Keweenaw Land Association, Limited (A Michigan Corporation)

Annual Report for the fiscal year ended December 31, 2018

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(Address of principal executive offices)

Issuer's telephone number: (906) 932-3410

Number of shares outstanding of common stock as of March 19, 2019: 1,303,342

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KEWEENAW
LAND ASSOCIATION, LIMITED

TIMBER
LAND
MINERALS

& IRONWOOD MINES CORPORATION
a subsidiary of Keweenaw Land Association, Limited

To the Shareholders of Keweenaw Land Association, Limited:

2018 was an important year of change for Keweenaw. You voted to replace the board and ratified a clear mandate going forward. While the transition has had its challenges, the board has accomplished a great deal and is on track toward achieving the goals we set out prior to the election.

Dismantling the web of corporate defenses that facilitated board entrenchment in the past has been high on the board's list of priorities. As you will see in the annual report and proxy materials, the board is proposing a series of resolutions to strengthen shareholders rights, including de-staggering the board. The board has also taken several steps to strengthen Keweenaw's governance structures. For example, the creation of committee charters has improved board transparency and accountability. The board also created an equity omnibus incentive plan last year to govern stock grants to employees, to better align shareholders and company employees.

Changing the company's auditors has been a major commitment for the new board. While Anderson, Tackman has done a fine job for over two decades as Keweenaw's auditor, due to recent restrictions imposed by stock brokers and custodians, the board feels it is necessary to engage a PCAOB-registered independent accountant, as it is a key component to lifting the trading restrictions currently impacting investors' ability to transfer shares. Keweenaw's 2018 audit was conducted by Grant Thornton, LLP. While the expected timing remains unclear, it is a top priority for the company to be re-categorized in the "Current Information" tier on the OTC Markets.

The company has started the process of migrating its financial reporting practices to conform more closely with SEC requirements. Although we have no immediate plans to register with the SEC, we see this as best practice. You will see that the Company's financial reporting is an ongoing work in process and should expect further changes, in both form and substance.

The company hired James W. Sewall, a third party to perform an external appraisal of the company's timber assets as of December 31, 2018. The results are summarized in the annual report, and an executive summary will be posted to the company's website shortly.

Since last year's annual meeting, the board has shrunk from nine to seven members due to the resignations of two long-standing board members. In addition, you will see in the proxy materials that two members of board will not stand for re-election in 2019, and a third long-standing member is resigning effective at the annual meeting. Assuming shareholders vote to de-stagger the board, the company's slate for 2019 includes two new candidates, which will bring the total board size to six members. The board, management and the Keweenaw employees would like to thank those out-going board members for their years of committed service to the Company.

Both prospective new board members were chosen after the board conducted a thorough search process interviewing several highly-qualified forest products executives. As the board gets closer to achieving its governance and other transition-related objectives, we will increasingly turn our attention to strategic value creation, unlocking value in the company's operations, and purposeful capital allocation. John Enlow and Pete Madden stood out because they have distinguished themselves in these areas, in addition to having top-flight credentials.

Despite all the distractions surrounding the company during 2018, Keweenaw's timber operations didn't miss a beat. The company hit its harvest targets and is on track to do so again in 2019. Mark Sherman was undoubtedly instrumental to the company's performance during this period. Since becoming President on December 1, he has continued to play the role of Operations Manager while simultaneously taking ownership for many other aspects of the business. Now that Claudio Nicoletta is in place as CFO, Mark will have more bandwidth to turn his focus toward the operational activities discussed below.

Going forward, the company's strategy is to leave no stone unturned in its search for ways to achieve value *creation* in support of value *realization*. The company is committed to evaluating its activities in a rational capital allocation framework, with increased value per share as the bottom-line objective.

It does not appear that this is the right moment to launch another sale process. Timber prices are soft, particularly high value northern hardwoods like sugar maple sawtimber which contribute disproportionately to the company's gross timber value. Moreover, TIMO's and REIT's which have in recent years been the marginal buyers of timber assets in the Lake States appear to have shifted in their cycle, to become net sellers. To be clear, the company welcomes any expression of interest, and will actively entertain any proposal that assigns full value to the company's very well-stocked timberland and natural resources portfolio.

In the meantime, there are numerous areas of the business where we believe potential exists to create value for shareholders. For example, we are very focused on ensuring Keweenaw has the correct capital structure for its asset base. Once we achieve our goal of significantly reducing the company's long-term debt, and the company has a flexible balance sheet once again, the collateral value of the company's assets will provide substantial "dry powder" in the event investment opportunities arise that generate sufficient cash flows to support leverage.

We believe that controlling non-recurring expenses as well as recurring board costs will create substantial value for the company. Since 2016 the company has spent millions of dollars between one-time payments to board members, proxy contest expenses, and other professional service fees. While investors should expect a tail of non-recurring expenses in 2019, which are related primarily to an unusually complex proxy statement as well as consulting expenses incurred in connection with the audit, our goal is to have no non-recurring expenses related to the change of control by the second half of 2019.

Profitability levels for the company's core timber operations provide another obvious area to explore closely. The Company will revitalize marketing strategies in the effort to improve profits and margins in its timber operations. As an example, the company is in the process of selling a modest amount of stumpage, as part of a benchmarking exercise to better understand the value added by its marketing and log-sorting activities. We look forward to the input of the new directors as they work with Mark and other members of management to improve Keweenaw's financial performance.

We hope to see you on May 6, in Ironwood. For those of you who are unable to attend the meeting in person we will provide remote access, by conference call or comparable, for the company's presentation and the Q&A session.

We invite shareholders to join us at a BBQ the night before the meeting, which is a long-standing tradition for the Keweenaw board and employees. This year and going forward, all shareholders are welcome to attend. Please contact Paula at the company if you would like to RSVP.

While we have accomplished a tremendous amount in the past year, we recognize there is still much work to be done. We are pleased to be near completion with our stage one goals which involved lots of heavy-lifting, with an emphasis on downside protection; corporate governance reform, foundation-building for audit and compliance matters, and making key hires. We are looking forward to stage two, to create and implement a value creation plan. Lastly, I'd like to thank board members and employees for all their hard work over the past year.

Sincerely,

James A. Mai, Chairman

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GLOSSARY

The following abbreviations, acronyms, or terms may be used in this document and shall have the adjacent meanings set forth below:

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 when the measurement system was developed in the 1800's. Sawmill technology has changed since the scale was originally created and the actual output of lumber from a Board Feet of Logs varies from mill to mill, depending on their technology but it is the standard unit of measurement for buying and selling logs.
Cord	A measurement of logs containing 128 cubic feet.
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.
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.
REIT	Real Estate Investment Trust
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.
TRS	Taxable REIT Subsidiary
Veneer	A category of sawtimber clear of defects suitable for manufacture as veneer paneling, furniture, and cabinetry veneer.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report of Keweenaw Land Association, Limited and subsidiaries ("Keweenaw Land Association", "Keweenaw", "KLA", "the Company", "we", "our", or "us") may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In addition, Keweenaw Land Association, or the executive officers on Keweenaw Land Association's behalf, may from time to time make forward-looking statements in reports and other documents or in connection with written or oral statements made to the press, potential investors, or others. Keweenaw intend for all such forward-looking statements to be covered by the applicable safe harbor provisions for forward-looking statements contained in the Securities Act and the Exchange Act.

Forward-looking statements can generally be identified by our use of forward-looking terminology such as "may," "will," "expect," "intend," "anticipate," "estimate," "believe," "continue," or other similar words. However, the absence of these or similar words or expressions does not mean that a statement is not forward-looking. Forward-looking statements are not guarantees of performance and are based on certain assumptions, discuss future expectations, describe plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. Forward-looking statements in this report relate to anticipated delivery of income, value and long-term returns through sustainable harvests, well-timed sales, and selective acquisitions; expected uses of cash generated from operations; expected sources and adequacy of capital resources and liquidity; change in depletion rates; change in merchantable timber book value and standing timber inventory volume; and other factors that may lead to fluctuations in future net income (loss).

Any such forward-looking statements are based on a number of assumptions involving judgments and are subject to risks, uncertainties, and other factors that could cause actual results to differ materially from our historical experience and our present expectations. See Section 1A *Risk Factors* in this Annual Report. With respect to our ongoing business, these risks and uncertainties include, but are not limited to, the risks discussed in Section 1A herein. Accordingly, readers are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this report. Keweenaw makes no representations or warranties (express or implied) about the accuracy of any such forward-looking statements contained in this report, and Keweenaw does not intend to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law.

Section 1. BUSINESS

GENERAL

Keweenaw Land Association, Limited is a land and timber management company headquartered in Ironwood, Michigan with timberland assets located in the western Upper Peninsula of Michigan and northern Wisconsin. As of December 31, 2018, the Company owned 184,003 acres of surface land and 401,867 acres of subsurface mineral rights. We derive the majority of our revenue from the sale of logs which we harvest primarily from our forestlands. Keweenaw also generates non-timber revenue from real estate sales, recreational leases, mineral rights leases, sale of sand and gravel, and by providing wood scaling and inventory management services for various customers.

