

# KEWEENAW

## LAND ASSOCIATION, LIMITED



### Third Quarter Report

For the Period Ending September 30, 2015  
Issue Date October 20, 2015

#### Highlights

Net Income of \$0.44 Per Share

Timber Operations Income up Nearly \$750,000 Year-to-Date Over 2014

James A. Mai Appointed to the KLA Board of Directors

#### Third Quarter Results:

Keweenaw Land Association, Limited announces Third Quarter 2015 Net Income of \$0.44 per share compared to \$0.33 for the same period in 2014. Net Income (loss) per share, which is shown in the adjacent table, is in the EBITDA format (Earnings Before Interest, Taxes, Depreciation, and Amortization).

The company experienced excellent logging conditions during the summer months and was able to harvest nearly 12% more volume than in the same

period last year. An earlier start to the summer logging season after spring breakup, coupled with warm & dry weather, helped the company achieve higher production.

In the third quarter, a total of 25,373 cd-eq were harvested. The product mix contained 29% sawtimber and 71% pulpwood, compared to 33% sawtimber and 67% pulpwood in the same period of 2014.

3 <sup>rd</sup> Qtr Production Statistics	2015	Mix%	2014	Mix%
<b>Total Harvest Volume (cd-eq)</b>	25,373	100.0	22,709	100.0
<b>Sawtimber (mbf)</b>	3,356	29.1	3,416	33.1
<b>Pulpwood (cords)</b>	17,990	70.9	15,195	66.9

The company sold logs totaling \$3,607,626 compared to \$3,125,665 in 2014, a 15% increase.

Keweenaw realized a 40% gross margin during the quarter, comparable to the 41% realized in the same period in 2014.

3 <sup>rd</sup> Qtr Gross Margin EBITDA	2015	%	2014	%
<b>Log Sales</b>	\$3,607,626	100.0	\$3,125,665	100.0
<b>Expenses (COGS)</b>	(2,159,713)	59.9	(1,846,707)	59.1
<b>Timber Opns Gross Margin</b>	1,447,913	40.1	1,278,958	40.9

	Earnings p/Share (EBITDA)	
	3rd Qtr 15	3rd Qtr 14
Timber Operations Income	\$ 0.79	\$ 0.63
Capital Gains-Sale of Land	0.04	0.02
Capital Gains-Investments	(0.01)	-
Other Income	0.11	0.08
Other Expenses	(0.10)	(0.10)
Interest & Depreciation	(0.12)	(0.11)
Income Taxes	(0.27)	(0.19)
	<u>\$ 0.44</u>	<u>\$ 0.33</u>

Sawtimber realization for the quarter was \$463 per mbf compared to \$478 in 2014. Pulpwood pricing was \$115 per cd-eq versus \$100 in the third quarter last year. On a year-to-date comparison, the overall sawtimber realization was \$437 per mbf in both 2015 and 2014.

Gross Margin on a per cd-eq basis (EBITDA) was \$57 per cd-eq for the quarter, equaling the \$57 per cd-eq realized in the same period last year. Cost of Goods Sold was \$86 per unit compared to \$82 per unit last year. The higher logging costs were offset by an increase in product price realization.

3 <sup>rd</sup> Qtr Sales (p/cd-eq) EBITDA	2015	2014
Average Price Realization	\$143	\$139
Less: Cost of Goods Sold	(86)	(82)
Gross Margin	57	57

For the quarter, Timber Operations Income was \$1,029,378, compared to \$816,591 in 2014, up 26%. Year-to-date Timber Operations Income was \$1,845,001 versus \$1,099,367 through the first three quarters of 2014, up nearly \$750,000. A summary of the results are listed in the table below.

Overall, timber market conditions have softened over the last couple of months.

Excellent logging conditions across the region have increased the

Timber Operations Income (EBITDA)	3 <sup>rd</sup> Qtr 2015	YTD 2015	3 <sup>rd</sup> Qtr 2014	YTD 2014
Log Sales	\$3,607,626	\$8,194,929	\$3,125,665	\$6,874,694
Total Expenses	(2,578,248)	(6,349,928)	(2,309,074)	(5,775,327)
Timber Operations Income	\$1,029,378	\$1,845,001	\$816,591	\$1,099,367

inventory levels of wood at the mills. The higher inventories have resulted in decreased prices for sawtimber and pulpwood. Some mills have imposed volume quotas to control the inventory. Our long-term strategy has revolved around diversification and being a reliable supplier of raw forest products in both up and down markets. Because of our market positioning, Keweenaw has been able to sell all of its production without having to inventory excess production.

