Yak-Tat Kwaan, Inc. and Subsidiaries

Consolidated Financial Statements and Supplementary Information

Years Ended December 31, 2016 and 2015

(With Independent Auditor's Report Thereon)

Yak-Tat Kwaan, Inc. and Subsidiaries

Consolidated Financial Statements and Supplementary Information
Years Ended December 31, 2016 and 2015

(With Independent Auditor's Report Thereon)

Yak-Tat Kwaan, Inc. and Subsidiaries

Contents

Tel: 907-278-8878
Fax: 907-278-5779
www.bdo.com

3601 C Street, Suite 600
Anchorage, AK 99503

Independent Auditor's Report

Board of Directors
Yak-Tat Kwaan, Inc. and Subsidiaries
Anchorage, Alaska

We have audited the accompanying consolidated financial statements of Yak-Tat Kwaan, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of TecPort Solutions, Inc., the investment in which, as described in Note 7 to the consolidated financial statements, is accounted for by the equity method of accounting. The equity in TecPort Solutions, Inc. was $478,483 and $543,348 as of December 31, 2016 and 2015, respectively, and the proportionate share of its net loss was ($64,865) and ($114,193), for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for TecPort Solutions, Inc., is based solely on the reports of the other auditor. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Yak-Tat Kwaan, Inc. and Subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

Anchorage, Alaska
May 19, 2017

Consolidated Financial Statements

Yak-Tat Kwaan, Inc. and Subsidiaries

Consolidated Balance Sheets

December 31,		2016		2015
Assets				
Current Assets				
Cash and cash equivalents	$	243,022	$	519,281
Accounts receivable, net of allowance for doubtful accounts		18,683		165,659
Prepaid expenses		35,667		5,238
Inventory		50,334		68,176
Current assets related to discontinued operations sold in 2017		256,328		7,441
Total Current Assets		604,034		765,795
Property and Equipment				
Land and buildings		2,942,883		2,942,883
Vehicles and equipment		515,204		537,293
Furniture and fixtures		28,724		24,570
Less accumulated depreciation		(2,724,409)		(2,604,447)
Property and Equipment, net		762,402		900,299
Investment in unconsolidated affiliates		478,483		563,148
Deferred tax assets, net of allowance		-		200,000
Non-current assets related to discontinued opeartions sold in 2017		-		306,150
Total Assets	$	1,844,919	$	2,735,392
Liabilities and Stockholders' Equity				
Current Liabilities				
Accounts payable		45,127		98,838
Credit cards payable		6,986		12,217
Accrued expenses		6,537		11,193
Unearned revenue		-		63,619
Security deposits		1,000		1,000
Dividends payable		58,534		72,175
Current liabilities related to discontinued opeartions sold in 2017		242,222		110,676
Total Current Liabilities		360,406		369,718
City assessment payable		162,220		162,220
Non-current liabilities related to discontinued opeartions sold in 2017		-		174,687
Total Liabilities		522,626		706,625
Stockholders' Equity				
Class A, $0 par value; 1,000,000 shares authorized; 33,906 shares issued and outstanding		-		-
Class B, $0 par value; 500,000 shares authorized; 394 shares issued and outstanding		-		-
Contributed capital		1,274,887		1,274,887
Retained earnings		47,406		753,880
Total Stockholders' Equity		1,322,293		2,028,767
Total Liabilities and Stockholders' Equity	$	1,844,919	$	2,735,392

See accompanying notes to the consolidated financial statements.

Yak-Tat Kwaan, Inc. and Subsidiaries

Consolidated Statements of Operations

Years Ended December 31,	2016	2015
Revenues		
Sales	$ 201,214	$ 90,082
Lease	374,719	378,902
Resource	440,496	612,831
Fees for services	60,000	225,000
Total Revenues	1,076,429	1,306,815
Operating Expense - Selling, general and administrative expenses	1,382,907	1,474,447
Loss from Operations	(306,478)	(167,632)
Other Income (Expense)		
Equity in loss of unconsolidated affiliates	(64,865)	(114,193)
Miscellaneous income	13,555	24,240
Interest income	-	21
Other loss	-	(807)
Total Other Income (Expense)	(51,310)	(90,739)
Loss From Continuing Operations Before Provision for Income Taxes	(357,788)	(258,371)
Provision for income taxes	(200,000)	-
Loss From Continued Operations	(557,788)	(258,371)
Discontinued Operations		
Loss from discontinued operations	(114,386)	(94,118)
Provision for income taxes	-	-
Loss From Discontinued Operations	(114,386)	(94,118)
Net Loss	$ (672,174)	$ (352,489)

See accompanying notes to the consolidated financial statements.

Yak-Tat Kwaan, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2016 and 2015	Contributed Capital	Retained Earnings	Total Stockholders' Equity
Balance, January 1, 2015	$ 1,274,887	$ 1,190,404	$ 2,465,291
Dividends	-	(84,035)	$ (84,035)
Net loss	-	(352,489)	$ (352,489)
Balance, December 31, 2015	$ 1,274,887	$ 753,880	$ 2,028,767
Dividends	-	(34,300)	(34,300)
Net loss	-	(672,174)	(672,174)
Balance, December 31, 2016	$ 1,274,887	$ 47,406	$ 1,322,293

See accompanying notes to the consolidated financial statements.

