THE
SHEE ATIKÁ
GROUP

2002 ANNUAL REPORT

CORPORATE INFORMATION

Managing Officer

Robert G. Loiselle
President & Chief Executive Officer

Staff

Victor R. Scarano
Chief Financial Officer

Faleene Sele
Senior Accountant

Lillian Nielsen Young
Shareholder Services Manager

Gary Bernhardt
Maintenance Director

Kay D. Simmons
Executive Assistant

Carol Breece
Administrative Assistant

Ronald James
Maintenance Technician

Lauren Burkhart
Accounting Technician

Corporate Office

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Sitka, Alaska 99835
907-747-3534
800-478-3534 (shareholder line - in Alaska)
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Independent Auditors

Peterson Sullivan P.L.L.C.
601 Union St., Suite 2300
Seattle, WA 98101

Corporate Counsel

Sorensen & Edwards, P.S.
1201 Third Avenue, Suite 2900
Seattle, WA 98101-3025

Stock Transfer Agent

Dapcevich Accounting Service
221 Lincoln Street
Sitka, Alaska 99835

Shee Atiká Benefits Trust Scholarship Committee

Kathryn "Kitty" Eddy, Chairman

Gillian Havrilla, Vice Chairman

Lavina Adams

Brian James

June Koval

Pamela Steffes

Cover photo: Katlian Street, ca. 1890,
courtesy of the Sitka National Historic Park

THE

SHEE ATIKÁ

GROUP

2002 ANNUAL REPORTS OF

SHEE ATIKÁ, INCORPORATED

SHEE ATIKÁ FUND ENDOWMENT

SHEE ATIKÁ BENEFITS TRUST

CONTENTS

BOARD OF DIRECTORS

Marion Williams Berry
Chairman

Loretta J. Ness
Vice Chairman

Harold Donnelly Jr.
Treasurer

Ethel Staton, Secretary

Gene Bartolaba

Kenneth M. Cameron

Francine Eddy Jones

Marta Ryman

Shirley Yocum

SHEE ATIKÁ, INCORPORATED MANAGEMENT REPORT

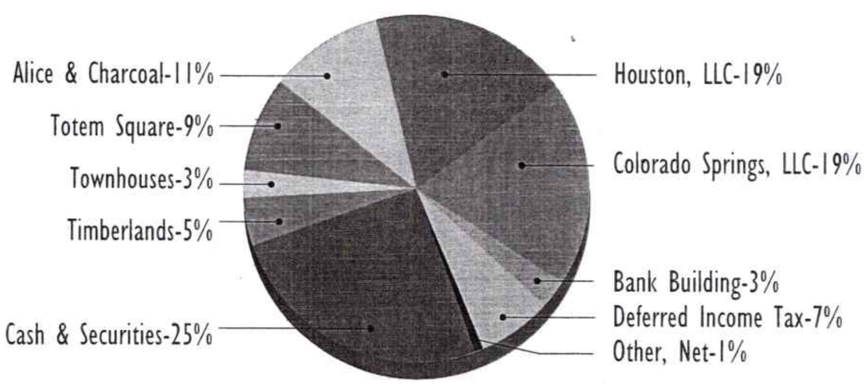
We are pleased to report the 15th consecutive profitable year for Shee Atiká, Incorporated (SAI). The audited financial statements for the year ended December 31, 2002 are set forth on the following pages.

OPERATIONS

SAI's net income was $347,188, compared to $3,233,258 in 2001. Net income in 2001 included $3.65 million in gain on the condemnation of the Charcoal Island property by the Alaska Department of Transportation and Public Facilities (DOT/PF).

Income from hotel operations remained unchanged at $1.1 million. This includes income from the Westmark Shee Atiká Lodge as well as the Totem Square Inn located in the Totem Square Complex (formerly the Sheffield Hotel). Improvement in occupancy and operating results for the Totem Square Inn will be a major focus for Shee Atiká during 2003.

Investment income fell from $685,771 in 2001 to $443,348, a decline that reflects both a sharp drop in interest rates as well as the redeployment of over $6 million in investment securities (stocks and bonds) to commercial real estate in the Lower 48 (see asset allocation chart below). This purchase of income producing real estate resulted in an increase of rental income from $745,112 in 2001 to $1,026,053 in 2002.



SHEE ATIKÁ, INCORPORATED
ASSET ALLOCATION
$33.5 MILLION
December 31, 2002

We sold two of the five townhouses built on Alice Island for $485,404 adding roughly $55,000 to net income. In early 2003 we have sold an additional two townhouses, leaving only one unsold.

2002 was the first year since the late 1980s that SAI did not have income from Atikon Forest Products, which completed its harvest operations in November 2001. Also in 2001, SAI transferred its Atikon stock to SAFE.

General and administrative expense declined from $1,568,901 in 2001 to $1,280,533 in 2002.

SAI's principal assets at December 31, 2002 included investments of $1.1 million in government agency securities; $7.4 million in cash and cash equivalents; commercial properties that include the Totem Square Complex, the former theater property in Sitka, the Boeing building in Houston, Texas, the Mitre Corporation building in Colorado Springs, Colorado, about 15 acres on Alice and Charcoal Island along with one remaining commercial building; and about 26,000 acres of land—23,000 acres on Admiralty Island and 3,000 acres at Katlian Bay near Sitka.

WESTMARK SHEE ATIKÁ LODGE

Two very significant decisions were made with regard to the Lodge in 2002. One was to transfer the Lodge to the Shee Atiká Fund Endowment, while the other was for SAFE to put the Lodge up for sale.

The decision to sell was in answer to the question raised in our planning sessions—when do you sell a real estate investment? While it may sound trite, the objective in real estate is like that for any investment—buy low, sell high. Net income and cash flow from the Lodge has increased over the years. Since a buyer of this type of property will look to cash flow in valuing it, we are now in a position to get a very good price for this asset. On the other hand, we do not see a great deal of additional upside potential for the price.

Unlike some asset sales we have seen lately, this is not a distress sale, but rather quite the opposite. If SAFE does not get its price, SAFE will continue to run the Shee Atiká Lodge as the premier hotel in Sitka and it will continue to be a good investment for the Shee Atiká Fund Endowment.

The contribution of the Lodge to the Shee Atiká Fund Endowment represents a continuation of SAI's strategy to contribute significant assets to the trust where earned income is taxed at a relatively low federal rate of 10% and where income from the assets can be distributed to beneficiaries (shareholders) with little or no personal income tax liability.

Finally, the board recognizes all of the many shareholders and board members who were involved over the years in making the Shee Atiká Lodge the success that it is today. We recognize that the Lodge has been Shee Atiká's "flagship" property for many years. We believe that the new retail/office building (yet to be named) in the very center of Sitka will be a worthy replacement.

The Mitre Building of Colorado Springs was acquired by Shee Atiká in 2002.

The Boeing Building at the Johnson Space Center in Houston, Texas, like the Mitre Building, was purchased in 2002 and came with a long-term triple-net lease that relieves Shee Atiká of property management responsibility

LOWER 48 REAL ESTATE

Pursuant to Shee Atiká's strategic plan, we made significant progress in 2002 toward our goal of putting our cash and government securities to work through the acquisition of commercial real estate in the "lower 48" states. Assisted by shareholder and commercial real estate broker Carlton Smith, the board developed and adopted a formal real estate investment policy in late 2001.

With Smith's help, we sorted through dozens of opportunities west of the Mississippi and acquired two: the Boeing Building at the Johnson Space Center in Houston and the Mitre Building in Colorado Springs. Both buildings are new, with long-term "triple net" leases.

Triple net refers to the fact that the tenant is responsible for all operating expenses and management of the building. Unlike our Sitka properties where we are the property manager, these new properties require very little attention on our part.

The Boeing building is used by the Boeing Corporation in fulfillment of its contracts with NASA and the International Space Station. The building is a combination light industrial and office complex.

Mitre, a corporation formed by the U.S. Defense Department, Federal Aviation Administration and the Internal Revenue Service, provides system engineering, research and development, and information technology support to the U.S. government. This building is a single story, 33,000 square-foot office building, constructed to provide a certain amount of "secure" space for top secret work. You can learn more about this fascinating organization at www.mitre.org.

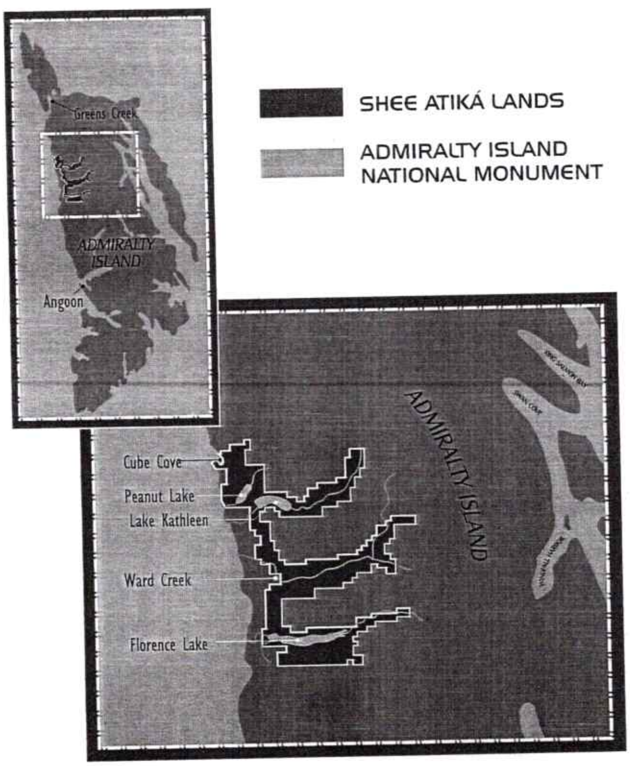
As a matter of corporate policy, all real estate acquisitions will be placed in separate limited liability companies (LLCs). These LLCs provide an extra measure of liability protection for SAI, while not requiring significant additional overhead.

