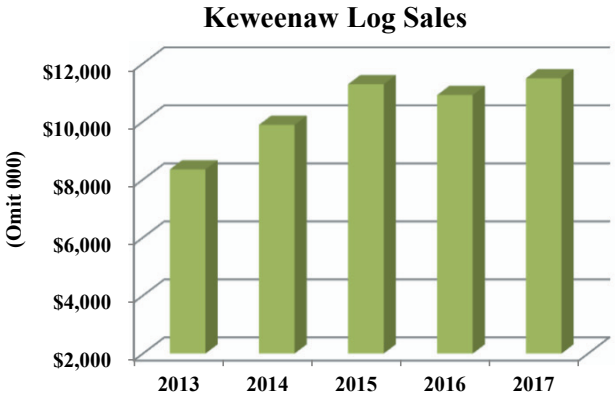
TIMBER
LAND
MINERALS

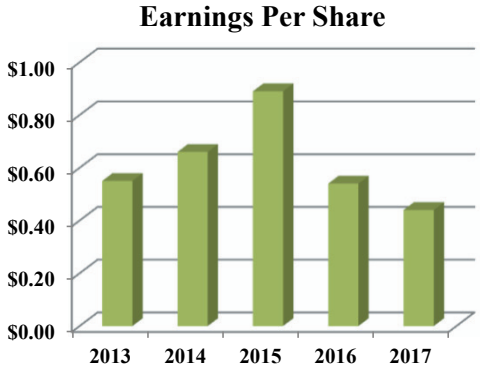
KEWEENAW
LAND ASSOCIATION, LIMITED

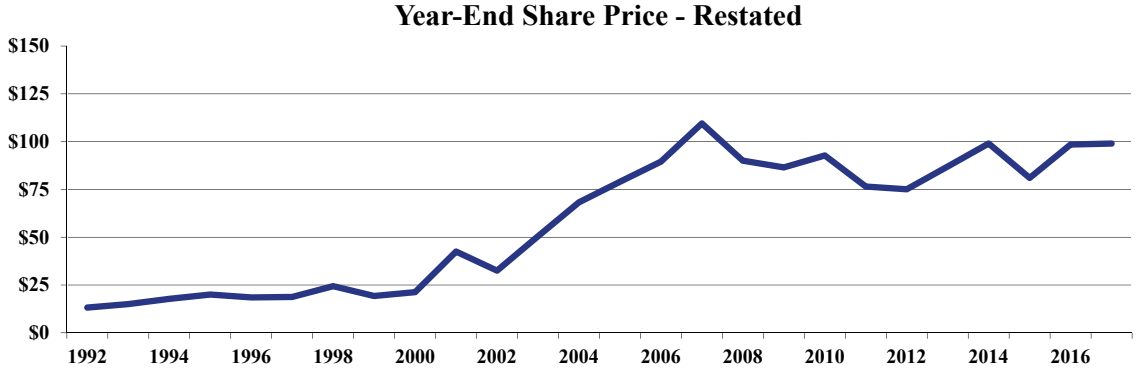
2017 ANNUAL REPORT

CONSOLIDATED FINANCIAL HIGHLIGHTS

For the Year	2017	2016	2015	2014	2013
Receipts*	$13,035	$11,604	$11,927	$10,532	$9,310
Net Income after Tax*	568	699	1,156	856	706
Capital Employed*	39,079	25,097	23,649	22,610	21,822
* Values in Rounded Thousands					
Per Share					
Earnings	$0.44	$0.54	$0.89	$0.66	$0.55
Statistics					
Return on Capital	1.5%	2.8%	4.9%	3.8%	3.2%
Average Shares Outstanding	1,300,189	1,298,602	1,297,222	1,295,549	1,294,136
Shares Outstanding at Year End	1,300,350	1,298,974	1,297,398	1,295,726	1,294,333







Cover photo: Lake Superior Cove property in Gogebic County, Michigan.

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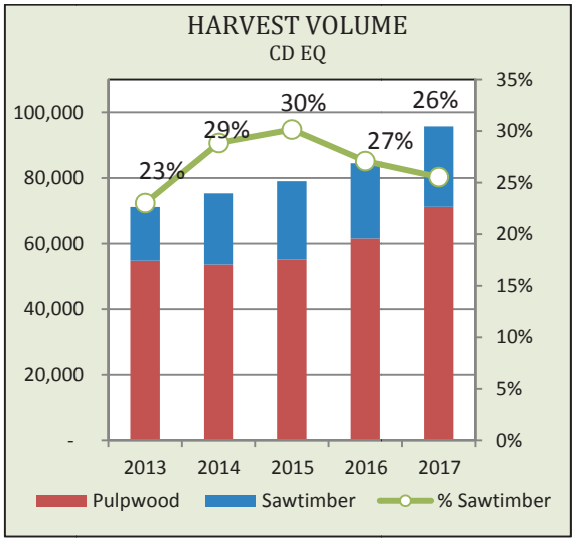
Glossary of Terms Used in This Report

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.

Letter to Shareholders

To our Shareholders:

Keweenaw achieved solid financial progress in 2017. During the year, Keweenaw made additional operational gains and continued to execute its strategic plan of adding investment grade timberlands to its asset base. 2017 was a record year for timber harvest levels, which increased from company lands and procured sales to 95,686 cd-eq compared to 84,463 cd-eq in 2016, a 13% increase. We are excited to report that current timber harvest levels total four times those of 25 years ago.



Last year, Keweenaw completed a comprehensive timber cruise, completed by a third-party forestry consulting firm, which indicated that the company has higher standing timber volumes than was previously recognized. This is due to faster growth than models had indicated – with the total standing timber volume reaching approximately 25% higher than current internal forest growth and yield models were projecting. These results demonstrate that Keweenaw is well placed to materially increase future annual harvests.

Revenue from timber sales increased to $11.5 million compared to $10.9 million in 2016. EBITDA was $1.45 million compared to $1.53 million in 2016. However, adjusting for non-recurring expenses related to the strategic review process, EBITDA was $1.93 million, a 26% increase over the prior year.

The log yard expansion, which was completed in 2015, continued to provide an additional source of revenue which enhanced our bottom line. Our facility generated inventory and handling fees of $193,643 during the year. In addition, our logging company added to our results by harvesting nearly 9,000 cord equivalents of timber, primarily from company land. By having our own dedicated operations, we have greater flexibility in timing allowing us to harvest certain areas in a more cost efficient manner.

Keweenaw made two meaningful timberland acquisitions in 2017 as part of our strategic plan of adding productive timberland within our operating region. A total of 17,300 acres of investment grade timberlands were added during the year, which will be accretive to harvest levels and provide for immediate cash flow opportunities. These lands complement our existing ownership footprint and provide additional scale allowing us to spread our fixed costs over more acres.

In 2017, Keweenaw engaged Stifel, a highly-qualified investment banking firm, to assist in a strategic review and to explore the possibility of a sale of the company. The process was wide-ranging with over 110 potential investor groups being contacted. Ultimately, the Board and the committee agreed that the proposals received did not reflect the true value of the company. As a result, the process was suspended and the company

has turned its attention towards the implementation of other elements of the strategic plan. These include converting to a REIT, which will result in our ability to distribute earnings from the sale of timber in a tax efficient manner while also eliminating the built-in gains on our timberlands within the next five years. We are also pursing the potential sale of a conservation easement on our recently acquired lands in Wisconsin, which will allow us to monetize the bare-land/development value of the property. Efforts also continue in finding creative ways to monetize our non-core assets. The Board is committed in the pursuit of these initiatives as they will lead to greater value creation for shareholders.

