

KEWEENAW

LAND ASSOCIATION, LIMITED



2005 ANNUAL REPORT

CONSOLIDATED FINANCIAL HIGHLIGHTS

For the Year	2005	2004	2003	2002	2001
Receipts*	\$10,718	\$9,079	\$8,647	\$8,042	\$9,083
Net Income after Tax*	1,430	924	624	677	859
Capital Employed*	12,872	12,263	11,814	11,237	11,299

*Dollar amounts in thousands (Certain values for 2002 and 2003 have been restated for purposes of comparison)

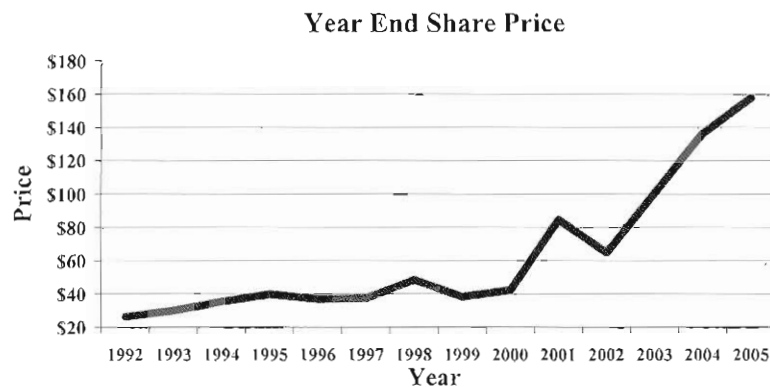
Per Share

Earnings*	\$2.23	\$1.44	\$0.97	\$1.05	\$1.34
Dividends Paid	0.80	0.80	0.80	0.80	0.80

*Based on weighted average shares outstanding

Statistics

Return on Capital	11.1%	7.5%	5.3%	6.0%	7.6%
Dividend Payout Ratio	35.9%	55.6%	82.5%	76.2%	59.7%
Average Shares Outstanding	642,572	642,153	641,913	641,673	641,511
Shares Outstanding at Year End	642,735	642,153	641,913	641,673	641,553



Report to Shareholders

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Glossary of Terms Used in This Report

Board Foot (BF) – a measurement of lumber 12 inches x 12 inches x one 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. **Cord Equivalent (cd-eq)** – a measurement of logs in cords including logs converted in measurement from other measurement methods. 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, 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.

Report to Shareholders (continued)

Chairman's Letter

Dear Shareholders:

Keweenaw produced excellent operating results again in 2005. A couple of highlights: timber operations income increased from \$1,206,094 in 2004 to \$2,100,983 in 2005, and net income increased from \$923,879 in 2004 to \$1,430,208 in 2005. As always, Keweenaw's performance will be fully described in the main body of this report.

I would like to take this opportunity to discuss our management strategy and several of our core values so you can better understand how we run your company and how we see the future – excluding, obviously, events over which we have no control.

We continue to manage all your assets for long-term growth and capital appreciation, while attempting to produce acceptable levels of current return. We manage for the benefit of shareholders first and foremost through intensive management of our timber resource without compromising our core belief in “sustainable management.” We see ourselves primarily as a commercial timber company that has significant real estate and mineral holdings that we continually try to develop, keeping in mind what we believe to be our core strengths: administrative excellence, forest management and log marketing expertise. We intend to increase our productive timberland over time by purchasing and/or exchanging parcels as income and availability allow. We are continuing to upgrade and consolidate our real estate and timber holdings.

It is our policy to function ethically with our shareholders and employees, while providing support to the local community. We continue to disclose all pertinent financial and other information to our shareholders as quickly as possible. Our web site, www.keweenaw.com, has facilitated this process; I urge you to visit it from time to time. We continue to treat our customers fairly by meeting our delivery and quality commitments to them. Our marketing expertise has significantly added to our revenues, and we are well thought of by our customers. We treat all our employees with respect and provide fair compensation and benefits. Likewise, we believe we receive the same fair treatment in return.

In terms of how we operate from an environmental point of view, we believe a sustainable method of timber management (not cutting more than growth over a rolling ten-year period) is not only sound practice but is also in the best interest of our shareholders. We have adopted “Best Management Practices,” which not only put us in compliance with all regulations but also surpass them in many instances. We have continued to maintain our Forest Stewardship Council (FSC) certification since 1994.

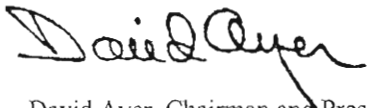
Looking toward the next several years, we see a company that is financially strong with the ability to increase in size and value. We continue to intensively manage your assets to make this happen. We further believe that our strategy and core beliefs have led to the success of Keweenaw.

Keweenaw stock traded actively in 2005 with 98,474 shares, or 15% of outstanding shares, having traded. The year's beginning stock price was \$136.50, and its closing price was \$158.00.

As mentioned in our fourth quarter letter, we have added a new Board member, Kimberly Borans, who brings new ideas and a diverse set of management talents. We welcome her.

Again, I would like to thank our shareholders for their support; I hope to see many of you at our Annual Meeting June 5, 2006.

Sincerely,



David Ayer, Chairman and President

Report to Shareholders (continued)

Company Profile

Keweenaw Land Association, Limited is organized under Michigan law as a corporation. The company is managed under the direction of a six member Board of Directors. Current Board members and Officers are:

David Ayer, Director, Chairman of the Board, and President
Kimberly A. Borans, Director
Robert M. Davenport, Controller, Assistant Treasurer
John E. Earhart, Director
Donald J. Hoffman, Director, Treasurer
David E. McDonald, Director, Secretary
Marjorie E. Nesbitt, Director
Alan W. Steege, Manager of Timber Operations, Assistant Secretary

Keweenaw owns and manages 156,977 surface acres and 405,488 acres of both severed and attached mineral rights in the Upper Peninsula of Michigan. Keweenaw's ownership includes approximately 147,700 acres of productive timberlands. Included in Keweenaw's ownership are nine miles of inland lake frontage, over five miles along Lake Superior, and 52 miles of river frontage. Approximately 3,000 acres of non-forest land owned by Keweenaw are comprised of commercial, recreational, or city properties. Keweenaw leases parts of its recreational land to two ski resorts. When appropriate, the company sells and leases parcels for commercial and residential development. Log sales, developed lot sales, investment portfolio income, gravel royalties, and commercial lease income are the primary sources of revenue for the company.

Company History

Keweenaw Land Association, Limited traces its origins to the period immediately following the Civil War and the construction of the ship canal across the Keweenaw Peninsula of Upper Michigan by the Portage Lake & Lake Superior Ship Canal Company. A land grant by the 38th Congress was promised to the company completing the canal. After experiencing financial difficulties in completing the canal, the assets of the Portage Lake & Lake Superior Ship Canal Company, including 400,000 acres of land grant properties in the Upper Peninsula of Michigan, were purchased by the financiers of the original project, and the Lake Superior Ship Canal Railway and Iron Company was formed. In 1891, the LSSCR&I Co sold the completed ship canal to the U.S. government, and the remainder of the assets, including the 400,000 acres of land, was transferred to the company's successor, the Keweenaw Association, Limited. That company was reorganized in 1908, and Keweenaw Land Association, Limited came into existence as a Michigan partnership association. Keweenaw was reorganized again in 1999 as a Michigan corporation.

Since the 1908 reorganization, Keweenaw has been managed both passively and actively, receiving timber stumpage and mineral royalty income. During the World Wars, Keweenaw timber properties were harvested heavily for war needs. In the mid 1950's, Keweenaw began to manage its timber assets by practicing sustainable forestry in order to maximize the value of its timberland assets over the long term. The current and more proactive operating management commenced in 1992. The company's environmental and sustainable forestry practices have been independently audited and certified by SmartWood, under the auspices of the Forest Stewardship Council, since 1994.

Timber Operations

Keweenaw's timber operations had a record-breaking year in 2005. Timber revenues and related income both were at all time highs. The well-publicized boom in the domestic housing market, and

Report to Shareholders (continued)

the global demand and competition for pulp and paper production, had a favorable impact on the pricing Keweenaw was able to realize for its veneer logs, sawlogs, and pulpwood.

Log sale revenues increased to \$9,943,727 in 2005, compared to \$8,422,365 in 2004, and \$8,224,778 in 2003. Sales realization was \$123 per cord-equivalent (cd-eq) in 2005, \$109 per cd-eq in 2004, and \$99 per cd-eq in 2003. Pricing was the primary factor for the increased revenues, as harvest levels were up only modestly.

