

KEWEENAW LAND ASSOCIATION, LIMITED
(A MICHIGAN CORPORATION)



KEWEENAW
LAND ASSOCIATION, LIMITED

QUARTERLY REPORT
FOR THE PERIOD ENDED MARCH 31, 2021

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

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

Number of common shares outstanding as of May 5, 2021: 1,294,677

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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.
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.
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,” or other similar words. However, the absence of these or similar words or expressions does not mean that a statement is not forward-looking. Forward-looking statements are not guarantees of performance and are based on certain assumptions. Forward-looking statements discuss future expectations, describe plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. Forward-looking statements in this report include statements anticipating delivery of income, value and long-term returns through sustainable harvests, opportunistic asset sales, and selective acquisitions. Expected future net income (loss) depends on many factors including among others expected uses of cash generated from operations; expected sources and adequacy of capital resources and liquidity; change in depletion rates; change in merchantable timber book value and standing timber inventory volume. Any deviation from these assumptions may lead to fluctuations in future net income (loss).

Any such forward-looking statements are based on a number of assumptions involving judgments and are subject to risks, uncertainties, and other factors that could cause actual results to differ materially from our historical experience and our present expectations. With respect to our ongoing business, these risks and uncertainties include, but are not limited to, the risks discussed in Section 5 . *Risk Factors*, contained 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

Title and class of security:	Common Shares (no par value)
Transfer Agent:	EQ Shareowner Services 1110 Centre Point Curve Suite 101 Mendota Heights, MN 55120
Chief Executive Officer:	Mark A. Sherman
Board of Directors:	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 income statements, stockholders' equity, and statement of cash flows reflect all adjustments, consisting solely of normal and recurring adjustments that are, in managements opinion, necessary for a fair and consistent presentation of the aforementioned financial statements. These results of operations for the three months ended March 31, 2021, 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 March 31,	
	2021	2020
Revenues		
Timber Sales	\$ 4,667,517	\$ 5,871,822
Real Estate Sales	2,869,272	88,918
Lease Income, Mineral Royalties and Service Fees	162,880	145,884
Total Revenues	7,699,669	6,106,624
Cost of Sales		
Timber Cost of Sales	3,158,149	4,354,570
Real Estate Cost of Sales	574,579	23,299
Timber Operations Forestry Expense	183,161	206,511
Land Management Costs	91,343	102,066
Total Cost of Sales	4,007,232	4,686,446
Gross Profit	3,692,437	1,420,178
Selling, General & Administration Expenses	560,930	553,340
Operating Income	3,131,507	866,838
Other Expense		
Interest Expense	(48,053)	(87,645)
Earnings Before Income Taxes	3,083,454	779,193
Provisions for State and Federal Income Taxes	800,259	214,791
Net Income	\$ 2,283,195	\$ 564,402
Net Income Per Share:		
Basic	\$ 1.76	\$ 0.43
Diluted	\$ 1.76	\$ 0.43
Weighted Average Shares Outstanding:		
Basic	1,293,727	1,300,306
Diluted	1,294,677	1,300,656

See accompanying notes to condensed consolidated financial statements

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

	March 31, 2021	December 31, 2020
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 2,543,316	\$ 1,357,404
Cash Held in Escrow	2,490,240	78,671
Accounts Receivable, Net of Allowances for Doubtful Accounts of \$21,452 and \$27,312, respectively	865,032	1,807,096
Prepaid Assets	215,959	167,421
Log Inventory	603,322	551,495
Federal Income Tax Receivable	215,246	215,246
Other Current Assets	36,999	36,999
Total Current Assets	6,970,114	4,214,332
Non-Current Assets		
Timber and Timberlands, Net of Depletion	25,874,800	26,429,508
Prepaid Developed Lot Costs	100,274	141,035
Property, Plant and Equipment, Net of Depreciation	1,094,013	1,124,569
Exploration and Evaluation	189,971	184,421
Other Non-Current Assets	54,600	49,600
Total Non-Current Assets	27,313,658	27,929,133
TOTAL ASSETS	\$ 34,283,772	\$ 32,143,465
LIABILITIES & STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	\$ 118,742	\$ 186,353
Other Accrued Liabilities	997,246	1,112,189
Current Portion of Long Term Debt, net	2,464,367	2,460,681
Total Current Liabilities	3,580,355	3,759,223
Non-Current Liabilities		
Long Term Debt, net	3,478,621	3,976,409
Non-Current State and Federal Deferred Income Tax Liability	683,967	150,199
Total Non-Current Liabilities	4,162,588	4,126,608
Total Liabilities	7,742,943	7,885,831
Stockholders' Equity		
Common Stock (10,000,000 shares authorized, no par value, 1,293,727 and 1,293,727 shares issued and outstanding, respectively)	84,599	84,599
Retained Earnings	26,456,230	24,173,035
Total Stockholders' Equity	26,540,829	24,257,634
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$ 34,283,772	\$ 32,143,465