As a timberland company, our results can vary significantly depending on market conditions both locally and at the macro level. In the short-term, log prices are still driven by local factors relating to mill inventory and weather. In 2017, log supply outpaced mill demand across the region leading to lower prices across the mix of products and species harvested from Keweenaw's forest. This is not unusual in a business such as ours. Looking at the big picture, the US economy strengthened during the year, and we saw stable growth in housing starts and increased consumer spending on home improvements. All of these factors serve as a floor to the value of our timber and are providing for long-term price appreciation for our timber.

Through the efforts of the board, management, and our dedicated staff of employees, Keweenaw continues to operate in a financially-successful and environmentally-responsible manner and is committed to creating and executing on its business strategy in order to deliver excellent results to all of its shareholders.

Additional information on Keweenaw can be found on its website at www.keweenaw.com. We look forward to seeing you at our annual meeting in Ironwood, Michigan at the Gogebic Community College on April 12, 2018, 9:00 am CDT.

Sincerely,

David Ayer

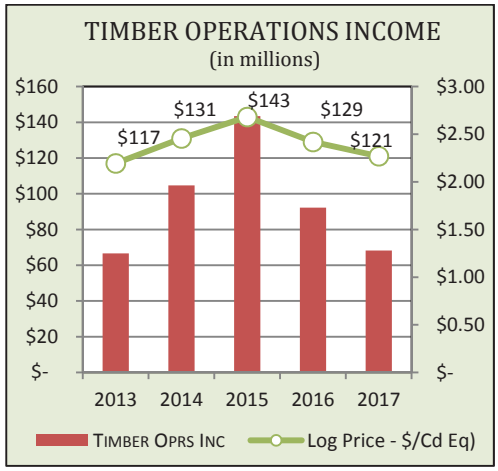
David Ayer, Chairman

Brian D. Glodowski

Brian D. Glodowski, CEO, Pres & Sec

Timber Operations

In 2017, revenue from log and pulpwood sales was $11.5 million compared to $10.9 million in 2016. Log sales realizations on a per unit basis were lower, ending the year at $121 per cd-eq compared to $129 per cd-eq in 2016. An oversupply of timber continued to adversely affect markets principally for hardwood pulpwood, which constitutes the majority of timber harvested from company lands. To mitigate the effect of the oversupply of timber, Keweenaw maintains a diverse customer base with a focus on developing long-term supplier relationships to ensure we are able to sell all the volume produced from our forests.



Log sale volume from company lands was 91,542 cd-eq, 11.0% over the prior year. Of this volume, a total of 10.9 mmbf was sold as sawtimber and 67,450 cords were sold as pulpwood. An additional 3,691 cd-eq were harvested from open market stumpage sales. Keweenaw augments its harvest operations by purchasing stumpage from various private and public timberland owners, which increases both our market share and income.

Real Estate

Keweenaw acquired a total of 17,300 acres of investment timberland properties at an average acquisition price of $896 per acre. In addition, we also divested of 74 acres of land better suited for other purposes for a gross sales price of $2,226 per acre. Through these transactions, we continued to improve and consolidate our timberland assets while disposing of non-core properties.

No development lots were sold in 2017. Markets for rural properties continue to be a challenge as the demand for these properties remains limited due to slower economic growth in the region.

No additional development projects are being contemplated in the near term. Efforts are concentrated on finding creative ways to realize income for these properties' opportunities.

TRANSACTED ACRES BY COUNTY, 2017

County	Acres Sold	Acres Acqd
Baraga	0	0
Bayfield, WI	0	0
Dickinson	37	0
Florence, WI	0	0
Forest, WI	0	0
Gogebic	37	2,784
Houghton	0	160
Iron	0	0
Iron, WI	0	14,356
Keweenaw	0	0
Marquette	0	0
Ontonagon	0	0
Schoolcraft	0	0
Total	74	17,300

Log Yard Expansion

In 2015, the company expanded its existing log yard in Ironwood, Michigan to provide fee-based inventory services to various customers. In 2017, we processed over 55,000 tons of timber through the yard resulting in additional income of $193,643. Incremental expenses are limited to yard maintenance and snow removal. We provide attended and unattended weight scaling services and basic inventory reporting to our customers. The yard is secured by fencing and has 24-hour security camera monitoring.

Keweenaw Logging, LLC

In mid 2016, Keweenaw formed a logging company for the purpose of securing a portion of our logging capacity needs and to lower overall costs of harvesting. The company entered into four-year operating leases for a Komatsu 931 Processor and an 855.1 Forwarder and hired two qualified operators to run the equipment. In 2017, the logging operation harvested 8,887 cords of timber,

primarily from Keweenaw property at a cost of $48.86 per cord. In 2018, we expect the annual harvesting capacity to reach 10,000 cords and be at a cost comparable to our current contracted rates.

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. There are two separate leases related to the Copperwood Project located within the Western Syncline Deposit for a total of 3,063 acres of mineral rights. The primary lease covers 681 acres and encompasses the main Copperwood Project area. The lease terms call for escalating annual rental payments until mining commences, at which point it converts to a Net Smelter Royalty (NSR) payment schedule. The secondary lease, covering 2,382 acres, located adjacent to the project area was held under an option agreement by Highland until they were ready to begin drilling for core samples to establish the resource potential. In 2017, Highland exercised this option and the lease was converted to a mining lease resulting in higher annual rental payments and identical NSR payment terms as the primary lease.

The third lease covers 3,059 acres and includes various parcels in Gogebic and Houghton Counties. This lease is focused on exploration for additional commercial deposits of copper and related minerals in the Western UP of Michigan. Should exploration result in discovery of a commercially viable deposit, this lease would convert to a mining lease including an annual rental payment schedule and NSR payments upon commencement of mining activities.

In late 2017, Highland began a feasibility study on the Copperwood project with the intent of making final determinations for project funding of mine construction. Based on their public comments, this study is expected to be completed by mid-2018 with construction of the mine to begin in late 2018. Commissioning of the mine would occur by 2020. While there are no guarantees with regards to the outcome of this feasibility study, there are strong indications that Highland is fully prepared to move forward in bringing the Copperwood Project to production. Information regarding Highland can be found on its website at http://www.highlandcopper.com.

These developments are very exciting news for the company and its shareholders. If Highland is successful, it will bring a return of mining income to the company, the last of which was in 1994. By being patient and having a long-term vision with regard to the management of our mineral assets, we are in a position to reap the benefits. The company continues to monitor activity regionally and internationally as we look for creative ways to monetize our 400,000 acres of mineral rights. Our mineral information is made available to bonafide mineral exploration and/or mining companies. A map of Keweenaw's mineral ownership can be found on our website at www.keweenaw.com.

Company Profile

Keweenaw Land Association, Limited is organized under Michigan law as a corporation. The company is managed under the direction of an 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
James J. Simmons, Jr., Controller and Treasurer
Frederick J. Weyerhaeuser, Director

Keweenaw owns and manages 185,750 surface acres and 401,841 acres of both severed and attached mineral rights in the Upper Peninsula of Michigan. Keweenaw's ownership includes approximately 173,000 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 6,800 acres 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.

