

CKX LANDS, INC.
Form 10-Q
May 03, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the quarterly period ended **March 31, 2018**

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

Commission File Number **1-31905**

CKX Lands, Inc.

(Exact name of registrant as specified in its charter)

Louisiana

(State or other jurisdiction of
incorporation or organization)

72-0144530

(I.R.S. Employer Identification No.)

1508 Hodges Street

Lake Charles, LA

(Address of principal executive offices)

70601

(Zip Code)

(337) 493-2399

(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | |
|-------------------------|---------------------------|
| Large accelerated filer | Accelerated filer |
| Non-accelerated filer | Smaller reporting company |
| | Emerging growth company |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: **1,942,495**

CKX Lands, Inc.

Form 10-Q

For the Quarter ended March 31, 2018

Table of Contents

| | Page |
|---|-------------|
| Part I. Financial Information | |
| Item 1. Financial Statements | |
| a. Balance Sheets as of March 31, 2018 and December 31, 2017 (Unaudited) | 1 |
| b. Statements of Income for the quarters ended March 31, 2018 and 2017 (Unaudited) | 2 |
| c. Statements of Changes in Stockholders' Equity for the quarters ended March 31, 2018 and 2017 (Unaudited) | 3 |
| d. Statements of Cash Flows for the quarters ended March 31, 2018 and 2017 (Unaudited) | 4 |
| e. Notes to Financial Statements as of March 31, 2018 (Unaudited) | 5-7 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 8-10 |
| Item 4. Controls and Procedures | 10 |
| Part II. Other Information | |
| Item 6. Exhibits | 11 |
| Signature | 12 |

Part I – Financial Information**Item 1. FINANCIAL STATEMENTS****CKX Lands, Inc.****Balance Sheets****March 31, 2018 and December 31, 2017****(Unaudited)**

| | 2018 | 2017 |
|--|--------------|--------------|
| Assets | | |
| Current Assets | | |
| Cash | \$1,585,950 | \$1,618,583 |
| Cash-restricted | 993,160 | 33,821 |
| Certificates of deposit | 2,392,890 | 2,662,890 |
| Accounts receivable | 64,022 | 113,067 |
| Prepaid expense and other assets | 140,964 | 50,354 |
| Total current assets | 5,176,986 | 4,478,715 |
| Non-current Assets | | |
| Certificate of deposit | 1,205,000 | 950,000 |
| Property and equipment: | | |
| Land | 7,051,412 | 7,147,100 |
| Timber | 2,138,051 | 2,119,180 |
| Building and equipment less accumulated depreciation of \$74,623 and \$74,565, respectively | 33,979 | 28,742 |
| Total property and equipment, net | 9,223,442 | 9,295,022 |
| Total assets | \$15,605,428 | \$14,723,737 |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities | | |
| Trade payables and accrued expenses | \$210,954 | \$207,166 |
| Dividends payable | 233,099 | -- |
| Income tax payable | 53,888 | 13,346 |
| Total current liabilities | 497,941 | 220,512 |
| Non-current Liabilities | | |
| Deferred income tax payable | 187,664 | 187,664 |
| Total liabilities | 685,605 | 408,176 |
| Stockholders' Equity | | |
| Common stock, no par value: 3,000,000 shares authorized; 1,942,495 and 1,942,495 shares issued, respectively | 59,335 | 59,335 |

| | | |
|--|--------------|--------------|
| Retained earnings | 14,860,488 | 14,256,226 |
| Total stockholders' equity | 14,919,823 | 14,315,561 |
| Total liabilities and stockholders' equity | \$15,605,428 | \$14,723,737 |

The accompanying notes are an integral part of these unaudited financial statements.

CKX Lands, Inc.**Statements of Income****Quarters Ended March 31, 2018 and 2017****(Unaudited)**

| | 2018 | 2017 |
|---|-------------|-------------|
| Revenues | | |
| Oil and gas | \$ 124,577 | \$ 181,669 |
| Timber | 178,449 | -- |
| Surface | 34,513 | 17,102 |
| Surface – related party | 9,156 | -- |
| Total revenues | 346,695 | 198,771 |
| Costs, Expenses and (Gains) | | |
| Oil and gas | 16,656 | 17,565 |
| Timber | 20,594 | 2,940 |
| Surface | 6,990 | 16,858 |
| General and administrative | 132,561 | 134,857 |
| Depreciation | 233 | 234 |
| Gain on sale of land | (878,320) | (2,891) |
| Total cost, expenses and (gains) | (701,286) | 169,563 |
| Income from operations | 1,047,981 | 29,208 |
| Other Income | | |
| Interest income | 12,922 | 10,212 |
| Net other income | 12,922 | 10,212 |
| Income before income taxes | 1,060,903 | 39,420 |
| Federal and State Income Taxes | | |
| Current | 223,542 | (5,200) |
| Total income taxes | 223,542 | (5,200) |
| Net Income | \$ 837,361 | \$ 44,620 |
| Per Common Stock, basic and diluted | | |
| Net Income | \$ 0.43 | \$ 0.02 |
| Dividends | \$ 0.12 | \$ 0.10 |
| Weighted Average Common Shares Outstanding, basic and diluted | 1,942,495 | 1,942,495 |

