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# KEWEENAW

LAND ASSOCIATION, LIMITED



## 2016 ANNUAL REPORT

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## CONSOLIDATED FINANCIAL HIGHLIGHTS

For the Year	2016	2015	2014	2013	2012
Receipts*	\$11,604	\$11,927	\$10,532	\$9,310	\$10,509
Net Income after Tax*	699	1,156	856	706	1,041
Capital Employed*	25,097	23,649	22,610	21,822	17,093

\* Values in Rounded Thousands

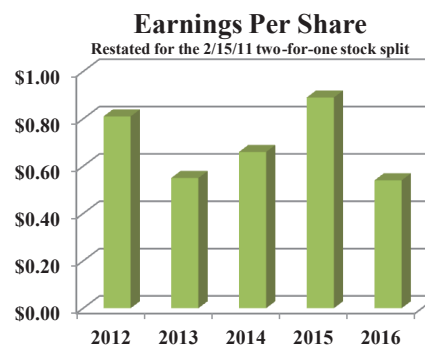
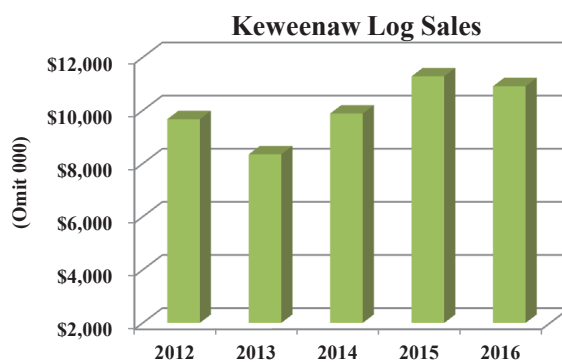
### Per Share

Earnings**	\$0.54	\$0.89	\$0.66	\$0.55	\$0.81
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\*\*Based on weighted average shares outstanding. Adjusted for the 2/15/11 2-for-1 forward stock split.

### Statistics

Return on Capital	2.8%	4.9%	3.8%	3.2%	6.1%
Average Shares Outstanding **	1,298,602	1,297,222	1,295,549	1,294,136	1,292,681
Shares Outstanding at Year End **	1,298,974	1,297,398	1,295,726	1,294,333	1,292,858



Cover photo: Starting from top left, clockwise - view from Keweenaw property on East Shore Lake Gogebic, fall colors near Copps Creek in Gogebic County, mature white ash tree, and sugar maple seedlings.

# Report to Shareholders

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## Glossary of Terms Used in This Report

**Board Foot (BF)** – a measurement of lumber 12 inches x 12 inches x 1 inch. When used in conjunction with sawtimber or logs, it is a measurement system to approximate the output of lumber that can be expected from a given quantity of sawtimber or logs. **Cord Equivalent (cd-eq)** – a measurement of logs in cords including logs converted in measurement from other measurement methods. 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, fiberboard, or other wood fiber products. **Sawbolts** – a lower grade or smaller size sawtimber 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.

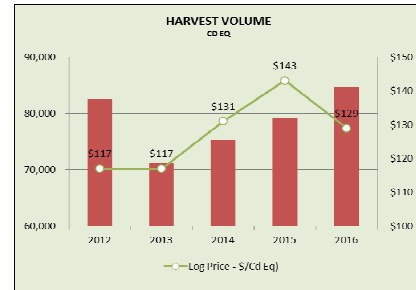
# 2016 Highlights (continued)

## Letter to Shareholders

To our Shareholders:

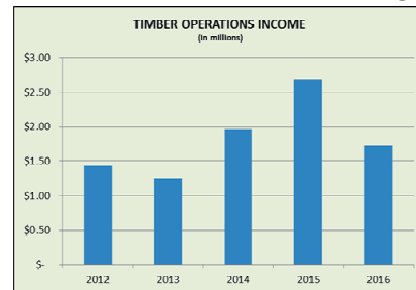
This past year presented several challenges to Keweenaw. Markets for forest products were considerably weaker than the prior year as a surplus of available timber led to lower delivered prices. As a result, revenue from timber sales fell to \$10.9 million in 2016 from \$11.3 million in 2015. With the lower log realizations, Net Income ended the year at \$698,682 compared to \$1,155,839 in 2015. However, the company was able to harvest 84,463 cd-eq from company lands compared to 79,024 in 2015, a 7% increase.

The log yard expansion, which was completed in 2015, continued to add significant revenue to the bottom line. A total of 50,000 tons of logs and pulpwood were transferred through the facility generating inventory and handling fees \$177,000. In addition, the company formed a subsidiary logging company as a way to ensure adequate logging capacity to reach harvest goals. Keweenaw Logging, LLC, which began operations in May, operates under the parent company and is staffed by two employees. The operations consist of a leased Komatsu 931 Processor and an 855.1 Forwarder. During the year, the crew harvested over 4,000 cords on company lands and was instrumental in attaining overall company harvest goals.



Keweenaw secured \$30 million of financing from MetLife in the form of a term loan and revolver. By having this line available, we are now able to actively seek attractive timberland investments in the region that complement operations and lower the overall cost of management.

As previously announced, the company formed a special committee of the Board to consider strategic alternatives. The committee has engaged Stifel to assist in conducting a wide ranging process as the company explores ways to create value for all shareholders. As part of this process, Jan Loeb was added to the Board. Mr. Loeb is President and Founder of Leap Tide Capital Management Inc., a capital investment firm, and is the Chief Executive Officer of Acorn Energy Inc., a publicly-traded holding company. There is no assurance as to the outcome of this process, but the Board is committed to exploring all opportunities.



These are very exciting times for Keweenaw. Through the efforts of its Board, management team, and tremendous staff of hard-working employees, it has created significant value in timber and land assets through the long-term focus of improving the quality of its forests. The company is poised for growth and remains focused on ensuring it operates for the benefit of all shareholders in an environmentally responsible manner. Additional information about Keweenaw can be found on its website at [www.keweenaw.com](http://www.keweenaw.com).

I look forward to seeing you at our annual meeting in Ironwood, Michigan at the Gogebic Community College on May 8, 2017, at 9:00 am CDT.

Sincerely,

David Ayer, Chairman

Brian D. Glodowski, CEO, President

# 2016 Highlights (continued)

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## Timber Operations

The revenue from log and pulpwood sales in 2016 was \$10.9 million compared to \$11.3 million in 2015. Log sales realizations were lower, ending the year 2016 at \$129 per cd-eq compared to \$143 per cd-eq in 2015. Regional markets were adversely affected by high log and pulpwood inventories resulting in weaker demand. While this did have an impact on the bottom line, our long-term supplier relationships helped mitigate the overall impact and facilitate the sale of all the volume produced from our forests at a profit.



Cost of Goods Sold was \$7.3 million compared to \$6.8 million in 2015 in an EBITDA format. This increase was due to higher harvest volume but was essentially equal to prior year on a per unit basis. Timber Operations Income ended the year at \$1.7 million compared to \$2.7 million in 2015.

Log sale volume from company lands was 82,446 cd-eq, an increase of 9.4% over the prior year. Of this volume, a total of 10.3 mmbf was sold as sawtimber and 61,648 cords as pulpwood. An additional 2,323 cd-eq was harvested from open market stumpage sales. Keweenaw augments its harvest operations by purchasing stumpage from various private and public timberland owners increasing the company's market share and income.

## Log Yard Expansion

This was the first full year of operations for the expanded log yard located in Ironwood, Michigan. In 2015, four additional acres adjoining the existing log yard were developed to expand the customer base and to provide inventory and weight scaling services to various customers. During the year, a total of 50,000 tons of timber was processed through the yard resulting in additional income of \$177,000.

## Keweenaw Logging, LLC

In May, Keweenaw formed a logging company for the purpose of securing a portion of its logging capacity needs and to lower the overall costs of harvesting. The company entered into a four-year operating lease for a Komatsu 931 Processor and 855.1 Forwarder and hired two qualified equipment operators. During the first eight months of operations, the crew harvested 4,067 cords from Keweenaw property. Going forward, the annual harvest capacity is expected to reach between 8,000 to 10,000 cords at a cost comparable to current contracted rates.



## Real Estate

Keweenaw was successful in acquiring 974 acres of high-quality timberland properties at an average acquisition price of \$899 per acre. In addition, it also divested of 200 acres of lands better suited for recreational purposes for a gross sales price of \$1,245 per acre. Through these transactions, the company continued to improve and consolidate its timberland assets while disposing of non-core properties.



## 2016 Highlights (continued)

Keweenaw sold one rural residential lot from the existing inventory of its development projects for a net value-added and as-is land value gain of \$26,832. The demand for residential lots in the region still faces headwinds due to limited economic growth. Given current market conditions, Keweenaw does not plan any additional development projects until there are improvements in the regional economy and demand for properties increase.

### Minerals

The company currently has three mineral and exploration leases with Highland Copper Company, Inc. (TSXV:HI) encompassing a combined total of 6,121 acres. Two of the leases involve 3,063 acres of mineral rights related to the Copperwood Project located within the Western Syncline Deposit. The Copperwood Project remains a fully-permitted project and is expected to be developed into an operational mine, although the timing remains uncertain. Highland continues to upgrade the value of the current mineral resource through geotechnical studies and refinement of the mining plan. The third lease covers 3,059 acres and includes various parcels in Gogebic and Houghton Counties. This lease is focused on exploration of additional commercial deposits of copper and related minerals in the Western UP of Michigan. Common terms for all the leases include a current rental payment converting to a net-smelter royalty upon start-up of mining activity. Information regarding Highland can be found on its website <http://www.highlandcopper.com>.

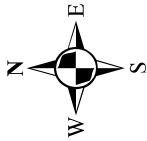
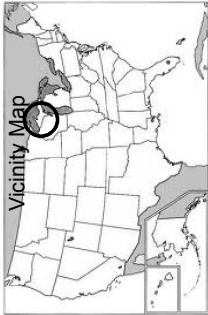
The long-range outlook for copper appears to be positive with demand for refined copper forecasted to increase for both China and Europe in 2017. In addition, near-term price volatility is expected due to current and expected supply disruptions at some major copper mines outside the U.S. The U.S. remains a preferred location as it offers a stable business environment and greater certainty on the regulatory front.

Keweenaw continues to monitor activity regionally and internationally as it focuses on monetizing its 400,000 acres of mineral rights. The company also makes its mineral information available to bonafide mineral exploration and/or mining companies. A map of Keweenaw's mineral ownership can be found on its website [www.keweenaw.com](http://www.keweenaw.com).