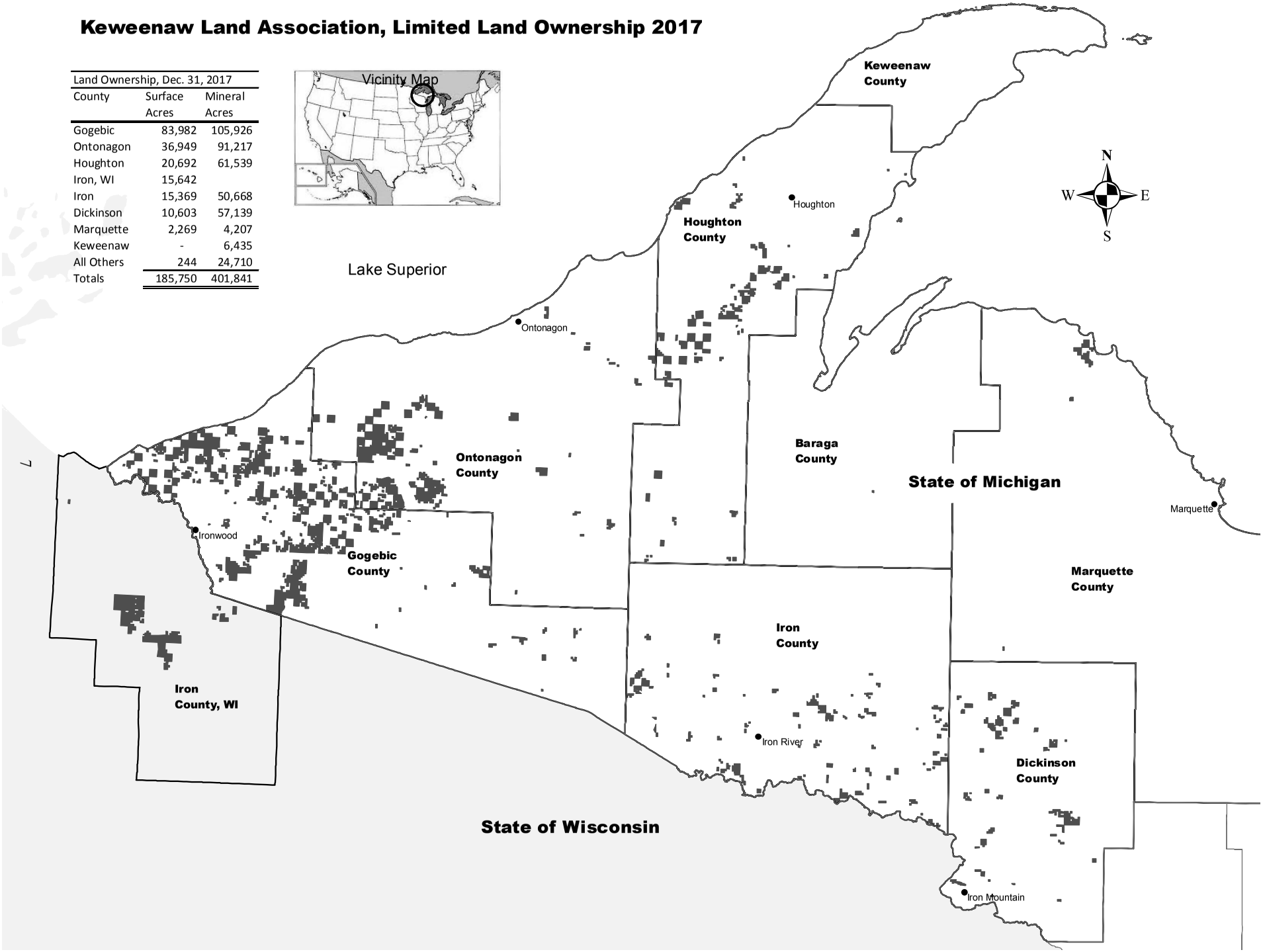
Company History

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 38th 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.

Keweenaw Land Association, Limited Land Ownership 2017

Land Ownership, Dec. 31, 2017		
County	Surface Acres	Mineral Acres
Gogebic	83,982	105,926
Ontonagon	36,949	91,217
Houghton	20,692	61,539
Iron, WI	15,642	
Iron	15,369	50,668
Dickinson	10,603	57,139
Marquette	2,269	4,207
Keweenaw	-	6,435
All Others	244	24,710
Totals	185,750	401,841



Business Overview

As of December 31, 2017, Keweenaw Land Association, Limited is a land and timber management company that owns 185,750 acres of surface land and 401,841 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 of 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 generating 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 acquisition 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 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 September 2017, Keweenaw received its Forest Stewardship Council® (FSC®) Certification (SW-FM/COC-000005, FSC®-C006729) in conformance with FSC and Rainforest Alliance requirements. This marks the 24nd straight year we have achieved this certification. Keweenaw was originally certified on September 1, 1994, and was the first Forest Management Certificate issued by the Rainforest Alliance in the United States and the fifth Forest Management Certificate issued globally. Keweenaw has the distinction of being the oldest continuous certificate-holder for the Rainforest Alliance worldwide.

In addition to sustained-yield management, forest certification is verification that 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 2017

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 2017 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 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.

2017 EBITDA Reporting Format

	2017	2016	2015
Timber Operations:			
Timber Sales	$11,488,785	$10,911,462	$11,283,793
Cost of Sales	(8,056,172)	(7,291,794)	(6,846,794)
Gross Margin on Timber Sales	**$3,432,613**	**$3,619,668**	**$4,436,999**
Forestry, Management & General Admin	(2,153,501)	(1,890,429)	(1,750,612)
Timber Operations Income (EBITDA)	**$1,279,112**	**$1,729,239**	**$2,686,387**
Reclassified Items:			
Timber Depletion in Cost of Sales	$333,496	$232,931	$224,663
Road/Other Depreciation in Cost of Sales	35,705	26,655	21,159
Interest Expense in Operations	475,541	175,685	184,176
Fixed Asset Depreciation in Operations	119,120	100,737	89,342

Timber Sales & Operations

The company reported log sales in 2017 totaling $11,488,785 compared to $10,911,462 and $11,283,793 in 2016 and 2015 respectively. On an EBITDA basis in 2017, Timber Operation Income was $1,279,112, down $450,127 from the $1,729,239 realized in 2016, and down $1,407,275 from the $2,686,387 earned in 2015. Since late 2015, an oversupply of pulpwood in the market has been the main factor for the drop in price realization. Pulpwood sales represented 62% of our sales in 2017. In 2017, sales realization was $121 per cd-eq, compared to $129 per cd-eq in 2016, and $143 per cd-eq in 2015.

The company's total log production in 2017 was 95,686 cd-eq compared to 84,463 cd-eq in 2016 and 79,024 cd-eq in 2015. In 2017, log production on purchased timber contracts amounted to 3,793 cd-eq during the year compared to 2,322 cd-eq in 2016 and 3,857 cd-eq in 2015.

The following table reflects the 2017 product mix and associated sales dollar impact compared to the two prior years:

	Percent of Sales Product Mix			Product Mix Impact in Dollars	
	2017	2016	2015	2017 vs. 2016	2017 vs. 2015
Veneer Logs	1.8%	2.6%	2.6%	($313,741)	($318,116)
Sawlogs	7.7%	9.3%	9.0%	(330,672)	(281,426)
Sawbolts	16.2%	15.4%	18.6%	97,514	(352,697)
Pulpwood Logs	74.3%	72.7%	69.8%	150,539	493,846
Total Sales	100.0%	100.0%	100.0%	($396,360)	($458,393)

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 2017, pulpwood accounted for 74% of the total sales volume while sawtimber was 26%. In 2016, the sawtimber mix was 27%; in 2015, it was 30%. A continued oversupply in the pulpwood markets was reflected in the lower price realization for Keweenaw. This trend started in the second half of 2015.

Pulp prices in 2017 fell by 2% compared to those realized in 2016 and were down 14% from 2015 levels. It is essential to note that pulpwood price realizations were also affected by changes in market destination. The average veneer price realization was down 8% from 2016, primarily due to higher concentration of minor species mix. Sawlog prices in 2017 were down 1% from 2016 and down 7% from 2015. Sawbolts, which are sawn into flooring and pallet material, also decreased in price by 7% from 2016 and 15% from 2015 levels.

