

Biloxi Marsh Lands Corporation

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March 30, 2023

To the Shareholders of Biloxi Marsh Lands Corporation:

The following is a discussion of the results of the Company's operations for the year ending December 31, 2022. The Company's annual revenue breakdown is as follows: 2022 revenue from oil and gas production for its fee lands was \$16,605 compared to revenue of \$13,942 in 2021. The flow-through losses from the Company's membership interests in limited liability companies was \$2,506,194 in 2022 compared to \$698,936 in 2021. Dividend and interest income for 2022 was \$72,235, compared to \$49,595 for 2021. In 2022, the Company realized a cumulative gain from the sale of investment securities of \$3,541 compared to a cumulative gain in the amount of \$179,441 in 2021. Fee land revenues were \$8,350,639 for 2022 compared to \$79,467 for 2021. Expenses for the year totaled \$1,239,696 compared to prior year expenses of \$503,479. For the year, the Company had net income of \$4,454,098 or \$1.78 per share compared to a net loss of \$609,136 or \$.24 per share in 2021.

The Company continued its efforts in assisting government agencies understand that the Biloxi Marsh Complex (BMC) has a sufficiently stable geological platform to allow its long-term sustainability. These efforts have resulted in the inclusion of specific projects for the BMC in Coastal Protection and Restoration Authority's (CPRA's) 2023 Coastal Master Plan (CMP2023). Other projects for the BMC are programmatically consistent with CMP2023 which could lead to implementation of additional future restoration projects. Since the publication of CMP2017, the Company's engagement of CPRA, sponsoring scientific studies and providing data based on these studies lead directly to our property again becoming eligible for coastal restoration projects under CMP2023.

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). As reported in last year's President's letter, the case has been focused on additional discovery related to the issue of statute of limitations. The discovery period was extended due to interruptions caused by Hurricane Ida, and the Court has scheduled the conclusion of discovery during the month of May after which a trial schedule is to be set. As continually stated, the Company cannot predict the timing of resolution or the outcome of this litigation process, but it is anticipated that this litigation process will continue to take time.

During 2021 the Company began negotiations with Denbury Carbon Solutions, LLC the carbon capture, utilization, and storage ("CCUS") business subsidiary of Denbury, Inc. (NYSE: DEN). These negotiations resulted in the Company entering into a long-term CO₂ Injection Agreement with Denbury Carbon Solutions, LLC effective March 9, 2022. This agreement grants Denbury Carbon Solutions, LLC the sole, exclusive and limited right to inject and sequester CO₂ in pore space beneath a portion of the Company's property located in St. Bernard Parish, Louisiana. Under the terms and conditions of the Injection Agreement the

commercial terms must be kept confidential. We encourage our shareholders to research CCUS and related topics on the internet.

On April 6, 2022, the Company paid a dividend of \$.30 per share of outstanding common stock to its shareholders of record at the close of business on April 1, 2022 representing a cash dividend payment of \$751,508. Additionally, on January 12, 2023 the Company paid a dividend of \$.10 per share of outstanding common stock to its shareholders of record at the close of business on December 30, 2022 representing a cash dividend payment of \$250,503. Since 2002, the Company has paid approximately \$57,483,000 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 audit reports and press releases. We strongly recommend that all interested parties become familiar with the information available on the Company's website: www.biloximarshlandscorp.com.

B&L Exploration, LLC ("BLX"), of which the Company owns a 75% membership interest, 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 production unit from which the Highlander well is producing. This production unit is located in St. Martin Parish, Louisiana. Information reported by the Highlander well's operator to LDNR is available on LDNR's Strategic Online Natural Resources Information System (SONRIS – www.sonris.com). From the day of first production in February of 2015 through February of 2023, the operator has reported to SONRIS that the Jeanerette Minerals No. 1 cumulative production has been 115,163,259 MCF.

