Keweenaw Land Association, Limited (a Michigan Corporation)

Annual Report for the fiscal year ended December 31, 2019

1801 East Cloverland Drive, PO Box 188
Ironwood, MI 49938
(Address of principal executive offices)

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

Number of shares outstanding of common stock as of March 27, 2020: [1,300,721]

1801 E. Cloverland Dr.
P.O. Box 188
Ironwood, MI 49938
Phone: (906) 932-3410
Fax: (906) 932-5823
Email: investors@Keweenaw.com

TIMBER
LAND
MINERALS

KEWEENAW
LAND ASSOCIATION, LIMITED

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

To the Stockholders of Keweenaw Land Association, Limited:

2019 was another important year of change for Keweenaw. At the annual meeting, shareholders voted for a sweeping set of changes to the company's governance structure in order to increase the board's accountability. Since then, the company has made steady progress implementing its plan to increase shareholder value.

The company's near-term priorities are to further strengthen the company's balance sheet and incrementally improve the cash flow generation capabilities of its asset base. These goals reinforce one another and will create flexibility to leverage the company's substantial asset base when attractive opportunities arise to deploy capital.

During 2019 Keweenaw reduced its net debt by almost 45%, from $13.4 million to $7.6 million. The company generated substantial cash flow from its timber operations, driven by internal production of over 115 thousand cords. Since 2016, Keweenaw has expanded harvest rates on company-owned land by almost 50%, without sacrificing contribution margin.

During 2019, Keweenaw conducted several projects to measure its operational efficiency, including a comprehensive process to evaluate outsourcing the company's forest management and support functions. After receiving bids from several service providers who manage operations for institutional timberland owners, the board concluded that the company's in-house capabilities and the cost of those capabilities are competitive relative to alternative options. Other benchmarking studies identified areas of opportunity to improve profitability in certain functions, including marketing.

Keweenaw also stepped up its efforts in pursuit of non-timber monetization opportunities. With the active support of its new board members, management deserves recognition for its successful efforts finalizing a $3.9 million conservation easement with the Wisconsin Department of Natural Resources. The company has also established a development pipeline of additional easement properties which have the potential for additional cash flows in 2020 and 2021. The company is taking a similar approach to leverage outside resources with its real estate program. The company generated cash flows from real estate sales exceeding $1 million in 2019.

SG&A expenses remained elevated during 2019, given unanticipated changes in personnel and the company's use of consultants to conduct the benchmarking and other strategic analyses. The company is committed to reduce non-essential overhead costs, including the goal of eliminating non-recurring expenses altogether in 2020.

Under the leadership of Tim Lynott, who brought substantial mineral expertise to Keweenaw when he joined as Controller in 2019, the company has developed a plan to evaluate and explore its sub-surface (mineral) holdings. Keweenaw owns over 400 thousand acres of mineral rights in the Upper Peninsula, which is a region that was responsible for over half the copper and iron ore production in the United States for much of the 19th and 20th centuries. Most of the company's historical cash flows have been generated by mineral royalties rather than timber production.

The company has started a process to systematically catalog the vast amount of geological data compiled through historical exploration and production activities on and around its properties. Once completed, the company intends to initiate an outreach program to generate additional interest from exploration companies seeking to deploy risk capital for evaluating mineral opportunities.

On December 18, a share repurchase plan was put in place which allows Keweenaw to repurchase up to $1 million in aggregate value of its shares of Common Stock. As of April 2nd, the company has spent $453 thousand to purchase 6,876 shares, reflecting an average purchase price of $64.96.

The company continues to strategically evaluate monetization opportunities, including the potential sale of a non-contiguous property in fiscal year 2020. That said, the emergence of the COVID-19 virus, and the government's decision to shut down large swathes of the US economy in response, creates profound uncertainty regarding the prospect for any form of commercial activity. On March 23rd, Governor Gretchen Whitmer issued what is effectively a "stay-at-home" order for the state of Michigan. The Governor made certain exceptions to this order, including for workers who support the manufacture and distribution of forest products. At this time, Keweenaw has no plans to reduce its workforce – those employees that can are working remotely, we are running a skeleton staff at the office and foresters will continue to go out to the woods.

We maintain close contact with our customers and other industry participants, and to our knowledge and as of the date of this letter, sawmills and paper mills in the Lake States are continuing to operate. We recognize that this can change in an instant. The company will remain informed about developments in the purchase and sale market, while preparing for a period of unprecedented illiquidity throughout its supply chain.

Keweenaw's annual meeting will be held Monday, May 11, 2020. Due to the situation with COVID-19, we plan to hold the meeting virtually via live webcast. Additional details are available in the accompanying proxy statement.

While we have accomplished a tremendous amount in the past year, there is still more to do. I'd like to thank management, employees and board members for all their hard work over the past year.

Kind Regards,

James A. Mai, Chairman

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GLOSSARY OF TERMS

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 solid 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 piled logs measuring 4'x 4' x 8' equaling 128 cubic feet**.** The number of cubic feet of solid wood per cord is not constant but varies based on characteristics of the wood and method of piling. The actual cubic foot volume of solid wood ranges from 64 to 91 cubic feet per cord. Due to this variability the conversion of cord to board foot measurement also varies. Keweenaw uses the conversion of 2.2 cords per 1,000 board feet.
MBF	A thousand board feet.
Production Mix	The ratio of a category of production to total production.
Pulpwood	Logs cut primarily to be converted to wood pulp for the manufacture of paper, fiberboard, or other wood fiber products.
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.
Strata Timber Inventory	Strata level inventory is a methodology of grouping forest stands of similar species, stocking and relative age for estimating timber volumes and other metrics. It allows for developing strong statistical standards and forest volumes estimates at the total property and species level.
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 intends 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. Forward looking statements 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 include statements anticipating delivery of income, value and long-term returns through sustainable harvests, opportunistic asset sales, and selective acquisitions. Expected future net income (loss) depends on many factors including among others 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. Any deviation from these assumptions 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

<u>Company History</u>

Keweenaw traces its origins to 1865, 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. The same year, Michigan's legislature authorized the Portage Lake & Lake Superior Ship-Canal Company to build the canal. Keweenaw's direct lineage traces 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 to modify its land management strategy. The Company chose to cease land dispositions and allow for the forest to fully regenerate. At the time, the Company expected that the forest would reach maturity by 2010. The Company operated in this mode for the next 40 years, with its primary sources of income being mineral royalties, and 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 merchandising yard in Ironwood, Michigan. The log yard generates income through value-added merchandising of veneer and grade sawlogs and providing log storage capacity for certain customers.

