



*Kavilco an gaa K'uláas an uu waayáat t'alang
Kíl láagang. Íitl'k dáalaa tl'istgán sang t'alang
Kíl láagang, tla' íi íitl gudáas. Gíits gwaa tl'aa
lása' an gin láagíi – waasaang.*

This is to take the opportunity to express appreciation to Kavilco, its President and Board of Directors for their wise decisions in the distribution of funds – especially taking into consideration the elderly shareholders.

We extend to them our best wishes for future plans of our Corporation.

*By Dr. Erma Baronovich Lawrence, Haida Language Specialist
(reprinted from the 1980 Annual Report)*

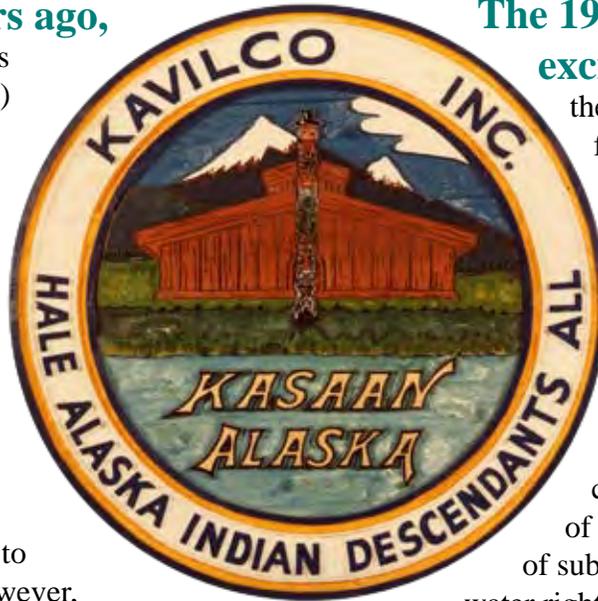
1973-2008: 35 Years of Challenge, Insight and Success

Thirty-seven years ago,

the Alaska Native Claims Settlement Act (ANCSA) awarded Alaska Natives with nearly \$1 billion and 44 million acres of land. Thirteen Native corporations were created to manage the funds and land for their shareholders.

Kasaan Natives were entitled to 23,040 acres of land near the City of Kasaan pursuant to the laws of ANCSA. However, our eligibility to become certified as a Native corporation was challenged by the U. S. Forest Service and Alaska Wildlife Federation and Sportsmen's, Inc. By October 30, 1973, 120 Natives were certified as eligible to enroll as residents of Kasaan. Twenty-one respondents produced evidence in court as to residency.

November 11, 1973, marked the starting point for 120 original shareholders. Through the diligence and efforts of Willard L. Jones, Robert I. Olsen, Rosemarie Ramiskey, Louis A. Thompson and Robert R. Young, Kavalco was incorporated. The initial Board of Directors, consisting of Della A. Dukes, Willard L. Jones, Robert I. Olsen, Rosemarie Ramiskey, Estelle I. Thompson, Louis A. Thompson and Robert R. Young, Sr., attended meetings at various homes in the Ketchikan area. Money was scarce as Board members worked at mastering the complexities of a corporation by attending business meetings and seminars. The time was spent in land-use planning, determining harvest areas, and reviewing economic options.



The 1970s were an

exciting period

as the Corporation moved from base zero. Kavalco held its First Annual Meeting in Ketchikan on January 22, 1974. In that same year, the Corporation established its base in Kasaan by purchasing the cannery property consisting of 22 acres of upland and 14 ½ acres of submerged tidelands with water rights and buildings. The former bunkhouse was renovated as a field office site.

In June 1974, the Appeals Board ruled in favor of Kavalco's eligibility as a Native corporation. We submitted a land selection application to the Bureau of Land Management for our 23,040 acres of entitlement. Kavalco eventually became the first Native corporation to receive patent to a land entitlement, as well as the first to complete the required presentation and approval to the U. S. Bureau of Land Management of the Map of Boundaries. The Map of Boundaries



The Kavalco building and boat at Kasaan in 1981.

requirement gives clear, unencumbered title to land ownership.

