



**Keweenaw Land Association, Limited**  
**(a Michigan Corporation)**

**Quarterly Report for the period ended June 30th, 2020**

**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 August 13, 2020: 1,291,848

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## GLOSSARY

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

Board Foot (BF)	A measurement of 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.
MBF	A thousand board feet.
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.
Production Mix	The ratio of a category of production to total production.
Pulpwood	Logs cut primarily to be converted to wood pulp for the manufacture of paper, fiberboard, or other wood fiber products.
REIT	Real Estate Investment Trust
Sawbolts	A lower grade or smaller size sawtimber typically sawn for the manufacture of pallets or other coarse wood products.
Sawlogs	A higher grade or larger size sawtimber sawn for the manufacture of furniture grade lumber, flooring lumber, or other high-quality wood products.
Sawtimber	A category of logs suitable for veneer, sawlogs, or sawbolts.
TRS	Taxable REIT Subsidiary
Veneer	A category of sawtimber clear of defects suitable for manufacture as veneer paneling, furniture, and cabinetry veneer.
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.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report of Keweenaw Land Association, Limited and subsidiaries (“Keweenaw Land Association”, “Keweenaw”, “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”, “estimate”, “continue”, “anticipate”, 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 may include the discussion of future expectations or description of plans and strategies and may contain projections of results of operations or of financial condition or 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 our 2019 Annual Report. With respect to our ongoing business, these risks and uncertainties include, but are not limited to, the risks discussed in Section 1A of our 2019 Annual Report or Section 5 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.

## Issuer Information

<b>Title and class of security:</b>	Common Shares (no par value)
<b>Transfer Agent:</b>	EQ Shareowner Services 1110 Centre Point Curve Suite 101 Mendota Heights, MN 55120
<b>Chief Executive Officer:</b>	Mark A. Sherman
<b>Board of Directors:</b>	John D. Enlow, Sr. Ian D. Haft Peter C. Madden James A. Mai Paul D. Sonkin Steven Winch

### Section 1. FINANCIAL INFORMATION

The information furnished in the accompanying unaudited condensed consolidated balance sheets and related condensed consolidated statements of income, stockholders' equity, and statement of cash flows reflect all adjustments, consisting solely of normal and recurring adjustments that are, in management's opinion, necessary for a fair and consistent presentation of the aforementioned financial statements. These results of operations for the three and six months ended June 30, 2020, are not necessarily indicative of the operating results expected for the full year.

**KEWEENAW LAND ASSOCIATION, LIMITED**  
**Condensed Consolidated Statements of Income**  
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
<b>Revenues</b>				
Timber Sales	\$ 1,923,683	\$ 1,597,165	\$ 7,795,506	\$ 6,342,488
Land Sales	298,916	49,000	387,834	689,000
Lease Income, Mineral Royalties and Service Fees	54,840	43,900	200,724	155,228
<b>Total Revenues</b>	<b>2,277,439</b>	<b>1,690,065</b>	<b>8,384,064</b>	<b>7,186,716</b>
<b>Cost of Sales</b>				
Timber Cost of Sales	1,608,813	1,154,078	5,963,382	4,781,413
Land Cost of Sales	30,541	8,953	53,840	52,816
Timber Operations Forestry Expense	167,756	179,331	374,267	347,873
Land Management Costs	94,454	103,950	196,520	208,488
<b>Total Cost of Sales</b>	<b>1,901,564</b>	<b>1,446,312</b>	<b>6,588,009</b>	<b>5,390,590</b>
<b>Gross Profit</b>	<b>375,875</b>	<b>243,753</b>	<b>1,796,055</b>	<b>1,796,126</b>
<b>Selling, General &amp; Administration Expenses</b>	406,849	376,471	960,189	1,143,085
<b>Nonrecurring Expenses</b>	-	36,590	-	155,519
<b>Operating Income (Loss)</b>	(30,974)	(169,308)	835,866	497,522
<b>Other Income</b>	-	-	-	1,503,226
<b>Other Expense</b>				
Interest Expense	78,667	168,752	166,312	357,799
<b>Earnings (Loss) Before Income Taxes</b>	<b>(109,641)</b>	<b>(338,060)</b>	<b>669,554</b>	<b>1,642,949</b>
<b>Provisions for State and Federal Income Taxes</b>	(29,350)	(79,977)	185,443	400,947
<b>Net Income (Loss)</b>	<b>(80,291)</b>	<b>(258,083)</b>	<b>484,111</b>	<b>1,242,002</b>
<b>Other Comprehensive Income (Loss), Net of Tax</b>				
<b>Unrealized Gains (Losses) on Securities</b>				
Unrealized Holding Gain/(Loss) Arising During the Period	-	-	-	206,110
Less: Reclassification for Gain Included in Net Income	-	-	-	(1,180,365)
<b>Other Comprehensive Income (Loss)</b>	-	-	-	(974,255)
<b>Comprehensive Income (Loss)</b>	<b>\$ (80,291)</b>	<b>\$ (258,083)</b>	<b>\$ 484,111</b>	<b>\$ 267,747</b>
<b>Net Income (Loss) Per Share:</b>				
Basic	\$ (0.06)	\$ (0.20)	\$ 0.37	\$ 0.95
Diluted	\$ (0.06)	\$ (0.20)	\$ 0.37	\$ 0.95
<b>Weighted Average Shares Outstanding:</b>				
Basic	1,291,848	1,302,787	1,291,848	1,302,787
Diluted	1,292,198	1,303,342	1,292,198	1,303,342

