



---

# KEVVEENAW

LAND ASSOCIATION, LIMITED



**2015 ANNUAL REPORT**

---

## CONSOLIDATED FINANCIAL HIGHLIGHTS

For the Year	2015	2014	2013	2012	2011
Receipts*	\$11,927	\$10,532	\$9,310	\$10,509	\$10,390
Net Income after Tax*	1,156	856	706	1,041	521
Capital Employed*	23,649	22,610	21,822	17,093	15,838

\* Values in Rounded Thousands

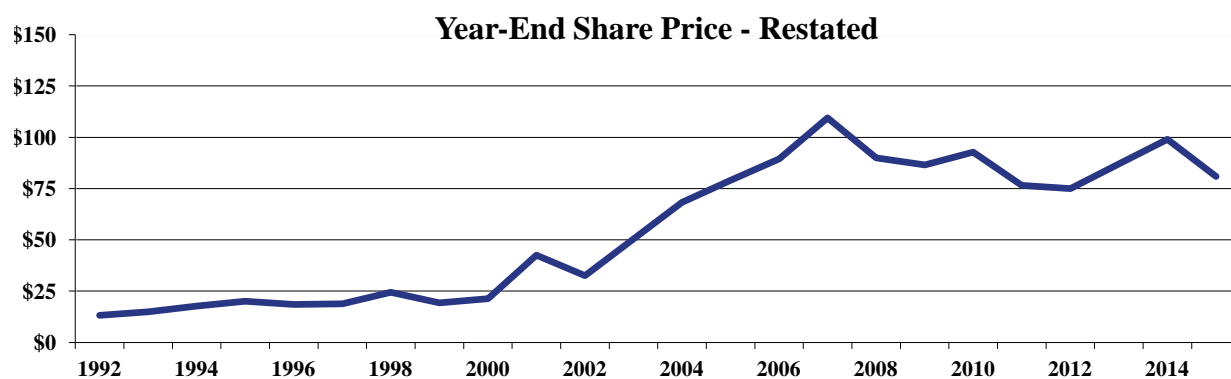
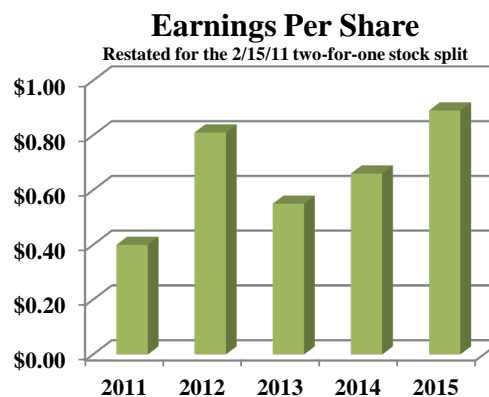
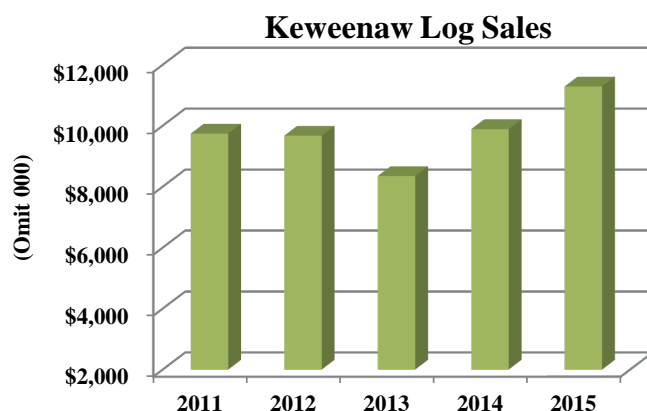
### Per Share

Earnings**	\$0.89	\$0.66	\$0.55	\$0.81	\$0.40
------------	--------	--------	--------	--------	--------

\*\*Based on weighted average shares outstanding. Adjusted for the 2/15/11 2-for-1 forward stock split.

### Statistics

Return on Capital	4.9%	3.8%	3.2%	6.1%	3.3%
Average Shares Outstanding **	1,297,222	1,295,549	1,294,136	1,292,681	1,291,488
Shares Outstanding at Year End **	1,297,398	1,295,726	1,294,333	1,292,858	1,291,865



Cover photo: Load of pulpwood being delivered to customer from KLA timber sale - Iron County, Michigan.

# Report to Shareholders

---

## Table of Contents

Consolidated Financial Highlights	inside front cover
Chairman’s Letter	Pg 2
Timber Operations	Pg 3
Timberland Appraisal and Value Analysis	Pg 3
Real Estate	Pg 5
Minerals	Pg 5
Map and Table of Ownership	Pg 6
Management’s Discussion & Analysis of Operations	Pg 7
Independent Auditor’s Report	Pg 14
Statement of Consolidated Income and Expense	Pg 15
Statement of Consolidated Assets, Liabilities, and Capital	Pg 16
Statement of Consolidated Capital	Pg 17
Consolidated Statement of Cash Flows	Pg 18
Notes to the Consolidated Financial Statements	Pg 19
Auditor’s Report on Supplementary Information	Pg 30
EBITDA Format - Statement of Consolidated Income and Expense	Pg 31
Company Profile & History	Pg 32
Investor Information	Pg 33

## Glossary of Terms Used in This Report

**Board Foot (BF)** – a measurement of lumber 12 inches x 12 inches x 1 inch. When used in conjunction with sawtimber or logs, it is a measurement system to approximate the output of lumber that can be expected from a given quantity of sawtimber or logs. **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.

# 2015 Highlights

---

## Chairman's Letter

To our Shareholders:

Keweenaw had an exceptional year as a result of solid demand for its forest products and better operational conditions, which led to increased harvest levels. Revenue from timber sales grew to \$11.3 million, an increase of \$1.4 million over the prior year. Net income reached \$1.15 million, or \$0.89 per share, compared to \$855,860, or \$0.66 per share in 2014.

On the timber operations side, we sold over 10.83 mmbf of sawtimber, which was a record volume for sawtimber. In addition, we sold over 55,000 cords of pulpwood. Strong demand for lower quality logs was key to our improved product mix, which ended the year at 30% sawtimber and 70% pulpwood.

In 2015, we completed the expansion of the log yard in Ironwood. The primary purpose for the expansion was to provide, for a fee, a secure location to inventory pulpwood for new pulpwood customers. The expansion involved clearing and surfacing four acres of land adjacent to the existing log yard, installation of a weight scale, and upgrading the log scale building for a total cost of approximately \$400,000. The expanded wood yard is operated by our current log yard personnel. Even though the yard was not fully operational until June, we generated inventory and handling fees of over \$100,000 for the year.

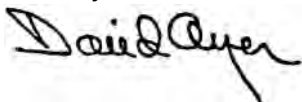
As we have done since 1998, Keweenaw contracted for a third-party appraisal of the land and timber assets. This year, the appraisal was completed by James W. Sewall Company, an appraisal firm headquartered in Old Town, Maine. The purpose for changing appraisal firms was to obtain a fresh look at the timber and land assets. In addition, Sewall has extensive appraisal experience, both regionally and nationally, and is well regarded in terms of resource valuation. A summary is included in this year's annual report. The results continue to demonstrate steady appreciation in the underlying timber and land assets.

In September, the board appointed James A. Mai to the board of Keweenaw. Mr. Mai brings a wealth of knowledge and experience from the private equity and financial services sector and will be helpful as Keweenaw continues to chart its path towards increasing the size and value of the company.

Keweenaw's success is a reflection of its dedicated employees and management team, under the oversight of an experienced and engaged board of directors. Our focus remains increasing the value of the timber and land assets over the long-term in an environmentally responsible manner. We would like to thank everyone for their hard work in making Keweenaw an outstanding company.

We also want to especially thank our shareholders for their continued support as we pursue this goal. Additional information on Keweenaw can be found on our website at [www.keweenaw.com](http://www.keweenaw.com). I look forward to seeing you at our annual meeting in Ironwood, Michigan at the Gogebic Community College on May 2, 2016, 9:00 am CDT.

Sincerely,

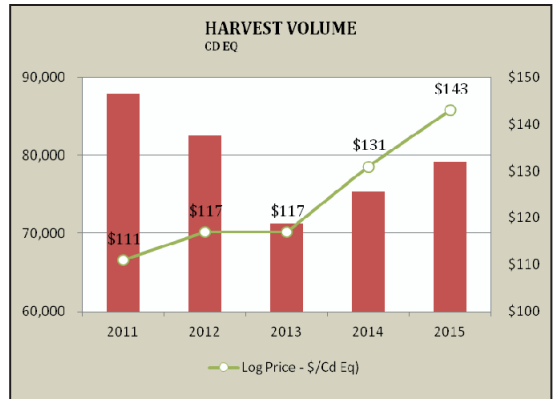


David Ayer, Chairman

# 2015 Highlights

## Timber Operations

Revenue from log and pulpwood sales reached \$11.3 million in 2015, on a consolidated volume of 10.86 mmbf of sawtimber and 55,286 cords of pulpwood. This was a record sawtimber harvest volume for the company. Our sales realization increased to \$143 per cd eq, an improvement of 10% from the prior year. With the improved sales realizations and increased volume, income from Timber Operations on an EBITDA basis was \$2.69 million, an increase of 37% from the \$1.96 million realized in 2014. Favorable markets for lower grade sawlogs and a better product mix from the timber harvested from our forest resulted in higher log prices for nearly all products. In 2015, 30% of our volume harvested was sawtimber compared to 29% in 2014 and 23% in 2013.



In 2015, the completion of the expansion of our existing log yard in Ironwood allowed us to expand our customer base and generate additional revenue from managing inventory for certain customers. The yard became fully operational in June and has already resulted in additional income of over \$100,000 in the first year of operations.



## Timberland Appraisal and Value Analysis

Since 1998, Keweenaw has periodically engaged a licensed appraisal firm to value the timber and land assets. The purpose of this process is to inform shareholders about the value of the timber and land assets, and to show changes in value over time. The appraisal is performed in accordance with the [Appraisal Foundation's Uniform Standards of Professional Appraisal Practices \(USPAP\)](#) and represents the appraiser's professional analysis, opinion, and conclusions with respect to the market value of *Keweenaw's land and timber assets only*. In 2015, Keweenaw engaged James W. Sewall Company to complete this appraisal. Below is a summary of this



## 2015 Highlights

appraisal along with the values from prior appraisals conducted by other firms dating back to May of 1998.

### Gross Timber Value

Appraisal Date	Acres	Gross Timber Value (millions)	Timber Value Per Acre
May-1998	156,400	\$ 72.53	\$ 464
Dec-2000	155,882	\$ 93.23	\$ 598
Dec-2003	155,839	\$104.16	\$ 668
Dec-2006	158,153	\$132.36	\$ 837
Dec-2009	161,061	\$117.31	\$ 728
Dec-2012	161,940	\$134.12	\$ 828
Dec-2015	167,613	\$173.04	\$1,032
% Change (1998-2015)	7.2%	138.6%	122.6%
Compound Annual % Change	0.4%	5.2%	4.8%

Since 2012, Gross Timber Value on a per acre basis increased by 24.7% as a result of improving log and pulpwood prices and our management techniques.

