

# **Biloxi Marsh Lands Corporation**

**One Galleria Blvd., Suite 902**

**Metairie, Louisiana 70001**

**Phone: (504) 837-4337**

**Fax: (504) 837-1889**

March 26, 2018

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, 2017. The annual revenue breakdown is as follows: 2017 revenue from oil and gas production from our fee lands was \$103,032 compared to revenue of \$81,859 in 2016.

Dividend and interest income for 2017 was \$105,771, compared to \$120,371 for 2016. In 2017, the Company realized a cumulative gain from the sale of investment securities of \$548,455 compared to a cumulative gain in the amount of \$895,344 in 2016. The flow-through loss from B&L Exploration, LLC (B&L) reduced the Company's annual revenue by \$741,597 in 2017 compared to \$1,594,923 in 2016. Expenses for the year totaled \$743,914 and were lower than the prior year's expenses of \$814,362 which represents a reduction in expenses year over year for the past three years.

For the year, the Company had a net loss of \$666,368 or \$.26 per share compared to a net loss of \$1,043,325 or \$.41 per share in 2016.

While 6 wells continue to produce from the Company's fee lands, as of December 31, 2017, the combined net daily production accruing to the Company was minimal. Due to the minimal production from the Company's fee lands, the Company opted not to commission a reserve study for the period ending December 31, 2017.

Meanwhile, B&L's net daily production from 6 wells as of December 31, 2017 was approximately 2,171 thousand cubic feet of natural gas (Mcfg) and 31 barrels of oil per day (BOPD). Two independent reserve studies have been completed by separate reservoir engineering firms covering different properties in which B&L holds working interests. These studies estimate that B&L's proved reserves as of December 31, 2017 were approximately 4.7 billion cubic feet of natural gas (Bcfg), approximately 101 thousand barrels of oil (Mbbbl) and approximately 26.6 Mbbbl of natural gas liquids. Meanwhile, B&L's Probable and Possible reserves as of December 31, 2017 are estimated to be approximately 1.9 Bcfg. This compares to B&L's estimated proved reserves as of December 31, 2016 which were approximately 10.8 Bcfg, approximately 257 Mbbbl of oil and approximately 18.0 Mbbbl of natural gas liquids.<sup>1</sup>

It should be noted that a significant component of B&L's proved reserves as of December 31, 2016 were Proved Undeveloped (PUD) attributed to B&L's leasehold interest in a federal offshore block located in

---

<sup>1</sup> The reserve estimates were prepared in accordance with the definition and regulations of the U. S. Securities and Exchange Commission (SEC) defined in S-X Part 210.4-10 (a) as revised and adopted effective January 1, 2010.

shallow water offshore of Louisiana. Due to the high cost of development of the offshore block, inherent risk of cost overruns and the current lower price of natural gas, B&L's management opted not to invest in the development of the federal offshore lease during the term of the lease. The five-year lease expired in October of 2017 and the associated PUD reserves are not included in the December 31, 2017 reserve estimates.

During 2017 B&L underwent a realignment of its working interest investments. There were three components to this realignment which impacted B&L's proved reserves as of December 31, 2017. As previously reported, the first was the sale of a non-operated working interest in a well in South Louisiana. The second was the expiration of a mineral lease in a federal offshore block located in shallow water offshore of Louisiana. The third was the filing of a bankruptcy petition by the operator of a field in South Louisiana in which B&L owned a non-operating working interest. It is uncertain whether the operator's bankruptcy will have any future negative impact on B&L. This realignment effectively focused B&L's efforts on south Texas.