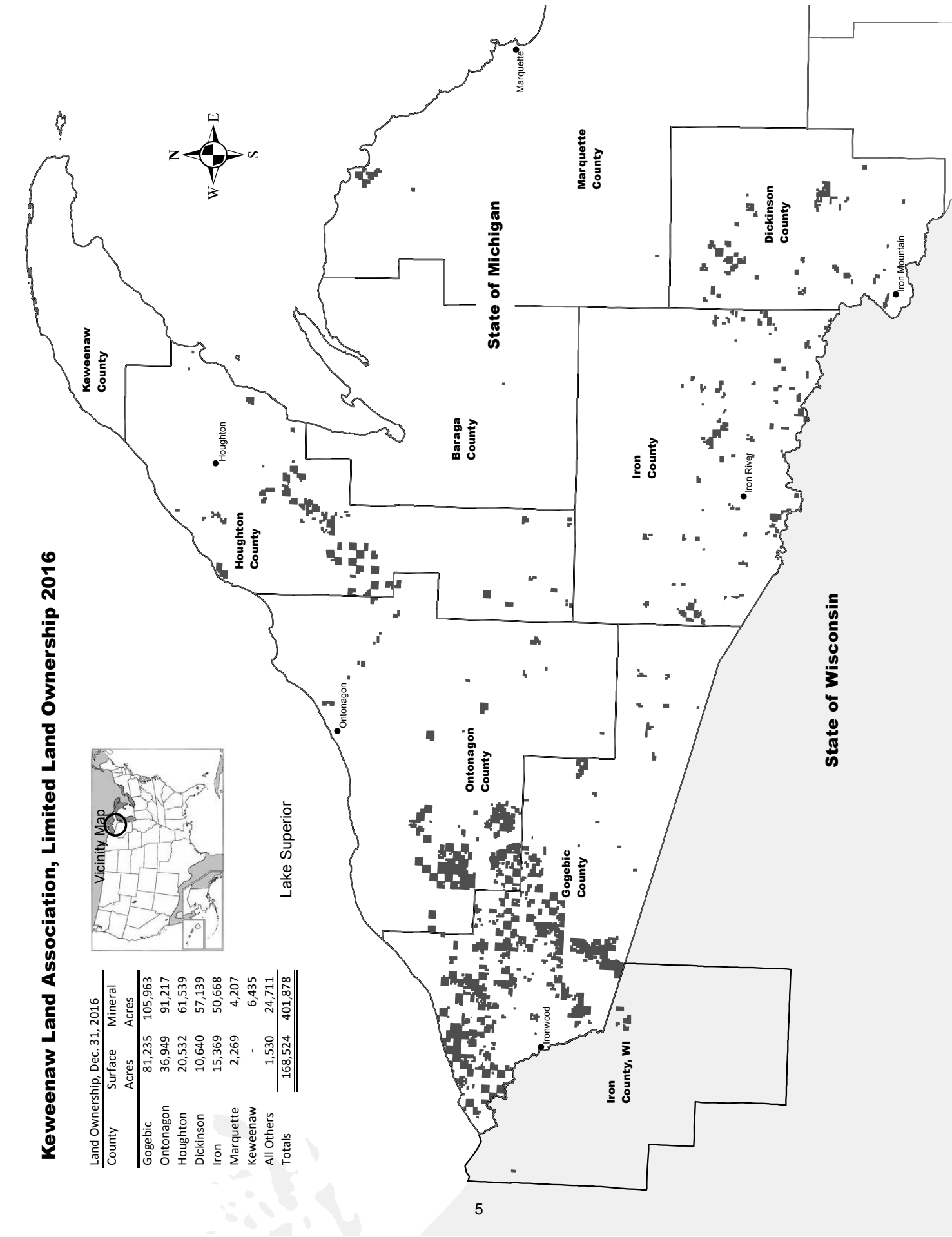
TRANSACTIONED ACRES BY COUNTY, 2016		
County	Acres Sold	Acres Acqd
Baraga	0	0
Bayfield, WI	120	0
Dickinson	0	0
Florence, WI	0	0
Forest, WI	0	0
Gogebic	0	670
Houghton	80	184
Iron	0	120
Iron, WI	0	0
Keweenaw	0	0
Marquette	0	0
Ontonagon	0	0
Schoolcraft	0	0
Total	200	974

Keweenaw Land Association, Limited Land Ownership 2016

Land Ownership, Dec. 31, 2016			
County	Surface Acres	Mineral Acres	
Gogebic	81,235	105,963	
Ontonagon	36,949	91,217	
Houghton	20,532	61,539	
Dickinson	10,640	57,139	
Iron	15,369	50,668	
Marquette	2,269	4,207	
Keweenaw	-	6,435	
All Others	1,530	24,711	
Totals	168,524	401,878	



Lake Superior



# Management's Discussion & Analysis of Operations

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## Business Overview

Keweenaw Land Association, Limited is a land and timber management company that owns approximately 168,000 acres of surface land and 401,000 acres of subsurface mineral rights in the western Upper Peninsula of Michigan and northern Wisconsin. We derive the majority of our net income from the sale of logs harvested from our forestlands and from the purchase and sale of timber from public and private timber sources. Keweenaw also generates other revenue from recreational leases, mineral rights leases, sale of sand and gravel, and by providing wood scaling and inventory management services for various customers.

Since 1993, Keweenaw Land Association, Limited has employed direct marketing of its forest products with regional log customers, which generates increased profit margins over the sale of stumpage. We have built long-term relationships with our customers allowing for the sale of all of our annual production year after year. The company has remained committed to providing its customers with the best quality product possible. Our log yard facility in Ironwood, Michigan allows us the ability to maximize the value of logs and meet customer needs by sorting to customer grades and by re-manufacturing logs to improve log grade.

Keweenaw's forest management philosophy is that managing timberlands with a long-term perspective is beneficial to its shareholders. It does this in the context of its long-standing strategic objective of improving and consolidating its timberland assets through strategic acquisitions of high-quality timberlands and by divesting of non-core timberlands, which are more valuable for development or recreational purposes.

The company practices sustainable forestry management to improve the quality and quantity of its standing timber, which ensures an available log supply into the future. In this vein, Keweenaw's timberland management policy states it will not harvest beyond its annual growth rate as determined over a ten-year period. We employ a variety of silvicultural systems to accomplish our forest management objectives. The majority of our ownership is northern hardwoods. As such, the predominate method of identifying trees for harvest is done by using the single-tree selection. This method allows us to improve log quality and maximize sales dollars over the long-term. Over the years, there have been significant technical changes in logging equipment, which have contributed to increased production and utilization of our forest resources.

In October 2016, Keweenaw received its Forest Steward Council® (FSC®) Certification (SW-FM/COC-000005, FSC®-C006729) in conformance with FSC and Rainforest Alliance requirements. This marks the 23<sup>rd</sup> straight year we have 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. 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 a company's forest practices are environmentally-sound, economically practical, and socially beneficial. Certification provides us with a standard to evaluate our business practices, and it is also a useful tool for perpetual learning. Because of our best practices, Keweenaw is growing more quality timber per acre, which adds value to our shareholders, while also providing a long-term supply of certified forest products to the region.

## EBITDA Reporting 2016

Under Supplemental Financial Information, following the Notes to the Consolidated Financial Statements, a full-year Income Statement in the EBITDA format is available in our 2016 Annual Report to shareholders. Beginning in the Second Quarter 2015, Keweenaw reformatted the Income Statement to reflect the EBITDA format. Arguably, EBITDA is one of the most familiar examples of income metrics in financial reporting. Currently, there is no legal requirement under Generally



## Management's Discussion & Analysis of Operations (continued)

Accepted Accounting Principles (GAAP) for publicly-held companies to disclose EBITDA in their financial reporting. The EBITDA format – Statement of Consolidated Income and Expenses is provided as Supplementary Information. 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.

### TIMBER OPERATIONS INCOME RESTATED (EBITDA)

Prior Annual Report & Quarterly Letter Format			
<u>Timber Operations:</u>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Timber Sales	\$10,911,462	\$11,283,793	\$9,881,889
Cost of Sales	(7,551,380)	(7,092,616)	(6,405,530)
<b>Gross Margin on Timber Sales</b>	<b>\$3,360,082</b>	<b>\$4,191,177</b>	<b>\$3,476,359</b>
Forestry, Management & General Admin	(2,166,851)	(2,024,130)	(2,033,079)
<b>Timber Operations Income</b>	<b>\$1,193,231</b>	<b>\$2,167,047</b>	<b>\$1,443,280</b>

2016 Restated - EBITDA Reporting Format			
<u>Timber Operations:</u>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Timber Sales	\$10,911,462	\$11,283,793	\$9,881,889
Cost of Sales	(7,291,794)	(6,846,794)	(6,171,750)
<b>Gross Margin on Timber Sales</b>	<b>\$3,619,668</b>	<b>\$4,436,999</b>	<b>\$3,710,139</b>
Forestry, Management & General Admin	(1,890,429)	(1,750,612)	(1,753,104)
<b>Timber Operations Income (EBITDA)</b>	<b>\$1,729,239</b>	<b>\$2,686,387</b>	<b>\$1,957,035</b>

<u>Reclassified Items:</u>			
Timber Depletion in Cost of Sales	\$232,931	\$224,663	\$211,905
Road Depreciation in Cost of Sales	26,655	21,159	21,875
Interest Expense in Operations	175,685	184,176	193,680
Fixed Asset Depreciation in Operations	100,737	89,342	86,295

### Timber Sales & Operations

The company reported log sales in 2016 totaling \$10,911,462 compared to \$11,283,793 and \$9,881,889 in 2015 and 2014 respectively. On an EBITDA basis in 2016, Timber Operation Income was \$1,729,239, down \$957,148 from the \$2,686,387 realized in 2015, and down \$227,796 from the \$1,957,035 earned in 2014. An oversupply of pulpwood in the market over the last 18 months is the main factor for the drop in price realization for the product that represented 58% of our sales in 2016. In 2016, sales realization was \$129 per cd-eq, compared to \$143 per cd-eq in 2015, and \$131 per cd-eq in 2014.

The company's total log production in 2016 was 84,463 cd-eq compared to 79,024 cd-eq in 2015 and 75,336 cd-eq in 2014. In 2016, log production on purchased timber contracts amounted to 2,322 cd-eq during the year compared to 3,857 cd-eq in 2015 and 5,675 cd-eq in 2014.

The following table reflects the 2016 product mix and associated sales dollar impact compared to the two prior years:

	Percent of Sales Product Mix			Product Mix Impact in Dollars	
	2016	2015	2014	2016 vs. 2015	2016 vs. 2014
Veneer Logs	2.6%	2.6%	2.9%	(\$14,234)	(\$146,663)
Sawlogs	9.3%	9.0%	9.1%	60,539	41,564
Sawbolts	15.4%	18.6%	16.7%	(408,826)	(149,767)
Pulpwood Logs	72.7%	69.8%	71.3%	287,369	124,568
Total Sales	100.0%	100.0%	100.0%	(\$75,152)	(\$130,298)

## Management's Discussion & Analysis of Operations (continued)

The forestland owned by Keweenaw consists primarily of northern hardwood timber types. As such, pulpwood will always continue to remain the largest percentage of the yearly sales volume. In 2016, pulpwood accounted for 73% of the total sales volume while sawtimber was 27%. In 2015, the sawtimber mix was 30%; in 2014 it was 29%. Because of oversupply in the markets, there was a noticeable drop in the price paid for pulpwood. This trend started in the second half of 2015. Pulp prices in 2016 fell by 12% compared to those realized in 2015, but were still up 2% over 2014 levels. It is important to note that pulpwood price realizations were also affected by changes in market destination. The average veneer price realization was up nearly 4% from 2015, primarily due to species mix with more Hard Maple at a higher realization over 2015. Sawlog prices in 2016 were down over 5% from 2015, and down 12% over 2014. Sawbolts, which are sawn into flooring and pallet material, also decreased in price by 9% over 2015 but stayed on par with 2014.

