

# KEWEENAW

## LAND ASSOCIATION, LIMITED



### Second Quarter Report

For the Period Ending June 30, 2012  
Issue Date July 20, 2012

#### Highlights

Net Income of \$0.12 Per Share  
Fourth Consecutive Quarter with Net Income

Keweenaw Land Association, Limited announces a Second Quarter 2012 net income of \$0.12 per share compared to a net loss of \$0.28 for the same period in 2011. This is the first time since 2002 that Keweenaw has recognized net income in the second operating quarter of the year. Net income (loss) per share arose from the following sources:

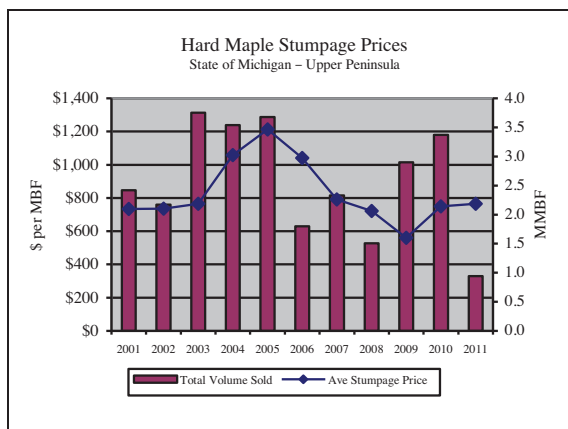
	Earnings Per Share	
	2nd Qtr 12	2nd Qtr 11
Timber Operations Income	\$ 0.04	\$ (0.18)
Capital Gains-Sale of Land	0.19	-
Capital Gains-Investments	-	-
Other Income	0.08	0.08
Other Expenses	(0.12)	(0.16)
Income Taxes	(0.07)	(0.02)
	<u>\$ 0.12</u>	<u>\$ (0.28)</u>

A more comprehensive review of the operating results will be shown later in this expanded quarterly letter.

#### **Hard Maple Market Overview:**

Hard Maple is the predominant tree species in the Lake States region in terms of volume and value. Stumpage prices (price paid for standing timber) for hard maple in Michigan have risen by 36% over the past two years but still remain well below their peak in 2005.

Similarly, hard maple lumber demand and pricing is also showing steady signs of improvement since the decline experienced during the recession. Prices for #1



common hard maple have risen nearly 37% since 2010.

The primary end-use for the upper grades of hard maple lumber include high-end furniture, cabinetry, and architectural millwork while the middle grades are used in industrial, gym, and residential flooring. Low grade lumber is used for pallet and crating material.

While the demand for hard maple lumber remains linked to new home construction, demand from alternative markets such as the repair and remodeling segment help offset some of the decline from the housing market. This provides greater price stability during periods of economic decline.

**Second Quarter 2012 Results:**

Warm and dry weather, allowed seasonal weight restrictions to be lifted a couple weeks earlier than normal, permitting the company to resume logging operations ahead of plan. During the quarter, Keweenaw harvest included the following:

2nd Qtr Production Statistics	2012	%	2011	%
Total Harvest Volume (cd-eq)	11,588		7,469	
Sawtimber (mbf)	1,378	26.2	947	27.9
Pulpwood (cords)	8,558	73.8	5,387	72.1

All of second quarter harvest volume of 11,588 cd-eq, with the exception of 28 cd-eq, came from company land. The product mix was 26% sawtimber and 74% pulpwood, which was comparable to the product mix for the same period in 2011. Keweenaw continues to have a market for all of its production.

The company sold logs totaling \$1,412,862, compared to \$837,069 in 2011. While veneer and sawlog prices have not returned to pre-recession levels, the company has experienced an upward trend in price realization. Sawtimber realization was \$410 per mbf versus \$370 per mbf in the same period in 2011, an 11% increase. Pulpwood realization for the quarter was \$99 per cd-eq compared to \$90 in 2011, a 10% increase. Per unit realization continues to improve as identified in the table below.

