

# KEWEENAW

## LAND ASSOCIATION, LIMITED



### Third Quarter Report

For the Period Ending September 30, 2017  
Issue Date October 31, 2017

#### Highlights

Net Income of \$0.06 Per Share  
Keweenaw's Strategic Committee Continues Its Efforts

#### Third Quarter Results:

Keweenaw Land Association, Limited announces Third Quarter 2017 Net Income of \$0.06 per share compared to net income of \$0.18 for the same period in 2016. Net Income (loss) per share, which is shown in the adjacent table, is in the EBITDA format (Earnings Before Interest, Taxes, Depreciation, and Amortization).

The Company experienced mostly favorable logging conditions during the summer months with the exception of a very wet month of September.

Overall, a total of 29,090 cd-eq were produced from stands containing a higher concentration of pulpwood during the quarter compared to 21,278 cd-eq produced during the same period last year, an increase of 37%.

In the third quarter, the product mix contained 22% sawtimber and 78% pulpwood, a lower quality mix compared to 25% sawtimber and 75% pulpwood in the same period of 2016.

The Company sold logs totaling \$3,496,250 compared to \$2,767,240 in 2016, a 26% increase. However, Gross Margin was slightly lower, falling to 31% compared to 32% in 2016. Pricing remains lower as an oversupply of logs in the market is keeping inventory unusually high at the mills. Sawtimber realization for the quarter was \$416 per mbf compared to \$450 in 2016, down 8%. Pulpwood

	Earnings p/Share (EBITDA)	
	3rd Qtr 17	3rd Qtr 16
Timber Operations Income	\$ 0.42	\$ 0.35
Capital Gains-Sale of Land	-	-
Capital Gains-Investments		
Other Income	0.13	0.11
Other Expenses	(0.22)	(0.11)
Interest & Depreciation	(0.25)	(0.10)
Income Taxes	(0.02)	(0.07)
	<u>\$ 0.06</u>	<u>\$ 0.18</u>

3rd Qtr Production Statistics	2017	Mix%	2016	Mix%
<b>Total Harvest Volume (cd-eq)</b>	29,090	100.0	21,278	100.0
<b>Sawtimber (mbf)</b>	2,877	21.8	2,464	25.5
<b>Pulpwood (cords)</b>	22,761	78.2	15,858	74.5

3rd Qtr Gross Margin EBITDA	2017	%	2016	%
<b>Log Sales</b>	\$3,496,250	100.0	\$2,767,240	100.0
<b>Expenses (COGS)</b>	(2,416,492)	69.1	(1,888,181)	68.2
<b>Timber Opns Gross Margin</b>	1,079,758	30.9	879,059	31.8

pricing was \$103 per cd-eq, on par with the same \$103 per cord realized in the third quarter last year. On a year-to-date comparison, the overall sawtimber realization was \$385 per mbf, down nearly 12% from \$436 per mbf in 2016.

Gross Margin on a per cd-eq basis (EBITDA) was \$39 per cd-eq for the quarter, down \$2 per unit, compared to \$41 per cd-eq in the same period last year. Cost of Goods Sold for the period was \$83 per unit compared to \$88 last year when increased production costs, primarily road repairs, were incurred during the violent storms of last summer affecting the western Upper Peninsula and Wisconsin.

3rd Qtr Sales (p/cd-eq) EBITDA	2017	2016
Average Price Realization	\$122	\$129
Cost of Goods Sold	(83)	(88)
Gross Margin	39	41

For the quarter, Timber Operations Income was \$551,960 compared to \$458,502 in 2016, up 20%, primarily driven by increased volumes (albeit at lower margins) with a higher concentration

of pulpwood in the mix. Year-to-date Timber Operations Income was \$882,339, down 29% from the

