THE

SHEE ATIKÁ

GROUP

2003 ANNUAL REPORT

Celebrating 30 Years

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
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Ronald James
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Stock Transfers

Shee Atiká, Incorporated

Shee Atiká Benefits Trust Scholarship Committee

Gillian Havrilla, Chairman

Dr. Pamela Steffes, Vice Chairman

Lavina Adams

June Koval

Francis Dunne

Pauline Duncan

THE
SHEE ATIKÁ
GROUP

2003 ANNUAL REPORTS OF
SHEE ATIKÁ, INCORPORATED
SHEE ATIKÁ FUND ENDOWMENT
SHEE ATIKÁ BENEFITS TRUST

CONTENTS

BOARD OF DIRECTORS

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Vice Chairman

Harold Donnely Jr.
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Ethel Staton
Secretary

Gene Bartolaba

Francine Eddy Jones

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30 *YEARS*

Dear Shareholder:

We are pleased to present the 2003 Annual Report for the Shee Atiká Group on the 30th anniversary of Shee Atiká, Incorporated. Our annual report differs slightly from previous years in that we have consolidated the management reports for Shee Atiká, Incorporated (SAI), Shee Atiká Fund Endowment (SAFE) and Shee Atiká Benefits Trust (SABT), followed by the individual financial statements.

By combining the management reports we underline the very concept of the Shee Atiká Group: all shareholder assets are managed in concert to provide the greatest overall benefit to shareholders, regardless of which assets are owned by each entity. Although managed in unity, each corporate entity within the Shee Atiká Group has unique tax and legal aspects designed to efficiently produce certain benefits.

For example, the trusts (SAFE & SABT) have very favorable tax characteristics, limiting federal tax to a 10% rate for ordinary income and 5% on long-term capital gains and dividends. Now, when we contribute significant assets (most recently the Shee Atiká Lodge at the end of 2002) from SAI to SAFE, these assets can produce greater after-tax income.

SAI continues to be the repository for all of Shee Atiká's ANCSA lands, as well as significant commercial real estate, both in Sitka and the Lower 48 and remains the heart and soul of the Group.

The Shee Atiká Group is now very much a real estate company, with nearly 45 percent of the Group's assets invested either directly through our commercial buildings, hotels and land, or indirectly, through the real estate investments trust (REITs) held by SAFE.

We look forward to seeing you at the annual meeting and at our spring and fall shareholder meetings. We will continue to do our best to keep you informed through frequent newsletters and through our web site, sheeatika.com. Breaking news is posted on the web site immediately, so for the latest, that's the place to go.

On behalf of the Board of Directors and the entire staff, it is our pleasure, privilege and honor to serve you, our shareholders. Please feel free to contact us at any time with questions or concerns. Our door is always open.

Gunalcheesh!

Marion Williams Berry
Marion Williams Berry
Chairman of the Board

Robert G. Loiselle
Robert G. Loiselle
President and Chief Executive Officer

SHEE ATIKÁ GROUP MANAGEMENT REPORT

Our objective is to maximize the return on the total Group's assets, particularly on an after-tax basis. Vastly improved financial markets allowed us to do that in 2003. Collectively, the Shee Atiká Group earned $5.35 million in 2003. SAFE earned $5.59 million, SABT earned $16,613, and Shee Atiká, Incorporated had a loss of $253,494, largely the result of a major transfer of assets to SAFE as explained below.

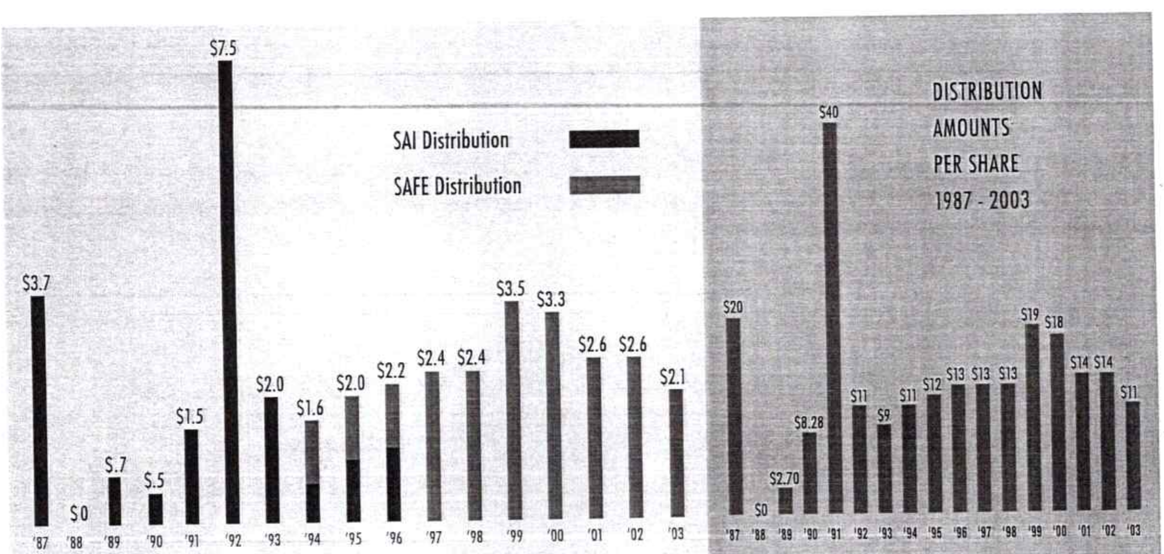
In 2003, SAI began charging SAFE and SABT for administration expenses. As you may know, SAI provides all of the administrative support for the two trusts. In previous years, SAI simply absorbed these costs, making what were, in effect, non-cash donations by SAI to SAFE and SABT.

With the contribution of additional SAI assets to SAFE and SABT, it is now appropriate for SAI to charge the two trusts for these services. Thus, out of total SAI general and administrative expenses of $1.62 million, SAFE was charged $229,322 and SABT was charged $203,673. These charges are based on estimated time spent by staff on each of these entities.

SHEE ATIKÁ GROUP
COMBINED NET WORTH
SAI, SAFE & SABT
$85.2 MILLION
December 31, 2003

The other significant financial matter that relates to the Group is the tax status of shareholder distributions from SAFE, and scholarships and funeral benefits from SABT. Both SAFE and SABT previously made Internal Revenue Code Section 646 elections, which provide for special tax treatment for ANCSA settlement trusts. The basic tradeoff for making the election is that at the trust level we lose the deductibility of distributions, but we end up with a much lower trust tax rate (10% on ordinary income and 5% on dividends and long-term capital gains); at the shareholder level, distributions and benefits are sheltered from taxes.

There is no way to explain tax topics of this nature both simply and accurately. Shareholders who wish to explore these issues more fully are encouraged to contact us for the whole explanation, but you should be aware that maintaining the shareholder tax exemption for distributions and benefits depends



SAI AND SAFE CASH DISTRIBUTIONS 1987 - 2003 on factors that may change. To make a long story short, when the corporation does not have positive "earnings and profits" as defined by the IRS, then distributions (from the trusts or the corporation) are not taxable.

The case in point is the declared loss of $253,494 by SAI in 2003, which resulted in negative "earnings and profits." For shareholders, this meant that none of you had to declare SAFE distributions or SABT benefit payments as income — these benefits were all tax-exempt.