#### Land/Lot Sales:

During the quarter, a ten-acre parcel of non-strategic land in Florence County, Wisconsin was sold for \$35,000 resulting in a capital gain of \$31,096. Also, the company did a Section 1031 Like-kind Exchange of 47 acres in Iron County, Michigan receiving 90 acres in Gogebic County, Michigan, along with boot, resulting in a capital gain of \$24,354 after expenses. There were no residential lot sales during the quarter compared to two lot sales in the same period last year.

#### Minerals:

In the third quarter, there were no new developments by Highland Copper Company Inc. (TSXV: HI). On October 5, 2015, Highland announced a private placement with Osisko Gold Royalties, Ltd (TSX:OR). Highland expects to use the proceeds to advance its projects in the Upper Peninsula of Michigan. Any additional information related to the Copperwood Project can be found on Highland's website, [www.highlandcopper.com](http://www.highlandcopper.com).

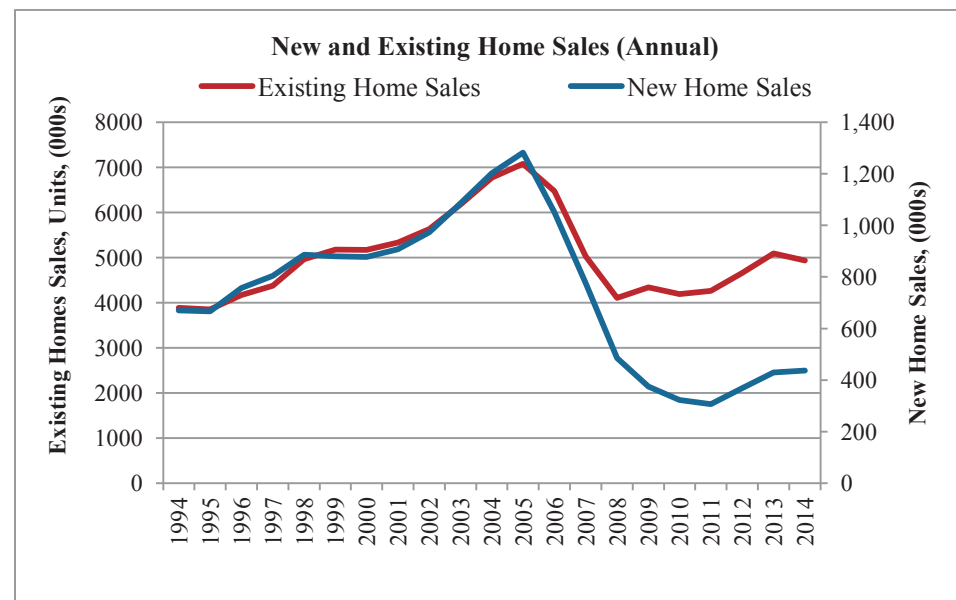
#### Market Commentary - New And Existing Home Sales Comparison:

Two market indicators that receive a lot of attention in terms of how the overall economy is performing are new and existing home sales. The forest products industry tends to focus on new home sales because of the amount of wood products used when a new home is built. For example, a typical 2,200 sq ft home will consume approximately 16,000 bd ft of softwood lumber for framing and another 14,000 sq ft of other solid wood products in the form of structural panels, hardwood floors, trim work, and cabinets.

However, existing homes sales account for over 90% of the overall residential market. And in terms of wood product market share, the residential repair and remodeling segment is larger than the new single family home segment for lumber and plywood. The only exception is oriented strandboard (OSB). While the repair and remodeling needs of the average homeowner are modest, there are over 130 million housing units in the US, or more than 100 times the annual volume of new construction.

US Wood Product Market Share by end use – 2014	New Housing Single Family	Repair & Remodeling
Sawn Softwood Lumber	25%	27%
Sawn Hardwood Lumber	2%	5%
Softwood Plywood	13%	24%
OSB	47%	29%

New home and existing home sales moved in tandem until 2007 when the housing market finally bottomed out. Since that time, the two sectors have diverged with existing home sales now fully recovered and new home sales, while improving, continuing to lag. This has resulted in a significant gap in the level of sales between existing and new home sales.



