

# **Biloxi Marsh Lands Corporation**

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March 24, 2017

To the Shareholders of Biloxi Marsh Lands Corporation:

The following is a discussion of the results of operations of the Company for the year ended December 31, 2016. The annual revenue breakdown is as follows: 2016 revenue from oil and gas production from our fee lands was \$81,859 compared to revenue of \$285,136 in 2015.

Dividend and interest income for 2016 was \$120,371, compared to \$147,311 for 2015. In 2016, the Company realized a cumulative gain from the sale of investment securities of \$895,344 compared to a cumulative gain in the amount of \$2,195,981 in 2015. During 2016, the Company recognized a settlement gain in the amount of \$235,663. For the year 2016, total revenues were reduced by \$1,594,923 from the Company's investment in B&L Exploration, LLC (B&L). This compares to a reduction in revenues of \$1,682,847 from B&L in the prior year. Expenses for the year totaled \$814,362 and were lower than the prior year's expenses of \$932,941.

For the year, the Company had a net loss of \$1,043,325 or \$.41 per share compared to net income of \$66,419 or \$.03 per share in 2015.

The end of the year proved reserve study commissioned by the Company and completed by an independent reservoir engineering firm estimates that as of December 31, 2016 the Company's total Proved Developed Producing (PDP) reserves were .014 billion cubic feet of natural gas (Bcfg) and 1,900 barrels of oil.

Conversely, B&L has commissioned two independent reserve studies by separate reservoir engineering firms covering different wells. These studies estimate that B&L's total proved reserves as of December 31, 2016 were approximately 10.8 Bcfg, approximately 257 thousand barrels of oil (Mbbl) and approximately 18.0 Mbbl of natural gas liquids which compared to 10.0 Bcfg, approximately 184 Mbbl of oil and approximately 5.5 Mbbl of natural gas liquids as of December 31, 2015. It should be noted that a significant component of B&L's proved reserves as of December 31, 2016 are Proved Undeveloped (PUD). These PUD reserves are partially attributed to B&L's leasehold interest in a federal offshore Louisiana block and partially attributed to B&L's Lago Verde project in South Texas. As is necessary with all PUD reserves, a well or wells must be drilled and completed to fully develop these PUD reserves.

As of December 31, 2016, the combined net daily production accruing to the Company from 6 wells operated by the Company's mineral lessees was approximately .028 million cubic feet of natural gas (Mmcfg) and 2 barrels of oil per day (BOPD). The foregoing production includes four wells producing from S/L 16158 in which the Company owns a small interest. Meanwhile, as of December 31, 2016, B&L's net daily production from 7 wells was approximately 2.14 Mmcfg, 46 BOPD and 6 barrels of natural gas liquids per day.

As previously reported, the Company received a settlement payment during 2013 for its wetlands real property claim under the BP Deepwater Horizon Economic and Property Damages Settlement Program. During 2016, the Company received additional settlement payments of \$235,663. As of this time, the Company has been advised by our legal counsel that there is no anticipated additional settlement recovery.

The Company maintains a stock buyback program. On December 14, 2015, the board of directors authorized the additional purchase of up to 30,000 shares of the Company's common stock. The purchases will be made from time to time on the open market at the sole discretion of the Company. All shares purchased will be held as treasury stock.

As previously reported, the Company has filed a claim against the US Army Corps of Engineers (USACE) for property damages and losses caused by the Mississippi River Gulf Outlet (MR-GO). We will continue to aggressively pursue this claim and will keep our shareholders advised as things progress.

Based on information available from the Louisiana Department of Natural Resources, the Highlander discovery well produced approximately 50 MMcfg per day during December 2016. B&L has been assigned and is contractually entitled to a 1.5% of 8/8ths overriding royalty interest (ORRI) in the Highlander discovery well and in all mineral leases acquired and maintained by Freeport-McMoRan Oil & Gas (FM O&G) within the Area of Mutual Interest (AMI) between B&L and FM O&G covering FM O&G's Highlander Project Area located in Assumption, Iberia, Iberville, St. Martin, and St. Mary Parishes, Louisiana. During its meeting held on January 31, 2017, the State of Louisiana, Office of Conservation amended its original unit order concerning the Plan of Development for wells drilled within the 9,000 acre EOC-TUSC BL UDS SUA (production unit from which the Highlander discovery well is producing). The original unit order required that the Operator spud the second unit well by February 6, 2017. The amended unit order extends the obligation to spud the second unit well to February 6, 2019. As of this time, B&L is only guaranteed its ORRI within the 9,000 acre EOC-TUSC BL UDS SUA unit during the period of time that the Highlander discovery well continues to produce or development wells are drilled and then placed on production.