The loss for the year was attributable to the transfer by SAI of the Shee Atiká Lodge, with its significant earning power, to SAFE at the end of 2002. Thus SAI's results for the year were slightly negative.

The other way to avoid shareholder tax is to have the trusts earn more on an after-tax basis than the distributions or benefits that were paid. This may not always be possible since some of the earnings at year-end are unrealized and thus not part of taxable income.

While our goal is to get the most after-tax benefit to our shareholders, we cannot guarantee that distributions will be tax-free each year. However, taxability of distributions and benefit payments is a key concern and our current structure provides us with flexibility in managing the affairs of the Group in a manner that gives us a good chance of achieving that goal.

Finally, please be assured that despite all the tax planning that goes on, it is still our focus to earn the most possible for the Group taken as a whole. That means taking advantage of opportunities that can provide a good return on investment commensurate with a reasonable level of risk.

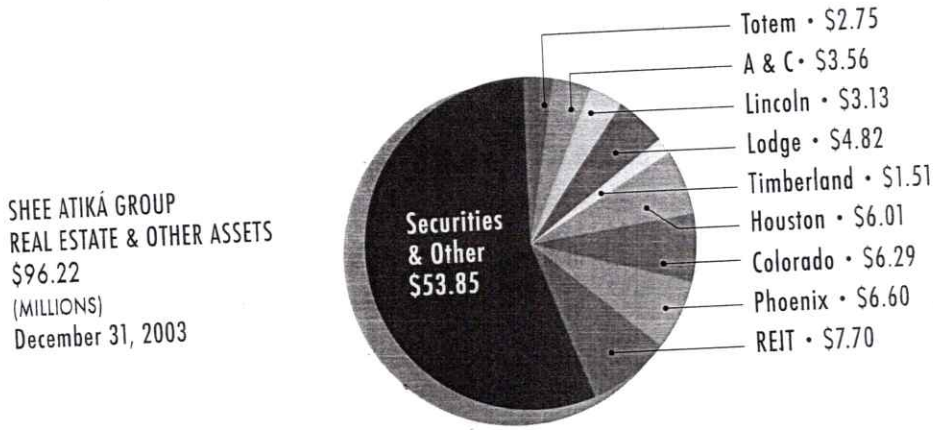
SHEE ATIKÁ, INCORPORATED

Shee Atiká, Incorporated had a net loss of $253,494 for the year. As explained above, this is largely the result of contributing the Shee Atiká Lodge to SAFE. Had the Lodge remained in SAI, it would have added roughly $470,000 to net income. The hotel income and expense shown for 2003 reflects the operation of the Totem Square Inn, a seasonal facility in the Totem Square Complex (formerly the Sheffield Hotel) managed by Westmark.

Rentals from commercial buildings increased from $1 million to slightly over $1.9 million with the addition of the ITT Educational Services Building in Phoenix.

On February 25, 2004, ITT Educational Services was served with federal warrants and subpoenas seeking information regarding allegations concerning information provided by the company relating to graduation rates, placement rates, retention rates and related information. Subsequent to this announcement, a number of class-action lawsuits were filed against the company. The company is cooperating with authorities, its facilities are operating as usual and they continue to pay rent. To date, no charges have been brought in the investigation. The impact of the investigation and the related lawsuits is not certain at this time, though a number of analysts have concluded that these actions should not be life-threatening to ITT.

We concluded the sale of the five townhouse units on Alice Island in 2003. This was basically a breakeven project for us. It proved the wisdom of not jumping in with a greater number of units. These unique homes appealed to too narrow a segment of the marketplace and people were not willing to pay the projected asking price, forcing us to lower prices. Residential home development is also very time-consuming, particularly if you are doing it on a small scale. It was a good learning experience, and will influence how we approach future development on Alice Island.



The completion of the Shee Atiká Building, Kutees' Hit, on Lincoln Street in October of last year culminated another busy construction season for Shee Atiká, with a major re-siding project also taking place at the Shee Atiká Lodge during the same period. The Shee Atiká Group is now happily at home in its new offices on the third floor, with Alaska Pacific Bank, Sitka Wellness Center, Sitka Charters and US Travel on the second floor and Little Tokyo, Tea-Licious and Tea-Licious Gallery on the ground floor. The building is now fully occupied.

Investment income was down in 2003 as we shifted cash from fixed income investments to real estate in the form of the ITT building in Phoenix and the Shee Atiká Building, Kutees' Hit in Sitka. Low interest rates also impacted investment income.

The book value of Shee Atiká, Incorporated's assets climbed from $33.5 million in 2002 to $37.6 million in 2003, largely reflecting the debt taken on when acquiring the Phoenix building and debt used in the construction of the Shee Atiká Building, Kutees' Hit.

In 2003, SAI made an additional $200,000 contribution to SABT to help stabilize the value of the trust. Additional contributions will likely be made in the future to this important organization.

Over the last two years we have taken on about $10.75 million in debt. This "financial leverage" allowed us to acquire additional high-quality properties, spreading the risk over several tenants and geographic

The Shee Atiká-owned ITT Building in Phoenix, Arizona areas. We were also able to acquire this debt at historically low interest rates, locking those rates in for an average of over ten years and enhancing the already solid returns from these properties.

On the other hand, all of the properties were financed at roughly 50% of cost, a fairly conservative amount of debt for commercial real estate, where loan-to-value ratios often exceed 70%.

In 2004 we are looking at potential expansion of the Mitre (Colorado Springs) property. We are also involved with Sheldon Jackson College in studying the potential for a cruise ship dock to be located off their property near the Sitka National Historical Park. While it is early in the process, the preliminary results of a study conducted by the McDowell Group look favorable.

We have also engaged McDowell to help us look at options for income generating activities at Katlian Bay. The area has natural beauty and fish and wildlife resources appropriate for tourist-related ventures. This "semi-wilderness" is just a short distance out of town, yet remote and very wild by most tourists' standards. The McDowell Group is the acknowledged expert in the field of tourism development and marketing here in Alaska.

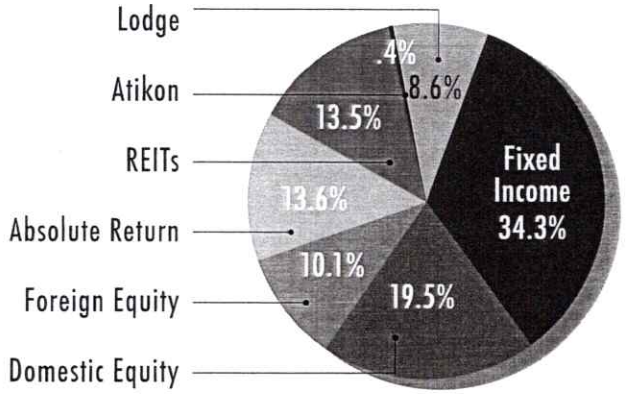
We are also looking into alternatives to generate income from Cube Cove. Shareholders told us pretty conclusively that they did not want the land sold when asked last year in an opinion survey. But they also told us they would like to see it continue to generate income, rather than have to wait for the next crop of timber to be ready for harvest some 70 years in the future.

SHEE ATIKÁ FUND ENDOWMENT

The Shee Atiká Fund Endowment (SAFE) had a solid year in 2003, with a total return of 10.57% after all expenses. Financial investments returned 13.1% for the year, with a three-year return of 2.3% and a five-year return of 4.4%.