Total harvest production in 2005 was 80,835 cd-eq, up from the 76,987 harvested in 2004, but less than the 83,089 cd-eq of 2003. Harvest production from company lands was 68,174 in 2005, about 1,000 cd-eq more than in 2004 when 67,116 cd-eq were harvested, and slightly more than 2003 at 67,356 cd-eq. This uniform level of harvest from company lands is consistent with Keweenaw's goal of harvesting up to, but not over, its allowable cut, over a ten-year running average. Keweenaw's policy is to harvest less than the growth of timber for that ten-year period. The amount of procured volume harvested in 2005 was 12,662 cd-eq, compared to 9,871 cd-eq in 2004, and 15,733 cd-eq in 2003. Procured volume is harvested primarily from U.S. Forest Service stumpage sales.

The increased sales revenues and relatively constant harvest volumes resulted in a 74% increase in timber operations income for 2005. Timber operations income was \$2,100,983 compared to \$1,206,094 in 2004 and \$929,035 in 2003.

Log Market Discussion and Analysis

The markets for all of Keweenaw's products were excellent in 2005 with dramatic price increases in its largest volume product, pulpwood. These large price increases were primarily supply driven. Fortunately, the increases helped to offset some of the impact of soaring fuel costs. With only minor upward movement in interest rates, housing starts continued at record levels, driving demand for wood products. Hard maple lumber prices remained firm during 2005, because of a consumer preference for light-colored wood. The oak lumber market continued its slide, making the sawing of oak unprofitable for many sawmills. Keweenaw's markets for pulpwood remained strong, as many of the mills KLA sells to began the year short of wood. However, a dry summer resulted in good harvest production, which allowed most pulpwood mills to rebuild inventories by year-end.

Keweenaw continued its policy of providing a consistent supply of quality products to its diverse customer base. The company sold to 57 customers during the year, including, 14 veneer mills, 11 sawmills, 16 sawbolt mills, and 16 pulpwood mills. Keweenaw continues to be a preferred supplier to these mills due to its consistent performance.

Keweenaw maintains its third-party certification through the Forest Stewardship Council. The total volume sold to "chain-of-custody" customers in 2005 was 4306 cd-eq, down 3.9% from 2004. The majority of this volume was sold as either sawbolts or pulpwood. There are still very few markets for certified logs. Most interest for certified products is in spot lumber markets for specific construction orders.

The outlook for 2006 appears mixed. Sawlog markets should continue to be strong due to a lack of adequate supply of sawlogs and veneer logs. This supply gap has widened primarily due to the high pulpwood prices last year. The overall number of logging contractors has dwindled over the past few years, and those that remain have been primarily cutting pulpwood, not sawtimber, to take advantage of the record prices. Pulpwood markets may prove more challenging in 2006 as many pulp mills were at or near capacity by late 2005. Even though the prices paid for pulpwood are starting to decrease from the record levels seen in early 2005, Keweenaw believes it will continue to have dependable markets for its products due to the company's philosophy of long-term commitments to its customers.

Report to Shareholders (continued)

Real Estate Program

In 2005, Keweenaw's real estate program continued in the direction established in 2004. Emphasis was placed on the company's long-term repositioning strategy of selling non-strategic parcels and utilizing the proceeds to purchase acreage to add to its commercial timber base. In addition, efforts continued with the lot development project. This project, implemented in 2003, is designed to enhance those KLA properties for which a higher and better use is the creation of rural residential or recreational building sites.

Lot Development Project

In 2003 and 2004, five project areas were developed and listed with realtors. A total of 43 lots were created within these developments. In 2003, three lots were sold. In 2004, another four lots were sold. In 2005, an additional six lots were sold. The value-added income derived from the sale of the six lots, after subtraction of prorated expenses, totaled \$31,743. The pre-development market value of these lots was \$39,782, and was also recognized as income. Potential sites for additional development projects will be investigated in 2006, primarily from existing Keweenaw ownership.

Land Repositioning

In 2005, the company sold 1,127 acres, predominantly from the targeted sales areas of Dickinson and Iron Counties. With the proceeds from these sales, Keweenaw acquired 1,361 acres, the majority of which were in Gogebic County. Nearly all of the acres purchased in 2005 qualified for like-kind exchange under §1031 of the Internal Revenue Code of 1986. Looking forward to 2006, in addition to acquiring parcels utilizing the like-kind exchange process, it is Keweenaw's goal to acquire additional acreage utilizing income generated from the company's profit centers.

REPOSITIONED ACRES BY COUNTY, 2005

COUNTY	ACRES	
	SOLD	ACQUIRED
Bayfield, WI	0	0
Dickinson	542	43
Florence, WI	0	0
Forest, WI	0	0
Gogebic	157	719
Houghton	50	40
Iron	210	80
Keweenaw	0	0
Marquette	160	320
Ontonagon	8	159
TOTAL	1,127	1,361

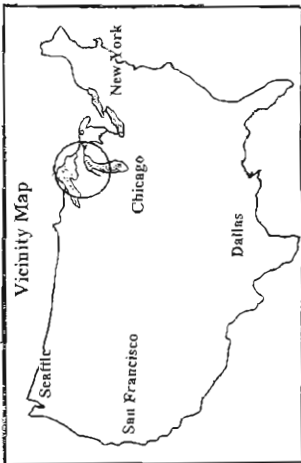
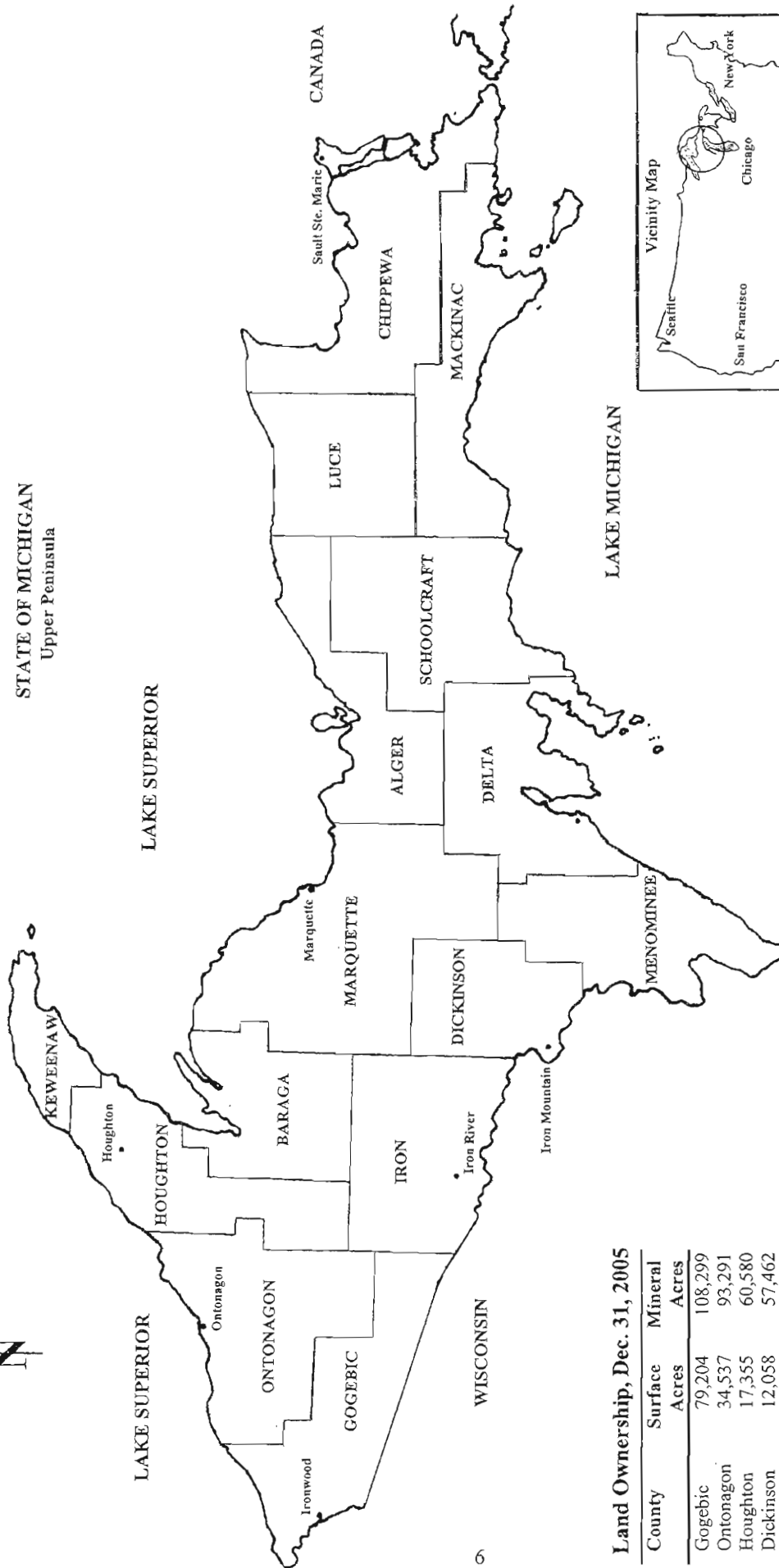
Minerals

The two long-term lease arrangements, executed in 2003 and 2004 for mineral exploration on a total of 4,502 acres, remain in effect. There are no indications that any mining operations are planned in the immediate future. Even though there has been no active mining on Keweenaw ownership for a number of years, company personnel still perform periodic inspections of past mining sites to check for potential hazards.

