

# KEWEENAW LAND ASSOCIATION, LIMITED



## First Quarter Report For the Period Ending March 31, 2016 Issue Date April 18, 2016

### *Highlights*

Net Income of \$0.19 Per Share

Timber Operations Income Up 11% Over First Quarter Last Year

Keweenaw Land Association, Limited announces a First Quarter 2016 net income of \$0.19 per share compared to net income of \$0.11 for the same period in 2015. Sources of net income (loss) per share are shown in the following table:

### First Quarter Results:

Keweenaw had an excellent first quarter in timber operations, realizing more than \$1 million in gross margin in the first three months of the year. The company harvested a total of 24,409 cd-eq, including 1,466 cd-eq from procured

sales, during the quarter. This compares to 21,492 cd-eq, including 3,150 cd-eq from procured sales, produced during the same period in 2015. This is an increase of nearly 3,000 cd-eq over the same period last year. Harvest production in the first quarter contained more pulpwood and less sawtimber, which resulted in a lower product mix than last year. The winter logging season came to an end when local authorities imposed seasonal road restrictions on March 7, 2016. The restrictions are anticipated to last approximately two months, and logging is expected to resume near mid-May.

During the quarter, Keweenaw harvest volume included the following:

	Earnings Per Share (EBITDA)	
	1 <sup>st</sup> Qtr 16	1 <sup>st</sup> Qtr 15
Timber Operations Income	\$ 0.50	\$ 0.44
Capital Gains – Sale of Land	0.02	-
Capital Gains – Investments	-	-
Other Income	0.05	0.02
Other Expenses	(0.19)	(0.19)
Interest & Depreciation	(0.11)	(0.10)
Income Taxes	(0.08)	(0.06)
	<u>\$ 0.19</u>	<u>\$ 0.11</u>

1st Qtr Production Statistics	2016	Mix %	2015	Mix %
Total Harvest Volume (cd-eq)	24,409	100.0	21,492	100.0
Sawtimber (mbf)	2,943	26.5	2,792	28.6
Pulpwood (cords)	17,935	73.5	15,349	71.4

During the first quarter, the company sold logs totaling \$3,213,130 compared to \$3,040,234 in 2015, up nearly 6%. The increase in log sales was driven by more volume, albeit at lower market prices, than in 2015. While the total cost of goods sold expense increased from \$1,972,607 in 2015 to \$2,095,759 in 2016, the expenditures decreased \$7 per cd-eq due to lower freight destination cost, less purchased stumpage, and lower winter road costs.

The net result was an increase in timber operations income of \$64,925, up 11% over the same period in 2015. Year-to-date timber operations income results are listed in the following table:

Timber Operations Income	2016	%	2015	%
Log Sales	\$3,213,130	100.0	\$3,040,234	100.0
Expenses (COGS)	(2,095,759)	65.2	(1,972,607)	64.9
Gross Margin	1,117,371	34.8	1,067,627	35.1
Forestry/Management Exp	(469,616)		(484,797)	
Timber Operations Income	\$647,755		\$582,830	

Overall sales realization for the first quarter was down approximately \$10 per cd-eq due to weaker demand and lower delivery prices compared to the same period in 2015. On the expense side, logging costs on a cord-equivalent basis have increased over the first three months of last year due to a logging contractor shortage. However, offsets in freight and other production expenses lowered the cost of goods sold by \$7 per cd-eq from 2015 as described in the table below.

1st Qtr Sales Statistics (per unit)	2016	2015
Average Price Realization	\$131	\$141
Cost of Goods Sold	(85)	(92)
Gross Margin	46	49

Veneer realization was \$1,097 per mbf compared to \$985 in 2015, an 11%

increase, primarily driven by more Hard Maple in the mix than in the same period last year. Sawlog realization was \$492 per mbf versus \$527 per mbf in the same period in 2015, a 7% decrease, directly the result of lower pricing for Hard Maple and other minor species. Boltwood realization was \$140 per cd-eq, down 5% from \$147 per cd-eq in 2015 because of lower pricing in all species. Market demand for pulpwood was down from the same period in 2015. Pulpwood realization for the quarter was \$106 per cd-eq compared to \$119 in 2015, an 11% increase. Winter harvest units usually contain more lower-quality logs and other minor species compared to summer when more higher-quality products are harvested. The first quarter sales realization by product is listed in the following table:

