



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

**Quarterly Report for the period ended September 30, 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 November 16, 2020: 1,293,445

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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 its 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 nine months ended September 30, 2020, are not necessarily indicative of the operating results expected for the full year.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
	<b>Revenues</b>			
Timber Sales	\$ 4,927,502	\$ 5,112,135	\$ 12,723,007	\$ 11,454,623
Land Sales	359,500	4,370,600	747,334	5,059,600
Lease Income, Mineral Royalties and Service Fees	160,796	89,930	361,520	356,512
<b>Total Revenues</b>	<b>5,447,798</b>	<b>9,572,665</b>	<b>13,831,861</b>	<b>16,870,735</b>
<b>Cost of Sales</b>				
Timber Cost of Sales	3,364,518	3,561,062	9,327,901	8,453,829
Land Cost of Sales	38,136	4,277,739	91,976	4,330,555
Timber Operations Forestry Expense	165,233	204,065	539,500	551,938
Land Management Costs	91,365	120,811	287,885	329,299
<b>Total Cost of Sales</b>	<b>3,659,252</b>	<b>8,163,677</b>	<b>10,247,262</b>	<b>13,665,621</b>
<b>Gross Profit</b>	<b>1,788,546</b>	<b>1,408,988</b>	<b>3,584,599</b>	<b>3,205,114</b>
<b>Selling, General &amp; Administration Expenses</b>	489,899	595,688	1,450,089	1,738,774
<b>Nonrecurring Expenses</b>	-	37,350	-	192,869
<b>Operating Income (Loss)</b>	1,298,647	775,950	2,134,510	1,273,471
<b>Other Income</b>	-	-	-	1,503,226
<b>Other Expense</b>				
Interest Expense	(66,459)	(137,889)	(232,771)	(495,688)
<b>Earnings (Loss) Before Income Taxes</b>	<b>1,232,188</b>	<b>638,061</b>	<b>1,901,739</b>	<b>2,281,009</b>
<b>Provisions for State and Federal Income Taxes</b>	301,102	173,857	486,545	574,804
<b>Net Income (Loss)</b>	<b>931,086</b>	<b>464,204</b>	<b>1,415,194</b>	<b>1,706,205</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>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(974,255)</b>
<b>Comprehensive Income (Loss)</b>	<b>\$ 931,086</b>	<b>\$ 464,204</b>	<b>\$ 1,415,194</b>	<b>\$ 731,950</b>
<b>Net Income (Loss) Per Share:</b>				
Basic	\$ 0.72	\$ 0.36	\$ 1.09	\$ 1.31
Diluted	\$ 0.72	\$ 0.36	\$ 1.09	\$ 1.31
<b>Weighted Average Shares Outstanding:</b>				
Basic	1,293,445	1,306,746	1,293,445	1,306,746
Diluted	1,293,678	1,307,096	1,293,678	1,307,096

*See accompanying notes to condensed consolidated financial statements*

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

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 3,092,589	\$ 2,433,989
Cash Held in Escrow	78,671	141,844
Accounts Receivable, Net of Allowances for Doubtful Accounts \$14,343 and \$19,147, respectively	951,004	838,510
Prepaid Assets	222,827	267,032
Log Inventory	278,261	144,542
Federal Income Tax Receivable	33,071	264,653
Exploration and Evaluation	175,977	-
Other Current Assets	93,991	36,999
<b>Total Current Assets</b>	<b>4,926,391</b>	<b>4,127,569</b>
<b>Non-Current Assets</b>		
Timber and Timberlands, Net of Depletion	26,583,700	26,965,969
Prepaid Developed Lot Costs	379,808	379,808
Property, Plant and Equipment, Net of Depreciation	1,118,122	1,211,205
<b>Total Non-Current Assets</b>	<b>28,081,630</b>	<b>28,556,982</b>
<b>TOTAL ASSETS</b>	<b>\$ 33,008,021</b>	<b>\$ 32,684,551</b>
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$ 358,497	\$ 288,513
Other Accrued Liabilities	725,233	660,115
<b>Total Current Liabilities</b>	<b>1,083,730</b>	<b>948,628</b>
<b>Non-Current Liabilities</b>		
Long Term Debt, net	9,554,521	10,036,827
Non-Current State and Federal Deferred Income Tax Liability	126,456	115,411
<b>Total Non-Current Liabilities</b>	<b>9,680,977</b>	<b>10,152,238</b>
<b>Total Liabilities</b>	<b>10,764,707</b>	<b>11,100,866</b>
<b>Stockholders' Equity</b>		
Common Stock (10,000,000 shares authorized, no par value, 1,293,445 and 1,306,746 shares issued and outstanding, respectively)	84,581	85,397
Retained Earnings	22,158,733	21,498,288
<b>Total Stockholders' Equity</b>	<b>22,243,314</b>	<b>21,583,685</b>
<b>TOTAL LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>	<b>\$ 33,008,021</b>	<b>\$ 32,684,551</b>