Gravel royalties realized in 2005 more than doubled the amount received in 2004. In 2005, Keweenaw received \$274,008 in gravel royalties, compared to \$118,592 in 2004, and \$65,820 in 2003.



STATE OF MICHIGAN
Upper Peninsula



Land Ownership, Dec. 31, 2005

County	Surface Acres	Mineral Acres	Total Acres
Gogebic	79,204	108,299	
Ontonagon	34,537	93,291	
Houghton	17,355	60,580	
Dickinson	12,058	57,462	
Iron	10,967	50,463	
Marquette	2,359	4,207	
Keweenaw	80	6,515	
All Others	418	24,671	
Totals	156,977	405,488	



PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

WISCONSIN
GREEN BAY
MILWAUKEE

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Keweenaw Land Association, Limited,
and Subsidiaries

We have audited the consolidated balance sheets of Keweenaw Land Association, Limited, and subsidiaries as of December 31, 2005, 2004 and 2003 and the related consolidated statements of income, capital, and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Keweenaw Land Association, Limited and subsidiaries as of December 31, 2005, 2004 and 2003 and the consolidated results of their operations and their consolidated cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Anderson, Tackman & Company, PLC
Certified Public Accountants

February 15, 2006

KEWEENAW LAND ASSOCIATION, LIMITED

Statement of Consolidated Income and Expenses

		Year Ended December 31		
		2005	2004	2003
<i>Timber Operations Income</i>	Timber Sales	\$9,943,727	\$8,422,365	\$8,224,778
	Cost of Sales	6,197,107	5,667,119	5,827,522
	Gross Margin on Timber Sales	3,746,620	2,755,246	2,397,256
	Operations Expenses	1,645,637	1,549,152	1,468,221
	Timber Operations Income	2,100,983	1,206,094	929,035
<i>Real Estate Development</i>	Developed Lot Sales	153,300	156,000	109,500
	Development Costs	121,557	84,199	65,563
	Gross Margin on Developed Lot Sales	31,743	71,801	43,937
	Total Operations Income	2,132,726	1,277,895	972,972
<i>Other Income</i>	Mineral Royalties	274,008	118,592	65,820
	Leases & Rentals	89,746	128,127	90,055
	Investment Earnings	111,249	138,894	103,156
	Profit (Loss) on Security Sales	75,103	40,711	61,205
	Land Sales	95,615	96,102	16,089
	Other	15,792	5,170	4,169
	Total Other Income	661,513	527,596	340,494
<i>Other Expenses</i>	Land Management Expenses	435,107	349,992	300,717
	Board of Directors' Expenses	169,283	134,788	119,550
	Total Other Expenses	604,390	484,780	420,267
	Net Income Before Federal Income Taxes	2,189,849	1,320,711	893,199
	Provision for Federal Income Taxes	759,641	396,832	268,899
	Net Income	1,430,208	923,879	624,300
<i>Other Comprehensive Income</i>	Unrealized Gains (Losses) on Securities, Net of Taxes:			
	Unrealized Holding Gains (Losses) Arising During the Year	74,091	172,012	218,293
	Less: Reclassification Adjustment for Gains (Losses) in Net Income	(49,568)	(26,869)	(40,395)
	Other Comprehensive Income	24,523	145,143	177,898
	Total Comprehensive Income	\$1,454,731	\$1,069,022	\$802,198
<i>Per Share</i>	Net Income Per Share*	\$2.23	\$1.44	\$0.97
	Total Comprehensive Income Per Share	\$2.26	\$1.66	\$1.25
	Cash Dividends Per Share	\$0.80	\$0.80	\$0.80

*Net income per share is calculated based on the weighted average number of common shares outstanding.

See Notes to Consolidated Financial Statements

KEWEENAW LAND ASSOCIATION, LIMITED
Statement of Consolidated Assets, Liabilities, and Capital

	December 31		
	2005	2004	2003
<i>Assets</i>			
CURRENT ASSETS			
Cash & Cash Equivalents	\$1,114,126	\$92,477	\$240,665
Receivables, Net of Allowance for Doubtful Accounts of \$3,460 in 2005, of \$5,006 in 2004, and of \$2,950 in 2003	301,375	332,060	268,780
Investments in Government Obligations	987,990	819,447	651,720
Log Inventory	25,160	16,425	35,126
Prepaid Expenses	240,570	416,150	358,345
Total Current Assets	2,669,221	1,676,559	1,554,636
INVESTMENTS IN MARKETABLE SECURITIES	2,715,463	2,979,074	2,764,156
PROPERTIES			
Mineral, Timber, and Land, Net of Accumulated Depletion of \$3,705,022 in 2005, \$3,585,238 in 2004, and \$3,465,551 in 2003	3,921,094	4,012,261	4,039,230
Land	3,995,552	3,987,157	3,697,746
EQUIPMENT			
Equipment, at Cost, Net of Accumulated Depreciation of \$891,577 in 2005, \$875,660 in 2004, and \$862,880 in 2003	775,807	769,842	713,837
TOTAL ASSETS	\$14,077,137	\$13,424,893	\$12,769,605
<i>Liabilities & Capital</i>			
CURRENT LIABILITIES			
Accounts & Deposits Payable	\$131,297	\$113,554	\$50,229
Commercial Line of Credit	0	416,453	546,649
Current Portion of Long Term Debt	0	0	0
Accrued Liabilities	449,901	453,365	416,534
Total Current Liabilities	581,198	983,372	1,013,412
LONG TERM LIABILITIES			
Long Term Debt	0	0	0
Deferred Federal Income Tax Liability	623,458	595,039	489,239
Total Liabilities	1,204,656	1,578,411	1,502,651
CAPITAL			
Common Stock, 2,500,000 Shares Authorized; 800,000 Shares Issued of No Par Value	40,000	40,000	40,000
Purchased Shares, at Cost: 157,265 in 2005, 157,847 in 2004, and 158,087 in 2003	(6,690,738)	(6,729,332)	(6,759,012)
Accumulated Other Comprehensive Income, Net of Taxes	986,907	962,385	817,241
Capital Surplus	44,088	(2,651)	2,801
Retained Earnings	18,492,224	17,576,080	17,165,924
Total Capital	12,872,481	11,846,482	11,266,954
TOTAL LIABILITIES & CAPITAL	\$14,077,137	\$13,424,893	\$12,769,605

See Notes to Consolidated Financial Statements
Certain Values Reported for 2003 Have Been Restated for Comparative Purposes

KEWEENAW LAND ASSOCIATION, LIMITED
Statement of Consolidated Capital

	Retained Earnings	Accumulated Other Comprehensive Income	Common Stock Issued	Capital Surplus	Purchased Stock	Total Capital
December 31, 2002, Balance	\$17,055,154	\$639,343	\$40,000	\$24,970	(\$6,796,541)	\$10,962,926
Changes during 2003:						
Comprehensive Income:						
Net Income	624,300					624,300
Other Comprehensive Income:						
Unrealized Gains (Losses) on Securities, Net of Tax, Arising During the Year, Net of Reclassification Adjustment to Net Income		177,898				177,898
Total Comprehensive Income						
Cash Dividends Paid	(513,530)					(513,530)
Impact of Shares Issued to Officers				(22,169)	37,529	15,360
December 31, 2003, Balance	17,165,924	817,241	40,000	2,801	(6,759,012)	11,266,954
Changes during 2004:						
Comprehensive Income:						
Net Income	923,879					923,879
Other Comprehensive Income:						
Unrealized Gains (Losses) on Securities, Net of Tax, Arising During the Year, Net of Reclassification Adjustment to Net Income		145,144				145,144
Total Comprehensive Income						
Cash Dividends Paid	(513,723)					(513,723)
Impact of Shares Issued to Officers				(5,452)	29,680	24,228
December 31, 2004, Balance	17,576,080	962,385	40,000	(2,651)	(6,729,332)	11,846,482
Changes during 2005:						
Comprehensive Income:						
Net Income	1,430,208					1,430,208
Other Comprehensive Income:						
Unrealized Gains (Losses) on Securities, Net of Tax, Arising During the Year, Net of Reclassification Adjustment to Net Income		24,522				24,522
Total Comprehensive Income						
Cash Dividends Paid	(514,064)					(514,064)
Impact of Shares Issued to Officers				46,739	38,594	85,333
December 31, 2005, Balance	\$18,492,224	\$986,907	\$40,000	\$44,088	(\$6,690,738)	\$12,872,481

