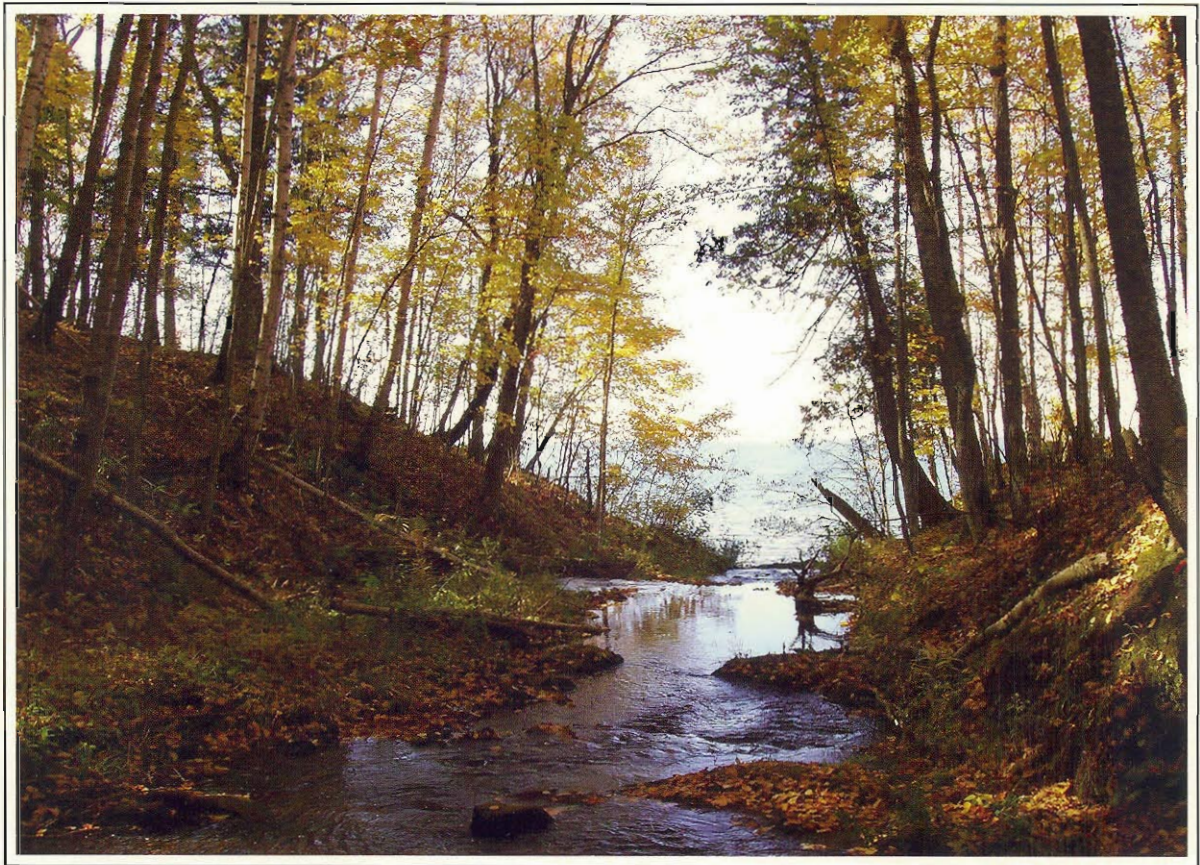


KEWEENAW

LAND ASSOCIATION, LIMITED



2007 ANNUAL REPORT

CONSOLIDATED FINANCIAL HIGHLIGHTS

For the Year	2007	2006	2005	2004	2003
Receipts*	\$9,063	\$9,845	\$10,718	\$9,079	\$8,647
Net Income after Tax*	243	861	1,430	924	624
Capital Employed*	16,546	14,553	12,872	12,263	11,814

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

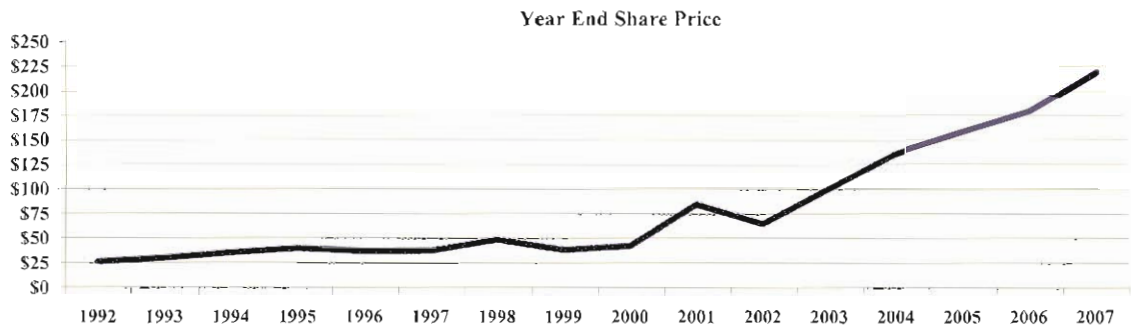
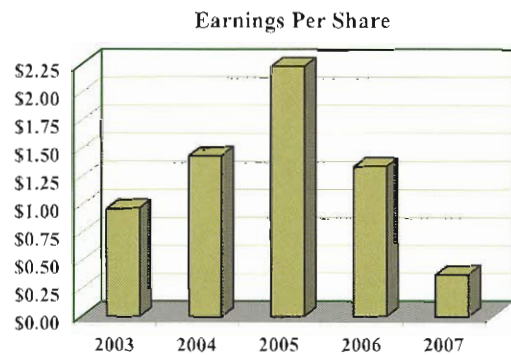
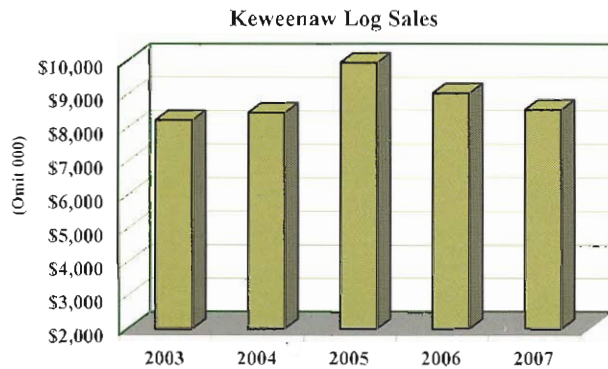
Per Share

Earnings*	\$0.38	\$1.34	\$2.23	\$1.44	\$0.97
Dividends Paid	0.80	0.80	0.80	0.80	0.80

*Based on weighted average shares outstanding

Statistics

Return on Capital	1.5%	5.9%	11.1%	7.5%	5.3%
Dividend Payout Ratio	210.5%	59.7%	35.9%	55.6%	82.5%
Average Shares Outstanding	644,002	643,248	642,572	642,153	641,913
Shares Outstanding at Year End	644,146	643,367	642,735	642,153	641,913



Cover photo: View of Viking Creek leading to Lake Superior, Gogebic County, Michigan.

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 and 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

As you have seen from our Fourth Quarter Report, timber operations income was down from \$1,126,701 in 2006 to \$654,542 in 2007. This change was due primarily to product pricing, as volume harvested was close to 2006 levels. Although the company had positive margins on all products sold, Keweenaw suffered the same problems, as did all timber companies in the area. As you are aware, the housing markets were down substantially, which negatively impacted the demand for sawlogs and veneer. An over-supply of pulpwood regionally kept pulp prices lower. Presently, it looks as though prices might have bottomed so that 2008 should look better.

