

VALUES IN ACTION

2016 Sealaska Annual Report

Strengthening People, Culture and Homelands







"Earning my degree was a major accomplishment, but being able to take part in the Sealaska Internship program gave me the field experience that allowed me to hone the skills I had learned in college. I am proud to work for Sealaska because it supports the growth of my Native community and supports the Native tradition of caring for our planet."

— Sunrise Patterson

ON THE COVER:

Sunrise Patterson, Bob Boyd, and Andy Lewis embody *Wooch.éen*, our people working together. Sunrise, Bob, and Andy have worked together on our environmental field technician team providing our clients water monitoring services throughout Alaska and the west coast of the US.

Sunrise, born in Ketchikan and originally from Craig, earned a degree in biology from Pacific Lutheran University. A former Sealaska scholarship recipient, she interned for Sealaska in 2008 and then became a full-time employee in 2009.

Since 2012, our strategic plan has focused on building companies close to home and in industries that mean something to us, like environmental water monitoring, something we have done historically that embodies our values and vision.

Our strategic direction provides opportunities for career development and advancement to shareholders like Sunrise and Bob, and mentors like Andy, working together, to strengthen our people, our culture, and homelands.





Introduction

Sealaska's income from businesses increased $5.7M in 2016. The business income improvement, over the last four years, is $15.2M. Our strategic focus on growing our business income helped our overall net income improve in 2016 in the face of a large decrease in our ANCSA Section 7(i) income from other Alaska Native Corporations. We continued to focus on managing our corporate costs and maintained our commitment to investments in mission-related activities like community and cultural activities. When our operations cover our costs, then our investments and ANCSA Section 7(i) income are invested back into our company providing greater shareholder benefits.

Since 2012, we have new leadership on the board and in management. Our management structure has improved as we reorganized the entire company. Communication is better, we are more transparent and accountable, so we are more effective with our partners, our clients, and customers. We divested companies that did not meet our values. We focused more time, effort, and resources on those that do. Our operations are closer to home and more accessible to our shareholders and offer potential for professional growth.

We are developing operations in growing markets that fit our values and our strategic direction. The culture of the company is about results, and the future is about getting more value from our activities, our time, and our people. We are committed to businesses we care about. We are creating value not only for today, but for the future, so we can hand off to future generations successful businesses and solid business knowledge.

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2016 Year in Review

SEALASKA'S NET INCOME WAS UP $2M TO $14M IN 2016, A 16.8% INCREASE FROM $12M IN 2015, HIGHLIGHTING CONSISTENT FINANCIAL IMPROVEMENT SINCE WE ADOPTED OUR STRATEGIC PLAN IN 2012. We are on track to achieve our short-term financial goal that net income from our operations will cover our costs and our non-business investments in community and cultural activities. Our businesses have improved net income by nearly $15.2M since 2012. We expect to hit our short-term goal by the end of 2017.

OUR OPERATIONS ARE GROWING IN SALES AND NET INCOME. Strong performance of the three operational platforms drove improvements. Natural Resources increased net income from almost $1M in 2015 on sales of roughly $35M to nearly $3M in net income on sales of over $41M in 2016. Over the same period, government services doubled net income from $1.9M to $3.8M and increased sales from $80M to $102M. Our new segment, natural foods, had a strong start. Sealaska operations generated net income, and offset fluctuations from our passive income sources.

PASSIVE INCOME—INVESTMENTS AND 7(i) INCOME—WAS DOWN. Investment funds rebounded from a nearly $1M loss in 2015 to earn over $5M in income in 2016. ANCSA Section 7(i) natural resource revenue sharing income was down significantly, from $25M in 2015 to roughly $15M in 2016. These two sources of passive income declined from around $24M last year to roughly $20M this year. Hitting our short-term target of profitability before investments and ANCSA Section 7(i) will help us invest passive income back into Sealaska by adding new products and services or buying new companies. This will drive future growth in our company.

SINCE 2012 AS A RESULT OF OUR STRATEGIC PLAN, CORPORATE SALES, GENERAL AND ADMINISTRATIVE (SG&A) COSTS ARE DOWN $4.1M. Corporate SG&A in part includes mission-related investments, like community and cultural activities and corporate support. We have restructured corporate support which has driven the cost reductions. Corporate support will stay flat as we grow, but our effectiveness will increase. The future is about getting more value from all our investments into SG&A.

OUR ACTIVITIES ARE NOW CLOSER TO HOME IN ALASKA AND THE PACIFIC NORTHWEST COMPARED TO 2012. We have focused on relevant business services like remote project management, environmental monitoring, data analytics, and natural foods—businesses that are profitable and growing, match our values, are located closer to home, and are in industries with strong future potential. We are building a platform of opportunities for Sealaska shareholders.

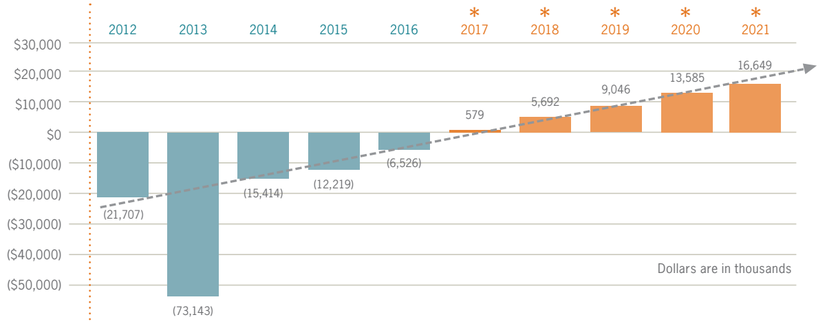
UPDATE ON OUR 2012 5-YEAR STRATEGIC PLAN

2017 marks the end of our 5-year strategic turnaround plan. We expect to achieve profits before investment and ANCSA Section 7(i) income. Moving forward, this will be the baseline of our investments and operations. Our businesses are now in industries that mean something to our shareholders, that run efficiently and are based on our values.

Financial Performance 2012-2016 Forecast 2017-2021

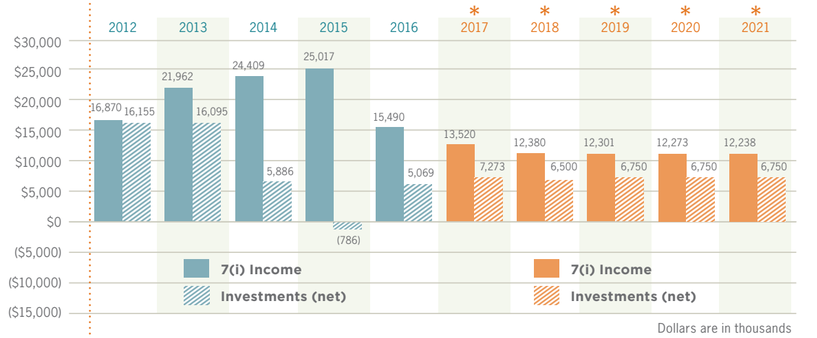
NET INCOME BEFORE ANCSA SECTION 7(i) AND INVESTMENT INCOME

We are on track to achieve our financial goal that profit from our businesses covers all our cost, including those from community and cultural activities by end of year 2017.



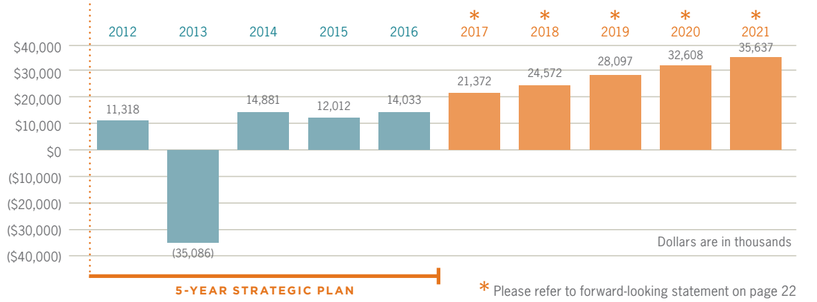
PASSIVE INCOME FROM INVESTMENTS AND ANCSA SECTION 7(i)

Investment income is based on the market results of the funds that we are invested in. We have two funds, the I&G fund and the MVY Permanent fund. 7(i) funds come from all 12 regional Alaska Native Corporations that are generating profits from the natural resources they received from the passage of the Alaska Native Claims Settlement Act.



INCOME FROM ALL THREE SOURCES:

OPERATIONS
INVESTMENTS
ANCSA SECTION 7(i)



* Please refer to forward-looking statement on page 22



To Our Shareholders,

We are pleased to share with you our 2016 Annual Report, an overview of the progress we've made over the past year, and some insights into where we are heading as a company in 2017 and beyond.

We continue to make significant progress towards our short-term goal of being profitable before income from investments and 7(i) sources. Since 2012, we've closed this gap and expect to achieve our goal by the end of 2017. That's an improvement of over $22 million in operating income in five years. The business growth we are pursuing will provide long-term financial strength that will increase dividends and opportunities for programs that positively impact our people and communities. One of the initiatives that we're excited to contribute to is the preservation of our languages. There has been a tremendous amount of effort by our people, led in part by our youth, to immerse themselves in our native languages. Check out what we invest in on page 14.

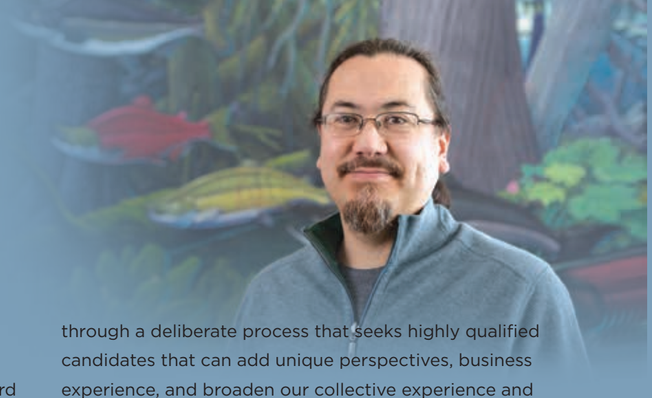
Over the past several years, we have sharpened our strategic vision for Sealaska. We have taken time to narrow our focus to three primary business segments. Natural resources is our historic core, focused on balancing a working forest that supports Southeast Alaska economy with new ways to diversify and get more value from our land and resources, like carbon sequestration. Our government services group is growing by improving performance and adding exciting new services, like water and marine monitoring. Our newest segment, natural foods, offers a window into our future in this growing industry. We completed our first investment into a seafood processor in 2016 and will continue to look for similar investments in this industry in 2017. Please explore the business section as well as the management discussion and analysis for further details.