The 1980s: An era of implementation and expansion.

During the 1980s, Kavalco began implementing its corporate plan: first, addressing the optimal conversion of timber assets into cash; next, keeping all reserves aggressively employed; and finally, focusing on conversion of reserves into permanent investments.

We hired our first General Manager, Don Harris, and developed Management and preliminary Land Use Plans for orderly growth of the Corporation. We established two new subsidiary corporations that provided for tax and other benefits to Kavalco: Skowl Arm Timber and Kasaan Forest Products. The Skowl Arm Debenture program was formulated guaranteeing each shareholder \$10,000 annually to be paid over a 10-year period. Kavalco built and launched the “Kavalco,” a 37-foot boat for use in land planning for log transfer sites and to haul supplies to the



Summer 1981: Clearing a road right-of-way on Skowl Arm in preparation for the timber harvest.

sawmill. The boat was also used to patrol for would-be timber thieves.

In 1980, ITT Rayonier purchased approximately 100 million board feet of spruce, hemlock and cedar located in Smith Cove and Kasaan Point from Skowl Arm Timber for \$25 million. Skowl Arm also conducted an extensive inventory of all timber on Kavalco’s lands to assess the value of measurable assets which was used to develop investment and management strategies.

Kasaan Forest Products installed a sawmill at Kasaan which reflected the Corporation’s desire to promote development of the village area. Lumber production was used for Corporation construction

projects in Kasaan, and marketed in other Prince of Wales Island communities, Ketchikan and Seattle. However, based on a decline in timber values, Kavalco closed the sawmill in 1983 and reduced the value of our timber from \$46 million to \$13 million, generating a \$33 million Net Operating Loss (NOL).

While vigorously pursuing new development and working toward shareholder benefits, Kavalco did not forget the rich cultural heritage of its Haida past. The Board of Directors authorized GeoRecon International of Seattle to conduct an extensive archeological study of the once-flourishing ancestral community on Skowl Arm to evaluate the Old Kasaan site and its potential for restoration and its use in establishing the place of the village in the context of Haida history and prehistory.

In 1981, Robert Sanders joined Kavalco as General Manager and we opened the Seattle business office. While overseen by the Board, the Seattle staff administered the Corporation’s



Members of the 1981 Board of Directors inspect lumber produced by the sawmill. Left to right: Robert Young, Estelle Thompson, Ramona Hamar, Willard Jones, Louis A. Thompson.

planning, accounting, financial investments, business development, shareholder records and other administrative duties.

Mr. Sanders considered purchasing an operating company, but after careful analysis he realized that the profits from operating companies would not provide sufficient capital to offset the annual debenture payments, and that only the financial markets would afford a sufficient return for the Kavalco. This strategy required the vision and approval of the Board of Directors. Mr. Sanders' legacy of investing in the financial markets and the Board's vision has translated into exceptional dividend distributions for shareholders and their descendants since 1980.

Management implemented a Kavalco Shareholder Land Allotment Program to provide each shareholder with one-and-a-half



1987 Board of Directors meeting at the Crowne Plaza in Seattle. Left to right: Fred Olsen, Sr., General Manager Robert Sanders, Louis Jones, Sr.

acres of land which was a non-taxable event to the shareholder. Kavalco worked in cooperation with the Bureau of Indian Affairs (BIA) to develop road systems to give greater access to the development. The allotment program was completed in 1985 and recorded deeds were issued to each original shareholder at the Thirteenth Annual Shareholders Meeting.

During the 1986 Annual Meeting, shareholders voted to sell Kavalco's remaining timber holdings and enter into an NOL transaction with Drexel Burnham Lambert. Throughout 1987, Drexel made deposits to Harbor Trust Company (a Drexel subsidiary) to be held in escrow at 12% until a ruling was



Board in 1995: left to right: Louis Jones, Sr., Ramona Hamar, Laird A. Jones, Kenneth Gordon, Jeane Breinig, Louis A. Thompson, John Campbell, Scott Burns.

made by the Internal Revenue Service (IRS) regarding the viability of the timber sale to ITT and the NOL sale to Drexel.

