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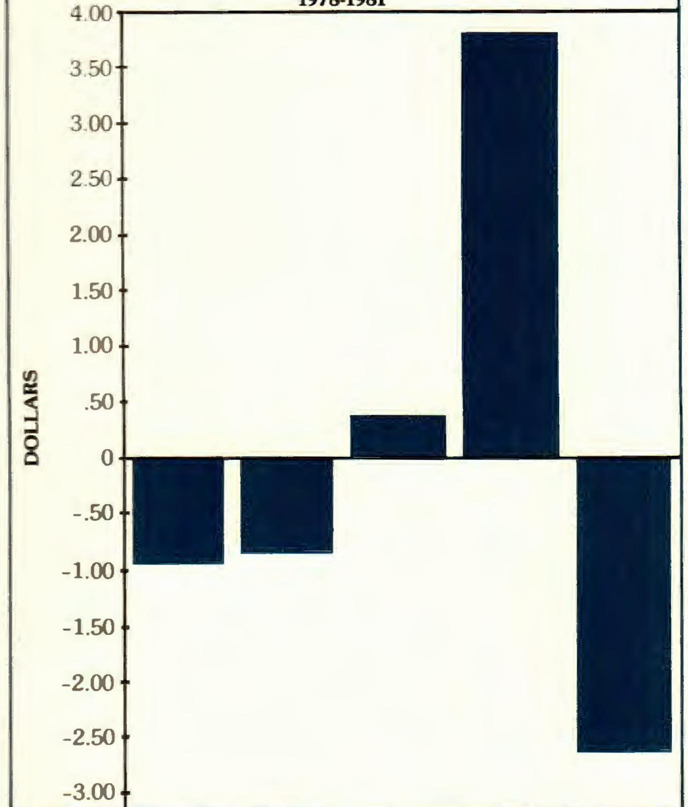
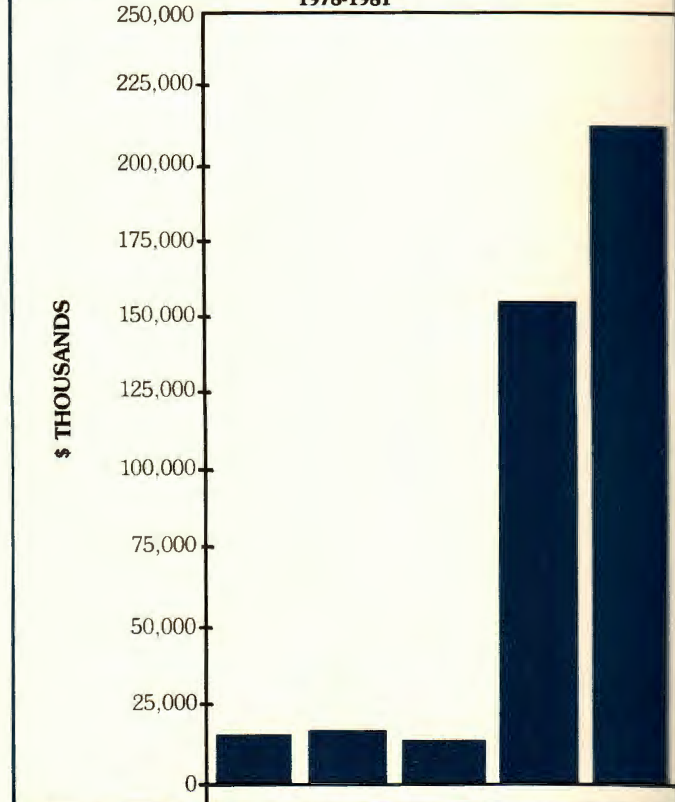
1981 ANNUAL REPORT
SEALASKA CORPORATION

SEALASKA CONSOLIDATED EARNINGS PER SHARE
1978-1981



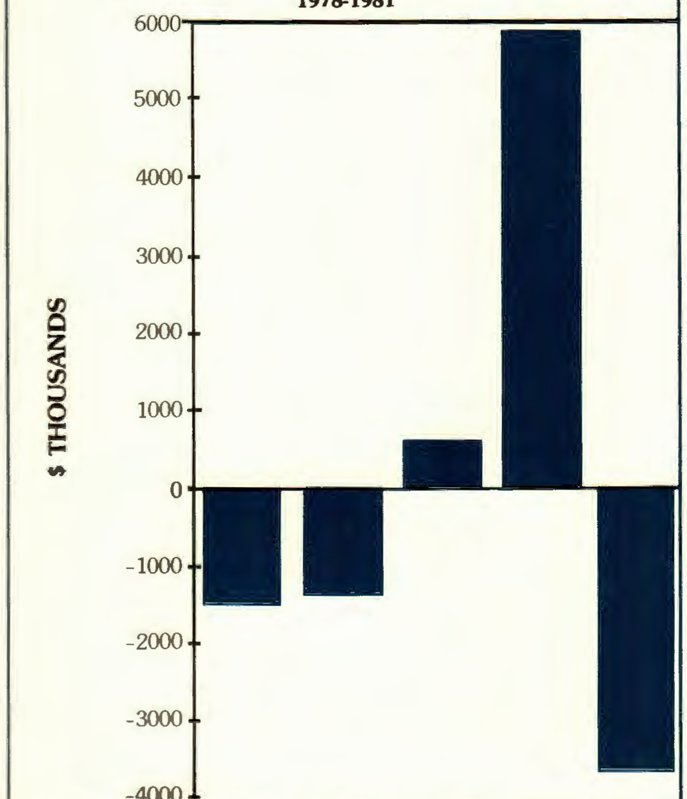
E.P.S.	(.98)	(.93)	.36	3.76	(2.42)
YEAR	1978	1979	1979	1980	1981

SEALASKA CONSOLIDATED SALES AND OTHER REVENUES
1978-1981



SALES & REVENUES	15.070	15,702	14,726	150,775	234,73[illegible]
YEAR	1978	1979	1979	1980	1981

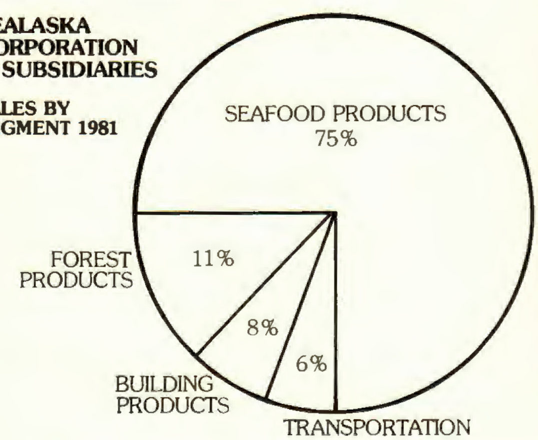
SEALASKA CONSOLIDATED NET EARNINGS
1978-1981



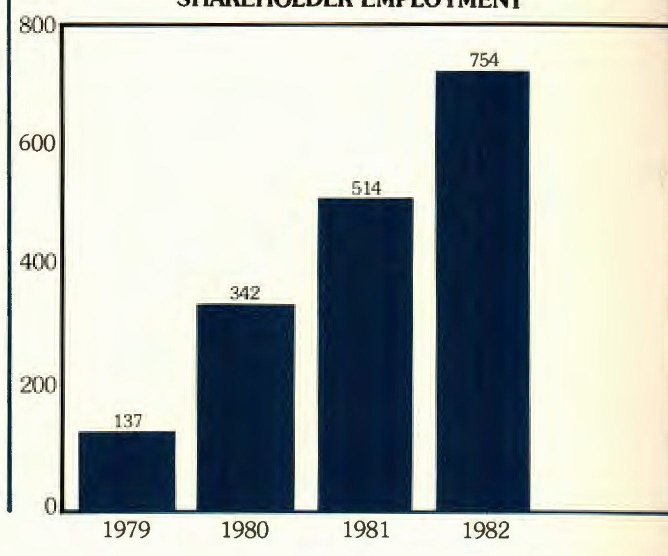
EARNINGS	(1,544)	(1,458)	575	5,941	(3,826)
YEAR	1978	1979	1979	1980	1981

SEALASKA CORPORATION & SUBSIDIARIES

SALES BY SEGMENT 1981



SEALASKA CORPORATION & SUBSIDIARIES
SHAREHOLDER EMPLOYMENT



The Annual Meeting of Shareholders of Sealaska Corporation will be held at 10:00 AM, local time on Saturday, September 25, 1982 at the Red Lion Inn, 18740 Pacific Highway South in Seattle, Washington.

THE GOALS OF SEALASKA CORPORATION

1. Manage the total assets of Sealaska in a manner that will continually increase the net worth of the corporation and assure strong, long-term profitability consistent with other goals of the corporation

2. Assure the continuation of Sealaska as a Native-owned and controlled corporation by developing a secure relationship with shareholders that is sensitive and responsive to their overall needs; by providing dividends; and, where possible, opportunities for employment; and by assisting in the preservation and enhancement of our Native Culture.

3. Become a respected and influential entity in the Alaskan community through recognition of the quality and integrity of Sealaska's business ventures, and use such recognition by government, business and the public on behalf of our shareholders.

4. Take advantage of business opportunities, with particular sensitivity to business relationships with Southeastern Alaska ANCSA Corporations, and other ANCSA Corporations, in order to expand the economic base of our region and to strengthen Native-owned and controlled institutions, generally.

SEALASKA CORPORATION

Sealaska Corporation was incorporated under the laws of the State of Alaska on June 16, 1972. Sealaska has approximately 15,800 shareholders under the terms of the Alaska Native Claims Settlement Act of 1971. In addition to revenues generated by business ventures, Sealaska also received a share of the cash settlement and land under the terms of ANCSA.

Sealaska Corporation's share of the cash settlement was about $200 million, of which about $100 million was distributed to Village Corporations and At-Large shareholders. Sealaska was to receive an estimated 280,000 acres of land in Southeast Alaska, including valuable timber lands in the Tongass National Forest. Sealaska currently has several areas of business operations: Alaska Brick group of companies headquartered in Anchorage, providing concrete, aggregate and related building materials and transportation services; Sealaska Plaza, an office building in Juneau housing corporate headquarters and rental space; Ocean Beauty Seafoods, Inc., processing and marketing seafood products from the Pacific Ocean; Sealaska Timber Corporation, developing and marketing Native-owned timber resources; Sealaska Business Investment Corporation, providing equity and other financing for shareholder-owned businesses; ownership of stock in Unicorp, Inc., a bank holding company which owns United Bank Alaska; and the development of other natural resources in Alaska.

CONTENTS

BOARD OF DIRECTORS

(Seated, from left)--Robert A. Sanderson; Marjorie V. Young; Dr. Walter A. Soboleff; Roger J. Lang; Charles A. Carlson; Judson L. Brown; James Edenso; Byron I. Mallott (Chairman).

(Standing, from left)--Albert M. Kookesh; Andrew John Hope, Jr.; Marlene A. Johnson; Clarence Jackson, Sr.; Louis J. Gloria; Joseph G. Wilson; Gilbert Gunderson; Richard Kito; Raymond Demmert; Joseph E. Kahklen.