*See accompanying notes to consolidated financial statements*

**KEWEENAW LAND ASSOCIATION, LIMITED**  
**Condensed Consolidated Balance Sheets**  
(Unaudited)

	<u>June 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 1,737,924	\$ 2,433,989
Cash Held in Escrow	78,671	141,844
Accounts Receivable, Net of Allowances for Doubtful Accounts \$26,222 and \$19,147, respectively	898,090	838,510
Prepaid Assets	294,610	267,032
Log Inventory	59,086	144,542
Federal Income Tax Receivable	145,724	264,653
Exploration and Evaluation	90,036	-
Other Current Assets	98,171	36,999
<b>Total Current Assets</b>	<b><u>3,402,312</u></b>	<b><u>4,127,569</u></b>
<b>Non-Current Assets</b>		
Timber and Timberlands, Net of Depletion	26,743,285	26,965,969
Prepaid Developed Lot Costs	379,808	379,808
Property, Plant and Equipment, Net of Depreciation	1,149,015	1,211,205
<b>Total Non-Current Assets</b>	<b><u>28,272,108</u></b>	<b><u>28,556,982</u></b>
<b>TOTAL ASSETS</b>	<b><u>\$ 31,674,420</u></b>	<b><u>\$ 32,684,551</u></b>
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$ 288,699	\$ 288,513
Other Accrued Liabilities	507,976	660,115
<b>Total Current Liabilities</b>	<b><u>796,675</u></b>	<b><u>948,628</u></b>
<b>Non-Current Liabilities</b>		
Long Term Debt	9,548,623	10,036,827
Non-Current State and Federal Deferred Income Tax Liability	125,322	115,411
<b>Total Non-Current Liabilities</b>	<b><u>9,673,945</u></b>	<b><u>10,152,238</u></b>
<b>Total Liabilities</b>	<b><u>10,470,620</u></b>	<b><u>11,100,866</u></b>
<b>Stockholders' Equity</b>		
Common Stock (10,000,000 shares authorized, no par value, 1,302,387 and 1,291,848 shares issued and outstanding, respectively)	84,477	85,397
Retained Earnings	21,119,323	21,498,288
<b>Total Stockholders' Equity</b>	<b><u>21,203,800</u></b>	<b><u>21,583,685</u></b>
<b>TOTAL LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>	<b><u>\$ 31,674,420</u></b>	<b><u>\$ 32,684,551</u></b>

*See accompanying notes to consolidated financial statements*

**KEWEENAW LAND ASSOCIATION, LIMITED**  
**Condensed Consolidated Statements of Stockholders' Equity**  
(Unaudited)

	<u>Common Stock</u>		<u>Accumulated</u>		<u>Other</u>		<u>Retained</u>		<u>Total</u>
	<u>Issued</u>	<u>Amount</u>	<u>Comprehensive</u>	<u>Income</u>	<u>Earnings</u>	<u>Equity</u>			
<b>December 31, 2018 Balance</b>	<b>1,301,550</b>	<b>\$ 85,111</b>	<b>\$ 974,255</b>	<b>\$ 19,035,089</b>	<b>\$ 20,094,455</b>				
<b>Changes during 2019:</b>									
Comprehensive Income:									
Net Income (Loss)	-	-	-	1,242,002	1,242,002				
Other Comprehensive Income:									
Unrealized Loss 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 to Directors & Officers	1,237	81	-	99,636	99,717				
<b>June 30, 2019 Balance</b>	<b>1,302,787</b>	<b>85,192</b>	<b>-</b>	<b>20,376,727</b>	<b>20,461,919</b>				
<b>December 31, 2019 Balance</b>	<b>1,305,929</b>	<b>\$ 85,397</b>	<b>\$ -</b>	<b>\$ 21,498,288</b>	<b>\$ 21,583,685</b>				
<b>Changes during the period ended June 30, 2020:</b>									
Comprehensive Income:									
Net Income (Loss)	-	-	-	484,111	484,111				
Shares purchased	(14,081)	(920)		(863,076)	(863,996)				
<b>June 30, 2020 Balance</b>	<b>1,291,848</b>	<b>84,477</b>	<b>-</b>	<b>21,119,323</b>	<b>21,203,800</b>				

