Kavilco Incorporated 2005 Annual Report

“The Watchman represents the spirits keeping an eye on proceedings to make sure the right things get done.”

The original Watchman (see photo at left) was a small totem carved by Vice President Louis Jones, Sr. and used as a gavel to open and close all of Kavilco's Board Meetings and the Annual Shareholders' Meeting. It represents the spirits keeping an eye on proceedings to make sure the right things get done.

Mr. Jones was inpired to create the Watchman after seeing a Haida watchman on the corner post of a long house in Ketchikan, Alaska. He carved the Watchman from alder wood and gave him the eyes of abalone shell. He was sitting on a log on the beach with a walking stick under his chin, watching out for friends returning from a hunt, and keeping his eyes out for enemies, weather, animals and

anything else that might have been of interest to the tribe. Mr. Jones initially intended to carve the Watchman as the end of a halibut hook, but changed his mind.

President/CEO Louis A. Thompson carved a new Watchman in April 2006, after the original Watchman was stolen along with his briefcase during a Board Meeting in 2005. His inspiration came from a photograph of the top section of a morturary pole near a grave site taken in Old Kasaan during the late 1960s.

The carving is about eight inches tall and one inch in diameter. Mr. Thompson used wood from a 250-year-old Alaska yew tree. The eyes are made of local abalone shell. The base is hollowed out and filled with lead to allow the carving to stand upright and to serve as a gavel.

Board of Directors and Corporate Management

Front row left to right: Jeane Breinig, Marie Miller. Middle row left to right: Louis Jones, Sr., Melanie Locklear, Deanna R. Kaulay (Corporate Secretary), Kenneth Gordon, Ramona Hamar, Louis A. Thompson. Back row left to right: John Campbell, Laird A. Jones, Scott Burns.

> **"To honor the vision and unselfish actions of our Kasaan Haida ancestors and elders, the goals of Kavilco Incorporated are to provide dividends and to preserve the assets for all generations."**

We also look to preserving our important Haida heritage. Kavilco and Kasaan Haida Heritage Foundation (KHHF) continue to work together to restore the most cherished symbol of Kasaan's history, Chief Son-I-Hat's Whale House and Totem Park. Because the Whale House is rapidly deteriorating, KHHF has voted to fund the $6,301 we need to take an important step towards restoring this outstanding example of a Kaigani community house. We have contracted with MRV Architects in Juneau, Alaska to survey the Whale House site and determine the scope of work necessary to repair and restore the Whale House. We will then seek further funding and grants to restore the Whale House. Haw 'aa to KHHF and our generous donors who have contributed to KHHF either through direct donations in memory/honor of a loved one, or the annual raffle and fundraiser dinner.

Dividend Distributions

1980 Initial Distribution	$ 3,000,000
1981 Debenture	1,200,000
1981 Alaska Native Fund	283,282
1982 Debenture	1,200,000
1983 Alaska Native Fund	69,940
1983 Debenture	1,200,000
1984 Debenture	1,200,000
1984 Dividend	120,000
1985 Debenture	1,200,000
1986 Dividend	120,000
1986 Debenture	1,200,000
1987 Debenture	1,200,000
1987 Property Dividend	236,066
1987 Dividend	120,000
1988 Debenture	1,200,000
1989 Debenture	1,200,000
1989 Dividend	240,000
1990 Debenture	1,200,000
1990 Dividend	600,000
1991 Dividends	1,080,000
1992 Dividends	960,000
1993 Dividends	1,214,400
1994 Dividends	1,248,300
1995 Dividends	1,728,000
1996 Dividends	1,927,680
1997 Dividends	1,992.000
1998 Dividends	1,956,003
1999 Dividends	2,027,167
2000 Dividends	1,811,000
2001 Dividends	1,932,000
2002 Dividends	1,764,000
2003 Dividends	1,650,000
2004 Dividends	1,215,000
2005 Dividends	1,009,200
TOTAL DISTRIBUTIONS	**$40,301,631**
Total per share (12,000 shares)	$3,358

IF YOU HELD 100 SHARES SINCE 1980, YOU HAVE RECEIVED

$335,800

President/Chief Executive Officer

Dear Shareholders,

Since incorporating as a business 33 years ago, Kavilco's philosophy has been to stay on a course of conservative investing and discuss among the Board of Directors any actions as to the management of our assets for the financial benefit of the Company.