General Manager Robert Sanders resigned in early 1987 and Controller Scott Burns was promoted to Chief Financial Officer. In 1988, Kavalco began the process to file with the Securities and Exchange Commission (SEC) as a Registered Investment Company (RIC). This strategy promised to reduce income tax liability for shareholders as well the Corporation, and require a distribution of 90% of earnings to shareholders in the form of dividends. Kavalco requested a withdrawal of funds from Drexel in 1989 in order to qualify as a RIC. Drexel stated that we would receive our funds by the end of March 1990.

The 1990s: A decade of challenge.

The new decade found Kavalco facing monumental issues. In February 1990, Drexel Burnham Lambert declared bankruptcy. We were fortunate that CFO Scott Burns was appointed to one of 17 positions on the Official Unsecured Creditor's Committee. With the goal to receive full payment on our claim with Drexel, the information gleaned from the monthly meetings would prove insightful and relevant.

The IRS audit was in abeyance with numerous requests surrounding the ITT timber sales, which formed the basis for the NOL. The Drexel bankruptcy and the IRS audit combined with the volatility of the financial markets

created an intense and demanding time for the Kavalco staff and Board of Directors.

In 1990, Kavalco officially became a Registered Investment Company, which meant that the Company was no longer subject to corporate income tax and the savings were passed on to shareholders. The debenture program ended, but Kavalco's status as a RIC allowed a dividend payment program without diminishing the principle from the financial portfolio.

Jim Ensley, owner of Norpex Inc., leased the sawmill from Kavalco. Over the years, Mr. Ensley made upgrades, expanded the operation and employed local labor.

The IRS completed their audit in 1991. Vigorously defending our NOL, we succeeded in reducing the IRS claim from \$59 million to \$8 million. The final IRS adjustment represented a 10% reduction in our NOL. Since our bankruptcy claim was based on the IRS's findings, the adjusted claim stood at \$20,457,000. Kavalco then filed a complaint



Chief Son-I-Hat's Whale House in 2006. Despite the general visual condition, it is in significant jeopardy. Photo courtesy of MRV Architects.

with the FDIC and the New Jersey banking authorities against Harbor Trust for breach of fiduciary duty, negligence and breach of contract. Due to a long, tortuous and expensive legal battle with no guarantee of success, Kavalco negotiated for an out of court settlement with Drexel and Harbor Trust.

In March 1992, the Drexel plan for reorganization was approved. A liquidating trust was established and Kavalco received 15,723 salable shares of ownership in this trust. Payments were

distributed from the trust based on these shares. The final Drexel payment in 1996 represented an 85% recovery on our debt. The total recovery of \$17,452,942 doubled the size of Kavalco's cash.

The City of Kasaan sued Kavalco in United States District Court in 1997. The basis of the lawsuit involved a 1983 city resolution waiving their right to obtain up to 1,280 acres of Kavalco's land. The city was seeking a reconveyance of 1,238 acres which included the Whale House and Totem Park, and cemetery. The court ruled in Kavalco's favor.

While the goal of management in any successful enterprise is to enhance the value of the shareholders' stock, the Board of Directors remained especially concerned with issues that impacted the community and the protection of our culture and heritage. In 1999, the Kasaan Haida Heritage Foundation (KHHF) received non-profit status, with three members of Kavalco's Board serving as officers: Kenneth Gordon, President; John Campbell, Vice President; and Jeane Breinig, Secretary. Laird A. Jones is the current KHHF President.



Success in the New Millenium.

Kavilco remains successful despite being confronted with a new list of challenges driven by lies, untruths, bullish propoganda, and corporate scandals. However, by the year 2000, Kavilco had distributed over \$32,700,000 in dividends to our shareholders; more money per owner of 100 shares than any other Native corporation in Southeast Alaska.