*See accompanying notes to consolidated financial statements*



**KEWEENAW LAND ASSOCIATION, LIMITED**  
**Condensed Consolidated Statements of Cash Flows**  
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
<b>Cash Flows From Operating Activities</b>				
Net Income (Loss)	\$ (80,291)	\$ (258,083)	\$ 484,111	\$ 1,242,002
<b>Adjustments to Reconcile Net Income (Loss) to Net Cash Flow From Operating Activities:</b>				
Depletion, Depreciation and Amortization	93,080	87,789	311,650	271,343
Amortization of Loan Costs	5,898	5,897	11,796	11,795
(Gain) on Sale of Securities	-	-	-	(1,494,133)
(Gain) on Sale of Land	(268,375)	(40,046)	(333,994)	(636,184)
Changes in Operating Assets and Liabilities				
Decrease (Increase) in Accounts Receivable	301,202	165,084	(59,580)	(2,740)
Decrease (Increase) in Prepaid Assets	53,637	(42,427)	(27,578)	(124,075)
Decrease (Increase) in Log Inventory	184,142	20,534	85,456	97,664
Decrease (Increase) in Federal Income Tax Receivable	(9,235)	(34,972)	118,929	14,072
Decrease (Increase) in Other Current Assets	(61,172)	(933)	(61,172)	(933)
Increase (Decrease) in Deposits and Accounts Payable	113,234	8,897	(186)	187,074
Increase (Decrease) in Deferred State and Federal Income Tax	(4,250)	(368,157)	9,911	20,249
Increase (Decrease) in Other Accrued Liabilities	(19,584)	(264,719)	(152,139)	(237,515)
<b>Net Cash Flow From Operating Activities</b>	<b>308,286</b>	<b>(721,136)</b>	<b>387,204</b>	<b>(651,381)</b>
<b>Cash Flow From Investing Activities:</b>				
Purchases of Property and Equipment	-	-	-	(30,456)
Proceeds from Sale of Securities	-	-	-	2,599,625
Exploration and Evaluation Expenditures	(90,036)	-	(90,036)	-
Primary Road Construction Expenditures	(16,148)	(7,847)	(50,641)	(7,847)
Purchases of Land	-	-	-	-
Proceeds from Land Sales/Development, Net	278,817	43,865	358,231	657,835
<b>Net Cash Flow From Investing Activities</b>	<b>172,633</b>	<b>36,018</b>	<b>217,554</b>	<b>3,219,157</b>
<b>Cash Flows From Financing Activities</b>				
Payments on Long Term Debt	-	(4,000,000)	(500,000)	(4,500,000)
Repurchase of Common Stock	(499,518)	-	(863,996)	-
Issuance of Common Stock	-	-	-	99,717
<b>Net Cash Flow From Financing Activities</b>	<b>(499,518)</b>	<b>(4,000,000)</b>	<b>(1,363,996)</b>	<b>(4,400,283)</b>
<b>Change in Cash and Cash Equivalents and Cash Held in Escrow</b>	<b>(18,599)</b>	<b>(4,685,118)</b>	<b>(759,238)</b>	<b>(1,832,507)</b>
<b>Cash and Cash Equivalents and Cash Held in Escrow, beginning of period</b>	<b>1,835,194</b>	<b>5,592,601</b>	<b>2,575,833</b>	<b>2,739,990</b>
<b>Cash and Cash Equivalents and Cash Held in Escrow, end of period</b>	<b>\$ 1,816,595</b>	<b>\$ 907,483</b>	<b>\$ 1,816,595</b>	<b>\$ 907,483</b>
<b>Supplemental Disclosure</b>				
<b>Cash Paid (Received) during the year for:</b>				
Interest Paid	105,895	195,980	193,540	385,027
Federal and State Income Taxes Paid	68,758	416,331	68,758	416,331

*See accompanying notes to consolidated financial statements*

**KEWEENAW LAND ASSOCIATION, LIMITED**  
**Notes to Condensed Consolidated Financial Statements**  
(Unaudited)

**1. Summary of Significant Accounting Policies**

*Basis of Presentation and Principles of Consolidation*

The consolidated financial statements include the accounts of the Company and all 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*

Certain 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 Receivable 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 receivable 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. 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.

### *Exploration and Evaluation Cost*

Exploration and evaluation costs include those costs associated with mineral resource evaluation and are accumulated on prospective properties that may be advanced for future 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 among major asset classes from 3 to 40 years. Buildings are depreciated over 10-40 years, office furniture, machinery and equipment over 3 to 7 years, vehicles over 5 years, and land improvements over 15 years, all using the straight-line method. 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.

### *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 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.

#### **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 June 30, 2020 or June 30, 2019. 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.

<b>Contract Type</b>	<b>Performance Obligation</b>	<b>Revenue Recognition</b>	<b>General Terms of Payment</b>
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.

## Revenue from Contract with Customers

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

	3 Months Ended		6 Months Ended	
	June 30		June 30	
	2020	2019	2020	2019
<b>Revenue From Contracts with Customers</b>				
Sawtimber	\$ 821,843	\$ 715,457	\$ 2,957,995	\$ 2,433,858
Pulpwood	1,101,840	881,708	4,837,511	3,908,630
<b>Total Timber Revenue</b>	<b>1,923,683</b>	<b>1,597,165</b>	<b>7,795,506</b>	<b>6,342,488</b>
Mineral Royalties	10,083	4,928	13,083	26,102
Service Contracts	18,758	66,096	72,119	118,348
<b>Total Non-Timber Revenue</b>	<b>\$ 28,841</b>	<b>\$ 71,024</b>	<b>\$ 85,202</b>	<b>\$ 144,450</b>
Non-strategic Timberland Sales	298,916	49,000	387,834	689,000
<b>Total Real Estate Sales</b>	<b>\$ 298,916</b>	<b>\$ 49,000</b>	<b>\$ 387,834</b>	<b>\$ 689,000</b>
<b>Total Revenue from Contracts with Customers</b>	<b>\$ 2,251,440</b>	<b>\$ 1,717,189</b>	<b>\$ 8,268,542</b>	<b>\$ 7,175,938</b>
Lease Income	25,998	45,816	115,522	122,132
<b>Total Revenue</b>	<b>\$ 2,277,438</b>	<b>\$ 1,763,005</b>	<b>\$ 8,384,064</b>	<b>\$ 7,298,070</b>

