PULLING TOGETHER

2013 SEALASKA ANNUAL REPORT

SGIK' ÍIDAAL
PULLING
SHAGGIET SHI'IK
TOGETHER
WOOCH EEN ATOOX̱ÁA

Cover image: Sealaska Heritage Institute gifted the *Yéil Yeik* canoe, carved by Tlingit artist *Yaa nak.ch* (Doug Chilton), to the Smithsonian National Museum of Natural History. Cover image photography by James Di Loreto, Smithsonian.

Haida: *Sgik' íidaal* (to paddle a canoe) Tsimshian: *Shaggiet Shi'ik* (together pull) Tlingit: *Wooch Een Atoox̱áa* (we are paddling together)

Sealaska fulfills its purpose to strengthen people, culture and homelands best when we pull together to reach common goals. Just as paddlers move in coordination under the guidance of their skipper, Sealaska is a vessel that advances our region through collaboration guided by clear vision.

Sealaska represents nearly 22,000 tribal member shareholders of the Tlingit, Haida and Tsimshian nations, and bases all that we do on core Alaska Native values. Acting with balance and respect for people, lands and resources, Sealaska guides its business activity in order to grow and thrive for current and future shareholders.

Throughout 2013, Sealaska made fundamental changes to our structure and effectiveness to move toward our top strategic goal: to support the enterprise from operating income, independent of ANCSA Section 7(i) monies shared from the other ANCSA regions. This meant restructuring the corporation to support subsidiaries, driving growth in profitability, evolving our portfolio of companies to align with each other and Native values, pursuing a significant business acquisition to contribute to cash flows, and achieving cost savings across the enterprise.

Like the canoes of our ancestors, Sealaska carries people along a carefully planned course to achieve our mission. As in any journey, unexpected challenges can arise. In 2013, Sealaska experienced losses due to the underperformance of one of our subsidiaries. To best position Sealaska to achieve the goals of the long-term strategic plan, several non-cash adjustments were also recorded in 2013. Through decisive action, deliberate planning and a clear vision by our leaders, we are pulling together on a charted path forward.

It takes knowledge, skill and the right tools to craft a vessel to fulfill the purposes of the community. Sealaska draws on the collective strength of shareholders and the collaboration of partners to provide benefits to people and the region. We invite you to pull together with us on this voyage.

DEAR TRIBAL MEMBER SHAREHOLDERS

Our work in 2013 demonstrated our commitment to implement our strategic plan that will redefine our path to sustainable profitability. This strategic plan supports our cultural values and honors our responsibility to you, the nearly 22,000 Tlingit, Haida and Tsimshian tribal member shareholders of Sealaska. We reaffirmed our stewardship responsibility for managing our lands. And we continued to grow our own by providing educational and professional opportunities for our tribal member shareholders.

OPERATIONS

A key goal of Sealaska's strategic plan is that, by 2016, the corporation earns sufficient profits from its operating companies to support its operations without using the 7(i) revenues that we receive from other ANCSA corporations or the income we earn through our existing passive investment portfolios. It means that Sealaska will be able to reinvest these 7(i) funds or use them in other ways to benefit tribal member shareholders. Sealaska's strategic plan is a profit model that creates consistent and sustainable profitability, while also supporting our cultural values and capacity building of tribal member shareholders.

To achieve this goal, we realigned our operations in 2013. We sold Sealaska Global Logistics and our Nypro Kánaak joint ventures, and are considering selling at least one other of our smaller operations. We created a holding company, Sealaska Government Services, to more effectively and profitably operate our 8(a) federal contracting subsidiaries. And we reduced Sealaska's general and administrative expenses from our continuing operations by $4.5 million.

Sealaska's balance sheet is strong, indicating that we have the ability to operate and the funds to make new investments. Our balance sheet would have been stronger had we not experienced a significant loss of $26 million in 2013 due to underestimated contract costs for two projects that were managed by our 8(a) subsidiary business, Sealaska Constructors. Sealaska management has taken corrective action and the losses will be contained in 2013. You can find additional information about this on pages 20, 30 and 32 of this report. While our other wholly owned operations were profitable in 2013, this one loss negated the profits from all of their activities.

Additionally, with the agreement of our independent auditors, we made numerous non-cash adjustments in 2013 which clarify and more conservatively state our balance sheet. These adjustments are outlined on pages 30, 31, 42, 54, 56, 57 and 64.

Our strategic plan also requires that we maintain a strong presence in the timber business in Southeast Alaska, while being careful stewards of *Haa Aaní*, our land.

The Raven Warrior canoe participates in the 2012 Coming Ashore ceremony leading up to Celebration. Raven Warrior is a fiberglass canoe with artwork by the One People Canoe Society.

That requirement is why our ANCSA land entitlement legislation is critical to our future success. The legislation has successfully passed out of the two congressional committees that have jurisdiction over land bills and is ready for consideration by the Senate and House of Representatives.

In order to achieve sustainable profitability, we must purchase one or more companies that closely align with our challenging profit objectives and our core Native values. We are making progress toward this acquisition and expect to make an acquisition in 2014 or early 2015.

HAA AANÍ: OUR LAND

Drawing upon more than 15 years of best practices research, Sealaska carefully manages the land to provide economic and cultural benefits for current and future tribal member shareholders. In addition to old growth timber, we are investing in second growth forests to meet new market opportunities and offer a sustainable supply of timber from the Southeast region. We are building a sustainable forestry industry with other private landowners and the government so that our people can continue to use the land for subsistence, economic gain and cultural traditions. And we are reassessing the benefits of minerals development on our lands, for which we already see exciting prospects.

STRENGTHENING OUR PEOPLE, SUSTAINING OUR COMMUNITIES

As I prepare to retire, I have been thinking about just how far Sealaska has come over the past few decades through the hard work of its employees and the commitment of tribal member shareholders.

Under the ANCSA 1991 Amendments, we were able to open our rolls and issue voting shares to tribal member shareholder descendants when they turn 18. Doing so in 2007 ensured that our tribal member shareholder descendants are able to participate fully in creating our common future.

Our Investment and Growth Fund now contains approximately $58 million and the Marjorie V. Young Permanent Fund has grown from $41 million in 2001 to almost $100 million today. Since 2001, Sealaska has distributed dividends of nearly $31 million from operations, more than $43 million from the permanent fund and also has distributed $129 million in 7(i) and 7(j) monies.

To support our people's growth, Sealaska is committed to providing opportunities for all tribal member shareholders to earn a college degree, gain professional experience and learn valuable cultural skills that enhance their lives.

To this end, we have directed roughly $12 million to scholarships since the 1980s and have provided corporate experience to nearly 250 interns. Under ANCSA, we have a preference in hiring tribal member shareholders and developing their skills and talents. I am very proud of the tribal member shareholder management team that we have created together.

Haa Aaní, LLC provides hope and opportunity for our communities by helping create new economies based upon tribal member entrepreneurship and innovative uses of existing natural resources. Haa Aaní, LLC is also a symbol of a "can do" attitude to create new economic opportunities in the midst of shrinking village populations and economies.

There is much in store for Sealaska in the months and years ahead. Leadership will continue to transform Sealaska by implementing the strategic plan. It will continue to sustainably manage the land, fight for Sealaska's final land entitlement and support our subsistence rights. And it will continue to aggressively build tribal member shareholder capacity. By working together, our people will continue to thrive and succeed.

I have worked with Sealaska in different roles for the past 36 years. It has been a privilege and an honor to serve my people and to be part of a team of highly committed and skilled tribal member shareholders. Sealaska has visionary leaders and an active and engaged tribal member shareholder base. I will always be proud to call myself part of Sealaska.

Gunalchéesh. Háw'aa. T'oyaxsism.

Chris McNeil Jr.

LETTER FROM THE BOARD CHAIR

I HAVE BEEN THE CHAIR OF OUR CORPORATION FOR 14 WONDERFUL YEARS. I am one of the first independent candidates elected by tribal member shareholders and have served Sealaska for 38 years.

As many of you know, last February I had a very serious heart attack. It shook up my family and friends and caused me to reassess my commitments. One of the promises I made to myself and to my family was that I would step back from some of my obligations and reduce the demands in my everyday life.

Last October, I voluntarily decided not to run again for co-chair of the Alaska Federation of Natives, a post that I held for 14 years. At Sealaska's last annual meeting, I informed the Sealaska Board of Directors that I would continue my responsibilities as director but would not run for chair in 2014.

I am proud that we opened the door for new shareholders and Leftouts to join us at Sealaska. We now give Elders additional shares after they reach age 65. We also started Haa Aaní, LLC to develop business and employment opportunities in our villages. I am proud to have joined with our dedicated board of directors and staff to bring our shareholders these benefits.

We have also been working with Congress to finalize our ANCSA land entitlement. This seven-year effort echoes what I learned in my many years of service in Alaska's state House and Senate: We have to fight for our Native rights every day and we must never give up. No one will do it for us. I will keep fighting for our subsistence rights and I urge younger tribal member shareholders to step up.

Finally, I would like to remember our good friend who left us last year, director Clarence Jackson. I miss his friendship, his humor and his deep cultural insights. Whenever there was a hard time, Clarence would always make a special effort to lift us all up and inspire us to work together. He continues to inspire me and other tribal member shareholders.

Thank you all for your support during my years as chair. I intend to continue serving as a director and working for tribal member shareholders. I believe that our communities face many challenges and I pledge to continue to be diligent in helping to advance our people.

Sincerely,

Albert M. Kookesh

Albert Kookesh

The Haida Eagle and Dog Salmon canoe on display in Sealaska's lobby in Juneau, Alaska, was carved and painted by Clarence Peele Jr. and Warren Peele in 1977.

LAYING THE FOUNDATION

A centuries-old, unfinished Haida canoe was discovered in 2011 near Kasaan, Alaska, on Prince of Wales Island.

Native values are the source of Sealaska's collective strength and identity: *Haa Aaní* | *Íitl' Tlagáa* | *Na Yuubm* | our land; *Haa Shuká* | *Íitl'Kuníisii* | *NaHlagigyadm* | our past, present and future; *Wooch.Yax̲* | *Gu dlúu* | *Ama Mackshm* | balance, respect and reciprocity; and *Haa Latseen* | *Íitl' Dagwiigáay* | *Na Yugyetga'nm* | our strength, leadership. Just as the foundation of every canoe is the land itself, *Haa Aaní* grounds us as Native people to a place and to our traditions. The land we hold today is not real estate: It is our homeland. We have a responsibility to care for the land, to use its resources with gratitude and respect, and to guarantee that the lands forever remain in Native ownership. We sustain our lands so that they may sustain current and future generations.

CARING FOR OUR LANDS

We manage our land in a way that meets our environmental, financial and cultural goals. Our Natural Resources Department has partnered with the U.S. Forest Service and Oregon State University on a project to learn how to best protect and regrow dwindling red and yellow cedar in Southeast Alaska. Cedar is important as part of our timber harvest and is vital to our identity. It is central to the expression of our heritage. We use it to carve canoes, totems, paddles and artwork, to weave, and to build clan houses.

SECOND GROWTH HARVESTS

In 2013, 28 percent of Sealaska Timber Corporation's (STC) harvest was second growth trees, which are trees that have naturally regrown or were planted on previously harvested lands. Harvesting second growth trees enabled STC to meet market demands for timber while preserving important old growth stands. STC also continued its support of and membership in The Working Forest Group, a forward-thinking nonprofit organization that promotes sustainable resource development.

Wayne Price of Haines, Alaska, uses an adze to carve a traditional Tlingit canoe.

SHAPING THE FUTURE

Master carvers use a host of specialized tools when building a canoe. Axes and adzes hollow out the canoe, and hand tools assist in the more intricate shaping and carving of the prow and stern. Sealaska likewise applies the right tools to carefully shape its strategic plan. From hiring skilled shareholders and finding the right competitive partners, to applying Values In Action, to finding advantageous industries and market niches and actively managing our investments, Sealaska applies these tools to build the strongest possible vessel.

STRATEGIC PLAN

In 2013, Sealaska continued to focus on the execution of the current five-year strategic plan, first adopted by the board of directors in 2012. The plan lays the groundwork for Sealaska's transformation to a financially sustainable company driven by our core cultural values. In practice, this means that our portfolio will consist of profitable businesses aligned with Native values. Using these filters, in 2013 Sealaska sold its interests in Nypro Kánaak and Sealaska Global Logistics, opening up opportunities to acquire businesses that support our strategic plan and vision for the future. In the same vein, Sealaska also made the decision to exit security guard services in 2013, and will be selling Security Alliance, LLC.

The primary goal of the strategic plan is to create a more profitable and sustainable corporation that generates enough revenue from operations to meet Sealaska's basic cash needs, without relying on ANCSA Section 7(i) funds. Financial independence from 7(i) monies—the revenue sharing pool to which all Alaska Native corporations contribute—means that we can use any 7(i) monies we receive to reinvest in our companies and our communities. It will take some time, but we are committed to pulling hard together to reach this goal.

ONE CANOE TO SAVE A VILLAGE

The *Deisheetaan* (Beaver) canoe contributed to the survival of the people of Angoon, Alaska, after an attack by the U.S. Navy in 1882. Credit: P001-083, Alaska State Library, Vincent Soboleff Photograph Collection.

THE STORY OF *XUTSNOOWÚ KWÁAN* (ANGOON) AND THE *DEISHEETAAN* (BEAVER) CANOE

The story of Beaver canoe teaches us about resilience and strength in the face of injustice and adversity.

On October 26, 1882, the U.S. Navy nearly destroyed the Tlingit village of Angoon, Alaska.

When a whale gun exploded on a Northwest Trading Company vessel and killed Tlingit shaman Tlith Klane, the local tribe requested a payment of 200 blankets as compensation for his death.

In response, E.C. Merriman, commander of the *USS Adams,* ordered an attack on the village, shelling long houses, burning winter food supplies and smashing the village canoes.