Gross Timber Value (GVT) represents the undiscounted retail value of the entire standing inventory and is based on current stumpage rates, species, product mix, and volume. It is used for comparing changes in timber values from period to period. However, it does not necessarily represent the amount at which the timber could be sold in a single transaction. For that reason, the sale of timber, either as part of a harvest or together with the sale of the underlying land, might result in a price that is significantly different than the GTV stated above.

### Appraisal Trends for Land and Timber

Appraisal Date	Comparable Sales Approach		Income Capitalization Approach		Overall Appraised Value	
	Value (in millions)	Per Acre	Value (in millions)	Per Acre	Value (in millions)	Per Acre
May-1998	\$ 66.47	\$425	\$ 54.98	\$352	\$ 63.00	\$403
Dec-2000	\$ 85.74	\$550	\$ 84.11	\$540	\$ 85.74	\$550
Dec-2003	\$102.85	\$660	\$107.40	\$689	\$102.85	\$660
Dec-2006	\$118.61	\$750	\$121.88	\$771	\$118.61	\$750
Dec-2009	\$128.85	\$800	\$132.75	\$824	\$128.85	\$800
Dec-2012	\$133.60	\$825	\$141.21	\$872	\$140.10	\$865
Dec-2015	\$158.00	\$943	\$140.55	\$839	\$151.00	\$901
% Change (1998- 2015)	137.7%	121.9%	155.6%	138.3%	139.7%	123.6%
Compound Annual % Change	5.2%	4.8%	5.7%	5.2%	5.3%	4.8%

The overall appraised value increased at a compound annual rate of 4.8% over the past 17 years and continues to show a trend of steady appreciation of the land and timber assets.

## 2015 Highlights

---

The basic limitation of any appraisal is that it is an opinion of value and is therefore not a guarantee that a property will sell at the appraised value.

### Real Estate

The objective of our real estate program is to improve and consolidate our timberland assets through strategic acquisitions of high quality timberlands and to divest non-core timberlands, which are more valuable for development or recreational purposes. This past year there were limited opportunities to acquire properties at reasonable price levels. In 2015, we added 210 acres of predominately northern hardwood timberlands at an average acquisition price of \$910 per acre while divesting of 188 acres of lands better suited for recreational purposes at a gross sales price of \$1,428 per acre.

In addition, we sold two rural residential lots from our existing inventory of development projects for a net value-added and as-is land value gain of \$27,734. Interest for small rural building sites for residential homes is still limited as the region continues to absorb the excess inventory of homes and vacant land already for sale in an environment of slower economic growth. Keweenaw still holds several properties ideally suited for residential development, but it is not planning any additional investments in property developments until it see more consistent demand return.

### Minerals

In 2015, there were three mineral leases on Keweenaw property encompassing approximately 11,662 acres. The lease encompassing the Western Syncline Deposit, known as the Copperwood Project, remains a fully permitted project. Highland Copper Company, Inc. (TSXV:HI) is the current lessee for this property. Terms of the lease include a current rental payment, which converts to a net smelter royalty upon mine start-up.

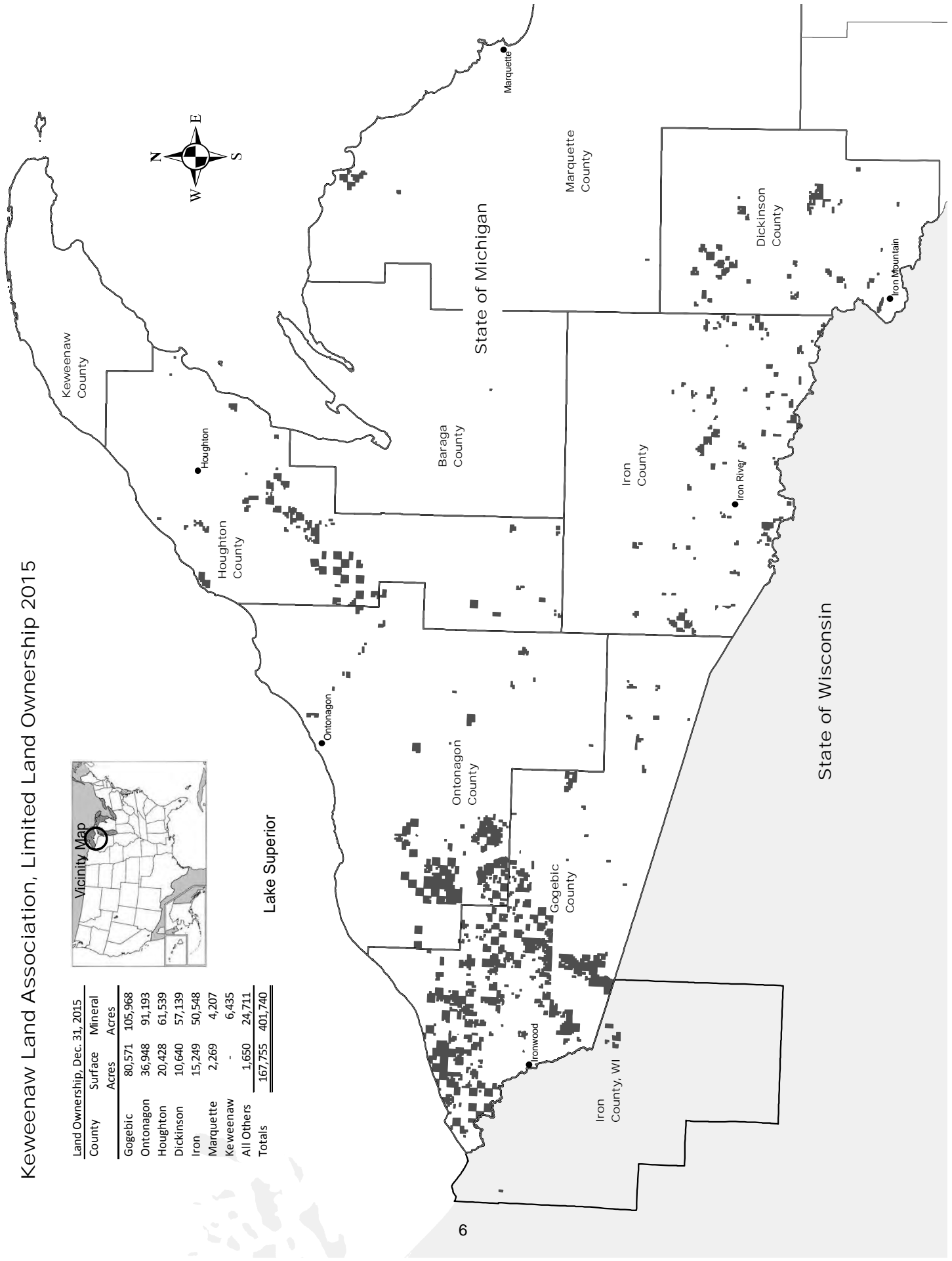
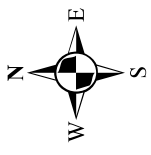
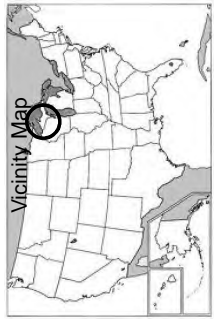
Highland continues to hold a separate mineral lease with Keweenaw. This lease initially covered 6,928 acres in Gogebic, Houghton, and Keweenaw counties. In December of 2015, Highland relinquished 3,870 acres from the lease. Highland continues to pay a rental for the remaining acres under lease until completion of their exploration activities. Should they find an economically viable mineral deposit, the lease is designed to convert to a net smelter royalty agreement. Information regarding Highland can be found on its website at <http://www.highlandcopper.com>.

From a global perspective, mineral development activity has slowed as demand and prices for minerals tumbled during 2015. The main driver behind the slowdown was a reduction in overall consumption by China, the single largest consumer of copper and iron ore in the world. The impact from this has been felt in our region with the announcement of a temporary shutdown of the Cliffs Natural Resources Empire Mine in Marquette, Michigan this summer and mining production cuts in the Mesabi Range located in northern Minnesota. Minerals development has always been a challenging proposition, and it remains important to focus on the long-term prospects. We continue to monitor activity regionally and internationally as we focus on ways to monetize Keweenaw's 400,000 acres of mineral rights.

Keweenaw continues to make its mineral information available to bonafide mineral exploration and/or mining companies. A map of Keweenaw's mineral ownership can be found on our website at [www.keweenaw.com](http://www.keweenaw.com).

# Keweenaw Land Association, Limited Land Ownership 2015

Land Ownership, Dec. 31, 2015	Acres	
	Surface	Mineral
Gogebic	80,571	105,968
Ontonagon	36,948	91,193
Houghton	20,428	61,539
Dickinson	10,640	57,139
Iron	15,249	50,548
Marquette	2,269	4,207
Keweenaw	-	6,435
All Others	1,650	24,711
<b>Totals</b>	<b>167,755</b>	<b>401,740</b>





# Management's Discussion & Analysis of Operations

---

## Business Overview

Keweenaw Land Association, Limited is a land and timber management company that owns approximately 168,000 acres of surface land and 402,000 acres of subsurface mineral rights in the western Upper Peninsula of Michigan and northern Wisconsin. We derive the majority of our net income from the sale of logs harvested from our forestlands and from the purchase of sale of timber from public and private timber sources. Keweenaw also generates other revenue from recreational leases, mineral rights leases, sale of sand and gravel, and by providing wood scaling and inventory management services for various customers.

Since 1993, Keweenaw Land Association, Limited has employed direct marketing of its forest products with regional log customers, which generates increased profit margins over the sale of stumpage. We have built long-term relationships with our customers allowing for the sale of all of our annual production year after year. The company has remained committed to providing its customers with the best quality product possible. Our log yard facility in Ironwood, Michigan allows us the ability to maximize the value of logs and meet customer needs by sorting to customer grades and by re-manufacturing logs to improve log grade.

Keweenaw's forest management philosophy is that managing timberlands with a long-term perspective is beneficial to its shareholders. It does this by improving and consolidating its timberland assets through strategic acquisitions of high quality timberlands and by divesting non-core timberlands, which are more valuable for development or recreational purposes.

