

# Biloxi Marsh Lands Corporation

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March 23, 2020

To the Shareholders of Biloxi Marsh Lands Corporation:

The following is a discussion of the results of Company's operations for the year ending December 31, 2019. The Company's annual revenue breakdown is as follows: 2019 revenue from oil and gas production for its fee lands was \$18,982 compared to revenue of \$21,398 in 2018. The flow-through loss from B&L Exploration, LLC (B&L Exploration) reduced the Company's annual revenue by \$2,290,999 in 2019 compared to \$1,972,854 in 2018. The flow-through loss of \$2,290,999 includes \$849,431 of the amortization of intangible drilling costs capitalized in prior years. Dividend and interest income for 2019 was \$101,240, compared to \$115,035 for 2018. In 2019, the Company realized a cumulative loss from the sale of investment securities of \$191,428 compared to a cumulative gain in the amount of \$1,591,104 in 2018. Fee land income, unrelated to oil and gas activities, was \$143,322 for 2019 compared to \$67,605 for 2018. This increase was mainly due to the lease of Company owned water-bottoms for oyster harvesting. Unfortunately, the ability to harvest oysters was adversely affected by the prolonged opening of the Bonne Carre Spillway decreasing water salinity in prime oyster harvesting areas. Expenses for the year totaled \$812,005 compared to the prior year's expenses of \$781,064. For the year, the Company had a net loss of \$3,030,888 or \$1.21 per share compared to a net loss of \$850,545 or \$.34 per share in 2018.

While 4 wells continue to produce from the Company's fee lands in St. Bernard Parish, Louisiana the combined net daily production accruing to the Company was minimal as of December 31, 2019. 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, 2019.

B&L Exploration has commissioned three independent reserve studies by separate reservoir engineering firms covering different properties in which B&L Exploration holds interests. These studies estimate that B&L Exploration's proved reserves as of December 31, 2019 were approximately 1.13 billion cubic feet of natural gas (Bcfg), and approximately 60.0 thousand barrels of oil (Mbbl). Meanwhile, B&L Exploration's Probable and Possible reserves as of December 31, 2019 are estimated to be approximately 1.22 Bcfg. This compares to B&L Exploration's estimated proved reserves as of December 31, 2018 which were approximately 2.4 Bcfg, approximately 60.8 Mbbl of oil and approximately 6.7 Mbbl of natural gas liquids.<sup>1</sup> As of December 31, 2018 a portion of B&L Exploration's proved reserves were Proved Undeveloped (PUD). Using the SEC mandated price for natural gas as of December 31, 2019, the economics of the PUD locations have become marginal. This diminishes the probability that these PUD locations would be drilled during 2020, thus these PUD reserves were removed from B&L Exploration's proved reserve report for the period ending December 31, 2019.

Information reported by the Highlander well's operator to the Louisiana Department of Natural Resources (LDNR) is available on LDNR's Strategic Online Natural Resources Information System (SONRIS – [www.sonris.com](http://www.sonris.com)). B&L Exploration is contractually entitled to a 1.5% of 8/8ths overriding royalty interest (ORRI) in the mineral leases comprising the 9,000 acre - EOC-TUSC BL UDS SUA

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<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.

production unit from which the Highlander well is producing. This production unit is located in St. Martin Parish, Louisiana. Meanwhile, B&L Exploration's South Texas operations continue with the 5K No. 1 well being placed on production during the second quarter of 2019.

B&L Exploration's current net daily production is approximately 900 thousand cubic feet of natural gas (Mcf) and 14 barrels of oil per day (BOPD). B&L Exploration was organized as a limited liability company (LLC) under the laws of Louisiana in July of 2006. The Company owns a 75% membership interest in B&L Exploration, LLC.

During 2019 B&L Resources, LLC (B&L Resources) was formed as a Texas limited liability company, of which the Company owns a 50% membership interest. B&L Resources acquired a 562.3 acre leasehold position in Heyser Field located in Calhoun County, Texas during 2019. B&L Resources is in the process of acquiring additional acreage contiguous to this lease. This project's goal is the recovery of residual oil and natural gas by using horizontal well technology. Upon the anticipated closing of the acquisition, B&L Resources should be able to book proved reserves.