Yak-Tat Kwaan, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31,	2016	2015
Cash Flows from Operating Activities		
Net loss	$ (672,174)	$ (352,489)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation and amortization	120,298	124,487
Loss on sale of property and equipment	16,440	-
Deferred taxes	200,000	-
Equity in loss of unconsolidated affiliates	64,865	114,193
Bad debt expenses (recovery)	(49,000)	20,000
Changes in operating assets and liabilities:		
Accounts receivable	196,058	(81,689)
Prepaid expenses	(30,429)	(3,529)
Inventory	17,842	72,772
Accounts payable	(53,711)	(5,265)
Credit cards payable	(5,231)	9,853
Accrued expenses	(4,656)	11,982
Unearned revenue	(63,619)	63,619
Other liabilities	-	(23,900)
Net cash for operating activities	(263,317)	(49,966)
Cash Flows from Investing Activities		
Proceeds from sale of property and equipment	10,000	-
Purchase of property and equipment	(19,853)	(81,557)
Distribution from unconsolidated affiliates	19,800	171,700
Net cash from investing activities	9,947	90,143
Cash Flows from Financing Activities		
Dividends paid	(47,941)	(73,870)
Net cash from continuing operations	(301,311)	(33,693)
Cash Flows from Discontinued Operations		
Net cash from operating activities	75,052	91,000
Net cash for finacing activities	(50,000)	-
Net cash from discontinued operations	25,052	91,000
Cash and Cash Equivalents, beginning of year	519,281	461,974
Cash and Cash Equivalents, end of year	$ 243,022	$ 519,281
Supplemental Disclosure of Non-cash Investing in Financing Activities		
Property and equipment acquired under notes payable	$ -	$ 199,200
Goodwill acquired under notes payable	$ -	$ 52,386

See accompanying notes to the consolidated financial statements.

1. Organization

Yak-Tat Kwaan, Inc. was incorporated under the Alaska Business Corporation Act as a village corporation on November 11, 1973, pursuant to provisions of the Alaska Native Claims Settlement Act (ANCSA or the Act) enacted by Congress on December 16, 1971. ANCSA authorized the formation of twelve geographic regional corporations within the State of Alaska and a number of village corporations within each region. Yak-Tat Kwaan, Inc. is a village corporation located within the geographic region encompassed by Sealaska Corporation.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Yak-Tat Kwaan, Inc. its wholly-owned subsidiaries, Broken Oar Construction, LLC, Alaska Natural Smoked Products, LLC, and Yak-Tat Kwaan Mariculture, LLC, Kwaan Energy, LLC, Kwaan Holding, LLC, and Kwaan Leasing, LLC (collectively, the Corporation).

Kwaan Holding Company, LLC is a wholly owned subsidiary of the Corporation, and is set up as a holding company. Kwaan Holding Company, LLC has 100% ownership in Kwaan Plaza, LLC, Ridge Road Building LLC, Malaspina Building LLC, Little While house Properties, LLC, and YKI Marine Complex, LLC.

The consolidated financial statements do not include the accounts of TecPort Solutions, Inc. (Note 7). This 51% owned investment is recorded using the equity method of accounting, which is at original cost plus or minus the Corporation's cumulative proportion of net income or net loss subsequent to the original investment less distributions. This investment is accounted for using the equity method of accounting due to substantive participating rights of its other owners.

The Corporation derives its revenues primarily from Section 7(i) income, real estate leases and earnings from limited partnerships. Broken Oar Construction, LLC, derives its income from gravel sales. Kwaan Leasing, LLC, derives its income from auto leases, auto repair, and fuel sales.

Significant intercompany transactions are eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents include cash, money market funds not integrated with managed fund portfolios and unrestricted certificates of deposit with an original maturity of three months or less. Cash and cash equivalents are stated at cost which equals their market values.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Inventory

Inventory consists primarily of propane related items and is stated at the lower of cost or market using the first-in, first-out (FIFO) method.

Investments in Unconsolidated Affiliates

The Company accounts for investments in corporations and partnerships using the equity method when the Company's ownership interest is between 20% and 50% and has significant influence over the investments. Under the equity method, the Company records its proportionate share of earnings or loss. The investment in TecPort Solutions, Inc. for which the Company owns 51% interest is accounted for using the equity method of accounting due to the Corporation not exercising operating control over TecPort Solutions, Inc.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of identifiable assets acquired and liabilities assumed as a result of an acquisition of a company. The Company applies the accounting alternative provision of Accounting Standards Codification (ASC) 350 available to private companies for goodwill. The Company amortizes goodwill on a straight-line basis over 10 years, or less than 10 years if another useful life is more appropriate. The Company has made the election to test goodwill for impairment at the Company level. Goodwill is tested for impairment when a triggering event occurs that indicates that the fair value of the Company may be below its carrying amount. When a triggering event occurs, the Company has the option to first assess qualitative factors to determine whether the quantitative impairment test is necessary. If that qualitative assessment indicates that it is more likely than not that goodwill is impaired, the Company performs a quantitative test to compare the Company's fair value with its carrying amount, including goodwill. If the qualitative assessment indicates that it is not more likely than not that goodwill is impaired, further testing is unnecessary.

A goodwill impairment loss is recognized if the carrying amount of the Company exceeds its fair value. A goodwill impairment loss is measured and recorded at the amount by which the carrying amount of the Company including goodwill exceeds its fair value without exceeding the carrying amount of goodwill.