Company History

Keweenaw traces its origins to the period immediately following the Civil War, when Congress granted 400,000 acres of public land to finance the construction of a shipping canal across the base of the Keweenaw Peninsula in Northern Michigan. In 1865, the Portage Lake & Lake Superior Ship-Canal Company was authorized by Michigan's legislature to build the canal. During construction the Company experienced financial difficulties, and the project was completed over a decade later after the Company's creditors purchased the project's assets in a bankruptcy auction. Keweenaw's direct lineage can be traced to 1891, when a successor entity to the Portage Lake Company sold the completed canal to the United States government and contributed its other assets (primarily 400,000 acres of land and mineral rights) to 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.

Until the early 1950's, Keweenaw was managed with the primary objective of monetizing its assets through liquidating timber, exploiting mineral assets and selling property. During this period, the Company reduced its surface rights from 400,000 acres to 120,000 acres, through a combination of land sales and intentional land forfeitures to extinguish tax liabilities. After clear-cutting most of its harvestable timber acreage in World War II, the Company decided in 1951 modify its land management strategy. Rather than forfeiting additional property to conserve cash resources, the Company chose to cease land dispositions and allow for long-term forest regeneration which the Company estimated at the time would reach maturity in 2010. The Company operated in a steady-state for the next 40 years, with its primary sources of income being mineral royalties, and over the passage of time stumpage income from selective harvests as the timber assets matured.

In the early 1990's the Company began investing in resources to allow for active management of its forestry operations. Since then, the Company has increased its ownership of timberland by over 50%. Keweenaw employs a team of production and field foresters, to plan and oversee the Company's timber harvesting operations. Harvest methods vary from single-tree selection in our better hardwood forests to even-aged management of our conifer and aspen stand types. Aside from one in-house logging crew, the Company retains independent contractors for its logging and freight needs. Keweenaw also markets its timber products directly to its customers, which is a change from the past practice whereby the Company sold stumpage. In 1995, Keweenaw constructed a log yard facility in Ironwood, Michigan. The log yard generates storage income from customers, along with other customer services including customized grading.

Over the last three years five new directors have joined Keweenaw's Board of Directors, shifting control from the original owners to a group nominated by Cornwall Capital Management, LP. The newly comprised board is evaluating the Company's existing approach to maximizing value from timber operations, as well as from its non-timber resources. Maximizing value per share is and will remain the Company's top priority, which it will seek to accomplish through both value *creation* and value *realization.* With this goal in mind the Company will endeavor to increase intrinsic value per share and minimize the difference between intrinsic value and trading value per share.

Timberland Assets

As of December 31, 2018, Keweenaw wholly owned 184,003 acres of high-quality industrial timberlands that are managed for sustainable timber production. The Company owns 168,157 acres in Upper Michigan and another15,846 acres in Northern Wisconsin. Our timberland is comprised of approximately 70% hardwood stands, 10% aspen stands, 15% conifer stands, and 5% non-productive land.

As of December 31, 2018, our timber inventory consisted of an estimated 4.0 million cord equivalents of merchantable volume with the following species group and product breakdown:

	Merchantable Timber Inventory (1)	
	2018	2017
Pulpwood (2)		
Hardwood	2,221,951	2,244,167
Softwood	891,058	891,634
Aspen	123,578	134,320
Sawtimber		
Hard Maple	361,292	359,217
Other Hardwood	335,294	333,434
Softwood/Pine	64,354	63,188
Total Cords (3)	3,997,527	4,025,960

(1) Merchantable timber inventory reflects the total volume estimated as part of the 2017 inventory by Compass Land Consultants, less harvest volume and additional timber volume acquired during the 4th quarter of 2017. Keweenaw estimates that for 2018, the current

year growth should approximate current year harvest volumes.
(2) Includes sawbolt material.
(3) Reduction of total inventory from 2017 to 2018 is a result of an 1,800-acre land sale to the US Forest Service in 2018.

The Company has historically conducted a third-party appraisal once every three years, with an executive summary released to shareholders. Consistent with this practice, the Company engaged the James W. Sewall Company to conduct a timberland appraisal for the Company, as of December 31, 2018. Estimated values are referenced in the footnotes to the financial statements, and an executive summary will be made available on the Company's website.

The following table is a comparison of appraised values and timber inventories over time. Data is subject to the assumptions and limitations in the appraisal reports. Executive summaries of the 2018 and 2015 Appraisal Reports are available on the Company's website.

($ in Thousands)	2018	2015	2012	2009	2006
Surface Land Ownership (Acres)	184,003	167,613	161,940	161,061	158,153
Standing Timber Summary					
Volume					
Sawtimber (Cord-Eq)	748,922	589,547	515,632	485,412	440,700
Pulpwood (Cords)	3,248,605	2,309,112	2,179,193	2,141,444	2,074,200
Total (Cord-Eq)	3,997,527	2,898,659	2,694,825	2,626,856	2,514,900
Standing Timber Value ($'s per cord)					
Sawtimber	$173	$176	$142	$128	$183
Pulpwood	24	30	28	26	25
Total	$52	$60	$50	$45	$53
Product Mix					
Sawtimber	19%	20%	19%	18%	18%
Pulpwood	81%	80%	81%	82%	82%
Total	100%	100%	100%	100%	100%
Effective Gross Timber Value					
Sawtimber	129,428	103,895	73,329	61,982	80,502
Pulpwood	78,557	69,150	60,786	55,325	51,855
Total	$207,985	$173,045	$134,115	$117,307	$132,357
Third Party Property Appraisal Value	$148,900	$151,000	$140,100	$128,850	$118,614
Values Per Acre					
Effective Gross Timber Value	$1,130	$1,032	$828	$728	$837
Property Appraisal	$809	$901	$865	$800	$750
Appraisal as % of Standing Inventory	72%	87%	104%	110%	90%

(1) 2018 appraisal reflects results of 2017 inventory cruise conducted by Compass Land.
(2) calculated by dividing Property Appraisal by Gross Timber Value

In addition to the wholly-owned timberland assets, Keweenaw purchases open market stumpage from federal, state, county, and private parties which Keweenaw harvests and generates additional income from. These contracts enable us to harvest timber from these sites during normal operating seasons over the term of the contract which Keweenaw sells to its customers. The average annual harvest volume from these contracts over the past three years was 3,300 cd eq.

Forest Management

Keweenaw's timberlands have a diverse mix of forest types requiring different silvicultural approaches. Timber harvests vary from single tree selection in the quality, upland hardwood stands, to over-story removal and clearcutting in the lowland hardwood, aspen and conifer forests. The Company relies predominantly on natural regeneration for post-harvest reforestation but has a modest planting program to ensure adequate stocking on some sites. In 2018, a total of 149 acres of red pine were planted on two sites.

Annual allowable harvests are set by balancing growth, as calculated from Keweenaw's forest inventory, with harvest levels. The 2018 annual allowable harvest of 110,000 cords (264,000 tons) was 90% of calculated growth of 121,640 cords (291,900 tons).

Timber Marketing

Keweenaw markets the majority of its timber direct to consuming mills under supply contracts. The supply agreements range from quarterly to two years in duration and allow the sale of a specified volume of logs and pulpwood to regional mills subject to market pricing adjustments. These agreements allow for modifications of volumes which provide flexibility to us to sell more or less than the specified volume within each quarterly operating period. The remaining volume is sold through open market negotiations with quarterly pricing and volume commitments. None of these agreements directly encumber the timber or timberland assets.

Our higher value products, such as hardwood veneer, are sold from the Company's sort yard facility in Ironwood, Michigan. Marketing these higher value, non-commodity products from a centralized location provides customers greater volume and quality control of purchased product. Veneer logs are sold by the piece and have a wide range of values based on species, size and quality.

Customer Base

Our land lies within a very diverse and competitive fiber basket encompassing pulp and paper mills, OSB plants, sawmills and veneer manufacturing facilities. Our business relies heavily on the pulp and paper industry accounting for 54% of sales revenue and 64% of volume. The following table illustrates the depth and diversity of markets that Keweenaw sold into in 2018.

2018 Sales by Business Sector

Business Sector	# of Mills	Located	% 2018 sales	% 2018 volume
Pulp and Paper Mills	6	MI, WI, MN	54%	64%
Hardwood Grade & Veneer Sawmills	15	MI, WI	25%	12%
OSB/Plywood Mills	3	MI, WI	10%	14%
Hardwood Tie/Flooring/Pallet Mills	4	MI, WI	10%	9%
Softwood Sawtimber Mills	4	MI, WI	1%	1%

Keweenaw supplies relatively low percentages of each of our customers' overall raw material usage.

Sound Environmental Stewardship

Keweenaw remains committed to responsible environmental stewardship and sustainable forestry. Our Company's timberlands have been third-party certified under the Forest Stewardship Council® (FSC®) Certification (SW-FM/COC-000005, FSC®-C006729) standard for 25 years. The FSC standards promote sustainable forestry through rigorous management requirements for conserving wildlife habitat, water quality protection, biodiversity and at-risk-species. Keweenaw has the distinction of being the oldest continuous certificate-holder for the Rainforest Alliance worldwide. In addition, our timberlands are managed to meet or exceed State and Federal regulations through implementation of best management practices and internal controls.

Keweenaw Logging, LLC

In mid-2016, Keweenaw formed a logging company as a pilot program to secure fixed logging capacity 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.

Mineral Assets

Keweenaw owns 401,867 acres of mineral rights in Upper Michigan. The majority of the mineral ownership dates back to our original post-civil war Federal land grant. Since 1891 when The Keweenaw Association, Limited was formed, the Company has received significant royalties from iron ore and copper mining activities on its properties. Between 1891 and 1995, when the White Pine copper mine ceased operations, the Company has estimated receiving cumulative royalties, adjusted for inflation, exceeding $500 million.