Our return last year was down compared to that for most foundations due to our heavier exposure to fixed income, real estate and absolute return. 2003 was the year for stocks, with returns ranging from 47.3% for the Russell 2000 Small Cap index, to 28.7% for the S&P 500 Large Cap index.

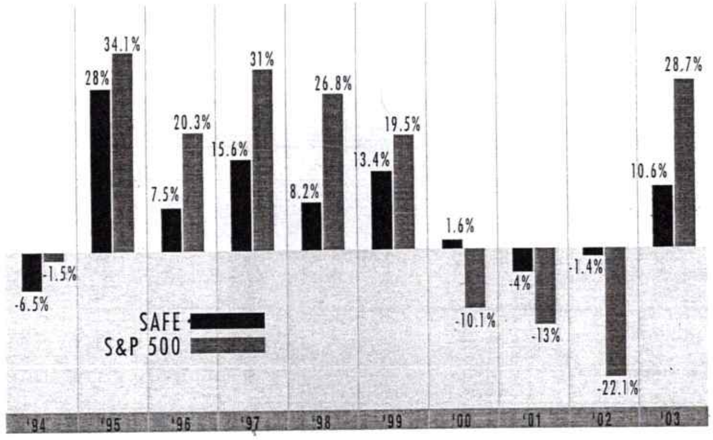
During 2003 we did reduce our exposure to fixed income (bonds) considerably, as can be seen in the accompanying charts, from 74% at the beginning of the year to 34% on December 31, 2003.



SHEE ATIKÁ FUND ENDOWMENT ASSET ALLOCATION

Interest rates continue at all time lows, but it is widely acknowledged that before too long it is likely those rates will begin to rise. Since bond prices move in the opposite direction to rates, the value of our fixed income portfolio will decline. We continue to reduce our fixed income exposure and expect to reach our target of 20% of the portfolio value by mid-year 2004.

With the help of R.V. Kuhns & Associates, we have a new asset allocation modeled on successful college endowments, such as Yale's. This has involved the addition of real estate investment trusts (REITs), an absolute return fund and new large- and small-cap managers.



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

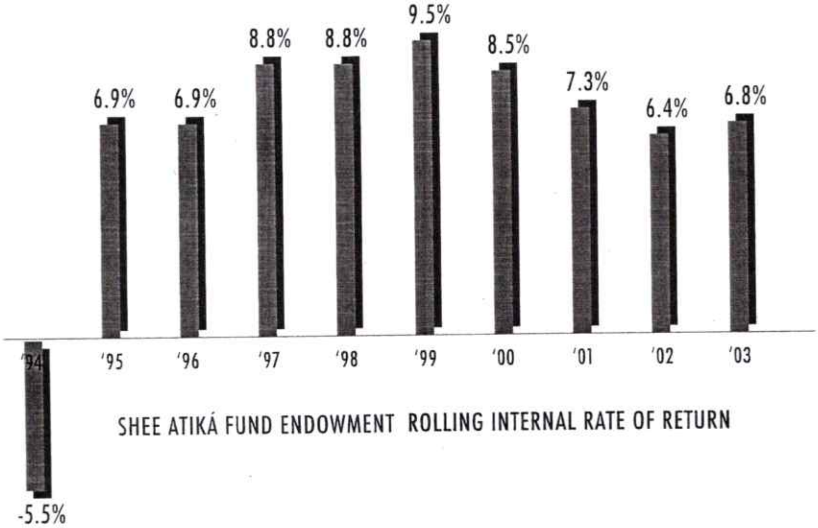
These new funds include the Dodge & Cox Stock Fund, a large cap value fund, Alliance Bernstein Strategic Fund, a large cap individually managed portfolio and the Rigel Large Growth Fund, a large cap growth investment pool.

We also hired Pinnacle Associates to manage a small/mid-cap portfolio and replaced NWQ Investment Management (fixed income) with Ferguson Wellman.

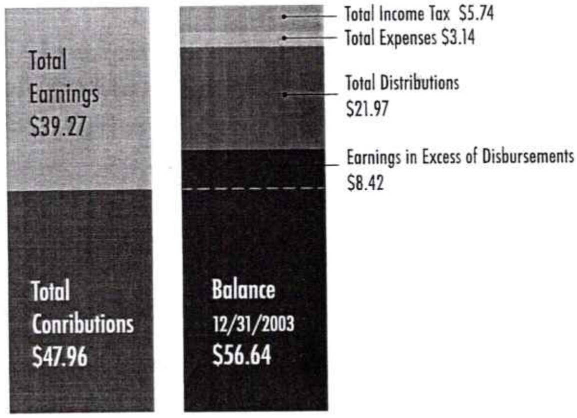
As mentioned, we also took on two entirely new investment types for SAFE—a hedge fund managed by Grosvenor Capital Management and unique real estate investment trusts (REITs) managed by Clarion and RREEF.

Grosvenor is a so-called "fund of funds," meaning that they in turn invest in 45 to 50 individual hedge funds with different investment styles. The term "hedge fund" describes very many types of hedge funds with different investment styles. Hedge fund managers share the common objective of avoiding negative returns, usually described as producing "absolute return."

Traditional money managers often speak of "relative return," that is, a return on investment measured against some benchmark such as the S&P 500. For example, in 2002 the S&P 500 was down 22.1%. A manager who had the S&P as a benchmark and lost 12%, "beat the index" by 10%—producing a



SHEE ATIKÁ FUND ENDOWMENT ROLLING INTERNAL RATE OF RETURN "strong relative performance." But he (perhaps she) lost 12% of your money, or as one pundit put it, you can't eat relative return. Many traditional managers were able to beat the S&P in 2002 but still turned in negative performances. The hedge fund manager Grosvenor, on the other hand, was up 1.94%.



SHEE ATIKÁ FUND ENDOWMENT OVER THE YEARS

The RREEF- and Clarion-managed REITS are simply private partnerships that invest in a pool of commercial properties across the country and across property types, including office, industrial, retail and residential, but not hotel, which is considered too specialized for the standard REIT.

REITs produce a reliable 6-7% income from lease payments and add 2-3% return from property appreciation over time.

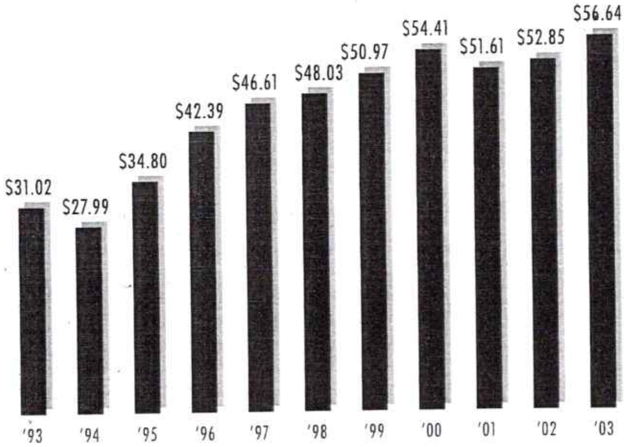
We are continuing our investigation into alternative investment types, and at a meeting in mid-March of 2004, the Board approved limited investments in a private equity fund of funds and an energy and timber fund of funds. Each of these new categories is currently limited to 5% of the total portfolio value. We will have more information on these in future newsletters.