*See accompanying notes to condensed consolidated financial statements*

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

	Common Stock Issued	Amount	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders' Equity
<b>December 31, 2018 Balance</b>	1,301,550	\$ 85,111	\$ 974,255	\$ 19,035,089	\$ 20,094,455
<b>Changes during 2019:</b>					
Comprehensive Income:					
Net Income (Loss)	-	-	-	1,706,205	1,706,205
Other Comprehensive Income:					
Unrealized Loss on Securities, Net of Tax Expense	-	-	(974,255)	-	(974,255)
Less: Reclassification for Gain Included in Net Income	-	-	-	-	-
Shares Issued to Directors & Officers	5,196	340	-	384,050	384,390
<b>September 30, 2019 Balance</b>	<u>\$ 1,306,746</u>	<u>\$ 85,451</u>	<u>\$ -</u>	<u>\$ 21,125,344</u>	<u>\$ 21,210,795</u>
<b>December 31, 2019 Balance</b>	1,305,929	\$ 85,397	\$ -	\$ 21,498,288	\$ 21,583,685
<b>Changes during the period ended September 30, 2020:</b>					
Comprehensive Income:					
Net Income (Loss)	-	-	-	1,415,194	1,415,194
Other Comprehensive Income:					
Unrealized Gain on Securities, Net of Tax Expense	-	-	-	-	-
Less: Reclassification for Gain Included in Net Income	-	-	-	-	-
Shares Issued to Directors & Officers	1,597	104	-	108,327	108,431
Shares purchased	(14,081)	(920)	-	(863,076)	(863,996)
<b>September 30, 2020 Balance</b>	<u>\$ 1,293,445</u>	<u>\$ 84,581</u>	<u>\$ -</u>	<u>\$ 22,158,733</u>	<u>\$ 22,243,314</u>