The company practices sustainable forestry management to improve the quality and quantity of its standing timber, which ensures an available log supply into the future. Keweenaw's timberland management policy states it will not harvest beyond its annual growth rate as determined over a ten-year period. We employ a variety of silvicultural systems to accomplish our forest management objectives and optimize the value of timber harvested. The majority of our ownership is northern hardwoods and is managed on an uneven-aged basis. The predominate method used for identifying northern hardwoods timber for harvest is single-tree selection. This method allows us to improve log quality and maximize sales dollars over the long-term. Over the years, there have been significant technical changes in logging equipment, which have contributed to increased production and utilization of our forest resources.

In October 2015, Keweenaw received its Forest Stewardship Council® (FSC®) Certification (SW-FM/COC-000005, FSC®-C006729) in conformance with FSC and Rainforest Alliance requirements. This marks the 22<sup>nd</sup> straight year we have achieved this certification. Keweenaw was originally certified on September 1, 1994, and received the first Forest Management Certificate issued by the Rainforest Alliance in the United States and the fifth Forest Management Certificate issued globally. Keweenaw has the distinction of being the oldest continuous certificate holder for the Rainforest Alliance worldwide.

In addition to sustained-yield management, forest certification is verification that a company's forest practices are environmentally-sound, economically practical, and socially beneficial. Certification provides us with a standard to evaluate our business practices, and it is also a useful tool for continued learning. Because of our best practices, Keweenaw is growing more quality timber per acre, which adds value to our shareholders while also providing a long-term supply of certified forest products to the region.

## EBITDA Reporting Format for 2015

Under Supplemental Financial Information, following the Notes to the Consolidated Financial Statements, a full-year Income Statement in the EBITDA format is available for the first time in our 2015 Annual Report to shareholders. Beginning in the Second Quarter 2015, Keweenaw reformatted the Income Statement to reflect the EBITDA format. Arguably, EBITDA is one of the most familiar

## Management's Discussion & Analysis of Operations (continued)

examples of income metrics in financial reporting. Currently, there is no legal requirement under Generally Accepted Accounting Principles (GAAP) for publicly-held companies to disclose EBITDA in their financial reporting. The EBITDA format Statement of Consolidated Income and Expenses is provided as Supplementary Information. The company will continue to provide this information in all future quarterly letters and annual reports and will provide the restatement of Timber Operations Income through the First Quarter of 2016. In accounting and finance terms, EBITDA is a measure of profitability and stands for "Earnings before Interest, Taxes, Depreciation, and Amortization." It is a non-GAAP measure of profitability. Many companies and shareholders continue to find the format useful to analyze and compare profitability, especially between companies and industries.

### TIMBER OPERATIONS INCOME RESTATED (EBITDA)

#### Prior Annual Report & Quarterly Letter Format

	2015	2014	2013
<u>Timber Operations:</u>			
Timber Sales	\$11,283,793	\$9,881,889	\$8,345,020
Cost of Sales	(7,092,616)	(6,405,530)	(5,628,124)
<b>Gross Margin on Timber Sales</b>	<b>\$4,191,177</b>	<b>\$3,476,359</b>	<b>\$2,716,896</b>
Forestry, Management & General Admin	(2,024,130)	(2,033,079)	(1,767,080)
<b>Timber Operations Income</b>	<b>\$2,167,047</b>	<b>\$1,443,280</b>	<b>\$949,816</b>

#### 2015 Restated - EBITDA Reporting Format

	2015	2014	2013
<u>Timber Operations:</u>			
Timber Sales	\$11,283,793	\$9,881,889	\$8,345,020
Cost of Sales	(6,846,794)	(6,171,750)	(5,459,939)
<b>Gross Margin on Timber Sales</b>	<b>\$4,436,999</b>	<b>\$3,710,139</b>	<b>\$2,885,081</b>
Forestry, Management & General Admin	(1,750,612)	(1,753,104)	(1,634,151)
<b>Timber Operations Income (EBITDA)</b>	<b>\$2,686,387</b>	<b>\$1,957,035</b>	<b>\$1,250,930</b>
<u>Reclassified Items:</u>			
Timber Depletion in Cost of Sales	224,663	211,905	145,017
Road Depreciation in Cost of Sales	21,159	21,875	23,167
Interest Expense in Operations	184,176	193,680	50,804
Fixed Asset Depreciation in Operations	89,342	86,295	82,126

### Timber Sales & Operations

The company reported log sales in 2015 totaling \$11,283,793 compared to \$9,881,889 and \$8,345,020 in 2014 and 2013 respectively. In addition to better pricing, an increase in production over the last two years has allowed Keweenaw to increase its timber operations income, up \$729,352 over 2014 and up \$1,435,457 over 2013 on an EBITDA basis. In 2015, sales realization was \$143 per cd-eq compared to \$131 per cd-eq in 2014 and \$117 per cd-eq in 2013.

The company's total log production in 2015 was 79,024 cd-eq compared to 75,336 cd-eq in 2014 and 71,148 cd-eq in 2013. In 2015, log production on purchased timber contracts amounted to 3,857 cd-eq during the year compared to 5,675 cd-eq in 2014 and 1,368 cd-eq in 2013.

## Management's Discussion & Analysis of Operations (continued)

The following table reflects the 2015 product mix and associated sales dollar impact compared to the two prior years:

	Percent of Sales Product Mix			Product Mix Impact in Dollars	
	2015	2014	2013	2015 vs. 2014	2015 vs. 2013
Veneer Logs	2.6%	2.9%	2.7%	(\$123,339)	(\$46,238)
Sawlogs	9.0%	9.1%	9.5%	(21,723)	(88,091)
Sawbolts	18.6%	16.7%	10.9%	207,472	782,367
Pulpwood Logs	69.8%	71.3%	76.9%	(114,874)	(506,984)
Total Sales	100.0%	100.0%	100.0%	(\$52,464)	\$141,054

Keweenaw's forest consists primarily of northern hardwood timber types. As such, pulpwood will always continue to remain the largest percentage of the yearly sales volume. In 2015, pulpwood accounted for 70% of the total sales volume while sawtimber was 30%. In 2014, the sawtimber mix was 29%, and in 2013, it was 23%. While pulp prices softened in the second half of 2015, pulp prices for 2015 were up nearly 16% over 2014 and up 29% over 2013. Pulpwood price realizations were also affected by changes in destination. The average veneer price realization was down nearly 3% from 2014, primarily due to an increased volume of lower valued minor species, namely a higher concentration of White/Black Ash. Sawlog prices in 2015 were down 7% from 2014 but were up 12% over 2013. Sawbolts, which are sawn into flooring and pallet material, increased in price by 9% over 2014 and 18% over 2013.

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

	Log Sales Realization Per Unit		
	2015	2014	2013
Veneer Logs (Per MBF)	\$977	\$1,003	\$1,059
Sawlogs (Per MBF)	518	554	463
Sawbolts (Per Cord)	152	139	129
Pulpwood Logs (Per Cord)	117	101	91
Total Sales (Per Cd-eq)	\$143	\$131	\$117

The total impact on log sales resulting from all previously discussed factors is reflected below:

Impact From	Impact on Log Sales Dollars	
	2015 vs. 2014	2015 vs. 2013
Changes in Prices	\$902,928	\$1,825,884
Changes in Specie Mix	50,521	41,960
Changes in Product Mix	(52,464)	141,054
Changes in Production Volume	500,920	929,875
Net Increase (Decrease) in Timber Sales	\$1,401,905	\$2,938,773

Total log sales by specie groups are represented below:

	2015			2014			2013		
	Cords	Sales	% of Vol	Cords	Sales	% of Vol	Cords	Sales	% of Vol
Northern									
Hardwoods	60,624	\$9,054,274	77%	53,013	\$7,531,789	71%	53,310	\$6,684,716	75%
Aspen	6,649	853,149	8%	8,565	926,423	11%	8,376	762,296	12%
Softwoods	11,910	1,376,370	15%	13,785	1,423,677	18%	9,558	898,008	13%
	79,183	\$11,283,793	100%	75,363	\$9,881,889	100%	71,244	\$8,345,020	100%

# Management's Discussion & Analysis of Operations (continued)

## Cost of Sales

Restating costs in an EBITDA format, excluding the non-cash expenses of depletion and depreciation, Keweenaw's cost of log sales for 2015 was \$6,846,794 compared to \$6,171,750 in 2014 and \$5,459,939 in 2013. The company harvested 79,024 cd-eq in 2015, 75,336 cd-eq in 2014, and 71,148 cd-eq in 2013. Production in 2015 was up 5% from 2014 and 11% from 2013. Logging and freight costs represent the majority of log production expense. These costs amounted to \$5,997,832 in 2015, \$5,171,085 in 2014, and \$4,838,222 in 2013. Keweenaw continues to provide our reliable loggers, truckers, and subcontractors with competitive pay and logging opportunities.

Timber depletion, a non-cash expense, on Keweenaw lands amounted to \$224,663 in 2015, \$211,905 in 2014, and \$145,018 in 2013. Keweenaw also incurred procured stumpage costs of \$133,214 in 2015, \$210,900 in 2014, and \$12,207 in 2013. In 2015, Keweenaw was able to harvest the remaining volume on a Forest Service contract and five smaller private timber sales with positive returns. Both long and short-term procured stumpage contracts enable Keweenaw to manage its production schedule to better utilize the company's contractors when company-land sustainable harvest limits are reached. Additional volume provided by federal and private contracts help the company maintain its reputation as a reliable supplier, adding to market share and securing additional profit for timber operations. Logging and delivery costs of procured production are comparable to those of our company land but also have the added cost of stumpage (the cost to purchase the standing timber from the seller). Stumpage costs amounted to \$35 per cord in 2015 compared to \$37 in 2014 and \$9 in 2013. Keweenaw continues to bid on federal, state, and local contracts if they are profitable. No new federal or state timber-cutting contracts were added in 2015.

Maintenance and improvement of the company's logging road infrastructure continues to be a major element of Keweenaw's production cost. In 2015, road-building costs were \$507,753, or around 7% of the total cost of sales, down approximately 17% from 2014. This compares to \$612,745 in 2014 and \$436,884 in 2013. The company strives to construct or improve summer logging roads at least a year prior to planned production so that they are able to support logging activity once harvesting begins. Road expenditures are either deferred or written off in the year when actual harvest production occurs. Costs of snow removal and "freeze-in" of roads for winter operations amounted to 30% of total road spending in 2015 and 2014 and 32% in 2013. The amount of snowfall and temperature can cause substantial variance in the cost of winter road preparation from season to season. Road expenditures made in 2014, amounting to \$80,873, were written off in 2015 as harvest production occurred on affected properties. Road spending of \$178,790 in 2015 relating to next year's operations was deferred until 2016.