I'm excited that our rich cultural history strengthens our work in land management, marine and water services, and seafood. Our vision, is that our traditional values and environmental stewardship offers competitive strength and sustainability to our businesses. Our businesses match our values as Alaska Native peoples. They are closer to where the majority of our shareholders live, where the opportunities available to our shareholders should be located. Linking our values to our businesses, taps into the strength of our people.

We've worked hard over 2016 to improve the financial performance of Sealaska. I hope you take the time and effort to read what we've accomplished. I look forward to sharing continued success with you.



Anthony Mallott
President and Chief Executive Officer



Dear Shareholders,

2016 was an exciting and pivotal year. The board of directors approved our first major investment in the seafood business, worked on our governance, and board succession planning. These related activities are ways we anchor our businesses to our Native values, which guide our decision making and drive our results for the next decade and beyond.

Our Native values brought out investments close to home in industries that mean something to our shareholders. This focus requires discipline and a deep understanding of who we are so that we can provide products and services that align with our values. We are an ocean-going people who have prospered along the Pacific shoreline for thousands of years. Our investment in the seafood and maritime industry is an extension of our long history using and managing the natural resources that have sustained us.

Today's board of directors is a new chapter in our 45-year history. The current Sealaska board reflects the values and aspirations of our diverse and talented shareholder base. Our board is well-rounded with a mix of directors who support the strategic direction and take to heart shareholders' desire to see and feel change.

Many new directors joined the board in recent years and embrace shareholders hunger for success. In 2017, at least one new director will join the board through a deliberate process that seeks highly qualified candidates that can add unique perspectives, business experience, and broaden our collective experience and knowledge at the board level.

As Native people, we have competitive advantages over other companies: we are in this for the long haul; we have a holistic outlook toward the world; and we have each other. These advantages continue, so long as we stay grounded in our Alaska Native values. These values helped us start out in the corporate world. These values are the foundation of the positive changes at Sealaska.

'Our businesses' and 'our mission' are a single endeavor; they are one in the same. In other words, Sealaska is squarely on the path to success *because* we are an Alaska Native company.



Joe Nelson
Board Chair





Juneau

Prince of Wales

Ketchikan





Poulsbo

Seattle



Richland

Our Businesses

We narrowed our focus to three primary business segments: natural resources, government services and natural foods.

Our natural resources group encompasses our traditional homelands in Southeast Alaska. We evolved our approach to incorporate balanced land management strategies, which include working forests and other sustainable land uses like carbon sequestration.

Our government services group provides services that focus on remote project management, environmental monitoring, and data analytics. We are transitioning our companies to offer services in water and marine environments, like marine data collection and oceanography, for commercial clients.

Our newest segment, natural foods, includes our seafood business and will be the primary focus of our next phase of growth. Our strategy is to gain access to additional seafood resources and processing where possible. Our goal is to develop and market products in a way that builds on the unique culture, knowledge and heritage as Tlingit, Haida and Tsimshian people.

Our businesses are evolving to focus on the long-term health of our oceans. We want to maximize the value of the resources we extract from the ocean, while maximizing the ability of the ocean to sustain that resource.

PRINCE OF WALES, AK

Sealaska Construction Solutions, LLC (SCS) was awarded a $1.5M U.S. Forest Service contract to replace existing metal roofing with asphalt shingle roofing at ten buildings in Thorne Bay, the Craig Ranger District Office and the Ketchikan Ranger District Office.

KETCHIKAN, AK

Sealaska Timber Company (Sealaska Timber) is headquartered in Ketchikan, Alaska. Balanced land management with strong stewardship allows for current economic benefit, while maintaining opportunities for future generations.

POULSBO, WA

Sealaska Environmental Services, LLC (SES) employee Andy Lewis, is conducting water quality test in Adak, Alaska.

SEATTLE, WA

Sealaska made its first investment as part of its 2012 strategic plan. Sealaska has purchased a minority interest in Independent Packers Corporation (IPC), a custom seafood processor located in Seattle, Washington. IPC is an efficient processor, able to compete with processing outside of the United States. This gives Sealaska a base strategy to grow a U.S. supply chain of Alaska-based seafood.

RICHLAND, WA

Sealaska Technical Services, LLC (STS) installed Radial Portal Monitors under Sealaska's DICCE II program.

Natural Resources

Natural resources includes our businesses and all activities in and around our ancestral homelands in Southeast Alaska. From timber harvesting, pruning and thinning, to economic development initiatives throughout Southeast Alaska, our natural resources businesses have contributed continuously to Sealaska's financial performance. To us, it is much more than income. It's about our place in the economy of the region and the impact we have in our local communities.

With the final conveyance of our remaining Alaska Native Claims Settlement Act lands in 2014, our total land ownership is 362,000 acres spread throughout Southeast Alaska. In 2015, we made 140,000 acres of our lands a working forest to practice sustainable forestry. The rest is set aside for other potential land-use opportunities.

CARBON SEQUESTRATION

In 2016, we created a 155,000 acre carbon bank set aside with the primary goal to store as much carbon as possible. Instead of harvesting timber, we would be paid to store carbon. Some of the lands have never been harvested, like watersheds, while others have had minimal selective harvesting. We feel these areas are better preserved in their natural state than to be an active part of our working forests.

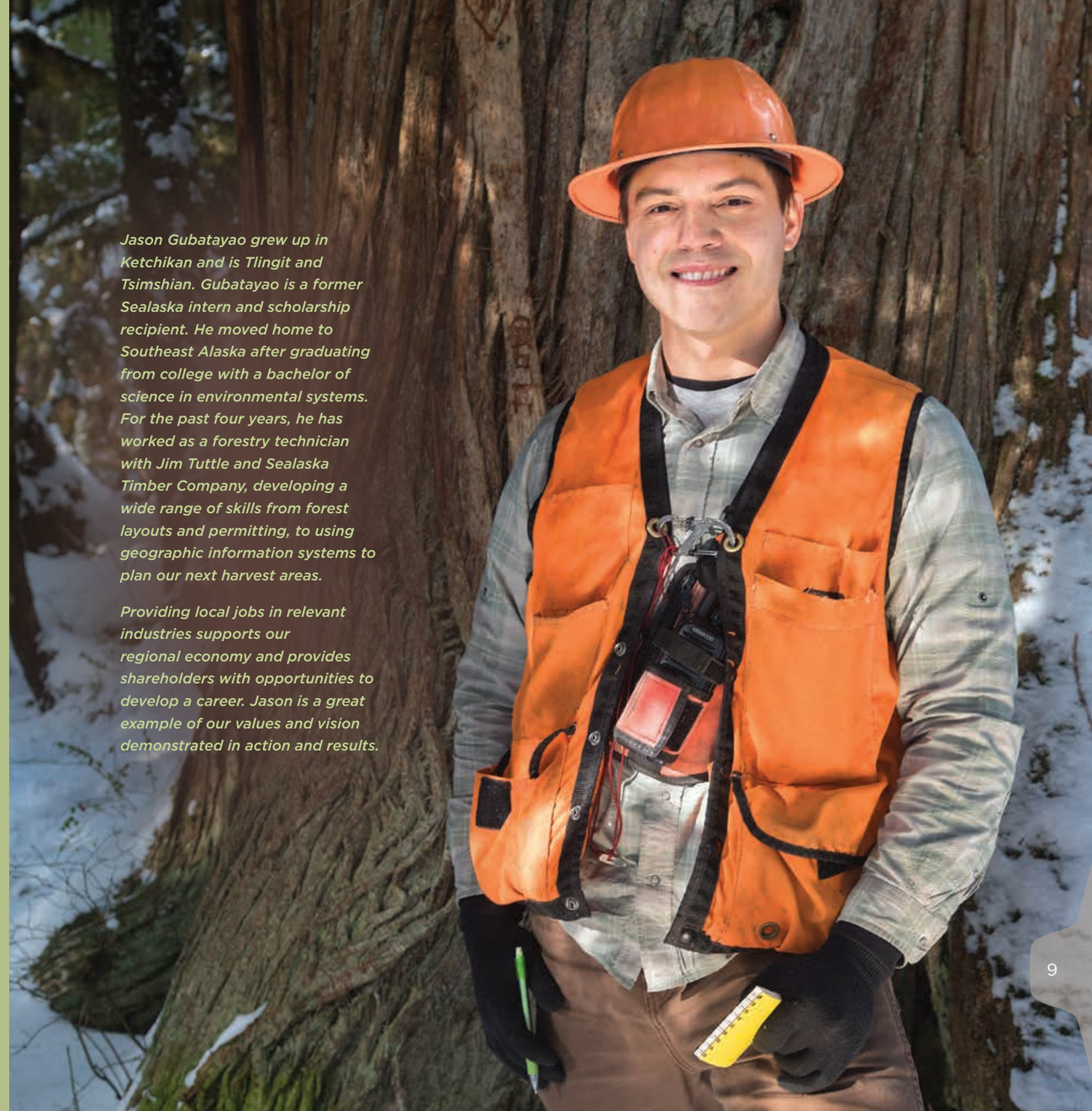
In exchange for lands in a carbon bank for the next 100 years, we will earn carbon credits equal to the rate and amount of carbon that our lands sequester in Southeast Alaska. The sale of these credits will offer Sealaska opportunities to grow our business, invest in our communities and create value and benefits for our shareholders.

To be clear, the lands that are still owned by Sealaska, can be utilized for multi-use development and are accessible by our shareholders for subsistence and harvest uses. We are verifying the amount of carbon that is being sequestered on our land with credits available to be issued sometime in 2017.

WORKING FORESTS

Working forests yield renewable wood products and support jobs and families in rural communities in Southeast Alaska. Since 2012, we consolidated our operations and staged our harvest units as close together as possible. This improved the efficiency of timber operations and reduced costs. We reduced our annual harvest as we analyze the future of the forest industry in Southeast Alaska.

In 2016, we harvested units on Cleveland Peninsula near Ketchikan, Alaska and will move in 2017 to McKenzie Inlet and Keete on Prince of Wales Island. We work to increase the financial, cultural, and community benefit from our traditional homelands. Placing lands into a carbon bank while servicing a working forest economy in Southeast Alaska through sustainable forestry, represents that process and our approach to balanced land management.