Contributed Capital

Monies and real property interests distributable to the Corporation under terms of the Act, as further described in Note 3, are recorded as contributed capital when notice of credit is received from Sealaska Corporation. Yak-Tat Kwaan, Inc.'s policy is to record timber rights received under ANCSA upon completion of appraisal of those rights.

Depreciation

Depreciation is recorded using the straight-line method for financial reporting. For financial reporting purposes, estimated useful lives are as follows:

Vehicles and equipment	3 to 5 years
Furniture and fixtures	5 to 10 years
Buildings	10 to 30 years
Land	Not depreciated

Depreciation expense was $185,675 and $188,529 for the years ended December 31, 2016 and 2015, respectively, including $65,377 and $64,042, respectively related to assets disposed after year end.

Allowance for Doubtful Accounts

The Corporation provides an allowance for doubtful accounts based upon prior experience and management's assessment of collectability of existing specific accounts.

Revenue Recognition

Yak-Tat Kwaan, Inc.'s portion of revenues arising from resources owned by regional corporations, as further described in Note 3, are recognized when determinable. Revenue from gravel, fuel and equipment sales is recognized at the time of sale. Fees for services are recognized monthly, based on a set fee. Revenue from properties and vehicles leased to third parties is recognized ratably over the rental period.

Risk Concentrations

The Corporation's revenues and receivables are primarily from customers located in Yakutat, Alaska. Management believes its contract acceptance, billing, and collection policies are adequate to minimize potential credit risk. The Corporation does not generally require collateral for customer.

Income Taxes

Funds received from the Alaska Native Fund are not subject to federal, state, or local income taxes. Real property interests received pursuant to ANCSA are also not subject to income taxes; however, income derived from real property interests and other operations of the Corporation is subject to federal, state, and local income taxes.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Corporation is subject to income taxes in U.S. federal jurisdictions and various state jurisdictions. Tax regulations within each jurisdiction are subject to interpretation of the related tax laws and regulations and require significant judgment to apply. The Corporation recognizes tax liabilities for uncertain tax positions when it is more likely than not that a tax position will not be sustained upon examination and settlement with various taxing authorities. Liabilities for uncertain tax positions are measured based upon the largest amount of benefit that is greater than 50% likely of being realized upon settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. The Corporation is generally no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for the years ended December 31, 2012 and prior. Management has evaluated the Corporation's tax positions and has concluded that the Corporation has taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of this guidance.

Recent Accounting Pronouncements

Revenue Recognition

In May 2014, the financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASU) No. 2014-09, Revenue from Contracts with Customers, which supersedes the guidance in Revenue Recognition (Topic 605) and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period and is to be applied retrospectively, with early application not permitted. The Corporation is evaluating the effect, if any, on its financial statements.

Leases

On February 25, 2016, the FASB issued leasing standard for both lessees and lessors. Under its core principle, a lessee will recognize lease assets and liabilities on the balance sheet for all arrangements with terms longer than 12 months. Lessor accounting remains largely consistent with existing U.S. GAAP. The new standard takes effect in 2019 for public business entities and 2020 for all other entities. The new standard applies a right-of-use (ROU) model that requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments. The lease term is the noncancellable period of the lease, and includes both periods covered by an option to extend the lease, if the lessee is reasonably certain to exercise that option, and periods covered by an option to terminate the lease, if the lessee is reasonably certain not to exercise that termination option.

For leases with a lease term of 12 months or less, a practical expedient is available whereby a lessee may elect, by class of underlying asset, not to recognize an ROU asset or lease liability. A lessee making this accounting policy election would recognize lease expense over the term of the lease, generally in a straight-line pattern. At inception, lessees must classify all leases as either finance or operating. Balance sheet recognition of finance and operating leases is similar, but the pattern of expense recognition in the income statement will differ depending on the lease classification. A finance lease is a lease arrangement in which the lessee effectively obtains control of the underlying asset. In an operating lease, the lessee does not effectively obtain control of the underlying asset. The Corporation is evaluating the effect, if any, on its financial statements.

Reclassifications

Certain prior year balances have been reclassified to conform to current year presentation.

Subsequent Events

The Corporation has evaluated subsequent events through May 19, 2017, the date on which the financial statements were available to be issued.

3. Alaska Native Claims Settlement Act (ANCSA)

Alaska Native Fund

ANCSA established the Alaska Native Fund (the Fund) into which an aggregate of $962,500,000 was deposited from Federal Government appropriation and royalty on minerals owned by the State of Alaska and the Federal Government.

Distributions

Distributions of monies from the Fund to each of the twelve Alaska regional corporations commenced on October 18, 1973. Distributions of the monies were completed March 31, 1983. The regional corporations have in turn allocated to each village corporation its share of the distributions as explained below. The distributions have been recorded as contributed capital. In addition to the appropriated funds and royalties provided by the Fund, ANCSA, pursuant to Section 7(i) provides that: 70 percent of revenue received by each of the twelve regional corporations in Alaska, from timber and subsurface resources owned by them, is to be divided annually among the twelve corporations in proportion to the number of shareholders in each of the twelve regions. The regional corporations in turn allocate each village corporation a share of such revenues pursuant to section 7(j) of ANCSA. The distribution to village corporations and non-village shareholders is to be 50 percent of the section 7(i) monies received by Sealaska Corporation (Seaalaska).

