The Aleut Corporation

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ANNUAL REPORT 2006

THE ALEUT CORPORATION

Honoring Our Traditional Ways

Letter from the President

Dear Shareholders:

This 34th annual report is dedicated to "Honoring our Traditional Ways." To honor our traditional ways we must first begin by honoring our Elders, who have passed our heritage on to generations. It is from our Elders that we will learn our history, language, and traditional lifestyles. It is from our Elders past hardships that we learn to build stronger relations and stronger communities to avoid repeating what they lived through.

It has been extremely difficult to choose photos and recipes that would reflect our traditional ways, because our region is so spread out, there could never be enough space in this report to include it all. However, my staff and I have done our best to choose photographs taken during our village visits and use recipes featured in regional cookbooks. I understand there are many variations to the recipes featured here and we would have enjoyed receiving them. Our culture is slowly fading, like the photographs of our great-grandparents. It is up to each of us as individuals to do our part by listening to our Elders when they speak, so that we may continue to pass this knowledge on for generations.

One of the many ways that The Aleut Corporation can pay tribute to our Elders is by offering benefits. The Aleut Corporation is pleased to provide an Elders Benefit Program that offers monetary support to our Elders and we are also actively involved in the monthly potlucks provided for Elders in the Anchorage area. The Aleut Corporation recognizes all Elders contributions to preserving the Aleut culture, whether you've relocated to the Lower 48's, live within Anchorage or surrounding areas, or remain close to home within the Region.

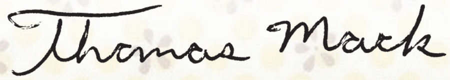
On the flip side, The Aleut Corporation also strongly supports the education of our future generations. Education should be looked at as our biggest return on investment. The education of future generations will shape our leaders of tomorrow and The Aleut Corporation is dedicated to contributing to The Aleut Foundation to fulfill its mission of "Offering programs in Scholarships, Job Support and Cultural Preservation." The Aleut Corporation is delighted to have contributed $300,000 to The Aleut Foundation for FY06.

Since taking the position of President at The Aleut Corporation on February 15, 2006, I have been traveling to all of our communities in our Aleutian/Pribilof region, the Pacific Northwest, California, and Anchorage. There is nothing that can replace the face-to-face interaction or a handshake of meeting the many shareholders and leaders during my travels. In each community I have been listening to shareholders comments and suggestions. Your input is not falling on deaf ears. Your ideas help shape The Aleut Corporation to become stronger and more resilient for many years to come. I appreciate your candid comments and look forward to future contact with all shareholders and descendants.

In my short time at The Aleut Corporation, I have been actively learning the business of our corporation and I can genuinely say I am very proud of the successful organization we are building. Our subsidiaries are working hard for us and it shows on the bottom line of our consolidated income statement. This success by our subsidiaries is helping provide the many benefits we as shareholders receive. Some of these benefits include but are not limited to, scholarships and burial assistance through The Aleut Foundation, Elders Benefits, shareholder dividends, and contributions towards culture preservation.

In closing, we hope you will enjoy the many pictures and traditional recipes we complied for this report and understand that they are only a blade of grass within our vast tundra, our only hope is that you will come across a long lost recipe or an old friend's photo you have not seen for years and feel an overwhelming feeling of pride for your culture and the place you call "home".

Sincerely,



Thomas Mack
President

Letter from the Chair

Once again it is a true honor and privilege to report to you as Chair of your corporation for 2006. The Company experienced another year of growth and increased pre-tax profitability.

In 2006 the Company's consolidated gross revenues grew by $23,506,000 to $119,552,000, as compared to $96,046,000 in 2005. This represents an increase of 24.5% over the prior year.

Net income, the true bottom line and best indicator to judge a company and its management's performance, decreased slightly in 2006 by $472,000 to $15,779,000, as compared to $16,251,000 in 2004. This represents a decrease of (2.9%) from the prior year. However, pre-tax income in 2006 increased by $1,571,000 or 14.9% to $12,118,000, as compared to $10,547,000 in 2005. The reason why pre-tax income in 2006 increased, but net income decreased in 2006, is due to the Company reporting a smaller income tax benefit in 2006 than in 2005 for financial statement purposes.

Shareholder equity increased in 2006 by $13,951,000 to $61,531,000 as compared to $47,580,000 in 2005. This represents an increase of 29.3% over the prior year.

In 2006 the Company was also able to reduce its overall risk. From 2005 to 2006 the Company was able to reduce its long-term debt by $2,560,000 from $6,605,000 in 2005 to $4,045,000 in 2006. This represents a reduction in long-term debt of 38.8%. This is hard to do when a company is growing.

Hard working management and employees are one of our greatest assets, and the effect can be seen in the results in the Company's financial statements for the year ended March 31, 2006. Success and hard work of the Company's management and employees can also be seen in the increased dividends paid by the Company to its shareholders. In 2006 the Company declared regular and elder dividends totaling $1,937,000. By the time you read this letter the Company will have paid the 2006 regular dividend of $4.60 per share and elder dividend of $500. This is the direct result of the good work they have performed.

All primary business areas of the Company show improved operating results for the year just completed. The Company is well positioned and committed to growth in the future, both in our defense and non-defense related subsidiaries.

The board of directors is committed to executing our strategic plan to grow the Company. We believe our success and our vision, while ambitious, is achievable. Our profits from our business efforts can help us fulfill the vision of our ancestors; to become strong, healthy, educated, self-sufficient and proud.

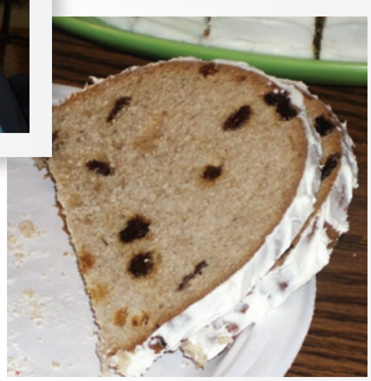
Sincerely,

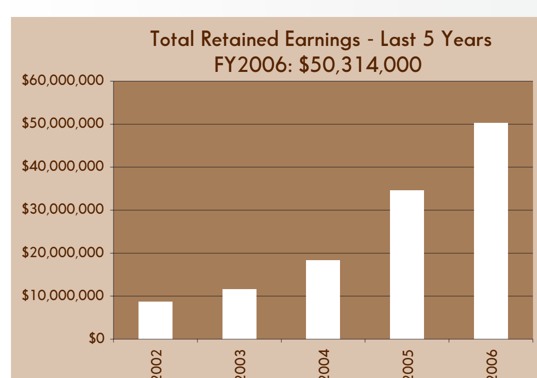
Debra Mack
Chair

Managements Discussion and Analysis of Results of Operations and Financial Condition

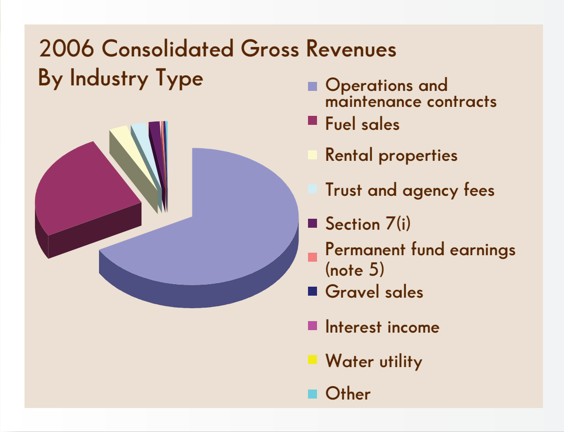
SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The statements contained in this Management Discussion and Analysis of Results of Operations and Financial Condition that are not purely historical, or that may be considered an opinion or projection concerning the Company or its business, whether expressed or implied, are forward-looking statements. These statements may include statements regarding management's expectations, intentions, plans or strategies regarding the future. All forward-looking statements included in this document are based upon information available to the Company on the date hereof, and the Company assumes no obligation to update any such forward-looking statements. Future revenues and profits are influenced by a number of factors, including those outlined above, which are inherently difficult to forecast. It is important to note that the Company's actual results could differ significantly from those described in, or implied from, such forward-looking statements. Any statements related to future operations and financial condition is subject to risk that could cause the actual results to vary materially from expectations. However, management believes that it has the competitive and financial resources for continued business success in the markets in which it chooses to operate. The following discussion and analysis has been prepared by management to explain the results of operations and financial condition.





The Company



The Aleut Corporation (TAC) is a regional native corporation formed pursuant to the Alaska Native Claims Settlement Act of 1971 (ANCSA). The company is owned by approximately 3,410 shareholders. The Company's primary activity is investing in business ventures in the following industry segments:

- Federal government operations & maintenance contracting
- Fuel sales
- Rental properties
- Natural resources
- Trust services
- Other income and investments

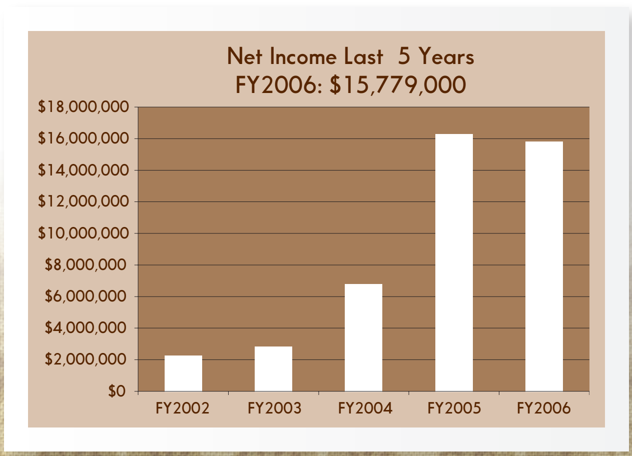
Results of Operations

The Aleut Corporation is pleased to report the results of operations for the fiscal year ended March 31, 2006.

Consolidated gross revenues for 2006 totaled $119,552,000, as compared to $96,046,000 and $66,626,000 in fiscal years 2005 and 2004, respectively. This represented an increase in gross revenues for 2006 of $23,506,000, or 24.5% over fiscal 2005.

Consolidated net income for 2006 totaled $15,779,000, as compared to $16,251,000 and $6,746,000 in fiscal years 2005 and 2004, respectively. This represented a decrease in net income for 2006 of $472,000, or 2.9% less than fiscal 2005. Income before provision for income taxes for 2006 totaled $12,118,000, as compared to $10,547,000 and $6,252,000 in fiscal years 2005 and 2004, respectively. This represented an increase in pre-tax income for 2006 of $1,571,000, or 14.9% greater than fiscal 2005.

In 2003 management was able to get favorable income tax legislation passed by Congress for the Company's then pending Adak transaction. This was the result of several years of hard work which had identified a future income tax problem, a potential income tax planning opportunity, the best Company income tax strategy solution, and the successful completion of these efforts. This legislation coupled with certain Adak 2004 transactions resulted in enormous future tax savings for the Company, not only for the tax benefit realized in years 2006, 2005 and 2004, but for years to come. This will save the Company an enormous amount in reduced future actual tax expense for many years to come. In 2006 the Company reported a tax benefit of $3,661,000 as compared to a benefit of $5,704,000 and $494,000 for 2005 and 2004, respectively.