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		
	2017	2016	2015
Veneer Logs (Per MBF)	$928	$1,014	$977
Sawlogs (Per MBF)	486	490	518
Sawbolts (Per Cord)	129	139	152
Pulpwood Logs (Per Cord)	101	103	117
Total Sales (Per Cd-eq)	$121	$129	$143

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

	Impact on Log Sales Dollars	
Impact From	2017 vs. 2016	2017 vs. 2015
Changes in Prices	($308,898)	($1,643,592)
Changes in Specie Mix	(64,164)	19,937
Changes in Product Mix	(396,360)	(458,393)
Changes in Production Volume	1,346,745	2,287,040
Net Increase (Decrease) in Timber Sales	$577,323	$204,992

Total log sales by specie groups are represented below:

	2017			2016			2015		
	Cords	Sales	% of Vol	Cords	Sales	% of Vol	Cords	Sales	% of Vol
Northern Hardwoods	70,209	$8,986,043	78%	67,020	$9,092,295	79%	60,624	$9,054,274	77%
Aspen	10,533	958,343	8%	6,076	573,719	7%	6,649	853,149	8%
Softwoods	14,491	1,544,399	14%	11,673	1,245,448	14%	11,910	1,376,370	18%
	95,233	$11,488,785	100%	84,769	$10,911,462	100%	79,183	$11,283,793	100%

Cost of Sales

Cost of Goods Sold, stated in an EBITDA format, excluding the non-cash expenses of depletion and depreciation for 2017, was $8,056,172 compared to $7,291,794 in 2016 and $6,846,795 in 2015. The company harvested 95,686 cd-eq in 2017, 84,463 cd-eq in 2016, and 79,024 cd-eq in 2015. Production in 2017 was up 13% from 2016 and 21% from 2015. Logging and freight costs represent the majority of log production expense. These costs amounted to $7,203,015 in 2017, $6,443,698 in 2016, and $5,997,832 in 2015. Keweenaw Logging, LLC, wholly-owned by Keweenaw Land Association, produced a total of 8,733 cd-eq in its first full year of operation. Operating costs of $426,725, which included $210,717 in equipment lease expense, were included in the cost of goods sold for 2017. Company crew logging costs on a cd-eq basis were approximately $2.50 per cd-eq higher than the average cost of our current logging contractors, primarily because the company crew was harvesting timber in more difficult terrains. 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 $333,496 in 2017, $232,931 in 2016, and $224,663 in 2015. Keweenaw also incurred procured stumpage costs of $116,521 in

2017, $76,762 in 2016, and $133,214 in 2015. In 2017, Keweenaw harvested timber on two Forest Service contracts, a county timber sale, and a private party stumpage contract. 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 $31 per cord in 2017 compared to $33 in 2016 and $35 in 2015. Keweenaw continues to bid on federal, state, and local contracts if they are profitable. No new federal or state timber-cutting contracts were added in 2017.

Maintenance and improvement of the company's logging road infrastructure continues to be a major element of Keweenaw's production cost. In 2017, road-building expense was $544,546, or around 6% of the total cost of sales, down 3% from 2016. This compares to $559,724 in 2016 and $507,753 in 2015. The company strives to construct or improve summer logging roads at least a year prior to planned production so 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 26% of total road spending in 2017, 21% in 2016, and 30% in 2015. 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 2016 amounting to $121,092 were written off in 2017 as harvest production occurred on affected properties. Road spending of $98,004 in 2017 relating to next year's operations was deferred until 2018.

Per unit of production costs for 2017, 2016, and 2015 are reflected below:

	Cost Per Cord Produced		
Production Cost Factor (EBITDA)	2017	2016	2015
Logging Costs	$47	$50	$50
Freight Costs	29	26	26
Sort Yard Expenses	3	3	3
Logging Road Costs	5	6	6
Procured Stumpage Costs	1	1	2
Inventory Change & Other Costs	0	0	0
Total Costs Per Cord	$85	$86	$87

Gross Margin

On an EBITDA basis, the gross margin from timber operations in 2017 was $3,432,613 compared to $3,619,668 in 2016 and $4,436,999 in 2015, a 5% decrease from 2016 and a 23% decrease from 2015.

On a unit of sales basis, gross margins were:

	Per Cord Equivalent		
	2017	2016	2015
Log Sales	$121	$129	$143
Cost of Sales	85	86	87
Gross Margin	$36	$43	$56

In 2017, Keweenaw recorded a gross margin of $37 per cd-eq on company land production. On procured production, a loss of $3 per cd-eq occurred.

Operations Expenses

In 2017, the company's operating expenses, including interest of $475,541 and depreciation of $119,120, amounted to $2,748,162 compared to $2,166,851 in 2016 and $2,024,130 in 2015. For 2016 and 2015, interest expense amounted to $175,685 and $184,176 respectively. For 2016 and 2015, the company also recorded depreciation expense of $100,737 and $89,342 respectively. These costs on a unit of production basis were $29 per cd-eq in 2017 and $26 per cd-eq in both 2016 and 2015. For the years 2017, 2016, and 2015, employee salaries and benefits represented 55%, 66%, and 69% of total operating costs. In 2017, medical insurance costs decreased 7% from 2016. However, in 2018 our health insurance costs are projected to increase by 16% due to changes in the overall pooled ratings by health providers in Michigan. Many businesses were projecting costs to exceed 30% or more. A restructuring of the current plan along with adjustments in the Health Savings Account (HSA) will keep our costs contained. 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 2017 included: chairman's fee and professional services 19%, office and equipment costs 7%, travel expense 2%, and other 17%. The company's interest expense increased in 2017 after the 14,035-acre land purchase, which required borrowing of $12.7 million in March and an additional $1 million in December. No interest was incurred on the operating line of credit from Wells Fargo.

Other Income

In the third year of operating its expanded Ironwood sort yard, the company generated $193,643 in inventory and handling fees bringing the three-year revenue total to $471,379 without adding additional overhead. The primary purpose of the expansion was to provide a fee-based and secure location to inventory pulpwood for our customers. The total investment in the project completed in 2015 was $407,860. The additional investment for the sort yard expansion started and completed in 2017 came to $51,804.

In 2017, there were two direct land sales and no Section 1031 like-kind exchanges. In the first land sale, a 37-acre [former gravel pit] parcel in Gogebic County, Michigan sold for $115,000 resulting in a capital gain of $112,153. The second sale involved a 37.42-acre parcel in Dickinson County, Michigan which sold for $52,000 and netted the company a $49,291 capital gain. Keweenaw's subsidiary, Keweenaw Properties LLC, did not have any development lot sales during the year. 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.

Royalties totaling $120,038 were received from the sale of gravel from the company's leased pits during 2017 compared to $21,011 in 2016 and $74,989 in 2015. The large increase in royalties from gravel in 2017 was attributed to increased 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 2017, $167,657 in rental income from surface, commercial, mineral exploration, and recreational camp leases and the sale of easements was recognized compared to $145,170 in 2016 and $138,432 in 2015. These totals include $75,000 received in 2017 from Highland Copper Company, Inc, which purchased Orvana Resources U.S. Corp. and assumed the mining lease with 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 $26,895. Back 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.

Dividend and interest income on the company's financial investments totaled $98,011 in 2017, $88,999 in 2016, and $86,906 in 2015. The company's 2017 year-end investment portfolio allocation was 72% equity securities and 28% money market funds.

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

Source	2017	2016	2015
Dividends	$97,997	$88,984	$86,893
Interest Income	14	15	13
Net Realized Capital Gains (Loss)	796,222	132,062	(13,983)
Total	$894,233	$221,061	$72,923

The market value of Keweenaw's investment portfolio on December 31, 2017, was $3,536,764 compared to $3,065,022 in 2016 and $3,017,050 in 2015. Unrecognized gains remaining in the portfolio were $1,452,674 at the end of 2017.