Keweenaw stock price in 2007 had a high of \$225.25 and a low of \$171.50 with a close of \$219.00 on a total volume of 126,539 shares. [As of this writing, the current price is \$250.00 per share.] We are very pleased to see this significant increase in shareholder value.

We continue to manage your company for reasonable levels of current return and long-term appreciation of its timber, real estate, and mineral assets. This has proven to be a successful strategy that seems to have wide acceptance by our shareholders. We continue to upgrade and consolidate timberland holdings, which results in higher-value products as the timber stands move from less pulpwood to more veneer and sawlogs. In 2007 Keweenaw added 2,707 acres of productive timberland.

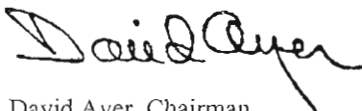
A comment or two about structure: Over the last several years there has been a lot of discussion about timber companies converting to REIT status. We have reviewed this option several times but there are two significant problems: 1) we would have to distribute all of our retained earnings (over \$12 million), which would force us to sell assets to raise the money for this distribution, and 2) on an annual basis we would have to distribute 90% of earnings, which would preclude us from growing the company out of earnings. There is currently a proposed piece of legislation, the Timber Revitalization and Economic Enhancement (TREE) Act, which has not yet been enacted, but would provide a 60% deduction for qualified timber gain, resulting in a maximum tax rate on such gain of 14% for corporations and individuals. It would also provide for the modernization of REIT rules for timber companies. The bill has been supported by Weyerhaeuser, the AF&PA, and numerous, state forestry associations. A major purpose of this legislation is to make U.S. timber companies more competitive. We will continue to watch this legislation and keep you informed.

In last year's annual report, we presented a great deal of information about Keweenaw's mineral holdings. We are aware that prices of various minerals are currently quite high, so it begs the question, "When might we realize some revenue?" The process of bringing a mine to production is a very long and expensive procedure. There is a very tedious and time consuming permitting process, plus tremendous opposition from anti-mining groups. Any given mining company needs to weigh all these factors when making the decision to go forward with a mining project. Keweenaw continues to make its geologic information and known mineral reserves available to qualified exploration companies. Although there has been some interest, we have executed no new mineral leases in the past year. We still maintain two existing long-term mineral exploration leases affecting a total of 4,502 acres. These leases remain active, but to reiterate, it is not a quick process. We still believe there is significant value in our mineral holdings, but it is not a short-term process to monetize that value for the shareholders.

Although 2007 was not a great year for returns from timber operations, it was the clear exception over the last ten years or so. Timber markets are cyclical and Keweenaw's markets are no exception. We believe that your company has performed very successfully over the long term and should remain an excellent investment for our shareholders.

I look forward to seeing you at the annual meeting June 16, 2008, and thank you for your continuing support.

Sincerely,



David Ayer, Chairman

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/or officers are:

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

Keweenaw owns and manages 160,801 surface acres and 406,185 acres of both severed and attached mineral rights in the Upper Peninsula of Michigan. Keweenaw's ownership includes approximately 151,805 acres of productive timberlands. Included in Keweenaw's ownership are nine miles of inland lake frontage, over five miles along Lake Superior, and fifty-two miles of river frontage. Approximately 3,000 acres of non-forest land owned by Keweenaw are comprised of commercial, recreational, or city properties. 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's timber properties were harvested heavily for war needs. In the mid 1960'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

During 2007, the well-publicized housing market slump continued its negative impact on the regional demand for wood products manufactured from sawtimber harvested by Keweenaw. This, coupled with an oversupply of pulpwood in the Lake States, resulted in the erosion of Keweenaw's timber revenues and related income for the year.

Log sale revenue was \$8,540,118 in 2007, down from \$9,030,920 in 2006 and \$9,943,727 in 2005. Sales realization was \$109 per cord-equivalent (cd-eq) in 2007, compared to \$115 per cd-eq in 2006

Report to Shareholders (continued)

and \$123 per cd-eq in 2005. Lower pricing was the overriding factor for the reductions from the 2006 and 2005 levels.

Total harvest production in 2007 was 78,006 cd-eq, compared to 78,291 cd-eq in 2006, and 80,835 cd-eq in 2005. Harvest production from company lands was 71,324 in 2007, approximately 2,900 cd-eq higher than 2006 when 68,444 cd-eq were harvested. 68,174 cd-eq were harvested from company lands in 2005. The increased level of harvest from company lands is primarily the result of an increase in the annual allowable cut because of the addition of productive timberland acreage through the company's land acquisition efforts. The amount of procured volume harvested in 2007 was 6,681 cd-eq compared to 9,848 cd-eq in 2006, and 12,662 cd-eq in 2005. Procured volume is harvested primarily from U.S. Forest Service stumpage sales.

The decrease in sales revenues per cd-eq resulted in a substantial reduction in timber operations income in 2007, compared to 2006 and 2005. Timber operations income was \$654,542 in 2007, compared to \$1,126,701 in 2006, and the 2005 timber income of \$2,100,983.

Real Estate Program

Keweenaw's real estate program continued to emphasize acquiring desirable timberland properties utilizing funding earmarked for this purpose. The goal is to grow the company's forestland base through purchases of strategic properties that increase the company's annual allowable harvest and promote efficiencies in forest management. In 2007, a total of 2,707 acres were purchased, all in counties targeted for ownership expansion.

Lot Development Project

Implemented in 2003, Keweenaw continues this project to enhance those properties for which a higher and better use is rural residential or recreational building sites. In 2007, a total of six lots from two different developments were sold. The value-added income derived from the sale of these lots, after a proration of expenses was subtracted, totaled \$21,149. The pre-development market value of these lots was \$52,688, and was also recognized as income. The depressed housing market, and resulting loss of disposable income, is a major factor for the "soft" market in the type of lots Keweenaw is selling. When the overall housing market rebounds, it is expected the demand for these types of recreational properties will increase.

<i>TRANSACTION ACRES BY COUNTY, 2007</i>		
COUNTY	ACRES SOLD	ACRES ACQUIRED
Baraga	0	0
Bayfield, WI	0	0
Dickinson	0	0
Florence, WI	0	0
Forest, WI	0	0
Gogebic	5	581
Houghton	0	87
Iron	0	0
Keweenaw	0	0
Marquette	0	0
Ontonagon	0	2,039
TOTAL	5	2,707

Minerals

Keweenaw continues to make its mineral information, including known reserves, available to bona-fide mineral exploration companies. During 2007, a number of exploration companies expressed varying degrees of interest in the potential of developing Keweenaw's minerals, but none were willing to pursue a workable mining lease arrangement. Keweenaw does still maintain two long-term mineral exploration leases affecting a total of 4,502 acres.

Sand and gravel royalties totaled \$34,361 in 2007, compared to \$124,033 in 2006, and \$274,008 in 2005. In 2007, there was limited construction in areas where material from the company's gravel sources could be utilized, compared to prior years.



PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

INDEPENDENT AUDITOR'S REPORT

**Board of Directors
Keweenaw Land Association, Limited and Subsidiaries**

We have audited the statement of consolidated assets, liabilities, and capital of Keweenaw Land Association, Limited and subsidiaries as of December 31, 2007, 2006 and 2005 and the related consolidated statements of income and expenses, 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, 2007, 2006 and 2005 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 25, 2008

KEWEENAW LAND ASSOCIATION, LIMITED

Statement of Consolidated Income and Expenses

		Year Ended December 31		
		2007	2006	2005
Timber Operations Income	Timber Sales	\$8,540,118	\$9,030,920	\$9,943,727
	Cost of Sales	6,076,262	6,179,442	6,197,107
	Gross Margin on Timber Sales	2,463,856	2,851,478	3,746,620
	Operations Expenses	1,809,314	1,724,777	1,645,637
	Timber Operations Income	654,542	1,126,701	2,100,983
Real Estate Development	Developed Lot Sales	198,250	204,500	153,300
	Development Costs	177,101	106,114	121,557
	Gross Margin on Developed Lot Sales	21,149	98,386	31,743
	Total Operations Income	675,691	1,225,087	2,132,726
Other Income	Mineral Royalties	34,361	124,033	274,008
	Leases & Rentals	99,921	118,261	89,746
	Investment Earnings	136,603	133,211	111,249
	Profit (Loss) on Security Sales	0	12,722	75,103
	Land Sales	50,641	205,605	95,615
	Other	55,964	57,761	15,792
Total Other Income	377,490	651,593	661,513	
Other Expenses	Land Management Expenses	447,296	449,405	435,107
	Board of Directors' Expenses	245,260	186,200	169,283
	Total Other Expenses	692,556	635,605	604,390
	Net Income Before Federal Income Taxes	360,625	1,241,075	2,189,849
	Provision for Federal Income Taxes	117,615	380,549	759,641
	Net Income	243,010	860,526	1,430,208
Other Comprehensive Income	Unrealized Gains (Losses) on Securities, Net of Taxes:			
	Unrealized Holding Gains (Losses) Arising During the Year	245,190	493,892	74,091
	Less: Reclassification Adjustment for Gains (Losses) in Net Income	0	(8,397)	(49,568)
	Other Comprehensive Income	245,190	485,495	24,523
	Total Comprehensive Income	\$488,200	\$1,346,021	\$1,454,731
Per Share	Net Income Per Share*	\$0.38	\$1.34	\$2.23
	Total Comprehensive Income Per Share	\$0.76	\$2.09	\$2.26
	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		
		2007	2006	2005
<i>Assets</i>	CURRENT ASSETS			
	Cash & Cash Equivalents	\$1,219,363	\$1,552,485	\$1,114,126
	Receivables, Net of Allowance for Doubtful Accounts of \$1,664 in 2007, of \$3,936 in 2006, and of \$3,460 in 2005	113,983	210,577	301,375
	Investments in Government Obligations	504,140	801,658	987,990
	Log Inventory	19,967	16,287	25,160
	Prepaid Expenses	238,100	315,165	240,570
	Total Current Assets	2,095,553	2,896,172	2,669,221
	INVESTMENTS IN MARKETABLE SECURITIES	4,325,611	3,665,950	2,715,463
	PROPERTIES			
	Minerals, Timber, and Land, Net of Accumulated Depletion of \$3,988,765 in 2007, \$3,832,221 in 2006, and \$3,705,022 in 2005	5,729,491	4,571,054	3,921,094
	Land	5,265,383	4,090,637	3,995,552
	EQUIPMENT			
	Equipment, at Cost, Net of Accumulated Depreciation of \$1,025,165 in 2007, \$978,952 in 2006, and \$891,577 in 2005	661,098	695,183	775,807
	OTHER NON-CURRENT ASSETS	203,128	22,921	0
	TOTAL ASSETS	\$18,280,264	\$15,941,917	\$14,077,137
<i>Liabilities & Capital</i>	CURRENT LIABILITIES			
	Accounts & Deposits Payable	\$122,257	\$68,658	\$131,297
	Commercial Line of Credit	0	0	0
	Current Portion of Long Term Debt	290,000	80,000	0
	Accrued Liabilities	453,696	457,338	449,901
	Total Current Liabilities	865,953	605,996	581,198
	LONG TERM LIABILITIES			
	Long Term Debt	2,350,000	680,000	0
	Deferred Federal and State Income Tax Liability	1,158,471	862,845	623,458
	Total Liabilities	4,374,424	2,148,841	1,204,656
	CAPITAL			
	Common Stock, Authorized 2,500,000 Shares; Issued 644,146 Shares of No Par Value	84,244	84,142	84,059
	Accumulated Other Comprehensive Income, Net of Taxes	1,717,592	1,472,402	986,907
	Retained Earnings	12,104,004	12,236,532	11,801,515
	Total Capital	13,905,840	13,793,076	12,872,481
TOTAL LIABILITIES & CAPITAL	\$18,280,264	\$15,941,917	\$14,077,137	

See Notes to Consolidated Financial Statements

KEWEENAW LAND ASSOCIATION, LIMITED
Statement of Consolidated Capital

	Retained Earnings	Accumulated Other Comprehensive Income	Common Stock Issued	Total Capital
December 31, 2004 Balance-As Restated	\$10,800,114	\$962,385	\$83,983	\$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
Cash Dividends Paid	(514,064)			(514,064)
Impact of Shares Issued to Directors & Officers	85,257		76	85,333
December 31, 2005 Balance-As Restated	11,801,515	986,907	84,059	12,872,481
Changes during 2006:				
Comprehensive Income:				
Net Income	860,526			860,526
Other Comprehensive Income:				
Unrealized Gains (Losses) on Securities, Net of Tax, Arising During the Year, Net of Reclassification Adjustment to Net Income		485,495		485,495
Cash Dividends Paid	(514,578)			(514,578)
Impact of Shares Issued to Directors & Officers	89,069		83	89,152
December 31, 2006 Balance	12,236,532	1,472,402	84,142	13,793,076
Changes during 2007:				
Comprehensive Income:				
Net Income	243,010			243,010
Other Comprehensive Income:				
Unrealized Gains (Losses) on Securities, Net of Tax, Arising During the Year, Net of Reclassification Adjustment to Net Income		245,190		245,190
Cash Dividends Paid	(515,229)			(515,229)
Impact of Shares Issued to Directors & Officers	139,691		102	139,793
December 31, 2007 Balance	<u>\$12,104,004</u>	<u>\$1,717,592</u>	<u>\$84,244</u>	<u>\$13,905,840</u>

See Notes to Consolidated Financial Statements

KEWEENAW LAND ASSOCIATION, LIMITED

Consolidated Statement of Cash Flow

		Year Ended December 31		
		2007	2006	2005
Cash Flows Provided by Operating Activities	Net Income	\$243,010	\$860,526	\$1,430,208
	Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
	Depletion and Depreciation	272,779	235,631	227,837
	Changes in Operating Assets and Liabilities:			
	Decrease (Increase) in Accounts Receivable	96,594	74,598	30,685
	Decrease (Increase) in Prepaid Expenses	(140,840)	(91,277)	197,917
	Decrease (Increase) in Inventory	(3,680)	8,872	(8,734)
	Increase (Decrease) in Deposits and Accounts Payable	53,599	(46,439)	17,743
	Increase (Decrease) in Deferred Income Taxes Payable	170,161	(10,060)	17,707
	Increase (Decrease) in Accrued Liabilities	28,726	542	(27,721)
	Gain on Sale of Securities	0	(12,722)	(75,103)
	Gain on Sale/Retirement of Equipment	17	(80)	563
	Gain on Sale of Land	(71,790)	(303,566)	(127,359)
Net Cash Flows Provided by Operating Activities	648,576	716,025	1,683,743	
Cash Flows Provided by (Used for) Investing Activities	Net Purchases of Property and Equipment	(74,644)	(27,896)	(114,886)
	Purchases of Securities	(290,643)	(1,015,834)	(677,257)
	Proceeds from Sale of Securities	300,000	1,000,000	884,583
	Road Construction	(47,377)	(21,239)	(28,453)
	Purchases of Land	(2,481,327)	(901,231)	(133,952)
	Proceeds from Land Sales	(13,971)	161,969	88,977
	Lot Development	121,700	191,991	164,078
Net Cash Flows Provided by (Used for) Investing Activities	(2,486,262)	(612,240)	183,090	
Cash Flows Provided by (Used for) Financing Activities	Issuance (Purchase) of Stock	139,793	89,152	85,333
	Payment of Dividends	(515,229)	(514,578)	(514,064)
	Commercial Line of Credit Borrowing	0	0	710,434
	Commercial Line of Credit Payments	0	0	(1,126,887)
	Commercial Installment Loan Borrowing	2,100,000	800,000	41,725
	Commercial Installment Loan Payments	(220,000)	(40,000)	(41,725)
Net Cash Flows Used for Financing Activities	1,504,564	334,574	(845,184)	
NET CASH FLOW	(333,122)	438,359	1,021,649	
Beginning Cash and Cash Equivalents	1,552,485	1,114,126	92,477	
ENDING CASH AND CASH EQUIVALENTS	\$1,219,363	\$1,552,485	\$1,114,126	
Supplementary Cash Flow Information	Interest Paid	(\$157,030)	(\$30,799)	(\$2,691)
	Federal Income Taxes Paid	(\$83,607)	(\$394,856)	(\$788,281)