KEWEENAW LAND ASSOCIATION, LIMITED
Consolidated Statement of Cash Flow

		Year Ended December 31		
		2005	2004	2003
<i>Cash Flows Provided by Operating Activities</i>	Net Income	\$1,430,208	\$923,879	\$624,300
	Adjustments to Reconcile Net Income to Net Cash			
	Provided by Operating Activities:			
	Depletion and Depreciation	227,837	226,561	230,774
	Changes in Operating Assets and Liabilities:			
	Decrease (Increase) in Accounts Receivable	30,685	(63,279)	19,183
	Decrease (Increase) in Prepaid Expenses	197,917	(56,036)	(225,686)
	Decrease (Increase) in Inventory	(8,734)	18,701	(9,613)
	Increase (Decrease) in Deposits and Accounts Payable	17,743	63,325	33,865
	Increase (Decrease) in Deferred Income Taxes Payable	17,707	28,642	(2,537)
	Increase (Decrease) in Accrued Liabilities	(27,721)	37,446	(4,386)
Gain on Sale of Securities	(75,103)	(40,711)	(61,205)	
Gain on Sale/Retirement of Equipment	563	3,603	(193)	
Gain on Sale of Land	(127,359)	(167,903)	(16,089)	
	Net Cash Flows Provided by Operating Activities	1,683,743	974,228	588,413
<i>Cash Flows Provided by (Used for) Investing Activities</i>	Net Purchases of Property and Equipment	(114,886)	(166,904)	(49,996)
	Purchases of Securities	(677,257)	(457,167)	(675,366)
	Proceeds from Sale of Securities	884,583	335,148	535,710
	Road Construction	(28,453)	(25,426)	(25,010)
	Purchases of Land	(133,952)	(281,504)	(28,972)
	Proceeds from Land Sales	88,978	106,725	50,122
	Lot Development	164,078	(13,598)	(286,177)
	Net Cash Flows Provided by (Used for) Investing Activities	183,091	(502,726)	(479,689)
<i>Cash Flows Provided by (Used for) Financing Activities</i>	Issuance (Purchase) of Stock	85,333	24,228	15,360
	Payment of Dividends	(514,064)	(513,722)	(513,530)
	Commercial Line of Credit Borrowing	710,434	3,771,160	3,862,252
	Commercial Line of Credit Payments	(1,126,887)	(3,901,356)	(3,589,282)
	Commercial Installment Loan Borrowing	41,725	0	0
	Commercial Installment Loan Payments	(41,725)	0	0
	Net Cash Flows Used for Financing Activities	(845,184)	(619,690)	(225,200)
	NET CASH FLOW	1,021,650	(148,188)	(116,476)
	Beginning Cash and Cash Equivalents	92,477	240,665	357,141
	ENDING CASH AND CASH EQUIVALENTS	\$1,114,127	\$92,477	\$240,665
<i>Supplementary Cash Flow Information</i>	Interest Paid	(\$2,691)	(\$26,980)	(\$10,304)
	Income Taxes Paid	(\$788,281)	(\$366,173)	(\$286,056)

See Notes to Consolidated Financial Statements

Certain Values Reported for 2003 Have Been Restated for Comparative Purposes



AUDITOR'S REPORT
ON SUPPLEMENTARY INFORMATION

Board of Directors
Keweenaw Land Association, Limited,
and Subsidiaries

Our audits of the consolidated financial statements of Keweenaw Land Association, Limited, and Subsidiaries, were made primarily to form an opinion on such financial statements taken as a whole. The supplementary information contained in the following pages is presented for the purpose of additional analysis and, although not required for a fair presentation of financial position, results of operations, and cash flows, was subjected to the audit procedures applied in the examinations of the consolidated financial statements. In our opinion, the supplementary information is fairly presented in all material respects in relation to the consolidated financial statements taken as a whole.

Anderson, Tackman & Company, PLC
Certified Public Accountants

February 15, 2006

Management's Discussion and Analysis of Financial Condition And Results of Operations

Capital Resources and Liquidity

The company's primary source of operating cash is from the sale of merchantable timber from its properties located in the Upper Peninsula of Michigan. Cash flow from operations was \$1,683,743 in 2005 compared to \$974,228 in 2004, an increase of 73%. The primary factors contributing to the increase in cash flow were increased production, higher log prices for both sawtimber and pulpwood, and increased demand arising in the economy. Another contributing factor compared to 2004 was a reduction in prepaid expenses associated with lot development.

There were other non-operating sources and uses of cash during 2005. KLA sold six retail lots during the year. The cash proceeds from these sales, net of 2005 expenditures, was \$164,078. Other land transactions resulted in a net cash disbursement of \$44,974. The company sold financial investments from its portfolio amounting to \$884,583 and invested \$677,257 in others. KLA paid its shareholders \$514,064 in dividends. Other capital expenditures included \$114,886 for new equipment and \$28,453 for primary logging road construction.

Short-term borrowing declined substantially in 2005 with no balance owing on December 31, 2005. Loan payments exceeded borrowing by \$416,453 on the company's operating line of credit at Wells Fargo Bank in 2005 compared to \$130,196 in 2004. Short-term borrowing and repayment occurred using the automatic balance transfer feature associated with the company's primary business checking account. See Note H of the Notes to the Consolidated Financial Statements for an expanded discussion of this credit facility. During 2005, the company did not borrow against its other lines of credit. Keweenaw's \$1,500,000 operating line of credit is available to satisfy short-term operating cash needs. The company also has a financing line of credit, in the amount of \$2,000,000, with a contingency reserve of an additional \$3,000,000, for the purpose of accomplishing any strategic objectives approved by the Board of Directors. A \$900,000 line of credit is available to provide a source for funding standby letters of credit to guarantee performance on public bid timber stumpage contracts from the USDA Forest Service. On December 31, 2005, seven letters of credit totaling \$602,000 were outstanding. The company borrowed no cash on these supplemental lines of credit in 2005.

Results of Operations

The strategy of Keweenaw Land Association has been to improve, consolidate, and protect its timberland assets. It practices sustainable forestry management and actively pursues opportunities to improve its forestland base. The management of KLA strongly believes that managing timberlands with a long-term view is beneficial to its shareholders, while providing an appropriate level of return. Ongoing demand for Keweenaw logs, preservation of market share, and long-term improvement in product mix toward higher value logs validate, in part, this forest management strategy. In 2005, Keweenaw began its second decade of third party forest practices certification and was once again certified by SmartWood under the Lake States Guidelines of the Forest Stewardship Council. Keweenaw's policy is to ensure that the rolling ten-year average timber harvest volume does not exceed the timber growth rate during that period, while improving the quality of available log products.

Keweenaw's primary source of income is timber operations. Overall log production in 2005 increased by 5% over that reported in 2004. Harvest volume on company land increased by 2% while log production from purchased timber contracts was up 28%. When opportunities arise, Keweenaw bids on procured timber sales in order to provide additional timber income, to increase market share, and to present logging and trucking opportunities for company contractors when seasonal restrictions exist on company lands. Improved pricing, particularly in the sawbolt and pulpwood markets, due to increased demand for these products, enabled the company to increase timber income. This fact offset lower product and specie mix in KLA's veneer and sawlog products when compared to 2004. Royalties resulting from sand and gravel production on KLA property were another source of significant income in 2005, up 131% over 2004. Keweenaw continued to develop opportunities for increasing revenues from other sources such as land sales, rental income, and the sale of developed lots for residential and recreational uses.

Management's Discussion and Analysis of Financial Condition And Results of Operations (continued)

Timber Sales

Keweenaw log sales for 2005 were \$9,943,727, up 18% over 2004, and 21% above 2003. KLA harvested 68,174 cd-eq from company timberlands and produced an additional 12,662 cd-eq on purchased timber contracts for a total of 80,835 cd-eq, 5% above 2004 but 3% below 2003. Unlike 2004, the company experienced dry weather conditions during the summer months, providing much improved logging and trucking opportunities. Strong demand, particularly within the pulpwood market, absorbed the production increase.