“They left us homeless on the beach,” recounted Billy Jones, who was 13 when the attack occurred.

One canoe, however, escaped destruction. Because of this canoe, the village survived.

Soldiers had burned the storehouses that contained smoked salmon and other winter necessities, and villagers faced starvation and exposure. That one canoe enabled the villagers to fish for food and haul firewood for cooking and heat, which led to the eventual resurgence of the village as a symbol of Tlingit spirit and culture. After being lost for almost 90 years, the canoe’s carved Beaver prow now sits in the Alaska State Museum.

BUILDING THE VESSEL

It takes a trained and skilled carver to build a canoe. Traditionally, apprentice carvers worked with a master carver for years. It was the job of the master carver to make sure his apprentices gained the skills they needed to be successful in their own right. In much the same way, Sealaska places a high priority on equipping shareholders and descendants with the knowledge and hands-on experience they need to pursue their educational and professional goals.

SHAREHOLDER BENEFITS

Sealaska's purpose is to strengthen our people, culture and homelands. We help our tribal member shareholders prepare for the future by offering internships and direct employment at Sealaska, or at our subsidiary businesses, and through scholarships administered by the Sealaska Heritage Institute. Our Board Youth Advisor program also prepares youth for executive level careers by giving them exposure to the inner workings of the boardroom, involving them in board decisions and introducing them to business role models. In 2013, Sealaska and its subsidiaries hosted 11 interns and STC contributed $293,000 to the Sealaska Heritage Institute for scholarships.

YOUTH EDUCATION

In 2013, Sealaska Environmental Services (SES), an environmental remediation business that draws on Native values to promote sustainable land and natural resources management, invested in our young people by launching the Sockeye Science Camp. A pilot project offered to school age Tlingit, Haida and Tsimshian children, the Seattle-area camp was designed to ignite a love of science in general and marine science in particular. In addition to learning about science, students learned about Native cultures through interactions with Elders and Native artists in the area.

Sealaska Heritage Institute, through funding provided in part by Sealaska, also develops and hosts youth programs for Sealaska shareholders and descendants. In particular, the Latseen Leadership Academy offers culturally based education and activities for youth in support of their academic and personal success with a focus on rigor, relevance and relationships.

This Tlingit canoe, called Yuxwch'ee Yakw (sea otter), was carved using traditional tools and methods at Bartlett Cove, near Hoonah, Alaska.

YÉIL YEIK
RAVEN SPIRIT

A CANOE FOR THE WORLD

In 2008, shareholders from the Sealaska family paddled a traditional Tlingit dugout canoe along the Potomac River in Washington, D.C. The canoe, named *Yéil Yeik* (Raven Spirit), was gifted to the Smithsonian National Museum of Natural History.

The Sealaska Heritage Institute commissioned Tlingit artist and Sealaska shareholder Doug Chilton, whose Tlingit name is *Yaa nak.ch,* to carve the canoe out of a log donated by Sealaska. The canoe was donated to teach audiences about Southeast Alaska Native cultures and the Northwest Coast people's relationship with the ocean and its resources.

"This is an unprecedented opportunity to present our Native cultures to the millions of people who pass through the Smithsonian every year," said Dr. Rosita Worl *(Yeidiklats'akw* | *Kaa haní),* president of Sealaska Heritage Institute.

The raven carving at the prow of the vessel is of special significance: As Chilton prepared the cedar for carving, he noticed a raven with an injured wing watching. The bird returned days later, watching over Chilton's work. As a member of the Tlingit Raven moiety, Chilton considered the bird a blessing and incorporated an injured wing into the raven design of the figurehead to honor his visitor. As Native peoples, we honor the spirit of all things and know that we are all connected.

The canoe is on permanent display in the Smithsonian's Sant Ocean Hall, which draws five million visitors annually.

Yaa nak.ch (Doug Chilton) skippers the *Yéil Yeik* (Raven Spirit) canoe on the Potomac River in Washington, D.C.

WORKING AS ONE

It takes a committed crew with a shared goal to reach a destination. Paddlers must pull together to ensure the safety and wellbeing of everyone aboard. By working together, our people have survived and prospered. This collective effort continues today as we work to ensure that all our people have opportunities to succeed.

STRONG COMMUNITIES

Sealaska created Haa Aaní, LLC to develop innovative and sustainable economic opportunities in Southeast Alaska communities, which are suffering from high unemployment and the loss of traditional jobs. One way it does this is by revitalizing lifestyle-compatible, locally sourced industries, such as fisheries and mariculture. Rocky Pass Seafoods, in Kake, Alaska, is a joint venture between Kake Tribal Corporation and Haa Aaní, LLC. In 2013, the entity produced more than five times what it produced in its first year of operation. Rocky Pass provided nearly 30 seasonal jobs for the community, and sales reached into global markets throughout China, Russia and the United States.

In 2013, Haa Aaní, LLC also entered into an agreement with the Hoonah Indian Association (HIA) for the construction and operation of a new oyster farm near Hoonah. HIA will own and operate the farm and Haa Aaní, LLC will finance infrastructure development and initial seed stocking. The investment will provide employment opportunities for the local tribe, create a new industry in the village and lead to the development of new skills in the community.

Haa Aaní, LLC also continued to bring resources to the Southeast region through the Haa Aaní Community Development Fund, Inc., which provides access to financial resources and technical assistance for entrepreneurs who may not qualify for or have access to traditional funding. In 2013, the Haa Aaní Community Development Fund raised $60,000 through its first annual fundraiser, which was the result of partnerships with Alaska Seafood Marketing Institute, the Goldbelt Mt. Roberts Tramway, Goldbelt, Inc., and Sealaska.

2013 marked the launch of the Path to Prosperity (P2P) initiative, a partnership between the Haa Aaní Community Development Fund and The Nature Conservancy. P2P is a business competition that aims to support business ideas that will increase local employment, have a positive social and economic impact on communities, and increase entrepreneurial know-how and business leadership in Southeast Alaska.

Alaska Coastal Aggregates (ACA) is another subsidiary that pursues strategic partnerships to bring economic development to rural communities. In 2013, ACA actively managed and marketed 568,000 acres of Sealaska's subsurface estate.

The Haida canoe is moved to shore during the Coming Ashore ceremony at Celebration 2012. *Saduuts* (Bobby Peele) gifted the canoe to the community of Hydaburg, Alaska.

PADDLERS TRIUMPH OVER ROUGH SEAS

COMMUNITY PULLS TOGETHER

On April 24, 2013, two canoes set sail from Juneau, bound for the Chief Shakes Tribal House rededication event on Wrangell, more than 200 miles away.

On the third day of the journey, rough waters forced paddlers from both a Sealaska canoe and the Raven canoe from the One People Canoe Society to board support boats and tow their canoes behind them.

As the weather worsened, the canoes filled with water and eventually broke their towlines. Both canoes were retrieved the next day, but the Sealaska canoe broke loose a second time and

Paddles that were lost and returned during the canoe trip to Wrangell to celebrate the rededication of Chief Shakes Tribal House.

was lost. Also lost were paddles that had been recently carved by members of the Yakutat community from wood donated by Haa Aaní, LLC and Sealaska Timber Corporation.

Southeast communities rallied around the paddlers of the two canoes, welcoming them into their harbors for friendship, coffee and warm food.

Through the efforts and concern of all involved, and with both teams of paddlers taking turns in the One People Canoe Society canoe, everyone made it to Wrangell.

The Sealaska canoe was later recovered on a nearby beach after it was spotted by Jay Dodge, a crewmember of Silver Bay Seafoods' tender Lady Kate. Wrangell Cooperative Association staff member Renee Claggett worked with Dodge to secure the location and, along with others from the community, rescued the canoe. Thanks to their efforts, the canoe was returned to Sealaska. Many of the Yakutat paddles also washed ashore and found their way back to the paddlers.

Focused skippers make successful journeys possible. Similarly, good leaders have vision and know that they must prepare and plan to make that vision a reality. Sealaska benefits daily from the guidance of experienced and thoughtful leaders who are committed to the success of the company and the tribal member shareholders who own it.

OUR LONG-TERM GOALS are to maximize financial returns for our tribal member shareholders while stewarding the land, our most important economic and cultural asset, for the generations that will follow.

This past year, Sealaska achieved important enterprise-wide goals, including reducing general and administrative expenses by $4.5 million through careful restructuring, improving company efficiencies and bringing our businesses into greater alignment with our values.

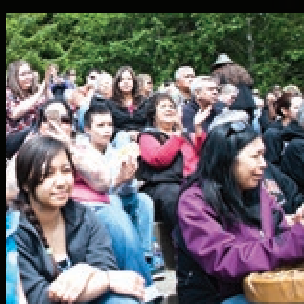
In 2013, Managed Business Solutions, LLC (MBS), an information technology solutions provider based in Colorado, with offices in Kake, Alaska, worked with Sealaska to develop and launch the MySealaska Self-Service Portal. MySealaska is an online tool that allows shareholders 24-hour access to shareholder details, provides direct control over contact and banking information, and makes it possible to conduct electronic transactions. Sealaska developed the portal to make it easy for shareholders to engage with the company and find needed information quickly. The portal also aligns with Sealaska's green initiatives.

Sealaska's services segment included wholly owned subsidiaries Sealaska Environmental Services, LLC, Kingston Environmental companies, Sealaska Constructors, LLC, Synergy Systems, Inc., Managed Business Solutions, LLC and MBS Systems, LLC. In 2013, the services businesses performed well with the exception of civil construction. Issues on projects in Hawaii outweighed progress in other areas, resulting in a substantial loss. Management of this construction subsidiary was released and Sealaska has halted any further bidding on civil construction contracts. As a result of this decisive action, losses have been contained in 2013.

As we move into 2014, our balance sheet is strong and our investments are solid. We have almost $100 million in the Marjorie V. Young Permanent Fund and approximately $58 million in the Investment and Growth Fund. We have positive cash flow and are well positioned to move forward with new business acquisitions as they arise.

Wisdom, cooperation and a shared vision are the foundation of any successful canoe journey. These same qualities will be necessary to achieve our goals. As we work for the passage of our legislation, operationalize our strategic plan and welcome a new president and CEO, we look ahead to a successful 2014.

CHARTING A PATH FORWARD



SEALASKA HERITAGE INSTITUTE

Archie Cavanaugh's *Yéil* (Raven) paddle was donated to Sealaska Heritage Institute for the Tináa Art Auction.

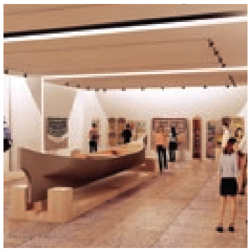
Sealaska Elders established Sealaska Heritage Institute (SHI) in 1980 to administer programs for the preservation of Tlingit, Haida and Tsimshian cultures. Sealaska continues to be the primary source of funding for SHI, demonstrating consistent commitment to cultural preservation. Since SHI's inception, revenue in part from Sealaska's timber operations has allowed us to contribute roughly $12 million in scholarship funding and donate more than $16 million to SHI operations. These funds enable SHI to secure additional funding from outside sources, greatly expanding the programs that SHI can offer.

In the tradition of preserving and honoring our past and also building for the future, SHI broke ground in 2013 on the Walter Soboleff Center on land donated by Sealaska. The center is named for the late Walter Soboleff Sr., a much loved and respected Tlingit Elder who worked tirelessly to advance Native civil rights. The Center is scheduled to open in 2014.

Also in 2013, SHI launched "Opening the Gate: The Southeast Middle School Math and Culture Project," a three-year program for middle-school students to increase interest and academic achievement in math. The program includes culture-based math camps where instructors use Native arts like basketry, weaving and canoe making to teach math. Tests given before and after the 10-day program showed significant gains in students' understanding of math vocabulary and concepts.

SHI received significant donations in 2013, including a spruce hat that was likely made circa 1900 or earlier by a Haida weaver. Former Alaskan Monica Wyatt spotted and bought the hat in a Seattle gallery and donated it to SHI for display at the Walter Soboleff Center, where weavers can study the design and learn more about traditional weaving techniques.

Sealaska is proud to support SHI and the important work it does to advance Native cultures. For more information about SHI, visit sealaskaheritage.org.



CHRIS E. MCNEIL JR.

PRESIDENT AND CEO

2001–2014

2001

Appointed president and CEO of Sealaska in March

2002

Alaska Coastal Aggregates established

2003

Sealaska Environmental Services established

2004

Elected to the national board of the Smithsonian Institution

Education campaign launched to enroll descendants in Sealaska

2006

Chris and Mary McNeil donate $100,000 to the Sealaska Heritage Institute to establish the Judson L. Brown Endowment Fund (scholarship fund)

Sealaska land entitlement legislation introduced

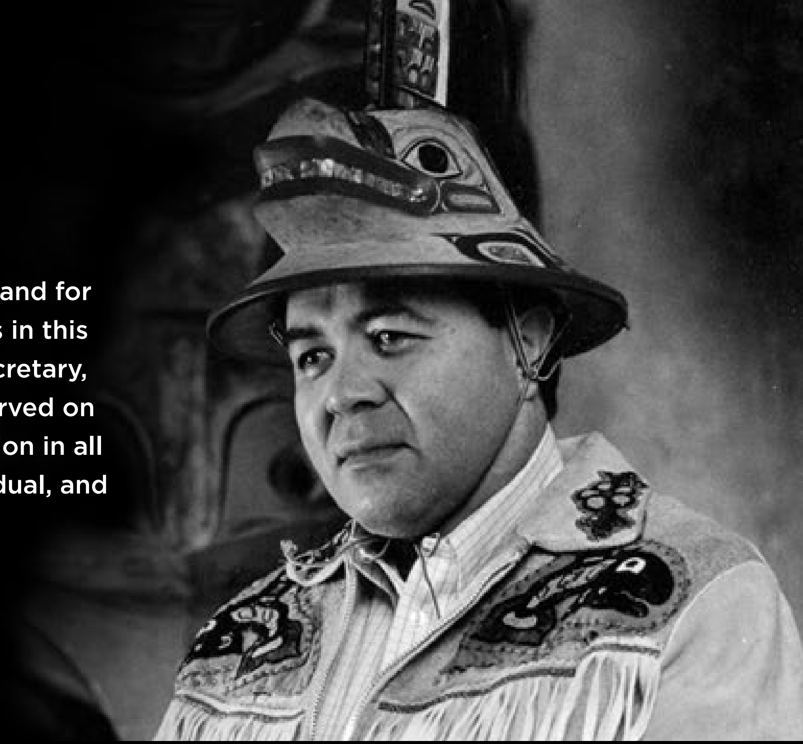
2007

Resolution to enroll descendants and Leftouts in Sealaska passes

Honored with Alaska Federation of Natives Citizen of the Year Award

"He is among the very smartest and accomplished individuals I have ever met and his dedication to the interests of Native peoples has been inspirational. During his Sealaska service in several officer roles, Chris has shown dedication, commitment and true leadership. He has never wavered in his belief that shareholders must be recognized as tribal members, as Native people first who are heirs and stewards of our Native lands. I have known few others like him and his place among us will be that of a "very big man."