Based on information provided by the well's operator to the Louisiana Department of Natural Resources (LDNR) and published on LDNR's Strategic Online Natural Resources Information System (SONRIS – [www.sonris.com](http://www.sonris.com)), during December 2017 the Highlander discovery well produced at a flow rate of approximately 44,600 Mcfg per day from the Tuscaloosa sand interval. B&L is contractually entitled to a 1.5% of 8/8ths overriding royalty interest (ORRI) in the Highlander discovery well and in all mineral leases obtained and maintained by Freeport-McMoRan Oil & Gas in its Highlander Project Area located in Assumption, Iberia, Iberville, St. Martin and St. Mary Parishes, Louisiana. During the public hearing held on March 20, 2018 by the State of Louisiana, Office of Conservation, McMoRan Oil & Gas, LLC (McMoRan), the Operator of the Highlander discovery well, presented updated data from the first unit well and the Operator's progress on the development of its plan for drilling the second unit well within the 9,000 acre - EOC-TUSC BL UDS SUA located in St Martin Parish, Louisiana. Among other information presented by the Operator, a second pipeline connection and meter station have recently been added and this additional capacity should allow the gross production from the Highlander discovery well to be increased to approximately 60,000 Mcfg per day. The unit order (262-T-3) as amended on January 31, 2017 extended the obligation to spud the second unit well to February 6, 2019. During the March 20, 2018 public hearing, McMoRan stated that it has entered into a Purchase and Sale Agreement with a third party for the sale of its interest in the EOC-TUSC BL UDS SUA. McMoRan stated that the closing of the Purchase and Sale Agreement is contingent upon a third party closing an unrelated transaction. McMoRan is not able to guarantee the closing will occur and did not disclose the identity of the third party. In the event the closing occurs, McMoRan stated that it believes that the third party intends to drill a second unit well after closing which is contingently scheduled to take place no later than early July 2018.

B&L continues to develop its Lago Verde project in South Texas. The Welder No. 4 well was placed on production on April 6, 2017. The Welder No. 4 well is the first development well drilled to offset B&L's Welder No. 3 field discovery well. Continuing its field development, B&L drilled its Welder No. 6 well during July 2017. The Welder No. 6 well was placed on production in November 2017. B&L drilled its Welder No. 8 well during the fourth quarter of 2017. The Welder No. 8 well is scheduled for completion operations at the end of the first quarter of 2018. B&L is the Operator and has a 62.5% working interest in the Lago Verde project. B&L's current mineral lease position is approximately 2,500 gross acres in South Texas.

As previously disclosed, on January 3, 2017 the Louisiana Coastal Protection and Restoration Authority (CPRA) released a draft of its 2017 Coastal Master Plan (CMP). Disturbingly, as released the draft of the 2017 CMP did not include all the coastal restoration projects that were included in CPRA's 2012 CMP and did not include all the coastal restoration projects that are included in the U.S. Army Corps of Engineer's Ecosystem Restoration Plan which was an integral part of the de-authorization for the closure of the MRGO ship channel. More disturbingly, at the time of its release, the draft 2017 CMP stated that a large percentage of Louisiana's Coastal Zone including the Biloxi Marsh Complex (BMC) was unsustainable with or without action due to a

combination of subsidence and sea level rise caused by global warming. Furthermore, the draft 2017 CMP erroneously indicated that the BMC would be essentially nonexistent in 50 years. Upon receiving the foregoing information, Management took immediate steps to build a scientific consensus that CPRA's draft 2017 CMP was incorrect concerning the BMC. In fact, data collected by CPRA indicates the BMC is accreting in elevation, not subsiding as stated in the draft 2017 CMP. Management retained professors Dr. G. Paul Kemp and Dr. John W. Day with Louisiana State University along with Chris McLindon with the New Orleans Geological Society to prepare reports examining the sustainability of the BMC. On March 24, 2017 the Company submitted official comments concerning CPRA's draft 2017 CMP (a copy is available on our website [www.biloximarshlandscorp.com](http://www.biloximarshlandscorp.com)). The Company's comments combined with meetings with CPRA's representatives resulted in the inclusion of the following language on page 162 of the CMP 2017 final draft. *"We realize that new information may become available that alters the effectiveness of some of those projects and that there are potentially other innovative project concepts that have not yet been considered. Identifying these projects and concepts is an important next step in the master planning process. To that end, those concepts and certain elements of this plan need to be further refined to assist areas of the coast with recognized critical needs... Another involves the Biloxi Marsh Complex for which recently evaluated specific information suggests local factors (e.g., subsidence, accretion) may result in the area performing better and lasting longer than current estimates suggest. As such, CPRA will continue the Project Development and Implementation Program coordinated with our adaptive management program through which projects like this can be further developed using refined and improved information."* The Company in cooperation with Lake Eugenie Land & Development, Inc. has begun revising and updating The Biloxi Marsh Stabilization and Restoration Plan which was published in 2006. The Company plans to engage CPRA in discussions to make certain that all parties clearly understand the value of our property and that the BMC is sustainable beyond the time frame which was originally set forth in the draft CMP 2017.