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

	3 Months Ended		6 Months Ended	
	June 30		June 30	
	2020	2019	2020	2019
<b>Timber Revenue Disaggregated by Contract Type</b>				
Delivered Wood	\$ 1,921,440	\$ 1,597,165	\$ 7,696,620	\$ 6,342,488
Stumpage (Pay as Cut)	2,243	-	98,886	-
<b>Total Timber Revenue</b>	<b>1,923,683</b>	<b>1,597,165</b>	<b>7,795,506</b>	<b>6,342,488</b>

## 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 any contract as of June 30, 2020 or 2019.

## 2. Investments in Marketable Securities

There were no securities classified as available for sale as of June 30, 2020. All securities were sold in the first quarter of 2019. Realized gains and losses were 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 June 30, 2020 and December 31, 2019, respectively:

	<u>June 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Land and Mineral Holdings	\$ 9,729,812	\$ 9,743,289
Timber	23,336,027	23,346,609
Permanent Logging Roads	1,148,078	1,097,184
Properties at Cost	34,213,917	34,187,082
Less: Accumulated Timber Depletion	(6,969,170)	(6,736,462)
Less: Accumulated Road Depreciation	(501,462)	(484,651)
<b>Net Carrying Value</b>	<b><u>\$ 26,743,285</u></b>	<b><u>\$ 26,965,969</u></b>

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

	<u>3 Months Ended</u> <u>June 30,</u>		<u>6 Months Ended</u> <u>June 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Timber Depletion Expense	\$ 53,686	\$ 54,335	\$ 232,649	\$ 193,401
Depreciation Expense for Permanent Logging Roads	\$ 8,204	\$ 7,344	\$ 16,219	\$ 15,033

The Company did not complete any timberland acquisitions during the second quarter of 2020 or 2019, respectively.

## 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 are shown on the balance sheet. There were no lot sales in the second quarter of 2020 or 2019, respectively. On June 30, 2020, there were 23 lots remaining for sale.

## 5. Exploration and Evaluation

The Company capitalizes the exploration and evaluation costs of mineral resources and these costs are shown on the balance sheet. During the second quarter 2020, the Company expended \$90,036 to evaluate prospective mineral properties within the Company's mineral portfolio.

## 6. Property, Plant, and Equipment

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

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Buildings	\$ 415,862	\$ 415,862
Furniture, Equipment, and Accessories	1,091,191	1,102,949
Machinery and Vehicles	407,792	407,792
Land Improvements	<u>847,056</u>	<u>847,056</u>
Equipment at Cost	\$ 2,761,901	\$ 2,773,659
Less: Accumulated Depreciation	<u>(1,612,886)</u>	<u>(1,562,454)</u>
<b>Equipment, Net of Depreciation</b>	<b><u>\$ 1,149,015</u></b>	<b><u>\$ 1,211,205</u></b>

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

	<b>3 Months Ended</b>		<b>6 Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Depreciation Expense	\$ 31,189	\$ 31,810	\$ 62,782	\$ 62,909

## 7. Lines of Credit and Long-Term Debt

Keweenaw Land Association 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 under this arrangement with 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 \$4,500,000 on December 31, 2019. 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 2020, \$500,000 was paid down without penalty. As of June 30, 2020, the balance outstanding was \$4,000,000.

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 June 30, 2020, representing no change from \$5,700,000 as of December 31, 2019. A significant covenant under this arrangement with MetLife requires 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 holds a lien on 164,662 acres of Keweenaw's timberlands.

In addition to the financial covenants listed above, the debt agreements include customary covenants that limit the incurrence of debt and the disposition of assets, among others. On June 30, 2020, Keweenaw was in compliance with all applicable covenants.

On June 30, 2020, the Company had one standby letter of credit amounting to \$21,000 outstanding 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 second standby letter in the amount of \$500,000 was not renewed during the quarter. No balance was owed on the \$21,000 committed against the \$1,000,000 line of credit as of June 30, 2020.

The following table summarizes the long-term debt of the Company on June 30, 2020, and December 31, 2019:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Long-term Debt	\$ 4,000,000	\$ 4,500,000
Five-year Revolver	5,700,000	5,700,000
Less Unamortized Loan Costs	<u>(151,377)</u>	<u>(163,173)</u>
<b>Total</b>	<b><u>\$ 9,548,623</u></b>	<b><u>\$ 10,036,827</u></b>

## 8. Retirement Plans

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

	<u>3 Months Ended June 30,</u>		<u>6 Months Ended June 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Total 401(k) Expense	\$ 23,072	\$ 18,662	\$ 47,828	\$ 39,242

## 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 quarter ending June 30, 2020, five customers accounted for approximately 74% of the Company's consolidated net sales. In 2019 five customers accounted for approximately 65% of the Company's consolidated net sales. For the quarter ending June 30, 2020, five customers accounted for approximately 78% of the Company's consolidated receivables. In 2019, four customers accounted for approximately 60% 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 amounts on deposits in excess of FDIC insurance coverage. The Company had \$1,737,924 and \$2,433,989 in cash and cash equivalents as of June 30, 2020 and December 31, 2019, 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 quarters ending June 30, 2020 and 2019, lease expense was \$17,560 and \$50,913, respectively. The Company currently has the option to purchase the two pieces of equipment for \$150,000 and \$90,000, respectively. The Company also 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 remaining lease obligation is cancellable at any time until May 2021.



