair value when interim conveyances are received or when fair values have been determined, whichever event occurs later. As of December 31, 1979 the Company has received interim conveyance to 102,008 acres; fair value has not been determined for this acreage. The value of surface rights are considered by management to be material to the financial statements. Further, the Company may be eligible for an interest in additional land under Section 12(b) of the Act (see Note 8).

Monies and land received or to be received are considered to be contributed capital and are shown as such in the financial statements.

4. Income and Property Taxes:

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

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

Continued

NOTES TO FINANCIAL STATEMENTS, Continued

9. Investments in Business Ventures, Continued:

During 1976, the Company entered into a joint venture with Koniag, Inc., Regional Native Corporation and other village corporations in the Koniag region to develop a use for Cape Chiniak. Such lands were formerly used by the United States Air Force as a satellite tracking station. Management considers the facility to have multiple use potential.

The agreement gives Koniag, Inc., Regional Native Corporation a 50 percent income interest in the joint venture and its properties, with the remaining 50 percent interest being divided among the village corporations in proportion to the number of stockholders enrolled except for rentals of real property which are for the account of the village venturers in their entirety. The Company presently retains a 6.6 percent income interest in the Cape Chiniak joint venture.

<u>Affiliated Company</u>	<u>1979</u>	<u>1978</u>	<u>1977</u>
Kodiak Island Seafoods, Inc.:			
Cost of investment	\$305,000	\$ 305,000	\$200,000
Equity in income (losses)			
since acquisition	<u>(387,372)</u>	<u>(348,776)</u>	<u>37,184</u>
Balance at year end (excess			
of equity in losses over			
cost of investment, for			
1979 and 1978)	<u>\$ (82,372)</u>	<u>\$ (43,776)</u>	<u>\$237,184</u>
Equity in income (loss)			
for the period (1)	<u>\$ (38,596)</u>	<u>\$ (385,960)</u>	<u>\$ 38,846</u>

- (1) Based on the Company's 23.14% equity interest in KISI's net loss of \$166,795 for the fiscal year ended March 31, 1979; and the Company's 33.33% equity interest in KISI's net loss of \$1,157,879 for fiscal year 1978 and their net income of \$116,537 for fiscal year 1977. It is estimated that KISI's fiscal 1980 loss will approximate \$1,192,000, resulting in a stockholders' deficit in that corporation approximating \$426,000 at March 31, 1980.

Continued

NOTES TO FINANCIAL STATEMENTS, Continued

9. Investments in Business Ventures, Continued:

In 1975, the Company acquired 200,000 shares of common stock of Kodiak Island Seafoods, Inc. (KISI), a new corporation formed by the Company and two other Koniag regional village corporations, for \$200,000. KISI operates a cannery, fishing vessels and a store located in Larsen Bay, Alaska.

In December 1978, the Company acquired 30,000 additional shares (of a 400,000 share offering by KISI) for \$105,000, reducing the Company's equity interest in KISI from 33-1/3% to 23%. Koniag, Inc. and Leisnoi Native Corporation (previously not shareholders of KISI) acquired 234,000 and 100,000 shares, respectively, of the 1978 offering.

The Company has guaranteed up to 23% of \$2.8 million in loans to KISI by a bank, pledging its assets as collateral (maximum of \$644,000).

Effective in May 1980, the Company together with the other investors in KISI, has also guaranteed up to \$10 million in loans to KISI by two other banks, for which the Company is jointly and severally liable.

10. Land Selection Costs:

Koniag, Inc. billed the Company \$3,688 in 1979, \$37,500 in 1978 and \$4,071 in 1977 for land selection costs incurred in assisting the Company in its selection of lands to be received under the Act (Notes 1 and 3). The unpaid balance will be repaid by allocating 25 percent of future ANCSA monies distributed to the Company.

11. Plant Project Costs:

During 1979, the Company engaged the services of a consulting firm to study the feasibility of constructing a seafood processing plant in Old Harbor. The firm also conducted preliminary engineering and physical design, geotechnical and oceanographic studies, and related services. Because of changes in the fishing industry and the investment climate, the Company has terminated the project and has accordingly expensed project costs paid in 1979, totaling \$159,822. Additional project billings totaling \$150,683 were also made by the consulting firm which have not been paid or accrued by the Company and are currently under dispute. The Company cannot presently assess its ultimate liability, if any, under this claim.

KODIAK- ISLAND SEAFOODS, INC.