—BOARD MEMBER BYRON MALLOTT



Chris McNeil has spent his entire adult life working with and for Sealaska. He is one of the most educated Alaska Natives in this state—and he is one of ours. Chris was our corporate secretary, our in-house counsel, our CEO and, at one time, even served on the Sealaska Board of Directors. He served with distinction in all of these positions. Clearly, Chris is an exceptional individual, and we have been lucky to have him.

—BOARD CHAIR ALBERT KOOKESH

2008

Received the Henry Roe Cloud Alumni Award 2008 from Yale University

Member, Obama Native American Policy Group

2009

Resolution to issue additional shares to Elders passes

2010

Member, Managing Committee, Alaskans Standing Together to help elect Senator Lisa Murkowski

2011

Haa Aaní, LLC established

2012

Strategic plan adopted to restructure Sealaska operations and divest non-strategic assets

2013

Attended meeting with President Obama and 12 tribal leaders regarding Alaska Native and other tribal issues

Sealaska land entitlement legislation reported out of House Resources Committee and Senate Energy and Natural Resources Committee

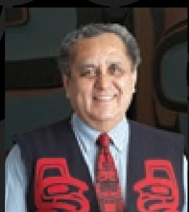
When we asked Chris to assume the role of CEO, he did so without hesitation. Others might have declined because of the significant financial hardship that Sealaska was facing. He brought Sealaska back to profitability only to face the economic recession that gripped the country. Undaunted by the difficulties, Chris supported the restructuring of Sealaska and the integration of Native values, ensuring that Sealaska will forever be a financially strong institution.

—BOARD VICE CHAIR ROSITA WORL

I met Chris in the mid-70s when I was employed by Sealaska. At that time, Chris was Sealaska's corporate secretary. Chris was a man ahead of his time. Through his leadership, Chris ushered Sealaska into the age of Internet, PCs and electronic record management. More importantly, he supported and advanced men and women in their careers at Sealaska according to their individual determination.

-BOARD MEMBER BARBARA CADIENTE-NELSON

BOARD OF DIRECTORS



ALBERT M. KOOKESH
Angoon, Alaska
Chair

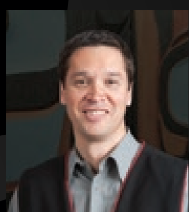
PATRICK M. ANDERSON
Anchorage, Alaska

BARBARA
CADIENTE-NELSON
Juneau, Alaska

SIDNEY C. EDENSHAW
Hydaburg, Alaska

JACQUELINE
JOHNSON PATA
Fairfax, Virginia

ROSITA F. WORL
Juneau, Alaska
Vice Chair



J. TATE LONDON
Bothell, Washington

BYRON I. MALLOTT
Yakutat, Alaska

JODI M. MITCHELL
Juneau, Alaska

JOSEPH G. NELSON
Juneau, Alaska

RICHARD RINEHART JR.
Bothell, Washington

BILL THOMAS
Haines, Alaska

EDWARD K. THOMAS
Juneau, Alaska

ALYSHA GUTHRIE
Sitka, Alaska
Youth Advisor

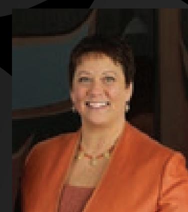
MANAGEMENT

CHRIS E. MCNEIL JR.
President and Chief Executive Officer

JAELEEN ARAUJO
Vice President and General Counsel

GAIL CHENEY
Director of Human Resources

TERRY DOWNES
Chief Operating Officer

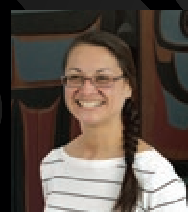


NICOLE HALLINGSTAD
Vice President Communications and Corporate Secretary

RICHARD P. HARRIS
Executive Vice President

ANTHONY MALLOTT
Treasurer and Chief Investment Officer

DOUG MORRIS
Vice President and Chief Financial Officer



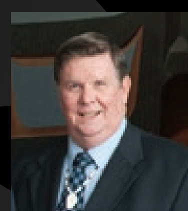
VICKI SOBOLEFF
Corporate Controller

DARLENE WATCHMAN
Director of Shareholder Relations

LINDA WYNNE
Records and Information Manager

JASON FUJIOKA
Director of Sales and Marketing

ROB JOHNSON
Information Technology Manager



RON WOLFE
Natural Resources Manager

FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA

	2009	2010	2011	2012	2013
Net income (loss) attributable to Sealaska	$ 20,285	$ 15,154	$ 6,791	$ 11,318	**$ (35,086)**
Total assets	339,336	361,151	368,664	386,302	**319,851**
Sealaska shareholders' equity	240,469	247,933	249,778	256,141	**216,357**
Long-term bank debt	34,905	31,216	28,288	30,460	**—**
Short-term bank debt	1,949	1,172	1,275	386	**18,510**
Current ratio	3.02	2.39	2.30	2.10	**1.47**
Bank debt/equity ratio	0.15	0.13	0.12	0.12	**0.09**
Shareholders' equity attributable to Sealaska per share	112.72	113.52	112.40	113.62	**94.81**
Net income (loss) attributable to Sealaska per share	11.82	8.08	3.73	5.99	**(14.67)**
Dividends per share	$ 2.15	$ 3.56	$ 2.24	$ 2.21	**$ 2.25**
Cumulative distributions to shareholders and Village corporations since inception	445,795	463,460	487,411	514,366	**538,162**
Cumulative ANCSA Section 7(i) payments	$ 316,942	$ 317,188	$ 317,188	$ 317,188	**$ 317,188**

❖ Dollars are in thousands except per share amounts and ratios. Years ended December 31.

MD&A

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

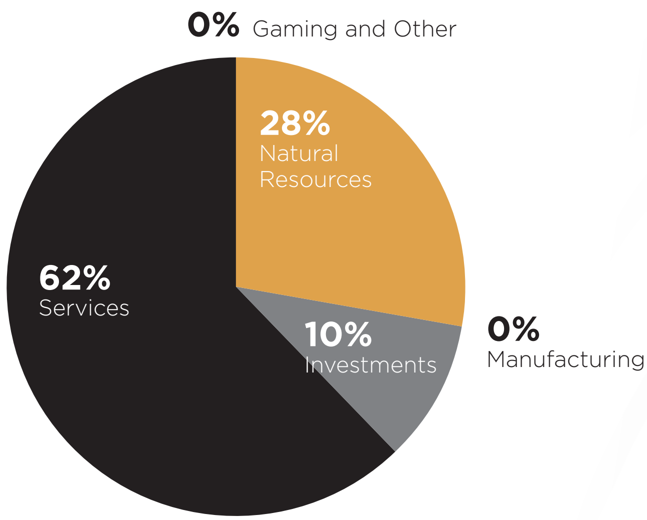
CORPORATE OVERVIEW

Sealaska Corporation was formed in 1972 as one of 13 Regional Native Corporations created by the Alaska Native Claims Settlement Act (ANCSA). Sealaska received: an initial sum of money that was $93.2 million in total to capitalize Sealaska and the village corporations in the region; the fee title (surface and subsurface) to at least 362,000 acres of land; and approximately 300,000 additional acres of subsurface land in Southeast Alaska. All lands were formerly part of the Tongass National Forest. Sealaska currently has more than 21,500 tribal member shareholders descended from the three Alaska Native groups of Southeast Alaska: the Tlingit, Haida and Tsimshian.

Sealaska and its subsidiaries maintain offices throughout the United States and in two other countries, including Canada, and in Europe. These subsidiaries operate in the following business segments:

1. Natural Resources
2. Manufacturing (Discontinued in 2013)
3. Services
4. Gaming

REVENUE BY BUSINESS SECTOR



In addition to these active sources of revenue, Sealaska also generates revenue from the following passive sources:

- Investment income from internally managed portfolio funds
- ANCSA Section 7(i) profit sharing from other Regional Corporations

FINANCIAL OVERVIEW

Sealaska's consolidated continuing operations produced revenues of $165.0 million in 2013, down from $211.0 million in 2012. Net loss is $35.1 million, down from net income of $11.3 million in 2012. Sealaska's total assets at December 31, 2013 of $319.9 million are down from total assets of $386.3 million at December 31, 2012. The 2013 losses were due mainly to a large underestimation of contract costs by a construction subsidiary on two Hawaii projects in the amount of $26.0 million. These losses are reported in the services segment. In addition, Sealaska recorded the three following non-cash adjustments: a goodwill impairment of $10 million within the services segment, a $9.6 million one-time charge to remove costs related to efforts to settle the remaining ANCSA land entitlement within the natural resources segment; and $5 million of expense related to a change in the accounting treatment for our government cost reimbursable contracts related to silviculture within the natural resources segment.

SHAREHOLDERS' EQUITY

Sealaska shareholders' equity was $216.3 million at the end of 2013, which decreased from $256.1 million at the end of 2012. Sealaska recorded a loss of $35.1 million in 2013, paid shareholder dividends of $5.1 million and purchased $2.1 million of non-controlling interest from minority shareholders of subsidiary entities. The difference between purchase price and book value of $0.4 million is considered additional paid in capital and was recorded to retained earnings.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2013, Sealaska had cash on hand and current investment securities of $80.2 million. An additional $109.3 million was held in long term investments, including the Marjorie V. Young Shareholder Permanent Fund, venture capital funds and private equity funds.

Liquidity	2013	2012
Available funds		
Cash, cash equivalents and current investments	$ 80.2	$ 79.5
(Less) restricted balances	—	—
Total available funds	80.2	79.5
Available line of credit and revolving loan		
Total line of credit and revolving loan	60.0	69.3
Less: Outstanding balances	(18.5)	(32.1)
Less: Outstanding letters of credit	—	—
Total available line of credit and revolving loan	41.5	37.2
Total liquidity	$ 121.7	$ 116.7

❖ Dollars are in millions. Years ended December 31.

Working Capital	2013	2012
Current assets	$ 112.4	$ 139.5
Current liabilities	76.6	66.5
Working capital	$ 35.8	$ 73.0
Current ratio	1.47	2.10

❖ Dollars are in millions. Years ended December 31.

I. Results of Operations

A. NATURAL RESOURCES

In 2013, Sealaska's natural resources business segment was comprised of three wholly owned subsidiaries, as well as the Natural Resources Department within Sealaska headquarters. Those subsidiaries are: Sealaska Timber Corporation (STC), Alaska Coastal Aggregates, LLC (ACA) and Haa Aaní, LLC.

The natural resources business segment produced revenues of $45.4 million in FY2013, down from $46.7 million in 2012, and produced costs and expenses of $66.0 million in 2013, up from costs and expenses of $45.3 million in 2012.

The costs and expenses include a large component of non-cash balance sheet adjustments related to Sealaska's natural resources activities. It was determined that based on the current environment, especially in regards to passing new, land-related federal legislation, it was more appropriate to treat some previously capitalized cost as expenses going forward.

ACA is a passive supplier of sand, rock and gravel aggregates for municipal, state and federal construction projects. Through management and promotion of these resources from Sealaska's subsurface estate, ACA pursues strategic partnerships to bring more economic development to rural communities throughout the Southeast Alaska region.

Haa Aaní, LLC, founded in 2009, continues to explore new and innovative ways to collaborate with local governments, Native organizations, tribes and entrepreneurs from around the region to assist tribal member shareholders and other stakeholders in Southeast Alaska in attaining economic sustainability. The Haa Aaní, LLC mariculture program focuses on the creation of lifestyle compatible jobs for tribal member shareholders, and building Native businesses in the villages, specifically through investment in oyster farming infrastructure and industry development.

Going forward, the mariculture program will expand its investment focus to additional seafood products in an effort to create further economic growth in rural communities. In 2012, Haa Aaní, LLC created the not-for-profit Haa Aaní Community Development Fund, Inc. (HACDFI), which is a Community Development Financial Institution (CDFI) targeting investment in Southeast Alaska. The HACDFI received its 501(c)(3) status in 2013, and is providing loans and technical services to tribal member shareholders and entrepreneurs who meet the CDFI criteria in underserved markets. In 2013, the CDFI sponsored a business development competition titled "Path to Prosperity," in partnership with The Nature Conservancy, which resulted in the award of two technical services grants worth up to $40,000 each to the two winning businesses. The competition will repeat in 2014, with a continued focus on innovative economic development in the region. In 2014, Haa Aaní, LLC will focus economic development efforts on mariculture growth, fisheries revitalization, agricultural development and expanded partnerships through the HACDFI.

The corporate Natural Resources Department in 2013 achieved its forest stewardship plan, and continues to work to secure land owner assistance contracts from the Natural Resources Conservation Service. A tree planting program was introduced with the establishment of a new tree nursery, along with planting of Sitka Spruce and a pilot program focused on cedar planting.