Over the last decade Upper Michigan has seen a renewed interest in mineral exploration and mining development. In 2014 the Eagle Mine in Marquette County began operations mining one of the richest deposits of nickel in the world. The Company currently has three mineral and exploration leases with Highland Copper Company, Inc. (TSXV:HI) encompassing a combined total of 6,121 acres. Two of the leases are related to Highland Copper Company, Inc.'s Copperwood project in Gogebic County that encompasses 3,063 acres of mineral rights. The primary lease of 681 acres is part of the main Copperwood Project area. The secondary lease, covering 2,382 acres, located adjacent to the project area was held under an option agreement by Highland Copper Company, Inc. until they were ready to begin drilling for core samples to establish the resource potential. In 2017, Highland Copper Company, Inc. exercised this option and it was converted to a mining lease resulting in higher annual rental payments. On June 15, 2018, Highland Copper Company Inc. (TSXV: HI) reported in its press release that they had recently completed a feasibility study of its Copperwood Project. On January 18, 2019, Highland Copper Company, Inc. published another press release announcing it recently secured additional environmental mining regulatory permits from the State of Michigan for the project. Highland Copper Company, Inc. has indicated that, upon financing, construction and commissioning of the mine is anticipated to require a minimum of three years. Investors can find additional information on Highland Copper Company, Inc.'s website, www.highlandcopper.com.
Our mineral rights ownership by subsidiary is listed below:

	Surface Only	Surface & Subsurface	Total Surface	Subsurface Only	Total Subsurface
Acres Located In:					
Keweenaw Land Association, Limited	72,707	110,765	183,472	3,119	113,884
Keweenaw Minerals, LLC	-	-	-	287,262	287,262
Keweenaw Properties, LLC	-	156	156	-	156
Ironwood Mines LLC	-	375	375	190	565
Total	72,707	112,296	184,003	290,571	401,867

Real Estate Assets

Keweenaw's real estate program focuses on divesting of non-core timberlands, which are more valuable for development, recreation and conservation purposes. Proceeds from land sales are used in a variety of ways that include acquiring other high-quality timberland, paying down debt and other working capital and business purposes.

Keweenaw has developed a comprehensive real estate plan that identifies non-core properties available for disposition. The plan includes numerous unique, Highest and Best Use (HBU) tracts, water frontage and recreational tracts. The table below highlights properties available for sale by category.

	Miles of Frontage	Acres
Real Estate Properties		
Rivers & Inland Lakes	30 Miles	
Lake Superior	8 Miles	
Recreational/As-Is Property		3,777
HBU Property		3,540
Conservation		3,701

The Company's wholly owned subsidiary, Keweenaw Properties, LLC, was organized in 2002 to develop and sell rural residential lots. A total of eight developments with sixty-one lots were initially marketed in 2002. Lot sales were very successful for the first several years of the program. However, with the onset of the economic downturn in 2008 and 2009 rural development property demand became challenging and sales dwindled. As of December 31, 2018, Keweenaw Properties had five developments and twenty-three lots remaining to sell. Unless market conditions change, the Company does not intend to invest additional resources into development activities.

Land acquisitions were modest in 2018 with the purchase of one tract totaling seventy-six acres for $51,000. The tract provided legal and more practical access to existing ownership.

Competition

We compete with various private and industrial timberland owners as well as governmental agencies who are either selling stumpage and/or are selling direct to mills. Factors affecting the level of competition in our industry include price, species, grade, quality, proximity of the mill customer, and our reliability and consistency as a supplier. We also compete with those that are selling direct to market for logging and hauling contract services. The key factor influencing contractor competition is rate of pay, but other important variables include terms and reliability of payment, seasonality of logging, and impacts on overall productivity such as timber quality and road access.

Seasonality

Our harvest operations are affected by weather conditions. Unseasonably wet weather, deep snow and bitterly cold winter weather could reduce harvest volume but boost prices due to limited supply. Wet weather and deep snow hinder the ability to operate harvesting equipment and transporting wood. However, unseasonably dry weather and favorable frozen winter conditions could increase supply and subsequently reduce prices.

Employees

As of December 31, 2018, we had seventeen full-time, non-union employees.

Section 1A. RISK FACTORS

The following risk factors could affect our business, financial condition, or results of operations. These risk factors should be considered in connection with evaluating the forward-looking statements contained in this annual report because they could cause the actual results and conditions to differ materially from those projected in forward-looking statements. Before you buy our common stock, you should know that investing in our common stock involves risks, including the risks described below. The risk factors that are highlighted here are not the only ones we face. If the adverse matters referred to in any of the risk factors actually occur, our business, financial condition, or operations could be adversely affected. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Related to Our Industry and Our Business

Adverse changes in economic conditions may negatively affect our earnings, capital and liquidity.

The results of operations for natural resource companies, including ours, may be materially and adversely affected by changes in regional and national economic conditions, including declines in real estate market activity and the related declines in the demand for certain forest products, and rapid increases or decreases in interest rates and changes in the monetary and fiscal policies of the federal government, including, for example, the impact of recent changes to US tax laws pursuant to the 2017 Tax Cuts and Jobs Act.

Both domestic and international macroeconomic factors impact our business.

Certain of our segments depend upon markets for publishing grades of paper in the United States and in other countries. Our geographic concentration in the northern Michigan/Upper Midwest region increases our exposure to short- and long-term demand of publishing papers. Factors affecting demand and production of these products will have a disproportionate impact on our business and may be difficult or impossible to predict or estimate accurately.

Our industry sector is highly competitive, and larger competitors may have better resources than we do to withstand negative impacts of price fluctuations and to operate efficiently.

We compete against larger companies in our industry sector, and these companies often have greater resources, better capital access, and other operational advantages over our Company. These advantages can allow the other companies to better withstand certain problems, including price fluctuations, changing market trends, economic downturns, and other similar issues. If the larger companies are able to leverage their advantages effectively, they may be able in certain instances to out-perform us and we may subsequently fail to keep existing customers or fail to earn new customers, which in turn may materially adversely impact our business.

Downturns in house-building activity and other lumber-heavy activities could adversely impact us.

The housing markets strongly impact both our timberland operations and our real estate operations. Much of the higher value wood we produce goes toward house-building and house-renovation activities, and any downturns in such markets (*e.g.*, a drop in real estate activity regionally or nationally, depending on economic conditions), can impact the demand for our wood products and, in turn, potentially materially adversely affect our operations.

Our markets are also affected by demand for furniture, molding/millwork, cabinets, wood flooring, and industrial/pallet lumber markets. Should demand decline for any of these market segments, so would the demand for our timber. For pallet lumber, this is also the risk of substitution away from hardwoods which is our primary product to softwood or other non-wood substitutes such as plastic.

Access to active credit markets is essential for our operations and our customers.

If access to active credit markets is limited or diminished, this can prevent mills, log brokers, and other companies from doing business with us, and lack of access to credit can also lead to a downturn in customer spending generally, which can reduce our sales and cash flows and materially adversely affect our business. Our holding and disposition of real property is similarly affected by access to active credit markets, such that activity on the real property side of our business may also suffer if customers cannot finance the acquisition of real property due to poor credit markets.

Our business depends substantially on seasonality/cyclicality in the market.

The activity and sales levels of our business are influenced significantly by the seasonality and cyclicality in the market, with demands for our products (and our ability to meet those demands) varying substantially throughout the year. We have historically incurred losses in the first and second quarters, while revenue and operating income generally peak in the third quarter of the calendar year. Extreme or severe weather conditions and events, including excessively low or high temperatures, can negatively impact our productivity and operational efforts, which in turn can materially adversely impact our business.

If any of our major customers experience financial struggles, this can diminish our sales volumes and cash flow, and this can have a materially adverse impact on our business.

Some of our customers are significantly larger than other customers, and though we rely on business from all of our customers, certain customers comprise a greater proportion of sales than others. Should any of our larger customers experience financial difficulties, including but not limited to bankruptcy, they may no longer be able to buy our products, and we may not efficiently, if ever, find reliable replacement customers for these customers. All of this can materially adversely affect our business.

Harvesting timber is subject to several potential limitations and problems that can affect our profitability and the performance of our business.

Our timber harvest levels may be affected by acquisitions of additional timberlands, sales of existing timberlands and shifts in harvest from various timber types within our ownership. Our timberland resources are subject to several potential limitations and problems, including adverse weather conditions, vandalism, access issues, plant disease, insect infestations, and other related problems. These problems can make harvesting timber complex, difficult, or impossible at times, and can increase our costs, which in turn can hurt our profits and materially adversely impact our business.

Our estimates of timber inventories and growth rates may be inaccurate and include risks inherent in calculating such estimates, which may impair our ability to realize expected revenues.

Whether in connection with managing our existing timberland portfolio or assessing potential timberland acquisitions, we make and rely on important estimates of merchantable timber inventories. These include estimates of timber inventories that may be lawfully and economically harvested, timber growth rates and end-product yields. Timber growth rates and yield estimates are developed internally and with other experts using statistical measurements of tree samples on given property. These estimates are central to forecasting our anticipated timber harvests, revenues and expected cash flows. While the Company has confidence in its timber inventory processes and the professionals in the field who administer it, growth and yield estimates are inherently inexact and uncertain. If these estimates are inaccurate, our ability to manage our timberlands in a sustainable or profitable manner may be compromised, which may cause our results of operations and our stock price to be adversely affected.

