

A TRADITION OF INTEGRITY
35 YEARS OF INSIGHT, STRATEGY AND VISION



Kavilco Incorporated
2008 Annual Report

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CREDITS

COVER & PAGE 3: iStockphoto

PAGE 1: Watchman, Kivilco Archives. Carved by President/CEO Louis A. Thompson, the Watchman is a small totem used as a gavel to open and close Kivilco's Board Meetings and Annual Shareholders Meeting. It represents the spirits keeping an eye on proceedings to make sure the right things get done.

PAGE 2 & 8: Karyn Carpenter Baker

PAGE 5: Copper shield, Kivilco Archives. This copper shield depicting a bear was presented to Louis A. Thompson on July 21, 2000 by Robert W. Loescher, President/CEO of Sealaska Corporation in honor of his 25th anniversary as Kivilco's President/CEO. According to the Canadian Museum of Civilization, "Copper was the ultimate symbol of wealth among the Native peoples of the Northwest Coast; like gold, it reflects the brilliance of the sun." Throughout the coast, shields made of copper denoted the high rank of their owners and were exchanged at ever higher levels between chiefs.

PAGE 24: Son-I-Hat Frontal Pole, Chief Son-I-Hat Whale House, Kivilco Archives. Copied from the original in 1939 by James Peele, this 50-foot tall pole stands in front of the Whale House.

BACK COVER: Kivilco plaque, Kivilco Archives. The Kivilco plaque reads "Hale Alaska Indian Descendants All," which stands for HAIDA. The mountains represent future revenues as well as hunting areas. The long house and totem represent the past. The blue water is the fishing area around the Village of Kasaan from which our ancestors gathered their food and made their living.

DESIGN & LAYOUT: Deanna R. Kaulay, Corporate Secretary

PRINTING: Alphagraphics

A TRADITION OF INTEGRITY

35 YEARS OF INSIGHT, STRATEGY AND VISION



Kavilco Incorporated is one of the smallest village corporations created under the Alaska Native Claims Investment Act (ANCSA) in 1973 with 120 original shareholders. The Kavilco name was created with much thought. KA came from Kasaan; VIL represents the Indian Village of Kasaan; CO represents the Company.

Kavilco believes that ANCSA was a progressive step forward in the best interests of the Native people because it broke with the traditional paternalistic governmental approach to dealing with the Native situation. The success or failure of “for profit” corporations was put directly into the hands of Native leaders with no interference from governmental agencies. To that end Kavilco has focused its corporate strategy on achieving financial performance rather than accomplishing social goals in order to provide its shareholders with the best possible financial returns.

Kavilco has faced 35 years of challenge, insight and success, but the single event that stands out in Kavilco’s history was the shareholders vote to make land and dividends the top priority of the Corporation. In 1980, it was General Manager Robert Sanders’ strategy along with the Board’s vision and approval to invest in the financial markets that has translated into exceptional dividend distributions for original shareholders and their descendants. When Kavilco filed as a Registered Investment Company in 1990, the Corporation avoided paying federal and state income tax, and required a distribution of 90% of earnings to shareholders in the form of dividends without diminishing the principle from the financial portfolio.

From 1980 to 2008, the cash distribution totals \$43,697,039, more money from earnings per share than any other Native corporation in southeast Alaska. The Corporation also conveyed one and one-half non-taxable acres of land to each original shareholder in 1985.

Over the years, Kavilco has had to navigate many economic disaster scenarios from Wall Street lies and corporate scandals to slowing unemployment and bankruptcy of major financial institutions. The Board is actively monitoring our corporate portfolio that is at a historical high for the amount invested and the number of issues, while keeping a keen eye to the future. With the guidance and support of the Board of Directors, Kavilco is up to any challenges the financial markets may throw our way.

“...Kavilco has focused its corporate strategy on achieving financial performance rather than accomplishing social goals in order to provide its shareholders with the best possible financial returns.”

BOARD OF DIRECTORS & CORPORATE MANAGEMENT

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



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

We also look to preserving our important Haida heritage. Kasilco, Kasaan Haida Heritage Foundation (KHHF) and the Organized Village of Kasaan continue to work together to restore the most cherished symbol of Kasaan’s history, Chief Son-I-Hat’s Whale House and Totem Park. The Whale House has been surveyed by MRV Architects, BBFM Engineers and HMS, Inc. with grant money we received from the National Park Service in 2008. The package of Schematic materials provided by MRV Architects will be used as a basis for grant requests/funding to cover costs for the final design and construction work. Háw’aa to 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.