The accompanying notes are an integral part of these unaudited financial statements.

CKX Lands, Inc.**Statements of Changes in Stockholders' Equity****Quarters Ended March 31, 2018 and 2017****(Unaudited)**

| | Total | Retained Earnings | Capital Stock Issued |
|--------------------------------------|--------------|----------------------|----------------------------|
| <u>Quarter Ending March 31, 2018</u> | | | |
| December 31, 2017 Balance | \$14,315,561 | \$14,256,226 | \$59,335 |
| Net income | 837,361 | 837,361 | -- |
| Dividends declared | (233,099) | (233,099) | -- |
| March 31, 2018 Balance | \$14,919,823 | \$14,860,488 | \$59,335 |
| <u>Quarter Ending March 31, 2017</u> | | | |
| December 31, 2016 Balance | \$13,986,948 | \$13,927,613 | \$59,335 |
| Net income | 44,620 | 44,620 | -- |
| Dividends declared | (194,250) | (194,250) | -- |
| March 31, 2017 Balance | \$13,837,318 | \$13,777,983 | \$59,335 |

The accompanying notes are an integral part of these unaudited financial statements.

CKX Lands, Inc.**Statements of Cash Flows****Quarters Ended March 31, 2018 and 2017****(Unaudited)**

| | 2018 | 2017 |
|---|-------------|-------------|
| Cash Flows Used In Operating Activities: | | |
| Net Income | \$837,361 | \$44,620 |
| Less non-cash and non-operating (income) expenses included in net income: | | |
| Depreciation, depletion and amortization | 8,735 | 234 |
| Gain on sale of land | (878,320) | (2,891) |
| Change in operating assets and liabilities: | | |
| Increase in current assets | (55,817) | (129,832) |
| Increase in current liabilities | 44,330 | 35,122 |
| Net cash used in operating activities | (43,711) | (52,747) |
| Cash Flows Provided From (Used In) Investing Activities: | | |
| Certificates of deposit: | | |
| Purchases | (965,000) | (720,000) |
| Maturity proceeds | 980,000 | 720,000 |
| Land, equipment, and other assets: | | |
| Purchases | (10,370) | -- |
| Sales proceeds | 993,160 | 3,390 |
| Timber: | | |
| Purchases | (27,373) | (11,040) |
| Net cash provided from (used in) investing activities | 970,417 | (7,650) |
| Net increase (decrease) in cash and cash-restricted | 926,706 | (60,397) |
| Cash and cash-restricted: | | |
| Beginning | 1,652,404 | 1,081,188 |
| Ending | \$2,579,110 | \$1,020,791 |
| <u>Supplemental disclosures of cash flow information:</u> | | |
| Cash payments for: | | |
| Interest | \$-- | \$-- |
| Income taxes | \$183,000 | \$11,000 |

The accompanying notes are an integral part of these unaudited financial statements.

CKX Lands, Inc.

Notes to Financial Statements

March 31, 2018

(Unaudited)

Note 1. Basis of Presentation

The accompanying unaudited financial statements of CKX Lands, Inc. (“Company”) have been prepared in accordance with United States generally accepted accounting principles for interim financial information. They do *not* include all information and footnotes required by United States generally accepted accounting principles for complete financial statements. Except as described herein, there has been *no* material change in the information disclosed in the notes to the financial statements included in our financial statements as of and for the year ended *December 31, 2017*. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included in the accompanying financial statements. Certain amounts have been reclassified to conform to the current period’s presentation, including oil and gas, timber, and surface, from general and administrative costs and expenses on the statements of income.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes most current revenue recognition guidance, including industry-specific guidance. Subsequently, the FASB has issued updates which provide additional implementation guidance. The new guidance requires companies to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration it expects to be entitled to in exchange for those goods or services. We adopted this guidance in the first quarter of 2018 applying the modified retrospective approach. We have completed our review of all revenue sources in scope for the new standard, and stumpage agreements are within this scope. In accordance with the new standard, the basis for determining revenue and expenses allocable to stumpage agreements (timber revenue) was not modified. There was no net cumulative effect adjustment for this change as of January 1, 2018.

