

Biloxi Marsh Lands Corporation

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March 29, 2021

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, 2020. The Company's annual revenue breakdown is as follows: 2020 revenue from oil and gas production for its fee lands was \$11,736 compared to revenue of \$18,982 in 2019. The flow-through losses from the Company's membership interests in limited liability companies was \$2,174,183 in 2020 compared to \$2,290,999 in 2019. Dividend and interest income for 2020 was \$53,330, compared to \$101,240 for 2019. In 2020, the Company realized a cumulative loss from the sale of investment securities of \$124,341 compared to a cumulative loss in the amount of \$191,428 in 2019. Fee land revenues from surface activities unrelated to oil and gas were \$75,527 for 2020 compared to \$143,322 for 2019. This reduction year over year was due to a cessation of harvesting of oysters from water-bottoms owned by the Company during 2020. Expenses for the year totaled \$591,768 compared to prior year expenses of \$812,005. For the year, the Company had a net loss of \$988,189 or \$.39 per share compared to a net loss of \$3,030,888 or \$1.21 per share in 2019.

During the third quarter, the Company received a settlement payment for its wetlands real property claim under the Halliburton Energy Service, Inc. / Transocean Settlements arising out of the Deepwater Horizon incident in the Gulf of Mexico beginning on April 20, 2010. These settlements are separate from the BP Deepwater Horizon Economic and Property Damages Settlement Program. The Company has been advised by our legal counsel that no additional recovery under the settlements is expected related to the BP Deepwater Horizon disaster.

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 January 19, 2021 the Court issued an Opinion and Order on the cross motions. The Court granted-in-part and denied-in-part the government's motion for summary judgement and denied the plaintiff's cross-motion for summary judgment. The Court ruled that it *cannot definitively say ... landowners were justifiably uncertain without further evidence regarding what landowners knew about the proposed and complete projects, and how this relates to any uncertainty as to permanency of alleged takings*. The Court also required that the parties submit a joint status report proposing a timeline. The joint status report must include *whether the parties intend to submit motions to resolve plaintiffs' contractual claims, or address those claims at trial, whether the parties will request further discovery before trial, and scheduling suggestions to begin planning trial*

proceedings... 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.

On January 14, 2021, the Company paid a dividend to its shareholders of record at the close of business on December 30, 2020. This represents a total cash dividend payment of \$250,503 or \$.10 per share. Since 2002, the Company has paid approximately \$56,481,500 in total dividends.

The Company continues its efforts to make clear to State and Federal government agencies that the Biloxi Marsh Complex's (BMC) has a sufficient geological platform to allow its long-term sustainability and we are working toward having additional coastal restoration projects completed in the BMC which will help sustain the Company's property.

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.

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. A public meeting to consider the application by one of the mineral owners requesting that the size of the unit be reduced was held on October 6, 2020 and an order was issued denying the mineral owner's request. 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).

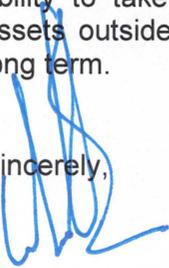
As reported last year, during 2019 B&L Resources, LLC ("BLR") was formed of which the Company owns a 50% membership interest. We also reported that during 2019 BLR acquired a 562.3 acre leasehold position in Heyser Field located in Calhoun County, Texas and that BLR was in the process of acquiring additional acreage contiguous to this lease. In April of 2020 BLR closed on its acquisition of an additional 3,073.71 acres located in Heyser Field from Frostwood Energy, LLC, bringing BLR's total lease position to 3,636.01 acres. Due to the severe decline in oil prices in March of 2020, BLR was able to acquire this 3,073.71 acre portion of Heyser field and associated equipment for significantly lower cash consideration than was originally contemplated. This acquisition included leasehold improvements, infrastructure, production facilities and producing horizontal wells. This project's goal is to use the same horizontal well technology implemented by Frostwood Energy to recover residual oil and natural gas in the historically prolific Heyser Field. After acquisition, BLR sold a portion of its working interest on a promoted basis to help finance additional leasehold improvements and drill its first horizontal well. As of December 31, 2020, BLR drilled its Welder 29H well. The Welder 29H well was completed during the first quarter of 2021 and is currently producing oil and natural gas in paying quantities.

Due to staffing and other issues related to COVID 19, B&L Exploration, LLC, in which the Company has a 75% membership interest, and B&L Resources, LLC, in which the company has a 50% membership interest, have delayed the completion of proved reserves studies until mid-year of 2021. As soon as it is available, we plan to post the proved reserve information as contained in our prior annual letter to shareholders.