We are currently in the process of leasing land near the top of Kasaan Mountain to a wireless company for an improved cellular and telephone system, as well as broadband Internet service. We are also encouraging mining opportunities with Sealaska Corporation and other mining companies. Although the subsurface estate on Kavilco's land is owned and managed by Sealaska, Kavilco can directly benefit by receiving mining royalties and leasing several of our buildings in Kasaan. We can also collect a fee for use of the Company's roads which access the development of a mine. With the current values for copper, gold and other minerals in our area, this may be a good opportunity to use our land holdings. We are continually looking for ways to bring in financial benefits with little or no risk to our portfolio.

This year we are working hand in hand with the Kasaan Haida Heritage Foundation (KHHF) towards the restoration of Chief Son-I-Hat's Whale House. KHHF continues to work on preserving our Haida culture and history. KHHF voted to fund $6,301 towards an architectural study of the Whale House in order to determine the scope and costs of restoration. This important step will help us to seek further restoration funding from Federal, state and private organizations.

This coming year we will finish our new land use plan. This plan is a revision of our original 1980 plan. It will contain information on past logging operations and road locations that may be useful in the future for other opportunities. All logging roads built on Kavilco-owned land have been closed. This means that all culverts have been removed, and any potential flood areas are ditched for water drainage. These roads can be re-opened for future mining activities. Closing unused logging roads relieves Kavilco of potential liability from people using the roads for sightseeing or hunting.

As in past years, this Annual Report was designed in the Seattle office by our Corporate Secretary, Deanna Kaulay. The selection of photos that may be of interest to you, as shareholders, are gathered from museums, U.S. Forest Service archives and private sources.

Scott Burns, our Chief Financial Officer, is responsible for managing our financial portfolio, as directed by the Board of Directors, on a daily basis. He reports on financial activities during Board of Directors meetings.

As a management team, all three of us work together on all issues of corporate matters, as well as shareholder concerns. Any and all issues are reported to Board members in a timely manner.

My hope is that we will be able to answer any and all concerns that shareholders may have. I hope to see many of you at the Annual Meeting in Ketchikan, Alaska on November 4, 2006. I wish the best of health to all. Thank you for your continued support of management and the Board of Directors.

Sincerely,

Louis A. Thompson

Louis A. Thompson
President/CEO

Chief Financial Officer

Dear Shareholders,

Short-term interest rates moved higher in 2005. This was a direct result of the Federal Reserve Board (Fed) increasing the Federal Fund Rate in order to slow down the economy because of looming inflationary pressures. But when long-term interest rates finally started increasing, bond prices fell and turned bearish. Falling bond prices erode the value of our bond portfolio but value does not impact your dividend; only actual revenue enters into the computation of your dividend. What was our portfolio strategy for dealing with the increase in interest rates across the bond yield curve?

Our strategy was two-fold. First, we invested in bonds that had a variable interest rate. They have a higher yield than our money market fund, and over the life of the bond, there are periodic increases in yields. The second part of the strategy required trading long-dated Treasury bonds. A change in interest rates of .01% has a major impact on the value of the underlying security. Based on technical indicators and various economic trends, we received a buy signal in early July. In August, we were sitting on a substantial unrealized loss. However, due to some negative economic news, the unrealized losses soon disappeared and we were able to sell the bonds at a $173,474 gain in September. For the year we had a net realized gain of $216,449.

Despite all the hype we hear about stocks on business news programs, the actual bottom line results were not impressive overall. In 2005, the S&P 500 gained 4.68% and NASDAQ was up only 3.4%, which is less than what we would have made in investing in T-bills collecting interest with no risk at all. The Dow Jones Stock Index was the weakest, not even breaking even.