As previously reported, on June 15, 2012, the Company filed a claim (Biloxi Marsh Lands Corp., et al. v. United States; Case No. 12-382L) in the U.S. Court of Federal Claims against the US Army Corps of Engineers ("The Biloxi Case") seeking monetary damages for property damage and losses caused by the Mississippi River Gulf Outlet (MR-GO). A trial solely on the liability portion of the claims was originally set for October of 2017, and was continued to March 19, 2018. In January of 2018 The Biloxi Case was consolidated with other similar landowners' cases against the US Army Corps of Engineers and will proceed as Biloxi Marsh Lands Corp., et al. v. United States, No. 12-382L. Liability is the first phase of the litigation process with the trial currently scheduled for October of 2018. It should be noted that this is the third continuance of the initial trial on the liability portion of this matter. If the liability portion of this matter is resolved in favor of the Company, there will be a second trial on damages to determine the value of the Company's claims. At this time the Company cannot predict the timing of resolution or the outcome of this litigation process. While we will continue to aggressively pursue this claim, it is anticipated that this litigation against the federal government will be a long process.

Reluctantly, during 2017 the Company was forced to file suit in Louisiana State District Court (34<sup>th</sup> Judicial District Court in St. Bernard Parish, LA) against Alta Mesa Holdings LP for specific performance demanding clean up and remediation of the Company's property.

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 of the date of this press release, the Company has acquired 7,020 shares.

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 14, 2017, the board of directors declared a dividend of \$.10 per outstanding share of common stock payable on Wednesday, January 3, 2018 to shareholders of record at the close of business on Friday, December 29, 2017. This represents a total cash dividend payment of \$252,801 or \$.10 per share. Since 2002, the Company has paid approximately \$55,729,000 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.

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).

The Company's revenue from its fee lands has declined significantly and attracting third parties interested in exploring for and developing the 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 Louisiana's coastal zone. With this said, we are continually looking for a catalyst that will create an opportunity to test one of the possibly prospective structures beneath the Company's fee lands in St. Bernard Parish, Louisiana. These structures, within the Tuscaloosa sand interval, have been identified using 3D seismic data. Meanwhile, B&L's management realigned its main operating focus to its Lago Verde Project in South Texas. Additionally, B&L's management is cognizant that the Highlander discovery well continues to produce at significant rates, and based on information provided by the Operator during the March 20, 2018 public hearing, additional capacity should allow the gross production from the Highlander discovery well to be increased from its current range of 45,000 Mcfg per day to approximately 60,000 Mcfg per day.

We believe that we have positioned the Company for the future through our investment in B&L. B&L's management and staff have the knowledge and experience in the oil and gas sector which uniquely positions it and the Company to seek and take advantage of opportunities as they present themselves, both within the boundaries of the Company's fee lands and beyond.

Sincerely,



William B. Rudolf  
President and Chief Executive Officer  
Metairie, Louisiana  
Email: [wrudolf@blexp.net](mailto:wrudolf@blexp.net)<sup>2</sup>

---

<sup>2</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.

