Kavilco Incorporated

2006 Annual Report

The Civilian Conservation Corps (CCC) reconstructed Chief Son-I-Hat's Whale House (Neyúwens) in the late 1930s. It stands as a remarkable example of Native craftsmanship, occupying a natural setting unobtruded by signs of modern development. Because of a lack of maintenance by the U.S. Forest Service, the Whale House and totems have fallen into disrepair. The only Haida clan house in Alaska is in serious danger of being lost through deterioration. Kavilco and Kasaan Haida Heritage Foundation (KHHF) are eager to dedicate our resources toward the goal of restoring the Whale House to a sound condition and are seeking grants and appropriations funds to that end. As a registered non-profit organization, KHHF can offer a tax deduction for monetary and in-kind donations.

Whale House (Neyúwens) and frontal pole.

Front cover: Chief Son-I-Hat (center, holding cane) and his wife (to his right) with family at Kasaan, Alaska. Although the date was not recorded, the photograph was taken sometime between 1900 and 1911. Chief Son-I-Hat died in January of 1912.

Chief SON-I-HAT

Chief Son-I-Hat (Kóyongxung) of the Yádas (Eagle) clan, was born in 1829, and was considered one of the wealthiest of the Haida chiefs. Son-I-Hat had two brothers, Tákimash and Xakhú, and a sister, Shidla aówa kinás ("heavy flying bird," referring to the slow, heavy beat of an eagle's wing). Son-I-Hat's wealth consisted of slaves, gold coin, houses and totem poles. The Chief had a reputation of being fair to his slaves and treated them as part of his family. He was a carver of gold and silver, but not of totem poles, spoons or boxes.

Son-I-Hat built two houses. The first one, called Neyúwens ("great house") was built in 1880 in Kasaan Bay, and is now listed in the National Register of Historic Places. The second house, some sources name Eagle House, was built in the mid-1890s.

A good portion of the Chief's wealth came from fur trading. He ran canoes from the northern part of the Gulf of Alaska, around Kodiak Island, and as far south as California. Son-I-Hat bought furs from the North and sold them to the Hudson's Bay Company. His name appears frequently in the Hudson's Bay Company journals for Fort Simpson.

Although Son-I-Hat is a Tlingit name meaning "Well Respected," both the Chief and his wife were of Haida descent. The Son-I-Hat family lived in New Kasaan and today the Totem Park is located where his house once stood. The Chief spoke fluent Haida and Chinook, and Mrs. Son-I-Hat spoke Haida and Tsimshian. The family consisted of three boys (Alex, James and Takamoose) and at least one girl. James is the father of David Son-I-Hat Peele and Harriet McAllister.

As a sign of wealth many chiefs held a celebration called potlatches. During the five-day potlatch celebration the host gave extravagant gifts to all of the invited guests. The last potlatch that Chief Son-I-Hat gave was said to have cost him in excess of $20,000. At one point the Chief had so many gold coins that he gave them to his aunt to take to Port Simpson, British Columbia for safe keeping. Neither the gold coins nor his aunt were ever seen again.

When the Russian Orthodox and other Christian missionaries told the Haida that Christianity was the only way to survive, Son-I-Hat relented and became a Christian. The remainder of the tribe followed.

In 1901, he was the first chief to answer a plea from Governor Brady (Territorial Governor of Alaska, 1897-1906), gifting his Old Kasaan Eagle house and its totem poles to be preserved and exhibited at the Sitka National Monument. Chief Son-I-Hat died at the age of 83 in 1912.

BOARD OF DIRECTORS & CORPORATE MANAGEMENT

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

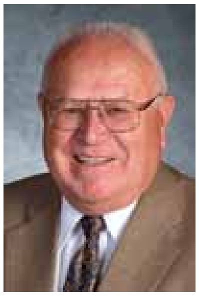
"To honor the vision and unselfish actions of our Kasaan Haida ancestors and elders, the goals of Kavilco Incorporated are to provide dividends and to preserve the assets for all generations."

