

KEWEENAW

LAND ASSOCIATION, LIMITED



Second Quarter Report For the Period Ending June 30, 2016 Issue Date July 22, 2016

Highlights

Keweenaw Logging, LLC Begins Operations
Earhart and Nesbitt Re-elected to the KLA Board of Directors
Net Loss of \$0.01 Per Share

Second Quarter Results:

Keweenaw Land Association, Limited announces Second Quarter 2016 net loss of \$0.01 per share compared to net income of \$0.09 for the same period in 2015. Net income (loss) per share is shown in the adjacent table in EBITDA format (Earnings Before Interest, Taxes, Depreciation, and Amortization). Typically, lower earnings occur in the second quarter due to “spring break-up” which limits log production.

	Earnings p/Share (EBITDA)	
	2nd Qtr 16	2nd Qtr 15
Timber Operations Income	\$ 0.11	\$ 0.18
Capital Gains-Sale of Land	0.02	0.09
Capital Gains-Investments	-	-
Other Income	0.09	0.10
Other Expenses	(0.14)	(0.14)
Interest & Depreciation	(0.09)	(0.08)
Income Taxes	-	(0.06)
	<u>\$ (0.01)</u>	<u>\$ 0.09</u>

After usual, seasonal weight restrictions were lifted in mid-May, the company experienced favorable springtime logging conditions allowing the company to shift to summer logging slightly ahead of schedule. In result, production levels were up nearly 29% over the same period in 2015.

In the second quarter, a total of 13,809 cd-eq were harvested.

The product mix contained 30% sawtimber and 70% pulpwood compared to 38% sawtimber and 62% pulpwood in the same period of 2015.

2 nd Qtr Production Statistics	2016	Mix%	2015	Mix%
Total Harvest Volume (cd-eq)	13,809	100.0	10,736	100.0
Sawtimber (mbf)	1,883	30.0	1,861	38.1
Pulpwood (cords)	9,666	70.0	6,641	61.9

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2 nd Qtr Gross Margin EBITDA	2016	%	2015	%
Log Sales	\$1,777,995	100.0	\$1,547,069	100.0
Expenses (COGS)	1,203,438	67.7	896,914	58.0
Timber Opns Gross Margin	574,557	32.3	650,155	42.0

pulpwood, due to a softening in demand, contributed to a reduction in gross margin compared to the same period last year. Sawtimber realization for the quarter was \$416 per mbf compared to \$413 in 2015, primarily driven by a higher mix of veneer & sawlogs. Pulpwood pricing was \$104 per cd-eq, down approximately 12% from the \$118 per cord realized in the second quarter last year. On a year-to-date comparison, the overall sawtimber realization was \$429 per mbf compared to \$419 per mbf in 2015.

Gross margin (EBITDA) was \$42 per cd-eq for the quarter, down \$19 per unit, compared to \$61 per cd-eq in the same period last year. Cost of goods sold for the period was \$87

per unit compared to \$83 last year. A reduced product mix of less sawtimber than last year, coupled with lower prices, contributed to a \$15 per cd-eq drop in price realization. As summer logging moves ahead, a higher product mix with more sawtimber is expected.

2 nd Qtr Sales (p/cd-eq) EBITDA	2016	2015
Average Price Realization	\$129	\$144
Cost of Goods Sold	87	83
Gross Margin	42	61

Looking ahead to the second half of 2016, we anticipate the market for veneer and sawlogs to hold steady. However, we expect pricing for pulpwood to decline as mills experience higher-than-expected inventory levels over the past couple years.

Keweenaw Logging, LLC:

In May 2016, Keweenaw Land Association, Limited formed Keweenaw Logging, LLC (100% wholly-owned by KLA), to address the need for additional logging capacity in our operating circle. Over the past several years, we have been challenged in meeting our harvest production goals due to a shortage of quality logging contractors. There has been a steady decline in logging capacity regionally since 2007. This issue is due to several factors and includes labor shortages and a decline in family logging operations. In addition, the high cost of converting to mechanization has become a barrier to entry for new logging operations.

Keweenaw Logging, LLC leased (with favorable terms & tax benefits) a 2016 Komatsu Harvester Model 931.1 and a 2016 Komatsu Forwarder Model 855 and hired two equipment operators. Over time, the equipment is expected to have an annual production capacity of 10,000 cd-eq and will operate on our company lands as well as on private stumpage sales. Operating costs are expected to be similar to our current contract logging rates. However, we will gain greater control over log merchandizing, have lower sale administration costs, and have increased flexibility to operate on timber sales that are currently not feasible with our existing contractors. At the same time, Keweenaw remains committed to contracting with our core group of logging contractors that have invested in modern equipment and continue to provide quality work.