Changes in specie mix composition, along with the dynamics of the price changes reflected above, resulted in the following product sales realization per unit for the years shown:

	Log Sales Realization Per Unit		
	2016	2015	2014
Veneer Logs (Per MBF)	\$1,014	\$977	\$1,003
Sawlogs (Per MBF)	490	518	554
Sawbolts (Per Cord)	139	152	139
Pulpwood Logs (Per Cord)	103	117	101
Total Sales (Per Cd-eq)	\$129	\$143	\$131

The total impact on log sales resulting from all previously discussed factors is reflected below:

Impact From	Impact on Log Sales Dollars	
	2016 vs. 2015	2016 vs. 2014
Changes in Prices	(\$1,123,397)	(\$168,139)
Changes in Specie Mix	30,134	94,572
Changes in Product Mix	(75,152)	(130,298)
Changes in Production Volume	796,084	1,233,438
Net Increase (Decrease) in Timber Sales	(\$372,331)	\$1,029,573

Total log sales by specie groups are represented below:

	2016			2015			2014		
	Cords	Sales	% of Vol	Cords	Sales	% of Vol	Cords	Sales	% of Vol
Northern									
Hardwoods	67,020	\$9,092,295	79%	60,624	\$9,054,274	77%	53,013	\$7,531,789	71%
Aspen	6,076	573,719	7%	6,649	853,149	8%	8,565	926,423	11%
Softwoods	11,673	1,245,448	14%	11,910	1,376,370	15%	13,785	1,423,677	18%
	84,769	\$10,911,462	100%	79,183	\$11,283,793	100%	75,363	\$9,881,889	100%

### Cost of Sales

Keweenaw's Cost of Goods Sold, as stated in an EBITDA format, which excludes non-cash expenses of depletion and depreciation was \$7,291,794 for 2016 compared to \$6,846,794 in 2015 and \$6,171,750 in 2014. The company harvested 84,463 cd-eq in 2016, 79,024 cd-eq in 2015, and 75,336 cd-eq in 2014. Production in 2016 was up 7% from 2015 and 12% from 2014. Logging and freight costs represent the majority of log production expense. These costs amounted to \$6,443,698 in 2016, \$5,997,832 in 2015, and \$5,171,085 in 2014. Keweenaw Logging, LLC, wholly-owned by Keweenaw Land Association, produced a total of 4,067 cd-eq in its first seven months of operation. Operating costs of \$278,296, including \$128,316 in equipment lease expense, were included in Keweenaw's cost of goods sold for 2016. While initial logging costs on a cd-eq basis with the newly-formed company were higher than our average cost with our current logging contractors, our company

## Management's Discussion & Analysis of Operations (continued)

expects total expenditures on a per cord to be at or lower than present contracted logging rates in 2017. Keweenaw continues to provide our reliable loggers, truckers, and subcontractors with competitive pay and logging opportunities.

Timber depletion, a non-cash expense, on Keweenaw lands amounted to \$232,931 in 2016, \$224,663 in 2015, and \$211,905 in 2014. Keweenaw also incurred procured stumpage costs of \$76,762 in 2016, \$133,214 in 2015, and \$210,900 in 2014. In 2016, Keweenaw was able to harvest timber on two Forest Service contracts with positive returns. Both long and short-term procured stumpage contracts enable Keweenaw to manage its production schedule to better utilize the company's contractors when company-land sustainable harvest limits are reached. Additional volume provided by federal and private contracts help the company maintain its reputation as a reliable supplier, adding to market share and securing additional profit for timber operations. Logging and delivery costs of procured production are comparable to those of our company land but also have the added cost of stumpage (the cost to purchase the standing timber from the seller). Stumpage costs amounted to \$33 per cord in 2016 compared to \$35 in 2015 and \$37 in 2014. Keweenaw continues to bid on federal, state, and local contracts if they are profitable. Two new federal or state timber-cutting contracts were added in 2016.

Maintenance and improvement of the company's logging road infrastructure continues to be a major element of Keweenaw's production cost. In 2016, road-building expense was \$559,724, or around 7% of the total cost of sales, up 10% from 2015. This compares to \$507,753 in 2015 and \$612,745 in 2014. The company strives to construct or improve summer logging roads at least a year prior to planned production so that they are able to support logging activity once harvesting begins. Road expenditures are either deferred or written off in the year when actual harvest production occurs. Costs of snow removal and "freeze-in" of roads for winter operations amounted to 21% of total road spending in 2016, 30% in both 2015 and 2014. The amount of snowfall and temperature can cause substantial variance in the cost of winter road preparation from season to season. Road expenditures made in 2015, amounting to \$132,498, were written off in 2016 as harvest production occurred on affected properties. Road spending of \$71,891 in 2016, relating to next year's operations, was deferred until 2017.

On July 11, 2016, a violent storm hit the Gogebic Range/Northern Wisconsin with nearly a foot of rain in less than five hours and a tornado that knocked down many trees and cut power to thousands of area residents. Many roads in the area were washed out, and the storm did some damage to our main logging roads in the Jarvi area (Gogebic County) near Lake Superior. Approximately \$155,000 was spent on capitalized roads to repair the damage. Any depreciable portion of the capitalized roads will be expensed over a fifteen-year period.

Per unit of production costs for 2016, 2015, and 2014 are reflected below:

Production Cost Factor (EBITDA)	Cost Per Cord Produced		
	2016	2015	2014
Logging Costs	\$50	\$50	\$43
Freight Costs	26	26	25
Sort Yard Expenses	3	3	3
Logging Road Costs	6	6	8
Procured Stumpage Costs	1	2	3
Inventory Change & Other Costs	0	0	0
Total Costs Per Cord	\$86	\$87	\$82

### Gross Margin

On an EBITDA basis, the gross margin from timber operations in 2016 was \$3,619,668 compared to \$4,436,999 in 2015 and \$3,710,139 in 2014, an 18% decrease from 2015 and a 2% decrease from 2014.

## Management's Discussion & Analysis of Operations (continued)

On a unit of sales basis, gross margins were:

	Per Cord Equivalent		
	2016	2015	2014
Log Sales	\$129	\$143	\$131
Cost of Sales	86	87	82
Gross Margin	\$43	\$56	\$49

In 2016, Keweenaw recorded a gross margin of \$44 per cd-eq on company land production. On procured production, a gross margin of \$13 per cd-eq was achieved.

### Operations Expenses

In 2016, the company's operating expenses, including interest of \$175,685 and depreciation of \$100,737, amounted to \$2,166,851 compared to \$2,024,130 in 2015 and \$2,033,079 in 2014. These costs on a unit of production basis were \$26 per cd-eq in both 2016 and 2015 and \$27 per cd-eq in 2014. For the years 2016, 2015, and 2014, employee salaries and benefits represented 66%, 69%, and 70% of total operating costs. In 2016, medical insurance costs increased 3% over 2015. In 2017, our health insurance costs are projected to decrease by 7% due to a change in health insurance provider and a restructuring of the Health Savings Account (HSA) for the employee. Management continues to review employee health insurance annually for possible cost savings while maintaining a suitable level of coverage. All employee benefit plans are evaluated annually to ensure cost effectiveness for both the company and employee. As a percent of total operations expense, other operating expenses in 2016 included: chairman's fee and professional services 14%, office and equipment costs 9%, travel expense 2%, and other 9%. The company's interest expense began increasing beginning in late November 2013 after the land acquisition of 4,979 acres, for which the company borrowed \$4.8 million. No interest was incurred on the operating line of credit from Wells Fargo. For 2015 and 2014, interest expense amounted to \$184,176 and \$193,680 respectively. For 2015 and 2014, the company also recorded depreciation expense of \$89,342 and \$86,295 respectively.

### Other Income

In the second full year of operation in the expansion of our sort yard in Ironwood, the company generated \$177,275 in inventory and handling fees, bringing the two-year revenue total to \$277,736 without adding additional overhead. The primary purpose of the expansion was to provide fee-based inventory management services at a secure location for our customers to inventory pulpwood. The total investment in the project that was completed in 2015 was \$407,860.

In 2016, there were two Section 1031 like-kind exchanges. In the first transaction, an 80 acre parcel in Bayfield County, WI was sold for \$103,000 and the proceeds were used to purchase 104 acres in Houghton County for \$70,000. After expenses, a capital gain of \$23,933 was recognized. In the second like-kind exchange, the company exchanged an 80 acre parcel for another 80 acre parcel with the State of Michigan. The value of the exchange was \$96,000 with no boot involved. Outside of the like-kind exchange, the company only had one other land sale totaling 40 acres for \$50,000 and netting a capital gain of \$43,384. The company also purchased 120 acres in Iron County, MI for \$107,000 which included access to over 200 acres of KLA property including 1.5 miles of Paint River frontage. In December 2106, the company purchased an 670 acre parcel in Gogebic County for \$603,000 with mature hardwood with near-term harvesting opportunities. Keweenaw's subsidiary, Keweenaw Properties LLC, sold one developed lot during the year for \$45,000. A gain on the gross margin, representing the value added due to development, of \$3,304 was recognized and reported in the income statement. In addition, \$23,528, the pre-development market value of the property, is reflected in other land sale income. It has been a long-standing company policy to upgrade and consolidate its timberland holdings, while simultaneously divesting of isolated timberlands and certain other properties having higher and better use for purposes other than timber management.

## Management's Discussion & Analysis of Operations (continued)

Royalties totaling \$21,011 were received from the sale of gravel from the company's leased pits during 2016. This compares to \$74,989 in 2015 and to \$60,727 in 2014. The large decrease in royalties from gravel in 2016 was attributed to limited commercial construction and highway infrastructure improvements during the year. The amount of royalties the company receives on an annual basis can vary substantially and are dependent upon the location of new projects as well as state and federal road infrastructure funding. In 2016, \$145,170 in rental income from surface, commercial, mineral exploration, and recreational camp leases and the sale of easements was recognized compared to \$138,432 in 2015 and \$175,019 in 2014. These totals include \$51,910 received in 2015, from Highland Copper Company, Inc, which purchased Orvana Resources U.S. Corp. and assumed the mining lease with the Keweenaw Land Association, Limited. Annually increasing lease payments will be received throughout the 20-year agreement or until termination of the lease or mining commences. If Highland engages in mining operations, a variable net-smelter royalty agreement will replace lease payments. An exploratory lease with Keweenaw Copper Company yielded \$22,412 in 2016. In 2014, a total of 3,870 acres were surrendered from the original mineral lease of 6,928 acres. Other provisions in the 20-year exploration lease remain unchanged. Keweenaw has a total of approximately 9,900 acres of surface or minerals under various commercial, mineral, gravel or recreational leases.

Dividend and interest income on the company's financial investments totaled \$88,999 in 2016, \$86,906 in 2015, and \$87,842 in 2014. The company's 2016 year-end investment portfolio allocation was 96% equity securities and 4% money market funds.

Total investment income over the three-year period is summarized below:

Source	2016	2015	2014
Dividends	\$88,984	\$86,893	\$87,820
Interest Income	15	13	22
Net Realized Capital Gains (Loss)	132,062	(13,983)	0
Total	\$221,061	\$72,923	\$87,842

The market value of Keweenaw's investment portfolio on December 31, 2016, was \$3,065,022 compared to \$3,017,050 in 2015 and \$3,087,666 in 2014. Unrecognized gains remaining in the portfolio were \$1,777,167 at the end of 2016. Everett Harris and Company of Los Angeles made and implemented investment decisions.