---

**BILOXI MARSH LANDS CORPORATION**

**FINANCIAL STATEMENTS**

**INCOME TAX BASIS**

**DECEMBER 31, 2017**

**(WITH INDEPENDENT AUDITORS' REPORT THEREON)**

---



Postlethwaite & Netterville  
*A Professional Accounting Corporation*  
pncpa.com

**BILOXI MARSH LANDS CORPORATION**

**FINANCIAL STATEMENTS**

**INCOME TAX BASIS**

**DECEMBER 31, 2017**

**(WITH INDEPENDENT AUDITORS' REPORT THEREON)**

**BILOXI MARSH LANDS  
CORPORATION**

**Table of Contents**

	<b>Page</b>
Independent Auditors' Report	1
Statements of Assets, Liabilities, and Stockholders' Equity – Income Tax Basis	3
Statements of Revenues and Expenses – Income Tax Basis	4
Statements of Changes in Stockholders' Equity – Income Tax Basis	5
Statements of Cash Flows – Income Tax Basis	6
Notes to Financial Statements – Income Tax Basis	7
<b>Supplementary Information</b>	
Schedules of Marketable Securities – December 31, 2017 and 2016	15



30<sup>th</sup> Floor, Energy Centre, 1100 Poydras Street – New Orleans, LA 70163-3000  
One Galleria Blvd., Suite 2100 – Metairie, LA 70001  
504-837-5990 Phone – 504-834-3609 Fax – [pncpa.com](http://pncpa.com)

*A Professional Accounting Corporation*

## **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, 2017 and 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 years 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 income tax basis of accounting described in Note 1; this includes determining that the income tax basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 audits. We conducted our audits 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, 2017 and 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.





*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 Schedules of Marketable Securities as of December 31, 2017 and 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.

*Postlethwaite & Netterville*

Metairie, Louisiana  
March 7, 2018

**BILOXI MARSH LANDS CORPORATION**

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

**INCOME TAX BASIS**

**DECEMBER 31, 2017 AND 2016**

**ASSETS**

	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 2,209,949	\$ 3,954,681
Accounts receivable	13,898	10,830
Accrued interest receivable	6,642	11,048
Federal income taxes receivable	7,195	7,195
Prepaid expenses	40,195	38,846
State income taxes receivable	1,591	4,948
Deferred tax asset	21,055	21,055
Marketable debt securities - at cost	-	265,515
Other assets	3,830	3,830
	<u>2,304,355</u>	<u>4,317,948</u>
Total current assets		
Investment in partnership	1,065,508	1,807,105
Marketable debt and equity securities - at cost	6,714,675	4,930,346
Land - at cost	234,939	234,939
Geological and geophysical costs - fee lands, net of amortization	-	8,224
Levees and office furniture and equipment	314,943	314,943
Accumulated depreciation	<u>(314,835)</u>	<u>(314,483)</u>
Total assets	<u>\$ 10,319,585</u>	<u>\$ 11,299,022</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current liabilities:		
Accrued expenses and other current liabilities	\$ 33,234	\$ 29,977
Total current liabilities	<u>33,234</u>	<u>29,977</u>
Stockholders' equity		
Common stock, \$0.001 par value. Authorized, 20,000,000 shares; issued, 2,851,196 shares; outstanding, 2,528,008 and 2,535,028 shares in 2017 and 2016, respectively	47,520	47,520
Retained earnings	13,144,279	14,064,150
Treasury Stock, 323,188 and 316,168 shares in 2017 and 2016, respectively, at cost	<u>(2,905,448)</u>	<u>(2,842,625)</u>
Total stockholders' equity	<u>10,286,351</u>	<u>11,269,045</u>
Total liabilities and stockholders' equity	<u>\$ 10,319,585</u>	<u>\$ 11,299,022</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, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Revenues:		
Oil and gas	\$ 48,032	\$ 81,859
Surface rentals	55,000	-
Total oil and gas revenues	<u>\$ 103,032</u>	<u>\$ 81,859</u>
Other income (loss):		
Loss from investment in partnership	(741,597)	(1,594,923)
Dividends and interest income	105,771	120,371
Gain on settlement	-	235,663
Gain of sale of securities	548,455	895,344
Surface rentals	61,885	64,818
Total other income (loss)	<u>\$ (25,486)</u>	<u>\$ (278,727)</u>
Total revenues and other income (loss)	<u>\$ 77,546</u>	<u>\$ (196,868)</u>
Expenses:		
Salaries	165,000	177,500
Bonuses	22,500	22,500
Payroll taxes	10,044	10,071
Employee benefits	9,552	10,154
Association dues	7,500	8,250
Accounting and auditing	52,500	75,000
Consultants	39,784	56,348
Amortization - geological and geophysical costs - fee lands	8,224	31,617
Depreciation	352	474
Severance taxes	4,192	6,266
Directors' fees	49,500	55,750
Franchise taxes	65,364	75,423
Insurance	83,482	80,988
Fee land management	21,498	30,418
Legal fees	61,245	47,293
Other	31,394	19,126
Portfolio	44,572	43,952
Property taxes	23,706	24,166
Rent	30,645	29,105
Shareholder relations	12,860	9,961
Total expenses	<u>743,914</u>	<u>814,362</u>
Net income (loss) before income taxes	(666,368)	(1,011,230)
Income tax expense (benefit)	-	32,095
Net income (loss) - income tax basis	<u>\$ (666,368)</u>	<u>\$ (1,043,325)</u>
Net income (loss) per share - income tax basis	\$ (0.26)	\$ (0.41)