*See accompanying notes to condensed consolidated financial statements*



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

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2020	2019	2020	2019
<b>Cash Flows From Operating Activities</b>				
Net Income (Loss)	\$ 931,086	\$ 464,204	\$ 1,415,194	\$ 1,706,206
<b>Adjustments to Reconcile Net Income (Loss) to Net Cash Flow From Operating Activities:</b>				
Depletion, Depreciation and Amortization	210,265	201,979	521,915	473,322
Amortization of Loan Costs	5,898	5,898	17,694	17,693
(Gain) on Sale of Securities	-	-	-	(1,494,133)
(Gain) on Sale of Land	(319,364)	(92,861)	(653,478)	(729,045)
Changes in Operating Assets and Liabilities				
Decrease (Increase) in Accounts Receivable	(52,914)	(436,044)	(112,494)	(438,784)
Decrease (Increase) in Prepaid Assets	71,783	21,642	44,205	(102,433)
Decrease (Increase) in Log Inventory	(219,175)	8,831	(133,719)	106,495
Decrease (Increase) in Federal Income Tax Receivable	112,653	(211,730)	231,582	(197,658)
Decrease (Increase) in Other Current Assets	4,180	(2,394)	(56,993)	(3,327)
Increase (Decrease) in Accounts Payable	69,798	155,819	69,984	342,893
Increase (Decrease) in Deferred State and Federal Income Tax	1,134	(74,878)	11,045	(54,629)
Increase (Decrease) in Other Accrued Liabilities	217,257	59,190	65,118	(178,325)
<b>Net Cash Flow From Operating Activities</b>	<b>1,032,601</b>	<b>99,656</b>	<b>1,420,053</b>	<b>(551,725)</b>
<b>Cash Flow From Investing Activities:</b>				
Purchases of Property and Equipment	-	22,315	-	(8,141)
Proceeds from Sale of Securities	-	-	-	2,599,625
Exploration and Evaluation Expenditures	(85,941)	-	(175,977)	-
Primary Road Construction Expenditures	(30,999)	(10,320)	(81,888)	(18,167)
Proceeds from Land Sales/Development, Net	330,577	4,349,806	688,804	5,007,641
<b>Net Cash Flow From Investing Activities</b>	<b>213,637</b>	<b>4,361,801</b>	<b>430,939</b>	<b>7,580,958</b>
<b>Cash Flows From Financing Activities</b>				
Payments on Long Term Debt	-	-	(500,000)	(4,500,000)
Repurchase of Common Stock	-	-	(863,996)	-
Issuance of Common Stock	108,427	284,673	108,431	384,390
<b>Net Cash Flow From Financing Activities</b>	<b>108,427</b>	<b>284,673</b>	<b>(1,255,565)</b>	<b>(4,115,610)</b>
<b>Change in Cash and Cash Equivalents and Cash Held in Escrow</b>	<b>1,354,665</b>	<b>4,746,130</b>	<b>595,427</b>	<b>2,913,623</b>
<b>Cash and Cash Equivalents and Cash Held in Escrow, beginning of period</b>	<b>1,816,595</b>	<b>907,483</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>\$ 3,171,260</b>	<b>\$ 5,653,613</b>	<b>\$ 3,171,260</b>	<b>\$ 5,653,613</b>
<b>Supplemental Disclosure</b>				
<b>Cash Paid (Received) during the year for:</b>				
Interest Paid	\$ 66,732	\$ 128,442	\$ 224,457	\$ 495,688
Federal and State Income Taxes Paid	253,356	413,109	389,119	829,440

*See accompanying notes to condensed 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 condensed 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 certain assets and liabilities. The Company is also required 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 may have been reclassified to conform with the current period's financial statement presentation. Unless otherwise noted, any such reclassifications had no impact on net income or stockholders' equity as previously reported.

#### *Cash and Cash 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. The Company sold all marketable securities it held during the first quarter of 2019 and has not purchased any marketable securities since that time.

### *Log Inventory*

Log inventory is valued at the lower of cost or net realizable value 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' merchantable timber inventory, 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 13 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. We are currently evaluating the impact of this guidance and 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 September 30, 2020 or September 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
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## Real Estate

Revenue from sale of real estate (Higher and Best Use 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 Contracts with Customers

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

Revenue From Contracts with Customers	3 Months Ended September 30,		9 Months Ended September 30,	
	2020	2019	2020	2019
Sawtimber	\$ 2,212,111	\$ 2,165,487	\$ 5,170,105	\$ 4,599,344
Pulpwood	2,715,391	2,946,648	7,552,902	6,855,279
<b>Total Timber Revenue</b>	<b>\$ 4,927,502</b>	<b>\$ 5,112,135</b>	<b>\$ 12,723,007</b>	<b>\$ 11,454,623</b>
Mineral Royalties	20,536	6,201	33,619	32,303
Service Contracts	78,016	27,706	150,134	146,054
<b>Total Non-Timber Revenue</b>	<b>\$ 98,552</b>	<b>\$ 33,907</b>	<b>\$ 183,753</b>	<b>\$ 178,357</b>
Non-strategic Timberland Sales	359,500	40,045	747,334	729,045
<b>Total Real Estate Sales</b>	<b>\$ 359,500</b>	<b>\$ 40,045</b>	<b>\$ 747,334</b>	<b>\$ 729,045</b>
<b>Total Revenue from Contracts with Customers</b>	<b>\$ 5,385,554</b>	<b>\$ 5,186,087</b>	<b>\$ 13,654,094</b>	<b>\$ 12,362,025</b>
Lease Income	62,244	56,023	177,767	178,155
<b>Total Revenue</b>	<b>\$ 5,447,798</b>	<b>\$ 5,242,110</b>	<b>\$ 13,831,861</b>	<b>\$ 12,540,180</b>

