Keweenaw Land Association, Limited (A Michigan Corporation)

Quarterly Report for the period ended March 31st, 2019

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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 Quarterly 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. These reports represent interim financial results and additional risk factors are contained in our annual report under Section 1A *Risk Factors,* which can be found on the keweenaw.com website. 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. FINANCIAL INFORMATION

The information furnished in the accompanying unaudited consolidated balance sheets and related consolidated income statements, stockholders’ equity, and cash flows reflects all adjustments, consisting of solely of normal and recurring adjustments that are, in managements opinion, necessary for a fair and consistent presentation of the aforementioned financial statements. These results of operations for the three months ended March 31, 2019 are not necessarily indicative of the operating results expected for the full year.

KEWEENAW LAND ASSOCIATION, LIMITED AND SUBSIDIARIES
Consolidated Balance Sheets

	(Unaudited) March 31, 2019	December 31, 2018
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 5,592,600	$ 2,739,990
Accounts Receivable, Net of Allowances for Doubtful Accounts $13,422 and $13,422 at March 31st, 2019 and December 31st, 2018	918,576	750,752
Investments in Marketable Securities	-	2,338,726
Prepaid Assets	365,020	283,644
Log Inventory	90,296	167,426
Federal Income Tax Receivable	-	49,705
Other Current Assets	36,999	36,066
Total Current Assets	**7,003,492**	**6,366,309**
Non-Current Assets		
Timber and Timberlands, Net of Depletion	31,530,248	31,700,536
Prepaid Developed Lot Costs	379,808	379,808
Property, Plant and Equipment Net of Depreciation	1,307,070	1,307,713
Total Non-Current Assets	**33,217,126**	**33,388,057**
TOTAL ASSETS	**$ 40,220,618**	**$ 39,754,366**
LIABILITIES & STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts & Deposits Payable	$ 245,273	$ 67,096
Current State and Federal Deferred Income Tax Liability	-	167,784
Other Accrued Liabilities	1,065,291	714,274
Total Current Liabilities	**1,310,564**	**949,154**
Non-Current Liabilities		
Long Term Debt	18,019,134	18,513,236
Non-Current State and Federal Deferred Income Tax Liability	170,919	197,521
Total Non-Current Liabilities	**18,190,052**	**18,710,757**
Total Liabilities	**19,500,616**	**19,659,911**
Stockholders' Equity		
Common Stock Issued	85,192	85,111
Accumulated Other Comprehensive Income	-	974,255
Retained Earnings	20,634,810	19,035,089
Total Stockholders' Equity	**20,720,002**	**20,094,455**
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	**$ 40,220,618**	**$ 39,754,366**

See accompanying notes.

KEWEENAW LAND ASSOCIATION, LIMITED AND SUBSIDIARIES
Consolidated Income and Comprehensive Income Statements

	(Unaudited) Three Months Ended March 31	
	2019	**2018**
Revenues		
Timber Sales	$ 4,745,324	$ 4,174,440
Land Sales	640,000	-
Lease Income, Mineral Royalties and Service Fees	111,329	217,245
Total Sales	**5,496,653**	**4,391,685**
Cost of Sales		
Timber Cost of Sales	3,627,335	3,037,307
Land Cost of Sales	43,862	-
Timber Operations Forestry Expense	168,542	179,721
Land Management Costs	104,538	116,435
Total Cost of Sales	**3,944,277**	**3,333,463**
Gross Profit	**1,552,376**	**1,058,222**
Selling, Management & Administration Expenses	731,968	617,862
Nonrecurring Expenses	153,579	198,480
Operations Income	666,829	241,880
Other Income	1,503,226	8,346
Other Expense		
Interest Expense	189,046	144,894
Earnings Before Income Taxes	**1,981,009**	**105,332**
Provisions (Benefit) for State and Federal Income Taxes	480,924	(6,534)
Net Income	**1,500,085**	**111,866**
Other Comprehensive Income (Loss), Net of Tax		
Unrealized Gains (Losses) on Securities		
Unrealized Holding Gains Arising During the Period	206,110	(164,995)
Less: Reclassification Adj. For Gains Included in Net Income	(1,180,365)	-
Other Comprehensive Income	(974,255)	(164,995)
Comprehensive Income (Loss)	**$ 525,830**	**$ (53,129)**
Net Income Per Share:		
Basic	$ 1.15	$ 0.09
Diluted	$ 1.15	$ 0.09
Weighted Average Shares Outstanding:		
Basic	1,302,387	1,301,550
Diluted	1,302,618	1,301,550

See accompanying notes.