The Boeing Building is held in Shee Atiká Holdings Houston, LLC and Mitre is held in Shee Atiká Holdings Colorado Springs, LLC.

As this is being written, we have entered into a purchase contract for a third building, currently under construction in Tempe, Arizona. This single story, 30,000 square foot building will be leased by ITT Educational Services for classroom and administrative space. ITT Educational Services provides post-secondary technical education, offering both associate and bachelor-level programs for students interested in careers in high-tech industries. We anticipate closing around June 1 of this year.

CUBE COVE

The last of the Atikon timber was harvested in November 2001. Since then, Silver Bay Logging (contractor to Atikon Forest Products) has been dismantling the camp and cleaning up a number of diesel oil spills that occurred over the years during Silver Bay's tenure at Cube Cove. The camp is now completely gone and about 95% of the oil-contaminated dirt has been excavated. Early in 2003 Silver Bay went into Chapter 11 bankruptcy. Since this is still early in the proceedings, we do not yet know if Silver Bay will complete the cleanup work. If they do not, it will be up to Atikon to complete this work. Atikon is adequately capitalized to accomplish this, though the expense would reduce the Shee Atiká Fund Endowment's equity position in Atikon.



In April 2003 we will be conducting information meetings on Cube Cove in conjunction with our usual "Meet the Board Candidates" meeting. We will describe the current status of our Cube Cove properties and outline the options, including the outright sale of the property or the sale of a conservation easement on the land. We will also mail this same information to all shareholders in anticipation of a shareholder survey on the topic to be conducted by the McDowell Group in late April. The primary focus of the survey will be to determine shareholder opinion regarding the options for our Cube Cove land.

ALICE AND CHARCOAL ISLANDS

As of early March 2003 we have sold four of the five townhouses built on Alice Island. In 2002 we completed the paving and utility upgrades of Alice Loop Road across Charcoal Island, connecting with the new section of road on Alice Island. The City of Sitka has accepted maintenance of this new road, reducing our expenses for the future.

We are now advertising lots for lease on the remainder of Charcoal Island. Although we do not expect to build more townhouses, we are still working on development plans for the remainder of Alice Island.

KATLIAN BAY

During 2002, after over a year delay, Rayonier, Inc. harvested the timber the company had purchased from Shee Atiká at Katlian Bay. The operation was far different from that originally contemplated by the timber sale document. Because of poor market conditions, much of the timber originally planned for harvest turned out to be uneconomical to remove. As a result, no roads were built and only the higher valued trees were removed by helicopter. Alcan Timber administered the harvest for Rayonier. The results of the logging operation are virtually invisible from Katlian Bay. Area habitat biologist Phil Mooney of the Alaska Department of Fish and Game observed the operation and commented, "It is hard to imagine a 'lighter touch' on the land. Alcan Timber and Columbia Helicopters did an excellent job in my opinion."

TOTEM SQUARE COMPLEX

This building, in which our corporate offices currently occupy a suite on the second floor, continues to be fully leased. The first floor is leased to businesses. Totem Square Inn, managed as a hotel, includes all other available rooms, which are being readied for another season of operation beginning in mid-May. We continue to work with the property manager, Westmark, to improve the occupancy of the hotel during the summer season. Doing this is key to bringing the income from the Totem Square Complex up to its full potential.

THEATER PROPERTY/BANK BUILDING

As this is being written in early March 2003, the Coliseum Theater is gone and in its place a new three-story retail/office building is under construction. The building has taken on the informal designation of the "bank building" since it will be the new home of the Alaska Pacific Bank, as well as the future corporate headquarters for Shee Atiká, Incorporated.

FINANCIAL CONDITION

The combined net worth of the Shee Atiká Group at December 31, 2002 was $81,993,458. This represents a decline of $130,541 from a year earlier after deducting shareholder distributions of $2.6 million.

At December 31, 2002, SAI's net worth was $27,086,397, SAFE's net worth was $52,853,291 and SABT's net worth was $1,993,770.

The audited financial statements for SAFE and SABT for the year ended December 31, 2002 are contained in separate sections of this report.

COMBINED NET WORTH
SAI, SAFE & SABT
$82 MILLION
December 31, 2002

There were two very significant financial changes in 2002. The first is the acquisition of long-term debt by SAI. This is the first time SAI has had any debt since 1993. During the 1980s, Shee Atiká had accumulated substantial long-term debt while it fought to obtain clear title to its land and begin timber operations.

This time the corporation is taking advantage of extremely low interest rates to enhance the return on investment (ROI) from its recent real estate acquisitions. Our average cost of borrowing is under 6% per annum. We have kept the amount of financing (known as "leverage" in financial terms) to a conservative 50% of the acquisition cost. This keeps the risk down while gaining the ROI advantage mentioned above. When this financing is applied to property that has a rate of return of around 8.5%, it causes the return to increase to over 10%. This is because the ROI is figured only on the money invested, not the money borrowed. The "spread" between the cost of the borrowed money and the return of 8.5% is roughly 2.5%. Thus there is a net 2.5% return on the money borrowed. This 2.5% enhances the return on the money invested and brings its return to over 10%.

This type of leverage allows us to diversify our portfolio across a greater number of properties, further reducing risk.

The second major change was the transfer of the Westmark Shee Atiká Lodge to the Shee Atiká Fund Endowment (SAFE). This asset has been a major contributor to income and cash flow over the last several years. However, in keeping with our strategy of having the majority of our income-earning assets in the trust, the board felt that it would be prudent to contribute the hotel to SAFE. SAFE has now listed the Lodge for sale. If it sells (as we hope), the proceeds can be used for additional investments by SAFE. If it doesn't, it will provide additional income to the trust.

The other important aspect of this contribution to SAFE is that it makes it easier to manage SAI to avoid having positive earnings and profits for tax purposes. Income producing assets are being placed in SAFE to take advantage of the lower tax rate and to ensure that any SAFE or SABT distributions remain tax-free.

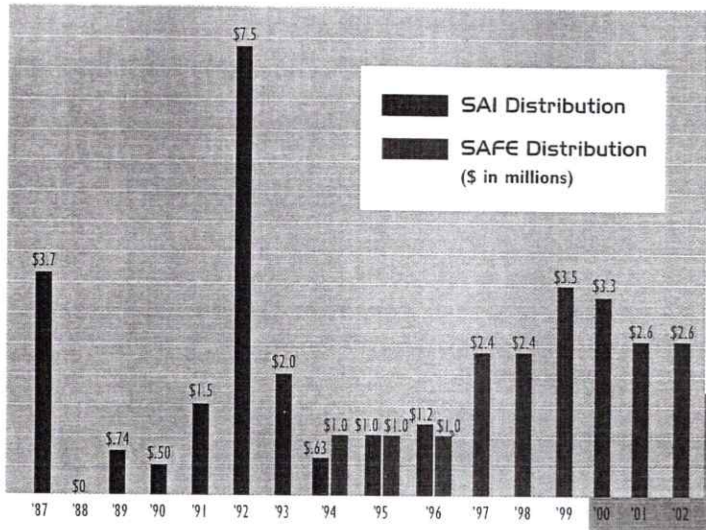
In 2002, shareholders had to pay a small amount of personal income tax because SAI had earnings and profits. Had there not been earnings and profits, no tax would have been due. That should be the case in the future.

This change is merely the shifting of income from one shareholder pocket to the other. It is still our absolute goal to earn as great a return as possible from shareholder assets, and to return as many after-tax dollars as possible to our shareholders, consistent with the growth of our assets over time.

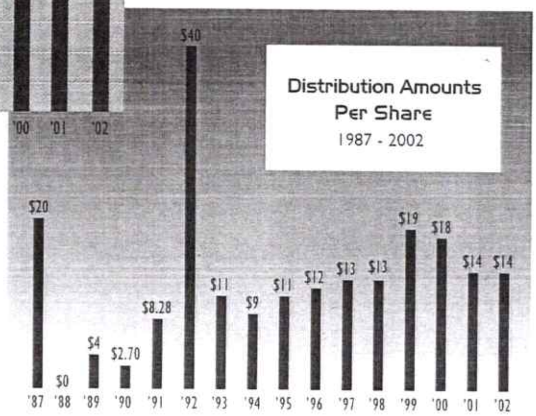
	SAFE	SABT
2002 Distributions	$ 2,592,800	$ 223,652
After-Tax Income Carryforward (Tax Exempt)	(658,729)	—
2002 After-Tax Income (Tax Exempt)	(1,723,767)	(34,395)
Distribution Transferred to SAI	$ 210,304	$ 189,257
Taxability at SAI		
Transferred from SAFE	$ 210,304	$ 189,257
Earnings & Profits (Taxable)	(151,130)	(136,026)
Distributions in Excess of Earnings & Profits (Tax Exempt)	$ 59,174	$ 53,231
Summary		
Tax Exempt	$ 2,441,670	$ 87,626
Taxable	151,130	136,026
Total	$ 2,592,800	$ 223,652

PERSONNEL

As we moved into active real estate acquisition and development, it became clear that we would need additional management depth to accomplish all of our objectives. We were fortunate to locate and hire former Sitka Community Hospital Chief Financial Officer (CFO) Victor Scarano as our new Shee Atiká Group CFO. Scarano has already contributed significantly, taking on the real estate financing chores and getting both the Houston and Colorado Springs loans in place by year end.



Since 1997, all distributions received by shareholders have been issued by SAFE. It is expected that SAFE will continue to provide most of the cash distributions in future years.



CASH DISTRIBUTIONS

Shareholders receive cash distributions twice yearly. The payments are made on the third Monday in May and on the first Monday following Thanksgiving Day. During 2002, shareholders received cash distributions of $14 per share from SAFE. We expect that SAFE will continue to provide most of the cash distributions in future years.