Our operating results and cash flows will be materially affected by supply and demand for timber.

Timber prices are also affected by changes in timber availability at the local, national and international level. Increases in timber prices often result in substantial increases in harvesting on private timberlands, while any substantial increase in timber harvesting from publicly-owned land could significantly reduce timber prices. On a local level, timber supplies can fluctuate depending on factors such as changes in weather conditions and harvest strategies of local timberland owners as well as occasionally high timber salvage efforts due to events such as pest infestations, wind storms or other natural disasters.

Some of our core products, including wood and wood products, are used in the manufacture of commodities and are available from a wide range of providers.

Our products are the raw material inputs used in the manufacture of commodities and are widely available at this time in the market, as supply remains strong and there are several producers. This wide availability of identical raw materials leads to increased levels of competition and makes it more difficult for our business to distinguish itself in the market. Any failure to compete with our peers or to distinguish our business can lead to a downturn in our sales and revenues, which would have a material adverse impact on our business.

Decline in domestic and world-wide demand for publishing paper, driven by the shift in consumer preference to electronic media, pose a significant risk to the long-term viability of paper manufacturers and reduce the demand for pulpwood.

We derive a significant amount of revenue from the sale of pulpwood which is used in the manufacturing white, publishing papers. Internationally and regionally there has been a reduction in production capacity through machine and mill closures. Continued reduction in publishing paper demand may lead to additional mill closures which would adversely impact price and demand for our pulpwood.

We largely cannot predict natural disasters, and if they occur, we may incur losses as a result of any resulting damage to our properties.

Forests can experience several potential natural disasters and problems, including wildfires, thunderstorms, invasive species and the destruction they can cause, diseases affecting plant life, floods, and other such problems. We may be affected by changes to climate or weather patterns over time, and severe weather of any kind can and often does cause damage to our properties, and can also reduce our productivity, development, and harvesting of lumber. At this time, we have elected not to carry fire insurance to insure against loss of our standing timber due to forest fires, although our offices and equipment are insured.

We have had a long history of mining activity with some of our properties, and such activity can lead to hazards on our properties, and subsequently can lead to liabilities for our business.

Mining activity can cause subsidence, which is the gradual caving in or sinking of an area of land. Since mining activity has occurred under some of our properties, this might cause subsidence in the future, which can lead to accidents and other liabilities that can materially adversely impact our business, including, for instance, the loss of our standing timber and damage to our land. We monitor any sites facing such risks of which we are aware and such sites are monitored annually to minimize loss due to subsidence.

Our operations are geographically concentrated, and we may face greater impacts from localized events than would more geographically diverse timber companies.

Located primarily in the western upper peninsula of Michigan and in northern Wisconsin, events and complexities affecting specific locales in the northern Michigan/Wisconsin region may impact us more significantly (and potentially negatively) than they would affect a comparable company with more diverse geographical operations. For example, disease and insect infestations tend to be local or regional in scope, and because our businesses are geographically concentrated, events of this nature may significantly affect our timber operations. Similarly, because the vast majority of our real estate operations are limited to northern Michigan, regional impacts such as growth patterns, weather patterns, and natural disasters, as well as socio-political events such as environmental and land use initiatives, may disproportionately affect that segment more significantly than a company whose operations are less concentrated.

Our log prices may be driven down by the consolidation of veneer and sawmills and pulpwood consuming mills in our geographic operating areas, which in turn may adversely affect our business.

Sawmills and pulpwood consuming mills along with other wood products manufacturing facilities in the area in which we operate have been consolidated in the past, and may be further consolidated in the future, for a variety of reasons, including cost savings. Such consolidation can drive up our costs by making it more expensive to transport our logs, and may also diminish competition for our logs, both of which can negatively impact our prices and profits, and, subsequently, our business.

Experienced contract loggers and truck drivers are often in short supply and these individuals may prefer to work for companies that can offer more consistent workflow than our Company may be able to offer, as well as potentially better benefits and pay.

We depend on contract loggers and truck drivers to produce and transport our products. These individuals are generally in high demand and they may show preference for other work opportunities if such opportunities are available on more consistent or long-term bases. Available drivers and drivers who presently contract for us may also select or move onto other opportunities if such opportunities promise better benefits and pay than we can provide. If we fail to locate and retain an adequate number of contract loggers or truck drivers, particularly during higher-demand times of the year, then the efficiency of our operations will be negatively affected, which, in turn, can have a materially adverse impact on our business.

Rising diesel fuel prices can negatively impact our logging and hauling costs and, in turn, materially adversely affect our business.

The price of diesel fuel has a significant impact on the profitability of our logging and wood hauling contractors. Increasing diesel prices, particularly increases that persist over a long period of time, can increase our operating expenses and cause them to fluctuate unpredictably. If we are unable to pass on these increased costs to our customers, then our margins will be reduced, and this can materially adversely impact our business.

The Company has recently experienced a change in board control and executive leadership; an effective leadership transition is crucial to the Company's strategic vision and long-term success.

At the Company's annual meeting on April 12, 2018, the shareholders elected three new directors, each nominated by Cornwall Capital Management, LP, to the board of directors, adding to the two existing directors, nominated by Cornwall Capital Management, LP, already on the board. As a result, this election shifted control of the board from the prior owners to those nominated by Cornwall Capital Management, LP. This change of control triggered certain payments associated with executive agreements and resulted in significant changes in executive management. David Ayer, Chairman of the board, Brian Glodowski, CEO, and James Simmons, Treasurer resigned during 2018. The Company has retained Glodowski and Simmons as consultants. On December 1, 2018, the Company promoted Mark Sherman to President. On February 18, 2019, the Company hired Claudio Nicoletta as CFO. Effective implementation of the strategic direction of the newly constituted board depends in substantial part on the ability to retain and effectively transition new executive leadership. The Company's failure to enable the effective transfer of knowledge and facilitate smooth transitions with regard to key employees could adversely affect our long-term strategic planning and execution and negatively affect our business, financial condition, operating results, and prospects. If we fail to effectively transfer of knowledge and facilitate smooth transitions for key personnel, the operating results and future growth for our business could be adversely affected, and the morale and productivity of the workforce could be disrupted.

Any damage to our reputation is likely, in turn, to hurt our business operations.

Over our extended period of operations, we have strived to build a strong reputation for our Company, including with regard to the quality of its products and the trust it has built with customers. Any damage to our reputation can hurt our ability to operate or grow our business, and this in turn can materially adversely impact the results of our operations.

Risks Related to Regulatory and Legal Matters

There are statutory and regulatory restrictions, as well as social factors (e.g., the media), that may negatively impact, or outright limit, our ability to generate income and cash flow.

Certain of our core activities, including growing and harvesting timber, are subject to laws, regulations, and court orders that can limit or prevent us from pursuing such activities. Environmental protection initiatives and groups may impose obstacles to our business, including by lobbying for changes to existing laws and regulations that can affect our business negatively and by campaigning against companies with operations like ours in the media.

Changes in forest tax laws in the States we operate in may have a negative impact on our business.

Both Michigan and Wisconsin have forest tax laws that we operate under that provide significant financial incentives to manage timberlands sustainably and for the production of forest products. Changes to these tax laws that would significantly increase the tax rate structure on our timberlands may have a detrimental impact on our profitability and overall value of the Company.

Certain activists, including environmentalists, may pursue campaigns against companies in our industry and are likely to do so in the future, and such campaigns may have an adverse impact on the value of our assets or on our ability to generate revenues from our timberlands.

Environmentalist and other activist groups, political organizations, Native American tribes, and other forces in the legislative, administrative, and judicial spheres may seek the imposition of more stringent regulations on our business, including with regard to any properties we have that may be in need of environmental remediation. Activist groups opposed to businesses like ours are not likely to diminish in the foreseeable future, and in some instances their campaigns may have a material impact upon the revenues we can generate from our properties or upon the costs of generating those revenues.

From time to time, we may be involved in lawsuits that cost significant time and money.

We cannot predict whether we may sue or be sued from time to time, but any litigation in which we become involved would likely cost us a significant amount of money and can distract management, which in turn can materially adversely affect our business.

Risks Related to Our Common Stock

Our common stock is not registered with the Securities and Exchange Commission and is not listed on, or subject to the regulations of, any stock exchange. Consequently, the Company has not been required to file periodic reports or provide updated information to the market.

Our common stock is traded on the Over-The Counter (OTC) bulletin board, commonly called the "Pink Sheets". It is not registered with the Securities and Exchange Commission, and the shares are not listed on any stock exchange or other regulated trading platform. Consequently, the Company has not been required to make periodic filings of financial and other information, or to publicize material developments in its business. The Company anticipates becoming more transparent in its publicity and to begin preparing and distributing regular financial reports, but there can be no assurance that the information provided would be sufficient to satisfy the disclosure requirements of any regulatory authorities.

We have witnessed relatively low historic trading volumes of our common stock and have limited market capitalization, and, as a result, the trading prices of our common stock may be more volatile than would an investment in a more liquid security.

Our common stock is thinly-traded and we have a small public float. Many brokers are restricted from trading in our stock due to lack of sufficient public information, restrictions on pink sheet securities or other factors. These factors can make trading our stock more volatile than trading in a more heavily traded security, or a security in a larger, more well-established company. This prospective volatility increases the risk of investing in our common stock and can drive down the price of our common stock and reduce opportunities for investors to buy or sell our common stock.