SEALASKA CORPORATION SELECTED FINANCIAL DATA

(IN THOUSANDS OF DOLLARS)

	YEAR ENDED DECEMBER 31 1981	YEAR ENDED DECEMBER 31 1980	PERIOD ENDED DECEMBER 31 1979	YEAR ENDED MARCH 31 1979	YEAR ENDED MARCH 31 1978
Sales and other revenues $	**234,378**	150,775	14,726	15,702	15,070
Minority interest in net losses of consolidated subsidiaries	**1,068**	785	—	—	—
Earnings (loss) before extraordinary credit	**(4,046)**	5,156	439	(1,458)	(1,544)
Extraordinary credit—tax benefit of net operating loss carryforward	**220**	785	136	—	—
Net earnings (loss)	**(3,826)**	5,941	575	(1,458)	(1,544)
Total assets	**342,473**	280,621	162,511	96,906	99,270
Long-term debt (exclusive of current portion)	**26,315**	15,771	20,847	1,792	2,584
Amounts (in dollars) per share of common stock(c):					
Shareholder equity	**128.84**	125.71	57.54	57.08	58.13
Earnings:					
Earnings (loss) before extraordinary credit	**(2.56)**	3.26	.28	(.93)	(.98)
Extraordinary credit	**.14**	.50	.08	—	—
Net earnings or (loss) $	**(2.42)**	3.76	.36	(.93)	(.98)

FOOTNOTES TO FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(a) Amounts shown for 1980 and 1981 include the accounts of Ocean Beauty Seafoods which Sealaska acquired December 27, 1979. No results of operations of Ocean Beauty Seafoods are included in the 1979 or prior periods amounts. Amounts for 1980 and 1981 also include the accounts of Sealaska Timber Corporation and Sealaska Business Investment Corporation which commenced operations during 1980. Amounts shown for 1978 through 1981 include the accounts of the Alaska Brick group of companies which Sealaska acquired effective May 1, 1976.

(b) During 1979, Sealaska changed its fiscal year end to December 31, from March 31; therefore, December 31, 1979 is a nine-month period, whereas other fiscal years are twelve-month periods.

(c) Amounts per share of common stock are computed based on the number of outstanding shares at December 31, 1981. This computation recognizes changes in enrollment through December 31, 1981 because these changes retroactively adjust the number of shareholders for all prior years.

CHAIRMAN'S LETTER

Dear Shareholder:

This Annual Report is for the fiscal year 1981 which for Sealaska covers the period January 1, 1981 to December 31, 1981. You are receiving the report more than halfway through 1982 because the Board of Directors delayed completion until the cost of the canned salmon recalls could be included in the 1981 audited financial statements. As a result, the financial statements included in this report contain the total audited cost of the canned salmon recall, which is $5.012 million.

As Mr. Chittick's report details, 1981 was a difficult year for Sealaska Corporation. Sealaska continues to grow, however, and your Board of Directors is making sure that the goals of the Corporation are the basis for all corporate decision making. Your Corporation has grown from sales of $11,686,000 in 1979 to sales of $225,532,000 in 1981. The full time permanent workforce has increased from 164 in 1979 to 1354 in 1981. Shareholders' equity in Sealaska continues to increase, from $90,293,280 in March, 1979 to $203,818,000 in 1981. Sealaska has been one of America's fastest growing businesses in these three years. This growth has taken place during a time of uncertainty and difficulty in the business world.

The Board of Directors in 1981 made many major policy decisions affecting the management of this fast changing, growing company. The role of the Board of Directors in managing our fast paced growth while planning the Corporation's future has been demanding of individual time and skill and has been particularly crucial in maintaining and strengthening our unique commitment to shareholders.

In 1981, the Board established the shareholder intern program which will allow students pursuing educational and professional goals to be employed by the Corporation to gain work experience and knowledge of their Corporation and receive compensation sufficient to assist in continuing their education. Sealaska's shareholder scholarship program made its first awards, totaling $262,958 to 168 graduating high school seniors and college students in 1981. The Sealaska Heritage Foundation completed its first full year of operation in 1981, highlighted by the funding and planning of Celebration '82, a tribal, cultural celebration in dance, song and oratory of the Tlingits, Haidas and Tsimshians of Southeast Alaska. Celebration '82 took place in February of 1982 and by all accounts was a huge success that will continue to strengthen the ties among tribes and clans and cause renewed efforts to maintain and enhance our traditions and heritage. Employment of shareholders in 1981 increased 13.4% from 1980 with a renewed commitment by your Board of Directors to give employment preference to shareholders who meet the qualifications for available positions while recognizing the need to provide performance related security and career advancement opportunities for all employees. The Board of Directors undertook a program in 1981 to assess shareholder attitudes and their expectations of the Corporation. As part of this effort, a shareholder survey was conducted which was reported to shareholders in June of 1982. The information gathered will allow shareholders the opportunity to have a significant ongoing impact on corporate policy. These activities and actions reflect some of the special relationships which the Board of Directors has built with shareholders.

This Annual Report reveals a company emerging as a major force in the timber and seafood industries and in the Alaskan economy. It reveals too a company experiencing difficult economic times, but most importantly this report reveals a company with untapped natural resources of immense value and the spirit and vision of human resources able to nurture this young company into a strong, profitable, and mature corporation of the future.

Sincerely,

Byron I. Mallott

Byron I. Mallott
Chairman of the Board

Byron I. Mallott
Chairman of the Board
Sealaska Corporation

PRESIDENT'S REPORT

THIS PAST YEAR

1981 was a difficult year for Sealaska Corporation. Record high interest rates, unfavorable foreign currency exchange rates, and recessionary economies in both domestic and foreign markets combined to severely impact profit margins and reverse the growth in profitability achieved in the prior two years. 1981 was a year in which the timber industry was in its worst recession in 40 years and export log levels were depressed to record low levels. Also, it was a year in which the devastating financial impact of the canned salmon recall was recorded.

On a consolidated basis, Sealaska showed a net loss of $3.8 million for the twelve-month period ending December 31, 1981 compared with prior year's earnings of $5.9 million. Earnings per share fell from $3.76 in 1980 to a loss of $2.42 per share in 1981. Major components of the loss in 1981 include $11.8 million in interest expense--an increase of $4.6 million over 1980, a $3.2 million operating loss at Pacific Western Lines, and a $5 million charge against earnings relating to the canned salmon recall.

On February 5, in the midst of our 1981 audit, a defective can of salmon caused the death of a man in Belgium. An immediate embargo on all shipments to Europe was followed shortly by the recall of more than 50 million cans of salmon from eight processing plants in Alaska. Completion of the audit was delayed four months in an attempt to resolve the financial uncertainties surrounding these developments--the cost of recalled canned salmon worldwide plus the reduced value of existing inventories. The audited financial statements contain a downward adjustment of $5 million attributable to the recall. Although the incident causing the recall occurred in 1982, the impact is on the 1981 pack and the financial statements properly reflect that fact.

On a positive note, consolidated sales totaled nearly $226 million in 1981, an increase of 55% over the prior year, and total assets increased 22% to $342 million. The increase in sales was sufficient to rank Sealaska Number 745 in **Fortune** magazine's list of the 1000 largest industrial corporations in America. On a segment basis, operating revenues from seafood products increased 45% to $174 million, forest products 143% to $25 million, building products 75% to $18 million, and transportation 92% to $14 million.

Ocean Beauty Seafoods--Sealaska's largest subsidiary--was severely impacted by the canned salmon recall as well as high interest rates. Despite a $54 million increase in revenues resulting from a record salmon pack in Alaska, operating income declined to $7.1 million, 4% of sales, from $8.9 million or 7% of sales in 1980. Excluding the recall related write-off, Ocean Beauty's operating income increased by 36% in 1981 to $12.1 million.

Forest products sales more than doubled in 1981 and operating income increased 60% to $4.3 million. This occurred despite unfavorable foreign exchange rates and severely depressed economies in Sealaska's timber markets. Volumes harvested in 1981 were twice that in 1980 and will double again in 1982, making Sealaska the fourth largest log exporter in North America.

Transportation and building products--the ABC group of companies--did not perform as expected in 1981. Despite substantial increases in sales and market share, profit margins declined as a result of inefficient equipment and a drop in productivity. Operating income in this group of companies declined from $544,000 in 1980 to a loss of $3.2 million in 1981. A critical review of the future of these companies is underway for recommendation to the Sealaska Board of Directors.

In other developments, United Bank Alaska--20% owned by Sealaska--increased its earnings threefold in 1981 to $1.9 million; two oil wells drilled in the Beaufort Sea on oil and gas leases in which Sealaska has an interest have shown promise of containing commercial quantities of oil; and the Sealaska Business Investment Corporation has invested more than $1.1 million in shareholder owned businesses.

OUTLOOK FOR 1982

The loss in 1981 coupled with the expansion of the past two years financed almost entirely from cash and short term borrowings have adversely impacted Sealaska's liquidity. The ratio of current assets to current liabilities--measuring a corporation's ability to meet short term obligations--has declined from 1.5 in 1980 to 1.1 at the end of 1981. This is an unacceptable level and one which must be corrected during 1982. To do this will require restricting expenditures for growth in the near term and consequently, 1982 sales are expected to increase only moderately over 1981.

The method of financing past growth was a conscious decision resulting from high interest rates in the long term money markets. As a result, Sealaska has little long term debt--only $26 million at the end of last year--and our long term debt to equity ratio, measuring our ability to fund long term growth, is extremely favorable. Overall, your Corporation is financially sound and has an asset and equity base from which to build for the future.

1982 will continue to be a year of consolidation and recovery from the setbacks incurred in 1981. However, high interest rates and the recessionary economy are still with us and will slow Sealaska's recovery throughout the year. Ocean Beauty Seafoods anticipates lower sales and profits as it rebuilds its markets and consumer confidence in canned salmon. Large carryover inventories must be aggressively marketed in the face of another large salmon run in Alaska. The Sealaska Timber Corporation is facing lower log prices for the third straight year as the dollar continues to strengthen against the yen, making our products even more costly to the Japanese buyers. On the other hand, production will increase to approximately 200 million board feet--half of which is Sealaska's timber and half timber of the village and urban corporations--and sales nearly double. Building products sales (Alaska Brick Company and Alagco) are expected to be higher and profits improved as the construction boom in Anchorage continues. Finally, management forecasts a substantial improvement at PacWest but another loss nonetheless.

Although the results of 1981 operations are disappointing and the outlook for 1982 only moderately better, the Board of Directors, management and staff are optimistic about the future of your Corporation. We are confident that Sealaska will emerge from the current recession a stronger and more stable company with a greater market share, with a strong rebound in profits, and with an increased ability to serve our shareholders through dividends, employment and other benefits.

Michael H. Chittick
President and CEO
Sealaska Corporation

MANAGEMENT'S DISCUSSION

HIGHLIGHTS

Revenues increased 55.5% to $234.4 million in 1981, up from $150.8 million in 1980 and $14.7 million for the nine months ended December 31, 1979.

Several factors had major adverse effects on earnings in 1981. A severely depressed economy in the Pacific Northwest, hitting the forest products industry especially hard, hurt profits. The strength of the dollar against foreign currencies impacted both seafood and log export markets. Continuing high interest rates during a start up and expansion year requiring increasing current borrowings caused sharply higher interest expenses. In addition, in early 1982, the salmon canning industry has suffered severe damage from a botulism death and subsequent discovery of defective half-pound cans, leading to: recalls; adverse publicity and loss of markets; and causing loss of value of inventories at December 31, 1981.