Per unit of production costs for 2015, 2014, and 2013 are reflected below:

Production Cost Factor (EBITDA)	Cost Per Cord Produced		
	2015	2014	2013
Logging Costs	\$50	\$43	\$40
Freight Costs	26	25	28
Sort Yard Expenses	3	3	3
Logging Road Costs	6	8	6
Procured Stumpage Costs	2	3	2
Inventory Change & Other Costs	0	0	0
Total Costs Per Cord	\$87	\$82	\$79

## Gross Margin

On an EBITDA basis, the gross margin from timber operations in 2015 was \$4,436,999 compared to \$3,710,139 in 2014 and \$2,885,081 in 2013, a 20% increase from 2014 and a 54% increase from 2013.

## Management's Discussion & Analysis of Operations (continued)

On a unit of sales basis, gross margins were:

	Per Cord Equivalent		
	2015	2014	2013
Log Sales	\$143	\$131	\$117
Cost of Sales	87	82	79
Gross Margin	\$56	\$49	\$38

In 2015, Keweenaw recorded a gross margin of \$58 per cd-eq on company land production. On procured production, a gross margin of \$26 per cd-eq was achieved.

### Operations Expenses

In 2015, the company's operating expenses, including interest of \$184,176 and depreciation of \$89,342, amounted to \$2,024,130 compared to \$2,033,079 in 2014 and \$1,767,080 in 2013. These costs on a unit of production basis were \$26 per cd-eq for 2015, \$27 per cd-eq in 2014, and \$25 per cd-eq in 2013. For the years 2015, 2014, and 2013, employee salaries and benefits represented 69%, 70%, and 70% of total operating costs. In 2015, there was no increase in medical insurance costs over 2014. In 2016, our health insurance costs are projected to increase less than 3%. Management continues to review employee health insurance annually for possible cost savings while maintaining a suitable level of coverage. All employee benefit plans are evaluated annually to ensure cost effectiveness for both the company and employee. As a percent of total operations expense, other operating expenses in 2015 included: chairman's fee and professional services 11%, office and equipment costs 9%, travel expense 3%, and other 8%. The company's interest expense increased beginning in late November 2013 after the land acquisition of 4,979 acres, for which the company borrowed \$4.8 million. No interest was incurred on the operating line of credit. For 2014 and 2013, interest expense amounted to \$193,680 and \$50,804 respectively. For 2014 and 2013, the company also recorded depreciation expense of \$86,295 and \$82,126 respectively.

### Other Income

There were two separate Section 1031 like-kind exchanges during the year in which the company purchased/exchanged a total of 130 acres while 67 acres were sold/exchanged. In summary, Keweenaw recognized \$26,000 in gross proceeds and \$25,602 in capital gains. Outside of like-kind exchanges in 2015, the company had three direct land sales totaling 110 acres for \$178,000 in gross sales netting \$157,522 in capital gains. In addition, Keweenaw paid \$85,790 in cash for lands in Houghton County in November 2015. Keweenaw's subsidiary, Keweenaw Properties LLC, sold two developed lots during the year for \$64,500. A gain on the gross margin, representing the value added due to development, of \$3,939 was recognized and reported in the income statement. In addition, \$23,795, the pre-development market value of the property, is reflected in other land sale income. It has been a long-standing company policy to upgrade and consolidate its timberland holdings and simultaneously divest of isolated timberlands and certain other properties having higher and better use for other than timber management.

In 2015, the company completed the expansion of our sort yard in Ironwood at a total cost of \$407,860. As discussed earlier, the primary purpose for the expansion was to provide for a fee a secure location to inventory pulpwood for a new pulpwood customer. It involved clearing and surfacing four acres of land adjacent to our existing log yard complete with a new weight scale and log scale building. For the year, the company generated income of \$100,461 directly relating to the expansion. Current projections have a payback period on the expansion project of approximately four years.

Royalties totaling \$74,989 were received from the sale of gravel from the company's leased pits during 2015. This compares to \$60,727 in 2014 and \$37,759 in 2013. The increase in royalties from gravel in 2015 was attributed to increased commercial construction and highway infrastructure improvements. The amount of royalties the company receives on an annual basis can vary

## Management's Discussion & Analysis of Operations (continued)

substantially and are dependent upon the location of new projects as well as state and federal road infrastructure funding. In 2015, Keweenaw received \$138,432 from surface, commercial, mineral exploration, and recreational camp leases and the sale of easements compared to \$175,019 in 2014 and \$180,961 in 2013. These totals include \$51,910 received in 2015 from Highland Copper Company, Inc, which purchased Orvana Resources U.S. Corp. and assumed the mining lease with Keweenaw Land Association, Limited. Annually increasing lease payments will be received throughout the 20-year agreement or until termination of the lease or mining commences. If Highland engages in mining operations, a variable net smelter royalty agreement will replace lease payments. An exploratory lease with Keweenaw Copper Company yielded \$20,171, which was a reduction of \$19,829 from 2014 due to the surrendering of 3,870 acres from the original mineral lease of 6,928 acres. Other provisions in the 20-year exploration lease remain unchanged.

Dividend and interest income on the company's financial investments totaled \$86,906 in 2015, \$87,842 in 2014, and \$109,076 in 2013. The company's 2015 year-end investment portfolio allocation was 95% equity securities and 5% money market funds.

Total investment income over the three-year period is summarized below:

Source	2015	2014	2013
Dividends	\$86,893	\$87,820	\$109,037
Interest Income	13	22	39
Net Realized Capital Gains (Loss)	(13,983)	0	410,869
Total	\$72,923	\$87,842	\$519,945

The market value of Keweenaw's investment portfolio on December 31, 2015, was \$3,017,050 compared to \$3,087,666 in 2014 and \$3,007,586 in 2013. Unrecognized gains remaining in the portfolio were \$1,861,272 at the end of 2015. Everett Harris and Company of Los Angeles made and implemented investment decisions.

### Other Expenses

Keweenaw recorded other expenses in 2015, including expenditures for land management and board of director activities. Personnel costs of \$45,807 represented 8% of land management expense. Property taxes were \$318,240, or 54% of the total. Professional services of \$165,035, or 28%, were expensed related to consulting fees directed toward land and capital-raising opportunities. Other residual expenses including administrative/insurance costs amounted to \$63,668, or 11%. Total land management expense, excluding depreciation, was \$592,750 compared to \$397,779 and \$473,451 in 2014 and 2013 respectively. Board-of-director expenses amounted to \$307,947 in 2015, \$276,362 in 2014, and \$304,050 in 2013. Expenditures connected with board election contests and other proxy related matters were \$18,660 in 2015 and \$22,226 and \$58,170 in 2014 and 2013 respectively. The remaining \$289,286 of board costs in 2015 were composed of directors' fees 76%; travel expense and insurance costs represent the remaining 24%.

### Net Income

Keweenaw Land Association, Limited net income for 2015 was \$1,155,839 compared to net income of \$855,860 in 2014 and \$706,142 in 2013. Net income per share was \$0.89, \$0.66, and \$0.55 in 2015, 2014, and 2013, respectively. Weighted average common shares outstanding were 1,297,222 shares in 2015, 1,295,549 shares in 2014, and 1,294,136 shares in 2013. No dividends were paid to shareholders in 2015, 2014, and 2013.

### Capital Resources and Liquidity - 2015

Keweenaw's cash flow from operations was a positive \$1,009,553 in 2015, a positive \$874,366 in 2014, and a negative \$25,615 in 2013. The positive cash flow from operating activities is a direct

## Management's Discussion & Analysis of Operations (continued)

---

result of better log pricing and an increase in production over 2014. Timber operations income, restated in an EBITDA format, was \$2,686,387 in 2015 compared to \$1,957,035 in 2014 and \$1,250,930 in 2013. Increased sales realization, higher margins, and increased production accounted for the majority of the favorable cash flows provided by operating activities.

In 2015, Keweenaw made land purchases of \$85,790 compared to \$447,620 in 2014 and \$5,778,269 in 2013. During the year, Keweenaw received \$193,643 from land sale transactions including like-kind exchanges. None of the properties sold were an integral part of the company's forestry program. Two developed lots were sold in 2015 for \$64,500 compared to two lots sold in 2014 for \$56,000 and no lots sold in 2013. Interest in developed lots continues to be low. The real estate market across the Upper Peninsula of Michigan has been uncertain since the market downturn in 2008. In 2015, Keweenaw purchased securities of \$101,715 and had proceeds from the sale of securities of \$36,575. At year end, the company's investment portfolio held equity securities valued at \$2,865,849 and money market funds amounting to \$151,201. Capital expenditures totaled \$354,884 in 2015 for the replacement of equipment, sort yard expansion improvements, and capitalized logging roads. In 2015, no dividends were paid to shareholders. Keweenaw issued shares to the board of directors and employees with a cost amounting to \$160,921. On December 31, 2015, Keweenaw had \$2,726,468 in cash and cash equivalents on hand compared to \$2,050,496 at the end of 2014 and \$1,666,840 at the end of 2013.

The company has three credit arrangements at Wells Fargo Bank Michigan N.A.: 1) a \$2,500,000 operating line of credit available to satisfy short-term operating cash needs, 2) a \$900,000 line of credit available to fund standby letters of credit in guarantee of performance on public bid timber stumpage contracts from the USDA Forest Service, and 3) a ten-year fixed-rate loan in the amount of \$4,800,000, with a principal balance of \$4,320,000 on December 31, 2015.

Keweenaw did not borrow on its short-term line of credit in 2015, 2014, or 2013. At the end of 2015, there was no outstanding balance on its short-term line of credit. If necessary, short-term borrowing and repayment would occur using the automatic balance transfer feature of Keweenaw's primary business checking account and its operating line of credit. On Keweenaw's \$900,000 line of credit, three letters of credit totaling \$515,000 were outstanding at the end of 2015, though no balance was owed on any of the letters. The company borrowed \$4,800,000 in November 2013 to help finance a 4,979 acre land purchase. Terms of the loan are annual principal payments of \$240,000 and quarterly interest payments at 4.00% including a balloon payment in year ten of \$2,666,987. In 2015, a total of \$184,176 in interest was paid on the loan. See Note I of the Notes to the Consolidated Financial Statements for an expanded discussion of the company's available credit facilities.