General

Keweenaw Land Association, Limited is headquartered in Ironwood, Michigan with timberland assets located in the western Upper Peninsula of Michigan and northern Wisconsin. As of December 31, 2019, the Company owned 183,490 acres of surface land and 401,837 acres of subsurface mineral rights. We derive the majority of our revenue from the sale of timber which is harvested primarily from Company forestlands. Keweenaw also generates other non-timber revenue from real estate sales, recreational leases, mineral rights leases, sale of sand and gravel, and providing wood scaling and inventory management services for various customers.

For the years ended December 31, 2019, 2018 and 2017 incomes from timber sales, real estate and other non-timber related sources are set forth in the table below:

	2019	2018	2017
Timber Sales	$ 15,743,168	$ 14,211,739	$ 11,488,785
Mineral Royalties	33,838	19,233	120,308
Lease Income	218,901	215,991	167,656
Investments	9,093	72,979	98,011
Securities Sales	1,494,133	-	796,222
Real Estate	1,315,600	1,510,000	167,000
Conservation Easement	3,941,000	-	-
Service Fees	202,381	160,857	202,564
Total	**$ 22,958,114**	**$ 16,190,799**	**$ 13,040,546**

Timberland Assets

As of December 31, 2019, Keweenaw owned 183,490 acres of high-quality industrial timberlands that are managed for sustainable timber production. The ownership includes 167,644 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, 2019, our timber inventory consisted of an estimated 3.73 million cord equivalents of merchantable volume with the following species group and product breakdown:

	Merchantable Timber Inventory (1) 2019	2018
Pulpwood (2)		
Hardwood	2,043,623	2,221,951
Softwood	808,398	891,058
Aspen	139,546	123,578
Sawtimber		
Hard Maple	359,867	361,292
Other Hardwood	321,498	335,294
Softwood/Pine	61,096	64,354
Total Cords	**3,734,028**	**3,997,527**

(1) Merchantable timber inventory reflects the total volume estimated from the strata level inventory less harvests and land sales plus growth.

(2) Includes sawbolt material.

In 2019, Keweenaw changed its approach to estimating timber inventory. Previously, the Company used an in-house stand level inventory system built off cruise volumes most recently generated by Compass Land Consultants in 2017. The strata level approach uses average volumes per acre by like timber types to calculate the overall timber inventory. Starting with the 2017 Compass Land Consultants data the Company reviewed and updated the forest cover types across the property and re-grouped the inventory data from 9 larger but more variable strata to 39 smaller but more similar forest stand types. This effort resulted in a reduction in inventory, but Management believes this inventory method more accurately reflects the actual inventory.

In addition to the wholly owned timberland assets, Keweenaw generates additional income by purchasing and harvesting stumpage from federal, state, county, and private parties. These procured stumpage contracts enable us during normal operating seasons to harvest timber from these sites and sell it to our customers. The 2019 harvest volume from procured stumpage sources totaled 7,700 cords which represent a modest increase over the prior three years.

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 higher 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.

Annual allowable harvests are set by balancing growth, as calculated from Keweenaw's forest inventory, with harvest levels. The 2019 annual allowable harvest was set at 116,000 cords (272,600 tons).

Timber Marketing

Keweenaw markets the majority of its timber direct to consuming mills. The products we sell include pulpwood, pallet sawbolts, sawtimber and veneer. The Company does sell modest volumes of timber stumpage for the purposes of securing enough production capacity to meet harvest goals and to benchmark direct sales. The vast majority of the Company's harvesting and timber hauling is done by third-party contractors. We work diligently and pro-actively with our trained contractors to ensure proper log merchandising and sorting to maximize log profitability.

Our higher value products, such as hardwood veneer, are sold from the Company's sort yard facility in Ironwood, Michigan. We believe that, 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 55% of sales revenue and 67% of volume. The following table illustrates the depth and diversity of markets that Keweenaw sold into in 2019.

2019 Sales by Business Sector

Business Sector	# of Mills	Located	% 2019 Sales	% 2019 Volume
Pulp and Paper Mills	6	MI, WI, MN	55%	67%
Hardwood Grade & Veneer Sawmills	15	MI, WI	24%	11%
OSB/Plywood Mills	3	MI, WI	6%	9%
Hardwood Tie/Flooring/Pallet Mills	4	MI, WI	13%	11%
Softwood Sawtimber Mills	4	MI, WI	2%	2%

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 26 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/NepCon worldwide. In addition, the Company manages our timberlands 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 401,837 acres of mineral rights in Upper Michigan. The majority of the mineral ownership dates 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. 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 May 21, 2019, Highland Copper Company Inc. (TSXV: HI) reported in their press release that they had recently entered into a credit agreement with two significant shareholders Greenstone Resources II LP and Osisko Gold Royalties

Ltd for a loan up to US $4.5M to address a working capital deficiency and appoint a financial advisor to start a strategic review process. On January 30, 2020, Highland Copper Company, Inc published another press release announcing they have extended the maturity date of the US$4.5M loan from February 28, 2020 until May 31, 2020. Investors can find additional information on Highland Copper Company, Inc's website, www.highlandcopper.com.

Keweenaw is in the process of conducting a strategic review of its mineral assets.

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. Keweenaw also sells real estate opportunistically when it believes that an unsolicited offer is greater than the current and the long-term timber value. 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 continues to execute on a comprehensive real estate plan developed in 2003 and revised on 2013. The plan identifies non-core properties available for disposition. The plan includes numerous unique, Higher and Best Use (HBU) tracts, water frontage and recreational tracts.