Net loss per share was $2.42 in 1981, compared to net earnings of $3.76 in 1980, and $.36 for the nine months ended December 31, 1979.

LIQUIDITY AND CAPITAL RESOURCES

Working capital provided by operations was $9.7 million in 1981, down from $12.6 million in 1980. In the same two years, repayments and current installments of long term obligations were $10.9 million and $7.9 million. In total, working capital decreased $21.3 million in 1981 and $20.6 million in 1980. Working capital at December 31, 1981 was $12.9 million and the current ratio was 1.1 to 1. Comparable amounts at December 31, 1980 were $34.1 million and 1.5 to 1.

Principal repayments of long term debt payable in 1982 total $10.0 million.

At December 31, 1981, Sealaska had lines of credit and short term notes available totalling $98.9 million, of which $75.2 million was drawn down.

The weakening liquidity of the company, caused by heavy investment in start up operations in forest products and expansion and asset additions in other segments, has reversed itself in 1982. Management is severely restricting capital expenditures, has embarked on a program to reduce current debt, and intends to secure term debt to replace current debt.

INFLATION

Sealaska's financial information, adjusted for the effects of inflation, may be found in footnote 14 to the financial statements. Because most of the assets are recent acquisitions, the results of restatement are not significant, however, Sealaska considers inflation in its strategic planning process and pricing and other management policies.

RESULTS OF OPERATIONS

Operating profits from Sealaska's four major activities were $7.9 million in 1981, down from $12.2 million in 1980, a decrease of 35.5%. Financial data on operating groups are contained in "Segments of Business Operations" in footnote 4 to the financial statements.

Seafood profits declined, as did building materials. Transportation showed a major operating loss. Natural Resources increased operating profits from $2.7 million to $4.3 million but $3.9 million of this represents the difference between the current liability under the revenue sharing provisions of Section 7(i) of ANCSA and the estimated liability recorded as of the date of conveyance.

SEAFOOD PRODUCTS

Sealaska acquired Ocean Beauty Seafoods, Inc. effective December 31, 1979 and expanded its operations immediately in early 1980 by acquiring several operations, on lease terms pending purchase, from New England Fish Company.

Operating revenues increased 45% to $173.9 million in 1981 from $120.0 million in 1980. At the same time operating profits declined 20% from $8.9 million to $7.1 million. The collapse of the canned salmon market caused a decline in inventory values, which together with recall costs incurred to assure the safety of the product, totalled a $5.0 million reduction in operating profits for 1981.

NATURAL RESOURCES

Sealaska Timber Corporation was formed in early 1980 and started timber development operations for Sealaska and several village corporations. Start-up has progressed into 1982 when production will reach full sustained yield levels, approximately 200 to 250 million board feet per year, primarily destined for the Japanese export market. Initial outlays for developing both Sealaska and village corporation timber resources, including start-up costs, docks and roadbuilding, and advances to village corporations, have required substantial investments of working capital in 1980 and 1981. The investment has peaked and is declining in 1982. Timber resources enable the company to generate working capital internally and the company intends to maintain a balanced approach to sustainable yields and good environmentally sound forest management practices.

Operating revenues were $25.4 million in 1981, up 143% from $10.5 million in the first year of production. Operating profits, as explained in results of operations above, consisted mainly of the benefit as a result of the estimated 7(i) liability for 1981 being less than the provision originally made at the date of conveyance, by reason of accumulated expenses deductible from applicable revenues.

The forest products industry is in a severe depression, with a weak Japanese yen exerting additional pressures on export log prices. During the first two formative years Sealaska has established a reputation in the Japanese market and the ability to do business through difficult times.

BUILDING MATERIALS

Operating revenues were $17.9 million, up from $10.2 in 1980, an increase of 75%. Operating profits declined to break even levels, from $0.7 million in 1980. The construction business was busy in the Anchorage area, but is a very competitive market and margins were under pressure as a result of increasing market share.

TRANSPORTATION

Operating revenues increased 92% to $13.8 million, but insufficient handling equipment and inefficiencies in dealing with the increased freight volume resulted in a $3.2 million operating loss. Substantial additions in assets, including floating and handling equipment totalling $14.5 million were made, almost too late in the season to benefit 1981 results.

The Alaskan transportation business is highly competitive and expanded rapidly in 1981, but this has attracted even more competition in 1982.

CORPORATE AND OTHER REVENUES, AND CORPORATE ADMINISTRATION

Corporate revenues consist mainly of interest and investment income.

Corporate administrative expense, $6.0 million in 1981, increased 48% from 1980, 109% from 1979's annualized figure, but is 2.56% of total operating revenues in 1981 as opposed to 20% of such revenues in 1979.

INTEREST EXPENSE

Interest expense increased to $11.8 million from $7.2 million in 1980 because of sustained high interest rates and rapidly increasing employment of capital in the formation and expansion of operations.

SEALASKA TIMBER CORPORATION

Sealaska Timber Corporation is a wholly owned subsidiary of Sealaska Corporation formed to harvest and market timber for Sealaska and certain village and urban Native corporations in Southeast Alaska.

In only its second full year of operation, STC has earned a respectable market position as a steady supplier of high-grade, old-growth logs, principally as round logs for export.

During 1981, more than 67.3 million board feet of spruce and hemlock logs were sold to primary buyers in Japan, nearly double the total sold during 1980. Total gross log sales were valued at more than $30.7 million in 1981.

Net cash return to timber owners through STC development and marketing totaled $5.95 million in 1981. $4.85 million went to Sealaska Corporation while $1.1 million was divided among the village corporations which owned the marketed timber. Net cash return, is capital remaining after deductions for development and marketing costs. Capital construction through 1982 is expected to total more than $19 million.

In addition, STC provided 44 direct shareholder jobs and indirect employment provided through STC contractors provided an undetermined--but substantial--boost to local economies by providing salaries and increased economic activity.

Logs shipped in 1981 came from lands owned by Sealaska Corporation; Shaan-Seet Inc. (Craig); Klawock-Heenya Corporation (Klawock); and Klukwan, Inc. (Klukwan).

In addition to providing round logs for export, STC provides logs which do not meet export quality standards to Southeast Alaska pulp mills and other mills for chips, cants and other wood products. More than 9.9 million board feet of logs were sold to domestic mills in 1981.

Franklin C. Roppel
President, Sealaska Timber Corporation

Logging activity during 1981 included expansion of 1980 operations and initial development at Long Island, Hobart Bay, Klawock Island and Chichagof Island.

Timber assigned to STC is expected to continue to increase in 1982. Village and urban corporations in Southeast Alaska, including Goldbelt, Inc. (Juneau); Kootznoowoo, Inc. (Angoon); Huna Totem Corporation (Hoonah); Haida Corporation (Hydaburg); Shaan-Seet, Inc; Klawock-Heenya Corporation; and Klukwan, Inc., have assigned a combined total of 665 million board feet.

In addition, Sealaska Corporation has assigned 796 million board feet to bring STC's assigned volume total to 1.461 billion board feet.

The worldwide forest products market, depressed since mid-1980, is expected to gradually recover by late 1982. Completion of 1982 projected harvest levels will be dependent on market price trends which, in turn, are directly linked to foreign exchange rates.

Developing marketing opportunities with Korean and other domestic mills appear promising and should provide new outlets in 1982. The new outlets, coupled with lower log inventories in Japan and projected increases in domestic housing starts, could result in significant growth in 1982.

ALASKA BRICK COMPANY

The Alaska Brick group of companies is made up of several wholly owned subsidiaries of Sealaska Corporation involved in building materials, transportation and services. Member companies are Alaska National Corporation, Alaska Stevedoring, Alaska Aggregate Company, Pacific Western Lines and Alaska Brick Company.

1981 was a disappointing year for the Alaska Brick group of companies. Although both market share and consolidated sales figures increased, the operating loss exceeded $3.2 million.

While the growth was encouraging, earnings were disappointing because the existing equipment proved inadequate to handle the large increase in volume which also revealed operating deficiencies which were able to be corrected only late in the year.

Improvements and additions to equipment completed in 1981 have helped place the group in a strong position in 1982. In 1982, Alagco acquired upgraded mining equipment for its sand and gravel operations, and PacWest also acquired two new tugs and four new barges.

Management restructuring has taken place at the Alaska Brick group and the new staff and system now are fully in place. More centralized financial and operational control will be a direct result of those changes.

Sealaska Corporation's management and Board of Directors continue to review the Alaska Brick group and its future with Sealaska in light of these operating losses.

The Alaska Brick group's new management is looking to a continued strong economy in South Central Alaska and the addition of new equipment in the transportation field to provide the impetus for improved financial strength for 1982.

OCEAN BEAUTY SEAFOODS, INC

During 1981, Ocean Beauty Seafoods, Inc., purchased 59,603 tons of unprocessed fish and shellfish from fishermen. From that raw material, OBSI produced its largest packs ever of canned, fresh, frozen and salted product. OBSI continued to strengthen its position in Southeast Alaska and integrate the operations acquired in the New England Fish Company bankruptcy proceedings in 1980.

In addition, OBSI increased benefits to Sealaska shareholders by providing nearly 175 direct jobs for shareholders in 1981, paying them a total of $650,000. OBSI also purchased a total of $2,993,190 of fish from 232 Sealaska shareholder owned vessels.

In 1981, the entire seafood industry in the Pacific Northwest suffered because of extraordinarily high interest rates, unfavorable foreign exchange rates and an unexpectedly large salmon harvest which affected operations planning and marketing.

OBSI, along with the rest of the U.S. canned salmon industry, was hurt financially by a canned salmon recall early in 1982 resulting from a botulism death in Belgium. The recall directly affected the value of the 1981 canned salmon pack.

The recall eventually totaled more than 50 million cans of salmon from eight Alaska canneries, including one Ocean Beauty plant and one plant in which an Ocean Beauty subsidiary had a joint venture interest.

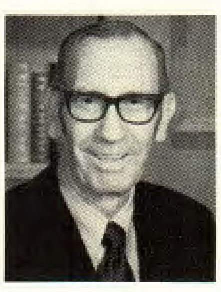
In addition to the financial effect on the value of the 1981 pack, the recall also had its own costs such as testing, handling and freight for the recalled product.

Even in the face of the recall, however, OBSI played an aggressive role and further established itself as an industry leader through its quick, decisive action to limit negative impact, rebuild and expand markets, and reestablish consumer confidence in canned salmon as a premium food product.