28 YEARS OF 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
2008 Dividends	<u>1,140,000</u>
Total Distributions	<u>\$43,697,039</u>
Per 120 Original Shareholders	\$364,142



LETTER FROM THE PRESIDENT/CHIEF EXECUTIVE OFFICER



Dear Shareholder,

Since this annual report marks our 35th anniversary, I would like to take time to reflect back on decisions the Board of Directors made on behalf of the Corporation, and how Kivilco's interpretation of the Alaska Native Claims Settlement Act (ANCSA) continues to benefit our shareholders.

Awarded nearly \$1 billion and 44 million acres of land under ANCSA in 1973, thirteen regional and 202 village corporations were created to manage the funds and lands for their shareholders. Because most of the people involved in the startup of a company had very little or no experience in setting up and forming a profit-making corporation, Sealaska Corporation was given the task of creating training programs to set up various segments for the corporations. Training included how to set up shareholder records, accounting, directors' responsibilities, and so forth. Sealaska's responsibility was to monitor each village corporation for five years. Once this period passed, each corporation was basically on its own.

Kivilco's interpretation of ANCSA may have been different than other Native corporations who focused on social goals. Early on in Kivilco's formation, a survey was sent to all shareholders to find out what expectations they had for their Corporation. The ultimate result of the survey showed that dividends and land ownership was the utmost priority in their expectations. Kivilco's strategy turned to achieving financial performance.

Once we decided to work towards the results of the survey, the Board of Directors and management structured the financial portfolio with a minimum risk to achieve consistent dividend levels. Under the Shareholder Allotment Program, one and one-half acres of non-taxable land was deeded to each original shareholder by 1985.

Kivilco felt an obligation to contribute to the City of Kasaan under ANCSA. During the development of our 120 shareholder lots, Kivilco worked in cooperation with the Bureau of Indian Affairs (BIA) to develop road systems to give greater access to the area.

Another task was to provide an adequate water system to the village by designating an easement through Kivilco property. This project was handled through state and federal funds. It took several years to put water and sewer to 15 homes in Kasaan. Next, an easement was given for an electrical plant using diesel generators with an underground distribution system to homes and businesses.

An easement was granted on about three and one-half acres of tideland that was acquired when Kivilco purchased the old cannery site in Kasaan for a small harbor facility supplying both an airplane float and vessel docking. And an easement was given to the City of Kasaan to develop a bulk fuel farm consisting of five thousand gallons of gasoline and five thousand gallons of diesel.

In the early years, Sealaska Corporation attempted to develop a regional marketing timber company comprised of all southeast Alaska village corporations called Southeast Alaska Native Timber Corporation (SANTCO). Kivilco chose not to participate in SANTCO. This program lasted about two years before it was abandoned because agreement could not be reached on all aspects of the plan.

Despite intense pressure by Sealaska to harvest and market Kivilco's timber, the Board persevered and awarded ITT Rayonier the timber sale of 100 million board feet for \$25 million. The proceeds from the sale allowed Kivilco to develop investment and management strategies.

After we received the proceeds from the timber sale, each original shareholder received a \$25,000 dividend payment. We then implemented a debenture program guaranteeing each shareholder \$10,000 annually to be paid over a ten-year period. And while most of the southeast Native corporations today have sold all their timber, Kavalco was the first to do so at what is considered the highest price of any southeast Native corporation.

At one time 51% of all hotels in Alaska were owned by Alaska Native corporations. Some of the southeast Alaska Native corporations tried developing industry in their respective villages for local employment, such as cold storage plants, lodges for tourism, restaurants, building computers, gas stations and many other endeavors. The Corporation considered purchasing an operating company, but careful analysis showed that the profits from operating companies would not offset the annual debenture payments. Today the ongoing program is with the government contracting via the 8(a) minority business program. Kavalco again chose another business tactic.