In 2012 B&L obtained a mineral lease in a federal offshore block located in shallow water on the intercontinental shelf offshore of Louisiana. B&L currently holds a 60% working interest in this lease. With the current lower commodity pricing environment, B&L and its 40% working interest partner are working together to determine if a plan of development is attractive. As of this time, there is no assurance that a well will be spud. If a well is not spud prior to the lease expiration date, this lease will expire in October of 2017 and the associated PUD reserves will not be included in future reserve reports.

B&L's Welder No.1 well continues to produce better than originally anticipated. Meanwhile, the Welder No. 3 well was successfully reworked and hydraulically fractured during the second quarter of 2016 and, as a result, this well is producing at increased flow rates. B&L recently drilled and is commencing completion operations on the Welder No. 4 well located within its Lago Verde project area.

As previously reported, dating back to 2011 B&L began assembling a mineral lease position in Allen and Beauregard Parishes, Louisiana targeting the Wilcox sand interval. In October of 2014, B&L placed the majority of the working interest with Petro Harvester Oil & Gas LLC allowing B&L to recover the majority of its investment in this mineral lease position. Due to the crash of oil prices beginning in November of 2014, Petro Harvester opted not to pursue this project and returned the leases to B&L. During 2016, all leases within this project area expired. The release of this lease position had no impact to B&L's proved reserves and allows B&L to concentrate its financial resources on other projects.

B&L was organized as a limited liability Company (LLC) under the laws of Louisiana in July of 2006. B&L's members are BLMC and Lake Eugenie Land & Development, Inc. (LKEU), which have membership percentages of 75% and 25%, respectively.

During its meeting held on December 16, 2016, the board of directors declared a dividend of \$.10 per outstanding share of common stock payable on Wednesday, January 4, 2017 to shareholders of record at the close of business on Friday, December 30, 2016. This represents a total cash dividend payment of \$253,503 or \$.10 per share. Since 2002, the Company has paid approximately \$55,477,000 in total dividends. With the Company's fee land based production depleting and no new wells being drilled on its fee lands, it will be difficult to maintain the level of dividends paid since 2002.

The Company has engaged Postlethwaite & Netterville, APAC (P&N) to provide financial statement services for the year ending December 31, 2016. P&N is one of the leading firms in the Gulf South. For over 65 years, P&N has delivered accounting, tax, consulting and technology services that address its clients' important financial and operational challenges. Today, P&N is more than 600 employees strong, with nine offices in Texas and Louisiana, and is consistently ranked among the top 100 accounting firms in the U.S. by *INSIDE Public Accounting* magazine.

Please remember to visit our website, [www.biloximarshlandscorp.com](http://www.biloximarshlandscorp.com), to obtain general information about the Company as well as historical annual reports and all press releases. We strongly recommend that all interested parties become familiar with the information available on the Company's website: [www.biloximarshlandscorp.com](http://www.biloximarshlandscorp.com).

In last year's President's letter we reported that B&L's management was keenly aware of lower commodity prices and the challenges created by those lower prices. During 2016, B&L's management took steps to reduce its G&A expense, capital expenditure budget and allocate capital to projects with lower capital requirements. B&L's management continues to be pleased with the results from its Lago Verde Project in south Texas. During the second half of 2016, B&L's actions to increase production from the Welder No. 3 were successful and the Welder No. 4 well was recently drilled and completion operations have commenced. B&L's management believes there should be an opportunity to drill additional wells on its Lago Verde project during 2017 and beyond.

The Company's revenue from its fee lands has declined significantly and development of our minerals beneath our lands continues to prove difficult. This is due to a combination of factors which include the depth of prospects beneath our property, the current price of natural gas and the difficult environment for oil and gas operators in the state of Louisiana. The combination of these factors is making it more challenging for us to attract companies willing to explore for oil and gas in St. Bernard Parish, Louisiana. Nonetheless, we believe that we are positioning the Company for growth through B&L's drilling program in south Texas. 2017 will again prove to be a challenging year due to continued low commodity prices and political environment in Louisiana. With a strong balance sheet, no debt and our investment in B&L, we continue to be well positioned for the upcoming year.