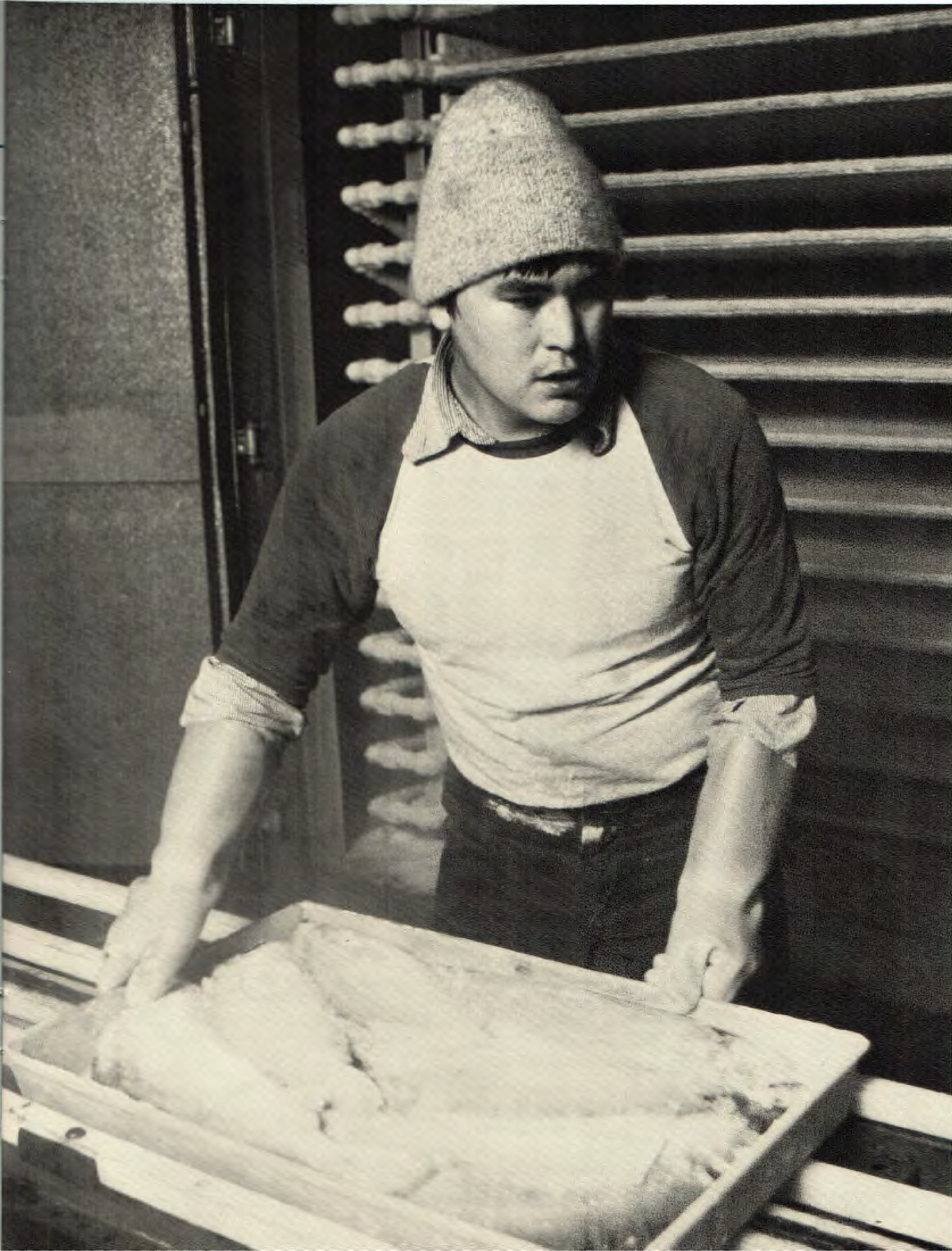
OBSI's year-end canned salmon inventory was high relative to past years and its value was materially affected by the circumstances discussed above.

Continued development of domestic and foreign markets, effective labor and fish price negotiations and increased operating efficiencies to offset increasing production costs all will play a key role in determining 1982 performance, which is viewed by OBSI management with caution.

Despite the several negative factors which affected the entire fishing industry, OBSI remains a strong, aggressive and stable company.



John G. Peterson President, Ocean Beauty Seafoods, Inc.



SEALASKA BUSINESS INVESTMENT CORP.

seabic

The Sealaska Business Investment Corporation (SEABIC) has invested more than $1 million directly in Sealaska Corporation shareholder enterprises through loans, equity investments and joint ventures--a clear statement of Sealaska's commitment to the development of shareholder owned and operated businesses.

In addition to the financial investment, SEABIC has invested in shareholders with continuing personal attention to each applicant and their business proposal. While not all proposals received are financed directly through SEABIC, each receives a thorough analysis, a timely notification of SEABIC's intent and, in many cases, guidance and counseling.

SEABIC has made a total of 37 loans, two equity investments, one joint venture and one acquisition for its total of approximately $1,116,500 invested.

High interest rates were a definite deterrent to new business startups in 1981 but if interest rates drop, as SEABIC management expects, interest in business financing probably will increase which will mean an increase in SEABIC's shareholder financing activity.

SEALASKA HERITAGE FOUNDATION

Sponsorship of Celebration '82, a major historical and cultural event for the Alaska Native community of Southeast Alaska, was the highlight of the Sealaska Heritage Foundation's first year of operation.

Celebration '82 took place in mid-February of 1982 but was financed and planned in 1981 and marked the first time the Tlingit, Haida and Tsimshian peoples had gathered together and shared their history and culture.

In addition to its tribute to the past, the Heritage Foundation provided an investment in the future of Alaska Natives by awarding 168 scholarships totaling $262,958, mainly from Sealaska Corporation funding, for post-secondary education.

The Foundation's stated mission is the promotion and enhancement of public awareness and knowledge of Southeast Alaska Native customs, language, history, arts and achievements.

UNITED BANK ALASKA

United Bank Alaska, which is nearly 20 percent owned by Sealaska Corporation, tripled its earnings in 1981, posting a profit of nearly $1.9 million, a gain of approximately 275 percent over its 1980 earnings of $496,000

The bank, owned by several Alaska Native Regional Corporations including Sealaska, showed a larger gain than several other Anchorage-based banks.

Sealaska Corporation holds approximately $3.2 million of stock in Unicorp, Inc., a bank holding company which in turn owns more than 99 percent of UBA.

That $3.2 million figure includes nearly $600,000 in stock purchased to maintain Sealaska's 20 percent share in the bank.

ALASKA UNITED DRILLING

Sealaska Corporation has purchased a financial interest in Alaska's only locally owned oil drilling concern, which now is known as Alaska United Drilling, Inc.

Alaska United Drilling, formerly known as VECO-NANA Drilling, is a joint-venture concern which includes NANA Regional Corporation, Bristol Bay Native Corporation, and Sealaska Corporation.

Alaska United Drilling, with its operations history as VECO-NANA, is an established oil exploration and development service supplier. Its success, along with that of the entire oil industry, will be dependent on the international and domestic oil market and its influence on oil field development.

BEAUFORT SEA JOINT VENTURE

Promising hydrocarbon shows during test drilling at Sag Delta 7, one of two test wells being drilled on Beaufort Sea oil and gas lease tracts in which Sealaska Corporation has a financial interest, indicate that profitable production is probable.

However, that production and its resultant income are some time away because of planning and development time and regulatory and environmental review time. In addition, the worldwide oil market and its effect on general oil prices will have a material effect on the development of those leases.

Sealaska Corporation, in conjunction with NANA Regional Corporation; Cook Inlet Region, Inc.; Koniag, Inc.; and Sohio BP successfully bid on nine tracts in the Beaufort Sea in December of 1979. Sealaska owns a one percent interest in the leases.

Drilling at another well, Challenge Island, showed promise but was halted when technical difficulties arose. Further exploratory drilling now is in the planning and development stages.

GLOSSARY

Assets--Assets represent anything of value which is owned by the corporation or its subsidiaries.

Audit--An audit occurs when an independent firm examines Sealaska's financial statements to determine that, in accordance with generally accepted accounting principles, the statements present a fair picture of Sealaska's financial position and results of operations.

Consolidated Balance Sheets--This statement shows what the company owns (assets) and what it owes (liabilities) on a given date.

Consolidated Financial Statements--The term "consolidated" means the financial statements of Sealaska Corporation and all the subsidiaries the Corporation owns have been combined into one set of statements. The consolidated statements and the accompanying notes and tables provide a complete picture of the financial status of the corporation.

Consolidated Statements of Changes in Financial Position--This statement shows where working capital, the money available to carry on the day-to-day operations of the Corporation and its subsidiaries, came from and where it was used.

Consolidated Statements of Income--This statement shows how the results of operations were determined. It also shows the earnings or loss per share of stock.

Consolidated Statements of Shareholders' Equity--This statement shows how the shareholder's equity has changed over the last three years.

Dividends--These are a share of a company's profits, usually distributed in cash on a per-share basis, received by a shareholder through distribution.

Liabilities--Liabilities represent money which is owed by the corporation or its subsidiaries.

Net Income--Net income or loss is the total dollar amount that remains after all costs and expenses are deducted from consolidated sales. Net income also is often referred to as "after-tax profit". Cash dividends and income retained for debt settlement, investment or expansion are major uses for net income.

Shareholders' Equity--This represents how much of the corporation's total assets are collectively owned by shareholders after all liabilities have been deducted.

Unqualified Audit--An unqualified audit report means that the audit has been completed and, in the judgment of the auditors, the financial statements are fairly presented in accordance with generally accepted accounting principles.

ACCOUNTANTS' REPORT

The Board of Directors
and Shareholders
Sealaska Corporation

We have examined the consolidated balance sheets of Sealaska Corporation and subsidiaries as of December 31, 1981 and 1980 and the related consolidated statements of operations, shareholders' equity and changes in financial position for the years ended December 31, 1981 and 1980 and the nine months ended December 31, 1979. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the consolidated financial position of Sealaska Corporation and subsidiaries at December 31, 1981 and 1980, and the results of their operations and the changes in their financial position for the years ended December 31, 1981 and 1980 and the nine months ended December 31, 1979, in conformity with generally accepted accounting principles applied on a consistent basis.

Seattle, Washington
July 23, 1982

Peat, Marwick, Mitchell & Co.

Peat, Marwick, Mitchell & Co.