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. Our management team's experience in the oil and gas sector, and the Company's investment in an oil and gas operating company uniquely positions the Company to take advantage of changes in the current business environment.

Management stated in last year's annual letter to shareholders that the significant drop in commodity prices could create opportunities as we moved through the tumultuous period of lower commodity prices. BLR's acquisition of the 3,073.71 acre Frostwood Lease and accompanying leasehold improvements in Heyser Field demonstrated BLR's management's ability to take advantage of opportunities when presented. Diversification by investment in assets outside of Louisiana 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: 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, 2020
(WITH INDEPENDENT AUDITORS' REPORT THEREON)

BILOXI MARSH LANDS CORPORATION

FINANCIAL STATEMENTS

INCOME TAX BASIS

DECEMBER 31, 2020

(WITH INDEPENDENT AUDITORS' REPORT THEREON)

**BILOXI MARSH LANDS
CORPORATION**

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Biloxi Marsh Lands Corporation:

We have audited the accompanying financial statements – income tax basis of Biloxi Marsh Lands Corporation (the Company), which comprise the statements of assets, liabilities, and stockholders' equity – income tax basis as of December 31, 2020 and 2019, 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, 2020 and 2019, and its revenues and expenses, changes in stockholders' equity, and 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 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.

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 that 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, 2020 and 2019 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 25, 2021

BILOXI MARSH LANDS CORPORATION

STATEMENTS OF ASSETS, LIABILITIES, AND STOCKHOLDERS' EQUITY
INCOME TAX BASIS
DECEMBER 31, 2020 AND 2019

ASSETS

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 1,977,605 | \$ 815,877 |
| Accounts receivable | 1,257 | 1,957 |
| Accrued interest receivable | 3,111 | 5,128 |
| Income taxes receivable | 16,000 | 11,723 |
| Prepaid expenses | 37,403 | 44,987 |
| Marketable debt securities - at cost | - | 293,265 |
| Other assets | 3,830 | 3,830 |
| Total current assets | <u>2,039,206</u> | <u>1,176,767</u> |
| Membership interest in limited liability companies | 34,355 | 231,000 |
| Marketable debt and equity securities - at cost | 3,039,983 | 4,531,816 |
| Deferred tax asset | - | 10,579 |
| Land - at cost | 234,939 | 234,939 |
| Levees and office furniture and equipment | 308,607 | 308,607 |
| Accumulated depreciation | <u>(308,607)</u> | <u>(308,607)</u> |
| Total assets | <u>\$ 5,348,483</u> | <u>\$ 6,185,101</u> |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|--|---------------------|---------------------|
| Current liabilities: | | |
| Accrued expenses and other current liabilities | \$ 37,054 | \$ 62,517 |
| Membership interest in limited liability companies | <u>820,882</u> | <u>393,345</u> |
| Total current liabilities | <u>857,936</u> | <u>455,862</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 2020 and 2019 | 47,520 | 47,520 |
| Retained earnings | 7,520,052 | 8,758,744 |
| Treasury Stock, 346,168 shares in 2020 and 2019, at cost | <u>(3,077,025)</u> | <u>(3,077,025)</u> |
| Total stockholders' equity | <u>4,490,547</u> | <u>5,729,239</u> |
| Total liabilities and stockholders' equity | <u>\$ 5,348,483</u> | <u>\$ 6,185,101</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, 2020 AND 2019

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|-----------------------|
| Revenues: | | |
| Oil and gas | \$ 11,736 | \$ 18,982 |
| Total oil and gas revenues | <u>11,736</u> | <u>18,982</u> |
| Other income (loss): | | |
| Loss from membership interest in limited liability companies | (2,174,183) | (2,290,999) |
| Dividends and interest income | 53,330 | 101,240 |
| Gain on settlements | 1,761,510 | - |
| Loss on sale of securities | (124,341) | (191,428) |
| Fee land income | <u>75,527</u> | <u>143,322</u> |
| Total other income (loss) | <u>(408,157)</u> | <u>(2,237,865)</u> |
| Total revenues and other income (loss) | <u>(396,421)</u> | <u>(2,218,883)</u> |
| Expenses: | | |
| Compensation and salaries | 211,333 | 194,898 |
| Association dues | 8,400 | 7,575 |
| Professional fees | 68,792 | 171,425 |
| Consultants | 8,001 | 74,598 |
| Depreciation | - | 31 |
| Directors' fees | 57,500 | 46,250 |
| Insurance | 79,963 | 89,602 |
| Surface patrolling and oversight | 4,450 | 17,266 |
| Other | 22,949 | 38,922 |
| Portfolio management | 20,526 | 30,840 |
| Taxes and licenses | 69,375 | 93,944 |
| Rent | 30,391 | 26,687 |
| Shareholder relations | <u>10,088</u> | <u>19,967</u> |
| Total expenses | <u>591,768</u> | <u>812,005</u> |
| Net loss - income tax basis | <u>\$ (988,189)</u> | <u>\$ (3,030,888)</u> |
| Net loss per share - income tax basis | \$ (0.39) | \$ (1.21) |