## INDEPENDENT AUDITOR'S REPORT

### Board of Directors

### Keweenaw Land Association, Limited and Subsidiaries

We have audited the accompanying consolidated financial statements of Keweenaw Land Association, Limited (a Michigan Corporation) and subsidiaries, which comprise the consolidated statements of assets, liabilities, and capital as of December 31, 2015, 2014 and 2013, and the related consolidated statements of income and expenses, capital, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements referred to the above present fairly, in all material respects, the financial position of Keweenaw Land Association, Limited and subsidiaries, as of December 31, 2015, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Anderson, Tackman & Company, PLLC*

Certified Public Accountants  
Marquette, Michigan

February 17, 2016

# KEWEENAW LAND ASSOCIATION, LIMITED

## Statement of Consolidated Income and Expenses

		Year Ended December 31		
		2015	2014	2013
<b>Timber Operations Income</b>	Timber Sales	<b>\$11,283,793</b>	\$9,881,889	\$8,345,020
	Cost of Sales	<b>7,092,616</b>	6,405,530	5,628,124
	Gross Margin on Timber Sales	<b>4,191,177</b>	3,476,359	2,716,896
	Operations Expenses	<b>2,024,130</b>	2,033,079	1,767,080
	<b>Timber Operations Income</b>	<b>2,167,047</b>	1,443,280	949,816
<b>Real Estate Development</b>	Developed Lot Sales	<b>64,500</b>	56,000	0
	Development Costs	<b>60,561</b>	50,437	0
	Gross Margin on Developed Lot Sales	<b>3,939</b>	5,563	0
	<b>Total Operations Income</b>	<b>2,170,986</b>	1,448,843	949,816
<b>Other Income</b>	Mineral Royalties	<b>74,989</b>	60,727	37,759
	Leases & Rentals	<b>138,431</b>	175,019	180,961
	Investment Earnings	<b>86,906</b>	87,842	109,076
	Profit (Loss) on Security Sales	<b>(13,983)</b>	0	410,869
	Land Sales	<b>206,919</b>	267,520	201,107
	Other	<b>109,041</b>	25,230	25,228
	<b>Total Other Income</b>	<b>602,303</b>	616,338	965,000
<b>Other Expenses</b>	Land Management Expenses	<b>597,276</b>	400,054	480,665
	Board of Directors' Expenses	<b>307,947</b>	276,362	304,050
	<b>Total Other Expenses</b>	<b>905,223</b>	676,416	784,715
	Income Before State and Federal Income Taxes	<b>1,868,066</b>	1,388,765	1,130,101
	Provision for State and Federal Income Taxes	<b>712,227</b>	532,905	423,959
	<b>Net Income</b>	<b>\$1,155,839</b>	\$855,860	\$706,142
<b>Other Comprehensive Income</b>	Unrealized Gains (Losses) on Securities, Net of Taxes:			
	Unrealized Holding Gains (Losses) Arising During the Year	<b>(\$46,615)</b>	\$52,862	\$148,558
	Less: Reclassification Adjustment for Gains (Losses) in Net Income	<b>9,228</b>	0	(271,173)
	<b>Other Comprehensive Income</b>	<b>(37,387)</b>	52,862	(122,615)
	<b>Total Comprehensive Income</b>	<b>\$1,118,452</b>	\$908,722	\$583,527
<b>Per Share</b>	<b>Net Income Per Share*</b>	<b>\$0.89</b>	\$0.66	\$0.55
	<b>Total Comprehensive Income Per Share</b>	<b>\$0.86</b>	\$0.70	\$0.45

\*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		
		2015	2014	2013
<i>Assets</i>	<b>CURRENT ASSETS</b>			
	Cash & Cash Equivalents	<b>\$2,726,468</b>	\$2,050,496	\$1,666,840
	Receivables, Net of Allowance for Doubtful Accounts of \$7,435 in 2015, of \$7,807 in 2014, and of \$6,799 in 2013	<b>424,746</b>	492,227	448,758
	Inventory	<b>29,636</b>	54,468	51,873
	Prepaid Expenses	<b>432,377</b>	295,223	332,291
	<b>Total Current Assets</b>	<b>3,613,227</b>	2,892,414	2,499,762
	<b>INVESTMENTS IN MARKETABLE SECURITIES</b>	<b>2,865,849</b>	2,871,338	2,791,244
	<b>PROPERTIES</b>			
	Mineral, Timber, and Land, Net of Accumulated Depletion of \$5,567,872 in 2015, \$5,320,860 in 2014, and \$5,085,856 in 2013	<b>8,741,140</b>	8,905,676	8,868,025
	Land	<b>8,488,135</b>	8,489,859	8,335,461
	<b>EQUIPMENT</b>			
	Equipment, at Cost, Net of Accumulated Depreciation of \$1,279,679 in 2015, \$1,228,575 in 2014, and \$1,255,693 in 2013	<b>909,997</b>	679,340	547,432
	<b>OTHER NON-CURRENT ASSETS</b>	<b>450,821</b>	304,688	308,555
	<b>TOTAL ASSETS</b>	<b>\$25,069,169</b>	\$24,143,315	\$23,350,479
	<i>Liabilities &amp; Capital</i>	<b>CURRENT LIABILITIES</b>		
Accounts & Deposits Payable		<b>\$28,854</b>	\$90,581	\$182,053
Commercial Line of Credit		<b>0</b>	0	0
Current Portion of Long Term Debt		<b>240,000</b>	240,000	240,000
Accrued Liabilities		<b>560,511</b>	580,513	534,732
<b>Total Current Liabilities</b>		<b>829,365</b>	911,094	956,785
<b>LONG TERM LIABILITIES</b>				
Long Term Debt		<b>4,080,000</b>	4,320,000	4,560,000
Deferred Federal and State Income Tax Liability		<b>830,711</b>	862,502	811,345
<b>Total Liabilities</b>		<b>5,740,076</b>	6,093,596	6,328,130
<b>CAPITAL</b>				
Common Stock: 10,000,000 Shares Authorized, 1,297,398 Shares of No Par Value Issued		<b>84,839</b>	84,730	84,639
Accumulated Other Comprehensive Income, Net of Taxes		<b>1,228,440</b>	1,265,826	1,212,964
Retained Earnings		<b>18,015,814</b>	16,699,163	15,724,746
<b>Total Capital</b>		<b>19,329,093</b>	18,049,719	17,022,349
<b>TOTAL LIABILITIES &amp; CAPITAL</b>	<b>\$25,069,169</b>	\$24,143,315	\$23,350,479	

See Notes to Consolidated Financial Statements

**KEWEENAW LAND ASSOCIATION, LIMITED**  
**Statement of Consolidated Capital**

	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Common Stock Issued</b>	<b>Total Capital</b>
December 31, 2012, Balance	\$14,906,007	\$1,335,579	\$84,543	\$16,326,129
Changes during 2013:				
Comprehensive Income:				
Net Income	706,142			706,142
Other Comprehensive Income:				
Unrealized Gains (Losses) on Securities, Net of Tax, Arising During the Year, Net of Reclassification Adjustment to Net Income		(122,615)		(122,615)
Impact of Shares Issued to Directors & Officers	112,597		96	112,693
December 31, 2013, Balance	\$15,724,746	\$1,212,964	\$84,639	\$17,022,349
Changes during 2014:				
Comprehensive Income:				
Net Income	855,860			855,860
Other Comprehensive Income:				
Unrealized Gains (Losses) on Securities, Net of Tax, Arising During the Year, Net of Reclassification Adjustment to Net Income		52,862		52,862
Impact of Shares Issued to Directors & Officers	118,557		91	118,648
December 31, 2014, Balance	\$16,699,163	\$1,265,826	\$84,730	\$18,049,719
Changes during 2015:				
Comprehensive Income:				
Net Income	1,155,839			1,155,839
Other Comprehensive Income:				
Unrealized Gains (Losses) on Securities, Net of Tax, Arising During the Year, Net of Reclassification Adjustment to Net Income		(37,386)		(37,386)
Impact of Shares Issued to Directors & Officers	160,811		109	160,920
December 31, 2015, Balance	\$18,015,813	\$1,228,440	\$84,839	\$19,329,092

**See Notes to Consolidated Financial Statements**

# KEWEENAW LAND ASSOCIATION, LIMITED

## Consolidated Statement of Cash Flows

		Year Ended December 31		
		2015	2014	2013
<i><b>Cash Flows Provided by Operating Activities</b></i>	<b>Net Income</b>	<b>\$1,155,839</b>	\$855,860	\$706,142
	<b>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:</b>			
	Depletion and Depreciation	<b>335,824</b>	322,351	257,526
	Changes in Operating Assets and Liabilities:			
	Decrease (Increase) in Accounts Receivable	<b>67,482</b>	(43,470)	(234,915)
	Decrease (Increase) in Prepaid Expenses	<b>(283,289)</b>	37,068	(152,640)
	Decrease (Increase) in Inventory	<b>24,832</b>	(2,594)	6,422
	Increase (Decrease) in Deposits and Accounts Payable	<b>(61,727)</b>	(91,473)	74,089
	Increase (Decrease) in Deferred Income Taxes Payable	<b>(53,240)</b>	23,924	12,713
	Increase (Decrease) in Accrued Liabilities	<b>20,707</b>	45,782	(76,076)
	(Gain) Loss on Sale of Securities	<b>13,983</b>	0	(410,869)
	(Gain) Loss on Sale/Retirement of Equipment	<b>0</b>	0	(6,900)
	(Gain) Loss on Sale of Land	<b>(210,858)</b>	(273,082)	(201,107)
	<b>Net Cash Flows Provided by Operating Activities</b>	<b>1,009,553</b>	874,366	(25,615)
<i><b>Cash Flows Provided by (Used for) Investing Activities</b></i>	Net Purchases of Property and Equipment	<b>(319,476)</b>	(215,428)	(139,915)
	Purchases of Securities	<b>(101,715)</b>	0	(262,887)
	Proceeds from Sale of Securities	<b>36,575</b>	0	1,648,521
	Road Construction	<b>(35,408)</b>	(13,161)	(25,069)
	Purchases of Land	<b>(85,790)</b>	(447,620)	(5,778,269)
	Proceeds from Land Sales	<b>193,643</b>	256,186	204,463
	Lot Development	<b>57,668</b>	50,665	0
	<b>Net Cash Flows Provided by (Used for) Investing Activities</b>	<b>(254,503)</b>	(369,358)	(4,353,156)
<i><b>Cash Flows Provided by (Used for) Financing Activities</b></i>	Issuance (Purchase) of Stock	<b>160,921</b>	118,648	112,693
	Commercial Installment Loan Borrowing	<b>0</b>	0	4,800,000
	Commercial Installment Loan Payments	<b>(240,000)</b>	(240,000)	(766,483)
	<b>Net Cash Flows Provided by (Used for) Financing Activities</b>	<b>(79,079)</b>	(121,352)	4,146,210
	<b>NET CASH FLOW</b>	<b>675,972</b>	383,656	(232,562)
	Beginning Cash and Cash Equivalents	<b>2,050,496</b>	1,666,840	1,899,402
	<b>ENDING CASH AND CASH EQUIVALENTS</b>	<b>\$2,726,468</b>	\$2,050,496	\$1,666,840
<i><b>Supplementary Cash Flow Information</b></i>	Interest Paid	<b>(\$184,176)</b>	(\$194,667)	(\$30,004)
	Federal and State Income Taxes Paid	<b>(\$824,288)</b>	(\$512,385)	(\$522,153)

See Notes to Consolidated Financial Statements

# Notes to the Consolidated Financial Statements – December 31, 2015

---

## **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. For the three years reported, 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 basis of assets and liabilities.