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
2006 Dividends	1,064,949
TOTAL DISTRIBUTIONS	**$41,366,580**
Total per share (12,000 shares)	$3,447

IF YOU HELD 100 SHARES SINCE 1980, YOU HAVE RECEIVED **$344,700**

PRESIDENT/CHIEF EXECUTIVE OFFICER



Dear Shareholders,

Welcome to our 34th year of operation. This has been a busy summer in Kasaan. Several projects involving Kavilco property are currently underway. Full Metals Minerals of Vancouver, British Columbia is leasing Kavilco's bunkhouse, double-wide trailer and shop during the Mt. Andrews rock core drilling exploration for future mining opportunities. If the minerals prove of value, Kavilco could develop into a base of operation because of the facilities we have available to lease.

Alaska Power and Telephone (APT), leasing land from Kavilco on top of Kasaan Mountain, has completed a tower capable of distributing a signal that will bring broadband Internet and cellular phone service to Kasaan and a large portion of Prince of Wales Island. An additional tower has already been erected in Kasaan for local broadband use. APT is in the process of replacing all power distribution lines throughout the City of Kasaan. The original power system has been in use since the late 1970s. The new system, which is underground, will give us more dependable service.

We are continuing to gather and archive historical articles and photographs of Kasaan and the surrounding area for our files and website. We are working closely with the Kasaan Haida Heritage Foundation (KHHF) to research grants and funding to restore Chief Son-I-Hat's Whale House and Totem Park. MRV Architects in Juneau, Alaska reviewed and appraised the costs to restore the Whale House. It appears that the restoration cost will total $2.5 to 3 million. We are seeking a direct appropriation from the U.S. Congress since the U.S. Forest Service held the responsibility for maintaining the site from 1938 until 1971-73.

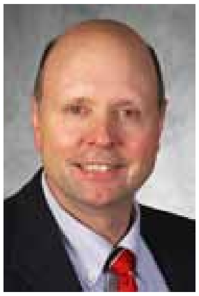
As we approach our 34th Annual Meeting of Shareholders, I strongly encourage all shareholders to vote their proxies, even if you cannot attend, to ensure a quorum to hold the Annual Meeting.

Thank you in advance for your interest in your Corporation and for your support of the Board of Directors and Management. Have a healthy and wonderful year.

Sincerely,

Louis A. Thompson
President/Chief Executive Officer

CHIEF FINANCIAL OFFICER



Dear Shareholders,

There's an old adage in the investment community which states: "Never bet against the Fed." The Federal Reserve Bank started increasing short-term interest rates in June 2004 in an effort to slow down the economy. Over the next two years, the Fed Fund Rate increased from 1% to 5.25%.

The much anticipated economic slowdown did not materialize and the S&P Stock Index trended sideways for the first six months of 2006. However, we had been sitting on the sidelines during the rate increases, and at the September and November Board meetings we started mapping out our stock strategy.

At the January 2007 Board meeting we finalized our stock strategy. We increased our initial purchase price for a company's stock from $25, 000 to $50,000 and doubled our allocation in our equity portfolio to $2 million. We are going to be more reliant on momentum indicators as opposed to fundamental analysis for purchases/sales of equities. Stay tuned for the 2007 Annual Report and newsletters for the results of our revised equity strategy.

On the bond front, short-term interest rates had a nice bump up courtesy of the aforementioned Fed Fund increase. But interest rates on the long-end of the yield curve, namely the ten-year Treasury bond, closed up a mediocre 4.71%. However, rates were very volatile throughout the year. We actively traded the five-, ten-, and thirty-year U.S. Treasury bond and were rewarded with $156,226 of short-term capital gains.

In the 2005 Annual Report, I discussed the potential economic ramifications of a housing downturn. Now we have the biggest slump in U.S. housing in the last 40 years. These are not my views but those of the Toll Brothers, the famous luxury "McMansions" homebuilders. In his 40 years as a homebuilder, Mr. Toll says he has never seen a slump unfold like the current one. "I've never seen a downturn in housing without a downturn in employment or some macroeconomic nasty condition that took housing down along with other elements of the economy, " he says. "This time you've got low employment, you've got a stable stock market and relatively low interest rates."