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, 2020 AND 2019

| | <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, 2018 | 2,851,196 | \$ 47,520 | 338,188 | \$ (3,030,125) | \$ 12,040,933 | \$ 9,058,328 |
| 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>2,851,196</u> | <u>\$ 47,520</u> | <u>346,168</u> | <u>\$ (3,077,025)</u> | <u>\$ 8,758,744</u> | <u>\$ 5,729,239</u> |
| Net loss - income tax basis | - | - | - | - | (988,189) | (988,189) |
| Purchase of treasury shares | - | - | - | - | - | - |
| Dividends | - | - | - | - | (250,503) | (250,503) |
| Balance, December 31, 2020 | <u>2,851,196</u> | <u>\$ 47,520</u> | <u>346,168</u> | <u>\$ (3,077,025)</u> | <u>\$ 7,520,052</u> | <u>\$ 4,490,547</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, 2020 AND 2019

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|-------------------|
| <u>CASH FLOWS FROM OPERATING ACTIVITIES:</u> | | |
| Net loss - income tax basis | \$ (988,189) | \$ (3,030,888) |
| Adjustments to reconcile net loss - income tax basis to net cash provided by (used in) operating activities: | | |
| Depreciation | - | 31 |
| Loss on sale of securities | 124,341 | 191,428 |
| Loss from membership interest in limited liability companies | 2,174,183 | 2,290,999 |
| Deferred income tax expense | 10,579 | 10,580 |
| Change in operating assets and liabilities: | | |
| Accounts and interest receivable | 2,717 | 90,670 |
| Prepaid expenses | 7,584 | (4,765) |
| Income taxes receivable | (4,277) | 17,815 |
| Accrued expenses and other current liabilities | (25,463) | 44,976 |
| Net cash provided by (used in) operating activities | <u>1,301,475</u> | <u>(389,154)</u> |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES:</u> | | |
| Proceeds from the sale of securities | 2,092,536 | 3,979,338 |
| Purchase of securities | (431,780) | (2,598,743) |
| Membership interests - limited liability companies | (1,550,000) | (1,911,000) |
| Net cash provided by (used in) investing activities | <u>110,756</u> | <u>(530,405)</u> |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES:</u> | | |
| Treasury stock purchased | - | (46,900) |
| Dividends paid | (250,503) | (251,301) |
| Net cash used in financing activities | <u>(250,503)</u> | <u>(298,201)</u> |
| Net change in cash and cash equivalents | 1,161,728 | (1,217,760) |
| Cash and cash equivalents, beginning of year | <u>815,877</u> | <u>2,033,637</u> |
| Cash and cash equivalents, end of year | <u>\$ 1,977,605</u> | <u>\$ 815,877</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 \$1,914,953 and \$776,233 of investment money market funds with an initial term of less than three months at December 31, 2020 and 2019, 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 \$0 and \$31 in 2020 and 2019, 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 \$(820,882) and \$(393,345) at December 31, 2020 and 2019, 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 \$1,402,538 and \$2,290,999 flowed through to the Company in 2020 and 2019, respectively. The losses included net additions and reductions in costs of \$736,125 and \$775,034 in 2020 and 2019 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 \$975,000 and \$1,680,000 in 2020 and 2019, 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 Settlements

In 2019, the Company received \$86,967, net of the Company's \$15,347 legal fees, settlement collection for its wetlands real property claim under the Halliburton Energy Services Inc. and Transocean Ltd. Settlement Program that had been accrued as of December 31, 2018. In 2020, the Company received \$1,607,715, net of the Company's \$282,714 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, 2020 and 2019 were as follows:

| | <u>Cost basis</u> | <u>Gross unrealized gains</u> | <u>Gross unrealized losses</u> | <u>Fair value</u> |
|-----------------------|---------------------|---------------------------------------|--|---------------------|
| At December 31, 2020: | | | | |
| Corporate bonds | \$ 296,213 | \$ 29,263 | \$ - | \$ 325,476 |
| Equity securities | <u>2,743,770</u> | <u>483,292</u> | <u>(360,052)</u> | <u>2,867,010</u> |
| | <u>\$ 3,039,983</u> | <u>\$ 512,555</u> | <u>\$ (360,052)</u> | <u>\$ 3,192,486</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> |