## 11. Non-Recurring Expenses

During the quarters ending June 30, 2020 and 2019, respectively, the Company considered the following transactions to be unusual, infrequent, or non-recurring. The Real Estate Investment Trust (REIT) services relate to the Company's conversion to a REIT and include legal, tax and accounting services incurred in connection with 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 a change of control of the Company that occurred in 2018. During the second quarter of 2020, the Company did not incur any expenses that it considers to be non-recurring. The following table represents the non-recurring charges for three and six months ended June 30, 2020 and 2019, respectively.

	3 Months Ended		6 Months Ended	
	June 30,		June 30,	
	2020	2019	2020	2019
REIT Services	\$ -	\$ 1,940	\$ -	\$ 27,151
Change of Control Costs	-	34,650	-	128,368
<b>Total</b>	<b>\$ -</b>	<b>\$ 36,590</b>	<b>\$ -</b>	<b>\$ 155,519</b>

## 12. Other Income

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

	3 Months Ended		6 Months Ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Investments	\$ -	\$ -	\$ -	\$ 9,093
Securities Sales	-	-	-	1,494,133
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,503,226</b>

## 13. Stock Based Compensation

On August 27, 2018, the Company established a restricted stock compensation plan for eligible employees (the "Incentive Plan"). There were no shares issued in the second quarter of 2020 or the prior year period. 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. Earnings Per Share

The following table provides the details and calculations of the basic and diluted earnings per share:

	3 Months Ended		6 Months Ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Net Income (Loss)	\$ (80,291)	\$ (258,083)	\$ 484,111	\$ 1,242,002
Shares used for basic earnings per common share	1,291,848	1,302,787	1,291,848	1,302,787
Performance or restricted shares	350	555	350	555
Shares used for dilutive earnings per common share	1,292,198	1,303,342	1,292,198	1,303,342
Basic earnings per common share	\$ (0.06)	\$ (0.20)	\$ 0.37	\$ 0.95
Dilutive earnings per common share	(0.06)	(0.20)	0.37	0.95

## 15. Fair Value Measurements of Financial Instruments

A three-level hierarchy prioritizes inputs used to measure fair value as follows:

Level 1 inputs value financial assets and liabilities based on unadjusted quoted market prices within active markets.

Level 2 inputs, other than those inputs included in Level 1, are based primarily on quoted prices for similar assets or liabilities in active or inactive markets.

Level 3 inputs which are primarily valued using management’s assumptions that market participants would utilize in pricing the asset or liability. These are unobservable inputs based on assumptions that may include price models, discounted cash flow methodologies and similar techniques.

The following table represents the carrying amount and estimated fair values of financial instruments held by Keweenaw as of June 30, 2020 and December 31, 2019 using market information and appropriate valuations under GAAP:

	June 30, 2020			December 31, 2019		
	Carrying Amount	Fair Value		Carrying Amount	Fair Value	
		Level 1	Level 2		Level 1	Level 2
Cash and Cash Equivalents	\$ 1,737,924	\$ 1,737,924	\$ -	\$ 2,433,989	\$ 2,433,989	\$ -
Cash Held in Escrow	78,671	78,671	-	141,844	141,844	-
Long Term Debt	9,700,000	-	9,700,000	10,200,000	-	10,200,000

Keweenaw uses the following methods or assumptions to estimate the fair value of its financial instruments:

*Cash and cash equivalents and cash held in escrow* – carrying amount is equal to the fair market value

*Long term debt* – carrying amount is equal to the fair market value

The Company did not have any level 3 financial instruments as of June 30, 2020 and December 31, 2019.

## 16. Significant Risks and Uncertainties

On March 11, 2020, the World Health Organization declared COVID-19, the disease caused by the novel coronavirus, a pandemic. As of the date of these financial statements, the U.S. and global economies were already experiencing pronounced negative effects. Keweenaw Land Association’s business model supports the manufacturing and distribution of forest products, which meets an exemption that allows for its continued operation as determined pursuant to guidance issued by the Director of the U.S. Cybersecurity and Infrastructure Security Agency (the “CISA Guidance”). While the disruption is expected to be temporary, the extent and duration of the economic disruption remains unclear. We expect that this matter may negatively impact our results, but due to the uncertainty inherent in this challenging environment, the related financial impact cannot be reasonably estimated at this time. Please refer to Section 5 – “Risk Factors” for a more detailed discussion of the COVID-19 pandemic and its impact on our business.

## 17. Subsequent Events

None

## **Section 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis should be read in conjunction with our accompanying consolidated financial statements and notes thereto. See also "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors".

### **Overview**

As of June 30, 2020, Keweenaw, a land and timber management company, owned 183,175 acres of surface land and 401,576 acres of subsurface mineral rights in the western Upper Peninsula of Michigan and northern Wisconsin. Keweenaw derives the majority of our net income from the sale of logs harvested from our forestlands, and from the purchase of stumpage 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 second quarter net cash flows from operations were \$218,130 in 2020 versus \$(721,136) in the prior year period. Timber sales volume increased by 33% in the second quarter 2020 over the prior year period to 15,511 cords from 11,689. With the increased sales volume, sales revenue also increased 20% in the second quarter 2020 by \$326,518, to \$1,923,683 up from \$1,597,165 in the prior year period.