When the debenture note expired and each of the original shareholders had received \$100,000, Kavalco solicited the Alaska Congressional delegation to amend ANCSA so that we could voluntarily register with the Securities and Exchange Commission to become a Registered Investment Company (RIC) under the Investment Company Act of 1940. RICs are required to distribute 90% of earnings and profits to avoid paying federal and state taxes. This strategy required the vision and approval of the Board of Directors. Kavalco's status as a RIC allowed a dividend payment program without diminishing the principle from the financial portfolio. Assuming a forty percent corporate income tax rate, Kavalco has saved nearly \$11 million in corporate taxes.

To date, Kavalco has distributed over \$43 million in earnings to its shareholders since 1980. This relates to the equivalence of over \$360,000 to each original shareholder. This accomplishment by your Corporation is probably a record per original shareholders amongst all Native companies formed under ANCSA.

The Board of Directors and management have been very conservative and protective of your financial portfolio. Regular dividend payments to all shareholders has been consistent throughout the years. This has been a track record that surpasses all the other Native corporations in southeast Alaska, and perhaps a lot more corporations throughout Alaska.

I would like to thank all the shareholders for their support throughout all the years gone by, the Board of Directors and management. I hope that we are able to continue our tradition of integrity, insight and vision and continue to prosper during a poor economy fueled by Wall Street's lies, untruths, bullish propaganda, and corporate scandals. I would also like to take this opportunity to thank Scott Burns, Chief Financial Officer, and Deanna Kaulay, Corporate Secretary for all their good work over the years. Feel free to contact us at any time if you have any concerns or questions. I hope you all have a good year ahead.

Sincerely,



Louis A. Thompson
President/CEO



LETTER FROM THE CHIEF FINANCIAL OFFICER



Dear Shareholder,

Looking back over the 35 years since we became an Alaska village corporation, I am struck by how we marched to a different drummer. I believe the key theme that past and present directors have is the ability to think and act independent of the herd. We have been fortunate to have a keen sense for doing the right thing and learning from our mistakes.

When I first started working for Kasilco, the conventional business strategy of the southeast Native corporations was shareholder hire for any business endeavor. This curious business strategy ignored or glossed over the profitability of a business enterprise in favor of how many shareholders were employed or being trained. This is a great strategy for governmental employment but it is not the way to run a business. Neglecting the bottom line, regardless of who your employees are, can only result in failure. Although we did not adopt the shareholder hire policies of our fellow corporations, we did follow the intent of the Alaska Native Claims Settlement Act (ANCSA) to provide local employment.

In Kasaan we acquired a portable saw mill and support equipment concentrating on the specialty lumber market. Due to the logistics of repairs and maintenance, and a fall-off in the lumber market we closed the saw mill down. This was a painful financial experience but taught us a lesson and provided a foundation from which we have expanded. It is not the business of the company to provide local employment but to get the best return available for all the shareholders.

During this period, the Company was under an obligation to make an annual debenture payment of \$1.2 million for ten years to its shareholders. The financial return on an operating company would not provide enough capital to make the debenture payment so we turned to financial assets for our income. In retrospect, this was the proper course of action for our particular situation.

Following are some brief examples of when we did not follow the financial lemmings off the cliff in pursuit of the next great investment idea from our dear, sweet, greedy friends on Wall Street. In 1987, we hired two money management firms to handle our equity investments. Even though interest rates were rising, these firms invested all of our funds in equities. Historically, rising interest rates stifle business growth and earnings, which in turn drive down stock prices. Unlike our investment managers who followed the herd, we were aware of this historical relationship and sold all of our equity positions prior to the October 1987 stock market crash (the worst since 1929). The bottom line was we did a better job managing our portfolio than the paid professionals. So why pay money for managers that are losers? It was at this point that we became a self-managed financial investment company (we were operating like a mutual fund which employs investment advisors that make portfolio decisions).

There were the junk bond and Collateralized Mortgage Obligations scams of the latter 1980s and early 1990s (investment banks sliced and diced various home mortgages into various parts with mathematical assumptions to preclude default and sold them as CMOs). We did not believe the Wall Street hype and avoided the implosion of these securities when the economy slowed down, and watched as over-leveraged corporations, commercial property and homeowners defaulted on their debts.

Then we had the dot-com bust of 2000. The future was the new technology of the Internet for companies that sold their services and products on the net. Investors gobbled up stock in Internet

start-ups without any regard to earnings. Of course, stockbrokers explained away the lack of earnings with the usual mantra “this time it’s different” – the four scariest words in investing. We participated in the stock market mania but had an exit strategy (sell if a stock drops below a pre-determined level) that resulted in the sale of all of our speculative equity positions prior to the bursting dot-com bubble in 2000.

