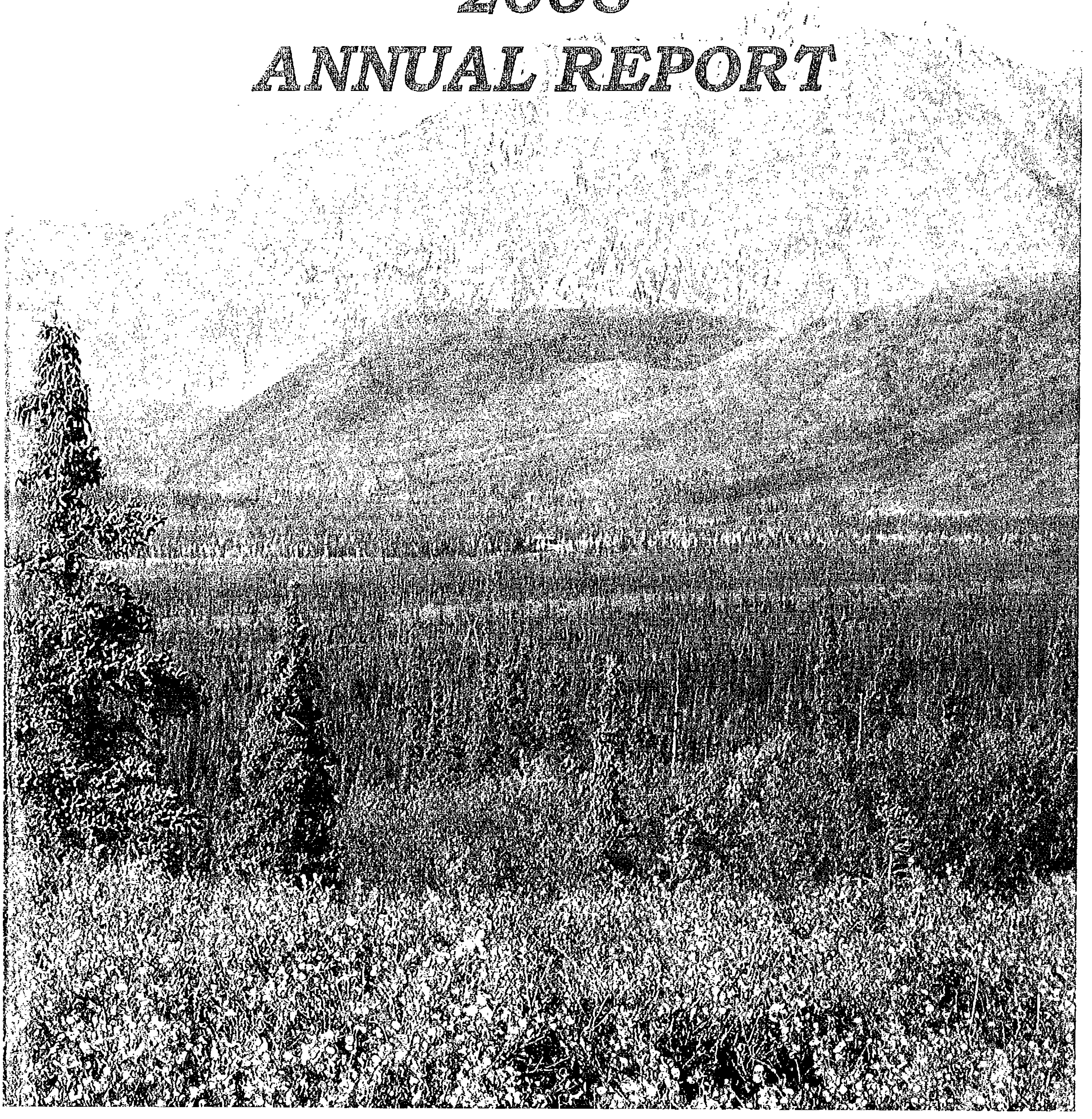
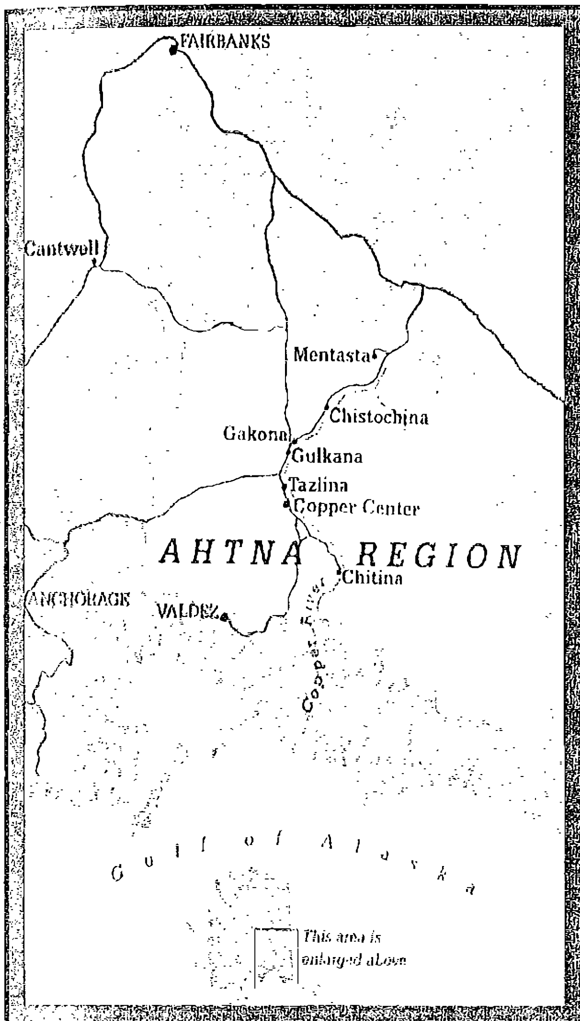
Ahtna Incorporated 2005 ANNUAL REPORT





Ahtna, Incorporated

A growth-oriented company, will enhance the overall well being of its shareholders with monetary dividends, employment and educational opportunities through diversified investments and support a strong sense of cultural pride and identity.

Ahtna will implement ANSCA for the benefit of its shareholders through the wise stewardship of land and natural resources and through sustained growth for future generations.

Corporate Profile
Ahtna, Incorporated

is one of 12 Regional Corporations established by Congress under terms of the Alaska Native Claims Settlement Act in 1971.

Ahtna, Inc., owns in fee title, approximately 1,528,000 acres conveyed in December 1998 from an entitlement of 1,770,000 acres.

Seven of the eight villages within the Ahtna Region are merged with Ahtna, Inc. All eight are Federally Recognized Tribes. A thirteen-member board directs corporate operations. Ahtna, Inc., has approximately 1,200 shareholders, of which the majority reside in the Copper River Region.

Headquartered in Glennallen, Alaska, Ahtna, Inc., is committed to providing a broad range of opportunities for its shareholders and preserving their Native culture.

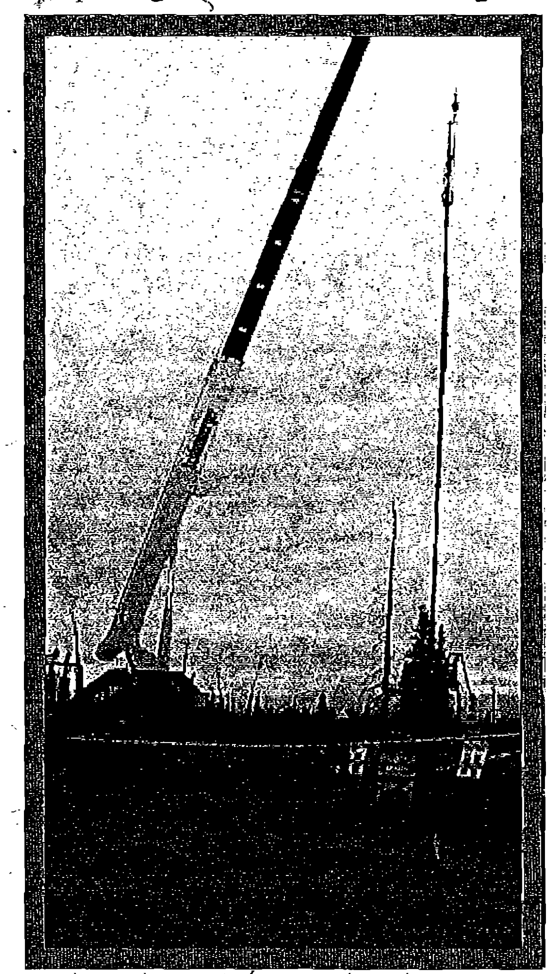
Ahtna, Inc., has seven operating subsidiaries, whose primary lines of business in 2005 were: construction, pipeline maintenance, facilities maintenance, administrative services, janitorial services, electrical contracting, fiber-optic telecommunication, forestry and gravel sales.

Dear Shareholders:

As you know, last year a Texas oil and gas company drilled a well on Ahtna lands looking for commercial quantities of natural gas. The well that was drilled broke a couple of state records including the highest pressure well ever drilled in Alaska. Due to the high pressure, the company was forced to put a large quantity of mud into the formation causing it to set up like a concrete barrier.

This spring the exploration company plans to use a new technology, never used in Alaska before, to penetrate into the formation and measure the volume of the gas. Part of our planning for this undertaking had us sending over a dozen shareholders to roustabout training in Texas. I'm happy to report that 13 of our shareholders successfully completed the training. Ahtna's goal is to have shareholders working in every aspect of the drilling operations on our land.

We are currently waiting on the Department of Interior's Office of Appraisal Services to approve the appraisal performed on the Berg MacDougall land package. We have come to an agreement on the parcel that would protect shareholder rights to have continuous use of the land and allow Ahtna to have environmental friendly commercial use of the land. Now all we need to do is agree on the appraised amount once the appraisal is approved by DOI.