The year 2001 brought an end to the timber contract with Rayonier. Rayonier completed the terms of the contract by closing all of the road systems and log transfer sites. In the final analysis, the Board's perseverance to award the timber contract to Rayonier, despite intense peer pressure to let Sealaska harvest and market Kavilco's timber, allowed shareholders to reap the benefits of the Rayonier timber sale.



AP&T's tower on Kasaan Mountain.

KHHF was awarded a grant from the Alaska Humanities Forum to execute a Oral History Interview Project with our Kasaan Elders. Kasaan Haida Elders Speak video was completed by Media Specialist Frederick Olsen, Jr. in 2002.

Also in 2002, due to the efforts of President/CEO Louis A. Thompson, the Chief Son-I-Hat Whale House and Totem Park was listed in the National Register of Historic Places. This important designation opened the door for future grant funding and appropriations for restoration. KHHF funded an Architectural Analysis and Condition Survey of the Whale House in 2006. This year,

Kavilco received notification that it was one of 19 selected out of 60 applicants to receive a Historic Preservation Fund Grant. The National Park Service grant in the amount of \$36,124 will be used to move into the planning phase of the restoration.

The lease with Jim Ensley ended after 15 years in 2005, with cleanup and removal of the sawmill. During the time it was in operation the sawmill created lumber for local consumption, as well as employment opportunities for local residents.

In 2006, Kavilco negotiated a lease with Alaska Power and Telephone (AP&T) on the top of Kasaan Mountain to build a tower capable of bringing broadband Internet and cellular phone service to Kasaan and a large portion of Prince of Wales Island. Wireless broadband technology became a reality for the people of Kasaan in 2007. Full Metals Minerals of Vancouver, British Columbia leased 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.

In Kavilco's thirty-fifth year,

the economy is on shaky ground; whether it is the continuing drop in housing starts and sales, slowing employment growth, a severe credit crunch, declining retail sales, or the recent downturn in national and regional manufacturing; coupled with the recent surge in the price of oil, gold and other commodities; not to mention the bankruptcy of Bear Stearns. Given the foregoing economic conditions, the Board has decided to invest in corporate bonds in an attempt to reduce the impact on lower money markets. Over the years, the Board of Directors has had to navigate many economic disaster scenarios. With their guidance and support, we are up to any challenges the financial markets may throw at us.



BOARD OF DIRECTORS & CORPORATE MANAGEMENT



Front row left to right: Melanie Locklear, Kenneth Gordon. Middle row left to right: Deanna R. Kaulay (Corporate Secretary), Marie Miller, Ramona Hamar, Jeane Breinig. Back row left to right: Louis Jones, Sr., Laird A. Jones, Scott Burns, Louis A. Thompson. Not pictured: John Campbell.

“ To honor the vision and unselfish actions of our Kasaan Haida ancestors and elders, the goals of Kavalco 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	1,065,000
2007 Dividends	1,188,001
TOTAL DISTRIBUTIONS	\$42,557,039
Total per share (12,000 shares)	\$3,546

PRESIDENT/CHIEF EXECUTIVE OFFICER



Dear Shareholders,

On December 18, 1971, the Federal law that created the Alaska Native Claims Settlement Act (ANCSA) was passed. After several years of planning and organization, Kivilco was incorporated under state law on November 11, 1973. This year we are celebrating our 35th anniversary as a Native corporation.

Much has transpired over the years, but the single event that stands out would be the shareholders vote to make land and dividends the top priority of the Corporation. Since 1980, shareholders have received dividend payments, and an acre and a half of land was deeded to each of our 120 original shareholders in 1985. The Board of Directors has continued to focus on earnings to maintain consistent dividend levels.