On the heels of the dot-com bust came the housing bubble. The Federal Reserve lowered short-term interest rates in order to offset the mild recession and the housing bubble inflated. We could have invested in Collateral Debt Obligations (CDOs), a more complicated variation of the CMOs discussed earlier, and had a healthy yield compared to other investment grade corporate bonds. We held off because of the dismal history of these hybrid securities. Defaults on CDOs are primarily responsible for the current recession and financial institutions failures.

Although we successfully navigated through these economic disasters it is the fallout and response to our current recession that has me most concerned. Starting in September 2008, Chairman Bernanke of the Federal Reserve radically increased the monetary base which is comprised of currency in circulation, member bank reserves held at the Fed, and vault cash by a little less than \$1 trillion. The percentage increase in the monetary base is the largest increase in the past 50 years by a factor of ten. To put this in perspective, the monetary response has been three times more (adjusted to today’s dollars) than the United States spent to fight World War II. It is 12 times more (relative to GDP) than the total committed to fight the Great Depression.

It is difficult to estimate the magnitude of the inflationary and interest-rate consequences of the Fed’s actions because, frankly, we haven’t ever seen anything like this in the U.S. To date, what has happened is potentially far more inflationary than were the monetary policies of the 1970s, when the prime interest rate peaked at 21.5% (currently 3.25%) and inflation peaked in the low double digits (2008 rate was 0.01%). Gold prices went from \$35 per ounce to \$850 per ounce, and the dollar collapsed on the foreign exchanges. It isn’t a pretty picture.

We have avoided the pitfalls of other southeast Native corporations and major economic events over last two decades because of independent thinking and research. That’s not to say that we haven’t had our share of losses or made incorrect decisions. In developing our ever-changing portfolio strategy over the years to suit changes in the economic climate, we have been dependent upon financial history as our primary guide. The monetary base is so far outside the realm of our prior experience that historical comparisons are rendered difficult if not meaningless. We are dealing with uncharted waters with undercurrents that could either be deflationary with even lower interest rates or inflationary with higher interest rates.

These are confusing and demanding times. Over the past 35 years, the Board of Directors has been able to sort out the proper course of action. I have a strong belief that we will get through these rough economic times with the guidance of your Board of Directors. I would like to thank the Board and the shareholders for your support during these trying times.

Sincerely,



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, 2008, and the related statement of operations for the year then ended, and statements of changes in net assets for each of the two years in the periods then ended, and the financial highlights for the years ended December 31, 2008, 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 and 2004 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 by correspondence with the custodian and review of legal title to real estate as of December 31, 2008. 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, 2008, the results of its operations for the year then ended, and changes in its net assets for each of the two years in the periods then ended and financial highlights for the years ended December 31, 2008, 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.



Seattle, Washington
February 23, 2009

STATEMENT OF ASSETS & LIABILITIES

December 31, 2008

ASSETS

Investments in securities, at fair value (identified cost \$30,343,452)	\$ 28,590,443
Real estate, at fair value (identified cost \$1,054,089) (Note 3)	3,588,815
Cash and cash equivalents	3,065,123
Interest receivable	543,991
Dividends receivable	4,499
Premises and equipment, net	7,711
Prepaid expenses and other assets	13,854
Total assets	<u>35,814,436</u>

LIABILITIES

Accounts payable and accrued expenses	25,686
Dividends payable	101,279
Total liabilities	<u>126,965</u>

NET ASSETS

\$ 35,687,471

Net assets consist of:

Distributable earnings (Note 10)	\$ 979,669
Contributed capital	<u>34,707,802</u>
Net assets	<u>\$ 35,687,471</u>

Net asset value per share of Class A and Class B common stock
(\$35,687,471 divided by 12,000 shares outstanding) (Note 9)

\$ 2,974

See accompanying notes.