Section 2. LEGAL PROCEEDINGS

From time to time, we are party to legal proceedings, which arise in the ordinary course of our business. We are not currently involved in any legal proceedings of which the outcome is reasonably likely to have a material effect on our results of operations or financial condition, nor are we aware of any such legal proceedings contemplated by governmental authorities.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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 balance sheet as of December 31, 2018, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for the year 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 audit. We conducted our audit 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, 2018, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matter
The financial statements of Keweenaw Land Association, Limited and Subsidiaries as of and for the year ended December 31, 2017 were audited by other auditors. Those auditors expressed an unmodified opinion on those 2017 financial statements in their report dated February 21, 2018.

Grant Thornton LLP

Chicago, Illinois
March 22, 2019

KEWEENAW LAND ASSOCIATION, LIMITED AND SUBSIDIARIES
Consolidated Income and Comprehensive Income Statements
For the Years Ended December 31

	2018	2017
Revenues		
Timber Sales	$ 14,211,739	$ 11,488,785
Land Sales	1,449,000	167,000
Prepaid Assets	61,000	-
Lease Income, Mineral Royalties, and Service Fees	263,670	490,528
Total Sales	**15,985,409**	**12,146,313**
Cost of Sales		
Timber Cost of Sales	10,403,593	8,425,373
Land Cost of Sales	407,863	5,556
Developed Lot Development Costs of Sale	35,666	-
Timber Operations Forestry Expense	755,517	712,839
Land Management Costs	463,534	567,340
Total Cost of Sales	**12,066,173**	**9,711,108**
Gross Profit	**3,919,236**	**2,435,205**
Selling, Management & Administration Expenses	**1,603,845**	**1,710,972**
Nonrecurring Expenses	**2,349,136**	**660,949**
Operations Income	(33,745)	63,284
Other Income	**72,979**	**894,233**
Other Expense		
Interest Expense	677,139	475,541
Earnings(Loss) Before Income Taxes	**(637,905)**	**481,976**
Provision(Benefit) for State and Federal Income Taxes	**(195,993)**	**(85,643)**
Net Income (Loss)	**(441,912)**	**567,619**
Other Comprehensive Income, Net of Tax		
Unrealized Gains (Losses) on Securities		
Unrealized Holding Gains Arising During the Period	(173,358)	311,341
Less: Reclassification Adj. For Gains Included in Net Income	-	(525,507)
Other Comprehensive Income	(173,358)	(214,166)
Comprehensive Income (Loss)	**($615,270)**	**$353,453**
Net Income (Loss) Per Share:		
Basic	**(0.34)**	**0.44**
Diluted	**(0.34)**	**0.44**
Comprehensive Net Loss Per Share:		
Basic	**(0.47)**	**0.27**
Diluted	**(0.47)**	**0.27**
Weighted Average Shares Outstanding:		
Basic	**1,301,550**	**1,300,189**
Diluted	**1,301,781**	**1,300,189**

See Accompanying Notes

KEWEENAW LAND ASSOCIATION, LIMITED AND SUBSIDIARIES
Consolidated Balance Sheets
For the Years Ended December 31

	2018	2017
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 2,739,990	$ 2,906,698
Accounts Receivable, Net of Allowance for Doubtful Accounts of $13,422 and $13,033 at December 31, 2018 and 2017.	750,752	717,482
Investments in Marketable Securities	2,338,726	2,558,166
Prepaid Assets	283,644	288,324
Log Inventory	167,426	52,011
Federal Income Tax Receivable	49,705	49,044
Other Current Assets	36,066	38,499
Total Current Assets	**6,366,309**	**6,610,224**
Non-Current Assets		
Timber and Timberlands, Net of Depletion	31,700,536	32,303,792
Prepaid Developed Lot Costs	379,808	409,880
Property, Plant and Equipment Net of Depreciation	1,307,713	1,288,141
Total Non-Current Assets	**33,388,057**	**34,001,813**
TOTAL ASSETS	**$39,754,366**	**$40,612,037**
LIABILITIES & STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts & Deposits Payable	$ 67,096	$ 51,177
Current State and Federal Deferred Income Tax Liability	167,784	392,222
Other Accrued Liabilities	714,274	892,109
Total Current Liabilities	**949,154**	**1,335,508**
Non-Current Liabilities		
Long Term Debt	18,513,236	18,489,299
Non-Current State and Federal Deferred Income Tax Liability	197,521	197,505
Total Non-Current Liabilities	**18,710,757**	**18,686,804**
Total Liabilities	**19,659,911**	**20,022,312**
Stockholders' Equity		
Common Stock Issued	85,111	85,032
Accumulated Other Comprehensive Income	974,255	1,147,613
Retained Earnings	19,035,089	19,357,080
Total Stockholders' Equity	**20,094,455**	**20,589,725**
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	**$39,754,366**	**$40,612,037**

See Accompanying Notes

KEWEENAW LAND ASSOCIATION, LIMITED AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
For the Years Ended December 31

	Common Stock Issued	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders' Equity
January 1, 2017, Balance	**$84,943**	**$1,172,930**	**$18,839,438**	**$20,097,311**
Changes during 2017:				
Comprehensive Income:				
Net Income			567,619	567,619
Other Comprehensive Income:				
Unrealized Gains on Securities,				
Net of Tax Expense of $160,388		311,341		311,341
Reclassification Adjustment for losses in				
Net Income net of tax benefit of $270,715		(525,507)		(525,507)
Reclassification (2017 Tax Act Changes)		188,849	(188,849)	0
Impact of Shares Issued to Directors & Officers	89		138,872	138,961
December 31, 2017, Balance	**$85,032**	**$1,147,613**	**$19,357,080**	**$20,589,725**
Changes during 2018:				
Comprehensive Income:				
Net (Loss)			(441,912)	(441,912)
Other Comprehensive Income:				
Unrealized (Losses) on Securities,				
Net of Tax benefit of $46,082		(173,358)		(173,358)
Impact of Shares Issued to Directors & Officers	79		119,921	120,000
December 31, 2018, Balance	**$85,111**	**$974,255**	**$19, 035,089**	**$20,094,455**

See Accompanying Notes

KEWEENAW LAND ASSOCIATION, LIMITED AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Years Ended December 31

	2018	2017
Cash Flows From Operating Activities		
Net Income (Loss)	**$(441,912)**	**$567,619**
Adjustments to Reconcile Net Income to Net Cash From (For) Operating Activities:		
Depletion, Depreciation, and Amortization	640,275	493,269
Amortization of Loan Costs	23,937	24,394
Changes in Operating Assets and Liabilities:		
Decrease (Increase) in Accounts Receivable	(33,270)	(349,808)
Decrease (Increase) in Prepaid Assets	4,680	710,099
Decrease (Increase) in Log Inventory	(115,415)	(29,928)
Decrease (Increase)in Federal Income Tax Receivable	(661)	-
Decrease (Increase) in Other Current Assets	2,433	-
Increase (Decrease) in Deposits and Accounts Payable	15,919	(8,201)
Increase (Decrease) in Deferred State and Federal Income Taxes	(178,239)	(125,542)
Increase (Decrease) in Other Accrued Liabilities	(177,835)	266,683
(Gain) Loss on Sale of Securities	-	(796,222)
(Gain) Loss on Sale of Land	(1,066,471)	(161,444)
Net Cash Flow From (For) Operating Activities	**(1,326,559)**	**590,919**
Cash Flows From (For) Investing Activities:		
Net Sales (Purchases) of Property and Equipment	(200,692)	(497,082)
Proceeds from Sale of Securities	-	858,772
Primary Road Construction	(34,255)	(19,120)
Purchases of Land	-	(15,214,114)
Proceeds (Expenditures) from Land Sales/Development Net of Closing	1,274,798	165,379
Net Cash Flow From (For) Investing Activities	**1,039,851**	**(14,706,165)**
Cash Flows From (For) Financing Activities:		
(Decrease) in Long Term Debt for Loan Acquisition Costs	-	(235,095)
Term Loan Borrowing	-	13,700,000
Issuance of Common Stock	120,000	138,961
Net Cash Flow From (For) Financing Activities	**120,000**	**13,603,866**
Net Cash Flows	**(166,708)**	**(511,380)**
Beginning Cash and Cash Equivalents	**2,906,698**	**3,418,078**
Ending Cash and Cash Equivalents	**$2,739,990**	**$2,906,698**
Cash Paid (Received) during the year for:		
Interest Paid	**$638,305**	**$408,831**
Federal and State Income Taxes Paid	**($53,416)**	**$5,000**

See Accompanying Notes

1. Summary of Significant Accounting Policies

Basis of Presentation and 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 financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP) of the United States of America.

Use of Estimates

The preparation of the financial statements in conformity with GAAP 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.

Reclassification

Certain prior period amounts have been reclassified to conform with the current period's financial statement presentation. Investments in marketable securities have been reclassified from non-current assets to current assets. The state and federal deferred income taxes related to the difference between the fair market value of the investments in marketable securities and their cost has also been reclassified to current liabilities from non-current liabilities. Properties has been split into timber and timberlands net of depletion and prepaid developed lot costs. The consolidated Income Statement has been reformatted to show gross profit from land and timber operations. Nonrecurring expenses have been separately stated under operating expenses.