Sealaska Corporation expects to own more than 662,000 acres of subsurface land. Of this land, the 12 Southeast Alaska village and urban corporations own the surface to approximately 300,000 acres overlying Sealaska's subsurface.

Sealaska mineral reconnaissance found mineral prospects with sufficient potential to justify further mineral exploration. The type of minerals available include gold, silver, lead, zinc, copper, rare earth elements (used in cellphones, wind turbines and other high technology applications), limestone and finally sand, rock and gravel.

Sealaska has hired a minerals manager to educate all stakeholders on mineral issues and the mineral development potential on Sealaska lands. Sealaska is reaching out to the surface owners and the public to describe mineral opportunities. Special emphasis will be on “social license” early in the mining exploration phase to address community concerns about labor force needs, job opportunities, affiliated business opportunities and environmental protection.

B. MANUFACTURING

For 2012, Sealaska’s manufacturing business segment operations included three Nypro Kánaak facilities: Nypro Kánaak Alabama, Nypro Kánaak Iowa and Nypro Kánaak Guadalajara.

In February 2013, Sealaska’s partner Nypro, Inc. agreed to be purchased by Jabil Circuit, Inc. an S&P 500 company. The purchase provided the necessary funding for Nypro, Inc. to purchase Sealaska’s interest in the Alabama, Iowa and Guadalajara operations. The sale of Sealaska’s interest occurred at the end of June 2013. The business had performed well in the last two years and Sealaska was able to obtain a fair price for its shares. Proceeds of the sale were used to pay down debt and added to the Investment & Growth Fund as additional capital for new investments.

The manufacturing business segment financial results are reported in discontinued operations for the three years presented in the consolidated statement of operations.

C. SERVICES

For 2013, Sealaska’s services business segment included wholly owned subsidiaries Sealaska Environmental Services, LLC, Kingston Environmental, LLC, Kingston Environmental Services, Inc., Sealaska Constructors, LLC, Synergy Systems, Inc., Managed Business Solutions, LLC and MBS Systems, LLC.

The services business segment produced revenues of $102.1 million in 2013, down from $146.5 million in 2012, and produced costs and expenses of $134.2 million in 2013, down from costs and expenses of $150.6 million in 2012.

The services businesses performed well with the exception of civil construction, where significant issues in Hawaii outweighed progress in other areas, resulting in a substantial loss. Significant action was taken in 2013 to ensure that the Hawaii losses were minimized and, as a result, the losses have been contained in 2013. In late 2013, Sealaska started to integrate its strategic business processes and this resulted in significant sales, general and administrative (SG&A) savings and this initiative will continue into 2014. Sealaska is also overhauling its business development process and focusing on higher value growth sectors within the federal contracting arena.

In 2013, it was also decided that Sealaska should exit guard services and logistics. Accordingly, Security Alliance, LLC and Sealaska Global Logistics, LLC are reported in discontinued operations for the three years presented in the consolidated statement of operations.

D. GAMING

The gaming business segment produced revenues of $374,000 in 2013, up from $343,000 in 2012, and produced costs and expenses of $741,000 in 2013, up from costs and expenses of $696,000 in 2012.

Sealaska’s gaming business is managed by its wholly owned subsidiary End-to-End Enterprises, LLC (E2E). The sole gaming project under E2E is the Cloverdale Rancheria casino and resort project, approximately 90 miles north of San Francisco on Highway 101. E2E and the Cloverdale Rancheria of Pomo Indians (Tribe) have formally terminated the casino development and management agreements but are collaborating to find a new investor and to secure the governmental approvals to construct and operate a casino.

The property and the project are well positioned for casino and resort development. The land has a favorable Indian Land Opinion (ILO) confirming the land is qualified for Indian Trust Land status and in April

2014 the Bureau of Indian Affairs released the Final Environmental Impact Statement (FEIS) that is required for the land to be taken into trust. The next significant milestone for the project will be the record of decision (ROD), which should be issued in mid-2014. E2E believes that there is an increasing probability that it will recover its investment in the casino and resort project, as local real estate values are rebounding and there is a resurgence in investor interest in casino properties. E2E and the Tribe have worked with a firm to facilitate investment conversations with a number of prospective investors who are in varying stages of due diligence. This process will continue until agreements with a new management team or investor are finalized to move the project through the final development stage; repay E2E its development and land investment; and successfully operate a gaming facility for the Tribe.

E. INVESTMENTS

For 2013, Sealaska's investments business segment primarily included the Marjorie V. Young (MVY) Shareholder Permanent Fund and the Investment and Growth (I&G) Fund.

The investment business segment achieved investment gains of $16.6 million in 2013, down from investment gains of $16.8 million in 2012, and produced costs and expenses of $514,000 in 2013, down from costs and expenses of $611,000 in 2012.

The combined balance of the MVY Shareholder Permanent Fund and the I&G Fund was $145.3 million at the start of the year, and ended 2013 with a combined balance of $156.6 million invested in stocks, bonds, real estate and private equity investments. Of these investments, $47.3 million and $44.7 million were held as current assets in 2013 and 2012 respectively.

Both funds have maintained strong, long-term performance, which shows the strength of the funds' diversification strategy directed by the board-approved investment policy.

1. Marjorie V. Young Shareholder Permanent Fund

Renamed as a tribute to longtime Native leader and retired Sealaska director Marjorie V. Young, Sealaska created the MVY Shareholder Permanent Fund in 1987 to provide tribal member shareholders with meaningful and consistent dividends over time.

Sealaska management and the Board of Directors, along with their investment advisors and investment managers, constantly evaluate the risk exposure of the total portfolio and make changes whenever necessary to lessen risk—if doing so does not inordinately affect long-term expected returns. Sealaska utilizes the services of several external investment managers.

2. Investment and Growth Fund

The Investment and Growth Fund is managed with both short-term and long-term investment horizons and is used for both operational needs and new investments.

The management focus of the fund is to grow principal with a prudent level of risk, maintain sufficient liquidity to fund Sealaska's current business operations, and provide a source of capital for corporate development.

F. CORPORATE AND OTHER INCOME

For 2013, Sealaska's corporate and other income included the revenue generating departments at the corporate headquarters, such as real estate and diversity solutions.

The corporate and other income business segment produced revenues of $439,000 in 2013, down from $660,000 in 2012, and produced costs and expenses of $2.6 million in 2013, up from costs and expenses of $1.7 million in 2012.

The primary business activities included in this segment are real estate leasing, business development activities, and pursuit of diversity opportunities.

II. Shareholder Benefits and Services

A. SEALASKA HERITAGE INSTITUTE

Established in 1980, Sealaska Heritage Institute (SHI) is Sealaska's regional nonprofit organization whose mission is to perpetuate and enhance the Tlingit, Haida and Tsimshian cultures of Southeast Alaska, and to promote cross cultural understanding. SHI develops Native language, culture and arts education curricula and material, and provides professional development for teachers and artists; manages the Sealaska scholarship program; conducts research and publishes material on Native history and culture; and maintains an archival and ethnographic collection. SHI is raising funds to build the Walter Soboleff Center in downtown Juneau. The center will house SHI programs; its archival and ethnographic collection; and market Native art. Its programs and museum exhibitions will serve as an education center for Native people, the general public and visitors to Alaska.

In 2013, Sealaska contributed $1.5 million in cash and in-kind services to support the operations of SHI. Sealaska also contributed a parcel of land, and $1.0 million in cash for the Walter Soboleff Center. Using Sealaska's cash and in-kind donations as leverage, SHI raised an additional $8.4 million in grants, revenue and sales, and provided direct service to 5,564 individuals through its programs and activities. In addition, Sealaska Timber Corporation contributed $293,000 toward scholarships, and Sealaska contributed $175,000 for a total of $468,000. Sealaska's contribution comes from the scholarship endowment set up in 1989, which has contributed $7.9 million to SHI's scholarship program since inception.

B. ELDERS' SETTLEMENT TRUST

The Elders' Settlement Trust (EST) is a grantor trust created to provide a special economic benefit to original tribal member shareholders at the age of 65. The assets and liabilities of the EST are reported on Sealaska's consolidated financial statements (see notes 4 and 13). The EST, which is governed by a board of trustees, assumes a long-term annualized rate of return of six and a quarter percent (6.25%) in order for the trust to meet the estimated benefit payments. Since the trust's inception, more than $10 million in benefits have been provided.

C. DISTRIBUTIONS

Since its inception in 1972, Sealaska has distributed $538.2 million in dividends and ANCSA Section 7(j) payments to tribal member shareholders and village corporations. The outstanding shares of dividend paying stock are affected by the open enrollment of descendants when they reach 18 years of age, enrollment of Leftouts, and of the additional shares issued to Elders reaching the age of 65. Adding more dividend paying stock for the reason described above means that dividends will be paid to a larger number of individuals and may result in smaller dividends to original tribal member shareholders. However, the recipients of Descendant and Leftout shares do not receive ANCSA Section 7(j) payments. This protects a portion of the distributions for original tribal member shareholders who do receive those Section 7(j) payments. Also, when holders of life estate Class D (Descendant), Class E (Elders) and Class L (Leftouts) shares pass away, their life estate shares are canceled. Under the current operations dividend policy, 2013 financial results will negatively affect the operations dividend calculation for the next five years.

D. SHAREHOLDER RELATIONS

At year end, Sealaska had 21,517 tribal member shareholders. The Shareholder Relations Department manages tribal member shareholders' records, stock transfers due to gifting or estate settlement, shareholder distributions and processing EST payments. In 2013, Sealaska launched an online, interactive tool called MySealaska. MySealaska allows shareholders to access shareholder information, and gives shareholders direct control over their contact and banking information. Shareholders can also view and print many Sealaska forms, and conduct electronic transactions, which reduces administrative expenses. The Shareholder Relations Department is also responsible for the processing of applications and the issuance of Class D and Class L stock, following a 2007 vote by Sealaska tribal member shareholders approving open enrollment for eligible applicants. The department also issues new Class E stock to original shareholders at the age of 65, following a 2009 vote by shareholders to provide this benefit. The number of common stock shares outstanding at December 31, 2013 was 2,281,976.

III. Special Note Regarding Forward-Looking Statements

Certain sections of the annual report contain forward-looking statements that are based on management's expectations, estimates, projections and assumptions. Words such as "expects," "anticipates," "plans," "believes," "scheduled," "estimates" and variations of these words and similar expressions are intended to identify forward-looking statements, which include but are not limited to projections of revenues, income, segment performance, cash flows, contract awards, deliveries and backlog. These statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict.

Therefore, actual future results and trends may differ materially from what is forecast in forward-looking statements. All forward-looking statements speak only as of the date of this report or, in the case of any document incorporated by reference, the date of that document. All subsequent written and oral forward-looking statements attributable to the company or any person acting on the company's behalf are qualified by the cautionary statements in this section. The company does not undertake any obligation to update or publicly release any revisions to forward-looking statements to reflect events, circumstances or changes in expectations after the date of this report.

IV. Significant Accounting Policies

Sealaska's consolidated financial statements and accompanying notes have been prepared in accordance with generally accepted accounting principles (GAAP). The preparation of these financial statements requires the company's management to make estimates, judgments and assumptions that affect reported amounts of assets, liabilities, revenues and expenses. Sealaska bases its estimates on historical experience and assumptions believed to be reasonable under current facts and circumstances. Actual amounts and results could differ from these estimates made by management.

To ensure full disclosure and accurate representation of the financial condition of the company, Sealaska continually evaluates the accounting policies and estimates used to prepare the consolidated financial statements and, working with independent auditors and the board of directors, adjusts financial statements to accurately represent the financial condition of the company. See Notes to Consolidated Financial Statements.

Additional Information

Sealaska continues to publish more concise discussion and analysis of its operations by our management team in the annual report. This streamlined format, introduced in 2010, enhances readability and is significantly shorter. Therefore, paper and production costs are reduced. This format aligns with important lean and green strategies for the company. Additional operational information is available at www.sealaska.com. If you have a detailed financial question related to data previously reported in the longer format, please contact the Sealaska corporate controller at 907.586.1512.

The 2012 Coming Ashore ceremony
leading up to Celebration.

INDEPENDENT AUDITORS' REPORT

THE BOARD OF DIRECTORS
SEALASKA CORPORATION:

We have audited the accompanying consolidated financial statements of Sealaska Corporation and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three year period ended December 31, 2013 and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sealaska Corporation and its subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2013, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Anchorage, Alaska
April 23, 2014

CONSOLIDATED BALANCE SHEETS

Assets (As of December 31, 2013 and 2012)		**2013**		**2012**
Current assets				
Cash and cash equivalents	$	32,857	$	34,740
Investments (note 4)		47,306		44,711
Receivables, net (note 5)		21,153		48,288
Inventories (note 6)		4,391		7,733
Prepaid expenses and other current assets		2,216		2,480
Deferred tax asset (note 12)		749		1,533
Current assets held for sale		3,747		—
Total current assets		112,419		139,485
Investments (note 4)				
Marjorie V. Young Shareholder Permanent Fund		99,160		88,321
Investment and growth long-term		10,157		12,233
Endowment funds		5,946		5,435
Elders' Settlement Trust		8,882		8,299
Other		3,623		2,937
Total investments		127,768		117,225
Property and equipment, at cost (note 7)		268,429		308,714
Less accumulated depreciation		(223,247)		(229,961)
Total property and equipment, net		45,182		78,753
Notes receivable		1,297		579
Other assets		2,132		2,897
Intangible assets		208		1,764
Goodwill (note 9)		5,002		16,631
Deferred tax asset (note 12)		23,960		28,968
Noncurrent assets held for sale		1,883		—
Total assets	$	319,851	$	386,302

❖ Dollars are in thousands.