The Company along with Lake Eugenie Land & Development, Inc. have assembled a team of scientists to study the Biloxi Marsh Complex (BMC) to demonstrate the BMC's long-term sustainability by understanding its geologic stability and root causes of its degradation. Our team collected data in the field over an 18 month period using new observation stations as well as stations that were installed during 2003 and 2004. These stations provided our team with critical field data concerning accretion, erosion and elevation which form the basis for our report [New Information Supporting the Stabilization and Restoration of the Biloxi Marsh Complex, A Unique and Distinct Ecosystem](http://www.biloximarshlandscorp.com/bmlc2/wp-content/uploads/2019/10/New-Information-Supporting-the-Stabilization-Restoration-of-the-Biloxi-Marsh-A-Unique-and-Distinct-Ecosystem-2.pdf). We have presented this report to several governmental and non-governmental agencies, most importantly the Louisiana Coastal Protection and Restoration Authority (CPRA). The Company's main objective is to have the BMC included in Louisiana's next Coastal Master plan. A copy of this report is available on our website through the following link: <http://www.biloximarshlandscorp.com/bmlc2/wp-content/uploads/2019/10/New-Information-Supporting-the-Stabilization-Restoration-of-the-Biloxi-Marsh-A-Unique-and-Distinct-Ecosystem-2.pdf>

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 U.S. Army Corps of Engineers (The Biloxi Case) seeking monetary damages for property damage and losses caused by the Mississippi River Gulf Outlet (MR-GO). The U.S. Department of Justice filed a motion for summary judgment on the issue of statute of limitations, and our attorneys filed a cross motion on the same issue. On July 29, 2019, the case was transferred to Judge Ryan T. Holte. The hearing with the U.S. Department of Justice has been delayed and we are awaiting a new scheduling order. At this time, the Company cannot predict the timing of resolution or the outcome of this litigation process, but it is anticipated that this litigation process will take time.

During 2017, the Company filed suit in Louisiana State District Court (34<sup>th</sup> Judicial District Court, Division D in St. Bernard Parish, LA) against Alta Mesa Holdings, LP, et al. (Case No. 17-1104). We made claims under three separate causes of action: 1) Specific performance to remove the North Eros pipeline; 2) Property damages caused by installation, use and operations of the North Eros pipeline; 3) Specific performance to plug and abandon all wells, remove all associated equipment, facilities and fixtures from our property. We filed Motions for Summary Judgments on all three claims which have been granted. During the first quarter of this year we joined High Mesa Holdings, LP as a defendant. Trial on the costs associated with repairing the property damage was originally scheduled for September 9, 2019 then continued until January 27, 2020. On September 11, 2019, one of the parties, Alta Mesa Holdings, LP, filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. Subsequently, on January 24, 2020 High Mesa Holdings, LP and The Meridian Resource and Exploration, LLC filed Chapter 7 bankruptcy. While the Company intends to pursue all avenues of recovery, including filing in the bankruptcy proceedings, the Company believes that it is highly unlikely that any substantial recovery will be attained.

During March 2019, the Company completed its previously announced stock buyback program authorized on December 14, 2015.

On Wednesday, January 15, 2020, the Company paid a dividend to its shareholders of record at the close of business on Monday, December 31, 2019. This represents a total cash dividend payment of \$250,503 or \$.10 per share. Since 2002, the Company has paid approximately \$56,231,000 in total dividends.

We encourage you to visit our website to obtain general information about the Company, its efforts in the coastal restoration arena, 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).

As stated in last year's annual President's letter, attracting third parties interested in exploring for and developing the minerals beneath our fee lands in St. Bernard Parish, Louisiana 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 business environment for oil and gas operators in Louisiana's Coastal Zone. With our management team's experience in the oil and gas sector, we are uniquely positioned to take advantage of changes in this business environment.