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
December 31, 2019 Balance	1,305,929	\$ 85,397	\$ -	\$ 21,498,288	\$ 21,583,685
Changes during the period ended December 31, 2020:					
Comprehensive Income:					
Net Income	-	-	-	564,402	564,402
Shares Purchased	(5,623)	(368)	-	(364,110)	(364,478)
March 31, 2020 Balance	1,300,306	\$ 85,029	\$ -	\$ 21,698,580	\$ 21,783,609
December 31, 2020 Balance	1,293,727	\$ 84,599	\$ -	\$ 24,173,035	\$ 24,257,634
Changes during the period ended March 31, 2021:					
Comprehensive Income:					
Net Income	-	-	-	2,283,195	2,283,195
March 31, 2021 Balance	1,293,727	\$ 84,599	\$ -	\$ 26,456,230	\$ 26,540,829

See accompanying notes to condensed consolidated financial statements

Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31,	
	2021	2020
Cash Flows From Operating Activities		
Net Income	\$ 2,283,195	\$ 564,402
Adjustments to Reconcile Net Income to Net Cash Flow		
From Operating Activities:		
Depletion, Depreciation and Amortization	190,984	218,570
Amortization of Loan Costs	5,898	5,898
(Gain) on Sale of Land	(2,294,693)	(65,619)
Changes in Operating Assets and Liabilities		
Decrease (Increase) in Accounts Receivable	942,064	(360,781)
Decrease (Increase) in Prepaid Assets	(48,538)	(81,215)
Decrease (Increase) in Log Inventory	(51,827)	(98,686)
Decrease (Increase) in Federal Income Tax Receivable	-	128,164
Decrease (Increase) in Other Non-Current Assets	(5,000)	-
Increase (Decrease) in Accounts Payable	(67,611)	(113,048)
Increase (Decrease) in Deferred State and Federal Income Tax	533,768	14,161
Increase (Decrease) in Other Accrued Liabilities	(114,943)	(132,555)
Net Cash Flow From Operating Activities	1,373,297	79,291
Cash Flow From Investing Activities:		
Exploration and Evaluation Expenditures	(5,550)	-
Primary Road Construction Expenditures	-	(34,866)
Proceeds from Land & Developed Lot Sales, Net	2,729,734	79,414
Net Cash Flow From Investing Activities	2,724,184	44,548
Cash Flows From Financing Activities		
Payments on Long Term Debt	(500,000)	(500,000)
Repurchase of Common Stock	-	(364,478)
Net Cash Flow From Financing Activities	(500,000)	(864,478)
Change in Cash and Cash Equivalents and Cash Held in Escrow	3,597,481	(740,639)
Cash and Cash Equivalents and Cash Held in Escrow, beginning of period	1,436,075	2,575,833
Cash and Cash Equivalents and Cash Held in Escrow, end of period	\$ 5,033,556	\$ 1,835,194
Reconciliation of Cash, Cash Equivalents and Cash Held in Escrow		
Cash and Cash Equivalents	\$ 2,543,316	\$ 1,647,362
Restricted Cash Held in Escrow	2,490,240	187,832
Cash Paid during the year for:		
Interest Paid	\$ 42,156	\$ 81,747
Federal and State Income Taxes Paid	266,492	222,928

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 of its wholly owned subsidiaries. Significant inter-company accounts and transactions have been eliminated. The financial statements are prepared in accordance with Generally Accepted Accounting Principles (“GAAP”) of the United States of America.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and to disclose contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the period.

Segment Reporting

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

Reclassification

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 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 funds held by a title company related to a 1031 exchange in addition to amounts being held by a third-party brokerage for the purposes of facilitating the Company’s share repurchase program.

Accounts Receivables and Bad Debts

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

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.