The board's policy regarding cash distributions is to continue paying regular, semi-annual cash distributions and to gradually increase the annual amount as portfolio performance permits. This means that there may be years where the distribution amount does not increase or even declines. The Board intends to pay cash distributions on the same dates each year.

SUPPORT OF NATIVE ORGANIZATIONS

SAI supports our Native heritage and culture by providing many local Native organizations with financial aid and "in-kind" donations. The organizations we supported during 2002 included the Alaska Federation of Natives, ANB Camp #1, ANS Camp #4, Alaska Native Heritage Center, Sitka Native Education Program, Mt. Edgecumbe High School activities, N.A.T.I.V.E. Program, Inc, Sitka Tribe of Alaska, SEARHC, Gajaa Heen Dancers, Noow Tlein Dancers, Sheet'ka Kwaan Dancers, the Kaagwaantaan Dancers and Southeast Cultural Center.

In addition, we have been active in supporting Sitka Tribe of Alaska's efforts to protect subsistence herring fisheries, which resulted in a memorandum of understanding between STA and the Alaska Department of Fish & Game which makes STA a part of the group that determines how the commercial herring fishery is to be conducted.

2002 also saw the transfer of a portion of Herring Rock from Shee Atiká's Totem Square property to the community house (Sheet'ka Kwaan Náa Kahídi) where it can be more prominently displayed. This move was done in cooperation with the Kiks.ádi Clan.

SHAREHOLDER EDUCATION AND COMMUNICATION

We continued our tradition of shareholder information seminars in 2002. In conjunction with our regular September information meetings, the seminar featured a comprehensive review of how stock transfers are treated upon death of a shareholder presented by Chairman Marion Williams Berry and Attorney Bruce Edwards.

We also provided shareholder information at our spring "Meet the Board Candidate Meetings." We plan to continue these meetings in 2003, with an expanded schedule of spring meetings to cover Cube Cove issues.

In addition, we will continue reporting to shareholders on a regular basis through the *Shee Atiká News* and the publication of our quarterly and annual reports.

We are continuing to upgrade our web site, www.sheeatika.com, to provide both up-to-date information on corporate activities and forms for shareholder use. Our goal for this year is to update the homepage every week with items of interest, including photos of current activities.

We also plan to continue our enormously popular shareholder Christmas parties, which give shareholders, the board and management the opportunity to visit, renew old acquaintances and get to know each other in a festive and informal setting.

We encourage you to call, write, or visit whenever you have questions, comments, or when you just want to talk about the corporation or the trusts. Our door is always open.

On behalf of the Board of Director and the entire staff, it continues to be a pleasure serving you.

Marion Williams Berry

Marion Williams Berry
Chairman of the Board

Robert G. Loiselle

Robert G. Loiselle
President and Chief Executive Officer

INDEPENDENT AUDITORS' REPORT

PETERSON SULLIVAN P.L.L.C.
601 Union Street Suite 2300 Seattle WA 98101 (206) 382-7777 Fax 382-7700
Certified Public Accountants

To the Board of Directors and Shareholders
Shee Atiká, Incorporated
Sitka, Alaska

We have audited the accompanying consolidated balance sheets of Shee Atiká, Incorporated and Subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, capital, and cash flows for the years then ended. These financial statements are the responsibility of Shee Atiká, Incorporated's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shee Atiká, Incorporated and Subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Peterson Sullivan PLLC

January 24, 2003

CONSOLIDATED BALANCE SHEETS

December 31, 2002 and 2001

ASSETS	**2002**	**2001**
Current Assets		
Cash and cash equivalents	$ 7,404,061	$ 7,427,751
Residential homes and related land	868,177	
Prepaid expenses and other	97,974	331,683
Total current assets	8,370,212	7,759,434
Other Assets		
Land, buildings and equipment	21,823,087	12,624,612
Long-term investments	1,017,429	7,684,161
Deferred income tax benefit	2,330,000	2,330,000
Total other assets	25,170,516	22,638,773
Total assets	$ 33,540,728	$ 30,398,207

LIABILITIES AND CAPITAL		
Current Liabilities		
Accounts payable and other current liabilities	$ 154,331	$ 382,826
Current portion of long-term debt	142,486	
Total current liabilities	296,817	382,826
Long-Term Debt, less current portion	6,157,514	
Capital		
Common stock, no par or stated value, authorized 250,000 shares		
Class A, voting, issued and outstanding 182,173 shares in 2002 and 182,223 shares in 2001		
Class B, nonvoting, issued and outstanding 3,027 shares in 2002 and 2,977 shares in 2001		
Contributed capital	5,956,000	5,956,000
Retained earnings	21,130,397	24,059,381
Net worth	27,086,397	30,015,381
Total liabilities and capital	$ 33,540,728	$ 30,398,207

See Notes to Financial Statements

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31, 2002 and 2001

	2002	2001
Revenue		
Hotel	$ 4,661,228	$ 4,302,887
Investment income	443,348	685,771
Rentals from commercial buildings	1,026,053	745,112
Sale of residential homes	485,404	
Gain on Charcoal Island property sale		3,647,650
Share in Atikon net income		92,058
Writedown of Atikon investment		(890,776)
Other	27,119	73,100
	6,643,152	8,655,802
Costs and Expenses		
Hotel	3,512,727	3,203,911
General and administrative	1,280,533	1,568,901
Residential homes sold	430,374	
Commercial buildings	309,135	414,149
Contributions	44,966	29,162
Depreciation	718,229	378,421
	6,295,964	5,594,544
Income Before Deferred Income Tax Benefit	347,188	3,061,258
Deferred income tax benefit		172,000
Net Income	$ 347,188	$ 3,233,258

CONSOLIDATED STATEMENTS OF CAPITAL

Years Ended December 31, 2002 and 2001

	Shares of Common Stock Class A	Contributed Class B	Retained Capital	Total Earnings	Net Worth
Balances, December 31, 2000	182,109	2,991	$ 5,956,000	$ 22,002,123	$27,958,123
Issuance of shares	100				
Net transfers from nonvoting to voting shares	14	(14)			
Net income for the year				3,233,258	3,233,258
Distribution of Atikon investment to Shee Atiká Fund Endowment				(1,176,000)	(1,176,000)
Balances, December 31, 2001	182,223	2,977	5,956,000	24,059,381	30,015,381
Net transfers from voting to nonvoting shares	(50)	50			
Net income for the year				347,188	347,188
Distribution of Shee Atiká Lodge and related lodge assets to Shee Atiká Fund Endowment				(3,276,172)	(3,276,172)
Balances, December 31, 2002	182,173	3,027	$ 5,956,000	$ 21,130,397	$ 27,086,397

See Notes to Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2002 and 2001

	2002	2001
Cash Flows From Operating Activities		
Cash received from:		
Hotel operations	$4,580,923	$4,263,249
Sale of residential homes	485,404	
Dividends received from Atikon		1,715,000
Interest	464,585	763,664
Rentals from commercial buildings	1,092,649	707,093
Other	(1,429)	418,483
	6,622,132	7,867,489
Cash paid to:		
Contractor, suppliers and employees	6,512,225	5,212,880
Net cash provided by operating activities	109,907	2,654,609
Cash Flows From Investing Activities		
Purchases of property and equipment	(13,036,501)	(2,306,750)
Proceeds from sale of property and equipment		5,635,000
Purchase of debt securities classified as held-to-maturity	(1,007,383)	
Sale of debt securities classified as held-to-maturity	4,987,487	1,130,861
Sale of bond mutual fund classified as available-for-sale	2,686,628	
Net cash provided by (used in) investing activities	(6,369,769)	4,459,111
Cash Flows From Financing Activities		
Proceeds from long-term debt	6,300,000	
Cash portion of Shee Atiká Lodge distribution to Shee Atiká Fund Endowment	(63,828)	
Net cash provided by financing activities	6,236,172	
Net increase (decrease) in cash and cash equivalents	(23,690)	7,113,720
Cash and cash equivalents, beginning of year	7,427,751	314,031
Cash and cash equivalents, end of year	$ 7,404,061	$ 7,427,751

Reconciliation of net income to net cash provided by operating activities:

	2002	2001
Net income	$ 347,188	$ 3,233,258
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	718,229	378,421
Share of Atikon net income		(92,058)
Writedown of Atikon investment		890,776
Dividend received from Atikon		1,715,000
Gain on Charcoal Island property sale		(3,647,650)
Deferred income tax benefit		(172,000)
Change in operating assets and liabilities		
Residential homes and related land	(868,177)	
Prepaid expenses and other	(21,020)	345,619
Accounts payable and other current liabilities	(66,313)	3,243
Net cash provided by operating activities	$ 109,907	$2,654,609

See Notes to Financial Statements

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Shee Atiká, Incorporated ("Shee Atiká") is an urban corporation organized pursuant to the Alaska Native Claims Settlement Act ("ANCSA"). ANCSA, as amended, provides for the selection of 26,030 acres of land by Shee Atiká. It receives the surface estate in such land, and the regional corporation, Sealaska Corporation, receives the sub-surface estate. Shee Atiká has received conveyance to approximately 23,000 acres of timberland located on Admiralty Island, 3,000 acres at Katlian Bay and 30 acres on Alice and Charcoal Islands located near Sitka, Alaska.

One hundred shares of Shee Atiká's voting common stock were issued pursuant to ANCSA to each Native person enrolled. Under Alaska Statute, shareholders have certain voting rights including an ability to require a corporation to distribute assets in total liquidation of the corporation. Nonvoting common stock is issued to any person who acquires Shee Atiká's stock and is not a "Native" or "Descendant of a Native" within the meaning of ANCSA.

SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The financial statements include the accounts of Shee Atiká and four wholly-owned limited liability companies ("the LLCs"). All transactions between these entities have been eliminated in consolidation. The LLCs limit Shee Atiká's liability exposure to the amount of Shee Atiká's investment in them and are scheduled to terminate December 31, 2022.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property and Equipment

The estimated value of the land, including structures, along with cash received under ANCSA (amounting to $250,000) were recorded as contributed capital. The surface resources associated with ANCSA land were not recorded based on uncertainties associated with the valuation of these resources. Other land, buildings, and equipment are stated at cost.

Depreciation of buildings and equipment is provided on the straight-line method over the estimated lives of the assets.

Note 1 (Continued)

Residential Homes and Related Land

Residential homes are currently held as real estate for development and sale. Real estate held for development and sale is stated at cost unless the estimated future undiscounted cash flows expected to result from disposition is less than carrying value, in which case a loss is recognized based on the fair value of similar real estate in the same geographic region. Management believes eventual sales price is in excess of carrying value at December 31, 2002.

Profit or loss on the sale of residential homes is recognized when the amount of revenue is determinable, certain down payment requirements are met, and no significant further involvement remains with respect to the property sold. Costs were allocated to property sold using a method that considered elements of area, relative selling prices, and specifically identified costs.

Investment in Atikon

Shee Atiká owned a 49% interest in an affiliate called Atikon Forest Products, Inc. ("Atikon"). In a prior year, Atikon acquired from Shee Atiká all of its timber located on Admiralty Island. Atikon has been harvesting the timber which has then been sold primarily as round logs. Substantially all of the timber has now been harvested.

Prior to its distributing Atikon to Shee Atiká Fund Endowment (Note 6) in 2001, Shee Atiká's investment in Atikon was stated at cost adjusted for Shee Atiká's share of its undistributed profits or losses and dividends received. At the time of its distribution, Shee Atiká wrote down its investment in Atikon to its estimated fair value of $1,176,000.

Cash/Long-Term Investments

Shee Atiká considers all highly liquid securities purchased with a maturity of three months or less to be cash equivalents for purposes of the statements of cash flows. Shee Atiká regularly has cash and cash equivalents in excess of federally insured limits.

Long-term investments represent assets reserved by Shee Atiká for future investments and consist of debt and bond mutual fund securities. Debt securities are stated at amortized cost because management has classified them as held-to-maturity investments. Amortized cost approximates market value. During 2002, management decided to sell a portion of held-to-maturity investments to fund the purchase of commercial buildings in Texas and Colorado. The bond mutual fund was classified as an available-for-sale security and was stated at market value which approximated cost. Therefore, no statement of comprehensive income is presented. When determining realized gains or losses on investment transactions, Shee Atiká uses the specific identification method.

Income Taxes

Shee Atiká accounts for income taxes under an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in Shee Atiká's financial statements or income tax returns. In estimating future tax consequences, Shee Atiká generally considers all expected future events other than enactments of changes in income tax laws or rates.

NOTE 2 PROPERTY AND EQUIPMENT

	2002	2001
Shee Atiká Lodge building and equipment	$ —	$ 8,372,623
Commercial buildings and equipment — Alaska	4,965,863	4,491,870
Commercial building — Texas	5,654,142	
Commercial building — Colorado	5,995,177	
Land	5,096,649	4,723,983
Other property and equipment	552,950	331,573
	22,264,781	17,920,049
Less accumulated depreciation	(1,681,614)	(6,876,286)
	20,583,167	11,043,763
Construction in progress — Alice Island	798,994	1,556,181
Construction in progress — other	440,926	24,668
	$21,823,087	$12,624,612

The commercial buildings and equipment are leased under operating leases expiring in various years through 2012 and have accumulated depreciation of $1,450,557 and $1,001,185 as of December 31, 2002 and 2001, respectively. Future lease amounts to be received are presented in Note 7.

Construction in progress — Alice Island represents costs incurred to develop parts of the island and related costs incurred to construct five residential homes. In 2002, all the residential homes were completed and have been classified as current assets at December 31, 2002. In addition, two of these homes were sold (both at a profit in 2002). At December 31, 2002, construction in progress — Alice Island represents infrastructure development costs in process that are expected to benefit anticipated future residential development. Management believes these costs will be realizable as part of the eventual use and disposition of this property.

Construction in progress — other represents an office building being constructed in Sitka, Alaska. Commitments toward construction costs are just over $2,000,000 at December 31, 2002.

In December of 2001, Shee Atiká sold approximately 15 acres of land, along with the buildings, to the State of Alaska under a court-ordered condemnation sale. Shee Atiká received cash of $5,635,000 from this sale resulting in a gain of $3,647,650. Shee Atiká reinvested the proceeds into other real estate in 2002, and as a result, was able to defer any income taxes on the sale.

In 2003, Shee Atiká agreed to purchase land and a building in Tempe, Arizona. The total cost is expected to be $6,550,000 and is expected to be funded with cash provided by Shee Atiká and a long-term note payable.

As discussed in Note 6, the Shee Atiká Lodge was distributed at its carrying value of $3,276,172 to Shee Atiká Fund Endowment (Note 6) on December 31, 2002. Accordingly, the hotel building and equipment (and the land where the Shee Atiká Lodge is located) is no longer included in these financial statements and no gain or loss was recognized.

NOTE 3 LONG-TERM INVESTMENTS

Shee Atiká's long-term investments consist of mortgage-backed debt securities guaranteed by agencies of the U.S. Government and amounted to $1,017,429 at December 31, 2002. Long-term investment securities consisted of mortgage-backed debt securities of $4,997,535 and a bond mutual fund of $2,686,626 at December 31, 2001. Sales of these securities in 2002 did not result in any material gains or losses.

Mortgage-backed securities held at December 31, 2002, mature as follows:

2010	$ 185,650
2020	442,356
2029	389,423
	$ 1,017,429

Mortgage-backed securities represent an interest in an underlying pool of mortgages. As these mortgages are paid down or refinanced, the holder of the security receives a proportionate share of the principal repayment as well as regular interest payments. The rate of repayment of the principal depends on the movement of interest rates, among other factors. The estimated average life of these securities is generally significantly shorter than the stated maturity dates shown above.

NOTE 4 LONG-TERM DEBT

	2002	2001
Note payable to an insurance company in monthly installments of $18,950 including interest at 5.13%, due in full January 1, 2010, secured by commercial property in Colorado; nonrecourse to Shee Atiká	$ 3,200,000	$ —
Note payable to an insurance company in monthly installments of $22,659 including interest at 6.25%, due in full January 1, 2012, secured by commercial property in Texas; guaranteed by Shee Atiká	3,100,000	
	6,300,000	
Less: Current portion	(142,486)	
	$ 6,157,514	$ —

Principal payments on long-term debt due over the next five years are as follows:

2003	$ 142,486
2004	150,404
2005	159,904
2006	169,421
2007	179,516
Thereafter	5,498,269
	$ 6,300,000

NOTE 5 INCOME TAXES

The actual income tax benefit for income taxes differs from the amount computed by applying the effective tax rate to pretax income because of the following (amounts in these tables are in thousands):

	2002	2001
Expected tax expense	$ (129)	$ (1,226)
Tax loss on sale of timber		1,819
Use of net operating loss carryforwards	148	230
Writedown of Atikon investment		(356)
Change in valuation allowance		(136)
Other	(19)	(159)
Income tax benefit	$ —	$ 172

The significant components of the deferred income tax asset for years ended December 31 are as follows (in thousands):

Deferred Tax Assets	2002	2001
Excess of tax basis in buildings and equipment	$ —	$ 1,092
Net operating loss carryforwards	3,284	3,540
Alternative minimum tax credit carryforwards	180	180
Other	(14)	(11)
Deferred tax asset	3,450	4,801
Deferred Tax Liabçities		
Excess of book basis in buildings and equipment	(1,120)	
Deferred gain on Charcoal Island property sale		(1,459)
Deferred tax asset before valuation allowance	2,330	3,342
Valuation allowance	—	(1,012)
Net deferred tax asset	$ 2,330	$ 2,330

Shee Atiká distributed the Shee Atiká Lodge and related lodge assets to Shee Atiká Fund Endowment in 2002. This distribution eliminated the excess of tax basis in buildings and equipment and also eliminated the related valuation allowance.

As of December 31, 2002, Shee Atiká has net operating tax loss carryforwards of approximately $8,875,119 and alternative minimum tax credit carryforwards of $180,000. The tax loss carryforwards expire in 2021, while the alternative minimum tax credit carryforwards do not expire. Management believes that it is more likely than not that the net deferred tax asset will be realized.

NOTE 6 SETTLEMENT TRUSTS

Shee Atiká established two settlement trusts which are entities authorized by ANCSA and organized under the laws of Alaska to provide benefits to Shee Atiká's shareholders. However, the trusts are separate from Shee Atiká even though the trustees are the same people who are members of Shee Atiká's Board of Directors. The trustees are responsible for investing the assets of the trusts, use of income to accomplish the trusts' primary purpose, and making distributions to unit holders who are also Shee Atiká shareholders. Further, the trusts are prohibited by ANCSA from operating a business.

The first settlement trust, the Shee Atiká Fund Endowment ("SAFE"), was established to maintain assets and pay distributions from its income to SAFE's beneficiaries. SAFE has net assets of approximately $52,853,000 at December 31, 2002.

The second settlement trust, Shee Atiká Benefits Trust ("SABT") was established to provide scholarships and funeral benefits to Shee Atiká's shareholders who are also beneficiaries of the trust. SABT has net assets of approximately $1,994,000 at December 31, 2002.