As reported last year, during 2019 B&L Resources, LLC ("BLR") was formed of which the Company owns a 50% membership interest. As of the date of this letter, BLR has six producing horizontal wells with significant development opportunity as evidenced by the PUD component of the proved reserves. The timing of BLR's development program on its 3,636.01 acre lease position in Heyser field will be governed by the relative costs of services versus commodity prices.

Two reserve studies by separate independent reservoir engineering firms covering different properties have been completed. The different categories of reserves for both BLX and BLR as of December 31, 2022 are tabulated in the following Table 1:

Table 1 - December 31, 2022 Reserves

Category	B&L Exploration LLC		B&L Resources LLC			All Properties		
	Net Reserves		Net Reserves			Net Reserves		
	Oil (MBBL)	Gas (MMCF)	Oil (MBBL)	Gas (MMCF)	NGL (MBBL)	Oil (MBBL)	Gas (MMCF)	NGL (MBBL)
Proved Developed Producing ("PDP")	-	389.9	443.0	9,683.5	40.8	443.0	10,073.4	40.8
Proved Developed Non-Producing ("PDNP")	-	171.0	-	-	-	-	171.0	-
Proved Undeveloped ("PUD")	-	-	660.3	13,217.1	55.6	660.3	13,217.1	55.6
Total Proved	-	560.9	1,103.3	22,900.6	96.4	1,103.3	23,461.5	96.4
Probable	-	483.6	234.2	4,411.3	18.6	234.2	4,894.9	18.6
Possible	-	484.9	-	-	-	-	484.9	-

Totals may not add because of rounding.

Note: The table represents the estimates believed to be accurate as determined by independent reservoir engineers, Netherland, Sewell & Associates, Inc., and Lonquist & Co. LLC. The table does not include any revenue or cost information and does not include definitions that are an integral part of the complete reserve report. General Information on reserve definitions are available at the following website: https://netherlandsewell.com/wp-content/uploads/2018/12/SPE_Petroleum_Resources_Management_System_2018.pdf

Attracting third parties interested in exploring for and developing the minerals beneath our fee lands in St. Bernard Parish, Louisiana continues to prove difficult. Our recent entry into the CCUS natural resource sector provides our shareholders with opportunities beyond traditional oil and gas resources. Nonetheless, we continue to understand the importance of oil and gas as a core asset which is demonstrated by the significant proved reserves attributable to the Highlander EOC-TUSC BL UDS SUA production unit in St. Mary Parish, Louisiana and Heyser field in Calhoun County, Texas.

Sincerely,



William B. Rudolf
President and Chief Executive Officer
Metairie, Louisiana
Email: wrudolf@blexp.net¹

¹ 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, 2022
(WITH INDEPENDENT AUDITORS' REPORT THEREON)

BILOXI MARSH LANDS CORPORATION
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BILOXI MARSHLANDS CORPORATION

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INDEPENDENT AUDITORS' REPORT

The Board of Directors for
Biloxi Marsh Lands Corporation:

Opinion

We have audited the accompanying financial statements of Biloxi Marsh Lands Corporation (the Company), which comprise the statements of assets, liabilities and stockholders' equity – income tax basis as of December 31, 2022 and 2021, 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.

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, 2022 and 2021, its revenues and expenses, changes in stockholders' equity and its cash flows for the years then ended in accordance with the basis of accounting the Company uses for income tax purposes, as described in Note 1.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Biloxi Marsh Lands Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the basis of accounting that Biloxi Marsh Lands Corporation uses for income tax purposes as 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Biloxi Marsh Lands Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Biloxi Marsh Lands Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Information Included in the President's Letter to Shareholders

Management is responsible for the other information included in the President's Letter to Shareholders (the Other Information). The Other Information comprises the President's Letter to Shareholders but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the Other Information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the Other Information and consider whether a material inconsistency exists between the Other Information and the financial statements, or the Other Information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the Other Information exists, we are required to describe it in our report.