Jason Gubatayao grew up in Ketchikan and is Tlingit and Tsimshian. Gubatayao is a former Sealaska intern and scholarship recipient. He moved home to Southeast Alaska after graduating from college with a bachelor of science in environmental systems. For the past four years, he has worked as a forestry technician with Jim Tuttle and Sealaska Timber Company, developing a wide range of skills from forest layouts and permitting, to using geographic information systems to plan our next harvest areas.

Providing local jobs in relevant industries supports our regional economy and provides shareholders with opportunities to develop a career. Jason is a great example of our values and vision demonstrated in action and results.

Government Services

Sealaska Government Services is currently made up of six companies. These companies, a mix of environmental, construction, and data analytic firms, provide a variety of goods and services, but principally they deliver consulting services to government clients.

We are evolving our businesses to focus on remote project management, water monitoring, and data analytics. Where it makes sense, we are positioning our companies to offer products and services that enhance our water and marine environments. We have added new services to expand our client base, like stormwater pollution prevention and coastal and marine engineering. Here are highlights from 2016 and where we're heading in 2017.

REMOTE PROJECT MANAGEMENT

Our remote project management capabilities have grown significantly since we started doing government contracting in the 2000s. We have worked in over 25 countries overseas installing nuclear detection equipment. We have worked throughout Alaska providing environmental assessments. And we have constructed buildings throughout the United States. Even though the exact service may be different, the common theme is that we're able to complete challenging projects in remote locations through our active management. In 2016, we started a new project with the U.S. Forest Service at its building in Thorne Bay on Prince of Wales Island; we won a spot on a $400M competitive contract to provide construction and engineering services overseas; we've worked for over a decade managing water quality assessments for the Navy in Alaska, in Adak and Barrow; and we're constructing an 1100-acre impoundment on the Chesapeake Bay in Maryland to house contaminated soil.

In 2017 we are bidding on projects to install photovoltaic solar cells at remote sites on the west coast, provide additional remote environmental services in the Pacific Northwest, and continue providing remote construction management services in Alaska.

(continued on page 12)

A great example of providing opportunities for professional growth for our shareholders can be found in Sealaska Constructors, LLC, one of the subsidiaries in Sealaska Government Services. The company provides construction management services to federal government agencies and has earned a strong reputation for providing remote project management services.

In 2015, shareholder Heath Barger, far right, was hired by Sealaska as a Project Manager. Barger was born and raised in Sitka, Alaska and has degrees in construction management and business administration. We partnered Heath with Dave McQueen, a lifelong construction industry veteran and Sealaska Constructors, LLC, Director of Operations.

Together, Dave and Heath have helped the company grow and in 2016 the company landed its first contract in Southeast Alaska with the U.S. Forest Service to provide remote construction services. One of their first jobs was to replace the roof on the Forest Service Building in Thorne Bay on Prince of Wales Island.

Finding meaningful opportunities for shareholders to develop their careers, while also helping us build and sustain our regional economies and businesses, is a great example of how Sealaska is continuously striving to strengthen our people, our culture, and our homelands.



Dave McQueen and Heath Barger of Sealaska Constructors, LLC



Roof replacement at U.S. Forest Service Thorne Bay Ranger District office. Installed Radial Portal Monitors, part of Sealaska's DICCE II program.



WATER MONITORING

To better complement our natural foods platform and link the health of the ocean back to the value of the fish, we added new service offerings to our water monitoring practice in 2016, including a stormwater practice. Stormwater runoff is rain or snowmelt that flows over land and does not penetrate into the soil. Impervious surfaces, such as buildings, homes, and roads, alter the natural hydrology of the land by increasing the volume, velocity, and temperature of runoff. This can cause stream bank erosion and flooding, which degrades the biological habitat of rivers and streams, thereby impacting fish.

We have also added a coastal engineering and marine science practice to complement our land-based environmental monitoring services and positioned these new services to focus on the west coast and Alaska. Both practices, our stormwater and coastal engineering and marine sciences groups, are aligned with our vision and values and are in growing marketplaces. As such, these needed services offer great career opportunities for our shareholders to pursue.

DATA ANALYTICS

Over the next several years, the amount of data generated in the world is expected to grow exponentially. Data analytics is the process of analyzing this data to uncover hidden patterns, unknown correlations, trends, and other useful information. Through analytics, these insights can be predictive and valuable, like when scientists use physical data such as water temperature, biological data, and food availability to help predict the potential size of a fish return, which helps set a quota.

Over the past several years, we have worked with land based federal agencies and helped guide them through the data value chain of collecting, modeling, processing, and managing the data they have or need in order to drive insight and action.

Next year we'll look to expand these offerings to provide similar services in the marine field. We continue to look for a key acquisition in this field to add additional capacity.



Sealaska Environmental Services worker testing the water quality in Barrow, Alaska





Natural Foods

In 2016, we made our first investment in accordance with the food strategy that we have been developing over the last few years. Our strategy is to gain access to Alaskan seafood resources, process where possible in the U.S., to add value to the resource, and develop and market products in a way that builds on the unique culture, knowledge, and heritage of our people.

Our first investment has performed well so far and given us a better understanding of the industry. As a result, we have identified and assessed many follow-on opportunities in sales and marketing and in resource businesses. We expect to close several of these deals over the next year or so.



Workers inside Independent Packers Corp. (IPC)

Voices of Our Ancestors

Our ideal future state for Sealaska is to empower successive cohorts of shareholders that have the skills, experience, and capabilities needed to sustain and advance Sealaska, our communities, and the regions where we operate. We do that in a variety of ways, from our scholarship program that helps shareholders with financial assistance for school, to our internship program that helps provide interns with representative work experiences that can aid them in their career development.

In 2013, we created the non-profit Spruce Root, Inc. (formerly Haa Aaní Community Development Fund) to provide economic and technical assistance to shareholders and community members throughout our region in Southeast Alaska. Whether its financial loans to aid in the startup of a new business or training and workshops that help people write and build a business plan, our goal has been to empower our shareholders and our community members to grow and sustain our regional economy.

Since inception, Spruce Root has deployed almost $1M in loans to eight businesses located in four communities supporting 61 full-time employees and seven part-time employees. In 2016, Haa Aaní loaned nearly half a million dollars to three businesses that created over 20 full-time jobs.

As an island archipelago of over 10,000 islands surrounded by the Wrangell-St. Elias, Coast, and Cascade mountain ranges and the Pacific Ocean, the unique geography of Southeast Alaska helped shape who we are as Tlingit, Haida, and Tsimshian people. Supporting our ancestral homelands to empower healthy communities aids the sustainment of our culture and our people. It is the reason we do all the activities we do. With strong and healthy businesses, we can help support cultural activities from Sealaska Heritage Institute and its efforts to empower language preservation, to our continuous and ongoing support of Celebration, which truly embodies its namesake as a gathering for all of us to celebrate who we are.

We know we can do better clearly communicating what we are doing, why it's important, and how you could help. We have linked all of our programs that touch our shareholders in some way together, aligned them with our actions, and will use them to help Sealaska and our communities grow stronger and more resilient.

In 2016, we continued our investment with Sealaska Heritage Institute on educational programs to strengthen our culture and people.

Paul Marks, center, is Raven, Lukaax.adi (Sockeye Clan), Chookaneidi Yadi. His mother, Emma Marks was from Yakutat, Alaska.

Marks is one of three Tlingit, Haida, and Tsimshian mentors, who will immerse apprentices in their respective languages over the next 3 years. Mark's Tlingit name is KHinkaduneek. He exemplifies the continuing value we place on perpetuating and growing our Native cultures. Paul is shown here with Hans and Jessica Chester.



FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA

	2012	2013	2014	2015	2016
Net income (loss) attributable to Sealaska	$ 11,318	$ (35,086)	$ 14,881	$ 12,012	**$ 14,033**
Total assets	386,302	319,851	311,988	301,735	**324,850**
Sealaska Shareholders' equity	256,141	216,357	228,238	234,583	**242,462**
Long-term bank debt	30,460	-	-	3,000	**12,000**
Short-term bank debt	386	18,510	18,510	-	**-**
Current ratio	2.10	1.47	1.71	2.68	**2.86**
Bank debt/equity ratio	0.12	0.09	0.08	0.01	**0.05**
Shareholders' equity attributable to Sealaska per share	113.62	94.81	98.96	100.59	**102.96**
Net income (loss) attributable to Sealaska per share	5.06	(15.47)	6.48	5.18	**5.99**
Dividends per share	$ 2.21	$ 2.25	$ 1.36	$ 2.60	**$ 2.62**
Cumulative distributions to shareholders and Village corporations since inception	$ 514,366	$ 538,162	$ 564,676	$ 595,126	**$ 621,574**

❖ 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 was established under the Alaska Native Claims Settlement Act (ANCSA) of 1971 and is the regional Alaska Native Corporation for Southeast Alaska. The company is one of 13 regional Native corporations established under ANCSA with 22,025 Tlingit, Haida, Tsimshian, and Unangax (Aleut) shareholders holding 2,354,876 shares of common stock as of December 31, 2016.

Sealaska owns the fee title to approximately 362,000 acres of traditional homelands and approximately 646,000 acres of subsurface estate throughout Southeast Alaska. The company and its subsidiaries maintain offices primarily on the west coast of the United States and Alaska. Sealaska's financial activities are in the following business segments:

A. Natural Resources
B. Services
C. Investments
D. Gaming
E. Other

In addition to these sources of revenue, Sealaska also receives income from ANCSA Section 7(i) revenue sharing from other regional corporations.

STRATEGIC AND OPERATING PLAN

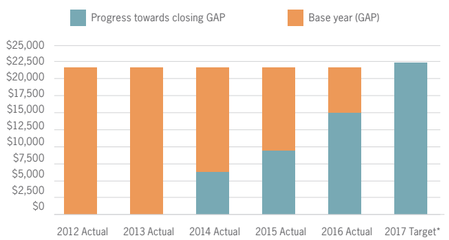
Sealaska started down the path of its current strategic plan in 2012. The strategic plan has focused on businesses that are located in the Pacific Northwest and Alaska, and are in relevant industries that align with our shareholders' four core Alaska Native values. These values are: Haa Aaní (Tlingit for our land); Ít!' Kuníisii (Haida for our past, our present, our future); Haa Latseen (Tlingit for our strength, leadership); and Ama Mackshm, (Tsimshian for balance, respect, and reciprocity).