Finally, I'd like to comment on POMV—Percent of Market Value—a topic of current discussion in Alaska. POMV is a method employed by most endowments to determine how much money is available each year for expenditure. The Alaska Permanent Fund Board of Directors would like to use this method to determine how much of the permanent fund could be spent each year.

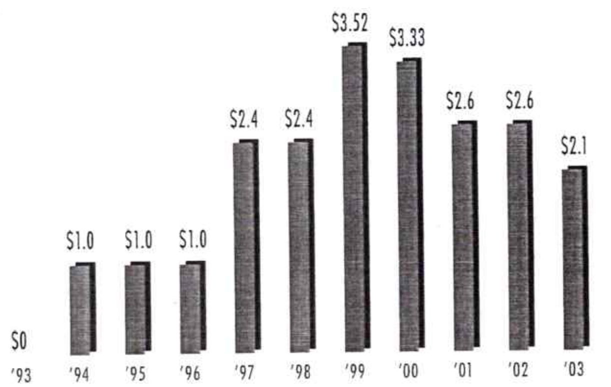
The method takes the 3- or 5-year average of the total value of the fund times some percentage. This percentage is calculated by taking the anticipated net return each year and subtracting inflation. In the state's case, they assume a 8% net return less 3% inflation, leaving 5%, which can be spent.

The use of this formula smooths the annual expenditures, since a bad year only drops the average by a small amount (depending on how many years you use). Similarly, a rise in the market will not all be spent in that year.

The SAFE trust document does not speak of POMV. Rather, it talks about distributing between 75% and 100% of "net cash income" (NCI). NCI is a somewhat imprecise concept that was designed to



SHEE ATIKÁ FUND ENDOWMENT NET ASSETS 1993 - 2003



SHEE ATIKÁ FUND ENDOWMENT CASH DISTRIBUTIONS 1993 - 2003 prevent severe depletion of the trust principal, but in and of itself does not give strong guidance to decision makers on how much is prudent to distribute. So we use POMV as a guide in determining that amount.

We have taken a somewhat more conservative approach to the percentage used, with your Board choosing to distribute roughly 4% of the 5-year rolling average of the beginning net asset value of SAFE. "Rolling" refers to the calculation in which the oldest value is dropped out and the latest year's number is added in. Thus, we dropped the 1999 value when we added the 2004 value.

As the fund grows over time, so does the indicated amount of the distribution. While the POMV model gives us guidance with regard to the amount, we must still adhere to the Trust document and its NCI provision. Also, the Board has the discretion to determine a different amount (within the NCI constraints) if it feels that it is prudent to do so. The amount of distributions paid in 2003 did, however, reflect 4% of the 5-year average of $51.6 million or $2.1 million in distributions, as does the recently declared $5.75 per unit amount scheduled for distribution on May 17, 2004.

SHEE ATIKÁ BENEFITS TRUST

The Shee Atiká Benefits Trust's investments performed well last year, with an 11% return. As with SAFE, SABT's large fixed income position affected returns when compared to the S&P 500. At the end of March 2004, the majority of SABT's assets will be invested in Shee Atiká Investments, LLC (SAIL, see below) with its much broader diversification.

Shareholders have repeatedly emphasized the importance of education. Accordingly, we have continued to place great importance on our scholarship program. During the 2003 fiscal year we gave scholarships to 154 shareholders totaling $163,253, down from $201,740.

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 and vocational technical training. 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. The Board voted to change the annual scholarship limits in early 2004 to a maximum of $2,200 per year for undergraduate programs, up from $2,000, and $4,400 per year for graduate degree programs, up from $4,000.

It is the intent of the scholarship program to encourage attendance at college, trade or vocational school, or in training programs 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.

We also make available short-term training for courses like commercial driver's license (CDL), hazardous materials handling, flagging, and asbestos abatement where completion of the course is required for an immediate employment opportunity. These courses can be approved by the CEO and do not require Scholarship Committee approval.

The Scholarship Committee continues its excellent work in reviewing applications and making awards. The committee is composed of Gillian Havrilla, Chairman; Dr. Pamela Steffes, Vice Chairman; Lavina Adams; June Koval; Francis Dunne and Pauline Duncan. 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.

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 $1,250 to cover funeral and related expenses. 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 $24,960 in 2003, up from $14,985 in 2002.

SHEE ATIKÁ INVESTMENTS, LLC

After many months of effort, we recently received Securities and Exchange Commission (SEC) approval for Shee Atiká Investments, LLC (SAIL) and the IRS has indicated that they will also issue a favorable private letter ruling with regard to the operation of SAIL. This will allow SAFE, SABT and SAI to make their initial investments in this new company at the end of March 2004.

SAIL will operate much like an in-house mutual fund for the three other entities in the Shee Atiká Group: SAFE, SABT and SAI. The investors—SAFE, SABT and SAI—own SAIL. The SAIL Board is the Shee Atiká, Incorporated Board, as is the case with all the Shee Atiká Group entities. Since SAIL is a limited liability company, all of its earnings will pass through to its owners, in proportion to their respective ownership interests.

The idea for SAIL arose when it became clear that SAFE had a much more diverse asset allocation than SABT. This diverse allocation reduces risk and promises a better and more consistent return. The problem was that many of the investments types require a minimum investment that is as large as the entire SABT portfolio. We asked ourselves if we could combine the two portfolios into one and if SAI could also invest some of its excess cash from time to time. Well, the answer was SAIL.

SAIL will initially adopt the SAFE asset allocation and investment policy. This is an evolving document that changes as we find ways to improve the risk-adjusted return of the portfolio.

OUTLOOK FOR 2004

We've already touched on many of the new projects that we will be working on in the coming year. Most of these are long-term in nature and the benefits to be derived from them will be realized in the future.

The big uncertainty for 2004 is, of course, the bond and equity markets. The very significant gains of 2003 will likely not be repeated this year. A number of market analysts predict that interest rates will begin climbing after the national election, and, should this happen, bond prices will almost certainly come down. At the beginning of 2004, equity markets started out strong, but have recently faltered, giving up much of the earlier gains. While these asset classes will remain important for the Group, we continue to look for alternative investment types to spread the risk and strengthen long-term returns.

We look for increased rental income this year as we benefit from the first full year of ownership of the ITT Tech building in Phoenix.

Early indications are that the hotel business may pick up modestly this year, with better off-season occupancies due to increased events and meetings scheduled in Sitka for the spring and fall.

All in all, the makings of a decent year.