Sincerely,



William B. Rudolf  
President and Chief Executive Officer  
Metairie, Louisiana  
Email: [wrudolf@blexp.net](mailto:wrudolf@blexp.net)<sup>i</sup>

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<sup>i</sup> This letter contains forward-looking statements regarding oil and gas discoveries, oil and gas exploration, development and production activities and reserves. Accuracy of the forward-looking statements depends on assumptions about events that change over time and is thus susceptible to periodic change based on actual experience and new developments. The Company cautions readers that it assumes no obligation to update or publicly release any revisions to the forward-looking statements in this report. Important factors that might cause future results to differ from these forward-looking statements include: variations in the market prices of oil and natural gas; drilling results; unanticipated fluctuations in flow rates of producing wells; oil and natural gas reserves expectations; the ability to satisfy future cash obligations and environmental costs; additional drilling, and general exploration and development risks and hazards. Readers are cautioned not to place undue reliance on forward-looking statements made by or on behalf of the Company. Each such statement speaks only as of the day it was made. The factors described above cannot be controlled by the Company. When used in this report, the words "hopeful", "believes", "estimates", "plans", "expects", "could", "should", "outlook", "possibly" and "anticipates" and similar expressions as they relate to the Company or its management are intended to identify forward-looking statements.

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**BILOXI MARSH LANDS CORPORATION**  
**FINANCIAL STATEMENTS AND SCHEDULE**  
**INCOME TAX BASIS**  
**DECEMBER 31, 2016**  
**(WITH INDEPENDENT AUDITORS' REPORT THEREON)**

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**BILOXI MARSH LANDS CORPORATION**  
**FINANCIAL STATEMENTS AND SCHEDULE**  
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**DECEMBER 31, 2016**  
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## **BILOXI MARSH LANDS CORPORATION**

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## **Independent Auditors' Report**

The Board of Directors  
Biloxi Marsh Lands Corporation:

We have audited the accompanying financial statements – income tax basis of Biloxi Marsh Lands Corporation (the Company), which comprise the statement of assets, liabilities, and stockholders' equity – income tax basis as of December 31, 2016, and the related statements of revenues and expenses – income tax basis, changes in stockholders' equity – income tax basis, and cash flows – income tax basis for the year then ended, and the related notes to the financial statements – income tax basis.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting the Company uses for income tax purposes; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the 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 Company'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 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 financial statements referred to above present fairly, in all material respects, the assets, liabilities, and stockholders' equity of Biloxi Marsh Lands Corporation as of December 31, 2016, and its revenues and expenses, changes in stockholders' equity, and cash flows for the year then ended in accordance with the basis of accounting the Company uses for income tax purposes described in note 1.

### *Prior Period Financial Statements*

The financial statements of Biloxi Marsh Lands Corporation as of December 31, 2015, were audited by other auditors whose report dated March 9, 2016, expressed an unmodified opinion on these statements.

### *Basis of Accounting*

We draw attention to note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of accounting the Company uses for income tax purposes, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

### *Emphasis of Matter*

As described in note 1, because many types of transactions are susceptible to varying interpretations under federal and state income tax laws and regulations, the amounts reported in the accompanying financial statements – income tax basis may be subject to change at a later date upon final determination by the taxing authorities. Our opinion is not modified with respect to this matter.

### *Report on Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements – income tax basis as a whole. The Schedule of Marketable Securities as of December 31, 2016 is presented for purposes of additional analysis and is not a required part of the financial statements – income tax basis. 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 – income tax basis. The information has been subjected to the auditing procedures applied in the audit of the financial statements – income tax basis and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements – income tax basis or to the financial statements – income tax basis 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 – income tax basis as a whole. The Schedule of Marketable Securities for the year ended December 31, 2015 were subjected to the auditing procedures applied in the audit of the basic financial statements by other auditors, whose report on such information stated that, in their opinion, it was fairly stated in all material respects in relation to the financial statements for the year ended December 31, 2015, as a whole.

*Postlethwaite A. Hattenville*

Metairie, Louisiana  
March 10, 2017



**BILOXI MARSH LANDS CORPORATION**

**STATEMENTS OF ASSETS, LIABILITIES, AND STOCKHOLDERS' EQUITY**

**INCOME TAX BASIS**

**DECEMBER 31, 2016 AND 2015**

**ASSETS**

	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 3,954,681	\$ 2,584,889
Accounts receivable	10,830	22,036
Accrued interest receivable	11,048	17,565
Federal income taxes receivable	7,195	7,195
Prepaid expenses	38,846	39,043
State income taxes receivable	4,948	41,434
Deferred tax asset	21,055	53,150
Marketable debt securities - at cost	265,515	300,025
Other assets	<u>3,830</u>	<u>3,830</u>
Total current assets	<u>4,317,948</u>	<u>3,069,167</u>
Investment in partnership	1,807,105	2,652,028
Marketable debt and equity securities - at cost	4,930,346	6,330,334
Land - at cost	234,939	234,939
Geological and geophysical costs - fee lands, net of amortization	8,224	39,841
Levees and office furniture and equipment	314,943	314,943
Accumulated depreciation	<u>(314,483)</u>	<u>(314,009)</u>
Total assets	<u>\$ 11,299,022</u>	<u>\$ 12,327,243</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current liabilities:		
Accrued expenses	<u>\$ 29,977</u>	<u>\$ 14,873</u>
Total current liabilities	<u>29,977</u>	<u>14,873</u>
Stockholders' equity		
Common stock, \$0.001 par value. Authorized, 20,000,000 shares; issued, 2,851,196 shares; outstanding, 2,535,028 shares in 2016 and 2015	47,520	47,520
Retained earnings	14,064,150	15,107,475
Treasury stock, 316,168 shares in 2016 and 2015, at cost	<u>(2,842,625)</u>	<u>(2,842,625)</u>
Total stockholders' equity	<u>11,269,045</u>	<u>12,312,370</u>
Total liabilities and stockholders' equity	<u>\$ 11,299,022</u>	<u>\$ 12,327,243</u>