Maturities of corporate bonds were as follows at December 31, 2020:

| | <u>Cost basis</u> | <u>Fair value</u> |
|---------------------------------|-------------------|-------------------|
| Due within one year | \$ 0 | \$ 0 |
| Due after one through six years | <u>296,213</u> | <u>325,476</u> |
| | <u>\$ 296,213</u> | <u>\$ 325,476</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, 2020 and 2019 (on the income tax basis of accounting) is as follows:

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| Financial position – income tax basis: | | |
| Current assets | \$ 1,014,656 | \$ 1,069,276 |
| Other assets | 13,596 | 13,596 |
| Mineral properties and equipment, net | <u>1,583,129</u> | <u>2,058,745</u> |
| Total assets | <u>\$ 2,611,381</u> | <u>\$ 3,141,617</u> |
| Total liabilities | \$ 3,717,499 | \$ 4,659,184 |
| Members' deficit | <u>(1,106,118)</u> | <u>(1,517,567)</u> |
| Total liabilities and members' deficit | <u>\$ 2,611,381</u> | <u>\$ 3,141,617</u> |
| Results of operations – income tax basis | | |
| Revenues | \$ 1,237,546 | \$ 895,404 |
| Net loss | \$ (888,551) | \$ (2,021,287) |

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 \$2,650,000 and \$3,680,000 under the revolving line of credit as of December 31, 2020 and 2019. As of December 31, 2020, there are no indications that the Company will be required to perform under the terms of the guarantee.

The Company owns a 50% membership interest in B&L Resources, L.L.C. (B&L Resources) which was formed in 2019. During 2020, B&L Resources acquired an oil and gas field. Subsequently, B&L Resources sold a portion of its interest on a promoted basis and is pursuing development of the field using horizontal well technology focusing on the recovery of residual oil and gas. The carrying amount of the Company's membership interest in B&L Resources was \$34,355 and \$231,000 at December 31, 2020 and 2019, 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. A net loss of \$771,645 flowed through to the Company in 2020. The Company made capital contributions of \$575,000 and \$231,000 in 2020 and 2019, respectively. 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, 2020 and 2019.

BILOXI MARSH LANDS CORPORATION
NOTES TO FINANCIAL STATEMENTS
INCOME TAX BASIS

(4) Income Taxes

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

| | 2020 | | | 2019 | | |
|------------------------------------|-------------|-----------|-------|-------------|-----------|-------|
| | Current | Deferred | Total | Current | Deferred | Total |
| Federal | \$ (10,579) | \$ 10,579 | \$ - | \$ (10,580) | \$ 10,580 | \$ - |
| State | - | - | - | - | - | - |
| Total income tax expense (benefit) | \$ (10,579) | \$ 10,579 | \$ - | \$ (10,580) | \$ 10,580 | \$ - |

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:

| | 2020 | 2019 |
|--------------------------|------|-----------|
| Deferred tax assets: | | |
| Tax credit carryforwards | \$ 0 | \$ 10,579 |

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:

| | 2020 | | 2019 | |
|--|--------------|-----------|--------------|-----------|
| Statutory rate | \$ (207,520) | (21.00) % | \$ (636,486) | (21.00) % |
| Capital losses | (40,200) | (4.10) % | 40,200 | 1.30 % |
| Effect of net operating losses carried forward | 250,956 | 25.40 % | 600,517 | 19.80 % |
| Other (net) | (3,236) | (0.30) % | (4,231) | (0.10) % |
| Effective tax rate | \$ - | (0.00) % | \$ - | 0.00 % |

Management has not recorded any deferred tax assets as of December 31, 2020 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.

BILOXI MARSH LANDS CORPORATION
NOTES TO FINANCIAL STATEMENTS
INCOME TAX BASIS

(4) Income Taxes (continued)

Net operating loss (NOL) carryforwards outstanding of \$6,706,113 federal and \$7,361,295 state as of December 31, 2020, 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, 2020, the Company has acquired 30,000 shares.

Dividends

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. 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.

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) Outbreak of COVID-19 and Paycheck Protection Program

In December 2019, a novel strain of coronavirus (COVID-19) was reported. On March 11, 2020, the World Health Organization declared the outbreak as a global pandemic. The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the Company's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and impact on the Company's customers, employees and vendors, all of which are uncertain and cannot be predicted. The extent to which this matter may impact the Company's future financial condition, operating results or cash flows cannot be reasonably estimated at this time.