1st Qtr Sales Realization	2016	2015
Veneer (mbf)	\$1,097	\$985
Sawlog (mbf)	492	527
Boltwood (cord)	140	147
Pulpwood (cord)	106	119
Overall Realization (cd-eq)	\$131	\$141

Keweenaw remains focused on maximizing its sales dollars by maintaining long-term business relationships with its customers.

#### **Land/Lot Sales:**

In the first quarter, one residential lot from the Lake Superior Cove (Gogebic County) project was sold resulting in net value-added income of \$3,304 after prorated expenses and pre-development land income of \$23,528. No lots were sold in the same period of 2015. No other land transactions occurred during the first quarter.

The company continues to pursue an overall strategy of acquiring productive timberlands and improving access to other properties owned by Keweenaw.

#### **Timber Revitalization and Economic Enhancement (TREE) Act of 2015:**

Late in 2015, Congress enacted the Timber Revitalization and Economic Enhancement (TREE) Act for the 2016 tax year. The TREE Act specifies a special tax rate on qualified timber gains for C-Corporations. The Act reduces the federal income tax rate on capital gains resulting from the harvest of timber held at least 15 years from 35% to 23.8%. Keweenaw will directly benefit from this legislation in 2016. An extension of the TREE Act into 2017 and beyond is uncertain at this time.

#### **Verso Paper Bankruptcy:**

On January 26, 2016, Verso Corporation, a leading producer of printing and specialties paper, one of KLA's largest customers, filed for Chapter 11 bankruptcy to cut its debt. Verso, which is controlled by private equity firm Apollo Global Management, planned to seek approval of a plan that would shed \$2.4 billion in debt and cede ownership to its creditors according to a company statement.

Keweenaw currently has a Verso pre-bankruptcy account receivable of approximately \$79,000. As a termed "critical supplier," Keweenaw expects to be made whole as Verso emerges from Chapter 11 within the next four to six months.

#### **Shareholder Relations & Administrative:**

Keweenaw's common shares traded in a range from \$68.00 to \$86.00 per share during the first quarter with an ending price of \$86.00. 14,740 KLA shares were traded, a little over 1% of outstanding shares. This compares to 49,838 shares traded last year. As with any investment, past performance is not a guarantee of future results. Keweenaw's shares trade in the pink sheets using the symbol KEWL.

The 2016 Annual Meeting of Keweenaw Shareholders will be held at 9:00 am CDT on Monday, May 2, 2016, in Ironwood, MI. Notices and voting information were provided for shareholders of record at the end of business on Friday, March 4, 2016. We look forward to seeing you there.

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

KEWEENAW LAND ASSOCIATION, LIMITED  
**EBITDA** Consolidated Statement of Income and Expense (Unaudited)  
 March 31, 2016