Federal Government Operation and Maintenance (O&M) Contracting

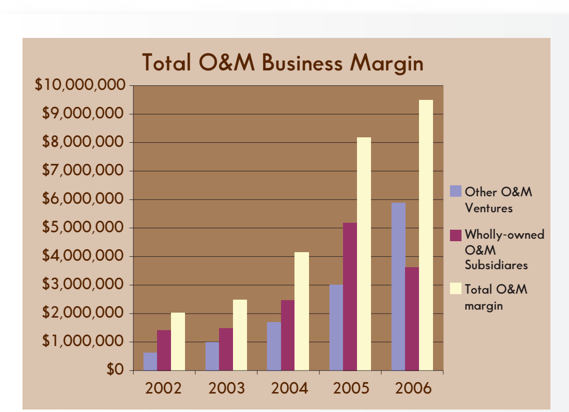
Federal government O&M contracts represent the largest share of revenue and income contribution of any of the general lines of business. TAC participates in this industry through both wholly owned subsidiaries and ventures where TAC has a minority investment interest. Gross revenues and costs of these wholly owned subsidiaries are presented as separate line items in the Company's consolidated statements of income. Earnings from investments in ventures engaged in O&M contracting where TAC has a minority interest are reflected under the caption "Equity in earnings of other entities".

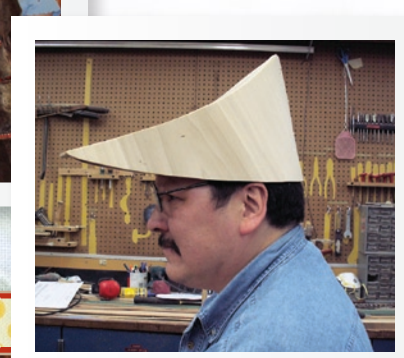
In 2005 the Company formed a new wholly owned subsidiary named Aleut Management Services LLC (AMS). The Company then transferred ownership of its two wholly-owned O&M operating companies, SMI International LLC and TekStar LLC, to AMS. This was done as part of a reorganization of the Company's O&M business to gain efficiencies and make its O&M business more competitive in the future. Seven new subsidiaries of AMS were also established in 2005 as part of its strategic plan to grow the Company's O&M business. The Company's O&M business is expected to face increasing competition, increased proposal costs, and potential adverse changes to the U.S. Small Business Administration 8(a) program and federal laws governing small disadvantaged business set-aside contracting.

In 2006 O&M revenues in wholly owned subsidiaries increased by $12,747,000 or 18.9% to $80,056,000, as compared to $67,309,000 and $46,623,000 in 2005 and 2004, respectively. In 2006 O&M operating costs increased by $13,885,000 or 22.3% to $76,012,000, as compared to $62,127,000 and $44,165,000 in 2005 and 2004, respectively. O&M gross margin contribution to profit was $4,044,000 or 5.1% in 2006, as compared to $5,182,000 and 7.7% in 2005, and $2,458,000 and 5.3% in 2004.

The Company also has investments in partially owned ventures engaged in O&M contracting. These include Akima Management Services, Inc., Ki LLC, and Combat Support Associates Joint Venture (CSA). CSA supports the U.S. Army at various locations in Kuwait. In 2006 these ventures contributed $5,881,000 of profit for the Company, as compared to $3,002,000 and $1,690,000 in 2005 and 2004, respectively. This represented an increase in 2006 of $2,879,000 or 95.9% over 2005. These investments will face the same O&M industry pressures as noted above, as well as the changing needs of the U.S. military in the Middle East will directly impact CSA future business.

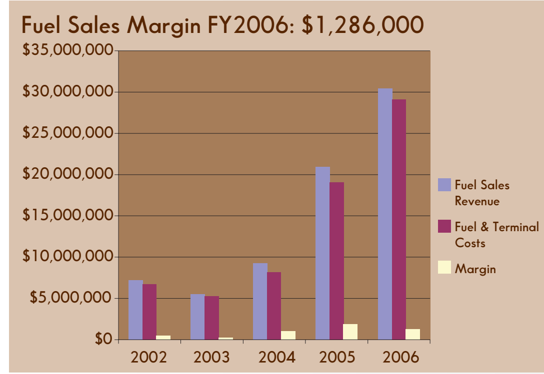
In total the Company's various investments engaged in federal government O&M contracting contributed $9,925,000 of income for 2006, which was an increase of $1,741,000 or 21.3% as compared to an income contribution of $8,184,000 and $4,148,000 in 2005 and 2004, respectively.

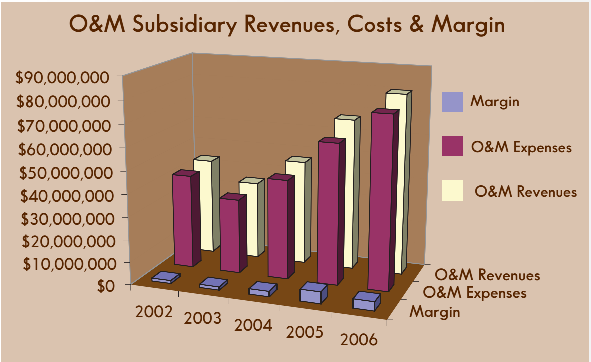




Fuel Sales

The Company, through a wholly owned subsidiary Aleut Enterprise LLC (AEC), has bulk fuel sale operations at Cold Bay and Adak, Alaska. In 2006 fuel revenues increased by $9,485,000 or 45.4% to $30,398,000, as compared to $20,913,000 and $9,202,000 in 2005 and 2004, respectively. In 2006 fuel sale and terminal operating costs increased by $10,065,000 or 52.8% to $29,112,000, as compared to $19,047,000 and $8,161,000 in 2005 and 2004, respectively. Fuel sale gross margin contribution to profit was $1,286,000 or 4.2% in 2006, as compared to $1,866,000 and 8.9% in 2005, and $1,041,000 and 11.3% in 2004. Market conditions were more competitive in 2006 than in 2005 when the Company generally benefited from rising fuel prices. The Company future fuel sales business is affected by many factors. The volatility of world oil prices and markets creates risks for loss; however, the Company conservatively manages the risks by locking in profit margins through hedging investments. Future fuel sales are also affected by volatility in the worldwide commercial fishing industry, including price for harvested fish stocks, quantity of fish stocks available for commercial fishing and commercial fishing regulations affecting the Adak region. Future fuel sales may also be affected by the U.S. Missile Defense SBX radar platform to be home ported at Adak, which should arrive within the next year. Future fuel sales are expected to grow dramatically by utilizing the ice free port of Adak as a tank terminal for fueling operations for western Alaska. Additionally, the Company has pioneered new sources for fuel procurements by acquiring fuel from foreign sources. With this ability the Company can acquire fuel from either domestic or foreign sources whichever is advantageous. The Company owns 550,000 barrels of storage capacity at Adak. Accordingly, the objective is to fully utilize that capacity.



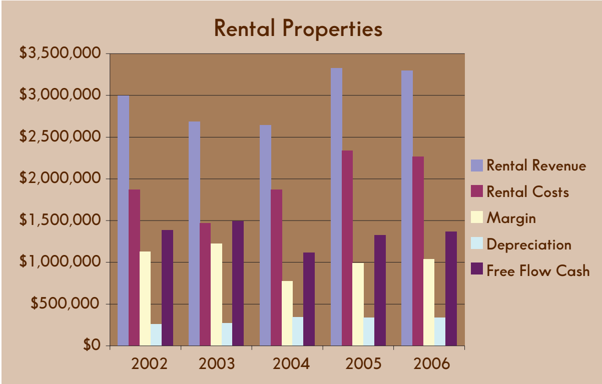


Rental Properties

The Company has various direct investments in commercial and residential real estate in Colorado Springs, Colorado and in Anchorage, Valdez, and Adak, Alaska. The Company also has a minor investment (10% interest) in a real estate limited partnership which is invested in the Paramount Hotel in Portland, Oregon, including the restaurant therein.

In 2006 rental revenues decreased by $27,000 or 0.8% to $3,294,000, as compared to $3,321,000 and $2,641,000 in 2005 and 2004, respectively. In 2006 rental operating costs decreased by $73,000 or 3.1% to $2,262,000, as compared to $2,335,000 and $1,869,000 in 2005 and 2004, respectively. Rental gross margin contribution to profit was $1,032,000 in 2006, as compared to $986,000 in 2005, and $772,000 in 2004. Rental free flow cash (gross margin plus depreciation) was $1,366,000 in 2006, as compared to $1,320,000 and $1,114,000 in 2005 and 2004, respectively.

Management expects slow but steady growth from the Company's various investments in rental properties. The Anchorage real estate market has had steady improvement in rental rates the last several years. As these increased rates are factored into new and renewed long-term leases, the Company's rental revenue will increase. The Colorado Springs rental market appears to have bottomed out in 2004 and should improve slowly but steadily in future years. Business activity should increase in future years in Adak, from both fishing and the effects of the U.S. Missile Defense SBX radar platform to be home ported at Adak. Management expects this to translate into higher rental revenues in the future from Adak properties.

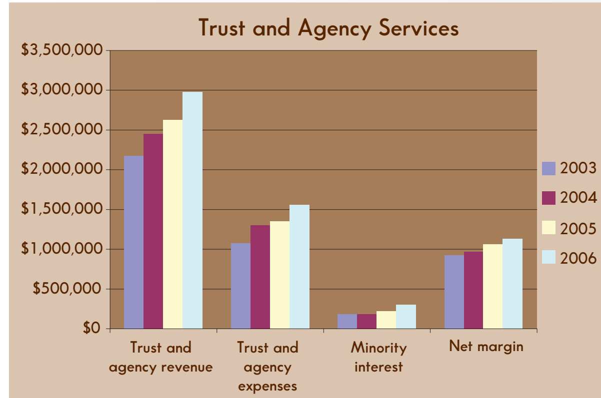


Natural Resource Sales

Natural resource sales in 2006 consisted of miscellaneous gravel and rock sales in the amount of $381,000 throughout the Aleutian region. This represents an increase of $196,000 or 105.9% when compared to $185,000 and $677,000 in 2005 and 2004, respectively. This was an above average year for gravel sales. Management expects lower level gravel sales next year.

Trust Services

The Company, through its 73% in Alaska Trust Company (ATC), provides a variety of trust and investment services. ATC target markets are primarily wealthy non-residents who wish to take advantage of the favorable Alaska trust and estate legislation that management helped support passage into Alaska law in 1997.