SCHEDULE OF INVESTMENTS

December 31, 2008

	Principal Amount or Shares	Fair Value
INVESTMENTS IN SECURITIES - 80.1%		
U.S. Corporate Obligations - 79.9%		
Communications - 13.6%		
Verizon NE Inc., 6.500%, due September 15, 2011	1,000,000	\$ 992,677
Comcast Corp., 10.625%, due July 15, 2012	1,338,000	1,421,039
AT&T, 5.100%, due September 15, 2014	1,250,000	1,228,734
CBS Corporation, 4.625%, due May 15, 2018	2,000,000	1,210,062
Total Communications		<u>4,852,512</u>
Chemical Industry - 4.2%		
E.I. Du Pont de Nemour, 5.250%, due December 15, 2016	1,519,000	1,509,619
Consumer, Cyclical - 11.8%		
Wal-Mart Stores, 6.875%, due August 10, 2009	1,000,000	1,029,961
Dayton Hudson, 8.600%, due January 15, 2012	100,000	102,332
Home Depot Inc., 5.250%, due December 16, 2013	1,000,000	933,797
Safeway Inc., 5.625%, due August 15, 2014	1,229,000	1,187,451
Target Corp., 5.875%, due July 15, 2016	1,000,000	954,704
Total Consumer, Cyclical		<u>4,208,245</u>
Consumer, Non-cyclical - 9.2%		
Clorox Company, 6.125%, due February 1, 2011	1,000,000	1,001,357
Yum! Brands Inc., 8.875%, due April 15, 2011	1,000,000	1,012,888
Coca Cola Enterprises, 8.500%, due February 1, 2012	700,000	761,144
McDonald's Corp., 5.300%, due March 15, 2017	500,000	512,645
Total Consumer, Non-cyclical		<u>3,288,034</u>
Energy - 10.8%		
Smith International Inc., 6.750%, due February 15, 2011	500,000	503,379
Plains All American Pipeline, 6.125%, due January 15, 2017	1,345,000	1,069,532
XTO Energy Inc., 6.250%, August 1, 2017	1,000,000	960,277
Transocean Sedco Forex Inc., 7.375%, due April 15, 2018	1,350,000	1,306,589
Total Energy		<u>3,839,777</u>
Financial - 2.9%		
Bear Stearns, 7.625%, due December 7, 2009	1,000,000	1,020,008
Industrial - 8.4%		
CSX Corp., 5.500%, due August 1, 2013	964,000	906,428
TYCO Intl Group, 6.000%, due November 15, 2013	1,245,000	1,168,202
Union Pacific Corp., 4.875%, due January 15, 2015	1,000,000	914,040
Total Industrial		<u>2,988,670</u>
Technology - 7.5%		
Xerox Corporation, 5.500%, due May 15, 2012	2,000,000	1,676,100
Cisco Systems Inc., 5.500%, due February 22, 2016	960,000	1,016,809
Total Technology		<u>2,692,909</u>
Utilities - 11.5%		
American Electric Power, 5.375%, due March 15, 2010	1,475,000	1,464,176
Dominion Resources Inc., 5.000%, due March 15, 2013	1,000,000	963,439
Potomac Electric Power, 4.650%, due April 15, 2014	600,000	557,367
Southern Power Company, 4.875%, due July 15, 2015	1,250,000	1,112,725
Total Utilities		<u>4,097,707</u>
Total Corporate Obligations (cost \$30,287,916)		<u>28,497,481</u>
Common Stock - 0.2%		
Computer Software & Services - 0.2%		
Microsoft Corp.	3,640	70,762
Electric Utility - less than 1%		
Southern Company	600	22,200
Total Common Stock (cost \$55,536)		<u>92,962</u>
Total Investments in Securities (identified cost \$30,343,452)		<u>\$ 28,590,443</u>

See accompanying notes.

STATEMENT OF OPERATIONS

December 31, 2008

INVESTMENT INCOME

Interest	\$ 1,270,819
Dividends	408,103
Total investment income	<u>1,678,922</u>

EXPENSES

Salaries and benefits	342,614
Directors' compensation and expenses	272,411
Legal and accounting	34,585
Custodian	21,225
Insurance	66,789
Office and equipment leases	59,813
General and administrative	61,213
Total expenses	<u>858,650</u>

Net investment income	<u>820,272</u>
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REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS

Net realized gain on investments	154,374
Net increase in unrealized depreciation on investments	<u>(2,138,179)</u>
Total realized and unrealized loss on investments	<u>(1,983,805)</u>

NET OPERATING LOSS	(1,163,533)
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OTHER INCOME (Note 13)	<u>175,118</u>
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NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	<u>\$ (988,415)</u>
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See accompanying notes.