### Other Expenses

Keweenaw recorded other expenses of \$606,356 in 2016, including expenditures for land management and board of director activities. Personnel costs of \$46,763 represented 8%. Property taxes were \$321,548, or 53%. Professional services of \$176,759 represented 29% and included \$159,861 related to consulting fees directed toward land and capital-raising opportunities. Other residual expenses including administrative/insurance costs amounted to \$61,286, or 10% of total. Total land management expense, excluding depreciation, was \$602,276 compared to \$592,750 and \$397,779 in 2015 and 2014 respectively. Board-of-director expenses amounted to \$269,826 in 2016, \$307,947 in 2015, and \$276,362 in 2014. Expenditures connected with board elections and other proxy related matters were \$15,296 in 2016 and \$18,660 and \$22,226 in 2015 and 2014 respectively. The remaining \$254,529 of board costs in 2016 were composed of directors' fees 80%; travel expense and insurance costs represent the remaining 20%.

### Net Income

Keweenaw Land Association, Limited net income for 2016 was \$698,682 compared to net income of \$1,155,839 in 2015 and \$855,860 in 2014. Net income per share was \$0.54, \$0.89, and \$0.66 in 2016, 2015, and 2014, respectively. Weighted average common shares outstanding were 1,298,602 shares in 2016, 1,297,222 shares in 2015, and 1,295,549 shares in 2014. No dividends were paid to shareholders in 2016, 2015, or 2014.

## Management's Discussion & Analysis of Operations (continued)

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### Capital Resources and Liquidity - 2016

Keweenaw's cash flow from operations was a positive \$811,160 in 2016, a positive \$1,009,553 in 2015, and a positive \$874,366 in 2014. Timber operations income, restated in an EBITDA format, was \$1,729,239 in 2016 compared to \$2,686,387 in 2015 and \$1,957,035 in 2014. A 7% increase in production over 2015, a lower tax rate in 2016 under the Timber Revitalization and Economic Enhancement (TREE) Act accounted for the majority of the favorable cash flows provided by operating activities.

In 2016, Keweenaw made land purchases of \$714,850 compared to \$85,790 in 2015 and \$447,620 in 2014. During the year, Keweenaw received \$68,959 from land sale transactions, including like-kind exchanges. None of the properties sold were an integral part of the company's forestry program. One developed lot was sold in 2016 for \$45,000 compared to two lots sold in 2015 for \$64,500 and two lots sold in 2014 for \$56,000. As of the end of 2016, local and outside interest in developed lots continues to be low. For nearly ten years, the real estate market across the Upper Peninsula of Michigan has been uncertain since the market downturn in 2008. In 2016, Keweenaw purchased securities of \$175,976 and had proceeds from the sale of securities of \$144,572. At year end, the company's investment portfolio held equity securities valued at \$2,865,849 and money market funds amounting to \$151,201. Capital expenditures totaled \$288,038 in 2016. A majority of the capital expenditures, \$176,272, went for the replacement of capitalized logging roads caused by a major storm in July 2016. The balance was spent on the replacement of equipment and building improvements. In 2016, no dividends were paid to shareholders. Keweenaw issued shares to the board of directors with a cost amounting to \$125,045. On December 31, 2016, Keweenaw had \$3,418,078 in cash and cash equivalents on hand compared to \$2,726,468 at the end of 2015 and \$2,050,496 at the end of 2014.

The company has a single credit arrangement at Wells Fargo Bank Michigan N.A., which provides for a combined \$2,500,000 operating line of credit available to satisfy short-term operating cash needs and to also fund standby letters of credit in guarantee of performance on public bid timber stumpage contracts from the USDA Forest Service.

Keweenaw did not borrow on its short-term line of credit with Wells Fargo in 2016, 2015, or 2014. At the end of 2016, there was no outstanding balance on its short-term line of credit. If necessary, short-term borrowing and repayment would occur using the automatic balance transfer feature of Keweenaw's primary business checking account and its operating line of credit. On Keweenaw's \$2,500,000 operating line of credit, five letters of credit totaling \$544,000 were outstanding at the end of 2016, though no balance was owed on any of the letters.

In December 2016, the company borrowed \$5,000,000 from MetLife at an interest rate of 3.05%, which was used primarily to pay off the principal balance of \$4,320,000 remaining on its original loan with Wells Fargo. Terms of the new ten-year interest-only loan with MetLife include quarterly interest payments at 3.050%. Up to 10% of the principal balance may be paid annually without prepayment penalty. The maturity date on the loan is December 9, 2026.

Keweenaw also secured a debt facility with MetLife in the form of a \$25,000,000 revolver allowing it immediate access to cash for general and corporate purposes. Fees/interest associated with the revolver include quarterly payments on the unused facility of .0875%. In 2016, a total of \$175,685 in interest was paid on obligations by the company. See Note I of the Notes to the Consolidated Financial Statements for an expanded discussion of the company's available credit facilities.



**ANDERSON, TACKMAN & COMPANY, PLC****Certified Public Accountants***"A Regional Firm With Offices In Michigan And Wisconsin"*102 W. Washington St. Suite 109 Marquette, MI 49855 Phone: (906) 225-1166 [www.atccpa.com](http://www.atccpa.com)**PARTNERS**

Daniel E. Bianchi, CPA

Michael A. Greutz, CPA

William C. Sheltrow, CPA

**INDEPENDENT AUDITOR'S REPORT****Board of Directors****Keweenaw Land Association, Limited and Subsidiaries**

We have audited the accompanying consolidated financial statements of Keweenaw Land Association, Limited (a Michigan Corporation) and subsidiaries, which comprise the consolidated statements of assets, liabilities, and capital as of December 31, 2016, 2015 and 2014, and the related consolidated statements of income and expenses, capital, and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Keweenaw Land Association, Limited and subsidiaries, as of December 31, 2016, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Anderson, Tackman & Company, PLC*

Certified Public Accountants

Marquette, Michigan

February 17, 2017

# KEWEENAW LAND ASSOCIATION, LIMITED

## Statement of Consolidated Income and Expenses

		Year Ended December 31		
		2016	2015	2014
<b>Timber Operations Income</b>	Timber Sales	\$10,911,462	\$11,283,793	\$9,881,889
	Cost of Sales	7,551,380	7,092,616	6,405,530
	Gross Margin on Timber Sales	3,360,082	4,191,177	3,476,359
	Operations Expenses	2,166,851	2,024,130	2,033,079
	<b>Timber Operations Income</b>	<b>1,193,231</b>	<b>2,167,047</b>	<b>1,443,280</b>
<b>Real Estate Development</b>	Developed Lot Sales	45,000	64,500	56,000
	Development Costs	41,696	60,561	50,437
	Gross Margin on Developed Lot Sales	3,304	3,939	5,563
	<b>Total Operations Income</b>	<b>1,196,535</b>	<b>2,170,986</b>	<b>1,448,843</b>
<b>Other Income</b>	Mineral Royalties	21,011	74,989	60,727
	Leases & Rentals	145,170	138,431	175,019
	Investment Earnings	88,999	86,906	87,842
	Profit (Loss) on Security Sales	132,062	(13,983)	0
	Land Sales	89,872	206,919	267,520
	Other	194,198	109,041	25,230
	<b>Total Other Income</b>	<b>671,312</b>	<b>602,303</b>	<b>616,338</b>
<b>Other Expenses</b>	Land Management Expenses	606,356	597,276	400,054
	Board of Directors' Expenses	269,826	307,947	276,362
	<b>Total Other Expenses</b>	<b>876,182</b>	<b>905,223</b>	<b>676,416</b>
	Income Before State and Federal Income Taxes	991,665	1,868,066	1,388,765
	Provision for State and Federal Income Taxes	292,983	712,227	532,905
	<b>Net Income</b>	<b>698,682</b>	<b>1,155,839</b>	<b>855,860</b>
<b>Other Comprehensive Income</b>	Unrealized Gains (Losses) on Securities, Net of Taxes:			
	Unrealized Holding Gains (Losses) Arising During the Year	31,652	(46,615)	52,862
	Less: Reclassification Adjustment for Gains (Losses) in Net Income	(87,161)	9,228	0
	<b>Other Comprehensive Income</b>	<b>(55,509)</b>	<b>(37,387)</b>	<b>52,862</b>
	<b>Total Comprehensive Income</b>	<b>\$643,173</b>	<b>\$1,118,452</b>	<b>\$908,722</b>
<b>Per Share</b>	<b>Net Income Per Share*</b>	<b>\$0.54</b>	<b>\$0.89</b>	<b>\$0.66</b>
	<b>Total Comprehensive Income Per Share</b>	<b>\$0.50</b>	<b>\$0.86</b>	<b>\$0.70</b>

\*Net income per share is calculated based on the weighted average number of common shares outstanding.

See Notes to Consolidated Financial Statements

**KEWEENAW LAND ASSOCIATION, LIMITED**  
**Statement of Consolidated Assets, Liabilities, and Capital**

		December 31		
		2016	2015	2014
<b>Assets</b>	<b>CURRENT ASSETS</b>			
	Cash & Cash Equivalents	\$3,418,078	\$2,726,468	\$2,050,496
	Receivables, Net of Allowance for Doubtful Accounts of \$12,847 in 2016, of \$7,435 in 2015, and of \$7,807 in 2014	367,674	424,746	492,227
	Inventory	60,583	29,636	54,468
	Prepaid Expenses	515,145	432,377	295,223
	<b>Total Current Assets</b>	<b>4,361,480</b>	<b>3,613,227</b>	<b>2,892,414</b>
	<b>INVESTMENTS IN MARKETABLE SECURITIES</b>	<b>2,945,210</b>	<b>2,865,849</b>	<b>2,871,338</b>
	<b>PROPERTIES</b>			
	Mineral, Timber, and Land, Net of Accumulated Depletion of \$5,824,349 in 2016, \$5,567,872 in 2015, and \$5,320,860 in 2014	9,099,136	8,741,140	8,905,676
	Land	8,748,263	8,488,135	8,489,859
	<b>EQUIPMENT</b>			
	Equipment, at Cost, Net of Accumulated Depreciation of \$1,317,834 in 2016, \$1,279,679 in 2015, and \$1,228,575 in 2014	921,303	909,997	679,340
	<b>OTHER NON-CURRENT ASSETS</b>	<b>532,321</b>	<b>450,821</b>	<b>304,688</b>
	<b>TOTAL ASSETS</b>	<b>\$26,607,713</b>	<b>\$25,069,169</b>	<b>\$24,143,315</b>
<b>Liabilities &amp; Capital</b>	<b>CURRENT LIABILITIES</b>			
	Accounts & Deposits Payable	\$59,378	\$28,854	\$90,581
	Commercial Line of Credit	0	0	0
	Current Portion of Long Term Debt	0	240,000	240,000
	Accrued Liabilities	570,114	560,511	580,513
	<b>Total Current Liabilities</b>	<b>629,492</b>	<b>829,365</b>	<b>911,094</b>
	<b>LONG TERM LIABILITIES</b>			
	Long Term Debt	5,000,000	4,080,000	4,320,000
	Deferred Federal and State Income Tax Liability	880,910	830,711	862,502
	<b>Total Liabilities</b>	<b>6,510,402</b>	<b>5,740,076</b>	<b>6,093,596</b>
	<b>CAPITAL</b>			
	Common Stock: 10,000,000 Shares Authorized, 1,298,974 Shares of No Par Value Issued	84,943	84,839	84,730
	Accumulated Other Comprehensive Income, Net of Taxes	1,172,930	1,228,440	1,265,826
	Retained Earnings	18,839,438	18,015,814	16,699,163
	<b>Total Capital</b>	<b>20,097,311</b>	<b>19,329,093</b>	<b>18,049,719</b>
	<b>TOTAL LIABILITIES &amp; CAPITAL</b>	<b>\$26,607,713</b>	<b>\$25,069,169</b>	<b>\$24,143,315</b>