KEWEENAW LAND ASSOCIATION, LIMITED AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity

	Common Stock Issued	Accumulated Other Comprehensive Income	Retained Earnings	Total Shareholders' Equity
December 31, 2018 Balance	**$ 85,111**	**$ 974,255**	**$ 19,035,089**	**$ 20,094,455**
Changes during 2019:				
Comprehensive Income:				
Net Income	-	-	1,500,085	1,500,085
Other Comprehensive Income:				
Unrealized Gains on Securities,				
Net of Tax Expense of $263,049	-	(974,255)	-	(974,255)
Impact of Shares Issued to Directors & Officers	81	-	99,636	99,717
March 31, 2019 Balance (Unaudited)	**$ 85,192**	**$ -**	**$ 20,634,810**	**$ 20,720,002**

See accompanying notes.

KEWEENAW LAND ASSOCIATION, LIMITED AND SUBSIDIARIES
Consolidated Statements of Cash Flows

	(Unaudited) Three Months Ended March 31	
	2019	**2018**
Cash Flows From Operating Activities		
Net Income (Loss)	**$ 1,500,085**	**$ 111,866**
Adjustments to Reconcile Net Income (Loss) to Net Cash From (For)Operating Activities:		
Depletion, Depreciation and Amortization	183,554	204,046
Amortization of Loan Costs	5,898	6,045
Changes in Operating Assets and Liabilities		
Decrease (Increase) in Accounts Receivable	(167,824)	251,173
Decrease (Increase) in Prepaid Assets	(81,648)	(44,961)
Decrease (Increase) in Log Inventory	77,130	(242,118)
Decrease (Increase) in Federal Income Tax Receivable	49,044	(49,522)
Decrease (Increase) in Other Current Assets	-	-
Increase (Decrease) in Deposits and Accounts Payable	178,177	1,283
Increase (Decrease) in Deferred State and Federal Income Tax	388,406	(14,408)
Increase (Decrease) in Other Accrued Liabilities	27,204	(311,609)
(Gain) Loss on Sale of Securities	(1,494,133)	-
(Gain) Loss on Sale of Land	(596,138)	-
Net Cash Flow From (For) Operating Activities	**69,755**	**(88,205)**
Cash Flow From (For) Investing Activities:		
Net Sales (Purchases) of Property and Equipment	(30,456)	-
Proceeds from Sale of Securities	2,599,625	-
Primary Road Construction	-	-
Proceeds (Expenditures) from Land Sales/Development Net of Closing	613,970	-
Net Cash Flow From (For) Investing Activities	**3,183,139**	**-**
Cash Flows From (For) Financing Activities		
(Decrease) in Long Term Debt	(500,000)	-
Term Loan Borrowing	-	-
Issuance of Common Stock	99,716	120,000
Net Cash Flow From (For) Financing Activities	**(400,284)**	**120,000**
Net Cash Flows	2,852,610	**31,795**
Beginning Cash and Cash Equivalents	**2,739,990**	**2,906,698**
Ending Cash and Cash Equivalents	**$ 5,592,600**	**$ 2,938,493**

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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.

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. Management has reviewed the guidance and believes that there is no material impact to the financial statements.

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. All marketable securities were sold during the quarter.

Log Inventory

Log inventory is valued at the lower of cost or market using the average cost method.

Timber and Timberlands

Timber and Timberlands consist of the recorded costs of 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.