Ernst & Whinney

2700 Seattle-First National Bank Bldg.
Seattle, Washington 98154

206/622-0610

Board of Directors
Kodiak Island Seafoods, Inc.
Seattle, Washington

We have examined the statements of financial position of Kodiak Island Seafoods, Inc. as of March 31, 1980 and 1979, and the related statements of operations and retained-earnings deficit and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our report dated June 15, 1979, our opinion on the 1979 financial statements was qualified as being subject to the effects on the 1979 financial statements of such adjustments, if any, as might have been required had the outcome of a legal action against the Company been known. As explained in Note J to the financial statements, the litigation was settled on July 22, 1980. Accordingly, our present opinion on the 1979 financial statements, as presented herein, no longer contains the qualification expressed in our report for the previous year.

The accompanying financial statements have been prepared in conformity with generally accepted accounting principals applicable to a going concern, which contemplate the realization of assets and liquidation of liabilities in the ordinary course of business. However, term loans from a bank at March 31, 1980 are in default although demand has been temporarily postponed (see Note E to financial statements), current liabilities exceed current assets, and the Company has a capital deficiency. Continuation of the Company as a going concern and the appropriateness of presenting the accompanying financial statements on a going-concern basis are dependent upon continuing postponement of demand for payment of term loans or the obtaining of alternative financing, and the ability of the Company to generate profitable operations which, among other factors, is dependent upon the strength of 1980 salmon runs and quantities of fish delivered to the Company to be packed. In view of these uncertainties, our present opinion on the 1979 financial statements, as presented herein, is different from that expressed in our previous report dated June 15, 1979.

Ernst & Whinney

In our opinion, subject to the effects, if any, on the financial statements of the ultimate outcome of the uncertainties discussed in the preceding paragraph, the financial statements referred to above present fairly the financial position of Kodiak Island Seafoods, Inc. at March 31, 1980 and 1979, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

Seattle, Washington
June 6, 1980, except as to
Notes D, E, and J, as to which
the date is July 30, 1980

STATEMENTS OF FINANCIAL POSITION

KODIAK ISLAND SEAFOODS, INC.

	March 31	
	1980	1979
ASSETS		
CURRENT ASSETS		
Cash (including \$321,007 restricted in 1980)--Notes D and E	\$ 344,538	\$ 22,272
Short-term investments (restricted)--Note D	820,677	
Receivables--Note D and E:		
Trade accounts	493,710	1,958,731
Fishermen accounts	140,885	46,689
Notes and other	81,019	36,750
	<u>715,614</u>	<u>2,042,170</u>
Less allowance for possible losses	22,000	19,000
	<u>693,614</u>	<u>2,023,170</u>
Inventories--Notes B, D, F and G		
Canned salmon	1,097,096	2,839,707
Frozen products	38,537	
Supplies and repair parts	484,835	402,393
Store merchandise	131,049	29,442
	<u>1,751,517</u>	<u>3,271,542</u>
Prepaid insurance and deposits	163,311	107,983
TOTAL CURRENT ASSETS	<u>3,773,657</u>	<u>5,424,967</u>
OTHER ASSETS		
Notes receivable, less current portion--Note E	280,453	26,814
Deferred financing costs and other assets	36,596	7,992
	<u>317,049</u>	<u>34,806</u>
PROPERTY, PLANT, AND EQUIPMENT--on the basis of cost--Notes E and F		
Land	33,724	33,724
Buildings	581,193	580,827
Machinery and equipment	914,404	741,602
Fishing vessels	335,700	626,206
Construction in progress	141,980	
	<u>2,007,001</u>	<u>1,982,359</u>
Less allowances for depreciation	740,682	688,393
	<u>1,266,319</u>	<u>1,293,966</u>
	<u>\$5,357,025</u>	<u>\$6,753,739</u>

	March 31	
	1980	1979
LIABILITIES AND STOCKHOLDERS' EQUITY (CAPITAL DEFICIENCY)		
CURRENT LIABILITIES		
Notes payable to bank--Note D	\$1,959,772	
Term loans from bank--Note E	2,057,924	
Advances from customer--Note F	817,415	\$ 400,059
Notes payable for insurance premiums	70,022	44,445
Outstanding checks, less cash on deposit	43,490	123,066
Trade accounts payable and accrued expenses--Note G	680,720	708,792
Accounts payable to fishermen	14,070	372,344
Payable to Alaska-Shell, Incorporated--Note B:		
Financing arrangement		2,506,252
Accrued interest		109,182
Other	60,000	73,722
TOTAL CURRENT LIABILITIES	<u>5,703,413</u>	<u>4,337,862</u>
LONG-TERM LIABILITIES		
Accrued commissions, less current portion--Note B	80,000	
Note payable to customer--Note F		1,700,000
	<u>80,000</u>	<u>1,700,000</u>
STOCKHOLDERS' EQUITY (CAPITAL DEFICIENCY)--Note H		
Common Stock, \$1 par value:		
Authorized--1,000,000 shares		
Outstanding--994,000 shares	994,000	994,000
Additional paid-in capital	985,000	985,000
Common Stock subscription receivable		(50,000)
Retained-earnings deficit (deduction)	(2,405,388)	(1,213,123)
TOTAL STOCKHOLDERS' EQUITY (in 1980, capital deficiency)	<u>(426,388)</u>	<u>715,877</u>
	<u>\$5,357,025</u>	<u>\$6,753,739</u>

See notes to financial statements

STATEMENTS OF OPERATIONS AND RETAINED-EARNINGS DEFICIT

KODIAK ISLAND SEAFOODS, INC.