All distributions to village corporations are to be made according to the ratio that the number of outstanding shares of Sealaska's common stock owned by shareholders of a village corporation bears to the total number of Sealaska's common stock outstanding.

Land Selection

ANCSA also provides for the selection of land by the village corporations. The village corporations will receive the surface estate in such land and the regional corporations will receive the subsurface estate. On the 23,040 acres of land that the Corporation is entitled to select under the Act, conveyance for 23,040 has been received.

During 2001, the Corporation completed a timber cruise on 6,081 acres of land received pursuant to the Act. The total value of the timbers was estimated at $34,586,770. The estimated value of the remaining 16,959 acres of land selected has either not been determined or there is no significant stand on valuable timber. At this time, the Corporation's Board of directors does not intend to harvest any timber.

Common Stock and Earnings per Share

One hundred shares of the Corporation's voting Class A common stock were issued, pursuant to the Act, to each Native person enrolled in the Corporation. Stock rights are restricted, and the stock may not be sold, pledged, assigned, or otherwise alienated except in certain circumstances by court decree or by death. Further, the stock carries voting rights only if the holder is an eligible Alaska Native. For shares transferred to other than a qualified Native person, non-voting Class B common stock is issued and the related Class A common stock is returned to the Corporation. Pursuant to the 1991 Amendments, passed by the U.S. Congress, these restrictions and others as set forth in the Alaska Native Claims Settlement Act, have been indefinitely extended unless the shareholders affirmatively vote to waive the restrictions.

4. Cash and Cash Equivalents

The Corporation places its demand deposits with high credit quality commercial banks. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per financial institution. Balances held at one of the financial institutions had uninsured balances of $0 and $19,578 as of December 31, 2016 and 2015, respectively.

5. Accounts Receivable

A summary of trade accounts receivable at December 31, 2016 and 2015 follows:

	2016	2015
Accounts receivable	$ 19,683	$ 215,659
Allowances for doubtful accounts	(1,000)	(50,000)
Accounts Receivable, net	$ 18,683	$ 165,659

6. Investments in Unconsolidated Affiliates

Valuation and Write Down to Net Realizable Value

Yak-Tat Kwaan, Inc. has investments in two unconsolidated affiliates. The affiliates are involved in rental of commercial property located principally in Southern California and technology services. Write-downs were made on the book value of the investment in First California Income Fund, II to reflect the estimated amount collectible from the partnership prior to 2015. Yak-tat Kwaan, Inc. received a distribution of $19,800 and $95,200 from First California Income Fund, II in FY16 and FY15, respectively. The distribution received in FY 16 for First California Income Fund, II was the final close out payment for the investment.

Investments in unconsolidated affiliates at December 31, 2016 was $478,483 for TecPort Solutions, Inc. described in note 7.

Investments in unconsolidated affiliates, along with cumulative write downs taken through December 31, 2015 are summarized below:

	Investment Balance Before Write Down	Cumulative Write Down	Investment Carrying Balance
First California Income Fund, II	$ 378,740	$ (358,940)	$ 19,800
TecPort Solutions, Inc.	543,348	-	543,348
Totals	$ 922,088	$ (358,940)	$ 563,148

7. Investment in TecPort Solutions, Inc.

Yak-Tat Kwaan, Inc. owns a 51% interest in TecPort Solutions, Inc., which is a full service information technology consulting firm specializing in strategic outsourcing based in Pennsylvania.

Summarized audited balance sheets and statements of operations of the investment in TecPort Solutions, Inc. as of and for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Balance Sheets		
Assets		
Current assets	$ 1,331,237	$ 1,560,472
Noncurrent assets	69,922	91,952
Total Assets	$ 1,401,159	$ 1,652,424

	2016	2015
Liabilities and stockholders' equity		
Total liabilities	$ 462,956	$ 587,035
Shareholders' equity	938,203	1,065,389
Total Liabilities and Stockholders' Equity	$ 1,401,159	$ 1,652,424
Statements of Operations		
Revenues	$ 4,660,047	$ 7,541,922
Expenses	4,787,233	7,765,831
Net Loss	$ (127,186)	$ (223,909)

Yak-Tat Kwaan, Inc. share of the stockholders' equity of TecPort Solutions, Inc. was $478,483 and $543,348 as of December 31, 2016 and 2015, respectively, and the proportionate share of its net loss was ($64,865) and ($114,193), for the years then ended, respectively. In 2016 and 2015, Yak-tat Kwaan, Inc. received distributions of $0 and $76,500 from TecPort Solutions, Inc., respectively.

8. Provisions for Income Taxes

The actual income tax expense for 2016 and 2015 differs from the "expected" amount (computed by applying the U.S. Federal corporate tax rate of 34% to income before taxes) as follows:

	2016	2015
Computed "expected" income tax benefit	$ 121,648	$ 87,846
Increase in allowance for deferred tax assets	(321,648)	(87,846)
Total Income Tax Expense	$ (200,000)	$ -

The Corporation has net operating loss carry-forwards for state and federal income tax purposes as of December 31, 2016 and 2015 of approximately $14,569,778 and $14,533,426, respectively, which are available to offset future taxable income. These carry-forwards expire in the years 2017 through 2036. The Corporation does not expect to be able to fully utilize these carry-forwards and has recorded a valuation allowance for the amount not expected to be utilized.