**Fair Value Measurements:** Management has reported all significant financial and non-financial assets and liabilities at their fair value in Footnote G to the financial statements. With the exception of financial investments, which are carried at fair value in the balance sheet, all other assets and liabilities are represented in the balance sheet at historical cost.

**Subsequent Events:** The company has evaluated events and transactions through February 17, 2016, the date these financial statements were issued, for items that should potentially be recognized or disclosed.

## Notes to the Consolidated Financial Statements – December 31, 2015 (continued)

### 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, 2015:

	Cost	Unrealized Holding Gains	Fair Value
Non Current Investments:			
Equity Securities	\$1,004,576	\$1,861,272	\$2,865,848
Current Investments:			
Government Obligations	0	0	0
Investments Available for Sale	<u>\$1,004,576</u>	<u>\$1,861,272</u>	<u>\$2,865,848</u>

Realized gains and losses are determined on the basis of the specific identification method. During 2015, 2014, and 2013, sales proceeds and gross realized gains and losses on securities available for sale were:

	2015	2014	2013
Sale Proceeds	<u>\$36,824</u>	<u>\$0</u>	<u>\$1,648,521</u>
Gross Realized Gains	<u>\$0</u>	<u>\$0</u>	<u>\$422,504</u>
Gross Realized Losses	<u>(\$13,983)</u>	<u>\$0</u>	<u>(\$11,635)</u>

Realized gains and losses reflected in net income appear in the company's Statement of Consolidated Income and Expenses under the heading "Profit (Loss) on Security Sales."

At December 31, 2015, 2014, and 2013, shareholders' equity, as reflected in the company's Statement of Consolidated Assets, Liabilities, and Capital, include an accumulated unrealized gain, net of taxes, on securities classified as available for sale in the amounts of \$1,228,440, \$1,265,826, and \$1,212,964 respectively.

The following is a summary of investment securities classified as available for sale as of December 31, 2014:

	Cost	Unrealized Holding Gains	Fair Value
Non Current Investments:			
Equity Securities	\$953,419	\$1,917,919	\$2,871,338
Current Investments:			
Government Obligations	0	0	0
Investments Available for Sale	<u>\$953,419</u>	<u>\$1,917,919</u>	<u>\$2,871,338</u>

The following is a summary of investment securities classified as available for sale as of December 31, 2013:

	Cost	Unrealized Holding Gains	Fair Value
Non Current Investments:			
Equity Securities	\$953,419	\$1,837,825	\$2,791,244
Current Investments:			
Government Obligations	0	0	0
Investments Available for Sale	<u>\$953,419</u>	<u>\$1,837,825</u>	<u>\$2,791,244</u>



# Notes to the Consolidated Financial Statements – December 31, 2015 (continued)

## Note C: Comprehensive Income

Comprehensive income is a more inclusive financial reporting methodology that includes disclosures of certain financial information that historically have not been recognized in the calculation of net income.

For the year 2015, Keweenaw held securities classified as available for sale, which incurred unrealized losses of \$56,647 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)	(\$70,629)	\$24,014	(\$46,615)
Reclassification for Gains (Losses) in Net Income	13,982	(4,754)	9,228
Net Change in Unrealized Holding Gains (Losses)	<u>(\$56,647)</u>	<u>\$19,260</u>	<u>(\$37,387)</u>

For the year 2014, Keweenaw held securities classified as available for sale, which incurred unrealized gains of \$80,094 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)	\$80,094	(\$27,232)	\$52,862
Reclassification for Gains (Losses) in Net Income	0	0	0
Net Change in Unrealized Holding Gains (Losses)	<u>\$80,094</u>	<u>(\$27,232)</u>	<u>\$52,862</u>

For the year 2013, Keweenaw held securities classified as available for sale, which incurred unrealized losses of \$185,780 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)	\$225,089	(\$76,530)	\$148,559
Reclassification for Gains (Losses) in Net Income	(410,869)	139,695	(271,174)
Net Change in Unrealized Holding Gains (Losses)	<u>(\$185,780)</u>	<u>\$63,165</u>	<u>(\$122,615)</u>

## Note D: Properties

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

	2015	2014	2013
Land	\$8,064,623	\$8,036,282	\$7,858,359
Timber and Mineral Holdings	13,509,287	13,462,219	13,202,725
Accumulated Costs of Lot Development	423,512	453,577	477,102
Permanent Logging Roads	799,725	764,317	751,156
Properties at Cost	<u>22,797,147</u>	<u>22,716,395</u>	<u>22,289,342</u>
Less: Accumulated Timber Depletion	5,196,198	4,971,528	4,759,583
Less: Accumulated Road Depreciation	371,674	349,332	326,273
Net Carrying Value	<u>\$17,229,275</u>	<u>\$17,395,535</u>	<u>\$17,203,486</u>

## Notes to the Consolidated Financial Statements – December 31, 2015 (continued)

On December 31, 2015, Keweenaw owned 167,755 surface acres, primarily timberlands, and 401,740 acres of sub-surface mineral rights. In 2015, the company had \$224,663 in depletion expense compared to \$211,905 in 2014 and \$145,018 in 2013.

### Note E: Equipment

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

	2015	2014	2013
Buildings	\$396,982	\$396,982	\$388,968
Furniture, Equipment, and Accessories	681,180	680,378	689,385
Machinery and Vehicles	409,101	423,688	423,867
Land Improvements	702,414	406,867	300,905
Equipment at Cost	2,189,677	1,907,915	1,803,125
Less: Accumulated Depreciation	(1,279,679)	(1,228,575)	(1,255,693)
Equipment, Net of Depreciation	\$909,998	\$679,340	\$547,432

The company charged depreciation expense to operations in the amounts of \$88,819, \$83,520, and \$84,290, for 2015, 2014, and 2013, respectively.

### Note F: Income Taxes

Keweenaw recorded year-end federal and state tax liabilities (assets), according to the following table for December 31, 2015, 2014, and 2013:

	2015	2014	2013
<b><u>Federal:</u></b>			
Current Provision for Federal Income Tax	\$597,789	\$415,378	\$336,046
Adjustment to Current Liability	(6,535)	537	(1,665)
Current Federal Tax Deposits Net of Refund	(643,572)	(382,973)	(299,639)
Prior Year Federal Tax Over-Deposit	0	0	0
Federal Income Tax Liability (Assets)	(\$52,318)	\$32,942	\$34,742
	2015	2014	2013
<b><u>State (Michigan and Wisconsin):</u></b>			
Provision for State Income Tax	\$126,970	\$93,601	\$75,190
Adjustment to Current Liability	(548)	(530)	803
Current Year State Tax Deposits	(108,327)	(63,625)	(54,948)
Prior Year State Tax Over-Deposit	0	0	0
State Tax Liability (Assets)	\$18,095	\$29,446	\$21,045

## Notes to the Consolidated Financial Statements – December 31, 2015 (continued)

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

	2015		2014		2013	
	Tax	% of Taxable Income	Tax	% of Taxable Income	Tax	% of Taxable Income
<b>Federal Income Taxes:</b>						
Tax Provision Computed At Statutory Rate	\$635,142	34.0%	\$472,180	34.0%	\$384,234	34.0%
Impact of IRC Section 631A Election	0	0.0%	0	0.0%	0	0.0%
Impact of IRC Graduated Statutory Rates	0	0.0%	0	0.0%	0	0.0%
Tax vs. Book Income Timing Differences	(43,888)	-2.3%	(56,267)	-4.0%	(49,863)	-4.4%
Foreign Taxes Paid	9,057	0.5%	9,638	0.7%	9,757	0.9%
Change in Prior Year Tax Estimate	(2,523)	-0.2%	(10,173)	-0.7%	(8,082)	-0.7%
Total Current Federal Tax Provision	597,789	32.0%	415,378	30.0%	336,046	29.8%
Deferred Federal Taxes Exclusive of Net						
Unrealized Gain/Loss on Investments	(7,506)	-0.4%	15,839	1.1%	20,698	1.8%
Total Provision for Federal Income Tax	590,283	31.6%	431,218	31.1%	356,744	31.6%
<b>State Income Tax-Michigan and Wisconsin:</b>						
Tax Provision Computed At Statutory Rate	135,294	7.2%	104,241	7.5%	85,952	7.6%
Tax vs. Book Income Timing Differences	(7,776)	-0.4%	(11,170)	-0.8%	(9,958)	-0.9%
State Surtax	0	0.0%	0	0.0%	0	0.0%
State Tax Credits	0	0.0%	0	0.0%	0	0.0%
Change in Prior Year Tax Estimate	(548)	0.0%	530	0.0%	(804)	-0.1%
Total State Current Tax Provision	126,970	6.8%	93,601	6.7%	75,190	6.7%
Deferred State Taxes Exclusive of Net						
Unrealized Gain/Loss on Investments	(5,025)	-0.3%	8,086	0.6%	(7,975)	-0.7%
Total Provision for State Income Tax	121,945	6.5%	101,687	7.3%	67,215	5.9%
Provision for Taxes	\$712,227	38.1%	\$532,905	38.4%	\$423,959	37.5%

Deferred tax liabilities and assets are determined based on the differences 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:

	2015	2014	2013
<b>Current:</b>			
Unrealized Gains (Losses) on Investments	\$0	\$0	\$0
Total Current	0	0	0
<b>Non Current:</b>			
Equipment Depreciation	102,672	113,893	95,064
Logging Roads Depreciation	6,323	6,540	6,781
Unrealized Gains (Losses) on Investments	632,833	652,093	624,860
Offset for State Deferred Tax Liability	(44,643)	(46,352)	(43,602)
Other Misc Deferred Liabilities	2,223	0	0
Total Non Current	699,408	726,174	683,103
Total Federal Deferred Tax Liability	\$699,408	\$726,174	\$683,103

## Notes to the Consolidated Financial Statements – December 31, 2015 (continued)

The significant components of the State Deferred Tax Liability as of December 31 are as follows:

Non Current:	2015	2014	2013
Equipment Depreciation	\$18,119	\$20,099	\$16,776
Logging Road Depreciation	1,116	1,154	1,197
Unrealized Gains (Losses) on Investments	111,676	115,075	110,269
Other Misc Deferred Liabilities	392	0	0
Total State Deferred Tax Liability	<u>\$131,303</u>	<u>\$136,328</u>	<u>\$128,242</u>

There are no material uncertain tax positions requiring recognition in the company's consolidated financial statements. Keweenaw Land Association, Limited and its subsidiaries are subject to United States Federal Income Tax and Michigan and Wisconsin Corporate Income Tax. The company is no longer subject to examination by taxing authorities for years before 2013.