See Notes to Consolidated Financial Statements

**KEWEENAW LAND ASSOCIATION, LIMITED**  
**Statement of Consolidated Capital**

	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Common Stock Issued</b>	<b>Total Capital</b>
December 31, 2013, Balance	\$15,724,746	\$1,212,964	\$84,639	\$17,022,349
Changes during 2014:				
Comprehensive Income:				
Net Income	855,860			855,860
Other Comprehensive Income:				
Unrealized Gains (Losses) on Securities, Net of Tax, Arising During the Year, Net of Reclassification Adjustment to Net Income		52,862		52,862
Impact of Shares Issued to Directors & Officers	118,557		91	118,648
December 31, 2014, Balance	\$16,699,163	\$1,265,826	\$84,730	\$18,049,719
Changes during 2015:				
Comprehensive Income:				
Net Income	1,155,839			1,155,839
Other Comprehensive Income:				
Unrealized Gains (Losses) on Securities, Net of Tax, Arising During the Year, Net of Reclassification Adjustment to Net Income		(37,386)		(37,386)
Impact of Shares Issued to Directors & Officers	160,811		109	160,920
December 31, 2015, Balance	\$18,015,813	\$1,228,440	\$84,839	\$19,329,092
Changes during 2016:				
Comprehensive Income:				
Net Income	698,682			698,682
Other Comprehensive Income:				
Unrealized Gains (Losses) on Securities, Net of Tax, Arising During the Year, Net of Reclassification Adjustment to Net Income		(55,510)		(55,510)
Impact of Shares Issued to Directors & Officers	124,943		104	125,047
December 31, 2016, Balance	\$18,839,438	\$1,172,930	\$84,943	\$20,097,311

**See Notes to Consolidated Financial Statements**

# KEWEENAW LAND ASSOCIATION, LIMITED

## Consolidated Statement of Cash Flows

		Year Ended December 31		
		2016	2015	2014
<b>Cash Flows Provided by Operating Activities</b>	<b>Net Income</b>	<b>\$698,682</b>	<b>\$1,155,839</b>	<b>\$855,860</b>
	<b>Adjustments to Reconcile Net Income to Net Cash</b>			
	<b>Provided by Operating Activities:</b>			
	Depletion and Depreciation	<b>360,422</b>	335,824	322,351
	Changes in Operating Assets and Liabilities:			
	Decrease (Increase) in Accounts Receivable	<b>57,072</b>	67,482	(43,470)
	Decrease (Increase) in Ppd Expense/Non-Current Assets	<b>(164,268)</b>	(283,289)	37,068
	Decrease (Increase) in Inventory	<b>(30,947)</b>	24,832	(2,594)
	Increase (Decrease) in Deposits and Accounts Payable	<b>30,524</b>	(61,727)	(91,473)
	Increase (Decrease) in Deferred Income Taxes Payable	<b>69,970</b>	(53,240)	23,924
	Increase (Decrease) in Accrued Liabilities	<b>18,427</b>	20,707	45,782
	(Gain) Loss on Sale of Securities	<b>(132,062)</b>	13,983	0
	(Gain) Loss on Sale/Retirement of Equipment	<b>(3,485)</b>	0	0
	(Gain) Loss on Sale of Land	<b>(93,175)</b>	(210,858)	(273,082)
<b>Cash Flows Provided by (Used for) Investing Activities</b>	<b>Net Cash Flows Provided by Operating Activities</b>	<b>811,160</b>	<b>1,009,553</b>	<b>874,366</b>
	Net Purchases of Property and Equipment	<b>(111,766)</b>	(319,476)	(215,428)
	Purchases of Securities	<b>(175,976)</b>	(101,715)	0
	Proceeds from Sale of Securities	<b>144,572</b>	36,575	0
	Road Construction	<b>(176,272)</b>	(35,408)	(13,161)
	Purchases of Land	<b>(714,850)</b>	(85,790)	(447,620)
	Proceeds from Land Sales	<b>68,959</b>	193,643	256,186
	Lot Development	<b>40,738</b>	57,668	50,665
<b>Cash Flows Provided by (Used for) Financing Activities</b>	<b>Net Cash Flows Provided by (Used for) Investing Activities</b>	<b>(924,595)</b>	<b>(254,503)</b>	<b>(369,358)</b>
	Issuance (Purchase) of Stock	<b>125,045</b>	160,921	118,648
	Commercial Installment Loan Borrowing	<b>5,000,000</b>	0	0
	Commercial Installment Loan Payments	<b>(4,320,000)</b>	(240,000)	(240,000)
	<b>Net Cash Flows Provided by (Used for) Financing Activities</b>	<b>805,045</b>	<b>(79,079)</b>	<b>(121,352)</b>
<b>Supplementary Cash Flow Information</b>	<b>NET CASH FLOW</b>	<b>691,610</b>	<b>675,972</b>	<b>383,656</b>
	Beginning Cash and Cash Equivalents	<b>2,726,468</b>	2,050,496	1,666,840
	<b>ENDING CASH AND CASH EQUIVALENTS</b>	<b>\$3,418,078</b>	<b>\$2,726,468</b>	<b>\$2,050,496</b>
	Interest Paid	<b>(\$175,685)</b>	(\$184,176)	(\$194,667)
	Federal and State Income Taxes Paid	<b>(\$306,345)</b>	(\$824,288)	(\$512,385)

See Notes to Consolidated Financial Statements

# Notes to the Consolidated Financial Statements – December 31, 2016

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## **Note A: Summary of Significant Accounting Policies**

**Principles of Consolidation:** The consolidated financial statements include the accounts of the company and all of its wholly-owned subsidiaries. Significant inter-company accounts and transactions have been eliminated.

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Cash and Equivalents:** Highly liquid investments with maturity of three months or less when purchased are generally considered to be cash equivalents.

**Investments in Debt and Equity Securities:** Management determines the appropriate classification of its investments in debt and equity securities at the time of purchase and re-evaluates such determination at each balance sheet date. Debt securities for which the company does not have the intent or ability to hold to maturity are classified as available for sale, along with the company's investment in equity securities. Securities available for sale are carried at fair market value, with the unrealized gains and losses, net of tax, reported as accumulated other comprehensive income in a separate component of capital. For the three years reported, the company classified no investments as trading or held to maturity types.

The amortized cost of debt securities classified as available for sale is adjusted for amortization of premiums and accretion of discounts to maturity or, in the case of mortgage-backed securities, over the estimated life of the security. Such amortization and interest are included in other income or expense. The cost of securities sold is based on the specific identification method.

**Inventories:** Inventories are valued at the lower of cost or market using the average cost method.

**Properties:** Properties consist of the recorded costs of mineral, timber, and land holdings. These holdings include the undeveloped, "as-is" market value of properties assigned for development, as well as all accumulated expenditures for lot development that have not been previously recognized as expense. Timber depletion charges are based on these recorded values and the properties' estimated reserves, utilizing the pooling method. In addition, permanent logging road construction costs incurred have been capitalized and included in properties. That portion of permanent road costs for road surfacing, culverts, bridges, and other improvements will be depreciated over 15 years using the straight-line method.

**Equipment:** Equipment is carried at cost and the provision for depreciation is generally computed using the straight-line method over the estimated useful lives of the assets.

**Deferred Income Taxes:** Deferred income taxes are determined utilizing a liability approach. This method gives consideration to the future tax consequences associated with the differences between the financial accounting and tax bases of assets and liabilities.

**Fair Value Measurements:** Management has reported all significant financial and non-financial assets and liabilities at their fair value in Footnote G to the financial statements. With the exception of financial investments, which are carried at fair value in the balance sheet, all other assets and liabilities are represented in the balance sheet at historical cost.

**Subsequent Events:** The company has evaluated events and transactions through February 17, 2017, the date these financial statements were issued, for items that should potentially be recognized or disclosed.



# Notes to the Consolidated Financial Statements – December 31, 2016 (continued)

## Note B: Investments in Debt and Equity Securities

The following is a summary of investment securities classified as available for sale as of December 31, 2016:

	Cost	Unrealized Holding Gains	Fair Value
Non Current Investments:			
Equity Securities	\$1,168,042	\$1,777,168	\$2,945,210
Current Investments:			
Government Obligations	0	0	0
Investments Available for Sale	<u>\$1,168,042</u>	<u>\$1,777,168</u>	<u>\$2,945,210</u>

Realized gains and losses are determined on the basis of the specific identification method. During 2016, 2015, and 2014, sales proceeds and gross realized gains and losses on securities available for sale were:

	2016	2015	2014
Sale Proceeds	<u>\$144,982</u>	<u>\$36,824</u>	<u>\$0</u>
Gross Realized Gains	<u>\$132,062</u>	<u>\$0</u>	<u>\$0</u>
Gross Realized Losses	<u>\$0</u>	<u>(\$13,983)</u>	<u>\$0</u>

Realized gains and losses reflected in net income appear in the company's Statement of Consolidated Income and Expenses under the heading "Profit (Loss) on Security Sales."

At December 31, 2016, 2015, and 2014, shareholders' equity, as reflected in the company's Statement of Consolidated Assets, Liabilities, and Capital, include an accumulated unrealized gain, net of taxes, on securities classified as available for sale in the amounts of \$1,172,930, \$1,228,440, and \$1,265,826 respectively.

The following is a summary of investment securities classified as available for sale as of December 31, 2015:

	Cost	Unrealized Holding Gains	Fair Value
Non Current Investments:			
Equity Securities	\$1,004,576	\$1,861,272	\$2,865,848
Current Investments:			
Government Obligations	0	0	0
Investments Available for Sale	<u>\$1,004,576</u>	<u>\$1,861,272</u>	<u>\$2,865,848</u>

The following is a summary of investment securities classified as available for sale as of December 31, 2014:

	Cost	Unrealized Holding Gains	Fair Value
Non Current Investments:			
Equity Securities	\$953,419	\$1,917,919	\$2,871,338
Current Investments:			
Government Obligations	0	0	0
Investments Available for Sale	<u>\$953,419</u>	<u>\$1,917,919</u>	<u>\$2,871,338</u>

# Notes to the Consolidated Financial Statements – December 31, 2016 (continued)

## Note C: Comprehensive Income

Comprehensive income is a more inclusive financial reporting methodology that includes disclosures of certain financial information that historically have not been recognized in the calculation of net income.