INCOME	1 <sup>st</sup> Quarter		
	2016	2015	% Chg
<b>Timber Operations</b>			
Timber Sales	\$3,213,130	\$3,040,234	
Cost of Sales	2,095,759	1,972,607	
<b>Gross Margin on Timber Sales</b>	<b>1,117,371</b>	<b>1,067,627</b>	<b>5%</b>
<b>Timber Operations Expense</b>			
Forestry, Management & General Admin	469,616	484,797	
<b>Timber Operations Income (EBITDA)</b>	<b>647,755</b>	<b>582,830</b>	<b>11%</b>
<b>Real Estate Development</b>			
Developed Lot Sales	45,000	0	
Development Costs	41,696	0	
<b>Gross Margin on Developed Lot Sales</b>	<b>3,304</b>	<b>0</b>	
<b>Total Operations Income</b>	<b>651,059</b>	<b>582,830</b>	<b>12%</b>
<b>Other Income</b>			
Mineral Royalties	56	0	
Lease and Rental Income	8,779	4,678	
Investment Earnings	6,167	5,751	
Profit (Loss) on Security Sales	0	0	
Land Sales	23,528	0	
Other	46,735	17,424	
<b>Total Other Income</b>	<b>85,265</b>	<b>27,853</b>	<b>206%</b>
<b>Other Land &amp; Board Expense</b>	<b>243,966</b>	<b>252,179</b>	
<b>EBITDA</b>	<b>492,358</b>	<b>358,504</b>	<b>37%</b>
Interest Expense	44,160	46,196	
Depletion, Depreciation, and Amortization	97,385	83,477	
<b>Earnings Before Income Taxes</b>	<b>350,813</b>	<b>228,831</b>	<b>53%</b>
Provision for Federal and State Income Taxes	100,181	85,998	
<b>Net Income (Loss)</b>	<b>250,632</b>	<b>142,833</b>	<b>75%</b>
<b>Other Comprehensive Income, Net of Tax</b>			
Unrealized Gains (Losses) on Securities			
Unrealized Holding Gains Arising			
During the Period	45,136	(2,073)	
Less: Reclassification Adj For Gains			
Included in Net Income	0	0	
<b>Other Comprehensive Income</b>	<b>45,136</b>	<b>(2,073)</b>	
<b>Comprehensive Income</b>	<b>\$295,768</b>	<b>\$140,760</b>	<b>110%</b>
Per Share Net Income	0.19	0.11	
Per Share Comprehensive Income	0.23	0.11	
<b>Based on Weighted Avg Shares Outstanding</b>			

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

**TIMBER OPERATIONS INCOME RESTATED (EBITDA)**

Prior Reporting Format				
	1 <sup>st</sup> Qtr 2016	YTD 2016	1 <sup>st</sup> Qtr 2015	YTD 2015
<b>Timber Operations:</b>				
Timber Sales	\$3,213,130	\$3,213,130	\$3,040,234	\$3,040,234
Cost of Sales	(2,166,937)	(2,166,937)	(2,033,778)	(2,033,778)
<b>Gross Margin on Timber Sales</b>	<b>1,046,193</b>	<b>1,046,193</b>	<b>1,006,456</b>	<b>1,006,456</b>
Forestry, Management & General Admin	(538,837)	(538,837)	(552,166)	(552,166)
<b>Timber Operations Income</b>	<b>507,356</b>	<b>507,356</b>	<b>454,290</b>	<b>454,290</b>
New EBITDA Reporting Format				
	1 <sup>st</sup> Qtr 2016	YTD 2016	1 <sup>st</sup> Qtr 2015	YTD 2015
<b>Timber Operations:</b>				
Timber Sales	\$3,213,130	\$3,213,130	\$3,040,234	\$3,040,234
Cost of Sales	(2,095,759)	(2,095,759)	(1,972,607)	(1,972,607)
<b>Gross Margin on Timber Sales</b>	<b>1,117,371</b>	<b>1,117,371</b>	<b>1,067,627</b>	<b>1,067,627</b>
Forestry, Management & General Admin	(469,616)	(469,616)	(484,797)	(484,797)
<b>Timber Operations Income (EBITDA)</b>	<b>647,755</b>	<b>647,755</b>	<b>582,830</b>	<b>582,830</b>
<b>Reclassified Items:</b>				
Timber Depletion in Cost of Sales	65,870	65,870	55,815	55,815
Road Depreciation in Cost of Sales	5,308	5,308	5,356	5,356
Interest Expense in Operations	44,160	44,160	46,196	46,196
Fixed Assets Depreciation in Operations	25,061	25,061	21,173	21,173

**EBITDA Reporting:**

A full year of restatement of Timber Operations Income has been completed over the last four quarterly newsletters. Last year, Keweenaw reformatted the Income Statement to reflect the EBITDA format. Currently, there is no legal requirement under Generally Accepted Accounting Principles (GAAP) for publicly-held companies to disclose EBITDA in their financial reporting. Because of the change in reporting, Timber Operations Income, year-to-date and prior year, has been restated in the newsletter to reflect the EBITDA format (SEE Timber Operations Income Restated table). Net Income, both year-to-date and prior year, is not affected by the change. We will continue to provide this information in all future quarterly letters and annual reports.