The Corporation has not determined, for financial reporting purposes, the value of all timber rights conveyed to it by the federal government in accordance with ANCSA (see Note 3). Since the timber rights conveyed had a stipulated tax basis, the gains recorded for book purposes and tax purposes are different at the time of revenue recognition due to the differences in basis. Since the value of all timber rights has not been determined for book purposes, the Corporation has not recorded a deferred tax asset relating to the difference between book basis and tax basis for its timber rights. In addition, the utilization of timber rights held by the Corporation, and resulting realization of any deferred tax assets, is uncertain since the quantities, if any, of timber to be harvested is uncertain.Deferred taxes are recorded based upon differences between the financial statements and tax basis of assets and liabilities and available tax carry-forwards. A valuation allowance on the net deferred tax asset is provided, as it is management's opinion that it is more likely than not that all of the deferred tax asset will not be realized.

The components of deferred tax assets and liabilities, including the valuation allowance as of December 31, are as follows:

	2016	2015
Total deferred tax assets	$ 5,720,363	$ 5,813,370
Less: valuation allowance	(5,720,363)	(5,613,370)
Net Deferred Tax Assets	$ -	$ 200,000

9. Lease Revenue

Properties and buildings leased to others are accounted for as operating leases. Minimum further rental revenues over the five years subsequent to December 31, 2016, based on currently signed, non-cancelable operating leases with terms of one year or longer are as follows:

Year Ending December 31,	
2017	$ 277,869
2018	243,767
2019	168,000
	$ 689,636

10. Business Combination and Goodwill

In 2015, the Company created a subsidiary called Kwaan Leasing, LLC and used this entity to purchase Situk Equipment, Inc. valued at $249,200 in exchange for $50,000 cash and a note payable in the amount of $270,000 on February 9, 2015.

In accordance with ASC 805-10, the Company recognized the excess of the fair value of consideration transferred over the fair value of the net assets acquired as goodwill, which was recorded as an asset. The fair value of the assets acquired and liabilities assumed were as follows:

Assets – Fixed Assets	$ 249,200
Equity at Fair Value (total assets less total liabilities)	249,200
Consideration	
Cash consideration	50,000
Note payable, net of $18,414 discount (see Note 11)	251,586
Total Consideration	301,586
Goodwill (excess of consideration over equity at fair value)	$ 52,386

The Company amortizes goodwill on a straight-line basis over 10 years. No triggering events have occurred that indicates that the fair value of the Company may be below its carrying amount. As of December 31, 2016 and 2015, goodwill consisted of the following:

December 31, 2016	Gross Carrying Amount	Accumulated Amortization	Goodwill, Net
	$ 52,386	$ (9,822)	$ 42,564

December 31, 2015	Gross Carrying Amount	Accumulated Amortization	Goodwill, Net
	$ 52,386	$ (4,584)	$ 47,802

Kwaan Leasing, LLC was sold subsequent to year end (note 15), and the remaining amount of the goodwill will be written off as of the sale date. Amortization expense for the year ended December 31, 2016 and 2015 was $5,239 and $4,584, respectively and is presented under the caption “Loss from discontinued operations” in the consolidated statement of operations.

The remainder of this page intentionally left blank.

11. Note Payable

As part of their agreement to purchase Situk Leasing, Kwaan Leasing, LLC signed a note payable due in installments of $50,000, $40,000, and $180,000, to be paid in full by December 31, 2017. The note payable bears 0% interest rate for $270,000, which was discounted at a 3% interest rate. A discount of $18,414 was recorded in February 2015 to reflect the interest free loan. The discount is amortized over the life of the loan based on the effective interest rate of 3% reducing the corresponding note payable. At December 31, 2016 and 2105, the balance on the payable was $208,350 and $270,000, respectively and included unamortized discounts of $11,650 and $18,414, respectively.

1-Year Maturity	Payments	Amortization of Discount	Net
2017	220,000	(11,650)	208,350
	$ 220,000	$ (11,650)	208,350
Less current portion			(208,350)
Note Payable, net of current portion			$ -

Kwaan Leasing, LLC was sold subsequent to year end (note 15). The note is presented under the caption "noncurrent liabilities related to discontinued operations sold in 2107" in the consolidated balance sheets.

12. Risk Management

The Corporation is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omission; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. There has been no significant change in coverage since the prior year.

13. Related Parties

Due to the nature and size of the community, it is inevitable that transactions will occur between entities, Board members, and/or employees of these entities. TecPort Solutions, Inc. (see Note 7) paid the Corporation $60,000 and $225,000 for management fees for the years ended December 31, 2016 and 2015, respectively. In 2016, Tom Harris was Chief Executive Officer to both Yak-Tat Kwaan, Inc., and Knikatnu, Inc., for the five month period between January 1, 2016 and May 31, 2016. During this period Knikatnu Inc., purchased a Natural Gas System from Kwaan Energy, LLC at the cost of $75,843.

14. Commitments and Contingencies

In the normal course of business, the Corporation is involved in various claims and litigation. In the opinion of management, the disposition of these matters is not expected to have a material effect on the financial position or results of operations.