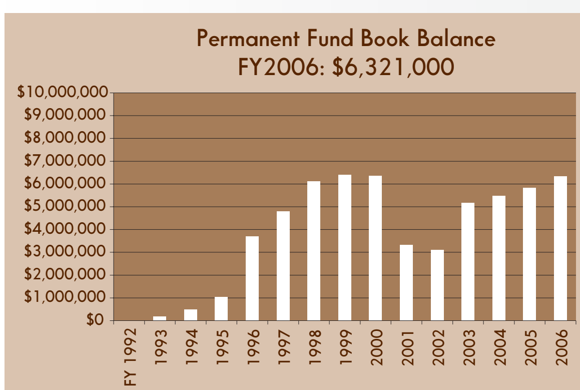


In 2006 trust and agency fee revenues increased by $349,000 or 13.3% to $2,976,000, as compared to $2,627,000 and $2,446,000 in 2005 and 2004, respectively. In 2006 trust and agency operation expenses increased by $207,000 or 15.4% to $1,553,000, as compared to $1,346,000 and $1,298,000 in 2005 and 2004, respectively. Trust and agency margin contribution net of minority interest was $1,126,000 in 2006, as compared to $1,061,000 in 2005, and $966,000 in 2004. For 2006 this represents a margin increase of $65,000 or 6.1% as compared to the prior year. Management expects steady growth in future years.

Other Income and Investments

7(i) revenue sharing from the other Alaskan Native regional corporations in 2006 totaled $1,913,000, as compared to $1,211,000 and $674,000 for 2005 and 2004, respectively. This represented an increase of $702,000 from the prior year. This was a very good year for Section 7(i) revenue due to higher oil prices; management expects next year 7(i) revenues to be at a similar level.

The Company established the permanent fund on April 1, 1992. The purpose of the fund is to accumulate investments in marketable securities to provide a stable future source of cash flow for dividends to be paid to shareholders. The permanent fund invests in low risk debt and equity marketable securities. The Alaska Trust Company performs investment management services for the fund. It is the intent of the Company's board that when fund assets reach $10,000,000, 50% of future earnings will be reinvested into the fund each year and 50% of earnings will be distributed annually to shareholders as additional dividends. In 2006 the fund earned for financial reporting purposes $183,000, as compared to $137,000 and $75,000 in 2005 and 2004, respectively. At March 31, 2006 the market value of the fund closed at $6,307,000, as compared to $5,808,000 and $5,476,000 at March 31, 2005 and 2004, respectively. This represented an increase of $499,000 or 8.6% since March 31, 2005.

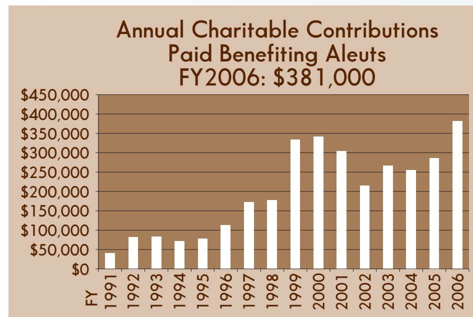


Charitable Contributions

The Company made contributions in 2006 to charitable and not-for-profit organizations that benefit Aleut company shareholders and their descendants totaling $381,000, as compared to $286,000 and $259,000 in 2005 and 2004, respectively.

Dividends

In 2006 the Company paid or declared dividends and elder benefits totaling $1,937,000, as compared to $3,032,000 and $518,000 in 2005 and 2004, respectively.



Financial Condition

Assets and Liabilities

Consolidated assets of the Company at March 31, 2006 increased by $18,178,000 to $82,161,000, as compared to assets of $63,983,000 and $53,164,000 at March 31, 2005 and 2004, respectively. The increase in 2006 was due primarily to the growth of trade account receivables of $9,123,000, the net increase in deferred tax assets-long term of $3,917,000, and the increased book value of long-term investments of $3,399,000. The increase in receivables is attributable to the increased number and volume of O&M contracts. The increase in net deferred tax assets is attributable to the beneficial tax legislation previously discussed and the improved operating results of the Company. The increase in long-term investments is attributable to earnings in excess of cash distributions to the owners.

Consolidated liabilities of the Company at March 31, 2006 increased by $4,227,000 to $20,630,000, as compared to $16,403,000 and $18,728,000 at March 31, 2005 and 2004, respectively. This was due to the net effect of accounts payable and accrued expenses increasing by $5,337,000 and by the Company paying down long-term debt by $2,560,000 in 2006.

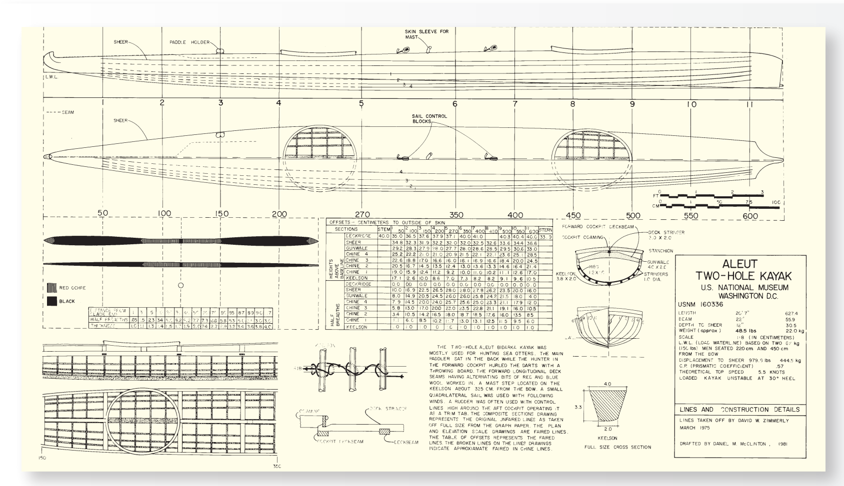
Liquidity and Capital Resources

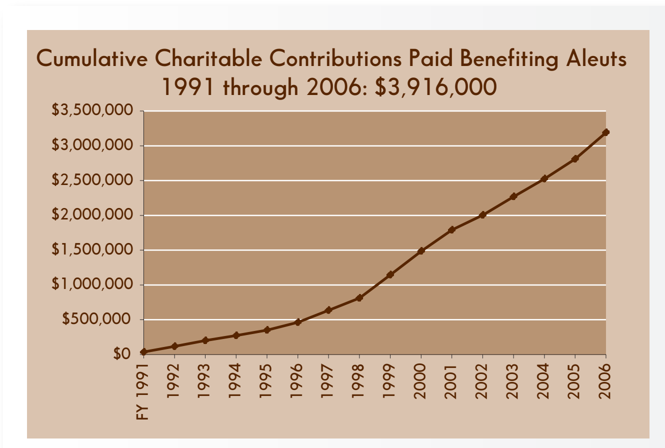
Management believes The Aleut Corporation is capable of funding its future cash needs with the cash generated from its operations, and with the careful use of established lines of credit. The Company's strong balance sheet has allowed it to obtain available lines-of-credit in aggregate of $18.0 million in 2006, as well as in 2005 and 2004. Of the credit available at the end of 2006, $16.3 million was available for future cash requirements, compared to $14.6 at the end of 2005 and $13.0 million in 2004.

In 2006 business operations provided $5,792,000 in cash, compared to providing $8,866,000 in 2005 and $4,274,000 in 2004.

Investing activities for the Company happen when assets are acquired, including transactions in the Company's permanent fund investment portfolio. Profits from the investment portfolio are reinvested in the portfolio. In 2006 investment activities used a net outflow of cash of $1,928,000, as compared to net cash outflow of $1,035,000 and $503,000 in 2005 and 2004, respectively.

Financing activities are mostly the proceeds and repayment from borrowing, and the payment of cash dividends to shareholders. Financing activities produced a net outflow of cash of $4,655,000, $6,246,000, and $3,672,000 in 2006, 2005, and 2004, respectively. In 2006, long-term debt decreased by $2,560,000, equating to an end of year balance of $4,045,000 as compared to $6,605,000 in 2005 and $11,079,000 in 2004.





Values of the Unangan/Unangas

The Right Way to Live as an Unangax̂
Taken from numerous volunteers in the communities of St. Paul, St. George, Atka, Nikolski, Unalaska, Akutan, King Cove, Sand Point, False Pass, Nelson Lagoon and Anchorage

Qawalangin / Niiĝuĝis Niiĝuĝis
Eastern dialect / Western dialect

Simple Instructions with the Long List

Kudaliiĝin maqax̂takan txichin aguqangin /
Kadaangis maqax̂tal txichix aguqangis
The way of our beginning, our ancestors

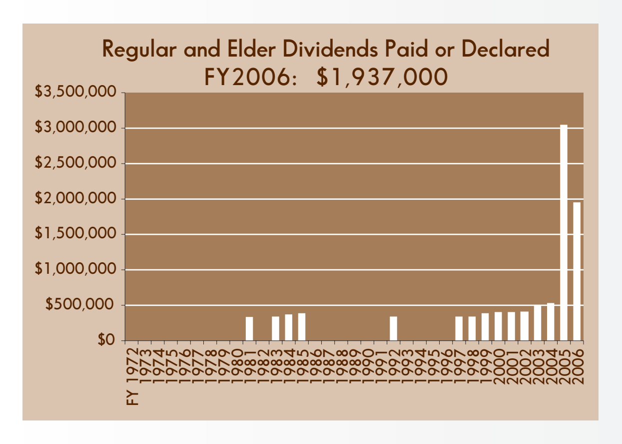
Udaadan tanangin kugan Unangan anangin /
Udaadan Unangam tanangin kugan anangis
Our people's land and sea around here

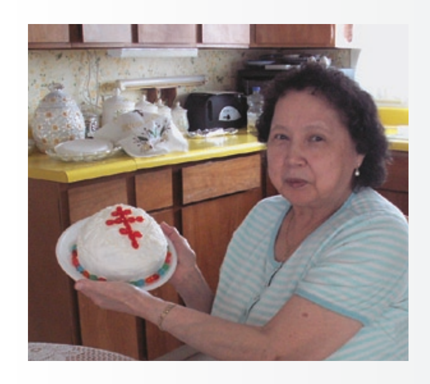
Ix̂taqangin lulalix matalix anĝaĝiingin matakun /
Hix̂tanangis luulal ama matal anĝaĝiingin matakus
Believe in them and keep them going through time

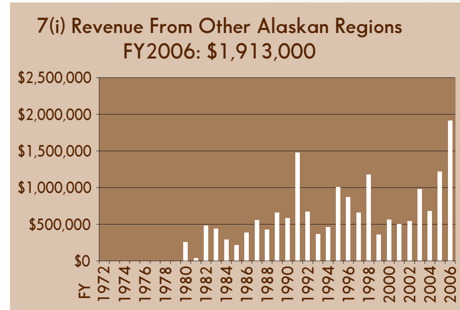
Aniqdun ngiin aqaaĝan aĝnangin qulingiin akux̂ gumalgakux̂. /
Kinguuĝingin wan slum kugan haqaaĝan aĝnangin qulaan akux̂ gumalgakux̂.
For the coming generations that we don't see yet, for their time here.