STATEMENT OF CHANGES IN NET ASSETS

Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS		
Net investment income	\$ 820,272	\$ 941,367
Net realized gain on investments	154,374	186,436
Net increase (decrease) in unrealized appreciation (depreciation) on investments	(2,138,179)	171,326
Other income	<u>175,118</u>	<u>134,777</u>
Net increase (decrease) in net assets resulting from operations	<u>(988,415)</u>	<u>1,433,906</u>
DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS (Note 10)	<u>(1,140,000)</u>	<u>(1,188,001)</u>
Total increase (decrease) in net assets	(2,128,415)	245,905
NET ASSETS		
Beginning of year	<u>37,815,886</u>	<u>37,569,981</u>
End of year	<u><u>\$ 35,687,471</u></u>	<u><u>\$ 37,815,886</u></u>

See accompanying notes.

FINANCIAL HIGHLIGHTS

Years Ended December 31, 2004 to 2008

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Net asset value, beginning of year	<u>\$3,151.32</u>	<u>\$3,130.83</u>	<u>\$3,139.92</u>	<u>\$3,200.23</u>	<u>\$3,297.77</u>
Income from investment operations					
Net investment income	68.36	78.45	77.30	63.86	64.77
Net realized and unrealized gain (loss) on investment transactions	(165.32)	29.81	(3.72)	(44.99)	(65.11)
Net other income	<u>14.59</u>	<u>11.23</u>	<u>6.08</u>	<u>4.92</u>	<u>4.06</u>
Total from investment operations	<u>(82.37)</u>	<u>119.49</u>	<u>79.66</u>	<u>23.79</u>	<u>3.72</u>
Less dividends and distributions (Note 10)	<u>(95.00)</u>	<u>(99.00)</u>	<u>(88.75)</u>	<u>(84.10)</u>	<u>(101.26)</u>
Net asset value, end of year	<u>\$2,973.95</u>	<u>\$3,151.32</u>	<u>\$3,130.83</u>	<u>\$3,139.92</u>	<u>\$3,200.23</u>
Total return	(2.77%)	3.79%	2.54%	0.74%	0.11%
Supplemental data					
Net assets, end of year (in thousands)	\$ 35,687	\$ 37,816	\$ 37,570	\$ 37,679	\$ 38,403
Ratio to average net assets					
Expenses	2.34%	2.30%	2.12%	1.98%	1.97%
Net investment income	2.23%	2.49%	2.46%	2.01%	1.98%
Portfolio turnover rate	28.85%	45.74%	41.82%	131.30%	6.20%

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

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.

Valuation of Investments - The Company adopted the provisions of the Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (“FAS 157”), effective January 1, 2008. In accordance with FAS 157, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a framework for measuring fair value, and a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data from sources independent of the Company. Unobservable inputs reflect the Company’s own assumption about the assumptions that market participants would use in pricing the asset or liability developed on the best information available in the circumstance.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2008

Note 2 - Summary of Significant Accounting Policies (Continued)

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors, including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for securities categorized in Level 3. In certain cases the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined by the lowest level input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Company uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many securities. This condition could cause a security to be reclassified to a lower level within the fair value hierarchy.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2008

Note 2 - Summary of Significant Accounting Policies (Continued)

Investments in securities consist of corporate obligations and common stock. Common stock 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. Investments in common stock are included in Level 1 of the fair value hierarchy.

The fair value of corporate bonds is estimated using recently executed transactions, market price quotations (where observable), bond spread or credit default swap spreads as provided by Interactive Data Corp. Corporate bonds are generally categorized in Level 2 of the fair value hierarchy.

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. 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. 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). This investment is included in Level 3 of the fair value hierarchy.

Cash and Cash Equivalents - The Company considers all highly liquid instruments with a maturity of three months or less to be cash equivalents.

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.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2008

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.

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 receives 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.

Material estimates that are particularly susceptible to significant change relates to the valuation of real estate (Note 3). It is possible the estimated fair value may differ significantly from the amount that might ultimately be realized in the near term, and the differences could be material.

Note 3 - Real Estate

The financial statements include real estate valued at \$3,588,815, whose values have been determined by management in the absence of readily ascertainable fair values. The board of directors approved this fair value estimate of the real estate.

At December 31, 2008, the Company owns fee title to the surface estate of 22,946 acres of real estate. 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2008

Note 3 - Real Estate (Continued)

As of December 31, 2008, 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.