2nd Qtr Sales Statistics (per unit)	2012	2011
Average Price Realization	\$122	\$112
Cost of Goods Sold	81	83
Gross Margin	41	29

The last four operating quarters have been encouraging for Keweenaw, especially after 2009 and 2010 when the company realized lower timber earnings. Timber operations gross margin improved in the second quarter by over \$250,000 over the same period last year as demonstrated in the table below:

2nd Qtr Gross Margin	2012	%	2011	%
Log Sales	\$1,412,862	100.0	\$837,069	100.0
Expenses (COGS)	943,587	66.8	619,023	74.0
Timber Opns Gross Margin	469,275	33.2	218,046	26.0



For the second quarter, timber operations gross margin has increased by 115%. Gross margins improved by 73% over 2011 due to better pricing and product mix through the first half of 2012. As fuel prices fell in the second quarter, it resulted in a \$1 drop per cd-eq in combined logging and freight costs. Overall, a \$2 per cd-eq reduction in cost was realized over the same period in 2011. The company continues to capitalize on marketing opportunities to get the highest value for its timber products.

While it is difficult to predict both global and national economic factors that lead to price fluctuations, Keweenaw continues to closely monitor market conditions. Early market indications suggest pricing for pulpwood could drop due to higher inventory levels at the mills in the Lake States. However, sawlog prices are strengthening which may offset a weakening pulpwood market. While we don't expect pricing to return to the same levels in the near term, there are encouraging signs in the lumber market reports for the most common grades used in construction and remodeling.

**Land:**

During the quarter, Keweenaw sold 140 acres of land in Dickinson and Marquette County. The gross sales price for 80 acres in Marquette County was \$129,600 or \$1,620 per acre. The gross sales price for 60 acres in Dickinson County was \$133,950 or \$2,233 per acre. These properties were considered non-strategic to our timberland program.

**Minerals:**

Orvana Resources US Corp. (Orvana), a wholly-owned subsidiary of Orvana Minerals Corp. (TSX symbol: ORV) of Toronto, Ontario, received Part 632 Permit from the Michigan Department of Environmental Quality (MDEQ) on April 30, 2012, under the Michigan Nonferrous Metallic Mining regulations. Jim Jacques, Vice President and General Manager of Copperwood said, "We continue to work with the State of Michigan on the timely approval of the remaining permits and we are moving ahead with the engineering for construction in order to put the mine into production in a timely manner." On June 28, 2012, a hearing by the MDEQ was held at Gogebic Community College regarding the wastewater, wetlands, and air permits necessary for the project to advance, referred to as Part 55 and Part 301/303 respectively. Additional information can be found on Orvana's website, [www.orvana.com](http://www.orvana.com).

**Shareholder Relations & Administrative:**

Keweenaw's common shares traded in a range from \$73.50 to \$78.95 per share during the second quarter with an ending price of \$75.00. 35,459 KLA shares were traded, around 3% of outstanding shares. This compares to 20,042 shares traded during the same period last year. Keweenaw's shares trade in the OTC Pink using the symbol KEWL.

At the Annual Meeting of Keweenaw shareholders held on Monday, May 21, 2012, in Ironwood, MI, Frederick (Rick) Weyerhaeuser and James P. Totten were re-elected to the Board of Directors for three-year terms. Over 85% percent of the outstanding shares were represented in this year's vote, approximately the same percentage as last year. Keweenaw shareholders also approved Anderson, Tackman & Company as the Company's auditors for 2012. No other proposals were brought to the shareholders for consideration this year.