See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity (As of December 31, 2013 and 2012)	2013	2012
Current liabilities		
Line of credit (notes 10 and 11)	$ 2,458	$ 3,630
Current portion of long-term debt (note 10)	18,510	386
Accounts payable	8,815	32,249
Amounts payable under ANCSA Sections 7(i) and 7(j) (note 3)	12,568	9,468
Other accrued expenses	19,889	20,798
Anticipated future losses on contracts	12,659	—
Current liabilities held for sale	1,702	—
Total current liabilities	76,601	66,531
Noncurrent liabilities		
Amounts payable under ANCSA Sections 7(i) and 7(j) (note 3)	11,431	6,179
Long-term debt, less current portion (note 10)	—	30,460
Other noncurrent liabilities (note 13)	15,367	13,607
Noncurrent liabilities held for sale	111	—
Total liabilities	103,510	116,777
Shareholders' equity		
Common stock, no par or stated value. Issued and outstanding 2,281,976 and 2,254,376 shares, in 2013 and 2012 respectively	—	—
Contributed capital	93,162	93,162
Retained earnings	123,195	162,979
Total Sealaska's shareholders' equity	216,357	256,141
Noncontrolling interest	(16)	13,384
Total shareholders' equity	216,341	269,525
Commitments and contingencies (notes 4, 8, 11, 14 and 17)		
Total liabilities and shareholders' equity	$ 319,851	$ 386,302

❖ Dollars are in thousands.

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31, 2013, 2012 and 2011	2013	2012	2011
Revenues			
Natural resources (note 8)	**$ 45,412**	$ 46,728	$ 48,705
Investments (note 4)	**16,609**	16,766	(3,893)
Services	**102,116**	146,450	128,097
Gaming	**374**	343	147
Corporate and other income	**439**	660	521
Total revenues	**164,950**	210,947	173,577
Cost and expenses			
Natural resources (note 8)	**65,970**	45,285	45,632
Investments	**514**	611	610
Services	**134,153**	150,611	124,926
Gaming (note 15)	**741**	696	990
Corporate and other expenses	**2,596**	1,740	1,825
Selling, general and administrative	**13,222**	15,849	14,953
Total cost and expenses	**217,196**	214,792	188,936
Loss from operations	**(52,246)**	(3,845)	(15,359)
Other, net	**(4,422)**	(1,489)	(752)
Loss from continuing operations before natural resources revenue sharing and income taxes	**(56,668)**	(5,334)	(16,111)
Net natural resources revenue sharing under ANCSA Sections 7(i) and 7(j) (note 3)	**21,962**	16,870	24,067
Income (loss) from continuing operations before income taxes and discontinued operations	**(34,706)**	11,536	7,956
Income tax benefit (expense) (note 12)	**(86)**	(109)	(94)
Income (loss) from continuing operations before discontinued operations	**(34,792)**	11,427	7,862
Discontinued operations, net of tax (note 2)	**1,510**	1,977	350
Net income (loss)	**(33,282)**	13,404	8,212
Less: Net income attributable to the noncontrolling interest	**1,804**	2,086	1,421
Net income (loss) attributable to Sealaska	**$ (35,086)**	$ 11,318	$ 6,791
Per share of common stock			
Income (loss) from continuing operations before discontinued operations	**$ (15.34)**	$ 5.11	$ 3.57
Discontinued operations (note 2)	**$ 0.67**	$ 0.88	$ 0.16
Net income (loss)	**$ (14.67)**	$ 5.99	$ 3.73

❖ Dollars are in thousands except per share values.
See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years Ended December 31, 2013, 2012 and 2011		Contributed capital		Retained earnings		Noncontrolling interest		Total shareholders' equity
Balance at January 1, 2011	$	93,162	$	154,771	$	13,186	$	261,119
Net income		—		6,791		1,421		8,212
Dividends to shareholders		—		(4,946)		—		(4,946)
Distributions to noncontrolling interest		—		—		(2,285)		(2,285)
Balance at December 31, 2011	$	93,162	$	156,616	$	12,322	$	262,100
Net income		—		11,318		2,086		13,404
Dividends to shareholders		—		(4,955)		—		(4,955)
Distributions to noncontrolling interest		—		—		(1,024)		(1,024)
Balance at December 31, 2012	$	93,162	$	162,979	$	13,384	$	269,525
Net income		—		(35,086)		1,804		(33,282)
Dividends to shareholders		—		(5,105)		—		(5,105)
Distributions to noncontrolling interest		—		—		(866)		(866)
Purchase of subsidiaries' shares from noncontrolling interest		—		407		(2,129)		(1,722)
Sale of Nypro Kánaak subsidiaries		—		—		(12,209)		(12,209)
Balance at December 31, 2013	**$**	**93,162**	**$**	**123,195**	**$**	**(16)**	**$**	**216,341**

❖ Dollars are in thousands.

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2013, 2012 and 2011	2013	2012	2011
Cash flows from operating activities			
Net income (loss)	**$ (33,282)**	$ 13,404	$ 8,212
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities			
Depreciation, amortization and depletion	**10,035**	11,888	9,537
Bad debt expense	**2,125**	788	557
Deferred taxes	**303**	369	169
Loss on disposal of property and equipment	**1,375**	829	325
Gain on sale of Nypro Kánaak	**(3,797)**	—	—
Loss on sale of Sealaska Global Logistics	**108**	—	—
Loss on impairment of goodwill	**10,024**	363	—
Deferral of prior grant proceeds into property basis	**5,153**	—	—
Write-off of land selection and development costs	**11,590**	—	—
Loss on impairment of assets	**—**	459	—
Loss on impairment of investment	**122**	—	—
Unrealized (gain) loss on investments	**(8,253)**	(12,868)	8,941
Anticipated future losses on contracts	**12,659**	—	—
Decrease (increase) in assets, net of effects of acquisitions and disposals			
Receivables	**2,687**	17,050	(11,661)
Inventories	**(1,320)**	448	(2,435)
Prepaid expenses and other current assets	**113**	(106)	2,816
Net purchase of investments	**(1,827)**	(2,055)	(3,619)
Accounts payable	**(6,299)**	5,912	3,428
Other accrued expenses	**3,641**	6,559	(4,213)
Amounts payable under ANCSA Sections 7(i) and 7(j)	**8,352**	(4,082)	6,348
Other, net	**2,247**	615	(1,277)
Assets held for sale	**(203)**	—	—
Net cash provided by operating activities	**$ 15,553**	$ 39,573	$ 17,128

❖ Dollars are in thousands.

See accompanying notes to consolidated financial statements.

Years ended December 31, 2013, 2012 and 2011	2013	2012	2011
Cash flows from investing activities			
Acquisitions, net of cash acquired	$ —	$ (498)	$ (1,000)
Proceeds from the sale of Nypro Kánaak, net of cash disposed of	10,273	—	—
Proceeds from the sale of Sealaska Global Logistics	387	—	—
Capital expenditures	(8,250)	(19,065)	(12,711)
Proceeds from sale of land and equipment	520	—	—
Repayment of notes receivable	79	(284)	(245)
Net purchase of investments	(3,180)	—	—
Net cash used in investing activities	(171)	(19,847)	(13,956)
Cash flows from financing activities			
Additional investments in consolidated subsidiaries	(1,422)	—	—
Dividends to shareholders	(5,105)	(4,955)	(4,946)
Borrowings (repayments) on short-term debt	—	(508)	4,138
Borrowings on long-term debt	—	2,200	—
Repayments on long-term debt	(9,872)	(917)	(1,850)
Distribution to noncontrolling interests	(866)	(1,024)	(2,285)
Net cash used in financing activities	(17,265)	(5,204)	(4,943)
Net increase (decrease) in cash and cash equivalents	(1,883)	14,522	(1,771)
Cash and cash equivalents at beginning of year	34,740	20,218	21,989
Cash and cash equivalents at end of year	$ 32,857	34,740	20,218
Supplemental cash flow disclosures			
Cash paid during the year for interest	$ 596	1,078	1,060
Cash paid during the year for income taxes	120	165	103
Non-cash investing and financing activities			
Note issued to purchase of additional interest in consolidated subsidiaries	$ 300	—	—
Increase in shareholders' distributions payable	464	157	163
Disposal of land	—	—	1,300
Debt forgiven	—	—	(975)

❖ Dollars are in thousands.

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Operations and Summary of Significant Accounting Policies

Operations

Sealaska Corporation (Sealaska or Corporation) is a Regional Alaska Native Corporation formed under the Alaska Native Claims Settlement Act (ANCSA). Sealaska's four primary continuing business activities relate to the development, production and sale of natural resources; environmental remediation and related services; information technology; and construction. In addition, Sealaska holds and manages an extensive investment portfolio and participates in gaming (e.g., establishment and development of casino projects). ANCSA is further described in note 3.

Basis of Presentation and Significant Accounting Policies

(A) PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of Sealaska Corporation, and its majority owned subsidiaries (collectively, the Corporation). All significant intercompany balances and transactions have been eliminated in consolidation. The Corporation has no involvement with variable interest entities. The Corporation accounts for investments over which it has significant influence but not a controlling financial interest using the equity method of accounting.

(B) REVENUE RECOGNITION AND RECEIVABLES

The primary source of the Corporation's revenue is through professional service contracts. The Corporation adheres to the guidance for revenue recognition contained in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 912, *Contractors—Federal Government*. Revenue from government service contracts is recognized as the services are rendered, as the costs are incurred or based on the specific terms of the contract. Revenues from fixed fee construction contracts are recognized by the percentage of completion method, measured by percentage of costs incurred to date, including labor incurred and materials procured to date, to estimated total costs for each contract. This method is used because management considers labor cost and materials procurement to be the best available measure of progress on these contracts.

As some of the contracts extend over one or more accounting periods, revisions in cost and earnings estimates are reflected in the period during which the facts requiring the revision become known.

Provisions for estimated losses on uncompleted contracts are made in the period in which the losses are determined. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions, and final contract settlements, may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

Revenue from cost plus fee contracts is recognized on the basis of costs incurred during the period plus the fee earned. If contract costs and estimated earnings exceed related billings on any uncompleted contract, the difference is shown as a current asset. If billings exceed related contract costs and estimated earnings on any uncompleted contract, the difference is shown as a current liability.

Equipment sales and rental revenue is recognized in the period in which the rental or sales arrangement is incurred, the equipment has been delivered, and when collectability is reasonably assured.

Natural resource revenue distributed to the Corporation by other Regional Corporations is recorded as revenue when received from the other Regional Corporations. Natural resource revenue derived from the sale of timber is recognized when earned, and the risks of ownership have been transferred to the buyer, which is generally upon shipment to the customer.

(C) TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The Corporation maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses adjusted to take into account current market conditions and its customers' financial condition, the amount of receivables in dispute, and the current receivables aging and current payment patterns. The Corporation reviews its allowance for doubtful accounts monthly. Past due balances past 90 days and more than a specified amount are reviewed individually for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Write offs for 2013, 2012 and 2011 were $463,000, $788,000 and $557,000, respectively. The Corporation does not have any off balance sheet credit exposure related to its customers.

(D) CASH AND CASH EQUIVALENTS

Sealaska maintains its cash in bank accounts with various financial institutions. At times, the balances may exceed federally insured limits. For purposes of the consolidated statements of cash flows, Sealaska considers all highly liquid debt instruments with original maturities of three months or less from the date of purchase to be cash equivalents.

(E) INVESTMENTS

Sealaska's investments in marketable debt and equity securities (note 4) are classified as trading securities and are recorded at fair value. Fair value is based upon quoted market prices. The increase or decrease in fair value from period to period relating to marketable securities included in Sealaska's investment portfolio is included in the determination of income or loss. Interest and dividend income is recognized as earned. Gains or losses on the sale of marketable securities are determined on a specific identification basis.

Certain investments are valued at the net asset value (NAV) per share/unit reported at the close of each business day. NAV is used by the Corporation as a practical expedient to estimating fair value as these funds do not have readily determinable fair values.

Sealaska accounts for certain noncontrolling interests, less than 50% ownership and control, in privately held corporations, LLCs and partnerships (the investee) using the equity method of accounting. Under the equity method, Sealaska's original investment in the investee is recorded at cost and subsequently adjusted for changes in the net assets of the investee. The carrying amount of the investment is periodically increased (decreased) by the proportionate share in the earnings (losses) of the investee.

Sealaska records its ownership of Green Earth Greens, Inc., and Native American Bank, via the cost method.

(F) INVENTORIES

Inventories are stated at the lower of cost (determined on a first in, first out basis) or estimated net realizable value. Inventories consist primarily of sorted/scaled timber, manufacturing materials and finished goods.

(G) DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

The Corporation presents discontinued operations in the consolidated statements of operations for the operating results of the "components of an entity" that either has been disposed of or is classified as held for sale. A component of an entity is further defined as an entity comprising operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity may be a reportable segment or an operating segment, a reporting unit, a subsidiary or an asset group. Any goodwill attributable to components classified as assets held for sale is included in the financial statement caption "Goodwill" rather than being reclassified to assets held for sale. As of December 31, 2013, there was no goodwill attributable to the discontinued operations. The Corporation elected to present assets held for sale as both current and noncurrent amounts and to not present separately in the statement of cash flows the information related to discontinued operations.

(H) PROPERTY AND EQUIPMENT

Property and equipment are stated at cost.

Depreciation and amortization of property, equipment and leasehold improvements are provided primarily on the straight line method over the shorter of the expected useful lives of the assets or the lease term as follows:

Buildings, leaseholds and improvements	**15–45 years**
Equipment and furnishings	**5–20 years**
Computer and office equipment	**3–5 years**

(I) TIMBER OPERATIONS

Costs of logging yards and camps are amortized as timber is harvested, based on estimated volumes of timber to be removed from each tax reporting block. Costs of logging roads are amortized using a composite rate for each tax reporting block based on actual road costs incurred, anticipated future road costs to be incurred, and estimated volumes to be removed from the respective tax block.

Costs of silviculture and reforestation activities, net of grants received, are capitalized as an element of property, plant and equipment, and depleted as the associated timber is harvested.