It is possible the estimated fair value for this investment may differ from the amount that might ultimately be realized in the near term, and the difference could be material.

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.

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 - Fair Value Measurements

The Company's assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with SFAS No. 157 *Fair Value Measurements*. See Note 2 for a discussion of the Company's accounting policies.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2008

Note 5 - Fair Value Measurements (Continued)

The following table presents information about the Company's assets measured at fair value as of December 31, 2008:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2008
ASSETS				
Common stock	\$ 92,962	\$ -	\$ -	\$ 92,962
U.S. corporate obligations	-	28,497,481	-	28,497,481
Real estate	-	-	3,588,815	3,588,815
	<u>\$ 92,962</u>	<u>\$ 28,497,482</u>	<u>\$ 3,588,815</u>	<u>\$ 32,179,258</u>

The following table presents additional information about Level 3 assets measured at fair value. Both observable and unobservable inputs may be used to determine the fair value of positions that the Company has classified within the Level 3 category. As a result, the unrealized gains and losses for assets within the Level 3 category may include changes in fair value that were attributable to both observable and unobservable inputs.

Changes in Level 3 assets measured at fair value for the year ended December 31, 2008:

	Level 3 Beginning Balance January 1, 2008	Total Realized and Unrealized Gains (Losses)*	Net Purchases, Sales Issuances and Settlements	Net Transfers In and/or (Out) of Level 3	Level 3 Ending Balance December 31, 2008	Earnings Attributable to Unrealized Gains (Losses) at December 31, 2008*
ASSETS						
Real estate	<u>\$ 3,588,815</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,588,815</u>	<u>\$ -</u>

* Included within the accompanying statement of operations as a component of realized and unrealized gain from investments.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2008

Note 6 - Investment Transactions

Purchases of investment securities (consisting of corporate obligations and common stock) aggregated \$27,184,288 for the year ended December 31, 2008, and sales and maturities of investment securities (consisting of U.S. government securities, corporate obligations and common stock) aggregated \$9,624,594 for the year ended December 31, 2008.

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 \$306,428 and \$2,059,437, respectively, for the year ended December 31, 2008.

Note 7 - 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 \$4,098 for the year ended December 31, 2008.

Building	\$ 154,369
Furniture, fixtures, and equipment	80,869
	<u>235,238</u>
Less accumulated depreciation	<u>227,527</u>
	<u>\$ 7,711</u>

Note 8 - Lease Obligation

The Company leases office space under a non-cancelable operating lease agreement, which terminates September 30, 2011. Rent expense for the year ended December 31, 2008 was \$37,152, 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 as follows:

2009	\$ 42,402
2010	43,581
2011	<u>33,354</u>
	<u>\$ 119,337</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2008

Note 9 - 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 10 - Dividends and Distributions to Shareholders

On March 14, 2008, a distribution of \$25 per share was declared. The dividend was paid on March 31, 2008 to shareholders of record on March 17, 2008. On November 7, 2008, a distribution of \$70 per share was declared. This dividend was paid on November 24, 2008 to shareholders of record on November 10, 2008.

The tax character of distributions paid during 2008 and 2007 was as follows:

	2008	2007
Distributions paid from:		
Ordinary income	\$ 974,432	\$ 1,183,081
Long-term capital gain	165,568	4,920
	<u>\$ 1,140,000</u>	<u>\$ 1,188,001</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2008

Note 10 - Dividends and Distributions to Shareholders (Continued)

As of December 31, 2008, the components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income	\$ 197,952
Net unrealized appreciation on:	
Investments	(1,753,009)
Real estate	<u>2,534,726</u>
	<u>\$ 979,669</u>

Note 11 - 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 fair value of each category by net assets.

Note 12 - 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, 2008 totaled \$53,837.

Note 13 - Other Income

Other income represents income earned as a result of ANSCA Section 7(i) which provides for revenue sharing among the 12 regional corporations created by ANSCA earned from timber resources and the subsurface estates. Other income also includes lease income.



THIS PAGE IS DEDICATED TO THE
MEMORY OF OUR ORIGINAL SHAREHOLDERS

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

Thomas S. Hanbury, III

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.

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Leif B. Olsen

Robert I. Olsen

Annabelle Peele

David S. Peele

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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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