Father Michael Lestenkof

1. Udigdada. E / Udigida. W
   Share.
2. Tutada. E & W
   Listen.
3. Txin anguynix̂taĝulux. E / Txin manitalagada. W
   Don't be boastful.
4. Agitaasitxin ix̂amnaasada. E / Anĝaĝinas iĝamanaasada. W
   Be kind to other people.
5. Agitaasiin sismida. E / Anĝaĝinas kiduda. W
   Help others.
6. Tuman tanax̂ agliisaax̂tan. E / Tanax̂ agliisada. W
   Take care of the land.
7. Tuman alaĝux̂ agliisaax̂tan. E / Alaĝux̂ agliisada. W
   Take care of the sea/ocean.
8. Tuman taangax̂ agliisaax̂txin. E / Taangax̂ haqayaasada. W
   Take care of the water.
9. Manachin ilam axtalakan agliisaachin. E /
   Anaĝis mal agumis ilam axtalagada. W
   Do not do anything to excess.
10. Txin ugutada. E / Qaĝatada. W
    Be happy.
11. Iĝayuux̂txin, anaĝim atxaĝingin agachan madada. E /
    Txin sakaaĝatal anaĝis mada. W
    Behave yourself: Do the things you know are right.







12. Chxadalagaax̂txin. E / Chxalagada. W
Don't steal.

13. Adluudaĝiĝulux E / Adalulagada. W
Don't lie.

14. Ludakiim axtax samtaaxtxin. E /
Ludaaĝis, tukus ama uchiitilas sahngax̂tada. W
Respect Elders
(including parents, teachers and community members).

15. Agitaasiin samtasaax̂txin. E / Agitaadaan sahngax̂tada. W
Respect your peers.

16. Kayutuux̂txin. E / Kayutuda. W
Be strong.

17. Agitaasiin matanangin imin giduĝiisalagaax̂txin. E /
Silaa txin gikuun alagada. W
Don't be envious of what belongs to another.

18. Anĝaĝix̂ ix̂amanax̂ ix̂talix kayux ix̂amanax̂ atxax̂talix
manaa imin ugutaasalix aax̂txin. E /
Anĝaĝinax̂ iĝamanas manaa ngaan hix̂tada. W
Admire one who does well by honest means.

19. Maamin ix̂tanatxin madada. E /
Anaĝis maamis hix̂taqaan aguun mada. W
Don't make promises quickly, but keep those you make.

20. Anĝaĝiisanatxin anĝaĝim agitaasingin agachan liidalix
anĝaĝiisada. E / Matal anĝaĝiikaan agacha anĝaĝisada. W
Live like you want people to see you live.

21. Igilnaax̂nax̂txin. E / Qaqatulagada. W
Don't be greedy.

22. Slax̂, aĝadax̂, tugidax̂, kayux sdan tunum manginulux kugan
iĝadĝulux. E / Slax̂, aĝadgix̂, ama sdas hadangiin iĝamanax̂
agacha tunux̂taasada. W
Don't talk bad about the weather or the sun, the
moon or the stars.

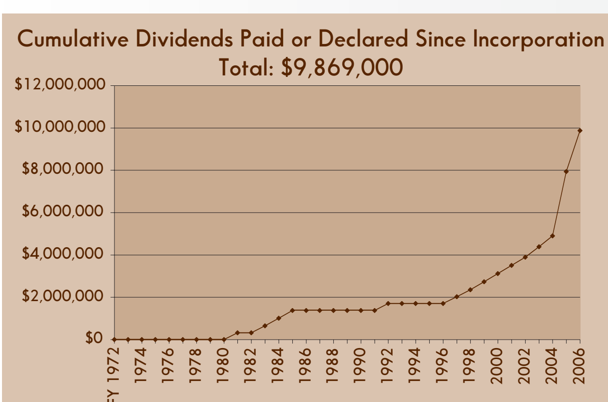
23. Agitaasaan adaan tunum ix̂amnanginulux iĝadĝulux. E /
Anĝaĝinax̂ adalus hadaan hilgadaĝulax. W
Don't slander another person.

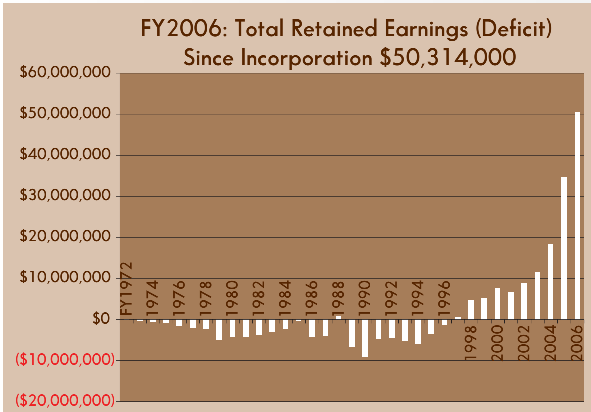
24. Kadaan axtaaĝanax̂txin. E / Kadamis agalagada. W
Don't get ahead of yourself.

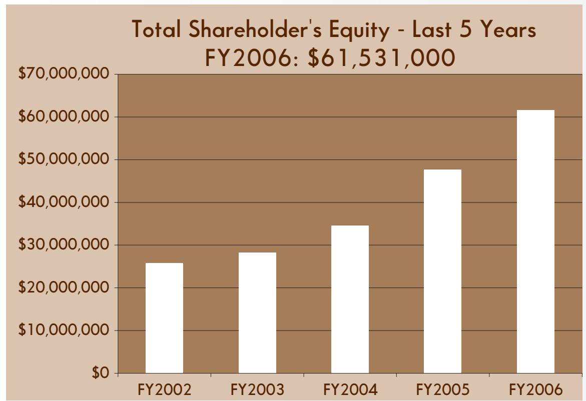
25. Adux̂tanaan akidada. E / Adut akida. W
Pay your debts.

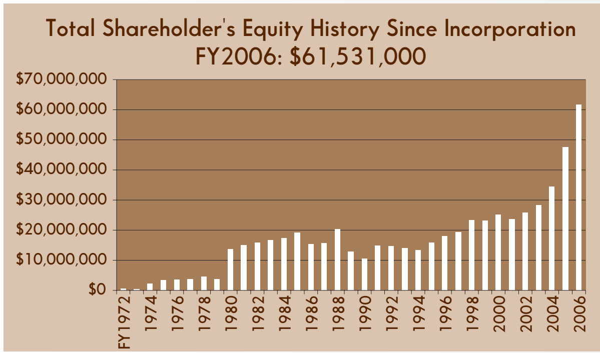
26. Qaqamiiĝux̂. E / Qaqamiiĝux̂. W
Subsistence.

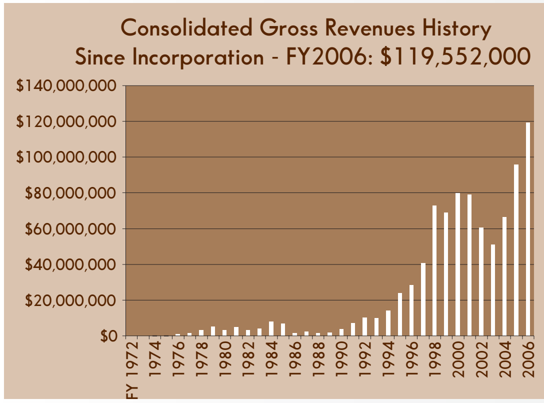
27. Tunuun ugunux̂talakan anĝaĝiix̂txin. E /
Unangam Tunuu ugunux̂talagada. W
Don't forget your Unangan language.

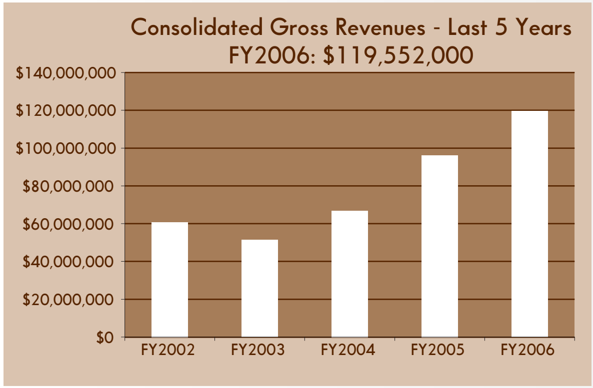


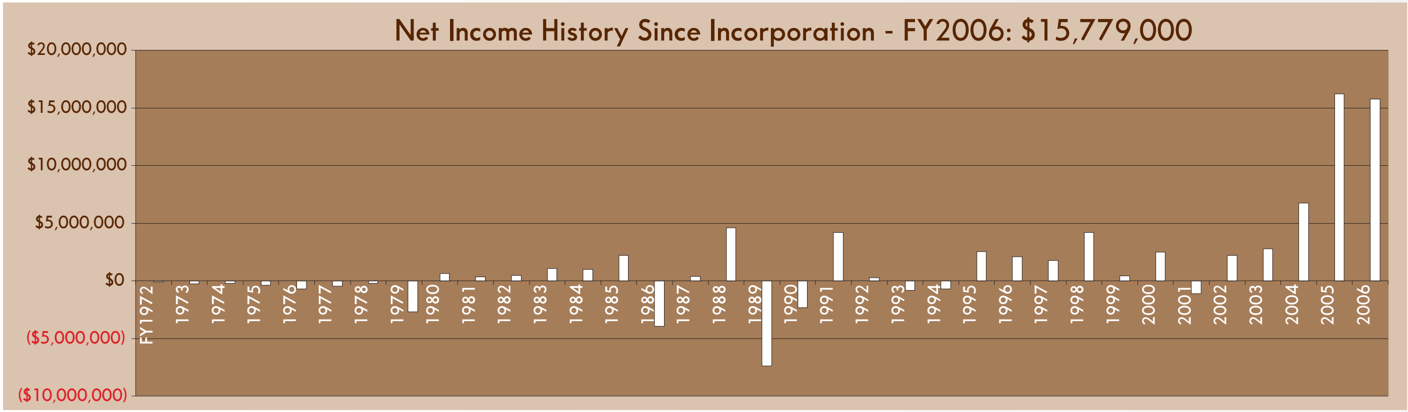

FY2006: Total Retained Earnings (Deficit)
Since Incorporation $50,314,000
$60,000,000
$50,000,000
$40,000,000
$30,000,000
$20,000,000
$10,000,000
$0
($10,000,000)
($20,000,000)
FY1972 1974 1976 1978 1980 1982 1984 1986 1988 1990 1992 1994 1996 1998 2000 2002 2004 2006


Total Shareholder's Equity - Last 5 Years
FY2006: $61,531,000
$70,000,000
$60,000,000
$50,000,000
$40,000,000
$30,000,000
$20,000,000
$10,000,000
$0
FY2002 FY2003 FY2004 FY2005 FY2006


Total Shareholder's Equity History Since Incorporation
FY2006: $61,531,000
$70,000,000
$60,000,000
$50,000,000
$40,000,000
$30,000,000
$20,000,000
$10,000,000
$0
FY1972 1974 1976 1978 1980 1982 1984 1986 1988 1990 1992 1994 1996 1998 2000 2002 2004 2006


Consolidated Gross Revenues History
Since Incorporation - FY2006: $119,552,000
$140,000,000
$120,000,000
$100,000,000
$80,000,000
$60,000,000
$40,000,000
$20,000,000
$0
FY 1972 1974 1976 1978 1980 1982 1984 1986 1988 1990 1992 1994 1996 1998 2000 2002 2004 2006