Kivilco Incorporated has no debt since we are not invested in an operating company. Several of the Southeast corporations are heavily invested in the tourist industry, and in some cases, have incurred a large debt. Other Native corporations have become involved with government contracting, known as the "8(a) program." At one time, this type of contracting generated a lot of interest. However, my observation is that 8(a) contracting does not create much income for shareholder dividends. In fact, one of the corporations recently had a change in Directors and withdrew from government contracting because of the expense, a big part of which was due to not fully understanding the program. With the current decline in the economy there is a movement among other Southeast corporations to find a common ground and join together to stimulate the economy in their areas.



Mr. Thompson with an ITT Rayonier logger in 1980.

We will keep an open mind towards other Native corporations' strategies and efforts to combine our interests, and continue to show strong growth and profits. Kivilco is the only Native corporation registered as an investment company with the Securities and Exchange Commission (SEC). This may place limitations on our participation.

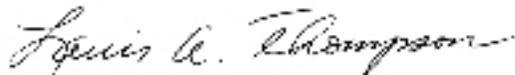
In my view, with the timber market waning for most of the corporations, including Sealaska Corporation, perhaps the mining industry will be the next industry to suffer losses. Conversations with timber lenders have informed me that during the past year, the cost of fuel has doubled, which could spell trouble for the mining industry as well.

As an investment, Kivilco has a small amount of second-growth timber left in the Skowl Arm area. This stand of timber is nearly 100 years old. We are in negotiations with a company that is interested in purchasing our timber. They will contact us if and when the market is right for a purchase.

Kavilco is still leasing our bunkhouse, doublewide trailer and shop building to Full Metal Minerals of Vancouver, B.C. as they continue to search for mining opportunities. The National Park Service grant we received in June 2008 will allow us to contract with MRV Architects and engineering firms to give us a more accurate estimate on the cost of restoring Chief Son-I-Hat's Whale House. Once the architectural and engineering survey is complete we will apply for additional grants, funding and appropriations through our partnership with the Organized Village of Kasaan (OVK) and their experienced grant writer.

Your Board of Directors will continue to look into opportunities to enhance income. Our goal remains the same: to maximize dividends to you, the shareholder. As in the past, I would like to thank you for your support of management and the Board of Directors.

Sincerely,

A handwritten signature in cursive script that reads "Louis A. Thompson".

Louis A. Thompson
President/CEO

CHIEF FINANCIAL OFFICER



Dear Shareholders,

The major increase in oil prices could hardly have come at a worse time for our economy given the ongoing slide in house prices, a weakening labor market and fragile credit environment. Consumers were already under enormous pressure to retrench, and many industries, especially the auto industry are facing a growing squeeze on profit margins. To all intents and purposes, the economy is in recession, and the longer that oil prices stay high, the deeper the downturn will be.

The global picture is not much better. Higher oil prices are a global problem and few countries are immune to the effects. Leading economic indicators have weakened in most regions, including the emerging world, suggesting that global activity is facing a period of slower growth.

Given the foregoing economic conditions in the U.S., the Federal Reserve Board has been aggressively reducing short-term interest rates. Their goal is to get the economy on even footing. Unfortunately for us, the Fed's actions reduced the 5.20% interest rate we earned on our money market funds to 2.55%. Concurrent with the economic malaise, interest rates on corporate bonds have reached a six-year high. At the beginning of the year, the Board decided to invest in corporate bonds in an attempt to reduce the impact on lower money market rates. So far this year, we have taken advantage of these yields with \$17.4 million in purchases with an average yield of 5.84%. All purchases are in the BBB range which affords higher yields than top rated bonds. Of course, there are more financial risks within the BBB ratings. Investing in corporate bonds is a long, drawn out process because we are dependent on brokers' inventory, lengthy research, and favorable fixed income markets.

On the subject of financial risk, in 1999 we purchased \$1 million of Bear Stearns bonds that mature in December 2009. In three days, Bear Stearns went from a company that had over \$17 billion in cash to near bankruptcy. The primary reason for the catastrophic fall was the fear that \$10 trillion in derivatives and subprime mortgages (Collateralized Debt Obligations or CDO) would not be honored. Fortunately for us, they were saved from going under by the Fed and JP Morgan Chase & Co. The unraveling of Bear Stearns took place during our March Board Meeting. The Board decided to hold our bond position, which is yielding 7.625%. Selling the bond at this early stage of restructuring would have resulted in a nasty capital loss.