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

**BILOXI MARSH LANDS CORPORATION**

**STATEMENTS OF REVENUES AND EXPENSES**

**INCOME TAX BASIS**

**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Revenues:		
Oil and gas	\$ 81,859	\$ 235,136
Surface rentals	<u>-</u>	<u>50,000</u>
Total oil and gas revenues	<u>\$ 81,859</u>	<u>\$ 285,136</u>
Other income (loss):		
Loss from investment in partnership	(1,594,923)	(1,682,847)
Dividends and interest income	120,371	147,311
Gain on settlement	235,663	-
Gain of sale of securities	895,344	2,195,981
Surface rentals	<u>64,818</u>	<u>44,084</u>
Total other income (loss)	<u>\$ (278,727)</u>	<u>\$ 704,529</u>
Total revenues and other income (loss)	<u>\$ (196,868)</u>	<u>\$ 989,665</u>
Expenses:		
Salaries	177,500	164,000
Bonuses	22,500	45,000
Payroll taxes	10,071	10,551
Employee benefits	10,154	10,770
Association dues	8,250	8,250
Accounting and auditing	75,000	69,500
Consultants	56,348	56,918
Amortization - geological and geophysical costs - fee lands	31,617	38,564
Depreciation	474	569
Severance taxes	6,266	16,231
Directors' fees	55,750	58,500
Franchise taxes	75,423	64,379
Insurance	80,988	101,593
Fee land management	30,418	43,161
Legal fees	47,293	54,645
Other	19,126	57,520
Portfolio	43,952	55,083
Property taxes	24,166	23,403
Rent	29,105	41,739
Shareholder relations	<u>9,961</u>	<u>12,565</u>
Total expenses	<u>814,362</u>	<u>932,941</u>
Net income (loss) before income taxes	(1,011,230)	56,724
Income tax expense (benefit)	<u>32,095</u>	<u>(9,695)</u>
Net income (loss) - income tax basis	<u>\$ (1,043,325)</u>	<u>\$ 66,419</u>
Net income (loss) per share - income tax basis	\$ (0.41)	\$ 0.03

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

BILOXI MARSH LANDS CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
INCOME TAX BASIS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Common stock		Treasury stock		Retained earnings	Total
	Shares	Amount	Shares	Amount		
Balance, December 31, 2014	2,851,196	\$ 47,520	316,168	\$ (2,842,625)	\$ 15,357,935	\$ 12,562,830
Net income - tax basis	-	-	-	-	66,419	66,419
Dividends	-	-	-	-	(316,879)	(316,879)
Balance, December 31, 2015	2,851,196	47,520	316,168	(2,842,625)	15,107,475	12,312,370
Net loss - income tax basis	-	-	-	-	(1,043,325)	(1,043,325)
Balance, December 31, 2016	2,851,196	\$ 47,520	316,168	\$ (2,842,625)	\$ 14,064,150	\$ 11,269,045

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

**BILOXI MARSH LANDS CORPORATION**

**STATEMENTS OF CASH FLOWS**

**INCOME TAX BASIS**

**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>		
Net income (loss) - income tax basis	\$ (1,043,325)	\$ 66,419
Adjustments to reconcile net income - income tax basis to net cash used in operating activities:		
Depreciation	474	569
Amortization - geological and geophysical costs - fee lands	31,617	38,564
Gain on sale of securities	(895,344)	(2,195,981)
Loss from investment in partnership	1,594,923	1,682,847
Deferred income tax expense	32,095	7,229
Change in operating assets and liabilities:		
Accounts and interest receivable	17,723	95,448
Prepaid expenses	197	1,824
Income taxes receivable	36,486	(24,938)
Accrued expenses	15,104	(20,033)
Net cash used in operating activities	<u>(210,050)</u>	<u>(348,052)</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>		
Proceeds from the sale of securities	6,866,229	6,907,528
Purchase of securities	(4,536,387)	(4,865,295)
Investment in partnership	(750,000)	(1,575,000)
Geological and geophysical costs	<u>-</u>	<u>(32,894)</u>
Net cash provided by investing activities	<u>1,579,842</u>	<u>434,339</u>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES:</u></b>		
Dividends paid	<u>-</u>	<u>(316,879)</u>
Net cash used in financing activities	<u>-</u>	<u>(316,879)</u>
Net increase (decrease) in cash and cash equivalents	1,369,792	(230,592)
Cash and cash equivalents, beginning of year	<u>2,584,889</u>	<u>2,815,481</u>
Cash and cash equivalents, end of year	<u>\$ 3,954,681</u>	<u>\$ 2,584,889</u>
<b><u>SUPPLEMENTAL CASH FLOW INFORMATION:</u></b>		
Cash paid for income taxes	\$ -	\$ (45,252)