In approximately 1998, the City and Borough of Yakutat ("CBY") created a special assessment district for the extension of electrical service to additional areas of the borough. A portion of the extension bordered on approximately 68 acres of undeveloped Corporation lands, and CBY assessed the

Corporation in the amount of $89,197 for the improvements. The Corporation objected and ultimately filed suit against CBY to set aside the assessment. In 2002, the suit was settled and a Stipulation for Dismissal was entered. The settlement terms included that the Corporation would make twice-yearly interest only payments on a balance due of $86,224, and that the remaining principal would be due on or before April 1, 2013. The CBY also created a special assessment for water improvements in the amount of $56,050, to which the Corporation also objects. The Corporation has created a reserve for these amounts by recording a corresponding liability presented as other liabilities. The interest payments were not made and the balance was not paid in 2016. The Corporation takes the position that the lands it received pursuant to ANCSA are exempt from such assessments under Section 907(d) of the Alaska Native Claims Settlement Act, 43 USC 1636(d), which provides automatic land bank protections, including exemptions from property taxes, assessments and adverse possession, for undeveloped Native Corporation lands received pursuant to ANCSA. The Corporation intends to continue negotiations with CBY, and to aggressively protect its ANCSA lands with the same ANCSA land protection rights currently protecting the ANCSA lands of every ANCSA Corporation in Alaska.

15. Discontinued Operations

Subsequent to year end, the Corporation completed the sales of Kwaan Leasing, LLC, Yak-Tat Kwaan Mariculture, LLC, and Alaska Natural Smoke Products, LLC in January and April, 2017. Kwaan Leasing, LLC was sold to an individual purchaser at the price of $230,000, which was the approximate carrying value of the entity at the time of the sale. Yak-Tat Kwaan Mariculture, LLC and Alaska Natural Smoke Products, LLC were sold to Coho Properties, LLC, a subsidiary of Sealaska Corporation for $55,000, recognizing a gain of approximately $36,900 based on the carrying value of the companies at the time of sale.

In accordance with FASB Update No. 2014-08 ‘Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity’, the Corporation has presented the activities of the above mentioned three subsidiaries as discontinued operations in the financial statements.

The remainder of this page intentionally left blank.

The Corporation reclassified all assets and liabilities related to discontinued operations of the subsidiaries for all periods presented. The following assets and liabilities have been segregated and included in assets associated with discontinued operations or liabilities associated with discontinued operations, as appropriate, in the consolidated balance sheets:

	2016	2015
Assets		
Accounts receivable, net of allowance for doubtful accounts	$ 1,402	$ 1,484
Inventory	8,381	5,957
Good will, net of accumulated amortization	42,564	47,802
Property, plant and equipment, net	203,981	258,348
Total Assets from Discontinued Operations	$ 256,328	$ 313,591
Liabilities		
Bank Overdraft	$ 5,935	$ -
Accounts payable	20,501	24,730
Credit cards payable	79	2,876
Accrued expenses	7,357	6,171
Notes payable	208,350	251,586
Total Liabilities from Discontinued Operations	$ 242,222	$ 285,363
Total Equity from Discontinued Operations	$ 14,106	$ 28,228
Total Liabilities and Equity from Discontinued Operations	$ 256,328	$ 313,591

In addition, revenues and expenses related to the discontinued operations have been reclassified to discontinued operations for all periods presented. The following amounts have been segregated from continuing operations and included in discontinued operations in the consolidated statements of operations for the years ended December 31, 2016 and 2015:

	2016	2015
Revenues	$ 525,526	$ 343,615
Selling, general and administrative expenses	(618,958)	(437,856)
Other	(20,954)	123
Net loss from discontinued operations	$ (114,386)	$ (94,118)

16. Subsequent Events

See note 15 for the subsequent sale of three subsidiaries after year end.

This page intentionally left blank.

Supplementary Information

Tel: 907-278-8878
Fax: 907-278-5779
www.bdo.com

3601 C Street, Suite 600
Anchorage, AK 99503

Independent Auditor's Report on Supplementary Information

Our audit of the consolidated financial statements included in the preceding section of this report were conducted for the purpose of forming an opinion on those statements as a whole. The supplementary information presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