	Year Ended March 31	
	1980	1979
Net sales	\$ 7,292,651	\$ 5,414,485
Cost of products sold (and reduction of salmon inventory to market value in 1980)	<u>6,835,760</u>	<u>4,407,775</u>
	456,891	1,006,710
Selling and administrative expenses--Note B	<u>1,273,265</u>	<u>731,698</u>
	(816,374)	275,012
Other income (expense):		
Interest and other financing expense	(632,366)	(481,044)
Gain on sales of fishing boats	193,596	
Interest and other income	<u>62,879</u>	<u>39,237</u>
NET LOSS	<u>(1,192,265)</u>	<u>(166,795)</u>
Retained-earnings deficit at beginning of year	<u>(1,213,123)</u>	<u>(1,046,328)</u>
RETAINED-EARNINGS DEFICIT AT END OF YEAR	<u><u>\$(2,405,388)</u></u>	<u><u>\$(1,213,123)</u></u>

See notes to financial statements

STATEMENTS OF CHANGES IN FINANCIAL POSITION

KODIAK ISLAND SEAFOODS, INC.

	Year Ended March 31	
	1980	1979
SOURCES OF WORKING CAPITAL		
Net loss for the year		\$ (166,795)
Less charge to operations not affecting working capital--depreciation		<u>197,956</u>
Total from operations		<u>31,161</u>
Note payable, classified as noncurrent		1,700,000
Reduction of noncurrent notes receivable		17,894
Decrease in other assets		6,792
Sale of Common Stock		1,329,000
Collection of Common Stock subscription receivable	\$ 50,000	
Total sources of funds	<u>50,000</u>	<u>3,084,847</u>
USES OF WORKING CAPITAL		
Net loss for the year	(1,192,265)	
Less charges to operations not affecting working capital:		
Depreciation	215,035	
Noncurrent accrued commissions	<u>80,000</u>	
Total used for operations	<u>897,230</u>	
Increase in noncurrent notes receivable, less net book value of fishing vessel disposals	94,196	
Increase in deferred financing charges and other assets	28,604	
Additions to property, plant, and equipment	346,831	101,819
Repayment of note	<u>1,700,000</u>	
Total uses of funds	<u>3,066,861</u>	<u>101,819</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u><u>\$ (3,016,861)</u></u>	<u><u>\$2,983,028</u></u>

	Year Ended March 31	
	1980	1979
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Increase (decrease) in current assets:		
Cash	\$ 322,266	\$ (176,300)
Investments	820,677	
Receivables	(1,329,556)	1,652,771
Inventories	(1,520,025)	1,136,557
Prepaid insurance and deposits	<u>55,328</u>	<u>84,960</u>
Increase (decrease) in current assets	<u>(1,651,310)</u>	<u>2,697,988</u>
Increase (decrease) in current liabilities:		
Indebtedness to banks and a customer	4,435,052	(1,999,941)
Notes payable for insurance premiums	25,577	(2,188)
Outstanding checks, less cash on deposit	(79,576)	123,066
Trade accounts payable and accrued expenses	(28,072)	60,224
Accounts payable to fishermen	(358,274)	372,344
Payable to Alaska-Shell, Incorporated	<u>(2,629,156)</u>	<u>1,161,455</u>
Increase (decrease) in current liabilities	<u>1,365,551</u>	<u>(285,040)</u>
Increase (decrease) in working capital	<u>(3,016,861)</u>	<u>2,983,028</u>
Working capital (deficiency) at beginning of year	<u>1,087,105</u>	<u>(1,895,923)</u>
Working capital (deficiency) at end of year	<u><u>\$ (1,929,756)</u></u>	<u><u>\$1,087,105</u></u>

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS (Continued)

KODIAK ISLAND SEAFOODS, INC.

NOTE D--NOTES PAYABLE TO BANKS

In 1976, the Company entered into a loan agreement with Manufacturers Hanover Trust Company and American Indian National Bank. Under the agreement, notes payable bear interest at 2% above the prime rate. The notes are collateralized by inventories, receivables, property, plant, equipment and substantially all of the Company's remaining assets. In addition, each of the Company's three stockholders and Kodiak Inc. have entered into guarantee agreements with the banks.