2. Investments in Marketable Securities

The following is a summary of investment securities classified as available for sale as of March 31, 2019:

	Cost	Unrealized Holding Gains	Fair Value
Current Investments:			
Equity Securities	$ -	$ -	$ -
Investments Available for Sale	**$ -**	**$ -**	**$ -**

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, 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**

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 March 31, 2019:

	(Unaudited) March 31, 2019	December 31, 2018
Land and Mineral Holdings	$ 14,000,200	$ 14,000,200
Timber	23,351,411	23,369,163
Permanent Logging Roads	1,029,372	1,029,372
Properties at Cost	38,380,983	38,398,735
Less: Accumulated Timber Depletion	(6,388,765)	(6,243,758)
Less: Accumulated Road Depreciation	(461,970)	(454,441)
Net Carrying Value	**$ 31,530,248**	**$ 31,700,536**

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

	(Unaudited) 3 Months Ended March 31	
	2019	2018
Timber Depletion Expense	$ 144,898	$ 164,951
Depreciation Expense for Permanent Logging Roads	$ 7,558	$ 7,408

During Q1 2019 the Company did not complete any timberland acquisitions.

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 no lot sales in Q1 2019 and no lot sales in Q1 2018. At March 31, 2019, there were 23 lots remaining for sale.

5. Property, Plant and Equipment

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

		(Unaudited) March 31, 2019		December 31, 2018
Buildings	$	415,862	$	412,413
Furniture, Equipment, and Accessories		1,112,005		1,107,189
Machinery and Vehicles		483,826		481,215
Land Improvements		827,781		827,781
Equipment at Cost		2,839,474		2,828,598
Less: Accumulated Depreciation		(1,532,404)		(1,520,885)
Equipment, Net of Depreciation	**$**	**1,307,070**	**$**	**1,307,713**

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

	(Unaudited) 3 Months Ended March 31			
		2019		2018
Depreciation Expense	$	31,099	$	31,687

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 Bank 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. 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. In Q1 2019, the Company utilized cash generated from the sale of securities to pay down the outstanding balance by $500,000 without pre-payment penalty. The current balance outstanding is $4,500,000. 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 $13,700,000 and $13,700,000 had been drawn on this line of credit as of March 31, 2019 and December 31, 2018, 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 March 31, 2019 Keweenaw was in compliance with all applicable covenants.

At March 31, 2019, 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 March 31, 2019 and December 31, 2018.

The following table summarizes the long-term debt of the Company at March 31,2019 and December 31, 2018:

	(Unaudited) March 31, 2019	December 31, 2018
Long-term Debt	$ 4,500,000	$ 5,000,000
Five-year Revolver	13,700,000	13,700,000
Less Unamortized Loan Costs	(180,866)	(186,764)
Total	**$ 18,019,134**	**$ 18,513,236**

7. 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:

	(Unaudited) 3 Months Ended March 31	
	2019	2018
Total Pension Expense	$20,581	$25,236

8. Concentration 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 Quarter end March 31st, 2019, four customers accounted for approximately 30%, 14%, 9% and 7% of the Company's consolidated receivables.

The total cash held by the Company on March 31, 2019 and December 31, 2018 includes $5,347,200 and $2,489,990, respectively. Cash and cash equivalents consist of cash on hand and demand deposits in banks. The Company considers all highly-liquid investments purchased with original maturities of three months or less to be cash and cash equivalents. The Company, at times throughout the year, may, in the ordinary course of business, maintain cash balances in excess of federally-insured limits. Management does not believe the Company is exposed to any unusual risks on such deposits.

9. Leases

In 2016, the Company began leasing logging equipment under long-term leases. The leases are operating leases. During the quarters ending March 31, 2019 and March 31, 2018 lease expense was $50,913 and $50,913 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 March 31, 2019 are as follows:

Year	Lease Obligations
Remaining Quarters in 2019	$ 159,804
2020	82,551
Total	**$ 242,355**

Section 2. 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".

Overview

As of March 31st, 2019, Keweenaw, a land and timber management company, owned 183,769 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 net cash flows totaled $2,852,610 in Q1 2019 versus ($166,706) in Q1 2018.

In Q1 2019, Keweenaw sold its investments in securities generating $2,599,625 in cash, and further generated cash from the sale of land for $613,970. Management plans to use excess cash to reduce debt levels in Q2 2019.

Capital expenditures totaled $30,456 in Q1 2019. Capital costs were associated with the purchase of a Company vehicle, and desktop computers.