Assets Held for Sale

The Company reviews all assets being considered for disposal at the end of each accounting period to determine if they should be classified as held-for-sale based on specific criteria set out in ASC 360. As of March 31, 2021, there were no properties designated as held-for-sale.

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 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 note 12 to the financial statements. The Company's estimates of fair value of financial and non-financial assets and liabilities are based on the framework established in the fair value accounting guidance. The framework specifies a hierarchy of valuation inputs which was established to increase consistency, clarity and comparability in fair value measurements and related disclosures. The hierarchy contains three levels of inputs that may be used to measure fair value, two of which are considered observable and one that is considered unobservable. The following describes the three levels:

Level 1 – Valuation is based upon quoted prices in active markets for identical assets or liabilities.

Level 2 – Valuation is based upon inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.

Level 3 – Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include option pricing models, discounted cash flow models and similar techniques.

Recent Accounting Pronouncements:

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326), which requires companies to utilize a new impairment model known as the current expected credit loss (“CECL”) model to estimate the lifetime “expected credit loss” and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The CECL model applies to all financial assets, including trade receivables. ASU No. 2016-13 is effective for annual periods beginning after December 15, 2022. The Company is still evaluating the impact the guidance may have on the Company's Consolidated Financial Statements.

Revenue Recognition

Timber Sales

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 March 31, 2021 or March 31, 2020. The Company generally collects payment within a year of satisfying performance obligations, and therefore has elected not to adjust revenues for a financing component.

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

Contract Type	Performance Obligation	Revenue Recognition	General Terms of Payment
Delivered Wood	Wood type delivered to customer	Upon Delivery (point-in-time)	Weekly or Net 15
Stumpage (pay as cut)	Harvest rights	Paid as Cut (point-in-time)	Weekly or Net 15

Real Estate Sales

Revenue from sale of real estate (Higher and Best Use (“HBU”) or Non-core timberland) is recognized upon closing when title passes to the buyer.

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	Three Months Ended March 31,	
	2021	2020
Sawtimber	\$ 2,069,163	\$ 2,136,151
Pulpwood	2,598,354	3,735,671
Total Timber Revenue	\$ 4,667,517	\$ 5,871,822
Mineral Royalties	3,018	3,000
Service Contracts	34,479	53,360
Lease Income	105,000	89,524
Total Non-Timber Revenue	\$ 142,497	\$ 145,884
Non-strategic Timberland Sales	2,868,522	88,918
Total Real Estate Sales	\$ 2,868,522	\$ 88,918
Total Revenue from Contracts with Customers	\$ 7,678,536	\$ 6,106,624

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

Timber Revenue Disaggregated by Contract Type	Three Months Ended March 31,	
	2021	2020
Delivered Wood	\$ 4,667,517	\$ 5,775,179
Stumpage (Pay as Cut)	-	96,643
Total Timber Revenue	\$ 4,667,517	\$ 5,871,822

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 March 31, 2021 or 2020.

2. Timber and Timberlands

The following is a summary of the timber and timberlands and permanent logging roads at cost, less accumulated depletion and road depreciation as of March 31, 2021 and December 31, 2020 respectively:

	March 31, 2021	December 31, 2020
Land and Mineral Holdings	\$ 9,682,579	\$ 9,728,437
Timber	23,020,395	23,302,089
Permanent Logging Roads	1,203,602	1,203,602
Properties at Cost	33,906,576	34,234,128
Less: Accumulated Timber Depletion	(7,503,091)	(7,285,290)
Less: Accumulated Road Depreciation	(528,685)	(519,330)
Net Carrying Value	\$ 25,874,800	\$ 26,429,508

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

	Three Months Ended March 31,	
	2021	2020
Timber Depletion Expense	\$ 151,074	\$ 178,963
Depreciation Expense for Permanent Logging Roads	9,059	8,015

3. Prepaid Developed Lot Costs

The Company capitalizes the costs related to the development of land available for sale. These costs are presented on the balance sheet. There were 3 lot sales in the first quarter of 2021 and no lot sales in the first quarter of 2020. On March 31, 2021, there were 9 lots remaining for sale.

4. Exploration and Evaluation

The Company capitalizes the exploration and evaluation costs of mineral resources and these expenditures are shown on the balance sheet. During first quarter 2021, the Company expended \$5,550 to explore prospective mineral properties within the Company's mineral portfolio.