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

Sincerely,

David Ayer, Chairman

**KEWEENAW LAND ASSOCIATION, LIMITED**
**Consolidated Statement of Income and Expense (Unaudited)  
June 30, 2012**

Income	2nd Quarter			Year to Date		
	2012	2011	% Chg	2012	2011	% Chg
<b>Timber Operations</b>						
TIMBER SALES	\$1,412,862	\$837,069		\$4,308,030	\$3,415,980	
COST OF SALES	943,587	619,023		2,989,561	2,655,546	
<b>GROSS MARGIN ON TIMBER SALES</b>	<b>469,275</b>	<b>218,046</b>	<b>115%</b>	<b>1,318,469</b>	<b>760,434</b>	<b>73%</b>
<b>TIMBER OPERATIONS EXPENSES</b>						
FORESTRY EXPENSES	171,148	168,509		343,482	348,211	
MANAGEMENT AND GENERAL ADMINISTRATION	249,014	278,552		522,675	549,972	
<b>TOTAL OPERATIONS EXPENSES</b>	<b>420,162</b>	<b>447,061</b>		<b>866,157</b>	<b>898,183</b>	
<b>TIMBER OPERATIONS INCOME</b>	<b>49,113</b>	<b>(229,015)</b>	<b>**</b>	<b>452,312</b>	<b>(137,749)</b>	<b>**</b>
<b>Real Estate Development</b>						
DEVELOPED LOT SALES	0	0		0	0	
DEVELOPMENT COSTS	0	0		0	0	
<b>GROSS MARGIN ON DEVELOPED LOT SALES</b>	<b>0</b>	<b>0</b>		<b>0</b>	<b>0</b>	
<b>TOTAL OPERATIONS INCOME</b>	<b>49,113</b>	<b>(229,015)</b>	<b>**</b>	<b>452,312</b>	<b>(137,749)</b>	<b>**</b>
<b>Other Income</b>						
MINERAL ROYALTIES	5,182	325		7,285	3,325	
LEASE AND RENTAL INCOME	26,036	22,707		79,025	58,474	
INVESTMENT EARNINGS	74,030	78,662		79,521	83,662	
PROFIT (LOSS) ON SECURITY SALES	0	0		0	0	
LAND SALES	250,036	0		250,036	0	
OTHER	801	2,278		1,899	7,821	
<b>TOTAL OTHER INCOME</b>	<b>356,085</b>	<b>103,972</b>	<b>242%</b>	<b>417,766</b>	<b>153,282</b>	<b>173%</b>
<b>Other Expenses</b>						
LAND MANAGEMENT EXPENSES	88,715	120,349		177,061	243,703	
BOARD OF DIRECTORS EXPENSES	60,672	90,797		146,493	184,972	
<b>TOTAL OTHER EXPENSES</b>	<b>149,387</b>	<b>211,146</b>	<b>-29%</b>	<b>323,554</b>	<b>428,675</b>	<b>-25%</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>255,811</b>	<b>(336,189)</b>	<b>**</b>	<b>546,524</b>	<b>(413,142)</b>	<b>**</b>
Provision for State and Federal Income Taxes	94,081	29,239		181,824	23,166	
<b>NET INCOME</b>	<b>161,730</b>	<b>(365,428)</b>	<b>**</b>	<b>364,700</b>	<b>(436,308)</b>	<b>**</b>
<b>Other Comprehensive Income, Net of Tax</b>						
<b>UNREALIZED GAINS (LOSSES) ON SECURITIES</b>						
UNREALIZED HOLDING GAINS ARISING During the Period	(136,772)	91,650		77,029	79,208	
Less: Reclassification Adj. For Gains Included in Net Income	0	0		0	0	
<b>OTHER COMPREHENSIVE INCOME</b>	<b>(136,772)</b>	<b>91,650</b>		<b>77,029</b>	<b>79,208</b>	
<b>COMPREHENSIVE INCOME</b>	<b>\$24,958</b>	<b>(\$273,778)</b>	<b>**</b>	<b>\$441,729</b>	<b>(\$357,100)</b>	<b>**</b>
Per Share Net Income	\$0.12	(\$0.28)		\$0.28	(\$0.34)	
Per Share Comprehensive Income	\$0.02	(\$0.21)		\$0.34	(\$0.28)	
Dividends Per Share	\$0.00	\$0.00		\$0.00	\$0.00	