Land/Lot Sales:

In the second quarter, Keweenaw conducted a Section 1031 Like-kind Exchange of 80 acres of non-strategic land in Bayfield County, Wisconsin for 104 acres in Houghton County, Michigan resulting in a capital gain of \$23,933 after expenses.

There were no residential lot sales during the period compared to the sale of two lots in the second quarter of 2015.

Minerals:

Highland Copper Company Inc. (TSXV: HI) (the "company") announced that it and Osisko Gold Royalties Ltd ("Osisko") have agreed to amend the terms of their agreement entered into in December 2014 and to convert the C\$10 million secured loan into a 3.0% net smelter return royalty on all metals produced from the mineral rights and leases associated with the Copperwood project. Upon closing of the acquisition of the White Pine project, the company will grant Osisko a 1.5% net smelter return royalty on all metals produced from the White Pine project, and Osisko's royalty on Copperwood will be reduced to 1.5%. On December 15, 2014, Osisko had provided a C\$10 million loan to the company secured against all of the company's assets which was to be converted to a 3% sliding-scale net smelter return royalty on all metals from the White Pine project upon completion of the acquisition by the company of the White Pine project (see December 16, 2014 news release). The other terms of the transaction with Osisko remain unchanged including the option to purchase for US\$26 million any future silver production from the company's projects. Investors can find additional information on Highland's website, www.highlandcopper.com.

Shareholder Relations & Administrative:

At the Annual Meeting of Keweenaw Shareholders held Monday, May 2, 2016, in Ironwood, MI, John E. Earhart and Marjorie E. Nesbitt were re-elected to the Board of Directors for three-year terms. Keweenaw shareholders also approved Anderson, Tackman & Company as KLA auditors for 2016. No other proposals were brought to the shareholders for consideration this year. Over 86% of outstanding shares were represented in this year's voting.

Keweenaw's common shares traded in a range from \$77.50 to \$119.00 per share during the second quarter with an ending price of \$90.00. A total of 12,212 shares were traded representing approximately 1% of outstanding shares. This compares to 56,214 KLA shares traded during the same period in 2015, around 4% of outstanding shares. Keweenaw's shares trade in the OTC Pink using the symbol KEWL.

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

Sincerely,



David Ayer, Chairman

KEWEENAW LAND ASSOCIATION, LIMITED
Consolidated Balance Sheet (Unaudited)
June 30, 2016

ASSETS	Jun 30, 2016	Jun 30, 2015	% Chg
Current Assets			
Cash & Cash Equivalents	\$2,768,758	\$2,309,125	20%
Accounts Receivable	600,054	446,136	
Investments in Government Obligations	0	0	
Other Current Assets	563,952	312,266	
Total Current Assets	3,932,764	3,067,527	28%
Investments in Marketable Securities	3,055,227	2,874,394	6%
Other Non-Current Assets	449,091	302,755	
Equipment	973,663	863,954	13%
Properties	17,102,357	17,267,407	-1%
TOTAL ASSETS	\$25,513,102	\$24,376,037	5%
LIABILITIES & CAPITAL			
Current Liabilities			
Accounts & Deposits Payable	\$101,983	\$193,211	
Commercial Lines of Credit/Other Debt	240,000	240,000	
Other Accrued Liabilities	377,690	410,619	
Total Current Liabilities	719,673	843,830	-15%
Non-Current Liabilities			
Long-Term Debt	4,080,000	4,320,000	
Deferred Federal Income Tax Liability	932,263	820,142	
Total Non-Current Liabilities	5,012,263	5,140,142	
Total Liabilities	5,731,936	5,983,972	-4%
Capital			
Common Stock Issued ⁽¹⁾	84,916	84,827	
Accum. Other Comprehensive Income	1,353,429	1,200,712	
Retained Earnings	18,342,821	17,106,526	
Total Capital	19,781,166	18,392,065	8%
TOTAL LIABILITIES & CAPITAL	\$25,513,102	\$24,376,037	5%
Capital Per Common Share	\$15.23	\$14.18	

⁽¹⁾1,298,568 no par value common shares are issued and outstanding on Jun. 30, 2016. 1,297,206 shares were outstanding on Jun. 30, 2015. 10,000,000 shares are authorized.