In the past year Clearwater Group Incorporated, an Ahtna subsidiary, lost approximately $820,000 mainly due to the depreciation and maintenance of the Moana Wave. I am happy to announce that we were able to sell the Moana Wave to Stabbert Maritime for approximately $1.4 million. Although the final sale of the boat will not occur until June of this year, we have already signed the paperwork and Stabbert Maritime has assumed all liability since the beginning of the year.

We are also close to selling the twin engine Navajo Piper plane that was obtained by Ahtna through government surplus. It will be a relief to get rid of this property and concentrate on business in which we already have a successful and proven track record.

We are concerned over the stance that Arctic Slope Regional Corporation has taken in regards to 7(i) sharing of ANWR. Ahtna has made it clear that we believe that any profits by ASRC coming from lands that were traded from ANCSA lands should be made liable to the 7(i) agreement.

We are deeply concerned that if ASRC is able to exploit a loop hole in the agreement that, in time, the amounts of which could have been shared from ANWR will cause a rift in the regional corporations and their shareholders. I pledge to continue pressing our concerns and fight for what I believe should be shared amongst all Native people of Alaska.

We continue to concentrate our efforts and the Board of Directors has played a pivotal role in cutting costs. As a result, unprofitable operations (such as Clearwater Group Inc.) will be closed. We will work hard to continue: reducing the debt, increasing profits, and increasing the assets to liability ratio in order to start issuing dividends again.

As we look back on 2005, there were a variety of issues that threatened our quality of life and the well-being of our shareholder's culture and traditions. Subsistence, PLO 5150, Tier II, and the investigation into 8(a) government contracting were just some of the issues that had Ahtna spending a considerable amount of money and effort to secure favorable outcomes. Although some of these issues will remain focal battle fronts for the future, I will continue to fight for our desired outcomes.

Under our recovery plan, we continued to increase shareholder hire while streamlining operations and cutting costs. We have a competent senior management team, a majority of which are shareholders, working together to achieve our objectives

Though I have only talked on the operational part of our company, I don't want to lose focus on the protection of our lands and cultural ways of life. Our land will always be a high priority and this last year we hired a highly qualified lead protection officer and contracted for air patrol to combat trespass on our lands. The efforts of our Lands and Resources department are sometimes hard to measure, but take it from me we have a dedicated staff that is willing and skilled to meet the tasks ahead.

The future looks bright but the recovery effort continues to take time and cash flow is still tight. Myself, the Board of Directors, and management has remained true to the mission and vision of the company and we will continue to follow the direction laid out in 2000 to get us out of debt and start paying dividends to our shareholders. We continue to have strict guidelines to the operational aspects of our contracts, new and old, and we continue to diversify our corporation in order to minimize our liabilities.

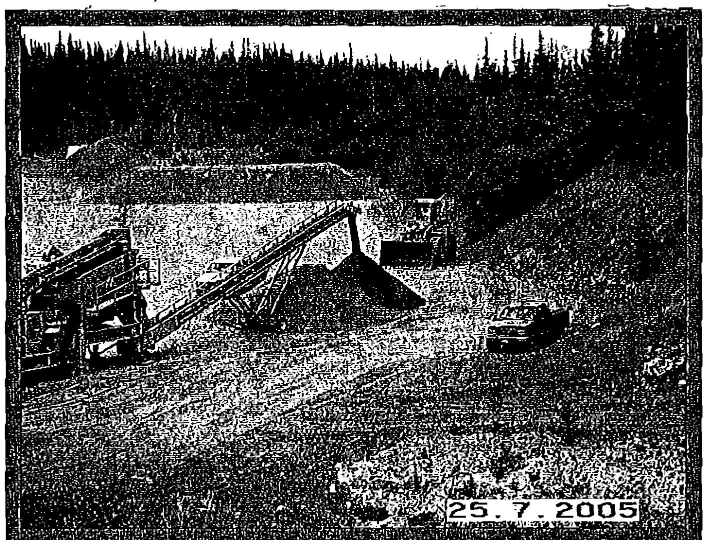
I would like to thank the shareholders for allowing me to serve as your President/ CEO for another year and I appreciate the sacrifices that everyone has endured to enable us to rebuild this company and continue to strive for a brighter future for our shareholders.

Sincerely,

Ken Johns, President/CEO

Ahtna Construction & Primary Products Corporation

Ahtna Construction & Primary Products Corporation (AC&PPC) had another successful year in 2005 with an operating profit and over $24 million in revenue.



This is an increase of over $2.4 million in revenue from 2004. **AC&PPC** has been consistently profitable throughout their history; in addition to employing and developing shareholders in the local region.

AC&PPC continues their growth in the hard dollar arena with $6.4 million in 2005. A majority of this revenue was generated from civil work and remodeling of the HAARP facility in Gakona, Alaska; Road/pad work and drilling support for Rutter & Wilbanks at Ahtna Drill Site 1-19 (Milepost 176 Glenn Hwy), Glennallen, Alaska; various contracts with the Department of Transportation for material processing within the Ahtna region; and many small jobs too numerous to list.

AC&PPC employed two hundred and forty eight people in 2005, 33% of the man-hours worked throughout the year were by Ahtna shareholders/descendants.

In addition we are currently sponsoring a National Center for Construction Education & Research (NCCER) training program at Prince William Sound Community College, developing project supervision skills for our shareholders and employees.

Safety Philosophy:

Ahtna Construction has implemented a proactive program that will reduce all safety-related losses to an absolute minimum surpassing the best experiences of operations similar to ours. Our goal is zero accidents and injuries. It is to be on the left side of zero, managing prevention efforts instead of accidents.

Ahtna Construction is looking forward to a bigger and better 2006, and we are well on our way!

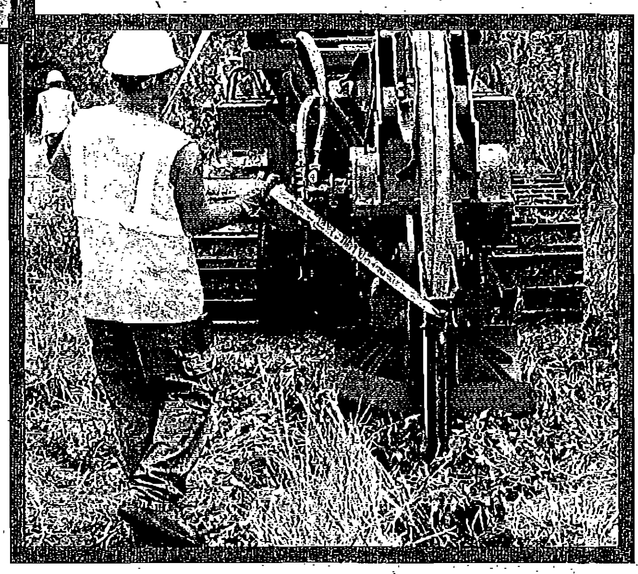
Ahtna Enterprises Corporation

Ahtna Enterprises Corporation (AEC) is pleased to announce that the company, now for the third year in a row, was again profitable in 2005. The company brought a net profit to Ahtna, Inc. of nearly one million dollars. For 2006 the company will remain focused on its service and construction contracts.

Our primary service contract is the Social Security Administration (SSA) records management contract in Baltimore, Maryland. **AEC** Program Managers Kathleen Robison and Gus Gustat, along with **AEC** Controller Terry Robinson have done an exemplary job of working with our client and our on-site staff to make this an exceptionally well managed and profitable contract.

Both **AEC** and the SSA are very proud of the operation.

AEC was recently awarded a second SSA site in Wilkes-Barre, Pennsylvania and will begin operations there in April 2006. The 2005 construction season went very well for **AEC.**



Bob Rasmussen and his team completed demolition projects for the Army and was also successful in completing paving projects at both the Wrangell St. Elias National Park Visitors Center and the Denali Park Visitors Center. In 2005 the company entered into fiber optic projects and successfully completed the installation of nearly 40 miles of fiber optic cable in St. Louis, Missouri and St. Louis, Illinois.

Kent Thompson, **AEC**'s Lower 48 Operations Manager, and his team did a fabulous job of opening up a new area of profitable work for the company while continuing to perform well on our Fuels Reduction work and civil works projects in the Lower 48.

Throughout 2005 **AEC** received support from our sister subsidiary companies and from Ahtna, Inc. staff and management. **AEC** Board of Directors (Ken Johns, Donna Pennington and Leonard John) worked closely with the Ahtna, Inc. Board of Directors and **AEC** management to monitor and guide the company. We look forward to what we believe should be an excellent 2006 for the company.

It was a great year and we Thank You for all the support.

Ahtna Government Services Corporation

Ahtna Government Service Corporation (AGSC) is entering its seventh successful year of operation. The company has experienced continued growth and is pleased to report an outstanding year with growth of $35 million in gross revenue.

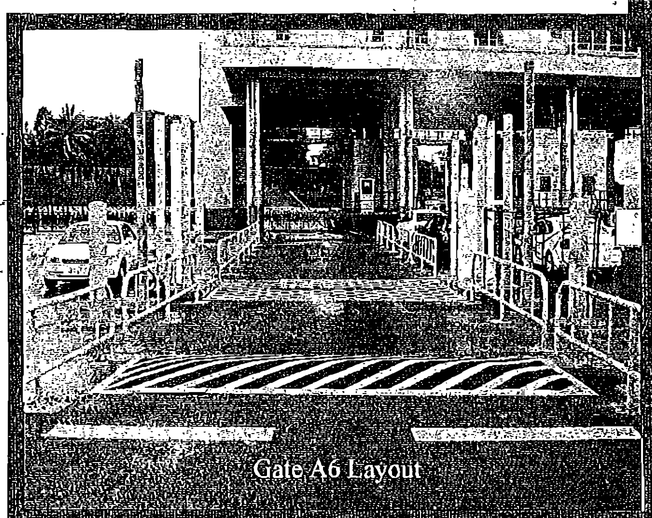
AGSC continues to expand and execute its current contract with the Department of Energy (DOE) National Nuclear Security Administration (NNSA) to support the U.S. Government Second Line of Defense Program (SLD) overseas.