In Q1 2019, no dividends were paid to shareholders. Keweenaw issued 1,200 shares to members of the board of directors with a cost amounting to $97,200 as part of the Board's annual compensation package. At March 31, 2019 Keweenaw had $5,592,600 in cash and cash equivalents on hand compared to $2,739,990 at the end of 2018.

The Company has a credit arrangement at Wells Fargo Bank, 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 Q1 2019 or 2018. On March 31, 2019, 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 Q1 2019, 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%. Terms of the 10-year interest-only loan with MetLife include quarterly interest payments at 3.05%. 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 Q1 2019 on this loan was $152,500. In Q1 2019, 10% or $500,000 of the MetLife interest only loan was paid back.

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 Q1 2019, 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 0.0875%. 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 Q1 2019 on this loan totaled $189,046.

Results of Operations

Timber Sales & Operations

Q1 2019 timber sales and harvest volumes set an all-time Keweenaw record at $4,745,324 and 38,136 cords, respectively. These results were achieved despite challenging weather conditions in the month of February that included several lost production days due to heavy snow and bitterly cold weather. Q1 2019 harvest volume was 7.6% higher than Q1 2018 volume of 35,427 cords. Q1 2019 harvest volume included 35,093 cords from Company land and 3,043 cords from procured stumpage versus Q1 2018 volume of 34,858 cords from Company land and 569 cords from procured sources.

Q1 2019 gross revenue increased by 13.6% versus the Q1 2018 revenue of $4,174,440. Q1 2019 Company land gross revenue was $4,382,683 up 6.5% over Q1 2018 Company land gross revenue of $4,113,173. Q1 2019 gross sales from procured stumpage increased by 492% to $362,641, versus Q1 2018 procured stumpage gross sales of $61,267.

The overall increase in Q1 2019 gross revenue was a result of increased sales volume and an improvement in price and mix. The volume increase contributed 10.1% and price/mix contributed 3.6% to the overall 13.6% gross revenue increase.

Timber sales volumes, sales product mix and net margin as a quarter to quarter comparison are shown in the following tables:

	(Unaudited) 3 Months Ended March 31		
	2019	2018	% Change
Timber Sales Volume (cords)			
Veneer	731	695	5.2%
Sawlog	2,606	1,991	30.9%
Sawbolt	5,677	4,171	36.1%
Pulpwood	29,122	28,570	1.9%
Total	**38,136**	**35,427**	**7.6%**
Product Mix			
Veneer	1.9%	2.0%	
Sawlog	6.8%	5.6%	
Sawbolt	14.9%	11.8%	
Pulpwood	76.4%	80.6%	
Total	**100.0%**	**100.0%**	
Gross Timber Margin (per cord)*			
Veneer	$ 278.72	$ 276.31	$ 2.41
Sawlog	134.47	124.16	10.31
Sawbolt	59.22	60.39	(1.17)
Pulpwood	11.51	17.52	(6.01)
Total	**$ 32.29**	**$ 33.97**	**(1.68)**

* Gross timber Margin per cord are net of logging, freight, road and depletion costs

The increase in Q1 2019 timber revenues over Q1 2018 was driven by both price/mix and volume changes year over year. The total impact of those changes is reflected below:

Sales	(Unaudited) 3 Months Ended March 31 2018	Volume	Price/Mix	(Unaudited) 3 Months Ended March 31 2019
Veneer	$ 285,815	5.2%	-0.4%	$ 299,439
Sawlog	$ 441,449	30.9%	8.5%	$ 615,509
Sawbolt	$ 599,496	36.1%	-2.1%	$ 803,452
Pulpwood	$ 2,847,681	1.9%	4.4%	$ 3,026,923
Total	$ 4,174,440	10.1%	3.6%	$ 4,745,324

Costs of Operations

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

On a per unit basis, however, Q1 2019 logging costs increased by $0.21 per cord to $45.38 per cord versus Q1 2018's per unit cost of $45.17 per cord. The per unit increase is due to a 4% rise in sawtimber product volume in Q1 2019 over Q1 2018. Sawtimber products have higher contracted logging rates than pulpwood.