5. Property, Plant, and Equipment

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

	March 31, 2021	December 31, 2020
Buildings	\$ 415,862	\$ 415,862
Furniture, Equipment, and Accessories	1,088,238	1,088,238
Machinery and Vehicles	407,792	407,792
Land Improvements	884,816	884,816
Equipment at Cost	2,796,708	2,796,708
Less: Accumulated Depreciation	(1,702,695)	(1,672,139)
Equipment, Net of Depreciation	\$ 1,094,013	\$ 1,124,569

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

	Three Months Ended March 31,	
	2021	2020
Depreciation Expense	\$ 30,851	\$ 31,592

6. Lines of Credit and Long-Term Debt

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

The Company has a combined unsecured line of credit with Wells Fargo Bank in the amount of \$750,000 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 index rate plus 1% for a one-year commitment and interest to be paid monthly. The company has not drawn on this line as of March 31, 2021.

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 \$4,000,000 on December 31, 2020. 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 2021, \$500,000 was paid down without penalty. As of March 31, 2021, the outstanding balance was \$3,500,000.

Keweenaw also maintains a five-year revolving line of credit in the amount of \$25,000,000 with a maturity date of December 6, 2021, with MetLife which carries an interest rate of 3-month LIBOR plus 150 basis points and .0875% on the uncommitted funds if the average unused portion is more than 50% of the maximum draw. If the average unused portion is 50% or less of the maximum draw, interest of .0375% is charged. Once the facility is used, there is the option of terming out the amount borrowed at the existing 10-year Treasury note rate plus 150 basis points. In 2020, \$3,200,000 was applied to the outstanding balance of the MetLife line of credit. A total of \$2,500,000 remains drawn on this line of credit as of March 31, 2021 representing no change from December 31, 2020. A significant covenant under this arrangement with MetLife requires Keweenaw to not to allow the outstanding principal balance of the loan to exceed 35% of the value of the timberlands owned by Keweenaw. As security for these loans, MetLife is a lienholder on 164,311 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 March 31, 2021, Keweenaw was in compliance with all applicable covenants.

As of March 31, 2021, the Company had one standby letter of credit amounting to \$10,000 for the purpose of backing a performance bond related to the Company's mineral lease with the State of Michigan. No balance was owed on the \$10,000 committed against the \$750,000 line of credit as of March 31, 2021.

The following table summarizes the total outstanding debt of the Company on March 31, 2021, and December 31, 2020:

	March 31, 2021	December 31, 2020
Long-term Debt	\$ 3,500,000	\$ 4,000,000
Five-year Revolver	2,500,000	2,500,000
Less Unamortized Loan Costs	(57,012)	(62,910)
Total	\$ 5,942,988	\$ 6,437,090

The Company's total outstanding debt obligations are outlined below:

Facility Name	Maturity Date	Interest Rate	Commitment	Total Capacity	Balance ⁽¹⁾	Availability
MetLife Fixed Rate Loan	12/09/2026	FIXED 3.05%	-	\$ 5,000,000	\$ 3,500,000	\$ -
MetLife Revolving Line of Credit	12/01/2021	LIBOR + 1.50%	0.0875%	25,000,000	2,500,000	22,500,000
Wells Fargo Line of Credit	11/03/2020	PRIME + 1.0%	-	750,000	-	750,000
				\$ 30,750,000	\$ 6,000,000	\$ 23,250,000

⁽¹⁾Unamortized loan costs associated with the Met Life credit facility are (\$57,012) reducing long term debt reported on the Balance Sheet to \$5,942,988

The Company's debt maturity is outlined below:

	Total	2021	2022	2023	2024	2025	Thereafter
Debt obligations	\$ 6,000,000	\$ 2,500,000	\$ -	\$ -	\$ -	\$ -	\$ 3,500,000

7. 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:

	Three Months Ended March 31,	
	2021	2020
Total 401(k) Expense	\$ 31,071	\$ 24,756

8. 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 March 31, 2021, four customers accounted for approximately 70% and 55% of the Company's consolidated net sales and receivables, respectively. For the quarter ending March 31, 2020, four customers accounted for approximately 59% and 60% of the Company's consolidated net sales and receivables, respectively.

Cash and cash equivalents consist of cash on hand and demand deposits in banks. The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash and cash equivalents. The Company, at times throughout the year, may, in the ordinary course of business, maintain cash balances in excess of 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 \$4,229,820 and \$744,026 in cash and cash equivalents and cash held in escrow as of March 31, 2021 and December 31, 2020, respectively, in excess of FDIC-insured limits.