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

Timber Revenue Disaggregated by Contract Type	3 Months Ended September 30,		9 Months Ended September 30,	
	2020	2019	2020	2019
Delivered Wood	\$ 4,927,502	\$ 5,112,135	\$ 12,624,121	\$ 11,454,623
Stumpage (Pay as Cut)	-	-	98,886	-
<b>Total Timber Revenue</b>	<b>\$ 4,927,502</b>	<b>\$ 5,112,135</b>	<b>\$ 12,723,007</b>	<b>\$ 11,454,623</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 September 30, 2020 or September 30, 2019, respectively.

## 2. Investments in Marketable Securities

There were no securities classified as available for sale as of September 30, 2020. All marketable 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 September 30, 2020 and December 31, 2019, respectively:

	<u>September 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Land and Mineral Holdings	\$ 9,728,437	\$ 9,743,289
Timber	23,326,312	23,346,609
Permanent Logging Roads	<u>1,179,078</u>	<u>1,097,184</u>
Properties at Cost	34,233,827	34,187,082
Less: Accumulated Timber Depletion	(7,140,079)	(6,736,462)
Less: Accumulated Road Depreciation	<u>(510,048)</u>	<u>(484,651)</u>
<b>Net Carrying Value</b>	<b>\$ 26,583,700</b>	<b>\$ 26,965,969</b>

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

	<u>3 Months Ended</u> <u>September 30,</u>		<u>9 Months Ended</u> <u>September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Timber Depletion Expense	\$ 170,786	\$ 162,819	\$ 403,435	\$ 356,221
Depreciation Expense for Permanent Logging Roads	\$ 8,389	\$ 7,430	\$ 24,608	\$ 22,463

The Company did not complete any timberland acquisitions during the third 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 third quarter of 2020 or 2019, respectively. On September 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 expenditures are shown on the balance sheet. During the third quarter 2020, the Company expended \$85,941 to explore 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:

	September 30, 2020	December 31, 2019
Buildings	\$ 415,862	\$ 415,862
Furniture, Equipment, and Accessories	1,088,238	1,102,949
Machinery and Vehicles	407,792	407,792
Land Improvements	847,056	847,056
Equipment at Cost	2,758,948	2,773,659
Less: Accumulated Depreciation	(1,640,826)	(1,562,454)
<b>Equipment, Net of Depreciation</b>	<b>\$ 1,118,122</b>	<b>\$ 1,211,205</b>

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

	3 Months Ended September 30,		9 Months Ended September 30,	
	2020	2019	2020	2019
Depreciation Expense	\$ 26,083	\$ 31,729	\$ 88,864	\$ 94,638

## 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 1% 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 September 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 a 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 September 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 164,296 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. As of September 30, 2020, Keweenaw was in compliance with all applicable covenants.

As of September 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 September 30, 2020.

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

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Long-term Debt	\$ 4,000,000	\$ 4,500,000
Five-year Revolver	5,700,000	5,700,000
Less Unamortized Loan Costs	(145,479)	(163,173)
<b>Total</b>	<b>\$ 9,554,521</b>	<b>\$ 10,036,827</b>

The Company's current debt obligations are outlined below:

Facility Name	Maturity Date	Interest Rate	Unused Commitment		Outstanding Balance <sup>(1)</sup>	Remaining Availability
			Fee	Total Availability		
MetLife Fixed Rate Loan	12/09/2026	FIXED 3.05%	-	\$ 5,000,000	\$ 4,000,000	\$ -
MetLife Revolving Line of Credit	12/01/2021	LIBOR + 1.50%	0.0875%	25,000,000	5,700,000	19,300,000
Wells Fargo Line of Credit	11/03/2020	PRIME + 1.0%	-	1,000,000	-	1,000,000
				\$ 31,000,000	\$ 9,700,000	\$ 20,300,000

<sup>(1)</sup>Unamortized loan costs associated with the Met Life credit facility are (\$145,479) reducing long term debt reported on the Balance Sheet to \$9,554,521