The company's log marketing program enables the company to sell directly to mills. Aggressive customer negotiations and re-manufacturing of logs in Keweenaw's log sort yard facility allows the company to maximize returns. It also gives Keweenaw the flexibility to react quickly to rapidly changing market conditions. An interesting dynamic was reflected in log sales in 2005. Sustainable forest management practices, KLA's policy since the 1950's, will in the long term improve product mix, and thus, log sales dollars. Keweenaw's experience has borne out this truth. However, in 2005 KLA's production reflected a 4% decline in product mix toward lower margin products, primarily pulpwood. KLA's production plan for sustainability places a priority on harvesting timber that has reached its economic maturity and is merchantable. Since all timberland is different, this policy means harvesting sometimes in areas where the timber is less profitable. During the summer of 2005, dry weather made possible the harvest of property that the company could not have accessed in a wetter year. Those sites typically contain less sawtimber and more pulpwood, which is what Keweenaw saw in 2005. In future years, management believes the product mix pattern will continue to improve as the company's timberlands reach their maturity in growth. The table below reflects the product mix and the associated dollar impact comparison to prior years:

	Percent of Sales Product Mix			Product Mix Impact in Dollars	
	2005	2004	2003	2005 vs 2004	2005 vs 2003
Veneer Logs	2.1%	2.6%	2.3%	(\$232,241)	(\$65,455)
Sawlogs	9.9%	10.4%	10.6%	(74,006)	(105,676)
Sawbolts	10.5%	14.5%	11.9%	(348,782)	(121,590)
Pulpwood Logs	77.5%	72.5%	75.2%	309,211	123,267
Total Production	100.0%	100.0%	100.0%	(\$345,818)	(\$169,454)

Fortunately for the company, this drop in product mix happened at a time of dramatically improved product prices, both for sawtimber and for pulpwood. Very strong demand, particularly for pulpwood, and short-term shortages in a gradually shrinking available wood supply, seemed to lie behind these price increases. During the first two quarters of the year, these perceived shortages of pulpwood brought higher prices until mill inventories stabilized late in the summer. In the third and fourth quarters, pulpwood prices receded somewhat but remained well above the averages of the last two years. Demand for sawtimber and veneer products continued to remain strong in 2005. Price realization for veneer remained approximately at the same level for 2005 vs. 2004 due to specie mix. Price realization for sawlogs rose 13% over 2004 and 17% over 2003. As in 2004, limited inventories of hard maple lumber accounted for higher maple log prices witnessed in 2005. The following table portrays the changes in price realization recorded by Keweenaw for its veneer and sawlog products in 2005 compared to the two prior years (the changes in other minor species are more a function of specie differences than price differences):

Species	2005 Average Price Increase (Decrease) Per Cent			
	vs. 2004		vs. 2003	
	Veneer	Sawlog	Veneer	Sawlog
Hard Maple	4.8%	11.1%	7.5%	13.8%
Soft Maple	5.8%	13.4%	7.4%	14.9%
Yellow Birch	5.5%	9.0%	4.7%	15.4%
Basswood	-1.9%	11.8%	-9.4%	14.6%
Other Minor Species	-6.9%	10.8%	-2.5%	10.7%

Price realization for sawbolts and pulpwood was affected by differences in customer destination as well as true price increases. The following price realization changes occurred in 2005 compared to the two prior years:

Management's Discussion and Analysis of Financial Condition And Results of Operations (continued)

Timber Type	2005 Average Price Increase (Decrease) Per Cent			
	vs. 2004		vs. 2003	
	Sawbolt	Pulpwood	Sawbolt	Pulpwood
Northern Hardwood	19.7%	22.6%	37.2%	44.0%
Aspen	16.6%	28.8%	28.9%	45.1%
Mixed Softwoods	3.2%	14.2%	-2.5%	11.4%

Changes in specie mix composition along with the dynamics of these price differences resulted in the following product sales realization per unit for the years shown:

	2005	2004	2003
Veneer Logs (Per MBF)	\$1,294	\$1,300	\$1,371
Sawlogs (Per MBF)	523	461	447
Sawbolts (Per Cord)	128	107	103
Pulpwood Logs (Per Cord)	95	77	68
Total Sales Per Cd-Eq	\$123	\$109	\$99

The total impact on log sales resulting from all the factors discussed above are reflected below:

Impact From	Impact on Timber Sales Dollars	
	2005 vs. 2004	2005 vs. 2003
Changes in Prices and Specie Composition	\$ 1,489,366	\$ 2,108,734
Changes in Product Mix	(345,818)	(169,454)
Changes in Production Volume	377,814	(220,331)
Net Increase (Decrease) in Timber Sales	\$ 1,521,362	\$ 1,718,949

Total timber sales by specie groups are represented below:

	% of			% of			% of		
	Cords	Sales	Vol.	Cords	Sales	Vol.	Cords	Sales	Vol.
Northern Hardwood	62,683	\$ 8,174,256	77%	56,973	\$ 6,610,258	74%	60,737	\$ 6,377,758	74%
Aspen	8,612	900,866	11%	8,693	726,332	11%	9,465	700,657	11%
Softwoods	9,518	868,605	12%	11,676	1,085,775	15%	12,834	1,146,363	15%
	80,812	\$ 9,943,727	100%	77,342	\$ 8,422,365	100%	83,036	\$ 8,224,778	100%

Cost of Sales

The total cost of sales for 2005 was \$6,197,107, a 9% increase from 2004, and a 6% increase from 2003. This increase in total production cost stems primarily from two sources, greater production volume in 2005 and higher fuel costs. Late in the third quarter, diesel fuel prices took a dramatic hike after Hurricane Katrina and remained high well into the fourth quarter. At times, prices for diesel fuels were nearly \$1 per gallon more than the price of gasoline. Keweenaw monitored diesel prices on a weekly basis and indexed its mileage rate paid to trucking contractors. Higher operating costs, along with the significant price of new logging equipment, continued to apply pressure on some loggers to stay in business. Keweenaw continued to meet this challenge by providing dependable loggers with competitive pay and more logging opportunities. Logging and freight costs constitute a majority of production expense and represented an increase of \$720,946 from the prior year. Of that increase, \$213,409 was due to increased volume and \$507,537 resulted from higher logging and freight rates in 2005. Other production costs, which include road building and log sort yard expense, increased less than 2% from 2004. Timber depletion and procured stumpage costs increased 16%. On a unit of sales basis, 2005 production costs reflect a 5% increase over 2004 and a 9% increase versus 2003 as reflected below:

Management's Discussion and Analysis of Financial Condition And Results of Operations (continued)

Production Cost Factor	Cost Per Cord Produced		
	2005	2004	2003
Logging Costs	\$38	\$34	\$33
Freight Costs	26	24	22
Sort Yard Expenses	2	2	2
Logging Road Costs	5	5	5
Timber Depletion & Procured Stumpage Costs	6	8	8
Inventory Change & Other Costs	(0)	(0)	(0)
Total Costs Per Cord	\$77	\$73	\$70

Keweenaw harvested 12,662 cord equivalents or 16% of total production on procured timber contracts from other landowners. This represented a 28% increase from 2004 and a 20% decrease from 2003. 2005 procured production came predominately from the U.S. Forest Service. Procured production had logging and delivery costs similar to that from company land but had the added cost of stumpage (the cost to purchase the standing timber from the seller). Stumpage costs amounted to \$358,809, or \$28 per procured cord. Procured production increases the company's market share when overall production on company lands is restricted by KLA's sustainability limitations. It also helps ensure that Keweenaw can maintain its reputation as a reliable supplier and a consistent log producer. Unfortunately, the number of Federal timber contracts offered for public bid continued to decline in 2005.

During the year, the company continued to invest in improvements to its logging road infrastructure. Road expenses amounted to \$402,733, or 7% of the total cost of sales. 2005 road expenditures fell 1% below 2004 and 5% below 2003. These declining expenditures have occurred as fewer new roads needed to be constructed and existing roads needed only maintenance. Changes in temperature along with lake effect snow can cause variance in the cost of winter road preparation from season to season. Snow plowing and winter road freeze-in amounted to 24% of total road cost in 2005. Road expenditures made in 2004, in the amount of \$115,446, were written off in 2005 as timber production occurred on adjacent lands. Also, \$115,210 of road expenditures in 2005, relating to 2006 timber operations, was deferred until 2006.

Gross Margin

Keweenaw's gross margin from timber operations was \$3,746,620, up 36% from 2004 and up 56% from 2003. On a unit of sales basis, gross margins were:

	Per Cord Equivalent		
	2005	2004	2003
Log Sales	\$123	\$109	\$99
Cost of Sales	77	73	70
Gross Margin	\$46	\$36	\$29

In 2005, the gross margin was \$49 per cord equivalent on company land production and \$30 per cord on procured production.

Operations Expenses

Company operating expenses in 2005 were \$1,645,637, an increase of 6% over 2004 and 12% higher than in 2003. On a unit of production basis, operating costs amounted to \$20 per cd-eq for 2005, \$20 per cd-eq for 2004, and \$18 per cd-eq for 2003. Employee salaries and benefits represented 72% of total operating costs and rose by 5% from 2004 and by 11% over 2003. Employee medical insurance and rising premiums continued to be a leading cause in the overall increase. Annually, Keweenaw reviews all employee benefit plans to ensure these plans are both cost effective and competitive. Other Keweenaw operating expense categories for 2005 included professional services 6%, office and equipment costs 10%, travel expense 2%, and taxes, interest, and depreciation 10%. As a group, these other operating expenses were up 10% from 2004 and approximately 15% above 2003.