See Notes to Consolidated Financial Statements



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

**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 25, 2008

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

Capital Resources and Liquidity - 2007

Keweenaw Land Association, Limited receives most of its operating cash from the sale of merchantable timber in the form of harvested logs from its properties located in the Western Upper Peninsula of Michigan. 2007 cash flow from operations was \$648,576, a 9% reduction from \$716,025 received in 2006, and a 61% reduction from \$1,683,743 received in 2005. The primary reason for this decline was the prolonged reduction in pulpwood prices from the levels experienced in 2005. Average pulpwood price realization was 8% below 2006 and 17% below 2005. In addition, sawtimber logs recognized price reductions as demand for lumber continued to erode as housing starts declined. Average sawtimber price realization for 2007 was 6% below 2006 and 9% below 2005. Increased diesel fuel prices, particularly since 2005, have increased company logging and trucking expenditures over the three-year span.

The company received and disbursed cash from/to other non-operating sources in 2007. Keweenaw sold six developed lots during the year generating \$121,700, down 27% from 2006 and down 26% from 2005. Though more lots were sold in 2007, less marginal profit was attributed to them because most of the lots were not on water frontage. The sale or exchange of other non-development properties resulted in a negative cash flow of \$13,971. Keweenaw spent \$2,481,327 for timberland acquisition, the largest being a timberland 2,385-acre tract purchased from Longyear Realty LLC. From the company's investment portfolio, KLA sold a Federal Home Loan Bank Bond amounting to \$300,000, reinvesting \$290,643 in equity securities. Other capital expenditures included \$122,021 for new equipment and primary logging road construction. The company borrowed \$2,100,000 from Wells Fargo Bank in 2007, for the purpose of land acquisition, making principal reduction payments of \$220,000. KLA paid dividends of \$515,229 to its shareholders during the year. At the end of 2007, Keweenaw had \$1,219,363 in cash and cash equivalents on hand compared to \$1,552,485 at the end of 2006 and \$1,114,126 at the end of 2005. The company's investment portfolio held equity securities valued at \$4,325,611 and government obligations amounting to \$504,140 at year-end.

The company did no short-term borrowing in 2007 or in 2006. In 2005 Keweenaw borrowed \$710,434 and repaid \$1,126,887 on its short-term lines of credit. If needed, short-term borrowing and repayment occurs using the automatic balance transfer feature of the company's primary business checking account. Keweenaw maintains five credit facilities, all at Wells Fargo Bank Michigan N.A. A \$1,500,000 operating line of credit is available to satisfy short-term operating cash needs. A financing line of credit, in the amount of \$2,000,000, with a contingency reserve of an additional \$3,000,000, exists 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, 2007, nine letters of credit totaling \$621,000 were outstanding, though no balance was owed on any of the letters. In 2006, the company negotiated a \$5,000,000 line of credit available for a period of two years for the purpose of acquiring timberland. \$2,100,000 of the line of credit was used in 2007 bringing the total borrowed to \$2,900,000. The company began making principal reduction payments in 2006. In 2007 KLA paid \$220,000 toward principal, reducing the balance to \$2,640,000. This line of credit will convert to a ten-year fixed-term loan beginning at the end of the loan advance period. See Note H of the Notes to the Consolidated Financial Statements for an expanded discussion of the company's available credit facilities.

Results of Operations

Keweenaw's strategic objective has been and continues to be to improve, consolidate, and protect its timberland assets. The company practices sustainable forestry management to improve the quality of its standing timber and actively pursues opportunities to improve its forestland holdings through land acquisition and like-kind exchange. The Board of Directors continues to believe that managing timberlands with a long-term view is beneficial to its shareholders, while providing a reasonable level of return. Continuing demand for Keweenaw logs, **preservation of market** share, and long-term improvement in standing timber toward a mix of higher value logs are indicative that this forest

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

management strategy is working. SmartWood, a third-party forest practices certification organization, under the auspices of the Forest Stewardship Council's Lake States Guidelines, has certified the company's sustainable forestry practices as "well managed" since 1994. KLA's timber management policy is to ensure that the average ten-year timber harvest volume does not exceed the timber growth rate during that period, while improving log quality.

Keweenaw's primary income source is the sale of logs from its standing timber inventory. Total log production in 2007 of 78,006 cd-eq was virtually the same as 2006's production, though it was 4% below 2005's volume. Harvest volume on company land exceeded last year's production by 4%, though logs produced on purchased timber contracts were down 32%. The company bids on procured timber contracts in order to supplement timber income, to increase market share, and to present logging and trucking opportunities for company contractors when seasonal restrictions exist on company lands. These contracts are multi-year in nature, giving the company some flexibility to harvest the contracted timber when margins are most advantageous. Like 2006, market conditions for pulpwood in 2007 remained well below the higher prices of 2005. Because of this factor, Keweenaw limited procured production to just 9% of the total produced. This compares to procured production of 13% of the total for 2006. Reduced log price was the leading cause of the 45% reduction in timber operations income in 2007 versus 2006 and a 68% reduction from 2005. Fortunately, favorable product mix offset some of the negative effect of unfavorable prices. In other operations, KLA recorded a 72% decrease in gravel royalties in 2007 compared to 2006 and 87% below 2005. There was very limited construction activity in the vicinity of KLA pits in 2007. Income from other sources, such as land sales, investment income, lease income, and the sale of developed lots, was 42% below 2006 and 14% below 2005.

Timber Sales

Keweenaw Land Association, Limited sells its logs directly to mills allowing the company to maximize its return by direct marketing, aggressively negotiating with customers. Selling directly gives Keweenaw the flexibility to react quickly to rapidly changing market conditions, characteristic of the dramatic price changes experienced in the last several years. Log sales personnel "re-manufacture" logs as needed in the company's log sort yard facility in order to meet customer needs and increase profit. KLA's sustainable forestry program and single tree selection method for marking timber for harvest insure an available supply of logs and improves the quality of logs produced over the long term. As a result, log sales dollars are maximized. Keweenaw's experience since the implementation of this program has borne out this timber management philosophy.