The loan agreement, as subsequently amended, permits stipulated seasonal borrowing levels and requires stipulated seasonal repayments. The agreement provides that for the period October 15, 1977 to May 15, 1978 the borrowing level was to have been reduced to a maximum of \$300,000.

Nonpayment of amounts due the bank has resulted in an event of default under terms of the loan agreement. In addition, the Company did not obtain permission from the banks to enter into the accommodation arrangement (described in Note C). Further, the agreement does not permit capital expenditures to exceed \$100,000 in a twelve-month period, and requires that amounts advanced by the Company to fishermen be repaid on or prior to the date the fisherman receives the last installment for salmon sold to the Company during the fishing season to which the advances relate. Noncompliance with these requirements resulted in events of default under terms of the loan agreement.

The banks have not chosen to exercise their rights to declare all notes outstanding to be forthwith due and payable and/or proceed to enforce any of their remedies under their collateral security or guarantees; however, the banks have not waived such rights.

NOTE E--ADVANCES FROM CUSTOMERS

As of March 31, 1978 and 1977 the Company had entered into agreements to sell all processed salmon eggs obtained from the succeeding 1978 and 1977 fishing seasons. In addition, the 1978 agreement provides for the sale of frozen salmon. The Company received cash advances under these agreements and, further, received an additional \$400,000 in April 1978. The advances are noninterest bearing until after the close of the packing season. As shipments of the processed salmon eggs are made, the advances are reduced by specified amounts. If the advance is not extinguished in full in this manner, then the Company is obligated to repay the remaining amount. The advances are collateralized by a second lien on the Company's real estate and, in 1978, a first security interest in processed salmon eggs.

NOTES TO FINANCIAL STATEMENTS (Continued)

KODIAK ISLAND SEAFOODS, INC.

NOTE F--INCOME TAXES

At March 31, 1978, the Company has a net operating loss carryover of approximately \$1,180,000 which may be used to offset federal and State of Alaska taxable income in future years. To the extent not used, the net operating loss will expire in 1985.

STATEMENT OF CHANGES IN FINANCIAL POSITION

KODIAK ISLAND SEAFOODS, INC.

	Year Ended March 31	
	1978	1977
SOURCES OF FUNDS		
Net income		\$ 116,537
Add depreciation and amortization		156,159
Total From Operations		<u>272,696</u>
Reduction of notes receivable	\$ 19,921	31,356
Total Sources of Funds	<u>19,921</u>	<u>304,052</u>
APPLICATIONS OF FUNDS		
Net loss	1,157,879	
Less depreciation and amortization	(183,541)	
Total Used For Operations	<u>974,338</u>	
Increase in deposits	12,790	570
Purchases of property, plant and equipment	172,175	121,458
Repayment of long-term debt		469,466
Total Applications of Funds	<u>1,159,303</u>	<u>591,494</u>
DECREASE IN WORKING CAPITAL	<u>\$(1,139,382)</u>	<u>\$(287,442)</u>
CHANGES IN COMPONENTS OF WORKING CAPITAL		
WHICH INCREASE (DECREASE) WORKING CAPITAL		
Cash	\$ 163,668	\$(166,868)
Receivables	(45,061)	134,778
Inventory	(604,728)	911,925
Residual cost of canned salmon inventory sold to Alaska-Shell, Incorporated	547,215	(8,031)
Prepaid insurance	(8,031)	27,734
Notes payable	(1,006,074)	(213,771)
Accounts payable and accrued expenses	(349,520)	(100,061)
Fishermen accounts payable	538,679	(538,679)
Payable to Alaska-Shell, Incorporated:		
Accrued interest	(84,193)	
Service fees	(133,737)	
Advances from customers	(200,000)	(300,000)
Income tax payable	42,500	(42,500)
DECREASE IN WORKING CAPITAL	<u>\$(1,139,382)</u>	<u>\$(287,442)</u>

See notes to financial statements

STATEMENT OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)

KODIAK ISLAND SEAFOODS, INC.

	Year Ended March 31	
	1978	1977
Net sales	\$ 1,984,226	\$4,544,579
Cost of products sold, and reduction of salmon inventory to market value	<u>2,547,083</u>	<u>4,123,098</u>
	(562,857)	421,481
Selling and administrative expenses	<u>421,204</u>	<u>109,306</u>
	(984,061)	312,175
Other income (expense):		
Interest income	12,815	7,839
Interest expense	(270,836)	(143,609)
Store operations	41,703	(17,368)
INCOME (LOSS) BEFORE INCOME TAXES	(1,200,379)	159,017
Federal and state income taxes (credit)	(42,500)	42,500
NET INCOME (LOSS)	<u>(1,157,879)</u>	<u>116,517</u>
Retained earnings (deficit) at beginning of year	111,551	(4,986)
RETAINED EARNINGS (DEFICIT) AT END OF YEAR	<u>\$(1,046,328)</u>	<u>\$ 111,551</u>

See notes to financial statements

STATEMENT OF FINANCIAL POSITION

KODIAK ISLAND SEAFOODS, INC.