The key activity within the program is the installation of monitoring, detection and response systems that detect movement or smuggling of radioactive materials or devices across international borders.

Port of Colombo, Sri Lanka radiation detection gate

(DOE SLD contract)

Port of Colombo, Sri Lanka radiation detection gate



(DOE SLD contract)

In 2005, **AGSC** completed Design, Construction and Integration (DCI) project task orders for Sri Lanka, Spain and Ft. Carson, Colorado. In 2006, the program continues to expand to locations including Singapore, Thailand, Dubai, Israel, Philippines, Ukraine, Slovenia, Kygyrzstan, and Slovakia.

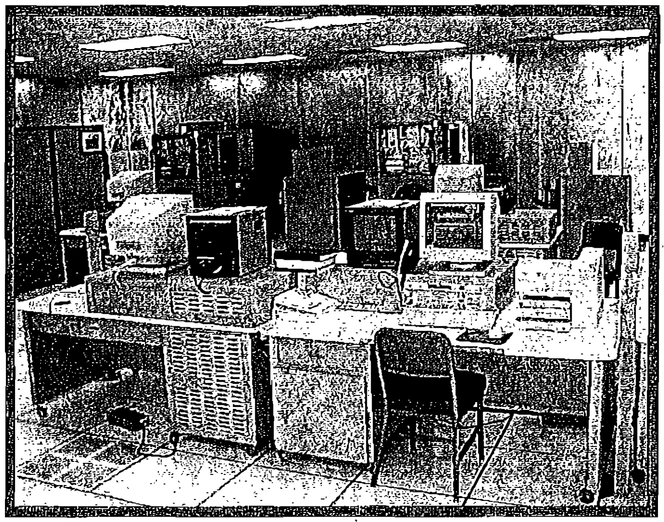
AGSC has completed its fifth year as a Social Security Administration (SSA) records management contractor.

The SSA continues to be one of our most important customers in the Professional Services and Staffing sector. In April 2005, **AGSC** was awarded a contract with the Federal Aviation Administration (FAA) to support the various construction requirements in the FAA's Western Service Area. The work consists of engineering and construction services related to the construction and maintenance of navigational, communications, surveillance, and lighting systems, power lines, power plants, and radio and telecommunication transmitting/receiving towers. Development of this new contract will be a focal point for **AGSC** in 2006.

It was a great year and we Thank You for all the support.

Ahtna Development Corporation

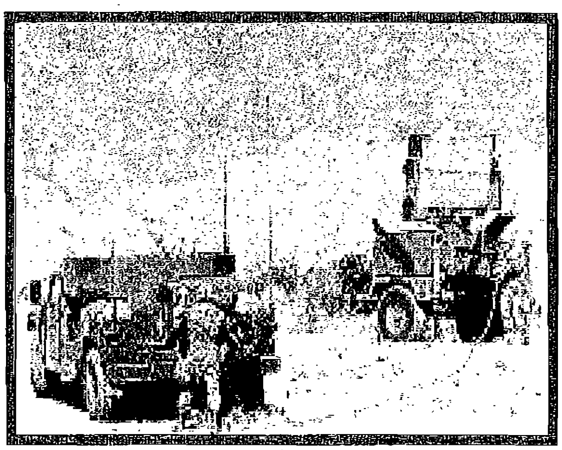
Ahtna Development Corporation Experiences Continued Growth and Profitability



ADC under the leadership of President / CEO Pamela Finnesand, an Ahtna shareholder, continued its profitability and growth trend in 2005. **ADC** expanded the scope and sustained excellence on a major contract with the Program Executive Office – Simulation, Training, and Instrumentation (PEO STRI). PEO STRI is a major Army Command with headquarters in Orlando, Florida and recognized as the leader in the Simulations and Training world.

ACT Contract Increased by More Than $10 Million

The ACT contract continued to grow in 2005 as the funded value of the contract increased by more than $10.5 million during the year to more than **$47 million**.



ADC Rated EXCEPTIONAL on Performance Report

ADC recently received an Exceptional Rating for the second half of 2005. The rating was based on their exemplary maintenance and logistics services to the United States Army at locations throughout the world. The semi-annual evaluation resulted in the largest award fee in the five-year history of the contract. The customer attributed the Exceptional Rating to the quality of the **ADC** personnel and their performance.

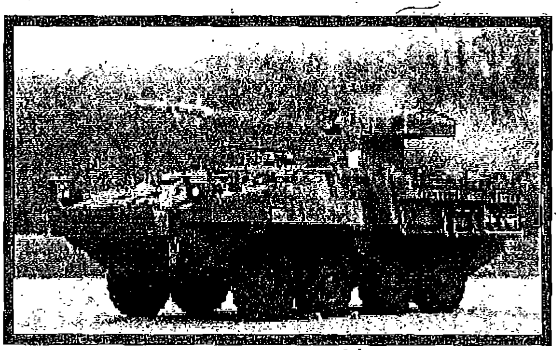
Contract Expands at Fort Bliss, Texas

A second shift was added to the Fort Bliss, Texas LCCS Contract in support of the Army's Air Defense Artillery School. The contract expanded to provide maintenance support for the Sentinel Radar Operator Trainer. The Sentinel radar is deployed with forward area air defense units of the Army and Marine Corps.

The radar automatically tracks and reports enemy targets, including cruise missiles, helicopters and airplanes. The accompanying photos show an actual Sentinel Radar and the Sentinel Operator Trainer.

USMC Support Contract Increases $.7 Million

More than $730,000 was added to the ACT CCS contract to support the United States Marine Corps purchase of spare parts and maintenance of the Stinger Troop Proficiency Trainer (STPT). The Stinger is the Army and Marine's weapon for short-range air defense and provides force protection against all types of aircraft. The photos show a Stinger two-person team on a training exercise and an actual Stinger firing.



New Training Device Added in Texas

The Anti-Tank Guided Missile (ATGM) Basic Skills Trainer is the latest training device added to the ACT contract. The missile system provides soldiers a means of destroying enemy armored vehicles. The following photos show an ATGM firing from a Stryker combat vehicle and the Basic Skills Trainer.

Pamela Finnesand Recognized for Community Involvement -- **ADC** President Pamela Finnesand, an active member of numerous service and conservation groups, was recently recognized by the National President of Ducks Unlimited, Dr Jim Hulbert, for her community involvement and support of conservation. Ducks Unlimited is a national conservation organization founded over sixty years ago focused on the conservation and improvement of wetlands and waterfowl habitat and has conserved over 11 million acres across the nation.

Regional Development Added to ADC Focus -- In 2005, **ADC** chose to include the development of projects in the Ahtna Region. Shareholder Michelle Anderson was selected in July as **ADC**'s VP of Operations and is evaluating projects in the region for potential investment.

Ahtna Development Corporation launches new company – AhtnaSTS

With the change in focus of **ADC** to regional development, a new company was created to take advantage of the expanding government training and simulations market. The new company, whose legal name is **Ahtna Support and Training Services, LLC,** has adopted the moniker of **AhtnaSTS,** as it focuses on an expanded role in the government market.

The name **Ahtna** has become a respected trade mark in the world of Training and Simulation support to the US Government. The name, **AhtnaSTS**, was crafted to take advantage of the hard-won reputation built over the last several years by Pamela Finnesand and her **ADC** Team.

Shareholders can expect to see good things come out of both of these new endeavors.

Ahtna Technical Services, Inc.

Once again **ATSI** closed the year with a profitable bottom line. **ATSI** topped 2004 net profits of $1.7 million dollars and revenues of $9.8 million dollars up to $1.9 million in profits and revenues of $11 million in 2005.

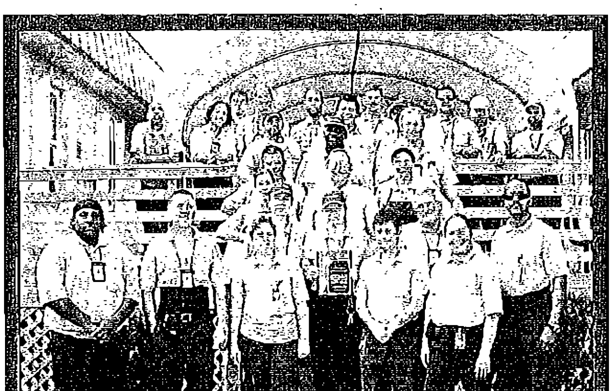
ATSI attributes much of its success to its experienced managers, administrative staff, and project field personnel. These individuals have diligently worked hard to ensure that all scopes of work and responsibilities have been accomplished to meet and exceed the requirements of each contract. Their attention to detail and company spirit has earned **ATSI** several letters of commendation throughout the year. The following are excerpts from two of our clients. The pictures depict awards of acknowledgement for quality workmanship.

Twelve department heads of the Sacramento Outpatient Clinic at McClellan (branch office) of The Department of Veterans Affairs, VA Northern California Health Care Systems signed a letter that was written to Carol Craig, Pres./CEO, ATSI. The letter emphasized how pleased they are with the high standards and quality of environmental services performed by **ATSI** staff.

They went to say how accommodating the staff is and that they maintain themselves in a courteous and professional manner at all times. It said, "We would like to thank them for their continuous dedication.

James M. Fitterline, Ph.D., Chief, Homeless Veterans Service (branch office) of The Veterans Affairs, Alaska Healthcare System and Regional Office wrote a special letter to Carol Craig expressing how much they appreciated and are pleased with the janitorial services of ATSI and particularly that of Fernito Lusung.

He wrote, in part, "Mr. Lusung is a fine representative of your company. I would imagine that if all of your employees come close to the standard of quality that Mr. Lusung maintains, then you have quite a fine service. Thanks again, from a very satisfied customer."



Ahtna Technical Services, Inc.

ATSI continues to expand on its existing contracts: Six new buildings have been added at Fort Richardson and **ATSI** will be awarded the new ***Bassett Army Community Hospital*** in Fairbanks which will come on line in May, 2006. This will result in approximately 100,000 additional square feet to the contract.