Recent Accounting Pronouncements:

In February 2016, the FASB issued guidance that revises the accounting for leases. The guidance is intended to improve financial reporting of leasing transactions by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet. The guidance is effective for our first quarter of fiscal year 2020 with early adoption permitted and is required to be applied using a modified retrospective approach to each prior reporting period. We are currently evaluating the impact of this guidance but have not yet determined the effect on our consolidated financial statements.

In May 2014, the FASB issued guidance on the recognition of revenue from contracts with customers. The core principle of the guidance is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration which the company expects to receive in exchange for those goods or services. In July 2015, the FASB decided to defer the effective date for this new revenue standard by one year, which will make the guidance effective for our first quarter of fiscal year 2019 financial statements. We are currently evaluating the impact of this guidance and it will be completed in the first quarter of 2019.

Cash and Equivalents

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

Accounts Receivables and Bad Debts

The company extends unsecured credit to some of its customers and uses the allowance method for accounting for bad debts. Management evaluates all accounts receivables at the balance sheet date to determine the allowance.

Investment in Marketable Securities

Management determines the appropriate classification of its investments in marketable securities at the time of purchase and re-evaluates such determination at each balance sheet date. Marketable securities are classified as available for sale and are carried at fair market value, with the unrealized gains and losses, net of state and federal income taxes, reported as accumulated other comprehensive income in a separate component of stockholders' equity.

Log Inventory

Is valued at the lower of cost or market using the average cost method.

Timber and Timberlands

Consist of the recorded costs of timber and timberland holdings. 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 net of related depreciation have been capitalized and included in timber and timberlands.

Road Building Costs

The Company has an accounting policy to identify, classify, and depreciate or capitalize road-building costs consistent with GAAP. Logging roads constructed under the policy are classified as either permanent or secondary logging roads. Permanent logging roads are those roads, culverts, bridges, and other improvements constructed to provide regional access to a series of timber stands and/or other 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 permanent roads are capitalized. Roadbed costs are treated as permanent costs of the land. Costs of road surfacing, culverts, bridges, and other improvements on permanent 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.

Prepaid Developed Lot Costs

Include the costs of those properties assigned for development, as well as all accumulated expenditures for lot development.

Property, Plant, and Equipment

Assets are individually identified on the depreciation schedule. Assets are carried at cost and the provision for depreciation is generally computed using the straight-line method over the estimated useful lives of the assets. Salvage value is assigned to vehicles and other significant assets and for those assets, depreciation is used over the useful life until the salvage value is reached. Management reviews the salvage value of each of these assets at the end of each year to determine if the salvage value is reasonable. If the estimated fair market value is less than the salvage value, the asset is written down to the estimated fair market value.

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 basis 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.

Common Stock

All Keweenaw common shares previously purchased by the Company are considered authorized but unissued shares. The cost basis for Keweenaw's common shares was determined to be $0.065392 per share. This is the amount credited to common stock when stock is issued. The excess of the issue price over cost is credited to retained earnings.

Fair Value Measurements

Management has reported all significant financial and non-financial assets and liabilities at their fair value in Footnote 13 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.

2. Investments in Marketable Securities

The following is a summary of investment securities classified as available for sale as of December 31, 2018:

	Cost	Unrealized Holding Gains	Fair Value
Current Investments:			
Equity Securities	$1,105,492	$1,233,234	$2,338,726
Investments Available for Sale	$1,105,492	$1,233,234	$2,338,726

Realized gains and losses are determined using the specific identification method.

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
Investments Available for Sale	$1,105,492	$1,452,674	$2,558,166

3. Timber and Timberlands

The following is a summary of the timber and timberlands and permanent logging roads at cost, less accumulated depletion and road depreciation as of December 31:

	2018	2017
Land and Mineral Holdings	$14,000,200	$14,002,761
Timber	23,369,163	23,493,323
Permanent Logging Roads	1,029,372	995,117
Properties at Cost	38,298,735	38,491,201
Less: Accumulated Timber Depletion	6,243,758	5,762,651
Less: Accumulated Road Depreciation	454,441	424,758
Net Carrying Value	$31,700,536	$32,303,792

The timber depletion expense and depreciation expense for permanent logging roads is as follows:

	2018	2017
Timber Depletion Expense	$480,526	$333,496
Depreciation Expense for Permanent Logging Roads	$29,664	$29,528

During the year ended December 31, 2018 the Company did not complete any significant timberland acquisitions. It completed the sale of 1,811 acres for $1,449,000 to the USDA-Forest Service. During the year ended December 31, 2017, the Company purchased 14,035 acres located in Iron County Wisconsin for $12,800,000 and 2,944 acres in Michigan for $2,414,114. There were no significant sales during this period.

4. Prepaid Developed Lot Costs

The company capitalizes the development costs for lots available for sale and these costs plus the cost of the lots is shown on the balance sheet. There were two lot sales in 2018 for $61,000 and no sales in 2017. At December 31, 2018 and 2017, there were 23 and 25 lots available for sale.

5. Property, Plant, and Equipment

A summary of property, plant, and equipment, at cost, less accumulated depreciation is as follows:

	2018	2017
Buildings	$412,413	$408,912
Furniture, Equipment, and Accessories	1,107,189	1,110,628
Machinery and Vehicles	481,215	447,241
Land Improvements	827,781	769,992
Equipment at Cost	2,828,598	2,736,773
Less: Accumulated Depreciation	(1,520,885)	(1,448,632)
Equipment, Net of Depreciation	$1,307,713	$1,228,141

The Company recorded depreciation expense for property, plant and equipment as follows:

	2018	2017
Depreciation Expense	$130,085	$130,245

6. Lines of Credit and Long-Term Debt

Keweenaw Land Association, Limited maintains banking relationships with Wells Fargo Bank, N.A., and Metropolitan Life (MetLife).

The Company has 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. Significant covenants of Wells Fargo require Keweenaw to ensure working capital as of the end of the year of not less than $1,000,000 and maintain a debt service ratio of 1.25 to 1.00.

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 December 31, 2018 and 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. The maturity date on this loan is December 9, 2026. Keweenaw also maintains a five-year revolving line of credit in the amount of $25,000,000, with a maturity date of December 6, 2021, with MetLife which carries an interest rate of 3-month LIBOR plus 150 bps and a .0875% on the uncommitted funds if the average unused portion is more than 50% of the maximum draw. If the average unused portion is 50% or less of the maximum draw interest of .0375% is charged. 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 and $13.7 million had been drawn on this line of credit as of December 31, 2018 and 2017, respectively. Significant covenants of MetLife require Keweenaw to not allow the outstanding principal balance of the loan to exceed 35% of the value of the timberlands owned by Keweenaw.

In addition to these financial covenants listed above, the debt agreements include customary covenants that limit the incurrence of debt and the disposition of assets, among others. At December 31, 2018, Keweenaw was in compliance with all applicable covenants.

At December 31, 2018, 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, 2018, and December 31, 2017.

The following table summarizes the long-term debt of the Company at December 31:

	2018	2017
Long-term Debt	$5,000,000	$5,000,000
Five-year Revolver	13,700,000	13,700,000
Less Unamortized Loan Costs	(186,764)	(210,701)
Total - Net of Current Portion	$18,513,236	$18,489,299

7. Income Taxes

Keweenaw recorded federal and state tax liabilities (assets) according to the following table:

	2018	2017
Federal:		
Current Provision for Federal Income Tax	$16,947	$74,999
Adjustment to Current Liability	(16,947)	-
2017 Income tax refund due	(41,986)	(19,687)
2018 Estimated payments to be refunded	(7,719)	-
Federal Income Tax Liability (Assets)	$(49,705)	$55,312
State (Michigan and Wisconsin):		
Provision for State Income Tax	$(706)	$20,213
Adjustment to Current Liability	706	-
2018 Estimated payments to be refunded	(9,158)	(5,667)
State Tax Liability (Assets)	$(9,158)	$14,546

At December 31, 2017, in addition to the liability above, the Company had a federal income tax receivable of $49,044 from the 2016-year income tax filing.

For the Company in 2017, P.L. 115-123, section 40310, extended the alternative tax for corporations with qualified timber gain, and made it applicable to 2017 at a rate of 23.8%. The Company qualifies for this rate on all of its taxable income for 2017. At the end of 2017, the Tax Cuts and Jobs Act reduced the corporate rate to 21% for 2018 and future years.