	March 31	
	1978	1977
ASSETS--Note C		
CURRENT ASSETS		
Cash, and temporary investments subject to repurchase agreement	\$ 198,572	\$ 34,904
Receivables:		
Current portion of notes	49,352	43,417
Trade	78,006	226,054
Fishermen	105,600	
Other	6,863	411
	<u>239,821</u>	<u>269,882</u>
Less allowance for possible losses	19,500	4,500
	<u>220,321</u>	<u>265,382</u>
Inventories:		
Canned salmon		746,360
Supplies	379,488	252,030
Store merchandise	48,689	34,515
	<u>428,177</u>	<u>1,032,905</u>
Residual cost of canned salmon inventory sold to Alaska-Shell, Incorporated--Note C	547,215	
Prepaid insurance	23,023	31,054
TOTAL CURRENT ASSETS	<u>1,417,308</u>	<u>1,364,245</u>
OTHER ASSETS		
Notes receivable, less current portion above	44,708	64,629
Organizational costs, less amortization	1,042	1,584
Deposits	14,285	1,495
PROPERTY, PLANT AND EQUIPMENT--on the basis of cost--Note E		
Land	33,724	33,724
Buildings	559,353	528,600
Machinery and equipment	682,806	589,602
Fishing vessels	600,876	552,908
Office equipment	3,292	3,292
Auto	5,249	4,999
	<u>1,885,300</u>	<u>1,713,125</u>
Less allowances for depreciation	495,740	312,741
	<u>1,389,560</u>	<u>1,400,384</u>
	<u>\$2,866,903</u>	<u>\$2,832,337</u>

	March 31	
	1978	1977
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY IN ASSETS)		
CURRENT LIABILITIES		
Notes payable to banks--Note D	\$1,600,000	\$ 600,000
Note payable for insurance premiums	46,631	40,559
Trade accounts payable and accrued expenses	648,568	299,044
Accounts payable to fishermen		518,679
Payable to Alaska-Shell, Incorporated--Notes B and C:		
Accrued interest	84,293	
Service fees	173,737	
Advances from customers--Note E	800,000	600,000
Income taxes payable		42,500
TOTAL CURRENT LIABILITIES	<u>3,313,231</u>	<u>2,120,786</u>
STOCKHOLDERS' EQUITY (DEFICIENCY IN ASSETS)		
Common Stock, \$1, par value:		
Authorized--1,000,000 shares		
Issued and outstanding--600,000 shares	600,000	600,000
Retained earnings (deficit)	(1,046,328)	111,551
	<u>(446,328)</u>	<u>711,551</u>
	<u>\$2,866,903</u>	<u>\$2,832,337</u>

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

KODIAK ISLAND SEAFOODS, INC.

NOTE A--INCORPORATION AND PRINCIPLE ACCOUNTING POLICIES

Incorporation: Kodiak Island Seafoods, Inc. was incorporated February 18, 1975 by three village corporations formed under the Alaska Native Claims Settlement Act. The three village corporations are located within the geographic region encompassed by Koniag Inc. Each village corporation owns one-third of the outstanding common shares of Kodiak Island Seafoods, Inc.

The Company operates a cannery, fishing vessels and a store located in Larsen Bay, Alaska.

Inventories: Inventories of canned salmon at March 31, 1977 and inventories of supplies and store merchandise at March 31, 1978 and 1977 are stated at the lower of cost (first-in, first-out method) or market.

Residual Cost of Canned Salmon Inventories Sold to Alaska-Shell, Incorporated: The accounting policies for this are described in Note C.

Depreciation: Provision for depreciation is computed on the straight-line basis in amounts sufficient to amortize the cost of the properties over their estimated useful lives.

Investment Tax Credits: Investment tax credits are recognized as a reduction of the provision for taxes on income in the year in which the credits are utilized.

NOTE B--MANAGEMENT AND MARKETING AGREEMENT WITH ALASKA-SHELL, INCORPORATED

The Company has entered into a five-year agreement under which Alaska-Shell, Incorporated, commencing March 14, 1977, has been engaged to provide general operational, financial and marketing management to the Company. Compensation to Alaska-Shell consists of a monthly fee of \$5,000, reimbursement of specified personnel costs plus 15% but not to exceed \$25,000 annually, and marketing fees based on specified percentages of gross sales. Alaska-Shell is obligated to pay any brokerage commissions and expenses of its sales department. During the year ended March 31, 1978, compensation earned by Alaska-Shell amounted to approximately \$199,000.