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

**BILOXI MARSH LANDS CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**INCOME TAX BASIS**

**DECEMBER 31, 2016 AND 2015**

**(1) Summary of Significant Accounting Policies**

**Nature of Operations**

Biloxi Marsh Lands Corporation (the Company) is a Delaware corporation whose principal assets are surface and mineral rights to approximately 90,000 acres of marsh land in St. Bernard Parish, Louisiana, which generates revenues primarily from mineral activities including lease bonuses, delay rentals, and royalties on oil and natural gas production. A study by an independent reservoir engineering firm estimates that the Company has proved reserves in natural gas associated with a portion of this property. These proved reserve estimates are not included in these financial statements – income tax basis.

As discussed in note 3, the Company owns an interest in B&L Exploration L.L.C. (B&L). B&L is engaged principally in the exploration for and development of oil and natural gas resources through various ownership interests in oil and natural gas properties located in Louisiana and Texas.

**Basis of Accounting**

The accompanying financial statements – income tax basis are presented in accordance with the accrual method of tax accounting used for federal income tax reporting purposes. Under this method of accounting, revenues are generally recorded when earned, and expenses are recognized when incurred. The accompanying financial statements – income tax basis are not intended to present the financial position and results of operation of the Company in conformity with accounting principles generally accepted in the United States of America.

Because many types of transactions are susceptible to varying interpretations under federal and state income tax laws and regulations, the amounts reported in the financial statements – income tax basis may be subject to change at a later date upon final determination by the taxing authorities.

**Use of Estimates**

The process of preparing financial statements – income tax basis requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to accrued amounts as of the date of the financial statements – income tax basis. Accordingly, upon settlement, actual results may differ from estimated amounts.

**Cash and Cash Equivalents**

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents include \$3,880,083 and \$2,265,314 of investment money market funds with an initial term of less than three months at December 31, 2016 and 2015, respectively.

**BILOXI MARSH LANDS CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**INCOME TAX BASIS**  
**DECEMBER 31, 2016 AND 2015**

**(1) Summary of Significant Accounting Policies (continued)**

**Accounts Receivable**

Accounts receivable are recorded at invoiced amount and do not bear interest. Amounts collected on accounts receivable are included in net cash used in operating activities in the statements of cash flows – income tax basis. Account balances are charged off after all means of collection have been exhausted and the potential for recovery is remote.

**Investment Securities**

Under the income tax basis of accounting, investment securities are recorded at cost in the statements of assets, liabilities, and stockholders' equity – income tax basis. Unrealized gains and losses are excluded from earnings until realized. Realized gains and losses from the sale of equity securities are determined on a specific-identification basis. Dividend income is recognized when received. Interest income is recognized when earned.

**Land and Equipment**

Land and equipment are stated at cost. The Company had depreciation expense of \$474 and \$569 in 2016 and 2015, respectively. Repair and maintenance costs are expensed when incurred.

Depreciation of property is provided for in amounts sufficient to recognize their cost over their estimated service lives using the Modified Accelerated Cost Recovery System (MACRS) rates as indicated for federal income tax purposes. Capitalized geological and geophysical costs are amortized over a 24-month period.

**Investment in Partnership**

The Company owns an interest in B&L Exploration, L.L.C. (B&L), an oil and gas exploration business. B&L has commissioned reserve studies, which were completed by independent reservoir engineering firms. These reserve studies estimate that B&L has proved reserves in natural gas and oil attributable to its mineral properties. Additionally, B&L has various ownership interests in oil and gas properties on which wells are being drilled, completed, or are yet to be drilled that are not included within the proved reserve estimates. The proved reserve estimates are not included in the table below summarizing financial information - income tax basis of B&L.

The Company owns a 75% interest in B&L. The remaining 25% interest in B&L is owned by Lake Eugenie Land & Development, Inc. The members participate in current and future projects based on their respective 75% and 25% membership interests. The carrying amount of the investment in B&L was \$1,807,105 and \$2,652,028 at December 31, 2016 and 2015, respectively.