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 initially very successful, but with the onset of the economic downturn in 2008 and 2009 rural development property demand became challenging and sales decreased. Keweenaw did not sell any development properties in 2019 and has a remaining inventory of five developments and twenty-three lots.

Keweenaw did sell 513.64 acres of forest land in 2019 totaling $1,315,600. The Company did not acquire any property in fiscal year 2019.

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 price, 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 can both reduce harvest volume and increase prices. Wet weather and deep snow hinder the ability to operate harvesting equipment and transporting wood. However, unseasonably dry weather and favorable frozen winter conditions can both increase supply and decrease prices.

Employees

As of December 31, 2019, Keweenaw 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 and adversely impact our business.

Pandemics often have adverse effects on economic growth and overall supply chain efficiencies that could impact our business.

Pandemics, like the 1918 Spanish flu, 2009 influenza H1N1 and the on-going COVID-19, can have a significant impact on economic growth and the functioning of the global supply chain. A shutdown of mills in our geographic area could reduce our customer base and our ability to get our products to market. Many of our contracts with suppliers and customers have force majeure provisions that, if exercised, could frustrate future performance under the agreements. Economic recession and supply chain interruptions can impact our customers and the Company directly, and in turn have a negative impact on the results of our operations.

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 is used in 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, there 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 is substantially affected by market seasonality/cyclicality.

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 although we rely on business from all 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 and 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 and 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, windstorms 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 in the market, so long 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.

Mineral exploration activities may not bear fruit.

The Company has approved a limited budget for evaluation of its mineral resources. As with all mineral exploration activities, there is a risk that exploration projects will not identify commercially viable resources. As a result of project delays, cost overruns, changes in market circumstances or other reasons, we may not be able to achieve the intended economic benefits or demonstrate the commercial feasibility of mineral-related projects, which in turn may materially and adversely affect our business, results of operations and growth prospects

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 of 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 timber. 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 and 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 independent 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 independent 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 basis. 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 and 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.

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 and 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.

The proceeding risk factors could affect our business, financial condition, or results of operations. These risk factors should be read together with 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 above. The risk factors that are highlighted here are not the only ones Keweenaw faces. 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.

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.

GRANT THORNTON LLP
Grant Thornton Tower
171 N. Clark Street, Suite 200
Chicago, IL 60601-3370

D +1 312 856 0200
F +1 312 565 4719

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the financial statements
We have audited the accompanying consolidated balance sheet of Keweenaw Land Association, Limited and Subsidiaries (a Michigan corporation) (the "Company") as of December 31, 2019, the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

2018 consolidated financial statements
We also audited, in accordance with the auditing standards generally accepted in the United States of America, the consolidated financial statements of the Company as of and for the year ended December 31, 2018, and our report dated March 22, 2019 expressed an unqualified opinion on those 2018 financial statements.

Basis for opinion
These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the auditing standards of the PCAOB and 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 financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Grant Thornton

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Grant Thornton LLP

We have served as the Company's auditor since 2019.

Chicago, Illinois
April 6, 2020

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

	2019	2018
Revenues		
Timber Sales	$ 15,743,168	$ 14,211,739
Land Sales	5,256,600	1,510,000
Lease Income, Mineral Royalties and Service Fees	455,120	396,081
Total Revenues	**21,454,888**	**16,117,820**
Cost of Sales		
Timber Cost of Sales	11,644,164	10,536,004
Land Cost of Sales	4,338,573	443,529
Timber Operations Forestry Expense	745,499	755,517
Land Management Costs	435,007	463,534
Total Cost of Sales	**17,163,243**	**12,198,584**
Gross Profit	**4,291,645**	**3,919,236**
Selling, General & Administration Expenses	1,925,442	1,603,845
Nonrecurring Expenses	418,450	2,349,136
Operating Income (Loss)	1,947,753	(33,745)
Other Income	1,503,226	72,979
Other Expense		
Interest Expense	614,420	677,139
Earnings (Loss) Before Income Taxes	**2,836,559**	**(637,905)**
Provisions (Benefit) for State and Federal Income Taxes	700,125	(195,993)
Net Income (Loss)	**2,136,434**	**(441,912)**
Other Comprehensive Income (Loss), Net of Tax		
Unrealized Gains (Losses) on Securities		
Unrealized Holding Gains/(Loss) Arising During the Period	206,110	(173,358)
Less: Reclassification for Gain Included in Net Income	(1,180,365)	-
Other Comprehensive Income (Loss)	(974,255)	(173,358)
Comprehensive Income (Loss)	**$ 1,162,179**	**$ (615,270)**
Net Income (Loss) Per Share:		
Basic	$ 1.64	$ (0.34)
Diluted	$ 1.64	$ (0.34)
Weighted Average Shares Outstanding:		
Basic	1,305,929	1,301,550
Diluted	1,306,279	1,301,781

See accompanying notes to consolidated financial statements

KEWEENAW LAND ASSOCIATION, LIMITED
Consolidated Balance Sheets
As of December 31,

	2019	2018
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 2,433,989	$ 2,739,990
Cash Held in Escrow	141,844	-
Accounts Receivable, Net of Allowances for Doubtful Accounts $19,147 and $13,422 respectively	838,510	750,752
Investments in Marketable Securities	-	2,338,726
Prepaid Assets	267,032	283,644
Log Inventory	144,542	167,426
Federal Income Tax Receivable	264,653	49,705
Other Current Assets	36,999	36,066
Total Current Assets	**4,127,569**	**6,366,309**
Non-Current Assets		
Timber and Timberlands, Net of Depletion	26,965,969	31,700,536
Prepaid Developed Lot Costs	379,808	379,808
Property, Plant and Equipment, Net of Depreciation	1,211,205	1,307,713
Total Non-Current Assets	**28,556,982**	**33,388,057**
TOTAL ASSETS	**$ 32,684,551**	**$ 39,754,366**
LIABILITIES & STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	$ 288,513	$ 67,096
Other Accrued Liabilities	660,115	714,274
Total Current Liabilities	**948,628**	**781,370**
Non-Current Liabilities		
Long Term Debt	10,036,827	18,513,236
Non-Current State and Federal Deferred Income Tax Liability	115,411	365,305
Total Non-Current Liabilities	**10,152,238**	**18,878,541**
Total Liabilities	**11,100,866**	**19,659,911**
Stockholders' Equity		
Common Stock Issued (10,000,000 shares authorized, 1,305,929 and 1,301,550 shares issued and outstanding, respectively)	85,397	85,111
Accumulated Other Comprehensive Income	-	974,255
Retained Earnings	21,498,288	19,035,089
Total Stockholders' Equity	**21,583,685**	**20,094,455**
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	**$ 32,684,551**	**$ 39,754,366**

