

# KEWEENAW LAND ASSOCIATION, LIMITED



## First Quarter Report For the Period Ending March 31, 2014 Issue Date April 21, 2014

### Highlights

Net Income of \$0.10 Per Share  
Sawtimber Realization Continues to Improve

Keweenaw Land Association, Limited announces a First Quarter 2014 net income of \$0.10 per share compared to \$0.10 for the same period in 2013. Sources of net income (loss) per share are listed in the Earnings Per Share Table:

#### First Quarter Results:

Keweenaw harvested a total of 23,591 cd-eq, including 3,752 cd-eq from procured sales, during the first three months of 2014. This compares to the 25,173

cd-eq, including 1,368 cd-eq from procured sales, produced during the same period in 2013. Total production was lower as record cold temperatures, along with deep snow across the region, made this past winter's logging season one of the most difficult on record. Since record-keeping began, the Upper Peninsula had experienced the most number of days where the temperature failed to reach above zero. Actual winter production contained more softwood sawtimber and less pulpwood, which increased our product mix over 2013.

For the quarter, Keweenaw harvest included the following:

During the First Quarter, the company sold logs totaling \$2,713,806, compared to \$2,669,995 in 2013.

Year-to-date timber operations results are listed in the following table:

	Earnings Per Share	
	1st Qtr 14	1st Qtr 13
Timber Operations Income	\$ 0.17	\$ 0.24
Capital Gains-Sale of Land	0.15	0.05
Capital Gains-Investments	-	-
Other Income	0.03	0.05
Other Expenses	(0.18)	(0.18)
Income Taxes	(0.07)	(0.06)
	<u>\$ 0.10</u>	<u>\$ 0.10</u>

1st Qtr Production Statistics	2014	Mix%	2013	Mix%
<b>Total Harvest Volume (cd-eq)</b>	23,591	100.0	25,173	100.0
<b>Sawtimber (mbf)</b>	2,899	27.0	1,827	16.0
<b>Pulpwood (cords)</b>	17,214	73.0	21,153	84.0

Timber Operations Income)	2014	%	2013	%
<b>Log Sales</b>	\$2,713,806	100.0	\$2,669,995	100.0
<b>Expenses (COGS)</b>	(1,986,677)	73.2	(1,924,497)	72.1
<b>Gross Margin</b>	727,129	26.8	745,498	27.9
<b>Forestry/Management Exp</b>	(511,194)		(430,416)	
<b>Timber Operations Income</b>	<b>\$215,935</b>		<b>\$315,082</b>	

Sawtimber sales realizations were higher on a per unit basis compared to the same period in 2013. Log prices continued to increase as the demand for appearance grade lumber and flooring improved. Market demand for pulpwood also increased, a continuation of the trend that began in the third quarter of 2013.

1st Qtr Sales Statistics (per unit)	2014	2013
Average Price Realization	\$116	\$106
Cost of Goods Sold	(85)	(76)
Gross Margin	31	30

Veneer realization was \$1,085 per mbf, compared to \$1,054 in 2013, a 3% increase, primarily due to better pricing coupled with increased demand. Sawlog realization was \$501 per mbf versus \$409 per mbf in the same period in 2013, a 22% increase, primarily driven by higher pricing for Hard Maple. However, Boltwood was \$119 per cd-eq, down by 6% from \$127 per cd-eq in 2013 as a result of a higher softwood mix, which yields a lower price per cd-eq. Pulpwood realization for the quarter was \$94 per cd-eq compared to \$90 in 2013, a 4% increase. Because of a higher sawtimber concentration, the overall sales realization was up by \$10 per cord as demonstrated in the table below:

In the winter, planned harvest units usually contain a higher percentage of lower quality logs and other minor species, in contrast to summer logging when more Hard Maple, our most valuable species, is harvested. As we move into summer operations, we anticipate pricing increases for sawtimber.

1st Qtr Sales Realization	2014	2013
Veneer (mbf)	\$1,085	\$1,054
Sawlog (mbf)	501	409
Boltwood (cord)	119	127
Pulpwood (cord)	94	90
Overall Realization (cd-eq)	\$116	\$106

Keweenaw continues to implement its strong marketing strategy, which places emphasis on maximizing its sales dollars, while looking for ways to reduce the cost of goods sold (i.e. product and destination costs). During the quarter, weather had a direct impact on our costs. Road expense amounted to \$191,695, compared to \$137,370 in 2013, a 40% increase, primarily caused by heavy snowfall. Diesel fuel continues to hover around \$4 a gallon, adding to the cost of production and delivery. The company continues to focus on optimizing product destination which results in higher gross margins and a better bottom line.