NOTES TO FINANCIAL STATEMENTS (Continued)

KODIAK ISLAND SEAFOODS, INC.

NOTE C--ACCOMMODATION ARRANGEMENT WITH ALASKA-SHELL, INCORPORATED

As an accommodation to Kodiak Island Seafoods, Inc. (KISI), during the year ended March 31, 1978 Alaska-Shell, Incorporated purchased all of KISI's canned salmon inventory, and paid KISI an amount equal to the amount Alaska-Shell thereupon borrowed from Pacific National Bank of Washington, collateralized by such inventory. KISI is obligated to reimburse Alaska-Shell for interest expense paid by Alaska-Shell to the bank.

Because the initial sale of inventory by KISI to Alaska-Shell was an accommodation arrangement, KISI does not record sales revenues until Alaska-Shell subsequently sells the inventory.

Under the arrangement, as Alaska-Shell sells the inventory and collects its account receivable from the customer, KISI is entitled to the proceeds from the sale less a proportionate amount which it previously received from Alaska-Shell.

At March 31, 1978, KISI's residual cost of canned salmon sold to Alaska-Shell consists of the following:

Cost of salmon inventory sold to Alaska-Shell:	
Held by Alaska-Shell for sale to its customers	\$1,706,808
Sold by Alaska-Shell; proceeds of sale not yet collected	150,078
	<u>1,856,886</u>
Less payments to KISI from Alaska-Shell bank loan	<u>1,309,671</u>

Residual cost of canned salmon sold to Alaska-Shell \$ 547,215

The above amounts for canned salmon sold to Alaska-Shell are stated at the lower of average cost of production for the various species processed, or market. In the prior year, inventories of canned salmon were stated at the lower of cost (first-in, first-out method) or market. The Company believes the change in accounting in 1978 results in a more representative allocation of costs to canned salmon produced. The Company has not determined the effects on carrying amounts of inventories and on operations that may have resulted from the change.

NOTES TO FINANCIAL STATEMENTS

KODIAK ISLAND SEAFOODS, INC.

NOTE A--INCORPORATION AND PRINCIPAL ACCOUNTING POLICIES

Incorporation: Kodiak Island Seafoods, Inc. was incorporated February 18, 1975. The Company operates a cannery, fishing vessels and a store located in Larsen Bay, Alaska.

Short-Term Investments: Short-term investments are stated at cost, which approximates market value.

Inventories: Inventories of canned salmon and frozen products are stated at the lower of average cost of production for the various species processed, or market.

Inventories of supplies, repair parts, and store merchandise are stated at the lower of cost (first-in, first-out method) or market.

Depreciation: Provision for depreciation is computed by the straight-line method in amounts sufficient to amortize the cost of the depreciable assets over their estimated useful lives.

Investment Tax Credits: Investment tax credits are recognized as a reduction of the provision for taxes on income in the year in which the credits are utilized.

NOTE B--TERMINATION OF MANAGEMENT AND MARKETING AGREEMENT AND FINANCING ARRANGEMENT WITH ALASKA-SHELL, INCORPORATED

On March 28, 1980, the Company and Alaska-Shell, Incorporated terminated their agreement under which the latter provided general operational, financial, and marketing management to the Company during fiscal years ended March 31, 1980 and 1979. Among other conditions of termination of the agreement, Alaska-Shell is entitled to a 5% commission on sales of stipulated quantities of salmon eggs and frozen salmon by Kodiak Island Seafoods, Inc. to a customer (see Note F) during years ending March 31, 1981, 1982, and 1983. The Company does not have freezing facilities and thus has no present plans to engage in frozen salmon processing. However, a charge to operations of \$120,000 has been made in the accompanying 1980 financial statements for the estimated amount of future commissions pertaining to salmon egg sales.

NOTES TO FINANCIAL STATEMENTS (Continued)

KODIAK ISLAND SEAFOODS, INC.

NOTE B--TERMINATION OF MANAGEMENT AND MARKETING AGREEMENT AND FINANCING ARRANGEMENT WITH ALASKA-SHELL, INCORPORATED (Continued)

Under the former agreement, compensation to Alaska-Shell consisted of a monthly fee of \$5,000, reimbursement of specified personnel costs plus 15%, but not to exceed \$25,000 annually, and marketing fees based on specified percentages of gross sales. During the years ended March 31, 1980 and 1979, compensation to Alaska-Shell for such services amounted to approximately \$545,000 and \$246,000, respectively. In 1979, an adjustment of 1978 marketing fees resulted in a credit of approximately \$50,000 which reduced the amount of 1979 compensation.