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, 2017 AND 2016**

	<u>Common stock</u>		<u>Treasury stock</u>		<u>Retained earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>		
Balance, December 31, 2015	2,851,196	\$ 47,520	316,168	\$ (2,842,625)	\$ 15,107,475	\$ 12,312,370
Net income - tax basis	-	-	-	-	(1,043,325)	(1,043,325)
Dividends	-	-	-	-	-	-
Balance, December 31, 2016	2,851,196	47,520	316,168	(2,842,625)	14,064,150	11,269,045
Net loss - income tax basis	-	-	-	-	(666,368)	(666,368)
Purchase of treasury stock	-	-	7,020	(62,823)	-	(62,823)
Dividends	-	-	-	-	(253,503)	(253,503)
Balance, December 31, 2017	<u>2,851,196</u>	<u>\$ 47,520</u>	<u>323,188</u>	<u>\$ (2,905,448)</u>	<u>\$ 13,144,279</u>	<u>\$ 10,286,351</u>

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, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>		
Net income (loss) - income tax basis	\$ (666,368)	\$ (1,043,325)
Adjustments to reconcile net income - income tax basis to net cash used in operating activities:		
Depreciation	352	474
Amortization - geological and geophysical costs - fee lands	8,224	31,617
Gain on sale of securities	(548,455)	(895,344)
Loss from investment in partnership	741,597	1,594,923
Deferred income tax expense	-	32,095
Change in operating assets and liabilities:		
Accounts and interest receivable	1,338	17,723
Prepaid expenses	(1,349)	197
Income taxes receivable	3,357	36,486
Accrued expenses	3,257	15,104
Net cash used in operating activities	<u>(458,047)</u>	<u>(210,050)</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>		
Proceeds from the sale of securities	5,255,841	6,866,229
Purchase of securities	(6,226,200)	(4,536,387)
Investment in partnership	-	(750,000)
Net cash provided (used in) by investing activities	<u>(970,359)</u>	<u>1,579,842</u>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES:</u></b>		
Treasury stock purchased	(62,823)	-
Dividends paid	(253,503)	-
Net cash used in financing activities	<u>(316,326)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(1,744,732)	1,369,792
Cash and cash equivalents, beginning of year	<u>3,954,681</u>	<u>2,584,889</u>
Cash and cash equivalents, end of year	<u>\$ 2,209,949</u>	<u>\$ 3,954,681</u>
<b><u>SUPPLEMENTAL CASH FLOW INFORMATION:</u></b>		
Cash paid for income taxes	\$ -	\$ -

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

**BILOXI MARSH LANDS CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**INCOME TAX BASIS**

**(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.

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 \$2,162,422 and \$3,880,083 of investment money market funds with an initial term of less than three months at December 31, 2017 and 2016, respectively.

**BILOXI MARSH LANDS CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**INCOME TAX BASIS**

**(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 \$352 and \$474 in 2017 and 2016, 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 \$1,065,508 and \$1,807,105 at December 31, 2017 and 2016, respectively.