Consolidated Gross Revenues - Last 5 Years
FY2006: $119,552,000
$140,000,000
$120,000,000
$100,000,000
$80,000,000
$60,000,000
$40,000,000
$20,000,000
$0
FY2002 FY2003 FY2004 FY2005 FY2006


Net Income History Since Incorporation - FY2006: $15,779,000
$20,000,000
$15,000,000
$10,000,000
$5,000,000
$0
($5,000,000)
($10,000,000)
FY1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006

The Aleut Corporation
AND SUBSIDIARIES

Independent Auditors' Report

The Board of Directors and Shareholders
The Aleut Corporation:

We have audited the accompanying consolidated balance sheets of The Aleut Corporation and subsidiaries (Company) as of March 31, 2006 and 2005 and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended March 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Aleut Corporation and subsidiaries as of March 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2006 in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Anchorage, Alaska
July 14, 2006

Consolidated Balance Sheets | March 31, 2006 and 2005

ASSETS	2006	2005
Current assets:		
Cash and cash equivalents	$ 4,116,000	4,907,000
Receivables:		
Current portion of notes receivable (note 3)	362,000	362,000
Trade accounts	23,613,000	14,490,000
Affiliates	903,000	970,000
Unbilled revenue	625,000	727,000
Interest	18,000	8,000
Total receivables	25,521,000	16,557,000
Prepaid expenses and other assets	992,000	724,000
Restricted cash (note 4)	1,250,000	1,250,000
Deferred tax asset (note 9)	1,287,000	409,000
Inventory	3,581,000	3,146,000
Total current assets	36,747,000	26,993,000
Permanent fund – marketable securities (note 5)	6,321,000	5,824,000
Property and equipment:		
Land and buildings held for lease	15,095,000	15,095,000
Land and buildings	107,000	107,000
Equipment and furniture	7,420,000	7,244,000
Leasehold improvements	—	125,000
Work in progress	1,307,000	—
Less accumulated depreciation	(8,489,000)	(7,788,000)
Property and equipment, net	15,440,000	14,783,000
Investments and other assets:		
Real estate held for sale and development	654,000	730,000
Long-term investments (note 6)	9,807,000	6,408,000
Notes receivable, net of current portion and allowance for doubtful accounts (note 3)	73,000	367,000
Goodwill and other intangibles, net (note 12)	1,785,000	1,785,000
Cash flow hedge asset (note 13)	—	33,000
Deferred tax asset – long-term (note 9)	10,685,000	6,768,000
Other	649,000	292,000
Total investments and other assets	23,653,000	16,383,000
Total assets	$ 82,161,000	63,983,000

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

LIABILITIES AND SHAREHOLDERS' EQUITY	2006	2005
Current liabilities:		
Current portion of long-term debt (note 7)	$ 2,781,000	2,101,000
Bank over draft payable	129,000	—
Accounts payable – trade	6,362,000	2,152,000
Accounts payable – affiliates	453,000	114,000
Accrued expenses	7,081,000	6,293,000
Foreign currency contract liability	40,000	—
Deferred revenue	2,100,000	829,000
Total current liabilities	18,946,000	11,489,000
Long-term debt, net of current portion (note 7)	1,264,000	4,504,000
Minority interest	420,000	410,000
Total liabilities	20,630,000	16,403,000
Shareholders' equity:		
Common stock, Class A and B, no par value	—	—
Contributed capital	11,011,000	12,948,000
Retained earnings	50,314,000	34,535,000
Accumulated other comprehensive income, net	206,000	97,000
Total shareholders' equity	61,531,000	47,580,000
Commitments and contingencies (notes 4, 5, 6, 7, 8, 9, 10, 15, and 16)		
Total liabilities and shareholders' equity	$ 82,161,000	63,983,000

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

	2006	2005	2004
Revenue:			
Operations and maintenance contracts	$ 80,056,000	67,309,000	46,623,000
Fuel sales	30,398,000	20,913,000	9,202,000
Rental properties	3,294,000	3,321,000	2,641,000
Trust and agency fees	2,976,000	2,627,000	2,446,000
Section 7(i)	1,913,000	1,211,000	674,000
Permanent fund earnings (note 5)	183,000	137,000	75,000
Software sales and maintenance costs	—	—	3,298,000
Sales of real estate held for investment	55,000	—	—
Gravel sales	381,000	185,000	677,000
Interest income	129,000	117,000	116,000
Water utility	39,000	38,000	36,000
Other	128,000	188,000	838,000
Total revenue	119,552,000	96,046,000	66,626,000
Costs and expenses:			
Operations and maintenance contracts	76,012,000	62,127,000	44,165,000
Cost of fuel sold and terminal operating costs	29,112,000	19,047,000	8,161,000
Impairment and other expense, net (note 12)	—	111,000	—
Rental properties:			
Direct costs	1,790,000	1,794,000	1,252,000
Interest	138,000	207,000	275,000
Depreciation	334,000	334,000	342,000
Trust and agency operations	1,553,000	1,346,000	1,298,000
Interest	196,000	252,000	263,000
Software sales and maintenance costs		—	3,227,000
General and administrative	3,324,000	2,715,000	2,590,000
Cost of real estate sales	82,000	—	—
Water utility costs	96,000	60,000	50,000
Carrying cost of real estate sold	—	2,000	—
Charitable contributions:			
The Aleut Foundation	300,000	200,000	190,000
Alaska Federation of Natives	35,000	29,000	28,000
Other	46,000	57,000	41,000
Total costs and expenses	113,018,000	88,281,000	61,882,000
Equity in earnings of other entities (note 6)	5,881,000	3,002,000	1,690,000
Minority interest	(297,000)	(220,000)	(182,000)
Income before provision for income taxes	12,118,000	10,547,000	6,252,000
Income tax benefit (expense) (note 9)	3,661,000	5,704,000	494,000
Net income	$ 15,779,000	16,251,000	6,746,000
Net income per share	$ 48.57	50.02	20.76

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

Consolidated Statements of Shareholders' Equity and Comprehensive Income

Years ended March 31, 2006, 2005 and 2004

		Common stock Class A and B	Contributed capital	Retained earnings	Accumulated other comprehensive income	Total shareholders' equity
Balance at April 1, 2003	$	—	16,498,000	11,538,000	128,000	28,164,000
Comprehensive income (note 11):						
Net income		—	—	6,746,000	—	6,746,000
Change in accumulated other comprehensive income, net of taxes		—	—	—	44,000	44,000
Total comprehensive income						6,790,000
Dividends paid from capital		—	(518,000)	—	—	(518,000)
Balance at March 31, 2004		—	15,980,000	18,284,000	172,000	34,436,000
Comprehensive income (note 11):						
Net income		—	—	16,251,000	—	16,251,000
Change in accumulated other comprehensive income, net of taxes		—	—	—	(75,000)	(75,000)
Total comprehensive income						16,176,000
Dividends paid from capital ($4.50 per share)		—	(1,570,000)	—	—	(1,570,000)
Dividends declared ($4.50 per share)		—	(1,462,000)	—	—	(1,462,000)
Balance at March 31, 2005		—	12,948,000	34,535,000	97,000	47,580,000
Comprehensive income (note 11):						
Net income		—	—	15,779,000	—	15,779,000
Change in accumulated other comprehensive income, net of taxes		—	—	—	109,000	109,000
Total comprehensive income						15,888,000
Dividends declared ($4.60 per share)		—	(1,937,000)	—	—	(1,937,000)
Balance at March 31, 2006	$	—	11,011,000	50,314,000	206,000	61,531,000

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

Consolidated Statements of Cash Flows | Years ended March 31, 2006, 2005 and 2004

	2006	2005	2004
Operating activities:			
Net income	$ 15,779,000	16,251,000	6,746,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Impairment of assets and goodwill	—	111,000	—
Increase in receivables	(8,670,000)	(3,109,000)	(1,319,000)
Deferred tax benefit	(4,868,000)	(6,749,000)	(320,000)
Increase in other assets	(1,027,000)	1,634,000	(1,053,000)
Increase in accounts payable, accrued expenses and other liabilities	6,648,000	702,000	168,000
Earnings of other entities in excess of distributions	(3,399,000)	(1,286,000)	(1,028,000)
Depreciation and amortization	1,032,000	1,092,000	898,000
Income attributable to minority interest	297,000	220,000	182,000
Net cash provided by operating activities	5,792,000	8,866,000	4,274,000
Investing activities:			
Purchases of marketable securities	(3,617,000)	(4,214,000)	(3,243,000)
Proceeds from maturity or sale of marketable securities	3,302,000	3,852,000	2,922,000
Capital expenditures	(1,689,000)	(673,000)	(182,000)
Proceeds from sale of investment real property, net	76,000	—	—
Net cash used in investing activities	(1,928,000)	(1,035,000)	(503,000)
Financing activities:			
Dividends paid	(2,224,000)	(1,772,000)	(660,000)
Borrowing (repayment) on long-term debt, net	(2,431,000)	(4,474,000)	(3,012,000)
Net cash provided by (used in) financing activities	(4,655,000)	(6,246,000)	(3,672,000)
Net increase in cash and cash equivalents	(791,000)	1,585,000	99,000
Cash and cash equivalents at beginning of year	4,907,000	3,322,000	3,223,000
Cash and cash equivalents at end of year	$ 4,116,000	4,907,000	3,322,000
Supplemental disclosure of cash flow information:			
Interest paid	$ 320,000	459,000	539,000
Income taxes paid	1,603,000	796,000	881,000

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Description of Business

Operations of The Aleut Corporation and subsidiaries (Company) include governmental contracting, telecommunications, environmental remediation, fuel sales, real estate management and trust management. The Company also participates in various partnerships, joint ventures and other business activities.

(b) Principles of Consolidation

The consolidated financial statements of the Company include the accounts of its subsidiaries:
Aleut Real Estate LLC;

Midtown Estates Water Utility, Inc – wholly owned – converted to single-member limited liability company known as Midtown Estates Water Utility LLC on April 1, 2005;

Aleut Enterprise LLC (wholly owned) – formerly known as Aleut Enterprise Corporation converted to single-member limited liability company on September 30, 2004, and its wholly owned subsidiaries:
- Adak Petroleum LLC – organized in 2005;
- Aleut Fisheries LLC – organized in 2005;
- Adak Marine Services LLC – organized in 2005;
- Adak Commercial Properties LLC – organized in 2005;
- Adak Residential Properties LLC – organized in 2005;
- Frosty Fuels LLC – organized in 2005;
- Adak Building Inventory LLC – organized in 2005;

Aleut Management Services LLC (wholly owned) and its wholly owned subsidiaries:
- SMI International LLC – formerly known as SMI International Corporation; converted to single-member limited liability company on September 30, 2004; owned by The Aleut Corporation prior to November 1, 2004;
- TekStar LLC – formerly known as TekStar Inc.; converted to single-member limited liability company on September 30, 2004; owned by The Aleut Corporation prior to November 1, 2004;
- Aleut Warehousing and Storage LLC – organized in 2005;
- Aleut Transportation Support Services – organized in 2005;
- Aleutian Technologies LLC – organized in 2005;
- Aleut Space Research and Development Services Technologies LLC – organized in 2005;
- Aleut Northwest Services LLC – organized in 2005;
- Aleut Facilities Support Services LLC – organized in 2005;
- Aleut Communications Services LLC – organized in 2005;

Alaska Trust – 73% owned. Fiscal year 2004 has been restated to present Alaska Trust Company in the consolidated financial statements with no effect on previously recorded net income. The Company adopted Financial Accounting Standards Board's Interpretation No. 46R, *Consolidation of Variable Interest Entities, in 2005.*

All significant intercompany transactions and accounts have been eliminated in consolidation.