See accompanying notes to consolidated financial statements

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

	Common Stock Issued	Amount	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders' Equity
December 31, 2017 Balance	**1,300,350**	**$ 85,032**	**$ 1,147,613**	**$ 19,357,080**	**$ 20,589,725**
Changes during 2018:					
Comprehensive Income:					
Net Income (Loss)	-	-	-	(441,912)	(441,912)
Other Comprehensive Income:					
Unrealized Loss on Securities, Net of Tax Expense	-	-	(173,358)	-	(173,358)
Shares Issued Directors/Officers	1,200	79	-	119,921	120,000
Shares purchased					-
December 31, 2018 Balance	**1,301,550**	**85,111**	**974,255**	**19,035,089**	**20,094,455**
Changes during 2019:					
Comprehensive Income:					
Net Income (Loss)	-	-	-	2,136,434	2,136,434
Other Comprehensive Income:					
Unrealized Gains on Securities, Net of Tax Expense	-	-	206,110	-	206,110
Less: Reclassification for Gain Included in Net Income			(1,180,365)		(1,180,365)
Shares Issued Directors/Officers	5,196	340	-	384,050	384,390
Shares purchased	(817)	(54)		(57,285)	(57,339)
December 31, 2019 Balance	**1,305,929**	**$ 85,397**	**$ -**	**$ 21,498,288**	**$ 21,583,685**

See accompanying notes to consolidated financial statements

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

	2019	2018
Cash Flows From Operating Activities		
Net Income (Loss)	**$ 2,136,434**	**$ (441,912)**
Adjustments to Reconcile Net Income (Loss) to Net Cash From Operating Activities:		
Depletion, Depreciation and Amortization	649,071	640,275
Amortization of Loan Costs	23,592	23,937
(Gain) on Sale of Securities	(1,494,133)	-
(Gain) on Sale of Land	(918,027)	(1,066,471)
Changes in Operating Assets and Liabilities		
Decrease (Increase) in Accounts Receivable	(87,758)	(33,270)
Decrease (Increase) in Prepaid Assets	15,679	4,680
Decrease (Increase) in Log Inventory	22,882	(115,415)
Decrease (Increase) in Federal Income Tax Receivable	(214,948)	(661)
Decrease (Increase) in Other Current Assets	(2,394)	2,433
Increase (Decrease) in Deposits and Accounts Payable	221,417	15,919
Increase (Decrease) in Deferred State and Federal Income Tax	9,085	(178,239)
Increase (Decrease) in Other Accrued Liabilities	(54,159)	(177,835)
Net Cash Flow From Operating Activities	**306,741**	**(1,326,559)**
Cash Flow From Investing Activities:		
Purchase of Property and Equipment	(27,415)	(200,692)
Proceeds from Sale of Securities	2,599,625	-
Primary Road Construction Expenditures	(67,812)	(34,255)
Proceeds from Land Sales/Development, Net	5,197,653	1,274,798
Net Cash Flow From Investing Activities	**7,702,051**	**1,039,851**
Cash Flow From Financing Activities		
Payments on Long Term Debt	(8,500,000)	-
Repurchase of Common Stock	(57,339)	-
Issuance of Common Stock	384,390	120,000
Net Cash Flow From Financing Activities	**(8,172,949)**	**120,000**
Change in Cash & Cash Equivalents and Cash Held in Escrow	**(164,157)**	**(166,708)**
Cash & Cash Equivalents and Cash Held in Escrow, beg. of period	**2,739,990**	**2,906,698**
Cash & Cash Equivalents and Cash Held in Escrow, end of period	**$ 2,575,833**	**$ 2,739,990**
Supplemental Disclosure		
Cash Paid (Received) during the year for:		
Interest Paid	$ 649,387	$ 638,305
Federal and State Income Taxes Paid	876,796	(53,416)

See accompanying notes to consolidated financial statements

KEWEENAW LAND ASSOCIATION, LIMITED
Notes to Consolidated Financial Statements

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 reported amounts of assets and liabilities and to disclose contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the period.

Segment Reporting

The Company is primarily in the business of managing and harvesting timber which is considered to be one reporting segment. The Company has no other reportable segments.

Reclassification

The Company reclassified 2018 current deferred income tax amounts in accordance with the Financial Accounting Standards Board's ("FASB") release of Accounting Standards Update ("ASU") 2015-17 "Balance Sheet Classification of Deferred Taxes" which requires deferred tax liabilities and assets be classified as noncurrent in a consolidated statement of financial position.
Certain other prior period amounts have been reclassified to conform with the current period's financial statement presentation. These reclassifications had no impact on net income or shareholders' equity as previously reported.

Cash and Equivalents and Cash Held in Escrow

Highly liquid investments with maturity of three months or less when purchased are generally considered to be cash equivalents. Cash held in escrow represents amounts being held by a third-party brokerage for the purposes of facilitating the Company's share repurchase program.

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 first quarter of 2019.

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

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 early adopted ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income and 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 14 to the financial statements. With the exception of financial instruments, which are carried at fair value in the balance sheet, all other assets and liabilities are represented in the balance sheet at historical cost.