NOTE 7 LEASE OF COMMERCIAL BUILDINGS

The approximate minimum future lease payments to be received by location on non-cancelable operating leases for the next five years are:

	Alaska	Texas	Colorado	Total
2003	$ 272,000	$ 558,000	$ 546,000	$ 1,376,000
2004	236,000	558,000	554,000	1,348,000
2005	166,000	558,000	563,000	1,287,000
2006	161,000	558,000	571,000	1,290,000
2007	112,000	587,000	578,000	1,277,000
Thereafter	262,000	2,605,000	2,821,000	5,688,000
	$ 1,209,000	$ 5,424,000	$ 5,633,000	$ 12,266,000

Leases in Alaska are to various lessees in the Sitka area. The lease for the building in Texas is to one lessee (The Boeing Company) and the lease for the building in Colorado is also to one lessee (Mitre Corporation).

SHEE ATIKÁ FUND ENDOWMENT (SAFE) MANAGEMENT REPORT

Dear Unit Holder:

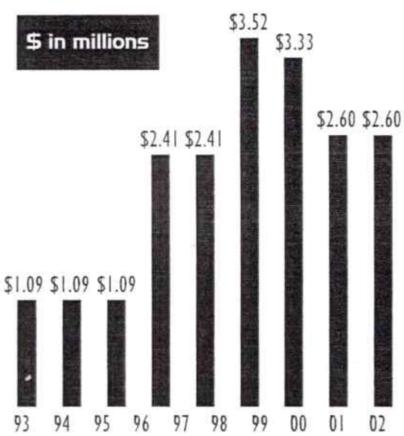
2002 brought the third straight year of decline in the equity markets. The fact that a fourth straight year of decline is highly unlikely from a historical perspective is of little comfort in the face of the economic uncertainties caused by instability in the Middle East.

Early in 2002 the SAFE Board of Trustees took steps to move a majority of the portfolio to fixed income securities (bonds). Indeed, the portfolio was 80% fixed income at the end of the year.

The results for the year 2002 are set forth on the following pages. We have tried to make this report as easy to read as possible, but it is somewhat technical in nature. You may want to refer to the definitions on the inside back cover to help you.

CASH DISTRIBUTIONS

Unit Holders received cash distributions from SAFE that totaled $2,592,800 during 2002. If you owned 100 units you received $1,400, or $14 per unit.



SHEE ATIKÁ FUND ENDOWMENT
CASH DISTRIBUTIONS
1994 - 2002

Distributions made in 2002 were largely non-taxable to shareholders, though a small amount, 82 cents per share, was considered taxable because the $2.6 million distribution exceeded SAFE's after-tax income, and because Shee Atiká Inc. reported profits for the year. As you will recall, SAFE chose to take a tax option that effectively lowered shareholder tax obligations—the "Section 646 election" made by SAFE in 2001. A consequence was that distributions exceeding the trust's after-tax income are considered to have been made by Shee Atiká, Incorporated. This portion is then tested for taxability again, the test being whether or not the transferred amount exceeds the corporation's earnings and profits for the year. To the extent of earnings and profits, this amount is taxable to the shareholder. If there were no earnings and profit at Shee Atiká, Incorporated, there would be no shareholder tax.

Portions of distributions from both SAFE and SABT were effectively transferred to SAI because they exceeded the after-tax income of each trust. Since SAI did have earnings and profits, a portion of these "transferred" distributions were considered taxable, but the portion in excess of SAI earnings and profits was not.

This complex series of calculations is difficult to follow, but the effect is that shareholder tax obligations are minimized. We plan to take further advantage of these tax rules going forward. With the transfer of the Westmark Shee Atiká Lodge to SAFE, SAI's earnings and profits should not be an issue in the future. Thus any future distribution amounts that are transferred to SAI because they exceed SAFE's after-tax income should be non-taxable. Of course, our primary goal is to earn enough income at SAFE so that this is not an issue, but should this situation arise again, this new structure helps provide a "fail-safe" mechanism to protect distributions from tax at the shareholder level.

The board reviewed its distribution policy in 2001 and changed the formula for distributions to 5.5% of the five-year rolling average of the net asset value of the trust. Previously, the policy had been 6% of the three-year rolling average. The current policy reflects today's economic realities as well as the new tax structure of the trust. The goal is to allow the trust to grow at least at the rate of inflation. The board intends to reexamine these guidelines this spring before making the distribution decision for May.

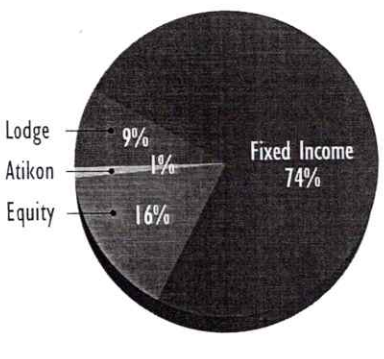
This formula is used by the board as a guideline. The board is free to make adjustments based on its assessment of current circumstances. As a final criteria, the trust document requires that distributions must be at least 75% and no more than 100% of net cash income, as defined by the trust.

We expect that SAFE will continue to provide most of the cash distributions for Shee Atiká shareholders in future years.

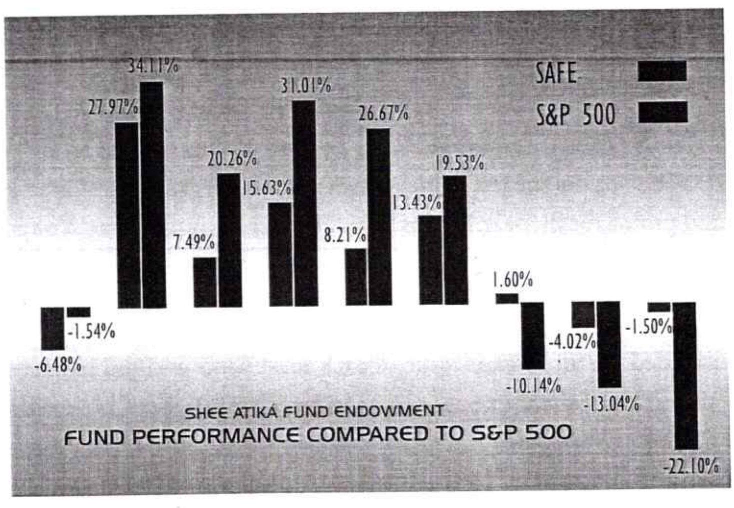
INVESTING ACTIVITIES

The change in SAFE's net assets as a result of operations was $(712,069). The components of this decrease are: dividends received of $860,737; interest earned of $1,244,478; net realized losses on sales of securities (stocks and bonds) of $2,239,172; decrease in value of securities not sold during the year (unrealized decrease in value) of $190,808; less expenses of $195,774 and income taxes of $191,530.

The investment return for the portfolio was –1.5%. This compares to a 2001 investment return of –3.9%. Our fixed income portfolio had total return of 8.74%, offsetting the poor returns from the stock portfolio, which had an average return of –14.48%. By comparison, the S&P 500 (entirely stocks) return for 2002 and 2001 was –22.1% and –11.9% respectively.

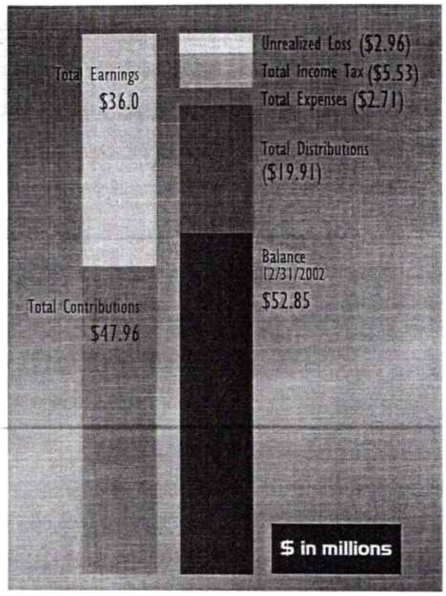


SHEE ATIKÁ FUND ENDOWMENT
ASSET ALLOCATION



SHEE ATIKÁ FUND ENDOWMENT
FUND PERFORMANCE COMPARED TO S&P 500

The asset allocation at year-end was roughly 8.7% in the stocks of U.S. corporations, 82.4% in bonds and cash, and 8.9% in stocks of foreign corporations. The board's decision to move to approximately 80% fixed income for the majority of 2002 worked well and kept losses to a minimum. On a relative basis, our fund was in the top 7% of endowment funds for the year. As someone once said, you can't eat relative return and until we get back to our target return we will not be satisfied with the fund's performance.



SHEE ATIKÁ FUND ENDOWMENT FUND
OVER THE YEARS

NEW INVESTMENT ADVISOR

A major change that took place in 2002 was the selection of a new investment advisor for the trust. After an extensive search and interview process, the board selected R.V. Kuhns & Associates of Portland, Oregon as the new advisor. The investment advisor plays an important role in the trust's investment process, helping the board determine the proper asset allocation given SAFE's objectives. They also identify and help the board select the best money managers to implement asset allocation and provide the board with a periodic performance review of the managers and the trust as a whole.

The board was very specific that it wanted an advisor who would be proactive and help steer the fund in the right direction. We believe R.V. Kuhns & Associates will be such an advisor.

We have already met twice with Kuhns and at the beginning of March, 2003 agreed to a new asset allocation that includes 15% in real estate investment trusts and 15% absolute return funds.

Real estate investment trusts (REITs) are pools of commercial properties that are diversified across property types (office, industrial, retail and residential), as well as across various regions of the country. REITs will typically pay in excess of 7% in dividends each year without undue risk, something that is difficult to match with current bond yields in the 4-5% range.

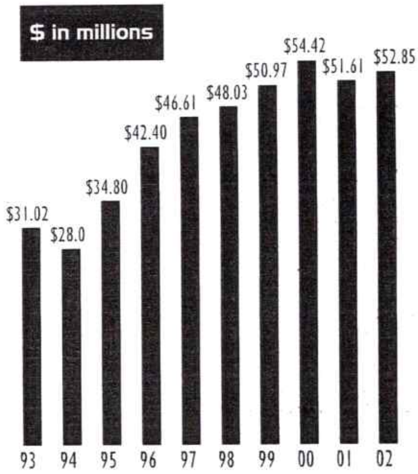
The absolute return funds (also known as hedge funds) attempt to reduce the market risk and achieve a positive return, even in difficult market environments. The type of fund that we will be investing in is called a "fund of funds." The fund manager selects a number of hedge funds of differing styles to minimize risk. The use of absolute return funds is becoming more common among institutional investors each year and this strategy has been used successfully by large endowments such as Yale University.