We use our strength from our cultures to focus on activities that continue to advance our people, our communities, and our ancestral homelands. We also focus on responsible resource use and business activities that will help restore and protect our environment for generations to come. Using our values and this mission as our strategic guide, we have reengineered our company.

The following chart highlights the progress Sealaska has made since 2012. Our goal has been to have net income from our operations cover all costs before 7(i) revenue sharing and investments.

In the year 2012, Sealaska had a $21.7 million loss without 7(i) revenue sharing and investment earnings. This is represented by the orange color on the bars in the chart. In 2016, the loss was $6.5 million, which is a $15.2 million improvement. This is represented by the teal color on the bars in the chart. The chart also includes the targeted progress through 2017. The target is to completely eliminate the losses before 7(i) revenue sharing and investments in 2017.

NET INCOME BEFORE 7(i) & INVESTMENTS ($,000)



We will achieve this as we continue to implement cost efficiencies and focus on financial improvements in all of our operating activities. As we close our current strategic cycle in 2017, this financial target will transition to a goal of sustainable growth.

FINANCIAL OVERVIEW

Sealaska's consolidated continuing operations earned revenues of $145.5 million in 2016, up from $115.7 million in 2015. Net income was $14.0 million, up $2.0 from the $12.0 million earned in 2015. A strong market throughout 2016 resulted in approximately $5.5 million of investment income. Total Sealaska Shareholders' Equity at December 31, 2016 of $242.5 million is up from $234.6 million at December 31, 2015.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2016, Sealaska had cash on hand and current investment securities of $74.6 million. An additional $107.0 million was held in long-term investments, including the Marjorie V. Young Shareholder Permanent Fund, venture capital funds and private equity funds.

Liquidity	**2016**	**2015**
Available funds		
Cash, cash equivalents and current investments	**$ 74.6**	$ 66.8
Total available funds	**74.6**	66.8
Available line of credit and revolving loan		
Total line of credit and revolving loan	**60.0**	60.0
Less: Outstanding balances	**(12.0)**	(3.0)
Total available line of credit and revolving loan	**48.0**	57.0
Total liquidity	**$ 122.6**	$ 123.8

❖ Dollars are in millions. Years ended December 31.

Working Capital	**2016**	**2015**
Current assets	**$ 103.4**	$ 90.6
Current liabilities	**36.2**	33.8
Working capital	**$ 67.2**	$ 56.8
Current ratio	**2.86**	2.68

❖ Dollars are in millions. Years ended December 31.

I. Results of Operations

A. NATURAL RESOURCES

In 2016, Sealaska converted Haa Aani, LLC (HAL) to a holding company for its subsidiaries and departments involved in natural resources activities, which includes our Southeast Alaska economic development department, our natural resource department, our working forest timber operations that form Sealaska Timber Company, LLC, our aggregate company Alaska Coastal Aggregates, and our newest initiative, our carbon sequestration project.

Working Forest

Our working forest business segment, Sealaska Timber Company, LLC, had a strong year driven by favorable global timber prices, expansion of customer markets and increased efficiencies through the consolidation of our operations.

Aggregates

Alaska Coastal Aggregates (ACA) generated positive income for the year. ACA is a supplier of aggregates for commercial, municipal, state, and federal construction projects throughout the Southeast Alaska region.

Carbon

In 2016, we created a carbon sequestration project on over 155,000 acres in an effort to diversify our income from our lands. Carbon sequestration involves long-term storage of carbon dioxide or other forms of carbon to mitigate or defer global warming. We are working with the California Environmental Protection Agency's Air Resources Board, a regulating authority on this project. They are in the process of verifying the amount of carbon that is being stored in our forests. The Air Resources Board works with an independent third party to verify the amount of carbon and then issues Sealaska carbon credits. We can offer the credits for sale to a buyer who has the need to offset carbon emissions. Our credits will be available for sale sometime in 2017.

B. SERVICES

Sealaska's government services businesses comprise three primary service segments, or verticals: environmental services; construction management services; and data analytic and IT software services. We have six active companies that are managed under a holding company, called Sealaska Government Services, LLC. Our companies include Sealaska Environmental Services, Sealaska Technical Services, Sealaska Constructors, Sealaska Construction Solutions, Managed Business Solutions, and EcoData Analytics.

These companies offer a variety of professional services, principally to federal, state, and local government clients, but we are expanding into commercial related services as well. The common services are focused around environmental and marine monitoring, remote project management, and data analytics.

Our environmental companies continue to add offerings to expand their services. We added a stormwater practice, a marine science and oceanography practice, and expanded our fish biology capabilities. In 2017, we expect to continue to organically grow these services and expand our customer base as well through new clients or new partnerships with other companies.

We continue to win bids on challenging work. Our technical services team won a competitive contract to provide remote project management for construction and engineering services overseas.

Our construction businesses had a strong year. We are finishing a large multi-year impoundment project, a 1,100-acre site where contaminated dredged material can be removed from our nation's waterways and safely deposited at this site. We also won new contracts that provide remote project management services throughout the west coast and Alaska, including several projects in Southeast Alaska. This progress is consistent with our focus on creating higher value added services and diversification of our customer base.

In 2013, Sealaska decided to exit its security guard services business, Security Alliance. The company was sold in 2016 and the transaction closed in early 2017.

C. INVESTMENTS

Sealaska's investments include the Marjorie V. Young (MVY) Shareholder Permanent Fund and the Investment and Growth (I&G) Fund. The MVY fund gained $5.2 million and the I&G Fund gained $1.2 million.

The combined balance of the MVY Shareholder Permanent Fund and the I&G Fund was $152.7 million at the start of the year, and ended 2016 with a combined balance of $152.6 million after paying out dividends to shareholders of $6.2 million.

Both funds have maintained strong, long-term performance, which highlights the strength of the funds' diversification strategy. Sealaska utilizes an institutional investment consultant and the services of several external investment managers.

1. Marjorie V. Young Shareholder Permanent Fund

Sealaska's MVY Shareholder Permanent Fund was created in 1987 to provide shareholders with meaningful and consistent dividends over time. In consultation with our investment advisors and investment managers, we constantly evaluate the risk exposure of the total portfolio and make changes whenever necessary to reduce risk exposure.

2. Investment and Growth Fund

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

The focus of the fund is to grow principal with a prudent level of risk, maintain sufficient liquidity to cover the working capital needs of Sealaska's current business operations, and provide a source of capital for corporate development. The I&G Fund is primarily invested in cash and fixed income funds.

D. GAMING

Sealaska and the Cloverdale Rancheria of Pomo Indians of California (the "Tribe") received approval for the record of decision from the Bureau of Indian Affairs (BIA) approving placing the Tribe's lands into trust. We are working with the Tribe to find a new investor to replace Sealaska on this project.

E. OTHER

Sealaska invested into a secondary, value-add seafood processor in Seattle called Independent Packers Company during 2016. This investment is our first investment for a new foods business segment Sealaska is developing. The initial focus is on seafood, due to its fit with our core values and promising long-term growth opportunities.

We are currently analyzing additional opportunities in this sector.

II. Shareholder Benefits and Services

A. SEALASKA HERITAGE INSTITUTE

Clan leaders, traditional scholars and Elders conceived Sealaska Heritage Institute (SHI) at the first Sealaska Elder's Conference in 1980. Sealaska established SHI with the mission of perpetuating and enhancing the Tlingit, Haida and Tsimshian cultures of Southeast Alaska, and to promote cross cultural understanding.

In 2016, Sealaska contributed $1.6 million in cash and in-kind services to support the operations of SHI. Using Sealaska's cash and in-kind donations as leverage, SHI raised an additional $4.94 million in grants, revenue and sales and provided direct service to over 10,000 individuals through its programs and activities. Part of that investment included $100,000 for Celebration 2016.

Sealaska's Social Investment and Value Creation

Sealaska's investment provides a solid foundation for SHI to invest back into our culture and people. Here are some of the activities we invest in:

- Enhance the perpetuation of Native arts, cultures and languages
- Help to improve academic performance of Native students
- Support research that increases knowledge of Native culture and history
- Advance public policy that benefits Native education and culture
- Develop and publish Native curricula and scholarly studies
- Maintain world-class archive and art and ethnographic collections
- Provide direct benefits to Natives through programming, employment, contracts and artists
- Promote cross-cultural understanding

Sealaska contributed $539,500 towards scholarships in 2016, in part through our scholarship endowment we established in 1989.

B. SPRUCE ROOT, INC.

Spruce Root, Inc. (formerly Haa Aani Community Development Fund, Inc.)

We founded the non-profit Haa Aaní Community Development Fund, Inc. in 2012 with the goal of improving access to capital as well as technical training for entrepreneurs in Southeast Alaska to empower our regional economy. In 2013, Haa Aani Community Development Inc. (HACDF) achieved nonprofit 501(c)(3) status and became an emerging Community Development Financial Institution (CDFI). By 2016, it had 8 loans in their portfolio and $3.5M in lending capital. In 2017, HACDF is undergoing a name change and is being re-branded as Spruce Root, Inc.

The CDFI raised capital funding of $750,000 in 2016 and deployed 3 loans in the region supporting 26 jobs. Since the CDFI's inception, the loan program has deployed direct and indirect loans totaling $691,000 to 8 businesses located in 4 communities supporting 68 jobs.

C. ELDERS' SETTLEMENT TRUST

The Elders' Settlement Trust (EST) is a grantor trust created to provide a special economic benefit to original shareholders at the age of 65. The assets and liabilities of the EST are reported on Sealaska's consolidated financial statements (see notes 3 and 12 of the consolidated financial statements). The EST, which is governed by a Board of Trustees, assumes a long-term annualized rate of return of 6.25 percent in order for the trust to meet the estimated benefit payments. Since the trust's inception, more than $12.1 million in benefits have been provided.

D. DISTRIBUTIONS

Since 1972, Sealaska has paid $621.6 million in shareholder dividends and ANCSA Section 7(j) distributions.

Sealaska Shareholders receive dividends and distributions from three sources:

1. Permanent Fund: A percent of market value from the Permanent Fund is included in the distributions to shareholders.
2. Sealaska Operations: 35 percent of Sealaska's consolidated net earnings (less earnings associated with the Permanent Fund) averaged over five years are paid out annually.
3. ANCSA Section 7(j) -- Sealaska makes three distinct ANCSA Section 7(j) payments, one each to urban, and at-large shareholders, and one to each Village Corporation in the region. In the case of urban shareholders with Class "B" shares or at-large shareholders with Class "C" shares, 7(j) payments from Sealaska go directly to these shareholders.