Postlethwaite & Netterville

Metairie, Louisiana
March 30, 2023

BILOXI MARSH LANDS CORPORATION

STATEMENTS OF ASSETS, LIABILITIES, AND STOCKHOLDERS' EQUITY
INCOME TAX BASIS
DECEMBER 31, 2022 AND 2021

ASSETS

	<u>2022</u>	<u>2021</u>
Current assets:		
Cash and cash equivalents	\$ 2,669,685	\$ 1,162,360
Accounts receivable	171,862	5,548
Accrued interest receivable	10,800	3,111
Income taxes receivable	104,868	2,977
Prepaid expenses	46,175	38,237
Other assets	3,830	3,830
	<u>3,007,220</u>	<u>1,216,063</u>
Membership interest in limited liability companies	-	498,761
Marketable debt and equity securities - at cost	5,100,710	2,501,788
Land - at cost	234,939	234,939
Levees and office furniture and equipment	260,181	308,607
Accumulated depreciation	<u>(260,181)</u>	<u>(308,607)</u>
	<u>\$ 8,342,869</u>	<u>\$ 4,451,551</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accrued expenses and other current liabilities	\$ 30,214	\$ 36,419
Membership interest in limited liability companies	979,157	784,224
	<u>1,009,371</u>	<u>820,643</u>
Stockholders' equity		
Common stock, \$0.001 par value. Authorized, 20,000,000 shares; issued, 2,851,196 shares; outstanding, 2,505,028 shares in 2022 and 2021	47,520	47,520
Retained earnings	10,363,003	6,660,413
Treasury Stock, 346,168 shares in 2022 and 2021, at cost	<u>(3,077,025)</u>	<u>(3,077,025)</u>
	<u>7,333,498</u>	<u>3,630,908</u>
	<u>\$ 8,342,869</u>	<u>\$ 4,451,551</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, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Revenues:		
Oil and gas	\$ 16,605	\$ 13,942
Total oil and gas revenues	<u>16,605</u>	<u>13,942</u>
Other income (loss):		
Loss from membership interest in limited liability companies	(2,506,194)	(698,936)
Dividends and interest income	72,235	49,595
Gain on sale of securities	3,541	179,441
Other	24,600	36,600
Paycheck protection program loan forgiveness	-	55,699
Fee land income	8,350,639	79,467
Total other loss	<u>5,944,821</u>	<u>(298,134)</u>
Total revenues and other loss	<u>5,961,426</u>	<u>(284,192)</u>
Expenses:		
Compensation and salaries	701,596	156,338
Association dues	5,030	8,450
Professional fees	102,064	76,045
Consultants	84,075	12,250
Directors' fees	66,500	26,500
Insurance	79,655	72,535
Surface patrolling and oversight	19,837	7,185
Other	31,472	21,211
Portfolio management	21,295	20,303
Taxes and licenses	65,849	62,482
Rent	31,875	33,259
Shareholder relations	30,448	6,921
Total expenses	<u>1,239,696</u>	<u>503,479</u>
Income tax expense (benefit)	267,632	(178,535)
Net income (loss) - income tax basis	<u>\$ 4,454,098</u>	<u>\$ (609,136)</u>
Net income (loss) per share - income tax basis	\$ 1.78	\$ (0.24)

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, 2022 AND 2021

	<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, 2020	2,851,196	\$ 47,520	(346,168)	\$ (3,077,025)	\$ 7,520,052	\$ 4,490,547
Net loss - income tax basis	-	-	-	-	(609,136)	(609,136)
Dividends	-	-	-	-	(250,503)	(250,503)
Balance, December 31, 2021	<u>2,851,196</u>	<u>\$ 47,520</u>	<u>(346,168)</u>	<u>\$ (3,077,025)</u>	<u>\$ 6,660,413</u>	<u>\$ 3,630,908</u>
Net income - income tax basis	-	-	-	-	4,454,098	4,454,098
Dividends	-	-	-	-	(751,508)	(751,508)
Balance, December 31, 2022	<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>\$ 10,363,003</u></u>	<u><u>\$ 7,333,498</u></u>