Land and Board of Director Expense

Keweenaw recorded other expenses in 2017 of $1,379,479 including expenditures of $864,566 for land management and $514,913 for board of director activities. Personnel costs of $52,785 represented 6% of land management expense, and property taxes were $338,130 or 39%. Professional services in land management expenses amounted to $427,226, or 50% of the total. A breakdown of those expenditures include $297,226 that was expensed in the fourth quarter related to the timber fund, $110,000 related to the comprehensive timber cruise, and $20,000 expensed related to the Red Pine reforestation program. Other residual expenses including administrative/insurance costs amounted to $41,476, or 5%. Total land management expense, excluding depreciation, was $859,618 compared to $601,845 and $592,750 in 2016 and 2015 respectively. Board-of-director expenses amounted to $514,913 in 2017, $269,826 in 2016, and $307,947 in 2015. Expenditures connected with board elections and other proxy related matters were $20,250 in 2017 and $15,296 and $18,660 in 2016 and 2015 respectively. The remaining $494,663 of board costs in 2017 was composed of directors' fees 88%; travel expense and insurance costs represent the remaining 12%.

Net Income

Keweenaw Land Association, Limited net income for 2017 was $567,619 compared to net income of $698,682 in 2016 and $1,155,839 in 2015. Net income per share was $0.44, $0.54, and $0.89 in 2017, 2016, and 2015, respectively. Weighted average common shares outstanding were 1,300,189 shares in 2017, 1,298,602 shares in 2016, and 1,297,222 shares in 2015. No dividends were paid to shareholders in 2017, 2016, or 2015.

Capital Resources and Liquidity

Keweenaw's cash flow from operations was $566,525 in 2017, $811,160 in 2016, and $1,009,553 in 2015. Timber operations income, in an EBITDA format, was $1,279,112 in 2017 compared to $1,729,239 in 2016 and $2,686,387 in 2015. Although production for 2017 increased by 13% over 2016, lower margins accounted for the majority of the decreased cash flows provided by operating activities.

In 2017, Keweenaw made land purchases of $15,214,114 compared to $714,850 in 2016 and $85,790 in 2015. During the year, Keweenaw received $165,379 from land sale transactions. None of the properties sold were an integral part of the company's forestry program. No developed lots were sold in 2017 compared to one lot sold in 2016 for $45,000 and two lots sold in 2015 for $64,500. As of the end of 2017, local and outside interest in developed lots continues to be low. The real estate market across the Upper Peninsula of Michigan has been uncertain since the market downturn of 2008. In 2017, Keweenaw had proceeds from the sale of securities of $858,772. At year end, the company's

investment portfolio held equity securities valued at $2,558,166 and money market funds amounting to $978,598. Capital expenditures totaled $516,202 in 2017. A majority of the capital expenditures were for sort yard operations including $343,000 for a new Sennebogen yard loader and yard expansion for the storage of inventory. The balance was spent primary on road construction and miscellaneous improvements. In 2017, no dividends were paid to shareholders. Keweenaw issued shares to the board of directors with a cost amounting to $138,961. On December 31, 2017, Keweenaw had $2,906,698 in cash and cash equivalents on hand compared to $3,418,078 at the end of 2016 and $2,726,468 at the end of 2015.

The company has a single credit arrangement at Wells Fargo Bank Michigan N.A., which provides for a combined $1,500,000 operating line-of-credit availability 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 with the USDA Forest Service.

Keweenaw did not borrow on its short-term line of credit with Wells Fargo in 2017, 2016, or 2015. At the end of 2017, 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 $1,000,000 operating line of credit, three letters of credit totaling $529,000 were outstanding at the end of 2017, 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% and paid off the principal balance of $4,320,000 remaining on its original loan with Wells Fargo. Keweenaw originally borrowed $4,800,000 in November 2013 to help finance a 4,979-acre land purchase. Terms of the new loan 10-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.

Also in December 2016, Keweenaw secured a debt facility with MetLife in the form of a $25,000,000 revolver allowing the company immediate access to cash for general and corporate purposes. In March 2017, the company borrowed $12.7 million on the revolver to fund the purchase of 14,356 acres of timberland in Iron County, Wisconsin. An additional $1 million was borrowed to fund the purchase of 2,784 acres in Gogebic County. At the end of 2017, a total of $11.3 million remained available for the strategic needs of the company. Fees/interest associated with the revolver includes quarterly payments on the unused facility of .0875%. Once the facility is used, there is the option to term out the amount borrowed at the existing 10-year Treasury note rate plus 150 basis points. In 2017, a total of $475,541 in interest was paid on all debt 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.

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PARTNERS
Daniel E. Bianchi, CPA
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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, 2017, 2016, and 2015, 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, 2017, 2016, and 2015, 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 21, 2018

KEWEENAW LAND ASSOCIATION, LIMITED

Statement of Consolidated Income and Expenses

		Year Ended December 31		
		2017	2016	2015
Timber Operations Income	Timber Sales	**$11,488,785**	$10,911,462	$11,283,793
	Cost of Sales	**8,425,373**	7,551,380	7,092,616
	Gross Margin on Timber Sales	**3,063,412**	3,360,082	4,191,177
	Operations Expenses	**2,748,162**	2,166,851	2,024,130
	Timber Operations Income	**315,250**	1,193,231	2,167,047
Real Estate Development	Developed Lot Sales	**0**	45,000	64,500
	Development Costs	**0**	41,696	60,561
	Gross Margin on Developed Lot Sales	**0**	3,304	3,939
	Total Operations Income	**315,250**	1,196,535	2,170,986
Other Income	Mineral Royalties	**120,308**	21,011	74,989
	Leases & Rentals	**167,657**	145,170	138,431
	Investment Earnings	**98,011**	88,999	86,906
	Profit (Loss) on Security Sales	**796,222**	132,062	(13,983)
	Land Sales	**161,444**	89,872	206,919
	Other	**202,563**	194,198	109,041
	Total Other Income	**1,546,205**	671,312	602,303
Other Expenses	Land Management Expenses	**864,566**	606,356	597,276
	Board of Directors' Expenses	**514,913**	269,826	307,947
	Total Other Expenses	**1,379,479**	876,182	905,223
	Income Before State and Federal Income Taxes	**481,976**	991,665	1,868,066
	Provision for State and Federal Income Taxes	**(85,643)**	292,983	712,227
	Net Income	**567,619**	698,682	1,155,839
Other Comprehensive Income	Unrealized Gains (Losses) on Securities, Net of Taxes:			
	Unrealized Holding Gains (Losses) Arising During the Year	**311,341**	31,652	(46,615)
	Less: Reclassification Adjustment for Gains (Losses) in Net Income	**(525,507)**	(87,161)	9,228
	Other Comprehensive Income	**(214,166)**	(55,509)	(37,387)
	Total Comprehensive Income	**$353,453**	$643,173	$1,118,452
Per Share	**Net Income Per Share***	**$0.44**	$0.54	$0.89
	Total Comprehensive Income Per Share	**$0.27**	$0.50	$0.86

***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		
		2017	2016	2015
Assets	**CURRENT ASSETS**			
	Cash & Cash Equivalents	**$2,906,698**	$3,418,078	$2,726,468
	Receivables, Net of Allowance for Doubtful Accounts of $13,033 in 2017, of $12,847 in 2016, and of $7,435 in 2015	**717,482**	367,674	424,746
	Inventory	**90,511**	60,583	29,636
	Prepaid Expenses	**337,367**	515,145	432,377
	Total Current Assets	**4,052,058**	4,361,480	3,613,227
	INVESTMENTS IN MARKETABLE SECURITIES	**2,558,166**	2,945,210	2,865,849
	PROPERTIES			
	Mineral, Timber, and Land, Net of Accumulated Depletion of $6,187,398 in 2017, $5,824,349 in 2016, and $5,567,872 in 2015	**18,301,031**	9,099,136	8,741,140
	Land	**14,412,641**	8,748,263	8,488,135
	EQUIPMENT			
	Equipment, at Cost, Net of Accumulated Depreciation of $1,448,632 in 2017, $1,317,834 in 2016, and $1,279,679 in 2015	**1,288,141**	921,303	909,997
	OTHER NON-CURRENT ASSETS	**0**	532,321	450,821
	TOTAL ASSETS	**$40,612,037**	$26,607,713	$25,069,169
Liabilities & Capital	**CURRENT LIABILITIES**			
	Accounts & Deposits Payable	**$51,177**	$59,378	$28,854
	Commercial Line of Credit	**0**	0	0
	Current Portion of Long Term Debt	**0**	0	240,000
	Accrued Liabilities	**892,109**	570,114	560,511
	Total Current Liabilities	**943,286**	629,492	829,365
	LONG TERM LIABILITIES			
	Long Term Debt	**18,489,299**	5,000,000	4,080,000
	Deferred Federal and State Income Tax Liability	**589,727**	880,910	830,711
	Total Liabilities	**20,022,312**	6,510,402	5,740,076
	CAPITAL			
	Common Stock: 10,000,000 Shares Authorized, 1,300,350 Shares of No Par Value Issued	**85,032**	84,943	84,839
	Accumulated Other Comprehensive Income, Net of Taxes	**1,147,613**	1,172,930	1,228,440
	Retained Earnings	**19,357,080**	18,839,438	18,015,814
	Total Capital	**20,589,725**	20,097,311	19,329,093
	TOTAL LIABILITIES & CAPITAL	**$40,612,037**	$26,607,713	$25,069,169