Under ANCSA, Sealaska is required to make Section 7(j) payments for village corporations in our region directly to the village corporations. There are 10 village corporations in our region in Southeast Alaska. Therefore, shareholders with Class "A" stock (those that are both Shareholders in Sealaska and shareholders in their village corporation) do not receive an ANCSA Section 7(j) payment directly from Sealaska. The payment goes directly to the village corporations, and they determine how to distribute 7(j) to their village corporation shareholders.

Class "D" shareholders (descendants), Class "E" shareholders (elders) and Class "L" shareholders (leftouts) do not receive ANCSA Section 7(j) payments. Also, Class "D", "E", and "L" shares sunset when the shareholder passes away.

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 Sealaska'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. See also the Notes to Consolidated Financial Statements.

Independent Auditor's Report

TO THE BOARD OF DIRECTORS
SEALASKA CORPORATION:

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Sealaska Corporation and its subsidiaries (the Company), which comprise the consolidated balance sheet as of December 31, 2016, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended and the related notes to the consolidated financial statements (collectively, the financial statements).

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Sealaska Corporation and its subsidiaries as of December 31, 2016, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter
The financial statements of the Company, as of December 31, 2015 and for the years ended December 31, 2015 and 2014, were audited by other auditors, whose report, dated April 15, 2016, expressed an unmodified opinion on those statements.

RSM US LLP

April 19, 2017
Anchorage, Alaska

Consolidated Balance Sheets

Assets (As of December 31, 2016 and 2015)	2016	2015
Current assets:		
Cash and cash equivalents	$ 29,109	$ 21,524
Investments	45,520	45,283
Receivables, net	18,402	13,984
Inventories	2,722	3,306
Prepaid expenses and other current assets	943	1,491
Current assets held for sale	6,745	5,017
Total current assets	103,441	90,605
Investments:		
Marjorie V. Young Shareholder Permanent Fund	99,787	98,720
Investment and growth long-term	7,260	8,663
Endowment funds	6,126	6,034
Elders' Settlement Trust	8,385	8,632
Other	11,564	14,958
Total investments	133,122	137,007
Other assets:		
Property and equipment, net	44,688	40,638
Investment in unconsolidated affiliate	12,171	—
Note receivable	687	775
Other assets	1,084	2,432
Goodwill, net	3,502	4,002
Deferred tax asset	25,077	25,077
Noncurrent assets held for sale	1,078	1,199
Total other assets	88,287	74,123
Total assets	$ 324,850	$ 301,735

❖ Dollars are in thousands.
See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity (As of December 31, 2016 and 2015)	2016	2015
Current liabilities:		
Accounts payable	$ 10,850	$ 6,221
Amounts payable under ANCSA Sections 7(i) and 7(j)	9,143	12,949
Other accrued expenses	14,869	13,376
Current liabilities held for sale	1,306	1,225
Total current liabilities	36,168	33,771
Noncurrent liabilities:		
Amounts payable under ANCSA Sections 7(i) and 7(j)	12,956	11,823
Long-term debt, less current portion	12,000	3,000
Other liabilities	18,400	16,460
Noncurrent liabilities held for sale	77	87
Total liabilities	79,601	65,141
Commitments and contingencies (Notes 3 and 15)		
Shareholders' equity		
Common stock, no par or stated value; 2,354,876 and 2,331,976 shares issued and outstanding in 2016 and 2015, respectively	—	—
Contributed capital	93,162	93,162
Retained earnings	149,300	141,421
Total Sealaska's shareholders' equity	242,462	234,583
Noncontrolling interest	2,787	2,011
Total shareholders' equity	245,249	236,594
Total liabilities and shareholders' equity	$ 324,850	$ 301,735

❖ Dollars are in thousands.
See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

Years Ended December 31, 2016, 2015 and 2014	2016	2015	2014
Revenues:			
Natural resources	**$ 41,730**	$ 35,418	$ 43,036
Investments	**5,486**	(516)	6,399
Services	**97,615**	80,228	81,183
Gaming	**308**	296	154
Other	**372**	294	501
Total revenues	**145,511**	115,720	131,273
Costs and expenses:			
Natural resources	**38,799**	34,657	44,723
Investments	**417**	270	461
Services	**91,892**	76,459	77,794
Gaming	**459**	480	604
Other	**2,129**	1,500	1,829
Corporate selling, general and administrative	**11,770**	11,608	13,107
Total costs and expenses	**145,466**	124,974	138,518
Income (loss) from operations	**45**	(9,254)	(7,245)
Equity earnings from unconsolidated affiliate	**1,171**	—	—
Other, net	**(1,643)**	(2,140)	(2,416)
Loss from continuing operations before natural resources revenue sharing and income taxes	**(427)**	(11,394)	(9,661)
Net natural resource revenue sharing under ANCSA Sections 7(i) and 7(j)	**15,490**	25,017	24,409
Income from continuing operations before income taxes and discontinued operations	**15,063**	13,623	14,748
Income tax (expense) benefit	**(557)**	(292)	422
Income from continuing operations before discontinued operations	**14,506**	13,331	15,170
Discontinued operations, net of tax	**1,458**	383	145
Net income	**15,964**	13,714	15,315
Less net income attributable to the noncontrolling interest	**1,931**	1,702	434
Net income attributable to Sealaska	**$ 14,033**	$ 12.012	$ 14,881
Per share of common stock:			
Income from continuing operations before discontinued operations	**$ 6.19**	$ 5.75	$ 6.61
Discontinued operations	**0.62**	0.17	0.06
Net income	**$ 6.81**	$ 5.92	$ 6.67
Net income attributable to Sealaska	**$ 5.99**	$ 5.18	$ 6.48

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

Consolidated Statements of Shareholders' Equity

Years Ended December 31, 2016, 2015 and 2014	Contributed Capital	Retained Earnings	Noncontrolling Interest	Total Shareholders' Equity
Balance at December 31, 2013	$ 93,162	$ 123,195	$ (16)	$ 216,341
Net income	—	14,881	434	15,315
Dividends to shareholders	—	(3,000)	—	(3,000)
Distributions to noncontrolling interest	—	—	(734)	(734)
Noncontrolling interest related to disposition of affiliate	—	—	2,096	2,096
Balance at December 31, 2014	93,162	135,076	1,780	230,018
Net income	—	12,012	1,702	13,714
Dividends to shareholders	—	(5,667)	—	(5,667)
Distributions to noncontrolling interest	—	—	(1,471)	(1,471)
Balance at December 31, 2015	93,162	141,421	2,011	236,594
Net income	—	14,033	1,931	15,964
Dividends to shareholders	—	(6,154)	—	(6,154)
Distributions to noncontrolling interest	—	—	(1,155)	(1,155)
Balance at December 31, 2016	**$ 93,162**	**$ 149,300**	**$ 2,787**	**$ 245,249**

❖ Dollars are in thousands.
See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended December 31, 2016, 2015 and 2014	2016	2015	2014
Cash flows from operating activities:			
Net income	**$ 15,964**	$ 13,714	$ 15,315
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and depletion	**4,900**	4,970	6,250
Amortization	**500**	500	647
Allowance for doubtful accounts	**(397)**	(195)	(351)
Deferred income tax benefit	**—**	—	(368)
Loss (gain) on disposal of property and equipment	**581**	(45)	(3,922)
Loss on sale of subsidiaries	**1,369**	—	319
Loss on impairment of other assets	**994**	—	—
Net unrealized and realized (gains) losses on investments	**(904)**	6,906	2,317
Elders' Settlement Trust liability	**137**	512	49
Equity earnings from investment in unconsolidated affiliate	**(1,171)**	—	—
Anticipated future losses on contracts	**—**	(5,059)	982
Change in assets and liabilities and provided (used) cash, net of effects of acquisitions and disposals:			
Receivables	**(4,021)**	366	7,349
Inventories	**584**	(2,404)	3,421
Prepaid expenses and other current assets	**548**	(562)	1,307
Net purchase of investments	**(237)**	(3,508)	(1,352)
Accounts payable	**4,629**	209	(2,803)
Other accrued expenses	**124**	2,144	(17,239)
Amounts payable under ANCSA Sections 7(i) and 7(j)	**(2,673)**	910	(137)
Other assets and liabilities, net	**2,255**	525	(280)
Assets and liabilities held for sale	**(1,536)**	(361)	(726)
Net cash provided by operating activities	**$ 21,646**	$ 18,622	$ 10,778

❖ Dollars are in thousands.
See accompanying notes to consolidated financial statements.

Years Ended December 31, 2016, 2015 and 2014	2016	2015	2014
Cash flows from investing activities:			
Capital expenditures	**$ (9,563)**	$ (4,231)	$ (1,302)
Proceeds from sale of land and equipment	**32**	55	2,162
Repayment of notes receivable	**88**	—	—
Proceeds from sale of investments	**4,691**	7,926	3,734
Purchases of investments	**—**	(3,514)	(19,181)
Purchase of unconsolidated affiliate	**(11,000)**	—	—
Net cash (used in) provided by investing activities	**(15,752)**	236	(14,587)
Cash flows from financing activities:			
Dividends to shareholders	**(6,154)**	(5,667)	(3,000)
Borrowings on long-term debt	**9,000**	3,000	—
Repayment on long-term debt	**—**	(18,510)	—
Distributions to noncontrolling interests	**(1,155)**	(1,471)	(734)
Net cash provided by (used in) financing activities	**1,691**	(22,648)	(3,734)
Net increase (decrease) in cash and cash equivalents	**7,585**	(3,790)	(7,543)
Cash and cash equivalents:			
Beginning	**21,524**	25,314	32,857
Ending	**$ 29,109**	$ 21,524	$ 25,314
Supplemental cash flow disclosures:			
Cash paid during the year for interest	**$ 114**	$ 205	$ 457
Cash paid during the year for income taxes	**$ 139**	$ 308	$ 97
Supplemental schedules of noncash investing and financing activities:			
Increase in shareholders' distributions payable	**$ 397**	$ 361	$ 348
Note receivable for the Sale of Rocky Pass Seafoods	**$ —**	$ —	$ 861
Conversion of note receivable to investments for Green Earth Greens	**$ —**	$ —	$ 500

❖ Dollars are in thousands.
See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Sealaska Corporation (Sealaska or the Corporation) is a Regional Alaska Native Corporation formed under the Alaska Native Claims Settlement Act (ANCSA or the Act). Sealaska's four primary continuing business activities relate to the development, production, and sale of natural resources; environmental remediation and water and energy 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 2.