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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, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net income (loss) - income tax basis	\$ 4,454,098	\$ (609,136)
Adjustments to reconcile net loss - income tax basis		
net cash provided by (used in) operating activities:		
Gain on sale of securities	(3,541)	(179,441)
Loss from membership interest in limited liability companies	2,506,194	698,936
Change in operating assets and liabilities:		
Accounts and interest receivable	(174,003)	(4,291)
Prepaid expenses	(7,938)	(834)
Income taxes receivable	(101,891)	13,023
Accrued expenses and other current liabilities	(6,205)	(635)
	<u>6,666,714</u>	<u>(82,378)</u>
Net cash provided by (used in) operating activities		
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Proceeds from the sale of securities	510,074	1,588,876
Purchase of securities	(3,105,455)	(871,240)
Contributions to B&L Exploration & B&L Resources	(1,812,500)	(1,200,000)
	<u>(4,407,881)</u>	<u>(482,364)</u>
Net cash provided by (used in) investing activities		
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Dividends paid	(751,508)	(250,503)
	<u>(751,508)</u>	<u>(250,503)</u>
Net cash used in financing activities		
Net change in cash and cash equivalents	1,507,325	(815,245)
Cash and cash equivalents, beginning of year	1,162,360	1,977,605
Cash and cash equivalents, end of year	<u>\$ 2,669,685</u>	<u>\$ 1,162,360</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. Through a written agreement with an established industry participant, during 2022 the Company entered into the Carbon Capture Utilization and Sequestration (“CCUS”) business sector on its fee lands in St. Bernard Parish, Louisiana.

The Company owns a membership interest in B&L Exploration L.L.C. (B&L Exploration), and B&L Resources L.L.C. (B&L Resources). B&L Exploration and B&L Resources are 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 \$2,194,788 and \$1,087,139 of investment money market funds with an initial term of less than three months at December 31, 2022 and 2021, 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 no depreciation expense in either 2022 or 2021, 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 \$(265,251) and \$(784,224) at December 31, 2022 and 2021, respectively.

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 \$718,527 and \$788,342 flowed through to the Company in 2022 and 2021, respectively. The losses included net additions in costs of \$429,054 and \$613,123 in 2022 and 2021 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 \$1,237,500 and \$825,000 in 2022 and 2021, 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)

The Company also owns a 50% membership interest in B&L Resources L.L.C., an oil and gas exploration business. B&L Resources has commissioned reserve studies, which were completed by independent reservoir engineering firms. These reserve studies estimate that B&L Resources has proved reserves in natural gas and oil attributable to its mineral properties. The proved reserve estimates are not included in the table below summarizing financial information – income tax basis of B&L Resources.

The carrying amount of the Company's membership interest in B&L Resources was (\$713,906) and \$498,761 at December 31, 2022 and 2021, respectively.

Net loss of and income of \$1,787,667 and \$89,406 flowed through to the Company in 2022 and 2021, respectively. The 2022 net loss included net additions in costs of \$1,049,533 representing the expensing of intangible drilling costs which had been capitalized in 2021 and had been a net reduction in costs of the same amount in 2021. The Company made capital contributions of \$575,000 and \$375,000 in 2022 and 2021, 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.

BILOXI MARSH LANDS CORPORATION

NOTES TO FINANCIAL STATEMENTS

INCOME TAX BASIS

(1) Summary of Significant Accounting Policies (continued)

Income Taxes (continued)

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 (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.