Recent Accounting Pronouncements:

In February 2016, the FASB issued guidance that revised 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 2021. We are currently evaluating the impact of this guidance but have not yet determined the effect on our consolidated financial statements.

ASC 606 Revenue from Contracts with Customers

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 made the guidance effective for our first quarter of fiscal year 2019 financial statements.

Management adopted the new revenue standard on January 1, 2019 using the modified retrospective method. The adoption of the new standard has not materially affected the presentation of the Company's financial statements and no adjustments were made to retained earnings as a result of adopting the new standard.

Timber

The Company recognizes revenue when control of promised goods or services ("performance obligations") is transferred to a customer in an amount that reflects the consideration expected in exchange for those goods or services ("transaction price").

The Company generally satisfies performance obligations within a year of entering into a contract, and therefore has applied the disclosure exemption found under ASC 606-10-50-14. There were no unsatisfied performance obligations as of December 31, 2019 or 2018. The Company generally collects payment within a year of satisfying performance obligations, and therefore has elected not to adjust revenues for a financing component.

The Company maintains master contracts or purchase agreements with each of its timber customers. Contract types include: Delivered wood and Stumpage (pay as cut). Specific price lists identify prices, terms and conditions for the transaction price and delivery point for each sale. Price lists are updated periodically to reflect market conditions.

Contract Type	Performance Obligation	Revenue Recognition	General Terms of Payment
Delivered Wood	Wood Type Delivered to Customer	Upon Delivery (point-in-time)	Weekly or Net 15
Stumpage (Pay as Cut)	Harvest Rights	Paid as Cut (point-in-time)	Weekly or Net 15

Real Estate

Revenue from sale of real estate (Higher and Best Use ("HBU") or Non-core timberland) is recognized when title passes to the buyer and full payment has been delivered to the seller as consideration for the sale generally at the closing of the sale.

Non-Timber revenue

Non-timber revenue generally comprises gravel royalties and lease income from hunting, recreational and mineral leases. This income is generally recognized according to the contractual terms which renew on an annual basis.

The following tables present our revenue from contracts with customers disaggregated by product type:

Revenue From Contracts with Customers	**2019**	**2018**
Sawtimber	$ 6,121,325	$ 5,347,438
Pulpwood	9,621,843	8,864,301
Total Timber Revenue	**15,743,168**	**14,211,739**
Mineral Royalties	33,838	19,233
Service Contracts	202,381	160,857
Total Non-Timber Revenue	**$ 236,219**	**$ 180,090**
Non-strategic Timberland Sales	1,315,600	1,510,000
Total Real Estate Sales	**$ 1,315,600**	**$ 1,510,000**
Total Revenue from Contracts with Customers	**$ 17,294,987**	**$ 15,901,829**

The following tables present our timber revenue disaggregated by contract type:

Timber Revenue Disaggregated by Contract Type	**2019**	**2018**
Delivered Wood	$ 15,497,015	$ 14,211,739
Stumpage (Pay as Cut)	246,153	-
Total Timber Revenue	**15,743,168**	**14,211,739**

Contract Balances

The timing of revenue recognition, invoicing, and cash collections results in accounts receivable on the Consolidated Balance Sheets. Accounts receivable are recorded when the Company has an unconditional right to consideration for completed performance under the contract. There were no contract liabilities related to payments received in advance of performance under the contract as of December 31, 2019 or 2018.

2. Investments in Marketable Securities

There were no securities classified as available for sale as of December 31, 2019. All securities were sold in the first quarter of 2019.

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.

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, respectively:

	2019	2018
Land and Mineral Holdings	$ 9,743,289	$ 14,000,200
Timber	23,346,609	23,369,163
Permanent Logging Roads	1,097,184	1,029,372
Properties at Cost	34,187,082	38,398,735
Less: Accumulated Timber Depletion	(6,736,461)	(6,243,758)
Less: Accumulated Road Depreciation	(484,651)	(454,441)
Net Carrying Value	**$ 26,965,969**	**$ 31,700,536**

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

	2019	2018
Timber Depletion Expense	$ 492,514	$ 480,526
Depreciation Expense for Permanent Logging Roads	$ 29,057	$ 29,664

During 2018 and 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 isshown on the balance sheet. There were no lot sales in 2019 and two lot sales in 2018. At December 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:

	2019	2018
Buildings	$ 415,862	$ 412,413
Furniture, Equipment, and Accessories	1,102,949	1,107,189
Machinery and Vehicles	407,792	481,215
Land Improvements	847,056	827,781
Equipment at Cost	2,773,659	2,828,598
Less: Accumulated Depreciation	(1,562,454)	(1,520,885)
Equipment, Net of Depreciation	**$ 1,211,205**	**$ 1,307,713**

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

	2019	2018
Depreciation Expense	$ 127,500	$ 131,269

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. During the first quarter of 2019, $500,000 was paid down without penalty. As of December 31, 2019, 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 basis points and .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. In 2019, $8,000,000 from a combination of proceeds from the sale of securities and cash on hand after the sale of the conservation easement was applied to the outstanding balance of the MetLife line of credit. A total of $5,700,000 remains drawn on this line of credit as of December 31, 2019 down from $13,700,000 as of December 31, 2018. 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. As security for these loans, MetLife is a lienholder on 164,823 acres of Keweenaw's timberlands.

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, 2019, Keweenaw was in compliance with all applicable covenants.

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

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

	2019	2018
Long-term Debt	$ 4,500,000	$ 5,000,000
Five-year Revolver	5,700,000	13,700,000
Less Unamortized Loan Costs	(163,173)	(186,764)
Total	**$ 10,036,827**	**$ 18,513,236**

7. Income Taxes

Keweenaw recorded federal and state income tax expenses. Income taxes consist of the following:

Current:	**2019**	**2018**
Federal	$ 506,985	$ (16,947)
State	184,055	(807)
	691,040	(17,754)

Deferred and other:	**2019**	**2018**
Federal	$ 78,897	$ (126,027)
State	(69,812)	(52,212)
	9,085	(178,239)
Total Tax Provisions (Expense)	**$ 700,125**	**$ (195,993)**

The reconciliation between the effective tax rate on income and the statutory tax rate is as follows:

	2019	**2018**
Tax Provision (Benefit) computed at statutory rate	$ 595,677	$ (133,960)
State Income taxes net of federal benefit	90,251	(41,885)
Other - Net	14,197	(20,148)
Income Tax expense (Benefit)	**$ 700,125**	**$ (195,993)**

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 the years in which differences are expected to reverse.