See Notes to Consolidated Financial Statements

KEWEENAW LAND ASSOCIATION, LIMITED
Statement of Consolidated Capital

	Retained Earnings	Accumulated Other Comprehensive Income	Common Stock Issued	Total Capital
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
Changes during 2017:				
Comprehensive Income:				
Net Income	567,619			567,619
Other Comprehensive Income:				
Unrealized Gains (Losses) on Securities, Net of Tax, Arising During the Year, Net of Reclassification Adjustment to Net Income		(214,166)		(214,166)
Reclassifications	(188,849)	188,849		
Impact of Shares Issued to Directors & Officers	138,872		89	138,961
December 31, 2017, Balance	$19,357,080	$1,147,613	$85,032	$20,589,725

See Notes to Consolidated Financial Statements

KEWEENAW LAND ASSOCIATION, LIMITED

Consolidated Statement of Cash Flows

		Year Ended December 31		
		2017	2016	2015
Cash Flows Provided by Operating Activities	**Net Income**	**$567,619**	$698,682	$1,155,839
	Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
	Depletion and Depreciation	**493,269**	360,422	335,824
	Changes in Operating Assets and Liabilities:			
	Decrease (Increase) in Accounts Receivable	**(349,808)**	57,072	67,482
	Decrease (Increase) in Ppd Expense/Non-current assets	**710,099**	(164,268)	(283,289)
	Decrease (Increase) in Inventory	**(29,928)**	(30,947)	24,832
	Increase (Decrease) in Deposits and Accounts Payable	**(8,200)**	30,524	(61,727)
	Increase (Decrease) in Deferred/Income Taxes Payable	**(125,544)**	69,970	(53,240)
	Increase (Decrease) in Accrued Liabilities	**266,683**	18,427	20,707
	(Gain) Loss on Sale of Securities	**(796,221)**	(132,062)	13,983
	(Gain) Loss on Sale/Retirement of Equipment	**0**	(3,485)	0
	(Gain) Loss on Sale of Land	**(161,444)**	(93,175)	(210,858)
	Net Cash Flows Provided by Operating Activities	**566,525**	811,160	1,009,553
Cash Flows Provided by (Used for) Investing Activities	Net Purchases of Property and Equipment	**(497,082)**	(111,766)	(319,476)
	Purchases of Securities	**0**	(175,976)	(101,715)
	Proceeds from Sale of Securities	**858,772**	144,572	36,575
	Road Construction	**(19,120)**	(176,272)	(35,408)
	Purchases of Land	**(15,214,114)**	(714,850)	(85,790)
	Proceeds from Land Sales	**165,379**	68,959	193,643
	Lot Development	**0**	40,738	57,668
	Net Cash Flows Provided by (Used for) Investing Activities	**(14,706,165)**	(924,595)	(254,503)
Cash Flows Provided by (Used for) Financing Activities	Issuance (Purchase) of Stock	**138,961**	125,045	160,921
	Commercial Installment Loan Borrowing	**13,700,000**	5,000,000	0
	Commercial Installment Loan Payments	**(210,701)**	(4,320,000)	(240,000)
	Net Cash Flows Provided by (Used for) Financing Activities	**13,628,260**	805,045	(79,079)
	NET CASH FLOW	**(511,380)**	691,610	675,972
	Beginning Cash and Cash Equivalents	**3,418,078**	2,726,468	2,050,496
	ENDING CASH AND CASH EQUIVALENTS	**$2,906,698**	$3,418,078	$2,726,468
Supplementary Cash Flow Information	Interest Paid	**($408,831)**	($175,685)	($184,176)
	Federal and State Income Taxes Paid	**($5,000)**	($306,345)	($824,288)

See Notes to Consolidated Financial Statements

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. The company has early adopted ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, and has elected to reclassify the income tax effects of the Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings in 2017. This election resulted in reclassification of $188,849 from the unrealized holding gains.

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 21, 2018, the date these financial statements were issued, for items that should potentially be recognized or disclosed.

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, 2017:

	Cost	Unrealized Holding Gains	Fair Value
Non Current Investments:			
Equity Securities	$1,105,492	$1,452,674	$2,558,166
Current Investments:			
Government Obligations	0	0	0
Investments Available for Sale	$1,105,492	$1,452,674	$2,558,166

Realized gains and losses are determined on the basis of the specific identification method. During 2017, 2016, and 2015, sales proceeds and gross realized gains and losses on securities available for sale were:

	2017	2016	2015
Sale Proceeds	$858,772	$144,982	$36,824
Gross Realized Gains	$796,222	$132,062	$0
Gross Realized Losses	$0	$0	($13,983)

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, 2017, 2016, and 2015, 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 $1,147,613, $1,172,930, and $1,228,440 respectively.

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	$1,168,042	$1,777,168	$2,945,210

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	$1,004,576	$1,861,272	$2,865,848

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 2017, Keweenaw held securities, classified as available for sale, which incurred unrealized losses of $324,493 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)	$471,729	($160,388)	$311,341
Reclassification for Gains (Losses) in Net Income	(796,222)	270,715	(525,507)
Net Change in Unrealized Holding Gains (Losses)	($324,493)	$110,327	($214,166)

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)	($84,105)	$28,596	($55,509)

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)	($56,647)	$19,260	($37,387)

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:

	2017	2016	2015
Land	$14,002,761	$8,338,383	$8,064,623
Timber and Mineral Holdings	23,493,313	13,947,487	13,509,287
Accumulated Costs of Lot Development	409,880	409,880	423,512
Permanent Logging Roads	995,117	975,997	799,725
Properties at Cost	38,901,071	23,671,747	22,797,147
Less: Accumulated Timber Depletion	5,762,651	5,429,129	5,196,198
Less: Accumulated Road Depreciation	424,748	395,219	371,674
Net Carrying Value	$32,713,672	$17,847,399	$17,229,275

On December 31, 2017, Keweenaw owned 185,750 surface acres, primarily timberlands, and 401,841 acres of sub-surface mineral rights. In 2017, the company had $333,496 in depletion expense compared to $232,931 in 2016 and $224,663 in 2015.

During 2017, Keweenaw performed its first company-wide timber cruise, and this resulted in an estimated 25% increase in total cords of standing timber. The company has used the increased volume in computing depletion for 2017. The effect of this change in estimate was a decrease in cost of goods sold and an increase in pre-tax income by approximately $80,000.