Because of the record cold weather, winter logging lasted nearly two weeks longer than last year. With the exception of a couple of small crews near all-season roads, production effectively came to an end on March 28<sup>th</sup> when local authorities imposed weight restrictions on most roads in the region, preventing further trucking of logs to market until middle to late May.

### Land:

During the quarter, Keweenaw sold a total of 130 acres of land in Dickinson, Iron, and Marquette County, with gross proceeds of \$210,010. These parcels were considered to be non-strategic to our timberland holdings. The company's overall strategy is to acquire lands stocked with timber and provide access to other company properties.

### Minerals:

On February 11, 2014, Highland Copper Company Inc. (TSXV: HI) and Orvana Minerals Corp. (TSX: ORV) entered into a definitive agreement whereby Highland would acquire all rights, title, and interest in the Copperwood Project from Orvana through the acquisition of all of the outstanding shares of Orvana Resources US Corp. Among other things, closing of the acquisition is conditional upon the completion of financing to fund the acquisition and receipt of all required regulatory approvals including the approval of the TSX Venture Exchange. Closing is expected by April 30, 2014.

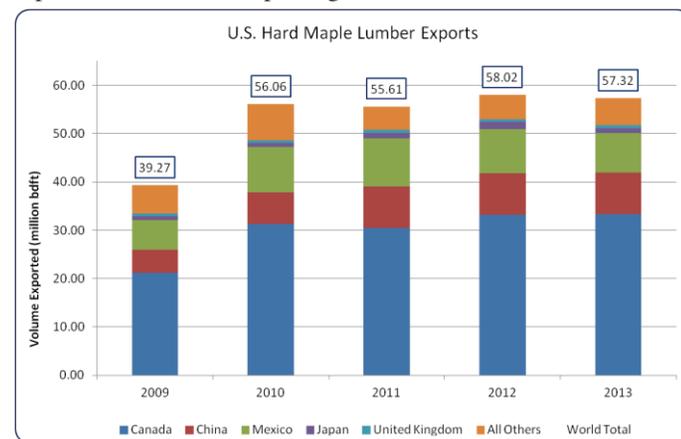
Keweenaw welcomes this development and feels it is a positive step forward for the Copperwood Project and for our shareholders. The company entered into a mining lease with Orvana in 2008 for a portion of the area encompassed by the Copperwood Project. In 2012, Keweenaw entered into a mineral lease and exploration agreement with Keweenaw Copper Company, a subsidiary of Highland Copper Company for properties in the western Upper Peninsula of Michigan.

At the time of this newsletter, the transaction between Orvana and Highland has not yet closed. Therefore, any additional information related to the Copperwood Project can now be found on both Orvana's website, [www.orvana.com](http://www.orvana.com), and on Highland's website, [www.highlandcopper.com](http://www.highlandcopper.com).

### Market Commentary – Hard Maple Lumber Exports:

Exports of hardwood lumber continue to play an important role in overall demand for U.S. sawmill production. In 2013, the U.S. exported 1.46 billion board feet of hardwood lumber valued at \$1.86 billion dollars. Red and White Oak were the predominate species exported and comprise 22% and 16% respectively by volume. Hard Maple, which is regionally important to the Lake States, accounted for just under 4%. Canada is the largest importer of hard maple from the U.S., importing 57% of the total volume. China imports approximately 15%, but continues to increase in importance, followed by Mexico as the next largest importer of hard maple lumber.

Source: USDA Foreign Agricultural Services



Export volumes for hard maple have been flat over the past four years, but international buyers of lumber are experiencing higher demand and prices, similar to what is occurring in the domestic markets. As the global economic picture improves, hardwood lumber export volumes and prices are expected to rise, putting additional price pressure on the domestic side for both lumber and logs. With over half of Keweenaw's sawlog volume in hard maple, a strengthening hardwood lumber export market would ultimately lead to better pricing and solid demand for logs harvested from company lands.

**Shareholder Relations & Administrative:**

Keweenaw's common shares traded in a range from \$80.00 to \$89.50 per share during the first quarter with an ending price of \$80.75. 28,589 KLA shares were traded, a little over 2% of outstanding shares. This compares to 75,519 shares traded last year. As with any investment, past performance is not a guarantee of future results. Keweenaw's shares trade in the pink sheets using the symbol KEWL.

The annual meeting of Keweenaw shareholders will be held at 9:00am CDT on Monday, May 19, 2014, in Ironwood, MI. Notices and voting information were provided for shareholders of record at the end of business on Monday, March 24, 2014. We look forward to seeing you there.

To contact Keweenaw, call (906) 932-3410 or use our toll free line (877) 539-3362. You may also reach us by e-mail at [investors@keweenaw.com](mailto:investors@keweenaw.com). Keweenaw's quarterly letters and latest annual report, along with archived reports from previous years, are posted on the company's web page.