A summary of Sealaska's significant accounting policies follows:

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Corporation, and its majority owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The Corporation accounts for investments over which it has significant influence but not a controlling financial interest using the equity method of accounting.

REVENUE AND COST RECOGNITION

The Corporation and its subsidiaries are engaged principally in three types of contracts with the federal government and its prime contractors and commercial general contractors. Revenue from cost-type contracts is recognized on the basis of reimbursable costs incurred during the period, plus the fee earned. Revenue from time and material contracts is recognized on the basis of man hours worked, multiplied by billable rates provided, plus other reimbursable contract costs incurred during the period. For revenue from firm-fixed-price contracts, the Corporation evaluates its contracts for multiple deliverables, which may require segmentation of each deliverable into separate accounting units for proper revenue recognition. On certain firm-fixed-price government-type contracts and commercial, construction-type contracts revenue is recognized under the percentage-of-completion method. Under this method, individual contract revenue earned is based upon the percentage relationship that contract costs incurred bear to management's estimate of total contract costs. Because of inherent uncertainties in estimating costs, it is at least reasonably possible that the estimates used will change within the near term. On other fixed-price contracts, revenue is recognized ratably over the contract term based on proportional performance or straight-line, as appropriate.

Contract costs include direct labor, combined with allocations of operational overhead, and other direct costs. The provision for estimated losses on uncompleted contracts is made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability may result in revisions to costs and revenue and are recognized in the period in which the revisions are determined.

Revenues recognized in excess of amounts billed are included in receivables, net and billings in excess of revenue recognized are included in other accrued expenses on the consolidated balance sheets (see Note 4).

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 revenues distributed to the Corporation under ANCSA by other regional corporations are recorded as income when due from the other regional corporations under the Section 7(i) Settlement Agreement (see Note 2) and are reported net of amounts required to be redistributed to village corporations and at-large shareholders. 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.

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 over 90 days and over 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.

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, except for certain cash and cash equivalents included in the investment portfolio that are intended to be invested on a long term basis.

INVESTMENTS

Sealaska's investments in marketable debt and equity securities (see Note 3) 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 Native American Bank via the cost method, as Sealaska does not exercise significant influence over this investee.

On April 27, 2016, Green Earth Greens filed a petition for bankruptcy with the United States Bankruptcy Court for the Northern District of California. Green Earth Greens has since liquidated its assets and Sealaska does not expect to receive any funds for its investment. Accordingly, Sealaska has impaired the $994,000 investment to $0.

In May 2016, Sealaska purchased 25% of Independent Packers Corporation (IPC) for $11 million. IPC operates in the seafood and natural foods category that provides value added seafood processing services. The purchase

grants Sealaska the right of first refusal for the purchase of any additional interest in IPC.

Summarized unaudited financial information for the Corporation's equity method investment was as follows:

Assets:		
Current assets	$	5,449
Noncurrent assets		2,448
	$	7,897
Liabilities:		
Current liabilities	$	257
Long-term liabilities		578
Equity		7,062
	$	7,897
Results of operations for the nine months ended December 31, 2016 (unaudited):		
Net Income	$	4.513

❖ Dollars are in thousands.

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, purchased products and materials for resale to government agencies, and other natural resource materials.

DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES 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, 2016 and 2015, there was no goodwill attributable to assets held for sale. The Corporation elected to present assets held for sale as both current and noncurrent amounts and to not present separately in the consolidated statements of cash flows the information related to discontinued operations.

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**

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.

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 group the roads are a part of. 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.

VALUATION OF LONG-LIVED ASSETS

The Corporation accounts for the valuation of long-lived assets under Accounting Standards Codification (ASC) 360-10-15, Impairment or Disposal of Long-Lived Assets. This guidance requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived assets is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized.

The Corporation has elected to amortize goodwill on a straight line basis over ten years. Goodwill must be tested for impairment when a triggering event occurs that indicates that the fair value of a reporting unit may be below its carrying amount. The goodwill impairment amount, if any, represents the excess of the reporting unit's carrying amount over its fair value, limited to the carrying amount of goodwill of the reporting unit. The Corporation has made an accounting policy decision to test goodwill impairment at the Corporation's consolidated level.

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.

OTHER EXPENSE

The Corporation has reported $1.6 million, $2.1 million and $2.4 million in other expense for the years ended December 31, 2016, 2015 and 2014, respectively. Within these amounts are charitable contributions of $1.6 million, $1.5 million and $1.7 million for the years ended December 31, 2016, 2015 and 2014, respectively. Also included within these amounts is an increase adjustment to the Elders' Settlement Trust liability of $140,000, $512,000 and $49,000 for the years ended December 31, 2016, 2015 and 2014, respectively. Remaining amounts related to other net miscellaneous (income) expense of $(123,000), $103,000 and $667,000 for the years ended December 31, 2016, 2015 and 2014, respectively.

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 11 for further discussion of income taxes.

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

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, 2016 and 2015, was 2,354,876 and 2,331,976, 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 or descendant. All classes of stock carry economic rights.

On June 23, 2007, Sealaska's 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 shareholders of Sealaska who have reached the age of 65 years or older, and meet certain other requirements. 12,000 shares of Class E stock, 10,900 shares of Class D stock, and 0 shares of Class L stock were issued in 2016. 10,900 shares of Class E stock, 14,800 shares of Class D stock, and 0 shares of Class L stock were issued in 2015. 9,800 shares of Class E stock, 14,300 shares of Class D stock, and 200 shares of Class L stock were issued in 2014.

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 as follows:

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 other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments that are generally included in this category are publicly traded equity securities with legal or contractual restrictions, which are specific to the securities, as well as other securities with directly or indirectly observable inputs.

Level 3: Inputs are unobservable and include situations where there is little, if any, market activity for the investment. Fair value for these investments are determined using valuation methodologies that consider a range of factors, including but not limited to the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance, and financing transactions subsequent to the acquisition of the investment. The inputs into the determination of fair value require significant management judgment. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed. Investments that are included in this category generally are privately held debt and equity securities. 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 2016, 2015 and 2014, an impairment assessment of long lived assets and goodwill was not considered necessary, as no triggering events were identified.

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 fair value. The carrying value of debt approximates fair value as the debt bears interest that adjusts based upon market interest rates.

RECENTLY ISSUED ACCOUNTING STANDARDS (ADOPTED)

Income taxes: In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 consolidated 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 implemented the provisions of ASU 2013 11 as of January 1, 2015, with a prospective application.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*. ASU 2015-17 requires entities with a classified balance sheet to present all deferred tax asset and liabilities as noncurrent. Classifying all deferred taxes as noncurrent may simplify the Corporation's processes because it will not need to separately identify the net current and net noncurrent deferred tax asset or liability in each jurisdiction and allocate valuation allowances. The new standard is effective for the Corporation for annual reporting periods beginning after December 15, 2016. The new standard can be applied either prospectively or retrospectively. The Corporation implemented the provisions of ASU 2015-17 as of January 1, 2015, with a prospective application.

Debt issuance costs: In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The amendments in the ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The new guidance is effective for annual reporting periods beginning after

December 15, 2015. Upon the effective date of adoption, the Corporation's current debt issuance costs will be reclassified from other assets and will be reflected as a direct deduction from the carrying amount of the specific debt liabilities. The Corporation implemented the provisions of ASU 2015-03 as of January 1, 2016, with a retroactive application. However, there was no impact on the consolidated financial statements since all unamortized debt issuance costs are related to revolving debt and continue to be shown as an asset in the consolidated balance sheets.

Fair value: In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent).* The amendments in this update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. However, sufficient information must be provided to permit reconciliation of the fair value of assets categorized within the fair value hierarchy to the amounts presented in the consolidated balance sheets. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient. The Corporation elected to early adopt this update for the year ended December 31, 2016. The impact of adopting this update along with its retrospective application is reflected in Note 3.

RECENTLY ISSUED ACCOUNTING STANDARDS (NOT YET ADOPTED)

Revenue recognition: On May 28, 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of this update is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This new guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period and is to be applied retrospectively. Earlier application is permitted only as of an annual reporting period beginning after December 15, 2016, including interim periods within that reporting period. The Corporation has not selected a transition method and is currently in the process of evaluating the impact of the adoption of the new accounting guidance on its consolidated financial statements.

Further, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing,* ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients,* and ASU 2016-20, T*echnical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*. The amendments in these updates, among other things: (1) clarify the objective of the collectability criterion for applying paragraph 606-10-25-7; (2) permit an entity to exclude amounts collected from customers for all sales (and other similar) taxes from the transaction price; (3) specify that the measurement date for noncash consideration is contract inception; (4) provide a practical expedient that permits an entity to reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented when identifying the satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price to the satisfied and unsatisfied performance obligation; (5) clarify that a completed contract for the purpose of transition is a contract for which all (or substantially all) of the revenue was recognized under legacy accounting principles generally accepted in the United States of America (U.S. GAAP) before the date of initial application; (6) clarify that an entity that retrospectively applies the guidance in Topic 606 to each prior reporting period is not required to disclose the effect of the accounting change for the period of adoption; and (7) clarify certain aspects of the guidance issued in ASU 2014-09 including Loan Guarantee Fees, Contract Costs, Provisions for Losses on Construction-Type and Production-Type Contracts, Disclosure of Remaining Performance Obligations, Disclosure of Prior Period Performance Obligations, Contract Modifications, Contract Asset vs. Receivable, Refund Liability, Advertising Costs, Fixed Odds Wagering Contracts in the Casino Industry, and Costs Capitalized for Advisors to Private Funds and Public Funds. The revisions are effective for annual reporting periods beginning after December 15, 2018. The Corporation has not selected a transition method and is currently in the process of evaluating the impact of the adoption of the new accounting guidance on its consolidated financial statements.

Business combinations: On December 23, 2014, FASB issued ASU 2014-18, *Business Combinations (Topic 805) – Accounting for Identifiable Intangible Assets in a Business Combination, a consensus of the Private Company Council*. An entity within the scope of this update (all entities except for public business entities and not-for-profits) that elects the accounting alternative to recognize or otherwise consider the fair value of intangible assets as a result of any in-scope transactions should no longer recognize separately from goodwill (1) customer-related intangible assets unless they are capable of being sold or licensed independently from the other assets of the business and (2) noncompetition agreements. An entity that elects the accounting alternative in this update must adopt the private company alternative to amortize goodwill as described in ASU 2014-02, *Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill*. However, an entity that elects the accounting alternative in update 2014-02 is not required to adopt the amendments in this update.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business.* The amendments in this update clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of businesses. The amendments are effective for annual periods beginning after December 15, 2018. The Corporation is currently evaluating the effects, if any, adoption of this guidance will have on its consolidated financial statements.