Management believes that the current significant drop in commodity prices combined with the panic taking place throughout all the financial markets could create opportunities as we move through this tumultuous period. The Company's management is proactively seeking opportunities of all kinds on and off of our fee lands in St. Bernard Parish. Our entry into the business of oyster harvesting from our water-bottoms in St. Bernard Parish is an example of management diversifying usage of our fee lands. Meanwhile, through its membership interests in the foregoing mentioned limited liability companies, management is attempting to take advantage of the significantly lower cost of entry by acquiring oil and gas interests that are not related to our fee lands in St. Bernard Parish, Louisiana. This diversification should help position the Company in a positive manner over the long term.

Sincerely,



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

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<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.

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**BILOXI MARSH LANDS CORPORATION**  
**FINANCIAL STATEMENTS**  
**INCOME TAX BASIS**  
**DECEMBER 31, 2019**  
**(WITH INDEPENDENT AUDITORS' REPORT THEREON)**

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**BILOXI MARSH LANDS CORPORATION**

**FINANCIAL STATEMENTS**

**INCOME TAX BASIS**

**DECEMBER 31, 2019**

**(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, 2019 and 2018	15

## **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 statements of assets, liabilities, and stockholders' equity – income tax basis as of December 31, 2019 and 2018, 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 on the previous page present fairly, in all material respects, the assets, liabilities, and stockholders' equity of Biloxi Marsh Lands Corporation as of December 31, 2019 and 2018, 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 Matters

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, 2019 and 2018 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 23, 2020



**BILOXI MARSH LANDS CORPORATION**

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

**INCOME TAX BASIS**

**DECEMBER 31, 2019 AND 2018**

**ASSETS**

	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 815,877	\$ 2,033,637
Accounts receivable	1,957	91,113
Accrued interest receivable	5,128	6,642
Income taxes receivable	11,723	29,538
Prepaid expenses	44,987	40,222
Marketable debt securities - at cost	293,265	300,765
Other assets	3,830	3,830
	<u>1,176,767</u>	<u>2,505,747</u>
Total current assets		
Membership interest in limited liability companies	231,000	217,654
Marketable debt and equity securities - at cost	4,531,816	6,096,339
Deferred tax asset	10,579	21,159
Land - at cost	234,939	234,939
Levees and office furniture and equipment	308,607	308,607
Accumulated depreciation	(308,607)	(308,576)
	<u>\$ 6,185,101</u>	<u>\$ 9,075,869</u>
Total assets		

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current liabilities:		
Accrued expenses and other current liabilities	\$ 62,517	\$ 17,541
Membership interest in limited liability companies	393,345	-
	<u>455,862</u>	<u>17,541</u>
Total current liabilities		
Stockholders' equity		
Common stock, \$0.001 par value. Authorized, 20,000,000 shares; issued, 2,851,196 shares; outstanding, 2,505,028 and 2,513,008 shares in 2019 and 2018, respectively	47,520	47,520
Retained earnings	8,758,744	12,040,933
Treasury Stock, 346,168 and 338,188 shares in 2019 and 2018, respectively, at cost	(3,077,025)	(3,030,125)
	<u>5,729,239</u>	<u>9,058,328</u>
Total stockholders' equity		
Total liabilities and stockholders' equity	<u>\$ 6,185,101</u>	<u>\$ 9,075,869</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, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
Revenues:		
Oil and gas	\$ 18,982	\$ 21,398
Total oil and gas revenues	<u>\$ 18,982</u>	<u>\$ 21,398</u>
Other income (loss):		
Loss from membership interest in limited liability companies	(2,290,999)	(1,972,854)
Dividends and interest income	101,240	115,035
Gain on settlement	-	86,967
Gain (loss) on sale of securities	(191,428)	1,591,104
Fee land income	143,322	67,605
Total other income (loss)	<u>\$ (2,237,865)</u>	<u>\$ (112,143)</u>
Total revenues and other income (loss)	<u>\$ (2,218,883)</u>	<u>\$ (90,745)</u>
Expenses:		
Compensation and salaries	194,898	198,935
Association dues	7,575	7,575
Professional fees	171,425	167,726
Consultants	74,598	25,717
Depreciation	31	11,228
Directors' fees	46,250	47,250
Insurance	89,602	84,203
Surface patrolling and oversight	17,266	22,534
Other	38,922	33,308
Portfolio management	30,840	41,434
Taxes and licenses	93,944	95,850
Rent	26,687	31,021
Shareholder relations	19,967	14,283
Total expenses	<u>812,005</u>	<u>781,064</u>
Net loss before income taxes	(3,030,888)	(871,809)
Income tax benefit	-	(21,264)
Net loss - income tax basis	<u>\$ (3,030,888)</u>	<u>\$ (850,545)</u>
Net loss per share - income tax basis	\$ (1.21)	\$ (0.34)