CONSOLIDATED BALANCE SHEETS

SEALASKA CORPORATION AND SUBSIDIARIES
DECEMBER 31,1981 AND 1980
(IN THOUSANDS OF DOLLARS)

ASSETS	1981	1980
Current Assets:		
Cash	$ 1,245	1,786
Investment securities (notes 5 and 10)	6,133	14,707
Receivables, net (notes 6, 10 and 12)	55,680	37,643
Inventories (notes 7, 10, and 17)	56,474	41,799
Prepaid and other current assets	3,823	1,258
Total current assets	123,355	97,193
Noncurrent receivables, less current installments (note 6)	17,245	12,964
Property and equipment, at cost (notes 8, 10 and 11)	88,138	52,793
Less accumulated depreciation and amortization	17,012	7,693
	71,126	45,100
Timber, timberland and mineral deposits, less depletion and estimated Section 7 (i) allocation (notes 2 and 9)	108,014	102,094
Investments and other assets:		
Investments:		
Corporate bonds and U.S. Treasury notes (notes 5 and 10)	9,708	11,061
Affiliates, at equity including advances	5,823	4,992
Other companies, at cost	1,847	1,378
Property and land held for expansion and investment	2,488	2,909
Deferred forest products costs (note 11)	2,001	1,917
Other assets	866	1,013
Total investments and other assets	22,733	23,270
	$ 342,473	280,621

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

SEALASKA CORPORATION AND SUBSIDIARIES
DECEMBER 31,1981 AND 1980
(IN THOUSANDS OF DOLLARS)

LIABILITIES AND SHAREHOLDERS' EQUITY	1981	1980
Current liabilities:		
Notes payable to banks (note 10)	**75,241**	37,323
Notes payable to others	**3,427**	1,067
Current installments of long-term obligations (note 11)	**10,048**	7,572
Accounts payable	**12,930**	11,239
Other accrued expenses	**8,683**	5,649
Federal, foreign and state income taxes (note 12)	**141**	201
Total current liabilities	**110,470**	63,051
Deferred items	**242**	231
Long term obligations, less current installments (note 11)	**26,315**	15,771
Minority interests in net assets of consolidated subsidiaries	**1,628**	2,697
Shareholders' equity:		
Common stock, no par or stated value. Authorized 2,000,000 shares; issued 1,581,900 in 1981 and 1,575,800 in 1980	—	—
Contributed capital (note 2)	**203,772**	194,999
Retained earnings	**46**	3,872
Total shareholders' equity	**203,818**	198,871
Commitments and contingencies (notes 2, 11, 15, 16 and 17)	—	—
	$ 342,473	280,621

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

SEALASKA CORPORATION AND SUBSIDIARIES
YEARS ENDED DECEMBER 31, 1981 AND 1980
AND NINE MONTHS ENDED DECEMBER 31, 1979
(IN THOUSANDS OF DOLLARS,EXCEPT PER SHARE AMOUNTS)

	December 31, 1981 (Twelve Months)	December 31, 1980 (Twelve Months)	December 31, 1979 (Nine Months)
Revenues:			
Net sales $	**225,532**	144,694	11,686
Investment income, principally interest	**2,890**	2,456	1,193
Interest income on receivables	**4,478**	2,541	446
Brokerage and service fee income	**802**	818	—
Natural resource revenues from other regional corporations (note 2)	**676**	266	1,401
	234,378	150,775	14,726
Costs and expenses:			
Costs of products and services	**200,078**	119,032	9,965
Selling, general and administrative expenses	**28,021**	20,110	3,912
Natural resource revenue sharing expense (benefit) (note 2)	**(3,863)**	(182)	—
Interest expense	**11,751**	7,182	440
	235,987	146,142	14,317
Estimated canned salmon costs (note 17)	**(5,012)**		
Other income, net	**575**	525	176
Equity in net earnings (losses) of affiliates	**217**	(122)	—
Gains (losses) from dispositions of property and equipment, net	**1,286**	80	(10)
Earnings (loss) before income taxes, minority interests in net losses of consolidated subsidiaries and extraordinary Credit	**(4,543)**	5,116	575
Income taxes (credits) (note 12)	**571**	745	136
Minority interests in net losses of subsidiaries	**(1,068)**	(785)	—
Earnings (loss) before extraordinary credit	**(4,046)**	5,156	439
Extraordinary credit-tax benefit of net operating loss carryforward (note 12)	**220**	785	136
Net earnings (loss) $	**(3,826)**	5,941	575
Earnings (loss) per share of common stock:			
Earnings (loss) before extraordinary credit $	**(2.56)**	3.26	.28
Net earnings (loss) $	**(2.42)**	3.76	.36

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

SEALASKA CORPORATION AND SUBSIDIARIES
YEARS ENDED DECEMBER 31, 1981 AND 1980
AND NINE MONTHS ENDED DECEMBER 31, 1979
(IN THOUSANDS OF DOLLARS)

	December 31, 1981 (Twelve Months)	December 31, 1980 (Twelve Months)	December 31, 1979 (Nine Months)
Sources of working capital:			
Earnings (loss) before extraordinary credit $	**(4,046)**	5,156	439
Items which do not use (provide) working capital:			
Depreciation and amortization of property and equipment, and property held for expansion	**9,518**	4,375	945
Depletion	**5,626**	1,903	—
Other amortization	**365**	457	—
(Gains) losses on disposition of property and equipment and land held for investment	**(1,286)**	(80)	10
Interest on long-term obligations not currently payable	**669**	1,360	—
Minority interests in net losses of subsidiaries	**(1,068)**	(785)	—
Equity in net (earnings) losses of affiliates	**(217)**	122	—
Other	**112**	104	(100)
Working capital provided by operations before extraordinary credit	**9,673**	12,612	1,294
Working capital provided by extraordinary credit	**220**	785	136
	9,893	13,397	1,430
Collections and current installments of noncurrent receivables	**21,819**	6,015	332
Timber, timberland and mineral deposits recorded as contributed capital	**8,695**	101,915	—
Additions to long-term obligations	**20,538**	1,102	23,767
Corporate bonds maturing currently	**4,630**	502	—
Payments received and increases in current receivable from the Alaska Native Fund	**78**	3,009	40,945
Proceeds from disposition of property and equipment and land held for investment	**2,383**	304	165
Transfer of deferred costs to timber and property and equipment	—	1,257	—
Assumption of noncurrent liabilities of Ocean Beauty Seafoods, Inc.:			
Long term obligations	—	—	5,675
Minority interests in subsidiaries	—	—	3,482
Deferred items	—	—	106
Other sources	**137**	—	185
Decrease in working capital	**21,257**	20,606	—
	$ 89,430	148,107	76,087

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

SEALASKA CORPORATION AND SUBSIDIARIES
YEARS ENDED DECEMBER 31, 1981 AND 1980
AND NINE MONTHS ENDED DECEMBER 31, 1979
(IN THOUSANDS OF DOLLARS)

	December 31, 1981 (Twelve Months)	December 31, 1980 (Twelve Months)	December 31, 1979 (Nine Months)
Uses of working capital:			
Additions to timber, timberland and mineral deposits	$ **8,859**	102,806	—
Additions to investments and other assets	**4,700**	11,924	6,360
Additions to property and equipment	**36,125**	8,700	416
Repayments and current installments of long-term obligations	**10,885**	7,908	10,388
Additions to noncurrent receivables	**26,174**	15,578	772
Transfer of liability under Section 7(i) to current classification	**2,687**	1,191	—
Acquisitions of noncurrent assets of Ocean Beauty Seafoods, Inc.:			
Noncurrent receivables	—	—	582
Investments	—	—	2,330
Property and equipment	—	—	25,243
Other assets	—	—	219
Increase in working capital	—	—	29,777
	$ **89,430**	148,107	76,087
Changes in components of working capital:			
Increase (decrease) in current assets:			
Cash	**(541)**	1,132	322
Investment securities	**(8,574)**	(263)	929
Receivables, net	**18,037**	(24,980)	50,039
Inventories	**14,675**	20,531	18,787
Prepaids and other current assets	**2,565**	(986)	1,939
	26,162	(4,566)	72,016
Increase (decrease) in current liabilities:			
Notes payable to banks	**37,918**	13,724	21,103
Notes payable to others	**2,360**	208	752
Current installments of long-term obligations	**2,476**	(3,610)	11,004
Accounts payable	**1,691**	3,940	5,698
Accrued expenses	**3,034**	1,758	3,501
Federal, foreign and state income taxes	**(60)**	20	181
	47,419	16,040	42,239
Increase (decrease) in working capital	$ **(21,257)**	(20,606)	29,777

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

SEALASKA CORPORATION AND SUBSIDIARIES
YEARS ENDED DECEMBER 31, 1981 AND 1980,
AND NINE MONTHS ENDED DECEMBER 31 1979
(IN THOUSANDS OF DOLLARS, EXCEPT SHARE AMOUNTS)

	SHARES OF COMMON STOCK	CONTRIBUTED CAPITAL	RETAINED EARNINGS (DEFICIT)	TOTAL SHAREHOLDERS' EQUITY
Balance at March 31,1979	1,541,050	$ 92,937	(2,644)	**90,293**
Effect of shareholder enrollment change	30,950	147	—	**147**
Net earnings for the nine months ended December 31, 1979	—	—	575	**575**
Balance at December 31, 1979	1,572,000	93,084	(2,069)	**91,015**
Effect of shareholder enrollment change	3,800	—	—	—
Valuation of timber, timberland and mineral deposits conveyed (note 2)	—	101,915	—	**101,915**
Net earnings for the year ended December 31, 1980	—	—	5,941	**5,941**
Balance at December 31, 1980	1,575,800	194,999	3,872	**198,871**
Effect of shareholder enrollment change	6,100	78	—	**78**
Valuation of timber, timberland and mineral deposits conveyed (note 2)	—	8,695	—	**8,695**
Net loss for the year ended December 31, 1981	—	—	(3,826)	**(3,826)**
Balance at December 31, 1981	1,581,900	$ 203,772	46	**203,818**

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEALASKA CORPORATION AND SUBSIDIARIES
DECEMBER 31, 1981, 1980 AND 1979

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements include the accounts of Sealaska Corporation (Sealaska) and its majority-owned subsidiaries. In addition, a 50% owned subsidiary is included since financial and managerial control is effected through various agreements and the subsidiary's operations are considered to be an integral component of consolidated operations. All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in affiliates and in a company 19.9% owned are stated at amortized cost, adjusted for Sealaska and subsidiaries' share of undistributed earnings or losses since acquisition. Various oil and gas ventures in which Sealaska owns 1% interests are stated at cost.

On December 27, 1979, Sealaska, through a subsidiary, acquired all of the outstanding stock of Ocean Beauty Seafoods, Inc. (Ocean Beauty). Ocean Beauty and its subsidiaries are processors and wholesalers of seafood products. The consolidated statements of operations, shareholders' equity and changes in financial position include the operations of Ocean Beauty only for the years ended December 31, 1981 and 1980 as the acquisition was accounted for as of December 31, 1979. The acquisition is described in note 3.

Certain items in the December 31, 1980 and 1979 consolidated financial statements have been reclassified to conform to the December 31, 1981 presentation.

(b) Contributed Capital/Alaska Native Claims Settlement Act (Act)

Sealaska accounts for its share of distributions pursuant to the Act (note 2) as follows:

--Monies received and receivable from the Alaska Native Fund, net of distributions required by Section 7(j) of the Act and amounts representing interest, are recorded as an asset and contributed capital based upon payments and estimated amounts to be received. At December 31, 1981, all such monies had been received.

--Distribution of revenues from other regional corporations as provided by Section 7(i) of the Act, net of distributions required by Section 7(j) of the Act and amounts representing interest, are recognized as income when collection is reasonably assured.

(c) Section 7(i) and Section 7(j) Revenue Distributions

Sealaska records as amounts payable estimates of revenue sharing distributions required by Sections 7(i) and 7(j) of the Act. These amounts are based on Sealaska's current interpretation of shareable revenues and deductible costs under the tentative agreement described in note 2.

Differences between the amounts currently estimated to be due and the liability recorded as of the date of conveyance are recognized as an expense or benefit of the period in which the difference is realized.

(d) Notes and Advances to Boat Owners, Fishermen and Others

Notes and advances to boat owners, fishermen and others (note 6) include amounts which may not be collected within the next twelve months since collections are dependent upon their success during the ensuing fishing season. Subsidiaries generally recognize interest income upon such receivables only to the extent that amounts are collected or that the value of the security pledged exceeds the principal amount due. Unrecognized interest income amounted to $716,000 at December 31, 1981 and $527,000 at December 31, 1980.