During the year ended March 31, 1980, the Company also paid Alaska-Shell \$250,000 for the use of a frozen fish processing facility during the salmon fishing season.

In addition to termination of the foregoing management and marketing agreement, an accommodation financing arrangement with Alaska-Shell was also terminated during the year ended March 31, 1980. The substance of such arrangement resulted in Alaska-Shell borrowing funds from its bank and relending such funds to Kodiak Island Seafoods, Inc., collateralized by the latter's canned salmon inventories and trade accounts receivable. Interest expense paid by Alaska-Shell was reimbursed by Kodiak Island Seafoods, Inc. This interim financing measure was terminated when Kodiak Island Seafoods, Inc. and Pacific National Bank of Washington entered into the loan agreement described in Note D of notes to financial statements.

NOTE C--MANAGEMENT AND MARKETING AGREEMENT WITH SWIFTSURE FISHERIES, INC.

In March 1980, the Company entered into a one-year agreement with Swiftsure Fisheries, Inc. to provide management assistance to the Company and market the Company's seafood products. Compensation to Swiftsure is to consist of brokerage commissions earned on sales of canned salmon, and a share of the Company's pre-tax profits. No compensation was earned by Swiftsure through March 31, 1980.

NOTES TO FINANCIAL STATEMENTS (Continued)

KODIAK ISLAND SEAFOODS, INC.

NOTE D--NOTES PAYABLE TO BANK

Notes payable to bank, Pacific National Bank of Washington ("Pacificbank"), in the amount of \$1,959,772 at March 31, 1980 are collateralized by cash deposits of \$305,382, short-term investments, accounts receivable, inventories, guarantee by a stockholder, and partial guarantee by Farmers Home Administration. The Company has not complied with a number of covenants in the loan agreement, including maintenance of specified financial ratios, and therefore, events of default existed prior to and subsequent to March 31, 1980.

Subsequent to March 31, 1980, cash and short-term investments at March 31, 1980 together with collections of receivables from sales of inventories were applied to reduce the amount payable to Pacificbank. In addition, on June 12, 1980, the Company entered into a loan agreement with Alaska Commercial Fishing Bank and Agriculture Bank ("CFAB"), and in July 1980 the remaining amount due Pacificbank was repaid from borrowings from CFAB.

The loan agreement with CFAB permits maximum borrowings of \$4,700,000, but not in excess of the borrowing base which is an amount calculated from stipulated percentages of eligible trade accounts receivable and canned salmon inventories. Borrowings are repayable on demand, or if no demand is made, not later than March 15, 1981. CFAB is also permitted to require the company to purchase equity securities of CFAB, no greater in amount than 10% of outstanding borrowings. The borrowings are collateralized by the Company's cash on deposit with CFAB, accounts receivable, inventories, any investments in CFAB equity securities, and guarantees of the Company's stockholders.

NOTE E--TERM LOANS FROM BANK

In June 1979, the Company obtained loans of \$1,700,000 and \$400,000 from a bank. The loan agreement contains, among other conditions, restrictions regarding borrowing of money, lien or encumbrance upon assets, repurchase of outstanding capital stock, and payment of dividends. It also contains the provision that the lender may accelerate the due date and demand immediate payment whenever, in good faith, it believes that the prospect of payment is impaired. The loans are collateralized by a first lien on all of the Company's property, plant, and equipment; notes receivable and cash at March 31, 1980 of \$278,879 and \$15,625, respectively; and guarantees partially or wholly by Farmers Home Administration and stockholders of the Company.

NOTES TO FINANCIAL STATEMENTS (Continued)

KODIAK ISLAND SEAFOODS, INC.

NOTE E--TERM LOANS FROM BANK (Continued)

The loans are repayable in quarterly installments of \$69,466, including interest, through June 1986, and \$48,985 thereafter, including interest, until the year 2004. Interest for ninety percent of the loan balances is 10.5% per annum; interest for the remainder is 12.5% per annum.

Although current installments called for by the loan agreement have been paid as they have become due, the loans are in default because a number of covenants of the loan agreement have not been met by the Company. These pertain principally to limitations on the borrowing of money and purchases of machinery and equipment, conditions to be met when fishing vessels were sold, timeliness of financial reporting to the bank, and maintenance of specified financial ratios and amounts. The required financial ratios and amounts are as follows:

Net current assets (current assets less current liabilities) of at least \$2,500,000 at the end of each of its fiscal years.

Fiscal year-end ratios of current assets to current liabilities of at least 4 to 1 in 1980 and ranging upward to 6 to 1 in 1982 and thereafter.

Fiscal year-end debt-to-tangible net worth ratios of not more than 4.25 to 1 in 1980 and ranging downward to 2 to 1 in 1982 and thereafter.