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, 2019 AND 2018**

	<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, 2017	2,851,196	\$ 47,520	323,188	\$ (2,905,448)	\$ 13,144,279	\$ 10,286,351
Net loss - income tax basis	-	-	-	-	(850,545)	(850,545)
Purchase of treasury shares	-	-	15,000	(124,677)	-	(124,677)
Dividends	-	-	-	-	(252,801)	(252,801)
Balance, December 31, 2018	<u>2,851,196</u>	<u>\$ 47,520</u>	<u>338,188</u>	<u>\$ (3,030,125)</u>	<u>\$ 12,040,933</u>	<u>\$ 9,058,328</u>
Net loss - income tax basis	-	-	-	-	(3,030,888)	(3,030,888)
Purchase of treasury shares	-	-	7,980	(46,900)	-	(46,900)
Dividends	-	-	-	-	(251,301)	(251,301)
Balance, December 31, 2019	<u><u>2,851,196</u></u>	<u><u>\$ 47,520</u></u>	<u><u>346,168</u></u>	<u><u>\$ (3,077,025)</u></u>	<u><u>\$ 8,758,744</u></u>	<u><u>\$ 5,729,239</u></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, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>		
Net loss - income tax basis	\$ (3,030,888)	\$ (850,545)
Adjustments to reconcile net loss - income tax basis to net cash used in operating activities:		
Depreciation	31	11,228
Loss (gain) on sale of securities	191,428	(1,591,104)
Loss from membership interest in limited liability companies	2,290,999	1,972,854
Deferred income tax expense (benefit)	10,580	(104)
Change in operating assets and liabilities:		
Accounts and interest receivable	90,670	(77,215)
Prepaid expenses	(4,765)	(27)
Income taxes receivable	17,815	(20,752)
Accrued expenses and other current liabilities	44,976	(15,693)
Net cash used in operating activities	<u>(389,154)</u>	<u>(571,358)</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>		
Proceeds from the sale of securities	3,979,338	7,005,387
Purchase of securities	(2,598,743)	(5,096,712)
Membership interests - limited liability companies	(1,911,000)	(1,125,000)
Purchase of furniture and equipment	-	(11,151)
Net cash provided by (used in) investing activities	<u>(530,405)</u>	<u>772,524</u>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES:</u></b>		
Treasury stock purchased	(46,900)	(124,677)
Dividends paid	(251,301)	(252,801)
Net cash used in financing activities	<u>(298,201)</u>	<u>(377,478)</u>
Net decrease in cash and cash equivalents	(1,217,760)	(176,312)
Cash and cash equivalents, beginning of year	<u>2,033,637</u>	<u>2,209,949</u>
Cash and cash equivalents, end of year	<u>\$ 815,877</u>	<u>\$ 2,033,637</u>

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 from time to time generates revenues from mineral activities including lease bonuses, delay rentals, royalties on oil and natural gas production, and fee land income unrelated to oil and gas activities.

