

## Report to Shareholders

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

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

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

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

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

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

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

Sincerely,

David Ayer, Chairman