Keweenaw log sales amounted to \$8,540,118 in 2007, down 5% from 2006 and down 14% from 2005. The areas cut during 2007 had a greater concentration of higher value saw timber as opposed to pulpwood, which helped offset some of the negative affect of reduced log prices. So 2007 product mix was superior to both 2006 and 2005. KLA 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 2007 product mix and associated sales dollar impact compared to the two prior years:

	Percent of Sales Product Mix			Product Mix Impact in Dollars	
	2007	2006	2005	2007 vs 2006	2007 vs 2005
Vencer Logs	2.3%	2.1%	2.1%	\$132,185	\$89,573
Sawlogs	10.9%	9.6%	9.9%	235,399	177,971
Sawbolts	11.8%	11.3%	10.5%	44,864	128,000
Pulpwood Logs	75.0%	77.0%	77.5%	(135,128)	(179,398)
Total Production	100.0%	100.0%	100.0%	\$277,320	\$216,146

Keweenaw enjoyed favorable weather conditions in the summer of 2007 but experienced the wettest October on record. But overall, Keweenaw was able to meet its sales volume objectives for the year, so volume was only a minor factor in the company's profits. Market supply coupled with lower regional demand for pulpwood, KLA's largest product group, kept prices lower in 2007 than the record highs experienced in 2005. Pulpwood log prices dropped 8% in 2006 from the 2005 high as

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

demand cooled. In 2007, pulpwood prices were nearly 17% off the 2005 mark. Reduced sawtimber price realization cited earlier in this report stems from diminishing demand for finished hardwood lumber with the continuing slump in housing starts. Veneer logs continued to remain in demand across the three-year period of this report. Veneer prices, particularly for Hard Maple and Soft Maple remain solid. Sawbolts, used in the flooring and pallet industries, showed a 9% overall drop in 2007 after remaining relatively constant in 2006. Though hardwood bolts remained relatively constant, Aspen bolts and softwood bolts showed an 8% and 12% decline, respectively. The following table portrays the changes in price realization recorded by Keweenaw for its veneer and sawlog products in 2007 compared to the two prior years (the change in other minor species is more a function of specie difference than price difference):

Species	2007 Average Price Increase (Decrease) Per Cent			
	Vs. 2006		Vs. 2005	
	Veneer	Sawlog	Veneer	Sawlog
Hard Maple	-2.2%	-10.3%	5.9%	-9.4%
Soft Maple	1.9%	-6.5%	8.7%	-10.4%
Yellow Birch	-12.6%	-9.4%	-17.4%	-11.3%
Basswood	1.1%	-10.0%	3.7%	-11.3%
White Ash	7.3%	-9.8%	7.3%	-11.5%
Red Oak	-7.5%	-10.8%	-6.7%	-12.0%
Other Minor Species	-3.7%	-6.3%	-6.4%	-6.9%

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 2007, compared to the two prior years:

Timber Type	2007 Average Price Increase (Decrease) Per Cent			
	Vs. 2006		Vs. 2005	
	Sawbolt	Pulpwood	Sawbolt	Pulpwood
Northern Hardwood	-0.6%	-6.9%	-2.3%	-15.8%
Aspen	-8.0%	-8.3%	-14.3%	-18.3%
Mixed Softwoods	-12.0%	-15.1%	-0.4%	-19.6%

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:

	Log Sales Realization Per Unit		
	2007	2006	2005
Veneer Logs (Per MBF)	\$1,224	\$1,268	\$1,294
Sawlogs (Per MBF)	471	514	523
Sawbolts (Per Cord)	117	128	128
Pulpwood Logs (Per Cord)	79	86	95
Total Sales Per CE	\$109	\$115	\$123

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

Impact From	Impact on Timber Sales Dollars	
	2007 Vs. 2006	2007 Vs. 2005
Changes in Prices	\$ (680,834)	\$ (1,097,931)
Changes in Specie Mix	\$ (25,972)	\$ (181,057)
Changes in Product Mix	277,320	216,146
Changes in Production Volume	(61,316)	(340,767)
Net Increase (Decrease) in Timber Sales	\$ (490,802)	\$ (1,403,609)

Total log sales by specie groups are represented below:

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	2007			2006			2005		
	Cords	Sales	% of Vol.	Cords	Sales	% of Vol.	Cords	Sales	% of Vol.
Northern Hardwood	60,040	\$ 7,020,624	77%	58,151	\$ 7,145,532	74%	62,683	\$ 8,174,256	77%
Aspen	6,562	561,081	8%	9,588	901,011	12%	8,612	900,866	11%
Softwoods	11,448	958,413	15%	10,833	984,377	14%	9,518	868,605	12%
	<u>78,050</u>	<u>\$ 8,540,118</u>	<u>100%</u>	<u>78,572</u>	<u>\$ 9,030,920</u>	<u>100%</u>	<u>80,812</u>	<u>\$ 9,943,727</u>	<u>100%</u>

Cost of Sales

The company's cost of log sales for 2007 was \$6,076,262, a 2% decrease compared to both 2006 and the 2005. Keweenaw produced 78,006 cd-eq in 2007, 78,291 cd-eq in 2006, and 80,835 cd-eq in 2005. Logging and freight costs represent the greatest part of production expense. These costs amounted to \$5,088,582 in 2007, 2% less than the two prior years. Difference in production volume was not a factor. There were \$68,914 in cost savings, principally because diesel fuel prices that escalated in 2006 moderated somewhat in 2007. Fuel costs are a primary component of the costs incurred by KLA contractors. During the year, KLA continued to monitor diesel prices on a weekly basis and indexed its mileage rate paid to trucking contractors. High operating costs continue to be a problem for Keweenaw contractors. The company continues to meet this challenge by providing dependable loggers with competitive pay and more logging opportunities.

While timber depletion on company lands was relatively constant, procured stumpage costs decreased 12% in 2007. KLA harvested 6,681 cord equivalents or 9% of total production on procured timber contracts from other landowners, primarily the U.S. Forest Service. This represented a 32% decline from 2006 and 47% below 2005. The long-term nature of the company's procured stumpage contracts enabled KLA to defer some procured production until log prices improve. Procured production had logging and delivery costs similar to that from company land but also had the added cost of stumpage (the cost to purchase the standing timber from the seller). Stumpage costs amounted to \$199,266, or \$30 per procured cord. This compares favorably to stumpage costs of \$275,560 in 2006 and to \$358,809 in 2005. Although the profit margins are smaller due to stumpage costs, 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. Although opportunities to bid on new contracts are few, the company did successfully bid on two new timber-cutting contracts with the Forest Service in 2007.

Keweenaw continued to invest in improvements to its logging road infrastructure in 2007. Road-building costs in 2007 were \$462,997, representing 8% of the total cost of log sales. 2007 road expense was an increase of 6% from 2006 and of 15% from 2005. It has been Keweenaw's objective to improve or construct summer logging roads at least a year prior to commencing production. Last year, the extended dry weather during the summer months allowed company foresters to more aggressively restore and maintain log roads for future use. As a result, more expenditures incurred in 2006 were deferred into 2007 when the associated log production occurred. Costs of snow removal and "freeze-in" of roads for winter operations, 27% of total road costs, were up 6% from 2006. Changes in temperature along with lake effect snow can cause variances in the cost of winter road preparation from season to season. Road expenditures made in 2006 in the amount of \$166,157 were written off in 2007 as timber production occurred on adjacent lands. Also, \$152,226 of road expenditures in 2007, relating to 2008 timber operations, were deferred until 2008.

On a unit of sales basis, 2007 production costs were 1% below 2006 though 2% above 2005, as reflected below:

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Production Cost Factor	Cost Per Cord Produced		
	2007	2006	2005
Logging Costs	\$39	\$39	\$38
Freight Costs	26	27	26
Sort Yard Expenses	2	2	2
Logging Road Costs	6	6	5
Timber Depletion & Procured Stumpage Costs	4	5	6
Inventory Change & Other Costs	(0)	(0)	(0)
Total Costs Per Cord	\$78	\$79	\$77

Gross Margin

Keweenaw's gross margin from timber operations was \$2,463,856, a decline of 14% from 2006, and a 34% decrease from 2005. On a unit of sales basis, gross margins were:

	Per Cord Equivalent		
	2007	2006	2005
Log Sales	\$109	\$115	\$123
Cost of Sales	78	79	77
Gross Margin	\$31	\$36	\$46

In 2007, the gross margin was \$34.55 per cord equivalent on company land production and a loss of \$0.33 per cord on procured production.