For the year 2016, Keweenaw held securities, classified as available for sale, which incurred unrealized losses of \$84,105 before tax and are reflected as other comprehensive income (losses). The before tax and after tax amounts for these gains and losses incurred, as well as the tax (expense)/benefit, are summarized below:

	Before Tax	Tax (Expense) /Benefit	After Tax
Unrealized Holding Gains (Losses)	\$47,957	(\$16,305)	\$31,652
Reclassification for Gains (Losses) in Net Income	(132,062)	44,901	(87,161)
Net Change in Unrealized Holding Gains (Losses)	<u>(\$84,105)</u>	<u>\$28,596</u>	<u>(\$55,509)</u>

For the year 2015, Keweenaw held securities, classified as available for sale, which incurred unrealized losses of \$56,647 before tax and are reflected as other comprehensive income (losses). The before tax and after tax amounts for these gains and losses incurred, as well as the tax (expense)/benefit, are summarized below:

	Before Tax	Tax (Expense) /Benefit	After Tax
Unrealized Holding Gains (Losses)	(\$70,629)	\$24,014	(\$46,615)
Reclassification for Gains (Losses) in Net Income	13,982	(4,754)	9,228
Net Change in Unrealized Holding Gains (Losses)	<u>(\$56,647)</u>	<u>\$19,260</u>	<u>(\$37,387)</u>

For the year 2014, Keweenaw held securities, classified as available for sale, which incurred unrealized gains of \$80,094 before tax and are reflected as other comprehensive income (losses). The before tax and after tax amounts for these gains and losses incurred, as well as the tax (expense)/benefit, are summarized below:

	Before Tax	Tax (Expense) /Benefit	After Tax
Unrealized Holding Gains (Losses)	\$80,094	(\$27,232)	\$52,862
Reclassification for Gains (Losses) in Net Income	0	0	0
Net Change in Unrealized Holding Gains (Losses)	<u>\$80,094</u>	<u>(\$27,232)</u>	<u>\$52,862</u>

## Note D: Properties

The following is a summary of the land, timber and mineral holdings, and permanent logging roads at cost, less accumulated depletion and road depreciation:

	2016	2015	2014
Land	\$8,338,383	\$8,064,623	\$8,036,282
Timber and Mineral Holdings	13,947,487	13,509,287	13,462,219
Accumulated Costs of Lot Development	409,880	423,512	453,577
Permanent Logging Roads	975,997	799,725	764,317
Properties at Cost	23,671,747	22,797,147	22,716,395
Less: Accumulated Timber Depletion	5,429,129	5,196,198	4,971,528
Less: Accumulated Road Depreciation	395,219	371,674	349,332
Net Carrying Value	<u>\$17,847,399</u>	<u>\$17,229,275</u>	<u>\$17,395,535</u>

# Notes to the Consolidated Financial Statements – December 31, 2016 (continued)

On December 31, 2016, Keweenaw owned 168,524 surface acres, primarily timberlands, and 401,878 acres of sub-surface mineral rights. In 2016, the company had \$232,931 in depletion expense compared to \$224,663 in 2015 and \$211,905 in 2013.

## Note E: Equipment

At December 31, a summary of equipment, at cost, less accumulated depreciation is as follows:

	2016	2015	2014
Buildings	\$402,762	\$396,982	\$396,982
Furniture, Equipment, and Accessories	691,013	681,180	680,378
Machinery and Vehicles	398,443	409,101	423,688
Land Improvements	702,414	702,414	406,867
Equipment at Cost	2,194,632	2,189,677	1,907,915
Less: Accumulated Depreciation	(1,273,329)	(1,279,679)	(1,228,575)
Equipment, Net of Depreciation	\$921,303	\$909,998	\$679,340

The company charged depreciation expense to operations in the amounts of \$88,272, \$88,819, and \$83,520, for 2016, 2015, and 2014, respectively.

## Note F: Income Taxes

Keweenaw recorded year-end federal and state tax liabilities (assets), according to the following table for December 31, 2016, 2015, and 2014:

	2016	2015	2014
<b><u>Federal:</u></b>			
Current Provision for Federal Income Tax	\$156,111	\$597,789	\$415,378
Adjustment to Current Liability	26,461	(6,535)	537
Current Federal Tax Deposits Net of Refund	(230,267)	(643,572)	(382,973)
Prior Year Federal Tax Over-Deposit	0	0	0
Federal Income Tax Liability (Assets)	(\$47,695)	(\$52,318)	\$32,942
	2016	2015	2014
<b><u>State (Michigan and Wisconsin):</u></b>			
Provision for State Income Tax	\$58,980	\$126,970	\$93,601
Adjustment to Current Liability	0	(548)	(530)
Current Year State Tax Deposits	(55,065)	(108,327)	(63,625)
Prior Year State Tax Over-Deposit	0	0	0
State Tax Liability (Assets)	\$3,915	\$18,095	\$29,446

## Notes to the Consolidated Financial Statements – December 31, 2016 (continued)

For 2016, the Timber Revitalization and Economic Enhancement Act of 2015 (TREE ACT) set the maximum taxable rate at 23.8%. This tax law was in effect for one year and expired on December 31, 2016. The provision for federal and state income taxes consists of the following for the years ending December 31:

	2016		2015		2014	
	Tax	% of Taxable Income	Tax	% of Taxable Income	Tax	% of Taxable Income
<b>Federal Income Taxes:</b>						
Tax Provision Computed At Statutory Rate	\$236,016	23.8%	\$635,142	34.0%	\$472,180	34.0%
Impact of IRC Section 631A Election	0	0.0%	0	0.0%	0	0.0%
Impact of IRC Graduated Statutory Rates	0	0.0%	0	0.0%	0	0.0%
Tax vs. Book Income Timing Differences	(53,354)	-5.4%	(43,888)	-2.3%	(56,267)	-4.0%
Foreign Taxes Paid	9,057	0.9%	9,057	0.5%	9,638	0.7%
Change in Prior Year Tax Estimate	(35,607)	-3.6%	(2,523)	-0.2%	(10,173)	-0.7%
Total Current Federal Tax Provision	156,111	15.7%	597,789	32.0%	415,378	30.0%
Deferred Federal Taxes Exclusive of Net Unrealized Gain/Loss on Investments	70,860	7.1%	(7,506)	-0.4%	15,839	1.1%
Total Provision for Federal Income Tax	226,972	22.9%	590,283	31.6%	431,218	31.1%
<b>State Income Tax-Michigan and Wisconsin:</b>						
Tax Provision Computed At Statutory Rate	66,505	6.7%	135,294	7.2%	104,241	7.5%
Tax vs. Book Income Timing Differences	(7,526)	-0.8%	(7,776)	-0.4%	(11,170)	-0.8%
State Surtax	0	0.0%	0	0.0%	0	0.0%
State Tax Credits	0	0.0%	0	0.0%	0	0.0%
Change in Prior Year Tax Estimate	0	0.0%	(548)	0.0%	530	0.0%
Total State Current Tax Provision	58,980	5.9%	126,970	6.8%	93,601	6.7%
Deferred State Taxes Exclusive of Net Unrealized Gain/Loss on Investments	7,032	0.7%	(5,025)	-0.3%	8,086	0.6%
Total Provision for State Income Tax	66,011	6.7%	121,945	6.5%	101,687	7.3%
Provision for Taxes	\$292,983	29.5%	\$712,227	38.1%	\$532,905	38.4%

Deferred tax liabilities and assets are determined based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse.

The significant components of the federal deferred tax liability as of December 31 are as follows:

	2016	2015	2014
Current:			
Unrealized Gains (Losses) on Investments	\$0	\$0	\$0
Total Current	0	0	0
Non Current:			
Equipment Depreciation	149,557	102,672	113,893
Logging Roads Depreciation	28,107	6,323	6,540
Unrealized Gains (Losses) on Investments	604,237	632,833	652,093
Offset for State Deferred Tax Liability	(47,341)	(44,643)	(46,352)
Other Misc Deferred Liabilities	7,112	2,223	0
Total Non Current	741,672	699,408	726,174
Total Federal Deferred Tax Liability	\$741,672	\$699,408	\$726,174

## Notes to the Consolidated Financial Statements – December 31, 2016 (continued)

The significant components of the State Deferred Tax Liability as of December 31 are as follows:

Non Current:	2016	2015	2014
Equipment Depreciation	\$26,393	\$18,119	\$20,099
Logging Road Depreciation	4,960	1,116	1,154
Unrealized Gains (Losses) on Investments	106,630	111,676	115,075
Other Misc Deferred Liabilities	1,255	392	0
Total State Deferred Tax Liability	<u>\$139,238</u>	<u>\$131,303</u>	<u>\$136,328</u>

There are no material uncertain tax positions requiring recognition in the company's consolidated financial statements. Keweenaw Land Association, Limited and its subsidiaries are subject to United States Federal Income Tax, Michigan, and Wisconsin Corporate Income Tax. The company is no longer subject to examination by taxing authorities for years before 2014.

### Note G: Fair Value of Assets and Liabilities

Under FASB Accounting Standards Codification ASC 820, the company has complied with the fair value reporting of non-financial assets and liabilities. An independent appraisal, dated December 31, 2015, listed the fair market value of Keweenaw's land and timber at \$151,000,000. Fair value measurements of the other assets and liabilities as of December 31, 2016, 2015, and 2014 are as follows:

	2016	2015	2014
Land and Timber	\$152,386,660	\$151,000,000	\$145,667,540
Mineral Rights	4,000,826	5,336,045	6,837,771
Available for Sale Investment Securities	2,945,210	2,865,849	2,871,338
Other Assets and Liabilities – Net	4,304,702	3,553,968	2,342,846
Long-term Debt	5,000,000	4,320,000	4,560,000

The following table presents the company's fair value hierarchy for the below assets and liabilities measured at fair value on a recurring basis as of December 31, 2016:

	Quoted Market Prices in Active Markets (Level I)	Other Observable Inputs (Level II)	Un- Observable Inputs (Level III)
Land and Timber		\$152,386,660	
Mineral Rights			4,000,826
Available for Sale Investment Securities	2,945,210		
Other Assets and Liabilities – Net			4,304,702
Long-term Debt		5,000,000	

The following table presents the company's fair value hierarchy for the below assets and liabilities measured at fair value on a recurring basis as of December 31, 2015:

	Quoted Market Prices in Active Markets (Level I)	Other Observable Inputs (Level II)	Un- Observable Inputs (Level III)
Land and Timber		\$151,000,000	
Mineral Rights			5,336,045
Available for Sale Investment Securities	2,865,849		
Other Assets and Liabilities – Net			3,553,968
Long-term Debt		4,320,000	

## Notes to the Consolidated Financial Statements – December 31, 2016 (continued)

The following table presents the company's fair value hierarchy for the below assets and liabilities measured at fair value on a recurring basis as of December 31, 2014:

	Quoted Market Prices in Active Markets (Level I)	Other Observable Inputs (Level II)	Un- Observable Inputs (Level III)
Land and Timber		\$145,667,540	
Mineral Rights			6,837,771
Available for Sale Investment Securities	2,871,338		
Other Assets and Liabilities – Net			2,342,846
Long-term Debt		4,560,000	

The following table presents the company's assets measured at fair value on a reoccurring basis using significant unobservable inputs:

	Land & Timber (Level II)	Other Assets/Liabilities (Level III)	Minerals (Level III)
December 31, 2015, Balance	\$151,000,000	\$3,553,968	\$5,336,045
Purchases/Sales - Net Appraisal Valuation	1,386,660		
Change in discount rate assumptions			(1,335,219)
Net Change in Cost Basis		710,349	
December 31, 2016, Balance	\$152,386,660	\$4,264,317	\$4,000,826

There are three general valuation techniques that may be used to measure fair value, as described below:

- A) Market approach—uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources;
- B) Cost approach—based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and
- C) Income approach—uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate interest rate.

Financial assets and liabilities valued using Level I inputs are based on unadjusted quoted market prices within active markets. Other non-financial assets and liabilities valued using Level II inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. The Level II land and timber valuation is based on an independent, third-party tri-annual appraisal of all of the land and timber within the company. Considered in the valuation were current timber stumpage values (cost approach), comparable land sale transactions (market approach), and a discounted cash flow model (income approach). The overriding valuation ultimately was derived from a market approach of comparable transactions. For long-term debt, also Level II, the fair value was based on the interest rate being marked to market on a monthly basis, thereby representing present value.