9. Leases

The Company's current lease environment consists of commercial, surface, recreational, mineral, gravel, and mining leases. The company evaluated current leases under contract and contracts that may contain a lease under the guidance of ASC 842 to determine the accounting treatment for each lease. After evaluation, the Company determined all commercial, surface, and recreational leases to be accounted for as operating leases under ASC 842. All leases determined to fall under the scope of ASC 842 as operating leases contained similar terms. Leases are typically long-term and do not contain a transfer of ownership, purchase option, or are available for an alternative use. Leases do not contain an option to extend and once the lease term has expired, a new lease agreement must be signed by the new or existing tenant. No leases in the Company's lease portfolio contain variable lease payment options.

All leases under which the Company is a lessee were separately evaluated using guidance from ASC 842 to determine proper accounting treatment. After evaluation, the Company found that only its lease for the right to use

office equipment was appropriately classified as an operating lease subject to ASC 842. All other Leases under which the company is a lessee were excluded due to materiality. During the periods ending March 31, 2021 and March 31, 2020, lease expense was \$36,892 and \$52,679, respectively.

Lease Income

The Company leases real estate consisting of commercial, surface, and recreational properties which are accounted for as operating leases. Under this method, lease income is recognized on a straight-line basis over the lease term. The Company also leases property for the purposes of mining, mineral exploration, and gravel extraction. Lease revenue related to mining, mineral, and gravel is excluded from the scope of ASC 842 and is recognized in accordance with ASC topic 606, *Revenues from Contracts with Customers*. Lease contracts related to mining and mineral exploration typically contain provisions for increasing rents to incent project advancement.

The balance of straight-line lease income receivable as of March 31, 2021 was \$16,000. Lease income receivable from leases excluded from the scope of ASC 842 as of March 31, 2021 was \$105,000. The Company reviews the collectability of charges under its current operating leases on a regular basis taking into consideration changes in factors such as tenant payment history, financial condition, business conditions of the industry, and economic conditions of the area. In the event collectability from lease charges becomes unlikely, the Company will recognize an adjustment to lease income.

The following table includes information regarding the Company's operating leases under which it is the lessor, for the year ended March 31, 2021.

	Three Months Ended	
	March 31, 2021	
Lease Income from Operating Leases	\$	20,383
Other Lease Income		105,000
Total Lease Income	\$	125,383

10. Stock Based Compensation

On August 27, 2018, the Company established the Stock Incentive Plan of 2018 for eligible employees (the "Incentive Plan"). The Company did not issue shares related to stock-based compensation during the periods ending March 31, 2021 and 2020, respectively. During the periods ending March 31, 2021 and 2020, respectively, no shares classified as restricted vested.

During the first quarter 2021 and 2020 respectively, the Company did not grant or issue, and no awards vested under any director equity compensation or service based restricted stock grants to employees.

11. Earnings Per Share

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

	Three Months Ended		
	March 31,		
	2021	2020	
Net Income	\$ 2,283,195	\$	564,402
Shares used for basic earnings per common share	1,293,727		1,300,306
Restricted shares	950		350
Shares used for dilutive earnings per common share	1,294,677		1,300,656
Basic earnings per common share	\$ 1.76	\$	0.43
Dilutive earnings per common share	\$ 1.76	\$	0.43

12. Fair Value Measurements

The carrying value of cash and cash equivalents, receivables and account payable and accrued liabilities are reasonable estimates of their fair values because of the short maturity of these financial instruments.

The fair value of the revolving line of credit is estimated to be the carrying value of \$2,464,367 as of March 31, 2021.

13. Cash Held in Escrow

In order to qualify for like-kind exchange treatment (“LKE”), the proceeds from real estate sales must be deposited with a third-party intermediary. These proceeds are accounted for as cash held in escrow until a suitable replacement property is acquired. In the event that the LKE purchases are not completed, the proceeds are returned to the Company after 180 days and reclassified as available cash. As of March 31, 2021, the Company had \$2,490,240 of cash classified as restricted. \$2,411,569 of restricted cash is deposited with an intermediary for the purpose acquiring LKE qualified property. The additional amount of cash held in escrow of \$78,671 is restricted for the share repurchase program implemented by the Company.