The downturn has also impacted existing home sales. As home buyers abandon the market, inventories of unsold homes will mount to the point where home values start to erode. The erosion of property values always has a negative impact on consumer spending. Adding to the bloated inventory of unsold homes will be a raft of adjustable-rate mortgages that will begin adjusting to higher interest rates which, in turn, will push up delinquencies and foreclosures.

The employment effects of housing are serious; up to 30% of the employment growth in the last three years was due directly and indirectly to housing. For the most part, investment banks provided the financing for the housing bubble and if the projected defaults on the subprime mortgages come to fruition, we can expect a credit squeeze that will impact all sectors of the credit market. Business and consumer access to credit, along with employment growth, are key components to a healthy economy.

Over the years, the Board of Directors has had to navigate similar economic disaster scenarios. With their guidance and support, we are up to any challenges the financial markets may throw at us.

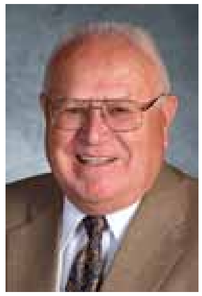
Sincerely,

Scott Burns

Scott Burns
Chief Financial Officer

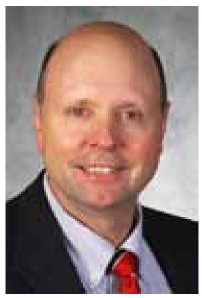
OFFICERS & DIRECTORS

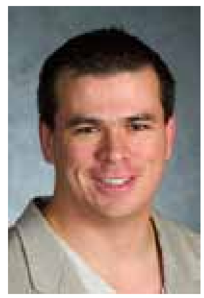
Louis A. Thompson
President/Chief Executive Officer



Louis Jones, Sr.
Vice President

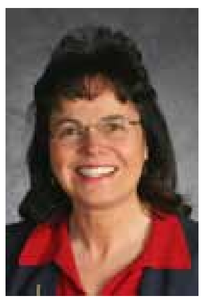
Scott Burns
Chief Financial Officer

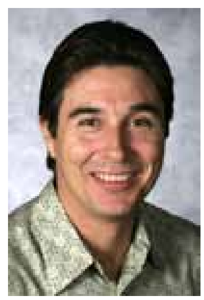




John Campbell
Secretary

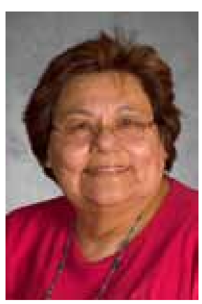
Jeane Breinig
Director

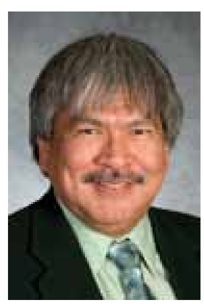




Kenneth Gordon
Director

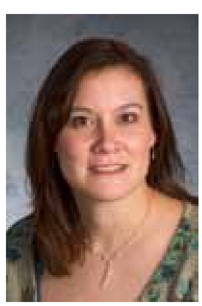
Ramona Hamar
Director

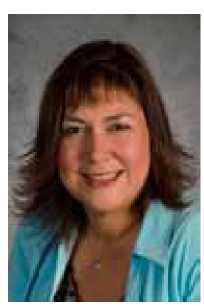




Laird A. Jones
Director

Melanie Locklear
Director





Marie Miller
Director

IN TRIBUTE TO WILLARD LEAR JONES

Willard Lear Jones
1930-2007

This Annual Report is dedicated to Willard Lear Jones who served diligently as a Kavilco Incorporated Board member for 22 years. Willard passed away on April 5, 2007 in Ketchikan, Alaska.