Another fallen angel in our bond portfolio is our Merrill Lynch & Co., 6.375% due October



Mr. Burns and Cherie Hanson, administrative assistant, in 1983.

15, 2008. Once again, CDOs strike another financial institution. Merrill, the third largest U.S. securities firm, wrote down or lost \$52 billion mainly on mortgage-backed CDOs since the third quarter of last year. This company is in financial straits and could be moving toward bankruptcy if corrective financial measures don't take hold.

Two points should be gleaned from the foregoing. Although interest yields on financial sector bonds are very enticing, the high level of risk is not worth our time or money. Secondly, we have had many opportunities to invest in mortgage-backed securities and CDOs but avoided them because of questionable valuations by Wall Street firms hawking this garbage. As an aside, it is estimated that the global investment community will sustain financial losses in excess of \$1 trillion.

In the first half of the year the equity market had a \$2.3 trillion loss. *Lowry's* analysis of Buying Power and Selling Pressure, our primary equity research service, has the widest spread in their 75-year history. Demand is weak or selective which does not indicate a market bottom while Selling Pressure continues its parabolic rise. Not only is *Lowry's* market analysis of the New York Stock Exchange flashing a bear market, but the world equity indices are suffering major losses. With economic growth mediocre at best, the risks associated with the equity market are tilted decisively to the downside. Accordingly, we are going to wait on the sidelines until we see an upward trend in the stock market

A Registered Investment Company is subject to periodic examinations by the Securities and Exchange Commission (SEC) which prevents gross accounting inequities that are driven by greed and outright thievery. They work for you, the shareholder, and in some respects, the Board of Directors. In December 2007, the SEC examined Kavalco's books and records from 2005 through September 2007. This was our third examination and I am pleased to say that there were only minor infractions which were very easy to remedy.

There has never been a time since the Great Depression that there have been so many economic pitfalls and unknowns. We have survived 35 years of economic gyrations and I am very confident that the Board of Directors will, once again, provide the proper guidance to keep Kavalco out of the economic disasters that are plaguing other financial institutions and Native corporations. I sincerely want to thank them for their guidance in the most volatile and demanding business in our economy.

Sincerely,

A handwritten signature in cursive script that reads "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

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, 2007, and the related statement of operations for the year then ended, and statement of changes in net assets, and the financial highlights for the years ended December 31, 2007 and 2006. 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 the years ended December 31, 2005, 2004 and 2003 were audited by other auditors, whose report dated February 22, 2006 expressed an unqualified opinion on those statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2007 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 audits provide 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, 2007, the results of its operations for the year then ended, and changes in its net assets and financial highlights for the years ended December 31, 2007 and 2006, 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.



Seattle, Washington
February 22, 2008

STATEMENT OF ASSETS & LIABILITIES

December 31, 2007

ASSETS

Investments in securities, at market value (identified cost \$33,465,988)	\$ 33,851,160
Real estate at fair value (identified cost \$1,054,089) (Note 3)	3,588,815
Cash	178,241
Interest receivable	205,432
Dividends receivable	77,681
Premises and equipment, net	11,809
Prepaid expenses and other assets	15,474
<u>Total assets</u>	<u>37,928,612</u>

LIABILITIES

Accounts payable and accrued expenses	30,452
Dividends payable	82,274
<u>Total liabilities</u>	<u>112,726</u>

NET ASSETS \$ 37,815,886

Net assets consist of:

Distributable earnings (Note 9)	\$ 3,108,084
Contributed capital	34,707,802

Net assets \$ 37,815,886

Net assets value per share of Class A and Class B common stock
($\$37,815,886$ divided by 12,000 shares outstanding) (Note 8) \$ 3,151

See accompanying notes.