**BILOXI MARSH LANDS CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**INCOME TAX BASIS**

**(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 \$741,597 and \$1,594,923 in 2017 and 2016, respectively. The losses included net reductions in costs of \$1,545,543 and additional amortization costs of \$46,595 in 2017 and 2016 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 capital contributions of \$0 and \$750,000 in 2017 and 2016, respectively.

**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**

**(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, 2017 and 2016 were as follows:

	<u>Cost basis</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair value</u>
At December 31, 2017:				
Corporate bonds	\$ 893,514	\$ 15,457	\$ (1,140)	\$ 907,831
Equity securities	5,821,161	647,155	(437,717)	6,030,599
	<u>\$ 6,714,675</u>	<u>\$ 662,612</u>	<u>\$ (438,857)</u>	<u>\$ 6,938,430</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>

Maturities of corporate bonds were as follows at December 31, 2017:

	<u>Cost basis</u>	<u>Fair value</u>
Due within one year	\$ -	\$ -
Due after one through six years	893,514	907,831
	<u>\$ 893,514</u>	<u>\$ 907,831</u>

**BILOXI MARSH LANDS CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**INCOME TAX BASIS**

**(3) Investment in Partnership**

Summary financial information – income tax basis of B&L as of and for the years ended December 31, 2017 and 2016 (on the income tax basis of accounting) is as follows:

	<u>2017</u>	<u>2016</u>
Financial position – income tax basis:		
Current assets	\$ 1,219,947	\$ 775,786
Other assets	59,406	59,406
Mineral properties and equipment, net	<u>2,538,774</u>	<u>2,543,724</u>
Total assets	\$ <u>3,818,127</u>	\$ <u>3,378,916</u>
Current liabilities and total liabilities	\$ 4,278,481	\$ 789,749
Members' equity	<u>(460,354)</u>	<u>2,589,167</u>
Total liabilities and members' equity	\$ <u>3,818,127</u>	\$ <u>3,378,916</u>
Results of operations – income tax basis		
Revenues	\$ 3,155,435	\$ 1,972,331
Net loss	\$ (3,049,521)	\$ (2,064,438)

The Company is a co-guarantor of a \$7,500,000 revolving line of credit with a bank to be utilized by B&L. The Company has granted a security interest in its investment portfolio as collateral to back its guarantee. 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 9, 2019. B&L had outstanding borrowings of \$2,375,000 and \$0 under the revolving line of credit as of December 31, 2017 and 2016. As of December 31, 2017, 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>2017</u>			<u>2016</u>		
	<u>Current</u>	<u>Deferred</u>	<u>Total</u>	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Federal	\$ -	\$ -	\$ -	\$ -	\$ 25,479	\$ 25,479
State	-	-	-	-	6,616	6,616
Total income tax expense (benefit)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,095</u>	<u>\$ 32,095</u>

**BILOXI MARSH LANDS CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**INCOME TAX BASIS**

**(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>2017</u>	<u>2016</u>
Deferred tax assets:		
Tax credit carryforwards	\$ (21,055)	\$ (21,055)

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>2017</u>		<u>2016</u>	
Statutory rate	\$ (233,229)	(35.00) %	\$ (353,930)	(35.00) %
Percentage depletion	-	-	-	-
State taxes provided	-	-	6,616	0.70
Effect of graduated rates	-	-	10,458	1.00
Effect of net operating losses carried forward	245,547	36.80	381,069	37.70
Other (net)	<u>(12,318)</u>	<u>(1.80)</u>	<u>(12,118)</u>	<u>(1.20)</u>
Effective tax rate	\$ <u>          -</u>	<u>(0.00) %</u>	\$ <u>  32,095</u>	<u>  3.20 %</u>

Management has not recorded any deferred tax assets as of December 31, 2017 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 \$1,758,812 federal and \$1,998,611 state as of December 31, 2017, begin to expire in 2034 and 2035, respectively.