Management's Discussion and Analysis of Financial Condition And Results of Operations (continued)

Other Income

In 2005, Keweenaw sold six developed lots at a retail value of \$153,300 as a result of its real estate development pilot project. The gross margin on these lots was \$31,743 after direct production expenses and allocated administrative expenses were deducted. This gross margin reflects the value added to the properties as a result of development investment and is reflected in operating income. \$39,782, the pre-development market value of the property, is reflected in other land sale income. In addition, KLA recorded net gains of \$55,833 on other land transactions. Of that total, \$81,107 was recognized as income from the outright sale of land, and \$25,274 was recorded as transaction costs of the numerous IRS Section 1031 like-kind exchange transactions occurring during the year. The company deeded away 1,110 acres in like-kind exchanges and directly sold 17 acres in cash transactions. Likewise, KLA acquired 1,297 acres by like-kind exchange and paid cash for another 64 acres. Keweenaw has and will continue to upgrade and consolidate its timberland holdings, while selling isolated timberlands and certain other properties having greater value for purposes other than timber management.

Keweenaw realized gravel royalty income amounting to \$274,008 during 2005 compared to \$118,592 in 2004, and \$65,820 in 2003. Over a two-year period, gravel royalties increased 316% from sand and gravel extracted from several pits on KLA property. These profits resulted from continuing road infrastructure improvements in the Western Upper Peninsula of Michigan and in Northern Wisconsin. Other sources of income included rental income from surface, commercial, mineral exploration, and recreational camp leases amounting to \$89,746, approximately 30% below last year, but roughly the same as recorded in 2003.

Keweenaw sold certain stocks and U.S. Treasury Notes in its portfolio during 2005, recording capital gains in the amount of \$75,103. Three U.S. Treasury Notes in the amount of \$425,000 matured. These proceeds, along with funds from the company's money market account, were reinvested in a \$600,000 U.S. Treasury Bill. The 2005 year-end investment portfolio allocation was 68% equity securities, 25% government obligations, and 7% money market funds. In 2005, KLA recorded current income from investments in the amount of \$111,249, down 20% from 2004, but up 8% from 2003. Total investment income over the three-year period is summarized below:

Source	2005	2004	2003
Dividends	\$88,024	\$122,749	\$84,419
Interest Income	23,225	16,145	18,737
Realized Capital Gains	75,103	40,711	61,205
Total	<u>\$186,352</u>	<u>\$179,605</u>	<u>\$164,361</u>

The market value the company's investment portfolio on December 31, 2005, was \$3,974,974 up 3% from the end of 2004. Unrecognized gains in the portfolio were \$1,495,314. Everett Harris and Company of Los Angeles made and implemented investment decisions.

Other Expenses

Other expenses in 2005 included expenditures for land management and Board of Director activities. Personnel costs of \$118,262 represented 27% of land management expense. Other items were property taxes of \$270,731, or 62%, and administrative costs of \$46,114, or 11%. Net land management expense totaled \$435,107, 24% above 2004 and 45% above 2003. The increase was because no management expense was deferred to lot development in 2005. Board of Director expenses for 2005 totaled \$169,283, up 26% from 2004 and up 42% from 2003. Board costs were made up of Directors' fees 71%, travel expense 19%, and insurance costs 10%.

Net Income

The company recognized net income in 2005 in the amount of \$1,430,208, an increase of 55% above 2004, and 129% above 2003. Per share net income was \$2.23 in 2005, \$1.44 in 2004, and \$0.97 in 2003. These per share earnings are based on the weighted average common shares outstanding of 642,572 in 2005, 642,153 in 2004, and 641,913 in 2003. The company paid dividends to shareholders of record in 2005 amounting to \$514,064. These payments were 36% of earnings compared to 56% in 2004, and 82% in 2003. The net return on capital employed (balance sheet shareholders equity plus borrowed debt) was 11.1% in 2005, 7.5% in 2004, and 5.3% in 2003.

Notes to the Consolidated Financial Statements - December 31, 2005

Note A: Summary of Significant Accounting Policies

Principles of Consolidation: The consolidated financial statements include the accounts of the company and all of its wholly owned subsidiaries. Significant inter-company accounts and transactions have been eliminated.

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Equivalents: Highly liquid investments with maturity of three months or less when purchased are generally considered to be cash equivalents.

Investments in Debt and Equity Securities: Management determines the appropriate classification of its investments in debt and equity securities at the time of purchase and re-evaluates such determination at each balance sheet date. Debt securities, for which the company does not have the intent or ability to hold to maturity, are classified as available for sale along with the company's investment in equity securities. Securities available for sale are carried at fair market value with the unrealized gains and losses, net of tax, reported as Accumulated Other Comprehensive Income in a separate component of capital, in accordance with the Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." At December 31, 2005, December 31, 2004, and December 31, 2003, respectively, the company classified no investments as trading or held to maturity types.

The amortized cost of debt securities classified as available for sale is adjusted for amortization of premiums and accretion of discounts to maturity or, in the case of mortgage-backed securities, over the estimated life of the security. Such amortization and interest are included in other income or expense. The cost of securities sold is based on the specific identification method.

Inventories: Inventories are valued at the lower of cost or market using the average cost method.

Properties: Properties consist of the recorded costs of mineral, timber, and land holdings. These holdings include the undeveloped, "as-is" market value of properties assigned for development, as well as all accumulated expenditures for lot development that have not been previously recognized as expense. Timber depletion charges are based on these recorded values and the properties' estimated reserves, utilizing the pooling method. In addition, permanent logging road construction costs incurred have been capitalized and included in properties. That portion of permanent road costs for road surfacing, culverts, bridges, and other improvements will be depreciated over 15 years.

Equipment: Equipment is carried at cost and the provision for depreciation is generally computed using the straight-line method over the estimated useful lives of the assets.

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 bases of assets and liabilities.

Purchased Stock: Purchased stock is shown at cost and as a reduction of capital. At December 31, the company had a balance of purchased Keweenaw common stock in the amounts of 157,265 shares for 2005, 157,847 shares for 2004, and 158,087 shares for 2003, respectively.

Note B: Investments in Debt and Equity Securities

The following is a summary of investment securities classified as available for sale as of December 31, 2005:

Notes to the Consolidated Financial Statements - December 31, 2005 (continued)

	Cost	Unrealized Holding Gains	Fair Value
Non Current Investments:			
Equity Securities	\$1,220,861	\$1,494,602	\$2,715,463
Current Investments:			
Government Obligations	987,278	712	987,990
Investments Available for Sale	<u>\$2,208,139</u>	<u>\$1,495,314</u>	<u>\$3,703,453</u>

Realized gains and losses are determined on the basis of the specific identification method. During 2005, 2004, and 2003, sales proceeds and gross realized gains and losses on securities available for sale were:

	2005	2004	2003
Sale Proceeds	<u>\$884,583</u>	<u>\$335,148</u>	<u>\$535,710</u>
Gross Realized Gains	<u>\$75,867</u>	<u>\$40,862</u>	<u>\$61,230</u>
Gross Realized Losses	<u>(\$764)</u>	<u>(\$151)</u>	<u>(\$25)</u>

At December 31, 2005, 2004, and 2003, shareholders' equity included an accumulated unrealized gain, net of taxes, on securities classified as available for sale in the amount of \$986,907, \$962,385, and \$817,241, respectively.

The following is a summary of investment securities classified as available for sale as of December 31, 2004:

	Cost	Unrealized Holding Gains	Fair Value
Non Current Investments:			
Equity Securities	\$1,515,979	\$1,463,095	\$2,979,074
Current Investments:			
Government Obligations	824,383	(4,936)	819,447
Investments Available for Sale	<u>\$2,340,362</u>	<u>\$1,458,159</u>	<u>\$3,798,521</u>

The following is a summary of investment securities classified as available for sale as of December 31, 2003:

	Cost	Unrealized Holding Gains	Fair Value
Non Current Investments:			
Equity Securities	\$1,527,994	\$1,236,162	\$2,764,156
Current Investments:			
Government Obligations	649,638	2,082	651,720
Investments Available for Sale	<u>\$2,177,632</u>	<u>\$1,238,244</u>	<u>\$3,415,876</u>

Note C: Comprehensive Income

FASB Statement No. 130 "Reporting Comprehensive Income" requires the reporting of comprehensive income in addition to net income from operations. Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income.