SCHEDULE OF INVESTMENTS

December 31, 2007

	Principal amount or shares	Market value
INVESTMENTS IN SECURITIES – 89.5%		
U.S. Government Securities – 14.5%		
United States Treasury Bond, 7.250% due May 15, 2016	2,000,000	\$ 2,459,375
Federal Home Loan Mortgage Corp., 6.625% due June 27, 2022	2,000,000	2,022,346
Federal National Mortgage Association, 5.000% due July 7, 2010	1,000,000	1,000,625
Total U.S. government securities (cost \$5,416,301)		5,482,346
U.S. Corporate Obligations – 19.2%		
Beverage (soft drink) – 2.1%: Coca-Cola Enterprises, 8.500%, due February 1, 2012	700,000	796,176
Diversified financial services – 2.7%: General Electric Cap Corp., 8.500%, due July 24, 2008	1,000,000	1,019,312
Electric utility – 0.5%: Potomac Electric Power Co., 6.500%, due March 15, 2008	190,000	190,401
Entertainment – 0.8%: Walt Disney Company, 5.800%, due October 27, 2008	290,000	292,914
Food processing – 0.6%: Heinz Corp., 6.000%, due March 15, 2008	229,000	229,414
Oil-field services – 1.4%: Smith International Inc., 6.750% due February 15, 2011	500,000	536,624
Retail store – 3.1%		
Wal-Mart Stores, 6.875% due August 10, 2009	1,000,000	1,045,117
Dayton Hudson, 8.600% due January 15, 2012	100,000	112,455
Securities brokerage – 5.4%		
Merrill Lynch & Co., 6.375% due October 15, 2008	1,000,000	1,008,925
Bear Stearns Co., Inc., 7.625% due December 7, 2009	1,000,000	1,027,975
Telecommunication services – 2.6%: Pacific Bell, 6.125% due February 15, 2008	1,000,000	1,000,833
Total U.S. corporate obligations (cost \$7,072,231)		7,260,146
U.S. Common Stock – 0.8%		
Agricultural chemicals – 0.1%: The Mosaic Company	500	47,175
Exchange traded funds – 0.4%		
CurrencyShares British Pound	250	49,905
iShares MSCI Brazil	350	28,245
StreetTracks Gold Trust	760	62,670
Technology – 0.3%: Microsoft Corp.	3,640	129,584
Total U.S. common stock (cost \$186,367)		317,579
U.S. Short-Term Investments – 55.0%		
Federated Prime Obligation Fund		
Total U.S. short-term investments (cost \$20,791,089)	20,791,089	20,791,089
Total investments in securities (identified cost \$33,465,988)		\$ 33,851,160

See accompanying notes.

STATEMENT OF OPERATIONS

Year Ended December 31, 2007

INVESTMENT INCOME	
Interest	\$ 1,175,537
Dividends	636,931
Total investment income	1,812,468
EXPENSES	
Salaries and benefits	341,774
Directors' compensation and expenses	255,722
Legal and accounting	41,074
Custodian	21,421
Insurance expense	67,193
Office and equipment leases	57,281
General and administrative	86,636
Total expenses	871,101
Net investment income	941,367
REALIZED AND UNREALIZED GAIN ON INVESTMENTS	
Net realized gain on investments	186,436
Net increase in unrealized appreciation on investments	171,326
Total realized and unrealized gain on investments	357,762
NET OPERATING INCOME	1,299,129
OTHER INCOME	134,777
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 1,433,906

See accompanying notes.

STATEMENT OF CHANGES IN NET ASSETS

Years Ended December 31, 2007 and 2006

	2007	2006
INCREASE IN NET ASSETS FROM OPERATIONS		
Net investment income	\$ 941,367	\$ 927,548
Net realized gain on investments	186,436	143,752
Net increase (decrease) in unrealized appreciation on investments	171,326	(188,336)
Other income	134,777	73,004
Net increase in net assets resulting from operations	1,433,906	955,968
DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS (Note 9)	(1,188,001)	(1,065,000)
Total increase (decrease) in net assets	245,905	(109,032)
NET ASSETS		
Beginning of year	37,569,981	37,679,013
End of year	\$37,815,886	\$37,569,981

See accompanying notes.