The Company's debt maturity is outlined below:

	<b>Total</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>Thereafter</b>
Debt obligations	9,700,000.00	-	6,200,000.00	500,000.00	500,000.00	500,000.00	500,000.00	1,500,000.00

## 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:

	<b>3 Months Ended September 30,</b>		<b>9 Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Total 401(k) Expense	\$ 23,059	\$ 21,291	\$ 70,887	\$ 60,533

## 9. Concentration of Credit Risk

Keweenaw is located in Ironwood, Michigan. The Company grants credit without collateral to certain 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 September 30, 2020, four customers



accounted for approximately 59% of the Company’s consolidated net sales. In 2019 four customers accounted for approximately 58% of the Company’s consolidated net sales. For the quarter ending September 30, 2020, four customers accounted for approximately 62% of the Company’s consolidated receivables. In 2019, four customers accounted for approximately 59% 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 \$2,456,885 and \$1,971,518 in cash and cash equivalents and cash held in escrow as of September 30, 2020 and December 31, 2019, respectively, in excess of FDIC-insured limits.

## 9. Leases

In 2016, the Company began leasing logging equipment under two long-term leases. Each lease is an operating lease. During the quarters ending September 30, 2020 and 2019, lease expense was \$41,461 and \$52,679 respectively. The Company renewed this both leases on a month to month basis for monthly payments of \$7,729 and \$4,569 for 12 monthly payments. The option to purchase is now \$65,000 and \$40,000, respectively. The remaining lease obligation is cancellable at any time until May 2021.

## 10. Non-Recurring Expenses

The Company considers the expenses reflected in the tables below, which were incurred during the three- and nine-month periods ended September 30, 2019, respectively, to be unusual, infrequent, or non-recurring. The Real Estate Investment Trust (REIT) services related to the Company’s conversion to a REIT and include legal, tax and accounting services incurred in connection with the reorganization. The change of control costs were related to executive transitions to ensure smooth continued operations as a result of a change of control of the Company that occurred in 2018. The Company did not incur any expenses that it considers to be non-recurring for the respective three and nine months ended September 30, 2020.

	September 30,		September 30,	
	2020	2019	2020	2019
REIT Services	-	-	-	27,151
Change of Control (Executive Services)	-	37,350	-	165,718
Total	\$ -	\$ 37,350	\$ -	\$ 192,869

## 11. Stock Based Compensation

On August 27, 2018, the Company established the Stock Incentive Plan of 2018 for eligible employees (the “Incentive Plan”). There were 1,480 shares issued in the third quarter of 2020 and 3,774 issued in the prior year period.

### *Equity Compensation for Independent Directors*

On August 21, 2020, the Company’s 5 eligible independent directors each received 296 shares at a value of \$67.625 per share. The shares granted are fully vested as of the grant date.

Below is a summary of independent director’s stock-based compensation for the period ended September 30, 2020:

	<b>September 30, 2020</b>	<b>September 30, 2019</b>
Fully-vested shares granted	1,480	3,424
Grant date fair value per share	\$ 67.625	\$ 67.750
Grant date fair value of fully vested stock granted in period	\$ 100,085	\$ 231,976

### *Service-based Restricted Stock Grants to Employees*

On July 9, 2019, the Company granted 350 shares of service-based restricted stock to eligible executive officers, approved by the Compensation Committee of the board of directors. The 2019 service awards will vest in three equal installments in July of 2020, 2021, and 2022.

Below is a summary of service-based restricted stock grants to the employees for the period ended September 30, 2020:

	<b>2020</b>	<b>2019</b>
Shares granted	-	350
Grant date fair value per share	\$ -	\$ 71.30
Grant date fair value of restricted stock	\$ -	\$ 24,955
Shares vested	117	535
Shares unvested	233	350
Fair value of vested stock	\$ 8,342	\$ 36,246
Fair value of unvested stock	\$ 16,613	\$ 24,955

Restricted shares vesting in the third quarter 2020 were 117 shares. In the third quarter 2019, 535 shares vested that were granted to employees after the adoption of the Stock Incentive Plan of 2018. Restrictions apply to certain shares including forfeiture should the employees not meet the terms of the vesting period. There are 94,306 shares of the Company's common stock available for incentive awards under the Stock Incentive Plan of 2018.