For the year 2005, Keweenaw held securities, classified as available for sale, which incurred unrealized gains of \$37,155 before tax, and are reflected as other comprehensive income (losses). The

Notes to the Consolidated Financial Statements - December 31, 2005 (continued)

before tax and after tax amounts for these gains and losses incurred, as well as the tax (expense)/benefit, are summarized below:

	Before Tax	Tax (Expense)/ Benefit	After Tax
Unrealized Holding Gains (Losses)	\$112,258	(\$38,168)	\$74,090
Reclassification for Gains (Losses) Included in Net Income	(75,103)	25,535	(49,568)
Net Change in Unrealized Holding Gains (Losses)	<u>\$37,155</u>	<u>(\$12,633)</u>	<u>\$24,522</u>

For the year 2004, Keweenaw held securities, classified as available for sale, which incurred unrealized gains of \$219,914 before tax, and are reflected as other comprehensive income (losses). The before tax and after tax amounts for these gains and losses incurred, as well as the tax (expense)/benefit, are summarized below:

	Before Tax	Tax (Expense)/ Benefit	After Tax
Unrealized Holding Gains (Losses)	\$260,625	(\$88,613)	\$172,012
Reclassification for Gains (Losses) Included in Net Income	(40,711)	13,842	(26,869)
Net Change in Unrealized Holding Gains (Losses)	<u>\$219,914</u>	<u>(\$74,771)</u>	<u>\$145,143</u>

During 2003, the company held securities, classified as available for sale, which incurred unrealized losses of \$269,543 before tax, and are reflected as other comprehensive income (losses). The before tax and after tax amounts for these gains and losses incurred, as well as the tax (expense)/benefit, are summarized below:

	Before Tax	Tax (Expense)/ Benefit	After Tax
Unrealized Holding Gains (Losses)	\$330,748	(\$112,455)	\$218,293
Reclassification for Gains (Losses) Included in Net Income	(61,205)	20,810	(40,395)
Net Change in Unrealized Holding Gains (Losses)	<u>\$269,543</u>	<u>(\$91,645)</u>	<u>\$177,898</u>

Note D: Properties

The following is a summary of the land, mineral, and timber holdings, and permanent logging roads at cost, less accumulated depletion and road depreciation:

	2005	2004	2003
Land	\$3,492,593	\$3,419,175	\$3,219,162
Timber and Mineral Holdings	7,213,380	7,213,217	7,145,924
Accumulated Costs of Lot Development	502,959	567,981	478,584
Permanent Logging Roads	412,736	384,283	358,857
Properties at Cost	<u>11,621,668</u>	<u>11,584,656</u>	<u>11,202,527</u>
Less: Accumulated Timber Depletion	3,575,785	3,474,469	3,371,800
Less: Accumulated Road Depreciation	129,237	110,769	93,751
Net Carrying Value	<u>\$7,916,646</u>	<u>\$7,999,418</u>	<u>\$7,736,976</u>

On December 31, 2005, Keweenaw owned 156,977 surface acres, primarily timberlands, and 405,488 acres of sub-surface mineral rights.

Note E: Equipment

At December 31, a summary of equipment at cost, less accumulated depreciation, is as follows:

Notes to the Consolidated Financial Statements - December 31, 2005 (continued)

	2005	2004	2003
Buildings	\$347,362	\$347,362	\$347,362
Furniture, Equipment, and Accessories	660,292	674,004	652,767
Machinery and Vehicles	375,625	340,031	298,881
Land Improvements	284,105	284,105	277,707
Equipment at Cost	1,667,384	1,645,502	1,576,717
Less: Accumulated Depreciation	891,577	875,660	862,880
Equipment, Net of Depreciation	\$775,807	\$769,842	\$713,837

The company charged depreciation expense to operations in the amounts of \$108,358, \$107,297, and \$109,833, for 2005, 2004, and 2003, respectively.

Note F: Income Taxes

The provision for federal income taxes consists of the following for the years ending December 31:

	2005		2004		2003	
	Tax	% of Taxable Income	Tax	% of Taxable Income	Tax	% of Taxable Income
Current:						
Tax Provision Computed at Statutory Rate	\$744,549	34.0%	\$449,042	34.0%	\$303,688	34.0%
Dividends Deduction	(1,988)	-0.1%	(8,651)	-0.7%	(2,003)	-0.2%
Domestic Production Deduction	(20,540)	-0.9%				
Certain Investment Income Timing Differences	19,883	0.9%	(15,984)	-1.2%	(19,724)	-2.2%
Mineral Depletion Deduction	(4,658)	-0.2%	(2,016)	-0.2%	(1,119)	-0.1%
Differences in Depreciation Methods	(17,864)	-0.8%	(27,894)	-2.1%	(90)	0.0%
Business Meals Adjustment	2,829	0.1%	3,208	0.2%	2,936	0.3%
Current Year Deposits Not Reflected in Provision	0	0.0%	(20,341)	-1.5%	0	0.0%
Change in Prior Year Tax Estimate	19,723	0.9%	(9,174)	-0.7%	(12,252)	-1.4%
Total Current Tax Provision	741,934	56.2%	368,190	27.9%	271,436	30.4%
Deferred Taxes Exclusive of Net Unrealized						
Gain/Loss on Investments	17,707	1.3%	28,642	2.2%	(2,537)	-0.3%
Provision for Taxes	\$759,641	57.5%	\$396,832	30.0%	\$268,899	30.1%

The company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been recognized in the financial statements or tax return. Deferred tax liabilities and assets are determined based on the difference between the financial statement carrying amounts and tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. The significant components of the deferred tax liability as of December 31 are as follows:

	2005	2004	2003
Current:			
Unrealized Gains (Losses) on Investments	\$242	(\$1,678)	\$708
Total Current	242	(1,678)	708
Non Current:			
Equipment Depreciation	110,225	92,397	63,578
Logging Roads Depreciation	5,069	5,189	5,366
Unrealized Gains (Losses) on Investments	508,164	497,453	420,296
Total Non Current	623,458	595,039	489,240
Total Deferred Tax Liability	\$623,700	\$593,361	\$489,948

Note G: Retirement Plans

For years 2005, 2004, and 2003, Keweenaw was the sponsor of a single retirement plan for its employees, a 401(k) deferred compensation plan known as "Keweenaw Land Association, Limited

Notes to the Consolidated Financial Statements - December 31, 2005 (continued)

401(k) Profit Sharing Plan.” The plan funding and benefit arrangements were provided through the Principal Life Insurance Company. The company was the fiduciary administrator of the plan. An IRS Form 5500 “Annual Report” and related schedules were filed annually with the Employee Benefits Security Administration, as required by law. The company made matching contributions into this plan in the amount of 50% of employee elective deferrals, not to exceed 5% of salary for the three years reported. Also in 2005, the company made a discretionary contribution to the plan in the amount of 8% of base salaries.

Pension expense for the years shown were:

	2005	2004	2003
401(k) Profit Sharing Plan			
Matching Contributions	\$30,312	\$28,643	\$28,004
Discretionary Contributions	59,042	59,855	57,521
Supplemental Retiree Pension Payments	0	0	1,308
Other Pension Costs	750	788	808
Total Pension Expense	<u>\$90,104</u>	<u>\$89,286</u>	<u>\$87,641</u>

Note H: Short and Long Term Bank Credit Facilities

Since 1999, Keweenaw Land Association, Limited has maintained its banking relationships with Wells Fargo Bank, N.A. Wells Fargo Bank extended the following credit facilities to the company in 2005:

1. An unsecured line of credit in the amount of \$1,500,000 to be used as an operating line of credit, at the daily adjusted Wells Fargo Bank prime rate for a one year commitment with a \$250 prepaid fee and interest to be paid monthly.
2. An unsecured guidance line of credit in the amount of \$2,000,000 to be used, as needed, by Keweenaw to finance strategic business opportunities, at the daily adjusted Wells Fargo Bank prime rate with a term of one year. This line of credit may be utilized as revolving credit or as a fixed term note. A \$1,000 annual fee, if drawn, is charged with interest to be paid quarterly.
3. A \$3,000,000 contingency line of credit to be used by Keweenaw to finance strategic business opportunities, at the Wells Fargo Bank prime rate plus 0.25% with a term of one year. This line will be secured, if used, by collateral to be negotiated when/if drawn. A \$100 fee per draw will be applied.
4. An unsecured line of credit of \$900,000 for the purpose of standby letter of credit availability, at an interest rate to be determined, if used, for a term of one year. A \$1,000 annual fee, a \$100 fee for the first three letters of credit, and a \$500 fee per letter thereafter were charged.

Affirmative covenants of the Business Loan Agreement with Wells Fargo Bank, dated June 30, 2005, required the following of the company:

1. To maintain its accounting records and to submit to the bank Keweenaw’s annual financial statements audited in accordance with Generally Accepted Accounting Principles;
2. To submit to the bank Keweenaw’s quarterly internal financial statements;
3. To maintain the company’s primary business accounts at Wells Fargo;
4. To maintain a ratio of total liabilities to tangible net worth of less than .40 to 1.00;
5. To maintain target working capital (current assets plus non-current investments, less current liabilities, and current portion of the loan) of not less than \$1,500,000, and a current ratio (target working capital divided by current liabilities) of not less than 2 to 1; and
6. To maintain a debt service ratio of 1.5 to 1.