In accounting and finance terms, EBITDA is a measure of profitability and stands for “Earnings before Interest, Taxes, Depreciation, and Amortization.” It is a non-GAAP measure of profitability. Many companies and shareholders continue to find the format useful to analyze and compare profitability, especially between companies and industries.

KEWEENAW LAND ASSOCIATION, LIMITED  
Consolidated Balance Sheet (Unaudited)  
March 31, 2016

ASSETS	Mar 31, 2016	Mar 31, 2015	% Chg
<b>Current Assets</b>			
Cash & Cash Equivalents	\$3,239,119	\$2,288,097	42%
Accounts Receivable	213,442	244,604	
Investments in Government Obligations	0	0	
Other Current Assets	418,426	333,980	
<b>Total Current Assets</b>	<b>3,870,987</b>	<b>2,866,681</b>	<b>35%</b>
Investments in Marketable Securities	2,934,237	2,969,912	-1%
Other Non-Current Assets	449,855	303,722	
Equipment	945,740	724,575	31%
Properties	17,144,413	17,334,068	-1%
<b>TOTAL ASSETS</b>	<b>\$25,345,232</b>	<b>\$24,198,958</b>	<b>5%</b>
<b>LIABILITIES &amp; CAPITAL</b>			
<b>Current Liabilities</b>			
Accounts & Deposits Payable	\$20,000	\$60,305	
Commercial Lines of Credit & Other Debt	240,000	240,000	
Other Accrued Liabilities	416,785	382,994	
<b>Total Current Liabilities</b>	<b>676,785</b>	<b>683,299</b>	<b>-1%</b>
<b>Non-Current Liabilities</b>			
Long Term Debt	4,080,000	4,320,000	
Deferred Federal Income Tax Liability	874,081	861,990	
<b>Total Non-Current Liabilities</b>	<b>4,954,081</b>	<b>5,181,990</b>	
<b>Total Liabilities</b>	<b>5,630,866</b>	<b>5,865,289</b>	<b>-4%</b>
<b>Capital</b>			
Common Stock Issued <sup>(1)</sup>	84,916	84,827	
Accum. Other Comprehensive Income	1,273,576	1,263,753	
Retained Earnings	18,355,874	16,985,089	
<b>Total Capital</b>	<b>19,714,366</b>	<b>18,333,669</b>	<b>8%</b>
<b>TOTAL LIABILITES &amp; CAPITAL</b>	<b>\$25,345,232</b>	<b>\$24,198,958</b>	<b>5%</b>
Capital Per Common Share	\$15.18	\$14.13	

1,298,568 no par value common shares are issued and outstanding on Mar. 31, 2016.  
1,297,206 shares were outstanding on Mar. 31, 2015. 10,000,000 shares are authorized.

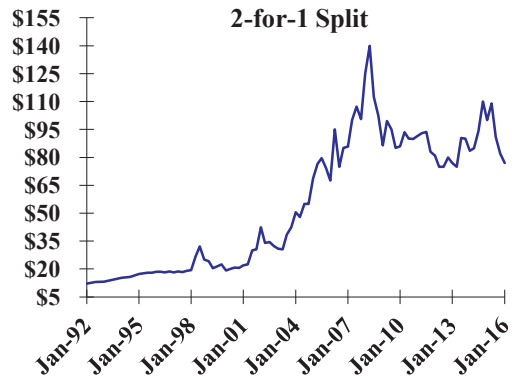
KEWEENAW LAND ASSOCIATION, LIMITED  
Consolidated Statement of Cash Flows Ending March 31, 2016