(c) Use of Estimates

In preparing the consolidated financial statements, management of the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities as of the date of the consolidated financial statements and revenues and expenses for the period. Actual results could differ from those estimates.

(d) Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

(e) Inventory

Inventories consist primarily of fuel, and are stated at the lower of cost (first-in, first-out) or market.

(f) Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and bear interest after 30 days. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company determines the allowance based on its historical write-off experience and current economic conditions. The Company reviews its allowance for doubtful accounts monthly. Past due balances over 90 days and a specified amount are reviewed individually for collectibility. All other balances are reviewed on a pooled basis. The Company does not have any off-balance-sheet credit exposure related to its customers.

(g) Marketable Securities

Marketable securities are classified as either trading securities, securities available for sale or securities held to maturity. Securities are classified as available for sale when management intends to hold the securities for an indefinite period of time for appreciation and income or when management intends to utilize them for tactical asset/liability purposes. Debt securities are classified as held to maturity when it is management's intent to hold these securities until maturity. The Company has classified all of its marketable equity securities as securities available for sale. The Company has classified all of its marketable debt securities as securities held to maturity.

Securities available for sale are stated at fair value with unrealized holding gains and losses excluded from earnings and reported as a net amount as a separate component of other comprehensive income.

Held-to-maturity securities are stated at amortized cost. Premiums are amortized (deducted) and discounts are accreted (added) to interest income using methods that approximate the level-yield method of determining the cost of securities sold. The Company has the ability and intent to hold these securities to maturity.

The cost of securities sold is determined on a specific identification basis.

(h) Fair Value of Financial Instruments

Fair value of financial instruments, as defined under Statement of Financial Accounting Standards (SFAS) No. 107, *Disclosures About Fair Value of Financial Instruments*, are estimated by management. Fair values for accounts receivable, contract arrangements, operating liabilities and long-term debt approximated recorded balances at March 31, 2006 and 2005. Marketable securities classified are recorded at fair value.

(i) Property and Equipment

Property and equipment are initially stated at cost, which includes interest on funds borrowed to finance the acquisition or construction of major projects. Write-downs are made on property and equipment when permanent impairments to the net realizable value of such assets occur. Provision is made for depreciation by straight-line and accelerated methods over the estimated useful lives of the assets, which range from three to 39.5 years, and is computed based on the lower of cost or net realizable value. Leasehold improvements are being amortized over the shorter of the term of the lease or useful life of the asset. Major renewals and improvements are capitalized while maintenance and repairs are expensed.

(j) Real Estate Held for Sale and Development

The Company has purchased several tracts of land. Certain of these tracts have been subdivided, developed and placed on the market for sale. Real estate held for sale and development is stated at the lower of cost or fair value less cost to sell. Sales of real estate are recorded using the full accrual method of accounting if certain conditions are met.

(k) Long-Term Investments

Long-term investments include the Company's equity ownership in unrelated business entities. The Company uses the equity method of accounting for those investments with ownership interests where the Company exercises significant control or influence in the operations of the investee. The Company uses the cost method of accounting for all other long-term investments. The Company reviews investments for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recovered. Investments considered impaired are written down to estimated fair value.

Variable interest and special purpose entities are consolidated when the Company absorbs the majority of the expected residual losses, majority of expected residual returns, or both.

(l) Goodwill

Goodwill represents the excess of costs over fair value of assets of businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of Financial Accounting Standards Board (FASB) Statement No. 142, *Goodwill and Other Intangible Assets*. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with FASB Statement No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*.

(m) Long-Lived Assets

In accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*, long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale are presented separately in the appropriate asset and liability sections of the balance sheet

(n) Method of Accounting for Federal Government Contracts

Revenues on long-term service contracts are recognized ratably over the term of the contract, as services are performed, and based on the specific terms of the contracts. Favorable rate variances on cost-reimbursable contracts are only accrued if the Company has a legal right to recovery of such variances and management intends to pursue collection of these variances. Unfavorable rate variances are accrued as incurred. Contract costs and expenses include general and administrative costs as well as a provision for employee benefits based on the ultimate amount expected to be incurred during term of the contracts.

Company revenues from government sources totaled $80,056,000, $67,309,000, and $46,623,000 for the years ended March 31, 2006, 2005, and 2004, respectively. Trade account receivables from government sources totaled $16,627,000 and $12,340,000 at March 31, 2006 and 2005, respectively.

Unbilled revenue represents uncompleted tasks that will be billed at completion in the subsequent years and provisional rate variances that management intends to recover under active government contracts.

(o) Revenues from Timber Resources and Subsurface Estate

Section 7(i) of the Act, as amended by the Alaska Native Claims Settlement Act Land Bank Protection Act of 1998, requires 70% of the net revenues received from timber resources and subsurface estate patented to the 12 regional corporations, excluding sand and gravel revenues, be divided annually among these 12 regional corporations based on shareholder enrollment. The Company's share of distributions from other regional corporations is recorded as income when the amount thereof is reasonably determinable.

There are no subsurface estate revenues within the Aleut region subject to distribution under the Act as amended.

(p) Income Recognition on Sale of Real Estate

Full profit recognition is accorded transactions for sales of real estate when specific requirements as to the buyer's initial and continuing investment have been met. Until those requirements are met, the installment or deposit methods of revenue recognition are used.

(q) Income Recognition on Fuel Sales

Revenue is recognized at the time the service or fuel is delivered.

(r) Income Recognition on Trust and Agency Fees

Trust and agency fees are recorded as deferred fees when received and recognized ratably over the related period of service. Account set-up fees are recognized at the time the trust account is established.

(s) Income Taxes

Funds and properties received under the provisions of the Act are not subject to federal and state income taxes. Income earned from funds and properties received under the Act are subject to federal and state income tax laws. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. 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.

(t) Contributions to Capital

The Company recorded its share of cash contributions under the Alaska Native Claims Settlement Act (Act) as contributions to capital. The fair values of surface and subsurface estate received and to be received pursuant to the Act will be recorded as contributions to capital when such value is determined within reasonable limits.

(u) Common Stock and Net Income Per Share

Common stock as of March 31, 2006 is comprised of the following:

- **Class A common stock**, no par value. Authorized 1,000,000 shares; 236,100 issued and outstanding.
- **Class B common stock**, no par value. Authorized 1,000,000 shares; 88,800 issued and outstanding.

Net income per share is computed based upon the weighted average number of shares of Class A and Class B common stock issued and outstanding during the year.

(v) Business Concentration

Most of the Company's operations and maintenance contracts are performed on military facilities. Changes in federal government spending or operations or changes to the SBA 8a program could have an effect on the Company.

(w) Comprehensive Income

Comprehensive income consists of net income, net unrealized gains and losses on securities and foreign currency translation adjustment, and is presented in the consolidated statements of shareholders' equity and comprehensive income.

(x) Foreign Exchange Contracts

The Company enters into foreign currency exchanges for the purpose of hedging foreign currency payroll commitments. The maturity periods for these contracts range from one to three and one half years. During 2005, the Company followed the guidance of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, amended by SFAS No. 138, to account for the transactions. During 2005, the transactions were classified as a cash flow hedge and the unrealized gain or loss was included in other comprehensive income. However, during 2006, the Company's foreign currency exchange transactions no longer were accounted for as hedging activity under the guidance of Statement 133 and accordingly, the unrealized gain or loss was included in net income as a component of other income (expense).

(y) Environmental Issues

The Company has adopted a pro-active policy designed to identify and mitigate the potential effects of past, present and future activity which may result in environmental impact. It is the Company's accounting policy to record a liability when the likelihood of responsibility for an environmental impact is probable and the cost of mitigating the impact is estimable within reasonable limits. As of March 31, 2006, the Company has no such outstanding matters.

(z) Reclassifications

Certain reclassifications have been made to the prior years financial statements to conform them to current year presentation.

(2) ALASKA NATIVE CLAIMS SETTLEMENT ACT

The Aleut Corporation was incorporated pursuant to the Alaska Native Claims Settlement Act (Act), which resolved the Alaska Native land claims. Under the terms of the Act (and amendments), the Company was entitled to $19,504,000, which it received in prior years, and the surface estate of 66,000 acres of land and 1,572,000 acres of subsurface estate. The Company records all land transferred under the terms of the Act at zero value, unless amounts were paid which directly related to a parcel acquired, as the aggregate fair market value, including the value of resources, has not been determined within reasonable limits. The Company expenses costs related to land selections in the year incurred.

Until developed, leased, or sold to third parties, lands conveyed to the Company pursuant to the Act are exempt from adverse possession and similar claims and real property taxes. Except to the extent such lands are expressly pledged as security for a loan or committed to a commercial transaction or to the extent necessary to enforce a judgment pursuant to Section 7(i) or 14(c) of the Act, such lands are also exempt from judgments resulting from claims based on Title II or other laws affecting creditors' rights or judgments in any action to recover sums owed by the Company.

The Company's stock, rights thereto, and rights to dividends or distributions declared with respect thereto may not be sold, subjected to a lien or judgment execution, assigned, treated as an asset under Title XI or any successor statute, any insolvency or moratorium law or other laws affecting creditors' rights, or otherwise alienated, except that the stock may be transferred (i) to a Native or a descendant of a Native in certain circumstances by court decree or intervivos gift, or (ii) by Will or the laws of intestate succession. Until terminated by Amendment to the Articles of Incorporation, the stock shall carry voting rights only if the holder thereof is an eligible Native or a descendant of a Native.

Shareholders

The Act provided for the issuance of 100 shares of common stock to each eligible Alaska Native as follows:

Class A shares to Alaska Natives enrolled pursuant to the Act in the Aleut region who are shareholders in one of the village corporations in the Aleut region.

Class B shares to Alaska Natives enrolled pursuant to the Act in the Aleut region but who are not shareholders in one of the village corporations in the Aleut region.

Individuals certified by the Department of Interior have been recorded as shareholders. Enrollment is now closed.

(3) NOTES RECEIVABLE

Notes receivable bearing interest from 6.5% to 8.0% with various repayment terms are comprised of the following at March 31:

	2006	2005
NANA Regional Corporation at 8.0%	$ 311,000	578,000
CK Enterprises LLC at 7.0%	49,000	75,000
Notes secured by deeds of trust	100,000	101,000
Less:		
Allowance for doubtful notes	(25,000)	(25,000)
Current portion	(362,000)	(362,000)
Long-term portion, net	$ 73,000	367,000

The weighted average interest rate on notes secured by deeds of trust was 6.5% at March 31, 2006 and 2005.