Keweenaw sold 161 acres of forest land in second quarter 2020 totaling \$298,916 for a per acre gross value of \$1,862. This compares to sales of 45 acres in the prior year period totaling \$49,000 for a per acre gross value of \$1,089.

Capital expenditures in the second quarter of 2020 consisted of \$16,148, attributable exclusively to primary road building. Capital expenditures totaled \$7,847 in the prior year period which was also attributable to primary road building.

On June 30, 2020, Keweenaw had \$1,816,585 in cash and cash equivalents on hand and held in escrow compared to \$907,483 at the end of the prior year period. No dividends were paid to shareholders and no new shares were issued in either the second quarter of 2020 or in the prior year period.

There were no debt payments in the second quarter of 2020. A principal payment of \$4,000,000 was applied to the five-year revolver loan in the prior year period. The next payment window for the fixed rate long-term loan is October 2020 and for the five-year revolver is August 31, 2020.

The Company has a credit arrangement at Wells Fargo Bank, N.A., which provides for a \$1,000,000 operating line-of-credit availability to satisfy short-term operating cash needs and to 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 the second quarter 2020 or 2019. On June 30, 2020, there was no outstanding balance on its short-term line of credit. If necessary, short-term borrowing and repayment may 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, one letter of credit totaling \$21,000 was outstanding at the end of the second quarter 2020, though no balance was owed on either letter.

In December 2016, the Company borrowed \$5,000,000 from MetLife at an interest rate of 3.05%. Terms of the 10-year interest-only loan with MetLife include quarterly interest payments of 3.05% of the principal amount. Up to 10% of the principal balance may be paid annually without prepayment penalty. The maturity date of the loan is December 9, 2026. Total interest paid in the second quarter 2020 on this loan was \$30,500 compared to \$34,313 in the prior year period. In the second quarter 2020, \$0 was paid on the principal which is the same as the prior year period. The current loan balance was \$4,000,000 as of June 30, 2020.

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 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 the second quarter 2020, a total of \$19,300,000 was available for the strategic needs of the Company, compared to \$15,300,000 at the end of the prior year period. Fees and interest associated with the revolver include quarterly payments on the unused facility of 0.0875%. Once the facility is used, there is the option to finance the amount borrowed at the existing 10-year Treasury note rate plus 150 basis points. Interest paid in the second quarter 2020 on this loan totaled \$38,048 compared to \$126,797 in prior year period. The current debt facility outstanding balance was \$5,700,000 as of June 30, 2020.

## **Results of Operations**

### ***Timber Sales & Operations***

For the quarter ended June 30, 2020, Keweenaw's timber sales volume totaled 15,511 cords (37,226 tons). The second quarter sales volume was 33% higher than the prior year period of 11,689 cords (28,054 tons). Second quarter sales included 14,865 cords from Company land and 646 cords from procured stumpage versus the prior year period harvests of 11,687 cords from Company land and 2 cords from procured sources.

Second quarter 2020 gross timber revenues were up by 20% at \$1,923,683 versus the prior year period gross revenues of \$1,597,165. Second quarter Company land timber revenues were \$1,843,764 up 16% over the prior year period Company land gross revenues of \$1,588,947. Second quarter 2020 gross sales from procured stumpage were at \$79,919 versus prior year period procured stumpage gross sales of \$8,218.

Despite a 20% increase in timber sale revenues quarter over quarter, total net timber margins decreased by 27%. Market dynamics related to COVID-19 were the key drivers behind the margin decline. Specifically, demand for hardwood pulp and hardwood sawtimber was very weak during the second quarter and relatively strong for softwood sawtimber, aspen and softwood pulpwood. As a result, the Company adjusted second quarter harvest plans to produce more aspen and softwood which have lower margins, especially sawtimber, than hardwood. In addition, the Company experienced much higher logging and freight costs primarily driven by increased harvest volumes and greater haul distances. The Company also saw a significant increase in road costs as a result of a write-off of previously deferred, pre-paid road costs.

Timber sales volumes, sales product mix and net sales prices are presented as a comparison in the following tables as of the second quarter 2020 and 2019, respectively.

	3 Month Ended			6 Month Ended		
	June 30			June 30		
	2020	2019	% Change	2020	2019	% Change
Timber Sales Volume (cords)						
Sawtimber	5,255	3,382	55.4%	16,404	12,396	32.3%
Pulpwood	10,257	8,307	23.5%	46,360	37,429	23.9%
Total	<u>15,511</u>	<u>11,689</u>	<u>32.7%</u>	<u>62,764</u>	<u>49,825</u>	<u>26.0%</u>
Product Mix						
Sawtimber	34%	29%		26%	25%	
Pulpwood	66%	71%		74%	75%	
Net Timber Sales Price (per cord)						
Sawtimber	46.39	88.19	-47.4%	73.16	91.5	-20.0%
Pulpwood	<u>7.92</u>	<u>17.43</u>	<u>-55.0%</u>	<u>14.47</u>	<u>13.01</u>	<u>11.2%</u>
Total	<u>\$20.96</u>	<u>\$37.91</u>	<u>-44.7%</u>	<u>\$29.81</u>	<u>\$31.33</u>	<u>-4.9%</u>

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

The changes in second quarter 2020 timber revenues over the prior year period were driven by volume and price changes quarter over quarter along with operational factors to adjust for COVID-19-related adjustments to market demand. The total impact of those changes is reflected below:

Sales	3 Months Ended		Changes Attributed to:		6 Months Ended		Changes Attributed to:	
	June 30,		Volume	Price/Mix	June 30,		Volume	Price/Mix
	2020	2019			2020	2019		
Sawtimber	\$ 821,843	\$ 715,457	55.4%	-40.5%	\$ 2,957,994	\$ 2,433,858	32.3%	-10.8%
Pulpwood	1,101,840	881,708	23.5%	1.5%	4,837,511	3,908,631	23.9%	-10.0%
Total	<u>\$ 1,923,683</u>	<u>\$1,597,165</u>	<u>32.7%</u>	<u>-17.3%</u>	<u>\$ 7,795,506</u>	<u>\$ 6,342,488</u>	<u>26.0%</u>	<u>-4.2%</u>

### Costs of Operations

Contract logging and freight costs represent the majority of the Company's log production expense. Total second quarter 2020 logging and freight costs increased by 19% to \$1,096,274 versus the prior year period logging and freight costs of \$924,927. This increased cost was in large part attributable to the 33% increase in harvest volume quarter over quarter. The second quarter 2020 per unit logging and freight costs increased by \$2.40 per cord to \$83.56 per cord versus the prior year period's per unit cost of \$81.16 per cord. The per unit increase was primarily due the increase in freight driven by increased haul distances.

Costs associated with construction, maintenance and improvement of the Company's logging roads is a major element of Keweenaw's production cost. Second quarter 2020 road-building expenses were up 39% to \$113,658 versus the prior year period of \$81,939. The increase was driven by the 33% increase in second quarter 2020 harvest volume. It also increased due to the write-off \$14,905 of deferred, pre-paid road expense. On a per unit of sales basis, road costs went up by \$1.47/cord to \$8.66 per sales cord versus the prior year period of \$7.19 per sales cord.

Depletion and procured stumpage expenses increased to \$62,557 for the second quarter 2020 from \$48,503 for the prior year period. On a per unit basis, second quarter 2020 depletion and procured stumpage expenses rose to \$4.77 per cord versus prior year period expense of \$4.26 per cord. The increase in depletion and stumpage expense was driven by the increase in procured stumpage sales of 644 cords in the second quarter 2020 over the prior year period.

Other operating expenses (Yard Costs) are associated with the costs of operating Keweenaw's merchandising woodyard. Those costs increased slightly to \$82,536 in the second quarter 2020 from \$78,174 in the prior year period.

Expenses incurred for logging, freight, road, depletion, stumpage, and other activities for three and six months ended June 30, 2020 and 2019 respectively:

	3 Month Ended June 30			6 Month Ended June 30		
	Production Cost Per Cord		% change	Production Cost Per Cord		% change
	2020	2019		2020	2019	
Logging & Freight	\$1,096,274	\$924,927	19%	\$4,736,956	\$3,944,203	20%
Roads	\$113,658	\$81,939	39%	\$359,706	\$303,660	18%
Depletion/Stumpage	\$62,557	\$48,503	29%	\$512,499	\$255,237	101%
Yard Costs	\$82,536	\$78,174	6%	\$164,401	\$180,650	-9%

	3 Month Ended June 30		6 Month Ended June 30	
	Production Cost Per Cord		Production Cost Per Cord	
	2020	2019	2020	2019
Logging & Freight	\$83.56	\$81.16	\$80.42	\$81.07
Roads	\$8.66	\$7.19	\$6.11	\$6.24
Depletion/Stumpage	\$4.77	\$4.26	\$8.70	\$5.25
Yard Costs	\$6.29	\$6.86	\$2.79	\$3.71

### ***Other Revenue and Income***

Other second quarter 2020 income included mineral royalties, lease and rental income, service fees and land sales of \$299,917, an increase of \$205,970 from the prior year period.

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

	3 Months Ended June 30,		6 Months Ended June 30,	
	2020	2019	2020	2019
	Lease Income, Mineral Royalties and Service Fees	\$ 54,840	\$ 43,900	\$ 200,724
Investments	-	-	-	9,093
Securities Sales	-	-	-	1,494,133
Conservation Easement	-	-	-	-
Real Estate (net)	268,375	40,047	333,994	636,184
<b>Total Other Income</b>	<b>\$ 323,215</b>	<b>\$ 83,947</b>	<b>\$ 534,719</b>	<b>\$ 2,294,638</b>

Real estate sales summary is included below:

Real Estate Sales	3 Months Ended June 30		6 Months Ended June 30	
	2020	2019	2020	2019
	Acres Sold	161	45	219
Gross	\$ 298,916	\$ 49,000	\$ 387,834	\$ 689,000
\$ Acre/Gross	\$ 1,862	\$ 1,089	\$ 1,775	\$ 2,470

### ***Selling, General and Administrative Expense***

For the second quarter 2020, Selling, General and Administrative expenses were \$406,849, compared to \$376,471 for prior year period. This represents an increase of 8% or \$30,378, primarily due to increase salaries and benefits in the second quarter 2020 over the prior year period.

	<b>3 Months Ended</b>		<b>6 Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Total Selling, General and Administrative Expense	<b>\$ 406,849</b>	<b>\$ 376,471</b>	<b>\$ 960,189</b>	<b>\$ 1,143,085</b>

### ***Non-recurring Expenses***

Non-recurring expenses for the second quarter 2020 were \$0, compared to \$36,590 for the prior year period. The prior year period non-recurring expenses were related to certain corporate change of control and REIT consulting costs.