Note E: Equipment

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

	2017	2016	2015
Buildings	$408,912	$402,762	$396,982
Furniture, Equipment, and Accessories	1,110,628	691,013	681,180
Machinery and Vehicles	447,241	447,241	409,101
Land Improvements	769,992	702,414	702,414
Equipment at Cost	2,736,773	2,243,430	2,189,677
Less: Accumulated Depreciation	(1,448,632)	(1,322,127)	(1,279,679)
Equipment, Net of Depreciation	$1,288,141	$921,303	$909,998

The company charged depreciation expense to operations in the amounts of $122,885, $99,652, and $88,272, for 2017, 2016, and 2015, respectively.

Note F: Income Taxes

Keweenaw recorded year-end federal and state tax liabilities (assets) according to the following table for December 31, 2017, 2016, and 2015:

	2017	2016	2015
Federal:			
Current Provision for Federal Income Tax	$124,282	$156,111	$597,789
Adjustment to Current Liability	0	26,461	(6,535)
Current Federal Tax Deposits Net of Refund	0	(230,267)	(643,572)
Prior Year Federal Tax Over-Deposit	0	0	0
Federal Income Tax Liability (Assets)	$124,282	($47,695)	($52,318)

	2017	2016	2015
State (Michigan and Wisconsin):			
Provision for State Income Tax	$20,213	$58,980	$126,970
Adjustment to Current Liability	0	0	(548)
Current Year State Tax Deposits	0	(55,065)	(108,327)
Prior Year State Tax Over-Deposit	0	0	0
State Tax Liability (Assets)	$20,213	$3,915	$18,095

For the company in 2017, corporate tax rates reverted back to statutory rates after the Timber Revitalization and Economic Enhancement Act of 2015 (TREE ACT) that had set the maximum taxable rate at 23.8% for 2016 expired December 31, 2016. At the end of 2017, the Tax Cuts and Job Act reduced the corporate rate to 21% and the company recorded an income tax benefit. The provision for federal and state income taxes consists of the following for the years ending December 31:

	2017		2016		2015	
	Tax	% of Taxable Income	Tax	% of Taxable Income	Tax	% of Taxable Income
Federal Income Taxes:						
Tax Provision Computed At Statutory Rate	$163,872	34.0%	$236,016	23.8%	$635,142	34.0%
Tax vs. Book Income Timing Differences	(59,099)	-12.3%	(53,354)	-5.4%	(43,888)	-2.3%
Foreign Taxes Paid	9,146	1.9%	9,057	0.9%	9,057	0.5%
Change in Prior Year Tax Estimate	10,363	2.1%	(35,607)	-3.6%	(2,523)	-0.2%
Total Current Federal Tax Provision	124,282	25.8%	156,111	15.7%	597,789	32.0%
Reclassification of Deferred Federal Taxes Exclusive of Net Unrealized Gain/Loss on Investments	(228,366)	-47.4%	70,860	7.1%	(7,506)	-0.4%
Total Provision for Federal Income Tax	(104,084)	-21.6%	226,972	22.9%	590,283	31.6%
State Income Tax-Michigan and Wisconsin:						
Tax Provision Computed At Statutory Rate	31,687	6.6%	66,505	6.7%	135,294	7.2%
Tax vs. Book Income Timing Differences	(17,141)	-3.6%	(7,526)	-0.8%	(7,776)	-0.4%
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	5,667	1.2%	0	0.0%	(548)	0.0%
Total State Current Tax Provision	20,213	4.2%	58,980	5.9%	126,970	6.8%
Deferred State Taxes Exclusive of Net Unrealized Gain/Loss on Investments	(1,772)	-0.4%	7,032	0.7%	(5,025)	-0.3%
Total Provision for State Income Tax	18,440	3.8%	66,011	6.7%	121,945	6.5%
Provision for Taxes	($85,643)	-17.8%	$292,983	29.5%	$712,227	38.1%

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:

Current:	2017	2016	2015
Unrealized Gains (Losses) on Investments	$0	$0	$0
Total Current	0	0	0
Non Current:			
Equipment Depreciation	150,163	149,557	102,672
Logging Roads Depreciation	17,295	28,107	6,323
Unrealized Gains (Losses) on Investments	305,062	604,237	632,833
Offset for State Deferred Tax Liability	(28,868)	(47,341)	(44,643)
Other Misc Deferred Liabilities	8,610	7,112	2,223
Total Non-Current	452,262	741,672	699,408
Total Federal Deferred Tax Liability	$452,262	$741,672	$699,408

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

Non-Current:	2017	2016	2015
Equipment Depreciation	$42,904	$26,393	$18,119
Logging Road Depreciation	4,941	4,960	1,116
Unrealized Gains (Losses) on Investments	87,160	106,630	111,676
Other Misc Deferred Liabilities	2,460	1,255	392
Total State Deferred Tax Liability	$137,465	$139,238	$131,303

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 and Michigan and Wisconsin Corporate Income Tax. The company is no longer subject to examination by taxing authorities for years before 2015.

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, 2017, 2016, and 2015 are as follows:

	2017	2016	2015
Land and Timber	$167,362,669	$152,386,660	$151,000,000
Mineral Rights	7,167,888	4,000,826	5,336,045
Available for Sale Investment Securities	2,558,166	2,945,210	2,865,849
Other Assets and Liabilities – Net	3,807,186	4,264,309	3,553,968
Long-term Debt	18,489,299	5,000,000	4,320,000

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, 2017:

	Quoted Prices in Active Markets (Level I)	Other Observable Inputs (Level II)	Unobservable Inputs (Level III)
Land and Timber		$167,362,669	
Mineral Rights			7,167,888
Available for Sale Investment Securities	2,558,166		
Other Assets and Liabilities – Net			3,807,186
Long-term Debt		18,489,299	

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 Prices in Active Markets (Level I)	Other Observable Inputs (Level II)	Unobservable 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			4,264,309
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 Prices in Active Markets (Level I)	Other Observable Inputs (Level II)	Unobservable 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	

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, 2016, Balance	$152,386,660	$4,264,309	$4,000,826
Purchases/Sales - Net Appraisal Valuation	14,976,009		
Change in discount rate assumptions			3,167,062
Net Change in Cost Basis		(457,123)	
December 31, 2017, Balance	$167,362,669	$3,807,186	$7,167,888

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. 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 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 are 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 2017, 2016, and 2015, the company made discretionary contributions to the plan in the amount of 5% of base salaries. Pension expense was:

	2017	2016	2015
401(k) Profit Sharing Plan			
Matching Contributions	$39,736	$37,781	$35,919
Discretionary Contributions	48,412	44,876	43,351
Other Pension Costs	1,250	1,250	1,250
Total Pension Expense	$89,398	$83,907	$80,520

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, 2017:

1. A combined unsecured line of credit with Wells Fargo Bank in the amount of $1,000,000 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 and interest to be paid monthly. Fees of $150 were charged in 2017.
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 2017. 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.
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 10-year Treasury note rate plus 150 basis points. A total of $13.7 million had been drawn on this line of credit as of December 31, 2017.

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

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

Affirmative covenants of MetLife required the following of the company:

1. To maintain its accounting records and to submit to the bank Keweenaw's annual financial statements audited in accordance with Generally Accepted Accounting Principles;
2. To submit to the bank Keweenaw's quarterly internal financial statements;
3. To not allow the outstanding principal balance of the loan to exceed 35% of the value of the timberlands owned by Keweenaw;

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 2017. 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 2017, the original $2,500,000 operating line of credit was reduced to $1,000,000. At the end of 2017, there were two standby letters of credit amounting to $29,000 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. A third standby letter in the amount of $500,000 existed as a payment bond to the Forest Service. No balance was owed on the $529,000 committed against the $1,000,000 line of credit as of December 31, 2017.