Depletion of purchased timber is provided based on amounts harvested in relation to volumes purchased. Timber and mineral resources received under the provisions of ANCSA are carried at zero value and no depletion expense is recorded when such resources are harvested or extracted. For tax purposes, depletion is reported based upon the higher of the estimated fair value of a specific timber block or mineral deposit as of the date of conveyance or first commercial development.

(J) ROADS AND YARDS ASSETS

Roads and yards constructed for the harvest of timber are amortized based on units of production, which are calculated by taking the total estimated future asset capital costs plus the current known net actual capital costs, all divided by the total future harvest (estimated total or remaining timber volume to be harvested).

Roads and yards are classified as long lived assets and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Recoverability of the road assets is measured by a comparison of the carrying amounts of the asset to estimated undiscounted cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of an asset exceeds its estimated fair value.

(K) LONG LIVED ASSETS

Long lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of assets may not be recoverable.

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(L) GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the future economic benefits arising from other assets acquired in a purchase combination that are not individually identified and separately recognized. Goodwill is reviewed for impairment at least annually in accordance with the provisions of the ASC Topic 350, as amended by Accounting Standards Update (ASU) No. 2011-08, *Intangibles—Goodwill and Other*. The amended goodwill impairment test provides the option to first assess certain qualitative factors to ascertain whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount to determine whether the two step impairment test is necessary. If certain events or circumstances demonstrate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the Corporation is required to proceed to step one of the two step goodwill impairment test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the enterprise must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with ASC Topic 805, *Business Combinations*. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed.

Other intangible assets consist of customer relationships. Customer relationships are amortized over their estimated useful lives, typically between seven to eight years using the straight line method.

(M) ALASKA NATIVE CLAIMS SETTLEMENT ASSETS

Sealaska has received substantial natural resources assets under the provisions of ANCSA as described in note 8. These assets are carried in the accompanying consolidated financial statements at zero value. For tax reporting purposes, these assets have a tax basis determined as the higher of their estimated fair value at the date of conveyance or first commercial development. As a result, a substantial difference between the book and tax basis exists, which is considered a temporary difference for purposes of reporting income tax expense under U.S. generally accepted accounting principles.

(N) ANCSA SECTION 7(I) ACCOUNTING

Fixed Assets: In Section 7(i) accounting, ANCSA fixed assets are expensed in the year they are purchased. For book accounting, all fixed assets are depreciated using the straight line method based on their useful life.

Roads and Yards: In Section 7(i) accounting, ANCSA roads are segregated into three categories: mainline, secondary and spur. Mainline and secondary roads are amortized based on units of production and the useful life of 10 and three years, respectively. Spur roads are expensed in the year they are placed into service. The book treatment is addressed in the fixed assets note above. Yards are treated consistently for Section 7(i) and book accounting.

Inventories: Section 7(i) accounting allows for the deduction of the cost of inventories from revenues in determining Section 7(i) sharable income. For book purposes, inventories are reported at lower of cost or estimated net realizable value under current assets on the balance sheet.

Accounts Receivable: Section 7(i) accounting allows for the deduction of outstanding accounts receivable from revenues in determining Section 7(i) sharable income. For book purposes, accounts receivable are reported under current assets on the balance sheets and the associated revenues are recognized as described in note 1(b).

(O) INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Uncertain tax positions are recorded when they are determined to be more likely than not of being sustained on Sealaska's tax return. See note 12 for further discussion of income taxes.

Funds and properties received from the U.S. government under ANCSA are not subject to income taxes.

(P) NET INCOME PER SHARE

Net income per share information in the consolidated financial statements is based on weighted average shares outstanding. Sealaska has no agreements or securities outstanding that represent dilutive potential common shares.

The number of common stock shares outstanding at December 31, 2013 and 2012 is 2,281,976 and 2,254,376, respectively. The stock, dividends paid and other stock rights are restricted; the stock may not be sold, pledged, assigned or otherwise alienated except in certain circumstances by gift, court order or death; the stock carries voting rights only if the holder thereof is an eligible Native, and if the stock is not elder stock.

On June 23, 2007, Sealaska's tribal member shareholders authorized the issuance of two additional classes of common stock without consideration. Class D stock is issuable to Alaska Natives born after December 18, 1971, who are 18 years of age or older and are lineal descendants of an original Sealaska shareholder and meet certain other requirements. Class L stock is issuable to Alaska Natives born before December 18, 1971, who were eligible to enroll in Sealaska Corporation in 1971 (pursuant to ANCSA) but were not so enrolled and who meet certain other requirements.

On June 27, 2009, Sealaska's shareholders authorized the issuance of an additional class of common stock without consideration. Class E stock is issuable to Alaska Natives born before December 18, 1971, who are original tribal member shareholders of Sealaska who have reached the age of 65 years or older, and meet certain other requirements. 9,500 shares of Class E stock, 18,100 shares of Class D stock and 0 shares of Class L stock were issued in 2013. 9,700 shares of Class E stock, 22,500 shares of Class D stock and 300 shares of Class L stock were issued in 2012. 8,900 shares of Class E stock, 28,900 shares of Class D stock and 400 shares of Class L stock were issued in 2011.

(Q) FAIR VALUE

ASC Topic 820, *Fair Value Measurement*, establishes a framework for fair value measurement in the financial statements by providing a definition of fair value, provides guidance on the methods used to estimate fair value, and expands disclosures about fair value measurements.

Fair Value Measurements

ASC Topic 820 defines fair value as the price that would be received to sell an asset or the amount paid to transfer a liability in an orderly transaction between market participants (an exit price) at the measurement date. Fair value is a market based measurement considered from the perspective of a market participant. Sealaska uses market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation. These inputs can be readily observable, market corroborated or unobservable. Sealaska applies both market and income approaches for recurring fair value measurements, using the best available information while utilizing valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

Fair Value Hierarchy

ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are:

- **Level 1** inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that Sealaska has the ability to access at the measurement date.
- **Level 2** inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- **Level 3** inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair Value Measurements on a Nonrecurring Basis

Sealaska follows the fair value measurement requirements related to nonfinancial assets and nonfinancial liabilities that are not required or permitted to be measured at fair value on a recurring basis. Those include assets measured at fair value in goodwill impairment testing and nonfinancial long lived assets measured at fair value for impairment assessment. During 2013, 2012 and 2011, using Level 3 inputs and an income valuation technique, Sealaska performed an impairment assessment of certain long lived assets and goodwill.

Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, notes receivable and accounts payable approximate fair value because of the short term nature of these instruments. The carrying amounts of investment securities are stated at market value. The carrying value of debt approximates fair value as the debt bears interest that adjusts based upon market interest rates.

(R) RECENTLY ISSUED ACCOUNTING STANDARDS

In July 2013, the FASB issued ASU 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operation Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.* ASU 2013-11 requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward. ASU 2013-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. The new standard is to be applied prospectively but retrospective application is permitted. The Corporation will implement the provisions of ASU 2013-11 as of January 1, 2015.

(S) FOREIGN CURRENCY TRANSLATION

The financial statements of Sealaska's foreign operations have been translated into U.S. dollars in accordance with ASC 830, *Foreign Currency Matters.* As the U.S. dollar is the functional currency of Sealaska's subsidiary operations, there are no foreign currency translation adjustments and all gains and losses from remeasuring foreign currency transactions into the functional currency are included in income.

(T) RECLASSIFICATIONS

Certain reclassifications have been made to the 2011 and 2012 cash flow statement balances to conform to the 2013 presentation resulting in an increase in bad debt expense and decrease in the changes in operating receivables of $788,000 and $557,000, respectively.

(U) USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include provisions relating to uncollectible receivables, useful lives of capitalized timber costs, property and equipment, the related depreciation and valuation of certain underlying assets of limited partnership investments and amortization, realization of deferred income taxes, and impairment of long lived assets and goodwill.

The recorded amounts are currently believed by management to be sufficient. However, such estimates could significantly change in future periods to reflect new laws, regulations or information. It is not possible to determine whether changes in amounts recorded, due to such changed circumstances, will occur or to reasonably estimate the amount or range of any potential additional loss.

2. Acquisitions and Divestitures of Subsidiaries

(A) SECURITY ALLIANCE OF FLORIDA, LLC

In September 2013, Sealaska Security Holdings, LLC purchased an additional 15% of Security Alliance of Florida, LLC (Security Alliance) for $1.4 million. The additional purchase brings the ownership percentage by Sealaska Security Holdings, LLC to 85%. The $1.4 million purchase price exceeded the book value of the noncontrolling interest by approximately $12,000 and represents additional paid in capital. Sealaska recorded this $12,000 amount to its retained earnings. Sealaska is actively working to sell Security Alliance, and is presenting it as an investment held for sale at December 31, 2013. Prior year's services revenues and income (loss) from continuing operations were $18.9 million and ($125,000), respectively, in 2012 and $17.4 million and $55,000, respectively, in 2011. These amounts have been reclassified to discontinued operations in accordance with ASC Subtopic 360-10, *Accounting for the Impairment or Disposal of Long Lived Assets.*

(B) MANAGED BUSINESS SOLUTIONS, LLC

In December 2013, Sealaska purchased an additional 3.24% of Managed Business Solutions, LLC for $300,000 and issued two notes payable to the former minority stockholders that were recorded within accrued liabilities.

(C) SEALASKA GLOBAL LOGISTICS, LLC

In April 2013, Sealaska sold Sealaska Global Logistics, LLC for $387,000. Sealaska recorded a loss on sale of $108,000 for the transaction. Prior year's natural resources revenue and income (loss) from continuing operations were $5.3 million and ($718,000), respectively, in 2012 and $594,000 and ($830,000), respectively, in 2011. These amounts have been reclassified to discontinued operations in accordance with ASC Subtopic 360-10 *Accounting for the Impairment or Disposal of Long Lived Assets.*

(D) NYPRO KÁNAAK

In June 2013, Kánaak Corporation sold its holdings in Nypro Kánaak Iowa, Alabama and Guadalajara for a purchase price of $18.9 million, net of $1.3 million in foreign tax. Total cash received was $17.6 million, while $7.3 million of cash on hand was disposed of at the date of acquisition. Kánaak Corporation recorded a gain on sale of $3.8 million net of $6.8 million of foreign tax expense. Sealaska also discontinued Kánaak Corporation and recorded net income before tax on the discontinued operation of $3.2 million. Prior year's manufacturing revenues and income from continuing operations were $76.5 million and $1.3 million, respectively, in 2012 and $72.2 million and $338,000, respectively, in 2011. These amounts have been reclassified to discontinued operations in accordance with ASC 360-10—*Accounting for the Impairment or Disposal of Long Lived Assets.*

3. Alaska Native Claims Settlement Act

Sealaska was incorporated in 1972 as a Regional Alaska Native Corporation pursuant to the provisions of ANCSA. Sections 7(i) and 7(j) are significant to the consolidated financial statements and are further described herein. Under the provisions of ANCSA, Sealaska has received, or expects to receive, conveyance of approximately 362,000 acres of land in the Tongass National Forest in Southeast Alaska, of which it owns or will own the surface and subsurface estate. At December 31, 2013, Sealaska has received conveyance of approximately 290,800 acres. Sealaska has received its proportionate share of the monetary entitlement under the act in the amount of $93.2 million, which is recorded as contributed capital.

ANCSA also provides for selection of land in Alaska by the village and urban corporations formed thereunder, the subsurface estate of which accrues to the related regional corporations. It is anticipated that the village and urban corporations in Sealaska's region will receive conveyance of 286,400 acres of land formerly part of the Tongass National Forest of which Sealaska will own the subsurface estate. Of the approximate 286,400 acres, conveyance has been received of approximately 278,100 acres. As described in note 8, the land and related surface and subsurface resources received under ANCSA are carried at zero value in the accompanying consolidated financial statements.

Section 7(i) of ANCSA requires that each Alaska Native Regional Corporation that received revenue or value from certain resources conveyed pursuant to ANCSA distribute 70% of the related net revenues to 12 of the 13 Regional Corporations, including the distributing Corporation. Sealaska and the other Regional Corporations have entered into a Section 7(i) Settlement Agreement, which establishes specific definitions and methods for calculating shareable revenues. Revenues received by Sealaska from the timber resources and subsurface estate obtained through ANCSA are subject to the revenue sharing provisions of Section 7(i), except that subsurface resources, commonly known as sand, rock and gravel, are excluded from Section 7(i) revenue sharing. Distributions to Sealaska from other Regional Corporations under the provisions of Section 7(i), after reductions for distributions required by Section 7(j) of ANCSA, are recorded as income in the fiscal year the amounts become determinable and collection is reasonably assured. Section 7(j) of ANCSA requires that not less than 50% of monies received by Sealaska from other regional corporations under Section 7(i) must be distributed to village corporations, tribal member shareholders of urban corporations, and At Large shareholders. Required distributions to other Regional Corporations are due 90 days following the end of the fiscal year and unpaid distributions incur interest at the prime rate plus 5%. Required distributions to village corporations, shareholders of urban corporations, and At Large shareholders are based on the ratio of the total number of Sealaska shares owned by shareholders of village corporations, by shareholders of urban corporations and by At Large shareholders.

Sealaska accrues and expenses an amount determined by applying the provisions of Section 7(i) to applicable active revenue and expense transactions as they are recognized in the consolidated financial statements. Sealaska recorded a noncurrent liability representing the estimated distribution payable for near term timing differences between the recognition of revenue and expenses for financial reporting and Section 7(i) reporting purposes.