Part of this lag can be explained by structural changes in the market for new homes. Household formation rates, which is the principal reason for first home buyers entering the housing market, have been impacted by tighter lending standards, delayed entry into career positions as a result of slower national growth rates, higher levels of student debt caused by delayed career decisions, and longer educational completion cycles. These and other factors are delaying the entry into the pool of potential first-time home buyers.

The delay in household formations eventually catches up as population trends are the ultimate predictor in demand for housing units. Once this occurs, we can expect a return to normalized housing starts as demand for new homes begins to run up against a limited supply. This will, in turn, drive up demand for all wood products leading to improving markets for timber including hardwood, which is the predominate timber type of Keweenaw's forest.

#### **EBITDA Reporting:**

Beginning in the last newsletter (Second Quarter 2015), Keweenaw reformatted the Income Statement to reflect the EBITDA format. Currently, there is no legal requirement under Generally Accepted Accounting Principles (GAAP) for publicly-held companies to disclose EBITDA in their financial reporting. Because of the change in reporting, Timber Operations Income, year-to-date and prior year, has been restated in the newsletter to reflect the EBITDA format (SEE Timber Operations Income Restated table). Net Income, both year-to-date and prior year, is not affected by the change. We will continue to provide this information in all future quarterly letters and annual reports.

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

### **TIMBER OPERATIONS INCOME RESTATED (EBITDA)**

<b>Prior Reporting Format</b>				
	<b>3<sup>rd</sup> Qtr 2015</b>	<b>YTD 2015</b>	<b>3<sup>rd</sup> Qtr 2014</b>	<b>YTD 2014</b>
<b>Timber Operations:</b>				
Timber Sales	\$3,607,626	\$8,194,929	\$3,125,665	\$6,874,694
Cost of Sales	(2,239,275)	(5,207,351)	(1,915,983)	(4,604,029)
<b>Gross Margin on Timber Sales</b>	<b>1,368,351</b>	<b>2,987,578</b>	<b>1,209,682</b>	<b>2,270,665</b>
Forestry, Management & General Admin	(488,911)	(1,525,298)	(532,382)	(1,548,044)
<b>Timber Operations Income</b>	<b>879,440</b>	<b>1,462,280</b>	<b>677,300</b>	<b>722,621</b>
<b>New EBITDA Reporting Format</b>				
	<b>3<sup>rd</sup> Qtr 2015</b>	<b>YTD 2015</b>	<b>3<sup>rd</sup> Qtr 2014</b>	<b>YTD 2014</b>
<b>Timber Operations:</b>				
Timber Sales	\$3,607,626	\$8,194,929	\$3,125,665	\$6,874,694
Cost of Sales	(2,159,713)	(5,029,234)	(1,846,707)	(4,439,664)
<b>Gross Margin on Timber Sales</b>	<b>1,447,913</b>	<b>3,165,695</b>	<b>1,278,958</b>	<b>2,435,030</b>
Forestry, Management & General Admin	(418,535)	(1,320,694)	(462,367)	(1,335,663)
<b>Timber Operations Income (EBITDA)</b>	<b>1,029,378</b>	<b>1,845,001</b>	<b>816,591</b>	<b>1,099,367</b>
<b>Reclassified Items:</b>				
Timber Depletion in Cost of Sales	74,352	162,253	63,802	147,884
Road Depreciation in Cost of Sales	5,211	15,865	5,474	16,482
Interest Expense in Operations	46,651	139,083	49,067	146,133
Fixed Assets Depreciation in Operations	23,724	65,520	20,948	66,247

KEWEENAW LAND ASSOCIATION, LIMITED  
**EBITDA** Consolidated Statement of Income and Expense (Unaudited)  
September 30, 2015