Timber Operations Income (EBITDA)	3 <sup>rd</sup> Qtr 2017	YTD 2017	3 <sup>rd</sup> Qtr 2016	YTD 2016
Log Sales	\$3,496,250	\$8,112,877	\$2,767,240	\$7,758,365
Total Expenses	(2,944,290)	(7,230,538)	(2,308,738)	(6,511,742)
Timber Operations Income	\$551,960	\$882,339	\$458,502	\$1,246,623

\$1,246,623 recorded in the third quarter of 2016. As Keweenaw enters the final quarter of the year, higher inventory levels at both the pulp and sawmills will continue to put downward pressure on log pricing. While the markets remain challenging, we expect stable pricing for the remainder of the year. If pulpwood inventory volumes continue to increase at the mills, strict delivery schedules and quotas similar to last year may be enforced.

#### Land/Lot Sales:

There were no land sales, like-kind exchanges, or residential lot sales in the third quarter. The Company continuously reviews its land base and looks for ways to improve and consolidate its timber assets while disposing of non-core properties.

#### Minerals:

After the close of the third quarter, Highland Copper Company Inc. (TSXV: HI) announced on October 2, 2017 that a feasibility study of the Copperwood Project is expected to be released in the second quarter of 2018. According to the press release, "The Company's primary objective is to complete the necessary permitting and financing for the development of the Copperwood Project in the first half of 2018, with construction planned to begin in the second half of 2018." At the end of September, the price for copper was \$2.94, which is 34% higher than the \$2.20 per pound at the same time last year (Comex spot price \$ per pound). Additional information concerning the Copperwood Project can be found on Highland's website, [www.highlandcopper.com](http://www.highlandcopper.com).

### **FSC Certification:**

In September, Keweenaw received its Forest Steward Council (FSC) Certification in conformance with FSC and Rainforest Alliance requirements. This marks the 24<sup>th</sup> straight year that Keweenaw has achieved this certification. Keweenaw was originally certified on September 1, 1994, and holds the first Forest Management Certificate issued by the Rainforest Alliance in the United States and the 5<sup>th</sup> Forest Management Certificate issued globally. Keweenaw has the distinction of being the oldest continuous certificate holder for the rainforest Alliance worldwide. In addition to sustained-yield management, forest certification is verification that our practices are environmentally-sound, economically practical, and socially beneficial.

### **Strategic Committee:**

On December 27, 2016, Keweenaw Land Association, Limited announced the formation of a Special Committee to consider strategic alternatives available to the Company, including a possible equity recapitalization or sale of the Company. As part of the Special Committee's efforts, the Company retained Stifel, an investment banking firm, to assist in a strategic process.

After soliciting proposals and receiving indications of interest, the Special Committee and the Board determined that the Company should command a higher price than reflected in the indications from the parties engaged in the sale process. Accordingly, the Company has directed Stifel to suspend the sale process.

Supporting this view are the results of a recently completed comprehensive timber cruise, the first in the history of the Company, which indicates substantially higher standing timber volumes than previously estimated, which should allow for significantly higher annual allowable harvest in the future. At the present time, following the timber cruise and after taking into account recent acquisitions, the Company estimates that the standing timber volume is approximately 30% higher than reflected in the Company's most recent appraisal, which was completed in 2015 and summarized in the Company's 2015 Annual Report. The Company will update the shareholders with additional information once such information is available.

In light of the foregoing, the Company has commenced implementation of additional elements of its strategic plan, including several initiatives designed to increase value. Additional elements of the strategic plan include:

- Evaluating the feasibility of converting to a Real Estate Investment Trust (REIT) for the 2018 tax year;
- Review of the annual harvest with the intention to materially increase future annual harvests while staying within sustainability parameters; and
- Exploration of additional initiatives to increase current cash flows, including a review of (i) the Company's cost structure, (ii) potential conservation easements, and (iii) monetization of non-core assets.