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. The loan accrues 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 loan, upon meeting certain requirements. The loan is uncollateralized and is fully guaranteed by the Federal Government. The PPP loan is included in accrued expenses and other current liabilities in the statements of assets, liabilities, and members' deficit – income tax basis.

(10) Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, March 25, 2021, 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.

BILOXI MARSH LANDS CORPORATION
SCHEDULES OF MARKETABLE SECURITIES
DECEMBER 31, 2020 AND 2019

| Company description | 2020 | | | | 2019 | | | |
|-----------------------------|-----------------------|---------------------|---------------------|------------------------------|-----------------------|---------------------|---------------------|------------------------------|
| | Shares/ face value | Cost | Fair value | Unrealized gains (losses) | Shares/ face value | Cost | Fair value | Unrealized gains (losses) |
| Common stock: | | | | | | | | |
| 3 D Systems Corp | - | - | - | - | 14,400 | 267,803 | 126,000 | (141,803) |
| Abbott Laboratories | 1,230 | 99,900 | 134,673 | 34,773 | 3,600 | 292,389 | 312,696 | 20,307 |
| Abiomed Inc. | 510 | 116,804 | 165,342 | 48,538 | 1,170 | 284,571 | 199,590 | (84,981) |
| Caesars Entmt. Inc. | 3,280 | 197,313 | 243,606 | 46,293 | - | - | - | - |
| EBIX Inc. | 6,400 | 399,013 | 243,008 | (156,005) | 6,400 | 399,013 | 213,824 | (185,189) |
| EHealth Inc. | 1,730 | 138,802 | 122,155 | (16,647) | - | - | - | - |
| Euronet Worldwide, Inc. | 1,570 | 233,247 | 227,524 | (5,723) | 1,570 | 233,246 | 247,369 | 14,123 |
| First Hawaiian Inc. | 10,600 | 348,989 | 249,948 | (99,041) | 10,600 | 348,989 | 305,810 | (43,179) |
| Howard Hughes Corp. | - | - | - | - | 2,830 | 353,892 | 358,844 | 4,952 |
| J B Hunt Transport | 310 | 27,900 | 42,361 | 14,461 | - | - | - | - |
| Kearny Financial Corp. | 22,100 | 314,434 | 233,376 | (81,058) | 22,100 | 314,434 | 305,643 | (8,791) |
| LKQ Corp. | - | - | - | - | 7,720 | 247,883 | 275,604 | 27,721 |
| On Semiconductor Corp | 4,700 | 88,263 | 153,831 | 65,568 | 12,180 | 239,198 | 296,948 | 57,750 |
| Palomar Hldgs Inc. | 745 | 67,764 | 66,186 | (1,578) | - | - | - | - |
| Pool Corporation | 690 | 133,572 | 257,025 | 123,453 | 1,360 | 263,270 | 288,837 | 25,567 |
| Progressive Co. | 1,370 | 98,344 | 135,466 | 37,122 | 3,600 | 258,423 | 260,604 | 2,181 |
| Steris PLC | 690 | 101,363 | 130,783 | 29,420 | 2,000 | 293,805 | 304,840 | 11,035 |
| Teleflex Inc. | 330 | 117,684 | 135,818 | 18,134 | 500 | 178,309 | 188,220 | 9,911 |
| Visa, Inc. | 1,490 | 260,378 | 325,908 | 65,530 | 1,490 | 260,378 | 279,971 | 19,593 |
| Total common stock | | <u>2,743,770</u> | <u>2,867,010</u> | <u>123,240</u> | | <u>4,235,603</u> | <u>3,964,800</u> | <u>(270,803)</u> |
| Corporate bonds: | | | | | | | | |
| LKQ Corp | - | - | - | - | 300,000 | 293,265 | 304,875 | 11,610 |
| FMC CORP | 200,000 | 199,798 | 222,476 | 22,678 | 200,000 | 199,798 | 204,825 | 5,027 |
| H.B. Fuller Co | 100,000 | 96,415 | 103,000 | 6,585 | 100,000 | 96,415 | 99,000 | 2,585 |
| Total corporate bonds | | <u>296,213</u> | <u>325,476</u> | <u>29,263</u> | | <u>589,478</u> | <u>608,700</u> | <u>19,222</u> |
| Total marketable securities | | <u>\$ 3,039,983</u> | <u>\$ 3,192,486</u> | <u>\$ 152,503</u> | | <u>\$ 4,825,081</u> | <u>\$ 4,573,500</u> | <u>\$ (251,581)</u> |

See accompanying independent auditors' report.