Interim results are *not* necessarily indicative of results for a full year. These financial statements and accompanying notes should be read in conjunction with the Company’s Form 10-K for the year ended *December 31, 2017* and Form 10-Q for the quarterly period ended *March 31, 2018*.

Note 2. Income Taxes

In accordance with generally accepted accounting principles, the Company has analyzed its filing positions in federal and state income tax returns that remain subject to examination, generally 3 years after filing. The Company believes that all filing positions are highly certain and that all income tax filing positions and deductions would be sustained upon a taxing jurisdiction's audit. Therefore, *no* reserve for uncertain tax positions is required. *No* interest or penalties have been levied against the Company and *none* are anticipated.

CKX Lands, Inc.**Notes to Financial Statements****March 31, 2018****(Unaudited)**

Note 3. Company Operations

The Company's operations are classified into *three* principal operating segments that are all located in the United States: oil and gas, timber and surface. The Company's reportable business segments are strategic business units that offer income from different products. They are managed separately due to the unique aspects of each area.

Following is a summary of segmented operations information for the quarter ended *March 31, 2018* and *2017*, respectively:

| | 2018 | 2017 |
|--|------------|------------|
| Revenues | | |
| Oil and Gas | \$ 124,577 | \$ 181,669 |
| Timber | 178,449 | -- |
| Surface | 43,669 | 17,102 |
| Total | 346,695 | 198,771 |
| Cost and Expenses | | |
| Oil and Gas | 16,656 | 17,565 |
| Timber | 20,594 | 2,940 |
| Surface | 6,990 | 16,858 |
| Total | 44,240 | 37,363 |
| Income from Operations | | |
| Oil and Gas | 107,921 | 164,104 |
| Timber | 157,855 | (2,940) |
| Surface | 36,679 | 244 |
| Total | 302,455 | 161,408 |
| Other Income (Expense) before Income Taxes | 758,448 | (121,988) |
| Income before Income Taxes | 1,060,903 | 39,420 |
| Identifiable Assets, net of accumulated depreciation and depletion | | |
| Oil and Gas | -- | -- |
| Timber | 2,138,051 | 2,083,408 |
| Surface | -- | -- |

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| | | |
|----------------------------|------------|------------|
| General Corporate Assets | 13,467,377 | 12,414,659 |
| Total | 15,605,428 | 14,498,067 |
| Capital Expenditures | | |
| Oil and Gas | -- | -- |
| Timber | 27,373 | 11,040 |
| Surface | -- | -- |
| General Corporate Assets | 10,370 | -- |
| Total | 37,743 | 11,040 |
| Depreciation and Depletion | | |
| Oil and Gas | -- | -- |
| Timber | 8,502 | -- |
| Surface | -- | -- |
| General Corporate Assets | 233 | 234 |
| Total | \$8,735 | \$234 |

There are *no* intersegment sales reported in the accompanying income statements. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in the Company's Form 10-K for the year ended *December 31, 2017*. The Company evaluates performance based on income or loss from operations before income taxes excluding any nonrecurring gains and losses on securities held available-for-sale. Income before income tax represents net revenues less costs and expenses less other income and expenses of a general corporate nature. Identifiable assets by segment are those assets used solely in the Company's operations within that segment.

CKX Lands, Inc.**Notes to Financial Statements***March 31, 2018***(Unaudited)**

Note 3. Company Operations (continued)

Revenue from customers representing 5% or more of total revenue for the quarter ended *March 31, 2018* and *2017*, respectively are:

| Count | 2018 | 2017 |
|-------|-----------|----------|
| 1 | \$138,519 | \$41,884 |
| 2 | 39,899 | 34,137 |
| 3 | 34,723 | 23,215 |
| 4 | 24,193 | 13,039 |
| 5 | 19,764 | 13,028 |
| 6 | -- | 12,795 |

Note 4. Cash – Restricted

During the *first* quarter of *2018*, the company closed on the sale of *four* parcels of land all of which were structured as a “deferred exchange using a qualified intermediary” pursuant to Paragraph *1031* of the Internal Revenue Code (*1031* Exchange) for income tax purposes. The net proceeds from these transactions of \$*993,160* are included the Cash-Restricted amount at *March 31, 2018*. Subsequent to *March 31, 2018*, identified properties for the purposes of the *1031* Exchange were deemed *not* acceptable after preliminary due diligence. The *1031* Exchange will *not* be completed. The related tax expense on the gain from these sales has been accrued at *March 31, 2018*.