## **12. Earnings Per Share**

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

	<b>3 Months Ended September 30,</b>		<b>9 Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Net Income (Loss)	\$ 931,086	\$ 464,204	\$ 1,415,194	\$ 1,706,206
Shares used for basic earnings per common share	1,293,445	1,306,746	1,293,445	1,306,746
Restricted shares	233	350	233	350
Shares used for dilutive earnings per common share	1,293,678	1,307,096	1,293,678	1,307,096
Basic earnings per common share	\$ 0.72	\$ 0.36	\$ 1.09	\$ 1.31
Dilutive earnings per common share	\$ 0.72	\$ 0.36	\$ 1.09	\$ 1.31

## **13. 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.

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 September 30, 2020 and December 31, 2019.

### **13. Significant Risks and Uncertainties**

The Company continues to manage the significant economic impact and uncertainty associated with the COVID-19 pandemic along with associated market and regulatory responses. As previously disclosed, Keweenaw's business model meets an exemption that has allowed us to continue operations despite broad-based shutdowns, however, our financial results, along with all those of all market participants, have inevitably been impacted. The market disruption and uncertainty continued during the third quarter of 2020. This matter has impacted 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.

### **14. 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 condensed consolidated financial statements and notes thereto. See also "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors".

### **Overview**

As of September 30, 2020, Keweenaw, a land and timber management company, owned 182,902 acres of surface land and 401,336 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.

## Results of Operations

### *Timber Sales & Operations*

For the quarter ended September 30, 2020, Keweenaw's timber sales volume totaled 36,219 cords (86,926 tons). The third quarter sales volume was 11% lower than the prior year period of 40,893 cords (98,144 tons). Third quarter 2020 sales included 36,195 cords from Company land and 24 cords from procured stumpage versus the prior year period harvests of 38,736 cords from Company land and 2,157 cords from procured sources.

Third quarter 2020 gross timber revenues were down 4% at \$4,927,502 versus the prior year period gross revenues of \$5,112,135. Third quarter 2020 Company land timber revenues were \$4,925,178 up 2% over the prior year period Company land gross revenues of \$4,835,211. Third quarter 2020 gross sales from procured stumpage were at \$2,324 versus prior year period procured stumpage gross sales of \$276,924.

Despite a 11% decrease in total harvest volume quarter over quarter, total gross timber revenues declined by only 4%. The driver behind this was the \$3.42 per cord increase in margin quarter over quarter. A much richer sawtimber mix coupled with an increase in margin on pulpwood were key to the improvement in margin quarter over quarter. Demand for softwood sawtimber and aspen pulp remained strong throughout the quarter. Demand early in the quarter for hardwood pulp and hardwood sawtimber was weak but improved in August and September. However, due to the hardwood market weakness over the course of the quarter, Keweenaw had to modestly curtail output to match production to demand. The Company continued to see an increase in road costs quarter over quarter 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 third quarter 2020 and 2019, respectively.

	3 Months Ended September 30,			9 Months Ended September 30,		
	2020	2019	% Change	2020	2019	% Change
Timber Sales Volume (cords)						
Sawtimber	11,326	10,654	6.3%	27,731	23,050	20.3%
Pulpwood	24,893	30,240	-17.7%	71,252	67,669	5.3%
Total	<u>36,219</u>	<u>40,893</u>	<u>-11.4%</u>	<u>98,984</u>	<u>90,719</u>	<u>9.1%</u>
Product Mix						
Sawtimber	31%	26%		28%	25%	
Pulpwood	69%	74%		72%	75%	
Net Timber Sales Price (per cord)						
Sawtimber	91.51	109.94	-16.8%	80.65	97.42	-17.2%
Pulpwood	20.34	14.26	42.6%	16.53	13.56	21.9%
Total	<u>\$ 42.60</u>	<u>\$ 39.18</u>	<u>8.7%</u>	<u>\$ 34.49</u>	<u>\$ 34.87</u>	<u>-1.1%</u>