Significant components of the federal deferred tax liability are as follows:

Non-Current:	**2019**	**2018**
Unrealized Gains (Losses) on Investments	$ -	$ 258,979
Less Net Operating Loss Carryforward	-	(126,683)
Equipment Depreciation	155,074	170,937
Logging Roads Depreciation	28,874	21,249
Offset for State Deferred Tax Liability	(3,225)	(17,882)
Other Deferred Liabilities	(80,652)	(26,447)
Total Non-Current	100,071	280,153
Total Federal Deferred Tax Liability	100,071	280,153

Significant components of the state deferred tax liability are as follows:

Non-Current:	**2019**	**2018**
Unrealized Gains (Losses) on Investments	$ -	$ 73,994
Less Net Operating Loss Carryforward	-	(38,506)
Equipment Depreciation	25,596	48,839
Logging Roads Depreciation	8,250	6,071
Other Deferred Liabilities	(18,506)	(5,246)
Total Non-Current	15,340	85,152
Total State Deferred Tax Liability	15,340	85,152

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 2016 and state tax authorities for years before 2015.

8. 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 five percent of compensation as defined in the plan. In addition, the Company made discretionary contributions to the plan in the amount of five percent of base compensation. Expenses related to the Company's 401(k) plan were:

	2019	2018
Total 401(k) Expense	$ 82,303	$ 84,180

9. 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. For the year ending December 31, 2019, five customers accounted for approximately 27%, 18%, 6% ,5% and 5% of the Company's consolidated net sales. Respectively in 2018 four customers accounted for approximately 28%, 19%, 9% and 9% of the Company's consolidated net sales. For the year ending December 31, 2019, four customers accounted for approximately 22%, 15%, 12% and 11% of the Company's consolidated receivables. Respectively in 2018 four customers accounted for approximately 26%, 16%, 13% and 8% of the Company's consolidated receivables.

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 Federal Deposit Insurance Corporation ("FDIC") insurance coverage, and as a result, there is concentration of credit risk related to amount on deposits in excess of FDIC insurance coverage. The Company had $2,021,518 and $2,127,135 in cash and cash equivalents as of December 31, 2019 and December 31, 2018, respectively, in excess of FDIC insured limits.

10. Leases

In 2016, the Company began leasing logging equipment under long-term leases. The leases are operating leases. During the years ending December 31, 2019 and 2018, lease expense was $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 in May 2020. 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. The lease obligation for 2020 is $82,551.

11. Non-Recurring Expenses

During 2019 and 2018 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 change of control costs are related to executive transitions and additional work provided by board members to ensure smooth continued operations as a result of the change of control in 2018. The conservation easement costs are related to legal, tax and governmental consulting services related to organizing and closing on the conservation easement in 2019.

	2019	2018
REIT Services	$ 27,151	$ 291,804
Change of Control Costs	319,249	1,737,680
Conservation Easement	72,050	-
Proxy Costs	-	319,652
Total	**$ 418,450**	**$ 2,349,136**

12. Other Income

The Company sold all its marketable securities in early 2019. A summary of the Company's other income is detailed in the table below:

	2019	2018
Investments	$ 9,093	$ 72,979
Securities Sales	1,494,133	-
Total	**$ 1,503,226**	**$ 72,979**

13. Stock Based Compensation

On August 27, 2018 the Company established a restricted stock compensation plan for eligible employees. 575 restricted shares were awarded in 2018. 350 restricted shares and 37 shares without restrictions were awarded in 2019. The shares issued are subject to various restrictions including forfeiture should the employees not meet the terms of the vesting period. There are 95,786 shares of the Company's Common Stock available for Incentive Awards under the Incentive Plan.

14. Fair Value Measurements

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.

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.

A three-level hierarchy further prioritizes inputs used to measure fair value as follows: Financial assets and liabilities are valued using Level I inputs based on unadjusted quoted market prices within active markets. Other non-financial assets and liabilities are valued using Level II inputs, other than those inputs included in Level I, based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Non-financial assets or liabilities use Level III inputs which are primarily valued using management's assumptions that market participants would utilize in pricing the asset or liability. These assumptions may include price models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

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.”

15. Subsequent Events

On March 11, 2020, the World Health Organization declared COVID-19, the disease caused by the novel coronavirus, a pandemic. As of the issue date of these financial statements the U.S. and global economies are already experiencing pronounced effects. Keweenaw Land Association’s business model supports the manufacturing and distribution of forest products, and meets an exemption as defined by the Director of the U.S. Cybersecurity and Infrastructure Security Agency in their guidance on March 19, 2020. While the disruption is expected to be temporary, there is uncertainty around the extent and duration. Therefore, while we expect this matter may negatively impact our results, the related financial impact cannot be reasonably estimated at this time.

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 Keweenaw’s accompanying consolidated financial statements and notes thereto. See also “Cautionary Note Regarding Forward-Looking Statements” preceding Part I of this report, as well as its consolidated financial statements and the notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in Keweenaw’s Annual Report for the year ended December 31, 2019.

Overview

As of December 31, 2019, Keweenaw, a land and timber management company, owned 183,490 acres of surface land and 401,837 acres of subsurface mineral rights in the western Upper Peninsula of Michigan and northern Wisconsin. Keweenaw derives the majority of its net income from the sale of logs harvested from its forestlands, and from the sale of timber harvested 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 $306,742 versus $(1,326,559) in 2018. Overall timber sale volume increased by 13% in 2019 over 2018 rising by over 13,973 cords. With the increase in sales volume, the timber income increased by $1,531,429 year over year.