With corporate earnings coming in above estimates and an economy that had a respectable growth rate of 3.5%, why did the various major stock indexes under perform? The stock market is a discounting mechanism that does not deal well with the unknown, particularly when dealing with a major component of our economy. The greatest threat to our economy is the housing bubble. The Fed created a huge capital pool in response to the bursting of the stock market bubble in 2000. They did this in order to thwart any deflationary shocks to the economy that usually follow the demise of an asset mania. Japan is a classic case of deeply ingrained deflation that is only now beginning to correct after the twin manias of stock and property bubbles burst in the early 90s.

The Fed was successful in preventing deflationary shocks. However, in the course of providing easy credit, they unknowingly fueled the fires of inflation and created a housing bubble that dwarfs previous housing booms. To get some idea of what housing contributes to our economy consider the following: 30% of all new jobs created since the mild economic slowdown at the beginning of the decade have been housing related; and for every dollar spent on residential construction, $1.27 in additional economic activity is generated. It should be noted that according to the Liscio

Report (analytical newsletter): the $1.27 of additional economic thrust doesn't include the hardly inconsequential economic stimulus of remodeling or mortgage/equity withdrawal.

As previously discussed, the Fed is increasing short-term interest rates to slow down the economy, which in turn, will impact the housing market. Since housing is a major component of our economy, what can we expect from the Fed's actions? There have been two other major housing downturns in the past 40 years: from 1978 to 1982 and from 1988 to 1992. In both cases, the level of sales and construction fell sharply, and the annual change in real home prices plunged from a peak of around plus 6% to a low around minus 6%. In the current cycle, home price appreciation reached a peak of more than 10%. If history is our guide, a 10% reduction in prices would have a severe impact on our economy.

It is important to note that the previous two housing downturns were followed by recessions: a deep one in the early 1980s and a mild one in the early 1990s. In neither case did the housing bust cause a recession, but once the economic downturn took hold of the housing and labor market, the recession deteriorated.

In summary, the U.S. economy will be subject to three unstoppable forces: the housing slowdown, high oil prices and higher interest rates. The U.S. consumer, already burdened with high debt, will be hit hard by these shocks. Also, an end to the era of massive wealth gains from housing will remove a major tailwind behind consumer spending. It appears to me that we are in the midst of a perfect storm that will broadside our economy. If I am correct, we can anticipate an economic slowdown/recession which will cause the Fed to reverse course. That is, short-term interest rates will be reduced in an effort to stimulate the economy.

In the current economic cycle, the goal of managing the portfolio is to have all of our investments firmly in place prior to a possible slowdown. At every Board meeting, risk/reward issues are debated at length in order to develop a portfolio strategy. This approach has worked for us in the past and I believe that we can develop a strategy that will preserve our capital, while getting out a decent return to you in the form of dividends.

I would like to thank you and the Board of Directors for your support during these trying economic times.

Sincerely,

Scott Burns

Scott Burns
Chief Financial Officer

Officers and Directors

Louis A. Thompson
President/Chief Executive Officer

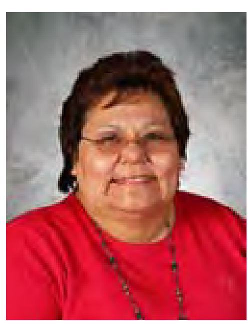
Louis Jones, Sr.
Vice President

Scott Burns
Chief Financial Officer

John Campbell
Secretary

Jeane Breinig
Director

Kenneth Gordon
Director



Ramona Hamar
Director

Laird Jones
Director

Melanie Locklear
Director

Marie Miller
Director

& COMPANY

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and
Board of Directors of
Kavilco Incorporated
(an investment company)

We have audited the accompanying statement of assets and liabilities of Kavilco Incorporated (an investment company), including the schedule of investments, as of December 31, 2005, and the related statement of operations for the year then ended, the statements of changes in net assets for the years ended December 31, 2005 and 2004, and the financial highlights for the years ended December 31, 2005, 2004, and 2003. These financial statements and financial highlights are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits. The financial highlights for each of the two years in the period ended December 31, 2002, were audited by other auditors whose report dated February 15, 2003, expressed an unqualified opinion on those highlights.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2005, by correspondence with the custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Kavilco Incorporated as of December 31, 2005, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the three years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

Anderson ZurMuehlen & Co., P.C.