4. Investments

Investments consist of:

		2013		2012
Investment and Growth				
Common stock	**$**	**20,711**	$	17,488
Money market		**3,615**		1,601
Bonds and notes		**22,692**		25,327
Accrued interest, dividends and other		**288**		295
Total investment and growth		**47,306**		44,711
Marjorie V. Young Shareholder Permanent Fund				
Common stock		**45,379**		41,833
Alternative investments		**45,995**		37,781
Government bonds and notes		**7,318**		7,462
Money market, accrued interest, dividends and other		**468**		1,245
Total Marjorie V. Young Shareholder Permanent Fund		**99,160**		88,321
Investment and growth long-term portion				
Alternative investments		**10,157**		12,233
Endowment Fund		**5,946**		5,435
Elders' Settlement Trust		**8,882**		8,299
Other investments		**3,623**		2,937
Total investments	**$**	**175,074**	$	161,936

❖ Dollars are in thousands. Years ended December 31.

Following a tribal member shareholder advisory vote in 1987, the Sealaska Board of Directors designated certain funds held in investment securities and related investment earnings be held for long term uses (Marjorie V. Young Shareholder Permanent Fund) and, accordingly, such funds and earnings are not available for current operations, unless the Board of Directors determines it necessary.

Additionally, an Endowment Fund has been established for which the earnings accrue to the benefit of the Sealaska Heritage Institute scholarship program and the Alaska Native Brotherhood.

During 1991, Sealaska's tribal member shareholders voted to establish an Elders' Settlement Trust (the Trust). Accordingly, and pursuant to ANCSA, the Sealaska Board of Directors established the grantor trust for the benefit of shareholders. Certain Sealaska directors are trustees of the Trust. The initial establishment of the liability was treated as future dividends and recorded in shareholders' equity. The liability represents future onetime distributions that will be made from the Trust to shareholders who attain the age of 65 years. Actuarial measurement of the liability occurs on a three year cycle, but adjusted annually for expected returns during the years in between measurement. Earnings are accrued to the liability up to the expected rate of return. All earnings in excess of this amount are available for operations. All subsequent distributions are recorded as a reduction of liability. The amount distributed during 2013, 2012 and 2011 was $485,000, $438,000 and $447,000, respectively.

As noted above with the Marjorie V. Young Shareholder Permanent Fund, the Endowment Fund, the Trust and other investments are not available to fund current operations, unless the Board of Directors determines it necessary. The majority of the related assets of the Endowment Fund and the Trust are invested in mutual funds focused on growth strategies.

Investment earnings consist of:

	2013	2012	2011
Unrealized gains (losses)	**$ 8,253**	$ 12,868	$ (8,941)
Realized net gains, dividends and interest	**8,356**	3,898	5,048
Total investment earnings (loss)	**$ 16,609**	$ 16,766	$ (3,893)

❖ Dollars are in thousands. Years ended December 31.

Sealaska invests in limited partnerships that make private investments in real estate, commercial assets and operating entities. Sealaska has remaining commitments of $27.1 million that are due when called by the general partners of the investment funds. If Sealaska cannot or decides not to make the additional investment when called, then the general partner, at its discretion, has the right to sell Sealaska's investment.

The following table presents quantitative disclosure about the fair value measurements for each class of assets:

	Fair value at December 31, 2013			
Description	**Totals**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant other observable inputs (Level 3)**
Money market, cash on hand accrued interest and dividends	$ 4,339	$ 4,339	$ —	—
Equity securities				
Equity securities—domestic	40,205	40,205	—	—
Equity securities—international (developed)	18,770	18,770	—	—
Equity securities—emerging markets	7,576	7,576	—	—
Equity securities—Vanguard VSMGX	12,014	12,014	—	—
Equity securities—Vanguard VSCGX	1,113	1,113	—	—
Total equity securities	79,678	79,678	—	—
Debt securities				
Government securities	9,716	2,706	7,010	—
Corporate securities	11,911	—	11,911	—
Asset- and mortgage-backed securities	962	—	962	—
Mutual funds	7,896	7,896	—	—
Total debt securities	30,485	10,602	19,883	—

Description	Totals	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other observable inputs (Level 3)
	Fair value at December 31, 2013			
Alternative investments				
Hedge funds	19,181	—	—	19,181
Private equity	3,679	—	—	3,679
Real assets	18,095	—	—	18,095
Real estate	19,617	—	—	19,617
Total alternative investments	60,572	—	—	60,572
Total	$ 175,074	$ 94,619	$ 19,883	60,572

❖ Dollars are in thousands. Years ended December 31.

The following table represents fair value measurement of financial assets that were measured at fair value on a nonrecurring basis as of December 31, 2013.

Description	Total	(Level 1)	(Level 2)	(Level 3)	Total Losses
Investments in Native American Bank, NA	$ 365	—	365	—	(122)
Services segment goodwill	5,002	—	—	5,002	(10,024)

❖ Dollars are in thousands. Years ended December 31.

5. Receivables

Receivables consist of:

	2013	2012
Trade accounts receivable, less allowance for doubtful accounts of $2,706 and $1,205 at December 31, 2013 and 2012, respectively		
Billed	**$ 16,820**	$ 39,344
Unbilled, including costs and estimated earnings in excess of billings	**6,398**	3,827
ANCSA Section 7(i) revenue sharing	**—**	931
Other	**1,479**	4,186
Less accounts receivable reclassified to assets held for sale	**(3,544)**	—
Total receivables	**$ 21,153**	$ 48,288

❖ Dollars are in thousands. Years ended December 31.

Unbilled amounts are comprised principally of revenue recognized on contracts for which billings had not been presented to the customer until subsequent to year end and amounts not billable at balance sheet date related to indirect cost rate variances. Sealaska has billings in excess of costs totaling $10.2 million and $4.3 million in 2013 and

2012, respectively. These amounts are recorded within accrued liabilities. Costs and estimates on active construction contracts consist of the following at December 31, 2013 and 2012:

	2013	2012
Costs incurred to date	$ 265,919	$ 213,370
Profit to date, including loss accruals	(1,947)	8,411
Revenue earned to date	263,972	221,781
Billing to date	267,742	223,168
Billings in excess of cost	**$ (3,770)**	$ (1,387)

❖ Dollars are in thousands. Years ended December 31.

These costs and estimated earnings are included in the accompanying consolidated balance sheets under the following captions at December 31, 2013 and 2012:

	2013	2012
Accounts receivable	$ 2,281	$ 2,097
Accrued expenses	(6,051)	(3,484)
Billings in excess of cost	**$ (3,770)**	$ (1,387)

❖ Dollars are in thousands. Years ended December 31.

6. Inventories

Inventories consist of:

	2013	2012
Timber—finished goods	$ 3,390	$ 1,614
Plastics		
Raw materials	—	3,649
Work-in-process	—	544
Finished goods	—	1,321
Other	1,001	605
Total inventories	**$ 4,391**	$ 7,733

❖ Dollars are in thousands. Years ended December 31.

7. Property and Equipment

Property and equipment consist of:

	2013	2012
Buildings, leaseholds and improvements	**$ 16,108**	$ 21,354
Equipment and furnishings	**22,889**	42,202
Logging roads, yards and camps	**196,362**	191,037
Reforestation and silviculture costs	**15,877**	21,030
Total property and equipment	**251,236**	275,623
Less accumulated depreciation	**(223,908)**	(229,961)
Construction in progress	**906**	3,215
Land	**17,390**	29,876
Less property reclassified to assets held for sale	**(442)**	—
Net property and equipment	**$ 45,182**	$ 78,753

❖ Dollars are in thousands. Years ended December 31.

Land held for development as commercial, recreational or residential property totaling $15.5 million at December 31, 2013 and 2012 is included in the caption "Land" above. Sealaska and the Cloverdale Rancheria of Pomo Indians of California entered into a settlement agreement regarding the land purchased and held for casino development.

8. Timber, Timberland and Mineral Resources

As of December 31, 2013, Sealaska has received approximately 290,800 acres of land under the provisions of ANCSA, as described in note 3. As allowed under U.S. generally accepted accounting principles for assets contributed to a new or existing business, Sealaska has elected not to record the land and natural resources assets contributed under ANCSA at their estimated fair value and continue to carry these assets at zero value in the financial statements. However, these assets have significant economic value to Sealaska.

Sealaska incurs costs related to the selection of ANCSA land and related resources, and related to the potential exchanges of such property. In 2013, the Corporation concluded that due to indeterminate timing and benefit of the passage of the land selection bill necessary for Sealaska to obtain additional surface estate in the Tongass National Forest, a one time charge of $9.6 million to remove the costs previously capitalized related to these land selection efforts was recorded.

Any cost of timber, timberland and mineral resources carried in the accompanying consolidated balance sheets and related depletion expense is attributable to timber that Sealaska, from time to time, purchases from others. In accordance with ASC Subtopic 360-10, an annual impairment analysis is performed. In 2012, Sealaska determined the fair value of these assets to be less than their carrying amount and, accordingly, recorded impairment of $459,000 to capitalized roads included in property and equipment included in the natural resources segment. In 2011, Sealaska recorded impairment of $691,000 to capitalized roads included in property and equipment.

Sealaska has asset retirement obligations (AROs) arising from regulatory requirements to perform certain asset retirement activities at the time that certain road systems are maintained or rehabilitated. The liability was initially measured at fair value and subsequently is adjusted for accretion expense and changes in the amount or timing of the estimated cash flows. The corresponding asset retirement costs are capitalized as part of the carrying amount of the related long lived asset and depreciated over the asset's remaining useful life. The following table presents the activity included in other accrued expenses for the AROs for the years ended December 31, 2013 and 2012:

	2013	2012
Balance at beginning of the year	$ 809	$ 1,268
Additional obligations incurred	368	98
Obligations settled in current period	(423)	(610)
Accretion expense	35	53
Balance at end of year	**789**	809

❖ Dollars are in thousands. Years ended December 31.

9. Goodwill and Intangible Assets

The following table provides the gross carrying value for each major class of intangible asset by segment as of December 31, 2013 and 2012:

Goodwill	Services	Manufacturing	Total
Balance, January 1, 2012	$ 14,891	$ 1,605	$ 16,496
Additions to goodwill	498	—	498
Impairment expense	(363)	—	(363)
Balance, December 31, 2012	15,026	1,605	16,631
Sale of Kánaak plants	—	(1,605)	(1,605)
Impairment expense	(10,024)	—	(10,024)
Balance, December 31, 2013	$ 5,002	$ —	$ 5,002

❖ Dollars are in thousands.

In accordance with the provisions of ASC 350, *Intangibles—Goodwill and Other,* Sealaska reviews goodwill for impairment at least annually. During the initial process to find a buyer for Security Alliance, Sealaska obtained market participant information that indicated that it is likely to receive less than the carrying value of its ownership in the entity. Additionally, Kingston Environmental Services (KES) experienced contractual losses that indicated that future operations would require additional effort to attain the outcome of prior periods. The estimated undiscounted future cash flows generated by the service segment was less than the carrying amount of equity within the segment resulting in impairment charges of $3.6 million and $6.4 million at Security Alliance and KES, respectively, in 2013. In 2012, the estimated undiscounted future cash flows generated by the service segment was less than the carrying amount of equity within the segment resulting in impairment charges of $363,000.

10. Long-Term Debt

Long-term debt consists of:

	2013	2012
Note payable to a bank under an unsecured revolving term loan with variable interest rate pricing that was 1.44% at December 31, 2013, with the note expiring October 2014	$ —	$ 2,200
Note payable to a bank under an unsecured revolving term loan with variable interest rate pricing that was 1.41% at December 31, 2013, with the note expiring October 2014	3,510	11,302
Note payable to a bank under an unsecured revolving term loan with a fixed interest rate, and variable credit spread that was 2.35% at December 31, 2013, with the note expiring October 2014	15,000	15,000
Note payable by Kánaak Alabama to Nypro, Inc., an affiliated partner with Sealaska Corporation with interest at 5%	—	792
Other debt	111	1,552
Less debt reclassified to noncurrent liabilities held for sale	(111)	—
Total long-term debt	18,510	30,846
Less current portion	(18,510)	(386)
Total long-term debt less current portion	—	30,460

❖ Dollars are in thousands. Years ended December 31.

Sealaska's $60 million unsecured revolving term loan has various affirmative and negative covenants that are typical within loan agreements. Sealaska was out of compliance with the allowed Funded Debt to EBITDDA ratio covenant at December 31, 2013. Subsequent to year-end, Sealaska obtained a waiver from the lender under which the lender agrees not to exercise any rights and remedies for such non-compliance and approved the payment of the declared dividends. Further, under the terms of the waiver, the variable interest rate was increased from LIBOR plus 1.25% to LIBOR plus 2.5%, effective April 1, 2014. The full amount of the debt is recorded as current liability. Interest expense totaled $791,000 in 2013, $1.1 million in 2012, and $1.1 million in 2011.

As of December 31, 2013, Security Alliance has a line of credit, which was reclassified into current liabilities held for sale, with the following terms:

Amount	Amount Outstanding	Interest Rate	Collateral
$ 750,000	495,000	1-month LIBOR + 3.75%	Business assets of the borrower

11. Joint Venture Line of Credit

During 2011, Sealaska committed to operate a seafood processing plant in Kake, Alaska, through a joint venture with Kake Tribal Corporation (KTC). From 2011 to 2013, Haa Aaní, LLC provided $2.4 million in funding to Rocky Pass Seafoods (RPS) on behalf of KTC. This amount was recorded as a payable by RPS to KTC and Haa Aaní, LLC recorded a note receivable from KTC. Subsequently, Haa Aaní, LLC has established a $1.7 million reserve on the amounts owed from KTC.

12. Income Taxes

Income tax expense related to continuing operations was:

	2013	2012	2011
Current income tax benefit (expense)			
Federal	$ (349)	$ (55)	$ 78
State	(40)	(26)	32
Total	$ (389)	(81)	$ 110
Deferred income tax benefit (expense)			
Federal	248	(26)	(119)
State	55	(2)	(85)
Total	303	(28)	(204)
Income tax benefit (expense)	$ (86)	$ (109)	$ (94)

❖ Dollars are in thousands. Years ended December 31.