Keweenaw sold 513.64 acres of forest land in 2019 totaling $1,315,600 for a per acre gross value of $2,561 per acre. The real estate market across the Upper Peninsula of Michigan has been uncertain since the market downturn of 2008, however Keweenaw has been able to realize value from being active in the market and identifying target opportunities.

Keweenaw sold its investment portfolio in 2019 generating $2,599,625 in cash. The cash was used to reduce debt. Keweenaw no longer maintains any securities for sale or investment.

Capital expenditures (net) totaled $95,227 in 2019. Capital costs were associated with Company vehicles, tree planting, and Company roads.

In 2019, no dividends were paid to shareholders. Keweenaw issued 4,624 shares to the board of directors as part of the Board’s annual compensation package and special one-time grants, 37 shares to employees as longevity compensation, 535 shares for employee incentives vested with a total cost amounting to $384,050. Keweenaw issued 350 restricted shares that will vest equally over three years beginning in July 2020. On December 31, 2019, Keweenaw had $2,433,989 in cash and cash equivalents on hand compared to $2,739,990 at the end of 2018.

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 2019 or 2018. At the end of 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 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% 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 3.05%. Up to 10% of the principal balance may be paid annually without prepayment penalty. An initial installment payment of $500,000 was paid in 2019 reducing the principal balance to $4,500,000. The maturity date on the loan is December 9, 2026. Total interest paid in 2019 on this loan was $144,875 compared to $152,500 paid in 2018.

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 2019, a total of $19,300,000 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. Two installment payments were applied to the principal in 2019 totaling $8,000,000 from the cash proceeds of the security sales, conservation easement, and cash from operations. Interest paid in 2019 on this loan totaled $504,512 compared to $500,056 paid in 2018.

Results of Operations

Timber Sales & Operations

For the year ended December 31, 2019 Keweenaw's timber sales volume totaled 125,292 cords (300,701 tons). The 2019 sales volume was 13% higher than the 2018 volume of 111,318 cords (267,166 tons). The 2019 harvest included 117,675 cords from Company land and 7,617 cords from procured stumpage versus 2018 harvest volumes of 109,589 cords from Company land and 1,730 cords from procured sources.

2019 gross timber revenues were up by 10% at $15,743,168 versus the 2018 gross revenues of $14,211,739. 2019 Company land timber revenues were $14,825,127 up 6% over the 2018 Company land gross revenues of $14,007,001. 2018 gross sales from procured stumpage was up 348% at $918,041 versus 2018 procured stumpage gross sales of $204,738.

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,		
	2019	2018	% Change
Timber Production Volume (cords)			
Sawtimber [(1)]	30,837	25,984	18.7%
Pulpwood	94,455	85,334	10.7%
Total	125,292	111,318	12.6%
Product Mix			
Sawtimber	25%	23%	
Pulpwood	75%	77%	
Net Timber Sales Price (per cord)[(2)]			
Sawtimber	$96.18	$97.51	-1.4%
Pulpwood	13.82	14.93	-7.4%
Total	$34.09	$34.21	-0.3%

(1) Includes Veneer, Sawlogs and Sawbolts

(2) Net prices per cord are net of logging, hauling, road, stumpage and depletion costs

The increase in 2019 timber revenues over 2018 was driven by volume changes year over year. The Price/Mix changes had a negative impact on overall sales revenue. Hard maple, the Company's most valuable timber species, saw an 8% decline in the sawtimber mix year over year. This was the key driver in price/mix variance between 2019 and 2018. The total impact of those changes is reflected below:

		Changes Attributed to:		
Sales	2019	Volume	Price/Mix	2018
Sawtimber	$ 6,121,325	18.7%	-4.2%	$ 5,347,438
Pulpwood	9,621,843	10.7%	-2.1%	8,864,301
Total	$15,743,168	12.6%	-4.4%	$14,211,739

Costs of Operations

Contract logging and freight costs represent the majority of the Company's log production expense. Total 2019 logging and freight costs increased by 8% to $9,746,559 versus 2018 logging and freight costs of $9,020,483. This increased cost is entirely attributable to the 13% increase in harvest volume year over year. On a per unit basis, however, 2019 logging and freight costs declined by $3.24 per cord to $77.79 per cord versus 2018's per unit cost of $81.03 per cord. The per unit decline is due the to the increase in the sale of stumpage in 2019 over 2018 of 5,183 cords. Stumpage sales have no logging and freight expenses associated with them and effectively reduce overall per unit costs.

Costs associated with construction, maintenance and improvement of the Company's logging roads is a major element of Keweenaw's production cost. 2019's road-building expenses were up 10% to $676,637 versus 2018 at $615,493. The increase is driven by the 13% increase in 2019 harvest volume. On a per unit of sales basis, 2019 road costs went down by $0.13/cord to $5.40 per sales cord versus 2018 at $5.53 per sales cord.

Depletion and procured stumpage expenses increased to $682,732 for 2019 from $525,359 for 2018. On a per unit basis the 2019 depletion and procured stumpage expenses rose to $5.45 per cord versus the 2018 expense of $4.72 per cord. The increase in depletion and stumpage expense is driven by the increase in procured stumpage sales of 5,887 cords in 2019 over 2018.

Other operating expenses (Yard Costs) are associated with the costs of operating Keweenaw's merchandising woodyard. Those costs declined to $342,969 in 2019 from $357,969 in 2018.

The 2019 and 2018 logging/freight, road, depletion/stumpage and other costs is listed below.

	Production Cost Per Cord	
	2019	2018
Logging/Freight	$77.79	$81.03
Roads	5.40	5.53
Depletion/Stumpage	5.45	4.72
Yard Costs	2.74	3.21

Other Income

Other 2019 gross income including mineral royalties, lease and rental income, investment earnings, service fees, land and conservation easement sales totaled $7,214,946 up from $1,979,167 in 2018. There were two key drivers contributing to this significant increase in other income. They include the $3,941,000 conservation easement sale in Wisconsin and the $1,494,133 sale of securities. All other income categories remained reasonably unchanged year over year.