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 Statement Regarding Forward-Looking Statements” and “Risk Factors”.

Overview

As of March 31, 2021, Keweenaw, a land and timber management company, owned 180,115 acres of surface land and 399,728 acres of subsurface mineral rights in the western Upper Peninsula of Michigan and northern Wisconsin. Keweenaw derives the majority of its net income from the sale of logs harvested from its forestlands, and from the sale of timber harvested from public and private timber sources. Keweenaw also generates other revenue from real estate sales, recreational leases, mineral rights leases, sale of sand and gravel, and by providing wood scaling and inventory management services for various customers.

Results of Operations

Timber Sales & Operations

For the quarter ended March 31, 2021 Keweenaw’s timber sales volume totaled 33,647 cords (80,753 tons). The 2021 sales volume decreased by 13,607 cords (32,657 tons) or 29% compared to the same period last year. Sales for the first quarter included 33,337 cords from Company lands and 310 cords from procured stumpage, a decrease of 6,642 cords and 6,965 cords, respectively, over the prior year. The decline in total volume was driven by highly constrained demand for pulpwood from all of Keweenaw’s pulp customers. Due to a number of factors that occurred in 2020, including market-related down time resulting from the COVID-19 pandemic, most pulpwood customers began the first quarter 2021 with more inventory than initially forecasted. As a result, their pulpwood purchases were significantly lower than historical first quarter demand.

Gross timber revenues during the first quarter of 2021 were down \$1,204,305 to \$4,665,517, which reflected a decrease of 21% compared to the first quarter of 2020. Timber revenue from Company owned land was \$4,624,304 and procured stumpage sales were \$43,213 which reflected a decrease of 5% and 96% respectively compared to the first quarter of 2020. Due to the limited pulpwood demand, Keweenaw focused harvests on higher margin Company land production in the first quarter of 2021.

Sawtimber net sales price was \$115.60 per cord in the first quarter 2021, a 34% increase compared to \$86.05 per cord in the prior year period. The increase was driven by a higher percentage of hard maple, our highest margin species, higher percentages of veneer and sawlogs and lower percentage of sawbolts in the product mix. Pricing also marginally improved for this product mix. Another key factor in the increase was the significant decline in the harvest and sale of procured stumpage in the first quarter of 2021 versus the prior year period. Procured sawtimber sales produce a much lower margin than Company land sales.

Despite the 29% reduction in sales volume and 20% reduction in timber revenue in the first quarter of 2021, gross timber profit declined less than 2% from the prior year. The influencing factors include less procured stumpage sales, higher percentage of hard maple sawtimber sales, a better overall product mix of higher margin sawtimber, and improved pricing.

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

	Three Months Ended		
	March 31		
Timber Sales Volume (cords)	2021	2020	% Change
Sawtimber	9,482	11,151	-15.0%
Pulpwood	24,165	36,103	-33.1%
Total	33,647	47,254	-28.8%
Product Mix			
Sawtimber	28%	24%	
Pulpwood	72%	76%	
Net Timber Sales Price (per cord)			
Sawtimber	\$115.60	\$86.05	34.3%
Pulpwood	17.83	16.59	7.5%
Total	45.38	32.98	37.6%

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

The decrease in first quarter 2021 timber revenues over the prior year were primarily driven by the 29% overall decrease in sales volume from the prior year period. Total sawtimber sales decreased by 15% and pulpwood sales decreased by 33%. Poor demand for pulpwood in the first quarter of 2021 resulted in an overall decrease in harvest and sales volume for all products. The impact of the reduced sales volume was mitigated by improved sawtimber product mix and improved margins on both sawtimber and pulpwood. The pulpwood margin increases in the first quarter 2021 over the prior year period were driven by changes in customer destination and not an improvement in pulpwood pricing. The total impact of those changes is reflected below:

Sales	Three Months Ended		Changes Attributed to:	
	March 31,		Volume	Price/Mix
	2021	2020		
Sawtimber	\$ 2,069,163	\$ 2,136,151	-15.0%	11.8%
Pulpwood	2,598,354	3,735,671	-33.1%	2.6%
Total	\$ 4,667,517	\$ 5,871,822	-28.8%	6.0%

Costs of Operations

Contract logging and freight costs represent the majority of the Company's log production expense. Total first quarter 2021 logging and freight costs decreased by 23% to \$2,818,512 versus the prior year period. The decrease in overall production cost is primarily attributable to the 29% decrease in overall harvest volume. On a per cord basis, first quarter 2021 logging and freight costs increased by \$6.62 per cord to \$83.77 versus the prior year's cost of \$77.15 per cord. The per cord production costs increases were driven by an increase in sawtimber product mix and the decrease in stumpage sales year over year. Contractual rates for sawtimber are higher than pulpwood. Consequently, as sawtimber product mix increases so do logging costs. Keweenaw also sold less stumpage in the first quarter of 2021 than the prior year period, which resulted in higher logging and freight costs per cord.