Based on Weighted Average Shares Outstanding

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

**KEWEENAW LAND ASSOCIATION, LIMITED**  
**Consolidated Balance Sheet (Unaudited)**  
**June 30, 2012**

**ASSETS**

	Note	Jun. 30, 2012	Jun. 30, 2011	% Chg
<b>Current Assets</b>				
CASH & CASH EQUIVALENTS		\$1,046,067	\$558,250	87%
ACCOUNTS RECEIVABLE		241,313	332,447	
INVESTMENTS IN GOVERNMENT OBLIGATIONS		0	0	
OTHER CURRENT ASSETS		260,371	315,574	
<b>TOTAL CURRENT ASSETS</b>		<b>1,547,751</b>	<b>1,206,271</b>	<b>28%</b>
Investments in Marketable Securities		3,527,622	3,731,249	-5%
Other Non-Current Assets		244,355	195,866	
Equipment		530,490	563,220	-6%
Properties		11,643,911	11,610,998	0%
<b>TOTAL ASSETS</b>		<b>\$17,494,129</b>	<b>\$17,307,604</b>	<b>1%</b>

**LIABILITIES & CAPITAL**

<b>Current Liabilities</b>				
ACCOUNTS & DEPOSITS PAYABLE		\$102,208	\$92,397	
COMMERCIAL LINES OF CREDIT & OTHER DEBT		100,191	951,987	
OTHER ACCRUED LIABILITIES		322,391	314,105	
<b>TOTAL CURRENT LIABILITIES</b>		<b>524,790</b>	<b>1,358,489</b>	<b>-61%</b>
<b>Non-Current Liabilities</b>				
LONG TERM DEBT		716,387	816,578	
DEFERRED FEDERAL INCOME TAX LIABILITY		781,554	922,494	
<b>NON-CURRENT LIABILITIES</b>		<b>1,497,941</b>	<b>1,739,072</b>	
<b>Total Liabilities</b>		<b>2,022,731</b>	<b>3,097,561</b>	<b>-35%</b>
<b>Capital</b>				
COMMON STOCK ISSUES	(1)	84,530	84,453	
ACCUMULATED OTHER COMPREHENSIVE INCOME		1,172,091	1,321,992	
RETAINED EARNINGS		14,214,777	12,803,598	
<b>Total Capital</b>		<b>15,471,398</b>	<b>14,210,043</b>	<b>9%</b>
<b>TOTAL LIABILITIES &amp; CAPITAL</b>		<b>\$17,494,129</b>	<b>\$17,307,604</b>	<b>1%</b>
<b>Capital Per Common Share</b>		<b>\$11.97</b>	<b>\$11.00</b>	

Notes:

(1) 1,292,665 no par value common shares are issued and outstanding on Jun. 30, 2012. 1,291,490 shares were outstanding on Jun. 30, 2011. 10,000,000 shares are authorized.

**CONSOLIDATED FINANCIAL HIGHLIGHTS**

For the Quarter	2012		2011	
	2nd Qtr	YTD	2nd Qtr	YTD
Receipts	\$1,769	\$4,726	\$941	\$3,569
Net Income (Loss)	162	365	(365)	(436)
Comprehensive Income	25	442	(274)	(357)
Capital Employed	16,288	16,288	15,979	15,979

\*Dollar amounts in thousands

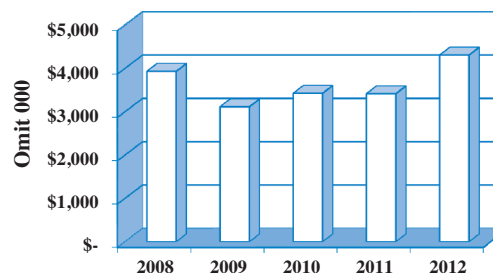
**Per Common Share**

Net Income	\$0.12	\$0.28	(\$0.28)	(\$0.34)
Comprehensive Income	0.02	0.34	(0.21)	(0.28)
Dividends Paid	0.00	0.00	0.00	0.00