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.

	2019	2018
Other Income:		
Mineral Royalties	$33,838	$19,233
Lease Income	218,901	215,991
Investments	9,093	72,979
Securities Sales	1,494,133	-
Real Estate	1,315,600	1,510,000
Conservation Easement	3,941,000	-
Service Fees	202,381	160,857
Total	$7,214,946	$1,979,060

(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

Conservation Easement Sale to State of Wisconsin, Department of Natural Resources

On September 9th, 2019, the Company closed on the sale of a conservation and access easement on 14,352 acres to the State of Wisconsin, Department of Natural Resources (WDNR). The total sales value was $4,341,000 and from that $400,000 was set aside as an endowment to be used for repairs and maintenance of the 16 miles of roads on the eased property. The total gross value of the easement sale to the Company was $3,941,000. Keweenaw continues to own the property and will continue to manage it sustainably as a working forest. The easement sale prohibits the Company from performing real estate, mineral, aggregate or other income development projects. The easement also ensures perpetual public access to 16 miles of Company roads on the eased property.

Debt Reduction

Keweenaw aggressively targeted debt reduction as a key directive in 2019. Proceeds from the sale of securities in March 2019 of $2,599,625 and the sale of the conservation easement in September 2019 of $3,941,000 combined with cash from operations were applied to the fixed and revolver portions of the Met Life loan. Payments were applied on the approved dates per the loan agreement. $500,000 was applied to the fixed loan in March 2019 reducing the outstanding balance to $4,500,000. Two payments were made on the revolver, $4,000,000 was applied to the revolver in May 2019 and another $4,000,000 was paid in December 2019 reducing the outstanding loan amount to $5,700,000 at the end of 2019.

Debt	2019	2018
Fixed Loan	$ 4,500,000	$ 5,000,000
Revolver Loan	5,700,000	13,700,000
Unamortized Loan Costs	(163,173)	(186,764)
Total	$ 10,036,827	$ 18,513,236

Share Repurchase

On December 21, 2019, Keweenaw initiated a stock repurchase program authorizing up to $1,000,000 in aggregate value of Common Stock to be repurchased. In connection with the repurchase program Keweenaw entered into a 10b5-1 plan during an open trading window while it was not in possession of material non-public information to facilitate the repurchase of its Common Stock. The actual timing, number and value of shares repurchased under the program will be determined by the plan broker and its discretion and will depend on a number of factors subject to the 10b5-1 trading plan.

As of December 31, 2019, Keweenaw repurchased 817 shares of stock at an average cost of $70.18 for a total repurchase cost of $57,339. The program is authorized by the Board of Directors to continue until May 31, 2020. The program may be discontinued at any time. Repurchases made during the fourth quarter of 2019 are detailed in the following table.

Period	**(a) Total Number of Shares Purchased**	**(b) Average Price Paid Per Share**	**(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**(d) Maximum Number of Shares or Approximate Dollar Value that May Yet Be Purchased Under the Plan or Programs**
October 1 - 31	0	0	0	0
November 1- 30	0	0	0	0
December 1 - 31	817	$70.18	817	$942,663
Total	817	$70.18	817	$942,663

Selling, General and Administrative Expenses

2019 Selling, general and administrative costs were $1,925,442 an increase of 20% from $1,603,845 in 2018. The key drivers behind the increase include higher compensation costs to attract and retain key management employees, elevated professional service fees to ensure compliance to PCAOB accounting standards and corporate governance as the Company settles into a new run rate. Due to the timing of the change in auditor, the 2018 audit fee and accrual for the 2019 audit fell into 2019. In addition, Keweenaw engaged other forestry professional services to assist in forest inventory migration and timber industry benchmarking. Lastly, board costs were slightly higher with the retirement of former board members and addition of two new board members. The following table shows the composition of selling, general and administrative costs.

	2019	2018
Selling, General and Administrative	$1,538,163	$1,272,839
Board Expense	387,279	331,006
Total	$1,925,442	$1,603,845

Nonrecurring Expenses

With the 2018 change of control, REIT services, corporate governance improvements and executive search now concluded, the nonrecurring costs have declined dramatically in 2019 from 2018. The decline in cost highlights that the management changes implemented over the past couple years are now behind Keweenaw and the Company can settle into its new operating mode to drive value, identify margin improvements and pursue business development opportunities. Nonrecurring cost in 2019 relate to REIT services, change of control and the conservation easement. Included in change of control cost in 2019 are director compensation relating to corporate governance improvements resulting from the Board changeover. 2019 also included some costs related to the executive transition to find and train a new CFO and a new Controller/Treasurer. Costs relating to the conservation easement include legal, tax and consulting services required to close the conservation easement

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

	2019	2018
REIT Services	$ 27,151	$ 291,804
Change of Control Costs	319,249	1,737,680
Conservation Easement	72,050	-
Proxy Costs	-	319,652
Total	$ 418,450	$ 2,349,136

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 its borrowing facilities to determine whether Keweenaw has appropriately guarded itself 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 Keweenaw's variable-rate and effectively fixed-rate debt outstanding as of December 31, 2019, along with the corresponding average interest rates, are listed below:

($ in Thousands)	2018	2019	2020	2021	2022	Thereafter	Total
Maturing Debt:							
Variable-Rate Debt	$-	$-	$-	$5,700	$-	$-	$5,700
Effectively Fixed-Rate Debt	-	-	-	-	-	4,500	4,500
Average Interest Rate:							
Variable-Rate Debt *	-%	-%	-%	3.41%	-%	-%	3.41%
Effectively Fixed-Rate Debt	-%	-%	-%	-%	-%	3.05%	3.05%

*Variable-Rate Debt assumes Dec 31, 2019 rate including non-commit portion.

Section 6. OTHER INFORMATION

SIGNATURES

KEWEENAW LAND ASSOCIATION, LIMITED

Date: April 6, 2020

By: ______________________________

Mark A. Sherman, President