BDO USA, LLP

Anchorage, Alaska
May 19, 2017

Yak-Tat Kwaan, Inc. and Subsidiaries

Consolidating Balance Sheet

December 31, 2016	Yak-Tat Kwaan, Inc.	Alaska Natural Smoked Products, LLC	Broken Oar Construction, LLC	Yak-Tat Kwaan Mariculture, LLC	Kwaan Holding Company, LLC	Kwaan Leasing, LLC	Kwaan Energy, LLC	Eliminations	Consolidated
Assets									
Current Assets									
Cash and equivalents	$ 216,466	$ 244	$ 8,729	$ 138	$ 17,121	$ -	$ 324	$ -	$ 243,022
Accounts receivable, net of allowance for doubtful accounts	10,000	-	-	-	8,683	-	-	-	18,683
Prepaid expenses	35,667	-	-	-	-	-	-	-	35,667
Inventory	-	-	-	-	-	-	50,334	-	50,334
Assets related to discontinued operations sold in 2017	-	4,160	-	15,905	-	236,263	-	-	256,328
Total Current Assets	262,133	4,404	8,729	16,043	25,804	236,263	50,658	-	604,034
Investment in unconsolidated affiliates									
TechPort, Inc	478,483	-	-	-	-	-	-	-	478,483
Investment in consolidated entities									
Kwaan Holding Company, LLC	400,859	-	-	-	-	-	-	(400,859)	-
Kwaan Energy, LLC	294,988	-	-	-	-	-	-	(294,988)	-
Broken Oar Construction, LLC	(147,791)	-	-	-	-	-	-	147,791	-
Alaska Natural Smoked Products, LLC	51,600	-	-	-	-	-	-	(51,600)	-
Yak-Tat Kwaan Mariculture, LLC	309,028	-	-	-	-	-	-	(309,028)	-
Kwaan Leasing, LLC	55,000	-	-	-	-	-	-	(55,000)	-
	1,442,167	-	-	-	-	-	-	(963,684)	478,483
Property and Equipment									
Land and buildings	764,469	-	-	-	2,178,414	-	-	-	2,942,883
Vehicles and equipment	363,200	-	29,950	-	65,991	-	51,063	-	510,204
Furniture and fixtures	21,259	-	-	-	7,465	-	-	-	28,724
Less accumulated depreciation	(683,483)	-	(18,662)	-	(2,006,552)	-	(10,712)	-	(2,719,409)
Net Property and Equipment	465,445	-	11,288	-	245,318	-	40,351	-	762,402
Total Assets	$ 2,169,745	$ 4,404	$ 20,017	$ 16,043	$ 271,122	$ 236,263	$ 91,009	$ (963,684)	$ 1,844,919
Liabilities and Stockholders' Equity									
Current Liabilities									
Accounts payable	36,279	-	1,530	-	7,133	-	185	-	45,127
Credit cards payable	6,986	-	-	-	-	-	-	-	6,986
Accrued expenses	6,537	-	-	-	-	-	-	-	6,537
Security deposits	1,000	-	-	-	-	-	-	-	1,000
Dividends payable	58,534	-	-	-	-	-	-	-	58,534
Due to (from) affiliates	381,999	351	(198,470)	59,212	(205,272)	11,636	(49,456)	-	-
Liabilities related to discontinued operations sold in 2017	-	-	-	3,134	-	239,088	-	-	242,222
Total Current Liabilities	491,335	351	(196,940)	62,346	(198,139)	250,724	(49,271)	-	360,406
City assessment payable	162,220	-	-	-	-	-	-	-	162,220
Total Liabilities	653,555	351	(196,940)	62,346	(198,139)	250,724	(49,271)	-	522,626
Stockholders' Equity									
Contributed capital	1,274,887	51,600	(147,791)	309,028	400,859	55,000	294,988	(963,684)	1,274,887
Retained earnings	241,303	(47,547)	364,748	(355,331)	68,402	(69,461)	(154,708)	-	47,406
Total Stockholders' Equity	1,516,190	4,053	216,957	(46,303)	469,261	(14,461)	140,280	(963,684)	1,322,293
Total Liabilities and Stockholders' Equity	$ 2,169,745	$ 4,404	$ 20,017	$ 16,043	$ 271,122	$ 236,263	$ 91,009	$ (963,684)	$ 1,844,919

See accompanying independent auditor's report on supplementary information.

Yak-Tat Kwaan, Inc. and Subsidiaries

Consolidating Statement of Operations

Year Ended December 31, 2016	Yak-Tat Kwaan, Inc.	Alaska Natural Smoked Products, LLC	Broken Oar Construction, LLC	Yak-Tat Kwaan Mariculture, LLC	Kwaan Holding Company, LLC	Kwaan Leasing, LLC	Kwaan Energy, LLC	Elimin-ations	Con-solidated
Revenues									
Sales	$ -	$ -	$ 125,371	$ -	$ -	$ -	$ 134,846	$ (59,003)	$ 201,214
Lease revenue	-	-	-	-	374,719	-	-	-	374,719
Resource revenue	440,496	-	-	-	-	-	-	-	440,496
Fees for services	60,000	-	-	-	-	-	-	-	60,000
Total Revenues	500,496	-	125,371	-	374,719	-	134,846	(59,003)	1,076,429
Operating Expenses									
Cost of goods sold	-	-	15,899	-	-	-	104,900	(58,722)	62,077
Bad debt expense	452	-	978	-	98,690	-	-	-	100,120
Depreciation and amortization	21,927	-	5,864	-	86,294	-	6,213	-	120,298
Directors fees	40,050	-	-	-	-	-	-	-	40,050
Donations	3,477	-	-	-	-	-	-	-	3,477
Insurance	37,090	-	5	-	32,434	-	28	-	69,557
Miscellaneous	7,015	-	-	-	-	-	-	-	7,015
Office expense	68,800	-	441	-	3,693	-	1,905	-	74,839
Professional fees	398,299	-	-	-	2,434	-	4,950	-	405,683
Rental, utilitiy, and facility	5,451	-	-	-	135,587	-	216	(281)	140,973
Repair and maintenance	58	-	-	-	20,767	-	-	-	20,825
Salaries, wages, and payroll taxes	266,703	-	85	-	26,449	-	2,508	-	295,745
Shareholder expenses	12,060	-	-	-	-	-	-	-	12,060
Travel	17,551	-	-	-	1,383	-	11,254	-	30,188
Total Expenses	878,933	-	23,272	-	407,731	-	131,974	(59,003)	1,382,907
			-						
Income (Loss) from Operations	(378,437)	-	102,099	-	(33,012)	-	2,872	-	(306,478)
Other Income (Expense)									
Miscellaneous income	13,555	-	-	-	-	-	-	-	13,555
Equity in loss of unconsolidated affiliates	(64,865)	-	-	-	-	-	-	-	(64,865)
Total Other Income (Expense)	(51,310)	-	-	-	-	-	-	-	(51,310)
Income (loss) before provision for income taxes	(429,747)	-	102,099	-	(33,012)	-	2,872	-	(357,788)
Provision for income taxes	(200,000)	-	-	-	-	-	-	-	(200,000)
Net Income (Loss) From Continued Operations	$ (629,747)	$ -	$ 102,099	$ -	$ (33,012)	$ -	$ 2,872	$ -	$ (557,788)
Net Loss From Discontinued Operations	$ -	$ (7,143)	$ -	$ (77,160)	$ -	$ (30,083)	$ -	$ -	(114,386)
Net Income (Loss)	$ (629,747)	$ (7,143)	$ 102,099	$ (77,160)	$ (33,012)	$ (30,083)	$ 2,872	$ -	$ (672,174)

See accompanying independent auditor's report on supplementary information.