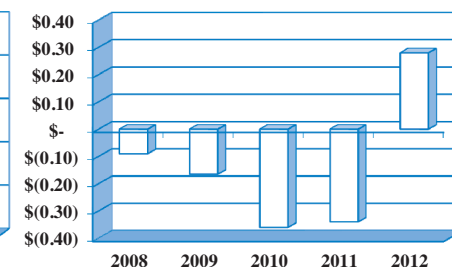
**Statistics**

Return on Capital Emp.	4.0%	4.5%	-9.1%	-5.5%
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%
Avg Shares Outstanding	1,292,665	1,292,665	1,291,490	1,291,490
Curr Shares Outstanding	1,292,665	1,292,665	1,291,490	1,291,490

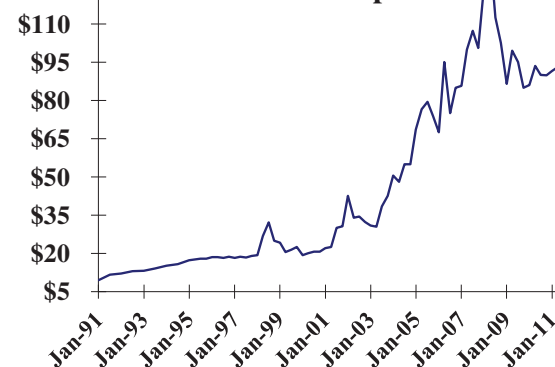
Keweenaw Log Sales  
Year to Date Comparison



Keweenaw Earnings Per Share  
Year to Date Comparison - Post 2-for-1 Split



**Price of Keweenaw Shares**  
**Restated for 2/15/11**  
**2-for-1 Split**



# SHAREHOLDER INFORMATION

## **Second Quarter 2012 Highlights:**

High: \$78.95, Low: \$73.50, Last: \$75.00

Source: Real Tick-Townsend Analytics, Ltd.

## **Dividend Information:**

The Board of Directors eliminated shareholder dividends beginning in 2010.

## **Keweenaw Contact Information:**

Keweenaw Land Association, Limited

1801 E Cloverland Dr, PO Box 188

Ironwood MI 49938

Phone: (906) 932-3410 or

Toll Free: (877) 539-3362

Fax: (906) 932-5823

Email: [investors@keweenaw.com](mailto:investors@keweenaw.com)

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

## **Transfer Agent:**

Wells Fargo Shareowner Services

161 N. Concord Exch, POB 64854

South St. Paul, MN 55164-9440

(800) 468-9716 or (651) 450-4002

## **Stock Exchange Information:**

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

## **GLOSSARY:**

**Board Foot (BF)** - a measurement of sawtimber 12 inches x 12 inches x one inch.

When used in conjunction with sawtimber or logs, a measurement system to approximate the output of lumber that can be expected from a given quantity of sawtimber or logs.

**Cord Equivalent** - a measurement of logs in cords including logs converted in measurement from other measurement methods. For example, one thousand board feet (MBF) equals approximately 2.2 cords.

**Cord** - a measurement of logs containing 128 cubic feet.

**MBF** - a thousand board feet.

**Production Mix** - the ratio of a category of production to total production.

**Pulpwood** - logs cut primarily to be converted to wood pulp for the manufacture of paper and other wood fiber products.

**Sawbolt** - a lower grade or smaller size sawlog typically sawn for the manufacture of pallets or other coarse wood products.

**Sawlogs** - a higher grade or larger size sawtimber sawn for the manufacture of furniture grade lumber, flooring lumber, or other high quality wood products.

**Sawtimber** - a category of logs suitable for veneer, sawlogs, or sawbolts.

**Veneer** - a category of sawtimber clear of defects suitable for manufacture as veneer paneling, furniture and cabinetry veneer.