Non-financial assets or liabilities using Level III inputs were primarily valued using management's assumptions that market participants would utilize in pricing the asset or liability.



# Notes to the Consolidated Financial Statements – December 31, 2016 (continued)

The mineral rights valuation used an income approach comprised of a series of mineral royalty income streams on mineral reserves on which there is current interest for mineral development and those on which there is recent mining history. Discount rates used are composed of a current market interest rate and an appropriate rate for inherent risk and uncertainty and range from 25% to 75%. Risk factors considered included, but not limited to the following at this time, are: 1) the reliability of historical mineral core drilling samples; 2) the wide fluctuations in refined base metal prices; 3) the uncertainty of production, smelting and refining costs; 4) the lack of regional smelting capability; 5) the untested character of Michigan's non-ferrous mining law; 6) potential for legislative changes; and 7) the potential for environmental risks. Other Level III non-financial assets are valued at their historical costs.

In 2010, management adopted FASB Accounting Standards Codification 820 "Fair Value Measurements and Disclosures" (ASC 820). FASB's Accounting Standards Update No. 2010-6 disclosed changes to ASC 820 concerning "Fair Value Measurements and Disclosures." The impact of that change requires the disclosure of transfers in and out of Level I and Level II fair value measurements. Further, Level III fair value measurements must disclose components of the valuation, not just the net value.

## Note H: Retirement Plans

For the three years reported, Keweenaw was the sponsor of a single retirement plan for its employees, a 401(k) deferred compensation plan known as "Keweenaw Land Association, Limited 401(k) Profit Sharing Plan." The plan funding and benefit arrangements were insurance, and the insurance carrier was the Principal Life Insurance Company. Keweenaw was the fiduciary administrator of the plan. An IRC Form 5500 "Annual Report" and related schedules were filed annually with the Employee Benefits Security Administration as required by law. The company made matching contributions into this plan in the amount of 50% of employee elective deferrals, not to exceed 5% of base salary for the three years reported. In 2016, 2015, and 2014, the company made discretionary contributions to the plan in the amount of 5% of base salaries. Pension expense was:

	2016	2015	2014
401(k) Profit Sharing Plan			
Matching Contributions	\$37,781	\$35,919	\$34,881
Discretionary Contributions	44,876	43,351	43,750
Other Pension Costs	1,250	1,250	1,250
Total Pension Expense	<u>\$83,907</u>	<u>\$80,520</u>	<u>\$79,881</u>

## Note I: Short and Long Term Bank Credit Facilities

Keweenaw Land Association, Limited maintains banking relationships with Wells Fargo Bank, N.A., and Metropolitan Life (MetLife). The following credit facilities were in use, or available, to the company as of December 31, 2016:

1. A combined unsecured line of credit with Wells Fargo Bank in the amount of \$2,500,000 to be used as an operating line of credit, and also for the purpose of standby letter of credit availability at a variable interest rate equal to the Wells Fargo Bank prime rate plus 0.25% for a one-year commitment with interest to be paid monthly. Fees of \$150 were charged in 2016.
2. A ten-year interest-only loan with MetLife at 3.05% per annum, principal balance of \$5,000,000, dated December 9, 2016, had a balance of \$5,000,000 at the end of 2016. According to the terms of the loan, up to 10% of the original principal balance can be repaid annually during the life of the loan without penalty.

# Notes to the Consolidated Financial Statements – December 31, 2016 (continued)

3. A five-year revolving line of credit in the amount of \$25,000,000 with MetLife, which carries an interest rate of .0875% on the uncommitted funds. Once the facility is used, there is the option of terming out the amount borrowed at the existing ten-year Treasury Note rate plus 150 basis points. No amount had been drawn on this line of credit as of December 31, 2016.

Affirmative covenants of Wells Fargo required the following of the company:

1. Maintain its accounting records and submit to the bank Keweenaw's annual financial statements audited in accordance with Generally Accepted Accounting Principles;
2. Submit to the bank Keweenaw's quarterly internal financial statements;
3. Ensure working capital as of the end of the year of not less than \$2,500,000, with working capital to include marketable securities as a current asset; and
4. Maintain a debt service ratio of 1.25 to 1.00.

Affirmative covenants of MetLife required the following of the company:

1. Maintain its accounting records and submit to the bank Keweenaw's annual financial statements audited in accordance with Generally Accepted Accounting Principles;
2. Submit to the bank Keweenaw's quarterly internal financial statements;
3. Not allow the outstanding principal balance of the loan to exceed 35% of the value of the timberlands owned by Keweenaw; and
4. MetLife maintains a first secured position on all of the land assets belonging to Keweenaw Land Association, Limited and its subsidiaries.

There were no violations to the above listed covenants in 2016. Terms of the notes require repayment in full on the maturity dates, and the banks are under no obligation to refinance the lines of credit or existing loans on those dates.

In 2016, Keweenaw paid off the principal balance of the ten-year fixed rate loan, which carried a rate of interest of 4.00% per annum with Wells Fargo. Also, the \$2,500,000 operating line of credit and \$900,000 standby letter of credit line were combined into a single unsecured line of credit amounting to \$2,500,000. At the end of 2016, four of the standby letters of credit amounting to \$44,000 were for the purpose of backing performance bonds required by the USDA Forest Service in connection with on-going timber stumpage and road use contracts with the company. The fifth standby letter in the amount of \$500,000 was intended as a payment bond to the Forest Service. No balance was owed on the \$544,000 committed against the \$2,500,000 line of credit as of December 31, 2016.

The total cash held by the company on December 31, 2016 and 2015, includes \$3,418,078 and \$2,726,468 respectively, in monies that are not covered by insurance provided by the federal government. It is the opinion of management that the solvency of the above referenced financial institution is not of particular concern at this time.

The following table summarizes the long-term debt of the company:

	2016	2015	2014
Long-term Debt	\$5,000,000	\$4,080,000	\$4,320,000
Plus: Current Portion	0	240,000	240,000
Total – Long-term Debt	<u>\$5,000,000</u>	<u>\$4,320,000</u>	<u>\$4,560,000</u>

The maturity on the ten-year fixed-rate term is December 9, 2026.

Total interest paid/accrued on loans and lines of credit in 2016, 2015, and 2014 was \$175,685, \$184,176, and \$193,680, respectively. The interest expense is reflected in the operations expense line on the Statement of Consolidated Income and Expenses. Balances on the operating line of

# Notes to the Consolidated Financial Statements – December 31, 2016 (continued)

credit at the end of 2016, 2015, and 2014 were \$0, \$0, and \$0 respectively. The December 31, 2016, balance on the ten-year interest-only fixed-rate term loan was \$5,000,000. The interest rate on that date was 3.05%.

## Note J: Concentrations of Credit Risk

Keweenaw is located in Ironwood, Michigan. The company grants credit without collateral to its approved customers, most of whom are located in Wisconsin and Upper Michigan. The company has not experienced any significant losses from uncollectible customer accounts. During fiscal 2016, two customers accounted for approximately 22% and 21% of the company's consolidated net sales and a combined 52% of the sales volume. No other customer accounted for 10% or more of the company's consolidated net sales.

The locations and percent of sales dollars of major customers are shown by product line below:

Location	Regional Distribution of Sales Dollars by Product Category			
	Veneer	Sawlog	Sawbolt	Pulpwood
Upper Michigan	30%	56%	75%	49%
Lower Michigan	7%	0%	0%	0%
Northern Wisconsin	54%	44%	25%	5%
Central Wisconsin	9%	0%	0%	38%
Minnesota	0%	0%	0%	8%
Export	0%	0%	0%	0%
Other	0%	0%	0%	0%
Total	100%	100%	100%	100%
Number of Customers by Product	10	6	12	12
Percent of Gross Sales by Product	9%	16%	17%	58%
Percent of Volume by Product	4%	8%	15%	73%

## Note K: Keweenaw Capital Accounts and Treasury Stock

In 2006, the company changed its method of recognizing treasury stock in its financial records to more closely conform to the State of Michigan's Business Corporation Act. By resolution of the Keweenaw board of directors, all Keweenaw common shares previously purchased by the company are now considered authorized but unissued shares. Accordingly, the balance sheet capital accounts were restated back to the date of incorporation, July 16, 1999.

The revised cost basis for Keweenaw's common shares was then determined as follows:

As Reported 7/31/1999	
Common Stock	\$40,000.00
Capital Surplus	64,627.10
Subtotal	\$104,627.10
Shares Issued	800,000
Restated Cost Per Common Share	\$0.130784
Restated for 2/15/2011 Stock Split	
Common Stock	\$40,000.00
Capital Surplus	64,627.10
Subtotal	\$104,627.10
Shares Issued	1,600,000
Restated Cost Per Common Share	\$0.065392

# Notes to the Consolidated Financial Statements – December 31, 2016 (continued)

Common stock issued and outstanding on December 31 of 2016, 2015, and 2014, respectively, are presented in the following table:

	2016	2015	2014
Shares Outstanding	1,298,974	1,297,398	1,295,726
Restated Cost Per Common Share	\$0.065392	\$0.065392	\$0.065392
Recorded Common Stock	\$84,943	\$84,839	\$84,730

## Note L: Road Building

The company has an accounting policy to identify, classify, and depreciate, or capitalize road-building costs consistent with Generally Accepted Accounting Principles and Internal Revenue Service guidelines. The construction of logging roads under the policy is classified as either primary or secondary logging roads. Primary logging roads are those roads, culverts, bridges, and other improvements constructed to provide regional access to a series of timber stands and/or secondary logging roads, which are continuously maintained for an indefinite period. Secondary logging roads are those roads, culverts, bridges, and other improvements constructed for the sole purpose to provide access to particular, identifiable stands of timber for the purpose of harvest and transport of logs from those specific stands. The accounting treatment adopted is that costs expended on primary roads will be capitalized. Roadbed costs are treated as permanent costs of the land. Costs of road surfacing, culverts, bridges, and other improvements on primary roads will be capitalized and depreciated over 15 years. All expenditures for secondary roads will be charged to prepaid expenses and written off over the period of the scheduled, related timber stand harvest. The following is a reconciliation of road building expenditures capitalized, deferred, or reflected in expense:

	Capitalized	Prepaid Expense	Expense in Cost of Sales	Expense in Admin. Costs
12/31/13 Balance	\$424,883	\$166,059		
<b>2014 Expenditures:</b>				
On Primary Roads	13,162			
On Secondary Roads			591,728	
Secondary Road Expenditures				
Deferred to 2015		104,643	(104,643)	
Prior Year Deferrals Written Off		(103,784)	103,784	
Primary Road Costs Retired				
Depreciation	(23,059)		21,876	1,183
12/31/14 Balance	\$414,986	\$166,918	\$612,745	\$1,183
<b>2015 Expenditures:</b>				
On Primary Roads	35,407			
On Secondary Roads			584,512	
Secondary Road Expenditures				
Deferred to 2016		178,791	(178,791)	
Prior Year Deferrals Written Off		(80,873)	80,873	
Primary Road Costs Retired				
Depreciation	(22,342)		21,159	1,183
12/31/15 Balance	\$428,051	\$264,836	\$507,753	\$1,183
<b>2016 Expenditures:</b>				
On Primary Roads	176,272			
On Secondary Roads			476,755	
Secondary Road Expenditures				
Deferred to 2017		71,891	(71,891)	
Prior Year Deferrals Written Off		(132,498)	132,498	
Primary Road Costs Retired				
Depreciation	(23,545)		22,362	1,183
12/31/16 Balance	\$580,778	\$204,229	\$559,724	\$1,183

## Notes to the Consolidated Financial Statements – December 31, 2016 (continued)

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### **Note M: Timber Investment Fund**

Since August 2010, a total of \$297,226 in deferred expenditures, classified as a non-current asset, have accumulated as part of Keweenaw's development of a timber investment fund in the Lake States. Spending by year include \$0 in 2016, \$0 in 2015, \$0 in 2014, \$10,000 in 2013, \$117,462 in 2012, \$131,239 in 2011, and \$38,525 in 2010 respectively.