The ***Krome Service Center in Miami, Florida*** sustained damages from hurricane Katria. **ATSI** worked with The Department of Homeland Security while they underwent renovations and brought the facility back into full operation in record time.

The *Veterans Affairs* facilities with The ***Department of Homeland Security*** (in ***Anchorage, Alaska and Sacramento, California***) continue to generate letters of recognition that attest to **ATSI**'s excellent capabilities as illustrated by the excerpts on the left.

The ***Buffalo Federal Detention Facility*** in ***Batavia, New York*** generated approximately 37% of **ATSI**'s revenue in 2005. The contract will continue until March 2008.

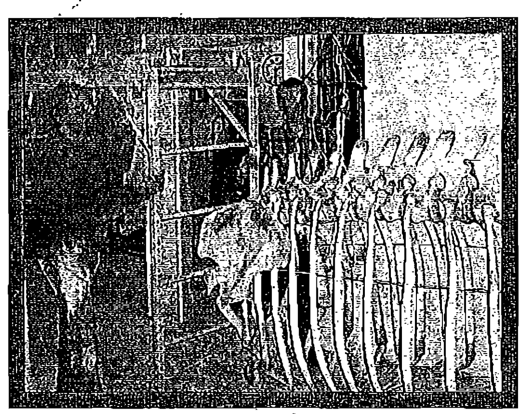
ATSI is entering its fifth year in the 8(a) program. An integral part of **ATSI**'s 2006 strategic plan is to focus on business development. Our primary objective is to secure non-8(a) projects while continuing to actively pursue additional sole sourced opportunities.

Updated marketing materials ~ firm brochures and statement of qualification packages have been produced to assist in generating new contracts. The **ATSI** web page will be online soon.

Carol Craig, President/CEO (under the direction of the **ATSI** Board of Directors) oversees all operations and personnel. Other staff include: Pamela Finnesand, Vice President; Anna Abrahamson, Vice President of Finance; Donna Freitas, Contracts Manager; Eva Sinyon; Assistant Contracts Manager/Administration; Melissa Rich, Quality Control Coordinator, and Alysha Johnson, Receptionist. Phyllis Yazzie continues to assist **ATSI** in H.R./Administration.

Koht'Aene Enterprises Company, LLC

Koht'aene Enterprises Company, LLC, (KEC) is one of the new companies formed by Ahtna, Incorporated in 2005. The company will receive its 8(a) status in early 2006 and pursue primarily vertical construction, remodeling and renovation contracts. It will, upon receiving 8(a) status, pursue 8(a) contracts in both the service and construction sectors. Although the company has just begun operations, 2005 was a great year for the new company. John Mahler successfully teamed **KEC** with Cornerstone Construction of Anchorage to win and profitably complete two projects.



Both projects, the ***Maternal Health Clinic and the Cardiology Clinic*** were remodeling/renovation projects at the Alaska Native Hospital in Anchorage. Additionally, John Mahler and Marty Finnesand successfully negotiated a contract with the Native Village of Eyak to remodel/renovate their office complex in Cordova. This project was successfully completed and has lead to more work with Eyak.

2006 will be a good year for **KEC** and we look forward to working with the **KEC** Executive Committee and Ahtna, Inc. Board of Directors, management and staff to continue to grow the company.

Ahtna Land & Resource Department

Agency Partnership:

Ahtna, Inc. has signed an MOU with Wrangell St. Elias and signed a MOU with BLM. The land department is going to pursue signing similar documents with other agencies such as the Department of Transportation and State of Alaska Fish and Game. We've been working closely with NPS and BLM on projects and issues that affect Ahtna Lands. Much of it has been an educational process for both sides. We hope to continue the partnership to protect Ahtna lands and culture. The land department is continuing to work on is 17(b) easements and RS2477 easements that go through Ahtna Lands. We plan on trying to get some of these easements relinquished and educate the public on the allowable and appropriate use of these easements with the agencies involved.

Shareholder Hire:

As of March 21, 2006, the Ahtna, Inc., Glennallen office had 21 Full Time employees.

Fifteen are shareholders, two are descendants of shareholders, 3 are married or parents of shareholders and one has no affiliation to a shareholder.

Land Selections:

The land department office is continuing to gather and review information for village and regional lands prioritization. Once we have all the information, we will present it to the villages for them to select their priorities on the remaining selections and submit those to the BLM State Office. Ahtna, Inc. Board will do the same for the regional priority. Once we have these submitted to the BLM State Office, Ahtna will be put on the list to start the surveying of our final entitlements. Ahtna, Inc. will also be submitting for the 638 contract for the survey work.

Leases and Permits:

The land department is continuing to issue leases and permits for land use. Land department staff is researching a database that will be user friendly and give us the information we need. Also to allow the villages to track all of our leases and permits. Once we have this in place, it will hopefully give the villages and the land department the information needed for better protection of our land.

GIS:

The GIS Office supported a wide variety of projects in 2005. These projects ranged from conducting a title search for a proposed heritage site to performing field research for the Berg-MacDougall easement. While the GIS Office performs a wide variety of support services, the focus remains mapping. Large mapping projects in 2005 included an analysis of the proposed oil & gas exploration areas, fulfillment of AI's commitment to Chitina under 12(b), and an audit of BLM information regarding AI's land status information. Numerous smaller projects occurred throughout the year as well, such as the mapping of possible fish wheel locations along the Copper River and the locating via GPS of archeological sites endangered by river bank erosion. In 2006, the main focus of the GIS Office will be the final selections for each village under 12(a). This will be tied directly to the results of the oil & gas exploration so the two projects will take up the bulk of the GIS Office's time. However, the GIS Office will continue to support the Land Department, Ahtna Inc., and all of its shareholders with mapping services, basic title searches, field research, GPS data collection whenever possible.

Trespass:	2005	2006	Type of Activity
Incidents:	X		56 incidents reported and logged
		X	21 incidents reported and logged
Signs Posted:	X		477 signs posted & GPS in the Ahtna Region
		X	196 signs posted & GPS in the Ahtna Region
Mileage Patrol:	X		12,836 miles, 300 plus hours with ATV
		X	3851 miles, 16 plus hours on ATV
Aircraft Patrol:	X		27.5 hours
		X	12 hours
Permits Issued In the Field:	X		5 Permits
		X	39 Permits
Ongoing: Deal with all complaints of trespass, hunting disputes, trap line disputes, theft, wood cutting disputes, vandalism, criminal mischief, littering, hazardous material dumping, and clean up issues.			

Tribal Conservation District: Ahtna, Inc., along with the tribes is eligible form a Tribal Conservation District. This district would address concerns about the management of natural resources. The formation of this conservation would have a governing board. The board would prioritize and assist in the delivery of programs and promote services provided by USDA – Natural Resources Conservation Service. **What does a Conservation District do?**

- Bring technical and financial resources to the local level for better community based natural resource management.
- Wildlife Habitat Improvement
- Water Quality Monitoring
- Assists in establishing policies on natural resource issues
- Conservation Education
- Best Management Plans
- Local Capacity Building
- Develop Conservation Plans

Subsistence:

The Ahtna Tene Nene' Subsistence Committee has been attending subsistence meetings, such as the Alaska Board of Fisheries Meeting (ABOF), Alaska Board of Game Meetings (ABOG), Federal Subsistence Board (FSB), and Wrangell St. Elias Park & Preserve Subsistence Resource Commission Meetings (WRST SRC).

The Copper River Fisheries Proposals that most affect the Ahtna People are the following:

Checking fish wheels every 10 hours was passed by the Alaska Board of Fisheries, and the Federal Subsistence Board. We will now have to check our fish wheels every 10 hours under the state fishing permit and the federal fishing permit, and remove all fish from our fish wheels. At the meeting in December 2005 the ABOF changed the Amounts Necessary for Subsistence (ANS). The Amounts Necessary for Subsistence (ANS), for the entire Glennallen Subdistrict was set at between 60,000 and 75,000. The new ANS was increased by 21,500 fish, but the total amount is divided into three components:

The ANS for the 3 components of the Glennallen Subdistrict was increased by 21,500 fish, and they are listed as:

1) 25,500 to 39, 000 salmon, from Chitina-McCarthy Road Bridge to the Tonsina River
2) 23,500 to 31,000 salmon, from Tonsina River to Gakona River
3) 12,000 to 12,500 upstream of Gakona River to the Slana River, which includes the Batzulnetas fishery.

Board of Game decisions that impact the Ahtna Region:

At the Alaska Board of Game Meeting in January 2006, the directors of ABOG, at first eliminated Proxy Hunt for Nelchina Caribou Herd in Unit 13, and then at the end of that meeting in January, deferred action on Proxy Hunting to the March. Proxy hunting is still allowed but there are different rules. Please contact: Gloria Stickwan if you need more information. At Glennallen Office - 822-3476.

Additionally, at the ABOG Meeting in January 2006, the ABOG Directors failed to pass proposals on the Tier II Subsistence Hunting Permit Point System. Proposal 28, which was written by the Alaska Dept. of Fish and Game, at the request by the ABOG Directors, that would have changed the Tier II Subsistence Hunting Permit Point System.

This Department's Tier II Proposal:

1. Decreased the number of points from 60 to 40 for a Tier II applicant's dependence on the game population. Decreasing the number of points for this criterion would have allowed more young people to hunt under the Tier II system.
2. Increased the number of points, from 10 to 30 for the criterion relating to where a Tier II applicant purchased store-brought food for the past year.
3. Increased the number of points from 10 to 30 for where an applicant had purchase gasoline. Both of the changes would have provided more opportunity for rural people to participate in Tier II hunts.

At the WRST SRC Meeting, the Commissioner's took action on wildlife proposals. The proposals that most affects us, were on Customary and Traditional Use Determination (C&T) and a statewide proposal.

The C&T for Unit 12 for Moose Proposal failed to give C&T to residents of 13(C) or to those residents, who reside within Unit 13(C) areas along the highway system, or to put it in another way, those residents of the communities of Chistochina, Mentasta, Gakona, and Slana.