(e) Inventories

Inventories are stated at the lower of cost (primarily average and first-in, first-out) or market (net realizable value). At December 31, 1979, concurrent with the acquisition of Ocean Beauty, seafood products were stated at their selling prices less costs of disposal and a reasonable profit allowance for selling effort upon disposition.

Net sales include $7,449,000 in 1981 and $6,818,000 in 1980 related to salmon roe which is treated as a by-product for purposes of calculating the cost of other salmon products.

(f) Depreciation, Amortization and Depletion

Depreciation and amortization of property and equipment are provided primarily on the straight-line method over the expected useful lives of the assets as follows:

Buildings, leaseholds and improvements	5-50 years
Vessels, equipment and furniture	3-20 years

Logging roads are amortized as timber is harvested based on volumes of timber to be removed on first entry.

Depletion of timber and mineral deposits is provided based on amounts harvested or extracted in relation to total estimated volume present. For tax purposes, depletion of timber is recorded based upon the fair market value of the asset as of the date of first commercial development of a specific block or mineral deposit.

(g) Investment Tax Credits

Investment tax credits are recorded as a reduction of the provision for income taxes in the year realized.

(h) Earnings Per Share

The number of shares of stock issuable under the terms of the Act is based upon a compilation of eligible shareholders prepared by the Bureau of Indian Affairs which in the past has been adjusted on a retroactive basis. It is not expected that future adjustments will be material. Earnings per share information in the consolidated financial statements is based on shares outstanding as of December 31, 1981.

(i) Funds Received as Custodian

Amounts received by Sealaska (from the Alaska Native Fund or other regional corporations) as conditional custodian (provided by the Act) pending distribution to at-large shareholders and village corporations are not included as assets and liabilities in Sealaska's consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEALASKA CORPORATION AND SUBSIDIARIES
DECEMBER 31, 1981, 1980 AND 1979

(2) Alaska Native Claims Settlement Act

Sealaska was incorporated in 1972 as a regional native corporation pursuant to the provisions of the Act.

The Act established the Alaska Native Fund (Fund) into which monies were distributed over a period of several years. Distributions of these monies from the Fund to each regional corporation were based on the relative number of Alaska Natives enrolled in each region. Alaska Natives enrolled in Sealaska represent approximately 21% of the total Alaska Native enrollment. Sealaska Corporation's share of these funds totaled $93,162,000, all of which had been received as of December 31, 1981.

The Act also provides for selection of land in Alaska by the regional, village and urban corporations formed under the Act. It is anticipated that the village and urban corporations in Sealaska's region will receive conveyance to 287,000 acres of which Sealaska will own the subsurface estate. Additionally, Sealaska expects to receive conveyance to approximately 280,000 acres in the Tongass National Forest in Southeast Alaska of which it will own the surface and subsurface estate.

Of the expected 280,000 acres, at December 31, 1981 Sealaska has received conveyance to the surface and subsurface estate of approximately 197,000 acres from within the Tongass National Forest. Additionally, interim conveyance or patent has been received to the subsurface estate of approximately 218,000 acres.

Certain revenues generated from the related timber resources and subsurface estate are subject to the revenue sharing provisions of Section 7(i) of the Act, as explained below.

Valuation of subsurface estate is currently impracticable. As subsuraface assets are measured through realization, their value at time of conveyance, less the portion estimated to be sharable under the revenue sharing provisions of Section 7(i) of the Act, is determined and recorded as contributed capital.

The valuation of land, timber and timberland, including interim conveyances, was completed during 1981. The report on these 197,000 acres indicates a value at date of conveyance of $285,030,000 including $279,043,000 representing merchantable timber. Merchantable timber value, as used in the report, includes only timber at a value in excess of costs of feasible harvest, based upon stumpage market values and forest harvesting technology at the date of conveyance. These amounts less the portion estimated to be shareable under the revenue sharing provision of Section 7(i) of the Act (see note 9) have been recorded as contributed capital. It is possible that additional timber included in the conveyance will have a merchantable value in the future.

Section 7(i) of the Act requires each Alaska regional corporation that generates revenues from timber resources and subsurface estate conveyed by the Act to distribute 70% of such revenues to twelve of the thirteen Alaska regional corporations including the distributing corporation. Sealaska recognized $676,000 during the year ended December 31, 1981, $266,000 during the year ended December 31, 1980, and $1,401,000 during the nine months ended December 31, 1979 of Section 7(i) revenues, representing its share of minimum estimated revenues to be received.

Section 7 (j) of the Act requires that not less than 50% of monies received by Sealaska from the Alaska Native Fund and from the 70% allocation established by Section 7(i) must be distributed to village corporations and at-large shareholders. The extent to which other income of Sealaska is subject to the distribution requirements of Section 7(j) was the subject of litigation. In 1981, the United States District Court ruled that Section 7(j) does not require that any portion of either the regional corporations' other net income or the 30% retained share of section 7(i) revenues be distributed to village corporations and at-large shareholders. Required distributions to village corporations and at-large shareholders are based on the ratio of the total number of outstanding shares of Sealaska's common stock to the number of Sealaska shares owned by shareholders of village corporations and by at-large shareholders.

In June 1982, after prolonged negotiations, all twelve Alaskan regional corporations reached a tentative agreement regarding the method of computing amounts payable under Section 7(i) of the Act. The agreement is pending ratification by at least 10 of the 12 regional corporation's Board of Directors by October 1, 1982. Based on this tentative agreement, management has determined that no amounts are distributable by Sealaska as of December 31, 1981. The consolidated financial statements include no current liability for amounts, if any, which might ultimately be payable in the event that the tentative settlement agreement is not ratified, thereby causing ultimate settlement by litigation.

In the event this tentative agreement is not ratified by the regional corporations' Boards of Directors, the result will be the continuation of the current litigation. Management believes that should the litigation continue, 7(i) revenue for 1981 would increase by $778,000 over amounts reported in the consolidated statement of operations.

At the time of recording the value of timber conveyed to it, Sealaska recognized the estimated liability under Section 7(i) based upon conveyance date values. As the resource is developed and sold, amounts realized may result in a liability for Section 7(i) to other regional corporations that differs from the liability originally estimated, causing the liability to be reduced or increased during the year proceeds are recognized. Included in natural resource revenue sharing expense (benefit) is the reversal of the liability for Section 7(i) payments established at December 31, 1980, in the amount of $1,136,000 and $2,727,000 relating to Section 7(i) liability associated with logs and gravel sold during 1981, such liability having been estimated based on conveyance values.

(3) Acquisition of Ocean Beauty

On December 27, 1979, Sealaska agreed to acquire all the outstanding stock of Ocean Beauty for an aggregate cost, including expenses, of $28,402,000 of which notes payable comprised $23,752,000.

The acquisition has been accounted for as a purchase, effective December 31, 1979. As required under the purchase method of accounting, the cost has been allocated to the various assets acquired and liabilities assumed based upon net realizable values, appraisals of property, plant and equipment and present values of liabilities assumed. The amounts allocated to assets acquired or liabilities assumed, representing the difference between the recorded values on the financial statements of Ocean Beauty and values recorded in Sealaska's financial statements, are being amortized over the lives of the related assets or liabilities.

The acquisition agreement provides for the continued employment of three key management executives of Ocean Beauty. The terms specify that $5 per formerly-owned share of Ocean Beauty stock be paid annually to these individuals, subject to their continued employment through 1982. These payments are charged to expense as incurred. Collectively, the three individuals owned 55,543 shares. Should the employment of the individuals not continue through the end of each year, the annual amounts will not be paid and the individuals will forfeit the unpaid portion of certain notes received in payment for Ocean Beauty stock amounting to $5 per share for each year of the three-year period. The three key management executives were in the employ of Ocean Beauty as of December 31, 1981.

(4) Segments of Business Operations

Sealaska and its subsidiaries' business operations are principally in four industries: seafood products, natural resources, building materials and transportation. Seafood products involves the processing and wholesaling of seafood products. Natural resources involves the harvesting of timber and the sale of logs and the extraction and sale of mineral deposits from lands conveyed under the Act. Building materials involves manufacture and sale of concrete products, sand and gravel and other building products. Transportation involves the movement of freight by oceangoing tug and barge and by truck. Specific information about activities in these industries follows:

	December 31, 1981 (Twelve Months)	December 31, 1980 (Twelve Months)	December 31, 1979 (Nine Months)
		(In thousands)	
Segment and other operating revenues:			
Segment operating revenues:			
Seafood products $	**173,944**	120,015	—
Natural resources	**25,445**	10,473	—
Building materials	**17,938**	10,223	7,073
Transportation	**13,813**	7,185	4,511
Other	**815**	436	332
	231,955	148,332	11,916
Elimination of intersegment sales	**(1,670)**	(1,053)	(230)
Total segment operating revenues	**230,285**	147,279	11,686
Other operating revenues	**4,093**	3,496	3,040
Total segment and other operating revenues $	**234,378**	150,775	14,726

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEALASKA CORPORATION AND SUBSIDIARIES
DECEMBER 31, 1981, 1980 AND 1979

	December 31, 1981 (Twelve Months)	December 31, 1980 (Twelve Months)	December 31, 1979 (Nine Months)
		(In thousands)	
Operating income (loss):			
Seafood products $	**7,087**	8,880	—
Natural resources	**4,266**	2,669	—
Building materials	**25**	732	790
Transportation	**(3,240)**	(188)	(953)
Other	**(245)**	144	129
	7,893	12,237	(34)
Corporate and other revenues	**5,097**	4,250	3,206
Equity in net earnings (losses) of affiliates	**217**	(122)	—
Less:			
Corporate administrative and other expenses	**(5,999)**	(4,067)	(2,157)
Interest expense	**(11,751)**	(7,182)	(440)
Earnings (loss) before income taxes, minority interests in net losses of subsidiaries and extraordinary credit $	**(4,543)**	5,116	575
Identifiable assets by business segment:			
Seafood products	**112,091**	93,228	69,767
Natural resources	**158,744**	122,795	—
Building materials	**20,428**	13,885	14,417
Transportation	**19,335**	4,801	2,727
Other	**5,554**	3,727	3,822
General corporate	**26,510**	42,185	71,778
$	**342,473**	280,621	162,511

Operating income or loss by industry segment represents total operating revenue less related costs of products and services and other operating expenses directly applicable to each industry segment. Corporate administrative and general expenses of the parent company and interest expense have not been included in the determination of segment operating income or loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEALASKA CORPORATION AND SUBSIDIARIES
DECEMBER 31, 1981, 1980 AND 1979

Identifiable assets by industry segment represents those assets that are used directly in each segment. General corporate assets are principally cash, investment securities, receivables from the Alaska Native Fund, land held for investment and the portion of an office building used as corporate headquarters.