The changes in third 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:

	3 Months Ended September 30,		Changes Attributed to:		9 Months Ended September 30,		Changes Attributed to:	
	2020	2019	Volume	Price/Mix	2020	2019	Volume	Price/Mix
<b>Sales</b>								
Sawtimber	\$ 2,212,111	\$2,165,486	6.3%	-4.2%	\$ 5,170,105	\$ 4,599,344	20.3%	-7.9%
Pulpwood	2,715,391	2,946,649	-17.7%	9.8%	7,552,902	6,855,279	5.3%	4.9%
Total	\$ 4,927,502	\$5,112,135	-11.4%	3.9%	\$12,723,007	\$11,454,623	9.1%	-0.3%

### Costs of Operations

Contract logging and freight costs represent the majority of the Company's log production expense. Total third quarter 2020 logging and freight costs increased by 5% to \$3,150,325 versus the prior year period logging and freight costs of \$2,994,987. The third quarter 2020 per unit logging and freight costs increased by \$7.42 per cord to \$80.07 per cord versus the prior year period's per unit cost of \$72.65 per cord. Two key variables drove the increase quarter over quarter. Keweenaw sold zero stumpage during the third quarter 2020 versus selling 4,225 cords during the third quarter of 2019. Stumpage sales carry no logging and freight expenses which has the effect of driving per cord production costs down. In addition, third quarter 2020 saw a 6% increase in sawtimber mix and 18% decrease in pulpwood mix over the third quarter 2019 and logging rates are higher on sawtimber than they are on pulpwood.

Costs associated with construction, maintenance and improvement of the Company's logging roads is a major element of Keweenaw's production cost. Third quarter 2020 road-building expenses were up 27% to \$255,165 versus the prior year period of \$201,450. A significant portion of the increase was due to the write-off of \$39,260 of deferred, pre-paid road expense. On a per sales unit basis, road costs went up by \$1.56 per sales cord to \$6.45 per cord versus the prior year period of \$4.89 per cord. The write-off of deferred road costs contributed \$0.99 per cord to the overall road expense increase.

Depletion and procured stumpage expenses decreased by 23% to \$171,154 for the third quarter 2020 from \$222,354 for the prior year period. On a per unit basis, third quarter 2020 depletion and procured stumpage expenses dropped to \$4.33 per cord versus prior year period expense of \$5.39 per cord. The decrease in depletion and stumpage expense was driven by the decrease in procured stumpage sales of 2,230 cords in the third 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 decreased to \$69,456 in the third quarter 2020 from \$82,126 in the prior year period.

The 2020 and 2019 logging & freight, road, depletion/stumpage, and other costs are listed below.

Production Cost Per Cord	3 Months Ended September 30,		9 Months Ended September 30,	
	2020	2019	2020	2019
Logging & Freight	\$ 3,150,325	\$ 2,994,988	\$ 7,907,552	\$ 6,939,191
Roads	\$ 255,165	\$ 201,450	\$ 614,871	\$ 505,110
Depletion/Stumpage	\$ 171,154	\$ 222,354	\$ 683,654	\$ 477,591
Yard Costs	\$ 69,456	\$ 82,126	\$ 233,857	\$ 262,776

Production Cost Per Cord	3 Months Ended September 30,		9 Months Ended September 30,	
	2020	2019	2020	2019
Logging & Freight	\$ 80.07	\$ 72.65	\$ 80.28	\$ 77.21
Roads	6.45	4.89	6.24	5.62
Depletion/Stumpage	4.33	5.39	6.94	5.31
Yard Costs	1.76	2.90	2.38	3.25

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

Other third quarter 2020 income included mineral royalties, lease and rental income, service fees and land sales of \$160,796 an increase of \$122,178 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.