Operations Expenses

The company incurred operating expenses amounting to \$1,809,313 in 2007, an increase of 5% over 2006 and 10% over 2005. On a unit of production basis, operating costs were \$23 per cd-eq for 2007, \$22 per cd-eq for 2006, and \$20 per cd-eq for 2005. Employee salaries and benefits represented 67% of total operating costs. These personnel costs rose by only 1% from 2006 and by just under 3% from 2005. Keweenaw continues to restructure the company's employee medical insurance to help achieve cost savings, while still maintaining an appropriate level of coverage for its personnel. Each year the company reviews all employee benefit plans to ensure these plans are cost effective and competitive. As a percent of total operating cost, other expense in 2007 included: chairman fee and professional services 12%, office and equipment costs 9%, travel expense 2%, and contributions, taxes, interest, and depreciation 10%. As a group, these other operating expenses were up 13% from 2006 and approximately 28% above 2005. The biggest component making up the increase was interest expense on debt incurred for land acquisition. Interest amounted to \$157,030 in 2007, compared to \$30,799 in 2006 and \$1,630 in 2005.

Other Income

KLA's subsidiary company, Keweenaw Properties LLC, sold six developed lots in 2007 at a sales value of \$198,250. A gross margin of \$21,149 was recorded. Costs included direct production expenses and allocated administrative expenses. This gross margin reflects the value added to the properties as a result of development investment and is reflected in the income statement in operating income. \$52,688, the pre-development market value of the property, is reflected in other land sale income. Keweenaw also recorded land exchange expenses of \$2,047. It is the company's policy to upgrade and consolidate its timberland holdings, while divesting of isolated timberlands and certain other properties having greater value for purposes other than timber management. However, in 2007, Keweenaw disposed of only five acres, other than the retail lots sold. The company also purchased 2,707 acres of timberland in 2007.

Keweenaw recorded gravel royalties totaling \$34,361 during 2007, compared to \$124,033 in 2006, and \$274,008 in 2005. The company's gravel production is principally used in commercial

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construction and highway infrastructure improvements. There were substantially fewer of these projects in 2007 that were within economically feasible delivery range of KLA's gravel pits. Other sources of income included rental income from surface, commercial, mineral exploration, and recreational camp leases amounting to \$99,921, approximately 16% below 2006, but 11% above 2005. One factor in the variability of lease income is changing winter weather conditions from year to year, which directly affects income associated with a ski resort operation partially located on Keweenaw land.

The composition of Keweenaw's investment portfolio changed only slightly in 2007. A Federal Home Loan Bank bond in the amount of \$300,000 matured and was sold. In August and November, 5,000 shares of American International Group were purchased. No capital gains were recognized during the year. The company's 2007 year-end investment portfolio allocation was 84% equity securities, 10% government obligations, and 6% money market funds. In 2007, KLA recorded current income from investments, exclusive of capital gains, in the amount of \$136,603, up 3% from 2006 and up 23% from 2005. Total investment income over the three-year period is summarized below:

Source	2007	2006	2005
Dividends	\$87,155	\$92,928	\$88,024
Interest Income	49,448	40,283	23,225
Realized Capital Gains	0	12,722	75,103
Total	<u>\$136,603</u>	<u>\$145,933</u>	<u>\$186,352</u>

The market value of the company's investment portfolio on December 31, 2007, was \$5,127,804 up 8% from the end of 2006 and 29% since 2005. Unrecognized gains in the portfolio were \$2,602,413. Everett Harris and Company of Los Angeles made and implemented investment decisions.

Other Expenses

Keweenaw recorded other expenses in 2007. These included expenditures for land management and Board of Director activities. Personnel costs of \$124,500 represented 28% of land management expense. Other items included property taxes of \$283,924, or 63%, and administrative costs of \$38,872, or 9%. Overall land management expense was \$447,296, 1% below 2006, but up 3% from 2005. Board-of-Director expenses for 2007 amounted to \$245,260, up 32% from 2006 and up 45% from 2005. Board costs were made up of directors' fees 79%, travel expense 13%, and insurance costs 8%.

Net Income

Keweenaw Land Association, Limited net income for 2007 was \$243,010, a decrease of 72% from 2006, and an 83% decline from 2005. Per share net income was \$0.38, \$1.34, and \$2.23 in 2007, 2006, and 2005, respectively. These per share earnings are based on the weighted average common shares outstanding of 644,002 shares in 2007, 643,248 shares in 2006, and 642,572 shares in 2005. The company paid dividends to shareholders of record in 2007 amounting to \$515,229. These payments were 212% of earnings compared to 60% in 2006, and 36% in 2005. The net return on capital employed (balance sheet shareholders equity, plus borrowed debt) was 1.5% in 2007, 5.9% in 2006, and 11.1% in 2005.

Notes to the Consolidated Financial Statements - December 31, 2007

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, 2007, December 31, 2006, and December 31, 2005, 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 using the straight-line method.

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.

Treasury Stock: In 2006, the company changed the way it recognized purchased stock in its financial records to be in compliance with Michigan law. All Keweenaw common shares previously purchased by the company are now considered authorized but un-issued shares. Accordingly, the capital accounts for 2005 have been restated to comply with Michigan law. See Note J for an expanded disclosure on this topic.

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, 2007:

Notes to the Consolidated Financial Statements - December 31, 2007 (continued)

	Cost	Unrealized Holding Gains	Fair Value
Non Current Investments:			
Equity Securities	\$1,728,326	\$2,597,285	\$4,325,611
Current Investments:			
Government Obligations	499,012	5,128	504,140
Investments Available for Sale	<u>\$2,227,338</u>	<u>\$2,602,413</u>	<u>\$4,829,751</u>

Realized gains and losses are determined on the basis of the specific identification method. During 2007, 2006, and 2005, sales proceeds and gross realized gains and losses on securities available for sale were:

	2007	2006	2005
Sale proceeds	<u>\$300,000</u>	<u>\$1,000,000</u>	<u>\$884,583</u>
Gross realized gains	<u>\$0</u>	<u>\$12,764</u>	<u>\$75,867</u>
Gross realized losses	<u>\$0</u>	<u>(\$42)</u>	<u>(\$764)</u>

At December 31, 2007, 2006, and 2005, shareholders' equity included an accumulated unrealized gain, net of taxes, on securities classified as available for sale in the amount of \$1,717,592, \$1,472,402, and \$986,907, respectively.