Provisions for depreciation, amortization and depletion and related net asset additions were as follows:

	December 31, 1981 (Twelve Months)	December 31, 1980 (Twelve Months)	December 31, 1979 (Nine Months)
		(In thousands)	
Depreciation, amortization and depletion:			
Seafood products	$ **3,107**	3,071	—
Natural resources	**10,098**	2,169	—
Building materials	**734**	295	494
Transportation	**850**	475	320
Other	**93**	90	69
General corporate	**262**	178	62
	$ **15,144**	6,278	945
Net asset additions:			
Seafood products	**5,406**	3,023	25,243
Natural resources	**19,688**	108,505	—
Building materials	**5,438**	390	25
Transportation	**13,500**	2,106	195
Other	**6**	28	6
General corporate	**412**	963	65
	$ **44,450**	115,015	25,534

Net sales by geographical location are shown below:

	YEAR ENDED DECEMBER 31, 1981	YEAR ENDED DECEMBER 31, 1980
	(In thousands)	
United States	$ **138,587**	98,444
Europe	**29,451**	13,381
Japan	**54,895**	27,143
Canada	**548**	4,555
Other	**2,051**	1,171
	$ **225,532**	144,694

Included in Japan sales are $21,382,000 in 1981 and $8,596,000 in 1980 of log sales made to United States companies owned by Japanese interests and believed to be destined for the Japanese market.

(5) Investment Securities

Current investment securities, principally corporate notes and bonds in 1981 and security repurchase agreements with banks in 1980, are stated at amortized cost which approximated market value at December 31.

Noncurrent investment securities, principally corporate notes and bonds, are stated at amortized cost which exceeded their market value by $367,000 at December 31, 1981.

(6) RECEIVABLES

Current receivables, net, at December 31 are as follows:

		1981	1980
		(In thousands)	
Trade, less allowance for doubtful receivables of $582,000 in 1981 and $198,000 in 1980	$	**21,560**	17,312
Notes and advances to boat owners, fishermen and others, partially secured, less allowance for doubtful receivables of $634,000 in 1981 and $801,000 in 1980		**5,900**	8,042
Accounts and notes from affiliated companies		**8,784**	665
Section 7(i) revenue receivable (note 2)		**1,378**	1,679
Federal and state income taxes (note 12)		**667**	828
Current installments of noncurrent receivables, including $14,406,000 in 1981 and $3,814,000 in 1980 receivable from village and urban corporations		**15,117**	4,240
Current portion of future distributions from the Alaska Native Fund (note 2)		—	2,970
Other		**2,274**	1,907
	$	**55,680**	37,643

Noncurrent receivables, including current installments, include $28,456,000 in 1981 and $13,573,000 in 1980 receivable from village and urban corporations.

(7) INVENTORIES

Inventories at December 31 are as follows:

		1981	1980
		(In thousands)	
Seafood products	$	**47,162**	37,022
Building products		**3,929**	2,643
Logs		**2,439**	—
Supplies		**2,944**	2,134
	$	**56,474**	41,799

Seafood products inventories were reduced from cost to net realizable value by $5,336,000 (note 17) and $972,000 at December 31, 1981 and 1980, respectively. Pulp log inventories were reduced from cost to net realizable value by $2,419,000 at December 31, 1981.

(8) PROPERTY AND EQUIPMENT

Property and equipment at December 31 are as follows:

	1981	1980
	(In thousands)	
Land	$ **6,043**	6,307
Buildings, leaseholds and improvements	**25,151**	23,317
Vessels, equipment and furnishings	**44,860**	21,833
Logging roads	**9,996**	882
Construction in progress	**2,088**	454
	$ **88,138**	52,793

Included in vessels, equipment and furnishings are capital leases of $7,088,000 at December 31, 1981. Included in depreciation and amortization is $117,000 of amortization on these same assets during 1981.

(9) TIMBER, TIMBERLAND AND MINERAL DEPOSITS

At December 31, timber timberland and mineral deposits comprise:

	1981	1980
	(In thousands)	
Timber	$ **279,784**	260,041
Timberland	**6,316**	5,351
Mineral Deposits	**648**	231
	286,748	265,623
Less Section 7(i) estimated allocation	**171,205**	161,626
Less depletion	**7,529**	1,903
	$ **108,014**	102,094

(10)NOTES PAYABLE TO BANKS

Notes payable to banks at December 31 are as follows:

	1981	1980
	(In thousands)	
Demand notes payable under a $45,000,000 line of credit, secured by certain seafood products inventories, receivables and other current assets, interest at the prime rate, plus .50%	$ **26,700**	16,655
Unsecured notes payable under a $25,000,000 line of credit, interest at the prime rate in 1981 and the prime rate plus .25% in 1980	**20,076**	2,687
Notes payable within 90 days, unsecured, interest at 16.125% to 16.375%, and at 12.75% guaranteed by a minority stockholder of a consolidated subsidiary	**14,150**	15,000
Notes payable within 90 days, interest at the prime rate plus 1%, secured by investment securities, equipment and land	**6,630**	—
Note payable, due January 1982, secured by investment securities, interest at the prime rate plus .50%	**6,000**	—
Other notes, primarily unsecured, interest at various rates	**1,685**	2,981
	$ **75,241**	37,323

(11) LONG-TERM OBLIGATIONS

Long-term obligations at December 31 are as follows:

	1981	1980
	(In thousands)	
Notes payable to former shareholders of Ocean Beauty, unsecured, including accrued interest at 9.75% of $2,028,000 in 1981 payable in January 1983. Principal payments due $6,599,000 in January 1982 and $277,000 in 1983	$ **8,904**	14,925
Note payable to bank in monthly installments of $92,000 plus interest at the prime rate plus 1%, secured by property and equipment, final payment due in 1986	**5,317**	—
Note payable to minority stockholder of consolidated subsidiary in $1,000,000 annual payments beginning in 1984, interest rate at 11%, secured by property and equipment	**5,000**	—
Note payable to bank in monthly installments of $25,000 plus interest at prime rate plus 1.5%, secured by a vessel, final payment due in 1991	**3,050**	—
Note payable in quarterly installments of $115,000 interest at the prime rate plus 1%, secured by a vessel, final payment due in 1991	**2,250**	—
Mortgage note payable $31,000 monthly, less unamortized discount at an imputed interest rate of 14.8%, of $667,000 in 1981 and $781,000 in 1980, secured by property and equipment, final payment due in 1999	**2,356**	2,382
Notes payable to bank annually in installments of 380,000 plus interest at 9%, less unamortized discount at an imputed interest rate of 15.9%, of $331,000 in 1981 and $445,000 in 1980, unsecured, final payments due in 1984 to 1987	**2,069**	2,355
Obligations under capital leases with interest imputed at rates between 10% and 17.5%, secured by vessels and equipment, payable through 1991	**4,132**	219
Other notes and contracts payable	**3,285**	3,462
	36,363	23,343
Less current installments	**10,048**	7,572
	$ **26,315**	15,771

Principal maturities of long-term obligations, exclusive of obligations under capital leases over the next five years are as follows:

	(In thousands)
1982	$ **9,043**
1983	**4,609**
1984	**4,659**
1985	**3,270**
1986	**2,806**

Interest expense has been reduced by $1,164,000 for interest capitalized in 1981. Interest capitalized is included in property and equipment and deferred forest products costs.

Future minimum payments under capital leases and noncancellable operating leases with an initial term of one year or more were as follows at December 31, 1981:

	Capital leases	Operating leases
	(In thousands)	
1982	$ 1,644	661
1983	1,531	498
1984	1,543	371
1985	481	338
1986	353	253
Thereafter	—	1,594
Total minimum lease payments	5,552	3,715
Amount representing interest	1,420	
Present value of net minimum lease payments	4,132	

Consolidated rental expense under operating leases included in costs and expenses was $4,529,000 for the year ended December 31, 1981, $2,745,000 for the year ended December 31, 1980 and $864,000 for the nine months ended December 31, 1979.

(12) INCOME TAXES

Federal and state income taxes receivable of $667,000 in 1981 and $828,000 in 1980 arise primarily from the ability to carry-back operating losses and investment tax credits generated by subsidiaries to recover income taxes paid by those subsidiaries in prior years.

Income taxes comprise the following:

	FEDERAL	STATE	FOREIGN	TOTAL
	(In thousands)			
December 31, 1981:				
Current	$ 446	—	139	**585**
Deferred (credits)	—	—	(14)	**(14)**
	$ 446	—	125	**571**
December 31, 1980:				
Current (credits)	(191)	68	83	**(40)**
Tax effect of operating loss	784	1	—	**785**
	$ 593	69	83	**745**
December 31, 1979:				
Tax effect of operating loss	$ 106	30	—	**136**

SEALASKA CORPORATION AND SUBSIDIARIES
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Total income tax expense amounted to $571,000 for the year ended December 31, 1981, $745,000 for the year ended December 31, 1980 and $136,000 for the nine months ended December 31, 1979. The reasons for the differences between these amounts and the computed amounts using the "expected" U. S. Federal income tax rate of 46% for the periods ended December 31, 1981, 1980 and 1979 follow:

	1981	1980	1979
		(In thousands)	
Computed "expected" tax expense (benefit)	$ **(2090)**	2,353	265
Tax depletion in excess of book amounts	**(1,638)**	(711)	—
Effect of excluding from taxable income the current portion of Section 7 (i) liability provided at time of original asset valuation	**(1,255)**	(632)	—
Depreciation not deductible for tax purposes	**410**	375	—
Non taxable interest income on ANF monies	**(182)**	(72)	—
Basis difference on sale of assets not deductible for tax purposes	**192**	139	—
Earnings of foreign subsidiaries not subject to U. S. tax	**(70)**	(135)	—
Net operating losses currently providing no benefit for tax purposes	**5,298**	446	—
Purchase accounting for cost of products and other adjustments not taxable	**90**	(887)	—
Investment tax credits	**(223)**	(93)	—
Other, net	**39**	(38)	(129)
	$ **571**	745	136

Income taxes have not been provided on the undistributed earnings accumulated by the DISC subsidiaries prior to their acquisition by Sealaska. The amount of such undistributed earnings was $1,476,000 at December 31, 1981.

At December 31, 1981, Sealaska and its subsidiaries had net operating tax loss carryforwards of $17,297,000, principally expiring in 1990 through 1996 available to offset future taxable income. At December 31, 1981 the net operating loss carryforwards for accounting purposes were $11,818,000. Investment tax credit carryforwards available to offset future income taxes of $2,979,000 expire principally in the same years as the net operating tax loss carryforwards.

For financial statement purposes, the tax benefits of a portion of the net operating loss carryforwards have been presented as extraordinary credits, $785,000 and $136,000 for the periods ended December 31, 1980 and 1979, respectively, reducing net deferred tax balance sheet credits and current income taxes which would otherwise have been provided. To the extent such loss carryforwards are realized for tax purposes in future periods, the deferred tax credits will be reinstated at the then effective income tax rates.

The extraordinary credit for the year ended December 31, 1981 resulted from realization of the tax benefits from net operating loss carryforwards of a subsidiary which files separate Federal income tax returns.

(13) Employee Benefit Plans

Sealaska maintains a money purchase pension plan for all of its and certain subsidiaries full time participating employees who are at least 25 years of age. Contributions are funded on a quarterly basis and are accrued based on 15% of the covered payroll for the year less any forfeitures applicable to employees no longer employed.

Certain subsidiaries have noncontributory profit-sharing retirement plans in effect for all employees meeting certain eligibility tests. Such subsidiaries' Boards of Directors reserve the right to determine the amount of contributions and modify or terminate the plans. The plans are funded through annual contributions by the subsidiaries.