Costs associated with construction, maintenance and improvement of the Company's logging roads is another element of Keweenaw's production cost. Road-building expenses in the first quarter of 2021 were \$141,141 which was down 43% versus the prior year period. The decrease was driven largely by the 29% decrease in first quarter 2021 harvest volume. Another significant factor in the decreased first quarter 2021 road expense, was a mild winter, with light snow, further reducing the need to plow active logging roads. On a per cord basis, first quarter 2021 road costs were down \$1.02 per cord to \$4.19 per cord versus the prior year period.

Depletion and procured stumpage expenses decreased by \$287,223 in the first quarter 2021 or 64% from the prior year period. On a per cord basis, first quarter 2021 depletion and procured stumpage expenses dropped to \$4.84 per cord versus the prior year period expense of \$9.52 per cord. The decrease in depletion and stumpage expense was driven by a 29% decrease in harvest volume and only 310 cords of procured stumpage sales because of the focus on Company lands in the first quarter of 2021.

Other operating expenses (Yard Costs) are associated with the costs of operating Keweenaw's merchandising woodyard. Those costs decreased to \$70,134 in the first quarter of 2021, approximately 14% lower than in the prior year period.

The 2021 and 2020 logging/freight, road, depletion/stumpage, and other costs are listed below.

	Three Months Ended	
	March 31,	
	2021	2020
Production Costs per Cord		
Logging & Freight	\$ 2,818,512	\$ 3,645,636
Roads	141,141	246,048
Depletion/Stumpage	162,720	449,943
Yard Costs	70,134	81,865
Production Costs per Cord	2021	2020
Logging & Freight	83.77	77.15
Roads	4.19	5.21
Depletion/Stumpage	4.84	9.52
Yard Costs	2.08	1.73
	\$ 94.88	\$ 93.61

Non-Timber Revenue and Real Estate Sales

In 2021 non-timber revenues and real estate sales increased by \$2,797,350 compared to the prior year. The increase was primarily driven by the sale of 2,067 acres of non-contiguous property in Marquette County, the “Big Bay” sale. There were also 3 Development Lot Sales in the first quarter of 2021 versus none in the prior year period, producing \$138,500 in revenue. As of March 31, 2021, there were 9 lots remaining for sale. Non-timber revenue sources from lease, minerals, and service fees increased about 10%, to \$162,880, compared to the prior year period.

Income from other sources is unpredictable in nature and can vary widely from year-to-year. The breakdown of non-timber revenue and real estate sales by category is reflected below.

	Three Months Ended March 31,	
	2021	2020
Lease Income, Mineral Royalties and Service Fees	\$ 162,880	\$ 145,884
Easement Sales	750	-
Development Lot Sales	138,500	
Real Estate	2,730,022	88,918
Total Non-timber Revenue and Real Estate Sales	\$ 3,032,152	\$ 234,802

Real Estate Sales	Three Months Ended March 31,	
	2021	2020
Acres Sold	2,277	58
Gross	\$ 2,730,022	\$ 88,918
\$ Acre/Gross	\$ 1,199	\$ 1,533

Liquidity and Capital Resources

Keweenaw’s cash flow from operations in the first quarter 2021 was \$1,373,297 versus \$79,291 in the prior year period. Overall timber sale volume decreased by 29% in the first quarter 2021 over the prior year period a decrease of 13,607 cords. With the decrease in sales volume, the timber income decreased by \$1,204,305 year over year.

Keweenaw sold 2,277 acres of forest land in the first quarter 2021 for a gross total of \$2,730,022, or a per acre gross value of \$1,199 per acre. The real estate market across the Upper Peninsula of Michigan has experienced an increase in activity since the COVID-19 pandemic started in early 2020 and we believe this trend has continued in the first quarter of 2021. A major component of the first quarter 2021 was the “Big Bay” sale which is described in greater detail elsewhere in this report.