SHEE ATIKÁ STAFF


Robert G. Loiselle
President and CEO


Victor R. Scarano
Chief Financial Officer


Faleene Sele
Senior Accountant


Gary Bernhardt
Maintenance Director


Lillian Nielsen Young
Shareholder Services Manager


Kay D. Simmons
Executive Assistant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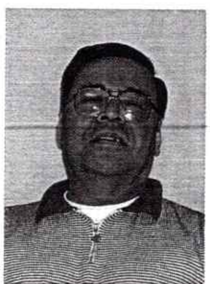
Ronald James
Maintenance Technician


Joshua Horan
Intern

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, 2003 and 2002, 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, 2003 and 2002, 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 30, 2004

CONSOLIDATED BALANCE SHEETS

December 31, 2003 and 2002

ASSETS	2003	2002
Current Assets		
Cash and cash equivalents	$ 950,727	$ 7,404,061
Trading securities	2,849,601	
Residential homes and related land		868,177
Prepaid expenses and other	137,006	97,974
Total current assets	3,937,334	8,370,212
Other Assets		
Land, buildings and equipment	30,591,448	21,823,087
Long-term investments	486,776	1,017,429
Deferred income tax benefit	2,540,000	2,330,000
	33,618,224	25,170,516
Total assets	$ 37,555,558	$ 33,540,728

LIABILITIES AND CAPITAL	2003	2002
Current Liabilities		
Accounts payable and other current liabilities	$ 296,163	$ 154,331
Current portion of long-term debt	261,659	142,486
Total current liabilities	557,822	296,817
Long-Term Debt, less current portion	10,364,833	6,157,514
Capital		
Common stock, no par or stated value, authorized 250,000 shares		
Class A, voting, issued and outstanding 182,014 shares in 2003 and 182,173 shares in 2002		
Class B, nonvoting, issued and outstanding 3,186 shares in 2003 and 3,027 shares in 2002		
Contributed capital	5,956,000	5,956,000
Retained earnings	20,676,903	21,130,397
Net worth	26,632,903	27,086,397
Total liabilities and capital	$ 37,555,558	$ 33,540,728

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31, 2003 and 2002

	2003	2002
Revenue		
Rentals from commercial buildings	$ 1,903,312	$ 1,026,053
Hotel	499,095	4,661,228
Investment income	118,538	443,348
Sale of residential homes	872,984	485,404
Trust administrative fees	411,083	
Other	40,632	27,119
	3,845,644	6,643,152
Costs and Expenses		
Hotel	168,390	3,512,727
General and administrative	1,624,815	1,280,533
Residential homes sold	938,579	430,374
Commercial buildings	437,082	297,496
Contributions	23,965	44,966
Interest	490,395	11,639
Depreciation	625,912	718,229
	4,309,138	6,295,964
Income (loss) before deferred income tax benefit	(463,494)	347,188
Deferred income tax benefit	210,000	—
Net income (loss)	$ (253,494)	$ 347,188

CONSOLIDATED STATEMENTS OF CAPITAL

Years Ended December 31, 2003 and 2002

	Shares of Common Stock Class A	Shares of Common Stock Class B	Contributed Capital	Retained Earnings	Total Net Worth
Balances, December 31, 2001	182,223	2,977	$ 5,956,000	$ 24,059,381	$ 30,015,381
Net transfers from nonvoting to voting shares	(50)	50			
Net income for the year				347,188	347,188
Distribution of Shee Atiká Lodge and related lodge assets 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
Net transfers from voting to nonvoting shares	(159)	159			
Net loss for the year				(253,494)	(253,494)
Distribution of cash to Shee Atiká Benefits Trust				(200,000)	(200,000)
Balances, December 31, 2003	182,014	3,186	$ 5,956,000	$ 20,676,903	$ 26,632,903

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2003 and 2002

	2003	2002
Cash Flows From Operating Activities		
Cash received from:		
Hotel operations	$ 501,706	$ 4,580,923
Sale of residential homes	872,984	485,404
Trust administration fees	411,083	
Interest	130,607	464,585
Rentals from commercial buildings	1,883,168	1,092,649
Other	50,290	(1,429)
	3,849,838	6,622,132
Cash paid to/for:		
Contractor, suppliers and employees	2,227,332	6,512,225
Trading securities	2,892,827	
Interest	445,885	
	5,566,044	6,512,225
Net cash flows from operating activities	(1,716,206)	109,907
Cash Flows From Investing Activities		
Purchases of land, buildings and equipment	(9,394,273)	(13,036,501)
Purchase of debt securities classified as held-to-maturity		(1,007,383)
Sale/redemption of debt securities classified as held-to-maturity	530,653	4,987,487
Sale of bond mutual fund classified as available-for-sale		2,686,628
Net cash flows from investing activities	(8,863,620)	(6,369,769)
Cash Flows From Financing Activities		
Proceeds from long-term debt	4,494,164	6,300,000
Principal repayments on long-term debt	(167,672)	
Distribution to Shee Atiká Benefits Trust	(200,000)	
Cash portion of Shee Atiká Lodge distribution to Shee Atiká Fund Endowment		(63,828)
Net cash flows from financing activities	4,126,492	6,236,172
Net change in cash and cash equivalents	(6,453,334)	(23,690)
Cash and cash equivalents, beginning of year	7,404,061	7,427,751
Cash and cash equivalents, end of year	$ 950,727	$ 7,404,061
Reconciliation of net income (loss) to net cash flows from operating activities:		
Net income (loss)	$ (253,494)	$ 347,188
Adjustments to reconcile net income (loss) to net cash flows from operating activities		
Depreciation	625,912	718,229
Deferred income tax benefit	(210,000)	
Change in operating assets and liabilities		
Trading securities	(2,849,601)	
Residential homes and related land	868,177	(868,177)
Prepaid expenses and other	(39,032)	(21,020)
Accounts payable and other current liabilities	141,832	(66,313)
Net cash flows from operating activities	$ (1,716,206)	$ 109,907

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED 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 also created regional corporations which represent geographic areas. Shee Atiká is located in the Sealaska Corporation region. Pursuant to ANCSA, Shee Atiká received the surface estate of 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, as well as $250,000 in cash. The subsurface estate in this land was conveyed to Sealaska Corporation under ANCSA.

One hundred shares of Shee Atiká's voting common stock were issued pursuant to ANCSA to each Native person enrolled. 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 five 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.

At December 31, 2003, Shee Atiká was in the process of establishing another limited liability company called Shee Atiká Investments Limited Liability Company ("SAIL"). Shee Atiká expects to pool cash and certain investments with the settlement trusts described in Note 6 into SAIL. Management believes that pooling investments in SAIL will give Shee Atiká and the settlement trusts more flexibility in their investment alternatives, plus enable Shee Atiká and Shee Atiká Benefits Trust ("SABT") to realize an enhanced asset allocation by virtue of that investment pool. SAIL also limits Shee Atiká's liability exposure to the amount of Shee Atiká's investment in SAIL. SAIL is scheduled to terminate December 31, 2023.

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. Actual results could differ from those estimates.

Property and Equipment

The estimated value of the land, including structures, along with cash received under ANCSA 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

At December 31, 2002, residential homes and related land were held as real estate for development and sale. Real estate held for development and sale was stated at cost unless the estimated future undiscounted cash flows expected to result from disposition was less than carrying value. Based on management's estimates, no losses were recorded on these assets at December 31, 2002. All real estate held for development and sale at December 31, 2002, was sold in 2003.

Profit or loss on the sale of residential homes has been recognized when the amount of revenue was determinable, certain down payment requirements are met, and no significant further involvement remained 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.

Revenue Recognition

Revenue from the sale of residential homes is accounted for as described above. Lease revenues are recognized ratably over the life of the lease. All other revenues are recognized as earned.

Cash

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.

Trading Securities

Trading securities represent bonds payable by agencies of the United States Government and are stated at market value. An unrealized loss of $43,226 was recognized on trading securities held on December 31, 2003. Realized gains and losses on trading securities transactions (and long-term investments), are determined on the specific identification method and are recorded on the trade date.