KEWEENAW LAND ASSOCIATION, LIMITED
Consolidated Statement of Cash Flows Ending June 30, 2016

	Dec 31, 2015	2016 YTD
Net Income	\$1,155,839	\$237,579
Adjustments to Reconcile Net Income to Net Cash		
Provided by Operating Activities:		
Depletion and Depreciation	335,824	167,973
Changes in Operating Assets and Liabilities:		
Decrease (Increase) in Accounts Receivable	67,482	(175,308)
Decrease (Increase) in Prepaid Expenses	(283,289)	(95,747)
Decrease (Increase) in Inventory	24,832	(4,461)
Increase (Decrease) in Deposits/Accts Pybl	(61,727)	73,129
Increase (Decrease) in Deferred/Income Taxes	(53,240)	28,338
Increase (Decrease) in Accrued Liabilities	20,707	(173,996)
(Gain) Loss on Sale of Securities	13,983	0
(Gain) Loss on Sale/Retirement of Equipment	0	(3,500)
(Gain) Loss on Sale of Land	(210,858)	(50,765)
Net Cash Flows Provided by Operating Activities	1,009,553	3,242
Net Cash Flows Provided by (Used for) Investing Activities		
Net Purchases of Property and Equipment	(319,476)	(111,766)
Purchases of Securities	(101,715)	0
Proceeds from Sale of Securities	36,575	0
Road Construction	(35,408)	(3,362)
Purchases of Land	(85,790)	0
Proceeds from Land Sales	193,643	23,933
Lot Development	57,668	40,738
Net Cash Flows Provided by (Used for) Investing Activities	(254,503)	(50,457)
Net Cash Flows Provided by (Used for) Financing Activities		
Issuance (Purchase) of Stock	160,921	89,505
Commercial Installment Loan Borrowing	0	0
Commercial Installment Loan Payments	(240,000)	0
Net Cash Flows Provided by (Used for) Financing Activities	(79,079)	89,505
NET CASH FLOW	675,972	42,290
Beginning Cash and Cash Equivalents	2,050,496	2,726,468
ENDING CASH AND CASH EQUIVALENTS	\$2,726,468	\$2,768,758

KEWEENAW LAND ASSOCIATION, LIMITED
EBITDA Consolidated Statement of Income and Expense (Unaudited)
June 30, 2016

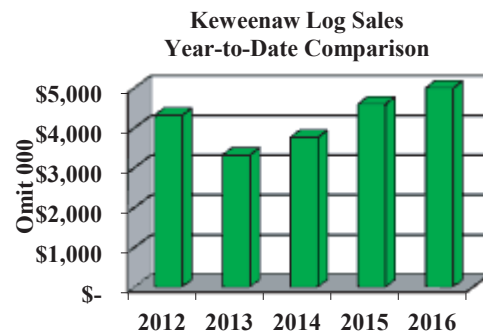
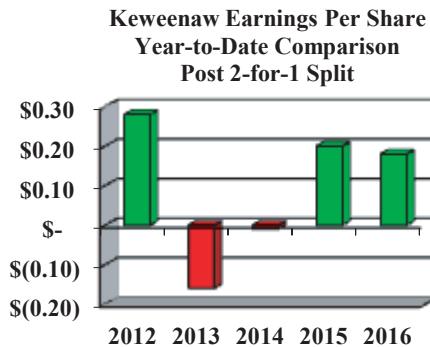
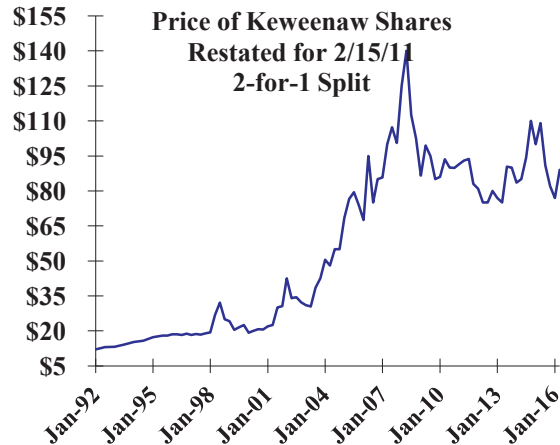
INCOME	2nd Quarter			Year-to-Date		
	2016	2015	% Chg	2016	2015	% Chg
Timber Operations:						
Timber Sales	\$1,777,995	\$1,547,069		\$4,991,125	\$4,587,303	
Cost of Sales	1,203,438	896,914		3,299,197	2,869,521	
Gross Margin on Timber Sales	574,557	650,155	-12%	1,691,928	1,717,782	-2%
Forestry, Management & General Administration	434,191	417,362		903,807	902,159	
Timber Operations Income (EBITDA)	140,366	232,793	-40%	788,121	815,623	-3%
Real Estate Development						
Developed Lot Sales	0	64,500		45,000	64,500	
Development Costs	0	60,561		41,696	60,561	
Gross Margin on Developed Lot Sales	0	3,939		3,304	3,939	
Total Operations Income	140,366	236,732	-41%	791,425	819,562	-3%
Other Income						
Mineral Royalties	3,018	4,438		3,074	4,438	
Lease and Rental Income	37,531	36,380		46,310	41,058	
Investment Earnings	61,349	60,440		67,516	66,191	
Profit (Loss) on Security Sales	0	0		0	0	
Land Sales	23,933	111,339		47,461	111,339	
Other	20,874	30,285		67,609	47,709	
Total Other Income	146,705	242,882	-40%	231,970	270,735	-14%
Other Land & Board Expense	179,110	171,169	5%	423,076	423,348	0%
EBITDA	107,961	308,444	-65%	600,319	666,948	-10%
Interest Expense	43,680	46,236		87,840	92,432	
Depletion, Depreciation, and Amortization	72,319	59,138		169,704	142,615	
Earnings Before Income Taxes	(8,038)	203,070	**	342,775	431,901	-21%
Provision for Federal & State Income Taxes	5,015	81,633		105,196	167,631	
Net Income (Loss)	(13,053)	121,437	**	237,579	264,270	-10%
Other Comprehensive Income, Net of Tax						
Unrealized Gains (Losses) on Securities						
During the Period	79,853	(63,042)		124,989	(65,115)	
Less: Reclassification Adj For Gains						
Included in Net Income	0	0		0	0	
Other Comprehensive Income	79,853	(63,042)		124,989	(65,115)	
Comprehensive Income	\$66,800	\$58,395	14%	\$362,568	\$199,155	82%
Per Share Net Income	(\$0.01)	\$0.09		\$0.18	\$0.20	
Per Share Comprehensive Income	\$0.05	\$0.05		\$0.28	\$0.15	