**BILOXI MARSH LANDS CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**INCOME TAX BASIS**

**(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. As of December 31, 2017, the Company has acquired 7,020 shares.

**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. At its December 14, 2017 meeting, the board of directors declared a dividend of \$.10 per outstanding share of common stock payable on January 3, 2018 to shareholders of record as of the close of business on December 29, 2017.

**BILOXI MARSH LANDS CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**INCOME TAX BASIS**

**(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.

**(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 7, 2018, 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**  
**SCHEDULES OF MARKETABLE SECURITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

Company description	2017				2016			
	Shares/ face value	Cost	Fair value	Unrealized gains (losses)	Shares/ face value	Cost	Fair value	Unrealized gains (losses)
<b>Common stock:</b>								
2U Inc.	9,000	\$ 401,815	\$ 580,590	\$ 178,775	9,100	\$ 297,398	\$ 274,365	\$ (23,033)
3 D Systems Corp	14,300	290,772	123,552	(167,220)	21,000	333,017	279,090	(53,927)
Abbott Laboratories	6,800	300,329	388,076	87,747	8,300	326,584	318,803	(7,781)
Axon Enterprise Inc.	15,800	432,018	418,700	(13,318)	12,000	345,330	290,880	(54,450)
Cypress Semiconductor Corp.	17,500	298,255	266,700	(31,555)	-	-	-	-
DST Systems Inc.	-	-	-	-	2,800	287,991	300,020	12,029
EBIX Inc.	5,300	299,105	420,025	120,920	-	-	-	-
Euronet Worldwide, Inc.	4,000	357,606	337,080	(20,526)	4,000	293,202	289,720	(3,482)
Financial Engines Inc.	11,650	443,615	352,995	(90,620)	11,650	443,615	428,137	(15,478)
First Hawaiian Inc.	10,600	348,989	309,308	(39,681)	-	-	-	-
Gulfport Energy Co.	-	-	-	-	5,300	159,987	114,692	(45,295)
Howard Hughes Corp.	2,830	353,892	371,494	17,602	2,830	353,892	322,903	(30,989)
Kearny Financial Corp.	22,100	314,434	319,345	4,911	-	-	-	-
Leggett & Platt Inc.	5,800	300,900	276,834	(24,066)	-	-	-	-
LKQ Corp.	9,400	303,861	382,298	78,437	8,800	293,217	269,720	(23,497)
Pool Corporation	2,900	314,070	375,985	61,915	-	-	-	-
Skyworks Solutions, Inc.	-	-	-	-	3,750	287,355	279,975	(7,380)
Steris PLC	4,400	354,779	384,868	30,089	4,400	299,945	296,516	(3,429)
Visa, Inc.	3,200	298,105	364,864	66,759	3,990	315,299	311,300	(3,999)
Western Digital Corp.	4,500	408,616	357,885	(50,731)	-	-	-	-
<b>Total common stock</b>		<b>5,821,161</b>	<b>6,030,599</b>	<b>209,438</b>		<b>4,036,832</b>	<b>3,776,121</b>	<b>(260,711)</b>
<b>Corporate bonds:</b>								
General Electric Capital Corp.	-	-	-	-	-	-	-	-
JP Morgan Chase & Co.	300,000	299,484	302,581	3,097	300,000	299,484	302,333	2,849
LKQ Corp	300,000	293,265	305,625	12,360	300,000	293,265	297,750	4,485
PHI Inc.	300,000	300,765	299,625	(1,140)	300,000	300,765	283,500	(17,265)
Whitney National Bank Sub NO	-	-	-	-	300,000	265,515	302,156	36,641
<b>Total corporate bonds</b>		<b>893,514</b>	<b>907,831</b>	<b>14,317</b>		<b>1,159,029</b>	<b>1,185,739</b>	<b>26,710</b>
<b>Total marketable securities</b>		<b>\$ 6,714,675</b>	<b>\$ 6,938,430</b>	<b>\$ 223,755</b>		<b>\$ 5,195,861</b>	<b>\$ 4,961,860</b>	<b>\$ (234,001)</b>

See accompanying independent auditors' report.