INCOME	3rd Quarter			Year-to-Date		
	2015	2014	% Chg	2015	2014	% Chg
<b>Timber Operations:</b>						
Timber Sales	\$3,607,626	\$3,125,665		\$8,194,929	\$6,874,694	
Cost of Sales	2,159,713	1,846,707		5,029,234	4,439,664	
<b>Gross Margin on Timber Sales</b>	<b>1,447,913</b>	<b>1,278,958</b>	<b>13%</b>	<b>3,165,695</b>	<b>2,435,030</b>	<b>30%</b>
Forestry, Management & General Administration	418,535	462,367		1,320,694	1,335,663	
<b>Timber Operations Income (EBITDA)</b>	<b>1,029,378</b>	<b>816,591</b>	<b>26%</b>	<b>1,845,001</b>	<b>1,099,367</b>	<b>68%</b>
<b>Real Estate Development</b>						
Developed Lot Sales	0	56,000		64,500	56,000	
Development Costs	0	50,437		60,561	50,437	
<b>Gross Margin on Developed Lot Sales</b>	<b>0</b>	<b>5,563</b>		<b>3,939</b>	<b>5,563</b>	
<b>Total Operations Income</b>	<b>1,029,378</b>	<b>822,154</b>	<b>25%</b>	<b>1,848,940</b>	<b>1,104,930</b>	<b>67%</b>
<b>Other Income</b>						
Mineral Royalties	41,741	17,560		46,179	20,714	
Lease and Rental Income	59,033	66,270		100,091	124,884	
Investment Earnings	10,282	10,102		76,473	77,973	
Profit (Loss) on Security Sales	(13,983)	0		(13,983)	0	
Land Sales	55,450	22,146		166,789	221,974	
Other	31,893	7,321		79,602	15,559	
<b>Total Other Income</b>	<b>184,416</b>	<b>123,399</b>	<b>49%</b>	<b>455,151</b>	<b>461,104</b>	<b>-1%</b>
Other Land & Board Expense	139,652	132,665	<b>5%</b>	563,000	519,401	<b>8%</b>
<b>EBITDA</b>	<b>1,074,143</b>	<b>812,888</b>	<b>32%</b>	<b>1,741,091</b>	<b>1,046,633</b>	<b>66%</b>
Interest Expense	46,650	49,066		139,082	146,133	
Depletion, Depreciation, and Amortization	104,421	90,805		247,036	232,254	
<b>Earnings Before Income Taxes</b>	<b>923,072</b>	<b>673,016</b>	<b>37%</b>	<b>1,354,973</b>	<b>668,246</b>	<b>103%</b>
Provision for Federal & State Income Taxes	352,026	245,614		519,657	251,054	
<b>Net Income (Loss)</b>	<b>\$571,046</b>	<b>\$427,402</b>	<b>34%</b>	<b>\$835,316</b>	<b>\$417,191</b>	<b>100%</b>
<b>Other Comprehensive Income, Net of Tax</b>						
<b>Unrealized Gains (Losses) on Securities</b>						
During the Period	33,729	(44,825)		(31,386)	22,683	
<b>Less: Reclassification Adj For Gains</b>						
Included in Net Income	9,228	0		9,228	0	
<b>Other Comprehensive Income</b>	<b>42,957</b>	<b>(44,825)</b>		<b>(22,158)</b>	<b>22,683</b>	
<b>Comprehensive Income</b>	<b>\$614,003</b>	<b>\$382,577</b>	<b>61%</b>	<b>\$813,158</b>	<b>\$439,874</b>	<b>85%</b>
<b>Per Share Net Income</b>	<b>\$0.44</b>	<b>\$0.33</b>		<b>\$0.64</b>	<b>\$0.32</b>	
<b>Per Share Comprehensive Income</b>	<b>\$0.47</b>	<b>\$0.30</b>		<b>\$0.63</b>	<b>\$0.34</b>	

Based on Weighted Average Shares Outstanding

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

KEWEENAW LAND ASSOCIATION, LIMITED  
Consolidated Balance Sheet (Unaudited)  
September 30, 2015

ASSETS	Sep 30, 2015	Sep 30, 2014	% Chg
<b>Current Assets</b>			
Cash & Cash Equivalents	\$2,734,771	\$1,999,246	37%
Accounts Receivable	595,235	316,677	
Investments in Government Obligations	0	0	
Other Current Assets	320,417	270,978	
<b>Total Current Assets</b>	<b>3,650,423</b>	<b>2,586,901</b>	<b>41%</b>
Investments in Marketable Securities	2,888,923	2,825,612	2%
Other Non-Current Assets	537,823	305,655	
Equipment	907,629	579,922	57%
Properties	17,198,837	17,464,256	-2%
<b>TOTAL ASSETS</b>	<b>\$25,183,635</b>	<b>\$23,762,346</b>	<b>6%</b>
<b>LIABILITIES &amp; CAPITAL</b>			
<b>Current Liabilities</b>			
Accounts & Deposits Payable	\$272,980	\$171,032	
Lines of Credit/Other Short-term Debt	240,000	240,000	
Other Accrued Liabilities	504,757	407,557	
<b>Total Current Liabilities</b>	<b>1,017,737</b>	<b>818,589</b>	<b>24%</b>
<b>Non-Current Liabilities</b>			
Long Term Debt	4,320,000	4,560,000	
Deferred Federal Income Tax Liability	839,830	820,710	
<b>Total Non-Current Liabilities</b>	<b>5,159,830</b>	<b>5,380,710</b>	
<b>Total Liabilities</b>	<b>6,177,567</b>	<b>6,199,299</b>	<b>0%</b>
<b>Capital</b>			
Common Stock Issued <sup>(1)</sup>	84,827	84,717	
Accum. Other Comprehensive Income	1,243,669	1,235,648	
Retained Earnings	17,677,572	16,242,682	
<b>Total Capital</b>	<b>19,006,068</b>	<b>17,563,047</b>	<b>8%</b>
<b>TOTAL LIABILITES &amp; CAPITAL</b>	<b>\$25,183,635</b>	<b>\$23,762,346</b>	<b>6%</b>
Capital Per Common Share	\$14.65	\$13.56	