	<b>3 Months Ended September 30,</b>		<b>9 Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Lease Income, Mineral Royalties and Service Fees	\$ 160,796	\$ 38,618	\$ 361,520	\$ 193,846
Investments	-	-	-	9,093
Securities Sales	-	-	-	1,494,133
Easement Sales	2,000	-	2,000	-
Conservation Easement	-	(308,541)	-	(308,541)
Real Estate (net)	319,364	401,402	653,358	1,037,586
<b>Total Other Income</b>	<b>\$ 482,160</b>	<b>\$ 131,479</b>	<b>\$ 1,016,878</b>	<b>\$ 2,426,117</b>

Real estate sales summary is included below:

<b>Real Estate Sales</b>	<b>3 Months Ended September 30,</b>		<b>9 Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Acres Sold	366	125	585	404
Gross	\$ 359,500	\$ 429,600	\$ 747,334	\$ 1,118,600
\$ Acre/Gross	\$ 982	\$ 3,437	\$ 1,279	\$ 2,769

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

For the third quarter 2020, Selling, General and Administrative expenses were \$489,899, compared to \$595,688 for prior year period. This represents a decrease of 18% or \$105,789, primarily due to the decrease in legal and professional services used in the third quarter compared to the prior year period.

	<b>3 Months Ended September 30,</b>		<b>9 Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Total Selling, General and Administrative Expense	\$ 489,899	\$ 595,688	\$ 1,450,089	\$ 1,738,774

### **Liquidity and Capital Resources**

Keweenaw's third quarter net cash flows from operations were \$1,032,601 in 2020 versus \$99,656 in the prior year period. Timber sales volume decreased by 12% in the third quarter 2020 over the prior year period to 36,219 cords from 40,893. With the decreased sales volume, sales revenue also decreased 4% in the third quarter 2020 by \$184,633, to \$4,927,502 down from \$5,112,135 in the prior year period.

Keweenaw sold 366 acres of forest land in third quarter 2020 totaling \$359,500 for a per acre gross value of \$977. This compares to sales of 125 acres in the prior year period totaling \$429,600 for a per acre gross value of \$3,437. The acreage sold in the third quarter 2020 was principally recreational tracts compared to a significant commercial land sale in the prior year period accounting for the change in per acre value.

Capital expenditures in the third quarter of 2020 consisted of \$30,999 principally attributable to primary road

building. Capital expenditures totaled \$10,320 in the prior year period which was also principally attributable to primary road building.

On September 30, 2020, Keweenaw had \$3,171,260 in cash and cash equivalents on hand and held in escrow compared to \$5,653,613 at the end of the prior year period. No dividends were paid to shareholders and 1,480 shares were issued in the third quarter of 2020 and 117 shares vested compared to 3,774 in the prior year period.

There were no debt payments in the third quarter of 2020 or in the prior year period. The next payment window for the fixed rate long-term loan is January 2021 and for the five-year revolver is November 30, 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 third quarter 2020 or 2019. On September 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 third quarter 2020, though no balance was owed on the 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 third quarter 2020 on this loan was \$30,500 compared to \$34,313 in the prior year period. In the third 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 September 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 third 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 third quarter 2020 on this loan totaled \$30,584 compared to \$100,832 in prior year period. The current debt facility outstanding balance was \$5,700,000 as of September 30, 2020.

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

#### ***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. 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. This program may be discontinued at any time.

During the quarter ending September 30, 2020, Keweenaw did not repurchase any shares of stock. The price of KEWL shares was trading above the parameters detailed in the 10b5-1 plan for the balance of the third quarter. During the nine months ending September 30, 2020 Keweenaw has repurchased 14,081 shares for a total of \$878,441 at an average price of \$62.38 per share. All purchases were funded from cash on hand.

#### **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 now had over six months of impact on local, regional, national and international economies, and this has impacted our operations and financial results. As previously disclosed, Keweenaw’s business model meets an exemption that has allowed us to continue operations despite broad-based shutdowns over the course of the pandemic. Our financial results, however, along with all those of all market participants, have inevitably been impacted. We have experienced, for example, continued reductions in demand due to depressed activity in residential and other construction projects involving wood supplies in the Michigan market. These and other market disruptions continued during the third quarter of 2020, and the extent and duration of the pandemic and related governmental responses remain unclear. We expect that this matter may continue to impact our results, but due to the uncertainty inherent in this challenging environment, the related financial impact cannot be reasonably estimated at this time.

#### **Section 6. SUBSEQUENT EVENTS**



None