The Company owns a membership interest in B&L Exploration L.L.C. (B&L Exploration). B&L Exploration 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. The Company also owns an interest in B&L Resources L.L.C. (B&L Resources) which was formed during 2019. B&L Resources is pursuing oil and natural gas opportunities in 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 \$776,233 and \$1,930,895 of investment money market funds with an initial term of less than three months at December 31, 2019 and 2018, 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 \$31 and \$11,228 in 2019 and 2018, 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.

**Membership Interests in Limited Liability Companies**

The Company owns a 75% interest in B&L Exploration, L.L.C., an oil and gas exploration business. B&L Exploration has commissioned reserve studies, which were completed by independent reservoir engineering firms. These reserve studies estimate that B&L Exploration has proved reserves in natural gas and oil attributable to its mineral properties. Additionally, B&L Exploration has various ownership interests in oil and gas properties on which wells may be drilled and completed 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 Exploration.

The carrying amount of the Company's membership interest in B&L Exploration was \$(393,345) and \$217,654 at December 31, 2019 and 2018, respectively.

**BILOXI MARSH LANDS CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**INCOME TAX BASIS**

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

**Membership Interests in Limited Liability Companies (continued)**

Under the income tax method of accounting, the Company accounts for its membership interest on the equity method whereby the Company recognizes its flow through portion of income and losses. Net losses of \$2,290,999 and \$1,972,854 flowed through to the Company in 2019 and 2018, respectively. The losses included net additions and reductions in costs of \$775,034 and \$(109,091) in 2019 and 2018 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 \$1,680,000 and \$1,125,000 in 2019 and 2018, respectively.

The Company also owns a 50% membership interest in B&L Resources L.L.C. (B&L Resources) which was formed during 2019. B&L Resources is pursuing opportunities whose focus is the recovery of residual oil and natural gas by using horizontal well technology.

**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 Loss Per Share**

Net loss per share – income tax basis is calculated by dividing net loss – 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 2018, the Company accrued a settlement collection for its wetlands real property claim under the Halliburton Energy Services Inc. and Transocean Ltd. Settlement Program. In 2019, the Company received \$86,967, net of the Company's \$15,347 legal fees.

**Reclassifications**

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

**(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, 2019 and 2018 were as follows:

	<u>Cost basis</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair value</u>
At December 31, 2019:				
Corporate bonds	\$ 589,478	\$ 19,222	\$ -	\$ 608,700
Equity securities	<u>4,235,603</u>	<u>193,138</u>	<u>(463,941)</u>	<u>3,964,800</u>
	<u>\$ 4,825,081</u>	<u>\$ 212,360</u>	<u>\$ (463,941)</u>	<u>\$ 4,573,500</u>
At December 31, 2018:				
Corporate bonds	\$ 893,514	\$ -	\$ (103,844)	\$ 789,670
Equity securities	<u>5,503,590</u>	<u>22,975</u>	<u>(1,388,012)</u>	<u>4,138,553</u>
	<u>\$ 6,397,104</u>	<u>\$ 22,975</u>	<u>\$ (1,491,856)</u>	<u>\$ 4,928,223</u>

Maturities of corporate bonds were as follows at December 31, 2019:

	<u>Cost basis</u>	<u>Fair value</u>
Due within one year	\$ 293,265	\$ 304,875
Due after one through six years	<u>296,213</u>	<u>303,825</u>
	<u>\$ 589,478</u>	<u>\$ 608,700</u>



**BILOXI MARSH LANDS CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**INCOME TAX BASIS**

**(3) Investments in Limited Liability Companies**

Summary financial information – income tax basis of B&L Exploration as of and for the years ended December 31, 2019 and 2018 (on the income tax basis of accounting) is as follows:

	<u>2019</u>	<u>2018</u>
Financial position – income tax basis:		
Current assets	\$ 1,069,276	\$ 512,343
Other assets	13,596	73,002
Mineral properties and equipment, net	<u>2,058,872</u>	<u>2,378,629</u>
Total assets	\$ <u>3,141,617</u>	\$ <u>2,963,974</u>
Total liabilities	\$ 4,659,184	\$ 4,700,254
Members' deficit	<u>(1,517,567)</u>	<u>(1,736,280)</u>
Total liabilities and members' deficit	\$ <u>3,141,617</u>	\$ <u>2,963,974</u>
Results of operations – income tax basis		
Revenues	\$ 895,404	\$ 1,602,597
Net loss	\$ (2,021,287)	\$ (2,775,926)

The Company is a co-guarantor of a \$6,000,000 revolving line of credit with a bank to be utilized by B&L Exploration. The Company has granted a security interest in its investment portfolio as collateral to back its guarantee. From time to time, B&L Exploration utilizes the credit facility during the ordinary course of its oil and gas operations, mainly to fund ongoing projects. The line of credit expires November 1, 2021. B&L Exploration had outstanding borrowings of \$3,680,000 and \$3,805,000 under the revolving line of credit as of December 31, 2019 and 2018. As of December 31, 2019, there are no indications that the Company will be required to perform under the terms of the guarantee.

In 2019, B&L Resources was formed and its only activity was related to lease acquisition costs which were capitalized. The Company is a co-guarantor of a \$2,000,000 revolving line of credit to be utilized by B&L Resources. There were no borrowings on this line as of December 31, 2019.

**BILOXI MARSH LANDS CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**INCOME TAX BASIS**

**(4) Income Taxes**

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

	2019			2018		
	Current	Deferred	Total	Current	Deferred	Total
Federal	\$ (10,580)	\$ 10,580	\$ -	\$ (21,160)	\$ (104)	\$ (21,264)
State	-	-	-	-	-	-
Total income tax expense (benefit)	\$ (10,580)	\$ 10,580	\$ -	\$ (21,160)	\$ (104)	\$ (21,264)

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:

	2019	2018
Deferred tax assets:		
Tax credit carryforwards	\$ 10,579	\$ 21,159

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:

	2019		2018	
Statutory rate	\$ (636,486)	(21.00) %	\$ (183,080)	(21.00) %
Capital losses	40,200	1.30 %	-	-
Tax credits	-	-	(21,264)	2.40 %
Effect of net operating losses carried forward	600,517	19.80 %	187,462	21.50 %
Other (net)	(4,231)	(0.10) %	(4,382)	(0.50) %
Effective tax rate	\$ -	0.00 %	\$ (21,264)	2.40 %

Management has not recorded any deferred tax assets as of December 31, 2019 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 \$10,579 had unlimited carryforward periods. Under the Tax Jobs and Cuts Act of 2017, these credits became refundable in stages with the refundable credit becoming 100 percent in taxable years beginning in 2021.

**BILOXI MARSH LANDS CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**INCOME TAX BASIS**

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

Net operating loss (NOL) carryforwards outstanding of \$5,511,090 federal and \$6,133,375 state as of December 31, 2019, begin to expire in 2034 and 2035, respectively. NOL carryforwards arising after December 31, 2017 can be carried forward indefinitely subject to some limitations.

**(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. All shares purchased will be held as treasury stock. As of December 31, 2019, the Company has acquired 30,000 shares.

**Dividends**

At its December 18, 2018 meeting, the board of directors declared a dividend of \$.10 per outstanding share of common stock payable on January 9, 2019 to shareholders of record as of the close of business on December 31, 2018. At its December 17, 2019 meeting, the board of directors declared a dividend of \$.10 per outstanding share of common stock payable on January 15, 2020 to shareholders of record as of the close of business on December 31, 2019.

**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) Risks and Uncertainties**

The Company invests in various investment securities which, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could be material.

**(9) Subsequent Events**

Management has evaluated subsequent events through the date that the financial statements were available to be issued, March 23, 2020, and determined that the following matters required additional disclosure in the financial statements. No other subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

Beginning in March 2020, as a result of multiple factors impacting supply and demand in the global crude oil markets, combined with the outbreak of a coronavirus (COVID-19), the posted price for West Texas Intermediate oil declined sharply. The extent to which the above matters may impact the Company's financial condition or results of operations cannot be reasonably estimated at this time.