The Statewide proposal that affects us is a proposal that allows federally qualified subsistence users to sell handicrafts made from non-edible byproducts of most wildlife in Unit 11. The WRST SR, Commissioner's modified the proposal to state that the proposal should not cause a conservation concern, and passed the proposal on handcrafts made from most wildlife in Unit 11.

The land department is committed to the protection and management of our lands and maintaining a subsistence way of life for our shareholders. We hope you support us in our efforts to continue to improve. Please feel free to contact us if you have any questions and we will do our best to assist you.

Thank you,
Kathryn Martin, VP of Land & Resources

Ahtna, Incorporated 2005 Subsidiaries

Ahtna Construction & Primary Products Corporation

Ahtna Development Corporation

Ahtna Enterprises Corporation

Ahtna Government Services Corporation

Ahtna Technical Services Corporation

Clearwater Group Incorporated

Kocht'Aene Enterprises Corporation, LLC

Audit Committee Report

The Audit Committee was formed on May 16, 1983 and is currently comprised of three directors of the Ahtna, Incorporated Board.

The primary responsibilities of the Audit Committee are to ensure that the corporation's accounts are properly maintained and adequately verified by the corporation's certified public accountants, to review and approve major changes in Ahtna's accounting policies, and to report to the Board of Directors.

To fulfill our obligations, we met jointly and separately during the year with the independent certified public accountants and the Chief Financial Officer of Ahtna, Incorporated. Among the matters discussed and reviewed were the general accounting practices of the corporation, the scope of the examination to be performed by the certified public accountants and the adequacy of Ahtna's system of internal controls.

We believe that the Committee has been fully informed by management and the certified public accountants of the accounting and financial aspects of the corporation.

Leonard F. John

Leonard F. John
Chair, Audit Committee

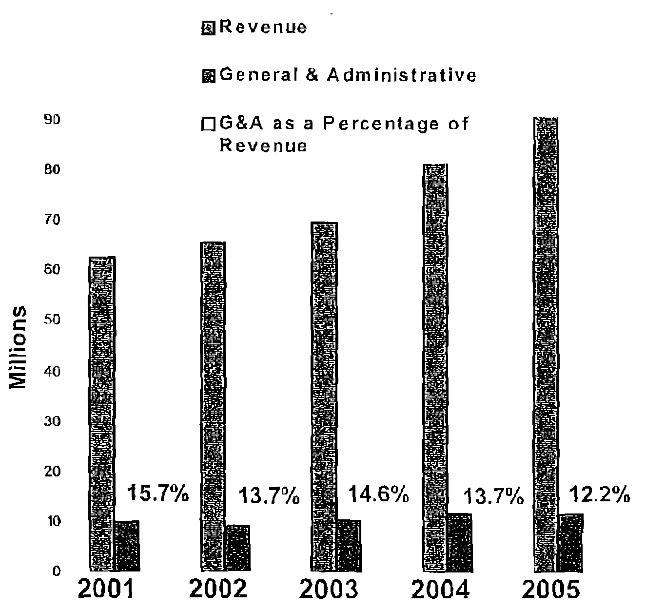
AHTNA, INCORPORATED & SUBSIDIARIES

Selected Financial Data

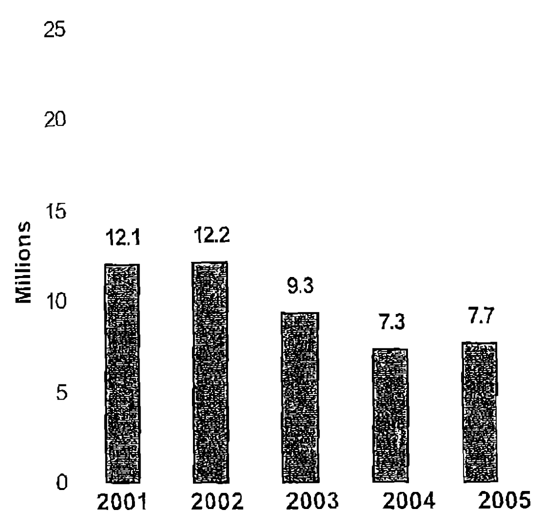
	2005	2004
CONSOLIDATED BALANCE SHEETS:		
Assets	$ 33,627,108	$ 37,262,151
Liabilities	$ 29,891,191	$ 34,145,570
Shareholder Equity	$ 3,735,917	$ 3,116,580
CONSOLIDATED INCOME STATEMENTS:		
Operating Revenues	$ 95,313,783	$ 83,809,270
Operating Expenses	(95,011,774)	(82,644,618)
Operating Profit	$ 302,009	$ 1,164,653
Hauser Settlement		(9,661,087)
*** Other	350,342	(909,474)
Net Income (Loss)	$ 652,351	$ (7,586,960)
Income (Loss) Per Share	$ 3.64	$ (42.39)

*** Other Includes Tax Benefits & Impairment Costs

General and Administrative



Short-term Debt



AHTNA, INCORPORATED
and SUBSIDIARIES

Financial Statements

Years Ended December 31, 2005 and 2004

MIKUNDA, COTTRELL & CO.

A Professional Corporation
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS
3601 "C" Street, Suite 600 • Anchorage, Alaska 99503
(907) 278-8878, Fax (907) 278-5779
www.mcc-cpa.com

Independent Auditor's Report

Board of Directors
Ahtna, Incorporated and Subsidiaries
Glennallen, Alaska

We have audited the accompanying consolidated balance sheets of Ahtna, Incorporated and Subsidiaries (the Corporation) as of December 31, 2005 and 2004, and the related consolidated statement's of operations, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

The Corporation, prior to 2005 carried certain property and equipment at approximately $3.6 million. During the course of our audit, we were unable to satisfy ourselves as to the carrying value of this property and equipment through our audit procedures. As described in Note 11, the Corporation impaired the asset by approximately $1.5 million and reclassified it as assets held for sale.

In our opinion, except for the effect on the 2004 financial statements of the matter discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

March 10, 2006

Mikunda, Cottrell & Co.

Offices: Anchorage, Kenai & Seward

AHTNA, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2005 AND 2004

ASSETS	2005	2004
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,949,999	$ 2,474,759
Accounts and notes receivable, net	14,047,033	15,965,017
Investment securities	1,586,331	1,489,484
Costs and estimated earnings in excess of billings on uncompleted contracts, and unbilled receivables	947,945	1,713,535
Inventory	97,395	185,264
Prepaid and other	319,946	665,002
Assets held for sale	1,427,807	17,807
Deferred tax asset	664,800	783,698
Total current assets	21,041,256	23,294,566
INVESTMENTS JOINT VENTURES AND AFFLIATES	42,142	-
PROPERTY AND EQUIPMENT, net	5,817,895	8,634,997
DEFERRED TAX ASSET	6,598,282	5,202,524
LAND AND SUBSURFACE RIGHTS, unvalued (Note 2)	-	-
OTHER ASSETS:		
Notes and contracts receivable, net, less current portion	71,875	71,875
Goodwill, deferred costs, and other, net	55,658	58,189
Total other assets	127,533	130,064
TOTAL	$ 33,627,108	$ 37,262,151

See notes to consolidated financial statements.

AHTNA, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS, continued
DECEMBER 31, 2005 AND 2004

LIABILITIES AND SHAREHOLDERS' EQUITY	2005	2004
CURRENT LIABILITIES:		
Notes payable and current maturities of long-term debt	$ 7,660,382	$ 7,255,421
Accounts payable	6,513,748	6,369,357
Accrued liabilities	3,217,878	2,825,299
Billings in Excess of Costs	1,546,476	1,903,835
Other current liabilities	103,500	262,853
Total current liabilities	19,041,984	18,616,765
LONG-TERM OBLIGATIONS, less current maturities	10,839,207	15,230,570
OTHER NONCURRENT LIABILITIES	10,000	10,000
NONCONTROLLING SHAREHOLDERS' AND PARTNERS' EQUITY	-	288,236
CONTINGENCIES (Note 14)		
SHAREHOLDERS' EQUITY:		
Common stock, no par value, authorized 2,500,000 issued and outstanding, 179,000 shares		
Contributed capital	6,189,816	6,189,816
Unrealized (loss) gain on investment securities	23,891	56,905
Retained earnings	(2,477,790)	(3,130,141)
Total shareholders' equity	3,735,917	3,116,580
TOTAL	$ 33,627,108	$ 37,262,151

See notes to consolidated financial statements.

AHTNA, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
REVENUES:		
Service contracts	$ 56,791,912	$ 50,691,831
Construction contracts and equipment	37,229,388	32,124,067
Real estate	173,548	177,952
Other natural resources	818,459	555,420
Investment income, net	300,476	260,000
Total revenues	95,313,783	83,809,270
EXPENSES:		
Service contracts	47,184,642	41,696,863
Construction contracts and equipment	33,493,935	27,442,522
Real estate	729,979	494,413
Other natural resources	320,964	362,144
Interest	1,761,958	1,133,685
General and administrative	11,642,660	11,515,966
Total expenses	95,134,138	82,645,593
CORPORATION'S SHARE OF NET INCOME (LOSS) OF UNCONSOLIDATED SUBSIDIARIES AND JOINT VENTURES	122,364	976
Income (loss) from operations prior to impairment	302,009	1,164,653
IMPAIRMENT OF ASSETS	(1,564,722)	-
Income (loss) from operations including impairment	(1,262,713)	1,164,653
OTHER INCOME (LOSS), net	489,035	(235,383)
Income (loss) before income taxes and non-controlling shareholders' and partners' interest	(773,678)	929,270
INCOME TAX BENEFIT (EXPENSE)	1,426,029	1,689,482
Income (loss) before non-controlling shareholders' and partners' interest	652,351	2,618,752
NONCONTROLLING SHAREHOLDERS' AND PARTNERS' SHARE OF NET INCOME (LOSS)	-	(544,625)
Income (loss) before extraordinary item	652,351	2,074,127
EXTRAORDINARY ITEM – LEGAL SETTLEMENT (Note 14)	-	(9,661,087)
NET INCOME (LOSS)	$ 652,351	$ (7,586,960)
INCOME (LOSS) PER SHARE	$ 3.64	$ (42.39)

See notes to consolidated financial statements.