The Special Committee and the Board believe that the Company has an attractive asset base that should generate positive real growth and provide investors with long-term inflation protection. The initiatives described above are intended to result in increased cash flows and better position the Company for the future. While there are no assurances

that any of the foregoing initiatives will result in a material event for the Company, the Board is optimistic that moving ahead on these items will provide the best opportunity for realizing additional value for shareholders.

In conjunction with this process, approximately \$309,000 in related costs have been expensed in 2017. In addition, the Company had a full timber inventory of its ownership performed by an independent third-party, Compass Land Consultants, Inc., at a cost of \$110,000. This cost was expensed in the third operating quarter.

**Shareholder Relations & Administrative:**

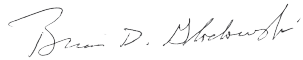
Keweenaw's common shares traded in a range of \$95.00 to \$106.99 per share during the third quarter with an ending price of \$102.00. A total of 12,341 shares were traded representing approximately 1% of outstanding shares. This compares to 18,001 KLA shares traded during the same period in 2016, around 1% of outstanding shares. Keweenaw's shares trade in the OTC Pink using the symbol KEWL.

To contact Keweenaw, call (906) 932-3410 or use our toll-free line (877) 539-3362. You may also reach us by e-mail at [investors@keweenaw.com](mailto:investors@keweenaw.com). Keweenaw's quarterly letters and latest annual report, along with archived reports from previous years, are posted on the Company's web page.

Sincerely,



David Ayer, Chairman



Brian D. Glodowski, President/CEO

KEWEENAW LAND ASSOCIATION, LIMITED  
Consolidated Balance Sheet (Unaudited)  
September 30, 2017

ASSETS	Sep 30, 2017	Sep 30, 2016	% Chg
<b>Current Assets</b>			
Cash & Cash Equivalents	\$2,866,857	\$3,285,374	-13%
Accounts Receivable	530,274	353,982	
Investments in Government Obligations	0	0	
Other Current Assets	457,094	624,797	
<b>Total Current Assets</b>	<b>3,854,225</b>	<b>4,264,153</b>	<b>-10%</b>
Investments in Marketable Securities	3,329,814	3,111,367	7%
Other Non-Current Assets	513,973	448,733	
Equipment	1,279,894	949,026	35%
Properties	30,518,302	17,081,863	79%
<b>TOTAL ASSETS</b>	<b>\$39,496,208</b>	<b>\$25,855,142</b>	<b>53%</b>
<b>LIABILITIES &amp; CAPITAL</b>			
<b>Current Liabilities</b>			
Accounts & Deposits Payable	\$38,171	\$62,822	
Commercial Lines of Credit/Other Debt	0	240,000	
Other Accrued Liabilities	538,637	437,295	
<b>Total Current Liabilities</b>	<b>576,808</b>	<b>740,117</b>	<b>-22%</b>
<b>Non-Current Liabilities</b>			
Long-Term Debt	17,700,000	4,080,000	
Deferred Federal Income Tax Liability	1,105,975	985,189	
<b>Total Non-Current Liabilities</b>	<b>18,805,975</b>	<b>5,065,189</b>	
<b>Total Liabilities</b>	<b>19,382,783</b>	<b>5,805,306</b>	<b>234%</b>
<b>Capital</b>			
Common Stock Issued <sup>(1)</sup>	85,021	84,916	
Accum. Other Comprehensive Income	1,426,769	1,390,482	
Retained Earnings	18,601,635	18,574,438	
<b>Total Capital</b>	<b>20,113,425</b>	<b>20,049,836</b>	<b>0%</b>
<b>TOTAL LIABILITIES &amp; CAPITAL</b>	<b>\$39,496,208</b>	<b>\$25,855,142</b>	<b>53%</b>
Capital Per Common Share	\$15.47	\$15.44	

<sup>(1)</sup>1,300,174 no par value common shares are issued and outstanding on Sep. 30, 2016. 1,298,568 shares were outstanding on Sep. 30, 2016. 10,000,000 shares are authorized.