Seattle, Washington
February 22, 2006

Statement of Assets and Liabilities

		December 31, 2005
Assets		
Investments in securities, at market value (identified cost $33,282,355)	$	33,684,535
Real estate at fair value		3,588,815
Cash and cash equivalents		178,020
Interest receivable		260,341
Premises and equipment, net		4,645
Prepaid expenses and other assets		13,300
Total assets		37,729,656
Liabilities		
Accounts payable and accrued expenses		23,302
Dividends payable		27,341
Total liabilities		50,643
Commitments and Contingencies		
Net assets	$	37,679,013
Net assets consist of:		
Undistributed net investment income	$	34,305
Unrealized appreciation on		
Investments		402,180
Real estate		2,534,726
Contributed capital		34,707,802
Net assets	$	37,679,013
Net asset value per share of common stock ($37,679,013 divided by 12,000 shares outstanding)	$	3,139.92

The Notes to Financial Statements are an integral part of this statement.

Schedule of Investments

December 31, 2005

	Principal amount/shares	Market value
Investments in securities – 89.4% of net assets		
U.S. government securities – 40.8%		
United States Treasury Notes, 1.500% due March 31, 2006	1,000,000	$ 993,710
Federal Home Loan Bank, 3.250% due June 6, 2006	1,000,000	997,810
Federal Home Loan Bank, 3.350% due July 11, 2006	1,000,000	997,810
Federal Home Loan Bank, 3.760% due September 29, 2006	1,000,000	993,130
Federal Home Loan Bank, 4.000% due June 29, 2007	2,000,000	1,977,500
Federal National Mortgage Association, 6.210% due November 7, 2007	1,000,000	1,025,490
Federal National Mortgage Association, 6.150% due December 10, 2007	1,000,000	1,025,710
Federal National Mortgage Association, 4.000% due December 14, 2007	1,000,000	984,690
Federal National Mortgage Association, 3.375% due December 28, 2007	1,000,000	993,750
Federal National Mortgage Association, 3.500% due December 17, 2009	1,000,000	994,060
Federal National Mortgage Association, 6.150% due June 30, 2010	1,000,000	984,380
Federal National Mortgage Association, 3.375% due July 7, 2010	1,000,000	980,630
United States Treasury Bond, 7.250% due May 15, 2016	2,000,000	2,455,780
Total U.S. government securities (cost $15,494,532)		15,404,450
Corporate obligations – 21.2%		
Banking – 2.7%: Chase Manhattan Corp., 7.875% due July 15, 2006	1,000,000	1,013,570
Beverage (soft drink) – 2.2%: Coca-Cola Enterprises, 8.500%, due February 1, 2012	700,000	830,466
Diversified financial services – 2.9%: General Electric Cap Corp., 8.500%, due July 24, 2008	1,000,000	1,084,480
Electric utility – 0.5%: Potomac Electric Power Co., 6.500%, due March 15, 2008	190,000	196,168
Entertainment – 0.8%: Walt Disney Company, 5.800%, due October 27, 2008	290,000	293,970
Food processing – 0.6%: Heinz Corp., 6.000%, due March 15, 2008	229,000	233,607
Retail store – 3.1%		
Wal-Mart Stores, 6.875% due August 10, 2009	1,000,000	1,064,280
Dayton Hudson, 8.600% due January 15, 2012	100,000	118,473
Securities brokerage – 5.7%		
Merrill Lynch & Co., 6.375% due October 15, 2008	1,000,000	1,090,900
Bear Stearns Co., Inc., 7.625% due December 7, 2009	1,000,000	1,037,890
Telecommunication services – 2.7%: Pacific Bell, 6.125% due February 15, 2008	1,000,000	1,016,860
Total corporate obligations (cost $7,542,824)		7,980,664
Common Stock – 0.3%		
Technology – 0.28%: Microsoft Corp.	3,640	95,186
Gold/Silver mining – 0.02%: Coeur d'Alene Mines Corp.	2,000	8,000
Total common Stock (cost $48,764)		103,186
Short-term investments – 27.1%		
Prime Obligation Funds	10,196,235	10,196,235
Total short-term investments (cost $10,196,235)		
Total investments in securities (identified cost $33,282,355)		$ 33,684,535

The Notes to Financial Statements are an integral part of this statement.