AHTNA, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2005 AND 2004

	Contributed capital	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity
BALANCE, January 1, 2004	$ 6,189,816	$ 88,429	$ 4,456,819	$ 10,735,064
Change in unrealized gain (loss) on investment securities, net of tax	-	(31,524)	-	(31,524)
Other comprehensive loss				(31,524)
Net income (loss)	-	-	(7,586,960)	(7,586,960)
Comprehensive loss	-	-	-	(7,618,484)
BALANCE, December 31, 2004	6,189,816	56,905	(3,130,141)	3,116,580
Change in unrealized gain (loss) on investment securities, net of tax	-	(33,014)	-	(33,014)
Other comprehensive loss				(33,014)
Net income (loss)	-	-	652,351	652,351
Comprehensive loss	-	-	-	(619,337)
BALANCE, December 31, 2005	$ 6,189,816	$ 23,891	$ (2,477,790)	$ 3,735,917

See notes to consolidated financial statements.

AHTNA, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
OPERATING ACTIVITIES:		
Net income (loss)	$ 652,351	$ (7,586,960)
Adjustment to reconcile net income to net cash used by operating activities		
Depreciation	1,539,474	1,304,376
Depletion and amortization	-	25,052
Bad debt expense	-	337,829
Loss on sale of fixed asset	50	(11,888)
Gain on sale of subsidiary	(34)	-
Loss on impairment of fixed assets	1,563,734	-
Earnings of joint ventures	(122,364)	(976)
Net (gain) loss on sale of securities	217,524	(4,419)
Non-controlling shareholders' and partners' interest	-	197,347
Deferred income taxes	(1,687,840)	(2,000,221)
(Increase) decrease in assets:		
Receivables	(1,539,016)	(1,529,104)
Costs and estimated earnings in excess of billings on uncompleted contracts and unbilled receivables	(85,401)	(181,801)
Inventory	(11,338)	(83,010)
Prepaid expenses	345,056	(61,902)
Goodwill, deferred costs and other	2,531	100,314
Increase (decrease) in liabilities:		
Accounts payable	1,410,265	116,074
Accrued liabilities	629,338	993,769
Billings in excess of cost	32,195	1,026,222
Other current liabilities	(159,353)	204,802
Net cash provided (used) by operating activities	2,787,172	(7,154,496)
INVESTMENT ACTIVITIES:		
Purchase of investments	(899,955)	(1,021,078)
Proceeds from sale of investments	552,570	726,017
Purchase of property and equipment	(1,421,917)	(528,911)
Proceeds from sale of property and equipment	4,239	74,000
Distributions to non controlling affiliates	-	(21,294)
Additional investments in joint ventures and affiliates	(30,600)	-
Distributions from joint ventures and affiliates	110,822	39,855
Proceeds from sale of subsidiary	2,800,000	-
Collections (issuance) of notes receivable	-	21,189
Net cash provided (used) by investing activities	1,115,159	(710,222)
FINANCING ACTIVITIES:		
Borrowings of long-term debt	356,065	10,736,830
Payments on long-term debt	(4,283,156)	(1,019,893)
Net increase (decrease) on line of credit	(500,000)	(557,218)
Net cash (used) provided by financing activities	(4,427,091)	9,159,719
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(524,760)	1,295,001
CASH AND CASH EQUIVALENTS:		
Beginning of year	2,474,759	1,179,758
End of year	$ 1,949,999	$ 2,474,759
Supplemental cash flow disclosures:		
Debt incurred in the acquisition of property and equipment	$ 522,492	$ 518,776
Cash paid during the year:		
Income taxes	$ 381,274	$ 247,781
Interest	$ 1,675,268	$ 921,212

See notes to consolidated financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles Of Consolidation: The consolidated financial statements include the accounts of Ahtna, Incorporated, its wholly-owned subsidiaries (Ahtna Construction & Primary Products Corporation, Ahtna Development Corporation, Ahtna Minerals Company, Inc., Ahtna Enterprises Corporation, Barricades & Safety Equipment, Inc., Ahtna Forest Products, Inc., Ahtna Facilities Services, Inc., Ahtna Technical Services, Inc., Ahtna Government Services Corporation, Ahtna Engineering Services, LLC., Ahtna Contractors LLC, Clearwater Group, Inc. and Koht'aene Enterprises Corporation), and its majority-owned joint ventures (Price/Ahtna Joint Venture and Cornerstone/KEC Joint Venture), which are collectively referred to as the Corporation. All significant inter-company accounts and transactions have been eliminated in consolidation.

Operations: The Corporation has diversified operations in both government and private sector contracts. These business opportunities continue to grow the Corporation in volume and capabilities for service and construction related projects. In 2004 and continuing through 2005, the Corporation took the following steps: (1) maintained operational profitability; (2) continued its emphasis to obtain service contracts, cost-plus contracts and negotiated construction contracts as opposed to hard dollar construction contracts; and (3) took steps to hold general and administrative expenses in line relative to increased gross revenues. Since year 2000 general and administrative expenses have been reduced, as a percentage of revenue, from 23% to 13.7% in 2004 and 12.2% in 2005. In 2005, the Corporation continued its emphasis to maximize the quality performance in all operational activities.

Estimates: Preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in these consolidated financial statements. Actual results may differ from the estimates.

Cash And Cash Equivalents: The Corporation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Inventories: Inventories consist primarily of rock and gravel, communication supplies and miscellaneous construction and environmental clean-up materials. Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method.

Assets Held For Sale: The Corporation classifies excess real estate and equipment that it expects to sell in the near future as a current asset. Such assets are not depreciated and are recorded net of any estimated loss on disposal.

Investment Securities: The Corporation has classified its investments in marketable equity securities as available-for-sale. Investments considered available-for-sale securities are stated at fair value. Net unrealized gains and losses are recorded as a component of other comprehensive income in shareholders' equity. When securities are sold, realized gains and losses are determined using the specific-identification method. A decline in fair value of any available-for-sale security below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. To determine whether impairment is other than temporary, the Corporation considers whether it has ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in the assessment includes the reason of the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, and forecasted performance of the investee.

Fair Value Of Financial Instruments: The carrying value of cash and cash equivalents approximates fair value because of the short-term maturity of those instruments. The fair value of the investments in marketable debt and equity securities is based upon the quoted market price on the last business day of the fiscal year. The carrying value of long-term debt approximates fair value.

Investments In Joint Ventures And Affiliates: Investments in incorporated and unincorporated joint ventures and affiliates, which are 20% to 50% owned and not controlled by the Corporation, are accounted for by the equity method. Subsidiaries in which the Corporation's participation is 51% or greater are consolidated, and the noncontrolling shareholders' or partners' equity interests are recorded as a liability.

Property, Equipment, And Depreciation: Property and equipment are stated at cost or lower if the asset is determined to be impaired, and depreciated using straight-line and accelerated methods over estimated useful lives ranging from three to 30 years. Government surplus property received at no cost is recorded at fair market value. Land received under the Alaska Native Claims Settlement Act (ANCSA) is recorded at no cost (Note 2).

Impairment Of Long-Lived Assets And Long-Lived Assets To Be Disposed Of: Long-lived assets and intangibles 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 the assets to the future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less the cost to sell.

Goodwill: Goodwill is the excess of the purchase price of subsidiaries over the fair value of net assets acquired.

Contributed Capital: Contributed capital consists of amounts received from the Alaska Native Fund (Note 2).

Contract Revenue Recognition: Revenue on contracts in progress is recognized by the percentage-of-completion method based on the proportion of cost incurred to date on each contract to management's estimate of total contract cost. Revisions in cost and profit estimates are made during the course of work and are reflected when facts, which require revision become known. Provision for losses on uncompleted contracts is made in the period in which such losses are identified.

Natural Resource Revenues: Natural resource revenues distributed from other regional corporations, under Section 7(i) of ANCSA (Note 2), are recorded when received.

Income Taxes: Deferred income taxes (except as noted below) are recorded using the asset and liability approach, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the book values and the tax bases of assets and liabilities. However, deferred tax assets are not recorded on the basis differences on natural resources received under ANCSA. Accordingly, tax benefits arising from these natural resources are recognized when realized. A valuation allowance is recorded for deferred tax assets when, as of the balance sheet date, there is not sufficient evidence available to demonstrate recoverability of the assets.

Earnings Per Share: Earnings per share is calculated using the outstanding common shares of the Corporation. Because of the Corporation's simple capital structure, basic and fully diluted earnings per share are the same.

Reclassification: Certain reclassifications have been made to the 2004 financial statements to conform to the 2005 presentation.

New Accounting Pronouncements: SFAS No. 141, *Business Combinations*, requires the use of the purchase method of accounting for business combinations initiated after June 30, 2001, and eliminates the pooling-of-interests method. SFAS No. 142, *Goodwill and Other Intangible Assets*, requires, among other things, the use of a nonamortization approach for purchased goodwill and certain intangibles. Under a nonamortization approach, goodwill and certain intangibles will not be amortized into earnings, but instead will be reviewed for impairment at least annually. The Corporation has adopted SFAS No. 142 effective January 1, 2002 and its adoption has had no material impact on its consolidated financial position and results of operations.

NOTE 2: ALASKA NATIVE CLAIMS SETTLEMENT ACT (ANCSA)

Alaska Native Fund: ANCSA entitled Alaska Natives to approximately 44 million acres of land and monies totaling $962,500,000. ANCSA established the Alaska Native Fund and thirteen regional corporations to receive and distribute this entitlement. Ahtna, Incorporated is one of the regional corporations.

The Corporation is entitled to receive approximately 1,770,000 acres of land. As of December 31, 2005, the Corporation had received conveyance to approximately 1,528,000 acres. The value of the land, timber, and mineral rights has not been recorded.