KEWEENAW LAND ASSOCIATION, LIMITED  
**EBITDA** Consolidated Statement of Income and Expense (Unaudited)  
September 30, 2017

INCOME	3rd Quarter			Year-to-Date		
	2017	2016	% Chg	2017	2016	% Chg
<b>Timber Operations:</b>						
Timber Sales	\$3,496,250	\$2,767,240		\$8,112,877	\$7,758,365	
Cost of Sales	2,416,492	1,888,181		5,746,286	5,187,378	
<b>Gross Margin on Timber Sales</b>	<b>1,079,758</b>	<b>879,059</b>	<b>23%</b>	<b>2,366,591</b>	<b>2,570,987</b>	<b>-8%</b>
Forestry, Management & General Administration	527,798	420,557		1,484,252	1,324,364	
<b>Timber Operations Income (EBITDA)</b>	<b>551,960</b>	<b>458,502</b>	<b>20%</b>	<b>882,339</b>	<b>1,246,623</b>	<b>-29%</b>
<b>Real Estate Development</b>						
Developed Lot Sales	0	0		0	45,000	
Development Costs	0	0		0	41,696	
<b>Gross Margin on Developed Lot Sales</b>	<b>0</b>	<b>0</b>		<b>0</b>	<b>3,304</b>	
<b>Total Operations Income</b>	<b>551,960</b>	<b>458,502</b>	<b>20%</b>	<b>882,339</b>	<b>1,249,927</b>	<b>-29%</b>
<b>Other Income</b>						
Mineral Royalties	5,381	11,678		10,002	14,752	
Lease and Rental Income	91,027	68,860		136,404	115,170	
Investment Earnings	11,344	9,878		76,128	77,394	
Profit (Loss) on Security Sales	0	0		0	0	
Land Sales	0	(973)		112,153	46,488	
Other	56,585	55,953		146,341	123,562	
<b>Total Other Income</b>	<b>164,337</b>	<b>145,396</b>	<b>13%</b>	<b>481,028</b>	<b>377,366</b>	<b>27%</b>
Other Land & Board Expense	286,506	144,319	99%	873,601	567,395	54%
<b>EBITDA</b>	<b>429,791</b>	<b>459,579</b>	<b>-6%</b>	<b>489,766</b>	<b>1,059,898</b>	<b>-54%</b>
Interest Expense	125,789	44,160		318,266	132,000	
Depletion, Depreciation, and Amortization	192,920	91,305		428,100	261,009	
<b>Earnings Before Income Taxes</b>	<b>111,082</b>	<b>324,114</b>	<b>-66%</b>	<b>(256,600)</b>	<b>666,889</b>	<b>**</b>
Provision for Federal & State Income Taxes	31,389	92,496		102,204	197,692	
<b>Net Income (Loss)</b>	<b>79,693</b>	<b>231,618</b>	<b>-66%</b>	<b>(358,804)</b>	<b>469,197</b>	<b>**</b>
<b>Other Comprehensive Income, Net of Tax</b>						
Unrealized Gains (Losses) on Securities						
During the Period	(14,508)	37,053		253,838	162,042	
Less: Reclassification Adj For Gains						
Included in Net Income	0	0		0	0	
<b>Other Comprehensive Income</b>	<b>(14,508)</b>	<b>37,053</b>		<b>253,838</b>	<b>162,042</b>	
<b>Comprehensive Income</b>	<b>\$65,185</b>	<b>\$268,671</b>	<b>-76%</b>	<b>(\$104,966)</b>	<b>\$631,239</b>	<b>**</b>
<b>Per Share Net Income</b>	<b>\$0.06</b>	<b>\$0.18</b>		<b>(\$0.28)</b>	<b>\$0.36</b>	
<b>Per Share Comprehensive Income</b>	<b>\$0.05</b>	<b>\$0.21</b>		<b>(\$0.08)</b>	<b>\$0.49</b>	

Based on Weighted Average Shares Outstanding

\*\* Percentage Change is not provided if either the latest period or year-ago period contains a net loss.