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. The Company has committed to continue funding the operations of its equity investees, as needed, for a period of at least one-year from issuance date of these 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, 2022 and 2021 were as follows:

	<u>Cost basis</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair value</u>
At December 31, 2022:				
Corporate bonds	\$ 872,289	\$ -	\$ (36,999)	\$ 835,290
Equity securities	<u>4,228,421</u>	<u>307,044</u>	<u>(732,608)</u>	<u>3,802,857</u>
	<u>\$ 5,100,710</u>	<u>\$ 307,044</u>	<u>\$ (769,607)</u>	<u>\$ 4,638,147</u>
At December 31, 2021:				
Corporate bonds	\$ 296,213	\$ 19,457	\$ -	\$ 315,670
Equity securities	<u>2,205,575</u>	<u>464,749</u>	<u>(314,056)</u>	<u>2,356,268</u>
	<u>\$ 2,501,788</u>	<u>\$ 484,206</u>	<u>\$ (314,056)</u>	<u>\$ 2,671,938</u>

BILOXI MARSH LANDS CORPORATION

NOTES TO FINANCIAL STATEMENTS

INCOME TAX BASIS

(2) Investments in Investment Securities (continued)

Maturities of corporate bonds were as follows at December 31, 2022:

	<u>Cost basis</u>	<u>Fair value</u>
Due within one year	\$ -	\$ -
Due after one through six years	872,289	835,290
	<u>\$ 872,289</u>	<u>\$ 835,290</u>

(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, 2022 and 2021 (on the income tax basis of accounting) is as follows:

	<u>2022</u>	<u>2021</u>
Financial position – income tax basis:		
Current assets	\$ 1,304,655	\$ 2,301,094
Other assets	13,596	13,596
Mineral properties and equipment, net	127,703	1,414,777
Total assets	<u>\$ 1,445,954</u>	<u>\$ 3,729,467</u>
Total liabilities	\$ 421,663	\$ 3,969,211
Members' equity (deficit)	1,024,291	(239,744)
Total liabilities and members' equity (deficit)	<u>\$ 1,445,954</u>	<u>\$ 3,729,467</u>
Results of operations – income tax basis		
Revenues	\$ 2,205,550	\$ 1,710,316
Net loss	\$ (385,965)	\$ (233,626)

The Company is a co-guarantor of a \$3,000,000 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, 2023. B&L Exploration had outstanding borrowings of \$0 and \$1,650,000 under the revolving line of credit as of December 31, 2022 and 2021. As of December 31, 2022, there are no indications that the Company will be required to perform under the terms of the guarantee.

BILOXI MARSH LANDS CORPORATION

NOTES TO FINANCIAL STATEMENTS

INCOME TAX BASIS

(3) Investments in Limited Liability Companies (continued)

Summary financial information – income tax basis of B&L Resources as of and for the year ended December 31, 2022 and December 31, 2021 (on the income tax basis of accounting) is as follows:

	<u>2022</u>	<u>2021</u>
Financial position – income tax basis:		
Current assets	\$ 1,862,489	1,031,859
Mineral properties and equipment, net	270,666	1,981,857
	<hr/>	<hr/>
Total assets	\$ 2,133,155	3,013,716
	<hr/>	<hr/>
Total liabilities	\$ 3,560,966	4,115,260
Members' deficit	(1,427,811)	(1,101,544)
	<hr/>	<hr/>
Total liabilities and members' deficit	\$ 2,133,155	3,013,716
	<hr/>	<hr/>
Results of operations – income tax basis		
Revenues	\$ 6,482,088	2,348,488
Net loss	\$ (1,476,267)	(1,920,254)

The Company is a co-guarantor of a \$5,000,000 revolving line of credit with a bank to be utilized by B&L Resources. The Company has granted a security interest in its investment portfolio as collateral to back its guarantee. From time to time, B&L Resources 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, 2023. B&L Resources had outstanding borrowings of \$2,000,000 and \$3,150,000 under the revolving line of credit as of December 31, 2022 and 2021. As of December 31, 2022, 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>2022</u>			<u>2021</u>		
	<u>Current</u>	<u>Deferred</u>	<u>Total</u>	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Federal	\$ 152,005	\$ -	\$ 152,005	\$ (178,535)	\$ -	\$ (178,535)
State	115,627	-	115,627	-	-	-
Total income tax expense (benefit)	\$ <u>267,632</u>	\$ <u>-</u>	\$ <u>267,632</u>	\$ <u>(178,535)</u>	\$ <u>-</u>	\$ <u>(178,535)</u>