Willard was born May 30, 1930 in Kasaan, Alaska. He attended schools in Kasaan and Sitka, Alaska; Richmond Beach, Washington and Oakland, California. He was a commercial fisherman, diesel mechanic, high school teacher and college diesel instructor. He served in the U. S. Army during the Korean Conflict.

Early on Willard was elected as interim Chairman and represented the village of Kasaan during the signing of the ANCSA bill at the Alaska Methodist University Center on December 17, 1971. Before the signing, the government challenged the legality of Kasaan being included in the bill, questioning whether there was the required number of residents of Kasaan to qualify. The issue appeared before a court, and as acting Chairman, Willard organized the elders of Kasaan to testify as to the validity of Kasaan being a bona fide village. The ruling was ultimately approved in our favor and Kasaan remained in the bill.

Willard retired from the Board of Directors in 1993, and when he was asked to comment on his tenure he responded, "If there is one thing that helps determine my thoughts, it is the knowledge that I was not born when my ancestors started to claim their land. I thank them for their efforts and many sacrifices. I felt it was my duty to protect the Corporation for the generations yet to be born." After his retirement from the Board, Willard remained active in Haida and Tlingit organizations and the Native American Graves Protection and Repatriation Act. He was also a Native artisan, but his main concern was his hopes of decreasing Native student dropout rates.

He is survived by his wife, Mary (Baines) Jones; sister, Julia J. Coburn; daughter, Eleanor L. Hadden; son, Laird A. Jones; grandchildren, Jennifer L. Hadden, Kristopher L. Hadden and Justin L. Jones; great-granddaughter, Melissa K. Hunter; godson, Daniel Berg; and numerous nieces and nephews.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors
Kavilco Incorporated (An Investment Company)

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of Kavilco Incorporated (the Company) as of December 31, 2006, and the related statements of operations, changes in net assets, and financial highlights for the year then ended. 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 audit. The statement of changes in net assets for the year ended December 31, 2005 and the financial highlights for each of the four years in the period ended December 31, 2005 were audited by other auditors whose report dated February 22, 2006, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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, 2006, 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, 2006, the results of its operations, changes in its net assets and financial highlights for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3, the financial statements include real estate valued at $3,588,815, whose value has been determined by management in the absence of a readily ascertainable fair value. We have reviewed the procedures established by management and used by management in arriving at the fair value of the real estate and have inspected the underlying documentation, and, in the circumstances, we believe the procedures are reasonable and the documentation appropriate.

Moss Adams LLP

Seattle, Washington
February 12, 2007

STATEMENT OF ASSETS & LIABILITIES

		December 31, 2006
ASSETS		
Investments in securities, at market value (identified cost $33,340,851)	$	33,554,695
Real estate at fair value (identified cost $1,054,089) (Note 3)		3,588,815
Cash		205,307
Interest receivable		288,762
Premises and equipment, net		14,103
Prepaid expenses and other assets		16,908
Total assets		37,668,590
LIABILITIES		
Accounts payable and accrued expenses		19,495
Dividends payable		79,114
Total liabilities		98,609
NET ASSETS	$	37,569,981
Net assets consist of:		
Distributable earnings (Note 9)	$	2,862,179
Contributed capital		34,707,802
Net assets	$	37,569,981
Net assets value per share of Class A and Class B common stock ($37,569,981 divided by 12,000 shares outstanding) (Note 8)	$	3,131

See accompanying notes.