**BILOXI MARSH LANDS CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**INCOME TAX BASIS**  
**DECEMBER 31, 2016 AND 2015**

**(1) Summary of Significant Accounting Policies (continued)**

**Investment in Partnership (continued)**

Under the income tax method of accounting, the Company accounts for its membership percentage on the equity method whereby the Company recognizes its share of income and losses of the investment. The Company recognized net losses of \$1,594,923 and \$1,682,847 in 2016 and 2015, respectively. The losses included additional amortization costs of \$46,595 and net reductions in costs of \$582,953 in 2016 and 2015 respectively, representing intangible drilling costs that the Company elected to capitalize and the amortization of those costs. The capitalized costs will be amortized over a period of 60 months. The Company made a capital contribution of \$750,000 during the fiscal year 2016.

**Revenue Recognition**

Under the accrual method of tax accounting, the Company recognizes revenue in the period in which all events have occurred that fix the right to receive the revenue, and the amount can be determined with reasonable accuracy.

**Treasury Stock**

The Company follows the cost method of accounting for treasury stock transactions.

**Income Taxes**

Under the income tax basis of accounting, income taxes are accounted for based on an estimate of current federal and state income tax expense. Income tax (benefit) expense includes federal and state taxes currently (receivable) payable as well as deferred taxes.

Operating loss and tax credit carryforwards are recognized as reductions to net deferred income tax liabilities, if it is likely that their benefit will be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Under the income tax basis of accounting, the Company does not recognize a liability for uncertain tax positions until agreement and settlement is reached with the taxing authority.

**Net Income Per Share**

Net income per share – income tax basis is calculated by dividing net income – income tax basis by the weighted average common stock shares outstanding during the period.

**BILOXI MARSH LANDS CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**INCOME TAX BASIS**

**DECEMBER 31, 2016 AND 2015**

**(1) Summary of Significant Accounting Policies (continued)**

**Commitments and Contingencies**

Under the income tax basis of accounting, liabilities for loss contingencies, including environmental remediation costs, arising from claims, assessments, litigation, fines and penalties, and other sources, are not recorded until paid. Commitments and contingencies, if material, are disclosed even if not paid as of the financial reporting date.

**Gain on Settlement**

During 2016, the Company received a settlement payment for its wetlands real property claim under the Deepwater Horizon Economic and Property Damages Settlement Program. The Company received \$235,663, net of the Company's \$78,554 legal fees.

**(2) Investments in Investment Securities**

The cost basis, unrecorded gross unrealized gains, unrecorded gross unrealized losses, and fair value of corporate bonds and equity securities as of December 31, 2016 and 2015 were as follows:

	<u>Cost basis</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair value</u>
At December 31, 2016:				
Corporate bonds	\$ 1,159,029	\$ 43,975	\$ (17,265)	\$ 1,185,739
Equity securities	4,036,832	12,029	(272,740)	3,776,121
	<u>\$ 5,195,861</u>	<u>\$ 56,004</u>	<u>\$ (290,005)</u>	<u>\$ 4,961,860</u>
At December 31, 2015:				
Corporate bonds	\$ 1,459,054	\$ 54,715	\$ (72,030)	\$ 1,441,739
Equity securities	5,171,305	133,136	(404,666)	4,899,775
	<u>\$ 6,630,359</u>	<u>\$ 187,851</u>	<u>\$ (476,696)</u>	<u>\$ 6,341,514</u>

Maturities of corporate bonds were as follows at December 31, 2016:

	<u>Cost basis</u>	<u>Fair value</u>
Due within one year	\$ 265,515	\$ 302,156
Due after one through five years	893,514	883,583
	<u>\$ 1,159,029</u>	<u>\$ 1,185,739</u>



**BILOXI MARSH LANDS CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**INCOME TAX BASIS**

**DECEMBER 31, 2016 AND 2015**

**(3) Investment in Partnership**

Summary financial information – income tax basis of B&L as of and for the years ended December 31, 2016 and 2015 (on the income tax basis of accounting) is as follows:

	<u>2016</u>	<u>2015</u>
Financial position – income tax basis:		
Current assets	\$ 835,192	\$ 878,818
Mineral properties and equipment, net	<u>2,543,724</u>	<u>3,481,613</u>
Total assets	\$ <u>3,378,916</u>	\$ <u>4,360,431</u>
Current liabilities and total liabilities	\$ 789,749	\$ 706,826
Members' equity	<u>2,589,167</u>	<u>3,653,605</u>
Total liabilities and members' equity	\$ <u>3,378,916</u>	\$ <u>4,360,431</u>
Results of operations – income tax basis		
Revenues	\$ 1,972,331	\$ 2,227,000
Net loss	\$ (2,064,438)	\$ (3,021,067)

The Company is a co-guarantor of a \$7,500,000 revolving line of credit with a bank to be utilized by B&L. From time to time, B&L utilizes the credit facility during the ordinary course of its oil and gas operations, mainly to fund projects, which B&L operates. The line of credit expires November 10, 2017. There were no outstanding borrowings by B&L under the revolving line of credit as of December 31, 2016 and 2015. Under the income tax basis of accounting, the estimated fair value of the Company's guarantee of B&L's revolving line of credit is not required to be recognized. As of December 31, 2016, there are no indications that the Company will be required to perform under the terms of the guarantee.