Long-Term Investments

Long-term investments represent assets reserved by Shee Atiká for future investments and consist of debt 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 partially fund the purchase of commercial buildings in Texas and Colorado. Other decreases in held-to-maturity investments result from redemptions of the debt securities. A bond mutual fund (sold in 2002) was classified as an available-for-sale security and was stated at market value which approximated cost. Therefore, no statement of comprehensive income was presented for 2002.

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 ❊ LAND, BUILDINGS AND EQUIPMENT

	2003	2002
Commercial buildings and equipment – Alaska	$ 7,214,700	$ 4,965,863
Commercial building – Texas	5,649,580	5,649,580
Commercial building – Colorado	5,971,945	5,971,945
Commercial building – Arizona	4,520,000	
Land	7,951,638	5,096,649
Other property and equipment	1,591,112	580,744
	32,898,975	22,264,781
Less accumulated depreciation	(2,307,527)	(1,681,614)
	30,591,448	20,583,167
Construction in progress – Alice Island		798,994
Construction in progress – other		440,926
	$30,591,448	$21,823,087

The commercial buildings and equipment are leased under operating leases expiring in various years through 2016 and have accumulated depreciation of $2,003,899 and $1,450,557 as of December 31, 2003 and 2002, respectively. Future lease amounts to be received are presented in Note 7.

Construction in progress – Alice Island represented infrastructure development costs in process that are expected to benefit anticipated future residential development. Construction was completed in 2003 and these costs were transferred to "Other property and equipment." Management believes these costs will be realizable as part of the eventual use and disposition of this property.

Construction in progress – other represented an office building being constructed in Sitka, Alaska. Construction was completed in 2003 and these costs were transferred to "Commercial buildings and equipment – Alaska."

The Shee Atiká Lodge ("the Lodge") represented the majority of Shee Atiká's hotel operations. The Lodge and related assets were distributed to Shee Atiká Fund Endowment on December 31, 2002 (see Note 6). Remaining hotel operations are located at Totem Square in Sitka.

Note 3 ❊ LONG-TERM INVESTMENTS

Shee Atiká's long-term investments consist of mortgage-backed debt securities guaranteed by agencies of the United States Government and amounted to $486,776 at December 31, 2003, and $1,017,429 at December 31, 2002. Sales/redemptions of these securities in 2003 and 2002 did not result in any material gains or losses.

Mortgage-backed securities held at December 31, 2003, mature as follows:

2010	$ 128,694
2020	269,360
2029	88,722
	$ 486,776

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 market interest rates, among other factors. As a result, the estimated average life of these securities is generally significantly shorter than the stated maturity dates shown above.

Note 4 ❊ LONG-TERM DEBT

	2003	2002
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	\$ 3,140,774	\$ 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	3,028,622	3,100,000
Note payable to a bank in monthly installments of \$10,621 including interest at 6.5%, due in full September 1, 2018, secured by commercial property in Alaska; guaranteed by Shee Atiká	1,206,773	
Note payable to a limited liability company owned by an insurance company. The note is due in monthly installments of \$20,663 including interest at 5.78%, due in full July 1, 2017, secured by commercial property in Arizona; guaranteed by Shee Atiká	3,250,323	
	10,626,492	6,300,000
Less: Current portion	(261,659)	(142,486)
	\$ 10,364,833	\$ 6,157,514

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

2004	\$ 261,659
2005	278,364
2006	295,325
2007	313,328
2008	331,774
Thereafter	9,146,042
	\$ 10,626,492

Note 5 ❊ INCOME TAXES

The actual income tax benefit (expense) 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):

	2003	2002
Expected tax benefit (expense)	$ 171	$ (129)
Use of net operating loss carryforwards		148
Other	39	(19)
Income tax benefit	$ 210	$ —

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

Deferred Tax Assets	2003	2002
Net operating loss carryforwards	$ 3,465	$ 3,284
Alternative minimum tax credit carryforwards	180	180
Other	19	(14)
Deferred tax asset	3,664	3,450
Deferred Tax Liabilities		
Excess of book basis in buildings and equipment	(1,124)	(1,120)
Net deferred tax asset	$ 2,540	$ 2,330

As of December 31, 2003, Shee Atiká has net operating tax loss carryforwards of approximately $9,365,000 and alternative minimum tax credit carryforwards of $180,000. The tax loss carryforwards expire primarily 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 $56,000,000 at December 31, 2003.

The second settlement trust, SABT, was established to provide scholarships and funeral benefits to Shee Atiká's shareholders who are also beneficiaries of the trust. Due to anticipated future distributions by SABT, it may require additional funding. In 2003, Shee Atiká transferred $200,000 to SABT and is considering future transfers to SABT at similar dollar amounts over the next few years. SABT has net assets of approximately $2,000,000 at December 31, 2003.

Shee Atiká provides administrative services to SAFE and SABT. It did not charge for these services in 2002, but in 2003, it charged administrative fees of $229,322 to SAFE and $181,761 to SABT.

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	Arizona	Total
2004	$ 380,000	$ 558,000	$ 557,000	$ 547,000	$ 2,042,000
2005	287,000	558,000	565,000	547,000	1,957,000
2006	282,000	576,000	574,000	547,000	1,979,000
2007	214,000	601,000	582,000	547,000	1,944,000
2008	165,000	601,000	591,000	558,000	1,915,000
Thereafter	472,000	1,553,000	2,035,000	4,331,000	8,391,000
	$ 1,800,000	$ 4,447,000	$ 4,904,000	$ 7,077,000	$ 18,228,000

Leases in Alaska are to various lessees in the Sitka area. The leases for the other buildings are each to one lessee: the building in Texas is leased to the Boeing Company, the building in Colorado is leased to the Mitre Corporation, and the building in Arizona is leased to ITT Tempe JP/PI, LLC (ITT Educational Services, Inc.).

Note 8 ❊ RELATED PARTY TRANSACTIONS

During 2003, a director purchased a townhouse condominium from Shee Atiká for $290,800 in cash. During 2003 and 2002, Shee Atiká leased commercial space to another corporation for $81,000 and $69,000, respectively, as to which a Shee Atiká director is also a director. Shee Atiká contributed approximately $10,000 each during 2003 and 2002 to a local college where two directors serve as trustees. The college and Shee Atiká are in discussion with respect to a potential transaction involving construction of a commercial dock facility to be built adjacent to land owned by the college. Currently, there is no assurance that the proposed transaction will be completed. Shee Atiká also leases space to the college. The revenue from the lease amounted to $73,101 and $68,082 for 2003 and 2002, respectively. During 2003, commissions amounting to $27,466 were paid by Shee Atiká on the sales of townhouse condominiums to a realty company in which a relative of a Shee Atiká director, who is also a shareholder, is a non-owner employee and where another shareholder is also employed.

During 2002, a Shee Atiká shareholder earned approximately $127,000 in real estate commissions related to Shee Atiká's acquisitions of commercial properties.

Shee Atiká has had other transactions with shareholders for purchases of artwork and janitorial services.