ADDITIONAL CONTRIBUTION

As noted in the SAI management discussion, the Westmark Shee Atiká Lodge was contributed to SAFE at the end of 2002. The rationale behind the transfer was discussed previously, so we won't go into it again, other than to reemphasize that this contribution is consistent with having a majority of the Shee Atiká Group assets in the tax-efficient trusts.

NET ASSET VALUE

The net asset value of SAFE at December 31, 2002 was $52,853,291 compared to a net asset value of $51,608,010 at the end of the previous year. The increase of $1,245,281 is after the payment of $2,592,800 in cash distributions during the year and a contribution from Shee Atiká, Incorporated of the Westmark Shee Atiká Lodge, valued at $4,550,150.



SHEE ATIKÁ FUND ENDOWMENT
NET ASSETS
1993 - 2002

You should note that the value of the contribution of the Lodge is shown as $4,550,150 on SAFE's books, while the same contribution is valued as $3,276,172 when shown leaving Shee Atiká, Incorporated. This difference in value merely reflects the fact that the Shee Atiká, Incorporated statements are done according to generally accepted accounting principles (GAAP), while SAFE uses the modified income tax method of accounting, which treats certain items such as depreciation differently. This book/tax difference has existed all along while the Lodge was owned by SAI and was reflected in SAI's tax return. The transfer merely brings to light the difference.

OUTLOOK

As you all know, the outlook for 2003 is clouded by global turmoil and an uncertain economic recovery. There are few things that we can be certain of as we look forward to this year. We do know that our heavy current allocation to fixed income is risky given the current very low interest rate environment. History tells us and most experts agree that rates cannot get much lower. Since rates and bond prices move in the opposite direction, once rates start to climb, the value of our bond portfolio will begin to drop. In the meantime, the current interest rate yield is down to around 4%.

To reduce the allocation to bonds, the board has directed that we add two new asset classes, REITs and absolute return funds. Over time, we will also increase our equity holdings, though we will do this cautiously. The addition of the hotel will add current income and if it sells, additional capital for reinvestment. The additional diversification will help us achieve our investment goals, but a favorable economic and geopolitical climate will be necessary as well.

We have set forth a considerable amount of detail in the following financial statements and footnotes for those who desire to gain a better understanding of SAFE. We are here to help you in any way possible. Please call, write or visit if you have questions or comments. The door is always open.

Marion Williams Berry
Chairman of the Board

Robert G. Loiselle
President and Chief Executive Officer

INDEPENDENT AUDITORS' REPORT

PETERSON SULLIVAN P.L.L.C.
601 UNION STREET SUITE 2300 SEATTLE WA 98101 (206) 382-7777 FAX 382-7700
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees
Shee Atiká Fund Endowment
Sitka, Alaska

We have audited the accompanying statements of net assets — modified income tax basis of Shee Atiká Fund Endowment as of December 31, 2002 and 2001, and the related statements of revenues and expenses — modified income tax basis, and changes in net assets — modified income tax basis for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of accounting the Trust uses for income tax purposes, except that it accounts for investments at market value (investments are valued at cost on the basis of accounting the Trust uses for income tax purposes) ("the modified income tax basis"). The purpose of using the income tax basis of accounting is to make the statements easier to use for the Trust unit holders. The income tax basis of accounting is a comprehensive basis of accounting other than accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the net assets of Shee Atiká Fund Endowment as of December 31, 2002 and 2001, and its revenues and expenses and changes in net assets for the years then ended, on the modified income tax basis of accounting as described in Note 1.

Peterson Sullivan PLLC

January 24, 2003

SHEE ATIKÁ FUND ENDOWMENT

STATEMENT OF NET ASSETS — MODIFIED INCOME TAX BASIS

December 31, 2002 and 2001

	2002	2001
ASSETS		
Investments, at market value	$ 39,854,420	$ 50,749,652
Shee Atiká Lodge and related lodge assets	4,550,150	
Cash and cash equivalents	8,490,251	1,112,359
Receivables		3,336
Total assets	52,894,821	51,865,347
LIABILITIES		
Income tax payable	41,530	257,337
Net assets	$ 52,853,291	$ 51,608,010

See Notes to Financial Statements

STATEMENT OF REVENUES AND EXPENSES — MODIFIED INCOME TAX BASIS

For the Years Ended December 31, 2002 and 2001

	2002	2001
Revenues		
Interest	$1,244,478	$ 1,149,855
Dividends	860,737	1,691,725
Net realized gain (losses) on sales of investments (losses limited to $3,000 for tax purposes)	(3,000)	1,022,285
Other revenue		3,635
	2,102,215	3,867,500
Expenses		
Management and professional fees	132,393	190,010
Custodian fees	40,867	44,033
Other expenses	22,514	16,556
	195,774	250,599
	1,906,441	3,616,901
Income tax expense	191,530	357,337
Income before unrealized loss on investments and realized losses on sale of investments not currently deductible for tax purposes	1,714,911	3,259,564
Change in unrealized loss on investments	(190,808)	(5,478,723)
Realized losses on sale of investments not currently deductible for tax purposes	(2,236,172)	
Change in net assets	$ (712,069)	$ (2,219,159)

See Notes to Financial Statements

STATEMENT OF CHANGES IN NET ASSETS — MODIFIED INCOME TAX BASIS

For the Years Ended December 31, 2002 and 2001

	2002	2001
Change in net assets	$ (712,069)	$ (2,219,153)
Transfer of Shee Atiká Lodge and related lodge assets from Shee Atiká, Incorporated	4,550,150	
Transfer of Atikon investment from Shee Atiká, Incorporated		1,176,000
Distributions to beneficiaries		
Current year distributions	(2,592,800)	(2,592,800)
Cumulative distributions to new unit holder		(7,950)
Total increase (decrease)	1,245,281	(3,643,903)
Net assets, beginning of year	51,608,010	55,251,913
Net assets, end of year	$52,853,291	$51,608,010

See Notes to Financial Statements

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Shee Atiká Fund Endowment ("SAFE") is an irrevocable settlement trust formed by Shee Atiká, Incorporated ("SAI"). SAFE was established to maintain assets and pay distributions to beneficiaries (unit holders) who are also shareholders of SAI. Members of the Board of SAI act as the trustees.

SAI is an Urban Corporation organized pursuant to the Alaska Native Claims Settlement Act ("ANCSA"). ANCSA, as amended, authorizes the conveyance of assets by a Native corporation to a settlement trust.

SAFE's voting trust units were issued to SAI's shareholders in direct proportion to their shares of voting common stock. Nonvoting trust units were issued to any person who had acquired SAI's shares and who is not a "Native" or a "Descendant of a Native" within the meaning of ANCSA, in direct proportion to their shares of nonvoting common stock. The trust units are not generally transferable. At December 31, 2002, there were 185,200 trust units (of which 182,173 were voting and 3,027 were nonvoting) held by over 2,500 beneficiaries.

The Settlement Trust Agreement requires that a minimum of 75% and a maximum of 100% of annual net cash income, as defined, is to be distributed to beneficiaries, semiannually. The amount of distributions ($14 per unit in both 2002 and 2001) are determined by the board of trustees, but must be between the minimum and maximum amounts. Distributions are pro rata based on the number of trust units owned. SAFE has adopted a goal whereby it distributes approximately 5.5% of net assets (based on a five-year rolling average) each year, not to exceed the limits discussed above. In meeting this goal, in 2002, realized gains of approximately $500,000 were allocated to net cash income and distributed to beneficiaries. These realized gains are included in the determination of realized losses on the sale of investment in the statements of revenue and expenses — modified income tax basis.

After the fifteenth anniversary of SAFE (January 4, 2008), the trustees may modify the terms of the trust agreement. The modifications may include changing the percentage of net cash income that is distributed, modifying the principal distribution provisions, or terminating SAFE and distributing all principal and accrued income to the beneficiaries.

BASIS OF ACCOUNTING

SAFE's policy is to prepare its financial statements on the income tax basis of accounting, except it recognizes its investments at market value rather than cost ("the modified income tax basis"). Consequently, certain revenues are recognized when received (rather than when earned) and certain expenses are recognized when paid (rather than when the expense is incurred). Also, under the modified income tax basis, activity related to Atikon Forest Products, Inc. is only recognized when cash is received (as dividend income or return of capital) or when cash is paid out (as an additional investment). Under accounting principles generally accepted in the United States, the activity related to Atikon Forest Products, Inc. would be recognized on the equity method.

Note 1 (Continued)

CASH AND CASH EQUIVALENTS

SAFE considers money market funds and highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. SAFE has cash and investments in excess of government sponsored insurance limits.

INVESTMENTS

- Investments in common stocks (other than the Atikon investment) and corporate bonds are carried at a value based on the applicable price on an exchange, or the bid price on the last trading day of the year. These investment securities are traded on various United States exchanges and are therefore subject to the market volatility in those exchanges.
- Investments in mutual funds are based on redemption prices quoted by the fund on the last day of the year. The international mutual funds invest in securities of various entities in many different countries to mitigate risk.
- Investments in Unit Trusts (Standard & Poor's 500, Standard & Poor's Mid-Cap, NASDAQ 100, and Russell 1000 Value Index) are also carried at a value based on the applicable price on a United States exchange.
- Investments in mortgage-backed and other asset-backed securities are traded by market-makers and are carried at values determined by brokerage houses on the last day of the year.
- Real estate mortgage investment conduits ("remics") are carried at a value determined by a recognized investment valuation service because no organized trading market exists for these securities. The values, as determined, are based on various assumptions at a point in time and, therefore, the actual results may differ significantly when the securities are sold. Additionally, since no organized trading market exists, liquidity may be impaired under certain market conditions.
- The investment in Atikon represents 4,900 shares (a 49% interest) in Atikon Forest Products, Inc. ("Atikon"). In a prior year, Atikon acquired from SAI all of SAI's timber located on Admiralty Island. Substantially all of this timber has now been harvested. In 2001, SAI transferred this investment to SAFE and the investment is stated at management's estimate of fair market value at the date of transfer less any return of original capital.