The following table provides a reconciliation of cash and cash-restricted reported within the balance sheet that sum to the total of the same such amounts shown in the statement of cash flows.

March 31,
2018

| | |
|--------------------------|-------------|
| Cash | \$1,585,950 |
| Cash-restricted | 993,160 |
| Cash and cash-restricted | \$2,579,110 |

Note 5. Dividend Declaration

On March 22, 2018, the Company declared a dividend of twelve (\$0.12) cents per common share payable to shareholders of record date as of April 5, 2018 and payment date of April 12, 2018.

Note 6. Related Party Transactions

On *April 17, 2017*, the Company entered into an option to lease agreement (“OTL”) with Stream Wetlands Services, LLC (“Stream”). Under the terms of the OTL, Stream paid the Company \$38,333 during the quarter ended *March 31, 2018* for an extension of an exclusive right to evaluate and market certain lands owned by the Company to their client for beneficial use purposes to compensate for wetlands impact through *February 28, 2019*. Stream *may* extend the OTL for up to *two (2)* successive periods of *twelve (12)* months. If Stream is chosen to perform their client’s project, the Company has agreed to put forth its best efforts to negotiate and enter into a mutually acceptable lease form. Due to the uncertainty of the contract award and project scope, we are unable to estimate the potential financial benefit, if any, to the Company. William Gray Stream, a prior Company Director, is the president of Stream Wetlands Services, LLC.

**Item MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS
2. OF OPERATIONS**

Results of Operations

Revenue

Comparison of Revenues for the three months ended March 31, 2018 and 2017 follows:

| | 2018 | 2017 | \$ Change | % Change |
|-------------|---------|---------|--------------|-------------|
| Oil and Gas | 124,577 | 181,669 | (59,092) | (32.53)% |
| Timber | 178,449 | -- | 178,449 | 100.00 % |
| Surface | 43,669 | 17,102 | 26,567 | 155.34 % |
| Total | 346,695 | 198,771 | 145,924 | 74.42 % |

Oil and Gas

CKX leases its property to oil and gas operators and collects income through its land ownership in the form of oil and gas royalties and lease rentals and geophysical revenues. A breakdown of oil and gas revenues follows:

| | 2018 | 2017 | \$ Change | % Change |
|-----------------------|---------|---------|--------------|-------------|
| Oil | 97,662 | 130,205 | (32,542) | (24.99)% |
| Gas | 23,375 | 46,464 | (23,090) | (49.69)% |
| Lease and Geophysical | 3,540 | 5,000 | (1,460) | (29.20)% |
| Total | 124,577 | 181,669 | 57,092 | (31.43)% |

CKX received oil and/or gas revenues from 82 and 89 wells during the three-month period ended March 31, 2018 and 2017, respectively.

The following schedule summarizes barrels and MCF produced and average price per barrel and per MCF.

| | 2018 | 2017 |
|--|---------|---------|
| Net oil produced (Bbl) ⁽²⁾ | 1,409 | 2,274 |
| Average oil sales price (per Bbl) ^(1,2) | \$60.92 | \$50.33 |
| Net gas produced (MCF) | 6,724 | 13,404 |
| Average gas sales price (per MCF) ⁽¹⁾ | \$3.48 | \$3.47 |

Notes to above schedule:

⁽¹⁾ Before deduction of production costs and severance taxes.

⁽²⁾ Excludes plant products.

Oil and Gas revenues decreased by \$57,092 from 2017 revenues. As indicated from the schedule above the net decrease was due to increases in the average price per barrel and decreases in barrels of oil produced, , MCF of gas produced, and the average price per MCF.

**Item MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS
2. OF OPERATIONS (continued)**

Lease and geophysical revenues were \$3,540 in 2017 and \$5,000 in 2016 amounts. These revenues are dependent on oil and gas producers' activities, are not predictable and can vary significantly from year to year.

Management believes oil and gas activity is driven by the current and forecasted commodity prices, demand for oil and gas, and upstream and downstream industry activity. Based on available public information, management believes that oil and gas activity which includes oil and gas production as well as lease rentals will be comparable to 2017 annual reported amounts.

During the first quarter of 2018, the Company received \$178,449 in timber revenues. In 2017, the Company received no timber revenues. We believe the increase in revenues is due to our continued marketing of our timber and securing stumpage agreements over the last couple of years and dryer weather. We believe the market will continue to be challenging during 2018.