Statement of Operations

		December 31, 2005
Investment income		
Interest	$	1,281,170
Dividends from money market fund		238,290
Dividends		2,497
Total investment income		1,521,957
Expenses		
Salaries and benefits		282,077
Directors' compensation and expenses		246,748
Legal and accounting		23,392
Custodian		11,777
Insurance expense		71,967
Office and equipment leases		55,769
General and administrative		63,942
Total expenses		755,672
Net investment income		766,285
Realized and unrealized gain (loss) on investments		
Net realized gain on investments		216,449
Net decrease in unrealized appreciation on investments		(756,272)
Net realized and unrealized (loss) on investments		(539,823)
Net operating income		226,462
Other income		58,975
Net increase in net assets resulting from operations	$	285,437

The Notes to Financial Statements are an integral part of this statement.

Statement of Changes in Net Assets

Years Ended December 31, 2005 and 2004

	2005	2004
Increase (decrease) in net assets from operations		
Net investment income	**$ 766,285**	$ 777,180
Net realized gain on investments	**216,449**	390,956
Net (decrease) in unrealized appreciation	**(756,272)**	(1,172,266)
Net other income	**58,975**	48,660
Net income in net assets resulting from operations	**285,437**	44,530
Dividends and distributions		
Net investment income	**(888,545)**	(775,384)
Net realized gain on investments	**(61,680)**	(390,956)
Net other income	**(58,975)**	(48,660)
Total dividends and distributions	**(1,009,200)**	(1,215,000)
Total (decrease) in net assets	**(723,763)**	(1,170,470)
Net assets		
Beginning of year	**38,402,776**	39,573,246
End of year (including undistributed net investment income of $34,305 and $1,796, respectively)	**$37,679,013**	$38,402,776

The Notes to Financial Statements are an integral part of this statement.

Financial Highlights

Years Ended December 31, 2001 to 2005

Per share operating performance (for a share of capital stock outstanding throughout the period):

	2005	2004	2003	2002	2001
Net asset value, beginning of year	**$3,200.23**	$3,297.77	3,310.27	$3,268.17	$3,203.96
Income from investment operations					
Net investment income	**63.86**	64.77	103.48	123.70	150.06
Net realized and unrealized gain (loss)	**(44.99)**	(65.11)	18.68	49.91	70.41
Net other income	**4.92**	4.06	2.84	15.49	4.74
Total from investment operations	**23.79**	3.72	125.00	189.10	225.21
Less dividends and distributions from					
Net investment income	**(74.04)**	(64.62)	(115.06)	(116.99)	(159.93)
Net realized gain on investments	**(5.14)**	(32.58)	(19.60)	(10.85)	-
Net other income	**(4.92)**	(4.06)	(2.84)	(19.16)	(1.07)
Total distributions	**(84.10)**	(101.26)	(137.50)	(147.00)	(161.00)
Net asset value, end of year	**$3,139.92**	$3,200.23	$3,297.77	$3,310.27	$3,268.17
Total return (%)	**0.74**	0.11	3.78	5.79	7.54
Ratios/supplemental data					
Net assets, end of year (in thousands) ($)	**37,679**	38,403	39,573	39,723	39,218
Ratio to average net assets (%)					
Expenses	**1.98**	1.97	1.92	1.88	1.78
Net investment income	**2.01**	1.98	3.08	3.75	4.54
Portfolio turnover rate (%)	**131.3**	6.2	56.7	9.6	3.0

The Notes to Financial Statements are an integral part of this statement.

Notes to Financial Statements

December 31, 2005

NOTE 1. Organization

Kavilco Incorporated (the Company) is a village corporation within the Sealaska region organized pursuant to the Alaska Native Claims Settlement Act ("ANCSA"). Contributed capital includes receipts from the U.S. government and the state of Alaska under provisions of ANCSA.