SCHEDULE OF INVESTMENTS

	December 31, 2006	
	Principal amount or shares	Market value
INVESTMENTS IN SECURITIES – 89.3%		
U.S. government securities – 30.2%		
United States Treasury Bond, 7.250% due May 15, 2016	2,000,000	$ 2,377,500
Federal Home Loan Bank, 4.000% due June 29, 2007	2,000,000	1,987,500
Federal Home Loan Bank, 3.375% due December 28, 2007	1,000,000	998,125
Federal Home Loan Bank, 3.500% due December 17, 2009	1,000,000	998,125
Federal Home Loan Bank, 4.000% due June 30, 2010	1,000,000	989,375
Federal National Mortgage Association, 6.210% due November 7, 2007	1,000,000	1,007,852
Federal National Mortgage Association, 6.150% due December 10, 2007	1,000,000	1,008,223
Federal National Mortgage Association, 4.000% due December 14, 2007	1,000,000	988,125
Federal National Mortgage Association, 3.375% due July 7, 2010	1,000,000	989,375
Total U.S. government securities (cost $11,456,861)		11,344,200
U.S. corporate obligations – 18.1%		
Beverage (soft drink) – 2.1%: Coca-Cola Enterprises, 8.500%, due February 1, 2012	700,000	800,894
Diversified financial services – 2.8%: General Electric Cap Corp., 8.500%, due July 24, 2008	1,000,000	1,045,194
Electric utility – 0.5%: Potomac Electric Power Co., 6.500%, due March 15, 2008	190,000	192,183
Entertainment – 0.8%: Walt Disney Company, 5.800%, due October 27, 2008	290,000	291,707
Food processing – 0.6%: Heinz Corp., 6.000%, due March 15, 2008	229,000	229,306
Retail store – 3.1%		
Wal-Mart Stores, 6.875% due August 10, 2009	1,000,000	1,041,826
Dayton Hudson, 8.600% due January 15, 2012	100,000	114,450
Securities brokerage – 5.5%		
Merrill Lynch & Co., 6.375% due October 15, 2008	1,000,000	1,017,860
Bear Stearns Co., Inc., 7.625% due December 7, 2009	1,000,000	1,064,567
Telecommunication services – 2.7%: Pacific Bell, 6.125% due February 15, 2008	1,000,000	1,006,855
Total U.S. corporate obligations (cost $6,547,443)		6,804,842
U.S. common stock – 0.6%		
Exchange traded funds – less than 1%: StreetTracks Gold Trust	160	10,114
Natural gas (diversified) – 0.1%: Kinder Morgan Energy Partners	400	19,160
Oil refining & marketing – 0.2%		
Sasol Limited	300	11,070
Suncor Energy Inc.	300	23,673
Sunoco Inc.	300	18,708
Valero Energy Corp.	450	23,022
Technology – 0.3%: Microsoft Corp.	3,640	108,690
Total U.S. common stock (cost $145,329)		214,437
U.S. short-term investments – 40.4%		
Federated Prime Obligation Fund		
Total U.S. short-term investments (cost $15,191,216)	15,191,216	15,191,216
Total investments in securities (identified cost $33,340,851)		$ 33,554,695

See accompanying notes.

STATEMENT OF OPERATIONS

	Year Ended December 31, 2006
INVESTMENT INCOME	
Interest	$ 1,427,837
Dividends	298,888
Total investment income	1,726,725
EXPENSES	
Salaries and benefits	330,779
Directors' compensation and expenses	237,306
Legal and accounting	32,234
Custodian	10,907
Insurance expense	67,513
Office and equipment leases	57,991
General and administrative	62,447
Total expenses	799,177
Net investment income	927,548
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS	
Net realized gain on investments	143,752
Net decrease in unrealized appreciation on investments	(188,336)
Total realized and unrealized loss on investments	(44,584)
NET OPERATING INCOME	882,964
OTHER INCOME	73,004
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ 955,968

See accompanying notes.

STATEMENT OF CHANGES IN NET ASSETS

	Years Ended December 31, 2006 and 2005	
	2006	2005
INCREASE IN NET ASSETS FROM OPERATIONS		
Net investment income	$ 927,548	$ 766,285
Net realized gain on investments	143,752	216,449
Net decrease in unrealized appreciation on investments	(188,336)	(756,272)
Other income	73,004	58,975
Net increase in net assets resulting from operations	955,968	285,437
DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS (Note 9)	(1,065,000)	(1,009,200)
Total decrease in net assets	(109,032)	(723,763)
NET ASSETS		
Beginning of year	37,679,013	38,402,776
End of year	$37,569,981	$37,679,013

See accompanying notes.