### **Note N: Leases**

In 2016, the company began leasing logging equipment under long-term leases. The leases are operating leases. During the year ended December 31, 2016, lease expense was \$128,316. The Company has the option to purchase the two pieces of equipment for \$150,000 and \$90,000, respectively at the end of the lease. The Company has the option to renew the leases for monthly payments of \$7,729 and \$4,569 for 12 monthly payments. If the renewal option is selected, the option to purchase drops to \$65,000 and \$40,000 respectively.

Future minimum obligations over the primary terms of the company's long-term leases as of December 31, 2016 are as follows:

<b>Year</b>	<b>Lease Obligation</b>
<b>2017</b>	\$210,717
<b>2018</b>	210,717
<b>2019</b>	210,717
<b>2020</b>	82,551
<b>Total</b>	<u>\$714,703</u>



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**PARTNERS**

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**INDEPENDENT AUDITOR'S REPORT  
ON SUPPLEMENTARY INFORMATION**

**Board of Directors and Stockholders  
Keweenaw Land Association, Limited and Subsidiaries**

We have audited the consolidated financial statements of Keweenaw Land Association, Limited and subsidiaries as of and for the years ended December 31, 2016, 2015, and 2014, and our report thereon dated February 17, 2017, which expressed an unmodified opinion on those financial statements, appears on page 13. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The EBITDA Format-Statement of Consolidated Income and Expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Anderson Tackman & Company, PLLC*  
Certified Public Accountants  
Marquette, Michigan

February 17, 2017

**KEWEENAW LAND ASSOCIATION, LIMITED**  
**EBITDA Format - Statement of Consolidated Income and Expenses**

		Year Ended December 31		
		2016	2015	2014
<b>EBITDA Timber Operations Income</b>	Timber Sales	\$10,911,462	\$11,283,793	\$9,881,889
	Cost of Sales	7,291,794	6,846,794	6,171,750
	Gross Margin on Timber Sales	3,619,668	4,436,999	3,710,139
	Operations Expenses	1,890,429	1,750,612	1,753,104
	<b>EBITDA Timber Operations Income</b>	<b>1,729,239</b>	<b>2,686,387</b>	<b>1,957,035</b>
<b>Real Estate Development</b>	Developed Lot Sales	45,000	64,500	56,000
	Development Costs	41,696	60,561	50,437
	Gross Margin on Developed Lot Sales	3,304	3,939	5,563
	<b>Total Operations Income</b>	<b>1,732,543</b>	<b>2,690,326</b>	<b>1,962,598</b>
<b>Other Income</b>	Mineral Royalties	21,011	74,989	60,727
	Leases & Rentals	145,170	138,431	175,019
	Investment Earnings	88,999	86,906	87,842
	Profit (Loss) on Security Sales	132,062	(13,983)	0
	Land Sales	89,872	206,919	267,520
	Other	194,198	109,041	25,230
	<b>Total Other Income</b>	<b>671,312</b>	<b>602,303</b>	<b>616,338</b>
<b>Other Expenses</b>	Land Management Expenses	601,845	592,750	397,779
	Board of Directors' Expenses	269,826	307,947	276,362
	<b>Total Other Expenses</b>	<b>871,671</b>	<b>900,697</b>	<b>674,141</b>
<b>EBITDA</b>	<b>EBITDA</b>	<b>\$1,532,184</b>	<b>\$2,391,932</b>	<b>\$1,904,795</b>
	Interest Expense	175,685	184,176	193,680
	Depletion, Depreciation, & Amortization	364,834	339,690	322,350
	Earnings Before State and Federal Income Taxes	991,665	1,868,066	1,388,765
	Provision for State and Federal Income Taxes	292,983	712,227	532,905
	<b>Net Income</b>	<b>698,682</b>	<b>1,155,839</b>	<b>855,860</b>
<b>Other Comprehensive Income</b>	Unrealized Gains (Losses) on Securities, Net of Taxes:			
	Unrealized Holding Gains (Losses) Arising During the Year	31,652	(46,615)	52,862
	Less: Reclassification Adjustment for Gains (Losses) in Net Income	(87,161)	9,228	0
	<b>Other Comprehensive Income</b>	<b>(55,509)</b>	<b>(37,387)</b>	<b>52,862</b>
	<b>Total Comprehensive Income</b>	<b>\$643,173</b>	<b>\$1,118,452</b>	<b>\$908,722</b>
<b>Per Share</b>	<b>Net Income Per Share*</b>	<b>\$0.54</b>	<b>\$0.89</b>	<b>\$0.66</b>
	<b>Total Comprehensive Income Per Share</b>	<b>\$0.50</b>	<b>\$0.86</b>	<b>\$0.70</b>

\*Net income per share is calculated based on the weighted average number of common shares outstanding.  
See Notes to Consolidated Financial Statements

# Investor Information

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## Company Profile

Keweenaw Land Association, Limited is organized under Michigan law as a corporation. The company is managed under the direction of a eight-member board of directors. Current board members and officers are:

David Ayer, Director, Chairman of the Board  
John E. Earhart, Director  
Brian D. Glodowski, Director, Chief Executive Officer, President, and Secretary  
Donald J. Hoffman, Director  
Jan H. Loeb, Director  
James A. Mai, Director  
Marjorie E. Nesbitt, Director  
Frederick J. Weyerhaeuser, Director  
James J. Simmons, Jr., Controller and Treasurer

Keweenaw owns and manages 168,524 surface acres and 401,878 acres of both severed and attached mineral rights in the Upper Peninsula of Michigan. Keweenaw's ownership includes approximately 160,260 acres of productive timberlands. Included in Keweenaw's ownership are nearly four miles of inland lake frontage, over four miles along Lake Superior, and approximately 30 miles of frontage along major rivers. Approximately 9,900 acres of surface or minerals are under a commercial, mineral, gravel or recreational lease. When appropriate, the company sells or leases parcels for commercial and/or residential development. Log sales, developed lot sales, investment portfolio income, gravel royalties, and commercial lease income are the primary sources of revenue for the company.

## Company History

Keweenaw Land Association, Limited traces its origins to the period immediately following the Civil War and the construction of the ship canal across the Keweenaw Peninsula of Upper Michigan by the Portage Lake & Lake Superior Ship-Canal Company. A land grant by the 38<sup>th</sup> Congress was promised to the company completing the canal. After experiencing financial difficulties in completing the canal, the assets of the Portage Lake & Lake Superior Ship-Canal Company, including 400,000 acres of land grant properties in the Upper Peninsula of Michigan, were purchased by the financiers of the original project, and the Lake Superior Ship Canal Railway and Iron Company was formed. In 1891, the LSSCR&I Co sold the completed ship canal to the U.S. government, and the remainder of the assets, including the 400,000 acres of land, was transferred to the company's successor, the Keweenaw Association, Limited. That company was reorganized in 1908, and Keweenaw Land Association, Limited came into existence as a Michigan partnership association. Keweenaw was reorganized again in 1999 as a Michigan corporation.

Since the 1908 reorganization, Keweenaw has been managed both passively and actively, receiving timber stumpage and mineral royalty income. During the World Wars, Keweenaw timber properties were harvested heavily for war needs. In the early 1950's, Keweenaw began to manage its timber assets by practicing sustainable forestry in order to maximize the value of its timberland assets over the long term. The current and more proactive operating management commenced in 1992. The company's forest management practices have been audited and certified by the Forest Stewardship Council since 1994.



# Investor Information (continued)

## Corporate Offices

1801 East Cloverland Dr, PO Box 188  
Ironwood, MI 49938  
906- 932-3410 or Toll-free 877-539-3362  
Email: [investors@keweenaw.com](mailto:investors@keweenaw.com)

## Keweenaw on the Internet

Interested parties can obtain additional information on the company at <http://www.keweenaw.com>.

## Stock Transfer Agent & Registrar

Wells Fargo Shareowner Services  
PO Box 64854  
St. Paul, MN 55164-0854  
800-698-8788

## Legal Counsel

Kendricks, Bordeau, Adamini, Greenlee & Keefe,  
PC  
128 West Spring St  
Marquette, MI 49855  
906-226-2543

Honigman Miller Schwartz and Cohn LLP  
2290 First National Building  
660 Woodward Ave  
Detroit MI 48226  
313-465-7000

## Independent Certified Public Accountants

Anderson, Tackman & Company  
102 West Washington St, Ste 109  
Marquette, MI 49855  
906-225-1166

## Investment Counsel

Everett Harris & Co  
888 West Sixth St, 10<sup>th</sup> Fl  
Los Angeles, CA 90017  
213-625-2677

## Annual Meeting

The next annual shareholders' meeting will be held at 9:00 a.m. CDT Monday, May 8, 2017. A formal notice will be mailed on or about March 13, 2017, to shareholders of record at the close of business on March 10, 2017.

## Market Makers

The following firms were market makers for Keweenaw Land Association, Limited stock in 2016:

- Access Securities Inc, Stamford, CT
- Archipelago Trading Services, Inc., Chicago, IL
- Automated Trading Desk Financial Services, Mt Pleasant, SC
- Canaccord Genuity, Inc., New York, NY
- Cantor Fitzgerald & Co., New York, NY
- Citadel Securities, Chicago, IL
- G 1 Execution Services, LLC, Chicago, IL
- G Research, LLC., Rye, NY
- KCG Americas LLC, Jersey City, NJ
- Monroe Securities Inc, Chicago, IL

## Reports and Publications

Quarterly reports are mailed to shareholders in April, July, October, and January for the prior quarter ended. Annual reports are available after mid-April of each year and are sent to shareholders of record at that time. Reports may be viewed on Keweenaw's web site, or copies may be obtained free of charge upon request.

## Market Price

	High	Low	Close
2014	\$	\$	\$
1 <sup>st</sup> Quarter	89.50	80.00	80.75
2 <sup>nd</sup> Quarter	93.00	78.81	93.00
3 <sup>rd</sup> Quarter	110.00	88.00	110.00
4 <sup>th</sup> Quarter	112.00	97.50	99.00
2015			
1 <sup>st</sup> Quarter	111.00	95.50	109.00
2 <sup>nd</sup> Quarter	119.00	94.75	96.00
3 <sup>rd</sup> Quarter	94.75	78.00	82.00
4 <sup>th</sup> Quarter	85.73	78.00	81.00
2016			
1 <sup>st</sup> Quarter	86.00	68.00	86.00
2 <sup>nd</sup> Quarter	119.00	77.50	90.00
3 <sup>rd</sup> Quarter	93.40	85.50	89.51
4 <sup>th</sup> Quarter	100.00	84.00	98.50

Keweenaw Land Association, Limited stock is traded in the pink sheets under the symbol "KEWL."

## Mailing List

Keweenaw maintains a direct mailing list for timely receipt of information by shareholders whose units are held in brokerage accounts. To be included, contact Keweenaw corporate headquarters.

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

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