KEWEENAW LAND ASSOCIATION, LIMITED

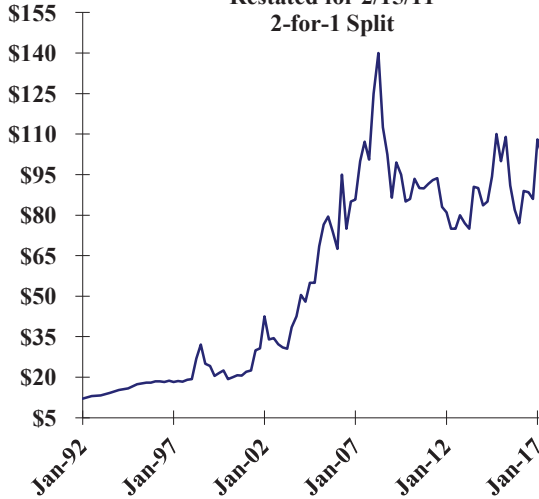
Consolidated Statement of Cash Flows Ending September 30, 2017

	Sep 30, 2017	Dec 31, 2016
<b>Net Income</b>	<b>(\$358,804)</b>	\$698,682
<b>Adjustments to Reconcile Net Income to Net Cash</b>		
<b>Provided by Operating Activities:</b>		
Depletion and Depreciation	<b>409,752</b>	360,422
Changes in Operating Assets and Liabilities:		
Decrease (Increase) in Accounts Receivable	<b>(162,600)</b>	57,072
Decrease (Increase) in Prepaid Expenses	<b>184,581</b>	(164,268)
Decrease (Increase) in Inventory	<b>(47,598)</b>	(30,947)
Increase (Decrease) in Deposits/Accts Pybl	<b>(21,207)</b>	30,524
Increase (Decrease) in Deferred/Income Taxes	<b>94,299</b>	69,970
Increase (Decrease) in Accrued Liabilities	<b>(31,478)</b>	18,427
(Gain) Loss on Sale of Securities	<b>0</b>	(132,062)
(Gain) Loss on Sale/Retirement of Equipment	<b>0</b>	(3,485)
(Gain) Loss on Sale of Land	<b>(112,153)</b>	(93,175)
<b>Net Cash Flows Provided by Operating Activities</b>	<b>(45,207)</b>	811,160
Net Purchases of Property and Equipment	<b>(454,613)</b>	(111,766)
Purchases of Securities	<b>0</b>	(175,976)
Proceeds from Sale of Securities	<b>0</b>	144,572
Road Construction	<b>(9,749)</b>	(176,272)
Purchases of Land	<b>(12,977,180)</b>	(714,850)
Proceeds from Land Sales	<b>114,450</b>	68,959
Lot Development	<b>0</b>	40,738
<b>Net Cash Flows Provided by (Used for) Investing Activities</b>	<b>(13,327,093)</b>	(924,595)
Issuance (Purchase) of Stock	<b>121,080</b>	125,045
Commercial Installment Loan Borrowing	<b>12,700,000</b>	5,000,000
Commercial Installment Loan Payments	<b>0</b>	(4,320,000)
<b>Net Cash Flows Provided by (Used for) Financing Activities</b>	<b>12,821,080</b>	805,045
<b>NET CASH FLOW</b>	<b>(551,220)</b>	691,610
Beginning Cash and Cash Equivalents	<b>3,418,078</b>	2,726,468
<b>ENDING CASH AND CASH EQUIVALENTS</b>	<b>\$2,866,857</b>	\$3,418,078