The provision for federal and state income taxes consists of the following for the years ending December 31:

	2018 Tax	2018 % Taxable Income	2017 Tax	2017 % Taxable Income
Federal Income Taxes:				
Tax Provision Computed at Statutory Rate	($122,974)	-21.0%	$110,321	23.8%
Tax vs. Book Income Timing Differences	(30,157)	-5.1%	(54,831)	-11.8%
Net Operating Loss Carry Forward	153,131	26.1%	0	0.0%
Foreign Taxes Paid	5,350	0.9%	9,146	2.0%
Change in Prior Year Tax Estimate	(22,297)	-3.8%	10,363	2.2%
Total Current Federal Tax Provision (Benefit)	(16,947)	-2.9%	74,999	16.2%
Reclassification of Deferred Federal Taxes Exclusive of Net Unrealized Gain/Loss on Investments	(126,027)	-21.5%	(179,083)	-38.6%
Total Provision for Federal Income	(142,974)	-24.4%	(104,084)	-22.5%
State Income Tax-Michigan and Wisconsin:				
Tax Provision Computed at Statutory Rate	(38,274)	-6.5%	31,687	6.8%
Tax vs. Book Income Timing Differences	(5,478)	-0.9%	(17,141)	-3.7%
Net Operating Loss Carry Forward	43,752	7.5%	0	0.0%
Change in Prior Year Tax Estimate	(706)	-0.1%	5,667	1.2%
Total State Current Tax Provision	(706)	-0.1%	20,213	4.4%
Deferred State Taxes Exclusive of Net Unrealized Gain/Loss on Investments	(52,313)	-8.9%	(1,772)	-0.4%
Total Provision for State Income Tax	(53,019)	-9.1%	18,441	4.0%
Provision for Taxes	($195,993)	-33.5%	($85,643)	-18.5%

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 are as follows:

Current:	2018	2017
Unrealized Gains (Losses) on Investments	$258,979	$305,062
Less Net Operating Loss Carry Forward	(126,683)	-
Total Current	132,296	305,062
Non-Current:		
Equipment Depreciation	170,937	150,163
Logging Roads Depreciation	21,249	17,295
Offset for State Deferred Tax Liability	(17,882)	(28,868)
Other Deferred Liabilities	(26,447)	8,610
Total Non-Current	147,857	147,200
Total Federal Deferred Tax Liability	$280,153	$452,262

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

Current:	2018	2017
Unrealized Gains (Losses) on Investments	$73,994	$87,160
Less Net Operating Loss Carry Forward	(38,506)	-
Total Current	35,488	87,160
Non-Current:		
Equipment Depreciation	48,839	42,904
Logging Road Depreciation	6,071	4,941
Other Deferred Liabilities	(5,246)	2,460
Total Non-Current	49,664	50,305
Total State Deferred Tax Liability	$85,152	$137,465

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 federal tax authorities for years before 2015 and state tax authorities for years before 2014.

8. Non-recurring Expenses

During 2018 and 2017 the Company considers the following transactions to be unusual or infrequent. The Real Estate Investment Trust (REIT) services are related to converting the Company to a REIT and include legal, tax and accounting services for reorganizing the Company. The Timber Investment Fund Write Off consisted of accumulated costs for investigating the feasibility of establishing a timber fund in the Lake States Region. The Strategic Review services principally related to exploring corporate reorganization strategies other than a REIT. The change of control costs related to settling employee contract agreements with a former board member, controller, and chief executive officer that were triggered as a result of the change of control of the Board. These expenses include legal fees and executive search costs. Proxy costs were incurred by the Company in a contested Board election. The following table summarizes the nonrecurring expenses incurred.

	2018	2017
REIT Services	$291,804	$183,563
Timber Investment Fund Write Off	0	297,226
Strategic Review	0	180,160
Change of Control Agreements	1,737,680	0
Proxy Costs	319,652	0
Total	$2,349,136	$660,949

9. Stock Based Compensation

On August 27, 2018, the company established a restricted stock compensation plan for eligible employees. 575 restricted shares were awarded and there are 555 shares in the plan at December 31, 2018. The shares are subject to various restrictions including forfeiture if the employee leaves the company before one year of employment from the date of the award. $19,706 was included in expense for 2018 related to this plan.

10. Other Income

A summary of other income the years ended December 31 is as follows:

	2018	2017
Interest and Dividends	$72,979	$98,011
Profit (Loss) on Security Sales	-	796,222
Total Other Income	$72,979	$894,233

11. Retirement Plans

The company is the sponsor of a 401(K) deferred compensation plan. The company made matching contributions equal to 50 percent of employee elective deferrals, not to exceed 5 percent of compensation as defined in the plan. In addition, the company made discretionary contributions to the plan in the amount of 5 percent of base compensation. Expenses related to the Company's 401(K) plan were:

	Year to Date	
	2018	2017
Total Pension Expense	$84,180	$89,398

12. 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 the year ended December 31, 2018, four customers accounted for approximately 28%, 19%, 9% and 9% of the Company's consolidated net sales and a combined 74% of the sales volume. During the year ended December 31, 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 9% or more of the Company's consolidated net sales.

The total cash held by the Company on December 31, 2018 and 2017 includes $2,489,990 and $2,906,698, 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.

13. 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, 2018, listed the fair market value of Keweenaw's land and timber at $148,900,000. Fair value measurements of the other assets and liabilities as of December 31, 2018 and 2017 are as follows:

	2018	2017
Land and Timber	$148,900,000	$167,362,669
Mineral Rights	5,433,605	7,167,888
Available for Sale Investment Securities	2,338,726	2,558,166
Other Assets and Liabilities – Net	4,568,429	3,807,186
Long-term Debt	18,513,236	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, 2018:

	Quoted Prices in Active Markets (Level I)	Other Observable Inputs (Level II)	Unobservable Inputs (Level III)
Land and Timber		$148,900,000	
Mineral Rights			5,433,605
Available for Sale Investment Securities	2,338,726		
Other Assets and Liabilities – Net			4,568,429
Long-term Debt		18,513,236	

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 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, 2017, Balance	$167,362,669	$3,807,186	$7,167,888
Purchases/Sales - Net Appraisal	(1,459,000)		
Valuation	(17,003,669)		
Change in discount rate assumptions			(1,734,283)
Net Change in Cost Basis		761,243	
December 31, 2018, Balance	$148,900,000	$4,568,429	$5,433,605

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.

14. Leases

In 2016, the Company began leasing logging equipment under long-term leases. The leases are operating leases. During the years ending December 31, 2018 and 2017 lease expense was $203,652 and $203,652 respectively. 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, 2018 are as follows:

Year	Lease Obligation
2019	210,717
2020	82,551
Total	$293,268

15. Subsequent Events

The Company has evaluated transactions through March 22, 2019. The Company has the following subsequent event. Keweenaw executed an option agreement on January 30, 2019 with the State of Wisconsin Department of Natural Resources to sell them a 14,352-acre conservation easement for $4,800,000. On February 27, 2019 Wisconsin's Natural Resource Board approved the purchase which sent the proposal to the State's Joint Finance Committee and then to the Governor for review and approval. Review and approval are still pending at the time of this publication.

Section 4. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our accompanying consolidated financial statements and notes thereto. See also “Cautionary Note Regarding Forward-Looking Statements” preceding Part I of this report, as well as our consolidated financial statements and the notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report for the year ended December 31, 2018.

Overview

As of December 31, 2018, Keweenaw, a land and timber management company, owned 184,003 acres of surface land and 401,867 acres of subsurface mineral rights in the western Upper Peninsula of Michigan and northern Wisconsin. Keweenaw derives 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.

Liquidity and Capital Resources

Keweenaw’s cash flow from operations was $(1,326,559) in 2018 versus $590,919 in 2017. Overall timber sale volume increased by 17% in 2018 over 2017 rising by over 16,000 cords. Despite the increase in sale volume, the timber income declined as a result of $2,349,136 of nonrecurring expenses realized in 2018.

Keweenaw sold 1,800 acres of forest land to the US Forest Service for $1,449,000. The property had relatively high conservation value, but poor timber value and productivity. The Company also sold two development lots for a gross sales price of $61,000. Despite the sale of two lots, the demand for developed property continues to remain low. The real estate market across the Upper Peninsula of Michigan has been uncertain since the market downturn of 2008.

Keweenaw made no sales of securities during 2018 and end of year the investment portfolio was valued at $2,338,726.

Capital expenditures totaled $235,000 in 2018. Capital costs were associated with company vehicles, tree planting, sort yard improvements and Company roads.

In 2018, no dividends were paid to shareholders. Keweenaw issued 1,200 shares to the board of directors with a cost amounting to $120,000 as part of the Board's annual compensation package. Keweenaw also issued a total 575 shares of restricted stock to employees as retention bonuses. On December 31, 2018, Keweenaw had $2,739,990 in cash and cash equivalents on hand compared to $2,906,698 at the end of 2017.

The Company has a single credit arrangement at Wells Fargo Bank Michigan N.A., which provides for a total of $1,000,000 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 2018 or 2017. At the end of 2018, 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 2018, 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 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. Total interest paid in 2018 on this loan was $152,500.

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 $12,700,000 against the revolver to fund the purchase of 14,356 acres of timberland in Iron County, Wisconsin. An additional $1,000,000 was borrowed to fund the purchase of 2,784 acres in Gogebic County. At the end of 2017, a total of $11,300,000 remained available for the strategic needs of the Company. Fees and interest associated with the revolver include quarterly payments on the unused facility of .0875%. Once the facility is used, there is the option to finance the amount borrowed at the existing 10-year Treasury note rate plus 150 basis points. Interest paid in 2018 on this loan totaled $500,056.

See Note 6 of the Notes to the Consolidated Financial Statements for an expanded discussion of the Company's available credit facilities.

Results of Operations

Timber Sales & Operations

2018 Company harvests set an all-time Keweenaw record at 111,319 cords (267,165 tons). This volume was in spite of challenging weather conditions, that included an extended spring thaw and unseasonably wet weather in the summer and fall. The 2018 sales volume was 17% higher than the 2017 volume of 95,232 cords (219,700 tons). The 2018 harvest included 109,589 cords from Company land and 1,730 cords from procured stumpage versus 2017 harvest volumes of 91,542 cords from Company land and 3,690 cords from procured sources.

2018 gross sales revenue was up by 24% at $14,211,739 versus the 2017 gross revenues of $11,488,784. 2018 Company land gross revenue was $14,007,001 up 26% over the 2017 Company land gross revenues of $11,068,847.