Keweenaw continues to observe renewed interest in its development properties and sold 3 lots in the first quarter 2021 versus none in the prior year period, which generated \$138,500 in gross sales for a per acre gross value of \$8,099 and a reduction in the prepaid development asset of \$40,761.

Capital expenditures totaled \$5,550 in the first quarter of 2021 versus \$34,866 in the prior year period. Current year period capital expenditures were related to exploration and evaluation of company mineral assets. In the prior year period, capital costs were associated with Company roads.

No dividends were paid to shareholders during the first quarter of 2021 or 2020, respectively. Keweenaw did not issue any new shares in the first quarter 2021 or the prior year period. On March 31, 2021, Keweenaw had

\$2,543,316 in cash and cash equivalents and \$2,490,240 cash held in escrow compared to \$1,647,362 and \$187,832, respectively, at the end of the prior year period, respectively. The cash held in escrow in the first quarter of 2021 resulted from \$2,411,569 in proceeds from the “Big Bay” sale that are being held by a third-party intermediary in connection with our execution of a Like Kind Exchange transaction and the remaining balance of \$78,671 in escrow is being held for the share repurchase program.

The Company maintains a credit arrangement at Wells Fargo Bank Michigan N.A., which provides for a \$750,000 operating line-of-credit availability to satisfy short-term operating cash needs and to also fund standby letters-of-credit in guarantee of performance on public bid timber stumpage contracts with the USDA Forest Service.

Keweenaw did not borrow on its short-term line of credit with Wells Fargo during the first quarter of 2021 or during the prior year period. On March 31, 2021, there was no outstanding balance on its short-term line of credit. If necessary, short-term borrowing and repayment would occur using the automatic balance transfer feature of Keweenaw’s primary business checking account and its operating line of credit. On Keweenaw’s \$750,000 operating line of credit, one letter of credit totaling \$30,000 was outstanding as of March 31, 2021, though upon which no balance was owed.

In December 2016, the Company borrowed \$5,000,000 from MetLife at an interest rate of 3.05% and paid off the principal balance of \$4,320,000 remaining on its original loan with Wells Fargo. Keweenaw originally borrowed \$4,800,000 in November 2013 to help finance a 4,979-acre land purchase. Terms of the new 10-year interest-only loan with MetLife include quarterly interest payments at 3.05%. Up to 10% of the principal balance may be paid annually without prepayment penalty. An installment payment of \$500,000 was paid in the first quarter of 2021 reducing the principal balance to \$3,500,000. The maturity date on the loan is December 9, 2026. Total interest expense in the first quarter of 2021 on this loan was \$26,688 compared to \$30,500 in the prior year period.

Also, in December 2016 Keweenaw entered into 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, Michigan. The Company repaid all but \$2,500,000 of those amounts, such that at the end of 2020, a total of \$22,500,000 remained available for the strategic needs of the Company. Fees and interest associated with the revolver include quarterly payments on the unused facility of 0.0875%. Once the facility is used, there is an option to finance the amount borrowed at the existing 10-year Treasury note rate plus 150 basis points. Interest expense in the first quarter of 2021 on this loan totaled \$15,468 compared to \$51,247 in the prior year period.

Section 3. OTHER MANAGEMENT DISCUSSIONS

Sale of Big Bay Property and Election of 1031 Like Kind Exchange Treatment

On March 26, 2021, the Company closed on the sale of 2,067 acres of timberland located in Marquette County (the “Big Bay” property) that is considered non-contiguous to other Company lands for gross proceeds of \$2,526,000 or \$1,222 per acre. Due to the historically low land basis in the property, the Company elected to designate this sale as a 1031 Like Kind Exchange for tax purposes in order to defer taxes associated with the gain, due to the historically low land basis in the property. We are currently investigating and evaluating qualifying exchange property that would meet our needs and provide a return on investment.

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 2020 Annual Report. The risk factors contained in our 2020 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 2020 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 2020 Annual Report. The risk factors that are highlighted here and in the 2020 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 twelve 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 first quarter of 2021, 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. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS

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

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

Section 7. OTHER INFORMATION

SIGNATURES

KEWEENAW LAND ASSOCIATION, LIMITED

A handwritten signature in blue ink, appearing to read "M.A. [unclear]", positioned above a horizontal line.

By: _____

Date: May 5, 2021