On a per unit basis, Q1 2019 freight costs increased by $5.69 per cord to $34.69 per cord versus Q1 2018's per unit cost of $29.00 per cord. A Q1 2019 increase of $8.00 per cord on pulpwood freight over Q1 2018 was the key driver behind the overall increase. The increase in pulpwood freight was a result of Customers shifting delivery preference to direct mill shipments versus satellite woodyards which increases haul distance and cost. It was also caused by an increase of deliveries to customers that are at a greater distance from harvest sites than historic. The pulpwood freight increase was partially offset by the $4.00 per cord increase in pulpwood sales price in Q1 2019 over Q1 2018.

Costs associated with construction, maintenance and improvement of the Company's logging roads is a major element of Keweenaw's production cost. Q1 2019 road costs went up by $1.74 per cord to $6.84 per harvested cord versus Q1 2018 at $5.10 per harvested cord driven by significantly higher than average snow falls across the region throughout the winter.

The Q1 2019 and Q1 2018 logging, freight, road and stumpage cost is listed below.

	(Unaudited) 3 Months Ended March 31	
Production Costs per Cord	**2019**	**2018**
Logging	$ 45.38	$ 45.17
Freight	34.69	29.00
Roads	6.84	5.10
Stumpage	5.46	4.58
Total	**$ 92.37**	**$ 83.85**

Other Revenue and Income

Other Q1 2019 gross income, including mineral royalties, lease and rental income, investment earnings, service fees and land sales, was $2,254,555, up from $225,591 in Q1 2018. The key drivers behind other income in Q1 2019 were the gain of $1,494,133 from the sale of the securities portfolio and the two real estate transactions for $640,000.

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.

The summary of other revenue and income is as follows:

	(Unaudited) 3 Months Ended March 31	
	2019	**2018**
Lease Income, Mineral Royalties and Service Fees	$ 111,329	$ 217,245
Investments	9,093	8,346
Securities Sales	1,494,133	-
Real Estate	640,000	-
Total Other Income	**$ 2,254,555**	**$ 225,591**

Selling, Management and Administrative Expense

Q1 2019 Selling, Management and Administrative expenses of $731,968 exceeded Q1 2018 spend by $114,104. The primary drivers of the increase from Q1 2018 included higher audit fees of $90,000 primarily due to change in auditor, audit standards and audit scope, and increased legal fees.

Nonrecurring Expenses

	(Unaudited) 3 Months Ended March 31	
	2019	**2018**
REIT Services	$ 25,211	$ 77,208
Timber Investment Fund Write Off	-	-
Strategic Review	-	-
Change of Control Agreements	-	-
Proxy Costs/Governance/Auditing Standards	128,368	121,272
Total	$ 153,579	$ 198,480

The Company incurred $25,211 of non-recurring charges in Q1 2019 relating to legal fees for REIT structure support and $128,368 primarily in legal fees for proxy and governance changes and additional audit support fees to onboard Grant Thornton.

Section 3. 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 Board felt the original valuation was too high relative to other sale comparables. After additional analysis, the WDNR calculated a revised value of $4,841,000. 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 of Wisconsin 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 easement proposal then went to Wisconsin's Natural Resource Board, which approved the proposal on February 27, 2019. From there it went to the Wisconsin legislature's joint finance committee (JFC) for review. The JFC put a hold on the easement proposal on March 28, 2019 pending additional review. Keweenaw and the Wisconsin Natural Resources continue to work closely with the JFC in providing them the information and support needed to keep the approval process moving forward. There can be no assurance that such a closing will occur.

Section 4. 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.

Section 5. RISK FACTORS

There have been no material changes from the risk factors disclosed in the "Risk Factors" section of our Annual report for the year ended December 31, 2018, which can be found on our website www.keweenaw.com.

Section 6. SUBSEQUENT EVENTS

On April 15th, the current CFO, Claudio J. Nicoletta, resigned his position effective May 10th, due to personal reasons. Keweenaw has retained the services of James J. Simmons, the Company's former treasurer, who will serve as interim treasurer of the Company. The board has re-engaged Korn Ferry to commence a search for a replacement.