The provision for income taxes from continuing operations differ from the “expected” amount (computed by applying the U.S. federal corporate tax rate of 35% to earnings before taxes) as follows:

	2013	2012	2011
Computed “expected” tax benefit (expense)	$ 12,147	$ (4,038)	$ (2,785)
State income tax, net of federal tax benefit	(79)	(70)	(490)
Change in valuation allowance	(16,753)	2,856	(1,343)
Net expiration (expected use) of net operating losses	(49)	1,988	4,799
Addition of ANCSA assets	8,120	106	137
Impairment of nondeductible goodwill	(2,234)	—	—
Other	(1,238)	(951)	(412)
	$ (86)	$ (109)	$ (94)

❖ Dollars are in thousands. Years ended December 31.

Net deferred tax assets and liabilities include:

	2013	2012
Deferred tax assets		
Net operating loss carryforwards	$ 141,972	$ 140,952
ANCSA resource basis difference	201,588	197,160
Property and equipment	16,342	12,968
Other	20,945	15,184
Total gross deferred tax assets	380,847	366,264
Valuation allowance	(344,416)	(327,661)
Net deferred tax asset	36,431	38,603
Deferred tax liabilities—investment unrealized gains	(11,722)	(8,102)
Less current portion	(749)	(1,533)
Total long-term deferred tax asset	$ 23,960	$ 28,968

❖ Dollars are in thousands. Years ended December 31.

Sealaska has recorded a net deferred tax asset of $24.7 million, which primarily reflects (a) estimated future benefit of $344.4 million federal and $256.5 million state, which expire in varying amounts from 2018 to 2033 and (b) basis differences for significant natural resources received pursuant to ANCSA, which have no carrying value in the accompanying consolidated financial statements but which have substantial basis for domestic tax reporting purposes. A valuation allowance has been established, reducing the maximum possible benefit of these carryforwards to management's estimate of the benefit likely to be realized. Realization is dependent on generating sufficient taxable income prior to expiration of the loss carryforwards. Although realization is not assured, management believes it is more likely than not that all of the recorded net deferred tax assets will be realized. Net deferred tax assets considered realizable are adjusted annually dependent on management's estimate of future earnings. An increase or decrease in management's estimate of the total taxable income that will be generated during the carryforward period will have a corresponding increase or decrease in net deferred tax assets considered realizable.

During the periods presented above and prior periods, tax depletion arising from Sealaska's ANCSA resources has offset all other federal and state taxable income and Sealaska has not paid federal or state income taxes except those taxes related to the activities of certain controlled subsidiaries operating outside Alaska. Sealaska will need to earn approximately $60 million in taxable income within the United States of America to utilize its estimated realizable deferred tax asset related to state and federal tax jurisdictions prior to the expiration of its federal and state net operating losses in 2033.

13. Other Noncurrent Liabilities

Other noncurrent liabilities consist of:

	2013	2012
The Elders' Settlement Trust distribution payable	$ 8,157	$ 7,642
Shareholders' distribution payable	1,534	1,070
Endowments payable	2,912	2,447
Voluntary retirement deferrals	2,764	2,348
Charitable contribution payable	—	100
Total	$ 15,367	$ 13,607

❖ Dollars are in thousands. Years ended December 31.

14. Retirement Plans

Sealaska has a 401(k) plan for virtually all employees meeting certain eligibility requirements. Participants may contribute up to 25% of their eligible compensation to the plan, subject to the limits of Section 401(k) of the Internal Revenue Code. Sealaska matches 100% of the participant's contribution up to 4% of their eligible compensation. All participants are immediately vested in the preceding contributions. Sealaska may contribute 6% of the participant's eligible compensation to the plan and these contributions are vested over a five year period. Contributions to the plan are based upon employees' total yearly contributions and base pay. Total approved contributions to the plans were $1.6 million, $1.3 million and $1.2 million, in 2013, 2012 and 2011, respectively.

15. Description of the Business and Segment Information

Sealaska, together with the subsidiaries through which the Corporation's businesses are conducted, is a diversified Alaska Native corporation with operations in the following business segments: natural resources, manufacturing, services, investments and gaming.

Description of the Business

(A) NATURAL RESOURCES

The natural resources segment is responsible for the land management and land stewardship functions of all Sealaska lands. Sealaska Timber Corporation is responsible for the harvesting of timber and marketing of logs into the highest value export and domestic markets. Management activities include collection of escrow receipts, cadastral survey of ANCSA lands, maintenance of land records and other activities vital to land ownership. Alaska Coastal Aggregates, LLC markets and manages approximately 568,000 acres of the Corporation's subsurface estate. Haa Aaní, LLC is an enterprise dedicated to creating sustainable communities throughout Southeast Alaska and to enhancing the social, economic and cultural lives of all Sealaska tribal member shareholders.

(B) MANUFACTURING

The manufacturing segment is comprised of a contract manufacturer of injection molded components. The contract manufacturer specializes in high quality plastics, injection molded products, and value added manufacturing services in partnership with customers in the consumer/industrial, electronics/telecommunications, healthcare and automotive industries. Secondary value added services include product design, engineering, tooling, automated molding, and some secondary value added services including shielding, painting, decorating, graphics and assembly.

Substantially all of the manufacturing segment's revenue is derived from activities and customers in the United States of America with the exception of the operation of a facility in Mexico.

The manufacturing segment of Sealaska was discontinued in 2013 and the financial results are reported in discontinued operations for the three years presented in the consolidated statement of operations.

(C) SERVICES

The services segment provides environmental construction and remediation, environmental assessments, consulting and engineering services, custom build construction, construction management services, and security services to federal government agencies, private and commercial clients through wholly owned subsidiaries: Sealaska Environmental Services, LLC, Kingston Environmental Services, Inc., Sealaska Constructors, LLC, Sealaska Technical Services, LLC, Synergy Systems, Inc., and Security Alliance. The services segment provides services in the disciplines of information technology (IT) strategy and consulting, business intelligence, application services, infrastructure management, managed services and data processing through the subsidiary Managed Business Solutions, LLC. The services segment expanded in 2010 with the controlling acquisition of Security Alliance. Through Security Alliance, the services segment provides an array of guard and private investigation services.

Security Alliance within the services segment is an investment held for sale and the financial results are reported in discontinued operations for the three years presented in the consolidated statements of operations.

(D) INVESTMENTS

Sealaska's securities portfolio consists of two separate investment accounts that are managed to achieve different objectives: the Marjorie V. Young Shareholder Permanent Fund is managed long term with the objective of shareholder dividends, and the Investment and Growth Fund is managed shorter term and is used for operational needs and new investments. Sealaska investments follow a disciplined investment philosophy by building off existing strengths, exercising patience and selectivity in making investments, adding investments that will achieve consistency in growth and earnings, and being prepared to exit investments or potential investments if upside opportunities arise or if problems change expected returns, and by seeking strong and strategic partnerships, distributing risk and benefit and establishing a new platform for companies for future growth.

(E) GAMING

The gaming segment consists of an investment in a gaming venture with the Cloverdale Rancheria of Pomo Indians in Cloverdale, California. Through its wholly owned subsidiary End-to-End Enterprises, Sealaska owns land for a new casino and resort facility.

	2013	2012	2011
Net income (loss) from continuing operations before income taxes			
Natural resources	**$ (20,558)**	$ 1,443	$ 3,073
Investments	**16,095**	16,155	(4,503)
Services	**(32,037)**	(4,161)	3,171
Gaming	**(367)**	(353)	(843)
Corporate and other	**(2,157)**	(1,080)	(1,304)
Total segment net earnings (loss)	**(39,024)**	12,004	(406)
Net revenue (expense) not allocable to a segment			
Natural resources revenue sharing under Sections 7(i) and 7(j)	**21,962**	16,870	24,067
Selling, general and administrative expense	**(13,222)**	(15,849)	(14,953)
Other, net	**(4,422)**	(1,489)	(752)
Income (loss) from continuing operations before income taxes and discontinued operations	**(34,706)**	11,536	7,956
Income tax (expense)	**(86)**	(109)	(94)
Income (loss) from continuing operations before discontinued operations	**(34,792)**	11,427	7,862
Discontinued operations, net of tax	**1,510**	1,977	350
Net income (loss)	**(33,282)**	13,404	8,212
Less: Net income attributable to noncontrolling interest	**1,804**	2,086	1,421
Net income (loss) attributable to Sealaska	**$ (35,086)**	$ 11,318	$ 6,791

❖ Dollars are in thousands. Years ended December 31.

	2013	2012	2011
Total assets by operating segment			
Natural resources	$ 15,224	$ 14,619	$ 10,778
Manufacturing	—	37,641	34,081
Investments	175,074	117,225	146,992
Services	26,578	24,561	23,268
Gaming, net of intercompany	24	(226)	(4,017)
Corporate and other	97,321	192,482	157,562
Less property reclassified to assets held for sale	5,630	—	—
Total assets	**$ 319,851**	$ 386,302	$ 368,664
Capital expenditures by segment			
Natural resources	5,973	6,158	6,674
Manufacturing	—	4,487	1,670
Services	629	3,825	367
Gaming	—	80	379
Corporate and other	1,648	4,515	3,621
Total capital expenditures	**$ 8,250**	$ 19,065	$ 12,711
Depreciation, impairment and amortization by segment			
Natural resources	7,501	7,087	5,259
Manufacturing	—	2,227	2,796
Services	11,420	1,991	263
Corporate and other	991	1,405	1,219
Total depreciation, impairment and amortization	**$ 19,912**	$ 12,710	$ 9,537

❖ Dollars are in thousands. Years ended December 31.

16. Discontinued Operations and Assets Held for Sale

Sealaska reports components as held for sale when management has approved or received approval to sell the business component and is committed to a formal plan, the business component is available for immediate sale, the component is being actively marketed, the sale is anticipated to occur during the next 12 months, and certain other specified criteria are met. A component classified as held for sale is recorded at the lower of its carrying amount or estimated fair value less cost to sell. If the carrying amount of the component exceeds its estimated fair value, a loss is recognized. Assets and liabilities related to a component classified as held for sale are segregated in the consolidated balance sheet in the period in which the business is classified as held for sale and are not reclassified in prior periods presented.

The following table summarizes the components of assets and liabilities held for sale on the consolidated balance sheets as of December 31:

Assets		**2013**
Current assets		
Cash and cash equivalents	$	203
Receivables, net		3,544
Current assets held for sale	$	3,747
Property and equipment, at cost		1,103
Less accumulated depreciation		(661)
Total property and equipment, net	$	442
Other assets		324
Intangible assets		1,117
Noncurrent assets held for sale		1,883
Total assets held for sale	$	5,630

❖ Dollars are in thousands. Years ended December 31.

Liabilities		**2013**
Current liabilities		
Line of credit	$	495
Accounts payable		16
Other accrued expenses		1,191
Current liabilities held for sale	$	1,702
Long-term debt, less current portion		111
Total liabilities held for sale	$	1,813

❖ Dollars are in thousands. Years ended December 31.

The operating results of entities that were sold during the year or qualify as held for sale are reported as discontinued operations in the current and prior periods presented. Results of discontinued operations are summarized as follows for the years ended December 31:

	2013	2012	2011
Natural resources	$ 1,204	$ 5,302	$ 594
Manufacturing	43,464	76,481	73,924
Services	21,343	18,919	17,389
Revenue	66,011	100,702	91,907
Operating expenses			
Cost of goods sold	54,684	87,698	80,837
Selling, general and administrative	7,362	9,863	11,636
Other, net	5,794	232	(641)
Total operating expenses	67,840	97,793	91,832
Net income (loss) before gain on sale and income taxes	(1,829)	2,909	75
Income tax benefit (expense)	258	(932)	275
Gain on sale	3,081	—	—
Earnings (loss) from discontinued operations	$ 1,510	$ 1,977	$ 350

❖ Dollars are in thousands. Years ended December 31.

17. Commitments and Contingencies

Management is not aware of or party to any legal action that would have a material adverse effect on the consolidated financial condition, results of operations, or cash flows of Sealaska. Sealaska, in its normal course of activities, is exposed to regulatory and environmental matters. In the opinion of management, the disposition of these matters is not expected to have a material adverse effect on Sealaska's financial condition, results of operations, or liquidity.

Sealaska is currently leasing facilities, manufacturing equipment and office equipment from a variety of vendors. Minimum annual rental commitments on operating leases at December 31 are:

2014	$	734
2015		404
2016		249
2017		183
2018		128
Thereafter		—
Total	**$**	**1,698**

❖ Dollars are in thousands.

During 2012, Sealaska extended a loan of $500,000 for working capital needs that can be converted to additional Series B Preferred Stock at the mutual agreement of the majority owners of Green Earth Greens, Inc. and Sealaska.

18. Related Party Transactions

The services segment performs services on construction type contracts for other subsidiaries within the services segment in the normal course of business. These intercompany transactions are eliminated upon consolidation.

19. Sequestration

In 2013, the United States government initiated current and future spending cuts to reduce the federal government's budget deficit through 2021. There continues to be much uncertainty regarding how sequestration will be implemented. There are many variables in how the law could be applied that make it difficult to determine the specific impacts. However, the Corporation expects that sequestration, as currently provided for under the Budget Control Act, will result in lower revenue, profits and cash flows in future periods.

20. Subsequent Events

Sealaska has evaluated subsequent events from the consolidated balance sheet date through April 23, 2014, the date at which the financial statements were available to be issued, and determined there are no subsequent events that require disclosure.

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The Haida Eagle and Dog canoe displayed in Sealaska's lobby in Juneau is an 18-foot replica of a 65-foot traditional canoe.

SUBSIDIARIES

SEALASKA SUBSIDIARIES

Alaska Coastal Aggregates
General Manager: Bill Bennett
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Haa Aaní, LLC
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Sealaska Environmental Services
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Sealaska Timber Corporation
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Security Alliance
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Synergy Systems
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VALUES IN ACTION
SEALASKA

www.sealaska.com

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