Sincerely,



David Ayer, Chairman

KEWEENAW LAND ASSOCIATION, LIMITED  
Consolidated Statement of Income and Expense (Unaudited)  
March 31, 2014

INCOME	1 <sup>st</sup> Quarter		
	2014	2013	% Chg
<b>Timber Operations</b>			
Timber Sales	\$2,713,806	\$2,669,995	
Cost of Sales	1,986,677	1,924,497	
<b>Gross Margin on Timber Sales</b>	<b>727,129</b>	<b>745,498</b>	<b>-2%</b>
<b>Timber Operations Expense</b>			
Forestry Expenses	197,179	159,383	
Management and General Administration	314,015	271,033	
<b>Total Operations Expenses</b>	<b>511,194</b>	<b>430,416</b>	
<b>Timber Operations Income</b>	<b>215,935</b>	<b>315,082</b>	<b>-31%</b>
<b>Real Estate Development</b>			
Developed Lot Sales	0	0	
Development Costs	0	0	
<b>Gross Margin on Developed Lot Sales</b>	<b>0</b>	<b>0</b>	
<b>Total Operations Income</b>	<b>215,935</b>	<b>315,082</b>	<b>-31%</b>
<b>Other Income</b>			
Mineral Royalties	154	2,552	
Lease and Rental Income	28,914	49,777	
Investment Earnings	5,205	6,182	
Profit (Loss) on Security Sales	0	0	
Land Sales	198,455	58,831	
Other	6,040	12,501	
<b>Total Other Income</b>	<b>238,768</b>	<b>129,843</b>	<b>84%</b>
<b>Other Expenses</b>			
Land Management Expenses	95,434	120,203	
Board of Directors Expenses	135,450	122,875	
<b>Total Other Expenses</b>	<b>230,884</b>	<b>243,078</b>	<b>-5%</b>
<b>Income Before Income Taxes</b>	<b>223,819</b>	<b>201,847</b>	<b>11%</b>
Provision for State and Federal Income Taxes	91,856	76,901	
<b>Net Income (Loss)</b>	<b>131,963</b>	<b>124,946</b>	<b>6%</b>
<b>Other Comprehensive Income, Net of Tax</b>			
<b>Unrealized Gains (Losses) on Securities</b>			
<b>Unrealized Holding Gains Arising</b>			
During the Period	(6,070)	153,818	
<b>Less: Reclassification Adj For Gains</b>			
Included in Net Income	0	0	
<b>Other Comprehensive Income</b>	<b>(6,070)</b>	<b>153,818</b>	
<b>Comprehensive Income</b>	<b>\$125,893</b>	<b>\$278,764</b>	<b>-55%</b>
Per Share Net Income	0.10	0.10	
Per Share Comprehensive Income	0.10	0.22	
<b>Based on Weighted Avg Shares Outstanding</b>			

\*\* Percentage Change is not provided if either the latest period or year-ago period contains a net loss.

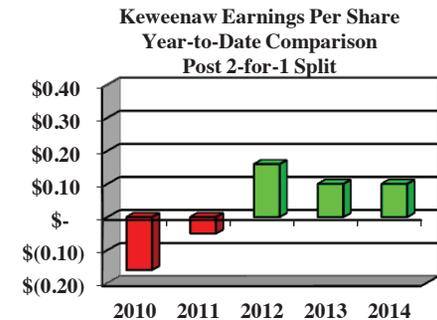
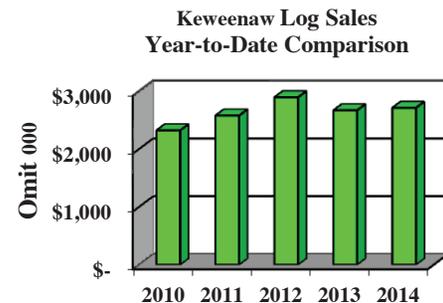
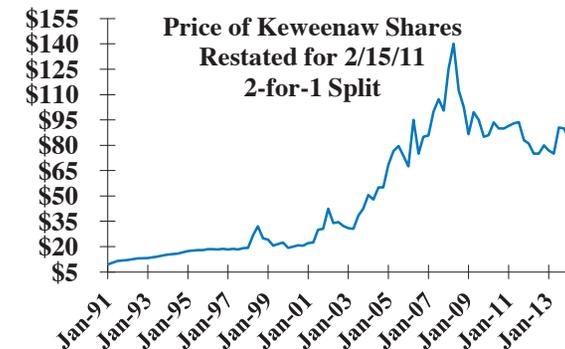
KEWEENAW LAND ASSOCIATION, LIMITED  
Consolidated Balance Sheet (Unaudited)  
March 31, 2014