### Note G: Fair Value of Assets and Liabilities

Under FASB Accounting Standards Codification ASC 820, the company has complied with the fair value reporting of non-financial assets and liabilities. An independent appraisal, dated December 31, 2015, listed the fair market value of Keweenaw's land and timber at \$151,000,000. Fair value measurements of the other assets and liabilities as of December 31, 2015, 2014, and 2013 are as follows:

	2015	2014	2013
Land and Timber	\$151,000,000	\$145,667,540	\$145,067,232
Mineral Rights	5,336,045	6,837,771	7,638,727
Available for Sale Investment Securities	2,865,849	2,871,338	2,791,244
Other Assets and Liabilities – Net	3,553,968	2,342,846	1,827,619
Long-term Debt	4,320,000	4,560,000	4,800,000

The following table presents the company's fair value hierarchy for the below assets and liabilities measured at fair value on a recurring basis as of December 31, 2015:

	Quoted Market Prices in Active Markets (Level I)	Other Observable Inputs (Level II)	Un- Observable Inputs (Level III)
Land and Timber		\$151,000,000	
Mineral Rights			\$5,336,045
Available for Sale Investment Securities	\$2,865,849		
Other Assets and Liabilities – Net			3,553,968
Long-term Debt		4,320,000	

The following table presents the company's fair value hierarchy for the below assets and liabilities measured at fair value on a recurring basis as of December 31, 2014:

	Quoted Market Prices in Active Markets (Level I)	Other Observable Inputs (Level II)	Un- Observable Inputs (Level III)
Land and Timber		\$145,667,540	
Mineral Rights			\$6,837,771
Available for Sale Investment Securities	\$2,871,338		
Other Assets and Liabilities – Net			2,342,846
Long-term Debt		4,560,000	

## Notes to the Consolidated Financial Statements – December 31, 2015 (continued)

The following table presents the company's fair value hierarchy for the below assets and liabilities measured at fair value on a recurring basis as of December 31, 2013:

	Quoted Market Prices in Active Markets (Level I)	Other Observable Inputs (Level II)	Un- Observable Inputs (Level III)
Land and Timber		\$145,067,232	
Mineral Rights			\$7,638,727
Available for Sale Investment Securities	\$2,791,244		
Other Assets and Liabilities – Net			1,827,619
Long-term Debt		4,800,000	

The following table presents the company's assets measured at fair value on a recurring basis using significant unobservable inputs:

	Land & Timber (Level II)	Other Assets/Liabilities (Level III)	Minerals (Level III)
December 31, 2014, Balance	\$145,667,540	\$2,342,846	\$6,837,771
Purchases/Sales - Net Appraisal Valuation	103,803		
Change in Discount Rate Assumptions			(1,501,726)
Net Change in Cost Basis	-	1,211,122	
Changes in Appraised Valuation	5,228,657		
December 31, 2015, Balance	\$151,000,00	\$3,553,968	\$5,336,045

There are three general valuation techniques that may be used to measure fair value as described below:

- A) Market approach—uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources;
- B) Cost approach—based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and
- C) Income approach—uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate interest rate.

Financial assets and liabilities valued using Level I inputs are based on unadjusted quoted market prices within active markets. Other non-financial assets and liabilities valued using Level II inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. The Level II land and timber valuation is based on an independent, third-party tri-annual appraisal of all of the land and timber within the company. Considered in the valuation were current timber stumpage values (cost approach), comparable land sale transactions (market approach), and a discounted cash flow model (income approach). The overriding valuation ultimately was derived from a market approach of comparable transactions. For long-term debt, also Level II, the fair value was based on the interest rate being marked to market on a monthly basis, thereby representing present value.

Non-financial assets or liabilities using Level III inputs were primarily valued using management's assumptions that market participants would utilize in pricing the asset or liability. The mineral rights valuation used an income approach comprised of a series of mineral royalty income streams on mineral reserves on which there is current interest for mineral development

# Notes to the Consolidated Financial Statements – December 31, 2015 (continued)

and those on which there is recent mining history. Discount rates used are comprised of the current market interest rate and an appropriate rate for inherent risk and uncertainty and range from 25% to 75%. Risk factors considered included, but not limited to the following at this time, are: 1) the reliability of historical mineral core drilling samples; 2) the wide fluctuations in refined base metal prices; 3) the uncertainty of production, smelting, and refining costs; 4) the lack of regional smelting capability; 5) the untested character of Michigan’s non-ferrous mining law; 6) potential for legislative changes; and 7) the potential for environmental risks. Other Level III non-financial assets are valued at their historical costs.

Back in 2010, management adopted FASB Accounting Standards Codification 820 “Fair Value Measurements and Disclosures” (ASC 820). FASB’s Accounting Standards Update No. 2010-6 disclosed changes to ASC 820 concerning “Fair Value Measurements and Disclosures.” The impact of that change requires the disclosure of transfers in and out of Level I and Level II fair value measurements. Further, Level III fair value measurements must disclose components of the valuation, not just the net value.

## Note H: Retirement Plans

For the three years reported, 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 2015, 2014, and 2013, the company made discretionary contributions to the plan in the amount of 5% of base salaries. Pension expense was as follows:

	2015	2014	2013
401(k) Profit Sharing Plan			
Matching Contributions	\$35,919	\$34,881	\$31,436
Discretionary Contributions	43,351	43,750	39,984
Other Pension Costs	1,250	1,250	1,250
Total Pension Expense	<u>\$80,520</u>	<u>\$79,881</u>	<u>\$72,670</u>

## Note I: Short and Long Term Bank Credit Facilities

Keweenaw Land Association, Limited maintains its banking relationships with Wells Fargo Bank, N.A. Wells Fargo Bank extended the following credit facilities to the company in 2015:

1. An unsecured line of credit in the amount of \$2,500,000 to be used as an operating line of credit at a variable interest rate equal to the Wells Fargo Bank prime rate plus 0.25% for a one-year commitment and interest to be paid monthly. Fees of \$150 were charged in 2015.
2. An unsecured line of credit of \$900,000 for the purpose of standby letter of credit availability, at a variable interest rate equal to the Wells Fargo Bank prime rate plus 0.25% for a one-year commitment and the payment of interest monthly. A total of \$150 in fees were charged in 2015.
3. A ten-year fixed-rate loan at 4.00% per annum, (20-year amortization), initial principal balance of \$4,800,000, dated November 22, 2013, was used by Keweenaw in 2015. Quarterly interest payments were due on February 22<sup>nd</sup>, May 22<sup>nd</sup>, August 22<sup>nd</sup>, and November 22<sup>nd</sup>, and will continue every year through year ten. Annual principal payments of \$240,000 are due beginning November 22, 2014, through year nine. One final payment of \$2,666,987 is due on November 22, 2023.

# Notes to the Consolidated Financial Statements – December 31, 2015 (continued)

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; and
4. To maintain a debt service ratio of 1.25 to 1.00:

There were no violations to the above listed covenants in 2015. Terms of the notes require repayment in full on the maturity dates, and the bank is under no obligation to refinance the lines of credit or existing loans on those dates.

In 2015, Keweenaw utilized the \$2,500,000 operating line of credit, a \$900,000 standby letter of credit line, and a ten-year fixed rate term loan. During the year, the operating line of credit was not used and the balance at the end of 2015 was \$0. A ten-year fixed-rate loan at 4.00% per annum, (20-year amortization), principal balance of \$4,800,000, dated November 22, 2013, had a balance of \$4,320,000 at the end of 2015. On December 31, 2015, three standby letters of credit were outstanding totaling \$515,000. Two of the standby letters of credit amounting to \$15,000 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 third 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, 2015.

The total cash held by the company on December 31, 2015 and 2014, includes \$2,726,468 and \$2,050,496 respectively in monies that are not covered by insurance provided by the federal government. It is the opinion of management that the solvency of the above referenced financial institution is not of particular concern at this time.

The following table summarizes the long-term debt of the company:

	2015	2014	2013
Long-term Debt	\$4,080,000	\$4,320,000	\$4,560,000
Plus: Current Portion	240,000	240,000	240,000
Total – Long-term Debt	<u>\$4,320,000</u>	<u>\$4,560,000</u>	<u>\$4,800,000</u>

The maturities on the ten-year fixed-rate term loan dated November 22, 2013, are as follows:

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
\$240,000	\$240,000	\$240,000	\$240,000	\$240,000	\$240,000	\$240,000	\$240,000	\$240,000	\$2,666,987

Total interest paid/accrued on loans and lines of credit in 2015, 2014, and 2013 was \$184,176, \$193,680, and \$50,804, respectively. The interest expense is reflected in the operations expense line on the Statement of Consolidated Income and Expenses. Balances on the operating line of credit at the end of 2015, 2014, and 2013 were \$0, \$0, and \$0 respectively. The December 31, 2015, balance on the ten-year fixed-rate term loan was \$4,320,000. The interest rate on that date was 4.00%.

## Note J: Concentrations of Credit Risk

Keweenaw is located in Ironwood, Michigan. The company grants credit without collateral to its approved customers, most of whom are located in Wisconsin and Upper Michigan. The company has not experienced any significant losses from uncollectible customer accounts. During fiscal 2015, three customers accounted for approximately 26%, 15%, and 10% of the company's consolidated net sales. No other customer accounted for 10% or more of the company's consolidated net sales.



## Notes to the Consolidated Financial Statements – December 31, 2015 (continued)

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	29%	38%	81%	62%
Lower Michigan	13%	0%	0%	0%
Northern Wisconsin	51%	62%	19%	6%
Central Wisconsin	5%	0%	0%	27%
Minnesota	0%	0%	0%	5%
Export	0%	0%	0%	0%
Other	2%	0%	0%	0%
Total	100%	100%	100%	100%
Number of Customers by Product	13	8	9	10
Percent of Gross Sales by Product	10%	17%	18%	55%
Percent of Volume by Product	3%	9%	18%	70%

### Note K: Keweenaw 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 unissued shares. Accordingly, the balance sheet capital accounts were restated back to the date of incorporation, July 16, 1999. The revised cost basis for Keweenaw'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

Restated for 2/15/11 Stock Split	
Common Stock	\$40,000.00
Capital Surplus	64,627.10
Subtotal	\$104,627.10
Shares Issued	1,600,000
Restated Cost Per Common Share	\$0.065392

Common stock issued and outstanding on December 31 of 2015, 2014, and 2013, respectively, are presented in the following table:

	2015	2014	2013
Shares Outstanding	1,297,398	1,295,726	1,294,333
Restated Cost Per Common Share	\$0.065392	\$0.065392	\$0.065392
Recorded Common Stock	\$84,839	\$84,730	\$84,639

### Note L: 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, which are continuously maintained for an indefinite period. Secondary

## Notes to the Consolidated Financial Statements – December 31, 2015 (continued)

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:

	<u>Capitalized</u>	<u>Prepaid Expense</u>	<u>Expense in Cost of Sales</u>	<u>Expense in Admin. Costs</u>
12/31/12 Balance	\$424,165	\$105,736		
<b>2013 Expenditures:</b>				
On Primary Roads	25,069			
On Secondary Roads			474,039	
Secondary Road Expenditures				
Deferred to 2014		135,899	(135,899)	
Prior Year Deferrals Written Off		(75,576)	75,576	
Primary Road Costs Retired				
Depreciation	(24,351)		23,168	1,183
12/31/13 Balance	<u>\$424,883</u>	<u>\$166,059</u>	<u>\$436,884</u>	<u>\$1,183</u>
<b>2014 Expenditures:</b>				
On Primary Roads	13,162			
On Secondary Roads			591,728	
Secondary Road Expenditures				
Deferred to 2015		104,643	(104,643)	
Prior Year Deferrals Written Off		(103,784)	103,784	
Primary Road Costs Retired				
Depreciation	(23,059)		21,876	1,183
12/31/14 Balance	<u>\$414,986</u>	<u>\$166,918</u>	<u>\$612,745</u>	<u>\$1,183</u>
<b>2015 Expenditures:</b>				
On Primary Roads	35,407			
On Secondary Roads			584,512	
Secondary Road Expenditures				
Deferred to 2016		178,791	(178,791)	
Prior Year Deferrals Written Off		(80,873)	80,873	
Primary Road Costs Retired				
Depreciation	(22,342)		21,159	1,183
12/31/15 Balance	<u>\$428,051</u>	<u>\$264,836</u>	<u>\$507,753</u>	<u>\$1,183</u>

### Note M: Timber Investment Fund

Since August 2010, a total of \$297,226 in deferred expenditures, classified as a non-current asset, have accumulated as part of Keweenaw's development of a timber investment fund in the Lake States. Spending by year include \$0 in 2015, \$0 in 2014, \$10,000 in 2013, \$117,462 in 2012, \$131,239 in 2011, and \$38,525 in 2010.

### Note N: Prepaid Investment Fees

Keweenaw Land Association, Limited has engaged a consulting firm with the intention of seeking land and capital-raising opportunities designed to grow the company and improve its overall market capitalization. In the fourth quarter of 2015, the company expensed \$165,035 in professional services related to this endeavor under Other Land & Board Expense on the Income Statement. A total of \$150,000 remains to be expensed in 2016 and is considered a prepaid asset.



**ANDERSON, TACKMAN & COMPANY, PLC**  
**Certified Public Accountants**

*"A Regional Firm With Offices In Michigan And Wisconsin"*

102 W. Washington St. Suite 109 Marquette, MI 49855 Phone: (906) 225-1166 [www.atccpa.com](http://www.atccpa.com)

**PARTNERS**

Daniel E. Bianchi, CPA  
Michael A. Grentz, CPA  
William C. Shelton, CPA

**INDEPENDENT AUDITOR'S REPORT  
ON SUPPLEMENTARY INFORMATION**

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

We have audited the consolidated financial statements of Keweenaw Land Association, Limited and subsidiaries as of and for the years ended December 31, 2015, 2014, and 2013, and our report thereon dated February 17, 2016, which expressed an unmodified opinion on those financial statements, appears on page 14. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The EBIDTA Format-Statement of Consolidated Income and Expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Anderson Tackman & Company, PLLC*  
Certified Public Accountants  
Marquette, Michigan

February 17, 2016

**KEWEENAW LAND ASSOCIATION, LIMITED**  
**EBITDA Format - Statement of Consolidated Income and Expenses**

		Year Ended December 31		
		2015	2014	2013
<b>EBITDA Timber Operations Income</b>	Timber Sales	<b>\$11,283,793</b>	\$9,881,889	\$8,345,020
	Cost of Sales	<b>6,846,794</b>	6,171,750	5,459,939
	Gross Margin on Timber Sales	<b>4,436,999</b>	3,710,139	2,885,081
	Operations Expenses	<b>1,750,612</b>	1,753,104	1,634,151
	<b>EBITDA Timber Operations Income</b>	<b>2,686,387</b>	1,957,035	1,250,930
<b>Real Estate Development</b>	Developed Lot Sales	<b>64,500</b>	56,000	0
	Development Costs	<b>60,561</b>	50,437	0
	Gross Margin on Developed Lot Sales	<b>3,939</b>	5,563	0
	<b>Total Operations Income</b>	<b>2,690,326</b>	1,962,598	1,250,930
<b>Other Income</b>	Mineral Royalties	<b>74,989</b>	60,727	37,759
	Leases & Rentals	<b>138,431</b>	175,019	180,961
	Investment Earnings	<b>86,906</b>	87,842	109,076
	Profit (Loss) on Security Sales	<b>(13,983)</b>	0	410,869
	Land Sales	<b>206,919</b>	267,520	201,107
	Other	<b>109,041</b>	25,230	25,228
	<b>Total Other Income</b>	<b>602,303</b>	616,338	965,000
<b>Other Expenses</b>	Land Management Expenses	<b>592,750</b>	397,779	473,451
	Board of Directors' Expenses	<b>307,947</b>	276,362	304,050
	<b>Total Other Expenses</b>	<b>900,697</b>	674,141	777,501
<b>EBITDA</b>	<b>EBITDA</b>	<b>\$2,391,932</b>	<b>\$1,904,795</b>	<b>\$1,438,429</b>
	Interest Expense	184,176	193,680	50,804
	Depletion, Depreciation, & Amortization	339,690	322,350	257,525
	Earnings Before State and Federal Income Taxes	<b>1,868,066</b>	1,388,765	1,130,101
	Provision for State and Federal Income Taxes	<b>712,227</b>	532,905	423,959
	<b>Net Income</b>	<b>\$1,155,839</b>	<b>\$855,860</b>	<b>\$706,142</b>
	<b>Other Comprehensive Income</b>	Unrealized Gains (Losses) on Securities, Net of Taxes:		
Unrealized Holding Gains (Losses) Arising During the Year		<b>(\$46,615)</b>	\$52,862	\$148,558
Less: Reclassification Adjustment for Gains (Losses) in Net Income		<b>9,228</b>	0	(271,173)
<b>Other Comprehensive Income</b>		<b>(37,387)</b>	52,862	(122,615)
<b>Total Comprehensive Income</b>		<b>\$1,118,452</b>	<b>\$908,722</b>	<b>\$583,527</b>
<b>Per Share</b>		<b>Net Income Per Share*</b>	<b>\$0.89</b>	\$0.66
	<b>Total Comprehensive Income Per Share</b>	<b>\$0.86</b>	\$0.70	\$0.45

\*Net income per share is calculated based on the weighted average number of common shares outstanding.  
See Notes to Consolidated Financial Statements

# Investor Information

---

## Company Profile

Keweenaw Land Association, Limited is organized under Michigan law as a corporation. The company is managed under the direction of a seven-member board of directors. Current board members and officers are:

David Ayer, Director, Chairman of the Board  
Brian D. Glodowski, Director, Chief Executive Officer, President, and Secretary  
John E. Earhart, Director  
Donald J. Hoffman, Director  
James A. Mai, Director  
Marjorie E. Nesbitt, Director  
Frederick J. Weyerhaeuser, Director  
James J. Simmons, Jr., Controller and Treasurer

Keweenaw owns and manages 167,755 surface acres and 401,740 acres of both severed and attached mineral rights in the Upper Peninsula of Michigan. Keweenaw's ownership includes approximately 159,403 acres of productive timberlands. Included in Keweenaw's ownership are nearly four miles of inland lake frontage, over four miles along Lake Superior, and approximately 30 miles of frontage along major rivers. Approximately 2,500 acres are comprised of commercial, recreational, or city properties. When appropriate, the company sells or leases parcels for commercial and/or 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 38<sup>th</sup> 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 early 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 forest management practices have been audited and certified by the Forest Stewardship Council since 1994.

# Investor Information

---

## Corporate Offices

1801 East Cloverland Dr, PO Box 188  
Ironwood, MI 49938  
906- 932-3410 or Toll-free 877-539-3362  
Email: investors@keweenaw.com

## Keweenaw on the Internet

Interested parties can obtain additional information on the company at <http://www.keweenaw.com>.

## Stock Transfer Agent & Registrar

Wells Fargo Shareowner Services  
PO Box 64854  
St. Paul, MN 55164-0854  
800-698-8788

## Legal Counsel

Kendricks, Bordeau, Adamini, Greenlee & Keefe,  
PC  
128 West Spring St  
Marquette, MI 49855  
906-226-2543

## Independent Certified Public Accountants

Anderson, Tackman & Company  
102 West Washington St, Ste 109  
Marquette, MI 49855  
906-225-1166

## Investment Counsel

Everett Harris & Co  
888 West Sixth St, 10<sup>th</sup> Fl  
Los Angeles, CA 90017  
213-625-2677

## Annual Meeting

The next annual shareholders' meeting will be held at 9:00 a.m. CDT Monday, May 2, 2016. A formal notice will be mailed on or about March 4, 2016, to shareholders of record at the close of business on March 3, 2016.

## Market Makers

The following firms were market makers for Keweenaw Land Association, Limited stock in 2015:

- Access Securities Inc, Stamford, CT

- Automated Trading Desk Financial Services, Mt Pleasant, SC
- Canaccord Genuity, Inc., New York, NY
- Cantor Fitzgerald & Co., New York, NY
- Citadel Securities, Chicago, IL
- G 1 Execution Services, LLC, Chicago, IL
- KCG Americas LLC, Jersey City, NJ
- Monroe Securities Inc, Chicago, IL
- StockCross Financial Services, Lake Mary, FL

## 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.

## Market Price

	High	Low	Close
2013	\$	\$	\$
1 <sup>st</sup> Quarter	80.50	68.25	70.05
2 <sup>nd</sup> Quarter	83.00	70.05	82.00
3 <sup>rd</sup> Quarter	93.00	80.00	93.00
4 <sup>th</sup> Quarter	92.00	86.75	87.00
2014			
1 <sup>st</sup> Quarter	89.50	80.00	80.75
2 <sup>nd</sup> Quarter	93.00	78.81	93.00
3 <sup>rd</sup> Quarter	110.00	88.00	110.00
4 <sup>th</sup> Quarter	112.00	97.50	99.00
2015			
1 <sup>st</sup> Quarter	111.00	95.50	109.00
2 <sup>nd</sup> Quarter	119.00	94.75	96.00
3 <sup>rd</sup> Quarter	94.75	78.00	82.00
4 <sup>th</sup> Quarter	85.73	78.00	81.00

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.

---

**1801 East Cloverland Dr, PO Box 188**  
**Ironwood, MI 49938**  
**(906) 932-3410 Phone, (906) 932-5823 Fax**  
**(877) 539-3362 Phone Toll Free**  
**Email: [investors@keweenaw.com](mailto:investors@keweenaw.com)**  
**Web Page: [www.keweenaw.com](http://www.keweenaw.com)**

---