The following is a summary of investment securities classified as available for sale as of December 31, 2006:

	Cost	Unrealized Holding Gains	Fair Value
Non Current Investments:			
Equity Securities	\$1,437,683	\$2,228,267	\$3,665,950
Current Investments:			
Government Obligations	799,012	2,646	801,658
Investments Available for Sale	<u>\$2,236,695</u>	<u>\$2,230,913</u>	<u>\$4,467,608</u>

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

	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>

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 2007, Keweenaw held securities, classified as available for sale, which incurred unrealized gains of \$371,500 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:

Notes to the Consolidated Financial Statements - December 31, 2007 (continued)

	Before Tax	Tax (Expense)/ Benefit	After Tax
Unrealized Holding Gains (Losses)	\$371,500	(\$126,310)	\$245,190
Reclassification for Gains (Losses) Included in Net Income	0	0	0
Net Change in Unrealized Holding Gains (Losses)	<u>\$371,500</u>	<u>(\$126,310)</u>	<u>\$245,190</u>

For the year 2006, Keweenaw held securities, classified as available for sale, which incurred unrealized gains of \$735,599 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)	\$748,321	(\$254,429)	\$493,892
Reclassification for Gains (Losses) Included in Net Income	(12,722)	4,325	(8,397)
Net Change in Unrealized Holding Gains (Losses)	<u>\$735,599</u>	<u>(\$250,104)</u>	<u>\$485,495</u>

During 2005, the company held securities, classified as available for sale, which incurred unrealized losses of \$37,155 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)	\$112,258	(\$38,167)	\$74,091
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>(\$12,632)</u>	<u>\$24,523</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:

	2007	2006	2005
Land	\$4,845,762	\$3,635,720	\$3,492,593
Timber and Mineral Holdings	9,239,945	7,969,301	7,213,380
Accumulated Costs of Lot Development	419,620	454,916	502,959
Permanent Logging Roads	478,312	433,975	412,736
Properties at Cost	<u>14,983,639</u>	<u>12,493,912</u>	<u>11,621,668</u>
Less: Accumulated Timber Depletion	3,821,915	3,683,259	3,575,785
Less: Accumulated Road Depreciation	166,850	148,962	129,237
Net Carrying Value	<u>\$10,994,874</u>	<u>\$8,661,691</u>	<u>\$7,916,646</u>

On December 31, 2007, Keweenaw owned 160,801 surface acres, primarily timberlands, and 406,185 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, 2007 (continued)

	2007	2006	2005
Buildings	\$366,343	\$347,362	\$347,362
Furniture, Equipment, and Accessories	641,917	667,043	660,292
Machinery and Vehicles	393,898	375,625	375,625
Land Improvements	284,105	284,105	284,105
Equipment at Cost	1,686,263	1,674,135	1,667,384
Less: Accumulated Depreciation	1,025,165	978,952	891,577
Equipment, Net of Depreciation	<u>\$661,098</u>	<u>\$695,183</u>	<u>\$775,807</u>

The company charged depreciation expense to operations in the amounts of \$108,712, \$108,601, and \$108,358 for 2007, 2006, and 2005, respectively.

Note F: Income Taxes

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

	2007		2006		2005	
	Tax	% of Taxable Income	Tax	% of Taxable Income	Tax	% of Taxable Income
Current:						
Tax Provision Computed At Statutory Rate	\$122,600	34.0%	\$421,966	34.0%	\$744,549	34.0%
Dividends Deduction	(5,028)	-1.4%	(3,458)	-0.3%	(1,988)	-0.1%
Domestic Production Deduction	(10,562)	-2.9%	(10,717)	-0.9%	(20,540)	-0.9%
Certain Investment Income Timing Differences	(3,890)	-1.1%	(21,717)	-1.7%	19,883	0.9%
Foreign Taxes Paid	(4,748)	-1.3%				
Mineral Depletion Deduction	(584)	-0.2%	(2,109)	-0.2%	(4,658)	-0.2%
Differences in Depreciation Methods	4,198	1.2%	(10,610)	-0.9%	(17,864)	-0.8%
Business Meals Adjustment	3,460	1.0%	3,413	0.3%	2,829	0.1%
Current Year Deposits Not Reflected in Provision	0	0.0%	0	0.0%	0	0.0%
Change in Prior Year Tax Estimate	16,879	4.7%	13,841	1.1%	19,723	0.9%
Total Current Tax Provision	<u>122,325</u>	<u>33.9%</u>	<u>390,609</u>	<u>31.5%</u>	<u>741,934</u>	<u>33.9%</u>
Deferred Taxes Exclusive of Net Unrealized						
Gain/Loss on Investments	(4,710)	-1.3%	(10,060)	-0.8%	17,707	0.8%
Provision for Taxes	<u>\$117,615</u>	<u>32.6%</u>	<u>\$380,549</u>	<u>30.7%</u>	<u>\$759,641</u>	<u>34.7%</u>

The company recognizes Federal deferred tax liabilities and assets for the expected future tax consequences of events that have been recognized in the financial statements or tax return. In 2007 the Michigan Legislature passed the Michigan Business Tax to replace the previous Michigan Single Business Tax, to be effective in 2008. This new tax contains components of a gross receipts tax and an income tax. As a result of the income tax component, the company recorded a deferred tax liability for Michigan income taxes at the end of 2007. Deferred tax liabilities and assets are determined based on the difference between the financial statement carrying amounts and the 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 Federal deferred tax liability as of December 31 are as follows:

	2007	2006	2005
Current:			
Unrealized Gains (Losses) on Investments	\$1,744	\$899	\$242
Total Current	<u>1,744</u>	<u>899</u>	<u>242</u>
Non Current:			
Equipment Depreciation	95,430	99,673	110,225
Logging Roads Depreciation	5,093	5,561	5,069
Unrealized Gains (Losses) on Investments	883,077	757,611	508,164
Total Non Current	<u>983,600</u>	<u>862,845</u>	<u>623,458</u>
Total Federal Deferred Tax Liability	<u>\$985,344</u>	<u>\$863,744</u>	<u>\$623,700</u>

Notes to the Consolidated Financial Statements - December 31, 2007 (continued)

The significant components of the Michigan deferred tax liability as of December 31 are as follows:

Non Current:	2007	2006	2005
Equipment Depreciation	16,936	0	0
Logging Roads Depreciation	904	0	0
Unrealized Gains (Losses) on Investments	157,031	0	0
Total Michigan Deferred Tax Liability	<u>\$174,871</u>	<u>\$0</u>	<u>\$0</u>

The company recorded the Michigan deferred tax liability above on December 31, 2007. This value was not charged against income for 2007 but was charged to a long-term prepaid asset displayed in the company's balance sheet. The legislation provided that this prepaid asset may be written off over ten years, beginning in 2015.

Note G: Retirement Plans

For years 2007, 2006, and 2005, Keweenaw was the sponsor of a single retirement plan for its employees, a 401(k) deferred compensation plan known as "Keweenaw Land Association Limited 401(k) Profit Sharing Plan." The plan funding and benefit arrangements were insurance, and the insurance carrier was the Principal Life Insurance Company. Keweenaw was the fiduciary administrator of the plan. An IRC 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 base salary for the three years reported. In all three years, the company made discretionary contributions to the plan in the amount of 8% of base salaries. Pension expense was:

	2007	2006	2005
401(k) Profit Sharing Plan			
Matching Contributions	\$32,750	\$31,624	\$30,312
Discretionary Contributions	65,527	64,722	59,042
Other Pension Costs	1,250	1,226	750
Total Pension Expense	<u>\$99,527</u>	<u>\$97,572</u>	<u>\$90,104</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 2007:

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 and interest to be paid monthly. No loan fee was charged.
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 was 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 0.10% 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 was charged, and a \$150 fee per letter thereafter was charged. A fee of \$475 per letter will be required for irrevocable letters of credit, if required.
5. A \$5,000,000 secured line of credit for the purpose of land acquisition. The interest rate is 30-day LIBOR plus 1.90% on the unpaid balance. The loan fee is ½ of 1%, \$5,000 of which was paid on origination. The balance of the loan fee will be paid as a percent of the

Notes to the Consolidated Financial Statements - December 31, 2007 (continued)

amount advanced. Other closing costs, including title insurance, collateral land appraisal, and other fees, amounted to \$16,141. Mortgage collateral for the loan was 8,132 acres of timberland in Gogebic County, State of Michigan. The loan value ratio to the value of collateral was 65%. After a two-year loan advance period, the loan converts on April 1, 2008, to a fixed-term loan of ten years, with equal payments monthly plus accrued interest.

Affirmative covenants of all credit facilities 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 a ratio of total liabilities to tangible net worth of less than .50 to 1.00;
4. 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;
5. To maintain a debt service ratio of 1.25 to 1.00;
6. And relating to the \$5 million land loan, the value of harvested timber on the mortgaged property shall not exceed loan principal reduction plus the value of accumulated timber growth over the life of the loan.