(4) RESTRICTED CASH

The Company had $1,250,000 held in restricted certificate of deposit at March 31, 2006 and 2005. The current certificates include a certificate of deposit required to collateralize a $1,200,000 letter of credit, which supports a line of credit for Combat Support Associates, a joint venture that the Company owns 20%, and a certificate of deposit to secure SMI International LLC's installment payment agreement with a workers' compensation provider, Eagle Insurance.

(5) PERMANENT FUND - MARKETABLE SECURITIES

The Company established the permanent fund on April 1, 1992. The purpose of the fund is to accumulate investments in marketable securities to provide a future stable source of cash flow for dividends to be paid to shareholders. The permanent fund invests in debt and equity marketable securities. No dividends were paid from permanent fund in 2006 or 2005. It is the intent of the board that when fund assets reach $10,000,000, 50% of future earnings will be reinvested in the fund and 50% will be distributed annually to shareholders.

Summaries of shareholders' permanent fund marketable securities at March 31 follow:

	Cost	Unrealized gains	Unrealized losses	Market value	Carrying value
2006:					
Cash and cash equivalents	$ 122,000	—	—	122,000	122,000
Securities held to maturity:					
U.S. government notes	290,000	—	(1,000)	289,000	290,000
Corporate bonds	1,132,000	—	(13,000)	1,119,000	1,132,000
Securities available for sale:					
Bond funds	1,557,000	—	(16,000)	1,541,000	1,541,000
Common stock	1,876,000	379,000	(65,000)	2,190,000	2,190,000
Hedge fund	1,000,000	46,000	—	1,046,000	1,046,000
Total permanent fund	$ 5,977,000	425,000	(95,000)	6,307,000	6,321,000
2005:					
Cash and cash equivalents	$ 639,000	—	—	639,000	639,000
Securities held to maturity:					
U.S. government notes	299,000	—	(1,000)	298,000	299,000
Corporate bonds	1,105,000	1,000	(16,000)	1,090,000	1,105,000
Securities available for sale:					
Bond funds	1,850,000	6,000	(4,000)	1,852,000	1,852,000
Common stock	1,801,000	190,000	(62,000)	1,929,000	1,929,000
Total permanent fund	$ 5,694,000	197,000	(83,000)	5,808,000	5,824,000

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss position, at March 31, 2006, were as follows:

	Less than 12 months		12 months or more		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Held to maturity						
U.S. government notes	$	190,000	(1,000)	99,000	(1,000)	289,000
Corporate bonds	(2,000)	505,000	(11,000)	614,000	(13,000)	1,119,000
	$ (2,000)	695,000	(12,000)	713,000	(14,000)	1,408,000
Available for sale	$					
Bond funds	(11,000)	344,000	(5,000)	1,197,000	(16,000)	1,541,000
Common stock	(9,000)	157,000	(56,000)	162,000	(65,000)	319,000
	$ (20,000)	501,000	(61,000)	1,359,000	(81,000)	1,860,000

The Company has the ability to hold these investments until a market price recovery or maturity for the debt securities; therefore, these investments are not considered other-than-temporarily impaired.

A summary of permanent fund revenue realized from marketable securities for the years ended March 31 follows:

	2006	2005	2004
Interest	$ 57,000	52,000	46,000
Dividends	123,000	85,000	14,000
Capital gains on sale of available for sale securities	3,000	—	15,000
	$ 183,000	137,000	75,000

There were no security gains and losses in 2005.

At March 31, 2006, the contractual maturities of held-to-maturity debt securities are as follows:

	Cost
Within one year	$ 1,087,000
One to five years	335,000
Six to ten years	—
	$ 1,422,000

(6) LONG-TERM INVESTMENTS

In 2001, the Company invested in a 40% share of Ki LLC, which provides operation and maintenance services to the federal government. The Company has guaranteed $750,000 of Ki LLC's bank line of credit. The Company uses the equity method to account for this investment. In 2002, Ki LLC suffered significant loses and requested additional capital from its owners. The Company chose not to invest additional funds into Ki LLC. The other owner of Ki LLC chose to invest additional funds into capital. As a result, the Company's ownership in Ki LLC has declined to 25%.

In 2000, SMI International LLC (20%), RAM Services, Inc. (20%) and Holmes & Narver Services, Inc. (60%) were awarded a contract by the United States Army to perform base operation services for Camp Doha in Kuwait through their jointly owned entity, Combat Support Associates Joint Venture (CSAJV). At the time of the award CSAJV had no existing operations of any kind. Subsequent to the award and during fiscal year 2000, CSAJV received operating capital from the three owners through letters of credit, direct loans and capital contributions. All loans to the ventures have been repaid as of March 31, 2001. However, the Company maintains a certificate of deposit that is pledged to a bank as security for CSAJV's line-of-credit (note 4). Ownership of the venture was transferred to the parent Company in fiscal year 2005. The Company uses the equity method to account for this investment.

In 1996, the Company invested in a 40% share of Akima Corporation, which provides operation and maintenance services to the federal government. In 2002, the Company sold half of its interest in Akima Corporation to NANA Regional Corporation (NANA). This increased NANA's ownership interest in Akima Corporation to 80% and reduced the Company's interest in Akima Corporation to 20%. The venture was re-organized in 2004 and the Company's 20% ownership is now in an entity known as Akima Management Services, Inc. The Company uses the equity method to account for this investment.

	Akima Management Services, Inc.			Ki LLC		
Balance Sheets	2006	2005	2004	2006	2005	2004
Current assets	$ 31,354,000	27,938,000	10,259,000	11,800,000	6,472,000	5,562,000
Other assets	392,000	403,000	297,000	427,000	482,000	432,000
	$ 31,746,000	28,341,000	10,556,000	12,227,000	6,954,000	5,994,000
Current liabilities	$ 15,757,000	20,062,000	4,041,000	6,819,000	3,075,000	3,814,000
Long-term liabilities	12,000	22,000	32,000	—	—	—
Equity	15,977,000	8,257,000	6,483,000	5,408,000	3,879,000	2,180,000
	$ 31,746,000	28,341,000	10,556,000	12,227,000	6,954,000	5,994,000
Statements of operations:						
Revenues	$ 157,048,000	70,726,000	57,416,000	53,265,000	38,397,000	22,258,000
Expenses	(147,680,000)	(68,340,000)	(55,474,000)	(51,264,000)	(36,414,000)	(21,491,000)
Net income	$ 9,368,000	2,386,000	1,942,000	2,001,000	1,983,000	767,000

	CSAJV		
Balance Sheets	2006	2005	2004
Current assets	$ 64,756,000	43,439,000	42,754,000
Other assets	—	—	—
	$ 64,756,000	43,439,000	42,754,000
Current liabilities	$ 40,912,000	26,949,000	29,053,000
Long-term liabilities	—	—	—
Equity	23,844,000	16,490,000	13,701,000
	$ 64,756,000	43,439,000	42,754,000
Statements of operations:			
Revenues	$ 287,120,000	205,229,000	80,591,000
Expenses	(274,766,000)	(196,459,000)	(77,937,000)
Net income	$ 12,354,000	8,770,000	2,654,000

Summarized financial information as of and for the years ended March 31, 2006, 2005, and 2004 for investments accounted for using the equity method is as follows:

In 1998, the Company invested $550,000 for a 16% share of WCPB LLC, which was formed for the purpose of making a 60% investment in 925 Park Avenue Associates LLC (Park Avenue). Park Avenue was formed for the purpose of building, owning, and operating a Paramount Hotel in Portland, Oregon. In fiscal year 2000, all owners contributed additional capital to WCPB LLC and the Company's contribution was $100,000 in WCPB LLC. The Company has guaranteed $550,000 of Park Avenue's $11,000,000 loan. In 2001, the Company invested $100,000 for a 10% interest in Portland Dragonfish Asian Café LLC, which was formed for the purpose of establishing a restaurant within the Paramount Hotel in Portland, Oregon. In 2002, the Company invested an additional $11,760 in Portland Dragonfish Asian Café LLC. The Company accounts for both of these investments using the cost method, which is not significantly different than the equity method.

In 2004, the Company invested $83,000 for a 7.9583% interest in Pacific Star Energy, LLC (PSE). PSE was formed to attempt to build a natural gas pipeline from the North Slope region of Alaska. In 2005, the Company liquidated its investment in PSE.

(7) DEBT

Debt consists of the following at March 31:

		2006	2005
Bank line of credit – revolving loan not to exceed $5,000,000, secured by marketable securities. Interest at 1.25% over LIBOR rate, 4.08375% at March 31, 2005, interest only payable monthly. Principal is due to be repaid on January 1, 2007.	$	—	1,900,000
Bank line of credit – Wells Fargo Bank, revolving loan, aggregate borrowings by Tekstar LLC (TekStar) not to exceed $5,000,000, secured by TekStar assets, which include government contract receivables and guaranteed by the Company. Interest at 6.75% at March 31, 2005, payable monthly. The line of credit expired January 15, 2006.		—	1,298,000
Bank line of credit – Wells Fargo Bank, inventory revolving line of credit, aggregate borrowings by Aleut Enterprise LLC (AEC) not to exceed $3,000,000, secured by AEC fuel inventories and receivables. Interest at prime rate, which was 7.75% and 5.75% at March 31, 2006 and 2005, respectively. Principal is due to be repaid on August 30, 2006.		1,685,000	229,000
Note payable to Wells Fargo Bank – principal payable monthly in the amount of $15,558 plus interest at prime plus 0.5%, 8.0% and 6.25% at March 31, 2006 and 2005, respectively. Remaining principal and interest due March 1, 2013. Secured by Aleut Real Estate LLC land and buildings at 5151 Fairbanks Street, Anchorage, Alaska and guaranteed by the Company. Major debt covenants include a requirement that the buildings maintain a debt service coverage ratio of no less than 1.15 to 1.0 during the life of the loan.		1,440,000	1,677,000
Note payable to Wells Fargo Bank – principal payable monthly in the amount of $11,317 plus interest monthly at prime plus 0.5%, 6.25% at March 31, 2005. Remaining principal and interest due May 1, 2013. Secured by Aleut Real Estate LLC land and building at 5540 Tech Center Drive, Colorado Springs, Colorado. Major debt covenants include a requirement that the building maintain a debt service coverage ratio of no less than 1.15 to 1.0 during the life of the loan. The remaining principal was paid off in January 2006.		—	785,000
Note payable to Wells Fargo Bank – principal and interest at prime 7.75% and 5.75% at March 31, 2006 and 2005, respectively, payable in monthly installments of $15,461. Remaining principal and interest due March 27, 2013. Secured by Aleut Enterprise Corporation fuel terminal assets at Cold Bay, Alaska and guaranteed by the Company.		177,000	585,000
Interim financing for the acquisition of computer hardware and software from Wells Fargo Bank. Aleut Management Services LLC intends to refinance all amounts advanced after implementation. Interest accrues at prime plus one percent on advances. Interim financing arrangement is for $825,155 and $710,000 of advances were received throught March 31, 2006.		710,000	—
Notes payable to Wells Fargo Bank by Tekstar LLC, secured by vehicles. Five year term with monthly payments of approximately $1,000 per month plus interest of 6.75%, due in April 2006.		4,000	71,000
Notes payable to Ford Motor Credit by Tekstar LLC, secured by vehicles. Five year term with monthly payments of approximately $2,800 per month due in April 2005.		—	10,000