**(4) Income Taxes**

Components of income tax expense (benefit) are as follows:

	<u>2016</u>			<u>2015</u>		
	<u>Current</u>	<u>Deferred</u>	<u>Total</u>	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Federal	\$ -	\$ 25,479	\$ 25,479	\$ 7,822	\$ (10,901)	\$ (3,079)
State	<u>-</u>	<u>6,616</u>	<u>6,616</u>	<u>(24,746)</u>	<u>18,130</u>	<u>(6,616)</u>
Total income tax expense (benefit)	\$ <u>-</u>	\$ <u>32,095</u>	\$ <u>32,095</u>	\$ <u>(16,924)</u>	\$ <u>7,229</u>	\$ <u>(9,695)</u>

**BILOXI MARSH LANDS CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**INCOME TAX BASIS**

**DECEMBER 31, 2016 AND 2015**

**(4) Income Taxes (continued)**

Deferred income taxes have been recorded in the accompanying statements of assets, liabilities, and stockholders' equity – income tax basis for the tax effects of temporary differences that impact the financial statements and income tax returns in different periods, offset partially by carryforwards for federal and state income tax purposes of unused net operating losses and tax credits. The primary components of deferred tax assets are as follows:

	<u>2016</u>	<u>2015</u>
Deferred tax assets:		
Net operating loss and tax credit carryforwards	\$ (21,055)	\$ (53,150)

Nontaxable revenues and nondeductible expenses may result in reporting net income for tax basis financial statements that differs from taxable income reported on the tax return. The reconciliation of U.S. federal statutory and effective income tax rates is shown below:

	<u>2016</u>		<u>2015</u>	
Statutory rate	\$ (353,930)	(35.0) %	\$ 19,853	35.0 %
Percentage depletion	-	-	(23,898)	(42.1)
State taxes provided	6,616	0.7	2,046	3.6
Effect of graduated rates	10,458	1.0	91	0.1
Effect of net operating losses carried forward	381,069	37.7	-	-
Other (net)	(12,118)	(1.2)	(7,787)	(13.7)
Effective tax rate	\$ <u>32,095</u>	<u>3.2 %</u>	\$ <u>(9,695)</u>	<u>(17.1) %</u>

Management has not recorded any deferred tax assets as of December 31, 2016 on net operating loss carry forwards due to the lack of certainty that it is more likely than not that the deferred tax assets will be realized through future operations.

Federal alternative minimum tax credits of \$42,318 have unlimited carryforward periods.

Net operating loss (NOL) carryforwards outstanding of \$1,057,248 federal and \$1,215,108 state as of December 31, 2016 begin to expire in 2035 and 2036, respectively.

**BILOXI MARSH LANDS CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**INCOME TAX BASIS**

**DECEMBER 31, 2016 AND 2015**

**(5) Stockholders' Equity**

**Common Stock**

Holders of common stock are entitled to one vote per share, to receive dividends, and, upon liquidation or dissolution, are entitled to receive all assets available for distribution to stockholders.

**Rights Plan**

On November 6, 2003, the board of directors of the Company adopted a shareholder rights plan. Pursuant to the rights plan by and between the Company and the Company (as Rights Agent), authorized and declared a dividend of one preferred share purchase right for each outstanding share of common shares of the Company on November 20, 2003. Each right entitles the holder to purchase from the Company one one-hundredth of a share of Series A Junior Participating Preferred Stock, with a par value of \$0.001, at an initial price of \$90.00 per one one-hundredth of a share. The purchase price shall be subject to adjustment from time to time as more fully described in the Rights Agreement. The rights, however, will not become exercisable unless and until, among other things, any person acquires 15% or more of the outstanding common shares of the Company. If a person acquires 15% or more of the outstanding common shares (subject to certain conditions and exceptions more fully described in the Rights Agreement), each right will entitle the holder (other than the person who acquired 15% or more of the outstanding common shares) to purchase preferred stock of the Company at a favorable price. On April 24, 2013, the board of directors of the Company reauthorized the shareholder rights plan dated November 6, 2003 for another ten-year term. Unless reauthorized, the shareholder rights plan will expire on October 31, 2023.