Yak-Tat Kwaan, Inc. and Subsidiaries

Kwaan Holding Company, LLC
Consolidating Balance Sheet

December 31, 2016	Kwaan Holding Company, LLC	The Kwaan Plaza, LLC	Ridge Road Complex, LLC	Malaspina Properties, LLC	YKI Marine Complex, LLC	Little White House Properties, LLC	Eliminations	Kwaan Holding Company, LLC Total
Assets								
Current Assets								
Cash and equivalents	$ 17,121	$ -	$ -	$ -	$ -	$ -	$ -	$ 17,121
Accounts receivable, net of allowance for doubtful accounts	8,683	-	-	-	-	-	-	8,683
Total Current Assets	25,804	-	-	-	-	-	-	25,804
Investment in consolidated entities								
YKI Marine Complex, LLC	(58,697)	-	-	-	-	-	58,697	-
Little White House Properties, LLC	11,620	-	-	-	-	-	(11,620)	-
Kwaan Plaza, LLC	221,405	-	-	-	-	-	(221,405)	-
Malaspina Properties, LLC	59,842	-	-	-	-	-	(59,842)	-
Ridge Road, LLC	166,689	-	-	-	-	-	(166,689)	-
	400,859	-	-	-	-	-	(400,859)	-
Property and Equipment								
Land and buildings	-	1,377,625	358,767	181,522	260,500	-	-	2,178,414
Vehicles and equipment	-	-	65,991	-	-	-	-	65,991
Furniture and fixtures	-	3,296	2,463	1,706	-	-	-	7,465
Less accumulated depreciation	-	(1,321,439)	(263,423)	(161,190)	(260,500)	-	-	(2,006,552)
Net Property and Equipment	-	59,482	163,798	22,038	-	-	-	245,318
Total Assets	$ 426,663	$ 59,482	$ 163,798	$ 22,038	$ -	$ -	$ (400,859)	$ 271,122
Liabilities and Stockholders' Equity								
Current Liabilities								
Accounts payable	$ 7,133	$ -	$ -	$ -	$ -	$ -	$ -	$ 7,133
Due to (from) affiliates	168,383	(348,643)	82,460	22,875	(109,511)	(20,836)	-	(205,272)
Total Current Liabilities	175,516	(348,643)	82,460	22,875	(109,511)	(20,836)	-	(198,139)
Stockholders' Equity								
Contributed capital	400,859	221,405	166,689	59,842	(58,697)	11,620	(400,859)	400,859
Retained earnings	(149,712)	186,720	(85,351)	(60,679)	168,208	9,216	-	68,402
Total Stockholders' Equity	251,147	408,125	81,338	(837)	109,511	20,836	(400,859)	469,261
Total Liabilities and Stockholders' Equity	$ 426,663	$ 59,482	$ 163,798	$ 22,038	$ -	$ -	$ (400,859)	$ 271,122

See accompanying independent auditor's report on supplementary information.

Yak-Tat Kwaan, Inc. and Subsidiaries

Kwaan Holding Company, LLC
Consonlidating Statement of Operations

Year Ended December 31, 2016	Kwaan Holding Company, LLC	The Kwaan Plaza, LLC	Ridge Road Complex, LLC	Malaspina Properties, LLC	YKI Marine Complex, LLC	Little White House Properties, LLC	Eliminations	Kwaan Holding Company, LLC Total
Revenues								
Lease revenue	$ -	$ 212,360	$ 65,340	$ -	$ 84,000	$ 13,019	$ -	$ 374,719
Operating Expenses								
Bad debt expense	98,690	-	-	-	-	-	-	98,690
Depreciation	-	63,090	18,155	5,049	-	-	-	86,294
Insurance	-	8,056	5,976	2,298	15,308	796	-	32,434
Office expense	416	194	3,083	-	-	-	-	3,693
Professional fees	-	-	874	-	1,560	-	-	2,434
Rental, utilitiy, and facility	-	62,923	50,670	9,599	10,803	1,592	-	135,587
Repair and maintenance	-	8,320	12,447	-	-	-	-	20,767
Salaries, wages, and payroll taxes	-	4,307	19,628	1,139	440	935	-	26,449
Travel	-	284	1,099	-	-	-	-	1,383
Total Expenses	99,106	147,174	111,932	18,085	28,111	3,323	-	407,731
Income (Loss) from Operations	(99,106)	65,186	(46,592)	(18,085)	55,889	9,696	-	(33,012)
Net Income (Loss)	$ (99,106)	$ 65,186	$ (46,592)	$ (18,085)	$ 55,889	$ 9,696	$ -	$ (33,012)

See accompanying independent auditor's report on supplementary information.