	Dec 31, 2015	2016 YTD
<b>Net Income</b>	\$1,155,839	\$250,632
<b>Adjustments to Reconcile Net Income to Net Cash</b>		
<b>Provided by Operating Activities:</b>		
Depletion and Depreciation	335,824	96,418
<b>Changes in Operating Assets and Liabilities:</b>		
Decrease (Increase) in Accounts Receivable	67,482	211,303
Decrease (Increase) in Prepaid Expenses	(283,289)	37,111
Decrease (Increase) in Inventory	24,832	7,443
Increase (Decrease) in Deposits/Accts Pybl	(61,727)	(8,854)
Increase (Decrease) in Deferred/Income Taxes	(53,240)	75,231
Increase (Decrease) in Accrued Liabilities	20,707	(198,840)
(Gain) Loss on Sale of Securities	13,983	0
(Gain) Loss on Sale/Retirement of Equipment	0	(3,500)
(Gain) Loss on Sale of Land	(210,858)	(26,832)
<b>Net Cash Flows Provided by Operating Activities</b>	<b>1,009,553</b>	<b>440,113</b>
<b>Net Cash Flows Provided by (Used for) Investing Activities</b>		
Net Sales (Purchases) of Property and Equipment	(319,476)	(57,187)
Purchases of Securities	(101,715)	0
Proceeds from Sale of Securities	36,575	0
Road Construction	(35,408)	(518)
Purchases of Land	(85,790)	0
Proceeds from Land Sales	193,643	0
Lot Development	57,668	40,738
<b>Net Cash Flows Provided by (Used for) Investing Activities</b>	<b>(254,503)</b>	<b>(16,967)</b>
<b>Net Cash Flows Provided by (Used for) Financing Activities</b>		
Issuance (Purchase) of Stock	160,921	89,505
Commercial Installment Loan Borrowing	0	0
Commercial Installment Loan Payments	(240,000)	0
<b>Net Cash Flows Provided by (Used for) Financing Activities</b>	<b>(79,079)</b>	<b>89,505</b>
<b>NET CASH FLOW</b>	<b>675,972</b>	<b>512,651</b>
Beginning Cash and Cash Equivalents	2,050,496	2,726,468
<b>ENDING CASH AND CASH EQUIVALENTS</b>	<b>\$2,726,468</b>	<b>\$3,239,119</b>

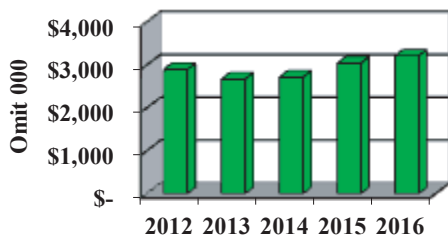
## CONSOLIDATED FINANCIAL HIGHLIGHTS

For the Quarter	2016		2015	
	1st Qtr	YTD	1st Qtr	YTD
Receipts	\$3,320	\$3,320	\$3,068	\$3,068
Net Income (Loss)	251	251	143	143
Comprehensive Income	296	296	141	141
Capital Employed	24,034	24,034	22,894	22,894
*Dollar amounts in thousands				
<b>Per Common Share</b>				
Net Income	\$0.19	\$0.19	\$0.11	\$0.11
Comprehensive Income	0.23	0.23	0.11	0.11
<b>Statistics</b>				
Return on Capital Emp	4.2%	4.2%	2.5%	2.5%
Avg Shares Outstanding	1,298,568	1,298,568	1,297,206	1,297,206
Curr Shares Outstanding	1,298,568	1,298,568	1,297,206	1,297,206

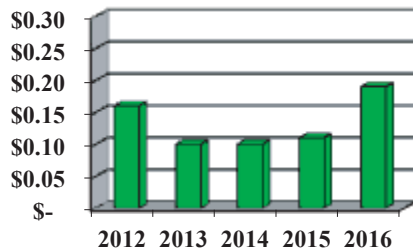
**Price of Keweenaw Shares**  
Restated for 2/15/11  
2-for-1 Split



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



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



## SHAREHOLDER INFORMATION

### First Quarter 2016 Highlights:

High: \$86.00, Low: \$68.00, Last: \$86.00

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

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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.