The total cash held by the company on December 31, 2017 and 2016 includes $2,906,698 and $3,418,078, 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:

	2017	2016	2015
Long-term Debt	$5,000,000	$5,000,000	$4,080,000
Plus: Current Portion	0	0	240,000
Five-year Revolver	13,489,299	0	0
Total - Net of Current Portion	$18,489,299	$5,000,000	$4,320,000

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

Total interest paid/accrued on loans and lines of credit in 2017, 2016, and 2015 was $475,541, $175,685, and $184,176, respectively. The interest expense is reflected in the operations expense line of the Statement of Consolidated Income and Expenses. Balances on the Wells Fargo operating line of credit at the end of 2017, 2016, and 2015 were $0, $0, and $0 respectively. The December 31, 2017, 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 2017, four customers accounted for approximately 24%, 15%, 11% and 11% of the company's consolidated net sales and a combined 69% 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:

	Regional Distribution of Sales Dollars by Product Category			
Location	Veneer	Sawlog	Sawbolt	Pulpwood
Upper Michigan	35%	55%	78%	48%
Lower Michigan	0%	2%	0%	0%
Northern Wisconsin	57%	43%	22%	2%
Central Wisconsin	7%	0%	0%	24%
Minnesota	0%	0%	0%	26%
Export	0%	0%	0%	0%
Other	1%	0%	0%	0%
Total	100%	100%	100%	100%

Number of Customers by Product	9	8	6	10
Percent of Gross Sales by Product	6%	15%	17%	62%
Percent of Volume by Product	2%	8%	16%	74%

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

Common stock issued and outstanding on December 31 of 2017, 2016, and 2015, respectively, are presented in the following table:

	2017	2016	2015
Shares Outstanding	1,300,350	1,298,974	1,297,398
Restated Cost Per Common Share	$0.065392	$0.065392	$0.065392
Recorded Common Stock	$85,032	$84,943	$84,839

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. Logging roads constructed under the policy are 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 are capitalized. Roadbed costs are treated as permanent costs of the land. Costs of road surfacing, culverts, bridges, and other improvements on primary roads are capitalized and depreciated over 15 years. All expenditures for secondary roads are charged to prepaid expense and written off over the period of the scheduled, related timber stand harvest. The following is a reconcilement of road building expenditures capitalized, deferred, or reflected in expense:

	Capitalized	Prepaid Expense	Expense in Cost of Sales	Expense in Admin. Costs
12/31/14 Balance	$414,986	$166,918		
2015 Expenditures:				
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
2016 Expenditures:				
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
2017 Expenditures:				
On Primary Roads	19,120			
On Secondary Roads			493,112	
Secondary Road Expenditures Deferred to 2018		98,004	(98,004)	
Prior Year Deferrals Written Off		(121,092)	121,092	
Primary Road Costs Retired Depreciation	(28,345)		28,345	1,183
12/31/17 Balance	$571,553	$181,141	$544,545	$1,183

Note M: Timber Investment Fund

In the final quarter of 2017, the company wrote off the balance of $297,226 in deferred expenditures, classified as a non-current asset that accumulated as part of Keweenaw's investigating the feasibility of establishing a timber investment fund in the Lake States.

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, 2017, lease expense was $210,717. 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, 2017 are as follows:

Year	Lease Obligation
2018	210,717
2019	210,717
2020	82,551
Total	$503,985

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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, 2017, 2016, and 2015, and our report thereon dated February 21, 2018, which expressed an unmodified opinion on those financial statements, appears on page 15. 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, PLC
Certified Public Accountants
Marquette, Michigan

February 21, 2018

KEWEENAW LAND ASSOCIATION, LIMITED

EBITDA Format - Statement of Consolidated Income and Expenses

		Year Ended December 31		
		2017	2016	2015
EBITDA Timber Operations Income	Timber Sales	**$11,488,785**	$10,911,462	$11,283,793
	Cost of Sales	**8,056,172**	7,291,794	6,846,794
	Gross Margin on Timber Sales	**3,432,613**	3,619,668	4,436,999
	Operations Expenses	**2,153,501**	1,890,429	1,750,612
	EBITDA Timber Operations Income	**1,279,112**	1,729,239	2,686,387
Real Estate Development	Developed Lot Sales	**0**	45,000	64,500
	Development Costs	**0**	41,696	60,561
	Gross Margin on Developed Lot Sales	**0**	3,304	3,939
	Total Operations Income	**1,279,112**	1,732,543	2,690,326
Other Income	Mineral Royalties	**120,308**	21,011	74,989
	Leases & Rentals	**167,657**	145,170	138,431
	Investment Earnings	**98,011**	88,999	86,906
	Profit (Loss) on Security Sales	**796,222**	132,062	(13,983)
	Land Sales	**161,444**	89,872	206,919
	Other	**202,563**	194,198	109,041
	Total Other Income	**1,546,205**	671,312	602,303
Other Expenses	Land Management Expenses	**859,618**	601,845	592,750
	Board of Directors' Expenses	**514,913**	269,826	307,947
	Total Other Expenses	**1,374,531**	871,671	900,697
EBITDA	**EBITDA**	**$1,450,786**	$1,532,184	$2,391,932
	Interest Expense	475,541	175,685	184,176
	Depletion, Depreciation, & Amortization	493,269	364,834	339,690
	Earnings Before State and Federal Income Taxes	**481,976**	991,665	1,868,066
	Provision for State and Federal Income Taxes	**(85,643)**	292,983	712,227
	Net Income	**567,619**	698,682	1,155,839
Other Comprehensive Income	Unrealized Gains (Losses) on Securities, Net of Taxes:			
	Unrealized Holding Gains (Losses) Arising During the Year	**311,341**	31,652	(46,615)
	Less: Reclassification Adjustment for Gains (Losses) in Net Income	**(525,507)**	(87,161)	9,228
	Other Comprehensive Income	**(214,166)**	(55,509)	(37,387)
	Total Comprehensive Income	**$353,453**	$643,173	$1,118,452
Per Share	**Net Income Per Share***	**$0.44**	$0.54	$0.89
	Total Comprehensive Income Per Share	**$0.27**	$0.50	$0.86

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

See Notes to Consolidated Financial Statements

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

Keweenaw on the Internet

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

Stock Transfer Agent & Registrar

EQ Shareowner Services (formerly Wells Fargo)
P.O. Box 64874
St. Paul, MN 55164-0874
800-401-1957

Legal Counsel

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

Honigman Miller Schwartz and Cohn LLP
Attorneys and Counselors
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

Annual Meeting

The next annual shareholders' meeting will be held at 9:00 a.m. CDT Thursday, April 12, 2018. A formal notice will be mailed to shareholders of record at the close of business on February 23, 2018.

Market Makers

The following firms were market makers for Keweenaw Land Association, Limited stock in 2017:

- Access Securities Inc, Stamford, CT
- Archipelago Trading Services, Inc., Chicago, IL
- 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 Financial Partners, Inc, Chicago, IL
- Stockcross Financial Services, Inc, Jersey City, NJ
- Vandham Securities Corp, Parkridge, NJ
- Virtu Financial Capital Markets LLC, New York, NY
- Wedbrush Securities, Inc, Los Angeles, CA

Reports and Publications

Quarterly reports are mailed to shareholders in April, July, October, and January for the prior quarter ended. Annual reports are made available within 90 days of the close of the fiscal year and mailed to shareholders of record at that time. All reports may be viewed on Keweenaw's web site, or copies may be obtained free of charge upon request.

Market Price

	High	Low	Close
2015	$	$	$
1st Quarter	111.00	95.50	109.00
2nd Quarter	119.00	94.75	96.00
3rd Quarter	94.75	78.00	82.00
4th Quarter	85.73	78.00	81.00
2016			
1st Quarter	86.00	68.00	86.00
2nd Quarter	119.00	77.50	90.00
3rd Quarter	93.40	85.50	89.51
4th Quarter	100.00	84.00	98.50
2017			
1st Quarter	108.00	98.00	101.99
2nd Quarter	109.48	97.26	105.00
3rd Quarter	106.99	95.00	102.00
4th Quarter	102.00	91.60	99.00

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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