<sup>(1)</sup>1,297,206 no par value common shares are issued and outstanding on Sep. 30, 2015. 1,295,533 shares were outstanding on Sep. 30, 2014. 10,000,000 shares are authorized.

KEWEENAW LAND ASSOCIATION, LIMITED  
Consolidated Statement of Cash Flows Ending September 30, 2015

	Dec 31, 2014	2015 YTD
<b>Net Income</b>	\$855,860	\$835,316
<b>Adjustments to Reconcile Net Income to Net Cash</b>		
<b>Provided by Operating Activities:</b>		
Depletion and Depreciation	322,351	244,136
<b>Changes in Operating Assets and Liabilities:</b>		
Decrease (Increase) in Accounts Receivable	(43,470)	(103,008)
Decrease (Increase) in Prepaid Expenses	37,068	(222,095)
Decrease (Increase) in Inventory	(2,594)	18,235
Increase (Decrease) in Deposits/Accts Pybl	(91,473)	182,399
Increase (Decrease) in Deferred/Income Taxes	23,924	(1,182)
Increase (Decrease) in Accrued Liabilities	45,782	(85,832)
(Gain) Loss on Sale of Securities	0	13,983
(Gain) Loss on Sale/Retirement of Equipment	0	0
(Gain) Loss on Sale of Land	(273,082)	(170,728)
<b>Net Cash Flows Provided by Operating Activities</b>	<b>874,366</b>	<b>711,224</b>
<b>Net Cash Flows Provided by (Used for) Investing Activities</b>		
Net Purchases of Property and Equipment	(215,428)	(293,420)
Purchases of Securities	0	(101,715)
Proceeds from Sale of Securities	0	36,575
Road Construction	(13,161)	(22,011)
Purchases of Land	(447,620)	0
Proceeds from Land Sales	256,186	152,764
Lot Development	50,665	57,668
<b>Net Cash Flows Provided by (Used for) Financing Activities</b>	<b>(369,358)</b>	<b>(170,139)</b>
Issuance (Purchase) of Stock	118,648	143,190
Commercial Installment Loan Borrowing	0	0
Commercial Installment Loan Payments	(240,000)	0
<b>Net Cash Flows Provided by (Used for) Financing Activities</b>	<b>(121,352)</b>	<b>143,190</b>
<b>NET CASH FLOW</b>	<b>383,656</b>	<b>684,275</b>
Beginning Cash and Cash Equivalents	1,666,840	2,050,496
<b>ENDING CASH AND CASH EQUIVALENTS</b>	<b>\$2,050,496</b>	<b>\$2,734,771</b>

**Shareholder Relations & Administrative:**

On September 11, 2015, Keweenaw Land Association, Limited announced the Board of Directors had authorized an expansion of the board from six members to seven effective immediately and the appointment of James A. Mai to the board for a term ending in 2018. Mr. Mai is the Chief Investment Officer of Cornwall Capital, a New York-based multi-strategy investment firm he founded in 2002. Cornwall Capital is the largest single shareholder in Keweenaw with approximately 26% of the outstanding shares. Prior to founding Cornwall, Mr. Mai was a private equity investment professional at Housatonic Partners and Golub Capital where he focused on leveraged buyouts, growth capital investments, and portfolio company M&A. Mr. Mai started his career as a staff accountant at Ernst & Young, LLP where he worked in the Financial Services Audit Group. He graduated from Duke University with a BA in History and from the Stern School of Business at New York University with a MS in Accounting. Mr. Mai is active in several non-profit organizations including the Tobin Project where he serves on the Board of Directors. Keweenaw welcomes Mr. Mai as a new director as he brings a complimentary set of skills and expertise to our board.