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, 2003 and 2002, 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, 2003 and 2002, 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 30, 2004

STATEMENTS OF NET ASSETS — MODIFIED INCOME TAX BASIS

December 31, 2003 and 2002

	2003	2002
ASSETS		
Investments, at market value	$ 50,821,357	$ 39,293,427
Other Investments:		
Investments in Shee Atiká Holdings Lodge, LLC	4,821,895	4,550,150
Investment in Atikon Forest Products, Inc.	339,954	560,993
Distribution receivable	105,690	
Cash and cash equivalents	569,600	8,490,251
Total assets	56,658,496	52,894,821
LIABILITIES		
Income tax payable	15,679	41,530
Net assets	56,642,817	$ 52,853,291

See Notes to Financial Statements

STATEMENTS OF REVENUES AND EXPENSES — MODIFIED INCOME TAX BASIS

For the Years Ended December 31, 2003 and 2002

	2003	2002
Revenues		
Interest	$ 922,182	$ 1,244,478
Dividends	1,114,398	860,737
Net realized gains (losses) on sales of investments (losses limited to $3,000 for tax purposes)	440,151	(3,000)
Income from Shee Atiká Holdings Lodge, LLC	447,764	
Other income (loss) on investments	(70,859)	
	2,853,636	2,102,215
Expenses		
Management, custodian, and professional fees	478,520	173,260
Other expenses	31,916	22,514
	510,436	195,774
	2,343,200	1,906,441
Income tax expense	174,679	191,530
Income before change in unrealized gain (loss) on investments and realized losses on sale of investments not currently includable for tax purposes	2,168,521	1,714,911
Change in unrealized gain (loss) on investments	3,684,133	(190,808)
Realized losses on sale of investments not currently deductible for tax purposes		(2,236,172)
Change in net assets	$ 5,852,654	$ (712,069)

See Notes to Financial Statements

STATEMENTS OF CHANGES IN NET ASSETS — MODIFIED INCOME TAX BASIS

For the Years Ended December 31, 2003 and 2002

	2003	2002
Change in net assets	$ 5,852,654	$ (712,069)
Transfer of Shee Atiká Lodge and related lodge assets from Shee Atiká, Incorporated		4,550,150
Distributions to beneficiaries	(2,063,128)	(2,592,800)
Total increase	3,789,526	1,245,281
Net assets, beginning of year	52,853,291	51,608,010
Net assets, end of year	$ 56,642,817	$ 52,853,291

See Notes to Financial Statements

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") under Alaska statute. 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 are issued to SAI's shareholders in direct proportion to their shares of voting common stock. Nonvoting trust units are issued to any person who acquires 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, 2003, there were 185,200 trust units (of which 182,014 were voting and 3,186 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, semi-annually. The amount of distributions ($11.14 per unit in 2003 and $14.00 per unit in 2002) 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 4% of net assets (based on a five-year rolling average) each year, not to exceed the limits discussed above. In meeting this goal, realized gains of approximately $27,000 were allocated to net cash income in 2003 ($500,000 in 2002) and distributed to beneficiaries. These realized gains are included in the determination of net realized gains (losses) on the sale of investments 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.

SAI provides administrative services to SAFE. It did not charge for these services in 2002, but in 2003, it charged administrative fees of $229,322 to SAFE. These fees are included in management, custodian, and professional fees on the statement of revenues and expenses – modified income tax basis for 2003.

BASIS OF ACCOUNTING

SAFE's policy is to prepare its financial statements on the income tax basis of accounting, except it recognizes its investments (other than the investment in Shee Atiká Holdings Lodge, LLC, or "SAHL", and the investment in Atika Forest Products, Inc., or "Atikon") 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).

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.

Note 1 (Continued)

INVESTMENTS AT MARKET VALUE

- Investments in common stocks, corporate bonds, and United States Treasury bills and notes 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 fund invests in securities of various entities in many different countries to mitigate risk.
- Investments in Unit Trusts (Standard & Poor's Mid-Cap, Russell 1000 Value Index, and Russell 1000 Index) are carried at a value based on the applicable price on a United States exchange.
- 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.
- Investments in other mortgage-backed and asset-backed securities are traded by market-makers and are carried at values determined by brokerage houses on the last day of the year.
- Investments in partnerships and similar investments are carried at a value determined by the entity organizing the investment because no formal organized trading market exists for these securities. Sale of investment units can only be done through redemption by the entity organizing the investment. Units can only be redeemed at certain times, and with varying amounts of notice. Due to the lack of an organized trading market and the restrictions associated with investment redemption, liquidity for these investments may be impaired under certain market conditions.

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 specific identification method and are recorded on the trade date.

OTHER INVESTMENTS

- The investment in SAHL is stated at the net value of various assets and liabilities using the income tax basis of accounting.
- The investment in Atikon represents 4,900 shares (a 49% interest) in the company. 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. Also in a prior year, SAI transferred this investment to SAFE. The investment is stated at management's estimate of fair market value at the date of transfer less any return of original capital (which approximates the expected cash to be received from it).

SHEE ATIKÁ HOLDINGS LODGE, LLC

SAHL holds the Shee Atiká Lodge ("the Lodge") and related lodge assets. This includes the Lodge, land where the Lodge is located, and related operating accounts. These assets include the following:

	2003	2002
Lodge building	$ 4,033,786	$ 3,475,791
Lodge land	624,902	624,902
Other Lodge equipment	233,474	293,082
Cash	49,651	63,828
Inventory	80,018	96,072
Other	(199,936)	(3,525)
	$ 4,821,895	$ 4,550,150

These assets were transferred from SAI to SAFE on December 31, 2002, and were then transferred to SAHL by SAFE in 2003. As an LLC, SAHL limits SAFE's liability exposure to the amount of SAFE's investment in it. SAHL is scheduled to terminate December 31, 2023. The Lodge operations were included with SAI for 2002. For 2003, SAHL operations are summarized as follows:

Lodge revenue	$ 4,025,657
Lodge expenses (including depreciation of $205,511)	(3,577,893)
	$ 447,764

INCOME TAXES

SAFE has elected to be taxed at a rate of approximately 10% on taxable income (5% on certain dividends received) as defined in the Internal Revenue Code. SAFE cannot carry non-capital taxable losses back to previous years or forward to future years to offset taxable income. SAFE can carry capital losses realized on sales of investments back to previous years and forward to future years to offset capital gains realized. In 2003, SAFE carried $443,151 of capital losses forward from 2002 which were used to offset capital gains. At December 31, 2003, SAFE has $1,784,740 of capital loss carryforwards which can be used to offset future capital gains. These carryforwards do not expire.

Certain partnerships and similar investments described in Note 3 can require SAFE to pay state income taxes. These taxes were not significant in 2003, but may be in the future.

ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. 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 .05% 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 .375% to 2.0% of the SAFE's average daily net assets under their management at market value. Finally, SAFE pays an annual investment advisory fee of $75,000.