Under Section 12(a) of ANCSA, on December 5, 1979 the Company received entitlement to the surface estate of real property totaling approximately 23,055 acres. In 1987, 194 acres of the Company's real property were distributed to the shareholders, and the timber rights on the remaining 22,861 acres were sold. However, the Company retains all other rights to the surface estate of the real property. The sale of the timber rights contract expired in December 2001, and the timber rights reverted back to the Company. However, at that time, there were no stands of economically viable timber remaining on the property. Since selling the timber rights, the Company has derived the majority of its income from investments.

On November 1, 1989, the Company began to operate as a self-managed, closed-end management investment company, as defined by the Investment Company Act of 1940 (the "Act"). The Company is subject to various restrictions imposed by the Act and the Internal Revenue Code, including restrictions on borrowing, dividend and distribution policies, operations and reporting requirements. The Company's investment decisions, which focus primarily on fixed income investments, are made by management under the direction of the Board of Directors.

NOTE 2. Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for investment companies. The following is a summary of the significant accounting policies consistently followed by the Company in the preparation of these financial statements.

Security Valuation:
Investments in securities consist primarily of U.S. government securities, corporate obligations, commercial paper and common stock. Investments in securities traded on a national securities exchange (or reported on the NASDAQ national market) are stated at the last reported sales price on the day of valuation; other securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are stated at the last quoted bid price. Commercial paper is stated at amortized cost, which approximates market value.

NOTE 2. Summary of Significant Accounting Policies (continued)

Investment Transactions:
Securities transactions are recorded on a trade date basis. Realized gains and losses from securities transactions are recorded on the basis of identified cost.

Investment Income:
Interest income is recorded on an accrual basis as adjusted for the amortization of discounts and premiums using the effective interest method. Premiums and discounts, including original issue discounts, are amortized for both tax and financial reporting purposes. Dividend income is recorded as of the ex-dividend date.

Real Estate:
Real estate is carried at fair value as determined in good faith by the Board of Directors. Real estate represents entitlement to the surface estate of real property described in Note 1, for which no readily available market quotation exists. The real estate was initially recorded by the Company at its appraised value at the date of conveyance ($934,089). In addition, during the year 2002, the Company received an additional 89.24 acres in the process of closing out the timber sale contract, in payment of a past due rent obligation that was owed to the Company. The Board of Directors engaged a Certified Forester (the "Forester") to provide an estimate of the value of the real property. The value of this additional land was estimated by the Forester to be $120,000 for a total cost basis of $1,054,089. In order to estimate the fair value of this real property, the Board of Directors has considered such relevant factors as the lack of commercially viable timber due to previous harvest, amount of capital expenditures required for the future growth of timber, location of the property, recent sales of similar real property in the region and market demand and supply for this type of real property during the valuation process. The Board of Directors estimated the fair value of this real property at December 31, 2005 to be $3,588,815 on the basis of good faith consideration of both the aforementioned pertinent factors and the analysis performed by the Forester. Based on the inherent uncertainty of valuation, however, this estimated value may differ significantly from the value that would have been used had a ready market for the real property existed, and the difference could be material.

Federal Income Taxes:
The Company's policy is to comply with the requirements of the Internal Revenue Code that are applicable to regulated investment companies and to distribute all of its net investment taxable income to its shareholders. Therefore, no federal income tax provision is required for the Company.

NOTE 2. Summary of Significant Accounting Policies (continued)

Dividends and Distributions to Shareholders:
Dividends and distributions to shareholders are recorded on their payable date. Dividends are generally declared and paid twice a year. Capital gain distributions are generally declared and paid annually. The timing and characterization of certain income and capital gains distributions are determined in accordance with federal tax regulations and may differ from those determined in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates:
The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

NOTE 3. Investments

Purchases of investment securities (consisting of U.S. government securities, commercial paper, and common stock) aggregated $41,299,609 for the year ended December 31, 2005, and sales and maturities of investment securities (consisting of U.S. government securities, corporate obligations, commercial paper, and common stock) aggregated $50,500,329 for the year ended December 31, 2005.