**BILOXI MARSH LANDS CORPORATION**  
**SCHEDULES OF MARKETABLE SECURITIES**  
**DECEMBER 31, 2019 AND 2018**

Company description	2019				2018			
	Shares/ face value	Cost	Fair value	Unrealized gains (losses)	Shares/ face value	Cost	Fair value	Unrealized gains (losses)
Common stock:								
2U Inc.	-	\$ -	\$ -	\$ -	2,900	\$ 230,313	\$ 144,188	\$ (86,125)
3 D Systems Corp	14,400	267,803	126,000	(141,803)	14,400	267,801	146,448	(121,353)
Abbott Laboratories	3,600	292,389	312,696	20,307	3,600	256,767	260,388	3,621
Abiomed Inc	1,170	284,571	199,590	(84,981)	-	-	-	-
Axon Enterprise Inc.	-	-	-	-	4,100	260,361	179,375	(80,986)
Cypress Semiconductor Corp.	-	-	-	-	17,500	298,255	222,600	(75,655)
EBIX Inc.	6,400	399,013	213,824	(185,189)	4,600	354,338	195,776	(158,562)
Euronet Worldwide, Inc.	1,570	233,246	247,369	14,123	2,300	266,793	235,474	(31,319)
First Hawaiian Inc.	10,600	348,989	305,810	(43,179)	10,600	348,989	238,606	(110,383)
Howard Hughes Corp.	2,830	353,892	358,844	4,952	2,830	353,892	276,265	(77,627)
Kearny Financial Corp.	22,100	314,434	305,643	(8,791)	22,100	314,434	283,322	(31,112)
Leggett & Platt Inc.	-	-	-	-	5,800	300,900	207,872	(93,028)
LKQ Corp.	7,720	247,883	275,604	27,721	9,400	303,861	223,062	(80,799)
On Semiconductor Corp	12,180	239,198	296,948	57,750	-	-	-	-
Pool Corporation	1,360	263,270	288,837	25,567	1,630	227,684	242,300	14,616
Progressive Co.	3,600	258,423	260,604	2,181	3,600	258,423	217,188	(41,235)
Steris PLC	2,000	293,805	304,840	11,035	2,010	215,635	214,769	(866)
Teleflex Inc	500	178,309	188,220	9,911	-	-	-	-
Visa, Inc.	1,490	260,378	279,971	19,593	1,800	256,946	237,492	(19,454)
Wabco Holdings Inc.	-	-	-	-	2,380	250,731	255,469	4,738
Weight Watchers Intl Inc.	-	-	-	-	4,970	328,851	191,594	(137,257)
Western Digital Corp.	-	-	-	-	4,500	408,616	166,365	(242,251)
Total common stock		<u>4,235,603</u>	<u>3,964,800</u>	<u>(270,803)</u>		<u>5,503,590</u>	<u>4,138,553</u>	<u>(1,365,037)</u>
Corporate bonds:								
JP Morgan Chase & Co.	-	-	-	-	300,000	299,484	298,045	(1,439)
LKQ Corp	300,000	293,265	304,875	11,610	300,000	293,265	285,000	(8,265)
FMC CORP	200,000	199,798	204,825	5,027	-	-	-	-
H.B. Fuller Co	100,000	96,415	99,000	2,585	-	-	-	-
PHI Inc.	-	-	-	-	300,000	300,765	206,625	(94,140)
Total corporate bonds		<u>589,478</u>	<u>608,700</u>	<u>19,222</u>		<u>893,514</u>	<u>789,670</u>	<u>(103,844)</u>
Total marketable securities		<u>\$ 4,825,081</u>	<u>\$ 4,573,500</u>	<u>\$ (251,581)</u>		<u>\$ 6,397,104</u>	<u>\$ 4,928,223</u>	<u>\$ (1,468,881)</u>

See accompanying independent auditors' report.