Note payable to Ford Motor Credit by Alaska Trust Company, secured by vehicle, bearing interest at 0% with monthly payments of $599 due through April 2008.	15,000	22,000
Capitalized lease obligation by Tekstar, Inc. secured by fuel truck.	14,000	28,000
	4,045,000	6,605,000
Less current portion	(2,781,000)	(2,101,000)
	$ 1,264,000	4,504,000

Scheduled repayment of debt for years ending March 31 is as follows:

2007	$ 2,781,000
2008	197,000
2009	188,000
2010	187,000
2011	187,000
Thereafter	505,000
	$ 4,045,000

(8) FUTURE MINIMUM LEASE RENTALS

At March 31, 2006, the Company has various properties leased to others under noncancelable operating lease agreements. Future minimum rents under these lease agreements are as follows:

Year ending March 31:	Amount
2007	$ 2,479,000
2008	2,026,000
2009	1,654,000
2010	1,114,000
2011	677,000
Thereafter	935,000
	$ 8,885,000

(9) INCOME TAXES

The components of income tax expense (benefit) for the years ended March 31, 2006, 2005, and 2004 are as follows:

	2006	2005	2004
Current expense:			
Federal	$ 498,000	462,000	(279,000)
Foreign	536,000	436,000	—
State	173,000	147,000	105,000
	1,207,000	1,045,000	(174,000)
Deferred benefit:			
Federal	(3,730,000)	(6,378,000)	(245,000)
State	(1,138,000)	(371,000)	(75,000)
	(4,868,000)	(6,749,000)	(320,000)
	$ (3,661,000)	(5,704,000)	(494,000)

The actual income tax expense for 2006, 2005, and 2004 differs from the "expected" tax expense for those years (computed by applying the U.S. federal corporate rate of 34% to income before income taxes) as follows:

	2006	2005	2004
Computed "expected" income tax expense	$ 4,221,000	3,661,000	2,355,000
State taxes, net of federal effect	770,000	(148,000)	21,000
Gravel depletion	(153,000)	(74,000)	(272,000)
Change in valuation allowance	23,185,000	110,223,000	149,867,000
Nondeductible expenses and other	207,000	90,000	36,000
Adjustment to prior year NOLs	(32,566,000)	—	—
Basis difference in ANCSA assets	—	(120,681,000)	(153,410,000)
Foreign operations	536,000436,000	—	
Other	139,000	603,000	204,000
Expiration of state net operating losses	—	186,000	705,000
	$ (3,661,000)	(5,704,000)	(494,000)

The components of and changes in the deferred tax asset are as follows:

	March 31, 2005	Deferred tax benefit (expense)	March 31, 2006
Property and equipment	$ 1,302,000	133,000	1,435,000
Real estate held for sale	19,000	—	19,000
Basis difference in ANCSA assets	117,522,000	(3,031,000)	114,491,000
Net operating loss carryforward	151,147,000	31,777,000	182,924,000
Contribution carryover	341,000	29,000	370,000
Capital loss carryover	480,000	(85,000)	395,000
Unrealized gain on securities and foreign currency	(66,000)	(73,000)	(139,000)
Undistributed earnings on unconsolidated subsidiaries	(1,575,000)	(1,171,000)	(2,746,000)
Other	733,000	401,000	1,134,000
Net deferred tax asset	269,903,000	27,980,000	297,883,000
Valuation allowance	(262,726,000)	(23,185,000)	(285,911,000)
	$ 7,177,000	4,795,000	11,972,000
Tax expense charged as a component of equity		73,000	
Deferred tax benefit		$ 4,868,000	

The net operating losses and basis difference result primarily from the Adak transfers, see note 16.

A valuation allowance on a deferred tax asset has been provided as it is management's opinion that it is more likely than not that a substantial portion of the deferred tax asset will not be realized. The Company has net operating loss carryforwards available to offset future taxable income for state and federal purposes, which, if not utilized, will expire as follows:

Year ending March 31:	State	Federal
2008	$ 522,000	—
2009	635,000	—
2010	1,531,000	—
2019	100,000	—
2020	542,000	—
2024	363,192,000	454,521,000
	$ 366,522,000	454,521,000

(10) RETIREMENT PLAN

401(k) Plan

Nonunion employees of the Company are eligible to participate in The Aleut Corporation 401(k) Retirement Plan. Vesting by plan participants is immediate. No employer matching contributions are provided for in the plan. Administrative expenses are paid by the employer.

(11) COMPREHENSIVE INCOME

For 2005, 2004, and 2003, the components of accumulated other comprehensive income is as follows:

	Before tax amount	Tax (expense) benefit	Net change in accumulated other comprehensive income
2004:			
Foreign currency translation adjustment	$ (54,000)	16,000	(38,000)
Cash flow hedge adjustment	(108,000)	43,000	(65,000)
Unrealized security gains arising during the year	260,000	(104,000)	156,000
Security gains in 2004	(15,000)	6,000	(9,000)
	$ 83,000	(39,000)	44,000
2005:			
Cash flow hedge adjustment	$ (248,000)	99,000	(149,000)
Unrealized security gains arising during the year	124,000	(50,000)	74,000
	$ (124,000)	49,000	(75,000)
2006:			
Cash flow hedge adjustment	$ (33,000)	13,000	(20,000)
Unrealized security gains arising during the year	215,000	(86,000)	129,000
	$ 182,000	(73,000)	109,000

(12) GOODWILL

In 2003, Aleut Enterprise LLC (AE LLC) expanded its fueling operations in western Alaska. In March 2003, AE LLC purchased substantially all assets of Frosty Fuel's terminal located in Cold Bay, Alaska for approximately $4,800,000. The acquisition was accounted for as an acquisition and resulted in goodwill of approximately $1,785,000.

(13) FOREIGN EXCHANGE CONTRACTS

At March 31, 2006, Aleut Management Services LLC had several foreign currency contracts outstanding totaling $967,000. The market value of these contracts, using the exchange rate at March 31, 2006, was $(40,000). At March 31, 2005, Aleut Management Services LLC had several foreign currency contracts outstanding totaling $310,000. The market value of these contracts, using the exchange rate at March 31, 2005, was $33,000. The unrealized gain of $33,000 at March 31, 2005 on these contracts has been recognized as a component of other comprehensive income. The unrealized loss of $40,000 at March 31, 2006 on these contracts has been recognized as a component of net income (other non-operating expense). Realized gains and losses are recognized as a component of other income as incurred.

(14) ASSETS HELD IN TRUST

At March 31, 2006 the Alaska Trust Company had 1,030 accounts with a market value of $964 million held in trust. At March 31, 2005 the Alaska Trust Company had 967 accounts with a market value of $797 million held in trust. The Alaska Trust Company uses the Bank of New York as custodian for marketable securities managed under trust agreements.

(15) COMMITMENTS AND CONTINGENCIES

(a) Operating Lease Commitments

The Company leases office space and equipment under various operating lease agreements. Future minimum lease payments under the terms of these leases are as follows:

Total rent expense was $249,000, $205,000, and $284,000, for 2006, 2005, and 2004, respectively.

Year ending March 31:	Amount
2007	$ 184,000
2008	179,000
2009	179,000
2010	144,000
2011	17,000
Thereafter	260,000
	$ 963,000

(b) Legal Actions

In the ordinary course of business, the Company may be involved in legal actions, claims, personnel matters and disputes due to its operations. In the opinion of management, the ultimate liability, if any, of such matters will not materially affect the Company's financial position, results of operations and liquidity.

In March 2006, David Jensen, the Company's CEO through March 31, 2006, filed for arbitration against the Company for non-payment of an earned bonus for the year ended March 31, 2005. Mr. Jensen contended that he had earned the bonus under the Company's bonus program, which he further asserted the Company wrongfully tried to eliminate after the year was more than three quarters over. The Company argued it had the power to abolish the bonus program, even though a substantial amount of the fiscal year had already elapsed. The Company's analysis was rejected by the arbitrator, who issued a decision on July 21, 2006 that stated Mr. Jensen's bonus could not be abolished after he had been working for most of the fiscal year in expectation of receiving it. At March 31, 2006 the Company accrued the bonus of $210,940, interest expense of $18,785 and estimated legal expenses due the plaintiff of $35,000.

(c) Contract Audits

The Company's government contracts are subject to ongoing and periodic performance audits which could ultimately result in reductions of contract revenues. However, in management's opinion, adjustments to contract revenue, if any, resulting from these audits, will not materially affect the Company's financial statements.

(16) ADAK TRANSFER

On March 17, 2004 the Company received conveyance to approximately 46,000 acres on Adak Island, Alaska, including developed properties and equipment located in the City of Adak in exchange for certain land selection rights received under ANSCA. The Company simultaneously sold certain properties encompassing the Adak airport footprint and equipment to the State of Alaska and certain properties encompassing municipal activities and equipment to the City of Adak. The Company recorded this transaction at zero value for financial statement purposes, as management does not believe it can estimate fair value for such unique and remote assets. For federal income tax purposes the Company is entitled to value assets received on Adak at replacement cost appraisal. The appraisals were completed by the Company in fiscal years 2005 and 2004. The sale of assets resulted in significant tax losses being generated.

Corporate Profile

The Aleut Corporation (the Corporation) was established in 1972 under the terms of the Alaska Native Claims Settlement Act (ANCSA). This legislation provided land settlements and cash settlements to the 13 ANCSA Regional corporations formed under the Act.

The Aleut Corporation received a settlement of $19.5 million, and was entitled to 66,000 acres of surface lands and 1.572 million acres of subsurface estate. Voting shares of stock were issued to 3,249 shareholders.

Most of the Corporation's ANCSA selections are on the Alaska Peninsula and Aleutian, Shumagin, and Pribilof Islands, situated between Port Moller and the Alaska Peninsula and the western tip of Atka Island. The corporation owns the village site of Attu as well as numerous historical and cemetery sites between Atka and the Alaska Peninsula.

The Aleut Corporation currently manages and sells sand, gravel, minerals and rock aggregates as part of its subsurface rights within the region.

The Corporation's primary areas of business are real estate, government operations and maintenance contracting, trust services, aggregate sales, and investments in oil and gas producing properties and marketable securities.

Board of Directors

Debra Mack,
Chair

Martha Malavansky,
Vice-Chair

Elary Gromoff, Jr.,
Vice President

Tara Bourdukofsky,
Secretary/Treasurer

Dick Jacobsen,
Director

Joe Kashevarof,
Director

Sharon Lind,
Director

Stanley Mack,
Director

Alice Petrivelli,
Director

Thank you to Sean R. Mack (cover- salmon strips, and salmon photos on pages 7and 10) and Eugene Bourdukofsky (page 13) for the use of their photos.