Contributions to these employee benefit plans were $978,000 during the year ended December 31, 1981, $821,000 during the year ended December 31, 1980 and $33,000 during the nine months ended December 31, 1979.

(14) Supplemental Information on the Effects of Changing Prices (Unaudited)

Introduction

Our economy has experienced relatively high rates of inflation for a number of years. It has long been recognized that inflation causes difficulty in measuring and comparing financial information over periods of time. Financial statements prepared in accordance with generally accepted accounting principles, on an historical basis, report the actual number of dollars received or expended without regard to changes in the purchasing power of currency. Inflation not only impacts a company's operations, but also affects the value of the shareholders' interest in the company, or its net assets.

During 1979, the Financial Accounting Standards Board (FASB) issued Statement No. 33, Financial Reporting and Changing Prices, which sets forth certain supplementary disclosure requirements designed to assist users of financial statements in understanding the impact of inflation on a company. Two different methods were prescribed for calculating this supplementary information.

Constant Dollars

The constant dollar method adjusts the historical dollars recorded in actual transactions at different times to represent the same general purchasing power. The objective is to express all expenses and revenues in dollars of equivalent purchasing power (constant dollars). The adjustment to reflect equivalent purchasing power is made by application of an index which measures general inflation. The FASB has specified that all companies use the Consumer Price Index (CPI) for all urban customers. This broad-based measure of the general inflation rate is not necessarily representative of the specific impact of inflation on Sealaska.

Current Costs

The current cost method reflects the changes in specific costs of a company's assets from the dates they were originally acquired to the present. The objective is to match the estimated current costs of the assets actually used in operations against current revenues. The current costs differ from the constant dollar amounts to the extent that the specific costs of the assets have increased more or less rapidly than general inflation.

The FASB gave special consideration to the disclosure and measurement problems relating to timberlands and growing timber. These assets cause special measurement problems because they are not renewable or are renewable only after a long period of time. The FASB decided not to call for application of the current cost measurement method for timberlands and growing timber.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEALASKA CORPORATION AND SUBSIDIARIES
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Purchasing Power Gain

One of the concepts necessary to understand this data is the distinction between monetary and nonmonetary assets and liabilities. A monetary asset represents money or a claim to receive money without reference to future prices of specific goods or services. Similary a monetary liability is an obligation to pay a sum of money the amount of which is fixed or determinable without reference to future prices or services. Sealaska's monetary liabilities exceed its monetary assets. Accordingly, an important hedge against inflation is provided as this net monetary liability position will be paid in dollars which have a lower purchasing power than the dollars originally received in return for the obligation. Statement No. 33 does not provide for an adjustment to net earnings for this important factor; rather the adjustment is required only as supplementary information under the caption "Gain from decline in purchasing power of net amounts owed."

Methodology Employed by Sealaska

Constant Dollars

Timber was valued as of the date of conveyance in 1979 as stated in the primary financial statements. Stumpage values have declined significantly compared to the market at that time. It is management's view that constant dollar restatement would exceed recoverable value for this asset. Consequently, timber has not been restated and is included in the constant dollar restatement at the historical valuation at the date of conveyance.

Current Costs

Recognizing the following conditions, management has elected to omit the restatement of selected current cost data:

--Timber and timberlands comprise a significant portion of Sealaska's property. However, due to the problems inherent in ascertaining the current cost of timber and timberlands, as previously mentioned and acknowledged by FASB, current cost restatement is not required for these assets.

--The preponderance of the balance of Sealaska's property and equipment has been acquired within the last three years.

--Significant portions of seafood inventories as well as a smaller amount of pulp log inventory have been written-down to approximate net realizable value. Thus, these assets are stated at amounts approximating current cost in the primary financial statements.

For these reasons, current cost data would not vary significantly from constant dollar data, and any attempt to present this information would imply a misleading degree of measurability, therefore management has elected to omit this data. FASB No. 33 provides that an enterprise need not present information on a current cost basis if there would be no material difference between that information and historical cost constant dollar information.

Other

The five-year summary shows certain historical financial data and the prior year's constant dollar information expressed in terms of average 1981 dollars as measured by the CPI. Data not reported for years prior to 1981 is not required by FASB No. 33 as it would be impracticable to provide on a retrospective basis.

Provisions of the Alaska Native Claims Settlement Act stipulate that Sealaska's stock may not be traded until 1991, consequently, no market currently exists.

No cash dividends have been declared during the periods indicated by the five year summary.

The FASB does not permit any adjustment to income tax expense; therefore, earnings computed on a constant dollar basis are reduced by the same amount as on the primary financial statements.

Amounts applicable to Sealaska's investment in less than majority owned companies have not been adjusted and are presented on the basis of historical cost as permitted.

Estimates used for calculating constant dollar depreciation, amortization and depletion were based upon the same methods and/or useful lives employed in the primary financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEALASKA CORPORATION AND SUBSIDIARIES
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STATEMENT OF OPERATIONS ADJUSTED FOR CHANGING PRICES
For the year ended December 31, 1981

	As reported in the primary statements	Adjusted for general inflation
	(In thousands)	
Net sales and other operating revenues	$ 234,378	**234,378**
Costs of goods sold	200,078	**203,805**
Depreciation and amortization expense	2,112	**2,305**
Other operating expense	24,980	**24,980**
Interest expense	11,751	**11,751**
Provision for income taxes	571	**571**
Minority interest in net losses of subsidiaries	(1,068)	**(1,068)**
	238,424	**242,344**
Loss before extraordinary credit	$ (4,046)	**(7,966)**
Gain from decline in purchasing power of net amounts owed		**$1,394**

FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

	1981 (Twelve months)	1980 (Twelve months)	1979 (Nine months)	1979 (Twelve months)	1978 (Twelve months)
	(In thousands of average 1981 dollars)				
Revenues	$ 234,378	166,415	18,157	21,381	14,876
Historical cost information adjusted for general inflation:					
Loss before extraordinary credit	(7,966)				
Loss before extraordinary credit per common share	(5.04)				
Net assets at year end	223,024				
Gain on net monetary items	1,394				
Average consumer price index	272.4	246.8	220.93	200.05	184.4

(15) Commitments

A subsidiary has agreements with village and urban corporations to harvest and sell certain of these corporations' timber resources. These agreements generally provide for the subsidiary to receive as compensatiion, 5% of the gross sales price of logs sold. The subsidiary in turn is responsible for all phases of harvesting and marketing, including financing costs on amounts advanced for the construction of roads, camps and transfer facilities. The amount of such noninterest-bearing development costs incurred on behalf of village and urban corporations was $11,952,000 and $2,016,000 at December 31, 1981 and 1980, respectively. Depending on future interest rates and future sales prices in the forest products industry, interest carrying and direct costs may exceed revenues generated by the 5% fee. At December 31, 1981 the subsidiary had committed to the fulfillment of these contracts for 645,000,000 board beet through approximately 1987.

In 1980, a subsidiary entered into an agreement with the Trustee in bankruptcy for the New England Fish Company to purchase fish processing plants in Alaska, together with related other assets, for approximately $12,000,000. The subsidiary's obligation to consummate the purchase is subject to the Trustee's conveying and transferring title to the property free and clear of all liens and other interests and without the subsidiary being subject to liability as a transferee, for claims against New England Fish Company.

The subsidiary operated the plants during the 1981 and 1980 fishing seasons pursuant to interim leases. Negotiations have been entered regarding operations for the 1982 fishing season. The transactions comtemplated by the purchase agreement are still pending.

At December 31, 1981 Sealaska had a commitment to guarantee $9,550,000 of bonds issued in January, 1982 by a 33% owned affiliate.

(16) Contingencies

(a) Certain of the Sealaska subsidiaries, together with numerous other processors, trade associations and marketing associations of fishermen, have been subject to two Federal grand jury investigations regarding the possibility of criminal violations of Federal antitrust laws in connection with trade practices within the seafood industry on the West Coast of the United States. Both of the grand jury investigations were concluded without action against any of Sealaska's subsidiaries.

(b) Sealaska, as well as Sohio, the United States, and others, have been named defendants in a suit brought by the Inupiat Community of the Arctic Slope alleging that drilling for oil in the Beaufort Sea and Chukchi Sea areas is inconsistent with their traditional rights of dominion over those areas. This suit is still in its early states and it is impossible to assess the potential impact on Sealaska, but any liability would be shared among numerous defendants.

(c) A subsidiary has been named a co-defendant, along with a subcontractor, for allegedly violating certain Alaska environmental laws relating to logging operations. At this stage of proceedings, it is not possible to assess any financial impact this case may have on the subsidiary.

(d) A subsidiary is presently involved in arbitration with a subcontractor relating to a road construction and logging contract. The arbitration is within the terms of the contract, but it is not possible at this time to assess any financial impact this case may have on the subsidiary.

(e) During 1981 a subsidiary negotiated a settlement with the State of Alaska relating to certain alleged violations of Alaska environmental laws committed in the course of operations by a company sponsored training program. Under the terms of the settlement, the case will be dismissed on September 15, 1982 subject to the condition that the subsidiary does not commit any further environmental violations.

(f) In March 1982 a lawsuit was filed by the Sierra Club against the United States Government and the Secretary of the Interior alleging that certain land conveyances to Shee-Atika, Inc. and Sealaska were in violation of the Alaska National Interest Lands Conservation Act and/or ANCSA. Although neither Sealaska nor Shee-Atika, Inc. are parties to the suit, if the plaintiff were successful, the result would be to nullify the subject conveyances. Sealaska believes the plaintiff will be unsuccessful, but the possibility exists that the litigation may defer the development prospects of the resources on the land in question.

(g) In July 1982 Sealaska and a subsidiary were named in a lawsuit alleging breach of an equipment lease entered into by the subsidiary in 1982. The suit seeks payment of anticipated rental amounts totalling $1,365,000. Because the suit has just been commenced, it is not yet possible to evaluate its ultimate disposition.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(17) Canned Salmon Costs

Because of a February 1982 botulism incident allegedly involving half-pound size canned salmon, an industry-wide inspection program was initiated by the United States Food and Drug Administration (FDA). Certain foreign countries also suspended the importation and sale of half-pound size canned salmon. The FDA testing program has resulted in the voluntary recall of half-pound size canned salmon packed by several companies, including Sealaska subsidiaries. Additionally, publicity associated with this matter has adversely influenced the marketability of all canned salmon products.
products.

Management has estimated the costs relating to the recall, which include (1) the cost of holding products beyond normally expected sales periods, (2) the cost of returning and testing products, and (3) adjustments to customers. Such costs, aggregating $1,892,000 have been charged to 1981 operations. In addition, a $3,120,000 writedown of product inventories from cost to net realizable value is estimated to be the result of adverse marketing conditions attendant to the recall.

Management's estimates of recall costs and the net realizable value of inventories are based upon all information they currently have available; however, much of the information is subject to change depending on influencing factors beyond management's control. Accordingly, actual recall costs incurred and ultimate product net realizable values could vary from amounts used in determining 1981 consolidated financial position and results of operations.

Sealaska is in the process of examining the nature and extent of potential claims its subsidiaries may have against others involved in the canning process and/or in the manufacturing or testing of cans associated with the recall.

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‡ Not a member of the Sealaska Corporation Board of Directors.

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