FINANCIAL HIGHLIGHTS

Years Ended December 31, 2002 to 2006

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

	2006	2005	2004	2003	2002
Net asset value, beginning of year	$3,139.92	$3,200.23	$3,297.77	$3,310.27	$3,268.17
Income from investment operations					
Net investment income	77.30	63.86	64.77	103.48	123.70
Net realized and unrealized gain (loss) on investment transactions	(3.72)	(44.99)	(65.11)	18.68	49.91
Net other income	6.08	4.92	4.06	2.84	15.49
Total from investment operations	79.66	23.79	3.72	125.00	189.10
Less dividends and distributions	(88.75)	(84.10)	(101.26)	(137.50)	(147.00)
Net asset value, end of year	$3,130.83	$3,139.92	$3,200.23	$3,297.77	$3,310.27
Total return	2.54%	0.74%	0.11%	3.78%	5.79%
Supplemental data					
Net assets, end of year (in thousands)	$ 37,570	$ 37,679	$ 38,403	$ 39,573	$ 39,723
Ratio to average net assets					
Expenses	2.12%	1.98%	1.97%	1.92%	1.88%
Net investment income	2.46%	2.01%	1.98%	3.08%	3.75%
Portfolio turnover rate	41.82%	131.30%	6.20%	56.70%	9.60%

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE 1 - ORGANIZATION

Kavilco Incorporated (the Company) is a village corporation within the Sealaska region organized on November 13, 1973, pursuant to the Alaska Native Claims Settlement Act ("ANCSA") of 1971. Under ANCSA the Native claims to land in Alaska were settled in exchange for part of the state's land and compensation. Settlement benefits were given to Natives of Alaska villages in the form of ownership shares in village corporations that were organized pursuant to ANCSA. Kavilco Incorporated was organized for the purpose of securing and administering the land and benefits for the Natives of the Kasaan village in Alaska. Contributed capital includes receipts from the U.S. government and the state of Alaska under provisions of ANCSA.

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 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.

Investment Transactions and Income - Investment transactions are recorded on a trade date basis. Realized gains and losses from securities transactions are computed using the specific identification method. 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

December 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

financial reporting purposes. Dividend income is recorded as of the ex-dividend date. Unrealized gains and losses are included in the statement of operations..

Real Estate - Real estate is carried at fair value as determined in good faith by management of the Company and approved by the board of directors. Real estate represents entitlement to the surface estate of real property, for which no readily available market quotation exists. Based on the inherent uncertainty of valuation, however, the 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 (Note 3).

Federal Income Taxes - The Company's policy is to continue 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.

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.

Management Fees - The investment management of the Company's portfolio is performed by an employee of the Company. In lieu of a management fee, payment for this service is part of the employee's annual compensation.

Directors' Compensation and Expenses - The board of directors of the Company receive compensation for each board meeting attended during the year in addition to a per diem allowance. Directors are also reimbursed for such expenses as accommodation, airfare, and car rental related to board meetings. In addition to meeting related expenses, the Company pays for the medical insurance of certain directors.

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

December 31, 2006

NOTE 3 - REAL ESTATE

At December 31, 2006, the Company owns fee title to the surface estate of 22,946 acres of real estate valued by the Company at $3,588,815. In 1979, the Company received entitlement under Section 12(a) of ANCSA to the surface estate of real property totaling 23,055 acres. And in 1987, 194 acres of this property was distributed to the shareholders. The Company received an additional 89.24 acres during 2002 in the process of closing out a timber sale contract.

As of December 31, 2006, there is no commercial viable timber on the real estate and the Company has no outstanding timber agreements. The last harvest and sale of timber from this land was in 2001.

Fair value of real estate is determined by management based on a Certified Forester's opinion as to the current value and status of the land, along with other factors. Other relevant factors include 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.

Management estimated the fair value of this real estate at $3,588,815 on the basis of good faith consideration of both the aforementioned pertinent factors and the analysis performed by the Forester. The board of directors approved this fair value estimate of the real estate.