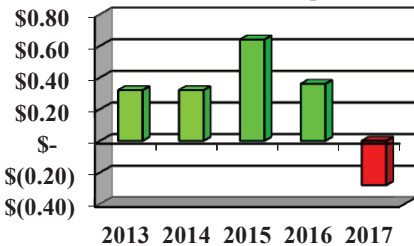
# CONSOLIDATED FINANCIAL HIGHLIGHTS

For the Quarter	2017		2016	
	3rd Qtr	YTD	3rd Qtr	YTD
Receipts	\$3,661	\$8,594	\$2,913	\$8,157
Net Income (Loss)	80	(359)	232	469
Comprehensive Income	65	(105)	269	631
Capital Employed	37,813	37,813	24,370	24,370
*Dollar amounts in thousands				
<b>Per Common Share</b>				
Net Income (Loss)	\$0.06	(\$0.28)	\$0.18	\$0.36
Comprehensive Income	0.05	(0.08)	0.21	0.49
<b>Statistics</b>				
Return on Capital Emp	0.8%	-1.3%	3.8%	2.6%
Avg Shares Outstanding	1,300,174	1,300,174	1,298,568	1,298,568
Curr Shares Outstanding	1,300,174	1,300,174	1,298,568	1,298,568

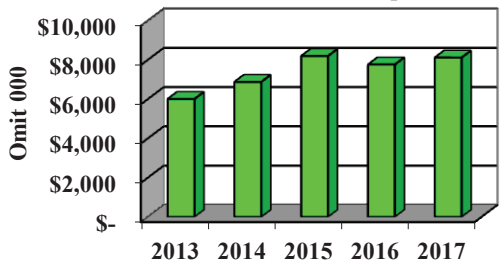
**Price of Keweenaw Shares**  
Restated for 2/15/11  
2-for-1 Split



**Keweenaw Earnings Per Share**  
Year-to-Date Comparison  
Post 2-for-1 Split



**Keweenaw Log Sales**  
Year-to-Date Comparison





# SHAREHOLDER INFORMATION

## **Third Quarter 2017 Highlights:**

High: \$106.99, Low: \$95.00, Last: \$102.00

Source: OTC Markets Group, Inc.

## **Dividend Information:**

The Board of Directors eliminated shareholder dividends beginning in 2010.

## **Keweenaw Contact Information:**

Keweenaw Land Association, Limited

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Ironwood MI 49938

Phone: (906) 932-3410 or

Toll Free: (877) 539-3362

Fax: (906) 932-5823

Email: [investors@keweenaw.com](mailto:investors@keweenaw.com)

Web Page: [www.keweenaw.com](http://www.keweenaw.com)

Keweenaw's quarterly reports and latest annual report, along with archived reports from previous years, are posted on the company's web page.

## **Transfer Agent:**

Wells Fargo Shareowner Services

PO Box 64854

South St Paul MN 55164-0854

(800) 689-8788 or (651) 450-4002

## **Stock Exchange Information:**

Keweenaw's common stock trades under "KEWL" in the Pink Sheets.

## **Glossary:**

**Board Foot (BF)** – a measurement of sawtimber 12 inches x 12 inches x one inch. When used in conjunction with sawtimber or logs, a measurement system to approximate the output of lumber that can be expected from a given quantity of sawtimber or logs. **Cord Equivalent** – a measurement of logs in cords including logs converted in measurement from other measurement methods. For example, one thousand board feet (MBF) equals approximately 2.2 cords. **Cord** – a measurement of logs containing 128 cubic feet. **MBF** – a thousand board feet. **Production Mix** – the ratio of a category of production to total production. **Pulpwood**- logs cut primarily to be converted to wood pulp for the manufacture of paper and other wood fiber products. **Sawbolt** – a lower grade or smaller size sawlog typically sawn for the manufacture of pallets or other coarse wood products. **Sawlogs** - a higher grade or larger size sawtimber sawn for the manufacture of furniture grade lumber, flooring lumber, or other high quality wood products. **Sawtimber** – a category of logs suitable for veneer, sawlogs, or sawbolts. **Veneer** – a category of sawtimber clear of defects suitable for manufacture as veneer paneling, furniture, and cabinetry veneer.