BILOXI MARSH LANDS CORPORATION

NOTES TO FINANCIAL STATEMENTS

INCOME TAX BASIS

(4) Income Taxes (continued)

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>2022</u>		<u>2021</u>	
Statutory rate	\$ 991,563	21.00 %	\$ (165,411)	(21.00) %
PPP Loan Forgiveness	-	-	(26,611)	(3.40) %
Percentage Depletion	(198,368)	(4.20) %	-	-
State Taxes	91,345	1.90 %	-	-
Effect of NOLs	(612,117)	(13.00) %	16,647	(2.10) %
Other	(4,791)	-	(3,160)	(0.40) %
Effective tax rate	<u>\$ 267,632</u>	<u>5.70 %</u>	<u>\$ (178,535)</u>	<u>(26.90) %</u>

Management has not recorded any deferred tax assets as of December 31, 2022 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. Because of 2022 operations, the Company was able to utilize net operating loss carry forwards of \$4,682,145 federal and \$4,101,501 state.

Net operating loss (NOL) carryforwards outstanding of \$3,769,257 federal and \$3,259,794 state as of December 31, 2022 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.

BILOXI MARSH LANDS CORPORATION

NOTES TO FINANCIAL STATEMENTS

INCOME TAX BASIS

(5) Stockholders' Equity (continued)

Dividends

At its December 17, 2020 meeting, the board of directors declared a dividend of \$.10 per outstanding share of common stock payable on January 14, 2021 to shareholders of record as of the close of business on December 30, 2020. On March 22, 2022 the board of directors declared a dividend of \$.30 per outstanding share of common stock payable on April 6, 2022 to shareholders of record as of the close of business on April 1, 2022. On December 21, 2022, the board of directors declared a dividend of \$.10 per outstanding share of common stock payable on January 12, 2023 to shareholders of record as of close of business on December 30, 2022.

(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) Paycheck Protection Program

During the year ended December 31, 2020, the Company applied for and was approved for a \$27,800 loan under the Paycheck Protection Program (PPP) administered by the Small Business Administration (SBA) as part of the relief efforts related to COVID-19. In January 2021, the Company was approved for a second PPP loan in the amount of \$27,899. The loans accrue interest at a fixed rate of 1.00% but payments are not required to begin for ten months following the borrower's covered period or loan forgiveness by the SBA. The Company is eligible for forgiveness of up to 100% of the loans, upon meeting certain requirements. The loans are uncollateralized and are fully guaranteed by the Federal Government. As of December 31, 2021 the Company applied for and was granted forgiveness of the PPP Loans. The loan forgiveness was recorded as of the time forgiveness in the statement of revenues and expenses – income tax basis in the year ended December 31, 2021. The income from the loan forgiveness is not taxable.

BILOXI MARSH LANDS CORPORATION

NOTES TO FINANCIAL STATEMENTS

INCOME TAX BASIS

(10) Carbon Capture Agreement

During 2021, the Company began negotiations with Denbury Carbon Solutions, LLC, the carbon capture, utilization, and storage (“CCUS”) business subsidiary of Denbury, Inc. (NYSE:DEN). These negotiations resulted in the Company entering into a long-term CO₂ Injection Agreement with Denbury Carbon Solutions, LLC, effective March 9, 2022. This agreement grants Denbury Carbon Solutions, LLC the sole, exclusive and limited right to inject and sequester CO₂ in pore space beneath a portion of the Company’s property located in St. Bernard Parish, Louisiana. Under the terms and conditions of the Agreement, the commercial terms must be kept confidential.

(11) Concentrations of Credit Risk

The Company has cash deposits in financial institutions, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC). The Company has not experienced any losses and does not believe that significant credit risk exists as a result of this practice.

(12) Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, March 30, 2023, and determined that there were no additional items requiring disclosure. No other subsequent events occurring after this date have been evaluated for inclusion in these financial statements.