NOTE 4 - TRADING RISK

In the normal course of business, the Company enters into financial transactions involving instruments where there is risk of potential loss due to changes in the market (market risk), or failure of the other party to the transaction to perform (credit risk).

Market risk is the potential change in value caused by fluctuations in market prices of an underlying financial instrument. Subsequent market fluctuations may require selling investments at prices that differ from the values reflected on the statement of assets and liabilities. Market risk is directly impacted by the volatility and liquidity in the markets in which financial instruments are traded. The Company's exposure to market risk may be increased in that a significant portion of its assets may be invested in a relatively small number of investment positions at any one time. Accordingly, appreciation or depreciation in value of investment positions may have a more significant effect on the value of the Company's portfolio than would be the case in a more diversified or hedged portfolio.

December 31, 2006

NOTE 4 - TRADING RISK (continued)

Credit risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of a contract. The Company's exposure to credit risk associated with counterparty nonperformance includes cash deposits that may exceed applicable insurance limits. The Company seeks to control such credit risk by maintaining deposits with only high quality financial institutions and trading exchange traded financial instruments, which generally do not give rise to significant counterparty exposure due to the requirements of the individual exchanges.

NOTE 5 - INVESTMENT TRANSACTIONS

Purchases of investment securities (consisting of U.S. government securities and common stock) aggregated $10,816,976 for the year ended December 31, 2006, and sales and maturities of investment securities (consisting of U.S. government securities, corporate obligations and common stock) aggregated $15,873,872 for the year ended December 31, 2006.

The U.S. federal income tax basis of the Company's investments is the same as for financial reporting purposes. The gross unrealized appreciation and gross unrealized depreciation for U.S. federal income tax purposes is $349,239 and $135,393, respectively.

NOTE 6 - PREMISES AND EQUIPMENT

Buildings and equipment are recorded at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets, which range from 5 to 15 years. Depreciation expense was $3,212 for the year ended December 31, 2006.

Building	$ 154,368
Furniture, fixtures, and equipment	79,127
	233,495
Less accumulated depreciation	(219,392)
	$ 14,103

December 31, 2006

NOTE 7 - 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, 2006 was $35,340, which is included in the office and equipment leases expense on the statement of operations.

Future minimum lease commitments under this non-cancelable operating lease are approximately as follows:

2007	$ 29,700
2008	22,200
	$ 51,900

NOTE 8 - NET ASSETS

Upon organization of the Company, 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. 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.

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

December 31, 2006

NOTE 9 - DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS

On March 10, 2006, a distribution of $13 per share was declared. The dividend was paid on March 23, 2006 to shareholders of record on March 13, 2006. On November 3, 2006, a distribution of $75.75 per share was declared. This dividend was paid on November 20, 2006 to shareholders of record on November 6, 2006.

The tax character of distributions paid during 2006 and 2005 was as follows:

	2006	2005
Distributions paid from:		
Ordinary income	$ (1,065,000)	$ (947,520)
Long-term capital gain	-	(61,680)
	$ (1,065,000)	$ (1,009,200)

As of December 31, 2006, the components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income	$ 113,607
Net unrealized appreciation on:	
Investments	213,846
Real estate	2,534,726
	$ 2,862,179

NOTE 10 - SCHEDULE OF INVESTMENTS

Investments are categorized by type, country and industry. The industry category represents management's belief as to the most meaningful presentation of the classification of the principal business of the investees. The percentage of net assets is computed by dividing the market value of each category by net assets.

NOTE 11 - 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, 2006 totaled $52,062.

This page is dedicated to the memory of Original Shareholders

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
Willard L. Jones
Catherine N. Kerstetter
Alton McAllister, Jr.
Harriet A. McAllister
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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Willard Lear Jones: Courtesy of the Jones family.

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Chief Son-I-Hat information: Courtesy of David Son-I-Hat Peele. Additional information provided by Walter B. Young, Sr.; recorded in 1971 as part of the Cultural Heritage Project conducted by the Alaska State Museum in cooperation with the U.S. Forest Service.

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