There were no violations to these covenants in 2007. 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 \$5,000,000 land acquisition line of credit and the \$900,000 standby letter of credit line were used in 2007. \$2,100,000 was advanced in April 2007 on the land acquisition line bringing the total borrowing to \$2,900,000. The company made payments against principal amounting to \$220,000 during the year. On the other line, one standby letters of credit was cancelled during the year and two were added. On December 31, 2007, nine standby letters of credit were outstanding totaling \$621,000. Eight of the standby letters of credit amounting to \$121,000 were for the purpose of backing performance bonds required by the USDA Forest Service in connection with on-going timber stumpage and road use contracts with the company. The ninth 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 as of December 31, 2007.

Wells Fargo provides a four-way automatic balance transfer service for the company's primary checking account, its investment account, and its \$1,500,000 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, typically averaging \$80,000 to \$200,000 at any point in time. In 2007, no advances or payments were made on this line of credit.

The following table summarizes the long-term debt of the Company in its land acquisition line of credit at December 31, 2005, 2006, and 2007:

	2007	2006	2005
Long-term Debt	\$2,640,000	\$760,000	\$0
Less: Current Portion	290,000	80,000	0
Total-Net of Current Portion	<u>\$2,350,000</u>	<u>\$680,000</u>	<u>\$0</u>

The maturities of long-term debt after the conversion of the land acquisition line of credit to a fixed-term loan on April 1, 2008, are as follows:

Year	2008	2009	2010	2011	2012	2013 and Beyond
Amount	\$290,000	\$264,000	\$264,000	\$264,000	\$264,000	\$1,294,000

Notes to the Consolidated Financial Statements - December 31, 2007 (continued)

Total interest paid on all lines of credit in 2007, 2006, and 2005, was \$157,030, \$30,799, and \$2,691, respectively. There was no balance owing on the operating line of credit at year-end for any of the three years reported. There was no balance on the \$2,000,000 financing line of credit at any time in 2007. The December 31, 2007, balance on the land acquisition loan was \$2,640,000. It's interest rate on that date was 6.47%.

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 un-collectible 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	52%	21%	64%	51%
Northern Wisconsin	38%	55%	36%	16%
Central Wisconsin	8%	22%	0%	26%
Minnesota	0%	0%	0%	7%
Export	0%	0%	0%	0%
Other	2%	2%	0%	0%
Total	100%	100%	100%	100%
Number of Customers by Product	13	8	8	9
Percent of Gross Sales by Product	12%	21%	13%	54%
Percent of Volume by Product	2%	11%	12%	75%

Note J: KLA Capital Accounts and Treasury Stock

In 2006, the company changed its method of recognizing treasury stock in its financial records to more closely conform to the State of Michigan's Business Corporation Act. By resolution of the Keweenaw Board of Directors, all Keweenaw common shares previously purchased by the company are now considered authorized but un-issued shares. Accordingly, the balance sheet capital accounts were restated back to the date of incorporation, July 16, 1999. The revised cost basis for KLA's common shares was then determined as follows:

	As Reported 7/31/1999
Common Stock	\$40,000.00
Capital Surplus	64,627.10
Subtotal	\$104,627.10
Shares Issued	800,000
Restated Cost Per Common Share	\$0.130784

As a result, the 2005 capital accounts are restated for purposes of comparison with 2006 and 2007 in the company's balance sheet. 2005 is restated as follows:

Notes to the Consolidated Financial Statements - December 31, 2007 (continued)

	12/31/2005		12/31/20005
	Balance Before	Reclassification	Balance After
	Restatement	Entries	Restatement
Retained Earnings	\$18,492,224	(\$6,690,709)	\$11,801,515
Accumulated Other Comprehensive Income	986,907		986,907
Common Stock Issued-642,735 Shares	40,000	44,059	84,059
Capital Surplus	44,088	(44,088)	-
Purchased Stock	(6,690,738)	6,690,738	-
Total Capital Accounts	<u>\$12,872,481</u>	<u>\$0</u>	<u>\$12,872,481</u>

Common stock issued and outstanding on December 31 of 2007, 2006, and 2005 was 644,146 shares, 643,367 shares, and 642,735 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 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 will be capitalized and depreciated over 15 years. All expenditures for secondary roads will be 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:

	Capitalized	Prepaid Expense	Expense
12/31/04 Balance	<u>\$273,514</u>	<u>\$127,481</u>	
2005 Expenditures:			
On Primary Roads	28,453		
On Secondary Roads			384,028
Secondary Road Expenditures Deferred to 2006		115,210	(115,210)
Prior Year Deferrals Written Off		(115,446)	115,446
Depreciation	(18,468)		18,468
12/31/05 Balance	<u>283,499</u>	<u>127,245</u>	<u>402,732</u>
2006 Expenditures:			
On Primary Roads	21,239		
On Secondary Roads			469,183
Secondary Road Expenditures Deferred to 2007		162,636	(162,636)
Prior Year Deferrals Written Off		(110,140)	110,140
Depreciation	(19,725)		19,725
12/31/06 Balance	<u>\$285,013</u>	<u>\$179,741</u>	<u>\$436,412</u>
2007 Expenditures:			
On Primary Roads	50,208		
On Secondary Roads			428,138
Secondary Road Expenditures Deferred to 2008		152,226	(152,226)
Prior Year Deferrals Written Off		(166,157)	166,157
Primary Road Costs Retired	(2,832)		
Depreciation	(20,928)		20,928
12/31/07 Balance	<u>\$311,461</u>	<u>\$165,810</u>	<u>\$462,997</u>

Investor Information

Corporate Offices

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Email: investors@keweenaw.com

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, PO Box 64854
St. Paul, MN 55164-9440
(800) 468-9716 or (612) 450-4064

Legal Counsel

Kendricks, Bordeau, Adamini, Chilman & Greenlee,
PC
128 West Spring St
Marquette, MI 49855

Independent Certified Public Accountants

Anderson, Tackman & Company
102 West Washington St, Ste 109
Marquette, MI 49855

Investment Counsel

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

Annual Meeting

The next annual shareholders' meeting will be held Monday, June 16, 2008. A formal notice will be mailed on or about April 17, 2008, to shareholders of record at the close of business on April 16, 2008.

Market Makers

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

Automated Trading Desk Financial Services	
Mt Pleasant, SC	(843) 789-2180
Access Securities Inc	
Stamford, CT	(203) 595-8210
Carr Securities Corp	
Port Washington, NY	(516) 944-8300
Hill Thompson Magid & Co	
Jersey City, NJ	(800) 631-3083
Hudson Securities, Inc	
Jersey City, NJ	(800) 624-0050
Maxim Group, LLC	
Red Bank, JN	(732) 784-1906

Merriman Curhan Ford & Co	
New York, NY	(866) 847-6818
Monroe Securities, Inc	
Chicago, IL	(800) 766-5560
Knight Equity Markets, LP	
Jersey City, NJ	(800) 232-3684
Noyes & Co, David A	
Chicago, IL	(866) 332-4377
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
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
2006				
1 st Quarter	0.20	156.00	125.00	125.00
2 nd Quarter	0.20	198.00	124.50	165.00
3 rd Quarter	0.20	180.00	144.80	169.00
4 th Quarter	0.20	179.00	168.00	179.00
2007				
1 st Quarter	0.20	185.03	171.50	180.00
2 nd Quarter	0.20	221.00	182.00	221.00
3 rd Quarter	0.20	225.25	195.00	205.00
4 th Quarter	0.20	219.00	200.00	219.00

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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