Alaska Native Fund distributions and real property interests received pursuant to the Act are not subject to any form of income taxation. Real property interests are exempt from real property taxes imposed by any governmental entity until commercially developed, leased, or sold to a third party.

Natural resource revenue: Section 7(i) of ANCSA provided that 70% of revenues, net of certain costs, derived by each regional corporation from timber and subsurface estate is to be divided annually among the twelve regional corporations in Alaska in proportion to the number of shareholders enrolled in each.

Section 7(j) Distribution: Section 7(j) of ANCSA requires that 50% of the monies received from the Alaska Native Fund and received under Section 7(i) must be distributed to village corporations and at-large shareholders. Most of the village corporations within the Ahtna region merged with the Corporation. As a result, the Corporation now distributes approximately 17% of its Section 7(i) receipts.

NOTE 3: CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 2005 are comprised of the following:

	Book Balance	Bank Balance
Checking and savings accounts	$ 1,244,977	$ 1,773,291
Money market	691,852	691,852
Petty cash	13,170	-
	$ 1,949,999	$ 2,465,143

Cash and cash equivalents at December 31, 2004 are comprised of the following:

	Book Balance	Bank Balance
Checking and savings accounts	$ 1,504,356	$ 3,414,003
Money market	959,948	959,948
Petty cash	10,455	-
	$ 2,474,759	$ 4,373,951

NOTE 3: CASH AND CASH EQUIVALENTS, continued

The Corporation places its demand deposits with high credit quality commercial banks. The Corporation had demand deposit bank balances of $1,773,291 and $3,414,003 at December 31, 2005 and 2004, respectively, of which $1,223,070 and $2,914,434 were in excess of deposits covered by the Federal Depository Insurance Corporation (FDIC). The Corporation's cash equivalent money market fund investments totaled $691,852 and $959,948 at December 31, 2005 and 2004, respectively of which $191,852 and $459,948 were in excess of investments covered by the Securities Investor Protection Corporation (SIPC). The first $100,000 of deposits are covered by FDIC, and the first $500,000 of investments are covered by the SIPC.

NOTE 4: ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable consist of the following at December 31:

	2005	2004
CURRENT:		
Trade accounts	$ 14,250,458	$ 16,490,500
Shareholder receivables	163,285	163,285
Board of Directors receivables	4,210	-
Employee receivables	43,025	27,226
	14,460,978	16,681,011
Less allowance for doubtful accounts	(413,945)	(715,994)
	$ 14,047,033	$ 15,965,017
LONG-TERM:		
Notes	$ 71,875	$ 71,875
Contracts	-	-
TOTAL:	$ 71,875	$ 71,875

Following is a schedule of notes receivable at December 31:

	2005	2004
Note receivable from the Ahtna Heritage Foundation, no interest bearing, no specific repayment period	$ 71,875	$ 71,875
Less current portion	-	-
Long-term portion	$ 71,875	$ 71,875

The Corporation's master line of credit (Note 9) is secured by its eligible trade accounts receivable.

NOTE 5: INVESTMENT SECURITIES

All of the Corporation's investment securities are classified as available-for-sale and are recorded at fair value. Unrealized holding gains and losses are recorded as a component of other comprehensive income in shareholders' equity. Available-for-sale securities at December 31, 2005 and 2004 have been classified as current assets as the investments are security for a master line of credit note (Note 9) that is due April 26, 2007.

Investment securities consist of the following at December 31:

	2005		2004	
	Cost	Market	Cost	Market
U.S. government securities	$ 453,654	$ 459,241	$ 702,093	$ 717,401
Bonds	550,572	557,199	450,387	479,135
Equity securities	537,032	548,709	260,292	273,141
	1,541,258	1,565,149	1,412,772	1,469,677
Interest receivable	21,182	21,182	19,807	19,807
	$ 1,562,440	$ 1,586,331	$ 1,432,579	$ 1,489,484

During 2005 and 2004, the Corporation had gross realized gains of $218,540 and $4,419 as well as gross realized losses of $1,016 and $0, respectively. Interest and dividend income totaled $82,952 for the year ended December 31, 2005 and $255,581 for the year ended December 31, 2004. These amounts are included in investment income in the statements of operations.

At December 31, 2005 and 2004, the Corporation had gross unrealized holding gains of $23,891 and $56,905, respectively.

Maturities of debt securities at December 31 is as follows:

	2005		2004	
	Cost	Market	Cost	Market
Maturity				
Within one year	$ 100,294	$ 99,737	$ 548,984	$ 549,812
After one, but within five years	903,932	916,703	603,496	646,724
After five years	-	-	-	-
	$ 1,004,226	$ 1,016,440	$ 1,152,480	$ 1,196,536

NOTE 6: COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

Work in progress on uncompleted contracts at year end consists of the following at December 31:

	2005	2004
Costs incurred on uncompleted construction contracts	$ 111,834,341	$ 107,829,877
Estimated earnings	17,932,743	17,869,819
	129,767,084	125,699,696
Less billings to date	130,448,300	126,070,419
Unbilled receivables on construction contracts, net	(681,216)	(370,723)
Unbilled receivables on service contracts	82,685	180,423
	$ (598,531)	$ (190,300)
Costs and estimated earnings in excess of billings on uncompleted contracts, and unbilled receivables	947,945	1,713,535
Billings in excess of estimated costs on uncompleted contracts (in other current liabilities)	$ (1,546,476)	$ (1,903,835)
	$ (598,531)	$ (190,300)

NOTE 7: INVESTMENT IN JOINT VENTURES AND AFFILIATES

Equity Method Investments:

The Corporation is a 51% participant in Price/Ahtna Joint Venture, which is a construction contractor. The Corporation is also a 51% participant in Cornerstone/KEC Joint Venture, which is a construction contractor. Summary financial information recorded in 2005 is as follows:

	PRICE/AHTNA JV	CORNERSTONE/ KEC JV
Summary of Financial Position:		
Current assets	$ 640,117	$ 85,191
Noncurrent assets	-	-
	$ 640,117	$ 85,191
Current liabilities	450,380	-
Noncurrent liabilities	-	-
Equity:		
Ahtna	(5,234)	43,447
Others	194,971	41,744
	$ 640,117	$ 85,191
Summary of Financial Earnings:		
Revenues	2,392,315	1,075,359
Cost and expenses	(2,402,578)	(825,167)
Net income	$ (10,263)	$ 250,192
Ahtna's reported share of calendar year net income	$ (5,234)	$ 127,598
Corporation's share of JV	51%	51%

NOTE 7: INVESTMENT IN JOINT VENTURES AND AFFILIATES, continued

In 2004, the Corporation concluded the operations of one joint venture and recognized net income (loss) as follows:

KOOSNIIC	$ 976
	$ 976

NOTE 8: PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2005	2004
ANCSA land (1.5 million acres) and natural resources received under the Act (Note 2)	not valued	not valued
Land and land improvements	$ 1,490,461	$ 1,711,107
Buildings	4,979,540	4,940,743
Furniture and equipment	2,016,823	1,216,532
Research vessel	-	4,861,634
Vehicles and construction equipment	3,939,169	4,771,124
Total property and equipment	12,425,993	17,501,140
Less accumulated depreciation	(6,608,098)	(8,866,143)
	$ 5,817,895	$ 8,634,997

NOTE 9: NOTES PAYABLE AND LONG-TERM OBLIGATIONS

The Corporation has notes payable under lines of credit at various lending institutions as follows:

Line of credit available	Terms	Borrowings at December 31, 2005	Borrowings at December 31, 2004
$ 6,500,000	variable 7.25%	$ -	$ 5,990,919
$ 6,500,000	variable 9.75%	5,490,919	-
		$ 5,490,919	$ 5,990,919

The line of credit was collateralized by the eligible consolidated trade accounts receivable, the investment securities, and the net book value of certain real estate. At December 31, 2005, the collateral balance securing the line of credit was $16,334,495. At December 31, 2004, the collateral balance securing the line of credit was $18,858,508.

Short-term notes payable at December 31, 2005, consist of $35,500 due to a Joint Venture partner for startup costs. Short-term notes payable at December 31, 2004, consist of $35,500 due to a Joint Venture partner for startup costs and $2,979 for equipment notes payable.

NOTE 9: NOTES PAYABLE AND LONG-TERM OBLIGATIONS, continued

Long-term obligations consist of the following at December 31:

	2005	2004
Equipment notes payable, due in aggregate monthly installments of $48,512, including interest rates ranging from 5.44% to 9.00%; final installment due at varying dates through August 2010	$ 2,049,112	$ 1,716,801
Mortgage payable to a bank, due in monthly installments of $16,642, including interest at 7.02%, with final installment due July 2013	1,167,648	1,279,890
Mortgage payable to a bank, due in monthly installments of $10,573, including variable interest at 9.50%, with final installment due July 2013	779,766	839,327
Buyout note payable to a corporation, due in monthly installments of $2,644, including interest at 10%; final installment due April 2005	-	10,382
Working capital note payable to bank, due in interest only monthly installments approximating $11,320 at 9.25%, with final principal and interest due February 2008	1,488,905	1,498,130
Settlement note payable to bank, due in interest only monthly installments approximating $42,390 at 9.25%, with final principal and interest installment due October 2007	5,575,676	9,200,000
Working capital note payable to bank, due in interest only installments approximating $9,429 at 6.00%, with final principal and interest installment due April 2007.	1,912,063	1,912,063
Total long-term obligations	12,973,170	16,456,593
Less current maturities	2,133,963	1,226,023
	$ 10,839,207	$ 15,230,570

Notes payable and long-term obligations at December 31, 2005, are collateralized by assets with book values as follows:

	2005	2004
Current assets	$ 2,278,182	$ 2,449,432
Equipment	931,829	4,050,157
Building	4,278,128	2,918,642
	$ 7,488,139	$ 9,418,231

Principal maturities on long-term debt are as follows:

Year ended December 31, 2005	
2006	$ 2,133,963
2007	7,458,319
2008	1,937,903
2009	359,711
2010	295,028
Thereafter	788,246
	$ 12,973,170

NOTE 10: COMMON STOCK

Under provisions of ANCSA, each qualified Alaska Native originally enrolled in the Corporation was entitled to 100 shares of Class A voting stock.