Note 3 ❊ INVESTMENTS, AT MARKET VALUE

Investments presented at market value are summarized as follows:

	2003 Market Value	2003 Cost	2002 Market Value	2002 Cost
Common stocks	$ 4,875,537	$ 4,512,216	$ —	$ —
Corporate bonds	3,225,661	3,522,490	2,776,392	3,224,063
United States Treasury bills and notes	1,274,671	1,260,769		
Mutual funds				
American Euro Pacific Growth International Fund	5,670,115	5,350,010	4,266,179	5,292,434
Pimco Total Return Bond Fund	8,570,322	8,720,081	10,999,003	11,133,604
Dodge and Cox Stock Fund	1,871,483	1,769,782		
Unit Trust holding shares in all companies in the Standard & Poor's Mid-Cap companies			2,400,236	3,012,024
Unit Trust holding shares in the Russell 1000 Value Index			1,744,560	2,145,483
Unit Trust holding shares in the Russell 1000 Index	2,017,717	1,754,931		
Remics and mortgage-backed debt securities issued by an agency of the United States Government or by an entity originally sponsored by the United States Government	3,943,028	3,840,656	13,986,154	13,630,482
Other mortgage-backed and asset-backed debt securities	1,972,097	2,582,996	3,120,903	3,625,462
Partnerships and similar investments				
RREEF America Reit II, Inc.	1,055,163	1,028,297		
Grosvenor Multi-Strategy Fund LP	7,742,355	7,116,340		
Clarion Lion Properties Fund LLC	6,603,208	6,448,782		
Rigel Growth Fund LLC	2,000,000	2,000,000		
	$ 50,821,357	$ 49,907,350	$ 39,293,427	$ 42,063,552

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 (issued by an agency of the United States Government or by an entity originally sponsored by the United States Government) are issued by a trust that holds a fixed pool of property mortgages.

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

Partnerships and similar investments are summarized as follows:

- RREEF America REIT II, Inc. – This is a real estate investment trust investing in apartment, industrial, retail, and office properties located throughout the United States.
- Grosvenor Multi-Strategy Fund LP – This is a limited partnership investing in over 40 mutual funds. Its goal is to have positive investment returns in all investment climates (a hedge fund).
- Clarion Lion Properties Fund LLC – This is a limited liability company investing in residential, industrial, retail, and office properties located throughout the United States.
- Rigel Growth Fund LLC – This is a limited liability company investing in the common stock of larger publicly traded companies in the United States.

Note 4 ❊ SHEE ATIKÁ INVESTMENTS LIMITED LIABILITY COMPANY

At December 31, 2003, SAI was in the process of establishing a limited liability company called Shee Atiká Investments Limited Liability Company ("SAIL"). SAFE expects to pool cash and certain investments with SAI and another settlement trust called Shee Atiká Benefits Trust ("SABT"). Management believes that pooling investments in SAIL will give SAFE, SAI, and SABT more flexibility in their investment alternatives, plus enable SAI and SABT to realize an enhanced asset allocation by virtue of that investment pool. SAIL limits SAFE's liability exposure to the amount of SAFE's investment in it. SAIL is scheduled to terminate December 31, 2023.

Note 5 ❊ RELATED PARTY TRANSACTION

During 2003, a company owned by a SAFE trustee was a subcontractor on the siding project undertaken at the Lodge.

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, 2003 and 2002, 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 modified income tax basis of accounting is to make the statements easier to use for the Trust unit holders. The modified 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, 2003 and 2002, 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 30, 2004

STATEMENTS OF NET ASSETS - MODIFIED INCOME TAX BASIS

December 31, 2003 and 2002

ASSETS	2003	2002
Investments, at market value	$ 1,653,105	$ 1,801,588
Cash and cash equivalents	366,300	192,622
Income tax receivable	3,000	
Total assets	2,022,405	1,994,210
LIABILITIES		
Income taxes payable		440
Net assets	$ 2,022,405	$ 1,993,770

STATEMENTS OF REVENUES AND EXPENSES - MODIFIED INCOME TAX BASIS

For the Years Ended December 31, 2003 and 2002

	2003	2002
Investment income		
Interest, dividends, and capital gain distributions	$ 61,608	$ 65,788
Realized losses on sale of investments used for income tax purposes		(3,000)
	61,608	62,788
Administrative expenses	203,673	24,422
	(142,065)	38,366
Income tax expense		3,860
Income (loss) before change in unrealized gain (loss) on investments and realized losses on sale of investments not used for income tax purposes	(142,065)	34,506
Change in unrealized gain (loss) on investments	325,881	(16,181)
Realized losses on sale of investments not used for income tax purposes	(166,968)	(219,207)
Change in net assets	$ 16,848	$ (200,882)

STATEMENTS OF CHANGES IN NET ASSETS - MODIFIED INCOME TAX BASIS

For the Years Ended December 31, 2003 and 2002

	2003	2002
Change in net assets	$ 16,848	$ (200,882)
Transfer of cash from Shee Atiká, Incorporated	200,000	
Distributions to beneficiaries		
Scholarships	(163,253)	(201,740)
Funeral benefits	(24,960)	(14,985)
Total distributions	(188,213)	(216,725)
Total increase (decrease)	28,635	(417,607)
Net assets, beginning of year	1,993,770	2,411,377
Net assets, end of year	$ 2,022,405	$ 1,993,770

See Notes to Financial Statements

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") under Alaska statute. 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, 2003, there were 185,200 trust units (of which 182,014 were voting and 3,186 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.

SAI provides administrative services to SABT. It did not charge for these services in 2002, but in 2003, it charged administrative fees of $181,761 to SABT. These fees are included in administrative expenses on the statement of revenues and expenses - modified income tax basis for 2003.

Due to anticipated future distributions by SABT, it may require additional funding. In 2003, SAI transferred $200,000 to SABT and is considering future transfers to SABT at similar dollar amounts over the next few years.

SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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).

Cash and Cash Equivalents

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.

Investments

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 holding shares in all Standard & Poor's 500 companies is stated at a value based on the applicable price on a United States stock exchange. Investments in mutual funds are stated at redemption prices quoted by the fund on the last day of the year. 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 specific identification method and are recorded on the trade date.

Income Taxes

SABT has elected to be taxed at a rate of 10% on taxable income as defined in the Internal Revenue Code. SABT cannot carry non-capital taxable losses back to previous years or forward to future years to offset taxable income.

Estimates

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

Note 2 ⁂ INVESTMENTS

Investments are summarized as follows:

	2003		2002	
	Market Value	Cost	Market Value	Cost
Mortgage-backed debt securities guaranteed by U.S. Government agencies	$ 785,121	$ 759,427	$ 1,130,127	$ 1,072,990
Unit Trust holding shares in all companies in Standard & Poor's 500 companies	867,984	782,730		
Rainier Core Equity Mutual Fund			671,461	943,531
	$ 1,653,105	$ 1,542,157	$ 1,801,588	$ 2,016,521

Mortgage-backed securities guaranteed by agencies 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.

Note 3 ⁂ SHEE ATIKÁ INVESTMENTS LIMITED LIABILITY COMPANY

At December 31, 2003, SAI was in the process of establishing a limited liability company called Shee Atiká Investments Limited Liability Company ("SAIL"). SABT expects to pool cash and certain investments with SAI and another settlement trust called Shee Atiká Fund Endowment ("SAFE"). Management believes that pooling investments in SAIL will give SABT, SAI, and SAFE more flexibility in their investment alternatives, plus enable SABT and SAI to realize an enhanced asset allocation by virtue of that investment pool. SAIL limits SABT's liability exposure to the amount of SABT's investment in it. SAIL is scheduled to terminate December 31, 2023.

DEFINITIONS

Class A Shareholder – A shareholder who is Alaska Native, as defined by the Alaska Native Claims Settlement Act, or their legal descendant. 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 descendants. 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 descendants 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.