ASSETS	Mar 31, 2014	Mar 31, 2013	% Chg
<b>Current Assets</b>			
Cash & Cash Equivalents	\$1,738,913	\$1,494,984	16%
Accounts Receivable	450,655	161,575	
Investments in Government Obligations	0	0	
Other Current Assets	365,024	334,353	
<b>Total Current Assets</b>	<b>2,554,592</b>	<b>1,990,912</b>	<b>28%</b>
Investments in Marketable Securities	2,782,048	4,184,846	-34%
Other Non-Current Assets	307,588	311,455	
Equipment	621,083	594,373	4%
Properties	17,126,984	11,708,596	46%
<b>TOTAL ASSETS</b>	<b>\$23,392,295</b>	<b>\$18,790,182</b>	<b>24%</b>
<b>LIABILITIES &amp; CAPITAL</b>			
<b>Current Liabilities</b>			
Accounts & Deposits Payable	\$168,152	\$62,383	
Commercial Lines of Credit & Other Debt	240,000	100,191	
Other Accrued Liabilities	360,132	296,592	
<b>Total Current Liabilities</b>	<b>768,284</b>	<b>459,166</b>	<b>67%</b>
<b>Non-Current Liabilities</b>			
Long Term Debt	4,560,000	641,244	
Deferred Federal Income Tax Liability	814,945	990,064	
<b>Total Non-Current Liabilities</b>	<b>5,374,945</b>	<b>1,631,308</b>	
<b>Total Liabilities</b>	<b>6,143,229</b>	<b>2,090,474</b>	<b>194%</b>
<b>Capital</b>			
Common Stock Issued <sup>(1)</sup>	84,717	84,625	
Accum. Other Comprehensive Income	1,206,895	1,489,397	
Retained Earnings	15,957,454	15,125,686	
<b>Total Capital</b>	<b>17,249,066</b>	<b>16,699,708</b>	<b>3%</b>
<b>TOTAL LIABILITES &amp; CAPITAL</b>	<b>\$23,392,295</b>	<b>\$18,790,182</b>	<b>24%</b>
Capital Per Common Share	\$13.31	\$12.90	

<sup>(1)</sup> 1,295,533 no par value common shares are issued and outstanding on Mar. 31, 2014. 1,294,118 shares were outstanding on Mar. 31, 2013. 10,000,000 shares are authorized.

## CONSOLIDATED FINANCIAL HIGHLIGHTS

For the Quarter	2014		2013	
	1st Qtr	YTD	1st Qtr	YTD
Receipts	\$2,953	\$2,953	\$2,800	\$2,800
Net Income (Loss)	132	132	125	125
Comprehensive Income	126	126	279	279
Capital Employed	22,049	22,049	17,441	17,441
*Dollar amounts in thousands				
<b>Per Common Share</b>				
Net Income	\$0.10	\$0.10	\$0.10	\$0.10
Comprehensive Income	0.10	0.10	0.22	0.22
<b>Statistics</b>				
Return on Capital Emp	2.4%	2.4%	2.9%	2.9%
Avg Shares Outstanding	1,295,533	1,295,533	1,294,118	1,294,118
Curr Shares Outstanding	1,295,533	1,295,533	1,294,118	1,294,118



# SHAREHOLDER INFORMATION

## **First Quarter 2014 Highlights:**

High: \$89.50, Low: \$80.00, Last: \$80.75

Source: Real Tick – Townsend Analytics, Ltd.

## **Dividend Information:**

The Board of Directors eliminated shareholder dividends beginning in 2010.

## **Keweenaw Contact Information:**

Keweenaw Land Association, Limited

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Ironwood MI 49938

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Web Page: [www.keweenaw.com](http://www.keweenaw.com)

Keweenaw's quarterly reports and latest annual report, along with archived reports from previous years, are posted on the Company's web page.

## **Transfer Agent:**

Wells Fargo Shareowner Services

PO Box 64854

South St Paul MN 55164-0854

(800) 689-8788 or (651) 450-4002

## **Stock Exchange Information:**

Keweenaw's common stock trades under "KEWL" in the Pink Sheets.

## **Glossary:**

**Board Foot (BF)** – a measurement of sawtimber 12 inches x 12 inches x one inch. When used in conjunction with sawtimber or logs, a measurement system to approximate the output of lumber that can be expected from a given quantity of sawtimber or logs. **Cord Equivalent** – a measurement of logs in cords including logs converted in measurement from other measurement methods. For example, one thousand board feet (MBF) equals approximately 2.2 cords. **Cord** – a measurement of logs containing 128 cubic feet. **MBF** – a thousand board feet. **Production Mix** – the ratio of a category of production to total production. **Pulpwood**- logs cut primarily to be converted to wood pulp for the manufacture of paper and other wood fiber products. **Sawbolt** – a lower grade or smaller size sawlog 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.