There were no violations to these covenants in 2005. Promissory notes were duly executed on all the previously mentioned credit facilities. Terms of the notes require repayment in full on the maturity dates. The bank is under no obligation to refinance the loans on those dates.

Only the \$1,500,000 operating line of credit and the \$900,000 standby letter of credit line were used in 2005. One standby letter of credit was cancelled during the year and one was added. On December 31, 2005, seven standby letters of credit were outstanding totaling \$602,000. Six of the standby

Notes to the Consolidated Financial Statements - December 31, 2005 (continued)

letters of credit amounting to \$102,000 were for the purpose of backing performance bonds required by the USDA Forest Service in connection with ongoing timber stumpage contracts with the company. The seventh standby letter in the amount of \$500,000 was intended as a payment bond to the Forest Service. No balance was owed on the \$900,000 line of credit on December 31, 2005.

Wells Fargo provides a four-way automatic balance transfer service for the company's primary checking account, its investment account, and its operating line of credit. This service enables the company to reduce its net interest expense by being able to reduce the outstanding line of credit balance by the amount of Keweenaw checks in transit, averaging \$80,000 to \$200,000 at any point in time. In 2005, these daily sweep transactions totaled \$710,434 in loan advances and \$1,126,887 in loan payments. The highest balance owing on this line of credit prior to balance sheet reclassification was \$350,625. Total interest paid on these lines of credit in 2005, 2004, and 2003, was \$1,630, \$26,980, and \$10,304, respectively. At December 31, 2005, 2004, and 2003, the balance owing on the operating line of credit after balance sheet reclassification was \$0, \$416,453, and \$546,649, respectively. The interest rate on this line of credit at December 31, 2005, was 7.25%. There was no balance on the \$2,000,000 financing line of credit at any time in 2005.

Note I: Concentrations of Credit Risk

The company is located in Ironwood, Michigan. Keweenaw Land Association, Limited grants credit without collateral to its customers, most of whom are located in Wisconsin and Upper Michigan. The company has not experienced any significant losses from uncollectible customer accounts. The locations and percent of sales dollars of major customers are shown by product line below:

Location	Regional Distribution of Sales Dollars by Product Category			
	Veneer	Sawlog	Sawbolt	Pulpwood
Upper Michigan	30%	23%	65%	61%
Northern Wisconsin	37%	55%	35%	11%
Central Wisconsin	26%	21%	0%	22%
Minnesota	0%	0%	0%	6%
Export	4%	1%	0%	0%
Other	3%	0%	0%	0%
Total	100%	100%	100%	100%
Number of Customers by Product	14	11	16	16
Percent of Gross Sales by Product	10%	19%	11%	60%
Percent of Volume by Product	2%	10%	11%	77%

Note J: Capital Stock Purchase Programs

Keweenaw purchased no shares in 2005, 2004, or 2003. In 2005, 582 shares were distributed from treasury to the Board of Directors and employees. Outstanding capital at the end of 2005, 2004, and 2003 was 642,735 shares, 642,153 shares, and 641,913 shares, respectively.

Note K: Road Building

The company has an accounting policy to identify, classify, and depreciate or capitalize road-building costs consistent with Generally Accepted Accounting Principles and Internal Revenue Service guidelines. The construction of logging roads under the policy is classified as either primary logging roads or secondary logging roads. Primary logging roads are those roads, culverts, bridges, and other improvements constructed to provide regional access to a series of timber stands and/or secondary logging roads, and 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 primary roads will be capitalized. Roadbed costs are treated as permanent costs of the land. Costs of road surfacing, culverts, bridges, and other improvements on primary roads are capitalized and depreciated

Notes to the Consolidated Financial Statements - December 31, 2005 (continued)

over a term of 15 years. All expenditures for secondary roads are charged to prepaid expenses and written off over the period of the scheduled, related timber stand harvest.

The following is a reconciliation of road building expenditures capitalized, deferred, or reflected in expense for the years shown:

	Capitalized	Prepaid Expense	Expense
12/31/02 Balance	<u>255,993</u>	<u>107,046</u>	
2003 Expenditures:			
On Primary Roads	25,010		
On Secondary Roads			446,406
Secondary Road Expenditures Deferred to 2004		142,438	(142,438)
Prior Year Deferrals Written Off		(102,642)	102,642
Depreciation	<u>(15,898)</u>		15,898
12/31/03 Balance	<u>\$265,105</u>	<u>\$146,842</u>	<u>\$422,508</u>
2004 Expenditures:			
On Primary Roads	25,426		
On Secondary Roads			369,073
Secondary Road Expenditures Deferred to 2005		124,239	(124,239)
Prior Year Deferrals Written Off		(143,600)	143,600
Depreciation	<u>(17,017)</u>		17,017
12/31/04 Balance	<u>\$273,514</u>	<u>\$127,481</u>	<u>\$405,451</u>
2005 Expenditures:			
On Primary Roads	28,453		
On Secondary Roads			384,028
Secondary Road Expenditures Deferred to 2005		115,210	(115,210)
Prior Year Deferrals Written Off		(115,446)	115,446
Depreciation	<u>(18,468)</u>		18,468
12/31/05 Balance	<u>\$283,499</u>	<u>\$127,245</u>	<u>\$402,732</u>

Investor Information

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KLA on the Web

Interested parties with access to the World Wide Web may obtain the company's corporate information at <http://www.keweenaw.com>.

Stock Transfer Agent & Registrar

Wells Fargo Shareowner Services
161 North Concord Exchange
P.O. Box 64854
St. Paul, Minnesota 55164-9440
(800) 468-9716 or (612) 450-4064

Legal Counsel

Kendricks, Bordeau, Adamini, Chilman & Greenlee, P.C.
128 West Spring Street
Marquette, Michigan 49855

Independent Certified Public Accountants

Anderson, Tackman & Company
102 West Washington Street
Suite 109
Marquette, Michigan 49855

Investment Counsel

Everett Harris & Co
888 West Sixth St
Los Angeles, California 90017

Annual Meeting

The next annual shareholders' meeting will be held Monday, June 5, 2006. A formal notice will be mailed on or about April 24, 2006, to shareholders of record at the close of business on April 17, 2006.

Market Makers

The following firms are currently market makers for Keweenaw Land Association, Limited stock:

Access Securities Inc Stamford, CT	(203) 595-8210
Carr Securities Corp. Port Washington, NY	(516) 944-8300
Hill Thompson Magid & Co. Jersey City, NJ	(201) 434-8100
Hudson Securities, Inc Jersey City, NJ	(201) 216-9100

Monroe Securities, Inc. Chicago, IL	(312) 327-2536
Knight Securities LP Jersey City, NJ	(212) 336-8797
Noyes & Co, David A Chicago, IL	(312) 606-4694
Seidler Companies, Inc Los Angeles, CA	(800) 260-4724
UBS Securities, LLC Stamford, CT	(203) 719-8710
Weeden & Co, LP Greenwich, CT	(203) 861-7650

Reports and Publications

Quarterly reports are mailed to shareholders in April, July, October, and January for the prior quarter ended. Annual reports are available after mid-April of each year and are sent to shareholders of record at that time. Reports may be viewed on Keweenaw's web site, or copies may be obtained free of charge upon request.

Dividend Disbursing Agent

Keweenaw Land Association, Limited - corporate offices.

Market Price and Dividend Information

	Dividends Per Share	High	Low	Close
2003	\$	\$	\$	\$
1 st Quarter	0.20	64.00	61.00	61.00
2 nd Quarter	0.20	90.00	55.00	83.00
3 rd Quarter	0.20	87.00	77.00	81.50
4 th Quarter	0.20	101.00	82.50	101.00
2004				
1 st Quarter	0.20	109.00	90.00	92.75
2 nd Quarter	0.20	106.00	91.75	103.00
3 rd Quarter	0.20	110.00	102.00	105.00
4 th Quarter	0.20	136.50	104.00	136.50
2005				
1 st Quarter	0.20	163.00	135.00	161.00
2 nd Quarter	0.20	160.00	150.00	158.45
3 rd Quarter	0.20	160.00	155.50	157.00
4 th Quarter	0.20	158.00	146.00	158.00

Keweenaw Land Association, Limited stock is traded in the pink sheets under the symbol "KEWL".

Mailing List

Keweenaw maintains a direct mailing list for timely receipt of information by shareholders whose units are held in brokerage accounts. To be included, contact Keweenaw corporate headquarters.

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