FINANCIAL HIGHLIGHTS

Years Ended December 31, 2003 to 2007

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

	2007	2006	2005	2004	2003
Net asset value, beginning of year	\$3,130.83	\$3,139.92	\$3,200.23	\$3,297.77	\$3,310.27
Income from investment operations					
Net investment income	78.45	77.30	63.86	64.77	103.48
Net realized and unrealized gain (loss) on investment transactions	29.81	(3.72)	(44.99)	(65.11)	18.68
Net other income	11.23	6.08	4.92	4.06	2.84
Total from investment operations	119.49	79.66	23.79	3.72	125.00
Less dividends and distributions	(99.00)	(88.75)	(84.10)	(101.26)	(137.50)
Net asset value, end of year	\$3,151.32	\$3,130.83	\$3,139.92	\$3,200.23	\$3,297.77
Total return	3.79%	2.54%	0.74%	0.11%	3.78%
Supplemental data					
Net assets, end of year (in thousands)	\$ 37,816	\$ 37,570	\$ 37,679	\$ 38,403	\$ 39,573
Ratio to average net assets					
Expenses	2.30%	2.12%	1.98%	1.97%	1.92%
Net investment income	2.49%	2.46%	2.01%	1.98%	3.08%
Portfolio turnover rate	45.74%	41.82%	131.30%	6.20%	56.70%

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Recent Accounting Pronouncements - In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurement. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. SFAS 157 will be effective for the Company's fiscal year beginning January 1, 2008. The Company is currently assessing the impact that SFAS 157 will have on its financial statements for the year ending December 31, 2008.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2007

NOTE 3 - REAL ESTATE

At December 31, 2007, 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, 2007, 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.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2007

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, corporate obligations and common stock) aggregated \$15,586,427 for the year ended December 31, 2007, and sales and maturities of investment securities (consisting of U.S. government securities, corporate obligations and common stock) aggregated \$21,211,946 for the year ended December 31, 2007.

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 \$385,479 and \$307, 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 \$4,037 for the year ended December 31, 2007.

Building	\$ 154,369
Furniture, fixtures, and equipment	80,869
	<hr/>
	235,238
Less accumulated depreciation	223,429
	<hr/>
	\$ 11,809
	<hr/>

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2007

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, 2007 was \$34,212, which is included in the office and equipment leases expense on the statement of operations.

Future minimum lease commitment under this non-cancelable operating lease is approximately \$22,200.

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

NOTE 9 - DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS

On March 9, 2007, a distribution of \$19 per share was declared. The dividend was paid on March 23, 2007 to shareholders of record on March 12, 2007. On November 2, 2007, a distribution of \$80 per share was declared. This dividend was paid on November 19, 2007 to shareholders of record on November 5, 2007.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2007

NOTE 9 - DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS (continued)

The tax character of distributions paid during 2007 and 2006 was as follows:

	2007	2006
Distributions paid from:		
Ordinary income	\$ (1,183,081)	\$ (1,065,000)
Long-term capital gain	(4,920)	-
	<u>\$ (1,188,001)</u>	<u>\$ (1,065,000)</u>

As of December 31, 2007, the components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income	\$ 188,188
Net unrealized appreciation on:	
Investments	385,170
Real estate	2,534,726
	<u>\$ 3,108,084</u>

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, 2007 totaled \$52,375.

This page is dedicated to the memory of Original Shareholders



Old Kasaan village mortuary poles (xat) pre-1940. Xat referred to poles that were raised in memory of the dead as well as poles that held remains of the dead. The bear grave maker (second pole from the left) stood over Peter Jones' father's grave. Photo courtesy of U.S. Forest Service Archives #684_pre1940_Old_Kasaan_Totems.

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