NOTE 4. Premises and Equipment

Buildings and equipment are recorded at cost less accumulated depreciation. Depreciation is computed generally on the straight-line method over the estimated useful lives of the related assets, which range from 5 to 15 years. Depreciation expense was $2,505 for the year ended December 31, 2005.

Building	$154,369
Furniture, fixtures, and equipment	100,096
	254,465
Less accumulated depreciation	(249,820)
	$ 4,645

NOTE 5. Lease Obligation

The Company leases office space under a non-cancelable operating lease agreement, which terminates September 30, 2008. Rent expense for the year ended December 31, 2005 was $38,249, which has been included in the general and administrative expenses.

At December 31, 2005, future minimum lease commitments under the non-cancelable operating lease are approximately as follows:

2006	$ 29,700
2007	29,700
2008	22,200
	$ 81,600

NOTE 6. Net Assets

The Company's capital structure is as follows:

Common stock
Class A, no par value – Authorized, 1,000,000 shares; issued and outstanding, 11,576.83 shares
Class B, no par value – Authorized, 500,000 shares; issued and outstanding, 423.17 shares

Upon organization, 100 shares of common stock (Class A) were issued to each qualified shareholder enrolled in the Company pursuant to ANCSA. The Company utilized a roll comprising 120 Alaska Natives eligible to receive stock certificates as certified by the U.S. Secretary of the Interior. Under the provisions of ANCSA, 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 death, unless approved by a majority of the shareholders. (Before the Company's stock may be publicly traded, it must amend its Articles of Incorporation.) The stock carries voting rights only if the holder hereof is an eligible Alaska Native. Nonvoting common stock (Class B) is issued to non-Native persons who inherit stock.

December 31, 2005

NOTE 7. Tax Basis of Distributable Income

At December 31, 2005, there was approximately $43,000 of undistributed ordinary income for tax purposes. During the year ended December 31, 2005, $947,520 of the Company's distributions comprised ordinary income, and $61,680 were considered long-term capital gains.

The tax cost of investments is the same as for financial reporting purposes. The gross unrealized appreciation and gross unrealized depreciation on a tax basis is $550,151 and $147,971, respectively.

NOTE 8. Pension Plan

Employees of the Company are covered by a defined contribution pension plan. The Company contributes 20% of each participant's compensation to the plan. The Company's contributions during the year ended December 31, 2005 totaled $50,640.

This page is dedicated to the memory of Original Shareholders who have passed on.

January 1912: Group gathered around Chief Son-I-Hat's casket, New Kasaan, Alaska. Copy from a postcard photograph loaned by Mrs. Helen Sanderson, Hydaburg, Alaska. The following information was supplied by Mrs. Sanderson: "Second left behind coffin, John Wallace; seated to right of coffin, Walter Frank; next to Frank in dark shirt is Pat Skoka {Skulka?}; man to left on porch is Reverend Marsden; next to the bearded man are two brothers Peel, sons of Chief Son-I-Hat."

Henry L. Abbott
Florence A. Adams
Vincent W. Baronovich
Pauline E. Blackstad
Roberta M. Campbell
Christian L. Coburn
John J. Cook
M. Helen Dailey
Dorothy Evener
Julia Fawcett
Margaret Frank
Wallace T. Frank
Sarah J. Hanbury
Wilfred S. Hanbury, Sr.
William C. Irvine
Ernest T. Jones
George A. Jones
Henry H. Jones
Laura L. Jones
Raymond L. Jones
Catherine N. Kerstetter
Alton McAllister, Jr.
Harry L. McAllister
Ivan J. McAllister, Sr.
Eliza M. McAlpin
Paul G. McAlpin
Leif B. Olsen
Robert I. Olsen
Annabelle Peele
David S. Peele
Marjorie E. Sinclair
Agnes R. Swanson
Estelle I. Thompson
Rosemarie Trambitas
Dexter Wallace
Betty R. Williams
Allen Young
Douglas A. Young
Edward L. Young, Jr.
Robert Young, Sr.
Walter B. Young, Jr.
Walter B. Young, Sr.

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