2018 gross sales from procured stumpage was down 51% at $204,738 versus 2017 procured stumpage gross sales of $419,937.

The overall increase in 2018 gross revenue was a result of increased sales volume and an improvement in price and mix. The volume increase contributed 18% and price/mix contributed 6% to the overall 24% gross revenue increase.

Timber sales volumes, sales product mix and net sales prices as a year to year comparison are shown in the following tables.

	Year Ended December 31,		
	2018	2017	% Change
Timber Sales Volume (cords)			
Veneer	2,204	1,760	25.2%
Sawlog	10,037	7,369	36.2%
Sawbolt	13,743	15,382	-10.7%
Pulpwood	85,335	70,721	20.7%
Total	111,319	95,232	16.9%
Product Mix			
Veneer	2%	2%	
Sawlog	9%	8%	
Sawbolt	12%	16%	
Pulpwood	77%	74%	
Net Timber Sales Price (per cord)*			
Veneer	$315.35	$291.01	8.4%
Sawlog	102.81	86.49	18.9%
Sawbolt	58.70	45.51	29.0%
Pulpwood	14.93	17.16	-13.0%
Total	$34.21	$32.17	6.3%

* Net prices per cord are rounded to the nearest dollar and are net of logging, hauling road and depletion costs

The increase in 2018 timber revenues over 2017 were driven by both price/mix and volume changes year over year. The total impact of those changes is reflected below:

	For the Year Ended December 31, 2018	Changes Attributed to: Volume	Price/Mix	For the Year Ended December 31, 2017
Sales				
Veneer	$965,288	25.2%	4.8%	$742,252
Sawlog	$2,410,624	36.2%	11.9%	$1,628,038
Sawbolt	$1,971,526	-10.7%	9.9%	$1,985,620
Pulpwood	$8,864,301	20.7%	3.6%	$7,132,875
Total	$14,211,739	17.7%	6.0%	$11,488,785

Costs of Operations

Contract logging and freight costs represent the majority of log production expense.

Total 2018 logging costs increased by 16% to $5,147,964 versus 2017 logging costs of $4,439,223. The logging cost increase is entirely attributable to the increased harvest volume in 2018. On a per unit basis, however, 2018 logging costs declined by $0.79 per cord to $45.60 per cord versus 2017's per unit cost of $46.39 per cord. The per unit decline is due to the 3% increase in pulpwood product mix in 2018 over 2017. Pulpwood is Keweenaw's lowest logging cost product.

Total freight cost in 2018 was $3,872,519 up 40% from 2017's freight total of $2,763,792. On a per unit basis, 2018 freight costs increased by $5.42 per cord to $34.30 per cord versus 2017's per unit cost of $28.88 per cord. Per unit freight costs were higher in 2018 on all product classes due to greater haul distances from harvest sites to customers. The 2018 pulpwood per unit freight cost was up $6.28 per cord over 2017 driven by an increase in hardwood pulp delivered to a higher margin customer at a greater haul distance. In addition, the 2018 per unit freight costs were driven up by an increase in softwood pulp sales at higher freight distances.

Costs associated with construction, maintenance and improvement of the company's logging roads is a major element of Keweenaw's production cost. 2018's road-building expenses were up 13% to $615,493 versus 2017 at $544,545. The increase is driven by the increase in 2018 harvest volume. On a per unit of production basis, 2018 road costs went down by $0.24/cord to $5.45 per harvested cord versus 2017 at $5.69 per harvested cord.

The 2018 and 2017 logging, freight and road cost is listed below.

	Production Cost Per Cord	
	2018	2017
Logging	$45.60	$46.39
Freight	34.30	28.88
Roads	5.45	5.69

Other operating expenses are associated with the costs of running Keweenaw's merchandising woodyard. Those costs rose to $357,673 in 2018 from $257,723 in 2017. Increases in insurance costs and volume through put drove the escalation in costs year over year.

Other Income

Other 2018 gross income including mineral royalties, lease and rental income, investment earnings, service fees and land sales was $1,846,649 up from $1,551,761 in 2017. The key driver behind other income in 2018 was the sale of 1,800 acres to the US Forest Service. These lands border the Presque Isle River, a Federally Designated Wild and Scenic River, and were considered as having greater conservation value than long term timber value.

Income from these various sources is unpredictable in nature and can vary widely from year to year. The breakdown of other income by category is reflected below.

	2018	2017
Other Income:		
Mineral Royalties	$19,233	$120,308
Lease Income	215,991	167,656
Investments	72,979	98,011
Securities Sales	-	796,222
Real Estate	1,510,000	167,000
Service Fees	28,446	202,564
Total	$1,846,649	$1,551,761

(1) Other Income in the table above includes the following line items from the Consolidated Income and Comprehensive Income Statements in Section 3 of this report (Land Sales, Developed Lot Sales, Lease Income, Mineral Royalties & Service Fees and Other Income).

Other Management Discussions

Execution of Option Agreement for the Sale of Conservation Easement to State of Wisconsin

On July 24th, 2018, the Company entered into an Option Agreement with the State of Wisconsin, Department of Natural Resources (WDNR) for the sale of a conservation and access easement on 14,352 acres of Company timberland in Iron County, Wisconsin for $5,741,000. Upon informal review by Wisconsin's Natural Resource Board in November 2018 the State felt the original valuation was too high relative to other sale comparables. After additional analysis a revised value of $4,841,000 was calculated by the WDNR. Of this amount, $400,000 will be set aside in an endowment to assist in covering annual costs of repairs and maintenance of specific access roads on the property. This agreement grants the State the option to purchase an easement which would eliminate future development and subdivision of the property but would specifically permit forest management activities and timber harvesting. The Company's Board approved the revised Option Agreement of $4,841,000 and executed the new agreement on January 29, 2019. The proposal then went on to Wisconsin's Natural Resource Board for review and approval, which they gave on February 27, 2019. The proposal is now with the Wisconsin legislature's joint finance committee then will continue to the Governor's office for final approval. While Keweenaw expects the review and approval process to be routine, and a possible completion of the sale in the second quarter of 2019, regulatory processes are inherently unpredictable. There can be no assurance that such closing will actually occur.

Nonrecurring Expenses

Keweenaw had a total net loss of $441,912 in 2018. This loss was in spite of a record year in timber harvests and excellent earnings in timber operations. The key driver behind the loss were the significant nonrecurring expenses totaling $2,349,136. Change of Control amounts and associated legal fees, REIT conversion, Proxy and Executive search accounted for the majority of the expense.

The breakdown of the nonrecurring expenses by category are reflected below.

	2018	2017
Nonrecurring Expenses		
REIT Services	$291,804	$183,563
Timber Investment Fund Write Off	-	297,226
Strategic Review	-	180,160
Change of Control Agreements	1,737,680	-
Proxy Costs	319,652	-
Total	$2,349,136	$660,949

Stock Incentive Plan

The Board believes it is critical to have management and employees' interests aligned with shareholders and think like owners. Equity stock ownership and incentives help accomplish this goal. On August 13, 2018, the Board unanimously approved a stock incentive plan enabling Keweenaw to grant equity-related awards to employees. This plan will better align the interests of current employees with those of shareholders. It will also help us to attract high quality candidates to senior executive positions at the Company.

Section 5. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS

As a result of our debt facilities, Keweenaw is exposed to interest rate changes. Keweenaw closely monitors interest rates and will continue to consider the sources and terms of our borrowing facilities to determine whether Keweenaw has appropriately guarded ourselves against the risk of increasing interest rates in future periods. Keweenaw does not enter into financial instruments for trading or speculative purposes.

A listing of Keweenaw's debt facilities can be found in Footnote 6 in the Notes to the Financial Statements.

Details of our variable-rate and effectively fixed-rate debt outstanding as of December 31, 2018, along with the corresponding average interest rates, are listed below:

($ in Thousands)	2018	2019	2020	2021	2022	Thereafter	Total
Maturing Debt:							
Variable-Rate Debt	$-	$-	$-	$13,700	$-	$-	$13,700
Effectively Fixed-Rate Debt	-	-	-	-	-	5,000	5,000
Average Interest Rate:							
Variable-Rate Debt *	-%	-%	-%	3.85%	-%	-%	3.85%
Effectively Fixed-Rate Debt	-%	-%	-%	-%	-%	3.05%	3.05%

*Variable-Rate Debt assumes Dec 31/2018 rate including non-commit portion.

As of December 31, 2018, the weighted-average interest rate of our outstanding debt was 3.63%. A 1.0% change in interest rates would result in a change in interest expense of approximately $137,000 per year.

Section 6. CHANGE IN AUDITOR

In accordance with its charter, the Audit Committee of the Company's Board has selected Grant Thornton LLP ("Grant Thornton") as our independent registered public accounting firm for the fiscal year ending December 31, 2018. Grant Thornton replaced Anderson Tackman & Company, PLC ("Anderson Tackman") effective February 4, 2019. The change in independent auditor was not related to any disagreement between the Company and Anderson Tackman. The Company intends to continue to work with Anderson Tackman on tax and other accounting matters and is thankful for its 25 years of service as the Company's independent auditor.

Section 7. ADDITIONAL INFORMATION

The information contained in Company's proxy statement for the Annual Meeting of Shareholders to be held May 6, 2019 is incorporated by reference into this report.