Keweenaw’s common shares traded in a range from \$78.00 to \$94.75 per share during the third quarter with an ending price of \$82.00. A total of 13,472 shares traded representing approximately 1% of outstanding shares. This compares to 22,833 shares traded during the same period in 2014, around 2% of outstanding shares. Keweenaw’s shares trade in the OTC Pink using the symbol KEWL.

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

Sincerely,

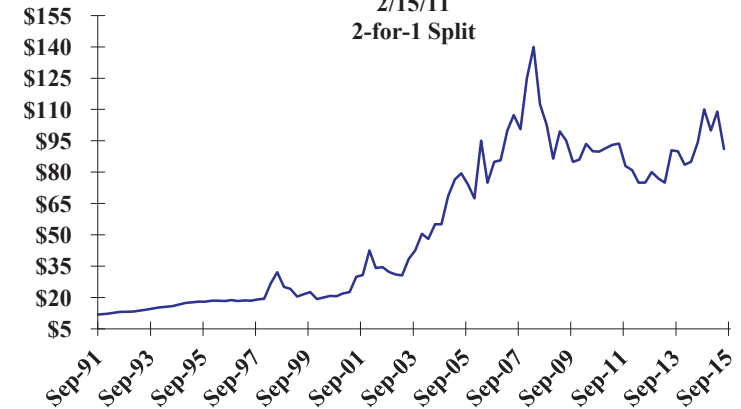


David Ayer, Chairman

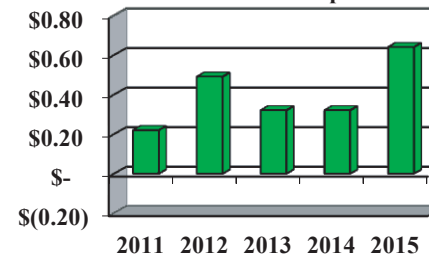
**CONSOLIDATED FINANCIAL HIGHLIGHTS**

For the Quarter	2015		2014	
	3rd Qtr	YTD	3rd Qtr	YTD
Receipts	\$3,792	\$8,691	\$3,283	\$7,370
Net Income (Loss)	571	835	427	417
Comprehensive Income	614	813	383	440
Capital Employed	23,566	23,566	22,363	22,363
*Dollar amounts in thousands				
<b>Per Common Share</b>				
Net Income (Loss)	\$0.44	\$0.64	\$0.33	\$0.32
Comprehensive Income	0.47	0.63	0.30	0.34
<b>Statistics</b>				
Return on Capital Emp	9.7%	4.7%	7.6%	2.5%
Avg Shares Outstanding	1,297,206	1,297,206	1,295,533	1,295,533
Curr Shares Outstanding	1,297,206	1,297,206	1,295,533	1,295,533

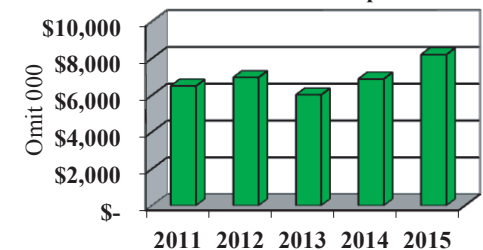
**Price of Keweenaw Shares**  
Restated for  
2/15/11  
2-for-1 Split



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



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



# SHAREHOLDER INFORMATION

## **Third Quarter 2015 Highlights:**

High: \$94.75, Low: \$78.00, Last: \$82.00

Source: OTC Markets Group, Inc.

## **Dividend Information:**

The Board of Directors eliminated shareholder dividends beginning in 2010.

## **Keweenaw Contact Information:**

Keweenaw Land Association, Limited

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Ironwood MI 49938

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

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

## **Transfer Agent:**

Wells Fargo Shareowner Services

PO Box 64854

South St Paul MN 55164-0854

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

## **Stock Exchange Information:**

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

## **Glossary:**

**Board Foot (bd ft)** – a measurement of sawtimber 12 inches x 12 inches x one inch.

When used in conjunction with sawtimber or logs, a measurement system to approximate the output of lumber that can be expected from a given quantity of sawtimber or logs.

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