Consolidation: In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810), Amendments to the Consolidation Analysis,* which amends the guidance that reporting entities apply when evaluating whether certain legal entities should be consolidated. The new guidance is effective for interim and annual periods beginning after December 15, 2016. Early adoption is permitted, including adoption in an interim period. The Corporation may either apply the amendments retrospectively or use a modified retrospective approach. The Corporation is currently evaluating the effects, if any, adoption of this guidance will have on its consolidated financial statements.

Inventory measurement: In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. The amendments in the ASU require entities that measure inventory using the first-in, first-out or average cost methods to measure inventory at the lower of cost and net realizable value. Net realizable value is defined as estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. The new guidance is effective for annual reporting periods beginning after December 15, 2016. Early adoption is permitted. This guidance is not expected to have a material impact on the Corporation's consolidated financial statements.

Financial instruments: In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in this update, among other things: (1) require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of investee) to be measured at fair value with changes in fair value recognized in net income; (2) provide an option for entities that choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer; (3) simplify the impairment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment;

(4) clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The new guidance is effective for annual reporting periods beginning after December 15, 2018. Early adoption is permitted only as of the fiscal years beginning after December 15, 2017. The amendments of this update should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption of the update. The Corporation is currently in the process of evaluating the impact of the new accounting guidance on its consolidated financial statements.

Lease accounting: In February 2016, the FASB issued ASU 2016-02, Leases. ASU 2016-02 changes requirements for reporting leases. This ASU increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the consolidated balance sheets and disclosing key information about the lease arrangements. Under this ASU, all leases create an asset and a liability and lessees will now be required to recognize those assets and liabilities that arise from the leases. A lessee should recognize on the consolidated balance sheets a liability to make lease payments and a right of use asset representing its right to the underlying asset for the lease term. The accounting applied by the lessor is largely unchanged by this ASU. The new standard is effective for the Corporation for annual reporting periods beginning after December 15, 2019. The Corporation will implement the provisions of ASU 2016-02 as of January 1, 2020. The Corporation has not yet determined the impact of the new standard on its current policies for leases.

Investments: In March 2016, the FASB issued ASU 2016-07, *Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting,* which eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. The amendments also require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The Corporation is currently evaluating the effects, if any, adoption of this guidance will have on its consolidated financial statements.

Statement of cash flows: In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides classification guidance for eight specific types of receipts and payments and is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Corporation is currently in the process of evaluating the impact of the new accounting guidance on its consolidated financial statements.

Goodwill: In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. These amendments eliminate Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable. The amendments also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendments are effective for annual periods beginning after December 15, 2021. The Corporation is currently evaluating the effects, if any, adoption of this guidance will have on its consolidated financial statements.

FOREIGN CURRENCY TRANSACTIONS

The consolidated 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.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with U.S. GAAP 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RECLASSIFICATIONS

Certain reclassifications to the 2015 and 2014 balances have been made in the accompanying consolidated financial statements to make them consistent with the 2016 presentation. These reclassifications had no effect on previously reported net income.

SUBSEQUENT EVENTS

The Corporation evaluated subsequent events through April 19, 2017, which represents the date the consolidated financial statements were available to be issued.

2. 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 within the exterior boundaries of the Tongass National Forest in Southeast Alaska, of which it owns or will own the surface and subsurface estate. At December 31, 2014, Sealaska had 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. In 2014, the Southeast Alaska Native Land Entitlement Finalization and Jobs Protection Act was passed. This resulted in the conveyance of approximately 70,075 acres of land in March 2015 to fulfill Sealaska's total entitlement of ANCSA lands during 2015 of 362,000 acres.

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 284,000 subsurface acres.

Sealaska has not recorded the land and natural resources assets contributed under ANCSA at their estimated fair value and continues to carry these assets at zero value in the consolidated financial statements, as it represents a nonmonetary exchange with the federal government. However, for tax reporting purposes, these assets have a tax basis, when 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 taxes under U.S. GAAP.

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 certain 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, 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.

ANCSA SECTION 7(i) ACCOUNTING

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 has 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. Differences in 7(i) reporting purposes primarily consist of the following:

Property and equipment: 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 ten 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 consolidated balance sheets.

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

3. Investments

Investments consist of the following:

	2016	2015
Investment and growth, current:		
Common stock	$ 12,327	$ 15,851
Money market	4,678	5,840
Bonds and notes	28,472	23,534
Accrued interest, dividends and other	43	58
Total investment and growth, current	45,520	45,283
Marjorie V. Young Shareholder Permanent Fund:		
Common stock	40,062	39,438
Alternative investments	53,478	53,251
Government bonds and notes	4,083	5,436
Money market, accrued interest, dividends and other	2,164	595
Total Marjorie V. Young Shareholder Permanent Fund	99,787	98,720
Investment and growth long term	7,260	8,663
Endowment funds	6,126	6,034
Elders' Settlement Trust	8,385	8,632
Other investments	11,564	14,958
Total investments	$ 178,642	$ 182,290

❖ Dollars are in thousands. Years ended December 31.

Following a 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, endowment funds have 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 shareholders voted to establish an Elders' Settlement Trust (the Trust). Accordingly, and pursuant to ANCSA, the Sealaska Board of Directors established the 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 2016, 2015 and 2014 was $529,000, $547,000, and $481,000, respectively. As noted above with the Marjorie V. Young Shareholder Permanent Fund, the endowment funds, 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 funds and the Trust are invested in mutual funds focused on growth strategies.

Investment earnings consist of the following components:

	Years Ended December 31		
	2016	**2015**	**2014**
Unrealized gains (losses)	**$ 3,830**	$ (6,906)	$ (2,317)
Realized net gains, dividends and interest	**1,656**	6,390	8,716
Total investment earnings (loss)	**$ 5,486**	$ (516)	$ 6,399

❖ 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 $34.0 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 tables present quantitative disclosure about the fair value measurements for each class of assets:

	Fair Value at December 31, 2016			
Description	**Total**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant other unobservable inputs (Level 3)**
Money market, cash on hand, accrued interest and dividends	$ 7,366	$ 7,366	$ —	$ —
Equity securities:				
Equity securities—domestic	31,920	31,920	—	—
Equity securities—international (developed)	13,450	13,450	—	—
Equity securities—emerging markets	7,020	7,020	—	—
Equity securities—Vanguard Mutual funds	12,690	12,690	—	—
Total equity securities	65,080	65,080	—	—
Debt securities:				
Government securities	20,844	20,844	—	—
Corporate securities	11,450	—	11,450	—
Asset- and mortgage-backed securities	3,493	—	3,493	—
Mutual funds	4,708	4,708	—	—
Total debt securities	40,495	25,552	14,943	—
Alternative investments[a]:				
Hedge funds	10,817	—	—	—
Private equity	21,527	—	—	—
Energy services	10,190	—	—	—
Real estate	23,167	—	—	—
Total alternative investments	65,701	—	—	—
Total	$ 178,642	$ 97,998	$ 14,943	$ —

❖ Dollars are in thousands. Years ended December 31.

[a] In accordance with ASC 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amount presented in this table is intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

	Fair Value at December 31, 2015			
Description	**Total**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant other unobservable inputs (Level 3)**
Money market, cash on hand, accrued interest and dividends	$ 6,944	$ 6,944	$ —	$ —
Equity securities:				
Equity securities—domestic	33,686	33,686	—	—
Equity securities—international (developed)	15,747	15,747	—	—
Equity securities—emerging markets	5,856	5,856	—	—
Equity securities—Vanguard Mutual funds	12,768	12,768	—	—
Total equity securities	68,057	68,057	—	—
Debt securities:				
Government securities	17,907	16,715	1,192	—
Corporate securities	14,490	-	14,490	—
Asset- and mortgage-backed securities	1,992	-	1,992	—
Mutual funds	6,045	6,045	-	—
Total debt securities	40,434	22,760	17,674	—
Alternative investments(a):				
Hedge funds	12,785	—	—	—
Private equity	18,638	—	—	—
Energy services	12,247	—	—	—
Real estate	23,185	—	—	—
Total alternative investments	66,855	—	—	—
Total	$ 182,290	$ 97,761	$ 17,674	$ —

❖ Dollars are in thousands. Years ended December 31.

[a] In accordance with ASC 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amount presented in this table is intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

The Corporation's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1, 2, or 3 for the years ended December 31, 2016 and 2015.

4. Receivables

Receivables consist of the following:

	2016	2015
Billed	$ 18,262	$ 15,330
Unbilled, including costs and estimated earnings in excess of billings	4,135	3,174
Other	362	271
Less accounts receivable reclassified to assets held for sale	(4,341)	(4,378)
	18,418	14,397
Less allowance for doubtful accounts	(16)	(413)
Receivables, net	$ 18,402	$ 13,984

❖ 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 the consolidated balance sheet date related to indirect cost rate variances.

Information with respect to percentage of completion type contracts in process as of December 31, 2016 and 2015, is as follows:

	2016	2015
Costs incurred to date	$ 286,135	$ 227,667
Profit to date, including loss accruals	18,622	15,611
Revenue earned to date	304,757	243,278
Billing to date	304,194	241,508
Net difference	$ 563	$ 1,770

❖ Dollars are in thousands. Years ended December 31.

The foregoing balances are included in the accompanying consolidated balance sheets under the following captions:

	2016	2015
Receivables, net	$ 2,730	$ 2,913
Other accrued expenses	(2,167)	(1,143)
Costs and estimated earnings in excess of billings	$ 563	$ 1,770

❖ Dollars are in thousands. Years ended December 31.

5. Inventories

Inventories consist of the following:

	2016	2015
Timber—finished goods	$ 766	$ 2,278
Purchased products and materials for resale	1,813	—
Other	143	1,028
Total inventories	$ 2,722	$ 3,306

❖ Dollars are in thousands. Years ended December 31.