Based on Weighted Average Shares Outstanding

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

CONSOLIDATED FINANCIAL HIGHLIGHTS

For the Quarter	2016		2015	
	2nd Qtr	YTD	2nd Qtr	YTD
Receipts	\$1,925	\$5,244	\$1,831	\$4,899
Net Income (Loss)	(13)	238	121	264
Comprehensive Income	67	363	58	199
Capital Employed	24,101	24,101	22,952	22,952
*Dollar amounts in thousands				
Per Common Share				
Net Income (Loss)	(\$0.01)	\$0.18	\$0.09	\$0.20
Comprehensive Income	0.05	0.28	0.05	0.15
Statistics				
Return on Capital Emp	-0.2%	2.0%	2.1%	2.3%
Avg Shares Outstanding	1,298,568	1,298,568	1,297,206	1,297,206
Curr Shares Outstanding	1,298,568	1,298,568	1,297,206	1,297,206



SHAREHOLDER INFORMATION

Second Quarter 2016 Highlights:

High: \$119.00, Low: \$77.50, Last: \$90.00

Source: OTC Markets Group, Inc.

Dividend Information:

The Board of Directors eliminated shareholder dividends beginning in 2010.

Keweenaw Contact Information:

Keweenaw Land Association, Limited

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Web Page: www.keweenaw.com

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

Transfer Agent:

Wells Fargo Shareowner Services

PO Box 64854

South St Paul MN 55164-0854

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

Stock Exchange Information:

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

Glossary:

Board Foot (BF) – a measurement of sawtimber 12 inches x 12 inches x one inch. When used in conjunction with sawtimber or logs, a measurement system to approximate the output of lumber that can be expected from a given quantity of sawtimber or logs. **Cord Equivalent** – a measurement of logs in cords including logs converted in measurement from other measurement methods. For example, one thousand board feet (MBF) equals approximately 2.2 cords. **Cord** – a measurement of logs containing 128 cubic feet. **MBF** – a thousand board feet. **Production Mix** – the ratio of a category of production to total production. **Pulpwood**- logs cut primarily to be converted to wood pulp for the manufacture of paper and other wood fiber products. **Sawbolt** – a lower grade or smaller size sawlog typically sawn for the manufacture of pallets or other coarse wood products. **Sawlogs** - a higher grade or larger size sawtimber sawn for the manufacture of furniture grade lumber, flooring lumber, or other high quality wood products. **Sawtimber** – a category of logs suitable for veneer, sawlogs, or sawbolts. **Veneer** – a category of sawtimber clear of defects suitable for manufacture as veneer paneling, furniture, and cabinetry veneer.