The difference between cost and market value of securities held at year-end represents unrealized gains or losses on investments. Realized gains or losses from securities transactions are determined on the basis of the cost of the specific securities sold and are recorded on the trade date.

SHEE ATIKÁ LODGE AND RELATED LODGE ASSETS

The Shee Atiká Lodge ("the Lodge") and related lodge assets represents the Lodge, land where the Lodge is located, and related operating accounts. These assets and liabilities were transferred from SAI to SAFE on December 31, 2002, at their income tax basis. These assets and liabilities include the following:

Lodge building	$ 3,475,791
Lodge land	624,902
Other Lodge equipment	293,082
Cash	63,828
Accounts receivable	158,657
Inventory	96,072
Accounts payable	(162,182)
	$ 4,550,150

INCOME TAXES

Effective January 1, 2001, SAFE elected to be taxed at a rate of approximately 10% on taxable income as defined in the Internal Revenue Code.

ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 INVESTMENT EXPENSES

SAFE pays custodial fees to U.S. Bank at a varying annual rate that averages 0.04% of SAFE's average daily net assets at market value, and $7.50 for each security transaction. SAFE pays management fees to certain of its investment managers computed at an annual rate varying from 0.35% to 0.45% of the SAFE's average daily net assets under their management at market value. Finally, SAFE pays an annual investment advisory fee of $25,000.

NOTE 3 INVESTMENTS

Investments are summarized as follows:

	2002 Market Value	2002 Cost	2001 Market Value	2001 Cost
Common stocks	$ —	$ —	$ 13,650,580	$ 13,115,710
Corporate bonds	2,776,392	3,224,063	3,260,903	3,353,539
Mutual funds				
American Euro Pacific Growth International Fund	4,266,179	5,292,434	4,938,174	5,247,959
Pimco Total Return Bond Fund	10,999,003	11,133,604	5,309,421	5,608,834
Unit Trust holding shares in all companies in the Standard & Poor's 500 companies			8,025,413	9,664,610
Unit Trust holding shares in all companies in the Standard & Poor's Mid-Cap companies	2,400,236	3,012,024	2,831,170	2,804,446
Unit Trust holding shares in all companies in the NASDAQ 100 companies			39,571	100,480
Unit Trust holding shares in the Russell 1000 Value Index	1,744,560	2,145,483	1,352,647	1,396,123
REMICS and mortgage-backed debt securities guaranteed by an agency of the United States Government	13,986,154	13,630,482	6,160,971	6,111,990
Mortgage-backed and other asset-backed debt securities	3,120,903	3,625,462	4,135,264	4,879,741
Investment in Atikon	560,993	560,993	1,045,538	1,045,538
	$ 39,854,420	$ 42,624,545	$ 50,749,652	$ 53,328,970

Real Estate Mortgage Investment Conduits (REMICS) are debt securities that are repaid from cash flows from property mortgages. REMICS have many different interest rates, average lives, prepayment sensitivities, and final maturities. Mortgage-backed debt securities are issued by a trust that holds a fixed pool of property mortgages.

Generally, REMICS and mortgage-backed debt securities guaranteed by an agency of the United States Government are guaranteed only by that agency and are not obligations nor are they guaranteed by the full faith and credit of the United States Government.

Mortgage-backed and other asset-backed debt securities are issued by a variety of companies generally headquartered in the United States.

Realized losses on sale of investments resulted primarily from the disposition of the Unit Trust Holding shares in all companies in the Standard & Poor's 500 companies.

SHEE ATIKÁ BENEFITS TRUST MANAGEMENT REPORT

Dear Unit Holder:

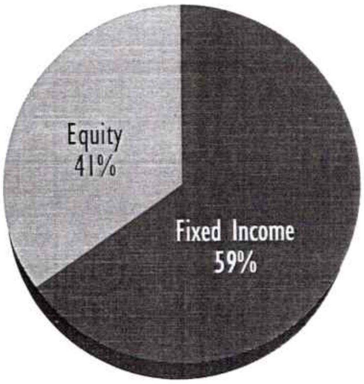
We are pleased to set forth the results of operations of the trust for the year ending December 31, 2002. We have tried to make this report as easy to read as possible, but it is somewhat technical in nature. You may want to refer to some of the definitions on the inside back cover to help you.

TAXABILITY OF BENEFITS

The same taxation principles apply to the Shee Atiká Benefits Trust benefits (scholarships and funeral benefits) as to the SAFE distributions, since both trusts made the Section 646 election in 2001. Thus we will not repeat that entire discussion here. SABT, like SAFE, did not earn enough after-tax income in 2002 to shelter the entire amount of benefits from taxation at the individual level.

INVESTING ACTIVITIES

The decrease in net assets of $417,607 is composed of the following: interest, dividends and capital gains distributions contributed $65,788, offset by a net realized loss on the sale of assets of $221,207, expenses of $24,422, income tax of $3,860 and an unrealized loss of $16,181.



SHEE ATIKÁ BENEFITS TRUST ASSET ALLOCATION
December 31, 2002

The asset allocation at year-end was roughly one-third equity (stock) investments and two-thirds fixed income (bond) investments. The equity fund employed is the Rainier Investment Management Core Equity Fund. The fixed income investments are U.S. government agency mortgage-backed securities.

As was the case with the Shee Atiká Fund Endowment, our equity fund performed poorly in 2002, while our bonds performed well.

Our new investment advisor, R.V. Kuhns & Associates, will assist us to examine the asset allocation of SABT and help make any necessary changes. The Shee Atiká Benefits Trust Board of Trustees will also look at an additional cash contribution to the trust from SAI this year.

SCHOLARSHIPS

Shareholders have repeatedly emphasized the importance of education. Accordingly, we have continued to place great importance on our scholarship program. During the 2002 fiscal year we gave scholarships to 127 shareholders totaling $201,740, down from $217,439 in 2001.

All Class A and Class B shareholders are eligible for scholarships in the amount of up to $2,000 per academic year per shareholder for undergraduate, vocational technical training, and cultural heritage study. The maximum benefit for graduate studies (MA, MS, MBA, Ph.D., law school, medical school, dental school and the like) is $4,000 per year.

It is the intent of the scholarship program to encourage attendance at college, trade or vocational school, or for other training reasonably designed to help a shareholder with job preparation or job enhancement. Scholarships are also available to encourage training in the traditional arts, crafts and customs of a shareholder's culture or heritage.

The Scholarship Committee continues its excellent work in reviewing applications, making awards and setting policies regarding the award process. The committee is composed of Kathryn "Kitty" Eddy, Chairman; Gillian Havrilla, Vice Chairman; and Lavina Adams, Brian James, June Koval and Pamela Steffes. Lillian Young, Shee Atiká's Shareholder Services Manager, serves as administrator for the program.

As always, we are sincerely grateful for the hard work of the committee and our administrator.

FUNERAL BENEFITS

The funeral benefit program makes a one-time cash payment to the family of any deceased Shee Atiká shareholder. The benefit is an amount up to $1,000 to cover funeral and related expenses, plus an additional $250 to cover the tax liability associated with the benefit. The program is available to the families of all shareholders, and continues to be an important and welcome benefit at a time of grief.

We paid funeral benefits totaling $14,985 in 2002, down from $21,631 in 2001.

OUTLOOK

The outlook for SABT is similar as that described for SAFE. Your board and management will continue to monitor the situation and take appropriate action to safeguard the trust.

SABT is the simplest of the three entities owned by Shee Atiká shareholders. Nonetheless, this report contains financial and technical data that may give rise to questions that, should you ask, we would be pleased to answer. We are here to help you in any way possible. Please call, write or visit if you have questions or comments. The door is always open.

Marion Williams Berry

Marion Williams Berry
Chairman of the Board

Robert G. Loiselle

Robert G. Loiselle
President and Chief Executive Officer

INDEPENDENT AUDITORS' REPORT

PETERSON SULLIVAN P.L.L.C.
601 Union Street Suite 2300 Seattle WA 98101 (206) 382-7777 Fax 382-7700
Certified Public Accountants

To the Board of Trustees
Shee Atiká Benefits Trust
Sitka, Alaska

We have audited the accompanying statements of net assets — modified income tax basis of Shee Atiká Benefits Trust as of December 31, 2002 and 2001, and the related statements of revenues and expenses — modified income tax basis, and changes in net assets — modified income tax basis for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of accounting the Trust uses for income tax purposes, except that it accounts for investments at market value (investments are valued at cost on the basis of accounting the Trust uses for income tax purposes) ("the modified income tax basis"). The purpose of using the income tax basis of accounting is to make the statements easier to use for the Trust unit holders. The income tax basis of accounting is a comprehensive basis of accounting other than accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the net assets of Shee Atiká Benefits Trust as of December 31, 2002 and 2001, and its revenues and expenses and changes in net assets for the years then ended, on the modified income tax basis of accounting as described in Note 1.