Surface revenue increased from 2017 due to increasing leasing fees for our hunting and agriculture properties as well as increased lease activity related southwest Louisiana economic growth. During 2018, we received no revenue related to pipeline right of way agreements. As previously noted by management, pipeline, utility and other right of ways are not unusual to the Company; however these types of revenue are not predictable and can vary significantly from year to year.

Costs and Expenses

Timber costs increased by \$17,954 in 2018 due to the increased timbers revenue occurring in the first quarter of 2018.

Surface costs decreased by \$9,868 in 2018 due to lower repair and maintenance cost and no legal contract review.

General and administrative expenses decrease by \$2,296 primarily due to increased officer salaries for land disposition administration and decreases in legal fees related to SEC reporting and director fees.

Financial Condition

Current assets totaled \$5,176,986 and current liabilities equaled \$497,941 at March 31, 2018.

In the opinion of management, cash and cash equivalents, and certificates of deposit are adequate for projected operations and possible land acquisitions.

The Company declared and paid twelve cents per common share dividend during the quarter ended March 31, 2018. During the first quarter of each future calendar year, the Company anticipates determining if a dividend will be declared. In determining whether a dividend will be declared, the board of directors will take into account the Company's prior fiscal year's cash flows from operations and current economic conditions among other information deemed relevant.

Issues and Uncertainties

This quarterly report contains forward-looking statements. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of issues and uncertainties such as those discussed below, which, among others, should be considered in evaluating the Company's financial outlook.

**Item MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS
2. OF OPERATIONS (continued)**

The Company's business and operations are subject to certain risks and uncertainties, including:

Reliance upon Oil and Gas Discoveries

The Company's most significant risk is its reliance upon others to perform exploration and development for oil and gas on its land. Future income is dependent on others finding new production on the Company's land to replace present production as it is depleted. Oil and gas prices as well as new technology will affect the possibility of new discoveries.

Commodity Prices

Most of the Company's operating income comes from the sale of commodities produced from its lands: oil and gas, and timber. Fluctuations in these commodity prices will directly impact net income.

Natural Disasters

The Company has approximately 10,612 net acres of timberland (pine and hardwood) in various stages of growth or age classes. A typical pine timber stand will be harvested after 30 to 35 years of growth with some thinning occurring during this time. A hardwood stand will be harvested after 45 to 50 years of growth. A natural disaster can have a material adverse effect on timber growth, reducing its value. Natural disasters could include a hurricane, tornado, high winds, heavy rains and flooding, and/or fire cause by lightning.

Item 3. Not applicable.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 as of the period covered by this report. Based on the evaluation, performed under the supervision and with the participation of the Company's management, including the President, concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by the report.

Changes in Internal Control Over Financial Reporting

There were no significant changes with respect to the Company's internal control over financial reporting or in other factors that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during the quarter covered by this report.

Part II. Other Information

Item 1 – 5 Not Applicable

Item 6. EXHIBITS

3.1 Restated/Articles of Incorporation of the Registrant are incorporated by reference to Exhibit (3)-1 to Form 10 filed April 29, 1981.

3.2 Amendment to Articles of Incorporation of the Registrant is incorporated by reference to Exhibit (3.2) to Form 10-K for year ended December 31, 2003.

3.3 By-Laws of the Registrant are incorporated by reference to Exhibit (3.3) to Form 10-Q for the quarterly period ended March 31, 2013.

10 Contract to Purchase and Sell approximately 3,495 acres in Cameron Parish, Louisiana effective July 3, 2007 is incorporated by reference to Exhibit (10) to Form 10-QSB filed August 13, 2007.

10.1 Agreement to Purchase and Sell Real Estate of approximately 880 acres in Calcasieu Parish, Louisiana effective May 11, 2016 is incorporated by reference to Form 10-Q filed August 8, 2016.

10.2 Agreement to Purchase and Sell Real Estate of commercial real estate in Sulphur, Louisiana effective July 13, 2017 is incorporated by reference to Form 10-Q filed August 3, 2017.

31 Certification of Brian R. Jones, President and Treasurer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.

32 Certification of President and Treasurer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 filed herewith.

101.INS** XBRL Instance

101.SCH** XBRL Taxonomy Extension Schema

101.CAL** XBRL Taxonomy Extension Calculation

101.DEF** XBRL Taxonomy Extension Definition

101.LAB** XBRL Taxonomy Extension Labels

101.PRE** XBRL Taxonomy Extension Presentation

**XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CKX Lands, Inc.

Date: May 3, 2018

/s/ Brian R. Jones

Brian R. Jones

President and Treasurer