One hundred shares of Class A Series 1 common stock were issued to each qualified enrollee in the Ahtna region who was a shareholder in one of the village corporations in the Ahtna region.

One hundred shares of Class A Series 2 common stock were issued to Alaska Natives enrolled in the Ahtna region who were not enrolled as shareholders in one of the village corporations in the Ahtna region.

Class C, D, F, G, H, I, and J, shares of no par value common stock were subsequently issued in exchange for the outstanding shares of Ahtna village corporations that merged with Ahtna, Incorporated. These shares have the same characteristics as Class A stock, except as to electing members of the Board of Directors. (Class E shares were authorized for a village corporation that decided not to merge.)

These stock, related stock dividends or distributions, and any other stock rights may not be sold, pledged, assigned, treated as an asset in a bankruptcy proceeding, or otherwise alienated, except in limited circumstances by court decree, by gift to certain relatives, and by death. These restrictions on stock alienation originally were scheduled to terminate on December 18, 1992. Under a 1988 amendment to ANCSA, that deadline was eliminated and the stock restrictions may remain in effect for as long a time thereafter as the shareholders decide. Class B shares are available for issuance to replace the restricted stock, if shareholders would so decide.

During the period that restrictions on stock alienation are in effect, the stock carries voting rights only if the holder is an Alaska Native or a descendant of a Native, as defined in the amended ANSCA.

All outstanding shares participate in dividends. ANCSA corporations are allowed to declare dividends from monies originally received from the Alaska Native Fund (Note 2). Such dividends are a return of capital and are nontaxable to shareholders.

Shares authorized, issued, and outstanding at December 31, 2005, and 2004, are as follows:

	Number of Shares	
Class	Authorized	Issued and outstanding
A	250,000	-
- Series 1	-	95,400
- Series 2	-	12,000
B	250,000	-
C	250,000	7,300
D	250,000	3,200
E	250,000	-
F	250,000	3,500
G	250,000	25,700
H	250,000	9,700
I	250,000	10,600
J	250,000	11,600
Total all classes	2,500,000	179,000

NOTE 11: ASSET IMPAIRMENT

During 2005, the Corporation recognized impairment losses in the amount of $1,564,722 related to a research vessel

The impairment losses reflect market adjustments recorded by management to reduce the assets carrying value to their fair value. The $1,564,722 adjustment recorded to the research vessel reduced its carrying value to $1,424,987.

NOTE 12: PROVISION FOR INCOME TAXES

Income tax expense (benefit) consists of the following:

	December 31, 2005	December 31, 2004
Current	$ 266,176	$ 255,416
Deferred	(1,692,205)	(1,944,898)
	$ (1,426,029)	$ (1,689,482)

Deferred tax assets and liabilities at December 31, 2005 and 2004, are as follows:

2005	Current	Long-term	Total
Deferred tax assets	$ 664,800	$ 10,215,273	$ 10,880,073
Deferred tax liabilities	-	(433,807)	(433,807)
Valuation allowance	-	(3,183,184)	(3,183,184)
Net asset (liability)	$ 664,800	$ 6,598,282	$ 7,263,082

2004	Current	Long-term	Total
Deferred tax assets	$ 783,698	$ 6,815,567	$ 7,599,265
Deferred tax liabilities	-	(1,306,687)	(1,306,687)
Valuation allowance	-	(306,356)	(306,356)
Net asset (liability)	$ 783,698	$ 5,202,524	$ 5,986,222

At December 31, 2005 and 2004, a valuation allowance has been recorded to reduce deferred tax assets to estimated realizable values.

Temporary differences that give rise to significant portions of deferred tax assets and liabilities consist of depreciation, basis differences in assets (including government surplus assets of $1,186,266 originating in 1999), allowances for doubtful accounts, accrued vacation. unrealized holding gains and losses on investments, equity in earnings of affiliates, net operating loss (NOL) carryforwards of approximately $24,486,033 for tax purposes at December 31, 2005, expiring beginning 2019, and charitable contributions carry-forwards.

Adjustments between income taxes at federal statutory rates and income taxes reported by the Corporation result primarily from the dividend received exclusion, net operating loss carryforwards, gravel depletion, timber depletion, goodwill amortization, and state taxes.

NOTE 13: PENSION PLAN

The Corporation sponsors a 401(k) plan administered by a financial services company. The Corporation matches employee contributions up to 3% of wages. Contributions for the years ended December 31, 2005, and 2004, were $175,500 and $158,555, respectively.

The Corporation also participates in a multi-employer defined benefit noncontributory pension plan with various unions. Substantially all employees represented by bargaining agents are covered under the plan. Contributions for the cost of the plan amounted to $1,283,165 and $1,302,896 for 2005 and 2004, respectively. Contributions are based on wages paid to employees.

NOTE 14: CONTINGENCIES

The Corporation and its' subsidiary have settled all claims on payment and performance bonds between itself and third party entities. Under the terms of the settlement, the subsidiary of the Corporation has paid the third party entities a total of $9.5 million. A payment of $300,000 was made in August 2004, and the balance of $9.2 million was paid in October 2004. The subsidiary obtained financing for the second payment from the Corporation's new lending institution. The Corporation guaranteed the loan. The Corporation and the subsidiary also agreed to pay a portion of the attorney's fees incurred by the bonding company in the matter. The bonding company has partially guaranteed the loan and the Corporation has agreed to indemnify the bonding company from loss under the guaranty. All parties to the litigation have released one another from all claims relating to the projects. This settlement has been treated as extraordinary as it is considered both unusual and infrequent in nature.

The case by the Corporation against its former officer in a subsidiary was tried before a judge and concluded in December 2003. The Corporation received judgments against the former officer. The Alaska Supreme Court reversed the trial court's order requiring him to convey his stock to the subsidiary of the Corporation. The matter was remanded to the trial court for further proceedings. Subsequently, the trial court completely vindicated the Corporation's position, dismissed all counterclaims against the subsidiary which resulted in a judgment against the former officer and in favor of the subsidiary. The subsidiary has seized the stock in an effort to satisfy its judgment against the former officer. The former officer has filed a petition to avoid the levy of the stock. Management intends to continue to pursue the former officer to collect the judgment and to vigorously contest his claim to the subsidiary stock.

The Corporation has also asserted a claim against its former legal counsel and accountants. The cases are expected to be tried in July 2006. The ultimate outcome related to these claims is presently indeterminable.

A written demand, not in formal litigation, has been made upon a subsidiary of the Corporation for payment of approximately $1.6 million. The dispute arises out of a contract which the subsidiary currently administers on behalf of itself and a subcontractor. The subcontractor had a financing arrangement with a factoring company which advanced operating capital based on invoices submitted to the subsidiary. Although the subsidiary has paid all monies due to the subcontractor, not all amounts due to the factoring company were paid by the subcontractor. Since receiving the written demand, both the factoring company and the subcontractor have filed for protection under the bankruptcy law. The matter is ongoing and the ultimate outcome including any potential loss is indeterminable at this time.

Three written demands, not in formal litigation, have been made upon the Corporation relating to wrongful termination by former employees. These matters are still in the early stages, however, management believes that any eventual outcome will not have a material impact, if any, on the Corporation's financial position or results of operations.

In addition, the Corporation is subject to various small claims, which arise in the normal course of business. In the opinion of management, the ultimate disposition of these claims will not have a material effect on the financial position or results of operations of the Corporation.

NOTE 15: SUBSEQUENT EVENTS

The Corporation intends to dissolve the operations of one of its subsidiaries during fiscal year 2006. In addition, the Corporation has reached an agreement to sell a research vessel owned by this subsidiary.

The Corporation was engaged in an Internal Revenue Service audit during fiscal year 2005. This audit related to the Corporation's fiscal year 2003 tax return and was initiated as a follow-up to the audit concluded during fiscal year 2005 concerning the Beetle kill losses deducted by the Corporation in 1997 through 2000. Subsequent to year end, the audit has not been finalized. However, management does not anticipate the adjustments, if any, to have a material effect on the Corporation.

Subsequent to year end, a subsidiary of the Corporation was awarded a service contract with the Social Security Administration. The total contract is valued at $9.35 million over a five year period. Fiscal year 2006 revenues are estimated at $2 million.

2005
Ahtna, Incorporated
Board of Directors

Nicholas Jackson - At Large
Roy S. Ewan - At Large
Leonard F. John - At Large
Warren A. Johns - At Large
Roy J.Tansy, Sr. - At Large
Calvin D. Carlson - Cantwell (Seat C)
Karen E. Eskilida - Chistochina (Seat D)
Linda M. Tyone - Gakona (Seat F)
John E. Craig - Copper Center (Seat G2)
Tonilee Jackson - Copper Center (Seat G1)
Donna M. Pennington - Mentasta (Seat H)
Raymond Neeley - Gulkana (Seat I)
Elmer V. Marshall - Tazlina (Seat J)

2005 Officers

Nicholas Jackson, Chairman of the Board
John E. Craig, Vice-Chairman of the Board
Leonard F. John, Secretary
Karen E. Eskilida, Treasurer

Ahtna, Incorporated Senior Management

Kenneth P.Johns	President/CEO
Dave J. Stevenson	VP of Finance/CFO
Brenda A. Rebne	VP of Corporate Affairs
Roy J. Tansy, Jr.	VP of Subsidiary Operations
Kathryn I. Martin	VP of Land & Resources

Ahtna, Incorporated Subsidiary Management

Ahtna Construction & Primary Products Corporation	Dell Wilson, President
Ahtna Development Corporation	Pamela Finnesand, President
Ahtna Enterprises Corporation	Phil Larsen, President
Ahtna Government Services Corporation	Chris Smith, President
Ahtna Koht'Aene Corporation, LLC	Phil Larsen, President
Ahtna Technical Services, Incorporated	Carol Craig, President
Clearwater Group, Incorporated	Phil Larsen, President