Peterson Sullivan PLLC

January 20, 2003

NET ASSETS — MODIFIED INCOME TAX BASIS
December 31, 2002 and 2001

	2002	2001
ASSETS		
Investments, at market value	$ 1,801,588	$ 2,294,954
Cash and cash equivalents	192,622	123,559
Total assets	1,994,210	2,418,513
LIABILITIES		
Income taxes payable	440	7,136
Net assets	$ 1,993,770	$ 2,411,377

REVENUES AND EXPENSES — MODIFIED INCOME TAX BASIS
For the Years Ended December 31, 2002 and 2001

	2002	2001
Investment income		
Interest, dividends, and capital gain distributions	$ 65,788	$ 76,808
Realized losses on sale of investments (losses limited to $3,000 for tax purposes)	(3,000)	(1,023)
Other income		10,003
	62,788	85,788
Administrative expenses	24,422	14,663
	38,366	71,125
Income tax expense	3,860	7,136
Income (loss) before unrealized loss on investments and realized losses on sale of investments not currently deductible for tax purposes	34,506	63,989
Change in unrealized loss on investments	(16,181)	(204,998)
Realized losses on sale of investments not currently deductible for tax purposes	(219,207)	
Change in net assets	$ (200,882)	$ (141,009)

CHANGES IN NET ASSETS — MODIFIED INCOME TAX BASIS
For the Years Ended December 31, 2002 and 2001

	2002	2001
Change in net assets	$ (200,882)	$ (141,009)
Distributions to beneficiaries		
Scholarships	(201,740)	(217,439)
Funeral benefits	(14,985)	(21,631)
Total distributions	(216,725)	(239,070)
Total decrease	(417,607)	(380,079)
Net assets, beginning of year	2,411,377	2,791,456
Net assets, end of year	$ 1,993,770	$ 2,411,377

See Notes to Financial Statements

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Shee Atiká Benefits Trust ("SABT") is an irrevocable settlement trust formed by Shee Atiká, Incorporated ("SAI"). SABT was established to provide educational and funeral benefits to beneficiaries (unit holders) who are also shareholders of SAI. Members of the Board of SAI act as the trustees.

SAI is an Urban Corporation organized pursuant to the Alaska Native Claims Settlement Act ("ANCSA"). ANCSA, as amended, authorizes the conveyance of assets by a Native corporation to a settlement trust.

SABT's voting trust units were issued to SAI's shareholders in direct proportion to their shares of SAI voting common stock. Nonvoting trust units were issued to any person who had acquired SAI's shares and who is not a "Native" or a "Descendant of a Native" within the meaning of ANCSA, in direct proportion to their shares of SAI nonvoting common stock. The trust units are not generally transferable. At December 31, 2002, there were 185,200 trust units (of which 182,173 were voting and 3,027 were nonvoting) held by over 2,500 beneficiaries.

The Settlement Trust Agreement allows annual distributions up to 100% of net cash income, as defined, and up to 20% of principal, to provide educational and funeral benefits. There is no minimum required distribution.

After the tenth anniversary of SABT (November 8, 2007), the trustees may modify the terms of the trust agreement. The modifications may include changing the percent of net cash income that may be used to provide benefits, modifying the principal distribution provisions, or terminating SABT and distributing all principal and accrued income to the beneficiaries.

SIGNIFICANT ACCOUNTING POLICIES

SABT's policy is to prepare its financial statements on the income tax basis of accounting, except it recognizes its investments at market value rather than cost ("the modified tax basis"). Consequently, certain revenues are recognized when received (rather than when earned) and certain expenses are recognized when paid (rather than when the expense is incurred).

Investments in mutual funds are stated at redemption prices quoted by the fund on the last day of the year. Investments in mortgage-backed debt securities are guaranteed by United States Government agencies and are stated at the closing bid price on the last day of the year. The investment in the Unit Trust (Standard & Poor's 500) is stated at a value based on the applicable price on a United States stock exchange. Each of these investments is subject to market volatility.

The difference between cost and market value of securities held at year-end represents unrealized gains or losses on investments. Realized gains and losses from securities transactions are determined on the basis of the cost of the specific securities sold and are recorded at trade date.

Note 1 (Continued)

SABT considers money market funds and highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. SABT regularly has cash and investment balances in excess of government sponsored insurance limits.

Effective January 1, 2001, SABT elected to be taxed at a rate of 10% on taxable income as defined in the Internal Revenue Code.

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 INVESTMENTS

Investments are summarized as follows:

	— 2002 —		— 2001 —	
	Market Value	Cost	Market Value	Cost
Rainier Core Equity Mutual Fund	$ 671,461	$ 943,531	$ 876,041	$ 943,531
Unit Trust holding shares in all companies in Standard & Poor's 500 companies			580,936	753,726
Mortgage-backed debt securities guaranteed by U.S. Government agencies	1,130,127	1,072,990	837,977	796,448
	$ 1,801,588	$ 2,016,521	$ 2,294,954	$ 2,493,705

Mortgage-backed securities guaranteed by an agency of the United States Government are guaranteed only by that agency and are not obligations nor are they guaranteed by the full faith and credit of the United States Government.

Realized losses on sale of investments resulted primarily from the disposition of the Unit Trust holding shares in all companies in the Standard & Poor's 500 companies.

DEFINITIONS

Class A Shareholder – a shareholder who is Alaska Native, as defined by the Alaska Native Claims Settlement Act, or their legal descendants. Only Class A shareholders can vote in ANCSA corporate elections.

Class B Shareholder – a non-Native who has inherited shares. While Class B shareholders cannot vote in ANCSA corporate elections, they receive the same benefits as Class A shareholders.

Equity Investment – Any investment that gives the investor an ownership position in something. A share of stock is our primary example. When we purchase stock we buy an ownership share in a corporation. We buy it because we believe that its value will increase. Some stocks pay dividends and some do not.

Fixed Income Investment – Usually called a bond, which is the most common type of fixed income investment. A fixed income investment is any investment that is in the form of a loan. When a bond is purchased, the investor is loaning his money. A Treasury note, bill, or bond is a loan to the U.S. Government. A corporate bond is a loan to the corporation issuing the bond.

Federal Reserve – The central banking system of the U.S., composed of the Federal Reserve Board, the 12 Federal Reserve Banks, and the national and state member banks. Its primary purpose is to regulate the flow of money and credit in the country. The Federal Reserve's monetary policies have a powerful effect on interest rates.

Gifting Shares – an option provided through the so-called "1991 Amendments" to ANCSA that allows a shareholder to give shares to legal descendents. An amendment was necessary to allow such a transaction since shares cannot be sold, and prior to the 1991 amendments, the only way shares could be passed on to descendents was through inheritance following a death.

Index Funds – investments in a pool of stocks (equities) that mirror an index such as the S&P 500 or the Dow Jones Industrials. By indexing, an investor usually buys the stocks of the same companies that comprise an index (through a mutual fund or index shares), and remains invested, thereby minimizing stock transactions and taxable short-term gains. The value of such investments will grow at the same rate as the index. In other words, if the S&P 500 gains 10% in value in a given period of time, the index funds will grow at the same rate.

LLC: Limited Liability Company – A business structure that is a hybrid of a partnership and a corporation. Its owners are shielded from personal liability and all profits and losses pass directly to the owners without taxation of the entity itself. Shee Atiká's LLCs are 100% owned and are consolidated with Shee Atiká, Incorporated for financial statement and tax reporting. The Shee Atiká President & CEO is also the Manager of the LLCs.

Net Asset Value – This is the "net worth" or the "equity value" of a trust. The net asset value is equal to the market value of all assets less the liabilities of the trust.

ROI: Return on Investment – Earnings from an investment expressed as a percentage of the amount invested.

SAFE – Shee Atiká Fund Endowment. SAFE is a trust fund, often referred to as the "settlement trust" or the "permanent fund." All of these terms mean the same thing and will be referred to as SAFE.

SABT – Shee Atiká Benefits Trust. Established by shareholder vote in 1997, and funded in 1998 following receipt of a satisfactory IRS ruling. The earnings of this trust provide shareholder education and funeral benefits. Like SAFE, SABT is a settlement trust.

SAI – Shee Atiká Incorporated, the for-profit Alaska Native Claims Settlement Act (ANCSA) urban corporation of Sitka, Alaska. SAI is a separate legal entity, operating under different rules and tax regulations than the two settlement trusts, SAFE and SABT.

Security or Investment Security – These terms can mean either stocks or bonds, or both.

SPDRs – Standard & Poors Depository Receipts, nicknamed "spiders," is an index fund that mirrors the composition of the S&P 500, an assortment of 500 publicly traded companies.

Deferred Tax Assets – Deferred tax assets are tax benefits (such as unused net operating tax losses, or NOLs) that are expected to be used in the future. Deferred tax liabilities are the result of income being recognized in the financial statements, but not yet in the tax return (such as increases in the market value of investments, where income taxes aren't paid until the investment is sold). The changes in deferred tax assets and liabilities between years are reflected in the income statement as a deferred tax benefit or a deferred tax provision.

Trust – A legal entity created by a person or organization. SAFE and SABT are settlement trusts created by SAI under the terms of the Alaska Native Claims Settlement Act. A trust is governed by different principles and rules than a corporation.

Trust Agreement – Rules that govern the trust. The trust agreement takes the place of Articles of Incorporation and Bylaws that govern the activities of a corporation.

Trustee – A member of the board of trustees. Like a corporation, trusts are managed by a board. In trust law a board member is a "trustee." In corporate law a board member is a "director." Therefore, a trust board is called a "board of trustees" and a corporate board is called a "board of directors." The persons who serve on the board of trustees of SAFE and SABT are the same persons who serve on the board of directors of SAI.

Unit – An ownership share in a trust, and means the same as "share" when referring to a corporation.

Unit Holder – A part owner of a trust, and means the same as "shareholder" when referring to a corporation. Sometimes, "unit holders" are referred to as "beneficiaries" because they mean the same thing. All SAI shareholders are also unit holders of SAFE and SABT.

2002 REAL ESTATE ACQUISITIONS

See Management Discussion, page 5

THE
SHEE ATIKÁ
GROUP

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