6. Property and Equipment

Property and equipment consist of the following:

	2016	2015
Land	$ 17,593	$ 17,393
Buildings, leaseholds and improvements	16,732	16,720
Equipment and furnishings	20,135	20,198
Logging roads, yards and camps	208,504	203,399
Reforestation and silviculture costs	15,986	15,966
Construction in progress	1,748	187
Total property and equipment	280,698	273,863
Less accumulated depreciation	(235,675)	(232,806)
Less property reclassified to assets held for sale	(335)	(419)
Property and equipment, net	$ 44,688	$ 40,638

❖ Dollars are in thousands. Years ended December 31.

Land held for development as commercial, recreational, or residential property totaling $15.7 million at December 31, 2016 and 2015, is included in the caption “land” above.

7. Note Receivable

The Corporation has a $1,000,000 non-interest bearing note receivable with Kake Tribal Corporation (Kake) initially recorded at its discounted value of $861,000. The note is secured by an assignment with security interest in Kake's interest in Section 7(j) payments made by Sealaska in equal payments over nine years from 2016 through 2024. The outstanding balance of the note as of December 31, 2016 and 2015, was $687,000 and $775,000, respectively.

8. Timber, Timberland and Mineral Resources

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.

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 related to the obligation. 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, 2016 and 2015:

	2016	2015
Balance at beginning of year	**$ 454**	$ 547
Additional obligations incurred	**—**	—
Obligations settled in current period	**(124)**	(118)
Accretion expense	**—**	25
Balance at end of year	**$ 330**	$ 454

❖ Dollars are in thousands. Years ended December 31.

9. Goodwill

The following table presents the change in the carrying value of goodwill for the years ended December 31, 2016 and 2015:

	2016	2015
Balance as of January 1:		
Gross goodwill	**$ 22,819**	$ 22,819
Accumulated amortization and impairment losses	**(18,817)**	(18,317)
Goodwill, net as of January 1	**$ 4,002**	$ 4,502
Amortization expense	**$ (500)**	$ (500)
Balance as of December 31:		
Gross goodwill	**$ 22,819**	$ 22,819
Accumulated amortization and impairment losses	**(19,317)**	(18,817)
Goodwill, net as of December 31	**$ 3,502**	$ 4,002

❖ Dollars are in thousands. Years ended December 31.

During 2016 and 2015, no triggering events were identified that would require an impairment analysis of goodwill (see Note 1).

10. Long-Term Debt

Long-term debt consists of the following:

	2016	2015
Note payable to a bank under an unsecured revolving term loan with variable interest rate pricing that was 1.95% at December 31, 2016, with the note expiring June 2020	**$ 12,000**	$ 3,000
Other debt	**—**	87
Less debt reclassified to noncurrent liabilities held for sale	**—**	(87)
Total long-term debt	**12,000**	3,000
Less current portion	**—**	—
Total long-term debt less current portion	**$ 12,000**	$ 3,000

❖ 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. Interest expense totaled $114,000, $205,000, and $457,000 for the years ended December 31, 2016, 2015 and 2014, respectively.

11. Income Taxes

Income tax expense related to continuing operations consists of the following:

	Years Ended December 31		
	2016	2015	2014
Current income tax benefit (expense):			
Federal	**$ (450)**	$ (250)	$ —
State	**(107)**	(42)	54
Total	**(557)**	(292)	54
Deferred income tax benefit (expense):			
Federal	**—**	—	328
State	**—**	—	40
Total	**—**	—	368
Income tax benefit (expense)	**$ (557)**	$ (292)	$ 422

❖ 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:

	Years Ended December 31		
	2016	**2015**	**2014**
Computed "expected" tax benefit (expense)	**$ (5,111)**	$ (4,768)	$ (5,161)
State income tax, net of federal tax benefit	**(70)**	(33)	46
Change in valuation of allowance	**(2,904)**	9,135	8,664
Net expiration (use) of net operating losses and charitable contribution carryforward	**(887)**	(772)	(786)
Addition of ANCSA assets (tax basis)	**3,881**	62	78
Other	**4,534**	(3,916)	(2,419)
	$ (557)	$ (292)	$ 422

❖ Dollars are in thousands. Years ended December 31.

Net deferred tax assets and liabilities include the following:

	2016	**2015**
Deferred tax assets:		
Net operating loss and charitable contribution carryforwards	**$ 127,955**	$ 139,667
ANCSA resource basis difference	**197,905**	193,994
Property and equipment	**16,258**	17,533
Other	**19,391**	14,156
Total gross deferred tax assets	**361,509**	365,350
Valuation allowance	**(329,522)**	(326,617)
Net deferred tax asset	**31,987**	38,733
Deferred tax liabilities—investment unrealized gains	**(6,910)**	(13,656)
Total long-term deferred tax asset	**$ 25,077**	$ 25,077

❖ Dollars are in thousands. Years ended December 31.

Sealaska has recorded a net long term deferred tax asset of $25.1 million, which primarily reflects: (a) estimated future benefit of $307.9 million federal and $228.4 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 Sealaska had pre net operating loss taxable income of $33.9 million. 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.

12. Other Noncurrent Liabilities

Other noncurrent liabilities consist of the following:

	2016	**2015**
The Elders' Settlement Trust distribution payable	**$ 8,072**	$ 8,139
Shareholders' distribution payable	**2,725**	2,261
Endowments payable	**3,122**	3,005
Voluntary retirement deferrals	**3,281**	3,055
Other liabilities	**1,200**	—
Total	**$ 18,400**	$ 16,460

❖ Dollars are in thousands. Years ended December 31.

13. 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. Contributions to the plan are based upon employees' total yearly contributions and base pay. Total approved contributions to the plans were $825,000, $686,000, and $707,000 in 2016, 2015 and 2014, respectively.

14. 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 sheets 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:	**2016**	**2015**
Current assets:		
Cash and cash equivalents	**$ 2,405**	$ 639
Receivables, net	**4,340**	4,378
Current assets held for sale	**6,745**	5,017
Property and equipment, at cost	**1,295**	1,315
Less accumulated depreciation	**(960)**	(896)
Total property and equipment, net	**335**	419
Other assets	**209**	246
Intangible assets	**534**	534
Noncurrent assets held for sale	**1,078**	1,199
Total assets held for sale	**$ 7,823**	$ 6,216
Liabilities:		
Current liabilities:		
Accounts payable	**$ 22**	$ 155
Other accrued expenses	**1,284**	1,070
Current liabilities held for sale	**1,306**	1,225
Long-term debt, less current portion	**77**	87
Total liabilities held for sale	**$ 1,383**	$ 1,312

❖ 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:

	2016	**2015**	**2014**
Services revenue	**$ 27,914**	$ 25,401	$ 21,771
Operating expenses:			
Cost of goods sold	**21,395**	20,945	17,780
Selling, general and administrative	**4,013**	3,644	3,299
Other, net	**(334)**	420	523
Total operating expenses	**25,074**	25,009	21,602
Net income before loss on sale and income taxes	**2,840**	392	169
Income tax expense	**(13)**	(9)	(24)
Loss on sale	**(1,369)**	—	—
Discontinued operations, net of tax	**$ 1,458**	$ 383	$ 145

❖ Dollars are in thousands. Years ended December 31.

In November of 2016, Sealaska entered into an agreement to sell all of its 85% equity interest in Security Alliance, LLC. During February of 2017, subsequent to year end, the transaction closed resulting in cash paid to Sealaska of $1.5 million and a secured $1.9 million promissory note. The note has interest of 5.5% and matures January 2024. The transaction resulted in a loss on sale of subsidiary of $1.4 million for the year ended December 31, 2016.

15. Commitments and Contingencies

LITIGATION

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.

COST REIMBURSABLE TYPE CONTRACTS

Sealaska has cost reimbursable type contracts with the federal government. Consequently, Sealaska is reimbursed based upon their direct expenses attributable to the contract, plus a percentage based upon overhead and general and administrative expenses. The overhead and general and administrative rates are estimates. Accordingly, if the actual rates as determined by the cognizant audit agency were below the Sealaska's estimates, a refund for the difference would be due to the federal government. Management considers the potential for such refunds when recognizing revenue.

LEASING ARRANGEMENTS

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 as follows:

Years ending December 31:		
2017	$	991
2018		750
2019		540
2020		399
2021		409
Thereafter		1,924
Total	**$**	**5,013**

❖ Dollars are in thousands.

16. Concentrations

Substantially all of the Corporation's services revenue was derived from prime contracts or subcontracts with U.S. governmental agencies for the years ended December 31, 2016, 2015 and 2014, respectively. Approximately 74% and 82% of the Corporation's receivables, net at December 31, 2016 and 2015, respectively, was derived from prime contracts or subcontracts with U.S. governmental agencies.

17. Subsequent Events

On April 3, 2017, the Corporation acquired a 51% membership interest in Odyssey Foods, LLC for a purchase price of $17.9 million, less all closing indebtedness and unpaid transaction expenses, except for certain permitted indebtedness as defined by the agreement. As of the report date, the Corporation had not completed the initial accounting for the acquisition since the valuation of the assets acquired, liabilities assumed, and noncontrolling interest was not complete.

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Honoring Sealaska's First President and Chairman of the Board

JOHN BORBRIDGE JR. (1926 – 2016)

- Sealaska founding President and Chairman of the Board 1972 to 1978
- Central Council of the Tlingit and Haida Indian Tribes of Alaska first full-time president
- Borbridge was born in Juneau, Alaska. He was Tlingit, Raven, *L'uknax.ádi,* Coho Clan from the Frog House and *Wooshkeetaan yádi.* His Tlingit name was *Duk saa.aat'*
- Played an important role in the implementation and management of the Southeast Alaska Bureau of Indian Affairs Buy Indian Act
- Instrumental in efforts to settle the Alaska Native Claims Settlement Act, serving as chief lobbyist for Southeast Alaska
- Appointed to Land Claims Task Force by former Alaska Governor Walter Hickel which led to the inclusion of Southeast Alaska in the Alaska Native Claims Settlement Act
- Alaska Federation of Natives board chair and AFN Vice President
- Presented an honorary doctorate of laws degree in 2012 from the University of Alaska Southeast



President and CEOs Who Have Served Sealaska

Years Served	
1972–1978	*John Borbridge, Jr.* *
1978–1979	Sam Demmert
1979–1982	Michael Chittick
1982–1986	Byron Mallott
1986–1990	Bill Howe
1990–1993	Byron Mallott
1993–1997	Leo Barlow
1997–2001	*Robert Loescher* *
2001–2014	Chris E. McNeil, Jr.
2014–present	Anthony Mallott

**Indicates CEOs who have passed*



VALUES IN ACTION
SEALASKA

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