	<b>3 Months Ended</b>		<b>6 Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
REIT Services	\$ -	\$ 1,940	\$ -	\$ 27,151
Change of Control Costs	-	34,650	-	128,368
<b>Total</b>	<b>\$ -</b>	<b>\$ 36,590</b>	<b>\$ -</b>	<b>\$ 155,519</b>

## **Section 3. OTHER MANAGEMENT DISCUSSIONS**

### ***Verso Corporation Indefinitely Idles Paper Mills in Wisconsin and Minnesota***

In a press release dated June 9, 2020, Verso Corporation (“Verso”) announced the indefinite closure of paper mills in Wisconsin Rapids, Wisconsin and Duluth, Minnesota. Verso cited the accelerated decline in graphic paper demand resulting from the COVID-19 pandemic as the reason for the closures. According to Fastmarkets RISI, North American printing and writing demand fell by 38% year-over-year in April. Both mills were closed at the end of July 2020.

The mills are located within the regional pulpwood markets that Keweenaw sells into. We anticipate downward pressure on pricing due to an oversupply of pulpwood as a result of these closures. We expect the impact of this downward pricing pressure to largely be mitigated for our business due to two long-term take or pay contracts that the Company currently has in the place.

### ***Ironwood Mines LLC and Keweenaw Land Association, Limited Merger Real Estate Investment Trust Dissolution***

At June 30, 2020, based on Board of Director approval at its May 2020 meeting, Ironwood Mines LLC (IM LLC) merged with Keweenaw Land Association Limited (KLAL), effectively re-combining the entities to their pre-2018 status when KLAL had started the process of transitioning to a Real Estate Investment Trust (REIT). The purpose was to reduce increased administrative and accounting expenses given the decision to suspend its plans for converting to a REIT. The remaining KLAL will still hold Keweenaw Properties, Keweenaw Minerals, and Keweenaw Logging as subsidiary limited liability companies in the corporate organizational structure.

## Share Repurchase

Based on the success of the initial share repurchase program, a new stock repurchase program was authorized by the Board of Directors on May 30, 2020 for an additional \$1,000,000 in the aggregate to continue until December 31, 2020. The initial program expired May 31, 2020. 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 at its discretion and will depend on a number of factors subject to the 10b5-1 trading plan. The new program may be discontinued at any time.

During the quarter ending June 30, 2020, Keweenaw repurchased 8,458 shares of stock at an average cost of \$59.05 for a total repurchase cost of \$499,445. Repurchases made during the second quarter of 2020 are detailed in the following table:

<b>Period</b>	<b>(a) Total Number of Shares Purchased</b>	<b>(b) Average Price Paid per Share</b>	<b>(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs</b>
April 1-30	3,105	\$58.96	9,545	\$395,099
May 1-31	3,364	\$58.42	12,909	\$198,568
June 1-30	1,989	\$60.28	14,898	\$880,097
Total	8,458	\$59.05	14,898	\$880,097

## Section 4. LEGAL PROCEEDINGS

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

## Section 5. RISK FACTORS

The following risk factors supplement the risk factors contained under the heading “Risk Factors” set forth in Section 1A of our 2019 Annual Report. The risk factors contained in our 2019 Annual Report and supplemented hereby 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 the 2019 Annual Report and this Quarterly Report, as applicable, 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 and in the 2019 Annual Report. The risk factors that are highlighted here and in the 2019 Annual Report 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**

***The novel coronavirus disease (COVID-19) pandemic has impacted and is expected to continue to impact our business, financial condition, and results of operations.***

The COVID-19 pandemic has caused significant disruptions across domestic and international economies and financial markets. As discussed in our Quarterly Report for the period ended March 31, 2020, we believe that we have been well-positioned to successfully navigate this difficult and evolving environment, but our business and financial results will continue to show the impacts of the pandemic.

Downturns in markets that generate demand for our higher value wood products, such as the house-building and house-renovation markets, negatively impact demand for our those products and can have a materially adverse impact on our results of operations. While the forest products industry has been designated a “critical infrastructure” industry pursuant to the CISA Guidance, the construction business in Michigan did not receive a similar designation under statewide orders and this dramatically reduced residential and other construction projects involving wood supplies in the Michigan market. The COVID-19 pandemic and related government responses are still evolving and causing uncertainty across the economy. The impact of this situation along with the continuing economy-wide downturn associated with the COVID-19 outbreak continued to impact our results in the second quarter.

In addition, while our timber sale revenues were robust during the second quarter of 2020, we experienced significant margin compression due to weak demand for higher margin hardwood pulp and hardwood sawtimber and strong demand for lower margin softwood sawtimber aspen and softwood pulpwood. Our profitability was further impacted by increased logging and freight costs due to greater haul distances. We believe these headwinds to our financial results during the second quarter were related to the general market disruptions caused by the COVID-19 pandemic. While we currently anticipate market demand to return to historic levels during the second half of 2020, we cannot guarantee that this will occur, and nor can we guarantee that we will be able to take advantage of increased market demand to the extent it does occur.

We believe that we continued to navigate this challenging environment with some success during the second quarter, but we remain vigilant and cannot guarantee future success. The COVID-19 pandemic may expose our business, financial condition, and results of operations to risks that could have a negative impact on your investment.