**Treasury Stock**

On December 14, 2015, the board of directors authorized the purchase of up to 30,000 shares of its common stock. The purchases will be made from time to time on the open market at the sole discretion of the Company. All shares purchased will be held as treasury stock.

**Dividends**

At its December 16, 2016 meeting, the board of directors declared a dividend of \$.10 per outstanding share of common stock payable on January 4, 2017 to shareholders of record as of the close of business on December 30, 2016.

**(6) Commitments and Contingencies**

From time to time, the Company is involved in legal actions to defend title to its property. In the opinion of management, these matters are necessary to protect the Company's interests and the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations, or liquidity.

**BILOXI MARSH LANDS CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**INCOME TAX BASIS**

**DECEMBER 31, 2016 AND 2015**

**(7) Related Parties**

A member of the board of directors is a partner in a law firm that represents the Company. From time to time, this firm provides legal counsel to the Company and is paid for services provided.

**(8) Subsequent Events**

The Company has evaluated subsequent events from the statement of assets, liabilities, and stockholders' equity – income tax basis date through March 10, 2017, the date at which the financial statements – income tax basis were available to be issued, and determined there are no other items to disclose.

**BILOXI MARSH LANDS CORPORATION**

**SCHEDULE OF MARKETABLE SECURITIES  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

Company description	2016				2015			
	Shares/ face value	Cost	Fair value	Unrealized gains (losses)	Shares/ face value	Cost	Fair value	Unrealized gains (losses)
Common stock:								
2U Inc.	9,100	\$ 297,398	\$ 274,365	\$ (23,033)	7,200	\$ 158,894	\$ 201,456	\$ 42,562
3 D Systems Corp	21,000	333,017	279,090	(53,927)	10,650	73,899	92,548	18,649
Abbott Laboratories	8,300	326,584	318,803	(7,781)	-	-	-	-
Apple Inc.	-	-	-	-	3,150	349,411	331,569	(17,842)
BE Aerospace, Inc.	-	-	-	-	7,850	330,844	332,604	1,760
DST Systems Inc.	2,800	287,991	300,020	12,029	-	-	-	-
EPIQ Systems Inc.	-	-	-	-	39,800	512,848	520,186	7,338
Buronet Worldwide, Inc.	4,000	293,202	289,720	(3,482)	-	-	-	-
Everbank Financial Corp.	-	-	-	-	19,000	348,332	303,620	(44,712)
Financial Engines Inc.	11,650	443,615	428,137	(15,478)	8,750	367,260	294,612	(72,648)
Flowers Foods, Inc.	-	-	-	-	12,300	323,997	264,327	(59,670)
Genesee & Wyoming, Inc. - CLA	-	-	-	-	4,850	306,844	260,396	(46,448)
Gulfport Energy Co.	5,300	159,987	114,692	(45,295)	5,300	159,987	130,221	(29,766)
Howard Hughes Corp.	2,830	353,892	322,903	(30,989)	2,830	353,892	320,243	(33,649)
Kearny Financial Corp.	-	-	-	-	17,100	182,800	216,657	33,857
LKQ Corp.	8,800	293,217	269,720	(23,497)	10,800	291,034	320,004	28,970
Pool Corporation	-	-	-	-	5,100	419,184	411,978	(7,206)
Skyworks Solutions, Inc.	3,750	287,355	279,975	(7,380)	-	-	-	-
Steris PLC	4,400	299,945	296,516	(3,429)	-	-	-	-
Taser International, Inc.	12,000	345,330	290,880	(54,450)	17,300	380,448	299,117	(81,331)
Visa, Inc.	3,990	315,299	311,300	(3,999)	7,740	611,631	600,237	(11,394)
Total common stock		4,036,832	3,776,121	(260,711)		5,171,305	4,899,775	(271,530)
Corporate bonds:								
General Electric Capital Corp.	-	-	-	-	300,000	300,025	307,734	7,709
JP Morgan Chase & Co.	300,000	299,484	302,333	2,849	300,000	299,484	300,645	1,161
LKQ Corp	300,000	293,265	297,750	4,485	300,000	293,265	281,625	(11,640)
PHI Inc.	300,000	300,765	283,500	(17,265)	300,000	300,765	240,375	(60,390)
Whitney National Bank Sub NO	300,000	265,515	302,156	36,641	300,000	265,515	311,360	45,845
Total corporate bonds		1,159,029	1,185,739	26,710		1,459,054	1,441,739	(17,315)
Total marketable securities		\$ 5,195,861	\$ 4,961,860	\$ (234,001)		\$ 6,630,359	\$ 6,341,514	\$ (288,845)

See accompanying independent auditors' report.