On July 30, 1980, the bank informed the Company that although the loans were in default, the bank would postpone its right to demand payment in full pending the performance of the Company, quarter by quarter, during the period ending December 31, 1980. Such postponement is temporary in nature and is not intended to be a permanent waiver of any rights the bank may have under the loan agreement.

NOTE F--ADVANCES AND LOANS FROM A CUSTOMER

Annually, the Company has entered into an agreement with one of its customers to sell all salmon eggs processed during the succeeding fishing season. The Company has also granted the customer a first right of refusal for salmon eggs and frozen salmon through fiscal year ended March 31, 1984.

NOTES TO FINANCIAL STATEMENTS (Continued)

KODIAK ISLAND SEAFOODS, INC.

NOTE F--ADVANCES AND LOANS FROM A CUSTOMER (Continued)

The Company receives cash advances under the terms of the agreement. As shipments of products are made, the advances are reduced by specified amounts. If the advance is not extinguished in full in this manner, the Company is obligated to repay the remaining amount at the close of the packing season. At March 31, 1980, \$817,415 including interest had not been repaid and was past due. In June 1980, such amount was deducted from the \$1,760,000 advance received from the customer pertaining to the 1980 fishing season. Customer advances are collateralized by a second lien on the Company's property, plant, and equipment except fishing vessels, and a first security interest in salmon eggs and frozen salmon.

Notes payable to customer of \$400,059 and \$1,700,000 at March 31, 1979 were collateralized by liens on property, plant, and equipment excluding fishing vessels and partially by inventory carried at \$179,436. The \$1,700,000 loan was classified as a noncurrent liability at March 31, 1979 because such indebtedness was repaid from the proceeds of a term loan, as described in Note E of notes to financial statements.

NOTE G--TRADE ACCOUNTS PAYABLE

At March 31, 1979, trade accounts payable of \$128,487 were collateralized by \$204,213 of canned salmon inventory.

NOTE H--CHANGES IN CAPITAL ACCOUNTS

During the year ended March 31, 1979, subscriptions were obtained which resulted in the sale of 394,000 shares of the Company's Common Stock for \$3.50 a share. Sale of the shares resulted in the following:

Increase in Common Stock	\$ 394,000
Additional paid-in capital	985,000
	<u>1,379,000</u>
Less portion of sales unpaid at March 31, 1979 (received in April 1979)	<u>(50,000)</u>
	<u>\$1,329,000</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

KODIAK ISLAND SEAFOODS, INC.

NOTE I--INCOME TAXES

At March 31, 1980, the Company has net operating loss carryovers which may be used to offset federal and State of Alaska taxable income in future years. To the extent not used, net operating losses of approximately \$1,100,000, \$140,000, and \$970,000 will expire in 1985, 1986, and 1987, respectively.

NOTE J--SETTLEMENT OF LITIGATION

On July 22, 1980, the Company reached a settlement of litigation which had initially commenced in 1978. The accompanying financial statements include provision for such settlement, \$35,000 of which was charged to operations in the year ended March 31, 1980.

Ernst & Ernst

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Board of Directors
Kodiak Island Seafoods, Inc.
Seattle, Washington

We have examined the statement of financial position of Kodiak Island Seafoods, Inc. as of March 31, 1978, and the related statements of operations and retained earnings (deficit) and changes in financial position for the year then ended. Except as explained in the following paragraph, our examination was 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 financial statements of Kodiak Island Seafoods, Inc. for the year ended March 31, 1977 were examined by other auditors whose report dated April 27, 1977 expressed an unqualified opinion on those statements.

The method of determining the lower of cost or market for the canned salmon inventory in 1978 was not consistent with the method used in 1977, but the effects on 1978 operations that may have resulted have not been determined.

The financial statements referred to above have been prepared on the going-concern basis which contemplates the realization of assets and liquidation of liabilities in the ordinary course of business. However, during the year ended March 31, 1978, the Company experienced a significant operating loss. Further, at March 31, 1978, current liabilities exceed current assets and there are significant past-due notes payable to banks. Continuation of the business as a going-concern is dependent upon it obtaining adequate long-term financing and returning to profitable operations. Whether or not the going-concern basis is an appropriate basis for the financial statements for the year ended March 31, 1978 is therefore uncertain.

In our opinion, subject to the continuation of the Company as a going-concern and except for the effects of the inconsistency of determining canned salmon inventory carrying amounts referred to in the preceding paragraphs, the financial statements for the year ended March 31, 1978 referred to above present fairly the financial position of Kodiak Island Seafoods, Inc. at March 31, 1978, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Seattle, Washington
May 11, 1978

Ernst & Ernst

